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Disney Speaker:

Bob Iger

Chairman and Chief Executive Officer

PRESENTATION

Michael Nathanson – *Analyst, MoffettNathanson*

Good morning, everybody, and thanks for coming. We are really excited about today's lineup and it starts with Bob Iger, Chairman and CEO of The Walt Disney Company. Bob, thank you for being here, we really appreciate it.

So next month you will debut Shanghai Disneyland, a project that is 17 years in the making. Can you tell us more about the park and why you are so excited about getting this done?

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

Yes, 17 years in the making -- actually the reason it is 17 years is the first time I set foot on the property in Pudong just outside of Shanghai was 17 years ago. So, it is a project that is near and dear to my heart. And I brought footage, which I'm going to show you in a minute, but I am incredibly excited about it for a number of reasons.

First of all I think we have built something great, as I'm going to show you. But the opportunity that it represents for The Walt Disney Company -- not just for that business unto itself, but for the entire Company as it plants a stake deeper into the largest market in the world in terms of people -- is extreme. It is just what this can give birth to I believe over a long, long period of time could be very significant for the Company.

So we are opening June 16, just about a little less than a month from now. It is kind of hard to believe we have been involved so long. And we have for the last three or four weeks been gradually letting people in so that we achieve full operational readiness for opening when we truly open the gates officially. So the people going in are mostly friends and family.

But let's run the video, this was taken just a few days ago and this gives you an idea of what we are talking about. Stop right there. So, basically that area up above is the park itself and the building with the red roofs at the bottom, right there, is the Disneyland Hotel.

And this is a lake and a park area that we built, which is open to the public without a ticket for now. 400,000 people have visited there in the last couple of weeks. And there is nothing but a path around and some food shops.

But to give you an idea, we have over seven square kilometers of land. So even though we are developing this and this, this pad here, this pad here, this land here, this land here and land all the way over here is all ours. So we've built something, as you will see, that is pretty big. But we have a lot more opportunity.

This is the Disneyland Hotel; it is a luxury hotel, about just over 400 rooms, and the lake. And then this is the Toy Story hotel which is we call our value priced hotel. About double the rooms, about 800 rooms.

And this, if you stop it, this is what we are calling Disney Town. So this is retail, dining and entertainment. And what we are doing, we are basically standing at the foot of the park. And this is two streets that we built. You can't really tell from this picture, but the architecture is very Chinese. I'm going to talk about the influence of Chinese culture in this park which was very important to us.

But these are two streets, retail, dining and entertainment. And that building, that larger building over to the left is the Lion King Theater where we are running Lion King, the Broadway version, every night. Julie Taymor directed along with a Chinese director and that is a separate ticket.

We can keep going. This is the entrance. And from the very entrance you will see how we really approached this from a cultural perspective. So if we went back, there is only one place in the park where English is on top and Mandarin is on the bottom, that is at the opening, Shanghai Disneyland. Right below it is in Mandarin.

But the mandate here in terms of what we wanted to build was build something that is authentically Disney but distinctly Chinese. That is really important because we have been asked a number of questions along the way in terms of what are we doing here that is perhaps different than how we have entered other markets, what are we doing here that will make this park successful in China.

And one of the critical elements was making it distinctly Chinese. Making sure that the people who visit this park feel that it is theirs. And one way to do that, obviously, is with language, but there are many others.

This gives you just a sense for what you see when you walk in. And along the lines of authentically Disney distinctly Chinese we eliminated Main Street. Every park that we have built around the world, five locations including Hong Kong, Paris and Tokyo, have Main Street, which is Main Street USA, which is modeled loosely after the town that Walt Disney grew up in, Marceline. We eliminated that here and this is just something we call Mickey Avenue. Mickey Avenue, all the buildings are based on Disney IP. And it is shorter so that you get right into the fun.

And then the castle, this is actually significant for two reasons -- and I will stop it here. This castle is the largest castle that we have ever built and by far, by the way. And it was built not just to be a building for people to look at but a building for people to experience.

So it houses a big -- really big restaurant, there is an attraction in the castle, there is a boutique where girls and boys can get made up and dressed in different Disney costumes. And then there is a gigantic show as well at the foot of the castle.

The size though was very important because we wanted to make a very loud statement in entering the Chinese market. Another thing that we thought about here is if you are going to build in a new land, if you are going to bring Disney with all of its reputation and from the theme park perspective to a market as big as China you have to make a loud statement. And that is what we are doing.

And we are starting by building -- we started by conceiving of a castle that is the largest that we've ever built because of the statement that that makes. And the rest of the park is a loud statement too. We also eliminated what is essentially a concrete hub in all of our other parks and built a gigantic park in front of the castle that has water features, etc. This is another example of distinctly Chinese.

This is essentially a Disney show that will run six times a day at the foot of the castle with Disney characters. But it was conceived and designed by Chinese artists. And so, all the costuming is very distinctly Chinese. Yet we have a Disney parade that is authentically Disney except for the *Mulan* float, which is distinctly Chinese.

This is also important because this is a big statement as well. On the main hub of the park that we built in front of the castle is a gigantic teahouse, Chinese Teahouse, with multiple rooms and each room is essentially a room that represents an area of China, not just in terms of art and architecture, but in terms of cuisine. Again a loud statement, right when you come in, that this is very much a Chinese park.

And there is the castle to give you an idea of the scale -- all usable inside. And this is another attraction, a boat ride attraction behind the castle, Disney characters throughout in this particular case. *Alice in Wonderland* Maze. That coaster at the bottom is the Seven Dwarfs Mine coaster. Walt Disney brought *Snow White* to China so they know the Seven Dwarfs well.

This gives you a sense of Pirates. Pirates, instead of making an attraction, we turned into a whole land. One of the things we also did here is we thought hard about what elements of this park would resonate in China.

And we knew that Frontierland, which is in a number of our other parks, was very much an American West derived land created by Walt Disney for Disneyland, and was not going to work. And so, we created essentially Piratesland which we are calling Pirates Cove. It has a *Pirates of* *the Caribbean* attraction, but it also has a stunt show and canoe rides and many, many other features and it is gigantic.

That is the Pirates attraction in the back. But this is all part of Piratesland. I would sing yo-ho yo-ho, but I won't.

This is interesting only because I think it gives you a sense for how technology has evolved for us. I think many of you who have been to our parks know that Disney, Walt Disney, brought Audio-Animatronics to our parks years back. The characters that exist in a lot of our attractions, somewhat rudimentary in nature in some cases. Well, now technology allows us to create things that are very, very lifelike. And so this gives you an idea how that has evolved -- Davy Jones in the Pirates attraction.

The other thing we did is after buying ILM - well after buying Lucasfilm and getting ILM -we turned to the technology folks and the artists at ILM and created an experience for the inside of Pirates that really gives you a sense that you are not only sailing in a ship above the water but actually going beneath the water. And the effects are incredible. So this is taken from the vehicle in the Pirates attraction.

This is another land, which is Adventure Isle, and that is a huge raft ride with a climbing course around it called The Challenge Trail. I think this is the highest mountain in Shanghai (laughter). By the way, I know it is. We built it -- by the way, we built it high enough to be significant but not so high that the equivalent of the Chinese FAA would have forced us to put a red light on the top.

That is The Challenge Trail, which is pretty cool, where you basically clip in and walk around the mountain. Which I tried in a pair of loafers a few weeks ago and I don't recommend that.

I think this all gives you a sense we built something with real scale. Everything you are looking at right now is the park. There is the raft ride with the castle looming in the background.

This is another thing that I think is a good example of distinctly Chinese. We hired a Chinese director named Li Xining who happens to be a general -- was a general in the Chinese army as well. And she interpreted *Tarzan* for us but with a Chinese acrobatic troupe from Wuhan. So it is the Tarzan show with the Phil Collins *Tarzan* music from the film, but with Chinese acrobats all directed by -and all Chinese performers all directed by a really fine Chinese director.

And this is Tomorrowland, that is a *Tron* roller coaster in the background, or we call them light cycles from the *Tron* film. Pretty cool. Trying to envision Tomorrowland in today's world was interesting too because the vision of tomorrow that we have -there is the actual ride vehicle where you get on the equivalent of these motorcycles that go 60 miles an hour. I highly recommend it actually, but not after a big breakfast.

That is the castle at night; we have a castle show at night using a lot of technology as well projecting onto the castle. That gives you an idea of what you can do today with technology. That is the castle; this is part of the show.

I think this is the end, right? Yes. Anyway, there is a tremendous amount I didn't show you, but this gives you an idea of what we are doing. We have had about 100,000 people cycle through the park and 400,000 people visit that lake. And so far the reaction has been extraordinary. But we will know for sure in about a month.

But we feel really, really good about this -- not just what we built and the size and the statement that it makes in China, but, as I said earlier, the opportunity that it presents -- not just expanding this because of the land that we have available, but also what it will mean for Disney in China.

The other thing is this sits -- to give you a sense, if you would land in Kennedy Airport and drive to Manhattan, this would be kind of the equivalent of Queens, meaning right between the main airport and downtown. So when you land in the main airport in Shanghai and drive to the other side of the Bund area of Shanghai you pass Disneyland Shanghai. So it is incredibly well situated.

We also have a subway that goes right to our door which will bring about 20,000 people an hour literally within walking distance to our front gate. There are 330 million income qualified, or people who can afford a ticket to our park, that live within a three hour trip to this park. So, the potential market just in a very proximate area is gigantic.

Michael Nathanson – *Analyst, MoffettNathanson*

Have you brought in any Star Wars or Marvel characters?

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

Yes. So, when we started designing and building and we had -- when we started designing we had to really know what we wanted to build -- we hadn't bought Lucas yet. So there will be a strong presence of the *Star Wars* characters -- I have a good picture of myself and Darth Vader and some storm troopers from last week -- in Tomorrowland.

And what we did there, and with Marvel, is we built these gigantic tents and inside the tents are character meet and greets, merchandise and a lot of video. So, in the Star Wars case there's a whole history of Star Wars in a theater in the tent. And then as we expand we have opportunities for both Marvel and Star Wars in terms of potential lands and attractions.

So the characters will be there, they will each have their own home. And when I say tent, it doesn't look like a tent, they are buildings. But they are a little more temporary than a typical building. So there will be good character presence but no attractions when we open. But clearly as we think about expansion we are focused on core franchises and brands like Star Wars and Marvel.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, let me turn to domestic parks. What changes have you made to the strategy or the asset base to drive margins to this level?

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

Well, we have done a really good job of growing margins and of increasing return on invested capital in our Parks segment and across the Company, but in our Parks segment specifically over the last decade. By focusing on really core brands and core character franchises, which have tended to have better results, Cars Land in California Adventure is a great example of that, than if we just brought in more generic intellectual property.

Interesting, you saw just briefly in the Shanghai Disney footage, *Frozen* characters in the parade. In the last week and a half I have been to a run through of a *Frozen* show that is just going into Disney -- into California Adventure in California. I've seen a *Frozen Sing-Along*; we have a 1,200 seat theater at the park in Shanghai for *Frozen*.

And there is *Frozen* in the parade, and *Frozen* in the castle show. And I sat on Friday here in New York in a run-through of the *Frozen* musical that we are starting to develop for Broadway for 2018.

I raise that because by focusing on these core brands and core franchises our numbers are better. And we leverage the success of, in most cases, what started as a successful movie across these businesses in ways that have enabled us to grow the bottom line, grow margins and grow return on invested capital.

We've also managed our costs extremely well in our Parks segment which has given us an opportunity to grow margins. But a lot of it starts with building the right things in the right way at the right time. And that is where these brands and these character franchises have so much value.

Michael Nathanson – *Analyst, MoffettNathanson*

And going forward domestically, are there any new attractions or gates that you look forward to keep driving that forward?

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

Yes, we are building two very significant *Star Wars* Lands in Anaheim at Disneyland and in Orlando in our Studios Park at Disney World. We have an *Iron Man* attraction that is going into -- that is being built in Hong Kong and opening up next year.

We have plans for Marvel that we have not specifically announced, so I don't want to get any more detailed than that. But we have got concepts for a really good Marvel presence. I might probably reel off a number of other things -- even right down to making sure that the *Zootopia* characters are in our parks.

This is a film that came out in March. And the last I checked had done $980 million in global box office. And we have already put the characters at Disneyland and there is a line waiting to meet them. And it also did extraordinarily well in China. So the characters will be in Shanghai Disneyland as soon as possible.

These things all help a lot in terms of the margins and the returns on investment in these parks.

Michael Nathanson – *Analyst, MoffettNathanson*

Yes, I was going to mention, we did an analysis on return on invested capital over the past decade. Disney has had a tripling of return on invested capital since you have been there. It is near the highest of the peer group, which is impressive given the asset mix that you have historically [we thought] lower ROIC businesses.

So, I wonder how have you accomplished that return on invested capital improvement given the footprint, which is different than some of the peers who are more cable networks only?

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

Well, we looked at it when I came in and clearly we thought there were opportunities to improve returns. And one of the things that we did, which had been done actually just right before I became CEO, we emphasized it even more when I became CEO, is we tied return on invested capital to compensation.

So, it became a critical metric in the compensation of key executives. Actually it went beyond just key executives. We spread it pretty much throughout the organization, multiple businesses. And we got very specific about it including with the studio.

Where the return on invested capital in their films was known, we basically had estimates of what it would be and we created metrics against it and we bonused the studio executives. It was kind of unheard of in Hollywood. And that certainly helped because it just created a focus obviously and an incentive.

The other thing that was very, very clear, which I think goes back to when I came in, is that our returns on invested capital would be better if we focused on core brands and franchises. So there were -- when I became CEO we were making more non-Disney movies than Disney movies. We were making movies under the Buena Vista brand. And if you looked at the returns on those films, they were all probably mid-single-digits.

And I don't have the specific number in my head in terms of the returns on the Disney branded films, but I know that they are substantially higher. We then bought Pixar, we bought Marvel, we bought Lucasfilm. We believe that the return on invested capital in those three movie brands could be much higher than the industry returns, meaning not just the Walt Disney Company but across the industry.

And it is interesting because since we bought Pixar we have made 28 films under the Disney Animation, because we took the Pixar team, John Lasseter and Ed Catmull, and put them in charge of Disney Animation and asked them to revive it. So Disney Animation, Pixar, Marvel and Lucas, 28 films, average global box office $780 million on those 28 films.

And I can tell you, if you look at the return on invested capital on those 28 films, they would make the rest of the industry look silly, like really silly. It is significant. And there is a reason for that.

Now the other thing you have to do is you can't just put a brand on a movie and you can't just make a movie because the concept is right. You have to execute against it. And while we have not been perfect, we have had misses and we will continue to. But we have had fewer misses because we have also had just a tremendous attention to detail when it comes to making these movies good.

And I give John Lasseter and Ed Catmull and Kathy Kennedy and Kevin Feige and Lou D'Esposito from Marvel and Alan Horn a tremendous amount of credit for the attention that they pay to making these movies stronger. And by the way, it affects their personal bottom line because, if you look at the returns on the movies they are making, they are better and their bonuses are higher.

Michael Nathanson – *Analyst, MoffettNathanson*

We hear often you are just getting lucky. But within that answer there is a method to that --.

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

Well, I don't think 28 films at $780 million average global box is lucky, actually.

Michael Nathanson – *Analyst, MoffettNathanson*

Right.

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

Now we are going to have some films that miss at some point. I'm not going to suggest we are unlucky, [thus] there is reason for that happening. Usually if you make a really good film it is going to do well in today's marketplace. If you make a bad film it's probably not going to.

Michael Nathanson – *Analyst, MoffettNathanson*

You will know about it, right?

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

Because you can't hide that any more.

Michael Nathanson – *Analyst, MoffettNathanson*

Right. One of the interesting things that you did is when you bought Pixar, Marvel and Lucasfilm you kept them separate; you kept the cultures on their own. Why did you do that? And is that part of the success in not blending them into one big brand?

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

They were all different, meaning they all had elements that I thought were part of the value proposition -- that contributed to the value proposition. In Pixar's case there was a culture at Pixar that was very distinct and really valuable and important to the people who work there.

And it was really important to all of us, including Steve Jobs at the time who sold us Pixar, that we preserve that culture because we thought it was a major contributor to the creativity and it also was a major contributor to retention of core talent. And we have retained all the talent there.

And there wasn't a need for us to impose a Disney culture on them. Now there was a need for us to create efficiencies when it came to marketing and distribution globally and efficiencies when it came to Consumer Products and we have done all that. But we have managed to essentially create efficiencies without destroying culture.

Marvel, completely different, but they had a love and appreciation of their brand that no one at Disney had. And so, by just sort of -- I don't know, sanitizing them in some way or bringing them into Disney in a way that made them more Disney than Marvel, over time that would have had, I thought, a negative impact on their films.

And Lucasfilm really completely different because they didn't have any movies in production when we bought them. But there was obviously a deep knowledge and appreciation for all things Star Wars that would have taken us years at Disney to figure out.

So, keeping the people that lived and breathed *Star Wars* was pretty important, if not vital, to getting the first movie made right. And we did and I feel great about that.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay, let me turn to ESPN. Benjamin Graham was the father of value investing -- many of our clients know who he is – he said in the short-term the stock market behaves like a voting machine, but in the long term it acts like a weighing machine.

The market went into a panic last summer when you updated your cable network guidance. And as you have long stressed, you manage the Company for the long-term, not for quarterly guidance. So, what do you think the panicked crowd about ESPN is missing when it comes to the long-term?

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

Let's go back to what you just said about managing for the long-term. It is -- I hope you all appreciate this, but if you are running a company like this you can't possibly run it with a great focus on quarterly results. Because if you do, if you are so focused on what I will call very near-term, then your long-term prospects are going to dim appreciably.

Because we live in such a dynamic marketplace worldwide, changing constantly, and if you don't have your finger on the pulse of that dynamism or all of that change and you are not really thinking hard about how this company and its assets will be positioned in so many different ways over the long-term, you -- ultimately you become completely irrelevant and your business falls apart.

And that is for the Company overall but it is also for a lot of our assets, this means specific assets. Now we obviously are very aware of our quarterly results; we have to announce them quarterly. But we don't -- we just are not managing the company, meaning we are not making decisions that are tied very specifically to what happens in each quarter. And that can be challenging and frustrating sometimes too.

So, for instance we don't give guidance. We haven't given guidance. We have given some sub guidance on some things, you mentioned one which was -- and I will come back to that. At one point we talked about ESPN sub revenue I believe, we talked about -- affiliate revenue. And we had a need because the numbers had changed we felt we should update what we had said. Eventually it was going to catch up with us so we figured why not deal with it.

But again, we are not managing for quarterly results. And we are not giving guidance. And interestingly enough, we have five years without any -- without guidance and managing for quarterly results where we still delivered results that were better than what the Street expected us to be. That is pretty extraordinary. And we felt pretty good about that because we just weren't disappointing.

Then we had a quarter this past quarter -- I know we weren't talking about -- but where we didn't achieve what the Street felt we should achieve. We don't stop, we don't pause, it doesn't cause us to do anything different. I know there is a big reaction to that or a disappointment or whatever, but it doesn't have any impact on us at all.

On ESPN, I have been asked if I had to do it all over again would I have said the same things back last summer that I said because it did send ripples through the marketplace. I have tried really hard over these almost 11 years that I have been in this job to be really candid about what I'm seeing in the marketplace, to the extent I thought it was relevant and material to -- in the investment community.

And we had seen a trend at ESPN on the sub front that was -- I wouldn't call it sobering, but not as robust as I think as had been expected. And it was tied to this guidance issue that we had. Maybe it speaks for why guidance can be so bad, by the way. Because I think if we hadn't guided in terms of sub revenue would we have said that then? Maybe not then, but eventually we would have said something.

Anyway, so we erred on the side of giving all of you a sense for what we were seeing. And at that point what we were seeing was some reduction in subs at ESPN due largely to ESPN's absence from some of the then relatively new lighter cable bundles that were being offered in the marketplace.

And the sense that we had was the adoption rate of those was largely for economic reasons. But it had an impact on ESPN. So we said it and the rest is -- I guess the rest is history.

We feel great about ESPN long-term for a number of reasons. First of all, and we can talk a lot about the brand, but it is a very strong brand. The strongest that exists in sports. We also know that in today's television or media universe sports has a huge amount of value, just look at the amount of money that is being invested in sports throughout media.
We also know that live is also very valuable for reasons that I think are pretty obvious. The combination of the ESPN brands, sports and live I think makes that business still very, very attractive to us and, if you would argue, to others.

In addition to that, it is a great product for digital platforms and mobile platforms. Whether it is live sports, meaning sporting events, or whether it is sports news, highlights, information, whatever, it is fantastic for that. And it is a very strong demographic, it is a pure demographic for advertisers.

So, if we look at ESPN long-term, and long-term 5 years, 10 years, we feel great about it. Are we seeing or have we seen some disruptive trends in the marketplace? Yes. Actually though since we made that statement last summer we decided that we had three priorities at ESPN.

One was keep the brand and the product really strong. Two, make sure that we really win at what we will call digital, but it's digital mobile. And third is we had to get really much more aggressive at being on new platforms that were offering lighter bundles or on the more legacy platforms that are offering these live bundles.

And we've been in discussions; we are in discussions, in some cases there full-fledged negotiations with a number of both existing and new distributors. And I feel very encouraged by those discussions and negotiations in terms of ESPN's inclusion in those live packages.

In some cases Sony would be a good example. They launched Sony Vue. And initially ESPN was not part of the initial launch. ESPN became part of the initial launch and they haven't been public with their numbers so I can't be specific. But what we have been told is that their numbers have -- in terms of sub adoption, have gone up tremendously.

I also believe in today's world in the United States you cannot launch a new multi-channel platform -- a platform or bundle, whether it is, by the way, 30 channels or whether it is 150 channels, you can't do it successfully without ESPN. You can do it but the numbers will be not even close to what they would be with ESPN in. So we feel good, we feel really good about ESPN even though, as we cited, there have been some near-term challenges.

Michael Nathanson – *Analyst, MoffettNathanson*

You mentioned on the second priority mobile and I think about *SportsCenter* a lot and how we all got sports information differently. So, can you update us on what is the thinking -- what do you have to do with the linear newsgathering and how that translates to digital or mobile?

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

First of all, one of the ways you keep ESPN relevant is by making sure that it is accessible and ubiquitous, that it is on -- in places and on platforms that people are going to today. So we could have made a choice a while back to turn the dial down or not even pursue a mobile off-channel strategy for ESPN for *SportsCenter* in particular.

I guarantee if we had done that that people would have accessed highlights and scores from someone else, somewhere else. So being relevant, being present, being accessible was really important. When you do that you are in a way competing with the mother ship, which is *SportsCenter* live on the channel itself.

We don't second guess that decision at all. But I know there has been a lot of talk about *SportsCenter* ratings, etc., and so on, when in reality *SportsCenter* is probably more popular than it has ever been, but that popularity extends well beyond the channel ESPN.

It is actually -- we have actually grown revenue for *SportsCenter* on the channel and we have grown revenue nicely for *SportsCenter* off channel because of its presence in all these other platforms. And again, if we hadn't done that, if we hadn't put basically *SportsCenter* in a variety of different places, we weren't going to slow the march of technology down. It is true with a lot of our media businesses; it is going to happen anyway.

It was inevitable that these platforms would ultimately emerge and become popular and grow. And we felt we wanted to be part of all of that, even if it meant competing with our -- basically the core business.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. You have often over the years expressed some frustration around the consumer experience with today's MVPD world on search, user interface, mobility. I remember you coming to New York once during an NBA playoffs saying, I couldn't find the game [listed on] Time Warner Cable. Do you see any signs of improvement on the interface experience from?

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

I have been over the years very frustrated. I found as I have gotten older I am -- somehow or another I am either getting more neurotic or I don't know -- my patience is not what it used to be. It should be the opposite. But I don't know, it hasn't been that way.

And I think part of the reason for that is we are all now getting more and more spoiled with what technology is enabling in terms of access and user friendliness. And if I typed in IGE in a Google search bar I would probably get my last name, first name and I guarantee I would find something nasty that has been written about me recently.

But bottom line is that today I think the consumer is not going to tolerate any glitches or any difficulty in accessing even what is most popular that they want to find the most. And I think it is incumbent upon the whole industry, meaning the media industry, to make sure that no matter how consumers are trying to access our product that they can do so as easily or as readily as possible.

And the legacy cable box and the cable platform I don't think was prepared technologically. And I am not sure it was even prepared culturally to deal with the demands that today's consumers are making in terms of user friendliness. And new platforms coming into the market who didn't have the legacy issues, either culturally or technologically, were offering access that I thought was much more attractive, and they continue to.

So, I think one of the -- I don't think it is the only thing that will keep the traditional platforms or the bundle vital over the long term, but it is an important component.

Michael Nathanson – *Analyst, MoffettNathanson*

One of the gaps has been rights, right? So basically in the beginning there was a vacuum of rights and there was stacking rights available and programmers took those rights and didn't keep them in the ecosystem. Do you see an evolution in what programmers are doing to add more value back -- on the rights side?

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

Well, I think what you are talking about is I think there is a feeling that consumers should be able to find all episodes of one program in one place. And so, if they are watching *Scandal* on ABC and they maybe didn't watch all of them for this season or didn't watch any of last season, they ought to be able to find all of those episodes on some platform that carries ABC, whether it was Comcast or DIRECTV or another distributor.

And I think there is some -- that is valid that at some point we have to make, just as I talked about making it easier for people to access things, I think we have to think about the consumer in that regard. And clearly we know that stacking, which can lead to binging and binging which is definitely more popular today, and I think there is a reason for that to come up because I think the consumer feels more in control.

I talked to someone yesterday, we were talking about *Game of Thrones*. And I knew the person was an avid *Game of Thrones* viewer. And I said have you been watching this season? He said, no, I am going to wait until the end of the season. And I can't wait, I have to watch when it comes out. But he wanted to wait until the end of the season.

And I said why? And he said he feels like he is in control. If he wants to watch five episodes on a Sunday afternoon he can do that. If he wants to watch the entire season on a weekend he can do that. If he wants to just watch them spread out over a number of days. Interesting though is the change in consumer behavior.

So, I think we have to be mindful of that as it relates to where all of our shows exist. The problem is that the economics of the business today don't necessarily fully justify doing that, because while you could argue that over the long term -- I know I am a long-term thinker, I don't want to be too hypocritical here.

Over the long-term, keeping the value of a platform, whether it is a multi-channel platform or live, is critical. And keeping all episodes of one series in one place on that platform could be a contributing factor to that.

There is also a tremendous amount of relatively near-term, meaning the next few years, value to be mined from selling these episodes to third parties, Hulu, Amazon, Netflix, a tremendous amount of money -- not just for the original programming that we are selling but for off-network programming. And we have decided that that is a pretty good business to be in.

We have declared that being in the TV production business, basically creating television intellectual property, can be a really good business in today's world, worldwide. And so, we are making more programming; ABC owns 80% of its primetime schedule as a for instance. We are making a lot more programs beyond just ABC. And mining value near-term is a good thing. Whether we will continue to do that in the same way over the long-term, I think it is unclear.

Michael Nathanson – *Analyst, MoffettNathanson*

You've said that -- in one of your answers to ESPN, the third thing you have done is embrace new distributors, like Sony Vue. Will we see other virtual MVPDs coming? I mean we have been waiting for the onslaught.

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

Hulu has talked about it.

Michael Nathanson – *Analyst, MoffettNathanson*

Right.

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

So they are coming. We are very enthusiastic about that. Not just as part owner of -- partner in Hulu but also as a channel owner and as a program owner. They have become a big buyer of our programs already. And them becoming a distributor of our channels we think is great. We have seen the interface because we are partners and it is a great interface. It's a tremendous user experience. We are very excited about it.

And we are in discussions with them about our channels and about prices, etc. But we think that is a good thing. New entrants into the marketplace we think is great because obviously it is basically more mouths to feed in terms of buying our programming. But I also think that new entrants will keep the legacy entrants more honest when it comes to not just what they are paying us but the user interface that we talked about.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. So the reason you are here is upfront week. Yesterday ABC had their upfront. How do you think about the network? There has been some change in leadership. Do you view it as a strategic asset?

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

We look at the network as a production -- more as a production company than as a distribution company, or business, I should say. I mentioned 80% of the network programming being owned, produced by in-house production units.

So, as we look at ABC, while the network itself as a distributor of our programming has value, particularly because of the advertising revenue it brings in, we look at it in combination with the producing side or the intellectual property side of that business, which is also creating a lot of value for us as a Company.

Because they are producing not only for those platforms, but they're producing original programming for other platforms and selling the programming they make for all platforms on a worldwide basis. So that is how we look at it. I think if a company is in the business of creating intellectual property then that is a strategic asset for us.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. You mentioned this before in one of your answers. Can you give us an update on the outlook for your Consumer Products business? And what do you think drives growth into the future? That was a focus from the last call we had, the last earnings call.

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

Yes, that was actually, we are curious about that too because it was a big reaction to our Consumer Products numbers. That was a business that no one paid any attention to for years and all of a sudden it was a big deal.

I think the reason for that is because it's a business that threw off about $0.5 billion in operating income to the Company not that long ago. And now it is about three times that and there are estimates that it could be four times that, which I will not either confirm or deny. But it has been a real growth business for us.

Now one of the reasons for that is the acquisitions of Marvel and Lucasfilm helped a lot. But we knew when we valued those businesses that if we continue to create great intellectual property it would throw off a lot more value to the Company in Consumer Products.

And the business that we have in Consumer Products is unrivaled really in the industry. It is just we are the only Company in the entertainment space that has a Consumer Products merchandise business that global, that is that large, that is that profitable, that is that significant.

So to your question, I am not sure -- where is it headed? Our belief is that it will continue to be a great business for us. Now there were always be some cyclicality because *Frozen* comes out and it is the hottest thing that we have made in a decade and it does extremely well in Consumer Products. And it will continue to sell well, but not necessarily at the rate that it sold when it came out. So it will be an annuity but not necessarily at the size.

But then *Star Wars* comes out and that has the same effect and then we layer Marvel in. But it is not always one on top of the other on top of the other growing, growing, growing. Sometimes it is one comes in and stays high and then goes down but another one fills in that gap.

So I think that is one way of my saying it will continue to be a significant business for us. But growing it at the rate that we have grown it these past 5 to 10 years isn't necessarily going to happen.

I am not suggesting that it won't grow, but we are not going to have 10 more *Frozen*s, we should be so lucky. But we will continue to mine the intellectual property that we own and that we are going to continue to make in a way that it is very profitable. And that is a business that has extremely high return on invested capital, obviously, because the licensing side of it is so attractive.

Michael Nathanson – *Analyst, MoffettNathanson*

And then tying it back to your opening video on China. We think about Consumer Products in China, how big is that opportunity for you?

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

The Consumer Products business in China could be big. What we still don't know fully is whether character merchandise will be as popular long-term, meaning will they want to wear Tshirts with Mickey Mouse. And you see it wherever you go, but you also see the NBA, Michael Jordan -- which is a pretty good brand.

And so, but we don't know whether it will become as popular as it is in other markets like the United States and parts of Europe and Latin America, but it could. Also, the retail market in China, while it is growing, particularly the presence of big-box retailers, it is more fragmented than it is here and that creates certain issues as well. But it definitely is a growth business for us there.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Bob, thank you for coming. We are out of time. Thank you so much for coming. We really appreciate it.

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

Pleasure. Thank you.

Michael Nathanson – *Analyst, MoffettNathanson*

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.