



The  
**WALT DISNEY**  
Company

**Q2 FY15 Earnings Conference Call**

MAY 5, 2015

**Disney Speakers:**

**Bob Iger**

*Chairman and Chief Executive Officer*

**Tom Staggs**

*Chief Operating Officer*

**Jay Rasulo**

*Senior Executive Vice President and Chief Financial Officer*

Moderated by,

**Lowell Singer**

*Senior Vice President, Investor Relations*



## **PRESENTATION**

---

### **Operator**

Welcome to The Walt Disney Company's Q2 FY15 earnings conference call. My name is Vivian and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

I will now turn the call over to Mr. Lowell Singer, Senior Vice President of Investor Relations. Sir, you may begin.

---

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

Good morning and welcome to The Walt Disney Company's second quarter 2015 earnings call. Our press release was issued earlier this morning and it's available on our website at [www.disney.com/investors](http://www.disney.com/investors). Today's call is also being webcast and we will later post the webcast and a transcript on our website.

Joining me in Burbank for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer; Tom Staggs, Disney's Chief Operating Officer; and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob, Tom, and Jay will each make some comments and then of course we will be happy to take your questions.

So with that, let me turn the call over to Bob and we can get started.

---

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

Thanks, Lowell. Good morning, everyone, and thank you for joining us -- we appreciate your flexibility and your understanding.

We're very pleased with our performance in Q2, with adjusted EPS of \$1.23, up 11% over the prior year. Our results once again reflect the strength of our brands and the quality of our content.

These key elements are evident in the phenomenal opening of *Marvel's Avengers: Age of Ultron*. Released in about 70% of international markets so far, the movie opened #1 in every single market and in the process broke a number of box office records. As of this morning, the movie has surpassed \$650 million in global box office, which speaks to the popularity of these characters and the enduring connection that millions of people have with them. In fact, the three top movies with the highest grossing opening weekends of all time are *Marvel's Avengers*, *Avengers: Age of Ultron*, and *Iron Man 3*.



Of course, when it comes to franchises that inspire tremendous fan devotion, Star Wars certainly sets the standard. We unveiled the second teaser-trailer for *Star Wars: The Force Awakens* a couple of weeks ago and the reaction was unprecedented. The excitement around this movie is unlike anything we've ever seen before. The new trailer had more than 88 million views in the first 24 hours, and now has more than 200 million views to date. So that gives you some sense of the tremendous interest and excitement around this film, which should only intensify as we get closer to the December 18th release date.

We're also looking forward to the grand opening of Shanghai Disney Resort, which is just about a year away. We've been very selective about sharing specifics so far, but this summer we'll unveil a number of details that will give everyone a true sense of how spectacular this "authentically Disney, distinctly Chinese" destination will be.

I'm looking forward to seeing our progress when Tom and I go back to Shanghai in just a few weeks.

And speaking of Tom, this is our first earnings call since he was named Chief Operating Officer. Before Jay covers the financial details, I'd like to ask him to take you through some of the highlights across our businesses.

Tom?

---

**Tom Staggs** – Chief Operating Officer, The Walt Disney Company

Thanks, Bob and good morning everyone. It's great to be back on an earnings call with all of you.

With my move back to a corporate role, we're pleased to have Bob Chapek running Parks & Resorts. He's been working his way around the world to get an in-depth understanding of the business and he's off to a great start as we seek to continue its strong performance.

Later this month, he'll help us officially kick off the celebration of Disneyland's 60th anniversary. It's the park that started it all and we plan to mark this historic milestone in true Disney style, including a fantastic new parade, a new *World of Color* show, and a new fireworks spectacular, among other features.

Looking ahead, we have plenty of reason for excitement across the entire company, starting with an incomparable slate of upcoming movies. In addition to the ones Bob mentioned, we also have Disney's *Tomorrowland*, starring George Clooney, in theaters later this month, and Paul Rudd takes on the role of Marvel's *Ant-Man* in July. We're also thrilled to have two new Pixar movies coming to theaters this year. *Inside Out* opens on June 19th -- and it's already generating a lot of well-deserved buzz and excitement -- and we're looking forward to even more great Pixar storytelling when *The Good Dinosaur* opens at Thanksgiving.



Our Media Networks Group is home to some of the strongest brands and content in the business, which consistently drives demand and value in the market.

ESPN continues to invest in extraordinary programming and innovation to super-serve sports fans. In Q2, this unparalleled sports coverage drove double digit audience growth on ESPN and ESPN2; and the total average audience across ESPN's compelling suite of sports networks was up 9% for the quarter.

On the Broadcast side, ABC has seven of the top 20 series in this season, including three of the top five dramas, and it's also achieved greater growth in the key primetime audience of Adults 18-49 than any other major network.

In a recent survey, media buyers and planners identified ABC as the network having the most impressive year, a good sign as the network kicks off the Upfront sales season next week.

We're also extremely pleased with the instant success of *Daredevil*, the first of four live-action series produced for Netflix by Marvel Television and ABC Studios, which further demonstrates the power, breadth, and value of the Marvel Universe. Just two weeks after the first 13 episodes launched to great acclaim and strong demand, Netflix ordered a second season. This initial success bodes well for the three other upcoming serialized programs on Netflix -- Marvel's *Jessica Jones*, *Iron Fist*, and *Luke Cage* -- as well as a planned mini-series event uniting all these characters into a shared storyline.

Our Consumer Products business also had a great quarter, driven by the continued popularity of our strong franchises, especially *Frozen* and *Avengers*. Retail sales for *Frozen* merchandise so far this year are more than ten times higher than the same period last year, and sales of new merchandise for *Avengers: Age of Ultron* indicate strong global demand.

We expect the release of *The Force Awakens* to accelerate growth of the Star Wars franchise. As we just announced, we're planning a global event on September 4th to launch new merchandise inspired by the upcoming movie, with retailers around the world and online kicking off sales of the new line at midnight with a unique celebration of all things Star Wars.

We're also very excited about the November release of *Star Wars Battlefront* -- an incredible new action title from EA for core gamers based on epic Star Wars battles set in new landscapes featured in *The Force Awakens*. As this game and other upcoming initiatives demonstrate, Star Wars, like Marvel, represents a storytelling universe that can cut across platforms and mediums throughout our businesses and have a profound effect on our growth and profitability for years to come.

Obviously we have a lot to look forward to -- throughout the rest of this year and beyond. We're pleased with our results in Q2 and remain confident that our proven strategy can continue to drive value and opportunity well into the future.



With that, I'll turn the call over to Jay to walk you through the details of the quarter.

---

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

Thanks, Tom, and good morning everyone. Second quarter earnings per share, adjusted for items affecting comparability, were up a solid 11%, driven by a 7% increase in revenue.

Media Networks revenue was up 13% and operating income was down 2%, as lower operating income at Cable more than offset strong results at Broadcasting.

At Cable, while total revenue was up 11% due to strong growth in affiliate and advertising revenues, operating income was down 9%. This decline was driven by higher programming and production costs at ESPN due to the College Football Playoff, an NFL Wild Card game, and the SEC Network.

As you know, fiscal 2015 is the first year of the new College Football Playoff and the first time ESPN has aired an NFL Wild Card game. So, as we expected, cable programming and production costs were up significantly in the second quarter. We continue to expect relatively flat programming and production costs in the second half of the year, so our full-year outlook is unchanged. We still expect programming and production costs to be up low-teen percentage points for fiscal 2015.

Domestic cable affiliate revenue was up low-double digits in Q2, benefitting from contractual rate increases, the SEC Network and lower deferred affiliate revenue at ESPN. The increase in domestic cable affiliate revenue includes a year-over-year benefit of \$40 million dollars, as ESPN did not defer any affiliate revenue in the second quarter this year compared to \$40 million dollars in Q2 last year. Adjusted for the timing of deferred revenue, domestic cable affiliate revenue was still up 10%.

And just to remind you, ESPN didn't defer any revenue during either Q1 or Q2, resulting in an aggregate year-over-year affiliate revenue benefit of \$176 million dollars for the first half of the year compared to the prior year. This benefit will be reversed during Q3, which means ESPN will recognize \$176 million less in deferred revenue in Q3 compared to last year.

And for those of you who have followed us for many years, you will be happy to know that Q3 will be the last quarter in which we need to discuss programming covenants and their impact on revenue recognition. Due to contractual provisions in ESPN's new affiliate agreements, ESPN is no longer required to defer a portion of its affiliate revenue.

Turning to advertising, ESPN ad revenue was up 18% in the second quarter due to higher rates and an increase in units sold. Ad revenue at ESPN benefited from the strong interest in the first ever College Football Playoff and our NFL Wild Card playoff game. So far this quarter, ESPN ad



sales are pacing down a few percentage points compared to prior year, though keep in mind that ad revenue in Q3 of last year benefitted from the World Cup.

Broadcasting operating income increased 90% driven by an increase in affiliate revenue, higher program sales and an increase in ad revenue, partially offset by higher marketing costs at the ABC Network. The growth in affiliate revenue was due to contractual rate increases as well as new contracts. Program sales were up in the second quarter driven by the sale of Marvel's *Daredevil* and by higher sales of ABC Studios shows, including *Lost* and *Once Upon a Time*. Ad revenue at the ABC Network was up mid-single digits in the quarter as a result of higher primetime ratings and higher rates. Quarter-to-date scatter pricing at the Network is running low-single digits above upfront levels.

At Parks and Resorts, operating income was up 24% on revenue growth of 6% due to higher results at our domestic operations, which were partially offset by lower results at our international operations. Total segment margins were up 230 basis points.

During the second quarter, growth in operating income at our domestic operations was driven by higher guest spending and attendance at our domestic parks, sales of vacation club units at Disney's Polynesian Villas and Bungalows, and higher pricing at the Disney Cruise Line, partially offset by higher costs. For the quarter, attendance at our domestic parks was up 2% and per capita spending was up 7% on higher ticket prices and an increase in spending on food and beverage and merchandise. Occupancy at our domestic hotels was up 2.5 percentage points to 89% and per room spending was up 6%. So far this quarter, domestic resort reservations are pacing up 7% compared to prior year levels, while booked rates are up 2%.

At Studio Entertainment, revenue and operating income were down in the second quarter given very difficult comps due to the impact of *Frozen* in the prior year. We continue to be very pleased with the performance of the Studio slate, as Q2 was one of the best quarters in the Studio's history. Lower operating income at the Studio was driven by decreases in domestic home entertainment and international theatrical distribution, both of which reflected the record-breaking performance of *Frozen* in the prior year compared to *Big Hero 6* this year, partially offset by higher revenue share from Consumer Products.

Consumer Products segment operating income was up 32% on revenue growth of 10%, which is net of Consumer Products' revenue share with the Studio. Margins were up over 600 basis points in Q2, reflecting continued strength in merchandise licensing, which was driven by *Frozen* and, to a lesser extent, *Avengers*. On a comparable basis, earned licensing revenue in the second quarter was up 23% over last year, which underscores the strength, depth and breadth of our licensing portfolio.

At Interactive, higher operating income in the second quarter was due to lower marketing and product and development costs driven by fewer titles in development and higher results from our mobile games business, which continued to benefit from the success of *Tsum Tsum*. These increases were partially offset by lower performance of Disney Infinity.



During the second quarter, we returned an aggregate \$2.4 billion dollars in capital to our shareholders, consisting of \$485 million dollars for share buybacks and a dividend of almost \$2 billion dollars. Fiscal year-to-date, we've returned about \$3.9 billion dollars to our shareholders via dividends and buybacks, including roughly \$2 billion dollars in share repurchases. And with that, I'll turn the call back to Lowell and we'll be happy to take your questions.

---

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

Ok, thanks, Jay. Operator, we are ready for the first question.

## Q&A

---

**Operator**

(Operator Instructions) Michael Nathanson, MoffettNathanson.

---

**Michael Nathanson** – *Analyst, MoffettNathanson*

Thanks. I have one for Bob and then a follow-up for Jay. Bob, can you help us with this? We've seen Disney's networks on Sling TV, but the same networks are not on Sony's new platform. And then there's a dispute with Verizon over their mini-bundle.

So I wonder, could you share with us your perspective on the factors and the principles that guide your willingness to work with new MVPD offerings?

---

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

Sure, Michael. As you'd expect, when we look at these new offerings, we look at a couple of factors, namely do they have strategic value to the company and are they beneficial to us financially? We also like to analyze the packages in terms of what we believe they offer customers, because we happen to believe that navigation has become really critical.

On that note, by the way, the reason we like navigation is the better the navigation, usually the better the consumption. Poor navigation usually leads to less consumption.

In the Verizon case, we were simply asking them to adhere to the contract that they had negotiated with us. In general, as it relates to skinny packages, we've been, for the most part, at the forefront of offering consumers more choice, because we happen to think that we've



entered into an era where the consumer has more authority and therefore is going to demand more flexibility and more customization.

But it's also clear that price-value relationship is important. Consumers still want a lot of choice at the right price. Sling's case was mostly of interest to us because their strategy was to go after the roughly 12 million Broadband Only households in the United States with a skinny or a less expensive package. So we thought there was value there from a strategic and a financial perspective.

In the Sony case, I don't have to get into many details, but simply put it wasn't to our advantage financially. But again, overall, we think new entrants into the distribution marketplace are good for us. I will say that I have not seen many so-called skinny packages, except for the Sling package, that I think are particularly attractive to consumers in terms of the price-to-value relationship.

And I think the last thing that needs to be said is -- and I know that some of you have written about this -- is that when you unbundle, particularly your broadband service, there is going to be a hidden cost -- or there are hidden costs. As a for instance, you buy an expanded basic bundle, you get broadband with it. You buy a skinny package, you have to pay extra for broadband and that cost goes up substantially.

So I think one of the questions that has yet to be answered is, what savings -- or how large do the savings have to be for the consumer to essentially abandon the expanded basic package and the choice that it gives, for some less expensive package with far less choice. And are there other cost ramifications, like the one that I just cited.

So again, the jury is still out on a lot of this. No question that there are changes going on in the media landscape, although we do not see a disturbing trend as it relates to the expanded basic bundle. And we're going to continue to evaluate these things based on the criteria I just mentioned.

---

**Michael Nathanson** – *Analyst, MoffettNathanson*

Thanks, Bob. And for Jay on Broadcast. In the past, you guys stated that retrans would be somewhere between \$400 million and \$500 million. You reaffirmed that last quarter.

But given the strength of results now, I wonder could you update us on retrans? Is it going to be larger than that range now that we've seen these results?



---

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

Thanks, Michael. I guess I can say that we gave that goal a few years ago and we're pretty confident that we are going to comfortably exceed that goal in our total retrans.

For the second -- relative to this year -- for the second half of the year, we are going to have retrans and license fee revenue that roughly matches what you've seen in the first half of the year.

But when you look at that from a growth basis, because of the timing of the new deals that were done, the growth in the first half of the year is going to widely exceed what you see in terms of growth for the second half of the year.

---

**Michael Nathanson** – *Analyst, MoffettNathanson*

Okay. Thanks, Jay.

---

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

Ok, operator, next question please.

---

**Operator**

Alexia Quadrani, JPMorgan.

---

**Alexia Quadrani** – *Analyst, JP Morgan*

Thank you. It seems like *MyMagic+* has really improved capacity at Disney World. And you've had a number of record attendance quarters lately. I guess how much can you continue to see those gains? And any color on how international visitors may have trended in the quarter?

---

**Tom Staggs** – *Chief Operating Officer, The Walt Disney Company*

Sure, Alexia. So as you know that *MyMagic+* has had an impact, especially as we've now started to anniversary the startup costs that we had there. And it really is integrated into the total Walt Disney World guest experience. So it's difficult to say just how much it contributed because it's so integrated, but it clearly was a contributor to results.



We've got roughly half of our guests now entering the parks with *Magic Bands* and the response from those guests has been overwhelmingly positive. So we are very pleased with that.

*My Magic Band* -- or *MyMagic+* as a driver going forward, will still be a factor, but perhaps not with as great an impact as we've seen just in this quarter. Again, as it becomes even more integrated into the base experience.

Looking forward, I think that we're most excited about what we see in terms of the prospects outside of the United States, with the opening of Shanghai Disney Resort next year, and that should drive growth well into the future.

Having said that, though, we saw strong international attendance this year at our domestic parks. There's no question that those results have been strong. And the top line growth, coupled with the close mining of the expense line, has resulted in strong growth and we hope to see our results continue there.

---

**Alexia Quadrani** – *Analyst, JP Morgan*

And just any update you can give us on any plans to further incorporate Star Wars into the parks?

---

**Tom Staggs** – *Chief Operating Officer, The Walt Disney Company*

Well, nothing specific to announce, although I think as Bob had mentioned on the last earnings call, we are working on development of potential plans. And it's something that we look for as likely a factor in our development in the future, especially as we look in future years.

---

**Alexia Quadrani** – *Analyst, JP Morgan*

Thank you.

---

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

Thanks, Alexia. Operator, next question please.

---

**Operator**

Jessica Reif Cohen, Bank of America.



---

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

Thank you. I have two questions. First on Star Wars, this is a franchise unlike any other, obviously. We've never seen anything like this. So could you talk broadly about your strategy to drive consumer interest?

It seems like there's a frenzy already, but can you just talk about the ramp up to December 18th on a global basis? Because there's a whole generation that wasn't born for the last round of films. And I know Tom mentioned the Consumer Products phase, so if you could just expand on what you're doing leading into December 18th.

---

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

Sure. Thank you, Jessica. This is Bob. I think first of all, you have to understand that this is already a very strong franchise, but a film has not been released in 10 years. And so while we're not treating this as something that is brand new, we are mindful of the fact that there's a whole generation of people out there that were not as steeped in the Star Wars lore and not as, in effect, in love with the franchise as an older generation.

So we are -- and there are markets around the world that weren't as developed back 10 years ago and beyond that. China is probably the best example, it's now the number two movie market in the world. Obviously, when the last *Star Wars* film released, it was barely a market from a movie perspective.

We are managing all of this with great care as well in that while we are mindful of the fact that we need to market this and go after this new generation and new territories, we also want to be careful that the demand does not create almost too much in the marketplace too soon. And so everything that we have done to date has been extremely deliberate. We have an extremely -- a carefully constructed and deliberate plan going forward in terms of what we roll out in the marketplace, both in terms of product and in terms of market.

The release of the six films digitally is probably a good example of that. We did that in April to at least make it available for the first time on a digital platform on a worldwide basis. And that's been, I think, helpful.

We've already got some increased product in the marketplace, but the real ramp up from a Consumer Products perspective won't come until just a few months prior to the release.

We have already talked about some games that will come into the marketplace. EA had an announcement at *Star Wars Celebration*, for instance. You can expect that there will be more game-related activity between now and the release. And I think generally speaking, you're going to see us release in a very, very careful way certain elements of the film as part of a very carefully designed marketing plan, again as we get much closer to the film.



I will say we've been overwhelmed with interest. We knew when we purchased this that there was great interest and value, but so far, it has well exceeded our expectations. The reaction to the two teaser trailers I think is one example of that: over 80 million hits on this last teaser trailer in 24 hours and hundreds of millions since. Quite amazing.

We are pleased with what we've seen so far of the film and we can't wait to show it to the world. I think we've got something here that is very, very special, that's going to create value for the company for many, many years to come across the world.

One of the other -- two other things I want to mention is we have three films that are going to come into the marketplace between now and May of 2017. *Star Wars VII: The Force Awakens* in December; *Rogue One*, the standalone film, a year later. And then in May 2017, we're going to have *Star Wars VIII*. And all three are in varying stages of development and production.

And then Tom mentioned Parks and Resorts. We've got a huge opportunity there. We've had single attractions, *Star Tours*, in multiple places around the world that have remained successful, and some *Jedi Training Academy*-related shows here and there. But the opportunity here in the United States and in other places around the world is tremendous and we're doing some developmental work on it, but over time, there is great potential there, too.

---

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

Thanks, my second question is about advertising. How different will the upfront be this year, given the measurement issues and changes in guarantees and given the onset of programmatic buying? How are you approaching that?

---

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

Well, we're starting with putting together a good schedule at ABC and their development has been quite strong. We know that there's still a traditional approach to this in that there's still great interest and the greatest interest in the 18-to-49 audience and lesser extent 25-to-54, great interest in women 18-to-49, and probably growing interest in people 18-to-34.

We do know that -- I'll call it secondary viewing, which is either viewing on the DVR or SVOD -- is increasing. And ABC is doing extremely well in that category, with shows that seem to be performing both in the SVOD and in the DVR playback world. I mean, multiple shows for instance.

And by the way, ABC had a good season this season. They were the only network that was up. And that's due to adding new shows to the schedule, like *black-ish* and *How to Get Away with Murder* and *Fresh off the Boat*, for instance. So they've had a decent season.



They are also mindful of the fact that addressable advertising is going to grow, and the ability to create opportunities for advertisers to reach consumers in a more specifically designed way is only going to grow.

They're also going to continue to emphasize the output of their own studio. We've been very successful at putting more ABC-owned shows on the Network. That should be the case in this upcoming scheduling season as well. And we have the ability as a company to create programs for television platforms. I think the Netflix/Marvel deal is a great example of that.

So as we look at the television environment, we think the Network is well positioned. We think the growth in what I'll call new media is only going to continue and we're going to take advantage of that. And generally speaking, we think the advertising or the upfront is going to be just fine for our Network and for our company.

The last thing I want to say is that there's no question that we're seeing a new advertising reality here, because money definitely has migrated out of traditional media into new media, which is one of the reasons why we've shown such an interest in new media.

The last thing I'll say is as a company, about 16% of our revenue this year is advertising generated. So it's still a substantial amount of money, but our exposure to these changes is less than a lot of the other media companies.

---

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

Thank you.

---

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

Thanks, Jessica. Operator, next question please.

---

**Operator**

David Bank, RBC Capital Markets.

---

**David Bank** – Analyst, RBC Capital

Thank you. This question I guess is for Bob primarily, but I would love to hear all your thoughts. It's a follow-up, really, on Michael's earlier question. And I'd put it in the context of you know, I think Disney has embraced, rather than fought, change in the evolving ecosystem about as much as it possibly could, pretty much every step of the way over the past decade. So -- and we



have hopefully been one of those people who have done some analysis on that lighter OTT bundle.

And if you assume that cost has some relationship with value-added to the consumer, the vast majority of the value in a product like Sling is really coming from the Disney bundle, probably more specifically ESPN.

So when you think about it, the way we look at it Disney really has the ability to mirror the general entertainment content for the same level contained in Sling outside of the ESPN product. We think you could probably replicate what's in Sling.

So if that goes well, why wouldn't you launch your own direct-to-consumer product? If the idea is to target Broadband Only homes, you could sort of do that yourself, you could build the best interface. When is the time to do that? Thanks.

---

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

I don't know that there is an absolute answer in terms of timing. In terms of ability, we have said that with these channels and these brands -- ESPN, ABC, Disney, maybe even down the road something related to Star Wars and Marvel -- we do have the ability as a company to take product, specifically filmed entertainment, television, movies -- directly to consumers. And we've got some development underway to do just that.

That said, the distributors, whether it's cable or satellite or even some of the new platforms, create real value for us, too. They already are in the customer acquisition business. They've already spent a significant amount of money and capital to create their platforms. And they manage the relationship with the consumer, whether it's billing or technology or whatever, fairly effectively.

And so they create value for us and they also help us market. So I think there's a balance here. And I think what I'm saying is that as long as the current distribution ecosystem, or the one that seems to be emerging, continues to create value for us, then we'll rely on it to distribute our product.

When we believe that our opportunity to distribute directly is bigger than or better than the opportunity for others to distribute, then we'll go into that business more aggressively. I don't think any other company is positioned as well as we are to do that because of the strength of those brands.

I thought your analysis, by the way, David, was really well done. I read most of it. It was lengthy, by the way, but I thought it was really well done. Provocative in some cases. And actually the comment that I made earlier about unbundling broadband, I actually got from that analysis. So I appreciate it.



I think we're entering into a pretty interesting world, where technology is for the most part the friend of high-quality media. Because it's going to give us many more opportunities to reach customers, either directly or through third-parties.

So we are viewing this as kind of a new world order in many ways, because of I think the impact of technology on media, but one that's going to be very beneficial to this company.

---

**David Bank** – *Analyst, RBC Capital*

Okay. Thank you very much.

---

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

Thanks, David. Operator next question, please.

---

**Operator**

Todd Juenger, Bernstein.

---

**Todd Juenger** – *Analyst, Bernstein*

Thanks. I'd like to come back to more of the traditional television environment a little bit, for whoever would like to comment.

Would just love your thoughts on you and your partners at A&E and your thoughts on what might be going on there. Ratings are not, I'm sure, where you want them. Would love to hear your thoughts on how much you think of that as structural, how much of it is specific content-related or cyclical, and thoughts on how you might plan to turn that around. And also any comment on whether we expect to see anything material from that, good or bad, in earnings.

And I have a quick follow-up. Thanks.

---

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

As you know, A&E Lifetime is a 50-50 joint venture with Hearst, so obviously it is a value to us because of its size and impact on the bottom line. But we rarely comment about it or we rarely speak for them, I should say.

What we do know about A&E's ratings is that they were highly driven by and dependent upon the success of *Duck Dynasty*. And those ratings have definitely decreased and that is, I think, having some impact.



But we really believe in the management of A&E led by Nancy Dubuc. And know that she's addressing the issue in many, we think, very positive ways. And we are, generally speaking, quite bullish about our business and the future. It remains a good brand.

---

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

Todd, not a driver for the quarter, by the way.

---

**Todd Juenger** – *Analyst, Bernstein*

Okay, thanks. A quick follow-up on something you do fully own and control, then, if you don't mind, which is turning to the kids' side. There's obviously been a massive dislocation in traditional advertising GRPs targeted to kids.

You happen to have the leading kids' properties and networks right now. Anything you can do to take advantage of that dislocation, either through traditional or nontraditional means? Thanks.

---

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

Well, the Disney Channel doesn't sell advertising in the United States, so we are far less vulnerable to some of those shifts. Disney XD, we do sell advertising in. I mentioned earlier that advertising is only 16% of our revenue, which I guess on the big base is still a big number, but not as significant to our company as it is to others.

We think that the opportunity in terms of kids' programming for us is to continue to leverage the brand and the intellectual property that we have to drive increased consumption, which will, in our case, probably generate revenue that's more on the subscription side or, so I'll call it, the video-on-demand or pay-per-view side. That also, by the way, will drive other revenue at the company, whether it's the theme parks or Consumer Products.

---

**Todd Juenger** – *Analyst, Bernstein*

Okay. Thank you.

---

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

Thanks, Todd. Operator, next question please.

**Operator**

Doug Mitchelson, UBS.

---

**Doug Mitchelson** – *Analyst, UBS*

Thanks so much. So one for Bob and then one for Tom and Jay. Bob, I'm curious for your thoughts on virtual MVPDs and how you think about their influence on the ecosystem longer term in one particular regard, right. So Sony Vue and Apple TV can run their virtual bundles at little to no margin as they sort of use your software to drive their core hardware business. So the good news is they can pay you more and charge consumers less for the same bundle. Longer term, though, if they're not running those businesses for profit, do their long-term interests diverge from programmers and would a Sony or an Apple gain negotiating leverage over programmers that traditional distributors have not had recently? So I know it's early days, but you're always very forward-thinking on the digital stuff.

And for Tom and Jay, the Star Wars franchise and Shanghai Disneyland both seem difficult to forecast -- at least I find them to be difficult. I was hoping you could help investors understand the potential financial performance for those assets. What comparables would you highlight or metrics are you willing to provide to help us understand the financial contribution they could make? Thank you.

---

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

So Doug, as it relates to virtual MVPDs. I was listening to your question about Shanghai and I almost forgot the first question.

We have a lot of leverage because of these channels, actually. I don't think anybody can successfully launch a distribution business without the channels that this company owns, frankly. And whether they run them as loss leaders or not, I don't think that really has much of an impact on us.

I think that generally, new entrants into the marketplace are going to create new opportunities, either because they attract more consumers or they offer an experience to the consumer or a price-to-value relationship that's more attractive than the existing distributors. I just think it's a good dynamic for us.

I also mentioned easier navigation. If a product comes forward that is more robust in terms of user interface, that's great for us. If our product can be found more readily, used more readily, enjoyed more readily, I think that it will increase consumption. And that's one of the reasons why it's not always just about price for us, it's about the experience.



As it relates to Shanghai, I don't know -- Jay and Tom, you want to grab this?

---

**Tom Staggs** – *Chief Operating Officer, The Walt Disney Company*

Well, I would say on Shanghai, as Bob mentioned, we are really excited about what we're seeing come out of the ground there. You will continue to see the preopening costs ramp up over the quarters leading up to the opening. And so that will extend into 2016 with the opening in spring.

And from there, then, we will see. We're not going to make any specific prediction for you. But then we will ramp it up towards profitability after opening, so that the real positive impact from Shanghai Disneyland -- you'll see it in years post 2016. But at the same time, as we've discussed in many times on these calls, the prospects there are spectacular.

And certainly planting that flag in China we think will have a ripple effect throughout the rest of our businesses as we establish the brand in that way.

---

**Doug Mitchelson** – *Analyst, UBS*

Would you be willing to entertain a question around the cadence to reaching some normal level of margins for that park? Is it something that gets to breakeven relatively rapidly or does it take a long time?

---

**Tom Staggs** – *Chief Operating Officer, The Walt Disney Company*

It's not something we want to provide specific guidance on at this point.

---

**Doug Mitchelson** – *Analyst, UBS*

Thank you all very much.

---

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

Thanks, Doug. Operator, next question please.

---

**Operator**

Ben Swinburne, Morgan Stanley.



---

**Ben Swinburne** – *Analyst, Morgan Stanley*

Thanks. I have a question for Bob and then a follow-up for Jay. Sticking with the theme of leverage over distributors, but turning to the film business. You've had tremendous revenue growth, but you had even more tremendous margin expansion in film. Putting up these huge box office numbers and big margins is tough to do. I wonder if, Bob, you could talk about what you've done and what Alan has done at the Studio to drive costs down or margins up.

And then should we be thinking that you guys are going to get 60% splits with the exhibitors for these large tent-pole films, as discussed in *The Journal* today? Because that has -- a 10 point improvement from the standard 50% -- has a pretty profound impact on the profitability of these films. And is there any implication for the international splits, where they're always typically lower? Are you able to exert similar leverage on the international front?

---

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

We have obviously, with our film strategy, created and will continue to create huge value for the theater owners here in the United States and around the world. And clearly, with the hand that we've got -- Disney and Pixar and Marvel and Star Wars -- our discussions in terms of the rates that we get paid or the splits have factored in the films that we release.

But I do not want to get specific about how much more we could get or what the nature of the discussions are. I want to emphasize again the investment this company has made in its motion pictures and the results are evident in terms of the value creation proposition to the theater owners.

In terms of the strategy and the impact that Alan Horn has had, what we set about to do early on was to focus on our core brands and then to acquire others that we thought had similar characteristics.

So we focused on Disney and we worked to strengthen the Disney output, particularly in animation, and we purchased Pixar in part to do that. And we bought Marvel, because we really believed in that brand in the movie business. And then obviously, Star Wars.

And Alan's charge is to help manage those brands on the motion picture side and to make sure that as a Studio, we are focused on quality. And I think the results since he joined us have been stunning. He is a tremendous movie executive. He not only knows the business well, but he manages our business extremely well. And I think the results that we've seen in that business in these last few years are in part the result of what he's brought to the Studio from an experience and from a talent perspective.

So we are very focused on those brands. We are focused on improving the quality of the product in a relentless way. We are focused on delivering value, not just to the Disney



shareholders, but to the distributors worldwide. And I think the growth that we've seen in that business these last few years is a result of all of that and we believe that that should continue.

When you look at what we have in the pipeline, whether it's in Marvel films, including [*Ant-Man*] this summer and *Captain America* and two more *Avengers* films and diversifying to *Black Panther* and *Captain Marvel*, or what you know -- what we have that I mentioned earlier on the Star Wars front or what's going on in animation from both Pixar and Disney Animation. We've got a tremendous original film from Pixar this summer called *Inside Out* and another one called *Good Dinosaur* later in the year. First time in a calendar year we've ever released two Pixar films. And then we've got *Toy Story IV*, *Incredibles*, and *Cars*, and *Finding Dory*, which is a sequel to *Nemo*. Tremendous hand.

So I think you're going to see over the next 5 years to 10 years -- certainly 5 years -- a real growth from the Studio because of all that.

---

**Ben Swinburne** – *Analyst, Morgan Stanley*

Thank you. And then just quickly for Jay on the domestic cable affiliate revenue growth, I think 10% ex-deferral. I don't know if you'd be willing to help us think about the SEC contribution to that, at least broadly.

And can you give us a sense for whether you're seeing any acceleration or deceleration to the core underlying ex-SEC affiliate growth at Cable?

---

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

Ben, I'm not going to give you -- we don't break out the individual businesses that make up our Cable affiliate revenue. But I will only reiterate something we've said before.

The launch of the SEC Network was one of the best launches of a new network in cable history. And we continue to be very, very pleased with its progress and how fans have accepted and embraced this new network around, of course, what is arguably college football's strongest conference.

---

**Ben Swinburne** – *Analyst, Morgan Stanley*

Thank you.

---

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

Ok, Ben. Thanks. Operator, we're going to have time for one more question this morning.

**Operator**

Jason Bazinet, Citi.

---

**Jason Bazinet** – *Analyst, Citigroup*

Thanks. I just have a question for Mr. Iger. I would be very -- I suspect a lot of the acquisitions that you've made over the years were sort of at least in part influenced by your view of how the video ecosystem would change.

So I'd just be curious to get your comments in terms of how do you see it evolving relative to your prior expectations and what do you think we can expect next? Thanks.

---

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

Well, I actually think, Jason, that my -- I guess my view about the world in general as it related to those acquisitions wasn't specifically related to what you just cited, but it was I guess more related to looking at a world that was going to expand in terms of its voracious appetite for quality content and brands.

And I thought technology was going to be more friend than foe in terms of offering us opportunities to reach customers, either directly or through third parties. I also thought technology was going to give us the ability to make better product, whether it was at theme parks or on the filmed entertainment side.

And I thought markets were going to develop that were going to create compelling opportunities for us. I think China is a great example of that, whether you look at it from a Shanghai perspective or whether you look at it from a movie perspective.

So I just thought the value of high-quality intellectual property in the entertainment space was only going to increase because of a variety of different developments in the world. It was that simple. And I saw in Marvel and Pixar and Star Wars/Lucas great intellectual property in known and valued brands that were only going to benefit from the changing dynamics in the marketplace. It was that simple. And they were brands that as a company, we felt that we would be great stewards of because of the stewardship we have had of the Disney brand over decades.

---

**Jason Bazinet** – *Analyst, Citigroup*

Understood. Thank you very much.



---

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

All right, thanks, Jason. Thanks, everyone, for joining us today and for accommodating the change in the schedule. We will be around all day to answer any follow-up questions.

Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our Investor Relations website. Let me also remind you that certain statements on this conference call may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them. We do not undertake any obligation to update these statements.

Forward-looking statements are subject to a number of risks and uncertainties and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our annual report on Form 10-K and in our other filings with the Securities and Exchange Commission.

This concludes today's call. Have a good day, everyone.

###

**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 September 27, 2014 and in subsequent reports on Form 10-Q under Item 1A, “Risk Factors”.

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at [www.disney.com/investors](http://www.disney.com/investors).