



The  
WALT DISNEY  
Company

## Goldman Sachs 25th Annual Communacopia Conference

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Disney Speaker:

**Bob Iger**

*Chairman and Chief Executive Officer*

### PRESENTATION

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**Drew Borst** – Analyst, Goldman Sachs

I'm very pleased to welcome to the stage Bob Iger of The Walt Disney Company. He is Chairman and Chief Executive.

As Chairman and CEO Mr. Iger is a steward of the world's largest media company and some of the most respected and beloved brands in the world. Mr. Iger has built on Disney's rich history



of unforgettable storytelling with the acquisitions of Pixar, Marvel and Lucasfilm and more recently with a landmark opening of Disney's first theme park and resort in mainland China in Shanghai. So thank you very much for joining us, Bob.

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

Thanks, Drew.

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**Drew Borst** – *Analyst, Goldman Sachs*

We're coming up on your 11-year anniversary as CEO. Under your leadership the company has thrived on many measures. As you reflect back on your time, which of your skills or attributes have been most important in contributing to your success in running the company?

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

Well I don't know whether I would focus on my skills and my attributes. I can just tell you what I did and what we did when I got the job.

The first thing, I think it's pretty important, it was pretty important, was to create and articulate a very clear strategy, one that was focused and one that we could communicate throughout the Company and outside the Company as well with great clarity and one that we could actually implement, one that was deliverable. Interestingly enough, doing that very much led to, even though it happened fast, the acquisition of Pixar and then the subsequent acquisitions that you talked about. As I look back on the 11 years, first of all, the strategy is still in place which is to put most of our capital in the direction of high-quality branded content, to use technology to distribute more broadly, to get closer to the customer, to make the product better and then to grow globally in a more profound way than we had been.

So just mentioning the things that you mentioned, I'm sure there's certainly a technology element to all this. I think it is clear that the strategy worked and the strategy is still working.



The other thing I would add, which maybe is a little bit more personal, and that is the willingness to take risks, the courage to ask questions about the status quo, challenge the status quo, the courage to be curious about things and to actually do new things, the courage to take big bets even though there's risk associated with all of them. I guess I was born with a little bit of that or enough of that to be able to do this job the way I've been doing it for 11 years.

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**Drew Borst** – *Analyst, Goldman Sachs*

Within the portfolio you obviously have a lot of businesses that touch the consumer and so I'm wondering if you could share some perspectives on what you see as the health of the consumer, maybe particularly in the US? We've seen some data points suggesting that the health of the US consumer is not so strong. Maybe you could talk about that broadly and maybe also provide a little bit of an update of how you are finishing out your fiscal year.

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

Generally speaking we actually see a relatively healthy consumer in the United States. We see that through a few different lenses.

Clearly theme parks is probably the biggest one and, frankly, our domestic business from both Orlando and California is quite strong. And we've seen no sign whatsoever of a consumer slowdown or issues with the consumer and I'd say looking forward the same would be the case, not just looking back. We will be more specific when we announce earnings in November but our advance bookings are relatively strong.

The other side we see is consumer products. For us that's retail mostly that can be cyclical based on product we have in the marketplace. But that's been strong, as well.



In terms of how we're finishing the year, we've had just a hair under 20% growth in the last, over the last four years as a Company. And through the first three quarters of this year, our fiscal year ends in a week, we've been up 17%. So that's been quite a run.

This quarter actually we're generally quite pleased with. There is a comparability factor. We had a 53<sup>rd</sup> week last year, fiscal 2015, and that's reflected from a comparability perspective in the fourth quarter that we will announce. And that amounts to about \$350 million of operating income as a negative comp and more than half of it, a majority of it, is cable networks.

But generally speaking we are pleased with the performance that we're seeing. Obviously, we will be more specific in six weeks' time.

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**Drew Borst** – *Analyst, Goldman Sachs*

So as I mentioned in the introduction, under your leadership you've made several notable acquisitions. And you recently made another notable one, the \$1 billion investment for a one-third stake in BAMTech with an option to increase to a majority position at a later date.

BAMTech is very different than some of the other acquisitions which were more content-driven: Pixar, Marvel, Lucasfilm. What led you to the BAMTech investment and this need to own rather than rent this technology capability?

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

Well, I will come back to the own versus rent but would lead us to it is what I touched upon when I talked about strategic priorities. We're a big believer in using technology to reach more people and to reach people where they are today and clearly we've seen dramatic increases in digital mobile media. We actually were fairly prescient about that, citing what could be a real trend or growth in that area back in 2005 when we agreed to put ABC TV shows on a quaint little device called a video iPod.



So we believed for a long time that mobile digital media was going to become a fairly big deal and, in fact, it has. It's still relatively small compared with some of the traditional platforms in terms of consumption but it's growing and it's grown significantly.

So what BAMTech represented to us, particularly for ESPN, was an enabler of sorts and a very high-quality one. We're extremely impressed with how robust, how great their platform was in the business they had created. It was a great way for us to move ESPN and probably other Disney assets onto digital mobile platforms in a more effective way.

One of the reasons why we wanted to invest is we thought it was a good investment. We believed in the growth of that platform and by investing and having a good seat at the table gives us the ability to learn a lot more about what worked, what doesn't work, what the consumer -- how the consumer is essentially using the platform, pricing issues, you name it. We thought that was really valuable.

Then, of course, for ESPN if you want to look at it just from that business perspective, sports is clearly something that a lot of people are really passionate about, particularly young men. They use mobile devices fairly frequently. ESPN's goal has always been to super serve their fans.

One way to do that is to be present in more places on more platforms. And so they viewed this as a great complement to the services that they already provide.

And then, lastly, ESPN when it licenses content, when it licenses sports from various leagues and schools, etc., and so on in almost all cases buys both traditional media rights and digital media rights. So ESPN has a treasure trove of digital rights for 99% of the sports that it covers that it is not fully exploiting on new platforms. And it fully intends ultimately to do that.



So there's a monetization factor here. And, again, owning I guess you could argue it wasn't absolutely necessary in that case. But this will give us the ability with BAMTech to create complementary product to ESPN and to mine the goldmine of those rights that ESPN has I think more effectively.

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**Drew Borst** – *Analyst, Goldman Sachs*

Can you talk a little bit about in more detail the strategy with the new ESPN service? We call it ESPN lite, I think a lot of people have called it ESPN lite. You've mentioned --

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

New service meaning the one that we've loosely discussed that we launch on BAM?

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**Drew Borst** – *Analyst, Goldman Sachs*

Yes, that one. Because on the last call you mentioned dynamic pricing options. Could you elaborate a little bit on what the plan is?

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

Well, right now the plan is at some point probably in 2017 with BAM we will launch a branded ESPN service that will include a lot of the rights that I just talked about, rights that we bought that we're not exploiting on the primary services.

We look at it as an add-on product, not a product that is a substitute product for ESPN, the mothership. So we've got this huge collection of rights that we can use to create an additional sports service. I think a lot of people think about it as a monthly fee or yearly subscription.

We haven't really gotten that far in terms of our planning. But one of the things that we have been talking about is that it should not be kind of a one-size-fits-all. You can offer the whole



thing to people who may want to pay for I'll call it that bundle of sports rights on a monthly basis.

But we think where the market could be going in terms of some of these sports is being able to buy it very, very selectively, a specific sport, maybe even for a specific season or a specific date, a specific weekend. This is what Sky does in the UK, for instance, with a lot of its Premier League rights. And we think that that could be really interesting for fans that may not want to buy another bundle of sports rights but maybe want very specific sports that they are willing to step up and pay for, again, provided it gives them mobility and the ability to watch wherever they are.

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**Drew Borst** — *Analyst, Goldman Sachs*

So find that passionate fan that's really into maybe it's more of a niche sport or a niche team and give them the option at a reasonable price to subscribe to that?

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

Yes, and again we're looking at this as a complementary service to what we already have. And I know a lot has been said about the future of the traditional media business, and I think we're pretty mindful of the fact that we've seen a fair amount of change over the last decade and we actually have been, as you know, very candid about that, as well.

We're not doing this, though, because we think that the current business model is in any way crumbling. We're doing it because we think we have more opportunity to reach more sports fans. And we are also doing it because we can't predict right now where the business goes over time or when it goes someplace over time.

But we certainly feel we need to be fully prepared for dramatic shifts should they occur. And this is one step in that direction.



**Drew Borst** – *Analyst, Goldman Sachs*

On sports rights, you are fortunate that ESPN, a lot of the deals don't expire for several more years. But we've also seen some new entrants into the sports television business from the Internet and technology space. I wonder what's your strategy in terms of trying to fend off these new entrants over the next couple of years?

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

Well, as I said a few minutes ago, save for a small percentage of the rights that ESPN buys we have those digital rights. So when ESPN is covering almost all of its sports there can't be a new entrant for the sports that ESPN has already licensed.

And you mentioned long term and there are deals for not only the primary leagues, meaning baseball, the NBA which kicks in in 2017 a new deal and the NFL, and then many of the major sports conferences, those deals could last a long time. So there can't really be a new entrant offering a side-by-side product for almost all of what ESPN has.

That said, when you think about these new entrants, and I thought Twitter actually did a very good job last week, interestingly enough, that platform was powered by BAMTech last week and will be which I think says a lot about that platform, because it was very stable. I checked it out as did a lot of people and I thought it was quite a good experience. They did a good job.

But you have to think about monetization capabilities of these new entrants. You can think about monetization capabilities even of the current entrants. Nobody can monetize sports better than ESPN for a variety of reasons.

First of all, the great combination of advertising and subscription fees which is, obviously, very large. ESPN's ability to monetize across multiple platforms and serve advertisers in multiple ways, as well. That's stunning actually when you think about what they've done.





They are far ahead of anybody else digitally in terms of sports I will call it television. And so while these new entrants are clearly interested in gaining rights to support their own growth or their own strategic growth priorities, if you think about them in terms of direct competitors to the current incumbent sports rights owners, and that's not just ESPN but NBC and CBS and Fox and Turner to name a few, the new entrants at least in the foreseeable future would have a really hard time monetizing anything close to the level of the traditional players.

And that doesn't mean they don't have the money to do so in some cases. They have the capital but they would dig deep into their pockets and be doing something that would be a loss leader and then some if they were to do it. I don't mean to in any way suggest complacency.

There's always been competition for sports rights. You could argue that that's not going away because of the value of live and the purity of that audience from a demographic perspective.

But I think that it will be a while before any of them can monetize close enough to what we've monetized. And, therefore, it's going to be hard for them to compete on an equal playing field, no pun intended. Level playing field.

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**Drew Borst** – Analyst, Goldman Sachs

Let's move away from sports and towards sort of the TV business. And it seems like the industry collectively made a lot of progress over the past year with in-season stacking rights, in-season VOD stacking rights. Disney announced two deals recently with AT&T and Comcast, two of the largest MVPDs.

But progress has been slow up until this point because the deals are very complicated, there's all kinds of pre-existing deals between distributors and production studios and networks. But I was wondering generally can you talk about your strategy for VOD and SVOD and how it has been evolving over the past couple of years?



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

I don't think I can give you many headlines except to say that we've had two goals on the television side. One is make great product, two monetize it as best that we possibly can. And when we think about ways to monetize it we are thinking about that over the long term, not just the short term.

It's been our belief of late, meaning over the last year, that obviously one great way to monetize is on the multiplatform, in a multiplatform, not multiplatform, sorry, a multichannel way through MVPDs. Clearly we're getting paid well for that. And, therefore, the stacking deals that we've done, which is to put in-season programs, in-season stacking on the MVPDs, is done because we'd like the MVPDs to continue to be able to provide us with monetization, a robust form of monetization over a long period of time. It's really that simple. And you are right. A lot of progress has been made.

That said, we also balance that with all the other buyers that are now out there for these rights. We think we are striking a good balance between out-of-season rights, meaning prior-season rights and current-season rights by putting current season on, giving current seasons to the MVPDs and the MVPD subscribers and selling prior-season rights to a variety of entrants into the marketplace of which we know there are many of them.

That seems right now to be a smart play for us. I can't speak for everyone else but it seems to be a smart play for us. And I think it's actually very pro-consumer, too, because consumers if they are really interested in gaining access to a show, particularly binge viewing under current circumstances, meaning current season, you don't want to send them to multiple places.

It's not a great experience. By being in one place, the channel that they can watch the show live or the platform and the channel or the platform that they can see all episodes of that show in this current season, that's I think a real positive from a consumer perspective.



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**Drew Borst** – *Analyst, Goldman Sachs*

Would you be trying over time to get to help reinforce the value of the traditional MVPD subscription, would you try to sell them even more stacking rights? So right now it's in-season, past seasons are being sold to others. Is there a demand from the MVPDs for those rights to the first couple of seasons?

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

No, not really. I think they'd probably like them but they know that there is a lot of value there and they are going to have to be competitive. If they stepped up and were competitive to the Netflix and the Hulu and the Amazons in this world, we have obviously all the interest in the world to sell it to them but they'd have to be competitive.

We would be leaving way too much money on the table for us and for our partners and our creative partners if we were to simply say all seasons of a show have to be on the MVPD because we want to keep that ecosystem healthy. That would be probably the wrong way -- that would not be pro monetization.

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**Drew Borst** – *Analyst, Goldman Sachs*

It's interesting. Because technology is helping enable some of this because on day one of our conference Brian Roberts came and he gave us a demo of their new XFINITY with the Netflix integration in it. And he ran through a couple of different searches, but one of the things he did is he searched for a political drama and it pulled up, obviously, *House of Cards* from Netflix and *Scandal* from ABC and a couple of others.

And it was interesting, when he happened to click on *Scandal* and there was the ABC logo which is important, so you get that branding still, but the in-season was through the X1 platform and the first, I forget, four seasons of *Scandal* is coming from Netflix. So the technology is helping



enable the consumer -- it's transparent to the consumer now who has what and where. It's probably a good thing, it's very pro-consumer.

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

Yes, I think -- listen, you have to think about it. I agree with you in terms of not just TV. But think about music as a for instance and you go to iTunes and you look for a song and you are not buying that song necessarily from the record company that publishes a song or even the album necessarily, you are doing it really because you want a song and it's findable across creators or distributors, its distributors in this case is Apple.

The same thing is true, obviously, you mentioned this for Netflix. But even Google and search terms you get those results from anywhere for the most part. And you can enable a brand to travel with a product which we try very hard to do.

It's a conversation we've actually had with Netflix because it's important that our brand, including the ABC brand but, of course, the Disney brand and the Marvel brand and the Star Wars Lucas brand, we want those to travel as well because that's quite important and quite important to the consumer. But in terms of usability, findability, technology is breaking walls down clearly between the originator of the content and the distributor.

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**Drew Borst** — *Analyst, Goldman Sachs*

Let's switch over to theme parks. Let's talk a little bit about Shanghai which has been open for more than three months now.

You had previously said over 1 million visitors came in the first month. How should investors think about the market potential and how quickly do you see Shanghai ramping up to full capacity?



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

We've had a fantastic opening for Shanghai starting with opening day. We're not updating specific numbers except I can say that had it not been for some typhoon-like weather there last week the first 100 days of Shanghai would have delivered more in attendance than any park that we've ever opened. And, in fact, it delivered more in the first 100 days than most parks that we've opened over the history of our theme parks.

What we do know is from guest satisfaction surveys that we take, and we are sticklers at that, we do that a lot, is that people love this park. They love the experience, that we have attractions and shows that are off the charts in terms of popularity.

We also see that because they are staying a lot longer per visit than we ever expected by a lot, almost two hours. So they are staying, they are coming to stay and clearly they are enjoying what they are doing because they are staying even longer than we ever expected. So I think it bodes really well.

We have ample expansion possibilities there. We are already building an expanded land which we broke ground on before we opened this park. We have not been specific about what it is or when it will open, and we have tons of land there to build even more and we are in design on a lot of it and discussion on a lot of it with our partners.

So I think that the fact that it is being well received by the Chinese consumer, and I don't know the exact numbers but virtually everyone that goes there is from China, that is a great thing for not only the Disney theme park brand but a great thing for Disney in that marketplace which was one of the goals. A great, great brand, a beacon for the Company.

In terms of what else it represents to growth-wise for the Company, we haven't really been that specific about timing to profitability or absolute numbers. I think we haven't even gotten to the



point where we have decided what we will say when we announce earnings in the quarter. But so far so good.

Actually I'd say it has exceeded our expectations in terms of the popularity of it and the likability of it. It was one of the things that we were very, very mindful of was opening something that was culturally sensitive and that would be viewed by the people of China as theirs and that's clearly been the case. There's not been one false note in that regard, and we are extremely proud of that.

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**Drew Borst** — *Analyst, Goldman Sachs*

I wonder --

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

You went, by the way. I just realized.

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**Drew Borst** — *Analyst, Goldman Sachs*

I did, I did go. It's an amazing park. It's an amazing accomplishment. And I do agree with you with what you said, I think you struck a good balance between the local culture and flavor with also having those distinctive Disney touches. It's an amazing park.

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

And by the way, the other thing we found interesting in the 100 days or so that we have been open is we knew that Shanghai was a tourist destination for the rest of China. But our anticipation when we opened was that the attendance would be dominated by people from Shanghai and actually it was dominated by people from China but outside of Shanghai.



What that told us that was really interesting was that the marketing was really effective and we didn't even market that much outside of Shanghai. And word-of-mouth has been great. And the fact that we captured the Shanghai tourist during a peak tourist season, obviously Chinese New Year is the other peak season, that's a really good thing that local people in Shanghai can go any time because it's proximate to them.

And actually our pricing dropped, we went to off-peak pricing this month, for instance, so it's even more affordable for the local resident. And we think that actually will end up serving us really well.

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**Drew Borst** – *Analyst, Goldman Sachs*

I'm wondering, you obviously have the Hong Kong Park. I'm wondering have you noticed any impact on attendance to the Hong Kong Park since you opened the Shanghai Park?

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

No. Hong Kong had had a tough year, in part because of some of the, I'll call it, political unrest in Hong Kong and drop-off. And it was significant visitation from Mainland China to Hong Kong. We've seen some improvement in that in the recent 10 to 15 weeks or so.

And we've been encouraged by that. But we have not -- and because we've seen actually a rebound in Hong Kong since we opened Shanghai, we are concluding that Shanghai has not had a negative impact on Hong Kong at all.

The other thing, by the way, that I should have touched on earlier when I talked about the consumer and I meant to mention it but now that we're talking about theme parks, we also said fairly recently that we've seen no impact in the United States and Orlando because of Zika. That's still the case, by the way. No discernible impact whatsoever from that.



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**Drew Borst** – *Analyst, Goldman Sachs*

That's good. So on the topic of the domestic parks I wanted to ask you about the margins which have been great. I mean, this fiscal year to date you're up 150 basis points to over 22%.

That's the highest we've seen in the trailing 10 years if not longer. Can you discuss the drivers of the margin expansion and what your outlook is generally for the potential to keep growing them?

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

Drivers are really two simple things: running them efficiently, great management at our parks, and second would be investment in great product. We made some really big and some really good bets. What we did in California at California Adventure is a great example of that with *Cars Land*, as a for instance.

What we've done in Florida with Fantasyland which was already done and adding a *Frozen* attraction fairly recently. Those made a big difference.

And in terms of going forward, we think we still have margin expansion possibilities. Part of that is due to a continued focus on being ever more efficient and part of it is due to the investments that we're making that have not opened yet.

So we're going to open up a huge Pandora or AVATAR land in Animal Kingdom. And we have expanded Animal Kingdom significantly, which of all the parks, the four key parks in Orlando, it was the only one that wasn't open at night. So it will become a full day experience. We also added a nighttime safari and some other entertainment.

We are also building two very large, the largest lands we have ever built, Star Wars attractions for Florida and for California. We haven't been specific about when those will come online but we're in the building process already, so we've more than broken ground. We think those





investments, particularly given the popularity of that franchise, will also serve us well in terms of margin expansion.

So that's two things: it is running the business well in making the right investments. And it's clearly paid off.

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**Drew Borst** – *Analyst, Goldman Sachs*

Driving top-line attendance and the cost base is relatively fixed. So it gives you the opportunity...

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

Yes, there's obviously increased cost base-when your footprint grows, you need more people and more maintenance and just more service in general. But the popularity of what we put in is so strong that the efficiency of that in terms of the cost to deliver increased visitation is very, very high.

That also, by the way, ties to the franchise. You were going to talk about the film studio, but it ties to the franchise focus of the company, too. The leveragability of those franchises at Parks and Resorts has driven real success in terms of margin expansion at Parks and Resorts.

The most popular franchises are appearing more often at Parks and Resorts, not just domestically but from Shanghai to Hong Kong to Paris to Tokyo. And that's when you put popular things in instead of things that people of never heard of before, obviously, that helps your business.

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**Drew Borst** – *Analyst, Goldman Sachs*

Yes, that's certainly a virtuous cycle. That's why those acquisitions that you made earlier, Pixar, Marvel have been so important.



But on the topic of the film studio, the global box office at your studio crossed \$5 billion back in July, which is the fastest any studio has ever accomplished that feat. What do you think is the Disney difference at your film studio with respect to the creative and film-making process?

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

Well, we made a decision I guess when I got the job that we were going to make fewer films, that we were going to focus on quality over quantity. We had seen some very sobering returns at our studio over the prior decade in both live-action and in animation and looked at the industry and thought that returns in general across the entire US movie business were not impressive.

And we thought one of the reasons for that is that too many movies were being made, too many bets being made, too much money being spent on at least at that point in the business that we didn't think was expanding much, just as with the volume of movies being released. So we said simply let's make fewer and make bigger bets.

We also thought that bigger bets, meaning tentpole films, had the ability to be leveraged more across the world, particularly as new markets emerged. And what's happened in the last five years in China is a great example of that. Tentpole films work really well there.

So fewer films, more tentpole films. And then, of course, we mentioned a few times the focus on Disney. We got out of the Miramax business, we got out of the Touchstone business because our returns on Disney films and the Disney brand were strong. So make Disney.

The investment in Pixar, obviously, supported that and actually gave us another brand to mine. Marvel, obviously, the same thing. And then, of course, Star Wars.



It's just really worked. Our returns have been phenomenal and record returns for our movie business. And the \$5 billion this year I think is a function of all we just discussed.

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**Drew Borst** — *Analyst, Goldman Sachs*

One of the things you do very differently than most of your peer studios is they are usually taking outside money. They bring in co-finance partners. But to the best of my knowledge I don't think you guys do that.

You wholly finance it yourself. And I don't know if that means you have more creative control and there's more of a vision on the direction of the movie. I don't know if you think that that's an important factor or not.

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

Combination of things. First of all, we don't need money. We don't need outside money to fund these.

We have a great capital structure. We believe in full ownership and full control forever because of the way we mine these properties across all of those businesses. And it just gets a little bit more complicated when you have partners even though contracts can wall that off, just cleaner.

Then we are in the business of taking big risks and we believe in our creative and marketing distribution capabilities. So the only reason to take outside money is to reduce risk. And we feel we've already done that with the strategy that we created to make fewer films and to focus on the films that we think matter the most to the global movie marketplace.

So outside money is absolutely no interest to us. It's been a while since we've taken it.



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**Drew Borst** – *Analyst, Goldman Sachs*

Yes. And you've talked about the returns that you've been able to achieve, 20% plus, is probably more than double the peer average if not more.

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

I think it's substantially more than 20%, too.

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**Drew Borst** – *Analyst, Goldman Sachs*

So I guess I wonder how much of the outperformance on these returns would you attribute to your unique combination of the studio plus consumer products plus retail and theme parks?

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

Well, not much. We are fortunate to have a great Consumer Products business and, obviously, some of the money that we mine from consumer products flows to the studio and is factored into returns that we look at. But, and I think at the prior conference I mentioned a statistic like this, but we bought Pixar and closed the deal in 2006.

Since then after we bought Marvel and Star Wars we released 29 films, make sure I get this right, under the Disney Animation, because we turned Disney Animation around when we bought Pixar, Disney Animation, Pixar, Marvel and Lucas, 29 films since then. The average global box office on each of those films is a hair, and I mean a hair, under \$800 million. So the returns that we talk about are not due to consumer products, they are due to the success, the direct success of those films.

And the fact that we've figured out, it's not perfect science, obviously, and we have made some mistakes, but we've figured out how to improve the odds of making good films. And we also have, we've got great talent at our studio led by Alan Horn. But then what we've done is we've



created the individual sub-Studios, Pixar and John Lasseter and Ed Catmull and they run Disney Animation, Marvel under Kevin Feige and Kathy Kennedy running Lucasfilm.

And they basically have creative say over what they make with, obviously, the watchful eye and hand of Alan and the Studio team. And then what we've done is we've created great efficiency across the Studios on the marketing and distribution and technology front. So we have a great system in place, run by really strong people managing great brands, telling great stories and also thinking long term.

So most of the movies we make are not one-off movies. I had a meeting yesterday with Kathy Kennedy and we mapped out, well, we reviewed the Star Wars plans that we have until 2020. We have movies and development for Star Wars until then and we started talking about what we are going to do in 2021 and beyond. And so she's not just making a Star Wars movie, she is making a Star Wars universe of sorts.

And we had a similar meeting with Marvel, I don't know, a week and a half ago to plot that out where we've got movies either in development or production, some nearing completion through the end of this decade. And we, too, are starting to talk about what do we do the next decade and so on.

So I think it's a very, very different approach. I will say since we're on the subject, I did see *Rogue One*, which is really interesting in terms of the Star Wars storytelling. This is the film we have out this December.

It's what we're calling a Star Wars story. So it does not fit neatly into what we call the Skywalker saga: the first six were George's, the seventh was the one that we released last December.



The eighth is fully shot and being edited, that comes out in December of 2017. And then the ninth, we just had a pitch from the director because he's just going into preproduction and that comes out in 2019.

Then in between, we have *Rogue One* which is this December, which is about a band of rebels that are plotting to steal the plans for the Death Star, a story that will have taken place right before George's first movie. And then we have a movie coming out a couple of years that is an origin story about Han Solo and Chewie and we've already cast a young Han Solo.

And then we are already developing another Star Wars story for I want to say 2020 but even I'm starting to lose track that we know, we have not announced what it is but we've got a writer on it already. But *Rogue One*, it's an experiment of sorts because Star Wars has only been told as a saga and this is a moment in time and we've loved what we've seen.

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**Drew Borst** – Analyst, Goldman Sachs

I think you've been setting records on number of views of the trailers online --

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

There's a lot of curiosity about it because it's Star Wars. Yes, the marketing material that we've had out has been extremely well received. We've not ever felt it would do the level that *Force Awakens* did, but we've been very, very encouraged that the level of interest in this is as high as it was for *Force Awakens*.

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**Drew Borst** – Analyst, Goldman Sachs

Let's talk about Consumer Products in a little more detail. The licensing and publishing revenue has kind of been a straight line up over the past three years to nearly \$3 billion. It's almost 1.5 times larger than it was three years ago.



The trailing three years have certainly had a tremendous content cycle: *Frozen*, *Star Wars*, Marvel and that obviously flows through on the consumer products. As we look ahead, how should investors expect the growth to look? Can you sustain this or do we have a little bit of a plateauing?

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

Well, we've doubled the size of Consumer Products from a bottom-line perspective over the last four years and that's huge. We certainly don't believe we're going to do that. Some of that happened as result of the acquisition of Lucas and bringing Marvel onboard.

We still see growth. We are not really predicting how much how fast. There's some ins and outs.

*Frozen*, which stayed stronger longer than we thought, has waned slightly. But we do have another *Frozen* movie in development but that's for later on.

We also have *Cars* being made and *Toy Story* being made and I mentioned *Star Wars* and Marvel. And Sony will distribute *Spider-Man* in 2017 but we are making *Spider-Man*, we are rebooting *Spider-Man*. And we introduced the new *Spider-Man* in *Captain America: Civil War* this past year.

So we feel good about that. That will help Consumer Products because *Spider-Man* is the number one Marvel, licensed Marvel character. So I think there's growth ahead for Consumer Products, but it will not be nearly as dramatic, it can't be, as it has been the last four years.

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**Drew Borst** – *Analyst, Goldman Sachs*

Okay. Why don't I see if there are any questions from the audience? Wait for the mic, please.

**Unidentified Audience Member**

Thanks Drew. Good morning Bob. On the last call you were quite generous in terms of talking about your strategy with ESPN from a distribution perspective.

Could you share a little bit how, what the go-forward strategy for ESPN's product and programming going forward, how it will remain relevant with young generations, grow audience, grow engagement, etc.? What will the shift, how will that product look in three or four years from now?

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

Well, I think the primary programming approach ESPN will take is not going to be all that different than it is today. I hope I'm right about this but one of my team will correct me.

I think they will present in this year 55,000 hours of live sports. Actually the company is somewhere in the neighborhood of 75,000 hours of original programming, 55,000 of that from ESPN.

That live sports product will form the basis of ESPN no matter what platform ESPN sits on. So I don't think it will change.

They have talked about wanting to continue to reinvent their studio programming and strengthen their studio programming. They've made some changes already from a personnel perspective on that. They continue to consider ways that they can do that.

They've also added to programming with I think some pretty unique product, the *30 for 30* product as a for instance which will become a nice brand, it will be a small business but a nice brand enhancement for ESPN. What they did with the OJ, their OJ documentary or their OJ series I thought was brilliant.





So I don't think we will call it a creative approach, it changes that much. We talked about how long they've licensed these sports, as well. So I don't think the menu of sports changes.

What I think will change is what we talked about which is being more present in a more user-friendly way on mobile platforms so that their ubiquity is greater and the convenience is greater and possibly creating product that's much more tailor-made or personalized, customized, personalized to their consumers who might be interested in more of a specific sport. I think that's pretty much it.

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**Unidentified Audience Member**

And who do I check in with the Chewie role?

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

Who do you check in for the Chewie role? How tall are you?

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**Unidentified Audience Member**

6'4".

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

6'4", you're not tall enough. The actor who originally played Chewie I think was just under around seven feet. Was it Peter Mayhew? I think Peter Mayhew is his name. And Peter, he voiced Chewie in *Force Awakens* but the actor who is playing Chewie, not necessarily voice but in the costume in *Star Wars 8* and in the movie that I talked about earlier, is about seven feet as well. So sorry, you are too short.

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**Unidentified Audience Member**

Could you talk about Disney Interactive please?



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

Yes I can. Disney Interactive has tried a lot of things over the years. Some have worked, many have not.

When we have gone the self-publishing route we have, generally speaking, delivered results that were not as attractive as we would like or demand of ourselves. And so we find ourselves currently licensing more than publishing in virtually all of the product that we are that is out in the marketplace.

There are still some vertically-created games largely coming out of our Asia games unit where they've had some real success. But they are modest in size, meaning total number. And our approach is likely to be, particularly since we've gotten out of Infinity which had a good run, the first run, but then tailed off in the second and third iteration, the approach is likely to remain the same which is license, not make. One of the biggest successes we've had doing that in the last 12 months has been the EA relationship that we created with *Star Wars*, for instance, which was hugely successful both for them and for us.

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**Unidentified Audience Member**

Bob, the market in its wisdom just floated Formula One and gave it a valuation of around 17 times cash flow. So you've got this sports business sitting in your company, and from time to time people would say this is the most valuable cable network there is.

And it's hidden in the cable networks so that people can't look at it on a segment basis and put a multiple on it. Have you or the Board considered breaking out the profits of ESPN within the company's reporting system so that perhaps those people who might value it higher than the corporate whole for various and sundry reasons might be given an opportunity with real data rather than just trying to guess?



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

There isn't enough speculation already about ESPN or enough talk about -- you want it more from speculation to specificity. I think there's enough pressure on ESPN in terms of its bottom line, which is still healthy and is still growing and will continue to grow. We have the new NBA deal in 2017 I will remind people which we have talked about, which is a slight hiccup for 2017 but we believe ESPN is going to continue to grow, albeit not at the rate that it has grown over the last decade.

So it's still a healthy business. The way we manage these businesses is we distribute them, meaning our Media Networks, with one entity. We've actually talked about creating even more synergies in other areas to reduce some expenses and be more effective.

And we've just felt that putting a brighter spotlight on the business may be creating even more pressure than we've already seen and is not necessarily something that we want to do, we don't feel it's a necessity for us. We don't have a need. We think that ESPN is the most valuable network that's out there.

We're not going to put a number on what that is. But I guess that's for all of you to figure out.

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**Drew Borst** — *Analyst, Goldman Sachs*

Okay, well we are out of time. Thank you so much Bob for being here.

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

Thanks very much, Drew. Thank you.

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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](http://www.disney.com/investors).