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The Walt Disney Company **Q1 FY12 Earnings Conference Call**

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Disney Speakers:

Bob Iger

President and Chief Executive Officer

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2012 Walt Disney Company earnings conference call. My name is Melanie, and I will be your coordinator today. At this time, all participants are in a listen-only mode. We will accept your questions at the end of the conference. (Operator instructions). As a reminder, today's meeting will be recorded.



I would now like to turn the call over to Mr. Lowell Singer, Senior Vice President of Investor Relations. Please proceed.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, and good afternoon, everyone, and welcome to The Walt Disney Company's first quarter 2012 conference call. Our press release was issued about 45 minutes ago. It's now available on our website at www.disney.com/investors. After the call, a replay and a transcript of today's remarks will also be available on our website.

Joining me in Burbank today are Bob Iger, Disney's President and Chief Executive Officer; and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob will lead off, followed by Jay. And then, of course, we will be happy to take your questions. So with that, I will turn the call over to Bob and we'll get started.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

Thank you, Lowell. Good afternoon, everyone.

Our first-quarter results were driven by strong performances from many of our businesses particularly Cable Networks and Parks and Resorts. EPS of \$0.80 cents for the first quarter was up 18% compared to last year.

Our results reflect the benefits of our ongoing strategy to invest in and leverage our core brands, Disney, Pixar, Marvel, ESPN and ABC, underscoring our consistent focus on creating high-quality entertainment experiences through the use of innovative technology across our businesses and around the globe.

Since our last earnings report, a lot has transpired. We launched an over the air Disney Channel in Russia, we successfully acquired control of UTV, a leading movie and television company in India, we made a lot of progress in the design and early construction of Shanghai Disneyland, our fourth cruise ship, the Disney Fantasy completed sea trials in the North Atlantic, two of the films we distributed were nominated for the Academy Award for best picture, the Disney Channel has the top five shows for kids, and we announced a landmark agreement with Comcast for the distribution of all of our program channels.

I'd like to start by explaining why the Comcast agreement will be significant. As you all know, we own and program some of the best and most watched and most valuable channels in the business: all branded Disney, ABC, or ESPN. These channels have delivered great value to us, to consumers, and to distributors, and over the years we have successfully invested more capital to enhance their value.



This new deal not only provides for distribution into the next decade, but the rates that we will be paid reflect the increased value we are now providing.

The multi-channel business model is extremely important to us, and to others in the business, and as new choices to distribute and consume content proliferate, we thought it was vital for us to accomplish three things.

Allow more consumers access to our programs and channels on new devices, including mobile, desktop and laptop. Protect and enhance the value of the multi-channel subscription to the distributor, by allowing it to sell access to our programs and channels on devices as part of their service, and by not allowing access to channels to non-subscribers. And get paid by the distributor for creating this opportunity. And all three were accomplished in this deal, which Comcast and we view as important to us and to our customers.

This deal highlighted the value of our television businesses, including our kids portfolio. And as I mentioned earlier, the Disney Channel has had great success and tremendous ratings growth, driven by the compelling characters and strong storytelling that define the brand and connect with kids, tweens, as well as their families. In an incredibly competitive environment, Disney Channel now has the top five series for kids 2-11 led by *Jessie* and *Good Luck Charlie*. It's been the #1 channel among tweens (9-14) for 21 months in a row and the top channel for kids (6-11) for nine straight months as well.

Disney XD, launched in 2008, just turned in its most watched quarter ever, with its ratings increasing 11 percent over last year. We see Disney XD, with its target audience of boys, as a great opportunity to leverage Marvel characters and we believe the April 1st launch of a new Marvel Universe programming block will generate even stronger ratings, and will become a powerful platform to support and grow the Marvel brand. Disney XD now has 23 existing channels and program blocks around the world, and will add Australia, New Zealand, and Southeast Asia.

Our newest kids' brand, Disney Junior, also posted record ratings, a 24% increase year over year, as preschool viewers tuned in to a programming block of original series like *Jake and the Never Land Pirates* and *Mickey Mouse Clubhouse*, which are now the top two cable programs among preschool boys. Given its growing popularity, we also believe *Jake and the Never Land Pirates* has significant franchise potential joining our list of successful franchises, including *Phineas and Ferb*. Since introducing the Disney Junior brand a year ago, we've successfully launched 28 stand-alone channels and branded programming blocks around the world, and will launch a 24-hour channel to 30 million U.S. homes next month.

To date we've launched more than 100 kids channels around the world – including Disney Channel, Disney XD and Disney Junior – and our kids portfolio is a key component of our company's global growth strategy, especially in emerging markets. We're encouraged by the initial success of our newest Disney Channel in Russia, launched just five weeks ago, and the



recent addition of Turkey. In the last three years, our reach across European, Middle Eastern and African markets has tripled to more than 100 million households.

The combination of strong programming and far greater distribution has elevated the Disney Channel business to incredible importance and value for the company, helping to drive strong financial results and amazing brand building momentum.

Some additional highlights from our Media Networks: ESPN's *Monday Night Football* was the most watched series on cable for the sixth consecutive year. And although the football season is over, ESPN makes great use of those additional rights we acquired in our recent NFL contract extension, and runs NFL-related programming on a year-round basis. ESPN continues to lead on digital platforms and has been the number one sports destination on mobile devices since 2007, while online at ESPN.com, it has captured more of fans' time than any other sports site for 16 consecutive months.

And at ABC, *Revenge* and *Once Upon A Time*, our two new fall dramas, continue to be hits for the network, and ratings increased for a second year in a row for our Wednesday night comedy block led by, of course, the multi-award-winning *Modern Family*. Several promising ABC shows premiere in the coming weeks including *Missing*, *Scandal*, and *GCB*, and tonight is the debut of the spellbinding new drama, *The River*.

Earlier I mentioned UTV, and last week marked a major step in our India expansion with our acquisition of a controlling interest in UTV, India's premier media and entertainment company. By combining our existing businesses in India with UTV, we will be a leading film studio and TV programmer, with 9 separate channels including Disney Channel, which is number one with kids in the country. The UTV acquisition will allow us to more effectively build, monetize and brand local and Disney franchises, and create content for the world's second largest population. One of the exciting opportunities for us in India is the absence of a strong family entertainment brand in that country, and our goal is to make Disney the number one family entertainment brand in India, something we have accomplished over the years in so many markets around the world.

Turning to Parks and Resorts, I'm very pleased with recent attendance and pricing trends. Disneyland Resort has seen strong results lately, due in part to the strategic investment we've made at Disney California Adventure. We've already opened some attractions as part of the expansion plan but the largest and most exciting part of this expansion has yet to open, and that is 'Cars Land.' This brand new 12-acre land, with 3 attractions, set in Radiator Springs, will open in June.

Hong Kong Disneyland had a very good quarter as well, with its recently unveiled 'Toy Story Land,' the first of three new themed areas to open as part of its expansion.



Setting sail next month is the Disney Fantasy, the sister ship to the popular Disney Dream, expanding our fleet to four and allowing Disney Cruise Line to significantly increase the number of destinations around the world. And, as I also mentioned earlier, we're really pleased that construction at Shanghai Disney Resort, is well under way at the 963-acre site. And just looking at the model of this vast new resort has us all excited about its prospects.

Turning to the studio, our key upcoming titles are: *John Carter*, an epic live-action adventure from director Andrew Stanton of Pixar, Marvel's much-anticipated *The Avengers*, which will be the first Marvel film marketed and distributed by Disney, Disney-Pixar's Brave about a feisty heroine's adventure in the Scottish highlands. And then later this year, we have Tim Burton's *Frankenweenie* and Disney Animation's *Wreck-It Ralph*. And those are both in fiscal 2013.

Also in 2013, our tentpole releases are: *Oz*, *Iron Man 3*, *The Lone Ranger* and *Monsters University* – the sequel to the very successful, *Monsters, Inc.*

As an extension of our new consumer products business' Disney Baby initiative, we launched DisneyBaby.com last month, creating a new destination for first-time parents to connect and share experiences with each other.

I'm also proud to say that in December we had record-breaking traffic across all Disney-branded online sites. And our popular mobile game, *Where's My Water?*, has now reached the top of the charts in 71 different countries including currently in the U.S, while *Gardens of Time* was named the most popular social game on Facebook.

In closing, we had a great start to the fiscal year executing on our ongoing strategy deriving more and more value from our brands – Disney, Pixar, Marvel, ESPN and ABC – in the U.S. and around the globe. And we are confident that our commitment to creating and providing exceptional family entertainment on multiple platforms continues to position us to create long-term shareholder value.

With that I thank you and turn the call over to Jay Rasulo.

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

Thank you, Bob and good afternoon everyone. Our fiscal 2012 is off to a great start, as evidenced by the strong financial results we delivered during the first quarter. These results follow on the back of record revenue, net income and earnings per share we delivered in 2011. I am going to spend a few minutes discussing the first quarter in more detail and then highlight some factors that may influence our upcoming performance.

Operating income for the quarter was up 11% on revenue growth of 1%. Excluding Studio, revenue would have been up more than 4%. I mention this because, as you know, the Studio



has pursued a strategy of reducing production output and focusing on improving returns on invested capital rather than growing revenue. Our Q1 results reflect this strategy.

In the first quarter, Media Networks was once again the largest contributor to our performance led by Cable Networks, where operating income growth was driven by ESPN and the worldwide Disney Channel.

ESPN's growth was due to higher affiliate revenue related to both higher rates and lower revenue deferrals compared to the prior year. We deferred \$76 million less in revenue during Q1 primarily as a result of our new affiliate agreement with Comcast. As a result of this agreement, ESPN will no longer defer Comcast affiliate revenue during the year. We expect ESPN will defer approximately \$70 million less in revenue during the second quarter than in prior year. I'll remind you the change in ESPN's revenue recognition related to Comcast has no impact on full-year results.

ESPN's advertising revenue in Q1 was comparable to the prior year, but up 8% after adjusting for the timing of the Rose and Fiesta Bowls and the impact of the NBA lock-out. If you recall, the Rose and Fiesta Bowls aired during our first quarter last year, but those games fell in our second quarter this year. Also, due to the NBA lock-out, ESPN aired 29 fewer NBA games during Q1 compared to last year. ESPN will air more NBA games during the second and third fiscal quarters compared to last year, so the full-year total will not change.

So far this quarter, ESPN ad sales are pacing up single digits after adjusting for the benefit of the Rose and Fiesta Bowls. We are quite pleased with ESPN's current ad momentum, particularly given that ad revenue was up 23% during the second quarter last year after adjusting for the benefit of ESPN's first airing of the BCS.

Growth at the worldwide Disney Channel was due to increased advertising and affiliate revenue, partially offset by higher programming and production costs. We continued to enjoy strong advertising momentum at ABC Family during the quarter with ad revenue up 10%. So far during the second quarter, ABC Family ad sales are pacing up double digits.

At Broadcasting, operating income was lower in the quarter as a result of decreased political ad revenue at our owned TV stations, partially offset by lower programming and production costs. Marketing spending at the ABC Network was higher in the quarter, reflecting support for several new primetime shows launched in Q1, including *Revenge* and *Once Upon a Time*. Both of these ABC Studios-produced shows are off to great starts.

Ad revenue at the Stations was down 20% in the quarter. Excluding political advertising and the Flint and Toledo stations, which were sold in Q3 last year, ad revenue was up 3%. Ad revenue at the ABC Network was comparable to the prior year. Quarter-to-date scatter pricing at the ABC Network is running mid-teen percentage points above upfront levels. Q2 TV station ad sales are pacing down single digits.



We are pleased with our continued strong results at Parks and Resorts. Revenue for the quarter was up 10% and operating income was up 18%. The growth in operating income was the result of higher guest spending and attendance at our domestic parks and higher passenger cruise days driven by the Disney Dream, partially offset by higher costs. Total segment margins were up 120 basis points in the first quarter versus last year's Q1.

For the quarter, attendance at our domestic parks was up 3% and per capita spending was up 8% on higher ticket prices and food and beverage spending.

Average per room spending at our domestic hotels was up 6%, while occupancy was flat. The increase in per room spending was driven by higher pricing and a reduction of promotional room nights.

So far this quarter, domestic resort reservations are pacing up mid-single digits compared to prior year levels, while booked rates are also up mid-single digits. Our first quarter results and the trends we are seeing so far in the second quarter are further evidence that our strategy of returning pricing to more normal levels, without sacrificing volume, continues to pay off.

At our international parks and resorts, operating income at Hong Kong Disneyland was higher due to increased guest spending and higher attendance. Operating income at Disneyland Paris was lower due to higher costs and the absence of real estate sales that took place in Q1 of last year.

As I mentioned earlier, Studio Entertainment revenue declined compared to prior year. This decline was primarily due to the release of fewer Disney-produced titles compared to last year, and higher worldwide box office performances of *Tangled* and *Tron* in Q1 last year compared to *The Muppets* this year. However, Studio operating income was higher in the quarter due to lower marketing, distribution and production costs associated with the release of these films.

At Consumer Products, operating income for the quarter was comparable to prior year. Merchandise licensing earned revenue was in line with prior year as higher sales of *Cars* merchandise was largely offset by lower sales of *Toy Story* merchandise.

At the Interactive Media segment, operating losses increased from the prior year due to the lower performance in our console games business, partially offset by higher operating income from social games. The decline in console games was due to fewer titles being released this quarter compared to last year, as well as lower performance of *Disney Universe* in Q1 compared to the very successful *Epic Mickey* last year. Higher operating income at Social Games was due to lower impact of purchase accounting for Playdom, as well as improved game performance driven by higher revenue from *Gardens of Time*.



Now let me turn to the second quarter. We will continue to invest in successful initiatives that strengthen and extend our brands. In 2011, ABC Family's ratings grew for the eighth consecutive year, and ABC Family ranked as a top-ten cable network for the third consecutive year in total viewers and adults 18 to 49. During Q2, ABC Family will air approximately 20 additional hours of original programming, which will further strengthen its lineup of shows and extend ABC Family's popularity with millennial viewers. These additional hours of programming will result in approximately \$35 million of incremental programming and marketing expense in the quarter.

As Bob mentioned, we continue to expand the geographic footprint and reach of the Disney brand. In March, we will launch a new broadcast satellite channel in Japan targeting women and families. We expect to invest \$35 million behind this initiative during the remainder of the fiscal year, with approximately half of that falling in Q2.

At Parks and Resorts, we will launch the Disney Fantasy at the end of the second quarter, whereas the Disney Dream launched in late January last year. As a result, we expect to incur pre-opening expenses in the second quarter related to the launch of the Fantasy, but the ship will not generate meaningful revenue until Q3.

While all of these investments will drive incremental expenses during the second quarter, we are confident in our ability to generate attractive returns on these investments.

We continued to repurchase our stock during the first quarter by buying back 23.3 million shares for about \$800 million dollars, which is consistent with the pace during the first quarter last year. Fiscal year to date, we have repurchased 33 million shares for \$1.2 billion dollars.

We feel great about the start of the fiscal year and look forward to continuing to execute on our strategic and financial objectives and delivering strong performance for our shareholders during the rest of fiscal 2012.

And with that, I'll turn the call over to Lowell for questions.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Jay. Operator, we are ready for the first question.

Q&A

Operator

(Operator instructions) Doug Mitchelson, Deutsche Bank.



Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much. I was just curious, Bob. Given you know the affiliate revenue growth rate for the number one pay distributor, on ESPN, and the cost growth for the most expensive sports program that you have, the NFL, and both are long-term deals, is it fair to say that you have increased comfort in the ability for ESPN to continue to expand margins over time?

And if I could just throw a quick one for Jay, are you willing to size CapEx for fiscal 2012 at this point, given we're through the first-quarter? Thanks.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

The answer to your question, Doug, is yes.

Doug Mitchelson – *Analyst, Deutsche Bank*

Great.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

Jay?

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

Okay, so Parks CapEx -- so we have been saying for quite some time, Doug, that fiscal 2012 will be the high point of our capital expenditure over the sort of relevant range. So you know where we were at fiscal 2011. Fiscal 2012 is a little bit higher, in the multi-hundreds of millions of dollars. I don't want to give you an estimate yet after only the first quarter in terms of what that number will precisely wind up being by fiscal 2012, but it will be a few hundred million higher than it was in fiscal 2011.

Doug Mitchelson – *Analyst, Deutsche Bank*

And I know I'm pinning you down a little bit here, but in terms of seasonality the rest of the year, is fiscal Q2 a big number because of the rest of the ship, or is it later in the year?

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

Yes. The ship is the single-biggest investment that will hit in Q2 for the year.



Doug Mitchelson – *Analyst, Deutsche Bank*

Thank you very much.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Doug. Operator, next question please.

Operator

Michael Nathanson, Nomura.

Michael Nathanson – *Analyst, Nomura*

Thanks. I have a couple housekeeping ones for Jay. Jay, first, on cable revenues, if you backed out the benefit of those deferrals this quarter, what is normalized affiliate fee growth for the first quarter?

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

Hi, Michael. The number you will see reported in the Q, which is the total Cable segment, will be 11%. But I want to give you a little more insight to your question, particularly regarding ESPN.

So, because of that \$76 million referral, we will see reported affiliate fee growth in the mid-teens. But when you adjust it for that deferral issue, we will still be at the adjusted level in the high-single digits for affiliate fee growth.

Michael Nathanson – *Analyst, Nomura*

Okay, and let me just turn to cost, because you have the same issue on (inaudible) cost comparability because of the BCS and the NBA. So the question we have is, if you are just looking at apples to apples in this quarter adjusting for NBA and BCS, what is the run rate for cable network costs right now in the first quarter? And is that a good roof rate for the year? So how do you look at apples to apples for the first quarter?

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

Yes. So you are absolutely right in your analysis, that because the Fiesta and Rose Bowls kicked over into Q2 and because of the NBA lockout, you do see sort of an artificial growth rate in our



costs at ESPN, artificially low, for the quarter. If you adjust those things out and look at the other increases that will -- what I would say are more organic - the cable growth was about 7% in Q1 in terms of costs for ESPN.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

And Michael, this is Bob. Just one thing I wanted to make sure you understand -- the quarter we just announced, other than the deferral that Jay talked about, does not have any additional rates in it from the new Comcast deal. So those rates will start kicking in over the next few years. And obviously, that will have an impact on our affiliate revenue going forward, since this was mentioned earlier they're the largest distributor out there. But this quarter that we just announced does not have new Comcast rates in it.

Michael Nathanson – *Analyst, Nomura*

Okay, thanks Bob. Thanks, Jay.

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

And the 7% for Q1 is a reasonably good proxy for 2012.

Michael Nathanson – *Analyst, Nomura*

Okay.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Michael. Operator, next question please.

Operator

Spencer Wang, Credit Suisse.

Spencer Wang – *Analyst, Credit Suisse*

Thanks. Good afternoon. I have a two-part question on the Studio business. First, for Bob, I was wondering if you could just update us on your thoughts with respect to Keychest and if you are planning on just going with that, or would you also consider supporting UltraViolet?



And then for Jay on the housekeeping side, the studio margin's at, I think, north of 25%. I don't recall them ever being that high in a given quarter. So could you maybe size for us the benefit from lower film write-down so we can get a sense of normalized margin at Studio? Thanks.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

Spencer, we still think that it would be a smart thing to offer consumers a greater interoperability for the obvious reason, because it would increase the price-to-value relationship that they would be getting when they bought either physical goods or digital goods. We haven't rolled out Keychest as extensively as we hoped that we would at this point. We are in pretty significant discussions with a number of entities, as we have been for a while, but there's nothing really further to report on that.

I don't want to sound too critical, but we are taking a wait-and-see approach on UltraViolet. I'm not suggesting that we are not open-minded about it, but so far I'm not sure that it has proven to be as robust as we had expected or as consumer friendly as we had hoped. Again, that's not to say that we wouldn't necessarily consider it. But it's way too early to conclude that.

Spencer Wang – *Analyst, Credit Suisse*

Got it. Thanks, Bob.

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

The second half of your question -- so the bulk of the margin improvement was really due to the factors we cited up front, which were the lower marketing, distribution and production costs in the quarter. But since you asked, the impairment delta was \$13 million for the quarter.

Spencer Wang – *Analyst, Credit Suisse*

Great. Thanks, Jay.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Spencer. Operator, next question please.

Operator

Alexia Quadrani, JPMorgan.



Alexia Quadrani – *Analyst, JP Morgan*

Thank you. My question is on the Parks business. Is there any sense of how much of the launch cost or expenses associated with your new investments this year really fell into the fiscal first quarter? And do you still assume that the revenues associated with these new investments will be offset by these expenses this year?

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

So let me answer the second part of your question first, because it's of magnitude. Yes, we still believe that the new initiative revenues will largely be offset by new costs for the entire fiscal year. And I've mentioned that before, that we were looking at about \$500 million of additional revenue which would be largely offset by launch costs, training costs, all the things that go into launching those businesses.

In terms of cruise, Alexia, it was not a really significant difference in the number. It's about a \$7 million or \$8 million difference from what we recognized last year. But understanding that the timing of the launch of the Fantasy is later than the timing of the launch of the Dream, there will be more costs in Q2. So in total, they are about the same, but it's more switched into Q2 than Q1 versus those costs for the Dream.

And as I mentioned on a few calls ago, we are talking in the tens of millions for the launch costs associated here, and nowhere near triple digits, on the lower end of the tens of millions.

Alexia Quadrani – *Analyst, JP Morgan*

And just a second question, if I could squeeze it in -- now with the Comcast deal behind you, is it safe to assume that affiliate growth rates should pick up in fiscal 2013? And any sense on how many subs you've got for renewal over the next couple of years?

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

The answer is yes, affiliate revenue will kick up, not only due to the Comcast deal, but due to other deals that will be negotiated in the ensuing years. One of the things that is of interest to us is the fact that by offering Comcast and its subscribers authentication or the ability to watch all of these services, every one of the services, on mobile devices and computers, is clearly something that other distributors would like to be able to offer their consumers. Other than the deal that we did with Time Warner for ESPN and the deal that we did with Verizon and a few other smaller distributors, we haven't done deals that allow that. So DirectTV, Cablevision and others are -- and Time Warner, because all they got was the rights to do that for ESPN. Those will all start kicking in, we anticipate, relatively soon.



Alexia Quadrani – *Analyst, JP Morgan*

Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Alexia. Operator, next question please.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Good afternoon, guys. Bob, I want to come back to the Comcast contract also because it was something you obviously highlighted in your opening remarks. One of the big discussion topics of the last couple of months has been tiering of sports and sports costs as a major issue for the multi-channel video providers. I believe Comcast has an XFINITY sports package or tier. Is there any additional flexibility for them in this new contract? How do you square that with how you think about ESPN's revenue growth and making sure you are fully distributed across as many subscribers as possible?

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

First of all, they have always had that flexibility, but they haven't had that much interest. I'm assuming either they themselves haven't had it or they haven't had it from their customers. And so ESPN has remained basically on a highly distributed tier not just with Comcast but across the industry.

There's so much that has been said about cord cutting and cord slicing and a la carte packages, I think it's just important to emphasize a couple of points about that again. First of all, I'll start with ESPN. I think they have now gotten to a point because of their popularity and the quality of what they offer, they almost transcend sports. They offer news, stories that are of interest nationally and locally. They program 6400 hours of live and original programming a year, 365 days a year, 24 hours a day. Their ratings double the combination of all the RSNs in markets, as a for instance. And I just think generally speaking, not only are they popular but they've gotten into that virtual must-have category.

Now, we don't take that for granted. But because of their position and because of not just their popularity but almost the value that they now supply both to the distributor and to the



customer, we don't really see either a la carte offerings or cord splicing -- or slicing, I guess I should say -- as a trend.

The other thing I want to say about a la carte, and I've said it a few times, is that I think people want variety and they are getting it today, and they're also getting substantially increased quality. I've said this before, but for \$60, which is the average cost of the expanded basic service, consumers get about 100 channels of programming. Those channels, ours and others, have put billions of dollars into programming over the years so that the product is a lot better. And if suddenly they were able to buy these channels on an a la carte basis, we know what would happen.

First of all, there would be channels that are of interest to a lot of different entities, in some cases niche channels, that would simply go away. And I don't think that would necessarily be good. Secondly, the channels that were left would see decreased distribution, decreased ratings, decreased advertising revenue, and that would put a lot of pressure on the rates that they charge, so the rates would go up. The result would be that consumers would be spending more per channel. And it's quite possible that the \$60 100-channel package would quickly become a \$60 50-channel package. And I don't think that's necessarily good.

So I think that's one of the reasons why we are not seeing some great interest in cord cutting because I think generally consumers are happy with the quality and the variety that they are getting, and the price to value relationship is generally good.

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

Ben, I just want to add one thing to what Bob said that might have been a little bit -- I just want to make sure you understood this. The MVPDs have always had the opportunity to offer small packages. What they don't have is the opportunity to offer ESPN on small packages. The deal basically requires that ESPN be offered on the first or second most popular tier offered by the carrier.

Ben Swinburne – *Analyst, Morgan Stanley*

Got it.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

And by the way, I was answering the small package question as opposed to ESPN. I went online yesterday to a local cable operator site just because I was curious, and I tried to order a small package and I couldn't find it. My guess is that they are not marketing it very aggressively because it's one, not all that attractive to their customers and, two, not all that attractive to them.



Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Just to be clear, Bob has the most expansive package. He wasn't going to buy the small package.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

I was going to buy the small package for my car. (laughter)

Ben Swinburne – *Analyst, Morgan Stanley*

Got it. If I could just quickly ask a follow-up on the film side again, maybe for Jay, if I look at -- I know it's dangerous looking at any given quarter because of all the moving pieces. But your expenses were down about \$350 million year-over-year, Q1 to Q1 in film. Is any of that sort of recurring structural reductions in overhead or distribution costs, or is it all variable with the sort of P&A of the films in the quarter? Because I think growing Studio earnings over time seems to be as much a cost game as a revenue game from here.

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

Well, I think we've warned you guys and ladies out talking about our new film strategy, which is really focused on a smaller number of films, mostly franchise supportive, under either Disney, Disney-Pixar, or Marvel labels. And with that, I would answer your question this way. We are very focused on right-sizing our studio behind our new strategy. The reductions in cost that you see in this quarter are largely related to reductions in cost from a smaller slate. But as we continue to move forward and continue to exercise around that new strategy, we will right-size the studio.

So I'm not saying yes and I'm not saying no in answer to your question. I realize that. But accept the fact that if we continue to have quarters and continue where we have lower film releases, years that we have lower film releases, that some of the things that you're seeing in Q1 of this year will, de facto, become permanent cost savings for the studio.

Ben Swinburne – *Analyst, Morgan Stanley*

Got it, thanks a lot.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Ben. Operator, next question please.



Operator

Jessica Reif Cohen, Bank of America Merrill Lynch.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Thanks. I have two topics. The first one is on advertising. I know you made some comments on fiscal Q2 and I was just wondering if you could give us some indications on fiscal Q3. Have you seen cancellation options? Can you see, would you see any cancellation options at the network? And any indications of scatter?

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

Option pickups have been great. And Jay, did you comment about -- scatter pricing has been very strong, both at ABC and at ESPN. The trends that we're seeing in advertising are good. We sold out the Academy Awards I think about a week ago. We have actually heard recently there is demand for even more spots than were allowed in the contract. And ESPN has seen some real strength in the last month, and their ratings for the NBA, now that it's back, are up just under 40%, and there's real demand there. So I would say the advertising marketplace is healthy.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Great. And then the other topic is just the recent news events, and there are two. One is kind of the, I don't know if you would call it an announcement or pre-announcement by Verizon and Redbox. How do you think about the windows and pricing for a service they are kind of discussing?

And the second thing is, today, there was a lot of reports about your interest in starting a Spanish-language news network with Univision. Just wondering, without saying whether you will or won't, can you talk about the kind of the strategic -- how you view that strategically, what you could contribute, whether it's news gathering, what the upside might be, how you think about that?

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

I read -- I'm going to sound stupid here, but why not. I read the Verizon/Redbox article about four times. And I even turned it upside down and sideways and I'm still not 100% sure I understand what they're offering. But my sense is that it's going to be another opportunity for us to sell content to the marketplace. It's another entity that will be looking for high-quality branded content.



As to I think what was hidden or maybe not in your question about how we are looking at Redbox and a lot of these services, we are in discussions to go to the 28-day window to not sell directly our physical goods to these entities unless they adhere to a 28-day window. Obviously, because of the first sale doctrine, they would have an ability to buy those goods from normal retailers. But rather than us being part of that sale and in protection of the sell-through window, we feel that that would be a wise thing for us to do.

I'm not, obviously, as you anticipated, Jessica, going to comment about the Univision article that came out yesterday. I've said before that ABC is a platform that we continue to invest in from a content perspective, and ABC News is a very important part of that platform. And we have an interest in seeing that ABC News continues to flourish and giving it an opportunity to look for and create some growth opportunities on its own.

Jessica Reif Cohen – *Analyst, Bank of America Merrill Lynch*

Okay, thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Jessica. Operator, next question please.

Operator

Michael Morris, Davenport

Michael Morris – *Analyst, Davenport*

Hi. Thank you. Good afternoon. Two questions -- first, I believe that you have a pretty sizable expansion of your value-priced rooms in Florida coming up later this year. Can you speak a bit more broadly about why value-priced, how we should think about the impact that will have on your economics and everything from occupancy to the ability to push more people through the parks, first of all.

And then second of all, a topic that we have discussed in the past, but any update on your position toward the use of leverage? Obviously last fall you were able to borrow incredibly cheaply. You are still relatively -- have a low level of debt financing relative to your peers. Given some of your CapEx and the fact that you have such great subscription fees coming in, what is the philosophy there? Thanks.



Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

You are correct, Michael. We are opening the Art of Animation Resort. Actually, it's opening in waves. And most of what we are opening are family suites where we have seen a real demand in the marketplace. We actually converted some of our space in some of our other hotels to family suites. And we will be opening different parts of this hotel over the next year, year and a half, most of which will be in the family suite category.

And to put that in perspective, I don't have the pricing in front of me directly, but my recollection is that we are selling family suites for somewhere in the neighborhood of \$200 to \$225 a night. These have been very, very popular in the marketplace, and we thought we wanted to expand.

Obviously, a family suite is designed to accommodate an entire family, and for that price we think that it's right to call this a value room or a value accommodation. We have seen a fair amount of demand in this space over the last five or so years, actually probably longer. As we have said before, if you look at our profile, particularly in Florida, we have many more value-priced keys, rooms and suites, available today. About 40% of our total fit into that category as of the first quarter that we just announced. Obviously when we open this new resort, which is very, very large, that number is going to grow somewhat.

I think it reflects what is going on in the marketplace in some respects, but it also reflects the popularity of our product and the fact that we are now making it more accessible to more people because of the affordability factor. And for people to be able to come and stay in a room like the ones that we are building for that price is a pretty good deal.

You want to answer the second?

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

Yes, Mike, relative to your leverage question -- so you're absolutely right in stating that we have been to the market multiple times in the past year. I want to add, because I'm very proud of it and proud of our team, but for what we borrowed in both the amounts and our rating, we really almost always in the past year saw historically low coupon rates on that debt. And whereas a couple have been better since then, I think we have timed our steps into the debt marketplace very carefully and put a lot of time into picking what we think will be low entry points, and we have been very successful in doing that.

In doing so, we have obviously increased our debt because of the availability of money at these great rates. But I think that one of the reasons why we kind of punch beyond our weight in the debt market is because we have been so strategic and so public and so consistent in wanting to keep a single-A rating on our balance sheet and go to the market with that consistent message. We have no intention at the current time to change that.



There is some -- we can continue to leverage up somewhat and stay below that sort of 2.0 gross debt ratio that will keep us at that single A and we won't push ourselves beyond that. I think there's a little more capacity. When we see opportunities to step out again, we've got a couple of maturities that we would like to fill in. And when we see the opportunity to step in at great rates, I think you will see us doing that. Of course, as time passes, we will have some maturities that we will refill. But don't expect us to back the truck up to the point where we have to give up that great balance sheet and great Standard & Poor's rating that has, I think, served us incredibly well over the past decade, including when liquidity dried up for most companies in 2008.

Michael Morris – *Analyst, Davenport*

Great, thanks a lot for the answers.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Mike. Operator, next question please.

Operator

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citigroup*

I just had a question for Mr. Iger. I think it was a year ago when you talked about the interactive division at your investor day, there was a lot of discussion on cost containment and driving that division towards EBIT breakeven. Can you share any color in terms of sort of the reasonable timing to sort of glide into a breakeven number in that interactive?

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

We are working toward actually not breaking even but making money in fiscal 2013. And when the results of this full year are in we believe we will have taken a big step in that direction.

Jason Bazinet – *Analyst, Citigroup*

Okay, thank you.



Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Jason. Operator, next question please.

Operator

Vasily Karasyov, Susquehanna

Vasily Karasyov – *Analyst, Susquehanna*

Thank you. Good afternoon. I have a question for Jay. Jay, you mentioned that you now have -- you mentioned recently you have now approximately 100 international channels. So could you provide us with some color as to when you expect them to start contributing meaningfully to the Cable Networks segment profitability and how that can evolve over time? Is it going to be like what News Corp is now seeing or even Discovery? Thank you.

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

Thank you for your question, Vasily. Some of those channels start contributing straight out of the box, as soon as we launch them; some have a different trajectory. All, in sum total, are contributing, obviously, to the growth of the Disney Channel and our company and will continue to do so. But I think that we can't forget that the power of this channel expansion is not just financial. And to look at it that way, I think, would miss a key leg of our strategy. We know from research that the Disney Channel is now the strongest brand driver of the Disney brand in most countries in the world. And as such, we try to get that channel in front of more and more people, which explains why we did the Russian free-to-air joint venture, why we moved from premium to free-to-air and a much broader distribution in Spain and France last year, why we have launched in Turkey.

This is a great entry point for people into the Disney franchise. The Disney Channel is a franchise builder. It's a Disney brand builder. And so the combination of both its financial contribution to the company and strategic leverage that we draft off of in everything that we do around the world, makes those investments really pay back multi-fold.

Vasily Karasyov – *Analyst, Susquehanna*

Do you think 100 channels is the number where you will probably stop pushing for expansion, or is the number going to...



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

Unlikely, unlikely we will stop at 100.

Vasily Karasyov – *Analyst, Susquehanna*

All right, thank you very much.

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

Because now in the US we have got the Disney Channel, the core Disney Channel, launching Disney Junior as its own channel, XD is gaining momentum. And of course not all of those markets have all of those Disney Channel offerings. So we will continue to introduce those over time.

Vasily Karasyov – *Analyst, Susquehanna*

Thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks. Operator, next question please.

Operator

David Miller, Caris and Company.

David Miller – *Analyst, Caris and Company*

Yea, hi. Two questions, one for Bob, one for Jay. Jay, just real quickly, what was the ESPN affiliate growth percentage in the quarter? I didn't hear you say that in your prepared remarks. I apologize if I missed it.

And then Bob, I know you can't talk specifically about any sort of Disney/Univision joint venture on the 24-hour channel, if in fact you do it. But if you could just answer this for me topically. If you decide to go forth with something like this, where are you going to put it? I don't think there's any room on the analog tier. You could certainly go to the digital tier, but having covered Univision for so many years, and most of us on the call covered Univision for many years when it was public, Univision is primarily an over-the-air play, not necessarily a triple play household-type situation. I'm wondering if you can reconcile that for us. Thanks very much.



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

First, David, in answer to your question, I gave the numbers in answer to Nathanson's question earlier, but I will repeat them -- 14% or mid teens on a gross basis and high-single digits on an adjusted basis, adjusting for the Comcast deal deferral.

David Miller – *Analyst, Caris and Company*

Got you.

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

I'm not going to add anything to the discussion about the article that was written yesterday regarding ABC and Univision. So with all respect, I decline to answer the question.

David Miller – *Analyst, Caris and Company*

No problem, thank you.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Ok, operator, next question please.

Operator

Tuna Amobi, Standard & Poor's.

Tuna Amobi – *Analyst, Standard & Poor's*

Thank you very much. I've got one for Jay and one for Bob. So, Jay, can you just give us an idea of what we can expect from your new deals with Amazon and Netflix in terms of the lumpiness or linearity of those revenues as they kick in for fiscal 2012 and fiscal 2013? That would be helpful for modeling.

And then, for Bob, with regard to your earlier comment that protecting the pay-TV subs is a paramount consideration, and you said also in response to Verizon/Redbox question that you are, it seems, revisiting your day and date strategy is what I got out of it. Given the current situation it wasn't clear to me if that was a result of the Verizon/Redbox announcement, or why it took you so long to revisit this. I think it has been almost three years, when a lot of the other studios have been imposing these windows. So I wanted to get your sense of how this perhaps



might also affect your view of the whole authentication philosophy, which Verizon itself is also a stakeholder, and now they kind of be on the streaming site as well. So how do you balance all of these interests?

Bob Iger – *President and Chief Executive Officer, The Walt Disney Company*

I'll take it first, Jay; otherwise, I'll forget it. There was no connection between the announcement that was made yesterday, and the decision by the studio, which was made by the studio, to go to the 28-day window.

The reason they hadn't gone to that window before is the studio felt that it was not seeing any effect from these dollar rentals on their sell-through business and it was their feeling that if they went to that model, there would be nothing to be gained from it. In fact, they thought they actually might lose some.

They have taken a hard look at the business overall. I would say that the industry has continued to suffer on the sell-through side and the sale of goods digitally, or the rental side, have not made up for enough of that falloff; that's across the industry. And so they have decided to take a step in the direction of further protecting the initial window, or the sell-through window.

The whole issue of authentication is somewhat different or separate from the discussion on windowing, although I understand why you would connect the two. What authentication is about, as we see it, is really two things. One, it's recognizing the value of the multi-channel distribution business model and working to protect it, but also working to enhance it by recognizing the value and the excitement of new technology platforms. So what this does is it gives people who have subscribed to those services the ability to watch these channels and watch these programs in much more mobile, much more flexible ways on all their devices.

It also does create a window that advantages the subscriber, and on at least the rental side, disadvantages the non-subscriber. The non-subscriber would still be able to buy some of these programs on a sell-through basis digitally, virtually right after they air, but would not be able to gain access to them on a rental or a VOD model, unless they are subscribers of the service. And that is obviously designed to protect, again, the business model while at the same time recognizing the importance of and the potential and the excitement around new technology-driven platforms.

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

In answer to your first question, Tuna, your question a little bit assumed the answer, which is that these deals, because of a couple of different factors -- first, they are relatively short-term and get renegotiated, which makes the flows from them lumpy in and of itself. But secondly, the revenues in these deals are recognized based on the program availability, which, even in



the course of a deal over let's say three years, means that the flows are going to be not unpredictable, but lumpy. And we really -- it would be extremely both difficult for us to give you insight into how to think about that on a, if you will, normalized basis because there is no normal. And secondly, we haven't discussed the details of those deals or the numbers around them. So I'm sorry that I can't give you any further guidance there.

Tuna Amobi – *Analyst, Standard & Poor's*

Thanks.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Thanks, Tuna. Operator, we have time for one more question.

Operator

John Janedis, UBS.

John Janedis – *Analyst, UBS*

Thank you. Jay, can you update us on what you're seeing from a European bookings perspective at Disney World, and has a length of stay changed? And then from a domestic visitor perspective, are you finding that they are coming or committing earlier, given that you are promoting less?

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

Let me talk to the first half of your question. So if you look at our two domestic destinations, Walt Disney World and Disneyland, relative to the mix of international from prior year, it happens to be precisely the same. And I have talked for a long time about the quarter-to-quarter swing between 18 and low 20s, and it's in that range.

But in that mix, we are seeing more from -- an increase in strength, particularly from Brazil and Mexico and a little bit of weakness in Canada and the UK, the UK being, of course, far and away our biggest European market. So in answer to your question, I would have to say European bookings are a little bit down and European visitation is a little bit down.

On the other hand, the second half of your question, we have pretty much seen strength across the board. What was the second half of your question?



John Janedis – *Analyst, UBS*

I think in the past, you had said that you weren't seeing the length of commitments in terms -- I think it was about 13 weeks ahead?

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

Yes. We explicitly did not see a change in the booking window in this quarter relative to prior. I think I've told you it has been 13 weeks, and that has held solid for the first quarter of the year.

John Janedis – *Analyst, UBS*

Thanks a lot.

Lowell Singer – *Senior Vice President, Investor Relations, The Walt Disney Company*

Ok, thanks, John. Thanks again, everyone, for joining us today. Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our investor relations website.

Let me also remind you that certain statements on this call may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our annual report on Form 10-K and in our other filings with the Securities and Exchange Commission. This concludes today's call. Thanks again for joining us.

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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 October 1, 2011 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.