



The  
**WALT DISNEY**  
Company

**MoffettNathanson Media &  
Communications Summit**

**MAY 13, 2015**

**Disney Speakers:**

**Jay Rasulo**

*Senior Executive Vice President and Chief Financial Officer*

**Lowell Singer**

*Senior Vice President, Investor Relations*

**PRESENTATION**

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay. We're going to get started. We had a change of our schedule. You may have noticed that A&E dropped off and at the last minute, Jay Rasulo and Lowell Singer from the Walt Disney



Company agreed to change their schedules to be here. So, I thank both of you. Jay actually flew in today. So, thank you, Jay. Thank you, Lowell, for agreeing to do this.

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

You're welcome.

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

You're welcome, Michael.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

I really appreciate it.

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

This is the first time I've appeared with Lowell so you guys are seeing a not-ready-for-primetime duo.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

I've got to figure out who do I address. I'll start with Jay. I think Ted just answered this question, but I'll ask you again. So, in what has been a really difficult environment for media, and I showed that earlier in my presentation, Disney is firing on all cylinders. What do you think is setting you guys apart from the rest of the group and what's driving your success at this point in time, given the backdrop?

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

Well, look, I think that those of you who have followed the company for a long time will see a certain consistency. You know, eight, nine years ago Bob Iger laid out a crystal-clear strategy about content, about embracing technology, and taking our brands, franchises, and products into a bigger global footprint. And we have really stuck to that.

But, the interesting thing about that strategy is that the depth of it has really been executed extremely well, but it has really held up even in a rapidly evolving marketplace. I mean the fact that Ted just left and Netflix -- I mean when we thought through that strategy, Netflix was not even an idea, no less were we thinking of selling original content to that platform.



But, we have invested behind that strategy. We've kind of invested for the long term, ignored business cycles, have followed sort of a true north in terms of what we know we're good at, what we think consumers would want. We've really embraced technology in a very significant way and thought about: well, as this universe expands, we can either stick to the ecosystem that has been so beneficial to our company, or we can be more consumer-focused and look at how we can play kind of across the spectrum.

I think we've acquired well. I think we've acquired according to that strategy. We've done two fundamental types of acquisitions. One, to expand our IP universe such that it covers more of the bases fully. I'm sure Ted talked about Marvel. That's a perfect example. Ten years ago, in meetings like this we'd be asked about, "Gee, you're very strong with girls, not so much boys. What are you doing to address that?" I think we've covered that incredibly well. With Star Wars, we've continued to look towards very high-quality family entertainment. And I think that we have used our balance sheet and our capacity -- our debt capacity -- to really invest strongly behind what we have competitive advantage in, what we're good at.

And, as it turns out, it's worked well for us. We've used a franchise-focused strategy, which is, I think, very unique to us because we're a company with a very long tail on where we monetize the assets that we create. So, we create something like Avengers. We create these superheroes in the theatrical window. And, if you look across the tail of all of our businesses, whether it's in the television business, the theme park business, the consumer products business, we really look at every aspect of our uniquely linked-together ecosystem to monetize the creative that comes out of the company.

So, I think it really sets us apart from excellent actors in each aspect of the business. But I think that we've managed to -- both from an attitudinal perspective, investment perspective, and talent perspective -- to really string it all together. And I think that -- we used to talk about the Disney difference, it sounds like kind of an old saw at this point, but it really is what differentiates us in this space.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Right. Another thing that differentiates you was two things: one a lack of guidance and two --.

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

By the way, we're not going to alter that today.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

But Lowell is here. Exactly. And the second thing was, as hard as we try to push you to nail down an annual buyback number, you only gave it, I think, only once in the past decade we had



a buyback number. Do you think those two factors, that you were not tied to guidance or a number, has allowed you to be more flexible and more strategic in the past couple years?

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

Well, look, I think that when you don't tie yourself to a quarterly or annual guidance on each of the many aspects that we would have to do, have to do if we did that, it really allows you the flexibility to be responsive to changes in the marketplace.

I think that what we've tried to say over and over again is that we really are long-term focused. And, if you're long-term focused, you don't want to be thinking every time that you're making a long-term decision that, "Oh, what did I say again about the next six months or the next year or the next three-year trajectory? You know what? This is a better idea, higher value creation for shareholders, and it's not going to live up to that. And now what? I've got to go back and refresh it." It's just not worth the effort.

I think that we've tried to be crystal clear about how we make decisions, why we make decisions, and then give all of you the opportunity to differentiate yourself and distinguish yourself on really figuring out how those pieces fit together and come up with a number.

So, it serves us well. I don't think we have any intention to depart from that. And I don't think we've ever -- not from my -- I've been with the Company for 30 years, I never remember being capital constrained during that period. We don't really have sort of that worry as a company. But we do carefully consider where we put our money and don't feel like we want to tie ourselves down to very short-term objectives.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay.

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

I think, Michael, you can imagine that, during the downturn, had we been tied to guidance, we might not have the ability to go out and do Marvel.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Right.



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

So, I think we've been opportunistic and I think guidance certainly can tie your hands in terms of some of those important investment decisions.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

And even on buybacks, I've asked you guys both publicly on buybacks, what's the right number? And you're like -- you've always just backed away from like, we're not putting out a number, because I think that ties into the same thing, right?

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

Yes.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

You can't buy Lucasfilm if you've got a \$5 billion buyback happening.

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

Yes. And, look, I think everybody in this room knows that we are committed to returning capital to shareholders. We find a way, whether it's been significant dividend increases, whether it's been big buyback numbers like last year, or our more steady pace of buyback, that we see as one of our objectives in terms of the cash we generate that we are going to return 20%, 25%, 18%, whatever the number is for a particular year. But that is the range that we feel comfortable returning capital to shareholders. We consistently do it. And I don't think we have to signal it on an annual basis, what exactly our intent is.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay. Let me take the Disney difference comment and the long tail of monetization. Some may dismiss *Frozen* as being a one-off lucky film or Marvel as a couple of good films strung together. But we wonder how Disney's and Marvel's assets are actually harnessed to drive success. So, given that *Star Wars* is coming out this December, can you walk us through how the Disney divisions actually work together inside the company to create and promote that long tail? Some examples?



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

Maybe Lowell.

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

Yes. You talk about *Frozen* and, clearly, this was a great example of it, but I think it's just that: it's an example. And we have been committed to this franchise strategy for a long time. I think there are lots of examples of titles, of IP that we've created around the company that we've been able to exploit in other businesses.

If you go back and look at, let's just take Marvel and animation as two examples because those are where we've invested heavily on the M&A side. If you look at Marvel, since we've owned it, we've put out eight films. They've averaged, I think we're close to \$800 million in global box office per film. And they've been highly acclaimed by critics, I think Rotten Tomatoes scores of 80%. So, these are high-quality films. If you look at the animation business, Pixar and Disney collectively, since we bought Pixar, we've put out 13 films: \$650 million in global box, 85% Rotten Tomatoes.

And the reason I mention that is Bob has really set a standard of quality and we think that if we make great content, audiences will follow that content. And they'll follow it not just into the theaters, but they'll follow it into all the other parts of our business.

So, we have been very deliberate and we've set up a whole bunch of internal systems and structures to sort of create incentives for business units to work together. So we have internal accounting treatments so each business has incentives to exploit IP that's created in other businesses. And Jay talked about this earlier, but I think that fully-integrated business model allows us to take -- where we have a success like *Frozen*, which we had theatrically -- we can then exploit that in many different parts of our businesses, whether it's Consumer Products or theme parks or television. The characters were on *Once Upon a Time* last year. So, there are lots of places we can do it.

We also invest for the long-term behind those franchises and I think that has led to success as well. The other thing I'd say is that -- I mean I've only been at the company eight years, but there's greater cross-pollination today than ever. So, Bob Chapek, who you know, used to run our home video business, Bob then ran Consumer Products, he's now running Parks. So, what better way to create integration around the company than to start moving senior executives around? Leslie Ferraro, who was just named to replace Bob, running Consumer Products, has been running marketing at Parks for many years, worked for Jay when he ran Parks. So, I think that the DNA of the company is suited and really sort of targeted in a way where people have, it's not just a financial incentive, but a passion for supporting businesses. And I think what we've learned over the last, really, eight, nine years since we bought Pixar, is that it's



to the Company's benefit for everyone to be behind those franchises. So, you don't need to direct people to do it, now I think it is really part of the culture and part of the DNA. And everyone feels it, believes it, and gets behind all these franchises.

Obviously, *Star Wars* is really important for us. We are very optimistic. I don't think there will be a person anywhere who's not aware that that movie is opening in December. And you could imagine that everyone around the company is trying to not only get behind *Star Wars*, but ultimately benefit from *Star Wars*. And that is now how we do things.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Right. Okay. Let me take it to Media Networks, I'll into some of the divisions now. Bob spoke on the last earnings call about the variables that shape Disney's philosophy on emerging virtual MVPD products: which ones you're in, which ones you're not. So, going back to what you said, Jay, how do you balance the need to keep being innovative, technology-focused, and consumer-friendly in distribution models with the need to maintain the benefits of a bundle that's been very, very good to Disney and the industry? So, how do you decide that balance of where do you go?

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

Yes. Well, interestingly, I think you start right at the top. We don't see those things as mutually exclusive. I think people always want to say, "Wow, you had the MVPD system decision with Starz to keep going with that or you have Netflix. Which way are you going to go? And doesn't it conflict? Don't those things conflict?" We don't think that utilizing the different means of distribution out there today are in conflict with each other. We think that, as a content company, it's our job to figure out how to meet the consumer desire through the distribution capabilities that are out there.

So, today, at one end of the spectrum, you've got people blocking their weekend to watch a binge view of something Ted has put up and they know there are 13 episodes coming out on Friday night and they're blocking their weekend because they're going to do ultimate long-form viewing. The other end of the spectrum, you've got an unbelievable number of eyeballs on Maker Studio and YouTube productions that are 45 seconds. And everything in between exists. And, if you're in the business of creating content and you want to be at the top of your game, you really have to look at every single one of those decisions.

So, what are those decisions? I think we've always said, as content creators, that every piece of content has its medium. And we used to have these big arguments over 2D animation, 3D animation. And people would always ask in rooms like this, not so much anymore, "Well, does this mean you're done with 2D animation?" We always used to say the same thing: "You know



what? The story and the art form kind of demands a certain execution that will make it as good as it can be.”

And I think -- I know Ted, because I just talked to him on the way out -- he was talking about *Daredevil* and how the buildup of those four series that we're doing for Netflix with the culmination in a fifth series. Of course we looked at the ABC Network as an opportunity for the distribution of that. And the beautiful thing is that we have so much IP and can create so much content that we really have an embarrassment of riches in terms of where that content is going to show up. We decided for both strategic reasons, the type of content it was, what we wanted to do with those characters and those stories, that Netflix was the best home. Of course, I can talk about the creative process and the strategic process. There's also the financial process of: how do we maximize our capabilities in production and creative across the spectrum of opportunities?

So, I don't think -- we are full believers in the MVPD ecosystem, the incredible value it provides to consumers, and we think it's going to be around for a long, long time. Will it be around in exactly the format we see today? Probably not. It will probably evolve into -- as the whole system has evolved. But we believe that we produce a lot of content that should continue to live there; live sports being a perfect example of that, but other things, our network television and so on and so forth, our cable channels.

But we continue to look at everything from Netflix, hyper long consumption, to Maker Studio at the other end of the spectrum and ask ourselves: how are our franchises going to manifest themselves in all these different ways consumers view media?

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay. Let me talk about this. ABC, which doesn't get a lot of attention, has had great momentum in the past three years. What's driving that improvement in profits? And can you give us an update as to what you have that's owned, that's coming in syndication? So, give a sense of -- the levers you've shown in the past three years have been pretty amazing at ABC.

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

Yes. So, I think we're making real progress at ABC. And I think, and we've discussed this with Ben and the ABC team, I think there's a real opportunity there for us moving forward. We talked on the call last week about being a bit ahead of our retrans guidance that we had given for this year. So, we're really optimistic in terms of what we're seeing on retrans. There's a great ratings story this year at ABC. Ben talked about this at the upfront yesterday, for those of you who weren't there.

I mean we are, if you look at entertainment programming, which excludes sports -- and we could discuss the merits of looking at it one way or the other -- but if you just look at





entertainment programming, we're number one season-to-date. We're the only network to grow ratings season-to-date. So, I think ABC is really building some momentum.

I think also from an ABC Studios perspective, this is a great time to be in the content creation business. There are more buyers globally than there have ever been. We are now selling more shows to different partners, whether they're traditional networks or new entrants like Netflix, that will drive significant long-term value for us.

And if you look at our fall schedule that Paul Lee announced yesterday, I think about 85% of our scripted hours for the season will be owned by ABC Studios. I think that is up from, five years ago we were probably 50-50, somewhere in that area. So, the studio itself is on a real creative roll and I think that has driven some of the success.

Now, there's still a lot more to accomplish. I think they're excited about it. I think the response to the schedule yesterday was real positive and we feel good about that. But I think those are some of the levers that are working in ABC's favor right now. And I've always said, and you and I have talked about this a lot, that's one of our -- you know, it costs just as much to make a successful show as it does a show that doesn't work. So, you're not going to spend a lot more in success and you drive significantly more value to the bottom line in success. So, we've got tremendous leverage in that business to the extent that we're creating shows that are finding meaningful value in secondary and tertiary windows of distribution beyond the network window.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Right. And it makes this counterintuitively -- if ratings hold up and stay where they are, does a lack of sports cost inflation mean that you actually have greater margin expansion ahead as the retrans ramps? Because everyone else is going to have to pay sports costs. So, talk a little about that.

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

Yes. Look, we've made a decision, a conscious decision to make ESPN the primary sports network of The Walt Disney Company and all the affiliated ESPN networks. We still have some sports on ABC. We have college football on Saturday nights in the fall. We have a bunch of NBA, including the *NBA Finals*. We announced yesterday at the ESPN upfront that, for our wild card game next year, we will simulcast that on ABC. So, ABC is still in the sports business, albeit to a much lesser extent than other networks are.

And I think your hypothesis is right. I mean we have said from the beginning that we have greater leverage in that business and greater ability to drop more of that retrans money to the bottom line than other networks do. The cost structure is just different and it gives us some



flexibility in making the investment decisions we want to make on the programming side. And I think, thus far, we've been fairly prudent about that. But I think in great success we will have the ability to drop more to the bottom line.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Let me ask you this. One of the greatest frustrations we all have is multiplatform measurement. I guess you guys, as you mentioned, were the first to stream content on the ABC.com player. You've worked with Hulu. You've been very vested in moving your content multiplatform. We can't get measurement on that at this point in time. But what does your own data show you on the average viewing of multiplatform? I think that's an untold story for the industry.

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

You know, look, we're up -- if you just look at straight C3 ratings, we're up year on year. But I think your multiplatform question is a much more relevant question. And I think traditional ratings metrics are more challenged now than ever because they don't tell the full story.

Look, I think about ratings in two ways. We do own the first window of distribution at the network. We monetize that through advertising. The most predominant form of currency today is C3. So, C3 helps determine what our network advertising revenue is.

Then we sort of look at lifetime value of programs and I think that is driven by how many people are viewing that content over some period of time. And we'll come back to that effect. But I think that really drives the long-term value when you're talking about domestic, international syndication, and third-party buyers.

We are now trying to aggregate using some third-party data, some of our own data. It's an amalgam, but we're looking at what are live ratings, what are DVR ratings, VOD, online. We're trying to capture that internally over a 30-day period just to get a sense of how much viewing is happening after that first live-plus-same-day window. And the numbers are pretty dramatic.

It's very interesting. If you look at *How to Get Away with Murder*, which was a Shonda Rhimes show that we premiered last fall, and you look at the stack of all of those ratings and you compare it to *Grey's Anatomy*, which is still on the air, great success for us. That premiered 10 years ago. While fewer people watched *How to Get Away with Murder* in its live-plus-same-day window, if you aggregate all the people who watched that show in its first 30 days, it did a bigger rating than *Grey's Anatomy* did 10 years ago.

And that gives us great optimism about the long-term value of content. We're obviously very interested in trying to aggregate those data in a way that third parties will accept them and buy into them and create some language or some baseline that the industry will all buy into.



Because I think a lot has been written about network television and the challenges it's having, but I think there's a story that really hasn't been told about some of the lifetime value being created by television studios right now, given all that tertiary viewing. And we feel really good about being in that business.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay. Let me ask you about the issue -- I remember we talked about this a couple times in Burbank -- the topic of selling movies and shows to OTT players like Netflix. You made, at the time of the deal, a risky bet selling your pay-one movie rights to Netflix, moving it from Starz. Since then, Netflix has continued to grow rapidly, expand its domestic base. As you are now less than a year away from getting the output deal -- maybe a year-and-a-half away -- can you discuss how SVOD and the larger ecosystem has evolved since you made the decision to sell? And has your view on selling that changed? Would you go back and say, "Well, maybe it's too big of a monetization engine in Netflix and maybe we shouldn't have sold it to Netflix at that point in time?"

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

You know, I don't think we're looking back with regret on that, if that's the gist of your question, Michael.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Yes.

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

As I said, I think we, and Lowell just pointed out, that we've moved to a world where you really have to ask yourself, "What is the long-term lifetime value of the content that you produce? And what is the best place to premier that?" People for years have asked us, "Well, I don't get it. You guys, you say you're in the content business, but you own a network and it's sort of distribution."

And I think Lowell just kind of gave a perfect example of why we believe that makes sense for us because it gives us the opportunity to get a show like *How to Get Away with Murder* off to an unbelievable running start. And, obviously, for years and years, companies like Starz within the MVPD system were the way to do that.

That is starting to evolve. I mean Netflix, frankly, what Netflix was when we made that decision was probably a riskier decision than if we had to make that decision today because of the number of subscribers, their worldwide growth, the opportunities that we now have with them



to take those movies out in the first pay window on a very broad international scale, probably makes that decision feel a lot better than it felt when we actually made it. It was, of course, financially quite advantageous for us to do it when we did it as well.

But I think that we feel like we want to be in a position to put our content with people that can get a lot of eyeballs on it in the run that they have, knowing full well that that probably won't be the last run. I mean we used to think about, "Well, a TV show has a life, and then people like Netflix showed up and Hulu showed up and then we suddenly discovered that, wow, these are new scallops on the demand curve for the viewing of this content."

I suspect that will continue to happen. And the only thing we want to assure ourselves is that where we start -- and, of course, we're talking about movies that start in a theatrical window -- but where we start on television has a strong basis of viewers and we're not locking ourselves into putting a bushel basket over our show for two years or over our movie for two years. And I don't think anyone who's followed the space would ever criticize Netflix of that.

[Reacting to ring tone] You know, that was first premiered in, I think, Milan, that song right there. That was an awesome window for us. We're still listening to it in 2015.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Someone's getting royalties on that.

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

And franchise potential.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Exactly. You know what? Superheroes. And you mentioned Hulu. How does Hulu fit -- which you guys own a piece of -- how does Hulu fit into that world as well, versus your other options?

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

I think having multiple buyers is good for our business. We happen to own a piece of Hulu. But, we have Hulu. We have Amazon. We have Netflix. Multiple buyers in the marketplace is good for content sellers. And when we have product, we take it to market. We talk to multiple parties, talk about the Studio deal. We talk to Starz. We talk to Netflix or other very interested parties.



So, I think that's one of the benefits of being in the position we and other content owners are in right now, which is a lot of people coming to the table with interesting attractive offers and you try to make each decision based on its own merits. But we view Hulu as a buyer. We talk financially about both sides of the Hulu coin. We're a seller to Hulu of content. We're an equity participant in Hulu. So, you know, you think about the net economics of all these decisions.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay.

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

You know, the interesting thing, Michael, is because it's kind of an old business model, nobody asks about television studios selling their product to their own network and other networks, right? But it's exactly the same model as reaching out and saying, "Well, gosh, you're kind of an MVPD player, so why are you selling to Over-The-Top guys and insurgents in the space?"

But it's no different. In other words, we create content at the ABC Studios. Some of it we think is great content for ABC. Some of it we think is great content and we sell it to somebody else. So, it's just kind of pulling the same business model forward. It looks and sounds different, but it's been in existence for a long time.

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

I think this year we have sold two ABC Studios shows airing on other networks -- two new ABC Studios shows airing on other networks this fall, which is great. I mean *Modern Family* is a huge success for ABC. It's a much bigger success for FOX.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Right.

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

Right? So, being in the ownership business is really valuable when you have great content. So, we're happy to sell to third parties as well.



**Michael Nathanson** – *Analyst, MoffettNathanson*

Tell me the ownership business of great content. Given the ramp in superhero projects coming down the pipeline the next couple years, are you worried about superhero fatigue impacting Marvel's growth going forward?

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

Well, look at us. We're not fatigued.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Exactly.

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

Look, that's not something we're worried about. You know, it's funny. I was thinking recently about when I was on the sell-side and DreamWorks got very aggressive in this business. Sony was getting into this business. And I followed Pixar. I used to get this question all the time about animation, "Are you worried about animation fatigue? There's too much animation in the market."

And I think what we've learned and I think what the market has come to appreciate is great content lifts all boats. So, more successful animation content is going to help the animation business in general. We talked earlier about the \$650 million we've done in average box for our animated films since the Pixar acquisition. There's a huge marketplace out there.

And I think, when it comes to Marvel, the same thing applies. You know, we love more great content in the market. And DC has got a lot of exciting projects in the works. And I think the better their films are, the better our films are, we all stand to benefit from that. I think, at the end of the day, audiences want to go see great films. And Marvel has turned out incredibly high-quality films since, really, their inception of creating their own films under Kevin Feige and Lou D'Esposito. They've made a bunch of really, really high-quality films and audiences have shown up. And I don't think that will change.

The other thing I'd say about Marvel films, and this is something Kevin said in a meeting we were in not too long ago, all superhero films aren't the same. They're not all created equal. So, *Captain America* was really a period piece. Look at *Guardians of the Galaxy*. That was really an intergalactic space movie. They're not all thematically the same and I think that creates diversity and audiences don't feel like they're seeing the same movie every time. And if they're



fun and exciting and they give great action and a lot of exciting stories, people will come and see them. So, it's not something that we talk about at all or are at all concerned about.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay. Let me just remind you that we're going to take questions from the audience. If Andrew wants to walk down the aisle in like two minutes we'll have Andrew pick up some questions.

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

Andrew, just so you know, you want to walk down the aisle in two minutes.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

He does. Also, I said he's graceful. So, maintain that gracefulness.

Okay, so Parks & Resorts, Jay, a business that you know very well. We're now seeing the full benefits of many of those capital intensive projects you helped introduce to the Parks. It was the Night of 1,000 Dreams, is that the --? Yes. And they're starting to generate some meaningful revenues and returns. Can you update us on the impact of these projects? So, let's start with cruise ships, *Cars Land*, Magic Kingdom expansion, how have they impacted your business?

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

So, let me start by saying that each and every one of those projects you just mentioned, and others, were kind of -- there wasn't a notion seven or eight years ago, "Hey, let's invest a lot of money in this business." It was each and every one of them had their own strategic rationale behind them, their own sort of monetization model within that business. Some were an answer to a need. Some were purely opportunistic. But each of them was pretty sizeable and they do share that.

If we start, for no reason whatsoever, but out in California with Disney California Adventure and the expansion of *Cars Land* and the kind of re-theming of that park, initially that park was introduced as -- was an attempt to be kind of an equal at Disneyland. Disneyland had topped out in terms of capacity.

When we opened up Disney California Adventure, we had an expectation that there would be a certain shifting of the mass of the business. In addition to lifting the numbers, there would be a certain amount of time spent and a certain amount of the attendance on a daily basis would go over to Disney California Adventure, spend a certain amount of time, that would reduce some of the pressure in different areas of Disneyland that we would be able to backfill.



Well, after we opened that park, we found that didn't happen. There wasn't -- people were going to DCA, but they were only spending a couple of hours. There were a lot of reasons for that, not worth going into. But, we needed a big thematic anchor, like *Cars Land* is, because it is Disney at its best. You're walking into a world you could never be in in the real world. It is a very true reproduction of a very successful film in terms of the space. People recognize it the second they get there. Kids see all the icons that they saw in the movie. And, of course, it has great attractions as part of it. And it is not a coincidence that we put it all the way in the back of the park because we actually wanted to draw people all the way through and let them experience what was there.

And it really did have the dual effect of both lifting the water level in terms of total attendance at the Disneyland Resort, but also relieving some of the congestion at Disneyland. And there was actually, we were at a point of some rejection it was so congested. And so, it really did sort of live -- that expansion brought Disney California Adventure to the dream that it always was intended to be.

Switch over to Magic Kingdom. You know, statistically, the Magic Kingdom is the most-attended theme park in the world. Statistically, at any given moment, 45% of the people in the Magic Kingdom are in *Fantasyland*. And it was, again, becoming choked and constrained and the experience was really being impacted by the amount of demand there was for it. So, we decided we needed to expand it. We needed to expand it in an area that was extraordinarily popular, which was character experiences, character meet and greets, particularly princess-oriented meet and greets, expand some of the attractions for younger guests. And, again, it had exactly the kind of impact we wanted. The fantasy of the Magic Kingdom is mostly what draws people to Walt Disney World and it lifted that fantasy, made it 21st century.

And *MyMagic+* drifting into it as another big initiative, of course, brought that new technology to bring that experience to an even higher level with a level of personalization that, instead of, "Hello child number 385" today meeting a princess, "Hello, Bobby; hello, Cindy." Because our cast could be turned on to who you were precisely, not one of many. And that lifted, for a child that is a full believer in the fantasy that that princess lives in that cottage or that castle, when he or she meets that princess it becomes so much more real that they have the magic of knowing who they are.

And like that, knowing our guests on a one-by-one personalized basis has really enhanced that experience in a way that our guests are encouraged to plan in advance because they can have a more personalized experience when they plan in advance. And we've known forever that the more time people spend planning and the more they commit to, before they leave their home in Cleveland, Boston, New York, Georgia, the more time they spend with us when they come into Central Florida. If they come, kind of like, "Oh, where am I?" there's a million distractions and some of those distractions successfully attract them. If they come with a very strong Walt Disney World itinerary, they spend a lot more with us. So, that's the monetization behind it.





Cruise ships, you know, was a very small boutique business for us with two ships. It's still a boutique business with four ships, but they were so over-demanded, so overbooked, that it seemed evident that we could fill two more ships. And, of course, we have. They basically sail at virtually 100% full, still at the highest load factors by a huge margin relative to any other cruise line and a price premium relative to other cruise lines. But, also, like every business, the use of technology, the experience that is being offered in that business continued to evolve from when we launched our first ships 20 years ago until today. So, having new inventory on the ocean was also a big driver there.

So, you know, you've all followed our theme park results. We've done extremely well for a business of its size and maturity here domestically, adding double-digit, sometimes 20% quarter-on-quarter growth, like this previous quarter. And we're very happy with the direction. It's a business that we feel we have the true definition of competitive advantage and we want to continue to invest in that around the world.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

A question people are always asking, you know from all your years there, is pricing. So, is there a ceiling on pricing and what factors drive your ability to take price in any given time?

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

So, 30 years ago Frank Wells asked me that question when we were thinking of going from \$16.50 to \$18.50. He said, "Jay, is this the ceiling on pricing?"

I think that the irony of that question is that, you know, we price on a value basis and we keep a very, very close check on what the value proposition is for our guests and the feedback they give us about the value of a day in one of our parks versus the value of trying to cobble together some other form of entertainment for their family.

And I think that we're still incredibly comfortable with that value equation, not because we like it, but because our guests keep telling us that, "Yes, wow, you guys continue to invest in the business, continue to bring it to the next level. The experience is great. It's very hard for me to take my kids out and them not turn to me after 30 minutes, 40 minutes, an hour and say they're bored. And I can do that for 10 continuous hours. I'm all in on that." And I think that's pretty much what our guests continue to tell us.

So, you know, we tend to price more at what we think of as an entertainment CPI than the general CPI, which is a couple of points above. We are judicious in the decisions we make about it. They're not made willy-nilly. They're not automatic. They're different across the different spectrum of buyers, from single-day to multi-day and best customer and so on and so forth.



And so far, we feel pretty comfortable that we can continue to do that. But, be assured that we keep a very, very close look on it.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Right. And another question people are always asking, you know the answer, is impact of foreign exchange, impact of oil prices. What's your history (inaudible)?

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

Okay. So, oil prices I can pretty definitively say after 30 years with the company, have no bearing whatsoever on our attendance. Gasoline, no matter how expensive it is, is such a minor component of any -- not only travel to Disney, but any travel is unaffected by rising gasoline prices because it tends to be \$20 more on your vacation or \$25 more on your vacation because gasoline is selling at \$4.85 versus \$3.25 last year.

Having said that, there was one period during gasoline shortage in the 1970s that we were affected, just in full disclosure. Foreign exchange --

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**Michael Nathanson** – *Analyst, MoffettNathanson*

I'll look out for that.

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

That was, "I can't get gasoline at any price so I'm not driving to Walt Disney World."

But, foreign exchange -- so we talked a little bit about this on our call. Interestingly, if you look across our top five or six feeder markets, there is absolute variation in what's happened relative to the dollar. Some currencies are extremely weak relative to the dollar versus a year ago. Some are much stronger to the dollar versus a year ago. And you can't match that up with the attendance trends. So, foreign exchange, in and of itself, does not seem to be a driver of our theme park attendance.

Now, I think if foreign exchange rates reflect fundamental economic weakness, credit crisis, etc., etc., I think that could have more of a bearing on it. But, remember that people that are traveling internationally -- so, you know, our big feeder markets, Brazil, UK, Canada, Mexico -- people who are traveling internationally are also making that decision relative to other international destinations, which complicates the dynamic because you don't know what the exchange rates have done relative to those.



So, if you're a Brazilian and you're saying, "Well, at some point I want to take my family to Europe. At some point I want to take my family to Asia. At some point I want to go to the U.S.," you are trading off against a very complex set of decisions. Our goal is to make our destinations as absolutely as appealing as they can be and be at the top of that consideration list.

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**Michael Nathanson** – Analyst, MoffettNathanson

Okay. Let me turn to Consumer Products. What inning would you guys say we're in for monetizing *Frozen*? Or do you view this as an evergreen franchise, like Mickey, that just grows even without a film release?

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

Top of the third. Mets at bat. Still don't have a hit.

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**Michael Nathanson** – Analyst, MoffettNathanson

And they won't win in September.

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

Yes, a little problem. Look, we talk about *Frozen* as the most recent example, and we'll come back and talk more specifically about it. But, if you go back and look at last year, we had 11 franchises across the company that did more than \$1 billion in retail sales. And those franchises span Mickey and Minnie, which are true evergreen properties, to properties that have been created more recently, whether it's *Avengers*, *Frozen*, *Cars*, *Planes*; more recent creations of The Walt Disney Company. And what we try to do is create great IP and then exploit it, not just in an initial window, but if we have truly great IP, exploit it over a very long period of time, cross-territory, around the world, different businesses, etc.

So, if you go back and look at *Cars*, as just an example, the original *Cars* came out about 10 years ago. And I remember when *Cars* came out, there was an enormous surge in consumer products around the *Cars* themselves and there was a question about, "Could we support it? How would we support it?" And, in the subsequent years, we supported the franchise through *Cars Toons*, which were the shorts that we created. We made a sequel. We talked about *Cars Land* at California Adventure. We've done a lot to support the franchise. It's great IP so those individual projects were all attractive to us. But *Cars* is still well north of \$1 billion in terms of its retail sales. So that is now a franchise that's been around for 10 years and we think will continue for a very long period of time.



*Frozen* comes along, massive global box office success. Obviously, we were sort of behind on the Consumer Products side because the magnitude of the appeal surprised retailers, licensees, surprised us to some extent. So there was a little bit of a catch-up phase. And you saw that flow through last year: back-to-school, Halloween, and the holidays. And we view *Frozen* as another evergreen franchise.

So what are we doing to support *Frozen*? We've put characters in the parks. We made a wonderful and very well-received short that ran before *Cinderella*, which was our recent live-action film, also successful. And Bob announced at the annual meeting that we'll be making a sequel to *Frozen*, coming out down the line.

So, we view Elsa and Anna as important, appealing characters. Folks around the world have really been attracted to them and they find them very appealing. And we will support those characters and that franchise for a long period of time. We think it will continue to drive pretty significant benefit for the company for the foreseeable future.

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**Michael Nathanson** – Analyst, MoffettNathanson

Okay. In my last five minutes let me let me walk through some of these, from --

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

Sure.

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**Michael Nathanson** – Analyst, MoffettNathanson

OTT --

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

Like the rapid-fire round or something?

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**Michael Nathanson** – Analyst, MoffettNathanson

Exactly. Double Jeopardy. OTT, do you ever see ESPN going a la carte? And ever is a big term.

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

Well, you know, that's a question that gets asked a lot. I will tell you this; we have looked deeply at the consumer value equation. It won't be technology. It won't be availability. It won't



be the newest flavor of the month that would cause an a la carte world. It won't even be the content providers agreeing to go a la carte. It will ultimately hinge on whether consumers will find value in an a la carte orientation relative to some form of a bundled orientation.

And I think that if you look at the production value and literally the production costs behind the most popular networks out there, figure out what that has to be priced to a more limited audience plus what it's going to take in terms of the cost of broadband delivery to your home outside of a bundle, you will not come up with a package that suits anyone that is not very close in price to what we think of today as expanded basic or what will maybe evolve into bundling in different configurations.

So, we believe that, because of the incredible deal that people get in the MVPD ecosystem relative to broadband delivery and the add-ons that they may want to do Over-The-Top as well as the basic high-quality, high-production value, in parens, high-cost, channels that they are getting as part of the bundle, it's very hard to imagine a world where everybody selects what they want and then adds to their own high-speed broadband to have that delivered to them.

So, I don't, in the foreseeable future, see a completely fragmented Over-The-Top a la carte system.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Alright. Can you discuss how you plan on growing ESPN online and growing monetization online and maybe help change it on the linear side? So, I know at your ESPN investor day you talked a lot about the size of ESPN online. So, yesterday you had a --

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

Yes, look, ESPN is a true multiplatform business today. So, I think in last year's upfront, if you look at our ad sales of more than \$1 billion, I think 80%-plus of those ad sales were multiplatform. So, advertisers were buying at least two or three different platforms: television, radio, print, online, whatever the case is.

Our digital business, we don't disclose the numbers, but it has continued to grow nicely. You saw the re-launch of our website. Part of what's behind that is greater integration between linear content and digital content. And, you know, we have an objective to create content and that allows us -- that will ultimately be distributed over multi-platforms. WatchESPN is a different entity entirely. That is a true simulcast of what we're running on the linear networks. Usage there continues to grow as well and we are doing a better job of monetizing that usage. Ed is selling more and more advertising on the WatchESPN platform every year.



So, I think we feel great about the true integration of our linear networks and our other platforms. Because I think, frankly, that's how sports fans are viewing content. People aren't just sitting in front of the television anymore. If they're at the kids' soccer game or dance recital they might want to watch an event on WatchESPN. They're checking *SportsCenter*, in terms of the app, to keep up with scores, live gamecasts, whatever the case may be. So we're trying to go where the consumers are and I think ESPN is out in front of everyone in terms of its multiplatform approach.

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**Michael Nathanson** – Analyst, MoffettNathanson

And you have bought those rights as part of the --

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

We have cleared just about all the major rights now. The one exception, where we don't have *Monday Night Football* on mobile devices because the NFL has a separate deal with Verizon. But, other than that, I think we have cleared virtually all sports rights for WatchESPN.

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**Michael Nathanson** – Analyst, MoffettNathanson

And mobile is defined as a phone, not a tablet.

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

Yes.

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

Yes. There are a variety of definitions but, essentially, if the device is used to make phone calls, Verizon has the rights. Any other device we have the rights to: desktops, iPads, anywhere else people will want to watch a *Monday Night Football* game.

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**Michael Nathanson** – Analyst, MoffettNathanson

And that's in the cost what you pay for. Last question, 33 seconds left, is: in negotiations with Netflix, or as you put, just in general, more content on other people's players, do you get to see data or views or any kind of information of who's watching and when they're watching? Is there an information loop coming back to you guys? And, if so, will that change?



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

Well, look, I think going forward that is an essential part of coming together with people who are delivering direct to consumers. I think that 10 years ago it wasn't top of mind for any content producers to want to understand that kind of data in detail and the 'who' kind of data, who was viewing. That's changed. I don't want to get into the details of any particular deal that we've done. But, suffice to say that we are in a world where knowing consumers is a huge value and we are quite focused on that.

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**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay. Jay, Lowell, thank you guys, last minute, for coming. I really appreciate it.

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

A pleasure.

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

My 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 27, 2014 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).