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Disney Speaker:

Jay Rasulo

*Senior Executive Vice President and
Chief Financial Officer*

PRESENTATION

John Janedis – Analyst, UBS

Thank you, everybody. Good afternoon. I'm very pleased to have Jay Rasulo, Senior Executive Vice President and CFO of The Walt Disney Company, here with us today. Jay, this is your first time with us, so thank you so much for your support. And by the way, your timing is impeccable. Thank you for Wednesday and not Monday, obviously, given the news last night.

Why don't we start at a high level, Jay? You had another record year in fiscal 2012 at the company on nearly all metrics. You returned a lot of capital, bought Lucasfilm, more recently opened Art of Animation, expanded Hong Kong. So a lot of heavy lifting here. What are some of the key strategic priorities for fiscal 2013?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Well, as I think is appropriate to strategic priorities, they really don't change very frequently. Obviously, the way that Bob Iger has been running the company, the way we've been managing our way, is really focused on the three main pillars --creation of great content, and in some cases, the acquisition of great IP to create great content around; looking for broad distribution



through all platforms, through all countries of the world; and embracing technology in a way that we can not only enhance that content, enhance the distribution of that content, enhance the value for the way consumers consume that content. And that is sort of the underlying way we manage the company.

I would say in particular in fiscal 2013, obviously, we invested a lot of money in our theme parks and resorts business. We want to execute against delivering the returns that we've been promising all of you for the years that we've been making those investments. We really want to hunker down on it.

We've got some big movies that we are making. You know, we've reverted to a very focused slate strategy for our studio in which we are creating future franchises for the company or enhancing current franchises. We have a lot of big movies coming out in fiscal 2013 that we really want to get behind and make sure they are successful.

And of course on an ongoing basis, as we integrate things like Marvel and, in the future, the Lucas properties, *Star Wars*, we want to make sure that the company is running on all cylinders, that all parts of the company are utilizing those assets we buy in our ecosystem, which is kind of, in our minds, our unique competitive advantage and we want to make sure that we execute against that.

John Janedis – Analyst, UBS

All right, so we will get to the parks and the movies later. But ABC, to start out with, along with many other networks, has seen some ratings pressure this season. DVR usage hasn't increased dramatically year-over-year when we look at the numbers. Given your broad reach across demos, is it a content issue, do you think, an acceleration of viewer fragmentation? How do you handicap what is going on in the marketplace right now?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Well, I guess I've got a couple of things perspective-wise on that. First off, if you look at the ratings of ABC, not very different from the trends that other networks are seeing out there. Our ratings are down this year, but so are others. There was one permutation in the market with the moving of a big show, *The Voice*, for one of the networks. But in general, most of the networks are down.

And frankly, if you look at our primetime ratings, a lot of that had to do with a single show this year. We took a creative bet on our *Dancing with the Stars* show that has been very successful for us for a number of years. We decided to do kind of an all-star show. It didn't work out. It is 14% or 15% of our inventory, and its ratings were poor and subsequently we felt some downdraft.



If you look sort of more generally, ABC has been the number one network this year, ex-sports, in C3 ratings for 18 to 49-year-olds.

So I would say that, yes, a piece of it is that content piece with ABC. We've also done well with some returning dramas and some new dramas that we are very happy with. But on the flip side, DVR penetration has increased, not hugely, but I would say dramatically, 6 or 7 percentage points in the last year. Now, interestingly, you would assume that that might hurt your C3 ratings. But along with that increase, the number of individuals that are fast forwarding through ads has actually declined in the last year. So that has kind of been a net benefit to ratings.

But in general, I would say, like a lot of people, we are seeing viewing move out from C3, three days out to seven days out. We, like a lot of companies, are pushing advertisers to start buying that seven-day -- those seven-day ratings, because we see people are pushing them out. And the notion of binge consuming of television shows is increasing and that tends to be a little later out.

So overall, I think there are a lot of factors that have contributed to what you see in ratings today. I don't think -- some are offsetting. I don't think they are of great concern, but obviously, at the end of the day, you need to have great programming to get good ratings.

John Janedis – Analyst, UBS

Some of your peers yesterday and Monday talked about C3 to C7. What is the impact for you? Is it kind of mid-single-digit percentages in terms of the increase of the lift?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

I think it is mid to low single digits.

John Janedis – Analyst, UBS

Just on the timing of that, when you go to this year's upfront, is that the view, to try to push C7 as a measurement, or is that maybe a 2014 event?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Well, it is something we've been talking about. I'm not sure how quickly it is going to happen. But we would like to -- yea, we would like to see it as soon as it is possible, because we think there is value there, and we know consumers are watching ads in that time window.



John Janedis – Analyst, UBS

Maybe we can move to the parks then. Last year, you had \$500 million of revenue and expenses related to growth initiatives. You talked about it. You are also planning for, I think, similar sorts of numbers on the revenue and expense side in fiscal 2013 related to guest experiences in Shanghai.

Is there a way you can help us think about the contributions from last year's initiatives for 2013 in terms of that contribution?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Yes. You know, the new initiatives we've had over the last two or three years a lot of Park initiatives began, some of which are through the construction cycle, are open and are producing net income, are accretive to our earnings. Some of which are either very early stage or in fact are still in the pure expense side or not generating revenue. So in total, they kind of -- for fiscal 2013, they kind of balance out with that \$500 million increase in revenue and \$500 million increase in expense.

The ones that are accretive -- obviously, the cruise ships that have been now on the water for about a year and a half, they are clearly contributing to our earnings. Disney's California Adventure, the fix there, Disneyland is doing extremely well as a result of that investment, and that is accretive to earnings.

The things that are on the flip side and the downdraft are the Fantasyland Magic Kingdom, which should be -- are not accretive to earnings as of today, but should be accretive to earnings before this year is out. In total, will be earnings accretive. And that is a project, it is the first time we've been back in our most popular park, highest attendance of any park in the world. We've really not done a significant piece of work there in literally 40 years. So this is the first big step there. We expect big returns and we think that will be accretive this year as well.

The things that are still on the other side of the ledger, we've talked about the investment we are doing in technology around enhancing guest experience at Walt Disney World, from the planning of the experience to the time when guests are there, a big technology project against which we have pretty significant expenses this year. We will be talking a lot more about that after the first of the year, and we will actually start to roll that product out in the course of this year. We think it will both extend our guests' stay with us, as well as increase their spending when they are with us.

We've also got Aulani, which is our hotel in Hawaii, which is in very much the early days; frankly, not a big contributor or detractor from earnings, kind of small numbers; right now, very close to zero. And we've got the new hotel in Florida which has just opened up, Disney's *Art of*



Animation Hotel. That is also detracting. And we've got expenses related to Shanghai Disneyland that are now sort of a deduction to our earnings.

So on balance, it will be flat this year. Next year, you will start to see the balance turn. More of the products will be accretive. Be clear, every one of these projects had a strategic basis for its investment. Every single one of them we continue to be confident will have returns in the double-digits.

John Janedis – *Analyst, UBS*

You finished up with Shanghai. Maybe we can talk there for a second, given the component in 2013 and given the timing of when it actually rolls out. You haven't given a lot of detail yet, but I think the park opens sometime in late 2015. I'm not sure calendar or fiscal, but sometime in that range. So should we assume the Shanghai component kind of rolls into the next few years ahead of the opening?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, when we announced Shanghai Disneyland, we announced an investment level of about \$4.4 billion. Shared 57% by the Chinese government, our partners; 43% of the investment would be made by us. That was the estimated final cost. The number will come in somewhere around there, \$4 billion, \$4.5 billion. And there are a couple, a few hundred million dollars of expenses that accompany that capital investment and are part of that \$4.5 billion.

And you can assume that those expenses kind of roll through our P&L similarly to the pace at which we invest. So that tends to be the steepest the last year before opening, and right now, we are targeting about mid-fiscal year 2015* for the opening of that project. And the expenses will sort of ramp up as the capital does into that. So a bigger, obviously a bigger impact in 2014 and 2015 than in fiscal 2013, but there is a factor there for that.

Where that project winds up in terms of its EFC, I don't want to be too determinative about. We said it was \$4.4 billion when we announced it and we will see where it turns out.

John Janedis – *Analyst, UBS*

Sure. So one focus you've had at the parks has been to bring in new visitors and increase length of stay. Obviously, domestic attendance has been pretty good. You haven't had to increase promotion, so can you give us a progress report there?

* Currently targeted to open by the end of calendar 2015



Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yea, obviously the fundamental way we think about the theme parks, two arithmetic facts. There are the number of unique individuals that come down to Orlando and go out to California and our other parks around the world; and there is the amount of time they spend with us on each visit. And we try to work against both of those variables.

Now, when you open something like Disney California Adventure, a very significant investment in California, or the Fantasyland project, a very significant investment in Orlando, you are clearly hoping to attract new people into the market. So for instance, if we take Florida and look at the Fantasyland expansion, targeted at one of the most demanded experiences we have at Walt Disney World, which is meeting princesses, meeting characters, spending time with them in a way that is enjoyable for a family. We think that is going to push the needle on the number of individuals that we draw down to Orlando.

We've seen that in spades in California. Disney California Adventure, when we announced that project, we said it would have attractive returns. And in fact, the performance of that product has outstripped so far the pro-forma that we were hoping for, and will probably have more attractive returns than we thought. And it was made of a combination of bringing new people into the market, because they want to see something like Cars Land, and they loved those movies, but also extending the stay between now two fully operational, integrated and great experience parks.

So in Florida, we hope to see the same thing. And I'm not going to sort of update what I talked about on earnings in terms of our bookings and spending pacing. But anyway, those are the strategic premises under which we are proceeding.

John Janedis – *Analyst, UBS*

One last on the parks. Just on the call, you called out strength at Disneyland Paris, which it had somewhat mixed results for the first half of the year, if you will. What are you seeing there and do you think we've turned the corner?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, you know it's interesting. The experience we had in Paris this year is really kind of bifurcated, first half of the year, second half of the year. First half of the year, we felt we were really hurt by all of the issues that I don't have to go into great detail, about the economies in Europe, about whether Greece was going to be in or out of the euro, whether the euro was going to survive. And it really did have an impact on that park in the first half of the year.



We were also -- a factor specific to us -- we were also spending in advance of our 20th anniversary of Disneyland Paris. We were accumulating some expenses that wouldn't be obvious to any of you. Second half of the year, when that 20th anniversary event happened, the year actually greatly improved. And we ended up the year with a record level of attendance of 16 million. And we feel pretty good about the fact that we ended the last fiscal year on a pretty good note and we are moving into this fiscal year, hopefully with some momentum as the situation in Europe has stabilized. I don't know if it has greatly improved, but stabilized.

John Janedis – *Analyst, UBS*

Moving to ESPN and sports, I think investors were surprised a bit about your recent comments on pacings there, given the presence of the NBA in addition to just typical NFL. Obviously, five more NFL games on the NFL Network this year, more college football on Saturday nights. Has the tight balance of supply and demand shifted towards oversupply for sports?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Let me answer both of those. First, let me talk about the supply of sports. We don't think that there has been a fundamental change in the supply and demand for sports. We don't see that in our business. We don't see that in our numbers. So I don't think that is an explanatory factor in what I said at earnings about ESPN pacings. But let me come back to what I did say.

There was a lot of disruption, of course, around the election. We were concerned that what we were seeing in the market, and in fact, as I mentioned at that time, our pacings were down modestly at ESPN at that point in time. Since then, since the election, the market has actually improved quite a bit and we are actually seeing much stronger demand out there for sports events in general. And at this point, our pacings are actually up slightly versus prior year.

And by the way, when you look at prior year and you look at the year before that, we had two really big first quarters in a row in the last two years. So to be up slightly against those is a very good sign. So I don't give much credence to the supply imbalance. I've heard it before, but I don't think that is really a descriptive fact here.

John Janedis – *Analyst, UBS*

Okay. So sticking with the sports theme then, over the past year or so, you've locked in the NFL, locked in Major League Baseball, also some long-term affiliate deals. Do they change the margin structure at the network when the step-up comes in 2014?



Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Look, we've been saying for a long time that we manage the portfolio of sports rights that we buy in a strategic way. Good news is that we have locked up the major events in the sporting world for a long time into the future with very long-term deals, the most recent being the agreement in principle for the BCS Championship games. We will just own that time of the college football calendar. We are in it right now. Half the people in this room, I'm sure, were talking about it at some point today. And as we get through the end of year holidays, we are just going to have a lock on that for a long time into the future.

The good news is that when we build this portfolio and all the sort of strategies that go into what we think picking a great portfolio for consumer value, we also know all the numbers that go with it. But we've also got a pretty good lock on our long-term affiliate deals. So we don't go out and create -- we are very wary of creating a package that may in fact not allow us to continue to grow ESPN. Clearly, our strategy is to continue to grow ESPN.

And as we know what our affiliate deals are going to look like for the large part out into a pretty good time into the future, we have a pretty good fix on what advertising around the ESPN network can be. We know the value it delivers to advertisers. We try to mold this rights package and the expense that goes with it consistent with that, so that we can keep growing the business. So we feel very good about our competitive position. We feel very good about the hand that we go into the next decade with.

John Janedis – *Analyst, UBS*

Sticking with packages, there is renewed commentary regarding sports costs relative to the cost of the overall cable bill. Some of the RSNs are pretty aggressive these days on their ask for sub fees. Do you see a day where there is a separate sports tier?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Well, you know, we've been saying for a long time and are strong believers that any kind of a la carte system, whether it is a pure sports tier or a la carte even more generally, just will not end up delivering a good value package to the consumer. We are pretty happy between the Disney channels, the ESPN channels, ABC Family, retransmission with the ABC network, that we provide programming of broad interest, of deep interest, that creates value for consumers, for the MVPD infrastructure, as well as for advertisers. And we feel that from a consumer's perspective, there is a lot of value in having the products that we offer and feel good about that.

I don't think you can look at ESPN and a regional sports network kind of in the same way. ESPN is a 365 day a year, 24 hours of programming. RSNs are focused, narrow, by their very nature.



And they are really in quite a different business. And I don't -- we don't look at that, and I'm sure others don't look at it under the same light. But if you look at the ratings of ESPN in the course of a day relative to all the RSNs around the country added together, they don't even hold a candle. So I feel like -- as I said, we really like our position in sports. We like the way we've managed it and where we've wound up from that management.

John Janedis – Analyst, UBS

One last one on ESPN. What are you seeing there internationally?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

I would say the biggest area of heat for ESPN internationally is clearly Latin America. We've got now three networks in every country. It is absolutely, from the international perspective, our biggest growth opportunity. And we are very happy with continued penetration of pay television in countries like Brazil and Argentina. Our share of the pay television, as it expands, lots of people pick up ESPN and watch it. So we feel like we will continue to invest and grow there.

Second most important market for us -- I've mentioned before our revenue there is, round numbers, \$0.5 billion. And we see good growth perspective there.

Second most important market for us is the Canadian market, where we are in a joint venture with Canadian TV. And again, sort of a growth opportunity for us. It is probably our number two focus in the international markets.

You know that in Europe, we have one more year of English Premier League Football and then we will be out of it, and that we've just dissolved the ESS joint venture, which was Southeast Asia and India, for sports rights. Sort of wanted to go a different way from Fox and decided to part. So really, it is all about sort of North and South America for us.

John Janedis – Analyst, UBS

Okay. One more on ABC. So obviously, programming a TV network is not an easy exercise to do. You've had some success with *Nashville*. How much more difficult and/or more expensive is it to program a network today versus a few years ago?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

I don't think you can underestimate how difficult it is to manage the programming and content around a network. And I'm not talking financially. I don't think the issue here is you spend more, you get more, you're spending too little, you have tough decisions about what to spend



on programming. It is really about picking shows that people want to watch and have stickiness to them, and putting out a slate and a schedule that keeps people from changing the dial in the course of the evening.

And I think -- look, I don't know if it has gotten more difficult; I think it has always been difficult. And what I started out talking about your first question about ABC, on *Dancing with the Stars*, obviously, for instance, we thought -- the people who did our programming thought it was a great idea. Let's get all the All-Stars from past seasons that were popular and put them in a show. Turns out that wasn't a good formula. People didn't want to see people they knew who could -- that they knew could dance. They wanted to see people that couldn't dance. I don't know what the story is.

But the fact is that they already knew these people, they weren't going to find out anything else about their personalities. So it sounds like so obvious when you're looking back. Obviously, we thought it was a good idea. We put it on. So it is not easy to be the taste master on programming a network.

But that's not to say that I think -- as I said, I don't think it is a matter of money. I think it is -- I think we, along with *Dancing with the Stars*, we launched some great shows. We've got dramas that really have legs now. *Revenge*, *Once Upon a Time*, those were great creative decisions. So I think it is a tough job; I think it always has been. Very tough sometimes to tell what a program is going to be like from seeing pilots. But, hey, that is no different from the rest of the people in the business.

John Janedis – Analyst, UBS

Right. So from a viewership perspective, do you know how much of your viewing is -- at your networks -- is being done on non-measurable platforms?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

I would say at this point it is minimal. It's pretty small. And at this point, obviously, as I mentioned about trying to go from C3 to C7, the opportunity here is to try to get companies like Nielsen and others to measure where people -- new media on which people are consuming content.

We have a lot of information about our own streaming and who we stream to, and we present some of that to advertisers. And for instance, like on WatchESPN, which is our mobile app on tablets for live ESPN programming, we have advertising. We sell advertising on it. We are moving towards doing that on our other Watch apps. And this isn't measured by Nielsen. This is actually measured by ourselves and sold to advertisers.



So clearly, we want to continue to push this. But in direct answer to your question, I don't think it is a very big detractor today from the advertising we are being paid for in sort of the prime television outlets. If you look at YouTube, for instance, it is not yet a place that people are paying prime advertising dollars for, even though we all know, including my own kids, we know they watch a lot of YouTube. There are a lot of viewing hours on YouTube, but it hasn't reached the level where that is a place that premium advertisers are spending significant dollars.

John Janedis – Analyst, UBS

You talk about advertisers. We spoke to ESPN a few minutes ago. We are past the election, obviously, fiscal cliff looming, who knows. But I think everyone who has been here has been pretty optimistic about where the ad marketplace is right now. Can you give us an update on what you're seeing right now in the marketplace more broadly beyond ESPN?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

I'll reiterate ESPN. We have now seen a slight improvement in our pacings from what it was a year ago. At the stations, I think we are pretty close to what we saw last year. I don't want to really update ABC; it creates too much -- it's too much of a story on primetime.

John Janedis – Analyst, UBS

You touched on YouTube. Is that any kind of threat, do you think, to your business in terms of taking some ad dollars in the margin long-term?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

No, as I mentioned, look, it's an outlet. It is a growing outlet. We have a great -- we have a Disney channel on YouTube, on which we host on Disney.com a YouTube channel. It is something that I think, over time, as we have demonstrated we've done with all new platforms that have entered the marketplace, we will embrace it at the appropriate time and take with it our belief that I think we've been frankly borne out -- has been borne out time and time again that if you create great content, you shouldn't find the need to give it away to anyone. That consumers are willing to pay for it, partners are willing to pay for great content. And at some point in time, that will be the case with YouTube. As I mentioned, it's not today. It is not today an area that we feel is bleeding off a lot of premium advertising dollars.



John Janedis – Analyst, UBS

Maybe given the announcement last night, we can talk about SVOD and Netflix. You announced the deal yesterday afternoon. Can you give us some detail to the extent that you can around that?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Well, I'll tell you right up front, John, I'm not going to get into the details of the deal. That would be unfair to our partners and ourselves.

But I will say this. In doing a deal like the one we just announced, we obviously take a lot of things under consideration. We do a very thorough analysis of the potential value in the different windowing for our product. We've embarked on this studio strategy, I mentioned before, to create franchise films that have enduring value through the value chain, of course not only as video content, but in our consumer products business, in our theme parks, in our television businesses, in our digital business. And we clearly took that strategy into consideration, as did Netflix, when we sat down to talk about this deal.

Now, they are not the only people we talked to. We broadly surveyed the market. There are a lot of factors that if we have a Q&A, I'm sure I'll get questions about, that we've put into the calculus of how we wound up and decided to do this deal with Netflix. And at the end of the day, we thought for the content we create, for the value of windowing and value chain that exists, that this was the best and highest value creator for the company. And we are thrilled to have done it and expect great things from it.

John Janedis – Analyst, UBS

I'm sure there will be more in the Q&A on that, so I'll leave it there, and we can get to that in a few minutes. Maybe I'll ask one more and we'll open it up.

Some of your peers have been considering selling current shows into players like Netflix and others. I think you may have done or may be doing some of that here and there. Can you update us on your current thoughts of library versus existing shows on the SVOD platform for you?

Jay Rasulo – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Look, I think there are values to both. I think that, quite honestly, we've done deals that have been relatively short-term in duration, when we've done deals in a lot of different potential outlets. And we've kind of stuck to the strategy of having our own strategy, we kind of started this, that we would fundamentally do short-term deals, that we would get paid for the content



that we delivered, and that we would largely do non-exclusive deals that allowed us to continue to go directly to consumers with that output. And we've stuck to that, and I think it has been a pretty successful strategy for us.

John Janedis – *Analyst, UBS*

I'll stop there for now. Are there any questions from the audience?

Unidentified Audience Member

Recently, you had a restructuring on the licensing, merchandising retail side with Bob Chapek, I believe, taking that over worldwide. Could you speak to that business a bit, please?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Happily. I don't know how long it is now, but let's call it a year, more or less. Bob Chapek took over our Consumer Products business. Just by way of background, Consumer Products obviously includes licensing, our direct-to-retail business with big retailers, The Disney Stores in Japan, US and Europe, as well as the publishing business.

And the fundamental change, forgetting the details of people and organization, the fundamental change was a philosophical one, whereas, as by the way, many companies are organized, we were organized by category. So there was a housewares team, an apparel team, a toys team and so on and so forth.

To be consistent with the way that we run our company more broadly, which is on the Disney side, extremely franchise-focused, Bob Chapek decided to reorganize the Consumer Products business with a much heavier franchise orientation in which someone woke up every day and worried about what we call the standard characters, Mickey, Minnie and so on; someone woke up every day worrying about the princess franchise, *Cars* franchise, *Toy Story* and the list goes on. And that there would be smaller teams that would sort of service the horizontals, if you will, that were experts in housewares and how you create them and how you sell them in and who the good licensees are.

And also, a very big piece of it was a single companywide retail interface with the retailers out there, which included not only Disney consumer products, but also the distribution of anything else physical, like DVDs and video games. And that organization sits under Bob Chapek, but of course has obligations to the Studio and to Disney Interactive in fulfilling what is a more holistic retail strategy so that when we are walking in with what we know we are going to produce in the next 12 to 24 months, that team can sit down with the Walmart team, Target team, Toys "R" Us, whomever, and have sort of a holistic conversation about what's going to happen with



Disney. So those are the fundamental -- that is the fundamental basis of how the business was reorganized.

I do think that a couple of things to mention, since we are talking about Disney Consumer Products and we don't often get questions asked about it. One of the things that we see a big opportunity in is the publishing business sort of evolving from traditional, which for Disney traditionally was comic books and children's books and so on and young adults books, into the digital world, where that stuff is becoming digitized, and the lines are blurring between a digital book and a digital game and digital media. And so we see a big opportunity of taking especially Disney content and really see a good trajectory and a good future for that evolution of the publishing business into the digital world.

I also forgot to mention that Disney Consumer Products also runs our English-language learning business in China, in addition to the Disney Stores. So that's the fundamental reorientation.

Unidentified Audience Member

Jay, in looking at the other video platforms, network television and the O&Os, the others, what is your feel for pacings in both, post the election?

Jay Rasulo — *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

I'm not going to -- I've decided I'm not going to update on that today. Thanks.

Unidentified Audience Member

In looking at the recent financing, an observer might conclude that the marginal cost of debt of this company has gone down fairly significantly over time. Does that change the equation about what would be the level that you might conduct share repurchase? In other words, financing cost goes down, willingness to buy the stock at a higher multiple goes up inverse proportions?

Jay Rasulo — *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay, I'm sorry, I didn't hear a lot of that question. I don't know if maybe if you hold that a little closer to your mouth. I'm sorry.

Unidentified Audience Member

The marginal cost of debt, using the last issue, has gone down significantly. Does this change your ability to move the floor up on a share repurchase on the algorithm the company uses, assuming something like that exists?



Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. The question was a lot clearer than it sounded the first time. Yes, we just did a bond issue and we took in \$3 billion of debt at pretty good rates.

You know, let me kind of state what I've stated before, and it is not really an update, but it might answer your question. First, when the Lucas deal concludes, which we hope will be in the not-too-distant future, we made the commitment -- we issued roughly 40 million shares in that deal. We've made the commitment to buy those back over the next two years, in addition to whatever buybacks we had in mind before.

The fact is that we look at a mix of returns to shareholders in the forms of dividends and share repurchase. If you look at the recent past, last year, I believe we bought about \$3 billion of stock back. The year before, about \$5 billion. And if you look sort of -- if you backtrack for the last five years before that, you have \$5 billion to \$6 billion worth of stock repurchases a year, with the exception of 2009, when we decided that we would wait to see what happened with the debt markets and access to the debt markets and didn't buy any stock back. So we are pretty committed to this form of returning capital to shareholders.

If you look over the long-term and the cash that gets generated by The Walt Disney Company -- when I say long-term, I don't know, six to eight years -- the cash that gets generated by the company, obviously we continue to be interested in growing most of our businesses. And subsequently, about 60% of that cash that gets generated gets put back into our businesses in the form of traditional balance sheet capex, but also in sports rights purchases, movie production, television production, on and on and on, the stuff we do to run our business, about 60%.

On average, 20% to 25% gets returned to shareholders in the forms of buybacks and dividends. And the remainder, although it is quite lumpy, has gone to M&A activity, which is obviously another form of reinvesting in our business, particularly because a lot of our acquisitions have focused on IP acquisition. So whether it was Marvel, now *Star Wars* and Lucasfilm, as well as, to some extent, Club Penguin, and that IP sort of feeds the rest of the ecosystem.

I don't expect to see huge transitions in that mix over time. I mean, never say never. I don't want to give determinative guidance and I don't have a crystal ball. But we are pretty happy with how that has developed the company, the rates of returns that we've been able to get on our businesses and how we've been able to grow our earnings over time, using that rough proportion of what we do with the cash we generate. I hope that answers your question.

Unidentified Audience Member

You've made some dramatic changes in the way that you are doing and operating your Studio business going forward relative to what it has looked like over the past several years. As you



look at these franchise pictures, we are not looking at \$50 million, \$60 million negatives. You're looking at some pretty hefty negative costs.

What kind of capital do you see that you are going to be spending in the filmed entertainment business, and how concerned are you in terms of the ability to basically generate a return against your hurdle rates?

Jay Rasulo — Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

I heard 95% of that, and if I don't answer your question, please ask it again. So the change that we've made at the Studio is really a fundamental reduction in the slate around the powerhouse franchises of the company. So Pixar, Disney Animation, Marvel Live Action, *Star Wars* soon to be, and Disney and Disney live-action, although Disney live-action in a narrower, sort of franchise creating kind of way than what we've done before. So, that means that if we do one to two Pixar movies a year, one to two Disney animated movies a year, one to two or two to three Marvel movies, one *Star Wars* movie every other year, so you're looking at a slate that has 12 pictures with some flex up for live action. I don't know, let's call it that.

I think that we often get questions -- and John talked to me about this earlier -- what do you expect your Studio to be? Is it a \$1 billion OI business, it fluctuates from \$600 million, \$500 million to \$1 billion? Where do you expect it to be? We don't really plan the studio that way as a business. We really look at getting returns on the films that we create.

And the best way for us to get returns is to create pictures that have ultimates that include things other than the film windows. Right? With the rapidly-melting ice cube of the DVD market, you cannot -- you put out a movie; if it does not have life somewhere else, you have a very hard time meeting a rate of return that I'm happy with, and by the way, any of you would be happy with. So we really look at rates of returns against the investments.

And we know a movie like *Cars*, which will have billions of dollars of retail sales, *Toy Story*, billions of dollars of retail sales at its ultimates, similarly with Marvel movies, which have after-life, and we take these things to other places, and take these franchises to other places in our ecosystem, that those contribute to having been a good decision, even if the negative costs of the movies go up.

And by the way, when you are doing Marvel live-action or you are doing a *Star Wars* movie, you want that product to be great. It is competing with great product out there. So I'm not going to answer your question explicitly about what our plans are to invest in total in the Studio business on an annual basis, but that is the thinking by which we make those investments.



Unidentified Audience Member

Can you comment on the market conditions and expected market conditions surrounding the timing of the Netflix deal?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Around the timing of the Netflix deal? Well, let me tell you that -- I'm not exactly sure how to answer your question, but let me answer it this way.

We are a company that fundamentally does not invest around business cycles. Part of the reason for that is that we are in some long-lead time businesses. You know, when Bob Iger and I sat down with a group of investors and press and announced the Disney California Adventure investment, and it was a lot of money, or announced our new cruise ships, which were a lot of money, we knew those were projects that would roll out over three years, didn't have any idea what the economy would look like.

Similarly, when you make a decision about a motion picture and you are putting all the pieces together and you are trying to cast, I don't know, Angelina Jolie to be Maleficent, you can't say, "I wonder what the economy is going to look like when this movie actually streets." And I think that when we look at monetizing our content -- now, the Netflix deal is of duration, a limited duration. We know what that is. But I don't think there was sort of state of the economy timing around the decision to do that deal.

If you are asking, and I don't want to put words in your mouth but I'll answer it anyway, if you are asking, well, what did you think about the state of the economy and Netflix and the viability of that company in a marketplace that clearly has economic downdraft, I said before, lots of considerations that we made in making this deal, and we feel pretty confident that this was the highest value deal for us to do, and we are thrilled to do it with them.

So I don't know, I'm struggling a little bit with maybe what is underlying your question. But if I didn't answer it, please.

Unidentified Audience Member

Why 2016?

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Why 2016? Well, we have an existing deal in place for SVOD. That's not a hard one to answer. I'm sorry; I could have done it like that. We have an existing deal in place for new content, and



that deal did not give us the window to have new content with another partner until that time. I'm sorry. Your question was very obvious in hindsight.

John Janedis – *Analyst, UBS*

Time for one more, if there is one. No? Jay, thank you very much.

Jay Rasulo – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thank you, John. Pleasure.

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**Forward-Looking Statements:**

Management believes certain statements in this call may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management’s views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company’s control, including:

- adverse weather conditions or natural disasters;
- health concerns;
- international, political, or military developments;
- technological developments; and
- changes in domestic and global economic conditions, competitive conditions and consumer preferences.

Such developments may affect travel and leisure businesses generally and may, among other things, affect:

- the performance of the Company’s theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- expenses of providing medical and pension benefits;
- demand for our products; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended September 29, 2012 and in subsequent reports on Form 10-Q under Item 1A, “Risk Factors”.

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.