The Walt Disney Company

Q3 FY16 Earnings Conference Call

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Disney Speakers:

Bob Igner

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 quarter three 2016 Walt Disney Company earnings conference call. My name is Katie, and I will be the operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to Lowell Singer, Senior Vice President of Investor Relations. Please go ahead, sir.

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

Good afternoon, and welcome to The Walt Disney Company's third quarter 2016 earnings call. We issued two press releases about 45 minutes ago, and they are both available on our website at www.disney.com/investors. Today's call is also being webcast, and a recording and a transcript will be available on our website as well.

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.

So with that, I will 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 everyone. I'm happy to report that Disney had another strong quarter, with adjusted earnings per share up 12% in Q3 to $1.62.

This is our 12th consecutive quarter of double-digit adjusted EPS growth. This quarter's results are continued evidence that The Walt Disney Company's asset mix -- especially our brands and franchises -- is strong, as is our ability to execute in brand-enhancing and value creating ways.

We are thrilled with our performance and energized by the great hand of intellectual property and talent that we currently have. But we are also very focused on challenges and opportunities, as the media world continues to evolve and change.

As we look at our businesses and the marketplace, two things are clear: the multi-channel bundle delivers the most value to us, and remains a great value proposition to consumers. Therefore, our top priority is to support it, and to do what we can to maintain or enhance its value to customers.

We also know that new platforms and new entrants in the digital video space are offering consumers more flexibility and variety, with exciting new products and impressive user-experiences. And we must create or take advantage of these new opportunities, in ways that are complementary to the multi-channel offering.

With that in mind, earlier today we announced a significant investment that provides us the technology infrastructure to quickly scale and monetize our streaming capabilities at ESPN and across our entire company.

We're acquiring a 33% stake in BAMTech -- the industry leader in video streaming, data analytics and commerce management. We have the option to acquire majority ownership in the future, and through this investment, we plan to launch a new, direct-to-consumer ESPN-branded, multi-sport subscription streaming service.

Like many others, we're very impressed with the BAMTech platform. Investing and joining forces with the BAMTech team will enable us to make a major leap into the direct-to-consumer video space and will also provide countless new opportunities to expand into this space as the marketplace evolves.

Our goal is to ensure that our brands - notably ESPN - remain strong, vital and relevant in a totally changed media landscape. BAMTech is a critical component of this strategy – and the specifics of our investment are provided in our press release about the deal.

We continue to work with a wide range of distributors to make our content accessible to consumers in more ways than ever. And I am pleased to announce that AT&T/DirecTV – the largest distributor in the country – will feature ESPN, ESPN2, ABC, Freeform, Disney Channel, Disney XD and Disney Junior in all subscription packages offered in its upcoming DirecTV Now OTT service.

A few other notes about ESPN. We just had one of the most exciting and successful NBA Finals ever…and as we begin a new contractual term with the NBA, we are enthusiastic about our expanded rights package for a sport that continues to grow in popularity.

ESPN also recently announced a new arrangement with the ACC. Starting this month, ESPN subscribers can stream more than 600 exclusive live ACC events through ACC Network Extra – on ESPN3, WatchESPN and the ESPN app. And in 2019, we'll launch a dedicated linear channel covering all things ACC.

Turning to another area of significant investment for the future – our grand opening of Shanghai Disney Resort was a spectacular success by any measure. More than 70 million people in China watched the opening ceremony live on television or digital streaming.

After working on this project for more than 17 years, I can't even begin to tell you how thrilling it was to see the park come alive with people, who were all having a fantastic time.

We've welcomed well over a million guests since we officially opened the gates on June 16th – and their reaction has been everything we'd hoped for and more.

Ticket sales are strong, people are staying in the park longer than we ever imagined they would, and hotel occupancy is holding steady at 95%. Guest feedback is overwhelmingly positive, and people are sharing their experiences widely on social media, so guests are now coming to the park with a better understanding of what to expect and how to have the most fun while they're there.

And, we have every reason to expect the excitement and enthusiasm will continue – in Shanghai, awareness of our park is virtually universal, and "intent to visit" is extremely high.

It's obviously far too early to identify trends and make forecasts or projections, but Shanghai Disney Resort is clearly off to a strong start. Before the gates even opened we were already planning for the future. Our first expansion is now under construction, and we have plenty of room to add new lands, attractions, hotels and more.

Before I turn the call over to Christine, I want to note that our studio is having an absolutely phenomenal year so far – continuing a decade of stunning achievement.

Since our 2006 acquisition of Pixar, we've released 29 films under the Pixar, Marvel, Lucasfilm and Disney Animation banners. The average global box office for these movies is about $800 million. Twenty-nine films with an average box-office of almost $800 million is an astonishing achievement --- and further testament to our dedication to quality, as well as the immense talent of our studio team, and their ability to execute at the highest level.

And the box office performance is only part of the equation – we generate substantial added value from these great films across consumer products, television and parks and resorts.

And we have plenty of great new movies in the pipeline – with releases scheduled well into the next decade. Today, I'd like to briefly mention three major releases still to come in calendar 2016 - *Moana*, Marvel's *Doctor Strange*, and *Rogue One*.

Moana is an animated, musical-comedy, fantasy adventure - in other words, another great movie from Disney Animation. In addition to great storytelling and an extraordinary cast, *Moana* also features original music from *Hamilton*'s Lin-Manuel Miranda – and it will be in theaters at Thanksgiving. *Moana* follows an incredibly impressive run of films from Disney Animation, including *Tangled*, *Wreck-It Ralph*, *Frozen*, *Big Hero 6*, and *Zootopia*.

On the Marvel front, the November release of *Doctor Strange* marks the debut of another incredible character in the Marvel Cinematic Universe. Judging from the reaction to the cast and the trailer we showed at Comic-Con – fans are as excited about this movie as we are. Actually – fans were pretty excited about everything Marvel shared with them. They've got a lot of great movies to look forward to.

We are also thrilled by the way Star Wars fans are embracing *Rogue One* – our first stand-alone *Star Wars* movie, telling a story outside the epic saga. We shared some exclusive footage at the *Star Wars Celebration* event in London last month, and the reaction was unbelievable.

The level of fan enthusiasm we're seeing for *Rogue One* is roughly on par with what we saw for *The Force Awakens* at similar points in the marketing campaign. For example, views for the first *Rogue One* trailer were about even with the first trailer for *The Force Awakens* when it debuted – which tells us there's a lot of interest and growing excitement around this movie.

We've also just finished filming on *Star Wars: Episode VIII*, we've begun production on *Star Wars: Episode IX* and work on two more stand-alone movies is well underway.

This kind of great storytelling will always be our first priority, but bringing great stories to consumers in innovative ways is a very close second. So, even as we continue to invest for growth, as we have with Shanghai Disney Resort, we are also aggressively investing for change – with BAMTech being the latest example.

We'll continue to use the strength of our incomparable brands – Disney, Pixar, Marvel, ESPN, ABC, and Lucasfilm – as well as our coveted content to lead the way forward – driving change and creating value.

Now I'm going to turn the call over to Christine to share the details of our Q3 results.

Christine?

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

Thanks, Bob and good afternoon everyone. I am pleased to report the company delivered another quarter of strong financial results. Total revenue for the third fiscal quarter was up 9% compared to prior year, and earnings per share, excluding items affecting comparability, were up 12% to $1.62.

Our Studio continues to enjoy unprecedented creative success, which has driven tremendous results at the box office and record financial performance.

This calendar year we've already set new industry records by reaching 2 billion dollars in domestic box office and 5 billion dollars in global box office faster than any studio in history. Disney holds 4 of the top 5 domestic releases so far in calendar 2016, including *Finding Dory*, which is #1 with 475 million dollars AND the top 4 global releases, with *Captain America: Civil War* at approximately 1.2 billion dollars, *Zootopia* at over 1 billion dollars, *The Jungle Book* at 940 million dollars and *Finding Dory* at 875 million dollars. All of these films were incredibly well reviewed, which is a testament to the creative excellence and incredible execution of the teams behind these films.

The creative and financial success of our Studio is truly unprecedented, which was evident once again during the third quarter. Studio operating income was 766 million dollars, over 60% higher than in Q3 last year, and was driven by increases in worldwide theatrical and worldwide home entertainment results. Higher theatrical results reflect the strong performances of *Captain America: Civil War*, *The Jungle Book*, *Finding Dory* and *Zootopia* and higher home entertainment results were driven primarily by strong sales of *Star Wars: The Force Awakens* and *Zootopia*.

The Studio segment has generated 2.3 billion dollars in operating income during the first three quarters of fiscal 2016, which has already surpassed the record full-year results the studio delivered during all of fiscal 2015.

Parks and Resorts had another great quarter as segment revenue and operating income set all-time records. These results are particularly notable given the quarter was negatively impacted by both the timing of the Easter holiday period, which fell in our fiscal second quarter this year compared to our fiscal third quarter last year, as well as significant pre-opening costs at Shanghai Disney Resort. This quarter also marks the 21st consecutive quarter of year-over-year growth in operating income, which is evidence that our parks and resorts business, particularly on the domestic side, is operating at a high level and continues to benefit from key investments supporting world-class intellectual properties, successful execution, and prudent cost management.

Operating income at our domestic operations was up over 20% in the quarter, and margins were higher by about 400 basis points driven by continued growth in domestic parks and Disney Cruise Line. Attendance at our domestic parks was down 4% in the third quarter, with most of that decline due to the adverse impact of the shift in the Easter holiday period. The impact from lower domestic attendance was more than offset by the impact of strong per capita spending, which was up 8% on higher admissions and food and beverage spending. Per room spending at our domestic hotels was down slightly, however occupancy was three percentage points higher at 90%.

Domestic resort reservations for the fourth quarter, excluding the 53rd week in Q4 of fiscal 2015, are pacing up 1% compared to prior year levels, while booked rates are pacing up 2%. Growth in domestic operations was partially offset by a decline at our international parks due primarily to pre-opening spending at Shanghai Disney Resort, which opened toward the end of the third quarter. As Bob mentioned, we are incredibly pleased with the opening of Shanghai Disney Resort. At our other international parks, operating income was lower at Disneyland Paris, but we saw improved results at Hong Kong Disneyland.

Turning to Media Networks, operating income in the third quarter was comparable to Q3 last year as modest growth in Cable was offset by a decline at Broadcasting. At Cable, we saw nice operating income growth at ESPN, driven by higher affiliate and advertising revenue.

Growth in affiliate revenue at ESPN resulted from increases in contractual rates, partially offset by a decline in subscribers and unfavorable impact from foreign exchange. ESPN ad revenue was up 5% in the third quarter driven by an increase in units sold. So far this quarter, ESPN cash ad sales are pacing down compared to prior year. The lower ad sales pacing reflects a difficult comp versus Q4 last year, which included an extra week. Also, as expected, we're seeing some impact in the quarter from the presence of the Olympics.

Disney Channels generated lower income from program sales compared to Q3 last year, which was partially offset by higher affiliate revenue. Cable equity income was down in the quarter due primarily to lower income from our investment in A&E.

Broadcasting operating income was down in the third quarter as growth in affiliate revenue and higher income from program sales were more than offset by higher equity losses from our investment in Hulu and lower network ad revenue, as well as higher programming costs.

Ad revenue at the ABC Network was down 4% in the third quarter as the benefit of higher rates was more than offset by lower ratings compared to prior year. So far this quarter, scatter pricing at the Network continues to be very strong, pacing about 30% above upfront levels.

Media Networks affiliate revenue was up 5% in the third quarter. Cable affiliate revenue was up three and a half percent and would have been about 1 percentage point higher if not for a negative FX impact. Broadcasting affiliate revenue continued to grow nicely and was up double-digits for the quarter.

At our Consumer Products and Interactive segment, operating income was lower in the third quarter as decreases in our merchandise licensing and retail businesses were partially offset by an increase in our games business. Merchandise licensing results were lower in the quarter as growth in licensing revenue from sales of *Star Wars* and *Finding Dory* merchandise was more than offset by strong sales of *Frozen* in the prior year, an unfavorable foreign exchange impact, and higher revenue share with the Studio compared to prior year. Results in our games business improved compared to the third quarter last year due to a reduction in costs as a result of our exiting the Infinity games business.

As we look ahead, I want to remind everyone our fiscal fourth quarter results will reflect one less week of operations compared to Q4 of last year, when we had a 53rd week due to our fiscal calendar. The extra week essentially drives a pro-rata increase in annual operating income for the company, however the impact varies by segment. We estimate last year our Media Networks and Parks and Resorts segments disproportionately benefitted from the 53rd week. We continue to actively repurchase our shares, and in the third quarter we bought back 15.2 million shares for 1.5 billion dollars. Fiscal year to date, we've repurchased 65 million shares for approximately 6.6 billion dollars.

And with that, I will now turn the call over to Lowell for questions.

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

Okay. Thanks, Christine. Katie, we are ready for the first question.

Operator

Thank you. (Operator Instructions) And we have our first question from Doug Mitchelson from UBS. Please go ahead.

Doug Mitchelson – *Analyst, UBS*

Thanks so much. If I could just ask two -- Bob, on BAMTech, you said that you love the business model -- at least on CNBC you did. Would you be willing to discuss that in more detail? What about it do you love? Any comments about accretion or dilution from the deal would be helpful as well.

And Christine, I just want to make sure I didn't miss it. I believe you said that cable network affiliate revenue growth was 3.5% in the quarter. Was that a worldwide number? And if that was a global result, that compares to 1.3% growth in fiscal 2Q. So if you could just aggregate the acceleration, that would be helpful. Thank you.

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

Doug, I love the business model because I love the quality of what they have created largely from a technology perspective. You're looking at an industry-leading platform. We did a fair amount of due diligence on this, speaking with people who have been clients of their service. And also we did our own due diligence in the sense that we have been clients of competing services. And we concluded that what they have got is really robust.

As we consider that and we look at the marketplace, and we look at general growth in Internet-delivered video, particularly live, we think this is a really smart investment for the Company.

And we really think it's smart strategically because we obviously need this capability to take product like ESPN, Disney and other Disney IP onto similar platforms. So we feel great about that.

There is some very slight dilution from this 33% acquisition, however. But we feel really good about the trajectory of this business obviously by adding IP from the Company. Starting with ESPN, we think that will give it the ability to grow faster than it would've grown on its own.

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

Okay. Doug, on cable affiliate revenue growth, you're right that in this quarter it was up 3.5%. And also, that would've been up one percentage point higher if it were not for the negative FX impact. You are correct that in the second quarter, it was 1.2%. And I wouldn't read too much into the quarter-by-quarter shifts in it, but the 3.5% is the right number for this quarter.

Doug Mitchelson – *Analyst, UBS*

All right. Thank you both.

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

Thank you Doug. Katie next question please.

Operator

Our next question comes from Alexia Quadrani from JPMorgan. Please go ahead.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. Just two questions if I can. First, with two of the bigger streaming platforms launching over the next six or so months with DTV and Hulu and Disney's presence in both those packages, Bob, do you think this could become the delta that investors maybe are looking toward or worried about in terms of creating more notable shifts away from linear TV or the traditional bundle? And if so, how does that impact Disney's strategy or business if at all?

And then I just have a follow-up on the parks business, which has continued to be so strong and so impressive. I guess any commentary or feedback on how the dynamic pricing that you all got earlier this year may be favorably impacting those results?

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

Alexia, we know from what we have seen particularly in the last year that the inclusion of Disney product, particularly ESPN, on these OTT services is quite meaningful. Sony certainly had that experience when it launched Sony Vue without ESPN, and then it included it later after the launch and saw its subs go up substantially.

So, clearly we believe that by putting our product on these platforms, the platform stands a chance of growing faster than they would have without it. Whether it represents -- whether it will result, I guess, in a huge shift, I don't know. I think the consumer is largely going to dictate that. But I think it's important to point out that by us being on these platforms at prices that make sense to us, we are really quite neutral in terms of shifting from a traditional MVPD consumer to an over-the-top consumer. Meaning, the pricing of our networks is similar on the over-the-top networks as it is in the -- on the MVPD platforms.

I guess I could add that -- and I guess the DirecTV AT&T platform -- DirecTV Now is a great example of this. We think Hulu will be as well. These platforms could provide -- will provide great user interface and functionality. And the better the user interface, the better it is for us because we think the customer is going to be more engaged and is likely to consume at higher levels, which could only be good for us.

So I would say, look, it's meaningful probably that we're going be on these platforms. What it means in terms of the distribution of them, we can't say yet, meaning its impact on a shift from traditional to more modern forms of distribution.

On the other -- on the parks business -- because a lot can be said about the parks business -- we clearly have had incredible strength domestically, both at Disneyland and at Disney World. We've had softness in Paris, as we have cited. Actually, Hong Kong has strengthened. We feel great about the launch of the park in Shanghai. And our cruise ship business is also -- which is in the parks business, has been incredibly strong. We mentioned earlier we have not seen an impact from Zika.

Interestingly enough, while there's a fair amount of concern about the international tourist, the mix of international tourists to our domestic parks hasn't really shifted that much. We've had shift to market to market. Brazil has had some big issues in the last year as a for instance. But the mix from international versus domestic attendance is basically in line with what we've seen. And interestingly enough, Great Britain has been fairly strong, which given what's going on there, particularly the headlines and the Brexit issue, you would expect otherwise. And also, of course, the pound versus the dollar. But business is quite strong there. So we think that we've got great product domestically. We are continuing to add to that.

Avatar will open in 2017, as will the rest of the build out of Animal Kingdom. We're investing with our Star Wars IP, both in California and in Florida, so that bodes well long-term. And we are building two new cruise ships. So we feel bullish about the business.

I think that the launch of Shanghai should not go unnoticed in the sense that we built something that was very complex and very large, and it opened flawlessly. And we know from what we have seen that consumers there really love the product, which is evidenced by the fact that they are staying much longer per visit than we ever expected. So we feel good about the business overall. There have been some foreign exchange issues that we've seen, but -- and clearly what has happened in Europe on the terrorism front has put a damper on the Paris results. But I think the long-term trajectory of this business is quite strong.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you.

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

Alexia, thanks a lot for the questions. Operator, next question, please.

Operator

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

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks. I have two: one for Bob, one for Christine. Bob, on the announcement of Major League Baseball, you have said in the press release that the content will not be the same as linear -- ESPN. So give me an example of what type of content were you talking about. And will you launch this service globally at some point?

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

The goal is to launch the ESPN-branded service probably by the end of the year, but we're not saying specifically what date it will launch. It will include content that BAMTech has already licensed for Major League Baseball and the National Hockey League. And we will add content that ESPN has licensed like college sports football and basketball, tennis, rugby, cricket, et cetera.

The goal is not to take product off ESPN's current channels but to use sports and product that ESPN has already licensed that is not appearing on the channels. And so we view this as a complementary service to what ESPN is already providing as part of their multi-channel package, obviously in an over-the-top direct-to-consumer fashion.

In terms of the international rollout, I don't think we've gotten that specific, nor have we gotten specific about pricing. But I think what you'll see over time is that we are going to create a form of dynamic pricing or pricing that is determined in part by the consumer, where the consumer actually has a voice in the nature of the package that they buy. There will be so much product on that you can buy the whole thing or you can buy parts of the whole, and that obviously will have an impact on pricing. And we feel really good about this as a complementary product to what ESPN has, and we feel great about the fact that it will be ESPN-branded.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, thanks. Then for Christine, as you mentioned, you signed a new deal with DirecTV for an over-the-top offering. Do those deals and the deals you do with Dish together somehow open up negotiations on the linear side? So is there potentially a change in the step function of the linear relationship once you see the OTT launch announced?

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

I think it probably will have an impact on the linear negotiations over time. One thing we should add is that a component of this deal is to provide AT&T Direct with in-season stacking of all episodes of our network shows, which I guess is in the form of a change or amendment to the existing deal. We've actually done a similar deal recently with Comcast that we -- I think has been maybe reported on, but we haven't been specific or announced. So that basically means that two of the largest MVPDs, AT&T Direct and Comcast, will now have access to in-season stacking of all episodes of our shows. And that is obviously designed to strengthen the traditional MVPD package, and on the DirecTV AT&T side was a result of essentially a new negotiation for this OTT service.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Thanks, Bob.

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

Thanks, Michael. Operator, next question, please.

Operator

Our next question comes from Omar Sheikh from Credit Suisse. Please go ahead.

Omar Sheikh – *Analyst, Credit Suisse Securities*

Good evening everyone. Just a couple of questions. First of all, Bob, you have now got a few options on the over-the-top front. You've got the new investment in BAMTech. You've got Hulu. Obviously last year you announced DisneyLife. You've got these new third-party arrangements. I wonder if you could just maybe help us understand how you prioritize where you put content, whether it's from ESPN or from the cable nets or from ABC. It would be helpful to get your thoughts on that.

And then secondly, I wonder if you could -- if you have any details on succession, whether there's anything you would like to share with us on timing or thoughts on that front. Thanks.

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

The prioritization on where we put content is all driven by monetization. And where we monetize -- where we can monetize the most is where the content will go. And right now, the reason the MVPD -- multi-channel MVPD product is the priority is that's where we are monetizing the most. By the way, the same thing is true with other types of products like our movie output deal with Netflix, for instance, and some of the other sales that we've made to Netflix and Hulu, Amazon, other distributors.

What will be interesting is, long-term, to what extent do we hold back product to put on services that are ours that we are selling direct-to-consumer versus third-party distributors. But it's really premature to get into all that because right now we've got kind of a best of all worlds in the sense that we are monetizing really well on multiple platforms for multiple parties. And we are starting to move some product in the direct-to-consumer fashion like what we're doing in the UK with DisneyLife, which, again, is a complementary service to other subscriptions. In the UK's case, Sky would be the best example of that, where the product that is on DisneyLife is complementary in a way to what is on Sky and does not really rob or deprive Sky of product because we are monetizing so much better from Sky.

I have nothing really new to add on the succession front except that we have a really strong Disney Board. They are very focused on the subject of succession and committed to it. They have an ongoing process, and we are all confident that it will result in a good decision for the Walt Disney Company and its shareholders long-term.

Omar Sheikh – *Analyst, Credit Suisse Securities*

Very clear. Thank you very much.

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

Omar, thank you. Katie, next question, please.

Operator

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

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

Thanks. On these OTT platforms, can you talk about the advertising opportunity? And also, will it be the same ad loads, the same sales force? And I guess on the affiliate fee side, Bob, you said there is similar pricing. Are the whole suite of channels included so that your total affiliate fee is similar?

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

On the advertising front, we use the same sales force. We have been doing that for a while. So, particularly in ESPN's case, all of its digital advertising is sold by the same team. In fact, a lot of advertising buys are across platforms, if not all of them, at ESPN. There are opportunities that are new -- that will be new to us on the OTT platforms because some of the technology platforms will offer dynamic ad insertion. We think that that has got some real potential for the Company, and that is a component of the DirecTV Now relationship.

And in terms of the ad load, I think there probably will be some -- it will have variability. But in live sports, the ad load will basically be the same. Is there another part of that question that I missed?

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

It was about the affiliate fee. And then just one other question on advertising. Christine said that scatter is 30% above the upfront. I'm just wondering is it the 2015 upfront what you are referring to, or 2016?

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

On the affiliate fee, the per-channel fees, which we are not getting too specific about, they are commensurate with what the fees are on the existing services. So it's essentially neutral to us in terms of migration. And the new service will take 100% of our core channels. Not 100% of our channels, but of our core channels. And we won't get much more specific than that at this point. But the key channels, particularly ESPN, will be distributed by DirecTV Now as well as Disney Channel and Freeform and ABC, et cetera.

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

And Jessica, that scatter pricing of over 30% is above the upfront of last year.

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

Okay. 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 Anthony DiClemente from Nomura. Please go ahead.

Anthony DiClemente – *Analyst, Nomura*

Thank you very much for taking my questions. So on the BAMTech investment, I think the question that most people have would be does the new investment here require incremental investments in sports rights? It sounds like the answer is no because it is leveraging the existing rights that BAM has and that ESPN has. But I just want to make sure that I'm as clear as possible on that.

Maybe by way of one example, the ACC deal that you talked about in the prepared remarks, the deal that ESPN just signed, will ESPN be able to make available any of that ACC content, for example, in the over-the-top direct-to-consumer BAMTech ESPN platform? Or are those rights at least partially or entirely tied to the linear ESPN where you would need to go back and ask the ACC for the digital rights, therefore needing to incrementally invest in the rights to put it on the new platform? I hope that's clear. And -- yes.

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

Go ahead.

Anthony DiClemente – *Analyst, Nomura*

Well -- so, go ahead. And then I hopefully have a follow-up, but that's -- the crux of the question here is will Disney ESPN need to incrementally invest in digital sports rights from here?

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

Anthony, it's a really good question. The answer is no. That we have purchased a lot of rights. We won't get specific about exactly what they are, but we have a lot of rights that are already purchased to put product on this platform. And BAM has licensed a significant amount of rights as well. So we will be able to launch this service without adding any additional cost to purchase new rights.

What specific rights will be on, you mentioned ACC, we're not going to get into details. Obviously we're going to be launching an ACC channel in a platform, and we're going to be mindful of the product that we put on that as we go to the distribution world and seek distribution for that.

I will say that, long-term, there may be an opportunity to purchase additional rights to put onto this service. Because the technology is so robust that we actually believe that it does enable us to potentially expand our sports offering, which is something long-term down the road we will consider. But from a near -- on a near-term basis don't expect there's any incremental costs associated with rights acquisition in order to service the platform.

Anthony DiClemente – *Analyst, Nomura*

Okay, Bob. Thanks. And one follow-up, please. In terms of your response to Michael Nathanson's earlier question, you referred to amendments to the AT&T DirecTV affiliate agreement and the Comcast agreement in terms of new stacking rights or VOD rights that Disney has provided to those MVPDs. The question is do those amendments have any impact on the trajectory of the cable networks affiliate fee growth? So, the 3.5% or adjusted 4.5% growth that Christine mentioned. So from here, do those amendments change the shape or the trajectory of cable networks' affiliate fee growth? Thank you.

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

No, I wouldn't say that they will, except there was consideration for the rights that we are bestowing. But I won't get into details about what that consideration was. But don't expect it's going to have a meaningful impact on cable fee increases. Where it could have an impact is if it enables the MVPDs to retain subs more effectively. Then I think that's to be considered a real positive. The rights weren't just given away, but there are other considerations.

Anthony DiClemente – *Analyst, Nomura*

Okay. Thanks, Bob. Yes, thanks.

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

Okay, Anthony, thank you. Operator, next question, please.

Operator

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

Todd Juenger – *Analyst, Sanford C. Bernstein*

Oh hi, thanks for taking mine. Quick one for Christine -- I hope it's quick -- and then maybe a more broad one for Bob. Christine, I'm hoping you might just be willing to help us with a little more of the ins and outs on the cable network revenue. I've got the affiliate fee; I won't press you on that any further. I don't think I heard a cable advertising number from you. Forgive me if you said it and I missed it. And I know there's an offset, it looks like, from programming sales on the kids and Freeform side. So, any comment on those two items and how they all come together would be helpful.

Bob, I will just give you my other one while I've got you, then I'll shut up. Think about all of what's going on in your sports universe. Would love to hear how you think about the trade-off between launching more and more -- like you said, there's so much product out there, so much good content out there various people have interest in. How do you think about the trade-off of launching and proliferating more and more specific type services -- the ACC, the SEC, this over-the-top one -- versus keeping the power of a flagship mainstay network? And basically the trade-off between making everybody want everything and the risks that you finally give people the specific things they want, and maybe in overall you end up with less, if you know what I mean. Would love to hear your thoughts on how you view that balance. Thank you both.

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

I will take the first one, Todd. I did mention on my comments that the ESPN ad revenue this quarter was up 5%.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Okay.

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

On your -- go ahead. Do you want to ask another question for Christine before I respond?

Todd Juenger – *Analyst, Sanford C. Bernstein*

That's okay. So, that's ESPN. Nothing on the total cable side and nothing that you will disclose on the program sale side, Christine? It's okay with whatever your answer is.

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

That level of detail is all in the Q.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Okay. Fair enough. Thanks.

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

I think your question about proliferation of sports is a fair question. We ultimately believe that where we will end up is a bigger piece of a bigger pie in the sense that we think the ACC is a very attractive product. We have every reason to believe that something would have been launched eventually from the ACC, and we wanted to participate in and facilitate that launch. We feel the same about what we're doing with BAM.

We think that there is actually an expanding sports universe because there are a lot of sports that are on that do not get as much distribution, and there is significant interest in live and in live sports. And if you look at the NBA Finals as an example, now maybe not a great example because they were so great, but we just -- or look at the NFL, another great example. In general, live sports has really thrived even in a world where there is so much more for people to do and to watch. And we believe that our best interest as a Company is to invest more in the total pie.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Thank you very much.

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

By the way, even if it means fragmentation because we ultimately think that all of the new parts will be greater than the current whole. All of the addition of the new parts will result in a bigger whole.

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

You good, Todd?

Todd Juenger – *Analyst, Sanford C. Bernstein*

Yes, I will let it go. Thank you both for your help. Thanks.

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

All right. Operator, next question, please.

Operator

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

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. One for Bob and one for Christine as well. Bob, just taking the other side of the sports rights analysis that you guys do, you have walked away from deals in the past. I'm thinking about NASCAR and others. And there's some press reports that maybe you are downsizing your Big Ten deal. How are you thinking about balancing rights and sort of the benefits of fragmentation you have talked about with the escalating cost and competition for those rights? I don't know if you'll comment on Big Ten specifically or not, but maybe just at a high level as we think about rights fees growth over time.

And then just shifting to the parks, Christine, I think the release suggests that the domestic OpEx was down year on year in the quarter, or at least labor and marketing, some comments about infrastructure. Could you just help us put that into context -- what is driving that, how sustainable it is, any one-time events that we should be thinking about? Thank you.

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

You want to take the second part first, or --

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

Sure. In the parks this quarter, as I mentioned also in the comments, they did have some cost control measures -- some cost initiatives, and that flowed through in their operating line.

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

To cover your question, Ben, about sports rights in general and things that we passed on in the Big Ten, we won't get too specific about the Big Ten except to say we are hopeful that we will continue a relationship with them.

We look at ESPN as a whole and their menu of sports product, and we have tried hard to extend relationships with sports that are delivering great value to ESPN, and that we'll continue to and in some cases we really believe have growth potential. The new NBA deal that kicks in, we feel great about even though there is a substantial increase in rights from the last year of the old deal to the first year of the new. We are expanding our rights package with the NBA, and we believe that it is still a sport that's on the rise in terms of popularity.

Because live sports is very attractive to distributors, to advertisers, to consumers, we don't really see the cost abating. It's just a lot of competition for it. There's a lot of demand for the quality that sports represents. And we know that we can't buy everything, so we've made some tough decisions. But we can’t look you in the eye and say the costs are going to go down because it’s still among the most valuable product that's out there.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you.

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

Operator, next question, please.

Operator

And our next question comes from Jason Bazinet from Citigroup. Please go ahead.

Jason Bazinet – *Analyst, Citi*

Thanks. Just a question for Mr. Iger. Regarding BAMTech, in the release it talks about your option to increase your stake over time in the coming years. I was just wondering if you could comment qualitatively about what are the factors that you will be looking for in terms of whether you decide to scale up your position. Is it the technical capability of the platform? Is it the financial metrics this entity will generate? Is it the evolution of the OTT marketplace at large? Just any color.

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

I think it would probably be a number of factors, maybe all of them that you mentioned. We feel great about where they are technically, by the way. We think -- we feel great about the potential. And I don't want to say that our purchase of a controlling stake is inevitable, but we wanted to maintain the option to do that -- sort of a bit of a walk before we run. Although, admittedly we're walking very fast initially with the size of this investment and the collaboration that we're going -- that will result in-between us and the BAMTech team.

But we just wanted to get a sense of where the business is going and what the scope or scale of this is. It also gives BAM a chance to monetize the remaining stake that we might buy at a level that is commensurate with the value at the time that we make the purchase.

Jason Bazinet – *Analyst, Citi*

Understood. Thank you.

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

Jason, thank you. Katie, next question, please.

Operator

Our next question comes from Bryan Kraft from Deutsche Bank. Please go ahead.

Bryan Kraft – *Analyst, Deutsche Bank*

Hi I wanted to ask about foreign currency and also Consumer Products. Christine, how should we think about the impact of foreign currency going forward given where spot rates are and the hedges that you have in place? And then on the Consumer Products side, I guess I was a little surprised to see it down two quarters in a row. Should we expect *Frozen* to continue to drive tough comps for several more quarters, or is this something that has worked its way through the system now? And you have created and refreshed so much IP over the past year. Is any of that going to, do you think, become a new emerging growth driver as we go forward? Thank you.

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

Okay, so on foreign exchange, Bryan, we had the estimated year-over-year impact for fiscal 2016 at $500 million, and that is still a good number. So looking -- and you are probably referring to the impact of Brexit and did that have any significant impact either on 2016 or looking forward. On 2016, it did not because we were 100% hedged for the year. So changes during this year did not impact our foreign currency exposure. And when Brexit occurred, we were already 85% hedged for fiscal 2017, so the impact from those currency shifts post-Brexit were very muted for us.

On DCP, I think it's fair to assume that the difficult *Frozen* comps will continue. As you know, that was a tremendous piece of IP for us, and it was very, very successful in our Consumer Products division. So those comps will continue to be difficult on a quarterly basis.

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

Let me add to that, though, by saying that we are making another *Frozen* movie, although it won't be out for a few years. And that in our slate in fiscal 2017 is another Star Wars movie and a *Cars* movie. And *Cars* before *Frozen* was the number one Consumer Products franchise at the company. Not as big as *Star Wars*, but it was really significant. So -- and we also have *Spider-Man* being released by Sony but being made by us, as well as *Thor* in calendar 2017. And so we have a lot of Marvel activity as well. And then of course we have recently with *Zootopia* had some real success at Disney Animation, which gives us a new franchise to mine. Admittedly, not nearly as big as some of the other franchises. So there's a lot of activity there. And if you look at the film slate over the next number of years, there is a significant amount of IP. *Beauty and the Beast* is another coming out in March from the studio that Consumer Products can mine.

Also, let's also recognize the fact that Consumer Products has doubled its earnings over the last four years. That's just tremendous, tremendous growth. And it will be hard to top that over the next number of years. But what we have built is an incredible engine to leverage and monetize the IP output of this Company over a long period of time and globally. And no one has got that.

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

And just one more thing on *Frozen*. While that's a difficult comp, let's not forget that *Star Wars* and *Finding Dory* merchandise was very strong this quarter.

Bryan Kraft – *Analyst, Deutsche Bank*

Okay, great. Thank you.

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

Okay Bryan, thanks. Operator, next question, please.

Operator

Our next question comes fromTim Nollen from Macquarie. Please go ahead.

Tim Nollen – *Analyst, Macquarie Securities*

Thank you, Couple of things, please. I wanted to ask another question on BAMTech, which is actually -- if you could give us a little bit of color on how that business does on its own. Bob, you mentioned it might be slightly dilutive. I wonder if that's given its relatively low margin or borrowing cost to finance the deal -- what that might be. But anything you can tell us on how BAMTech's business on its own is going.

And then actually, another question on Shanghai, which I guess, excluding BAMTech, might have been the story of the quarter. I'm curious if you could tell us a bit more about your visitation there. Is it mostly local Chinese visitors that you had -- that it would be, or if there's any -- can you talk about the mix in terms of other visitors from the region? And then also about anything you can tell us on per cap spending there versus your other parks would be interesting to hear. Thanks.

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

Okay, we're not going to get specific about BAMTech. We said it's going to be dilutive but very -- in a very modest way. And it's obviously not been a public company. But we're not going to -- we're just not going to get specific about that.

I can tell you a fair amount about Shanghai, although I'm not going to give you too many numbers. We expected in opening that a large part of the visitation would come from Shanghai. And actually we have been surprised that the visitation from the rest of China has been as strong as it has been. Because our concentration from a marketing perspective was largely in the local region, but it's come from all over China.

One factor could be that Shanghai is a tourist destination for the rest of China, particularly in the summer, and that people from Shanghai are waiting for the tourist season to end before they visit. Now, visitation from Shanghai has also been strong. We did some research and there was 98% awareness of the park among the people in Shanghai and well over 70% intent to visit from the people in Shanghai. So that's really -- those are incredible statistics.

I mentioned earlier on the call that people who are coming are staying almost two hours longer than we expected. That's a very good thing because it suggests that they are really enjoying the product. And that, in fact, is the case because we've done a fair amount of research on guest reaction, guest satisfaction, and it's very high.

We won't get very specific with you about per caps except the per caps have been quite strong, particularly on the food and beverage side. And we're also doing very well with our hotels -- 95%, 96% occupancy. And *Lion King*, which is a separate ticket, is also doing extremely well and very well-booked.

So we had essentially a flawless opening that the people not just of Shanghai, but the people of China have embraced. Clearly, the marketing has worked, and the product is performing really well. And with that in mind, we are already expanding. We broke ground a while ago on expansion of the park. We have not announced exactly what it is that we are building, but we are already building to expand. And we have plenty of property, I should remind everyone. So we have an opportunity to build out new lands, new gates, new hotels, new restaurants, et cetera. All very positive.

Tim Nollen – *Analyst, Macquarie Securities*

Thank you.

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

All right. Thanks for the question. Operator, we have time for one more question, please.

Operator

Our next question comes from Dan Salmon from BMO Capital Markets. Please go ahead.

Dan Salmon – *Analyst, BMO Capital Markets (US)*

Good afternoon everyone. Two questions -- maybe one for Bob, one for Christine. Bob, just to take a step back from the OTT world for a moment, DISH last week unveiled a new service offering that they are calling a skinny bundle that did not include ESPN in the core package. I would be interested just to hear your thoughts on that.

And then second for Christine, parks and resorts capex eased off really nicely this quarter. Obviously we're getting past Shanghai. I'm just curious to hear are we starting to get to the point where we are coming down, or do we see some upticks from some of the other domestic projects that are starting to get underway?

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

That new Sling product is pretty skinny. I was going to say it is so skinny you can't even see it. But I mentioned earlier on the call that a few new products have entered the marketplace without us, namely without ESPN. Sony was one and had real troubles getting off the ground. And in Sony's case, when ESPN was added, they had a significant uptick in their subs.

So I don't want to suggest that Sling has to have ESPN. They will determine that. But as we look at the product that they are offering, we really don't believe that it is going to have -- it has a great future because it's lacking some of the most attractive channels that are out there. You can slice and dice some of these channels, to create packages, but if you don't have some of the best ones, it's pretty hard to see significant adoption of the services being offered.

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

Okay. On parks capex, you are right in that the number was down for the quarter, but I wouldn't read too much into that. A lot of that is timing related. As we have mentioned before and Bob mentioned, the offerings that will be -- that are underway and soon to come to the theme park near you such as the *Star Wars* lands in both Anaheim and Orlando, those are underway. So this capex is more of a timing issue, and we will update next quarter for the prospective year on what to look forward to for fiscal 2017.

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

This is Bob. I just want to thank everybody for the call, and hope you all have a good rest of your summer. We feel really good about this quarter. Clearly, the bottom-line 12% increase in EPS was quite strong. The studio's performance, as Christine mentioned, through three quarters is record performance for us already, maybe record performance for any studio in the industry. And the slate going forward is extremely strong.

What we did in Shanghai was certainly something that we feel great about and very excited about, and the future there is very bright. And the two announcements that we made today are really important. BAMTech provides us with a great opportunity in a space that is very exciting both to us and to consumers. And the OTT relationship that we have now created with AT&T Direct is also very important. We think they're going to launch an incredibly robust platform with a great user interface, and it's great to be part of that launch.

Thank you all very much.

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

Okay, Bob. Thanks. I guess I now get to read the Safe Harbor. So thanks again, everyone, for joining us today.

Note that a reconciliation of non-GAAP measures that were discussed 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 in our other filings with the Securities and Exchange Commission.

Everyone, thanks for joining us, and have a good rest of the day.

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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 3, 2015 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.

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