The Walt Disney Company Fiscal Full Year and Q4 2013 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chairman and Chief Executive Officer

Jay Rasulo

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's fiscal full year and Q4 2013 earnings conference call. My name is Vivian and I will be your operator for today's call. (OPERATOR INSTRUCTIONS) I will now turn the call over to Mr. Lowell Singer, Senior Vice President of Investor Relations. Mr. Singer you may begin.

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

Okay, thanks, Vivian. Good afternoon everyone, and welcome to The Walt Disney Company's fourth quarter 2013 earnings call. We issued our press release about 45 minutes ago. It's now available on our website at www.disney.com/investors. Today's call is also being webcast, and the webcast and a transcript of the call will also be available on our website.

Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer, and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob is going to lead off, and then Jay will follow him, and then we, of course, will be happy to take some questions.

So, with that, I'll turn it over to Bob.

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

Thank you, Lowell and good afternoon, everyone.

We are very pleased with our performance in the fourth quarter, with earnings per share up 13% -- primarily driven by growth in our Interactive, Consumer Products, and Parks and Resorts Businesses. Our net income for the quarter also grew by 12% on strong revenue growth of 7%. I'm also happy to report that in fiscal 2013, Disney delivered record revenue, net income and EPS for the third year in a row.

We're also making two other important announcements today.

One is that we have set an official release date for *Star Wars: Episode 7* -- December 18, 2015. This is obviously one of the most important movies we have in the next few years, and we've chosen a date we believe will allow the creative team the time to make a great film. It's also the date *Avatar* opened in 2009.

The second announcement is our unprecedented deal to create multiple live-action series and a miniseries event exclusively for Netflix, beginning in 2015. Under the agreement, Marvel TV, in association with ABC Television Studios, will develop four serialized programs featuring some of Marvel's popular characters -- "Daredevil," "Jessica Jones," "Iron Fist," and "Luke Cage." This original programming will run over multiple years and lead to a Marvel's *The Defenders* miniseries event that re-imagines a dream team of heroic characters.

Both of today's announcements underscore the value of two of our major acquisitions: Marvel and Lucasfilm.

As you all know, over the last several years we've made a number of major acquisitions and capital investments to drive growth and create shareholder value. Now that some of those investments have been completed and the acquisitions are fully integrated, their positive impact is clear in our results -- especially in Parks and Resorts.

In its first full year of operation since we opened *Cars Land* and completed the transformation of Disney California Adventure, the Disneyland Resort delivered record attendance, revenue and profitability.

Walt Disney World also set new attendance records for the year, driven in part by our historic expansion of *Fantasyland*, which will be completed in 2014. We're beginning construction on an *AVATAR* -themed area in Disney's Animal Kingdom, and continue our progress toward the full roll out of *MyMagic+*.

International attendance in our domestic parks also set an all time high in fiscal 2013.

Internationally, Tokyo Disney Resort and Hong Kong Disneyland also had record attendance this year. We recently announced that Hong Kong will be home to our first Marvel-themed attraction when the *Iron Man Experience* opens in late 2016. And last month, construction on our Shanghai resort officially went vertical. It was a major milestone, and we are on track to open the gates of that spectacular resort just two years from now at the end of 2015.

Turning to our Media Networks Group, ESPN has been "the" brand in sports for almost 35 years. More than 100 million sports fans connect with ESPN every week for incredible sports content -- and that connection is strong. The average fan spends about seven hours a week interacting with ESPN. With more than 35,000 hours of sports programming every year, major long-term sports rights locked up for the next decade, and unparalleled brand strength, we remain confident in ESPN's value and continued reign as the leader in sports.

In Broadcast, we are encouraged by ABC's start this season -- in non-sports programming ABC is currently a very close second in both C3 and L7 ratings. The network has some of TV's most DVR-ed shows, as well as the #1 new show, Marvel's *Agents of S.H.I.E.L.D.*, and the fastest growing returning series, *Scandal*. The perennial leader among upscale audiences this season, ABC once again leads the other networks in this prized demo by double-digits. It's also the only broadcast network to see its audience get younger.

We've also successfully sold ABC Studios shows including *S.H.I.E.L.D.*, *Scandal*, *Revenge*, and *Grey's Anatomy* into more than a hundred markets around the world.

We continue to generate tremendous value from original Disney content as well, especially in our kids television business. All 10 of the "Top 10" series for Kids 6-11 in Q4 were Disney Channel shows, and the channel has been #1 among that demo, as well as with Tweens 9-14, for 125 consecutive weeks.

Disney Junior is another fantastic success story. Although we just launched the stand-alone channel here in the U.S. 19 months ago, it's been the #1 preschool channel among Kids 2-5 every single week since Nielsen began reporting its ratings back in April.

The success of franchises like *Sofia the First*, *Jake and the Neverland Pirates*, and *Doc McStuffins* have made Disney Junior an important growth driver for our merchandise licensing business. Retail sales for Disney Junior products exceeded $1.8 billion in fiscal 2013 -- more than double the year before. Going into the critical holiday season, Disney Junior toys are prominently featured on the retailers' "Hot Toy" lists and our top four retail partners are planning to double Disney Junior's shelf space compared to last year.

Retailers are also excited about *Disney Infinity* this holiday season -- and so are we. We've already sold more than a million starter packs globally, and the individual figures are also doing extremely well, with the most popular ones selling out at major retailers in a matter of days. This successful launch drove Disney Interactive's swing to profitability in Q4, and all indications suggest the strong demand for *Disney Infinity* will continue.

Turning now to our Studio business -- with the phenomenal global success of Marvel's *The Avengers* and *Iron Man 3*, Marvel Studios became the first studio in history to release two billion dollar movies in a row. That gives us some incredible momentum going into our next Marvel release -- *Thor: The Dark World*, which has already opened strong in a number of international markets, and we're confident that *Thor* will do very well when it opens here tonight.

We plan to keep the streak of great Marvel movies going with *Captain America: The Winter Soldier* and *Guardians of the Galaxy* next year. And with *Agents of S.H.I.E.L.D.* on small screens around the world, a new *Iron Man* attraction headed to Hong Kong, and the Netflix deal we announced today, it's clear our integration of Marvel across our company has been incredibly successful.

Disney Animation's phenomenal creative resurgence continues with *Frozen*, a new animated musical in the spirit of *Tangled* and one of the great animated films throughout Disney's history. With great storytelling, fantastic music, and world class animation, *Frozen* will join the ranks of beloved Disney classics when it opens at Thanksgiving. Then, we'll end the year with *Saving Mr. Banks*, a great story starring Tom Hanks and Emma Thompson as Walt Disney and Mary Poppins' author, P.L. Travers.

Next year, in addition to the two Marvel movies I mentioned, we're also looking forward to a new *Muppet* caper and Angelina Jolie as *Maleficent*. And of course we've got some huge movies in calendar 2015 with Marvel's *The Avengers: Age of Ultron* and *Star Wars: Episode 7* as well as Pixar's *Inside Out* and *The Good Dinosaur*.

We're obviously pleased with our performance in fiscal 2013 across The Walt Disney Company, from both a creative and financial standpoint. We are well positioned for continued growth in 2014 and, with the slate of the blockbuster movies I just mentioned as well as the opening of Shanghai Disneyland, we're even more excited about what's ahead in 2015 and beyond.

And, I'm now going to turn the call over to Jay for the financial details.

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

Thank you, Bob and good afternoon everyone. Earnings per share in the fourth quarter were 77 cents, an increase of 13% over last year. We are very pleased with our results this quarter, which cap yet another year of strong financial performance. Our fourth quarter and record full year results only again demonstrate the significant benefits we derive from the way we manage the company, which includes aggressively reinvesting in our core businesses, extending our portfolio through prudent M&A and returning a significant amount of capital to shareholders.

Operating income at Media Networks was down in the quarter as results at Cable were adversely impacted by the timing of affiliate revenue recognition at ESPN. Broadcasting results were down versus last year.

This quarter ESPN recognized $172 million dollars less in previous deferred affiliate revenue than it recognized in the fourth quarter of last year. As a reminder, this issue does not affect full year results. Absent this impact, both Cable revenue and operating income would have been up 6% compared to last year, driven by higher operating income at ESPN and the domestic Disney Channels.

Excluding the impact of the revenue deferral, ESPN's operating income would have been up in the quarter due to higher affiliate revenue and increased advertising revenue, partially offset by a modest increase in programming costs for college football, the NFL and Major League Baseball.

Reported Cable affiliate revenue was down 3% in the quarter. This decrease was due to the impact of ESPN's revenue deferral, business model changes, including the sale of the ESPN UK business, as well as FX. Absent these impacts, Cable affiliate revenue would have been up high-single digits. For the full year, Cable affiliate revenue was up 6% on a reported basis and would have been up high single-digits absent these impacts.

Ad revenue at ESPN was up a solid 9% in the quarter due to an increase in units sold and higher rates. ESPN's ratings were up year over year driven by college football, Major League Baseball and the NFL. So far this quarter, ESPN's cash ad sales are pacing up nicely.

At Broadcasting, operating income was down in the quarter due to difficult comps in program sales and higher primetime programming costs, which were partially offset by higher ad revenue at the ABC Network.

At the Network, programming costs were higher in the quarter because we aired more hours of scripted programming compared to last year when some primetime hours were dedicated to coverage of the Presidential election.

Ad revenue at the Network was up 10% in the quarter as a result of increase in units sold, higher rates and growth in online sales, partially offset by lower ratings and the *Emmys* rotating from ABC to CBS this year. Quarter-to-date scatter pricing at the ABC Network is running more than 20% above upfront levels.

Our Parks and Resorts segment delivered yet another solid quarter of performance. Revenue for the quarter was up 8% and operating income was up a solid 15% on the back of continued growth at our domestic parks and resorts and vacation club sales at the *Grand Floridian*. Results at Disneyland Paris were lower in the quarter.

Higher operating income at our domestic parks and resorts was primarily due to increased guest spending, higher attendance and occupied room nights at Walt Disney World and an increase in guest spending at the Disneyland Resort, partially offset by higher costs, including ongoing spending for growth initiatives.

For the quarter, attendance at our domestic parks was comparable to prior year. An increase in attendance at Walt Disney World was offset by a decrease at the Disneyland Resort given the comparison to last year, when there was a surge in attendance around the opening of *Cars Land*. Domestic per capita spending was up an impressive 9% on higher ticket prices and food and beverage spending. Average per room spending at our domestic hotels was up 4% compared to prior year and occupancy in the quarter was comparable to prior year despite an increase in available room nights.

So far this quarter, domestic resort reservations are comparable to prior year levels, while booked rates are up 5% versus prior year.

We continued to enjoy steady margin improvement as the base business grows and margins begin to reflect the benefit of recent investments. Total reported Parks and Resorts segment margins were up 90 basis points in the fourth quarter compared to the prior year. The year-over-year change in Q4 margins was on top of an adverse impact of an estimated 90 basis points due to spending on growth initiatives. For the year, margins were up 110 basis points and that was on top of an adverse impact of 30 basis points due to growth initiatives.

At Studio Entertainment, operating income was up due to better worldwide theatrical performance and higher TV distribution results, which were partially offset by higher film cost write-downs and lower operating income from worldwide home entertainment. Theatrical results improved in the quarter due to the strong performance of *Monsters University* compared to *Brave* in the same period last year. Film impairments were higher in the quarter, reflecting the impact of our write-down of *The Lone Ranger*. During the quarter we released *Iron Man 3* on DVD, and while we were pleased with its performance, worldwide home entertainment results were down due to a difficult comparison with the release of *The Avengers* DVD in Q4 last year.

At Consumer Products, growth in operating income was primarily due to gains in merchandise Licensing. Results were due to strong demand for a number of our key properties, including *Planes*, *Monsters University* and Disney Junior. The increase in Licensing this quarter also reflects the inclusion of *Star Wars* results. Earned licensing revenue was up an impressive 9% in the quarter -- and that's on a comparable basis, so it excludes the impact of *Star Wars*.

At the Interactive segment, operating income was up significantly in the quarter due to the successful launch of *Infinity*. Segment results swung from an operating loss in the fourth quarter last year to an operating profit this year. As Bob said, the next test for *Infinity* will come this holiday season, but we feel good about its prospects based on sales so far and the feedback we've gotten from retailers, consumers and hard-core gamers.

During the fourth quarter, we significantly increased our pace of share repurchase by buying 21.8 million shares for about $1.4 billion dollars. And for fiscal 2013, we repurchased 71.3 million shares for $4.1 billion dollars. We remain committed to returning capital to our shareholders via share repurchase and dividends. We believe our shares are very attractive at these levels, and as we've said, we expect to repurchase between six and eight billion dollars in stock during fiscal 2014. So far this year, we have repurchased 15.1 million shares for about $1 billion dollars.

We feel very good about how we're positioned for fiscal 2014 given the underlying trends we're seeing in our business. Before I conclude, let me proactively address a couple of questions you may have about 2014.

We expect total consolidated capex in 2014 to be about $1 billion dollars higher than in 2013, with the increase primarily due to increased investment in Shanghai Disney Resort. As we've discussed in the past, capital spending for the Shanghai project will ramp meaningfully in 2014 and 2015 as we prepare for the resort's opening in late 2015. While we fully consolidate all of Shanghai's capex, our net contribution is only 43% of the total capex. Thus, our capex will be up approximately $600 million. Domestic parks capex is expected to be essentially flat compared to 2013.

Pension expense is expected to decline in 2014 due to an increase in the discount rate. The lower pension expense will be partially offset by expected adverse impacts from foreign exchange rates, primarily due to a decline in the value of the Japanese Yen. We expect the net impact of these two items to result in a benefit of about $150 million dollars for the 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*

Jay, thank you. Okay, operator, we are ready for the first question.

Q&A

Operator

(Operator Instructions) Alexia Quadrani, J.P. Morgan.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. Just two quick questions. First, just curious why you chose to put the Marvel movies on Netflix rather than one of your own platforms like ABC or ABC Family?

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

Well, we are already producing Marvel shows for our networks. ABC has *S.H.I.E.L.D.* and is developing another concept, and we have shows on Disney XD. And when we looked forward, we realized that there were just so many Marvel shows we thought we could actually fit onto those platforms.

So, we looked at other opportunities. There was a lot of interest from a variety of different distributors -- new and traditional platforms -- and ultimately, Netflix won out. You know, they are in the business of creating original programming already. Obviously, *House of Cards* is a great example of that. And we saw a scenario where they were only going to continue to buy more original programming. And this seemed like a good opportunity for us to provide them with some branded product that they haven't had access to, except for the programming they get off-channel once -- in other words, after it's aired. So, good opportunity, we thought, for them and a great opportunity for us.

Alexia Quadrani – *Analyst, JP Morgan*

And just a follow-up question on the domestic parks. I think in the past, you've sort of called out some incremental expense that we may see in different initiatives. I guess is there something incremental we should look out for in fiscal 2014? I guess, where are you on the spending around *Magic+*? And then on *Magic+* when we might see, I guess, some signs or data points of how it's impacting the business?

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

Alexia, let me take the back-end of your question first on *MyMagic+*. So, the situation we're in right now is that we basically are continuing to roll forward with making this benefit available to more and more of our guests. And at this point, if you are staying on property at one of our hotels, you're basically a beneficiary of *MyMagic+*. And, you know, we've talked about the benefits in two basic categories, in terms of the financials of the company.

The first, as it greatly improves the experience at Walt Disney World, we expect that -- as we have with everything else we've done to improve the experience at our parks -- to have an underlying increase in business. Whether that's more individuals coming to the resort every year, or those individuals who come down to Orlando, spending more time with us and having a better time. That tends to reverberate throughout our business in a very positive way. And then, sort of easing some of the, let's say, logistics of getting around the property -- paying for things, entering the parks, getting in and out of the resort hotels -- when you make that easier, people tend to spend more time on entertainment, more time on consumables, be that food and beverage, merchandise, et cetera. So, as we are still very much in the early days of rollout, we haven't been characterizing that impact, but we do expect this to be a net positive and growingly positive impact on our business in the years to come.

Relative to the front-end of your question on spending, continued spending and ramp-up of new initiatives in Florida -- and that's not only *MyMagic+*, which, you know, the operating portion, of course, the costs are kicking in, and we're now seeing, as we put the assets in place, some of the depreciation that comes with that project being reflected in our expenses. But if you look at it on an overall basis, those new initiatives are accretive -- were accretive in 2013 -- continue to be accretive in 2014. I said in my comments that the margin impact of that in fiscal 2013 was about 30 basis points on our overall margins. And this year, we're looking at about a $300 million expense item, and more or less the same amount on the revenue side. So, you know, we'll continue to see accretion into 2014 and ramping upward beyond that.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you very much.

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

You're welcome.

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

Thanks, Alexia. Operator, next question, please.

Operator

Michael Nathanson, MoffettNathanson.

Michael Nathanson – *Analyst, Nomura*

Thanks, I have two for Jay, one on capex and one on housekeeping. Jay, on capex, we had thought you just had -- *MyMagic+* starts becoming an operating expense asset. I know you've been through building your hotels and building new attractions. So with the capex and domestic business staying the same level, what are you guys now spending it on? So we thought it ramped down a bit this year, so is there anything new project-wise that you guys have not announced yet that will be coming out?

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

Yes, we're -- Michael, we are in the process of finishing up the *Fantasyland* expansion -- not quite done. Of course, we've got the underlying capex that both maintains and adds quality to our existing assets. And we're beginning, as we've discussed, to expense some capital on*AVATAR*.

And I want to reinforce for all of you that we've talked in shorthand, frankly, about AVATARand AVATAR land at Disney's Animal Kingdom. But for purposes of thinking about the economic benefit of this project, you really have to think of AVATAR land the way we discussed *Cars Land* in shorthand. That is, that *Cars Land* was part of an overall re-concepting and re-delivery of Disney California Adventure, which had park-wide benefit in terms of volume and length of stay, et cetera.

AVATAR land is playing a similar role in Disney's Animal Kingdom, as we are converting that park into a full-day experience that goes into the evening, and expect to have impacts on the overall volume and length of stay at that park as well. So we've begun to expend capital on that, both aspects of the specifics of*AVATAR land*, as well as converting the Animal Kingdom to the point where it can be an evening experience as well as daytime. So, the combination of those factors is basically keeping our domestic capex equal to what it was last year.

Michael Nathanson – *Analyst, Nomura*

Okay. And then just on housekeeping, I know you called out the impact on FX and the ESPN UK change for the quarter and for the year. ESPN, I guess, change, I know. But at what point do you think the international affiliate fee growth will start to become less of a drag for you guys? You know, because I know you only report one number -- affiliate fees. At what point do you think it's less of a drag internationally?

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

Well, let me hasten to add that the business model change on the ESPN UK decision, i.e., to exit that business and therefore receive less affiliate fees, was accompanied by more than a cost savings for that business. And we are -- and therefore, that was a net positive on an OI basis, even though it was a negative on international affiliate fees.

And secondly, you know we've moved to a free-to-air format -- or are moving to a free-to-air format in Germany, which has also depressed what were formally recognized as affiliate fees and will now be realized in the form of advertising, and more importantly, in the biggest and wealthiest country in Europe as a brand lifter, as the Disney Channel has been all over the world, as it will be much, much more broadly distributed free-to-air than it had been in a relatively small cable channel -- or with a partner.

Michael Nathanson – *Analyst, Nomura*

Okay, thank you.

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

You're welcome, Michael.

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

Thanks, Michael. Operator, next question, please.

Operator

Doug Mitchelson, Deutsche Bank.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much. So Jay, not to harp too much on the Parks capex, but I believe this time last year you said that the capex-driven growth initiatives would be breakeven overall in fiscal 2013, but would start to drive profitability in 2014, and ultimately achieve double-digit returns. And earlier in the call, you indicated that it turned out there was some profitability in fiscal 2013, but wouldn't improve in fiscal 2014. So, I'm just curious what changed from where we were a year ago? And has the return on investment profile -- the growth initiatives changed at all, in your mind?

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

I think if you look at -- so, we said things would be breakeven in fiscal 2013. They were actually a little more accretive than we originally thought at the beginning of the year. And they continued to grow in their contribution on the revenue side. But, as you can imagine with a project like *MyMagic+*, which had a very heavy IT investment, which depreciates on a much more rapid basis than the normal assets we put into place in World, we did expect the cost side to bump up, even though the revenue side from the new initiatives continues to grow. And it really hasn't changed at all our perspective on the returns that we expect, either on -- individually on any of these projects or in total for the new investment we're putting in to the division.

Doug Mitchelson – *Analyst, Deutsche Bank*

And then, one for Bob. It might seem like there's a -- it seems like there's a bit of an arms race in terms of theme parks, with both you and Universal building out more attractions and hotels. Universal, obviously, now with the backing of Comcast, is investing much more aggressively. Do you think there's room in the marketplace for both of you with all of the investments that you -- that you're both putting in place?

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

Yes, I do. And they -- you know, I think that they've been investing over the years. Universal expanded before Comcast owned them. *Harry Potter* actually was started well before Comcast owned them. So, do I think that they're going to ramp up substantially? I think the jury is still out. We'll see how much -- just see how much they're willing to invest, and what kind of creativity they have to invest in. But, yes, there's room in the marketplace. Sure.

Doug Mitchelson – *Analyst, Deutsche Bank*

Great. Thank you.

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

Thanks, Doug. Operator, next question, please.

Operator

Jessica Reif Cohen, Bank of America.

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

Thank you. A couple of questions, I guess starting with China. As you kind of march towards the Shanghai opening in late 2015, can you talk about how you're going to build the Disney brand between now and then? And maybe as -- once it opens, you know, what do you think the halo effect will be on your overall business there?

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

Well, we've been building the Disney brand over the years, Jessica, and we're going to continue to. We've had continued growth or presence on television platforms, although because of restrictions, that is limited. We've grown nicely in the mobile space and online, and we continue to grow at retail, plus we've had some real success with some of our feature films there, particularly as we've seen screens grow -- or the number of screens grow -- tremendously in China.

A lot of the activity, though, between now and when the park opens will be to grow the theme park brand, to make sure that not only do people know that it's coming, but to give them a better appreciation for what will be in it, which we've not yet announced. But you can expect a lot of, kind of, "making of" kind of programming and things that are done in the marketplace that track what attractions will be in the park itself.

So, if we have a themed attraction, based on, say, a certain movie, then it's likely that you'll see, or the Chinese will see, that movie in the marketplace in a variety of different ways, would be one example, so they can better appreciate the story. We're also opening or developing our first big store in China, and that is actually in Shanghai, which will be used before it opens as sort of a quasi-visitor center to let people know more about the park itself. And it is in one of the highest traffic areas in Shanghai, just at the foot of the TV Tower.

Once the park opens, we actually believe that it will have a significant halo effect on the brand. There will be a lot more interest in and appreciation of Disney stories and characters, and we intend to explore all different avenues to take advantage of that. But we're, right now, focused mostly on building a great park and making sure that it is appropriately marketed, so that people when they go can really appreciate the experience better.

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

And then -- thank you -- and then the second question, just completely different. But I was wondering if you could comment about what's going on with Dish? I mean, is there something really different this time in terms of rights? Or is this just sort of -- I mean, retrans is maybe one issue, but things like the Hopper. Can you just kind of talk us through what the key issues are? Or -- in any negotiation -- because it does seem to be taking longer than normal.

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

Well, first of all, we've had a productive negotiation and so progress is being made. There are still issues to be resolved and they could take some time, but as long as we're making progress, we're perfectly patient to see this thing through and avoid a blackout of sorts of our channels, which we like to do. You're right to suggest that this is complicated, because these deals have gone well beyond just how many subs they're going to provide and what fees they're going to pay us. Technology is creating a lot of complexity in terms of what we're selling to them, in effect what they are buying, and ultimately what they can do with the product that we are making available.

And we want to make sure that we are open-minded and modern in our approach to recognize all the different changes in the marketplace that enable consumers to have better access to our product. But at the same time, we intend to be steadfast in our desire or in our strategy to protect the value of our intellectual property. And so it's just complicated. And right now, the negotiation is more about issues related to technology than related to the more standard issues of basically sub fees and distribution.

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

Thank you.

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

Thanks, Jessica. Operator, next question, please.

Operator

Todd Juenger, Sanford Bernstein.

Todd Juenger – *Analyst, Sanford C. Bernstein & Company, Inc.*

Hi, thanks. Two, one that picks up right where we just left off. So -- you get such intense scrutiny, obviously, on affiliate fees, in particular with regards to ESPN. So, you just said how complicated it is. I'm trying to identify any other degrees of variability going forward. It seems like the -- your message is that sort of the normalized growth rate, at least this past year, has been high-singles of affiliate fees. We've talked a little bit about the international business change, about some renewals that could have an effect on that rate.

Are there any other big material puts and calls that we should be thinking about? And one that comes to mind is the Watch apps, and whether they could influence that track rate. And then the second sort of housekeeping call, similar, on Consumer Products -- thanks for getting us the number ex-Lucasfilm for the quarter. Just looking into next year, we've got the Lucasfilm going on, but then you also -- you're absent a Pixar movie. So, just any help you could give in terms of how we should think about the puts and takes on the growth of that business with the -- those two ins and outs. Thanks.

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

On the ESPN front, I think that you're likely to see nothing particularly dramatic to change the trajectory of the growth of ESPN over the next five years or so, partially because a lot of our distribution deals are done, as are a lot of our licensing deals for sports rights. We have seen, across all of our EMEA networks, tremendous adoption of our Watch apps and significant usage of those apps.

And in the deals that we're cutting with distributors, we're getting paid so that they can provide access to their subs for mobility or for the Watch apps. In other words, TV Everywhere is something that actually is adding to our subscription revenue, because they are making it available to their customers. And it is a rather compelling product, that suddenly, as you know, Todd, the customer is no longer basically confined to just having to watch the multichannel service in the home. They can really watch it everywhere.

The number of subs that will have this service, and, in effect, the growth in sub fees from it, is only going to continue as we cut more deals with distributors. The other thing that's going to occur is, at some point, presumably in around a year, we're going to start getting consumption measurements from Nielsen on these apps. And that will allow them to generate more advertising revenue than they're generating today.

I can't quantify for you what they may -- that may be, but I think it is safe to assume that at some point in sort of 12 months or so, we'll start seeing even more growth in advertising revenue from Disney, ABC and ESPN mobile consumption. And that could be an interesting growth -- or create an interesting growth spurt for us in revenue.

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

On the second half of your question, Todd, let me give you some sense of what we're excited about for DCP licensing in the coming year. First of all, just as a matter of fact, you know we'll have three quarters of Lucas in the numbers as opposed to this year. We'll have, you know, all four quarters versus three quarters. But if you think about the kinds of properties we will have in the market on the theatrical side, first of all, *Spiderman* will benefit from the Q3 2014 release of it, that's like in May. And we historically -- and very much expect -- to see a lift in our licensed revenue there.

For the slightly younger audience, I think we'll see both the DVD release, and in Q4, the second film release of *Planes*. And *Planes* has turned out to be an incredible juggernaut on the DCP side with licensed merchandise, because it not only has its own following and its own characters, and its own new merchandise that it adds to the market, but because it's from the world of *Cars*, it tends to reinvigorate the interest in those characters as well. And that should fare very well for us in 2014.

And for our youngest audience, you know the Disney Junior properties are absolutely on fire. Bob referred to the ratings and the strength of Disney Junior. And whether it's *Sofia*, *Doc McStuffins*, *Minnie*, or *Jake and the Neverland Pirates*, they are experiencing double-digit growth right now on the licensing side. And we expect that to continue as those franchises are still all relatively new, and all very much in the growth stage in the marketplace. If you went out this year for Halloween, you bumped into a lot of little doctors and a lot of little pirates. And guess what? That's where kids' interests are, and therefore their parents' purchases are.

Todd Juenger – *Analyst, Sanford C. Bernstein & Company, Inc.*

Very helpful, thank you both.

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

Thanks, Todd. Operator, next question, please.

Operator

Vasily Karasyov, Sterne Agee.

Vasily Karasyov – *Analyst, Sterne Agee*

Thank you, good afternoon. I have a question on the income in the earnings of investees -- equity in the income of investees, sorry, for Cable. If I'm doing my math right, it seems to be -- there seems to be a material deceleration quarter-on-quarter and year-on-year. So I was wondering what the nature of that is and how representative that will be of the run rate in fiscal 2014?

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

You know, a little bit -- thanks, Vasily, for that question -- a little bit unusual for A&E, where a lot of our income of investees comes from. A&E had a big investment period in the fourth quarter. I do not see that as typical. If you look at the full-year impact of the contribution from A&E, it's been -- it’s strong, it's been growing. We expect it to be strong into the future. And I would see Q4 more as an aberration. And that is what is driving what you see in those numbers.

Vasily Karasyov – *Analyst, Sterne Agee*

All right, thank you very much.

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

You're welcome.

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

Thanks, Vasily. Operator, next question, please.

Operator

Tuna Amobi, S&P Capital IQ.

Tuna Amobi – *Analyst, Capital IQ*

Thanks a lot. So I guess my first question, Bob, do you -- could you explain the -- your television station -- you know, there's been some reports about potentially selling that, which I was surprised about, given all the talk about retransmission. Is there any scenario where that doesn't become a strategic asset for ABC?

And separately, from your earlier comments regarding the mobile initiatives at ESPN, I was trying to get your thoughts on the monetization of C7 ratings. It almost seems to become a moot point for ESPN, given a) the live viewing of the sports programming, and also b) your integrated multi-platform sales. So I'm just wondering if -- some of my peers talk about C7 coming to fruition perhaps as early as next year, do you feel like you're less invested at ESPN on that? And perhaps going to diverge ABC, given your comments that ABC seems to be getting a lot of ratings uplift on the extended view. And so I'm just kind of trying to put together your strategy there for C7. Is there going to be a divergence versus ESPN and ABC, if that makes sense?

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

Yes, that makes sense. You're right, because most of ESPN's viewing is live. We don't expect much of a lift from a ratings or a revenue perspective for either C3 or C7 for ESPN.

By the way, on the C7 side, while there's been some, I guess, a couple of deals done in C7 and we'd certainly like to see more because of the significant consumption beyond C3, I'm not sure that's going to happen very quickly. You mentioned a year. That sounds aggressive to me. I don't think the advertising marketplace is going to move that fast.

On the first question, we haven't commented about the stations, so what you were reading was complete speculation from -- I can't remember whether it was the press or the investment community -- but neither one necessarily reflect the opinion or the attitudes of this Company. These have been good assets for us. They've been run extremely well. They're number one in most of the markets -- we only have eight, by the way.

And I think as long as we're in the network business, we'll be in the station business. We don't comment about acquisitions or divestitures, but I don't think it would be wise to either predict or to conclude that these assets were on the market.

Tuna Amobi – *Analyst, Capital IQ*

Okay, that's helpful. Thank you.

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

Thanks, Tuna. Operator, next question, please.

Operator

Barton Crockett, FBR Capital Markets.

Barton Crockett – *Analyst, FBR Capital Markets*

Okay thanks for taking the question. I was interested in a little bit more on the Netflix/Marvel deal. Do you see this as a platform putting shows on Netflix that could drive enough viewership that it actually could help make these bigger brands, from a licensed merchandise perspective and other ways?

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

I do. I think that's a good question. You know, Marvel has thousands of characters, and it would not have been possible if -- it is not possible to mine them all with filmed entertainment. And in fact, while these characters are attractive characters, they're not among the most popular, and they are characters that we probably were never going to make feature films about. Although, if they're popular on Netflix, it's quite possible they could become feature films.

So, I think that there are a number of ways for Marvel to create more sort of value opportunities -- or value-generating opportunities, and this is one of them. And it also, I think, happens -- as I mentioned earlier -- it happens to be great for Netflix.

They're looking to make more original programming. It's branded. There's a huge fan base.

I looked today about -- just at comments that were being made about this deal from, I'll call it, the Marvel fan base, and other than the chatter about the dating of the *Star Wars* film, this is among the most talked about news out there today -- next to, of course, I guess the IPO of Twitter. Although the dating of *Star Wars* was the number one tweeted or trending subject on Twitter today, I thought was also interesting.

Anyway, this is, I think, a great opportunity for Marvel to create more brand value and to create more character value. And I think that it's only one step in a direction that will lead to much more value being mined out of Marvel, and ultimately, Lucas through *Star Wars*, other ABC production capabilities, and of course Disney. There are more opportunities beyond our platforms to produce product .

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

Okay. Operator, next question, please.

Operator

Marci Ryvicker, Wells Fargo.

Marci Ryvicker – *Analyst, Wells Fargo Securities, LLC*

I have two questions. Jay, you mentioned Shanghai capex for fiscal 2014. I was just curious how should we think about operating expenses? And then secondly, the pickup in the share repurchase activity for this year, should we take this as a signal that there's nothing on the horizon in terms of M&A? Just trying to understand what prompted the change and if this level of share repurchase activity is more of a trend, rather than just a one-year event? Thanks.

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

Thanks, Marci. So, obviously the vast majority of our spending in Shanghai is capitalized and will show up in as roughly the 43% of -- roughly $600 million, as I mentioned in the comments. On the operating -- but there are operating expenses. You're absolutely right. Those are, in round numbers, $100 million dollars. I don't know if they'll wind up being a little less than that. Because, you know, we tend to plan conservatively, and it has to do with, of course, the onboarding of the operating team, the onboarding of the management team, sending a lot of people to our existing parks to become trainers of future employees, kind of "train the trainer" mentality.

And we did that extremely successfully in Hong Kong, with a staff that was very unaccustomed to what Disney operations were like. We'll do the same thing in Shanghai -- actually we've already begun. And we'll continue to ramp that up. So, in fiscal year 2014, to make a very simple question easy, about $100 million. I'd use that in your thinking.

Second part of your question was --?

Marci Ryvicker – *Analyst, Wells Fargo Securities, LLC*

In terms of the share repurchase, is that a signal that there's no M&A or something we continue?

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

So, no, you know, I would not -- see look, we have -- we've talked about the fact that a lot of these investments that we've put in place would eventually contribute to our cash flow. We see that clearly manifesting itself in our planning in the coming years. And we, while we are absolutely happy with our single A rating, the strategic position it gives us in the capital markets, we feel that we've got the capacity, we had the capacity to increase our return of capital to shareholders. We are not cash hoarders. But I don't think you should read it as a signal about M&A.

Now on the other hand, I'm not trying to signal you that there is something imminent; but on the other hand, I wouldn't signal it as, hey, Disney is out of the M&A business. Because it has been an incredible growth vehicle for the Company. We -- year in and year out, we have used acquisitions successfully to add to the IP of the Company, the distribution capabilities of the Company. And, of course, we're in a dynamic marketplace, one we've been talking about for call after call, and we don't want to stand still and act as if we have everything in our hands that could potentially continue to grow the Company.

So I wouldn't read that either way. But I think we are a company with an incredibly strong balance sheet that has the capacity to both engage in returns to shareholders as well as opportunistic M&A.

Marci Ryvicker – *Analyst, Wells Fargo Securities, LLC*

Great. Thank you so much.

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

Thanks, Marci. Next question please, operator.

Operator

Jason Bazinet, Citi.

Jason Bazinet – *Analyst, Citigroup*

Just another question for Mr. Rasulo. Within the Consumer Products segment, at least historically, as far back as I can go, the operating income margin sort of peaked in Q1. This is the first year I can find where it peaked in Q4. And you mentioned the 9% up on licensing ex-*Star Wars*. But that number doesn't take seem, I guess, extraordinary to me when I look at history. So is there anything else going on that's more fundamental that would cause the magnitude in margin expansion? And does it foreshadow something structurally different in terms of the margins for this segment? Thanks.

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

Yes, I would say that your observations are correct. Obviously, the Lucas addition has contributed to margins. We said when we did both the Marvel and Lucas acquisitions that we had the onboard capability to absorb the licensing of those franchises without increases in overhead, which, of course, gives you incremental margins that are better than your average margins. But we've also had very significant worldwide improvement in our Disney Store business.

And you can imagine that, when you're looking at the blend of businesses that Consumer Products engages in, both from the licensing side, where margins are enormous, to the retail side, where margins are -- where you know they are in retail, improvement in that improves the overall margins. So we're pretty happy with a division that's pretty much firing on all cylinders at this point.

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

I also think that when you consider that we've got Disney, Marvel, Pixar, and Lucas products in the marketplace, that the scale that that generates creates margin expansion in general growth opportunities. Some of it comes just from gaining access to more shelf space. Some of it comes from basically being able to cut better deals as well. It's just a healthy collection of assets that retailers and licensees around the world are really interested in.

Jason Bazinet – *Analyst, Citigroup*

That's helpful, thank you.

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

Thanks, Jason. Operator, next question, please.

Operator

Vijay Jayant, ISI Group.

David Joyce – *Analyst, ISI Group*

This is David Joyce for Vijay. In thinking about the longer-term free cash flow generation and capital returns for the Company, we're trying to contemplate the capital expenditure profile past 2015. And in particular, given that the Disney cruise ships are so successful and have -- they're booked a year in advance and they're industry-leading load factors -- when would you decide if you need to add to the fleets? Because there's obviously a need for a long lead-time there. Thanks.

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

We are not currently contemplating adding to the fleet, Vijay. We like the itineraries that are available to us. We have had a number of conversations about potential itinerary expansion, and frankly, given the business that we're in or the aspect of the business that we're in, the opportunities are not that numerous. I think eventually Asia will open up to the cruise business. But when it opens up to the family cruise business, we're still unsure of. And my guess is that it won't open up in the very near-term.

So, we're not really, at the moment, contemplating adding to our fleet. We think that we have some interesting opportunities to expand the itineraries of our current four-ship fleet, but we're not going to need a fifth ship to take advantage of global itinerary opportunities for a while.

David Joyce – *Analyst, ISI Group*

All right, thank you.

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

Okay, operator, we have time for one more question.

Operator

Alan Gould, Evercore.

Alan Gould – *Analyst, Evercore Partners*

Thank you. I've got a question about the Cable Networks. The growth in the Cable Network operating income was much lower this year. Margins were roughly flat with last year. I know there was a lot of incremental sports rights costs. And I know next year, you have the new NFL contract. Are we going to -- you know your sports costs going out for the next 10 years, as you've said. Should we be seeing margin expansion? Or should it stay flattish for a while, given all the incremental costs that are coming onboard?

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

Thanks, Alan. Let me -- I guess when you talk about Cable as a whole, it obviously encompasses a lot of things, ESPN and its networks -- its parts; the domestic Disney channel; the international Disney channels; and the A&E Networks. They all wind up in the same basket. And of course when you look at an aggregate number, it's very hard to decipher for you guys what's going on with them.

Let me say this -- that ESPN -- adjusted Cable OI was up 6%. ESPN was significantly higher than that, as were the domestic Disney channels. Way beyond 6%. I don't want to get specific as to how high they were, but well beyond 6%. What you're seeing that ends up averaging down is the investment in the A&E Networks that I mentioned before that shows up in that line, as well as a pretty significant investment, the heaviest investment in its lifetime for that -- the launch of the Germany free-to-air channel.

And it does take a fair amount of work and money to put up a channel that you expect to be successful in a big country, and that is depressing the average, pulling it down to that 6%. So, I know it does -- it may not be that satisfying and I'm not giving you specific numbers, but they are much stronger, up in the high-singles and low-double digits for our core networks, and the balance is the opposite, as I just mentioned.

Alan Gould – *Analyst, Evercore Partners*

Okay, thank you for that clarification, Jay.

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

You're welcome, Alan.

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

All right, Alan, thank you. 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 in 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 September 29, 2012 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.