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**The Walt Disney Company**  
**Q3 FY12 Earnings Conference Call**

**AUGUST 7, 2012**

**Disney Speakers:**

**Bob Iger**

*Chairman and Chief Executive Officer*

**Jay Rasulo**

*Senior Executive Vice President and Chief Financial Officer*

Moderated by,

**Lowell Singer**

*Senior Vice President, Investor Relations*

**PRESENTATION**

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**Operator**

Good day, ladies and gentlemen, and welcome to the third-quarter 2012 Walt Disney Company earnings conference call. My name is Anne, and I will be your coordinator for today's call. As a reminder, this conference is being recorded for replay purposes. At this time all participants are in listen only mode. (Operator Instructions). We will be facilitating a question and answer session following the presentation. I would now like to turn the presentation over to your host for today's call, Mr. Lowell Singer, Senior Vice President, Investor Relations. Please proceed, sir.



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

All right thanks and good afternoon everyone. Welcome to The Walt Disney Company's third-quarter 2012 earnings call. Our press release was issued about 45 minutes ago. It is now available on our website at [www.disney.com/investors](http://www.disney.com/investors). A webcast and a transcript of today's call will also be available on our website later today.

Joining me in Burbank for today's call are Bob Iger, Disney's Chairman 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 it over to Bob.

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

Thank you, Lowell. And good afternoon.

We had a phenomenal third quarter, delivering the largest quarterly earnings in the history of our company. Earnings per share were up 31% over last year, driven by growth in every one of our businesses. We also delivered record earnings per share for the first nine months of our fiscal year, and we believe our results clearly demonstrate Disney's unique value proposition and great potential to deliver long-term growth.

Before Jay gets into the specifics about our quarter, I'd like to spend a few minutes talking about the status of our capital spending in our parks and resorts as well as some of the acquisitions we've made in the last few years – especially Marvel. These things are relevant to our Q3 results and will factor into our future performance as well.

As you know, we've made significant investments in our parks and resorts over the past several years to create an even greater Disney experience for our guests and to drive long-term growth. These include completely transforming Disney California Adventure, expanding Disney's fleet of cruise ships, and enhancing and increasing the size of Fantasyland at Walt Disney World.

California Adventure is now an exceptional park in its own right and the perfect neighbor to Disneyland. Since the June opening of the phenomenal Cars Land and the brand new Main Street, attendance has been up, along with guest satisfaction. In fact, Disneyland Resort set a new Q3 attendance record. And on most days since our reopening, California Adventure has been drawing nearly 50% of the total attendance to the overall Disneyland Resort, and that's up from roughly 25% in the past.

The successful launch of the Disney Fantasy in March and the Disney Dream the year before more than doubled the guest capacity of our cruise business. These amazing new ships deliver an extraordinary cruise experience -- and they both began contributing to operating income in



their first full quarter of operation. Our cruise ship bookings are currently at 94% occupancy for the year.

Meanwhile, our multi-faceted expansion of Fantasyland has begun in Orlando. It's the most popular land in our most popular park, and this will be the largest expansion of the Magic Kingdom since Walt Disney World opened more than 40 years ago. We'll complete this particular project in 2014; however, the bulk of our capital investment will be made by the end of the current fiscal year.

In fact, with these significant investments behind us, this will be the peak year for our capital expenditures in our domestic parks and resorts business. Going forward, we expect each one of these projects to deliver strong returns on invested capital that will exceed our hurdle rate and drive improvement in our overall returns.

On the international front, we've also invested in expanding Hong Kong Disneyland. Two of three new themed areas are already open and the third will open next spring. Attendance, revenue, and operating income for the park were all up again this quarter. The park actually set a new Q3 record for both attendance and revenue.

And our investment in Shanghai Disneyland will continue to ramp up through its opening. As I've said many times before, this is the most exciting international project in the history of our company -- It's certainly the biggest investment we've ever made outside the U.S.

Turning to our acquisitions – in Q3 we released two fantastic movies that demonstrate the incredible creativity and value of both Pixar and Marvel.

*Brave* is Disney-Pixar's 13th consecutive movie to open at #1 here in the U.S. It's grossed about \$225 million domestically, and has yet to open in some key international markets including the UK and Spain.

*Marvel's The Avengers* has grossed almost \$1.5 billion in box office worldwide – making it the third highest grossing movie of all time. It's also an important new franchise for us, as Disney Interactive, Disney Channels Worldwide, ABC Studios, and Disney Consumer Products are all working to leverage the power of *The Avengers* to create greater value.

We acquired Marvel in 2009, with its multitude of exciting characters. And, as with Pixar, we are confident we'll be able to create original content and build franchises around these great characters to drive significant value across our company.

The releases of *Thor* and *Captain America* last year built on the momentum from the first two *Iron Man* movies. Combined, those two movies grossed more than \$800 million in global box office and led to the phenomenal success of *Marvel's The Avengers*.



When Marvel took the stage at Comic-Con last month to announce a new slate of films that will keep the momentum going, the reaction was huge.

*Iron Man 3* opens on May 3, 2013, followed by *Thor: The Dark World* in November next year. *Captain America: The Winter Soldier* will be in theaters in April of 2014 and – as I mentioned on our last call -- there is a sequel to *Marvel's The Avengers* in the works. In fact, Marvel has just signed Joss Whedon to an exclusive deal, and he will write and direct *Avengers 2*, and help develop a Marvel-based series for ABC.

As you can see, Disney has a unique ability to generate new opportunities and drive significant value from great creative content. Disney, Pixar and Marvel have the incredible characters and compelling stories that people connect to – the kind we've proven we can build strong, long-lasting franchises upon.

Our acquisitions give us more than extraordinary creative content. The creative cultures, unique talents, new perspectives, and commitment to excellence at Pixar and Marvel are now contributing to our company's strength, and along with ESPN and ABC, they are creating new opportunities in numerous ways.

With some of the world's strongest brands, brightest creative talent, and incredibly valuable assets, Disney has never been better positioned to create continued long-term growth.

And, with that, I'm going to ask Jay to give you the details of our Q3 performance – and then we'll be back to take your questions. Jay?

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

Thanks, Bob and good afternoon everyone. We delivered an exceptional quarter with segment operating income up 18% and earnings per share of \$1.01, up 31% over prior year. There is great momentum at our company as evidenced by these results, which I'm now going to spend a few minutes discussing in more detail. Then I will highlight some factors that may influence our upcoming performance.

In the third quarter, the Studio segment was the largest contributor to growth in operating income driven primarily by the tremendous worldwide box office results of *Marvel's The Avengers*. Television distribution results were also higher, but this was offset by a decrease in worldwide home entertainment.

The success of *Marvel's The Avengers* speaks for itself—it's a phenomenal film that dominated the box office in every market in which it opened, so we look forward to the opening of the film next week in Japan.



As we look to the balance of the year and fiscal 2013, we are excited about our robust release slate. On the animation side, Pixar will release two of its animated classics in 3D for the first time, *Finding Nemo* in September and *Monsters Inc.* in December, which sets the stage for Pixar's next big film, *Monsters University*, which will be released next June. We'll also release *Tim Burton's Frankenweenie* in October and Disney Animation's *Wreck-it-Ralph* in November. On the live-action front, we'll release a number of highly anticipated films in 2013, including *Oz: The Great and Powerful* in March, *Iron Man 3* in May, and *The Lone Ranger* in July.

Results from television distribution were driven by higher sales of our films in international markets compared to the prior year. The decline in home entertainment results was due to lower unit sales in the third quarter, including lower performance of key titles like *John Carter* and *The Muppets* compared to *Tron*, *Tangled* and *Gnomeo and Juliet* which were released in the prior year.

Operating income growth for the Media Networks segment was driven by growth in both Cable Networks and Broadcasting. At Cable Networks, Disney Channel was the primary driver. Growth at the domestic Disney Channel was driven by higher affiliate revenue due to contractual rate increases. Disney Channel continues to build and enhance brand awareness for Disney around the world, so we could not be more pleased with its recent success. Disney Channel is stronger today than ever with strength across all of its networks. In Q3, Disney Channel was the #1 network with Kids 2-11 and Tweens 9-14. As of last week, Disney Channel had been #1 with kids 2-11 for nine consecutive weeks. Disney XD had its highest rated third quarter ever with Kids 6-11 and Tweens 9-14.

Our newest network, Disney Junior, which we launched in March, is already in 55 million homes, followed by our recent agreement that brought the network to DirecTV's customers. In June of this year, we launched a suite of Disney Channel apps with Comcast—WATCH Disney Channel, WATCH Disney XD and WATCH Disney Junior, which gives their subscribers access to live linear feeds of those networks in addition to a host of on-demand programming. This suite of services further strengthens our relationship with consumers by enhancing the value of their multi-channel subscriptions.

ESPN's operating income was down in the quarter due to lower recognition of deferred affiliate revenue compared to prior year. If you recall, ESPN did not defer any Comcast revenue during Q1 and Q2, so this quarter ESPN recognized 139 million dollars less in deferred revenue related to its Comcast agreement than in the prior year. I'll remind you the deferral issue merely relates to timing of revenue recognition and has no impact on full year results. Excluding this impact, ESPN's growth in affiliate rates, subscribers and advertising revenue more than offset an increase in programming and production costs. Programming and production costs were higher due to the airing of additional NBA games compared to Q3 last year, as well as higher contractual rates for NBA and Major League Baseball programming.



ESPN ad revenue was up mid-teen percentage points compared to last year driven by higher rates, unit sales and ratings. Viewership of the ESPN network continued to grow during the quarter, as ratings were up over 16% due to our coverage of the UEFA 2012 Championship, more NBA games, and increased viewership of *SportsCenter* and US Open golf.

Reported Cable margins, excluding our equity investments, were down 70 basis points due primarily to lower affiliate revenue recognition from Comcast. This revenue recognition change associated with Comcast affiliate revenue had an adverse impact on cable margins of approximately 220 basis points.

At Broadcasting, the increase in operating income was the result of higher affiliate and royalty revenue, and lower programming and production costs at our owned stations, partially offset by a decrease in ad revenue at the ABC Network.

Ad revenue at the ABC Network was down modestly as higher CPMs were more than offset by lower ratings in the quarter. Ad revenue at the Stations was comparable to prior year.

Quarter-to-date scatter pricing at the ABC Network is running mid-teens above upfront levels. At ESPN, ad sales are pacing down modestly. Our advertising businesses have been impacted in the last couple of weeks by the Olympics. However we were very pleased with the strong demand ABC and ESPN enjoyed in the upfront, which is evidence that advertiser demand for our networks remains strong.

Our Parks and Resorts segment delivered another strong quarter with revenue up 9% and operating income up 21%. The increase in operating income was due to growth at Tokyo Disney Resort, Disney Cruise Line and our domestic resorts. We saw continued improvement in segment margins during the quarter, up more than 190 basis points compared to last year. Results from the Tokyo Disney Resort continue to improve, reflecting the negative impact of the Japan earthquake on last year's Q3 results, and the related business interruption insurance proceeds we received in Q3 this year. I'd also note that Hong Kong Disneyland's operating income grew in the quarter due to increased guest spending and higher attendance.

Disney Cruise Line results were higher due to the launch of the Disney Fantasy in late March.

At our domestic parks, the increase in operating income was due to increased guest spending and attendance, partially offset by increased costs. For the quarter, attendance at our domestic parks was up 1% 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% driven by higher average daily rates. Occupancy decreased one and a half points to 79%. While occupied room nights were comparable to prior year, domestic inventory increased versus prior year due to the opening of Aulani and Disney's Art of Animation resorts.



So far this quarter, domestic resort reservations are pacing up 1%, while booked rates are up 4%. Bookings at the Disney Cruise Line are 38% higher than prior year, with occupancy for the entire fleet at 94% for the year.

At Consumer Products, operating income was up in the quarter due to an increase in merchandise licensing. Growth in licensing was due to lower revenue share with the Studio compared to prior year, and higher revenue in Japan. On a comparable basis, earned licensing revenue was down modestly. We were pleased with the sale of *Avengers* merchandise and the early sell-in of *Spider-Man*, but faced a difficult comparison given the performance of *Cars* merchandise last year.

At the Interactive segment, we continue to make steady progress with lower operating losses in the quarter compared to the prior year due to improved results in our games business. Social Games results continued to benefit from the lower impact of acquisition accounting for Playdom, as well as improved performance driven by the success of *Gardens of Time*. Results at our console games business were comparable to the prior year.

During the quarter, A&E Television Networks agreed to redeem NBCUniversal's entire 15.8% equity interest in A&E for approximately \$3 billion dollars. \$2.5 billion of the purchase price represents the enterprise value of NBCU's equity interest in A&E, and the balance represents the value of tax benefits expected to be generated as a result of the transaction. We are very pleased with the price A&E will pay to redeem this stake. We expect the transaction to close by the end of calendar 2012, at which point our ownership stake in A&E will increase to 50%.

Turning to the fourth quarter, there are a couple of items I'd like to highlight that will impact year over year comparisons. ESPN will incur more than \$100 million dollars in incremental programming and production costs due primarily to contractual increases for college football and Major League Baseball, as well as higher costs associated with our new contracts for the Pac-12 and Wimbledon.

At Disney Interactive, while year to date results have improved over prior year, we expect Q4 results to be comparable to last year. Results in our console games business face a difficult comparison given the performance of *Cars 2* and *Pirates Lego* in the prior year and we have no comparable titles this year, as our next big title, *Epic Mickey 2*, will be released in the beginning of fiscal 2013.

We continued to repurchase our stock during the third quarter with 8.6 million shares repurchased for about \$373 million dollars. Fiscal year to date, we have repurchased 55 million shares for \$2.1 billion dollars. While our pace of repurchase in the third quarter was slower than in recent quarters, it's probably more useful to look at our buybacks over the longer-term than in any individual quarter. Returning capital to our shareholders, through dividends and share repurchase, continues to be a key component of our capital allocation strategy, and we



intend to continue repurchasing our stock. We have not altered our thinking about the amount of capital allocated to share repurchase.

We are very pleased with our Q3 results. We've made a number of investments in the last couple of years with an eye towards creating long-term, sustainable value for our shareholders, and we believe this quarter demonstrates the impact that these investments are having on the financial results of our company.

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

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

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

## Q&A

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**Operator**

[OPERATOR INSTRUCTIONS] Michael Nathanson, Nomura.

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**Michael Nathanson** – *Analyst, Nomura*

I have two for Jay just on parks. Jay, when you started the year I remember you guys said the rough numbers are going to be about \$500 million of incremental revenues and expenses that are related to the new attractions and ships. And I wondered, now that you are three quarters of the way done through the year, can you give us an update on where you are through that \$500 million, and is there any differences on the timing of revenues and expenses?

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

Thanks, Michael. We said last year that we would have \$300 million of incremental revenue matched with cost, and that an incremental \$500 million this year. And we are still very much on pace for that. And it seems like it will be, as we thought, pretty much match up with costs of launching, training, pre-opening and all of the things that go into launching these new initiatives.

If you look at this quarter in particular, Michael, we think about 50 basis points of our parks margin -- the change that you saw in the parks margin number that I gave you -- is the impact of these new initiatives on the margins for the quarter. That is the Disney Cruise Line, California Adventure expansion, and our Aulani, really represent the bulk of that 50 basis point impact.





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**Michael Nathanson** – *Analyst, Nomura*

Okay. And then can I just ask one follow-up on park trends? We are all excited about the new California park. Can you give us a sense of what the attendance trends look like through the quarter? And maybe next quarter, California versus Florida, is there anything you are seeing differently than previous years?

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

Nope, not really a big difference between those two parks as we get into the summer and look at what the rest of the summer is probably going to look like and into the fall, not a huge difference.

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**Michael Nathanson** – *Analyst, Nomura*

Okay, thanks.

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

Thanks, Michael. Operator, next question please.

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**Operator**

Ben Swinburne, Morgan Stanley.

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**Ben Swinburne** – *Analyst, Morgan Stanley*

Thanks. I have a question for Bob on *Avengers*, and then a follow-up for Jay. Bob, last quarter you talked about being a little short on inventory at *The Avengers* and on the CP front and wanting to get the company focused on fully monetizing that property.

Looking at Q3 how would you judge the performance of the company overall across the segments, particularly at CP and at film? And how do you think about looking at this property from a licensing perspective relative to some of your other big hits like a *Cars*, where you really didn't see much of a fall-off on the licensing front as you moved out over the years beyond the initial release of the film?



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

We think *Avengers* is a strong property. It is not as strong as *Cars* from the CP front, but that is the strongest that we have ever had. I think it is important to note then that you can't look at one of these properties in terms of its franchise quality or strength in one quarter. *The Avengers* is probably a good example of that because we have to look at it through the release of the DVD, which is late this September, and obviously that takes us well into Christmas. And because *The Avengers* incorporate *Iron Man*, *Thor*, *Captain America* and *The Hulk*, we basically are selling product against all those characters, and we will be selling it when those other movies, certainly *Iron Man 4* and *Captain America*, come out.

So this is kind of a long-term proposition. *Avengers* is not as strong as *Cars*, but until the DVD comes out and we get into the Christmas season, it is way too early to assess this. And we have high hopes for not only the films from the individual characters that appear in the movie, but then for the sequel which will come out at a time we haven't announced yet.

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**Ben Swinburne** – *Analyst, Morgan Stanley*

And then, thank you for that. And, Jay, just on ESPN would you be willing to give us the affiliate revenue growth in the quarter, if you exclude the deferral timing, or if not for ESPN, for cable, which I think could be in the Q?

And the \$100 million cost you called out for Q4, is that a change in the year-over-year expense growth at ESPN we saw in Q3, because I know you, obviously, every quarter you have increases in your license fees.

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

Sure. Let me take the first half of your question and then I will talk about that \$100 million. So relative to our affiliate growth rate, it was pretty much flat versus prior year on a reported basis due to the impact of that Comcast deferral. And we also had some unfavorable FX stuff in there, but the majority of it was the deferral.

If you adjust for that deferral, and adjust for the FX rate as well, the Q3 cable affiliate rate growth was very similar to the first half of the year, which was high-single-digits. I think I gave that out on the last call. So those two factors pretty much account for what looks like a slowdown in the reported number.

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**Ben Swinburne** – *Analyst, Morgan Stanley*

Got it.



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

Okay. On your second question about the \$100 million, basically it really matches the kind of pace of cost growth that we have seen, which is the low- to mid-single-digits in cost growth quarter-to-quarter at ESPN; nothing really special there.

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

And that is Q4 versus prior year, Ben.

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**Ben Swinburne** – *Analyst, Morgan Stanley*

Yes, got it. Perfect. Thank you.

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

I want to just provide some perspective on affiliate rate increases, because I know this has gotten some attention these last few weeks, not just for us but across the media sector.

When we give a figure of high-single-digits, which Jay just gave, you're looking at a blended rate of all of our networks, obviously including ESPN. Because of the size of ESPN sub fees, as you know, we have been cautious about how we increase those rates in these new deals that we make, given the fact that the fees for ESPN are as high as they are, and we are increasing rates on such a high base.

The pricing that we get that is probably the strongest in terms of a percentage increase is from the other networks, led by the Disney Channel. So we're getting tremendous price growth in some of the other channels and decent growth in ESPN, but albeit, on a very, very high base.

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**Ben Swinburne** – *Analyst, Morgan Stanley*

Thank you.

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

Thanks, Ben. Operator, next question, please.

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**Operator**

Alexia Quadrani, JPMorgan.



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**Alexia Quadrani** – *Analyst, JP Morgan*

My question is on the parks margin. Should we assume when we look into the September quarter that we could see like it is more than the 50 basis point expansion from the newer investments, given that a lot more of the costs are probably rolling off in this quarter?

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

Alexia, I don't feel comfortable giving guidance on a specific quarter's margin, but obviously as these projects roll off, the revenue they produce, which has pretty much been what we expected when we pro forma these projects, all of those startup costs will drop off and we will start producing OI against those, and they won't be the margin drag that they have been. But I really don't want to talk specifically to timing, it just gets too close to guidance for my taste.

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**Alexia Quadrani** – *Analyst, JP Morgan*

And then just a follow-up question on the really impressive ratings momentum you have seen at the Disney Channel. I guess given that you don't sell advertising is there, I guess, ways you can really translate that into more meaningful step-ups, whether it is just higher affiliate rates when contracts come up or is there other ways you can monetize that impressive success you have had there?

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

First of all, the Disney Channel programming appears on over 100 channels worldwide, and many of those channels are advertiser supported. So the strength of these shows, while they only show up primarily in the US against sub fees, they do drive advertising in other markets around the world.

The other thing that is important is we manage these properties across businesses and we leverage their success across businesses. So if you look at *Phineas and Ferb*, which is a mammoth success on the Disney Channel in the US, that is being leveraged as a franchise across a variety of different company businesses. Of note, the tremendous success of a recent mobile game, for instance, is one example, with Consumer Products being another one, and publishing. The fact that it will show up in the parks and the fact that we have a movie in development against *Phineas and Ferb*.

So we are monetizing, because of the Disney-branded nature of these properties, we are managing these successful properties the way we manage successful properties out of the studio as, franchises.



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**Alexia Quadrani** – *Analyst, JP Morgan*

Great, thank you.

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

Thanks, Alexia. Operator, next question please.

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**Operator**

Jessica Reif Cohen, Bank of America Merrill Lynch.

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

Could you address the retrans and affiliate comp where you are -- or roughly where you are in fiscal 2012, and how will that ramp up over the next couple of years?

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

Hi, Jessica. We're going to stick with the total number we gave. I really don't want to talk to how that is going to blend in over time, because we don't want to get into all the details of when deals come up for renegotiation, when we start, whether we start early and so on and so forth. So we're going to stick with that total \$450 to \$500 million number that we gave in fiscal 2015 and live with that. Thank you.

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

Okay. And then just on the buyback, you had mentioned, Jay, that there was quite a slowdown in the quarter. Could you just give us your current views on capital allocation? If CapEx peaks this year, free cash flow growth should be, at least for the domestic parks, should be fairly significant. Why was there a slowdown and how should we think about capital allocation in coming years?

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

Well, let me take the bits of your statement in order. Certainly on an equity method basis, and even on a consolidated basis for the next couple of years, our CapEx will drop. In fact, 2012, at least into the foreseeable future, on an equity basis because a lot of the big capital bumps you will see in the future will be in Shanghai, only 43% of which is our money, you will see the reported number start to look higher as we get into the pre-opening of that park, but on the



equity basis the actual cash outflow will not reach the 2012 number. So you're right about that, there will be more cash flow, at least the netting will be less.

If you look at buyback in particular, I would say this, we haven't changed our point of view at all about buying back our stock. We still believe that we trade below our intrinsic value. That it is a very useful and strategic way for us to return capital to shareholders. So I just wouldn't read too much into what happened this quarter versus the same quarter last year -- not important. We haven't changed our focus on this -- on the amount of capital or how we think about allocating capital to buybacks in the future.

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

Thank you.

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

Thanks, Jessica. Operator, next question please.

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**Operator**

Spencer Wang, Credit Suisse.

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**Spencer Wang** – *Analyst, Credit Suisse*

Thanks. Good afternoon. Just a two-part question on ESPN. First for Jay, I think you mentioned that ESPN's pacing is slightly down in the September quarter -- and you mentioned the Olympics. Is it all just a shift to the Olympics or is there any sort of change in tone in the scatter market?

And, secondly, for Bob, I know international growth has been a focus for you. So for ESPN now that the English Premier League rights will go to British Telecom in the fall of 2013, and you have unwound the STAR JV, can you just update us on your thoughts on the international strategy for ESPN? Thanks.

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

Sure. I really wouldn't read too much into the ESPN pacings, other than of course, the enormous focus that takes place around the Summer Games and the disruption or disequilibrium that creates in the market.



We believe we have incredibly strong programming. Our upfront, which is, you probably know, for ESPN one of a couple or a few upfronts that we do, was incredibly strong. Demand for our programming and our product is incredibly strong. We are not looking too much further into it than that.

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

And by the way, as it relates to the Olympics and ESPN, it made a decision at the upfront to sell deeply into this current quarter at the upfront so that they would leave themselves less vulnerable to the competitive forces of the Olympics from an advertising perspective.

So even though the Olympics are siphoning some money out of the marketplace, particularly with strong ratings, ESPN was fully prepared for a quarter that would be impacted negatively by the Olympics by selling deeper into the upfront.

I should also say that their sales for their fall premier product, notably college football and pro football, are very, very strong and very, very encouraging.

On the international front, ESPN's track record internationally has not really delivered the kind of bottom-line results that we would have liked or expected. And as we look forward we did not see the kind of growth engine from ESPN internationally. And so we have approached it somewhat more conservatively.

The bids that we made, for instance, for Premier League, was what we consider to be a rational bid to try to turn ESPN's business in the UK into a profitable business, and we were outbid by a very, very powerful local distributor. And it was really not only impossible to compete with them, but it made no sense for us to do so, because it simply would not have benefited our bottom line.

Asia, a different story. Although as we look long-term at that JV, we didn't think it would drive great growth for the company. It was also a partnership with News Corp., and every once in a while with partnerships, even though we had a good one with News Corp., you have a differing point of view about the future, the direction of the business. And both entities felt that it would be better to go off individually. And so we decided, basically with News Corp. being very interested, to sell our interest back to them and to pursue other markets for ESPN internationally, notably Latin America, where we do think that we have a path to -- where we are profitable today and we have a path to growth long-term.

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**Spencer Wang** – *Analyst, Credit Suisse*

Great, thank you.



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

Thanks, Spencer. Operator, next question please.

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**Operator**

Anthony DiClemente, Barclays.

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**Anthony DiClemente** – *Analyst, Barclays*

Thanks. Two questions for Bob, just to follow up on your recent comments there. I appreciate your comments about ESPN and the pre-sales for college football. But just wondering on just broader core advertising market trends, would love to hear whether or not you think that there is a good amount of visibility in the marketplace as we look to the end of the year, whether or not you're seeing any sort of change in tone in ad demand. And then I have a follow-up.

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

I would express nothing but bullishness about ESPN's ad prospects for the, certainly next number of months, maybe for the next year. Live Sports is still very much in demand. I think the Olympics proved that high-quality live sports events still attract large audiences and are of great interest to a variety of different advertisers.

So you have multiple sectors. They had a strong upfront. By the way, as did ABC, selling roughly 80% of its inventory in the upfront at increased rates. So I think we feel, generally speaking good about the ad market. Not huge visibility, but due to what we're seeing, I think we are positive about, particularly on the ESPN front.

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**Anthony DiClemente** – *Analyst, Barclays*

Okay, fair enough. And then a second question, Bob. On the performance of *Brave*, which it was impressive in its own right. Maybe not as impressive as some of your existing franchises, like thinking back towards *Toy Story 3*. I am wondering if the performance of *Brave* does anything to inform your strategy at Pixar for introducing new -- brand-new brands of franchises from here, particularly looking at how *The Avengers* did and whether or not the Marvel characters and franchises become more prominent in your overall strategy?





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

Well, we feel -- the point you made, we feel good about *Brave*. It is just a hair under \$225 million domestically. And we put a character in the marketplace that is clearly very, very popular and has long legs, no pun intended, in terms of franchise ability or franchise-ability.

We have instructed Pixar to make great movies. That is their primary priority -- tell great stories. If we get good franchises out of them, that is great for the company, but we're not taking a check the boxes approach to how they develop. That said, they do have properties in the marketplace that we really believe in. The sequel to *Monsters*, which comes out in 2013, would be one very good example of that.

It is also kind of tough to compare things to *Toy Story* since that was the number one grossing animated film box office ever. But what we have instructed Pixar to do is to continue doing what they have been doing all along and doing quite well, which is find great characters; tell great stories. And when we have got one that can be mined the way *Toy Story* was or *Cars* was or some of the other properties -- certainly *Nemo* would fall into that category, *Monsters*, then we should make the film. Sorry, then we should leverage it. But by and large we want to make good movies, tell great stories first.

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**Anthony DiClemente** – *Analyst, Barclays*

Okay, thank you very much.

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

Thanks, Anthony. Operator, next question please.

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**Operator**

Todd Juenger, Sanford Bernstein.

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**Todd Juenger** – *Analyst, Sanford Bernstein*

Hi. Thanks for taking the question. A quick one on the TV Everywhere apps, I guess, especially the new kids channel apps you were talking about with Comcast. I guess my question would be, how do you see that expanding out to other distributors, who I am sure would love to offer that to their subscribers? And I am sure there are various barriers to that. If you could comment on the timing or the barriers that are standing in the way of maybe getting more deals done like that? And then anything you can say on the way that you economically participate or benefit from deals like that.



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

Sure. We're very encouraged by the apps that were launched through Comcast, and the app -- the ESPN app that was launched by Time Warner about a year earlier. The take-up rate in terms of downloading the app and ultimately authenticating has been impressive. And what is really impressive, particularly from the Disney Channel side, is the number of shows that have been viewed on that app.

This proves a number of things to us. One, the power of mobile media. Clearly the device, mostly the tablet, to some extent the smartphone, is a device that people are willing to watch a longform video on, particularly kids, and that is very encouraging.

What we have got here is a model that benefits the consumer, because it gives the consumer more ways to access the programs conveniently. It benefits the distributor, because we're protecting the business model, because of the need to be a multi-channel subscriber, and it certainly benefits us.

So I think we will do more deals like the one that we did with Comcast. There is a veritable queue of distributors that would like to launch these apps, but we are willing to launch them as part of overall extensions of the omnibus deals that we have done with them, or the deals that we have done for the channels, and not just allow distributors to launch them basically outside of the format of an extension of our deal.

On the monetization front, we're working on technology that we expect to implement probably this fall for ESPN and for the Disney-branded apps to embed advertising that is discrete to these apps, both on the VOD front so that when they watch an episode, but also in terms of streaming of the channel.

And so we have an opportunity, we believe, not just to use these apps to increase the value of the multi-channel ecosystem, but ultimately to drive greater revenue through advertising.

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**Todd Juenger** – *Analyst, Sanford Bernstein*

Very helpful. If I could ask one quick follow-up. I know that took a lot of time, so I will try and make this real quick. Your comments on the ESPN upfront were very helpful. I wonder if you might share some similar comments on the kids upfront, especially it might -- some of us might draw a conclusion that a lot of GRPs have gone out of the market. The demand seems fairly strong, so one might suspect that pricing might be way up and your share is way up. So any comments on your price or volume you got out of kids upfront would be greatly appreciated.



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

Sure, Todd, you're right. We had a very strong kids upfront, driven by Disney XD, primarily, because we've got real growth in ratings and the strength of the programming in that channel, as well as Disney Junior, is enabling us to monetize at a faster pace, at a robust pace and to take market share.

That said, our position in the marketplace is relatively small, because, as we have said earlier in this call, we don't sell advertising on the Disney Channel. So we're driving advertising in fewer and relatively smaller channels.

But we have definitely seen strength there and real growth. And we look forward to continuing to grow these channels both in terms of subscription fees from increased distribution, but also from increased advertising, which is due to the popularity of the programs and the channels themselves.

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**Todd Juenger** – *Analyst, Sanford Bernstein*

Thanks a lot.

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

Thank you, Todd. Operator, next question please.

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**Operator**

David Bank, RBC Capital Markets.

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**David Bank** – *Analyst, RBC Capital Markets*

Thank you. So first, Bob, given your opening comments, the quality and the visibility on the studio slate is really actually pretty staggering. And I guess in that context, if you look over the past decade the studio hit peak EBIT north of \$1 billion, margins in the mid-teens. Do you guys - do you think you are on a trajectory over the next couple of years to get back to those kinds of earnings power numbers at the studio, given the slate you outlined?

And just on a second completely unrelated question, could you remind us of when the *Castle* syndication money is going to hit? And is it comping up against any other major syndication or any other -- the timing of any other digital syndication dollars? Thank you.



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

David, no real guidance on the studio side. We feel good about the slate too. With anchors from Pixar, Disney and Marvel, we like our positioning, and we are confident in the slate coming up. We do believe we are going to continue to improve returns on that business led by the franchises and the big brand power of our films. But no guidance in terms of what level of profitability we achieved or what we return to in terms of total profitability.

Jay, you want to take the *Castle* question?

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

On the *Castle* revenue recognition, David, we did recognize some in Q3. And we will recognize even more in Q4, as there is both -- we are monetizing both seasons three and four in Q4. But there is also a bump due to the fact that we will hit the magic 88 episodes in which there is a lift to the entire pricing of what we sold prior, and we will recognize that in Q4 as well.

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**David Bank** – *Analyst, RBC Capital Markets*

And that is at the studio or media nets? I am sorry for asking.

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

That is at the media nets.

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**David Bank** – *Analyst, RBC Capital Markets*

Okay, thank you so much.

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

Thank you, David. Operator, next question please.

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**Operator**

Doug Mitchelson, Deutsche Bank.



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**Doug Mitchelson** – *Analyst, Deutsche Bank*

Thanks so much. Two questions if I could. Bob mentioned that both cruise ships were profitable in the June quarter. Were those cruise ship margins still held back by marketing and launch costs, and if so, how long does it take to reach steady-state margins for those cruise ships? That is the first one.

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

Yes, and they are behind us. So you should start to see normalized margins from this point forward.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

And the second question, because of some of the currency shifts, I think it's a little bit more expensive for international visitors to come into the US. I think in the past, at least over the past year or so, it seems like international attendance growth has helped drive increases in attendance at the parks. So should we have any concerns regarding currency swings impacting the parks?

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

Interestingly, the Q3 percent international, where it really matters most, which is at Walt Disney World, was identical to the prior Q3 a year ago, Doug. And while I will tell you there has been a bit of a mix shift where Europe, which for us is primarily UK and Canada, were down a little bit, but that slack was completely picked up by Brazil and Argentina.

So, yes, there is always the possibility for currency swings to affect our business. We actually haven't seen that much of it over the last couple of years. Of course, the Euro and the Pound have been relatively strong for most of that period.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

Well, you have got a lot of experience with this. Is there any kind of lag given that people plan their trips in advance? At what point would you expect to see it, if we're going to see anything - would you have seen it already?

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

Generally not. I think that for the most part, particularly starting with Europe, flights from the UK and a long holiday in Orlando tend to be a lot more economical decision for people from the



UK than going elsewhere in Europe. And the growth of interest in Latin America for the Disney franchise, and particularly visitation to Walt Disney World, is probably going to mask any relative currency swings there.

We're really -- the only thing we are held back by from South America is actually, believe it or not, our visa policy and the ability of people to get access to the market, not the desire or the demand to come up to Walt Disney World.

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**Doug Mitchelson** – *Analyst, Deutsche Bank*

I'll end before we go into politics. Thank you.

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

Thanks, Doug. Operator, next question, please.

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**Operator**

Marci Ryvicker, Wells Fargo.

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**Marci Ryvicker** – *Analyst, Wells Fargo*

Thanks. Two questions. The first, DreamWorks has recently announced plans to build a theme park in Shanghai and potentially start a kids network. Any thoughts on these announcements, particularly given that this would be new competition for Disney?

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

To my knowledge they are not building a theme park in Shanghai. They are building some form of an entertainment center, it was described in their release as more of a theater district. I guess that is supposed to include theatrical theater as well as movie theater and some other forms of tourist attractions. But it is not being characterized as a theme park, and is not being capitalized, meaning the investment is nothing close to what it would take to build a theme park. This is more, I think, theater venues and retail that is entertainment-based than theme park.



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**Marci Ryvicker** – *Analyst, Wells Fargo*

Okay. And then A&E, it said in your last filing that you most likely will not be consolidating that, so I just want to confirm. And then also related to this any thoughts about doing a swap with Hearst in terms of your interest in A&E for their interest in ESPN?

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

You are right on your first assertion, which we do not have plans to consolidate it. And I don't really want to comment on anything regarding our relationship with our partners at Hearst.

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**Marci Ryvicker** – *Analyst, Wells Fargo*

Thank you.

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

Thanks, Marci. Operator, next question, please.

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**Operator**

Jason Bazinet, Citi.

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**Jason Bazinet** – *Analyst, Citigroup*

Just a question for Mr. Iger. The Street seems to have soured a bit on social gaming or the prospects of social gaming. I was just wondering does it alter your view at all in terms of the importance of that division to Disney? Do you still see value there?

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

We do. Our strategy on the games front is to diversify - modest investment in console, investment in mobile and investment in social. We have actually grown share a bit on the social front lately. Our exposure is less than some of the big competitors in that space, namely one big competitor in the space.

And we have actually seen some interesting growth thanks to the new Facebook app center that was launched recently, where we are gaining access to customers -- the users of Facebook for marketing purposes that we didn't have before.



If you check the app center out, if you play social games, you will note that you will be marketed to by friends or through friends who are playing social games, and you will be marketed to from companies that create games because of the games you may have already played.

And so we're getting -- we are gaining access to a marketing platform that we actually believe is encouraging. The other things to notice there is still growth in Facebook in terms of number of users. And the numbers in terms of how much time Facebook users spend playing games are staggering.

And so we still believe in that business. But, look, our investment is relatively modest in the space. I think we'll launch about 10 games this year. A lot of them are based on Disney-owned IP, which we believe gives us not necessarily a great advantage, but an interesting way into that space. So we feel relatively good about it. It is not a huge business for us, but it is one that we are going to continue to be in.

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**Jason Bazinet** – Analyst, Citigroup

Thank you very much.

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

Thanks, Jason. Operator, next question please.

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**Operator**

Tuna Amobi, Standard & Poor's IQ.

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

I have got two as well. So first for Jay, in the context of capital return, and specifically share buybacks. So I am wondering given the average price that you bought back your shares so far, and the current trading price of your shares by my calculation is probably like 38%, 39% above your share buyback average repurchase price.

So I am wondering if you can educate us on your parameters for these open market purchases? And at what point do you feel that some of this capital may be better put to use somewhere else, potentially M&A opportunities, stuff like that? So I'm just trying to understand where do you draw the line and say that it doesn't seem like the best use of capital.





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

Thanks, Tuna. Obviously, we want to be cognizant of our intrinsic value and be sure that we believe that it is far in excess of the market price. And we think we have got a lot of room. We are not worried about bumping up against that.

If you look at the history of this, it is probably wise for a company to leave a little gap between their intrinsic value and the price at which they are willing to purchase because of inefficiencies in the market. But we are not up against that. We are not bumping against it. We are very happy with the concept and allocation of capital to this activity.

And we don't think it eclipses other fantastic growth opportunities for the company. If you look over the last five years we have allocated 60% to 65% of the cash generated by the company to the incredible products that you see coming forth. And whether it is *Avengers*; whether it is a theme park product, cruise ships, these are the kinds of things that we know we can get high returns on, and we will continue to seek those out.

The history of our company has been growth through acquisitions. If you look at the acquisitions we have made from Marvel and back, Playdom and the others, we feel very, very strong about the returns in that.

We allocate, we think, the right amount of money to invest in our television networks. The Disney Channel is proof of that. The great -- some of the great series you see coming out of ABC last year, and I hope again this year, will show that this is first and foremost what we want to do, but it does leave us the opportunity to return capital to shareholders. And we are determined to allocate a sizable portion of the cash we generate to that. If you look over the last few years, it has been 20% to 25%, and no reason to think differently about that.

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

Okay, that is helpful. Separately, it seems like this year has been off to a great start, given the stats that Bob had given earlier. I am just going to try and reconcile that to the forward pacings that Jay provided. I know it is not the main driver, but I was expecting that maybe that could have started to have a little bit more impact overall on the attendance and the bookings and whatnot.

So if you can maybe break that out a little bit further for us in terms of how much of that -- those forward pacings has actually been driven by this year, which I would expect it would be above average in terms of the numbers you gave? Thanks.



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

Jay gave forward pacing on our bookings, which is hotel bookings. As you know, we have three hotels at Disneyland Resort, compared with many, many more -- many, many more rooms in Orlando. So it is relatively small in the scheme of things. The pacing of bookings for the California resorts are substantially ahead of the pacing for the Florida Resort, which they have substantially more volume.

And it is being driven, we believe, completely by the investment we have made in California Adventure. Not that Disneyland isn't still driving attendance; it is still a very, very high-quality experience.

And the numbers that we see at California Adventure are extremely impressive. I mentioned one, which is about 50% of the attendance in total Resort is now going to California Adventure, up from 25%. The guest satisfaction level is huge, particularly on the major attraction, where I think -- people who are riding the primary attraction are 100% intent on riding it again. We have huge satisfaction and higher spending on merchandise in food and beverage as well, and we raised our ticket prices. So it all is very, very good news and bodes well for the future.

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

Thanks.

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

Thank you, Tuna. Operator, we have time for one more question.

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**Operator**

John Janedis, UBS.

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**John Janedis** – *Analyst, UBS*

Thank you. Bob, you have been a little bit more aggressive on YouTube relative to some of your peers. How do you view that platform over the longer term? Is it more of a branding opportunity for you, or do you see that as having maybe the potential to be a meaningful contributor to revenue, and if so, how big is that investment over time?



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

We definitely see it as more than a branding opportunity. The agreement that we have with them for basically the Disney brand or a kids-oriented channel is the following: we put basically YouTube curated by Disney on Disney.com -- that will be even more evident when we relaunch Disney.com later this year -- and we sell that advertising. And then we curate the channel on the YouTube platform and we share that revenue with YouTube.

So we think that given some of the numbers that we have seen really through basically the beta that we have launched already, that there is an opportunity to increase consumption, increase revenue from that, and also use it to drive more users to Disney.com and to increase the value as a marketing platform. So it has multiple effects, and we have not been specific about the nature of the investment, but it is modest.

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**John Janedis** – *Analyst, UBS*

Okay, thanks. And then maybe one for Jay quickly. Jay, you talked about South America and Europe. Has there been a change in length of stay from your international guests?

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

Not appreciable, no.

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**John Janedis** – *Analyst, UBS*

Thank you.

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

Ok.

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

Ok, thanks, John. Thanks again everyone for joining us today. Please 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 conference 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 our other filings with the Securities and Exchange Commission.

This concludes today's call. Thanks everyone 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](http://www.disney.com/investors).