The Walt Disney Company

Q1 FY17 Earnings Conference Call

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Disney Speakers:

Bob Iger
Chairman and Chief Executive Officer

Christine McCarthy
Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer
Senior Vice President, Investor Relations

PRESENTATION

Operator

Welcome to The Walt Disney Company Q1 FY17 earnings conference call. My name is Victoria, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded. And I'll now turn the call over to your host, Lowell Singer, Senior Vice President of Investor Relations. Lowell, you may begin.

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

Good afternoon, and welcome to The Walt Disney Company's first quarter 2017 earnings call. Our press release was issued about 25 minutes ago and is available on our website at www.Disney.com/investors. Today's call is also being webcast, and we will post a transcript and a copy of the webcast to our website.

Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer, and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Bob will lead off, followed by Christine, and then of course we will be happy to take your questions. With that, let me turn the call over to Bob and we can get started.

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

Thanks, Lowell, and good afternoon.

We're very happy with our results for the quarter and we continue to be extremely confident in our ability to drive significant long-term growth. Coming off an historic performance last year – including more than $7.5 billion in global box office – we're thrilled with the continued success of our Studio in the first quarter. All three films released by the Studio in the quarter were global hits.

Marvel's *Doctor Strange* became the latest addition to Marvel Studios' winning streak – generating $670 million in global box office and sending us into the new fiscal year with some great momentum. We followed that success with Disney Animation's newest musical masterpiece, *Moana* – which has achieved total worldwide box office of $555 million, along with two Oscar nominations for outstanding animated feature and original song. We're incredibly proud of this movie, as well as *Zootopia*, which topped a billion dollars in box office and also earned an Oscar nomination.

Rogue One, our first standalone Star Wars story, also connected with audiences in a big way. It's our first billion dollar movie of the fiscal year as well as our 4th billion dollar release in calendar 2016, further demonstrating the incredible strength of this franchise. *Star Wars: The Last Jedi*, otherwise known as "Episode 8," will open in December. I just saw it last week, and it's a great next chapter in the iconic "Skywalker" family saga. It will be followed by our Han Solo origin film, which is just going into production.

Our Studio's next release is our live-action *Beauty and the Beast*, premiering in March. The anticipation and excitement around this movie is astonishing – the first trailer drew more than 127 million online views in the first 24 hours, breaking the record held by *Star Wars: The Force Awakens*, and the trailer we released last week also generated more than 100 million views. The first week of ticket presales has also been very strong – reminiscent of presales for some of our biggest Marvel movies.

After *Beauty*, we have Marvel's *Guardians of the Galaxy, Volume 2* opening in May. It's another great Marvel film, with even more of the fantastic action and humor that made the original *Guardians* such a breakout hit.

We'll follow that with another grand adventure, *Pirates of the Caribbean: Dead Men Tell No Tales*, in a new story that captures everything audiences have always loved about this franchise.

Pixar's *Cars 3* will give fans an original twist on the world of *Cars* this summer, with a brand-new story and some great new characters. And, in November, we'll release *Coco*, another brand new original story from Pixar, as well as Marvel's *Thor: Ragnarok* – the best "Thor" so far – with a major "cross-over" appearance by one of Marvel's most popular characters, the Hulk.

One of our biggest success stories in 2016 came from Parks and Resorts, with the opening of Shanghai Disneyland. The park recently proved to be enormously popular with guests celebrating the Chinese New Year – operating at maximum capacity for virtually the entire holiday period. With the year's two peak seasons now behind us, we have welcomed more than 7 million guests to date. We're thrilled with this performance, and could potentially exceed 10 million in total attendance by the resort's first anniversary. The park's rapidly growing popularity, its extremely high levels of guest satisfaction, and the huge attendance during Chinese New Year, add to our confidence in the resort's ability to reach breakeven in this fiscal year.

In our domestic parks, this year we'll open a great addition to Disney's Animal Kingdom with a brand new land called *Pandora – The World of Avatar*. Our Imagineers have brought the breathtaking world of Pandora to life through astonishing feats of artistic genius and ground breaking engineering. The result is an exquisite environment with phenomenal attractions – and today, I'm happy to announce this incredible new world will officially open on May 27th.

Additionally, our progress continues on Star Wars lands at Disneyland Resort and Walt Disney World – both of which will open in calendar 2019.

Turning to Media Networks, we continue to address a dynamic, evolving media environment. We are certainly well aware of the attention paid to ESPN, and we are pleased with our implementation of strategies aimed at further strengthening ESPN's position and expanding its growth opportunities.

As outlined in our last call, these include launching ESPN on all new multi-channel services, including Sling TV, PlayStation Vue, DirecTV Now, and the soon-to-be-launched Hulu. We also continue to invest in ESPN's industry-leading programming. And we're improving and growing ESPN's presence on mobile devices with new and compelling apps. We're also investing in technology platforms to enable direct-to-consumer products. To that end, I spent time with the team at BAMTech recently, and I am very impressed and excited about the various initiatives being implemented to grow that business and to leverage its capabilities for our media businesses.

Great content will continue to drive opportunities and growth in this changing environment – and given our incredible portfolio of high-quality, in-demand, branded content, we are extremely well positioned to strategically – and successfully – navigate the dynamic marketplace and generate value for our consumers and our shareholders over the long term.

I'm going to let Christine take you through the details of the quarter and then we'll be happy to take your questions. Christine?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Thanks, Bob and good afternoon everyone. Earnings per share for the first quarter of fiscal 2017 were $1.55, which, when adjusted for items affecting comparability, represents a decline of only 5% compared to Q1 last year. I'll remind you last year's first quarter was the best quarter in the company's history. The year-over-year decline in earnings per share reflects this difficult comparison, especially in our Studio and Consumer Products businesses due to the strength of Star Wars and, to a lesser extent, *Frozen* during the first quarter last year.

Parks and Resorts had another strong quarter, with 6% revenue growth and operating income growth of 13% driven by increases in our domestic and international businesses.
Results in the quarter include unfavorable impacts totaling about 70 million dollars due to Hurricane Matthew, which disrupted operations at Walt Disney World and resulted in the

closure of our parks for about a day and a half, and the impact of one week of the winter holiday period falling in Q2 this year, whereas the entire holiday fell in Q1 last year. We estimate these two items had an adverse impact on the year-over-year growth in operating income of about 7 percentage points.

Growth at our domestic operations was driven primarily by higher guest spending across our businesses, partially offset by lower attendance. Attendance at our domestic parks was down 5% in the quarter, reflecting a number of comparability factors: last year's 60th Anniversary celebration at the Disneyland Resort, the impact of Hurricane Matthew and the shift in timing of the winter holiday. We estimate these factors had an adverse impact on the year-over-year change in attendance of about 4 percentage points. We continued to see very healthy spending at our domestic parks. Per capita spending was up 7% on higher admissions and food and beverage spending. Per room spending at our domestic hotels was up 3% and occupancy was down modestly to 91%.

So far this quarter, domestic resort reservations are comparable to prior year levels, while booked rates are up 2%.

Growth at our international parks was due to the opening of Shanghai Disney Resort in Q3 of fiscal 2016 and improved results at both Disneyland Paris and Hong Kong Disneyland. Shanghai Disney Resort is off to a strong start. We continue to make great progress and, as Bob discussed, we are very encouraged by what we're seeing there so far.

We feel great about the performance of our Parks business during the first quarter. Segment operating margin was 24.4%, up 150 basis points over last year, and represents the highest margin for the segment since we began consolidating our international parks in 2004. And that's despite an estimated 100 basis point headwind due to the impact of Hurricane Matthew and the timing of the winter holiday.

At Media Networks, operating income was down 4% in the quarter, as growth in Broadcasting was more than offset by a decline in Cable. Lower Cable results were driven by a decline at ESPN where higher affiliate revenue was more than offset by an increase in programming and production expenses and a decrease in advertising revenue. Growth in ESPN's programming costs was due to our new NBA agreement and contractual rate increases for NFL programming, partially offset by lower programming costs for college football due to the timing of the College Football Playoff relative to our fiscal calendar. As you know, this year ESPN aired only three of the New Year's Six bowl games during the first quarter, whereas it aired all six games during the first quarter last year.

ESPN's ad revenue was down 7% in the quarter. The majority of the decline was due to the shift of the three bowl games out of Q1. So far this quarter, ESPN's ad sales are pacing up compared to last year.

At Broadcasting, growth in operating income reflected higher affiliate revenue and lower programming costs at the ABC Network.

First quarter ad revenue across our Broadcasting business was roughly comparable to prior year, as higher ad revenue at our owned TV stations was offset by lower ad revenue at the ABC Network, where higher pricing was more than offset by a decrease in impressions. Quarter-to-date, primetime scatter pricing at the ABC Network is running over 25% above upfront levels.

Total Media Networks affiliate revenue was up 4% in the quarter due to growth at both Cable and Broadcasting, as growth in rates was partially offset by lower subscribers and foreign exchange.

At Consumer Products and Interactive Media, as anticipated, operating income was down meaningfully in the first quarter given the record-breaking quarter the segment delivered last year. The decline in operating income was driven by lower results in our merchandise licensing business, as sales of *Rogue One*, *Finding Dory* and *Moana* merchandise were more than offset by very strong sales of Star Wars and *Frozen* merchandise in Q1 last year. The strength of Star Wars last year also created a tough comp in our games businesses during Q1 given the success of *Star Wars Battlefront* last year and no comparable title this year.

Our Studio had another outstanding quarter and continues to deliver on both financial and creative fronts. While operating income was lower in the first quarter compared to last year, keep in mind Q1 fiscal 2016 was the best quarter ever for the Studio. And Q1 of fiscal 2017 was the second best quarter ever, with 842 million dollars in operating income. The decline in operating income was due to lower results in our home entertainment and theatrical businesses. Lower home entertainment results reflected strong catalog unit sales in Q1 last year, particularly of classic Star Wars titles and *Frozen*, compared to Q1 this year. On the theatrical side, Q1 results benefitted from the strong performance of *Rogue One: A Star Wars Story*, but that was more than offset by the exceptional performance of *Star Wars: The Force Awakens* in the first quarter last year.

During the first quarter, we repurchased about 15 million shares for about 1.5 billion dollars. Fiscal year-to-date, we've repurchased 22.2 million shares for approximately 2.2 billion dollars, and, as we've mentioned previously, we intend to repurchase between 7 and 8 billion dollars for the year.

As we look to the second quarter, there are a couple of comparability items I want to highlight. At ESPN, the shift of three College Football Playoff games into Q2 will drive an increase in ESPN's programming costs compared to Q2 last year. Additionally, ESPN's programming costs will continue to reflect the first year of its new NBA rights deal. In total, we estimate Cable programming and production costs will be up about 16% in the second quarter, and that's in line with our expectation for an 8% increase for the full year.

At Parks and Resorts, Q2 results will benefit from one week of the winter holiday shifting into the quarter. However, the timing of the Easter holiday will negatively impact Q2 results as this holiday period will fall entirely in Q3 this year, whereas it fell in Q2 last year. We estimate these two shifts will have a net adverse impact of about 50 million dollars to operating income.

And at the Studio, while we are incredibly excited for the release of *Beauty and the Beast*, I want to remind everyone it will be our only release in the quarter, so Studio results will once again face a tough comparison to a very strong second quarter last year, which benefitted from the strength of *Star Wars: The Force Awakens* and the release of *Zootopia*.

Overall, we are pleased with our first quarter results and with the start of the fiscal year.
And with that, I'll now turn the call over to Lowell for Q&A.

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

Okay Christine, thanks a lot. Operator, we're ready for the first question.

Operator

Thank you. Our first question comes from Alexia Quadrani from JPMorgan. Please go ahead.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. How should we think about the outlook to the Consumer Products business this year, given what you know about the Studio slate or what we know about the Studio slate? It looks very favorable from what we can see, with the princess character in *Beauty and the Beast*, and *Cars* and *Spider-Man*. Any other growth drivers such as higher royalty rates or additional international territories that you see as opportunities? Any color on that would be great.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Hi Alexia, it's Christine. I think the best way to look at the Consumer Products is, we had given you the outlook that they were going to be down for this first fiscal quarter, and they in fact were, but we expected them to have growth for the year, but most of that would be back-end loaded, and that is the case. So you should expect growth year-over-year for the second half, both third and fourth quarter. The properties that are really going to contribute to that are going to be *Cars* and *Spider-Man*, and we expect that to be a strong back half of the year for Consumer Products.

Alexia Quadrani – *Analyst, JP Morgan*

And just a bigger picture question, I was going to ask on the Studio side, you had such a stellar performance obviously, and so many home runs, particularly when some of your peers have had a bit of a slump. I guess with the slate ahead, I don't want to jinx it, it looks equally impressive. What gives us the confidence that this is more reflective of the assets you own and the franchises you have invested in versus a positive streak that you are going through?

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

Well I think, if you look at the record, Alexia, since we bought Pixar, which was a decade ago, we have made about 30 films under Pixar and Disney Animation, because John Lasseter and Ed Catmull took over that, and then Marvel and Star Wars or Lucasfilm. Those films have averaged about $900 million in global box office, so we're not -- I'm sorry, about $800 million in global box office. So we don't think that there is a coincidence to this.

And while obviously because we're dealing in a creative business, there is risk associated, we think that we have done a really great job of de-risking the business, and that is a combination of the franchises we have and obviously the stories that we are mining, but also the talent that we have at the Company or that we are attracting to the Company, to make those films. And we have a lot of visibility into the early part of the next decade of the film slate, and we feel great about the projects that have been chosen and the progress that has been made on them.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you very much.

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

Thanks Alexia. Operator next question please.

Operator

Our next question comes from Michael Nathanson from MoffettNathanson. Please go ahead.

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks. I have two. First Bob and then Christine. Bob I wonder if you can comment on the story that was in the Journal yesterday that you may exceed your contract past 2018?

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

What's the second question? Before you ask the second one, when I targeted 2018 as the year that I was going to leave the Company, that was a very personal decision. But I think as you know, I've been with this company for 43 years, have actually been CEO for almost a dozen years, and I'm going to do what is in the best interest of this Company, which is something the Board is clearly going to help determine.

While I am confident that my successor is going to be chosen on a timely basis -- and chosen well -- if it is in the best interest of the Company for me to extend my term, I am open to that. But there's nothing specific to announce at this point. We have a good strong succession process underway. The Board is engaged in this, as I have said before, on a regular basis, and the absence of any announcements or specifics about it should in no way indicate otherwise.

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks, Bob. Then, for Christine, in the press release, it said the Parks and Resorts costs were flat in the quarter, and looks like there were some cost initiatives. Can you tell us what you have done to control costs in the Parks, and how sustainable is low-single digit cost inflation this year?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

The Parks -- as you saw the margins in my comments, 24.4% operating margin, that is not only for the domestic operations, but that is for the global segment -- they have done a really good job on many fronts, and very importantly, in their cost control. That has been through ongoing cost initiatives throughout their businesses, and they have offset the normal increases that we would get through inflation and wage increases. I think you can expect continued cost management in the Parks, and continued strong margins.

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

Michael thank you. Operator next question please.

Operator

Our next question comes from Jessica Reif Cohen, Bank of America Merrill Lynch. Please go ahead.

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

Thanks. Two questions. One, the press release states that Hulu results were in line with a year ago. Can you discuss the ramp into its launch, and overall expectations for this and other over-the-top services? As part of that Bob, I remember you saying that you were bullish on ESPN's outlook for subs in the last call. Is that because of new services, or more due to better penetration by distributors like Comcast X1?

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

First of all on Hulu, as you know, they have announced they are going to launch an over-the-top MVPD service. They have not been specific about a date. It's in private beta, and it will go into more broad beta relatively soon. They have negotiated deals with a variety of different program or channel owners, and so far, in terms of what we have seen of the product, we're encouraged by it, in terms of its user interface and actually have a lot of faith in it from a technological perspective, as well.

To the second part of the question, my confidence in ESPN is due to a number of things, but clearly, the deals that we have done with new platform owners, mostly over-the-top, have already yielded some nice gains from those services in subs, but they are not right now being counted fully by Nielsen. We have also done a deal with Hulu, and we have done a deal with another entity that has not been announced, and we are in discussions with others.

So it seems like we are on the cusp of some significant growth for new entrants in the multi-channel marketplace. What we like about them is they are mobile friendly, or mobile first. Their user interfaces tend to be very strong, and their pricing is priced substantially lower than the expanded basic bundle that most of the MVPDs are offering. That obviously, we think, gives us a chance to both attract consumers that may not sign up for a multi-channel service, or hold consumers into multi-channel subscriptions.

And then lastly, what is really important is the deals that we have negotiated for distribution, particularly for ESPN, are to be in all subs or all households launched. These are light packages that offer us 100% penetration from those packages. And so we think that this wave that we are seeing is really a signal of what is to come, and what the future will be.

And the other thing I think is really good about this is that, if we end up with a world where the $40 to $50 a month package becomes more and more popular, that means that some consumers may obviously take the savings that they may have from that, and spend it on other things, or save it. It also could mean they spend it on other video services, and some of those services are services that we might offer.

We talk about going with our own direct-to-consumer product, it is possible that the first product that goes into the marketplace will be in effect an add-on or adjunct product that consumers can buy on top of what is their normal multi-channel package. So if the multi-channel package is less expensive, consumers, you could argue, could have more spendable income, or more money to spend on other video services, whether it is Netflix, whether it's Hulu, or whether it is other Disney-owned products that we are selling direct to the consumer.

I also want to say one other thing, Jessica. I mentioned it in my remarks but I was at BAMTech a couple of weeks ago, and the quality of that technology has just blown us away, and the potential that we believe that has for us is enormous. We have -- as you know, we have invested so that we own a third. We have a path to control. We're extremely excited about the prospects of what BAM is going to be doing near-term. We will be launching a direct-to-consumer sports service sometime in probably calendar 2017, but we're also very excited about what the potential of this is long-term, both for the Company and for third parties who could use the product, because the technological side of it is so strong, in ways that are value-enhancing for them as well.

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

Can you just -- the advertising implications, because you have so much direct-to-consumer, and so much data on the users?

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

One of the things that impressed me a lot from the BAMTech meeting that I had is what the potential is for them to use data to increase or to generate great revenue from advertising. Something that we don't have today, in part because a lot of our distribution comes through third parties, so we don't get access to that information.

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

Great, thank you.

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

Jessica thank you. Operator next question please.

Operator

Our next question comes from Benjamin Swinburne from Morgan Stanley. Please go ahead.

Ben Swinburne – *Analyst, Morgan Stanley*

Thanks, good afternoon. Bob, last quarter you talked about, both on the earnings call and I think at some conferences, digital distribution as a question mark, and something that the company was thinking about strategically. You had *DisneyLife* in the market in a few regions, you made the BAMTech investment. But how are you thinking about the distribution side of the business strategically? Do you think there are acquisitions you need to make to get ESPN where it needs to be, or ABC long term? Do you find watching the market evolve, and make your move from there? Any updated thoughts on how you're thinking about the M&A landscape and distribution assets?

And I'll sneak one in on the Parks, for either you or Christine. Any help in thinking about *Avatar* land, and sizing the opportunity? I'm trying to get a sense for how big of a needle mover that might be for the business, when that opens in May.

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

I will take the second question first, Ben, on *Avatar* land, which as I said earlier, will open on May 27th. This is a very big land with an extremely unique design and architecture, because it really does make you feel as though you are in Pandora, the great world that Jim Cameron created. And an E-ticket attraction that is unlike any E-ticket attraction that we have ever built.

It's sizable, the whole experience is sizable, and it is an add-on to Animal Kingdom, which has always been a good park, but has never been a full-day experience. So we included -- we added within the last year a nighttime safari experience, and some other entertainment. And by adding this, we're going to be turning what is our fourth gate, the last one to be opened in Orlando, into a much fuller experience, and that gives it a lot of potential. It is also the biggest new land that we have opened in Florida in a very long time, and I think that is good for the whole business down there.

To the extent that we can know this, we really believe that in the coming years, that the interest in *Avatar* is only going to grow as those movies enter the marketplace. We can't quantify it, but we think this has big potential.

The first question, we don't really believe we need to make any acquisitions to accomplish what we need to do on the digital side. In reality, we believe that the best approach to doing well in a world that is disruptive, in a world that has far more digital distribution, is to have great content, and tell great stories. And that includes ESPN by the way. So if anything, I think the most important thing for ESPN is to continue to support and nurture their program offerings.

Second to that, you have to be willing to either create or experience some disruption, as we migrate from what has been a more traditionally distributed world, to a more modern or more nontraditional distribution world. And some of that we're going to end up doing to ourselves, meaning, we understand that there is disruption, but we believe we have to be a disruptor too, and the investment in BAM, which is significant from a variety of different perspectives, is aimed at doing just that. We have to be careful, because we have existing agreements and existing relationships, and a lot of value still being reaped from the traditional distribution relationships, but I can tell you that it is our full intent to go out there aggressively with digital offerings direct to the consumer, for ESPN and other Disney branded properties.

Ben Swinburne – *Analyst, Morgan Stanley*

Helpful, thank you.

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

Thank you Ben. Operator next question please.

Operator

Our next question comes from Anthony DiClemente from Nomura. Please go ahead.

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

Anthony?

Anthony DiClemente – *Analyst, Nomura*

Yes I am here. Sorry. Thanks for taking my question. Good afternoon. So just to keep the ball rolling on the BAMTech meeting, Bob, just curious what came out of that meeting in terms of specific sports content that would be included in it. You previously mentioned you had a lot of digital rights already. Do you still think it is not necessary to go out and acquire incremental digital rights for it? And then following on to Ben's question, once it launches do you think it would make sense for you to go partner with a big Internet platform in order to help distribute that product?

And if I may, one for Christine please. Christine, on the quarter, what was the underlying affiliate fee growth rate for the Cable Networks segment? And also, you mentioned the timing shifts of the College Football games in the quarter for the Cable Nets segment. What was the underlying ad growth or decline, if you normalize out those timing shifts in the quarter? Thank you.

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

Wow, okay. Multi-pronged question. BAMTech has already licensed a number of digital rights to sporting events, and we have licensed at ESPN a number of them. So we bring to the table a fair amount of rights that can be added to the rights that they have, and we are a minority shareholder right now, so I want to be careful, but our strong sense is as partners and as part owners, is that we're going to continue to go out on behalf of the entity, and license more content to that entity. But they are going to start off with, I think a wide array of pretty attractive sports that come from both what they have licensed and what we have licensed.

When you see it all together, in some of the early, I will call it concepts, you realize that there is a lot there, and a lot more than anyone else has. I actually think there will be continued opportunities.

In terms of distribution, do they need to enter into an agreement with a third-party entrant? I will leave that to BAM ultimately to address, maybe at a time when they are ready to launch the product. I don't think it would be appropriate for me to speak on their behalf.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Anthony, on drivers of the affiliate revenue in the quarter, as I said in my comments, the affiliate revenue growth was 4%. That was -- rates impacted it by 7%, subs were a 2 point drag, and FX was a 1 point drag. That is for Media Networks overall. These trends are consistent with the trends that we have had in recent quarters, so it is really no change.

On advertising, as it relates to ESPN, the ad revenue was down 7% in the quarter. The biggest driver of that was the shift in the College Football Playoff games, three into 2Q. You also had some ratings decline in *SportsCenter* and that was in part due to fewer programming hours for *SportsCenter*. Also, and we talked about this last conference call for earnings, was declines in Monday Night Football ratings.

But when you look at 2Q pacings, they are up, even when you adjust for the College Football Playoffs, which did have the most significant impact in 1Q.

Anthony DiClemente – *Analyst, Nomura*

Thank you.

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

Thank you Anthony. Operator next question please.

Operator

Our next question comes from Todd Juenger from Sanford Bernstein. Please go ahead.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Hi, thanks. I'll try to keep it to one for Bob, and one Christine. Bob, I'd love your current thoughts on the business of kids television. I know there are lots of different ways to count audiences. It looks to us like conventionally defined audiences on your linear kids networks are down pretty significantly over multiple years. You are not alone in that, it seems true for most kids networks. I just wonder as you process that, and especially thinking about direct-to-consumer offerings, what you take from that, in terms of thinking about that business, and how that looks in the future?

Christine, just a quick one for you. Caught our eye, believe it or not, it looked like there is maybe an extra $1 billion of cash contribution from the pension. It caused me to think, it was probably worthwhile asking you, in a rising rate environment, a couple of things. How that might affect the pension expense that rolls through the Parks, and its impact on margins? And how it might affect cash contributions?

And if there is anything else we need to think about that, after seeing that $1 billion number. Thanks.

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

Todd, first question on kids programming, you are right. We have seen a decline ratings wise in kids viewing overall on linear channels. I don't want to speak for the industry, but I will speak for Disney. I think that is a result of a couple of things. One, I will call it a bit of an off cycle in terms of programming, and two, the proliferation of kids programming in a variety of other places.

To the first part of the answer, we have just debuted a show called *Mickey Mouse Roadster Racers* that has done extremely well. We have a *Tangled* series that is hitting soon, and a product cycle over the next year to two years that we feel great about. And so we think that the ratings are likely to improve with the addition of some new shows that we think creatively are very strong.

In addition to that, I think we stand a chance of doing really well, no matter what the environment is from a disruption perspective, because of the name Disney and what it means to the consumer, and I think that will result in a couple of things. Greater demand to license our product, on other direct-to-consumer platforms, Hulu and Netflix examples of that, and also the possibility of us taking Disney-branded television programming direct to the consumer.

That is what we are doing in the UK with *DisneyLife*. It is a combination of movies, television programming, and then other Disney properties like digital books and music, for instance. We're still in what I will call an experimental stage, because we have been learning more and more about technology platforms, churn rates, pricing, those sorts of things, but we do know that we have a brand and the product behind it to be able to take it direct-to-consumer.

So I think as we look at the future of our kids programming, we look at it in all likelihood, as probably a blend of linear channels, some third-party licensing arrangements, and also direct-to-consumer properties. And this is not just for the United States. I had an interesting meeting with our country manager in India recently, where we own a number of channels. He was talking about the opportunities there from Netflix and Amazon, and discussing the possibility of licensing more to them.

The other thing, by the way, you have to think about, is some of that licensing does not have to be off network. It can be original programming, as we have done with Netflix and Marvel. So the demand for Disney is huge from the consumer perspective, and from a distribution perspective. And again we're seeing, I think, a world where disruption is definitely on the table and real, but it's not something that we feel is daunting in terms of the task ahead.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

So Todd, to answer your question on pension. As you saw, the first page of our press release on the first table, we showed cash from operations, you saw it down pretty significantly from a year ago, but if you account for that, if you adjust for the $1.3 billion of pension contribution that we made in the quarter, it more than offsets that decline.

You mentioned rising rates, and rising rates will definitely benefit our pension going forward. In our 10-Q, I believe the 10-Q had explicitly stated that for each 100 basis point increase in the discount rate, our pension liability would decrease by about $2.4 billion. That being said, rising rates are certainly going to benefit us. As it relates to pension expense for the year, we don't expect to change from what we had talked about in our last conference call, and after this $1.3 billion that we put in, in the first quarter, there shouldn't be any meaningful contributions for the balance of the year.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Thanks guys, fantastic.

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

Okay, operator next question please.

Operator

Our next question comes from John Janedis from Jefferies. Please go ahead.

John Janedis – *Analyst, Jefferies LLC*

Hi thank you. Another quick follow-up at the Parks. I think you have increased ticket prices in February the last couple of years. You are going to lap the demand-based pricing model in a couple of weeks, and with *Pandora* opening, is there maybe a near-term opportunity to further increase single or multi-day ticket prices?

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

Yes. Nothing to announce at this point, but we do take ticket pricing up on typically an annual basis, and we do so in a variety of different ways. Sometimes it is redesigning the packages. Remember that in Florida, that most of our attendance is multi-day in nature, so the single day, including when take pricing increases, is less important than when we take single day pricing up in California. We're not prepared to make any specific comments about what is in store in that regard.

John Janedis – *Analyst, Jefferies LLC*

Okay. Thanks, Bob. Maybe separately, I thought it was interesting that units delivered were up at ESPN and down at ABC. There's clearly been a lot of discussion around inventory across the industry. So as you look at your strategy this year, is there a flex to add units to ESPN, if some of the programming or ratings are soft? And is there a concerted effort to reduce units at ABC?

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

I think that on the ABC side, the reason there weren't as many units sold is that they were using units for audience deficiencies or make goods. I think that in general, there is probably too much commercial interruption in television. It is a subject that has been discussed both on the ESPN front and on the ABC front, and it is something we will continue to look at. Particularly when you have got entrants in the marketplace that are offering programming that is not commercially interrupted.

John Janedis – *Analyst, Jefferies LLC*

Thanks, Bob.

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

Okay John thanks. Operator next question please.

Operator

Our next question comes from Jason Bazinet from Citi. Please go ahead.

Jason Bazinet – *Analyst, Citi*

I had one question for Mr. Iger. As it relates to BAMTech, as a minority holder, you have got baseball that owns a stake, and also the hockey league NHL as a minority holder as well. Can you just spend a minute and talk about the strategic implication of having leagues having an equity stake in that entity with you?

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

Well I think it is obvious, in the sense that the equity position, particularly the one you cited, the hockey position, came with an agreement to license product to BAMTech. And so while I don't necessarily believe that means that the future will result in more owners coming in -- although again, I don't want to speak for BAM -- that could potentially be on the table. I do want to say though, that our agreement with BAM to take the stake that we took does give us a path to control. It is premature for us to discuss whether we will exercise that right or not. But I should say that if we were to exercise that right, when we can -- it is still quite possible that there will be minority shareholders, if that is in a way a quid pro quo to having access to their content. Does that make sense?

Jason Bazinet – *Analyst, Citi*

It does. Can I just ask a follow-up? It seems like at some level, it fundamentally changes your relationship with the leagues, in that in the past you would buy sports rights and then resell them to the pay-TV distributors, and now it seems like your equity incentives are more aligned in a way. Is that fair?

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

Well I think there is a yes and a no to that. I think it will be both. We don't see ourselves getting out of what I'll call the linear ESPN multi-channel service for a while. We do see ourselves, as I mentioned, adding through BAMTech a direct-to-consumer proposition, that will in all likelihood include a lot of sports.

Sports from some entities that we license content from, for ESPN, baseball is actually one example of that. I do not think it fundamentally changes the relationship. I think, I guess it is, in a way, creates a different form of partnership, but I don't think that is necessarily a bad thing.

Jason Bazinet – *Analyst, Citi*

No I think it is a good thing. Thank you very much.

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

Alright Jason thank you. Operator next question please.

Operator

Our next question comes from David Miller from Loop Capital Markets. Please go ahead.

David Miller – *Analyst, Loop Capital Markets*

Hey Bob, just another quick question on the ESPN direct-to-consumer offering, using the BAMTech technology. I would assume that you guys will probably have this out by maybe July or August or so, so any kind of hint on timing would be great. And then how do you see pricing this?

Do you see pricing it like CBS All Access, and doing what they have done, or do you see perhaps pricing it lower than that, and taking a Starbucks point of view of pricing it low, and then getting people hooked on it, and then raising the price later? Any thought on pricing would be helpful. Thanks so much.

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

Well first of all, I am hooked on Starbucks by the way, so maybe I guess I have fallen prey to that strategy. I just can't comment about pricing. It has been discussed with BAM, but I really can't comment about that, nor can I comment about the specifics, in terms of the time of launch, except to say that the goal is to launch the program -- I'm sorry the platform -- sometime in 2017.

David Miller – *Analyst, Loop Capital Markets*

Okay, and then, Christine, if I could sneak one in, I apologize, my audio faded out. Did you happen to say in your prepared remarks where ABC scatter stands at this time in terms of scatter spreads relative to upfront? Thanks a lot.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes quarter-to-date scatter pricing is over 25% above upfront.

David Miller – *Analyst, Loop Capital Markets*

Wonderful. Thank you so much.

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

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

Operator

Okay. And our last question comes from Bryan Kraft from Deutsche Bank. Please go ahead.

Bryan Kraft – *Analyst, Deutsche Bank*

Hi thank you. I had a question on the Parks. I think Christine, you said that attendance was down 1% excluding the one-timers and the timing factors. I just want to ask, is this, would you say weaker demand, or is there something else at play here? And as we think about the normal attendance levels going forward, should we think about those as being flattish, except for, of course, the timing of holiday periods?

And then I also wanted to ask about use of cash. Under operating activities there was a large use of cash in accounts payables and other liabilities. I just wanted to see if you could help us understand what was driving that? I didn't know if that was partly the pension contribution. Thank you.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay on the Parks, as you noted, we did have a lot of comparability factors, and once again, there is a lapping of the 60th, Hurricane Matthew and also the impact of the shift in the holiday period. We also, as was noted previously on the call, we did introduce seasonal pricing a year ago, and we are seeing some shift in some of our demand, to try to smooth attendance over those peak demand periods, so I don't think you should read too much into the attendance. Over the same period that you are noting, we have also seen strong increases in per capita spending. It was up 7% in the quarter, which we gave you, and so that has more than offset the impact of the attendance decline. We also have some new offerings, as Bob mentioned, *Avatar*, there's also *Guardians of the Galaxy* coming this summer at Disneyland Resort in Anaheim. We think these new offerings are going to stimulate future demand, and I do not think you should read too much into this one quarter.

On the change in payables, that decline is related to the pension plan contribution of $1.3 billion.

Bryan Kraft – *Analyst, Deutsche Bank*

Okay, great. Thank you.

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

Thank you Bryan, and thanks again everyone for joining us today. Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website. Let me also remind you that certain statements on this call may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements.

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

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Forward-Looking Statements:

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

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

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

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

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 1, 2016 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.