



MoffettNathanson Media & Communications Summit

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Disney Speaker:

Jay Rasulo

*Senior Executive Vice President and
Chief Financial Officer*

PRESENTATION

Michael Nathanson – *Analyst, MoffettNathanson LLC*

Okay, I just want to thank Jay Rasulo and thank Lowell Singer and the rest of the team from Disney. They flew all night to get here. I really appreciate that, I really do.

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

Boy, are my arms tired.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

I know, exactly. So thank you, Jay. Let me start off with this question -- Disney has operated under a different game plan than many of your peers the past couple of years. Since 2009, your assets have grown by about \$18 billion through big M&A like Marvel, Lucasfilm, and then capex at the Parks, both here and abroad. Many of these investments have longer tail returns. Do you think we are approaching an inflection point for Disney's return of invested capital as these things come into view?



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

Well, I think if you look at how we've deployed capital over the last decade, certainly since Bob Iger became CEO of the company, there is an incredible consistency in the decisions that we've made consistent with his strategy. And I don't want to spend time on his strategy, but clear pillars of his strategy are creative content, international expansion, embracing technology to improve our distribution.

And I think if you go through how we've invested money, whether it's internally in terms of organic investment or whether it's the acquisitions we've made, every single one of them can be pinned to some tenet of that strategy.

So if you look at Marvel or Lucasfilm, clearly, IP, what we considered under-utilized IP that we could add to our ecosystem to distribute IP, to monetize IP across all of the platforms that we do so, add creative excellence to that IP. If you look at some of the acquisitions in the technology space, whether it's the most recent, which is Maker; small ones that we haven't talked about that much, or something like Playdom or Club Penguin, those were more technology ecosystem additions; technology that we wanted to accelerate the company into as opposed to, sort of, grow it organically on the timeframe that would take.

If you look at the investments we've made in the Parks space, in sports rights, every single one of them is very consistent. All slightly different in terms of their intent but very consistent with that core strategy. I feel like, from my perspective, every single thing that we've done, particularly the big things, whether it was Pixar, Marvel, Lucas -- all moving forward, in most cases, are better than we anticipated. In the case of Lucasfilm it's still early days. We have our first film coming out at the end of 2015.

But if you look at Marvel and Pixar, we've accomplished everything we hoped for and more in terms of both the financial side and the strategic side for the company. If you look at our Parks investments, each of them slightly different reasons on slightly different timeframes. I feel very good about that, and I think that all of them have exceeded what we hoped for strategically and almost all of them financially are ahead of -- all of them -- are equal to what we expected. And we don't make any of those decisions without strong additions to ROIC and strong returns.

In terms of your question about an inflection point -- very hard to answer, but let me give you a little insight. Hard to answer because each of -- the timing of each of those projects has a slightly different inflection point in terms of when you see the returns. A Parks project, of course, we put in the ground something like the investment in *MyMagic+*, which is our technology investment at Walt Disney World, or the expansion of Disney California Adventure.

Those are things that have a long life, and even though we're on the trajectory we hoped for them, you start to see the returns on those on a different timeframe than, let's say, the Marvel



acquisition, which now, after five years, with the great success of those films and the consumer products that have followed that, we're already seeing that.

So -- if you look at it in aggregate, I would say there's a series of inflection points. Some of them have hit that inflection point where we're now on a very strong trajectory. Some, like Lucasfilm, not yet. But if you look at the Company's overall ROIC, since 2008 you see a steady progression towards higher and higher numbers.

So, for me, if I were interpreting that, as I know all of you folks do -- or try to -- I would say, okay, clearly, some things have hit inflection points, and some haven't. We said that Parks investment would be accretive by 2014. We actually have hit that accretion in 2013. So I don't want to hang too much on the word "inflection" point, because I think we're a company that you'll continue to see make big investments, and some of those will be in early days while others are, clearly, on their growth trajectory.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

Jay, the hard part to analyze Disney is, when you bought Marvel, I remember how excited everyone was at Disney about Marvel. But the pay-off on Marvel, it took, from where we can see, oh, you need the [film slate] to turn. So one of the things I've learned is you can't really judge returns on these types of franchise-based studio IP for a longer -- it's just, like, you don't buy a cable network and drop a cable network into the overall business. So you talk a bit about -- you mentioned Marvel has been above what you thought, but what do you do when you get yourself a Marvel/Lucasfilm? What are the easy wins that you can do when you bring those in?

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

Yes, I think we talked about some of them when we bought -- let me take Marvel as an example, but read Lucasfilm and, in some sense, even read Pixar. In the case of Marvel, so the things we talked about that would happen immediately were the integration of their licensing organization, the structure of their company into Disney. Our organization for the delivery of licensed products around the world is so huge that the increment of Marvel did not take us up in cost but allowed us to eliminate the Marvel infrastructure that was doing that.

But, more importantly, in that case and, by the way, it happens to be true in Lucas as well, is that both of those companies used reps to distribute their products internationally. Reps, in the licensing business, take 25% right off the top, to be your distribution arm internationally. We, at Disney, have a worldwide distribution network, so we eliminated those reps from day one; started to time them out of their agreements with us.

So -- those kinds of early wins also, even before you issue the first film, in both cases those companies were heavily focused in the toys category. Disney, of course, has a very big business in soft goods and other licensed products beyond toys, and we started to move those



franchises, even before the first Marvel film and now even before the first Star Wars film, into broader categories than those companies were able to do on their own.

So there are -- there are some short-term wins, but if you're looking for an inflection point, something you all are going to recognize in the numbers immediately, it's going to be with the release of *The Avengers*. We talked about building up to *The Avengers*, doing that film, grand-slam homerun. Similarly, with Lucasfilm, the release of *Star Wars VII* will be the big inflection point where we will start to see the payback, and then I think there's no looking back from that moment on.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

Okay, thanks. You talked earlier about the -- some more technology-based investments. Recently, you announced Maker Studios would be reporting to you. What's the thinking behind Maker Studios? What is it about Maker that kind of grabbed Disney's eyes and --

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

Well, if you're in our business, the creation of media for distribution, it is crystal clear that many eyeballs spend a lot of time on the Internet watching very short video products. Maker, I would say, was not an acquisition for IP, although they have IP in this short content world. It was really a technology extension to the distribution of product, and we hope that with the treasure trove of Disney, Star Wars, Marvel IP, that Maker is going to continue to be the preeminent force in the creation of short-form video primarily for YouTube, but they do self-distribute some stuff.

Maker has 55,000 channels; they have 320 million subscribers; and 5.5 billion unique users per month. So they are a preeminent force in this world of the distribution of short media, and that was the primary reason.

Can you do that internally? Yes, there's probably a timeframe over which you can build that, but you get further and further behind the people who are already out there. We saw a very kindred spirit in Maker in terms of how they approach creative product; how they approach the quality of their network and, by the way, they are so far advanced in terms of those numbers I just used that that data -- and you can't do this without the volume of data that they get from YouTube from all their creators--they've created algorithms to actually make them better at distributing. So they will basically tell a new creator that signs on for them, hey, this is when you should launch this type of short-form video to give it the highest probability of going viral. This is the kind of stuff that goes viral, and this is all algorithmic. I mean, they're smart people, they have good taste, but the data allows you to be algorithmic about making those choices, which continues to spur their growth.

So we're extremely excited about it. Obviously, it's early days. We just closed it within the last week or two, and they are very anxious, and we are very anxious to get going.



Michael Nathanson – Analyst, MoffettNathanson LLC

And the monetization -- do you see any changes that -- this is the monetization part. You mentioned the driving of traffic, but what about the monetization part of that?

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

The monetization in that space has to do with selling ads around all of the views that you get on YouTube. They also have a growing business in the creation of native advertising, and I think that, again, the use -- putting Disney IP into this world in a company you own as opposed to giving it to third parties, we think will really accelerate the ability for them to sell, sort of, these native advertising programs. They've done some big programs already. We think we can help them accelerate into that.

Michael Nathanson – Analyst, MoffettNathanson LLC

Okay. Let me ask you about Cable nets for a second. In the past, I would spend about a half hour with you about ESPN. I think you got tired at some point. Now that you've had an Investor Day to answer my questions, can you remind us a bit about cable network costs over the back half of this year and the cost profile of ESPN in the next couple of quarters?

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

First of all, I never get tired talking about ESPN. So let's make that clear.

Michael Nathanson – Analyst, MoffettNathanson LLC

Okay.

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

However, I am glad you asked this question because since we had -- we had our Investor Day, we had our earnings call last week. The team -- and you all know the team -- IR team has gotten a lot of questions about what we said about cable OI growth, what we said about cable costs in the back half of this year on the call. So I'll take a minute and go through it because I think it's not only you that is asking, but we've gotten a lot of questions in this regard.

So first, to remind everyone, what we said at the Investor Day we had in mid-April, was that we see from 2014 through 2016, high single-digit growth in our cable OI on a compounded basis. And I talked a little bit about some of the ins and outs in some of the years, but basically high single-digit OI growth.



This year, in particular, in the back half of this year, I also mentioned that we are going to see some higher costs. We said that cable programming costs would grow high single-digits this year, and that that was going to be back-end loaded, and the reason for that back-end loading, which I ticked off at the Investor Day, was a step-up in our Major League Baseball contract; NFL, which hits -- our new NFL contract, which hits at the end of the year; as well as costs around the World Cup.

I have mentioned in the past that we also saw -- we've seen some increased costs in our non-ESPN business related to the Free-To-Air-channel that we're still launching and marketing in Germany.

And those costs combined were, as I said, back-end loaded, and were tilting the cost profile towards the back end of this year -- second half of the year. If you look at cable OI, one factor which is also relevant to looking at cable OI for the back half of the year is that A&E is relaunching one of their networks, changing it from The Biography Channel to FYI. And they're spending some marketing dollars behind it. So we expect that A&E will see OI in the second half of the year equal to OI last year -- the growth trajectory, but for the back half of this year, they're going to be similar to last year.

So if you look at cable OI in the second half of the year and for the whole year -- for the whole year we're going to be very close to that high single-digit compounded average growth that I mentioned for the whole year. But in the first half of the year, if you adjust for affiliate revenue and, by the way, affiliate revenue, as I mentioned on the call, we are going to defer \$190 million in the third quarter compared to last year. We're going to be \$90 million higher in the fourth quarter. So \$100 million difference -- this isn't the full-year effect, this is just the second half effect due to the deferral schedule with live programming.

So if you look at OI for the year, high single-digits, very close to what we said for the compounded average growth rate, but if you adjust for the ins and outs of affiliate deferral revenue, we grew 17% in the first half of the year. So I'll leave you all to figure out what that means for the second half of the year.

But, anyway, I'm not backing off anything we said about the long-term growth for ESPN and how confident we are in it.

Michael Nathanson – Analyst, MoffettNathanson LLC

Well, the good news, most of the clients I speak to, that's what we model. That's what we have. It just seems like people are just -- it seems like a lot of companies, they're just slow to incorporate what companies are saying about cadence of growth.



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

Well, as I said, I try to be explicit because we've had a lot of questions about it, and, as you said, I'm not in the habit of giving guidance, but there are things that all of you can't possibly know that we know, and I thought I would share some of those to help you model.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

Let's talk about -- you mentioned Disney Channel in Germany changing from Pay TV to free. What drove that decision and how is that going? What can you share about that thought process?

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

So stepping back about the Disney Channel. So I've said many, many times that the Disney Channel has become a real driving force for us around the world in terms of our brand. Most importantly, in terms of increasing our share of expenditures in the areas that character merchandise plays.

So we are very interested as part of our core strategy for many years, to continue to expand the Disney Channel internationally. Now, in markets where there is great cable penetration, like the US, the UK, very happy to be in the cable network, very happy to distribute through MVPDs. We reach lots of households, lots of kids, accomplish our strategic and financial goals.

In some markets, whether it's because of regulation, whether it's because of the structure of how they grew up with Pay TV or didn't grow up with Pay TV, it is better to go Free-To-Air to reach that platform that you want to reach, which is as many young households as you can get the channel into.

So if you look at Turkey, you look at Spain, you look at Russia and Germany being an example of that, clearly better to be on the Free-To-Air basis than on a cable or premium cable status. And that's what we've done.

So most that we've done, we've been very happy with how they've gone. Every single one of them, the stories are a little different. Russia, we moved from four million households to 40 million households in that move. And we are still learning how to get out the advertising revenue we need there.

Germany -- we played around for a long time in different formats of getting programming on with RTL, Super RTL. Finally, bought a station, launched on our own, and very early days but doing remarkably well. Way above what we had hoped, and the other markets, Turkey, Spain, somewhere in between, we have a channel in Japan that is not a Disney Channel, it's called



Dlife. It's in its second year, really targeted at a slightly different market, the young, affluent female market, which is very big for us in Japan. And it's building its brand as well.

So we're happy with the returns, and I wouldn't say -- I think it's a combination of strategy -- strategy to be out there in as many houses as you can, using the tactic appropriate for the market you're in.

Michael Nathanson – Analyst, MoffettNathanson LLC

Okay. So let's talk about Over-the-Top for a second and the impact. For many years, Bob Iger would predict a virtual MSO service. He'd say it's coming, it's coming. Well, now he's right because you guys have got a product with DISH. How should we think about the economics around participating in what's the first Over-The-Top video service that replicates a current bundle? So how did you guys go about it on doing that deal?

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

I'm going to come back to the explicit part of your question, but I think what we talked about when Bob talked about this, sort of, Over-The-Top service. I think we were really talking about the Over-The-Top MVPD. And I still think we're waiting for the Over-The-Top MVPD, and I still think it's coming.

When the Over-The-Top MVPD shows up, and that could be any household name that you could all guess that might do that, we are going to be anxious just like we were with the telcos to basically sell them our services and have them distributed through yet another means of reaching households, which means all the networks, all the programming out there, and served up in a similar way you see in the MVPDs today.

Our deal with DISH, technically you can argue that this PSS service is not Over-The-Top. It is an Over-The-Top service. It's not the Over-The-Top MVPD that we were talking about and Bob was talking about. But, anyway, look, we have been pretty explicit whether it was with the WATCH apps, whether it's the bundle of services that we sold in our Comcast deal. We've been very, very explicit about wanting to continue to enhance the value of the MVPD package delivered to consumers.

And I would see this PSS service as another variety, another way of doing that, which happens to be Over-The-Top, happens to be a bundle of channels that we see, and I think DISH sees, as an on-ramp to full-service MVPD. Not an off ramp, like, oh, I have full-service MVPD, now I want to go down to this -- really, it's an on-ramp, and that on-ramp is to get people, young people, people who don't have experience in the MVPD infrastructure, into the system and then eventually have them become full-fledged subscribers with multiple devices in the household and a full MVPD package.



So I've been pretty disciplined about maintaining the confidentiality of the deals and how each service gets monetized. But, since you referred to Bob Iger predicting digital MVPD, I'll repeat something he also always says -- "We don't do anything that we don't get paid for."

It was our model, and there were many others who said, hey, these were the table stakes to be in this business. Bob was very explicit about saying, no, that we provide services, whether that service is in the form of ubiquity, convenience, shifting -- we're going to get paid for it. And you can be assured that we will be paid for this service as part of our overall DISH deal, as well.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

And then back to you -- your earlier point -- Over-The-Top MVPD is a different product. What type of must-haves, when you think about that bundle that's coming, how should we think about what are your must-haves to participate in a truly Over-The-Top MVPD?

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

Look, I think it's got to have all of those characteristics that deliver value to consumers. Look, at the end of the day, we enter partnerships with these big MVPDs who have customers at the end of their value chain that we share a mutual interest in delivering value to. And to deliver value in the television space to a subscriber to an MVPD, hey, you've got to have all the networks, you've got to have all the stuff they want to watch. Of course, you've got to have all of Disney's stuff, otherwise a very low value.

And the simple fact is that those are the kinds of arrangements with an Over-The-Top provider that we would look for -- hey, this is the real deal. This provides a full-service package to consumers that they are going to look at the cost of and say, "Yes, this is a really good deal when I think about everything else I buy in life," and we believe that the expanded basic is an incredible value to consumers the way it's served up today, and we would look for an Over-The-Top provider to provide something that would be of similar value.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

And then the PSS thing -- you keep -- the key thing is personal streaming service, right? You guys keep referring to it as a single-stream product, right?

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

It is definitely designed to be, as the name implies, a personal service.



Michael Nathanson – Analyst, MoffettNathanson LLC

Okay. Let's move over to Parks and Resorts. I was going to say also for questions from the audience, if you want to pass questions to the middle, we will then grab them and send them up to us and, thanks for doing that. We'll do that in like, five minutes.

Those two, Parks and Resorts, you mentioned in the setup question about the capital intensity and the investments you've made. Can you discuss which major projects you're seeing the greatest returns on? So if you stacked it up, where are you seeing the greatest returns in terms of --

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

It's a very hard question, it's like asking which one of your kids is better looking or smarter. But that I'll answer.

(laughter)

Michael Nathanson – Analyst, MoffettNathanson LLC

You're a braver man than I.

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

For me, each one of those projects was an investment size and an investment strategy to meet very specific needs. So I wouldn't stack them up in terms of, well, what are the highest returns? The good news is that they've all been successful. And if you tick through them, some of them were really easy. Any of you who tried to book a Disney cruise five years ago usually found that when you wanted to go, you couldn't get in. Our DVC members who wanted to utilize that service often found they couldn't get in. It was a clear -- yet, the experience was one of the highest-rated experiences in all of Parks and Resorts from a guest perspective.

So it was really clear -- we needed to expand the capacity of the business, we added two ships that were bigger than the others. They sold out from day one, they were accretive to earnings from day one. We still believe in that investment proposition that they will have returns in the teens, and we're very positive about it, and everything we thought would be true and come true has come true -- clear and simple.

Disney California Adventure, we talked about at great length. There was a need there to expand the usage of Disney California Adventure to kind of bring it up to the level of the usage of Disneyland Park, which is right next to it. The balance of guests was off. There were too few people spending too little time at Disney California Adventure versus Disneyland, which was



suffering from overcrowding. The answer was clear -- bring that Park up to a better storytelling standard, more capacity, better stuff.

So we did it. Number one, it definitely solved that issue, and we said that when that happened, the overall water level could rise at the Disneyland Resort because the overcrowding at Disneyland was holding it back. That all happened. We were able to aggressively price behind it. Our guest experience is greatly improved, and we've seen enormous growth ahead of what our expectations were, which we always thought it would have very favorable returns but, actually, the returns there are significant.

Walt Disney World, a slightly different problem. We have lots and lots of capacity in four theme parks, but the Magic Kingdom, the demand for the Magic Kingdom product, particularly the Fantasyland product, particularly character visits, and stories around the Princess franchises, needed to be enhanced. We had not reinvested in that core park, the Magic Kingdom Park, in a really long time. We put that in, that's being topped off.

You know, quarter two of fiscal 2014 was the highest second quarter attendance we've ever had at Walt Disney World, so I think we are definitely seeing that moving in the right direction. *MyMagic+* just not to go on and on, but *MyMagic+*, we talked a little bit in detail on the call about it. I'm happy to repeat those things, but we've had very good uptake on the single biggest economic driver, we believe, of *MyMagic+*, which is the ability and desire for people to pre-plan because there's a big payback to pre-planning.

So with the program called *FastPass+* where you book the attractions you want *FastPasses* on in advance, it really draws people to the pre-planning tools, and what we know about people who pre-plan and buy their tickets to Walt Disney World before they leave home, is they spend more time with us, and that's our ultimate goal. It raises our level of spending, our attendance, et cetera, et cetera.

75% of people staying on our property are using this. Already, we just introduced, a couple of months ago, the *MyMagic+* and *FastPass+* to day guests, so people staying off of the Walt Disney World property, you come on to the property. We were in low single digits of people who were using that. Within two months, we're already exceeding 25% of those guests using the pre-planning tools and *MyMagic+*.

Our guest experience ratings are increasing, which was one of the goals. If we reduced hassles and reduced transaction time and let people do what they really want to do, which is experience the entertainment and attractions that would increase our guest experience, and that is happening.

So everything directionally is moving well there. There are other investments -- we've got *AVATAR* coming up, of course, Shanghai Disneyland -- don't need to get into it -- a big strategic move for The Walt Disney Company to really build our brand in a country with the biggest population in the world, lots of young people, entertainment starved. It's just the right thing for



us to do along with strategic tenets of the Company. Of course, there's years to come before we see the returns on it.

Michael Nathanson – Analyst, MoffettNathanson LLC

On the last quarter, when you said on the call, you went back to the queue, your occupancy rate, I think, hit 86% in the last quarter, which looked like the last time you got there was pre-recession. So what -- everything you've said here, do you think you were seeing the beginning of a higher-level occupancy -- ?

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

Everything you said is true. I did say that on the call -- 86%. We also added a huge piece of inventory to that park, which -- in terms of hotel rooms. So it also has absorbed all of that. I think it's 1,000 rooms, 2,000 rooms -- somebody remind me -- 2,000 rooms that we added in a new hotel. And that's been absorbed in that higher occupancy.

So, look, yes, we're seeing the volume increases, as I said, highest second quarter in our history. So we're clearly seeing the impact. And, by the way, with aggressive pricing behind that. We've taken the pricing behind Fantasyland and --

Michael Nathanson – Analyst, MoffettNathanson LLC

And that was one of my questions. We'll strike that one.

(crosstalk)

Michael Nathanson – Analyst, MoffettNathanson LLC

Exactly. So the other question would be, as you mentioned on ESPN, how it's hard for us to see the inside moving pieces. The margins at the Parks look like they're still below where they were at peak, let's say, back in 2007 and 2008. So what help can you give us on trying to break down the margin progression here, and the outlook for margins on the Parks side?

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

There's a lot of obsession about margins. I will reiterate what I've said 150 times -- not how we manage the business, but having said that, the margin story at the reported level, has been confounded and, in fact, has been pulled down by the ramp-up of the new initiatives that we talked about. And even though they're all moving in the direction that we like, and they are



accretive, they're not accretive yet because they're in ramp-up at the levels of the average margins of our domestic Parks business.

Every quarter we try to give you what the impact is -- last quarter, we said that the second quarter margins were up on balance 120 basis points, which was 200 basis points lower than they would have otherwise been because of these new initiatives. And those new initiatives, of course, being primarily at this point, *MyMagic+*, a little bit of Fantasyland because we're still finishing that off this summer.

And I think if you look -- I will say this, and you guys can't get under the hood on this -- but if you look at domestic margins as they were defined at the time that you guys started asking about -- when are they going to be back? When are they going to be back to pre-recession levels, and let's call that, for lack of a better word, 2008. They are back to where they were if you pull out all of the ins and outs that are being driven by the new initiatives. They are back to that level.

So -- do I think they can go higher? I don't know, we'll see. But they are back.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

Okay, let's move to broadcasting -- it is upfront week. The question -- people always ask you, and I know you've answered this a million times, but I have to ask you again, given the focus on brands, and given the focus on technology, given the focus on international, are the stations and the broadcast network still core assets?

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

Well, we look at ABC as basically a content-creation vehicle. It's no surprise that in the world we're living in, we didn't talk explicitly about it, but the cable networks, the Over-The-Top guys like Netflix, Hulu, more and more people getting into that business -- Amazon and others -- that there's never been a better time to create great content that can get monetized in ways and windows that didn't even exist five years ago.

The end of the international syndication cycle, we used to say, RIP. Now it's, like, you turn around, and there are guys dying for that library content. And it's -- by the way, that's going to continue because people, consumers, want to continue to watch content on every device that you can give them. The first thing they want to do is start watching video content.

We want to be in that business. We want to create that stuff, we sell that stuff, whether it's Marvel television selling to Netflix, whether it's us doing deals with other providers out there, other content for Netflix, Hulu, wherever. We want to create content, we want to sell it, and you talk core DNA, we want to be great at it.



In terms of ABC, do we need better shows? Yes, we need better shows in the network. It thrives on great shows. The good news is that yesterday when we had our Upfront, we showed a lot of new creative. In 24 hours, and that's the kind of world we live in, we could already tell that advertisers are very excited about what they saw. There was a lot of buzz yesterday, we spent a lot of time with them after the actual meeting.

So it looks like we're headed in the right direction and, look, I'm not going to predict that we're heading in the right direction, but this is the business we're in, it's about great content, and when you create great content, you can monetize it in today's world in a way.

So, for me, I see that as part of our core strategy. We're content creators, the first pillar in Bob's strategy, and this is, yes, it's not Disney-branded, it's not Marvel-branded -- some of it is -- but it is the creation of content, and I feel like that's in our wheelhouse.

Michael Nathanson – Analyst, MoffettNathanson LLC

Also, you know what it is? There's a lot of ESPN-branded sports, and the question I ask you is if you look at what everybody else is doing, there's more sports sites on broadcasting. It is the stabilizer for a lot of people's networks. So do you see an opportunity to add some sports, some more sports to ABC?

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

I think we talked about it -- Paul Lee talked about it yesterday, I think Anne talked about it yesterday at Upfront. There's no question that live is a driver for us. And, by the way, we still do a lot of live sports on ABC, whether it's the NBA, College Football Saturdays, et cetera, et cetera. We do sports. We also do other live events, by the way, sports aren't the only live events out there -- Academy Awards, we do music shows, so, yes, we use that like other networks do as one of the vehicles that draws people to appointment television.

But -- I think that goes hand-in-hand with creating great content that not only gets viewed on the network but gets monetized elsewhere.

Michael Nathanson – Analyst, MoffettNathanson LLC

Okay. If you look at the progression, and I'll talk to you about film for a second -- you look at progression of some of your Marvel dollars, have they been placed into your Disney distribution network? We talked in the past about a Disney Difference, you know, some of your assets. You talk about the benefits within your studio that you've seen by marrying the great creative working brands at Marvel to the power of Disney. So how have you been able to elevate *Iron Man 3*, which keeps rising at the box office, and the Marvel -- *The Avengers* guys?



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

Yes, look, I think when we talked about the Disney Difference, there were a couple of aspects to it. The first one was -- sometimes you talk to advertisers, they talk about multi-platform. Disney is the ultimate multi-platform company in the media space, right? We have ways -- we reach consumers in ways that are top of their field, deep and better than others do it, and the totality of that -- the totality of the fact that we look at a property, whatever it is, and we ask ourselves, how do we work this through everything from consumer products to our theme parks to the after-market for television to our cable channels? How do we promote it and use it on our network? How do we now use it in short-form with Maker? This is the sort of mechanism of the Disney Difference.

The strategy of the Disney Difference is to fundamentally continue to hone down the creation of product around major brands because we know those are more valuable to the ecosystem. So if you talk about something like Marvel, it wasn't an accident that *The Avengers* did \$1.5 billion, right? We started with a strategy. You know what? We've got to introduce who Thor is. We've got to introduce who Captain America is. Yes, Fanboys know who they are, people interested in Marvel know who they are, but not everyone knows who they are.

So we do the origin films of both of those. And Iron Man -- we end up combining them in a film like *The Avengers*, which blows the doors off, which has two effects -- one, across the realm of consumer products and people who are interested in all those characters, we absolutely go out and bang the boards with it. We get to do shows on Netflix that say, hey, you know what? You can assemble different stories into one. That's what our Netflix deal really is with Daredevil. It's taking individual characters and assembling them in an Avengers-like final series.

But it also helps you when you go out with the next Iron Man movie, the next Captain America movie, the next Thor movie -- all did much better than the first one drafting off of the success of *The Avengers*. So if you take that as an example, it's what we do in every part of our business.

It's what we do with Princesses, so we do a great film that blows the doors off, like *Frozen*, but we immediately start thinking about what's the next pulse on that? Because we have a lot of businesses to drive, and this is going to drive them for a certain amount of time, but it's a world full of new things and shiny objects, and people get distracted.

What are we going to come back with and do? Is it a short, is it this, is it television, I don't know? And we debate all that, and we wind up with something. So it really is, at this point, a finely honed system that, of course, requires a great creative jumpstart to everything, but we have that. We continue to demonstrate that we know what we're doing, and the next thing down the pike, we know how the system works. We know what the infrastructure is to get that out.



Michael Nathanson – Analyst, MoffettNathanson LLC

People have asked -- you look at our EBITDA in the studio, look, you peaked out in EBITDA in 2008, in the past couple of years, it's been below where it was pre-peak.

There's been ratcheting down of non-franchise based live action. That's ultimately caused the weakness, and the strategy moving forward is less live action that's not franchise. Is that what we're looking at?

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

Well, I think we have taken the studio strategy down to say, okay, let's be very particular, very careful about what we do in terms of blockbuster, live-action to make sure that it does fit into some franchise strategy. And I think that gives us a higher success rate, it allows us to do what we do best in a unique way. It allows us to experience the Disney Difference. Because if you do a blockbuster that doesn't have any of that after-market, then you're not utilizing the infrastructure that you've built up.

However, 2008, 2007-2008, were, like, banner years for our studio. I won't hold it against you when you pick the banner years and try to make us look bad, but those were banner years, and I'm not going to say that this year is going to be a banner year, but the first half of this year, we delivered over \$800 million of OI. Those years my recollection is they were over \$1 billion, maybe \$1 billion and change or something like that.

So we're well on our way --

Michael Nathanson – Analyst, MoffettNathanson LLC

The question-- was written before the last quarter, so I think you delivered, what, \$400 million of EBITDA in the last quarter.

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

So -- I was studying my notes on the way here this morning. You could have written me your questions in the car. You could have rewritten that one. Give me a break. I'm trying to give you a hard time.

Michael Nathanson – Analyst, MoffettNathanson LLC

Okay. So let's talk -- in the past, Consumer Products was -- yes, there's a Consumer Products question for you. But people are focused on Consumer Products because it's been a really good



business and is only going to get better. So one of the things, I've talked about in the years, is Bob Chapek has come into Consumer Products and actually has changed the way the business is run. And I don't think a lot of people realize what Bob has done. So can we talk a little bit for our clients about what Bob has done differently?

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

Sure, sure. First of all Consumer Products has had a great run; has added double-digit growth rates for year after year after year. And, of course, that gets harder and harder as you move on. And Bob Chapek, when he took over the division, I think there are two things that I would call his heretofore hallmarks. There may be more as time goes on.

But the first one was that he, looking at the rest of the Company, looking at that evolving studio strategy, looking at the direction of the Company to get more focused around franchises, he basically said, look, if we are going to respond the way the Company is being run on every other axis, we've got to be focused around franchises as opposed to the traditional way Consumer Products companies are focused, which is around categories.

So, yes, a household guy, he's got soft goods people, he's got toys people, he's got -- and he said I've really got to refocus this business to run it around franchises, have that be the major vector -- there are, of course, minor vectors in category specialty -- but the major vector really needs to be the franchises. I need people waking up every day focused on nothing but a major franchise of the Company and what we can do with it. That's the role we need to play in Consumer Products on that.

He also, sort of, as a sidebar to that, added another, what I would call, a horizontal dare, which is technology-based products because he's well aware that, as he likes to say, the intersection of electrons and atoms is growing even in the Consumer Products area where people -- whether it's wearable technology, whether it's technology in products, many products are moving from dumb -- not to be pejorative -- to smart, and we need to be sure that where that's possible, if one of our strategic tenets of the Company is to embrace technology, we need to be embracing technology even in Consumer Products that people don't think have a technology opportunity.

On the second major tenet I would say is going beyond the licensing model looking at other business models, under which we might distribute. So -- whether it's licensing in the format of very traditional, you know, engages the licensee, they go create products, whether it's direct-to-retail licensee where big retailers do exclusive product lines, or whether it is more like a wholesale model. You've read a lot about the deal that we did with JC Penney to sort of do wholesale stores within a store. He wants to explore and is pushing his team to sort of take off the blinders and look at alternative business models for being in the Consumer Products business, which, before, we really kind of had those blinders on, largely, and said, okay, we have the Disney Store, and we have licensing, and those are our two speeds.



So I think he's trying to look for opportunities in between those, and with JC Penney quite successfully, I expect you'll see more of those down the road. Meanwhile, by the way, Disney Stores are on fire everywhere in the world. A business that, sort of, used to be, was kind of launched as a brand business, to have a brand presence at retail. Now a big contributor to the OI of Consumer Products, of the online store, the online portion of that growing rapidly, taking up what used to be single-digit percentages of the business now, double-digits, approaching one-fifth of their business.

So lots of other things that I wouldn't call major tenets but great successes at Consumer Products.

Michael Nathanson – Analyst, MoffettNathanson LLC

I made it this far without asking about *Frozen*. So let's have a *Frozen* in Consumer Products. Very simply, and people bring this question up -- how big can that franchise be? I asked Bob on the call, the earnings call, how big can that be? Can you size, like, what a previous hit --

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

Look, I think it's a very good start when something starts out as the biggest animated movie ever, and basically -- if you're going to talk about big, that's a good way to start big. Also, just, almost virtually everywhere in the world embraced, at a level that transcends the typical Princess market for our Princess product. Young families with young girls age 2 to 6, has really -- boys have embraced it. It just has been -- you can't do that kind of box office without a film being embraced by almost every category.

And I think to say that the music not only, of course, won an Academy Award, but, I mean, you can't walk anywhere in the world where you're not seeing people singing it, humming it, humming at a retail shop -- it's everywhere. It's a phenomenon.

Okay, having said that, I think that the immediate tangencies, huge lift to the Disney Store, nine out of 10 products sold at the Disney Stores since the film launched, I think we talked about this in the second quarter, were *Frozen* merchandise. It has been a huge lift to footfall at the Disney Store. It turned in a very good quarter, largely on the back of that footfall and on the sales of *Frozen* products themselves.

There's always a little bit of a lag time in the license business for *Frozen*, and it's done okay. But I think you'll see, coming into back-to-school and Christmas, now that licensees have come to realize it's such a huge success. Look, we knew, from the first screening on -- and we see them basically on cards and boards -- we knew *Frozen* was going to be a great movie. Did we know it was going to be the best -- can you ever predict the best animated movie ever? You can't. You can't predict it.



So -- similarly, if you're in the shoes of licensees, you have to hedge your bets, and so they -- they're a little bit from Missouri, I want to make sure it's really going to be great before I invest in that versus something else that might be a reliable bet. So I think you'll continue to see that franchise build.

How big can it be? I'm not sure. It's doing twice what *Tangled* did in a similar period of time at the Disney Store. That's an indication. It is something that our creative people think has legs and depth, and there can be more that comes out of that story, that relationship between those sisters. That emotion of that was there. That life story, coming-of-age story for a young woman. Look, I think that all of those things say that it can be big, but I don't know how we gauge big, right.

I think it will be something that will last. There was this whole conversation of forever on the call, as you remember, with Bob. And forever, yes, we're going to see it as part of Disney for a long, long time. We're able to integrate the characters and the themes in the parks. Is there a huge demand to meet Anna and Elsa at our parks? Unbelievable, yes, unbelievable. So -- but I think we have to be a little circumspect about what we call big, okay?

Michael Nathanson – Analyst, MoffettNathanson LLC

So in the time remaining, let me run you through some cards from the audience.

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

Sure.

Michael Nathanson – Analyst, MoffettNathanson LLC

Major distributors consolidation, what would consolidation look like among content providers, their natural matches and timing. So you've seen general, creative world coming together. It seems pretty obvious. What's going to happen to the media world?

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

I don't know how to answer that question. Content provider consolidation, I don't know. I think that people like us in our acquisition of Maker and other things will look for ways to accelerate themselves with the new media formats and new creative formats. But I don't see the rationale for why content providers would consolidate like I see the rationale behind some of the cable providers for consolidating.



Michael Nathanson – Analyst, MoffettNathanson LLC

If Parks is in the Hospitality business and the rest of the Company is a Media and Entertainment business, why not split off Parks pursuant to a license deal? So, basically, move assets into another structure, manage it, almost like a REIT.

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

Okay, Parks is not a hospitality business. Parks is an experience business, and, by the way -- what's that?

Michael Nathanson – Analyst, MoffettNathanson LLC

Don't blame me.

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

Yes. Parks is an experience business just like going to a motion picture, just like crying in front of your television watching something on TV. Those are experiences, and it's another format. It's deep, it's fully integrated into the corpus of The Walt Disney Company from a franchise perspective, from a strategic perspective. I can't see any reason in the world why we would ever separate it out from the rest of the content creation arms of the Company.

Michael Nathanson – Analyst, MoffettNathanson LLC

Okay, let me ask this one -- OTT, MVPD, and WATCH apps -- how does the affiliate TV station model fit into your Over-The-Top list, MVPD and the PSS. How do the local stations fit into that? And do you negotiate on their behalf?

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

When we step forward in terms of our big MVPDs including those things -- where those things come up, obviously, the stations play a big role in that. They're big stations, they're in big markets with incredible share of mind and in terms of the retransmission consent fees that we get from owning those stations, clearly, one of the reasons why we are able to do the great deals we do.

Michael Nathanson – Analyst, MoffettNathanson LLC

Okay, let me ask you this one. This is on the Upfront and cannibalization. Will adding WATCH ESPN, WATCH ABC to the Upfront selling process maintain your share? Will that be additive to



your base? Will that get you back in taking share of advertising? So I guess the question would be when you add mobile apps to your linear ad sales, ESPN as well, what's the net effect to ad growth? So can you give us some more data about that?

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

I'm not going -- obviously, one of the strengths that you saw at both the ESPN and reflected at the ABC Upfront, is the multi-platform nature of the sales that we do. I think, if I'm recalling this correctly, at our Investor Day at ESPN, Ed Erhardt talked about the huge proportion of our deals. I think he used the number 80%, that are multi-platform deals. This is what advertisers are looking for.

Just like we, as content providers, creators, want people to be able to watch that content anywhere -- ESPN has a really nice catch phrase for it -- "Best Available Screen." And that sometimes that Best Available Screen is your mobile phone, and sometimes it's your tablet, and WATCH is relevant to that.

Advertisers feel exactly the same way. They want to talk to you today where your eyeballs are, like they always have wanted to talk to you. But they also, over time, will want to talk to you where you physically are. And the physical aspect of mobile devices, knowing you're in midtown Manhattan when you're watching this ad, they want that. They want you there as opposed to your sofa the night before because they're advertising something on the corner of 57th Street, and they want you near it -- and they know you're near it.

So -- I think it will be additive. I don't want to put numbers around that, but, look, everything we see in this territory, we see as great for us, and this is one of them.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

Okay. On that note, Jay, thank you so much for coming.

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

Thank you.

Michael Nathanson – *Analyst, MoffettNathanson LLC*

Thank you. We'll break for lunch upstairs.



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

Pleasure.

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Forward-Looking Statements:

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

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

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

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

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended September 28, 2013 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.