The Walt Disney Company

Fiscal Full Year and Q4 FY16
Earnings Conference Call

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Disney Speakers:

Bob Iger
Chairman and Chief Executive Officer

Christine McCarthy
Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer
Senior Vice President, Investor Relations

PRESENTATION

Operator

Welcome to The Walt Disney Company fiscal full year and Q4 FY16 earnings conference call. My name is Anna and I will be your 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.

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

Good afternoon, and welcome to The Walt Disney Company's fourth quarter 2016 earnings call. Our press release was issued about 45 minutes ago, and is available on our website at www.Disney.com/investors. Today's call is also being webcast, and a recording and transcript will also be available on our website.

Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer, and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Bob will lead off, followed by Christine, and then, of course, we'll be happy to take your questions.

And with that, let me turn it over to Bob, and we can get started.

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

Thanks, Lowell, and good afternoon.

We just finished a great year, our sixth consecutive year of record results, and since fiscal 2013 we've delivered EPS growth of almost 20%. Fiscal 2016 also included two of the most important achievements in the history of our company: The phenomenal return of Star Wars and the spectacular opening of Shanghai Disney Resort. We're extremely proud of these accomplishments, which will drive long term growth for our company.

Star Wars: The Force Awakens exceeded $2 billion in global box office making it the third highest grossing movie of all time and we're only just beginning to reap the benefits of our Lucasfilm acquisition. Next up, we have *Rogue One* – a fantastic original Star Wars story, opening in December. *Star Wars: Episode VIII* will be in theaters December of 2017, followed by a standalone movie about young Han Solo in 2018. And we'll release *Episode IX* the following year. Work on all those movies is already underway and we're thrilled with what we've seen so far.

The magnitude of our Studio's success in fiscal 2016 is simply stunning. We released four films that broke $1 billion in worldwide box office: *The Force Awakens, Captain America: Civil War, Finding Dory and Zootopia*. And *Jungle Book* came very close, with $966 million. Our Studio slate topped a record breaking $7.5 billion in total box office for the year. Disney, Pixar, Marvel and Lucasfilm all contributed to this remarkable achievement and their creative momentum continues.

Doctor Strange just opened to great numbers – Marvel's 14th consecutive movie to open at #1 at the US box office – and it has already surpassed $377 million worldwide.

Our next animated musical, *Moana*, is already generating great buzz ahead of its opening later this month and we expect it will join the pantheon of recent hits from Disney Animation alongside *Zootopia* and *Frozen*.

Turning to our success in Shanghai, we welcomed four million guests in our first four months of operation, which included the peak summer season. Some of you may infer from this early performance that we could achieve 10 million in attendance in the park's first year – a number we would be thrilled with, but we are not providing any annual guidance at this point.

I was there last week and the place looks fantastic. It's very clear our guests are thoroughly enjoying it. They're enthusiastically embracing our stories and characters – classics like Mickey Mouse are fan favorites, but they love our new IP, too – like *Zootopia*. And we recently announced we're already expanding the park with the addition of *Toy Story Land*.

Shanghai Disneyland is now a national tourist destination. More than half our guests come from outside Shanghai, and millions of people across China are developing a much greater awareness and affinity for our brand, which will certainly help drive our growth in that huge market over the long term.

Turning to Media Networks, ESPN grew in fiscal 2016 and we expect that growth to continue over the long term. As we saw with the World Series, people love the excitement, the immediacy and the sheer entertainment of live sports. And ESPN has the richest collection of sports rights in the business, including the NBA, College Football, the College Football Championship, Major League Baseball, College Basketball, and the NFL.

Our new NBA deal runs through the 2024 2025 season, securing long term rights to a sport that continues to grow in popularity. The agreement gives us more inventory and more rights than we've ever had, and will serve ESPN very well in the years to come.

Maintaining the unequalled scope and quality of ESPN's programming is a top priority, and so is distributing that valuable content as broadly as possible. And we've made significant strides in that direction, particularly when it comes to licensing ESPN's programming to over the top distributors. In addition to our deals with Sony and Sling, we've recently closed deals with Hulu as well as AT&T/DirecTV which features ESPN among the 100 channels offered on the new DirecTV Now service.

We believe these new services will ultimately move more Millennials into the Pay TV universe, and we're currently in negotiations with other distributors to further expand our presence on these new platforms.

Our recent investment in BAMTech is also targeted at expanding our reach, and we're excited about rolling out our first ESPN branded content direct to consumers via this platform in 2017. BAMTech is also expanding its business into Europe, through a new deal with Discovery.

Over the last several years, we've repeatedly expressed our strong belief that our unrivalled portfolio of valuable businesses, brands and assets gives us the strongest hand and the best strategic position in the media industry. Our sustained performance clearly demonstrates our ability to use the strength of our incredible assets to drive value and we are extremely confident that we'll continue to deliver significant long term growth.

With modest growth due to some comparability factors that Christine will detail, fiscal 2017 will be an anomaly in our growth trajectory. We fully expect a return to more robust growth in fiscal 2018 and beyond – particularly given the powerful upcoming slate from our Studio. In fiscal 2018 alone, we have four new Marvel movies, three animated films from Pixar and Disney Animation and two Star Wars releases, including *Episode VIII*, which will also benefit our Consumer Products.

We have always managed this company for the long term, and our sustained performance reflects the enduring strength of our strategy, the increasing value of our tremendous brands and franchises and our unique ability to consistently leverage creative success across our entire company.

And with that, I'll turn the call over to Christine to go over the details of our quarter and trends that may impact fiscal 2017. 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 another solid quarter of financial results, which, as Bob said, caps off another great year for our company. Excluding items affecting comparability, earnings per share were $1.10 for the fourth quarter and $5.72 for the full year. We've been able to deliver solid results year after year while maintaining a strong balance sheet, which, combined with record operating cash flow of 13.2 billion dollars in fiscal 2016, provides tremendous flexibility to make key investments to expand our existing businesses, capitalize on new growth opportunities and return capital to our shareholders.

Before I discuss our segments' fourth quarter results, I want to remind you that our Q4 results last year included the benefit of an additional week of operations compared to this year. This 53rd week in our fiscal 2015 calendar makes comparisons of our results a little challenging.

While there is an element of imprecision in quantifying the impact, we are going to give you our best assessment of how the 53rd week affected key segments and drivers. As we've previously discussed, we estimate the benefit of the 53rd week to our Q4 fiscal 2015 results was approximately $350 million dollars in operating income, or about $0.13 cents in earnings per share, with the majority of the impact at Cable, followed by Parks and Resorts and to a lesser extent Consumer Products.

At Media Networks, we estimate the 53rd week had an adverse impact on the year over year change in operating income of about 12 percentage points. As a result, operating income was down 8% in the quarter as growth in Broadcasting was more than offset by a decline at Cable.

The year over year change in Cable operating income was weighed down in Q4 by about 14 percentage points due to the 53rd week, which adversely affected results at ESPN and Disney Channels, and led to a 13% decline in Cable operating income for the quarter.

Lower results at ESPN were driven by decreases in advertising and affiliate revenue compared to the fourth quarter last year. ESPN's ad revenue was down 13% in the quarter. The year over year decline was due to three factors: a significant decrease in daily fantasy advertising, an additional week of ad revenue in Q4 last year, and the impact of ad dollars being diverted to Olympics programming. So far this quarter, ESPN's ad sales are pacing down compared to last year, mostly reflecting the timing of key College Football bowl games. This year, ESPN will air only three of the New Year's Six bowl games during our fiscal Q1, whereas all six games aired during the first fiscal quarter last year. Affiliate revenue was lower in the quarter as higher contractual rates were more than offset by the impact of the 53rd week and a decrease in subscribers.

Turning to Broadcasting, operating income was higher in the quarter due to growth in affiliate revenue and higher operating income from program sales, partially offset by lower advertising, higher programming costs and an increase in equity losses. The increase in affiliate revenue was driven by higher contractual rates. Higher program sales were driven by sales of *Luke Cage* and *Quantico* during the quarter. Programming expenses were up in the quarter as a result of higher costs for network programming, the addition of the *Emmy Awards*, and higher costs for political news coverage.

Ad revenue at the ABC Network was adversely impacted by an estimated 8 percentage points due to the 53rd week, which was the primary driver of the 5% decline in ad revenue during the fourth quarter. Quarter to date, primetime scatter pricing at the ABC Network is running 24% above upfront levels.

Turning to affiliate revenue, we estimate the 53rd week and FX had an 8 percentage point adverse impact to Media Networks affiliate revenue growth, which was down 3% in the quarter. Growth in total Cable affiliate revenue was adversely impacted by 8 percentage points due to the 53rd week and FX, which drove a 5% decline in the quarter. During Q4, we also saw solid growth in Broadcasting affiliate revenue, which once again was up double digits.

At Parks and Resorts, we estimate the 53rd week had a 12 percentage point adverse impact on the year over year change in operating income, which was down 5% in the fourth quarter.

Our underlying domestic business had another great quarter. We estimate the 53rd week created a 16 percentage point headwind to growth in operating income, yet growth in OI at our domestic operations was still up 2%. Operating margins at our domestic operations were up 120 basis points compared to Q4 last year, despite an adverse impact of about 120 basis points due to the 53rd week.

Attendance at our domestic parks was down 10% in the quarter, reflecting the additional week of operations in Q4 last year. On a comparable fiscal period basis, attendance was down about 3% as higher attendance at Walt Disney World was more than offset by lower attendance at Disneyland, which was comping against very strong attendance in Q4 2015 during the park's 60th Anniversary celebration. Per capita spending was up 7% on higher admissions and food and beverage spending. Per room spending at our domestic hotels was up 1% and occupancy was up over 2 percentage points to 86%.

While the underlying performance of our domestic business was quite strong in the quarter, operating income at our international operations was lower driven by about a $100 million dollar decline at Disneyland Paris, partially offset by a positive contribution from a full quarter of operations at Shanghai Disney Resort. Disneyland Paris continued to experience softness in the quarter due to the lingering effect of terrorism and economic and political uncertainty. While we're disappointed with Disneyland Paris' results in the quarter, we expect to see near term improvement in connection with the 25th Anniversary celebration, which begins in spring 2017.

As Bob discussed, we couldn't be more pleased with the launch of Shanghai Disneyland. The financial results for the park's first full quarter of operations were ahead of our expectations. As we look to fiscal 2017, we expect Shanghai Disney Resort to be very close to breakeven for the year.

At the Studio, operating income was lower for the fourth quarter compared to Q4 last year due to lower worldwide theatrical results, partially offset by higher operating income from television distribution. Lower theatrical results reflect the performance *of Pete's Dragon* and *Queen of Katwe* in the quarter compared to *Ant Man* in Q4 last year, as well as higher marketing spending for films yet to be released. To put things in perspective, while Q4 results were lower compared to last year, our Studio had a phenomenal year with operating income up 37% to a record $2.7 billion dollars.

At Consumer Products and Interactive Media, we estimate the 53rd week, which weighed on our licensing results, had an adverse impact on segment operating income of about 9 percentage points. As a result, segment operating income declined by 5% due to lower results in our licensing and games businesses. While we continued to see strong sales of *Finding Dory* merchandise in the fourth quarter, this was more than offset by strong sales of *Frozen* merchandise in Q4 last year.

During the fourth quarter, we repurchased about 16.6 million shares for $1.6 billion dollars. And for the full year, we repurchased about 73.8 million shares for $7.5 billion dollars. So far this quarter, we've repurchased 6.1 million shares for approximately $560 million dollars, and we expect to repurchase between $7 and $8 billion dollars for the year.

As we look to fiscal 2017, we expect to deliver modest EPS growth for the year due to some comparability factors.

Let's start with Cable, where we expect fiscal 2017 programming costs to be up about 8% versus fiscal 2016 driven primarily by the first year of our new NBA contract, which accounts for $600 million dollars of that increase.

Our Parks and Resorts segment is positioned for continued growth in 2017 due, in part, to the opening of Avatar land at Walt Disney World and a full year of results from Shanghai Disney Resort.

There are three Parks comparability items I'd like to mention. First, Hurricane Matthew disrupted our operations at Walt Disney World in early October, which resulted in the closure of our parks for about a day and a half. We estimate the impact of the hurricane on Q1 operating income to be approximately $40 million dollars. Second, due to the impact of Hurricane Matthew and the conversion of rooms at *Wilderness Lodge* to Vacation Club units, Q1 total domestic resort reservations are pacing down about 2%, while booked rates are pacing up 3%. And third, I'd like to point out that one week of the winter holiday period will fall in Q2, whereas the entire holiday fell in Q1 last year. As a result, this will shift about $20 million dollars of OI from Q1 into Q2.

Turning to the Studio, Bob discussed the strength of our slate in Q1, and it's worth mentioning we will also release *Beauty and The Beast*, *Guardians of the Galaxy Volume 2*, the fifth installment of *Pirates of the Caribbean*, and *Cars 3* during the year. While we remain thrilled with our Studio business and the great films we have in the pipeline, I'll remind everyone that results in fiscal 2017 will comp against a record breaking 2016 due in part due to the phenomenal success of *Star Wars: The Force Awakens*.

At Consumer Products and Interactive Media, while we expect operating income growth for the full year, we expect OI to be down more than 20% in the first quarter due to the strength of *Star Wars* and *Frozen* merchandise licensing and our licensed *Star Wars: Battlefront* game in Q1 last year.

And finally, results in fiscal 2017 will be adversely impacted by about $175 million dollars due to FX rates and higher pension expense. Also, in terms of net interest expense, the $100 million you saw in the fourth quarter represents a reasonable quarterly run rate for the year.

We are very pleased with our fiscal 2016 results, which once again demonstrate that our strategy of investing in high quality, branded content, coupled with great execution and a balanced approach to capital allocation, continues to generate solid earnings growth. Once again, we expect to deliver modest earnings growth in fiscal 2017 and, as Bob said, we feel extremely confident that we'll return to more robust earnings growth in fiscal 2018 and beyond.

And with that, I'll now turn the call over to Lowell for Q&A.

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

Okay. Thanks, operator we are ready to take the first question.

Operator

Our first question is from Michael Nathanson from MoffettNathanson. Please go ahead.

Michael Nathanson – *Analyst, MoffettNathanson*

I have one for Bob, one for Christine. Bob, on ESPN, you guys have been very clear about the 2017 step up. You've been clear that ESPN will not grow at the rate it used to grow the previous decade. And you've been clear that you expect growth in the future. I think on those points, everyone agrees with the first and second ones. But on the third point, my question is, what can you share with us that gives you the confidence about growth in the future? Is it an affiliate fee cycle? Is it new subscriber growth, advertising, costs? So anything that could give us some sense of why you're so confident about the outlook.

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

I think you have to start with what ESPN offers and its popularity. I mentioned in my comments the popularity – and there are certainly recent examples, like the World Series – of live sports.

So I feel really good about their programming. I feel good about their continued ability to drive solid advertising. We have a good sense of what their rate structure is in terms of existing deals with distributors. But we have some opportunities in some new deals to improve the rate structure even more.

We have taken a more bullish position on the future of ESPN's sub base. We think that while we were candid a year ago on sub losses, we believe that, to some extent, the causes of those losses have abated, notably the migration to smaller packages. But we also believe that new entrants in the marketplace, particularly DMVPDs digital MVPDs, I should say are going to offer ESPN opportunities that they haven't had before to reach more people.

And in particular, we think those offerings, because of their pricing, the user interface, their mobile friendly nature, are likely to cause more Millennials to either stay in the multichannel ecosystem as subscribers, or to enter it when they might not have in the past.

So we just generally feel bullish about ESPN's future. We are, I'd say, realistic about what we've seen with recent sub trends, and again have been, I think, fairly candid about that. And we think the long term prospects, for the reasons I cited for ESPN, are good.

The other thing that ESPN has, which we've talked about a lot, is the ability to take product out, direct to consumer. And that's why we invested in BAM. We think that gives us a really interesting opportunity to create a new product. It gives us an interesting opportunity to create product that is more user friendly and therefore is likely to gain more consumption. And it gives us an ability to mine data from that user consumption that can improve our advertising prospects and gives us an ability to tailor the product more in a more customized way for those consumers.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Thanks, Bob. And then for Christine, I think most of us who have covered the Company for a long time expected Shanghai to look like other parks that opened with big losses. So what's different about Shanghai? Why is it going to get closer to breakeven a year into operation, than maybe some of the other international parks?

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

I'll take the first part of that. Christine may want to address it a little bit from a financial perspective. But this has opened very successfully, very successfully. And I mentioned two things in my earlier comments: one, just the sheer number of people that have come in; but we also have a fair amount of data already about guest satisfaction. We know that consumers are staying longer. Obviously that's the result of them liking it. And the other thing that's really interesting to us is what a national product this has become. We expected that attendance would be primarily from the Shanghai area, at least in the early months and maybe couple of years, as word of mouth spread across the country. But the fact that 50% of attendance already is from outside of Shanghai tells us that this is a product that's resonating across China. And obviously, given the population base that China represents, that bodes very well for us.

So the product is working. People are coming. They are staying longer. We like the trends that we're seeing generally about spending. Our hotel occupancy is extremely high. We didn't get into details there, but I can tell you that it's very, very high off the bat. We have already made a decision about expansion, and that's already begun. And so, our outlook for this and what we even see happening in 2017 is quite positive.

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

Yes, Michael, I would add to that that the first quarter of full operations, which we just concluded, exceeded our expectations. We've got a very established team over there; established in the sense that they've worked in the theme parks for a while. They are very nimble, and they can adjust to findings that they are encountering along the way. And we're very optimistic that what we gave you for the fiscal 2017 expectation of around a breakeven result is certainly something that we're looking forward to.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, thanks.

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

Michael, thank you. Operator, next question please.

Operator

Our next question is from Alexia Quadrani from J.P. Morgan. Please go ahead.

Alexia Quadrani – *Analyst, J.P. Morgan*

Just staying on the Parks for a minute, we've seen such impressive growth over the last several years, both in terms of revenue and margins, really all metrics. And I know there's been benefit from the expansions, the *MyMagic+*, as well as obviously the usual organic drivers.

I guess looking forward, when we look for the incremental growth over the next several years, is it a higher contribution from Shanghai, given what you just said? Or is there something else that's going to be incremental? Any color you could give us to better frame how this impressive growth can continue.

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

Well, first of all, we believe we still have pricing leverage. And that's not just from raising prices on our standard ticket, it's from creating new packages. And we certainly have seen that in the last year, which was designed to do a few things. One, obviously when we put in more demand oriented pricing, we're able to move some of the attendance away from the peak periods and improve guest satisfaction. But we believe that there are a number of tools we have available to us on the revenue yield management side to create more revenue out of the attendance that we're getting.

We also have other kinds of expansion opportunities, like hotels, for instance, where not only do we have the property but we've seen such high occupancy rates in Orlando and in California, that we believe that it would be smart for us to build more hotels out we have no announcements to make, per se but build more hotels out at both sites and take advantage of what we're seeing there. That clearly is very beneficial to us.

And then we've only just begun to mine some of the critical IP that we have created in the last few years, Star Wars being the biggest one. We're building two of the biggest lands we've ever built in Orlando and in California. And we think that I know you talked about what we've done already, but there's so much more that we can do, and so much more we are doing.

And I think usually when we talk about the Studio, we talk about the Studio results that relate to box office and the bottom line for that business. But you also have to think about it in terms of how we mine those assets, not just in the United States but globally, at our parks and in Consumer Products.

I was in Shanghai last week, and it was just thrilling to see the reaction people are having to those franchises. We had 11 franchises in Consumer Products last year that did $1 billion or more in global retail sales. But you really see that resonating when you go to the theme parks. And not just Mickey Mouse and core characters, and Pirates and things you'd expect, but a line from the characters from *Zootopia* in Shanghai was significant. So I think we're at a time in that product cycle that the ability to increase profitability from it is really just kicking in.

Alexia Quadrani – *Analyst, JP Morgan*

And then if I could just sneak in another one quickly, on the sports side, I'd love to hear your comments with the ratings have been very mixed lately, some franchises showing record viewership, you said of the World Series; others, like the NFL, being in a bit of a slump. I would love to hear your view on how much of this volatility you think is cyclical? Or do you see any sort of permanent changes in viewership that may give you a different view of these franchises at this point?

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

We've seen some of the numbers from the NFL, as well. I actually think that there is a lot of premature speculation there. I don't want to make light of it. Except I do want to say, this is a season, and it happens to be a season that's occurring when post season baseball was very strong, and clearly the election had some impact. Certainly the debates did. So, I think it's a little too soon to jump to conclusions. We're being patient about it. We're going to look at the trend lines and see and continue to watch it. But I think it would be it's far too early for us to suggest that we're concerned.

It's still the highest rated sports programming that's out there, and we think we're lucky that we've got it licensed on a long term basis. Look, it's clear also, the most important thing the NFL can do is to maintain quality. And it just could be that what we're seeing among the contributors is that the matchups or the strength of certain teams, particularly some of the teams that have done extremely well in the past, is not what it was. And that could just be aberrational. So we're not we'd love to see the ratings higher, but we're not expressing long term concern about it on a long term basis.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you.

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

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

Operator

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

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

Hi, hope you can hear me.

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

We can hear you.

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

Thank you. There's been tons of speculation on potential acquisitions, notably potentially Netflix and Twitter. Can you talk about just generally what you think is missing at Walt Disney? What acquisitions would fill a hole for you? And then I have a follow up.

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

Well, obviously we're not going to get specific about that. But we think there are some really interesting opportunities to given what's going on from a technological perspective to both improve our businesses and also to improve the consumer experience by selling directly to consumers. I mentioned that earlier. And we're considering and exploring various ways to accomplish this. We think it's something that's important for us to do.

I'll go back to BAM. The purchase of BAM was designed just to do just that. Whether there will be more or not, I can't really say, except to say that we're obviously interested in the opportunity that exists today to have a more direct relationship with the consumer for the reasons that I cited.

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

And then, Bob, could you again, this is kind of an awkward question but you've stated the time that you plan to leave. Can you talk a little bit about your succession planning, and how you are thinking about that?

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

Yes, it's not awkward at all. The Board has discussed succession at every meeting that the Board has had in the last few years. And I don't think there's necessarily a need for the Board to provide any more details publicly about the process, except to say the process is ongoing, it's robust and we're all confident that it's going to result in the Board choosing not only the right candidate, but the right candidate on a timely basis.

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

Jessica, thanks for the questions. Operator, next question please.

Operator

And we have a question from Todd Juenger f Sanford Bernstein. Please go ahead.

Todd Juenger – *Analyst, Sanford C. Bernstein*

A quick one for Christine, and then maybe a little follow on for Bob. Christine, just on the Asian park attendance or doesn't have to be you, but probably you, Christine especially with Bob's comments about the strength of the start, just wondering across all of China, can you talk about whether there's any impact at all that you see between the attendance at Hong Kong and the attendance in Shanghai? Whether there's any inter relation there, or even cannibalization?

And at Shanghai, now that schools are open I assume in China, is there any difference in the attendance profile during times of school periods?

And then the broader question this is really a pick up right from what Jessica said, so sorry if it's I hope it's not redundant. It's not to me. Bob, I just picked up a line that you said in your opening comments in the press release around strengthening further strengthening your technological capabilities.

And I just you've talked about that a little bit, but that's a I haven't seen that statement before in the opening line of a press release. So I'm just wondering, what types of technological capabilities you are thinking about that need strengthening? And what are some different ways to strengthen them? Is that mostly about the BAMTech type of stuff, or is there other stuff going on? Thanks. Sorry for the long winded questions.

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

First of all, by using the term strengthening, I'm not in any way implying that we're weak. It just means that there are opportunities for us to get stronger. Let's use the Parks as an example on what we're doing in Imagineering, where there's significant investment in new technology to improve the guest experience, both and that, by the way, includes how guests buy access to our parks, the whole online sale or e commerce experience, as a for instance. We're re doing DisneyStore.com, using basically better technological tools, another example.

BAM clearly was what I was mostly referring to because that is an investment in a technology platform aimed at strengthening our technology capabilities so that we can strengthen our business.

On the Parks question that you asked, we haven't seen a negative impact at Hong Kong due to Shanghai at all. In fact, there was some uptick initially on Hong Kong attendance when Shanghai opened. And there seems to be an interesting growth in pride locally in Hong Kong, in that park.

I guess their competitive spirits have, somehow or another, been stimulated. In terms of what we're seeing in Shanghai attendance wise, the makeup of the visitor, weekday or post summer, it's really kind of too early to tell.

I will say, having been there last week on two weekdays, I was surprised at how many kids were in the park. They were younger kids, but there were many more of them than what we expected. And we are seeing some interesting patterns already with visitation. I cited one, just in terms of where we're sourcing visitors geographically. I don't want to get into too many of the others yet because we're only four months in. But the strength of certain days of the week that we didn't expect, and some days of the week that are slightly less strong than we thought initially. But so far, I can say, so good. Meaning we really are happy with how this product has launched.

Another thing that I haven't really addressed here, but one of the things that we wanted to be incredibly sensitive about, and be really good at, was the whole notion of entering a new market with this product under what I'll call culturally sensitive or culturally correct circumstances. Opening something that the people of China actually that resonated with them in terms of their experience. And that has been letter perfect.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Thank you.

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

Todd, thank you for those questions. Operator, next question please.

Operator

Our next question comes from Doug Mitchelson from UBS. Please go ahead.

Doug Mitchelson – *Analyst, UBS*

One for Bob, one for Christine. So, Bob, I guess it's not an easy one, but do you see the change in the power structure in Washington having an impact on The Walt Disney Company at all, positively or negatively? And I'll just ask the question for Christine: you outlined another aggressive year of share repurchases. And I was hoping you could offer your latest thoughts on optimizing buybacks versus dividends and debt leverage. Thanks.

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

I think it's really too early to speculate about what the changes in Washington are going to mean for our business, or for businesses. We have, though, been exhorting Washington, both the executive and the legislative branches, to take a look at the current tax policy of the United States, particularly the corporate tax rate, and to close more loopholes but lower the corporate tax rate.

We are no longer competitive with the rest of the world in that regard, and that must be addressed. And it's possible that, given what's gone on this week, that that's likely to be addressed sooner rather than later. That's obviously a good thing.

It's also a good thing, I think, for the market and for most businesses that the transition is already off to what appears to be a fairly smooth start. Meaning it looks like there's cordiality, which we have not seen in a long time. And there is an attempt by both sides, the incumbent and the President elect, to approach this in a rational, cordial I guess the best way effective and polite way. That can only be good for business and for the country. And smooth transitions are good. I will say, on the smooth transition front, we're going through a smooth transition as well. We have already prepared a bust of President elect Trump to go into our *Hall of Presidents* at Disney World.

Doug Mitchelson – *Analyst, UBS*

Okay. Thank you for that (laughter).

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

Okay, Doug, on buybacks as you know, in fiscal 2016, we bought back $7.5 billion of our stock. We gave you $7 billion to $8 billion for 2017. And I think you know we have a very balanced approach to addressing return of capital to shareholders.

We also consider dividends, but that's after we invest in our businesses and look at other growth opportunities. I think you also noted in my comments that I called out a record year for cash flow from operations at $13.2 billion. So, we have a lot to work with. And once again, we invest in our existing businesses, look for other opportunities, and of course always keep shareholders in mind.

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

And by the way, just to add to what Christine said, we had record years in fiscal 2014 and 2015, really strong years. And 2016 had great growth, but a little bit more modest than the two years prior. To deliver from operations $13+ billion of cash is quite an extraordinary performance.

Doug Mitchelson – *Analyst, UBS*

Thank you.

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

Doug, thank you for those questions. Operator, next question please.

Operator

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

Omar Sheikh – *Analyst, Credit Suisse Securities*

Thank you. I have a couple of questions. First of all, Bob, on BAMTech, going back to that, I wondered if you could maybe just give us a sense of how big of an investment you think you'd need to put into that effort in fiscal 2017. So you had obviously talked about needing to get close to the consumer, and that seems to be the only project you have that we know about. So maybe if you could give us a sense of how much you need to put behind that. That's the first question.

And then second one, maybe for Christine, is on Consumer Products, if I could switch to that. You gave some guidance, I think you said for Q1 OI. I wondered maybe if you could give us a little bit of a sense of how you expect 2017 overall to pan out. I'm particularly thinking about the licensing revenues and the trends you might see there. Thank you.

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

Omar, on the BAMTech side, the investment that we're thinking about in terms of launching new product is very, very modest. The primary investment is in buying the 33% stake in BAMTech that we are buying initially. We do plan, as I mentioned in my comments, to launch an ESPN branded service in 2017. But we have already licensed enough sports to put onto that service so that the incremental cost from a programming perspective would be de minimis. And the technology, as we have talked about, already exists to do what we want to do. And so, you're not looking really at significant investment to accomplish near term what we need to accomplish there.

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

Hi, Omar. On Consumer Products, as I mentioned in my prepared comments, we do expect growth for the year in the segment. While I did note a challenging first quarter operating income performance, once again, that is going to be primarily due to the difficult comp we had last year to Star Wars. And as you remember, last year we also had the fourth quarter revenue recognized in our first quarter, so it made it even a little more challenging than just a straight quarter. But year over year, we expect there to be growth in that segment.

We also last quarter, I got a question on *Frozen* comparisons. And I just want to mention it, because it still is trickling through in our results. But we did see difficult comps for the phenomenal performance that we had in *Frozen*. And we saw those in fiscal 2016 in the second, third and fourth quarter. And we still expect to have difficult comps for *Frozen* merchandise throughout 2017.

Omar Sheikh – *Analyst, Credit Suisse Securities*

Okay, great. And then it's just the *Cars* launch in the middle of next year that you expect to see some sort of reacceleration on the top line there? Would you say that's correct?

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

Absolutely. *Cars* is one of those evergreen franchises that has been very successful in Consumer Products. Also throughout our it is also represented in our parks, as you know, through *Cars Land* in Anaheim. And also this year, we have the movie *Spider Man*. It's not our movie to release, but our Consumer Products will represent the strength in that franchise, as well.

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

And Marvel is producing that movie.

Omar Sheikh – *Analyst, Credit Suisse Securities*

Great. Thank you very much.

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

Thanks, Omar. Operator, next question please.

Operator

And we have a question from Ben Swinburne from Morgan Stanley. Please go ahead.

Ben Swinburne – *Analyst, Morgan Stanley*

Bob, I just want to go back to your comments about the Pay TV universe and your enthusiasm for the new, emerging bundles. Any comments you could share with us on Hulu, given your position as an owner of that company, what the product may look like? And any color on why you think that may expand the pie? And any role BAMTech may fill for you in also addressing that broadband only universe with ESPN?

And then Christine, I just wanted to go back to your prepared remarks on Cable. I think if I just adjust out the 53rd week, I'm looking at like 3% Cable affiliate revenue growth. I think you said down 8 an 8% hit from the 53rd week, down 5% reported. So just wanted to make sure I got all that right. I was jotting it down quickly. Thanks.

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

Hulu is, at some point, going to go public with far more details about its product, the user interface, the pricing, and I guess ultimately the programming that it's licensed, although some of it has already come out. So I can't really add much, except to say that between what Hulu is doing, what Sling has done, what AT&T/DirectTV is doing, what others are doing that we're already in negotiation with, we believe that you're going to see a number of different packages brought out meaning different prices, different bundles.

In all cases, we believe the user interface and the technology is going to be very contemporary, and it will be very mobile friendly. And we think, given the pricing and the nature of the product that is coming out, that the opportunity to either keep Millennials in as subscribers or to attract them, meaning cause them to subscribe earlier than they may have, is actually very encouraging. And that's one of the reasons why we're more bullish about the future of multichannel TV than perhaps either the marketplace or others are.

That doesn't mean there isn't going to be a shift either away from the giant expanded basic bundle, or away from some of the traditional distributors. But we believe that there will be plenty of other opportunities.

The other thing that we have to note, which we've said before, is these new entrants in the marketplace are very, very interested in distributing our product. They know the popularity of sports, and in particular ESPN; and they know that it is in their best interest to license that product to launch their service more effectively.

We've seen that time after time after time, negotiation after negotiation. And the pricing, to us, is also good.

Ben Swinburne – *Analyst, Morgan Stanley*

Yes. Just as a follow up, where is your head on a direct to consumer ESPN, either leveraging BAMTech or on your own? Is that still being deliberated, or have you moved to the point of thinking more seriously about that?

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

I think it's not really something to we're taking it seriously. It's not really something I think we need to deliberate about. I think if the opportunity exists or if the need exists, or both, we will take advantage of it. Meaning we have the technology now, through BAMTech, to accomplish exactly what we would need to accomplish. And we're probably more likely to be aggressive about it than non aggressive, but the need doesn't exist at the moment. And we're going to give a lot of these new products that are launching a chance to prove what we believe is the case, and that is they are going to be considered attractive for the marketplace and, therefore, deliver value to us on a timely basis.

Ben Swinburne – *Analyst, Morgan Stanley*

Makes sense.

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

Hi, Ben. It's Christine. So thanks for asking the question on affiliate revenue. I know my comments were a little laden in some 53rd week information, so thanks for the opportunity to hopefully clarify.

So on Cable affiliate revenue, the actual was down 5%. The 53rd week was 8% for a net of 3%, as you noted. For Media Networks affiliate revenue and the reason I'm saying this is the numbers are close, but they're flipped it's down 3% with the same 8% adjustment, for 5% growth.

Now, as you know, we'll be filing our 10 K in a couple of weeks, which will provide the affiliate revenue growth drivers for the full year. But let me give you some context now on Q4 affiliate growth.

So, the 53rd week was a 7 point drag on the Q4 affiliate revenue growth. Rates were a 6 point benefit to the Q4 affiliate growth. Subs were a 2 point drag in the quarter, which is consistent with what we saw last quarter, and consistent with what you'll see in the 10 K as the full year impact of subscriber declines. And also lastly, foreign exchange was a 1 point drag on that quarterly growth.

Ben Swinburne – *Analyst, Morgan Stanley*

Was that Cable, Christine, or Media Nets? Sorry to

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

That was Media Networks.

Ben Swinburne – *Analyst, Morgan Stanley*

Got it. Thanks so much for all the help.

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

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

Operator

We have a question from Kannan Venkateshwar from Barclays. Please go ahead.

Kannan Venkateshwar – *Analyst, Barclays Capital*

Thank you. Just a couple of follow ups on that. Recently there was this dispute between Nielsen and Disney, it looked like, on the numbers itself. If you could just help us understand what the differences were, in terms of the way those numbers were being arrived at.

And secondly, from a balance sheet perspective, how sacrosanct are the kind of leverage levels you look at, in case something interesting in size does come along from an M&A perspective? How do you guys view your balance sheet flexibility from that perspective? Thanks.

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

Thank you, Kannan. We thought the Nielsen numbers, when they were released we continue to think this, by the way are an anomaly in terms of what the industry overall is seeing. And further, they contradicted what other respected third party observers and experts had been saying and telling us. So we've exhorted Nielsen to take a very careful look at their basically their methodology. They are obviously an important business to us because of the service they provide, particularly on the advertising side. But given the fact that what they provided was an anomaly, and given the fact that it contradicted what other observers were seeing, we think it's important that more scrutiny is given to it.

In addition to that, Nielsen is currently not measuring digital subs. We have talked to them about the need to do that, and they have talked about doing it. But we believe, given the growth in these digital platforms, that needs to happen on a much more timely, faster basis than it has been happening.

That basically, I think, is it in a nutshell.

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

And Kannan, on the balance sheet and your comments on leverage, we ended the year with total leverage of about 1.1 times. So, we view and I said it in my comments, and we've said it consistently we view our balance sheet as a source of strength and great financial flexibility. So, that's the way we treat it. There's nothing sacrosanct about it. But we do treat it as a valuable financial flexible tool, and we will deal with things as they come along.

Kannan Venkateshwar – *Analyst, Barclays Capital*

Thank you.

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

Kannan, thanks for the questions. Operator, next question please.

Operator

And we have a question from Anthony DiClemente from Nomura. Please go ahead.

Anthony DiClemente – *Analyst, Nomura*

I have two questions, one for Bob and one for Christine. So, Bob, on the subject of direct to consumer and getting closer to the consumer, I want to ask about Disney content as a direct to consumer service, outside of ESPN. So you have in the UK, I believe, *DisneyLife*, which you've talked about in the past. When do we see something like that Disney as a service, so to speak back in the US? So direct to consumer, Disney branded apps, here, stateside? And then, Christine, you mentioned Cable programming costs up 8% in fiscal 2017. I was curious, does that include the expectation for a step up in the Big Ten costs for renewal there? I think that's up for renewal during the year. Correct me if I'm wrong. Thank you.

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

I think there's an inevitability to us bringing a Disney branded product out in the United States, but I'm not prepared to discuss timing yet. One of the reasons is that we're still learning about the product in the UK. We're still considering its pricing, the nature of the product, the user interface, and the manner in which it is distributed. And we want to learn as much as we possibly can, which is what that was designed to do, before we bring it out in any other market. But we do know that, to those that have used it, it's quite popular. And we think there's an opportunity here, but we're not prepared to say when.

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

And on programming expenses, Anthony yes, the Cable programming expenses are estimated to be up 8% for the year. We talked about the NBA contract driving $600 million of that increase. The Big Ten, we don't have a deal with currently, so we'd love to be in business with the Big Ten long term, but we don't have a deal currently to announce.

Anthony DiClemente – *Analyst, Nomura*

So if you were to have a deal, it would be a greater step up in programming costs, just to clarify.

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

We're not going to comment on specifics, but the 8% is what we've given publicly.

Anthony DiClemente – *Analyst, Nomura*

Okay, thank you very much.

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

Thanks, Anthony. Operator, next question please.

Operator

And we have a question from Michael Morris from Guggenheim Securities. Please go ahead.

Michael Morris – *Analyst, Guggenheim Securities*

Thank you, good evening. Two questions. Bob, you talked a little bit about the regulatory environment previously, but I'm curious specifically about your position on net neutrality. How important is the current policy to your business, both the existing business and also strategy, how you think about things going forward? And what how could that impact you, if it were removed as policy? And then second on the BAMTech partnership with Discovery in Europe. I'm curious, since ESPN seemed to move away from European exposure, why do you think Eurosport and Discovery can succeed where ESPN kind of pulled back? Thanks.

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

It's interesting, we used to own, as a company, a good piece of Eurosport and we divested a long time ago. I think, to me, to answer that part of the question first. We think it's better because they were already in the market successfully, and we would be a new entrant with ESPN, and so this made sense for us.

On the first part, we really haven't been vocal about net neutrality. I think it would be safe to say right now not even sure we have a strong big oar in the water, so to speak. And so we don't really have a public position to take on it. Frankly, it's not something that has even been discussed with me in the very recent past. So, I'm caught mildly by surprise by it. But I don't I think one of the reasons it hasn't been discussed is it hasn't been of issue to us.

Michael Morris – *Analyst, Guggenheim Securities*

Great, thank you.

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

Mike, thanks. Operator, we have time for one more question.

Operator

And we have a question from Jason Bazinet from Citi. Please go ahead.

Jason Bazinet – *Analyst, Citi*

A question for Ms. McCarthy: you talked about the $175 million FX hit for fiscal 2017. Is that independent of any currency moves intra year because of your hedges?

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

So, that $175 million, Jason, is both the year over year impact of foreign exchange as well as pension expense. The way you should look at our foreign exchange for fiscal 2017 is that we are fully hedged. So the number that we've given which is a combined number but if you wanted to disaggregate it a little bit, and I'm happy to do that, it's a little over $100 million for foreign exchange, with the balance being pension expense.

Jason Bazinet – *Analyst, Citi*

Okay.

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

And the recent moves, by the way, in currencies have not impacted us, because we are fully hedged.

Jason Bazinet – *Analyst, Citi*

Okay. Thank you very much.

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

All right, Jason, thank you. And thanks, everyone, for joining us today. 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 nice evening, everyone.

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Forward-Looking Statements:

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

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

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

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

Additional factors are set forth in the Company's Annual Report on Form 10 K for the year ended October 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.