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Nomura U.S. Media, Cable & Telecom Summit

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Disney Speaker:

Jay Rasulo

*Senior Executive Vice President and
Chief Financial Officer*

PRESENTATION

Michael Nathanson – *Analyst, Nomura*

Okay. I guess we'll get started. Thank you all for coming. I want to take Jay Rasulo and Lowell Singer for making it in today from Los Angeles. Really appreciate it. So Jay is the Senior Executive Vice President and Chief Financial Officer of The Walt Disney Company and oversees the company's worldwide financial organization, corporate strategy and development, brand management, acquisitions, corporate alliances, investor relations, treasury and risk management activities.

Jay began his current role on January 1, 2010, and was most recently Chairman of the Walt Disney Parks and Resorts. Under his leadership, Parks and Resorts built on its traditional strengths as the world's preeminent theme park operator to create a range of businesses that have made Disney a global leader in the family vacation industry. Jay joined Disney in 1986 as Director of Strategic Planning and Development. He has a degree in Economics from Columbia University and an MA in Economics and an MBA from the University of Chicago. And before joining Disney, he had positions at Chase Manhattan Bank and at AmeriCorps. Jay, thank you so much for coming today. Really appreciate it.



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

Thank you, Michael. Pleasure.

Michael Nathanson – *Analyst, Nomura*

So as I mentioned, you became CFO in an interesting time, January 2010. It was towards the end of the recession and during a major invest cycle at the parks that you initiated. In your time as CFO, what has been the biggest surprise in taking this job?

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

Well, I guess I'd say the first biggest surprise was I never knew that I'd be working with such interesting, intelligent and downright attractive analysts, like I see in this room here.

Michael Nathanson – *Analyst, Nomura*

Thank you. Thank you.

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

But on the --

Michael Nathanson – *Analyst, Nomura*

You were at another conference before this, weren't you?

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

But on the business side, I guess two things. You know, when you run any business, I'm sure, for a large company, you tend to sort of focus in on your team and the people that work for you. And I was in that business first in Europe and then on the worldwide level, and I knew the parks team very well. And of course it's a great team. But maybe the biggest surprise is the absolutely breadth and depth of management at the company in every business unit. It goes down multiple layers. Of course, leading one of the segments I've had long relationships with the other business leaders of the segments and the corporate team, but really getting to know how deep those organizations are has been a surprise.

And the functioning of the role is different in many ways. It's very broad. When you run a business, of course, you go very deep, particularly when that business is so operationally intensive the way Parks and Resorts is. And this role is very broad, lots of different subjects on a



constant basis, and of course, an exciting time to be doing it because of all the change in the media field and the traditional business models really being upended. But anyway, it's a lot of fun. But those are the, I would say, the highlights of the differences.

Michael Nathanson – *Analyst, Nomura*

Okay. And looking back at the projects you started under your watch as Chairman of Parks and Resorts, you got to see many of these projects begin to generate revenues. Where will investors see the greatest returns in the things that you started a couple of years ago?

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

Well, there are quite a few projects that we started two or three years ago, made decisions about maybe even before that that are coming to fruition. You know, whether it's the Disney Cruise Line with two new ships, enormously expanding the capacity of that -- what I would still call a very boutique cruise line for the company. You know, when you add incremental ships and all of the infrastructure is there, obviously you expect to see incremental returns to that, and I think we will see that.

The way we judge projects at The Walt Disney Company is, first and foremost, they need to be something that we're happy with the level of returns for investors when we vet them, and we vet them both at the sort of business unit level and then more broadly. But also they need to fulfill a strategic purpose. And we knew our cruise line was over-demanded. We basically sailed 100% full. Our load factors were like almost 150%. And we knew that we had demand for at least two more ships, and that has been fulfilled. I think I said on the call a few weeks ago, you know, for the rest of the year we're in the mid 90 - 91% booked. I'm sure we'll sail full by the end of this fiscal year, so -- on the whole fleet. So we're very happy with that.

A very different strategic project that we launched was Disney's California Adventure and the major changeover there. I mean, this was a park that opened, for those of you who were following the company at that point, you'll remember about 2001. It did not hit on the cylinders that we needed it to hit on. From a concept perspective, it did not retain the guests at the Disneyland Resort long enough. We were starting to see rejection from Disneyland because it was simply too crowded every day. And we built that park both to expand the resort in terms of its offering, but also to pull people away from Disneyland, to have them spend a lot of time at this new park, and then backfill and sort of raise the whole level.

Well, the concept wasn't strong enough. It didn't have a great nighttime appeal, so the stays over there were very short, and the people would come back to Disneyland in the evening and accentuate the problem, in fact. Now, when that -- in fact, the grand opening is in a couple of weeks, you will see a totally renewed park with a real strong concept in an area called Cars Land, around the movie *Cars*. It's 12 acres. It's compelling. It's one of the biggest attractions, frankly, we've ever done with a land around it. And we've already seen, as we've progressively



opened those pieces, of that expansion, you know, World of Color, the *Little Mermaid* ride, that the park has already seen both increased attendance at the resort, as we've been reporting, but also we've been able to price behind that, and that was part of the pro forma.

So we're feeling very, very good about that project. And again, something incremental to that business, it is a big expansion, so it has some fixed costs. It won't all fall to the bottom line. But we feel pretty good about the returns there.

And in Florida, which the Magic Kingdom is the most-visited theme park in the world, our most popular park by definition, we're expanding Fantasyland there. Walt Disney World is at the point where, of course, there are new attractions and new experiences, and those will have some costs associated with them, but we really expect that to have a major draw and to, again, return at a level above the average there.

So all of these projects should have very strong returns for the company, and from what we've seen so far as they kind of come out of the water, we're very happy with the direction.

Michael Nathanson – Analyst, Nomura

Okay. We'll talk about Shanghai a little bit later, but aside from Shanghai, do you foresee any continuing park development in the next few years above and beyond?

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

You know, we're -- we'll come back to Shanghai if you wish, but obviously this is our big project for the next three years in Parks and Resorts. I don't expect you'll see another new destination in parks and resorts. I don't expect you'll see another major down stroke in terms of CapEx. Shanghai is a -- we will fund 43% of the CapEx there. The overall project will be about \$4.5 billion, and our local partners will fund the rest. So other than that, I don't expect to see any big -- I mean, we've announced that we've done a deal with the *Avatar* folks. We'll have *Avatar* in Florida. In the overall size and asset base of parks and resorts, that's not a huge -- that's more in the sort of normal course of business for us.

Michael Nathanson – Analyst, Nomura

Okay. And then so you -- that's the CapEx side of the story. The other side of the story is Disney also focused on a series of acquisitions, some before you got to be CFO, some after. Marvel in '09, Playdom, UTV in '11. What was the strategic rationale of let's say Marvel and Playdom? And can you focus on the impact these deals will have on future Disney profitability?



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

Sure. You know, our acquisition strategy, just to start off, and I'll come to each of those examples -- but our acquisition strategy is pretty clear. Either we are buying IP that is under-exploited, underused by the owners that we can exploit through the marvelous piece of machinery called The Walt Disney Company that stretches all over the world and almost every - you know, lots of consumer-facing businesses. Or we're buying capabilities to reach consumers in new places or in new ways.

So if you look at those acquisitions that you mentioned, Marvel, like Pixar, was primarily an IP acquisition. We knew there was buried treasure there. The company was doing well to exploit it, but it was doing it largely through third parties, and we thought that their 8,000 characters, that they had at that time, who knows what they have now, they seem to produce a couple everyday -- but the fact is that there was some strong equity there that was not being fully utilized.

I think *Avengers*, we decided to make our big play on *Avengers*, to sort of wade into integration to the company towards really hitting it with *Avengers*, and you all know the results. It's done \$1.3 billion as of today in the worldwide box office. Hasn't even opened in Japan yet. So it's definitely still got some running room. And in addition to the box office, it's hitting in consumer products. There's a social game. It's just exactly what we envisioned when we purchased that.

If you look at the other end of the spectrum almost, at Playdom, Playdom did not own a lot of IP but had a capability in social gaming that we simply did not have. Certainly we could have built it, but it would have taken a long time. Social gaming, as you all know, was taking off and continues to rise like a rocket. And we wanted to jumpstart ourselves into that space, so we bought that company with the idea of using both IP we had and the creation of new IP to get into the social space.

UTV, the third thing you mentioned, is sort of a geographic -- a little bit of a geographic and content play. So with the acquisition, we want to grow in India. We want to grow in China. We want to grow in Russia and in Turkey, the big four and the ten after. But you need an entry strategy. And with UTV, we became the largest studio, an owner of nine television networks, and a distribution -- a bigger and more grounded distribution network for the Disney IP than we have in that market. Our ambition in India is clear. We want to be the family brand of India. There is not one today. We want to be that brand, and taking on a proven team with a proven executive to help us, to guide us into the -- our entry into that market. So they have some IP they've created, but I would say the overwhelming story there is distribution through in-country distribution.



Michael Nathanson – Analyst, Nomura

Okay. Let me change gears a bit. Your company has a strong belief and focus that technology could and should be used to increase the value of your content. And how is this belief being crystallized in your most recent Comcast deal with regards to your broadcast cable network assets?

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

You know, we -- Bob Iger has preached, even from before he was CEO but certainly after, that if we're going to be successful and continue to hold the position that we have in the many businesses that we're in, we've got to embrace technology, run towards it, see it as a facilitator and an expansion vehicle for our businesses as opposed to something to protect ourselves against. So he encouraged us very early on. You know, remember now, it already seems like ancient history when we put ABC shows on iTunes. Nobody else was doing that. We started streaming our shows on ABC.com. There were a lot of naysayers out there, saying we were going to depreciate the value of those assets and whatnot, but the exact opposite has happened.

Technology has actually allowed us additional means, additional ways to enhance the viewing experience, whether -- to tick them off, that's through portability, being device agnostic, being aware consumers want to watch your program when they want to watch it. And I think we've done it in a way that lived up to a couple of principles. Number one, that we were going to be paid for those enhanced services. Number two, that we wouldn't be exclusive to any particular window. Number three, that we would continue on very mindful of the MVPD ecosystem from which we are such huge beneficiaries.

And I think if you look at something like WatchESPN or WatchDisneyChannel or soon to be WatchABC. Those are both consumer friendly, allowing our consumers to watch the programming they want to watch, where they want to watch it. But also MVPD ecosystem friendly, particularly, since you mentioned, in something like the Comcast deal where we came to agreement with a great partner on 70 services using our networks in ways that reach consumers and create more value for Comcast.

So if you look at those Watch services, that portability, but something that lives within the spirit of the agreement and the partnership that we have with Comcast, you really see that it is a way of -- that technology has enabled an enhancement of the service provided by the MVPD and an enhancement for us as a content supplier to be more -- to be out there distributed more broadly.

You know, beyond that, if you look at so-called insurgents to the MVPD system, Netflix, Hulu, we play in all of those. They are great value enhancement for the company because they are channels that theretofore did not exist. And frankly, content that in the old days would have



been played out and would have gone through its cycles now finds a new life, particularly for companies that are looking for tonnage, are looking for a lot of programming.

And so we think, hey, the game's not over, right? We're still midstride. But to be successful, you've got to be willing to step up. Of course you take some risks, but you try to do it with your eyes open and in a way that isn't forever. Most of those deals in that space are pretty short term. Not in the MVPD space but in the aftermarket space.

Michael Nathanson – *Analyst, Nomura*

Okay. So let's keep on the theme of cable. So let's look at the biggest revenue drivers, which are affiliate fees. There are some out there who see the price of ESPN as unsustainable. How do you see that?

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

Well, I think you have to look at pricing, and you're certainly right, Michael, there's been a lot of conversation, words written, spoken about pricing of sports in general, ESPN in particular as the leader in sports, cable in general, bundles and packages and this and that. And I think you really have to step back and ask yourself the question -- the question you have to ask yourself here is about value. Is what the consumer is buying of value to them? Is what we are selling, ESPN or others in this space, is it of value to the three players in this ecosystem? To the consumers who are watching the end product, to advertisers who are supporting it, even on most cable channels, and to the MVPDs who are distributing it, as well as to the content owners?

And if everybody in that -- I mean, you have well-informed, smart companies that are asking the same question -- is this going to be ultimately of value to my subscribers. Are they going to continue to buy a fully enhanced package? Are they going to continue to buy the other services by virtue of buying that fully enhanced package? The other services I now offer, which is telephony and broadband, and we know for a fact from research, with this very system of MVPDs, from research, that people who subscribe to ESPN are much more likely to subscribe to the Triple Play, to all three services, are much more likely to buy big enhanced packages, are their best customers.

So when we think about how ESPN is priced, and of course I mentioned with Comcast because this is as good an example as any, could have talked about Time Warner, that you walk in with a whole bundle of services, in Comcast 70 different services, that you are trying to come to agreement on, an overall, long-term agreement in terms of pricing. We think that as the two parties came to agreement, both with the end consumer in mind, both with their own economics in mind, that obviously the value is there for what we supply in terms of ESPN, the Disney Channels and the sub-spinoffs from them, ABC Family and of course retrans for the ABC network.



So I have to say that there's been a lot of talk about pricing and not enough conversation about the value that's being delivered. And if you -- thinner packages are out there. They've been out there for a long time. Consumers look at them and decide that's not what they want. If it were a complete a la carte world and people started to bundle together what they would have to pay for these individualized services, I think they'd raise their hand and say by the way is that package still available because I'd like to have it.

Michael Nathanson – *Analyst, Nomura*

Right.

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

So we still feel strongly that it's a good value, and obviously so do the MVPDs as we continue to come to these big agreements with them.

Michael Nathanson – *Analyst, Nomura*

Let me stop on that for a second because you guys are very analytical and nothing gets done by accident, I think. Let me ask you the question (inaudible) tomorrow, who is in the cable business. Can you help us understand, we always try to do correlations between affiliate fees and ratings. So when you look at it, what drives the pricing of the affiliate fee? Like, if you're trying to come up with some quantification of why is this worth what, help us out, because I'm going to ask everyone who is in the cable business and network business tomorrow the same question.

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

Yes. Well, I think the answer lies in a little bit of what I just said. I think that when an MVPD is looking at his P&L, and he's asking, okay, how many subscribers am I going to get for the services, the package of services I'm going to buy. How strong is advertising going to be beyond that? Okay. I'm thinking about sports. Sports is 99.4% watched live. I kind of like that. And I think you put all of that into your calculus in terms of what you think this is worth in affiliate fees.

I don't think it's as straightforward as, hey, here is what the CPM is against the ratings, which you get in network television. It's not that simple. I think there's a bigger calculus about the value of my proposition, and by the way, in the back of my mind, I do want to sell those other services to these guys. So you have to add all of those in when you come up to it.

From our side, which is a very different set of analytics, is, when we walk into the room with a big MVPD who we're going to be in business with for a decade, we have a sense of what our



cost is to deliver these services, both from the rights perspective, as well as from the production perspective. And we want to continue to build our position, be something that people can't live without, present sports fans, you know, our product in new ways, new products, new brands that we continue to roll out on ESPN and our other networks. And so we have to say, is our programming good? So at Disney Channel, that's about making the right shows and building franchises. It's about buying the right sports sort of package of viewership among all the stuff that we buy out there. You know what it is. How we produce it.

So when we walk to the table, we sort of know what's on the cost side of our P&L, and we're looking at a 70/30 more or less split between the affiliate fees in advertising, so we've got to compete in that advertising world with ESPN as well. And that's what the calculus looks like from our side. So when those two parties come together, you know, fortunately in the case of Comcast, we were pretty much looking at the world in a very similar way. It went pretty quickly. Never easy, right. Ten-year deal, lots of money, never easy. But obviously we came to agreement and happily we'll move forward and continue to roll out products every couple of months.

Michael Nathanson – *Analyst, Nomura*

Okay. On a recent earnings call you said or Bob said -- you stated that the long-term margins are set to expand the cable networks. It's interesting because you guys don't talk usually talk about guidance that often, but it was pretty clear that cable network margins are set to expand over time. So given the step up in sports costs, can you walk us through the dynamic of the margin and how -- is there any lumpiness in that?

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

Well, I guess Bob is free to talk about margins. I'm less free to talk about margins, and we don't really like to talk about margins. And it's really for simple reasons, not because it's nefarious or we're trying to hide anything. We simply don't manage the business around margins. We are confident that ESPN can continue to grow. And I don't know how else to state it. It's not like we look at -- you know, sports rights fees are lumpy sometimes. They tend to jump up and then flatten out. That's simply the way those deals are done. So I think that looking at margins, particularly over a discrete period of time, can be very misleading.

I would ask you guys to focus really on whether or not we believe, knowing what we know about our sports rights and now knowing what we know about our, at least biggest MVPD partner, is that a formula that can continue to grow profitability at ESPN, and we're quite confident that it is and can. And then we sort of move back to the other conversation we had as things continue to come up because it's not a static world. You know, sports deals, rights deals will expire. We'll have the option of picking up new ones. You know we've looked at a couple of things over the last few years that we have done and some we haven't done. And you just want to continue to be able to put on the network the best and most exciting sports programming



you can do, knowing that you've got an envelope because your revenue side has already pretty much been circumscribed by the deals you've done.

Michael Nathanson – *Analyst, Nomura*

Okay. I just want to give a heads up that if you have any questions, we'll pass them to the middle or the side, and then we'll filter them up in about five or ten minutes. Is that okay? Okay. Cool.

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

Sure.

Michael Nathanson – *Analyst, Nomura*

So I got your margin answer, it was Bob's territory, but is there anywhere else within your business where you see the room for meaningful change in profitability where you're looking at the next couple of years and saying we see a glide path to --

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

Yes, I would point towards something we've been talking about, which is our parks and resorts business, for a number of reasons, some which have to do with where you started, Michael, on the investment cycle that we are just coming out of. You know, along with that investment cycle comes a substantial amount of startup costs, a substantial amount both in the marketing, the hiring and training of staff. You know, we will -- when we drop the rope on Cars Land in the second week of June, we will have a fully trained staff. We've already bought lots of media that's out there, and of course that's all before the revenue starts to flow off that. And if you look at whether it's the new cruise ships, you look at that.

So that has had what I would call, and hope to believe, is a very short-term dampening effect on margins in that business because on an underlying basis, as you know, we've been reporting every quarter we are -- you know, we've made the turn six quarters ago or something like that in which we decided to reduce the level of promotional discounting that we were doing into the downturn, increase the marquee pricing at our parks, and that is having per cap increases quarter on quarter in addition to volume increases. And as these new products come on at both Disneyland and Walt Disney World, you will continue to see volume increases.

So I think that there is an underlying reason to believe that margins in that business should increase. I've said many, many times that there is nothing that is fundamentally changed about that business to keep from getting back to pre-recession or even earlier levels of margins. So this is a business that I think you could look for additional profitability.



Something we don't talk a lot about because it's kind of, I don't know, overshadowed by the cable business in its size and profitability, but if you look at the broadcast business, as we march towards that \$500 million per year number that we talked about, I think we couched this \$400 million to \$500 million of retransmission fees, frankly, there's nothing to spend that money against. So there's nothing that we need to spend that money against. We're not buying sports for the network. We are programming the network from a cost perspective exactly where we need to be. Networks need hit shows to be successful, but that doesn't mean throwing more money at it creates hit shows.

So we're funding that business at the appropriate level to where it could well be successful if the creative was right. So there's really no -- you know, we've taken a lot of cost out of the news business. We've taken a lot of cost out of daytime. And so this is an area that I think as those retransmission fees come in, as those deals roll forward, that we should be looking for more profitability.

Michael Nathanson – *Analyst, Nomura*

Okay. Let me talk about another business that doesn't get a lot of attention, though it's really strong, which is the Disney Channel, which is within cable nets and its sister networks. They're doing quite well. And a lot of concerns about online viewing by kids. Can you talk about the rating success you've had there and the recent launches of Disney Junior and Disney XD?

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

Well, kids television, I think, at the base level, success is pretty clear. You put on shows that kids want to watch, and they come out and watch them. And when you don't have the properties and the shows kids are interested in, it doesn't matter what else you do. We, I think, are in an uptick cycle of titles on the Disney Channel that have performed very well. The ratings have responded to that. We've been at the top now for the 2 to 11 year olds. It's not about anything else there.

So I think that we have a great trajectory. The launch -- Disney XD keeps doing better and better. The Marvel acquisition has helped us with it. Disney Junior has launched well. So I think we're doing everything that we should be doing to be successful there. And in addition -- so that's on the sort of core side. But we've also been expanding the Disney Channels all over the world. There are now 103 Disney Channels on television in 167 countries. I think we -- there's [35] languages that the Disney Channel is now presented in. It's in every format. It's in basic cable. It's in premium cable. It's in free-to-air. All different formats all over the world.

Not only does it make a lot of money for us, but it's also become sort of the brand builder for the company, way beyond the animated films, way beyond anything else we do. The Disney Channel does carry the Disney brand all over the world, and even in the US because of ubiquity



at home, because of repetition. It is a huge brand building and strategic asset for us. So we are not only bullish on it but leaning into it very heavily as a continued growth vehicle for the brands and the franchises of the company.

Michael Nathanson – *Analyst, Nomura*

Okay. Let me take you into another direction. If you want to hand me the cards, I'll take them in a second. Let's talk about Shanghai for a sec. Obviously as the biggest long-term opportunity, what lessons have you learned from the development of Hong Kong, the opening there? And then talking about brand building, how does that park help you compete in China in terms of building a brand?

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

Well, I think that it's interesting. You don't open those huge projects like Shanghai or even Hong Kong or Paris. You don't open them very often. And so you'd like to believe there's some continuity of learning from one to the other. But maybe it's because you don't open them that often. Certainly when we opened Paris, we opened it way too big for the level of development for that market. Well, maybe the pendulum swung too small, and what we learned from Hong Kong is that there is probably a critical mass of entertainment that consumers come to a Disney Park expecting, even, by the way, if they can't get to it all. For certain they can't get to it all. Even visitors to Hong Kong Disneyland in a full day did not get to all the attractions that Hong Kong Disneyland had.

But I don't know whether it was like sticking up their head and not seeing 20 more things that they couldn't get to that made them feel like, I don't know, this thing isn't really ready. Maybe I'll come back in five years. So we expanded, as you know, we didn't mention it, but on a consolidated CapEx basis, you know, we're doing a big expansion in Hong Kong. It's three lands. The first one opened. The second one opens in July, I believe, and the third one opens in November of 2013. And it's a pretty sizeable -- like a 30%+ in the footprint to that park, and it's doing quite well.

But come to Shanghai, which is your question. So the learning there is really about right-sizing opening day. It's really about getting the right amount of entertainment. We will not make the same misstep we did in Hong Kong by sort of -- whatever, building less than the market could absorb. We're going to go at something -- open with something very substantial compared to Hong Kong. That problem we will not have.

And the truth is that we see Shanghai Disneyland as probably second in the tiering of all Disney destinations around the world, after Orlando, when it builds out, 7.5 square kilometers. It's a big piece of land with lots of opportunity for expansion, whether it's in hotels, theme parks, other forms of recreation. Obviously a little bit new for us. Our local partners will be both



ownership partners as well as operating partners. There's a 70/30 -- 70% Disney, 30% local partner joint venture that will be the operating entity in addition to the 43/57 ownership entity.

And so that's new. But on the other hand, we are quite focused on it as a company, and painstakingly developing it. We want to get this one right because, as I said 10, 20 minutes ago, every region of the world has its entry strategy for us. Media is not an entry strategy into China, right. We'd love to be -- we'd love to have a Disney Channel in China. We'd love to reach consumers that way. That's simply not, by regulatory requirement, a vehicle open to us. We can't get that many films in there. And without that, it's hard to build the rest of the Disney ecosystem, if you will.

So we've taken two approaches. The big down stroke of Shanghai Disneyland, which I just talked to, and, on the other hand, English language learning. We've now got about, I don't know, close to 40 schools that are teaching close to 20,000 young kids from the age of like 2 or 3 to 10 or 11 English, using lots of Disney equity with spectacular results. It's a good business economically, but it's also a great way to get into communities on a level that we can't get into households with television.

The promotion of the theme park, we will be on TV more and more as we approach the opening of Shanghai Disneyland. It's a huge event. There'll be lots of promotion. That's our entry vehicle there; whereas, as I mentioned with UTV, it's a media entry strategy, and each country has a different one.

Michael Nathanson – *Analyst, Nomura*

Okay. So let's play the lightning round for several minutes.

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

Happily.

Michael Nathanson – *Analyst, Nomura*

Okay. So Disney's got one of the strongest brands in media. What returns are you looking for in recent cruise/park investments? Is it going to be low, mid or high double-digit returns on what's been put out there?

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

Mid. Bing.



Michael Nathanson – *Analyst, Nomura*

Ok. RIC. How do you think about the setup for Disney's return on invested capital over the next few years?

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

Next. We already answered that one, right?

Michael Nathanson – *Analyst, Nomura*

Well, I wrote that --

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

Over the next few years?

Michael Nathanson – *Analyst, Nomura*

Yes, it should be going up.

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

Oh, it's definitely coming up. Oh, I'm sorry. Maybe I missed the question. I got nervous. I was looking for my buzzer.

Michael Nathanson – *Analyst, Nomura*

You want the double digits.

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

No, look, you have to look at our capital investment in parks in two ways. One is the domestic business, which we just talked about -- DCA, cruise and Walt Disney World, very big kind of coincident, even though we arrived there from a different -- each from a different road. So we should be coming down substantially, substantially in domestic spending. But then you've got the ramp up of Shanghai. And so from an international perspective where if we're down 100%, we're going to be up 30%, and that will kind of grow. So we should be -- we're looking for the returns that come from the investments we made, as opposed to continue on a big investment cycle in Parks and Resorts.



Michael Nathanson – Analyst, Nomura

Okay. Well, following that, it's a really good segue. Will the percentage of cash flow that you set aside from dividends and capital returns rise post this investment cycle?

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

Okay. So, you know, we will clearly have more free cash flow coming out of our operations with lower capital investment by definition. But also I hope the profitability and ramp up of the businesses that we talked before. And you know, we deploy our capital in ways that I think historically have been pretty clear. We continue to love, first and foremost, to look for incremental investments in businesses in which we are already successful, should experience incremental economics and have a very good fix on whether or not we will be successful.

Secondly, we grow by acquisition. If you look at the history of the company, certainly we've grown by acquisition. I think we've done quite well. If you look at kind of Bob's body of work, starting with the Pixar acquisition, for instance, as a time period, I think we've spent about \$13 billion in acquisitions. We think that's worth about \$23 billion of [enterprise] value to the company today. So we're good at it. We try to be very careful, but I expect that we will continue to look at that as a way of growing the company.

So that leaves what I hope will be a lot of excess that we should be returning to shareholders. You know, last year I talked a lot about what we did with our dividend and why we were way beyond, and our payout ratio was way low compared to where it should have been. It was like at 15% or something.

We need to keep that higher. I think we will keep that higher. And then buyback, we've bought back a lot of stock. Last year, \$5 billion, if you look at that same time period I talked about on the acquisition front, I want to say we bought back -- Lowell, correct me, \$24 billion of -- north of \$20 billion of stock. We continue to look at that opportunistically. But I am not going to buyback stock when I'm not really confident that our intrinsic value far exceeds the market.

If you look at the history of buybacks for most companies they are not very good on a return basis. Makes people happy. Makes some shareholders happy. But in terms of returns, it shouldn't make them as happy as they think they should be.

Michael Nathanson – Analyst, Nomura

Right. When stock got very cheap last September, you guys stepped up big time.



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

Yes. So there's a persistent gap that I've looked into for ourselves and many other companies. I think a persistent gap between how companies value themselves and what the market ultimately recognizes as their value, and I want to be sure that our intrinsic value exceeds that gap. And the gap can be 20% to 30%. It could be a big number. So I want to be sure that when we buyback, we're buying back for the right reasons. But we will definitely continue to look at buyback as a way of returning capital to shareholders.

Michael Nathanson – *Analyst, Nomura*

Okay. And question on the Comcast deal. Given the size of Comcast as the biggest MVPD still today, is this deal now the baseline of future deals on Comcast kind of at that baseline? Is there anything to think --

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

Well, you know, Michael, there's a whole series of MFNs in the affiliate world, in the big affiliate world. So, yeah, we'd like to aggressively pursue deals like Time Warner, like Comcast in locking up the affiliate relationships, particularly when those relationships offer enhanced services to consumers. We're jazzed about that.

Michael Nathanson – *Analyst, Nomura*

Okay. Would you disclose what -- you mentioned the three things you wanted when you were looking at authentication service, and one was pricing. I know it's all in the eye of the beholder, but do you see yourself earning incremental revenues on the TV everywhere products, based on the way -- your interpretation?

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

No question. You know, if you look at -- a bit of history, and I don't know, maybe we focus too closely on it, but when we sat down with Time Warner Cable, they did not emerge with a WatchDisneyChannel app. There was a reason for that. They wouldn't pay for it, and we wouldn't give it to them.

When we entered our deal with Comcast, either the advancement of time or who knows what the reason is, they clearly wanted as many of those Watch products as they could get. So you'll see them roll out progressively. And we were happy to sell them as many of those products as we could get because, as I said, we think it's a value enhancement across the chain, not only for them but for us.



And so, yes, we got paid for them. It's -- what's hard is not -- do you know if you got paid -- we know we got paid for them. What's hard is when you walk in with 70 services, you don't go down the list and say how much are you going to pay for this? Okay, no. You go in with a big negotiated bundle of services that you're selling. And as I told you, we have a very good fix on our cost. We have a very good fix on what our growth goals are for ESPN. And I'm sure Comcast had equally explicit things they needed to solve for in that negotiation, and two intelligent and successful companies came to agreement.

Michael Nathanson – *Analyst, Nomura*

Okay. Let me ask you this on a subject that's near and dear to your heart, pricing strategies, the theme park. So how does pricing look versus where you guys started discounting a couple of years ago? And is that a way to -- I guess it would be -- to maximize returns? Talk about pricing.

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

It's a bit of -- I wish there was a simplistic answer to that question, but let me give you some perspective on it. Why it's not simplistic, particularly related to Walt Disney World, because when we started to promote into the downturn and thought that we would try to preserve volume by discounting and promoting around our product, we threw the kitchen sink into the potential outcome. There was the dining programs. There was discounts on rooms. There was differential discounts on different ticket types. It was a very rich possible outcome that we could offer to consumers.

So we wound up with the seven -- buy four days, stay for seven days. And that was, by the way, not that much of a ticket discount, to be frank because when you get past four days on the multiday ticket, there's very little incremental revenue, but it was a big hotel discount -- hotel rate discount of whatever, 27%, whatever it was. But then as we started to come out of it, we started throwing out "ok, well, you get free dine. You won't get seven days for the price of four, but we'll give you free dine for a week's vacation." So there is a lot of ins and outs that are not that easy to sort through in terms of, well, where do you allocate the cost for that. Is that a food discount?

So I would -- so in answer to your question, we're certainly on the trajectory to get back to our let's say pre-downturn trajectory on pricing. I think as we open DCA in the next two weeks, we've announced our price increases there, you saw that on some ticket types, like annual passes, they were quite substantial, 30%, if you looked at the one-day it was less substantial but still pretty strong. I think you'll see a similar thing in Florida as we open the new product, and we'd like to price behind value enhancement. So I think we're well on our way to making our way back, and that's certainly our plan at this point.



Michael Nathanson – *Analyst, Nomura*

Okay. And with that, Jay, I have more, but they're along the same line and you answered them already. So thank you very much. Is there anyone that wants to hand in more questions? No. Okay, Jay, thank you so much for your time. I really appreciate.

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

You're very welcome, Michael. Thank you for having me.

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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 1, 2011 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.