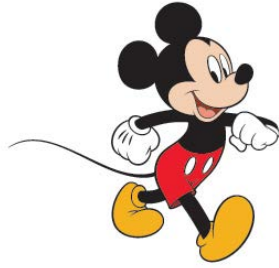

The Walt Disney Company

Deutsche Bank 2016 Media, Internet & Telecom Conference

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Disney Speaker:

Bob Iger

Chairman and Chief Executive Officer

PRESENTATION

Bryan Kraft – *Analyst, Deutsche Bank*

Thanks everyone for coming to our closing keynote for the day. It's my pleasure to introduce Bob Iger, Chairman and CEO of The Walt Disney Company. Bob, thank you so much for joining us here today.

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Why don't we get right into it? I want to start with really the Studio and the IP side of your business. And, I guess, first question is, under your leadership, the Company has gone through transformational change in the film, in the Consumer Products and the Parks businesses. And yet I think when you announced each of the three film acquisitions that were an important part of this transformation, to many investors this seemed at the time not much more than bolt-on Studio deals.

So, a couple of questions around this. I guess, first, how early on did you identify Pixar, Marvel and Lucasfilm as potential acquisition targets? And did you anticipate the results to be as positive as they've been?

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

I'll answer the last part of the question quickly. No, they've exceeded our expectations by a lot. But I'll start with my thinking about 10 years ago, actually a little bit more, because I've been in the job for 10 years. I went through a pretty rigorous succession process way back and I had articulated a strategy to the Board to convince them that they should give me the opportunity to run the Company. And I focused pretty heavily on what the world looked like then and what I thought it would look like and it seemed pretty clear that there would be a proliferation of distribution and, with that, a proliferation of choices or intellectual property.

So I thought, first of all, should we invest in distribution or should we invest in IP? And it seemed pretty clear that distribution would be more and more of a commodity and while IP you could argue would be a commodity, certain IP would not be and that was high-quality, branded intellectual property, and that was what I articulated to the Board. That's who we were as a company if you consider back then, Disney and ESPN and ABC. But I thought we could do a lot more with our capital and with high-quality, branded intellectual property.

And so, early on, we put together a list of acquisition targets. I actually articulated a few of them to the Board when they asked me "like what?" In other words, how could you expand?

And the acquisition targets included Pixar, Marvel and Lucasfilm. I had a number of other thoughts in mind when that strategy was articulated.

Another one was that at our company, because of the nature of the businesses, including Theme Parks and Consumer Products and Media Networks and the Studio, we had an ability to leverage success across all of those businesses, across the world better than anyone else in the space, and that continues today. And that the intellectual property that could come from Pixar, where -- we were in business with them before, by the way, in a partnership -- but that could come from Pixar, Marvel and Lucas could be leveraged across all those businesses. You could argue there's some content out there that could not be. There's content we could be making that would never end up as the Theme Park attraction or in Consumer Products. So I thought if we could succeed with those, then we could really create a lot of leverage across the businesses and across the globe.

And then the last thing that didn't hit me right away but pretty early on is that we were very heavily weighted in the direction of our Media Networks, Cable in particular, in terms of our value and our bottom line. And there was a definite strategy to think about growing our other businesses or diversifying the Company. And what's interesting about that is if you look today, after those acquisitions -- and I'll just look back over the last five years -- the Company has grown on a compounded basis -- this is ending in fiscal 2015 -- by 14%. The Cable businesses have grown by 9% in those five years and our other businesses have grown by 20%. So we have -- and while Cable is still a large part of our company, it is substantially smaller as a percentage of our total than it was. And we believe the growth prospects with Lucasfilm, Star Wars -- we're just getting started. The growth prospects for those businesses are even greater, so the diversification should continue.

So it was fairly straightforward in terms of the thinking. And just a few other facts that are interesting: since we made the Pixar acquisition, we've made 26 movies -- the Pixar, Marvel and Lucas acquisitions -- we've made 26 films under those brand umbrellas and Disney Animation,

because when we bought Pixar, we also used the talent of Pixar -- John Lasseter and Edwin Catmull -- to fix Disney Animation. The films that Disney Animation, Pixar, Marvel and Lucas have made, of the 26, 25 have been real successes. And I would ask you all to guess what the average global box office of those [26] films are -- not including *Zootopia*. Over $760 million, each one of those films has averaged. So that's an incredible success and so many of them -- that's just, by the way, box office. So many of them have been leveraged by our Consumer Products group, have become TV shows, and are showing up as Theme Park attractions and walk around characters and the like, and of course, you look at publishing and music. So it's been a very, very successful 10-year run with those acquisitions for this company, and as I said, in some cases, we're just getting started.

Bryan Kraft – *Analyst, Deutsche Bank*

I think one thing you said that was very interesting is that the really great content is always going to be rare, essentially, if I can paraphrase. And you're a big company and you acquire these studios, yet you're maintaining that creative integrity and the people that are making that content. How do you do that successfully, especially in all three cases?

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

All three are different, but I brought the same philosophy to all three, having been part of two companies -- working at two companies that were acquired. I was at ABC when they were acquired by Capital Cities in the mid '80s, and I was at Capital Cities/ABC when they were acquired by Disney in the mid '90s. I had a fair amount of personal experience in basically the dynamics of an acquisition, certainly when you are the acquired as opposed to the acquirer. And one of the things that I learned is that you look at a company and assets and you value those assets and sometimes the people. But you often overlook some of the dynamics of those companies that created the value that you were stepping up to pay for in the first place.

Culture is one. I know that sounds sort of granola-like in nature, whatever. But culture can be a very, very important part of -- particularly creative entities -- the value proposition of the Company. So, I basically applied a deft hand to all three of them, spent a lot of time thinking about it in all three cases. What was the essence of the business? How did they create their value? What was the creative soul of these businesses? Was it people, was it the brand, was it how they made things? And tried really hard not to screw all that up, but to basically keep, protect it, and leverage it.

In Pixar's case, we leveraged it big time by taking the management of Pixar and putting them over Disney Animation and just look at the movie that we put out this weekend, *Zootopia*, which is tremendous. And you look at the last four movies that Disney Animation has made, including *Big Hero 6* and *Frozen* and *Tangled*, and they are back in a big way and creating a lot of value. And there was a lot of skepticism when we bought Pixar because people thought that Disney would kill the Pixar culture, we'd lose the key people and we'd never make another good movie. And if you look at the success of those Pixar films over the years, we haven't done anything like that. Same with Marvel.

There were a lot of questions about how could Disney own the Marvel brand? The people who are making the Marvel movies, the key management people over those creative processes are still doing that. They have a good place in our company in terms of their stature and the support that they get, and the understanding that they get from us.

And then Lucas was another story because they hadn't made a film in 10 years. So when we bought Lucas, we thought hard about how we would approach making not only our first Star Wars film, but many more to come. And with a film that did -- has done $2.05 billion in global box office, I think, so far so good. I think we've done that right. You can look back five years or ten years and see whether that success rate continues, but I feel really good about where we are there. It's really important though, when you buy a company, to figure out how to assimilate it, meaning to get the value that you need. Sometimes it's reducing cost, sometimes

it's basically making better use of their people and their assets, sometimes it's co-location, there are all kinds of things. But you have to really figure out what creates the value and make sure you protect it.

Bryan Kraft – *Analyst, Deutsche Bank*

You brought up the point that the box offices have actually been a lot bigger under your ownership for Pixar, for Marvel and so far, for Star Wars. What is it that Disney brings to these studios, once they're brought in-house, that make them so much more commercially successful and, I think, in some ways more creatively successful as well?

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

I don't want to brag but we spend a lot of time really thinking about the creative process and managing it in a careful way so that we're not encroaching on the process itself, but we're pushing really hard for perfection. We're demanding basically to make things better. I learned a lot from Steve Jobs and from Ed Catmull and John Lasseter in Pixar and how they make their films and how they have a director and the idea comes from the director's heart and passion, but when that director makes the film, he puts that film up in front of his peers and the peers go to work on giving him the feedback that he needs to make the film even better.

And we've taken a similar approach to Marvel and to Star Wars – a little less so with Star Wars because we kept things under wraps for so long. But there is a hands-on active role that our Studio plays, run by Alan Horn and some of the executives there. I get very involved as well. And we really work hard to essentially demand quality and perfection. Now we're not right all the time, we have misses. But we feel generally really good about the process that we've created and we also spend a lot of time talking about the cadence -- how often and when and the slotting. And of course, we have a great marketing machine as well.

Bryan Kraft – *Analyst, Deutsche Bank*

If you look back three years ago, your Studio Entertainment operating margin looked pretty similar to the rest of the industry. Now you're outperforming the industry with margins that are two to three times the industry norm. As we look forward, how would you expect the Studio margin to continue to expand going forward? And if so, what factors do you think could drive that?

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

I don't think this will surprise you. I don't really look at margins as much as I look at return on invested capital in the movie business. And I think probably similar to margins -- I think up until about five years ago or so -- our return on invested capital in the movie business was probably similar to the industry's, which is not all that impressive. It's probably about 10%. That's just on the making of the movies. It's not on -- I'm not putting -- including TV business in there and other things. We rose that at our Studio to over 20% in 2014, and in 2015 it was close to 30% return on invested capital. Now that's not *Star Wars*. *Star Wars* is a 2016 movie. So we're really working on returns on invested capital in that business and we actually use it as a component of compensation.

Now 2016, we're off to a great start because *Star Wars* hit at the beginning of the year and *Zootopia*, I mentioned, which opened to the biggest numbers we've ever seen for Disney Animation, bigger than *Frozen* opened. We also had a miss this quarter in *The Finest Hours*, which is a live-action film and actually that will impact the quarter that we're in, the results that we announce in May, sort of negative about $75 million. And we also have a tough comparison this quarter to a year ago. A year ago, we had the results of *Big Hero 6*. This year, we had *Good Dinosaur*.

But overall, if you look at the Studio, given what I said about *Star Wars* and *Zootopia*, and then you look at the slate, because what we have coming up is a great live action *Jungle Book* film. I say live action -- a lot of computer generated animals. We have *Alice in Wonderland 2*, we have

Finding Dory from Pixar and we have a huge movie from Marvel early in May, *Captain America 3* called *Civil War*.

So we have a tremendous slate this year. I've seen each one of those films and they are really in good shape and of course, if you look later in the year, we have a Steven Spielberg-directed film called *Big Friendly Giant* or *BFG*, and then another Disney animated film, *Moana*, and a Marvel film called *Doctor Strange*, and then the end of the year we have *Rogue One*, which is the first Star Wars story -- or stand-alone Star Wars movie, and that's been made. Actually, you're going to see that in a few weeks, next week.

Bryan Kraft – *Analyst, Deutsche Bank*

Will you put the same kind of marketing behind *Rogue One* as you did for *The Force Awakens* or how do you think about that as -- ?

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

So *Rogue One* -- when we bought Lucas, we envisioned making three Star Wars, I'll call them, “saga films,” or maybe “Skywalker saga.” And *VII* or *Force Awakens* was the first. And we're shooting *VIII* right now and then *IX* will follow. We have a director for *IX* and so we're shooting *VIII.* Then we decided, with Kathy Kennedy who runs Lucasfilm, there were some opportunities to make some other Star Wars films that did not fit necessarily right in to that saga and we're calling them “Star Wars Stories.” So *Rogue One* will come out and will be called “a Star Wars story” and it's about a band of rebels plotting to steal the plans to the *Death Star* and it takes place right before what was George Lucas's first film, which came out in 1977, that is now called *A New Hope*. So it fits in a way into the continuum, but back -- I wouldn't even call it a prequel because it really is a stand-alone film, and we have others in the works including one which is an origin story about Han Solo and Chewy, and that will come after *Star Wars VIII* in 2018. And then they'll be possibly more thereafter.

In terms of marketing, because *Rogue One* sits on its own, not as part of the saga, I'm guessing that we'll market it differently, but aggressively, because I think there will be a need for us to explain when it happens and what it is and position it a little bit differently than the saga films. But I think given what *The Force Awakens* did, I think we start with -- in terms of *Rogue One* -- with a global interest in Star Wars that's much greater than it's been in a decade.

Bryan Kraft – *Analyst, Deutsche Bank*

And when you look at the Consumer Products and the Interactive businesses, which are obviously benefiting from all this IP that we just talked about, where do you see the big pockets of growth coming from over the next few years and is there any reason why we should expect the growth in this part of your business to slowdown from here?

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

Well, I said earlier that when we have success with this branded IP that we can leverage it and the leverage comes in a variety of ways, but Consumer Products is probably the most obvious, Theme Parks maybe the second most obvious. We don't give guidance on our businesses going forward, but in the last five years Consumer Products has delivered… 11% revenue growth and 20% OI growth over five years… I'm getting a yes. I'm right on those numbers, right? Which is all the result of the leverage that was created not just from that IP, we've also made some great IP out of Disney channel, but *Frozen* is in there, Marvel is in there, some of the other Disney movies and investments including the Pixar films are in there. Now, can we grow at that rate going forward? We're not going to -- we said we're not going to give guidance, but as I said we're just getting started on Star Wars. So there's definitely growth ahead there, but we've turned this into a big business for the Company, really significant with some great growth potential.

Bryan Kraft – *Analyst, Deutsche Bank*

Great, why don't we talk about the Parks a little bit, and I think maybe first I just wanted to ask you, in the capital markets, there's been a lot more macroeconomic uncertainty recently, maybe a little less over the last week, but people have been concerned about a slowdown in the economy. Just curious if you could talk about what you're seeing as far as the US consumer and the US economy given the Parks and the retail businesses that you are in. Any signs of softness that you're seeing?

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

Not in the US. No, I think the conditions for all of our businesses actually worldwide, save for a few places, are pretty strong. In the US, park attendance, advance bookings all very strong. The advertising marketplace is much stronger than we expected it would be and we're not going to update what we said on the last earnings call, but we gave some numbers that were certainly indicative of either a consumer or an economy that were stronger than a lot of people had considered.

So we're feeling actually fairly bullish about our business prospects in this market. In Europe, there's still some softness although *Star Wars*, I don't know, maybe that defies all odds, it had incredible results in Europe, particularly in the UK, in Germany and in France. And Consumer Products has been fairly strong there too. Asia -- Hong Kong has been soft. The Theme Parks had some difficulties this past year, but we generally feel good about that market. We feel very good about China and the prospects for Shanghai Disneyland, which I know you want to get into.

Bryan Kraft – *Analyst, Deutsche Bank*

Okay, great. And then on the domestic parks you're making some meaningful multi-year investments in the parks domestically. Given these investments, how are you thinking about --

not to get into guidance numbers -- but just how are you thinking about the growth outlook over the next three to five years given all these investments that you are making?

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

Again we measure it on an ROIC basis and our investments in the last ten years have driven substantially higher returns in that business than we had been seeing. Interestingly enough, I think some of that comes from the fact that the investments have been made in attractions and in shows in our parks that are tied to the branded intellectual property. *Cars Land* would probably be the best example of that -- we built in California Adventure and it opened about three years ago or four years ago, and that IP and the love people had for that IP I think had something to do with the returns that that investment delivered.

As we look forward, we have a fair amount invested coming up -- some modest*, Frozen* will have an attraction at EPCOT opening sometime this summer as a for instance. We licensed *AVATAR* from Jim Cameron and that's enabling us to expand Animal Kingdom in Florida and a big *AVATAR* land is going to open up in 2017. Ahead of that, we're going to open up a nighttime safari and a nighttime show that's sort of -- the nighttime show has some *AVATAR* themes in it. Then we are building two big Star Wars lands, one for Disneyland in California and one for Disney World in Florida, really big, and we're just breaking ground, but we're not -- we haven't announced when they will open. And then we announced last week at our annual meeting that we're going to build two more cruise ships. That's been a great business for us. We built two sometime after I became CEO. So we have four and we're going to put two more on the seas but they won't come until 2021 and 2023.

Those are the big capital investments on the domestic front. Of course, internationally we have an *Iron Man* attraction opening up in Hong Kong. We're looking at other possible expansion there and of course, Shanghai is the big one and that will open June 16.

Bryan Kraft – *Analyst, Deutsche Bank*

Let's talk about Shanghai, you've got the June opening. I guess maybe to start off, you've quantified the pre-opening costs for Shanghai, but the full impact on Theme Parks profit this year and in 2017 from the first operating start-up losses is still unclear. Is that something that you could shed any light upon today?

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

What we have said a few times is that we have $300 million in pre-opening costs that will hit the 2016 fiscal year. We've not given any other projections at all about what the bottom line of the business is. It obviously will not be profitable in fiscal 2016. Our fiscal year ends September 30th -- October 1st, and the park isn't opening until mid-June and we've given no guidance on what it might do in 2017 when it'll have its first full year of opening. But $300 million is the number for pre-opening costs.

Bryan Kraft – *Analyst, Deutsche Bank*

Okay alright and, I mean do you want to talk about -- I mean, we were talking before the presentation about Shanghai a little bit and you seemed pretty excited about it. I mean you want to make some --?

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

Yeah, it's hard for me not to get excited, but I've been involved for about 17 years in this project. I was sent there in the late 1990s by Michael Eisner to scout property and the Shanghai government, with the approval of Beijing, earmarked this particular village in Pudong. And this particular village now has rides on it that I've ridden already. So we're probably about 90% plus finished. We will open on time. It is big for an opening park, meaning in terms of size it's probably the size -- it's the biggest park we've ever opened on opening day, probably around the size of Tokyo when Tokyo opened. So, many more attractions, more capacity in general.

It makes a loud statement because we've done things big there, that castle is, for instance, the biggest Castle we've ever made. It is a lot of known IP and a lot of original IP and it blends something that we call authentically Disney with something that's distinctly Chinese. So we're being really careful of Chinese cultural elements and making the right statement in terms of not only being welcomed in China, but being correct culturally instead of the opposite, and I feel great about it. You're looking at a park that sits halfway between the international airport in Pudong and downtown Shanghai as the most populous city in the most populous country in the world. The deal that we made had the government build a subway that goes right to our door and will dump 20,000 people an hour to our door, it's a branded subway station called *Disney*.

They also have put in a lot of high-speed rail to Shanghai from other key markets. And there are other ways -- you can also drive there or take buses. And so if you look at the population base that can afford a ticket to this park -- and we've also announced pricing -- it's well over 300 million people that live within about a 3 to 3.5 hour trip, as we call it, to the park.

Bryan Kraft – *Analyst, Deutsche Bank*

That’s the whole population of the United States.

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

It would be as though the whole population of the United States could afford a ticket to Orlando and could get there within 3.5 hours no matter what transportation they used, which is pretty interesting. So I feel very good about it. We announced pricing and that was well received. When we announced what the park had in it, we showed a model, which we did last summer, we got an overwhelming response and interest there. We've done a fair amount of research, it is tremendous. So I think we're -- you don't know until you open of course, but I feel very confident about what we're building, what the reaction would be, it's an extremely unique product. There are a lot of theme parks in China now. Some of them actually are impressive, they're good, but none of them have Disney IP and none of them are built at this scale, this

quality, this attention to detail, and it's quite amazing, very exciting, looking forward to sharing it with everybody.

Bryan Kraft – *Analyst, Deutsche Bank*

And I wanted to also ask you, though, about Paris and Hong Kong. How are you thinking about improving the performance there? I know you've had the restructuring in Euro Disney. Should we be optimistic about the prospects for those parks going forward?

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

Well, I think you can be optimistic if -- in the sense that they should be profitable. In terms of how profitable, we don't give guidance. Paris is sitting in the middle of a relatively tough economic marketplace economically and Hong Kong has had issues in terms of visitation from the Mainland, which basically has decreased substantially over the last year, but it still sits in an area that has great access to Southeast Asia, India, as more and more people travel and we have seen that. I think the prospects are good and we are going to continue to invest. The Paris investment in capital is somewhat modest in nature, but we'll continue to invest. And I mentioned *Iron Man* in Hong Kong, we're also building a new hotel there and we're talking about other expansion as well with Hong Kong government.

Bryan Kraft – *Analyst, Deutsche Bank*

Okay, what about dynamic pricing in domestic theme parks, there's been some talk about maybe implementing that?

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

We announced it.

Bryan Kraft – *Analyst, Deutsche Bank*

You did announce it, okay.

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

So we've raised prices in our theme parks pretty much every year for the last number of years and we thought this time around we would raise prices, but smartly. And what we did is we introduced three tier pricing: value, which is about 25% in terms of number of days; regular, which is about 50% of the days in a given year; and premium or peak, 25% of days. These are for one day tickets to our parks, not for multi-day. Multi-day, there are a variety of ways to get discounts based on a variety of things -- time of year, but also number of days. And we believe that this was a smart way for us to take pricing up even though the value price, which is about 25% of the days, is actually about 5% lower than what had been the standard price before, but the regular price is about 5% above and the peak price is about 20% above. And we believe it will give us an opportunity not only to increase revenue because of the patterns of the way people visit, but also help manage crowding a little bit better because some of those peaks days we were closing very early in the day, which gives people a lot of heartache when they traveled to get there and can't get in because it’s too crowded, or if they can get in the experience is not optimal because there are just too many people. So we're hoping that it will slightly reduce the number of people on the peak days, make for a better experience and overall raise revenue.

Bryan Kraft – *Analyst, Deutsche Bank*

Why don't we turn to the Cable Networks side of the business. So ESPN, I know you've got fixed sports rights cost over the next several years. You've got fixed terms with the MVPDs until your contracts renew. I think there's this perception among a lot of investors that this creates an unsolvable problem for ESPN as the unit component of affiliate revenue declines, i.e., subscribers decline. What are some of the arrows in your quiver that could be used to solve this problem and stabilize margins over the medium- to long-term?

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

Let me first of all -- I think putting it in perspective a little bit, what we're seeing in the marketplace today is not that different than what we anticipated. What I mean by that is, we thought we would get to a point -- if you will look back five years, maybe ten, I guess it would be fair to look back ten years -- where growth in households was going to flatten out, basically end, and our pricing -- which as you know, ESPN is always priced robustly -- our pricing would moderate, meaning we'd be able to take increases, but not at the rate that we were getting them before. And with that in mind it's actually one of the reasons why we thought about diversifying the company more, because we didn't think we'd get the growth out of our Cable Networks that we'd gotten over a previous period of time.

So what we thought we would do is strengthen our competitive position in the marketplace and we did that by licensing great sports for long-term periods of time, investing in our content, original and live sports, and investing in digital, which is -- essentially means not only giving ESPN subscribers an opportunity to watch ESPN on mobile platforms, but giving us more touch points with the consumer. And the result is that we have strengthened our competitive position, we thought we would end up with distant number twos to ESPN and that's in fact what has happened, and I would probably guess that a lot of those distant number twos, they're -- maybe a few of them are losing money in the process. So we'd at least have a very strong competitive position. We also believe that there is still great value in live sports, this value in ESPN to advertisers, to customers, and to distributors. Let's not forget that distributors sell local avails in ESPN and they bring in more revenue from ESPN in terms of local avails than any other channel that's out there.

And I also believe sports and ESPN in particular is not niche in nature. So in 2015, 95% of all people who had multi-channel service watched sports in some form or another. And in one month, I don't remember if it was December or last month, ESPN was accessed in some form by 200 million different Americans -- not just the channel, but all platforms. So it's still a big business from a consumer proposition perspective.

Looking forward, you asked about arrows in our quiver. We're looking at a number of things. First of all, we think that we've got to crack mobile even more successfully than we have before. People do not want just a fixed experience or have to watch just in the home and we've given people, through WATCH apps, the ability to watch ESPN wherever they are. But the process of onboarding them, not just downloading the app or authenticating, it is more clunky than it needs to be. That has to be fixed. So that's one.

That I guess is in a way of our saying strength in the bundle. But I think we also have to be realists about this and we have seen erosion of the expanded basic bundle, which I said on our last two earnings calls in a very candid way, and I think it would be smart for us not to try to just either maintain the status quo or believe that we could fix the expanded basic bundle in such a way that it never erodes anymore. Do I still think that it will be the dominant form of people getting television in households for years to come? I do, but it's also important that ESPN be present in the skinny bundles, whether they're 2 million of them, 5 million of them, 10 million of them, we don't know, but ESPN should be part of those.

The other thing that we have to do is we've got to get even better at the digital side. And then eventually, which we're doing already, but create more and more product to be sold direct to the consumer.

So, you'll end up with essentially a mix of products that include ESPN: the expanded basic bundle, which will be the dominant one; skinnier bundles, which ESPN needs to be part of; and then some form of direct-to-consumer proposition that will either include everything or parts of things in terms of sports, because we think long-term, we need to be in the business as a company, and particularly at ESPN, of selling product direct to the consumer. There are opportunities that that provides that are significant enough, particularly with the brands that we have that we think we have to take them seriously and ultimately exploit.

Bryan Kraft – *Analyst, Deutsche Bank*

And you brought up the mobile opportunity. I'd say ESPN is arguably the best positioned traditional brand when it comes to the mobile advertising opportunity. Where are you in the process of executing on that opportunity?

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

We're growing our revenue on our digital platforms including mobile nicely, but off a small base. Now almost all of the packages -- advertising packages that are sold on ESPN to advertisers are multi-media in nature across all of ESPN services, and that's actually been good for both ESPN and for the advertisers. I think ESPN's done a really good job in terms of their mobile product and their mobile reach. It's a good experience. As I said, it needs to get better in terms of authenticating the subscriber of the expanded basic bundle. I still think there are more opportunities for us in terms of the technology side and getting -- basically getting their platforms right, they're good now, they can be great.

I'm proud of what we've done by the way and the team that's working on it is working hard to get even better at it. What we've done that's amazing is the ability to bring in sports highlights and then move those highlights in almost real -- virtual real-time to basically any platform that's out there, including very short-form video, website presence, app presence, phone alerts, you name it. They've done a brilliant job of that and that's really important in terms of your engagement, or customer engagement.

Bryan Kraft – *Analyst, Deutsche Bank*

And you mentioned the clunkiness if you will of TV Everywhere. Do you feel that that's something that's getting adequate attention in the industry? Because it's obviously not something that you can control. Distributors are involved. Do you feel like that's moving in the right direction or is that something that's --?

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

I think everybody is trying. I think there's still a lot of work that needs to get done both in terms of marketing efforts, meaning teaching consumers, letting people know that exists, and then teaching people how to essentially make use of it. But I think the making use of it, actually the whole cable ecosystem, which is unfortunately so reliant on legacy technology, needs to be upgraded in terms of user friendliness. That clearly is a gating factor to the consumer today and I think one of the reasons, and there are many, but one of the reasons why platforms like Netflix for instance are so popular is that, one they are tailor-made for mobile experiences and two, the user interface, navigation, search, those sorts of things are stronger than what the legacy cable technology could offer. And to young consumers in particular, but to all consumers, we have lost patience when it comes to finding things and using things and as soon as you hit a speed bump between yourself and something that you want, whether you're searching for something or whether you want to watch something or buy something, as soon as you hit a speed bump technologically or digitally, you go elsewhere. You just don't want to tolerate it. And that's something that I think the whole media industry needs to be mindful of. How do we get consumers to find our things easier and to use them under circumstances, whether it's mobile or whatever, that are much more user-friendly than they've been?

Bryan Kraft – *Analyst, Deutsche Bank*

How do you think about -- I mean you talked about skinny bundles through ESPN, I know you're one of the earlier programmers to do an agreement with Sling, what about direct-to-consumer for ESPN? How do you think about that? And I guess there's a bunch of things that come into my head like, I mean, one is rights, do you even have rights? And I guess two is, with the price points, does it even make any sense? Or is it much better just to go with bundles? When you think through that, how do you think about ESPN and whether, you know, it's a good idea or not to go direct-to-consumer -- or can you?

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

By and large, rights are not an issue. Legacy distribution deals in some cases are not that they limit us in terms of our ability to do it, but they limit us in terms of how we take it out to the consumer. I don't want to get into any details, but it can be done. It's just there are issues that we have to face in doing it. Pricing is one of them by the way. I think you have to look at the consumer as not one consumer that just wants 150 plus channels and wants to spend the money that it takes. I think what we see out there are a variety of consumers. Some that are fine with the big bundle because of all the variety that it gives them. They don't want to miss anything. When they turn it on, even if it's a program on a channel they've never watched, they somehow or another heard about it, they want to be able to watch it. Then there are some that don't want to spend that kind of money, either because they don't have the money to spend or because they're entertained or informed in a variety of other ways, but they'd like some TV and skinny bundles work for them. Is there a fantastic or perfect skinny bundle out there? I actually don't know. I know that, well I can't give numbers, but the Sling bundle has actually done well according to the DISH people that we talk with about it and there probably will be more of them. What their components are, I don't know, but I think they are going to serve a customer that isn't necessarily that interested or can't be served by the big bundle. And then there are customers that will want to buy things on an a la carte basis, and maybe there will be just sports fans, young sports fans, who don't want the bundle at all and maybe never will, but they want ESPN. And what we've got to think about is how are we going to serve them? It's also possible we can create new products for even subscribers to the bundles that include not all of ESPN but parts of it as I mentioned earlier.

So I don't think it's a one size fits all, nor do I think there is a switch that one day someone turns and suddenly we shut off ESPN and the expanded basic bundle and we go direct-to-consumer. I think there is a misperception there. I think that whatever happens probably happens gradually, and I think wherever we end up will not be one size fits all. But I do believe -- I believe in the brand value of ESPN, I believe in the passion for sports across the board, not just at ESPN, and the value of live. And all of those things at least give us the confidence that the

business of ESPN will remain not only successful, but will remain a growth engine for the company for years to come. I've just said it's not going to grow at the rate that it has grown in the past.

Bryan Kraft – *Analyst, Deutsche Bank*

So maybe also on the topic of direct-to-consumer, any early observations you can share from the *DisneyLife* launch in the UK or China? Are those services seeing any traction?

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

We launched a direct-to-consumer service in the UK called *DisneyLife*, just for those who may not have heard of it, and it is movies, windowed television shows, thousands of episodes, music, books, we're a big publisher of non-educational children's books, and some games. It's still early. I won't give numbers, won't even characterize how well it's done or not, except that we have learned a lot about it.

There are a lot of nuances to creating these things even from a platform and a technology perspective. How they behave on iPhones, iOS devices versus Android devices is one example of that. How they behave on a relatively high-end Android device and a low-end Android device. So, we've learned a lot about the technology. We've gotten a strong sense for our pricing, we're out at I think £9.99. We have learned a lot about marketing, which we haven't even kicked in, in a big way yet, we're doing that end of this month. And we've learned a fair amount about programming. What I mean by that is, what people want when they subscribe to the service, and it's largely movies and TV shows. The games and the books are nice, but they're subscribing to this for movies and television. And that Disney matters. Parents with kids under 12, even those that subscribe to Sky and a multi-channel bundle, are still interested in buying this as an add-on or bolt-on service for their children.

So what we've accomplished and we've really only just begun, I think launched in December or maybe Thanksgiving time, is actually significant for us as a company because the opportunity to launch this in other markets we believe is pretty great. We just haven't made any decisions about which markets and when.

Bryan Kraft – *Analyst, Deutsche Bank*

Interesting. We talked a little bit about Shanghai but more broadly, on China, you were early in setting your sights on China, I think it is a long-term growth opportunity and you're now three months away from Shanghai opening. You've launched *DisneyLife*. You recently announced an agreement between ESPN and Tencent. What do you think the biggest opportunity is for Disney in China as you look across the businesses over the long-term?

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

It's still a market where we all face challenges, but it's been a growth market for US-based or western media companies, mostly because the movie industry has exploded there. We know it's the number two market in the world now. It will become number one, different estimates, by 2017, 2018. So you can't launch a global tentpole these days without pivoting to China and figuring out how and when, how to market, etc. We had a good opening for *Zootopia* as a matter of fact. So I think it's a growth market for movies. As I said at the beginning of this conversation, some movies are leveragable in many different ways besides just the big screen, and Consumer Products is one way.

Now it's a fragmented marketplace but there is an opportunity for licensed merchandise, particularly branded licensed merchandise or character merchandise in China. There is a huge population base. A lot of this can be made at price points that are affordable to a large part of the population. So we think we can leverage the success of the films that we are making and distributing there and the park and Consumer Products across the business.

Television is another story. Their regulation is the biggest issue. We can't launch a channel. We can launch programs and we're looking for distribution partners like Alibaba and Tencent, etc., who have also, by the way, become good partners on the Consumer Products front as well, and some of them will be good partners in terms of park tickets, ticket sales. So there are opportunities to leverage television content but under regulatory circumstances that are more restrictive than most other markets that we face in the world.

Bryan Kraft – *Analyst, Deutsche Bank*

And we have a minute and a half left. Is there anyone in the audience who want to ask a question?

Audience Member

Thank you. Bob, when you say that you expect ESPN to be an engine of growth for years to come, could you just clarify if you're talking about for the revenue or if you're talking about operating income?

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

Overall, I'm talking about operating income.

Audience Member

Thank you.

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

That should be driven by revenue growth too but I was citing operating income. Also, one more thing, it doesn't mean it's smooth because there are certain contracts that kick in, like the NBA contract which kicks in in the end of 2017 and then flattens out obviously, but we have a new agreement, multi-year agreement with the NBA. So it's not necessarily a straight line.

Audience Member

Just talking about the mix of business as it stands today, are there any areas or new technologies that you think you should be involved in going forward and you think the mix of business will change over the next five years to any degree?

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

I don't think the mix of business changes that much over the next five years. I think in terms of investments, I can't obviously cite any specific ones, except to say that we are very interested as a company in successfully reaching people more directly.

When you look at the profile of our businesses, outside of our Parks and Resorts and our stores, which are limited in terms of the bottom line or revenue, all of our businesses -- all of our IP is distributed through third parties. In some cases very effectively, multi-channel distributors, big-box retailers, movie theater chains, etc. So nothing wrong with that, but our access to the consumer is very limited. We do not -- we don't have any idea who went to see *Star Wars* in the movies, by the way, and I think there are opportunities there that we need to figure out how to take advantage of.

So, I would say in terms of investment near-term, five years, investing in the technology or the people, technologically, that enable us to reach people more directly is a priority for us, as I talked about as it related to *DisneyLife* in the UK, for instance. But in terms of profile of the company, if you look at just the movie slate alone, what I said about Star Wars, what we've got with Marvel and Disney and Pixar, and you look at the growth engines of Consumer Products and Parks and Resorts, including Shanghai, and you look at the general state of our television business, I think you're not going to see much of a change in terms of mix.

Bryan Kraft – *Analyst, Deutsche Bank*

Okay. We're out of time.

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

Thanks, Bryan.

Bryan Kraft – *Analyst, Deutsche Bank*

Thank you so much, Bob.

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

Thank you all. Appreciate it

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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.