



The
WALT DISNEY
Company

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Disney Speakers:

Tom Staggs

Chief Operating Officer

PRESENTATION

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

Let's get started with Disney. I'm so excited to have Tom Staggs back at this conference after, I don't know --

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Six years.



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

-- six years or something like that. I mean --

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Yes, 2009.

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

-- it seems like you've been in hiding. So Tom's in his new role of Chief Operating Officer. I'm like beyond --

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

I haven't been in hiding. I've been in the Theme Parks.

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

So you've been in the Theme Parks. So let's talk about --

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

It's been nice.

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

-- what's happened since you've been gone -- since you've been in the division. In the five years or so that you've been Chairman of Parks and Resorts, the parks have benefited from projects like *Cars Land*, which completely transformed California Adventure, the Fantasyland upgrade, first time in what, like 50 years? *MyMagic+* deployment, new projects like -- a little project like Shanghai Disney, *AVATAR Land* is well under way.

So now that you are seven months into your new role of Chief Operating Officer and the Parks are obviously still an integral part of the Disney story, your focus has expanded to other parts of Disney's business. So just let's kick off with what your key priorities are as COO.



Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Sure. By the way, before we get started, I just want to make sure that I introduce Christine McCarthy who's with us today, our new Chief Financial Officer, who we're thrilled to have in the role. So all of you I know will get to know her over time.

A decade ago when Bob Iger took over as CEO, he laid out a really clear and concise strategy that had three pillars, the first of which was around high-quality branded content, the second was geographic expansion, and the third was really leveraging technology across the business. And that was a strategy that has served us well and continues to do so. I was CFO during the first part of Bob's tenure, and so worked with him on the implementation of that.

But really, as you look at it now, my priorities as COO really line up with those priorities of the Company as a whole as dictated by that strategy. And I think it'll continue to serve us well. And so my focus is really on helping to extend that success, especially around leveraging all of our content across our various businesses and around the world. And I couldn't be more excited to have the opportunity to do that.

It's great to come back to the Company as a whole and be that much more reminded of this pretty unique ecosystem that Disney enjoys, which is a real competitive advantage, having the integrated set of businesses that allows us to take these brands, this content, these franchises, and leverage them across multiple platforms, multiple businesses, multiple geographies. And so helping to facilitate that -- working with Bob on that is key.

And I can't go -- I'm three minutes in. So you can mark that it took me three minutes to mention Star Wars. But Star Wars is a great example of this whole equation because you look at it, we're obviously ramping up to the release of the film in December.

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

December 18th.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

December 18th. But at the same time, we are both supporting and benefiting from Star Wars across every part of the Company, from Theme Parks to television to games.

And just last Friday, we had *Force Friday*, which was kind of an amazing event, unprecedented event. Really fueled by having Maker, who had this -- for those of you who maybe didn't see it, it was an event that took place over YouTube over 18 hours in 12 countries in 15 cities. And it was a rolling unveil of the product.



And so one thing we had, just in the U.S. and Canada I think we had 130,000 people lined up at midnight to go get the product. But then more broadly than that, we've just seen Star Wars jump on social media across the board to the most anticipated film of the year. So --

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

In what countries?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

What countries did we do? Well, it started in Australia and then went around the globe. So I won't even try to mention all 12, because I'm sure I'll slight a country in doing it.

And that's just a good example of taking obviously a very well-known and successful franchise and making it significantly more valuable as a part of The Walt Disney Company. And so my job is to try to make sure I facilitate that leverage and that success more broadly.

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

Well, we will come back to Star Wars.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Okay.

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

But just moving along. As CFO, you instituted a sharpened focus on cash flow and return on investment. And while at the Parks you oversaw a period of record investment and growth, of course.

In your new role, how do you intend to balance the need for further reinvestment as well as returns of capital to shareholders?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, it probably was no surprise to you or anyone else that our disciplined approach to capital allocation can continue. We believe in having a very efficient capital structure. We also want to make sure that we're investing and allocating capital towards a project that will drive both



growth and high returns, whether that be in our existing businesses or in terms of M&A opportunities that we'll see. So that discipline will continue.

The good news is that we see a number of opportunities to make those kinds of investments. And Shanghai Disney Resort, which you mentioned, is a great example of that. And so we think we'll be able to invest profitably to get the returns that we all look for and deliver value for the shareholders, but also drive growth for the Company.

But at the same time, we've got really strong cash flow. And so we also are going to stay disciplined about returning capital to shareholders to maintain that efficient capital structure and make sure that the shareholders are seeing returns that way.

You know at earnings, we announced that next year we're looking to repurchase \$6 billion to \$8 billion worth of our stock. And you may have noticed that since our announcement at earnings, the market's given us an opportunity to buy the stock at meaningfully lower prices than where the stock was trading when we made that announcement.

And so we've taken big advantage of that opportunity. So in the little over a month since we reported earnings, we've repurchased about \$2.4 billion of our stock. And that brings our total for the fiscal year of 2015 up to about \$5.6 billion in share repurchase, on top of, obviously, the dividend that we paid and that we've continued to grow over time.

So we will continue to pursue investments that drive value and growth. But we also think that we can continue to return capital to shareholders and maintain that structure.

By the way, the ability to quickly turn to buying that much stock that quickly is a nice example of the benefit of having a very strong balance sheet and access to capital. That's something that Christine and I actually worked on for years since she became treasurer 15 years ago, and it's something that we're also committed to going forward.

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

Great. Disney derives a large chunk of its profits from the U.S. Pay TV ecosystem, a part of the media sector that continues to confront increased consumption alternatives, most recently evidenced by your own comment in the Company's commentary surrounding ESPN's relatively small subscriber losses.

But as you mentioned, the stock you -- the market's given you a chance to buy back stock. Do you think the market's overreacted?



Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, there's obviously a lot going on in the market beyond the commentary around the multi-channel bundle and subs and that sort of thing. And so there's a number of factors at play.

But having said that, I think the short answer to your question is, yes, I think the market overreacted.

We're confident in our programming services' ability to thrive. And they're extremely valuable in the context of the existing platforms, but they're also very attractive to any new entrants. And as the market evolves, I think we're going to continue to see new entrants. We're going to continue to see demand for our programming services. And they will continue to be an important part of those services actually being successful in their launches. I think that's important.

You look at the strength of our brands and our programming, and we feel very good about where we sit. ESPN in particular -- continues to be one of the most important and valuable brands in programming. ESPN is number one in terms of perceived value, but they also drive the most local ad sales, HD upgrades, and broadband subscriptions for our distributors.

Importantly also, ESPN has the broadest and deepest collection of live sports. And we know how important live sports are to viewership and to viewer patterns. This last weekend was a great reminder of that, both in terms of the high ratings we saw with college football over the weekend, but also the U.S. Open. In fact, the Tuesday night quarterfinal match, which was obviously a good matchup, Venus and Serena Williams, turned out to be the second highest rating that ESPN has seen for a tennis match ever.

And so live sports -- is here to stay and it's a huge asset for ESPN.

But I think what's perhaps most interesting is the extent to which we're seeing the viewership across multiple platforms. I think ESPN has uniquely built a true multi-platform programming brand. And that extends from, obviously, linear TV, but to ESPN.com and WatchESPN and our other mobile apps.

And so for this weekend, there were -- ESPN aired 48 college football matchups just this last weekend. Now, most of those were only available through WatchESPN. And the viewership across our digital platforms for the weekend was actually up over 60% for that weekend. And the number of devices accessing WatchESPN was up by more than 50%.

So we continue to see viewership across those platforms grow. And it wouldn't surprise you to know that for people who are multi-platform users, they are spending the most time also on linear TV.



People that access across multiple platforms can spend as much as fourfold more time watching the television. So one reinforces the other. And I think people sometimes think of this as more of a zero-sum game than I think is appropriate.

And we're increasingly monetizing across those platforms. I think those opportunities will grow, especially as things like selling across impressions and dynamic ad insertion, as those capabilities improve.

But I think -- so I'm excited about how our programming services are positioned, especially with new entrants. But I think just as importantly, we continue to believe in the value and the appeal of the multi-channel bundle. And that value and appeal is going to continue for some time. And I think that's important.

Look, we also know that as the market evolves, here again, and these platforms have access to more technologies, there are and will continue to be opportunities to improve the value proposition of the bundle in everything from user interface to navigation to search, access to programming, and it's incumbent upon us and distributors to make sure that we're taking advantage of these opportunities to improve that user experience. No question.

But the bundle shouldn't be viewed as a static product. It's going to continue to evolve and it's going to continue and we're going to continue to reinforce the value of that bundle over time.

So I think that that really, coupled with sort of what we see in the new platforms, makes us feel like we're very well positioned.

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

Great. How do you think about the role of SVOD in the overall ecosystem?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, on the one hand, the growth of the SVOD players kind of underscores the fact that high-quality programming is more in demand than ever, and our ability to monetize our programming is greater than ever. So that's good news.

But I do think it's important to recognize that this market is fluid and our approach to the market is going to be fluid as well.

And so we want to make decisions that optimize the value of our programming services and our content as a whole, and so we're going to look at it that way. For example, it could be that the optimal place for full season stacks of current programming is within our services through the multi-channel bundle.



At the same time, we'll look to make sure that we're making that sort of availability there, that's optimal, while also managing and supporting the value of our library through SVOD, other distributors, and new entrants in the marketplace.

And so we want to take a holistic view of this to make sure that we're managing for the long-term value of all this content and programming. That's what we'll do.

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

And how does your content investment strategy need to evolve to ensure future growth in this part of your business?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, I feel like the stance that we've taken, the position we've taken is the right one and that we're well positioned.

I mentioned earlier that the first pillar of the strategy Bob laid out was about high-quality, branded content. And that is, for us, the centerpiece of what we do, and it's going to continue to be that way.

Disney Channel's a great example, where we continue to invest in programming that we leverage throughout the world. So as Disney Channel's reach has continued to grow, that obviously helps the brand, helps our other businesses, but also helps us derive value from that content.

It's not all created here, by the way. A good half or more of that content is created locally at those Disney Channels around the world. But increasingly, that ecosystem is made more robust by the investments we're making in branded programming.

You see it also in the content that we're investing in at ABC. We're excited about the new fall schedule, much of which is produced at ABC Studios, and at ABC Family.

And then when you think about ESPN, again I'll reiterate, the breadth and depth of our sports rights at ESPN is a tremendous asset. Many of these rights go out as far as and past 2030.

And so our ability to offer that breadth of content for that period of time really positions us well to take advantage of the conversation we just had earlier, the opportunity in new platforms, the reach of multi-channel, but also the ability to continue to reinforce the core programming service that we all know is ESPN.

And so I feel good about it. We'll continue down the same path.



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

Just one more question on this topic and then we'll move on to the divisions. But would you go Over-the-Top if needed?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, look, as I mentioned, we continue to believe in the bundle and we think -- and we will continue to look at ways to enhance the value of that.

So in the foreseeable future, I don't see over the top, a simple 'now everybody's over the top' as being an outcome that's going to happen.

To the extent that there's opportunities to broaden reach through going over the top, either in concert with the existing model or because the model shifts, I feel just as good about the brands and the programming that we have to make sure that we can make that pivot if the need is there. But I don't see that soon.

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

Alright. Okay. So let's get into the divisions and start with your old stomping grounds, the Theme Parks.

You're less than a year away from the spring 2016 opening of Shanghai Disney. Can you give us an update on the progress? And I guess, given like the last couple of weeks and the market reactions, could you talk about how -- the concerns about the health of the Chinese economy? How does that affect you, if at all?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Sure. Let's start with the park and resort itself. I'm smiling because every time I think about it, I get more excited.

The progress is good. As it takes more and more shape, occasionally I just got -- last night I just got the most recent aerial photo of the development. And you can really see the form that it's taking.

More importantly, just in July, we did a creative unveil of what we're doing at that development, including the six different lands that will be featured in the park. And it was incredibly well received.



Virtually every aspect of this park has been either designed or conceived or reimagined specifically for this market. And so we've said it a number of times, this is going to be a park that is absolutely authentically Disney, but it's distinctly Chinese. And so it's exciting for us in that context.

And in terms of China, you know the -- number one, we believe in this opportunity both near-term and long-term. But it is important to note that we're making this investment as a long-term investment. And when we build a park, we build it to last. It's meant to be there for decades to come, for generations to come to enjoy. And that'll be the case.

And I've -- since I've set myself up, what a great way to plug that right now the 60th Anniversary is going on for Disneyland. But it's also a good illustration of how we think about these parks. The 60th Anniversary is going fantastically well. It's been very successful. But it's also proving that Disneyland is more relevant today than ever before.

And so that's how we think about what we're building in China. I'd like some future generation to sit here at this stage with -- maybe you'll still be doing this -- but to say that in 60 years hence, Shanghai Disney Resort has become a part of the culture in a way that it is the aspirational visit. It is the thing that people talk about. It's the thing that people want to share with their children.

So that's what we're shooting for in China. And first of all, I think that's what we're going to do in China and I think the opportunity's great.

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

Right. But kind of the near-term stuff in China, do you think -- does that affect any way you think about kind of next year and the --?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

It hasn't impacted our enthusiasm for the project at all. I watch the same things that you watch in China. There are actually signs that consumer spending continues to be relatively strong there.

And so look, within three hours travel of Shanghai Disney Resort, when we open, there'll be 330 million income-qualified potential guests. That looks good.



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

That's a lot of people. But we're hearing increasingly more about theme park development in and around mainland China, such as Polar Ocean Park in Shanghai, Universal Beijing. Could you give us your assessment of the competitive landscape?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Competition's been a reality in this business since Walt first kind of invented it with Disneyland. Because he did reinvent an industry. And there's been market entrants and competition since then.

And I think that'll be the case in China. I think that Shanghai Disney Resort is going to be a big catalyst for tourism in that area and across China as a whole. And there will inevitably be new market entrants.

And here with Shanghai Disney Resort, we plan to compete the same way we do here. And that is that we think the quality of our product, the service that our cast members provide, and obviously the strength of our brand, and the way that we support it throughout our different businesses, will allow us to compete successfully there as it has here, so --

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

Just one more question on China.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Okay. I could talk about Shanghai Disney Resort all day long.

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

I could too, but I don't have you all day. What is your plan for additional -- what are you thinking about in terms of additional gate openings? And possibly even additional parks, given the size of the country?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

We actually said -- pointed out that the property around Shanghai Disney Resort gives us enough space for that to be the largest destination we have potentially outside of the United States.



And so we think there are real opportunities to continue to develop there. And, in fact, we already announced pre-opening an expansion that will happen for the opening, most of it will happen for the opening.

So that will continue. We'll continue to see opportunities in Shanghai.

We're also going to continue to see opportunities, I believe, in Hong Kong, to continue to develop that property and that business.

And over time, I think it's very possible that we might see another location in China. So China's a big opportunity.

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

And just to clarify what you just said was that this would be the biggest park outside -- I think what you said in the past was this could be the second-biggest park --

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Yes.

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

-- behind Disney World.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Behind Walt Disney World in terms of the space that we've got there, yes.

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

Okay. So let's come back to the U.S. growth strategy. You've just announced two new Star Wars Lands, one in Florida at Disney's Hollywood Studios, one in California at Disneyland.

Can you give us a sense of the timing of these two lands?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, it probably wouldn't surprise you to know that when we announced the acquisition of Lucas, if you heard a roar, it probably was coming loudest from the halls of Imagineering,



because people were immediately excited and energized by the notion that we could put Star Wars in the Theme Parks, just as we were looking at making sure that Star Wars touches pretty much every aspect of the Company.

And so we're really excited about these two new developments. So they're going to be -- by the way, these will each represent the biggest single-themed development that we've undertaken. And so that's how important Star Wars is. But it's also how big the opportunity is for us.

And for those who didn't see the news coming out of D23, one of the things that people really wanted to be able to do is fly the *Millennium Falcon*. So, yes, people will be able to fly the *Millennium Falcon*. But there's also going to be a number of other attractions.

And just as importantly, this will be, I think, perhaps the most immersive land we've ever built because we want people to feel like they've stepped into the world of Star Wars. And so that's really sparked our imaginations and it's got people fired up.

Yes, there'll be a cantina. That's the other question we get all the time. So that's exciting.

And we're doing it both at Anaheim and at Walt Disney World. And I'm pleased to announce that we'll start construction on both in 2016.

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

So the timing of opening will be?

Tom Staggs – Chief Operating Officer, The Walt Disney Company

The timing of the opening is not yet ready to be announced. Bob and I are saying really, really soon, and other people are saying, you know this takes a while to build. So they're negotiating the opening right now.

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

And then in Orlando you've got a game-changing new investment in Animal Kingdom with *AVATAR Land*. Can you talk about the progress there? And should we think about this the way *Cars Land* transformed California Adventure?



Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Yes, I think that that is a good and apt analogy. So -- and the centerpiece of the transformation of Animal Kingdom is absolutely the AVATAR development, which is called *Pandora: The World of Avatar*. That's the official name of the land that we're building.

And not long ago, Jim Cameron and Jon Landau, his partner, Bob Iger and I, went on and rode the simulator that gave us a taste of the marquee attraction, which is to be able to fly on a banshee in and around Pandora.

Both places that you'll recognize from the first film, but we're also going to take you to some places that will only become familiar once you see the films to come. And it's going to be really one of the most spectacular attractions we've ever built.

But also, we're going to make mountains float because you have to do that on Pandora, so why wouldn't we do it in Orlando? And so it's quite an engineering feat. So on that 10-acre land, there's another signature attraction which is a water-based ride that takes you into the bioluminescent forest of Pandora.

So we're going to, again, try to make sure we immerse you in that world in a way that is really compelling.

But we've also got a number of other things going on around Animal Kingdom. We've got a new nighttime spectacular called *Rivers of Light*, which will take place on a lake there in Animal Kingdom. And that I think will be just as breathtaking and groundbreaking as *World of Color* was for California Adventure, and that will sort of anchor the evening.

Another big anchor attraction will be that we're going to convert the really hugely popular *Kilimanjaro Safaris* to be able to operate at night, introduction of some different animal species, some that are more nocturnal. And that, I think is going to be really popular too.

So we'll add entertainment around the park. We'll make sure it's a full-day experience. So whereas California Adventure was already operating on a full-day basis, this allows us to take Animal Kingdom, which, as you know, closed relatively early, to now go to a full-day experience, which obviously, instantaneously adds capacity from the standpoint of the time of day.

So a big opportunity for us.

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

Then you have some obvious IP you could incorporate into parks like Marvel, Pixar has got a number of properties. What else are you working on? What else are you thinking about?



Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, we talked about this Disney ecosystem and the unbelievably rich library of content that we have, but also the pipeline of new content for us means that there's sort of endless opportunity for us to keep things fresh, to monetize and leverage franchises around the whole Company. And Parks is a great example.

So we talked about Star Wars. And by the way, there's more Star Wars going in as you'd expect, some to correspond with the recent film. Just a plug, my favorite one I think is going to be *Hyperspace Mountain*, which is a Star Wars overlay of *Space Mountain* which is going to be really fun.

But we're also doing a number of other things to sort of activate Star Wars in the parks in anticipation of the new lands coming on.

You mentioned Marvel. There, we've currently got the *Iron Man Experience* being built in Hong Kong, opening in [late calendar 2016].

And we're actually at work on a couple other opportunities for Marvel, which we're not yet ready to announce. But you'll see more Marvel in the parks over time.

There's some restrictions, as you know, in Florida with the rights that existed prior to our acquisition. But we're excited about that.

But then you go across the board, we've got a *Toy Story Land* going in at the Studios in Florida that will be a companion to the Star Wars development. So that park also --

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

Do you know a time frame?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

That should be a little bit before Star Wars opens. But that too allows us a transformation of that park, which really supports the multi-day ticketing strategy and per cap growth, attendance growth plans that we have for Florida. So that's a big deal as well.

Toy Story 4, of course, is in development right now, which will continue to support that franchise.

We've got more going on with *Frozen* in terms of the parks. It's already in the parks in certain ways around the world. But we've got an attraction opening at Epcot in [2016] with *Frozen*.



And *Finding Nemo* -- *Finding Dory* is next summer. We've got a *Finding Nemo* attraction that's under development for Tokyo.

So this ability to sort of tap into this pipeline and create attractions that people are really going to want to see that have a fresh appeal to a broad array of people, it's a real strength for us.

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

Your attendance has been great for the last few years. But are new attractions the way to really continue to drive attendance? Is there anything else that --

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, it's a real balance, I think. At the end of the day, it's all in service of that overall guest experience. And that's really what sets Disney Parks apart. That's what we're known for, the totality of the guest experience.

That's really what drove the *MyMagic+* development in Florida. We're looking at leveraging those ideas and technologies, even if it's not the specific form factor, at other parks around the world.

And we've seen the impact of that in terms of material uptick in reported guest satisfaction, access to the attractions -- people are getting to spend more time doing what they want to do and we've de-stressed the vacation.

So those incremental investments we can make in the guest experience overall will continue to be a part of the equation. And again, that all adds up to supporting the dual goals of attendance growth and per cap growth.

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

Right. And you mentioned earlier that you were taking steps to improve Hong Kong attendance. Is there --?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, what we're seeing in Hong Kong is really driven by sort of some macro factors, most of which I think are temporary. There's been some social unrest. They've got issues, visa restriction changes. There's been some currency change. There's been a number of things going on there that have impacted Hong Kong broadly.



But we remain optimistic and confident in Hong Kong over time. And so we continue -- I've mentioned the *Iron Man Experience* that we're putting in. We've got a hotel that is under construction there --

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

Explorer.

Tom Staggs – Chief Operating Officer, The Walt Disney Company

Explorers Lodge, which is going to be great. And so we will see continued growth in Hong Kong over time, once we get past what I think are some temporary hiccups in terms of the marketplace.

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

Ok. I mean, well, we could stay on Theme Parks all day also. Let's move on to some of your other divisions.

So on filmed entertainment, I mean *Star Wars* is obviously like the biggest movie probably ever. But not to build any anticipation or expectation. But there's many generations actually that weren't even alive when the last one came out.

So what are you doing to generate excitement for the younger generation?

Tom Staggs – Chief Operating Officer, The Walt Disney Company

Well, I'd say two things on that. Number one, we're very excited about *Episode 7* and we're not going to speculate at all on how big it will be or won't be.

What's important to know, though, is that *Episode 7* is a part of a broader, long-term strategy with the *Star Wars* franchise. So coming after *Episode 7*, of course, we've talked about *Rogue One*, which will come after that, which is a separate standalone piece. And then you get to *Episode 8*, another standalone piece, and then *Episode 9*. So this is a long pipeline.

So even more important than the number that comes out with *Episode 7* is the work that we're doing around the franchise as a whole. We view this as a long-term evergreen franchise that will impact our business around the world and around the entire Company. I think that's the important -- the most important way to think about *Star Wars*.



I talked about the global unboxing event that we had and the degree to which Maker helped us to really leverage that. But it also allowed us to reach a new generation of consumers in a very authentic and effective way. And so that's been great.

But as we look at the response to the franchise, it's been very broad-based. You look at the trailer – it came out and set a record for close to 90 million views in the first 24 hours on YouTube. And that's not just the folks like me that grew up on the original part of the franchise.

So -- and also, we're confident that we're building a franchise and, as importantly, making a film in *Episode 7*, that will appeal absolutely to the folks that know and love Star Wars, but it'll appeal to folks that are going to be Star Wars entrants at that point as well.

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

And then many countries haven't even had *Star Wars*, right? Like China wasn't even a market.

Tom Staggs – Chief Operating Officer, The Walt Disney Company

Well, yeah. And China hasn't had it theatrically. There's been some Star Wars in China. And yes, it's a bit of a wildcard. But at the same time, I think it's going to be something that China will embrace in a big way. And by the way there'll be Star Wars elements coming in Shanghai Disney Resort. We're confident that franchise is going to be meaningful there.

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

Okay. You've generated over \$1.4 billion in domestic box office this year compared to last year, roughly \$1.2 billion at this time, in an extremely competitive market.

So the biggest drivers have been a mix of franchises like *Avengers: Age of Ultron*. But you've also had some originals, like *Inside Out* from Pixar.

How do you strike the right balance between investing in known franchises and the need to develop new franchises?

Tom Staggs – Chief Operating Officer, The Walt Disney Company

Well, I think you said it exactly right, which is that it's a balance. And the franchises that have really afforded us the opportunity to be consistently in the marketplace with properties that are known and loved and that, therefore, have -- it's not that there's a degree of success built in because we'll never take for granted. But at the same time it does give them a leg up in terms



of the success and the returns that we see on those investments. And that's important and shouldn't be ignored.

But we also know that it's important, both from the standpoint of our creative organization but also the vibrancy of our pipeline and our overall system, that there are new storylines and new titles going in.

The huge success of *Inside Out* coming out of Pixar this summer is a fantastic example of that.

But also, as we look at it, I think in the word sequel tends to be used kind of broadly. Take Marvel as an example. Clearly Marvel films, *Age of Ultron*, which was clearly a sequel to the first Avengers movie, and, yet, at the same time, within the Marvel universe, we can explore other characters and storylines like *Guardians of the Galaxy* and *Ant-Man* that aren't so much sequel as they are new ways to explore that franchise. And those two have been well received.

And with 8,000 characters in the Marvel universe, there's a whole lot of room for us to go back and forth that way.

So as you said, this is about having a balance between the existing IP and the powerful sequels that could come from that and then the new IP -- I mean, *Frozen* now we all have lived with. And if you have children, I can just hum a bar and it'd be in your head and you might be angry with me for that because it's been in your head for two years. But the fact is, that was a new franchise and now it is something that's throughout the Company.

And so here again, we know that the strength of our creative organization allows us to over time add those franchises to the library and, therefore, create even more of an underpinning to that first powerful pillar that Bob laid out, which is this branded content that we can leverage across the Company, so --

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

Okay. We have three more divisions and like five minutes. --

Tom Staggs – Chief Operating Officer, The Walt Disney Company

Okay.

Jessica Reif Cohen – Analyst, Bank of America Merrill Lynch

So moving on to Media Networks, can you talk a little bit -- there's so much going on in the ad market between measurement, currency, technology, with programmatic buying. Could you



talk a little bit about how the upfront panned out for you guys, how different was it this year and what are you seeing in the current marketplace?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

We were pleased with the upfront. Now, we went in in a good position because we were the only network that had ratings increases for the year, so that helped some. We also had a strong schedule and advertisers responded well to it. So we came away with industry-leading price increases.

Volume was down a little bit. There's no question that advertisers were looking for a little bit more flexibility in the equation. And I think that's fine. But we were pleased there --

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

Is that because of agency reviews, do you think or --?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

No. Well, let me take for example, ESPN on the other hand, both CPMs and volumes were up. And so that was an even more robust upfront market.

But I think that there's some effort to look for more flexibility, people are looking for the opportunity to do some of these multi-platform buys, they're looking for the ability to make more decisions as they go along.

So that probably increases the import to a certain extent of the scatter market. And as we look at the scatter market right now, it's actually very healthy and broad-based.

And so we're liking the fact that we both set a nice level in terms of the CPMs but also have the inventory to lean in to the marketplace perhaps on a [inaudible] basis. And with the strong programming that we have, we feel quite good about it.

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

Just if I could ask for a little tighter definition of very healthy.



Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, I'd say that -- up. Look, we're just coming out of summer and into the fall season. So neither you nor I should make too much out of the trends.

I'd said that the healthy trends bode well for what we're going to see for a scatter market as we get into the fall season, and I'm feeling optimistic about that.

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

Okay. So let's move on to Consumer Products. Aside from Star Wars, which obviously is a really big deal this year, what are the material drivers of Consumer Products performance over the next 12 to 24 months?

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Well, I think the most important thing about Consumer Products is that is now underpinned by the 11 franchises that we have that account for more than a billion dollars in sales of retail. And so it is broad-based. And the broad-based strength of our Consumer Products business is a critical component.

But we also know that the great success with *Age of Ultron* gives us some momentum going into the year. We're very excited about the new *Captain America: Civil War* film that'll come out. So Marvel should be strong for us.

We've got a couple of Pixar films next year. So we're hopeful to see some real strength out of Pixar. *Good Dinosaur* is the one in the fall, and then we've got *Finding Dory*, as I mentioned, in the summer.

And then we also see continued strength in *Frozen*. And that clearly has established its place in the firmament, if you will. And I think that's going to continue to be a piece -- an important piece of Consumer Products results. So broad-based and looking good.

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

It's amazing you're up to 11 franchises. Okay. One last question, which is Interactive. Disney Interactive, which houses your gaming operations as well as a number of Disney-branded websites, has been unprofitable for many years.

At the end of August, August 30th, you released Infinity 3.0 with Star Wars characters. Can you give us any early thoughts on that launch?



Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

In fairness Interactive was unprofitable. But they've done a nice job in terms of rationalizing the business and really focusing in on the products and titles that can make a difference, and the quality of the products.

Infinity 3.0 just came out, and that's a good example. It's gotten the highest ratings for a Disney Interactive game according to Metacritic. And I think it sets us up well. It's just out of the box.

But it set us up well for the holiday season. There's actually a play set that comes with the release of Star Wars that will underpin that.

And then also, in the -- we're trying to be judicious about partnering and licensing where there is leverage. So a really important game, I think, will be EA *Battlefront*, which I think is coming out in November. And it's -- that, too, *Star Wars Battlefront*, it's nice because you've got Infinity, which tends to appeal to the younger players, and then *Battlefront*, which is really a core gamer title, nice complement.

EA has put out some pretty aggressive sales figures for that. And so we're very optimistic there. So I think they're on the right path and I think that they will go on to be a more consistent and attractive contributor to profits.

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

Great. Well, we're over time. But thank you so much, Tom.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Thanks. My pleasure.

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

Great to have you back.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Good to see you again.



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

Great to have you back.

Tom Staggs – *Chief Operating Officer, The Walt Disney Company*

Thank you.

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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.