



The
WALT DISNEY
Company

Q4 FY15 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chairman and Chief Executive Officer

Tom Staggs

Chief Operating Officer

Christine McCarthy

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations



PRESENTATION

Operator

Welcome to the Walt Disney fiscal full year and Q4 2015 earnings call. My name is Adrian, and I'll be your operator for today's call. (Operator Instructions) Please note this conference is being recorded.

I'll now turn the call over to Lowell Singer, Senior Vice President Investor Relations.

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

Good afternoon and welcome to The Walt Disney Company's fourth-quarter 2015 earnings call. Our press release was issued about 45 minutes ago and is available on our website at www.disney.com/investors. Today's call is also being webcast, and an audio recording and transcript of the call will be available on our website.

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

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

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

Thanks, Lowell. And good afternoon everyone.



We are very pleased with our results in Q4, with adjusted EPS of \$1.20, up 35% over the prior year. This strong performance capped our fifth consecutive year of record results – including historic revenue and net income, and adjusted EPS up 19% to an all-time high of \$5.15.

These results reflect the collective talents and commitment of our employees and Cast Members around the world, and I'm both proud of their achievements and grateful for their contributions.

Our performance continues to demonstrate the incredible strength of our brands and franchises; the extraordinary quality and robust pipeline of our creative content; our commitment to constant evolution as we adapt to emerging consumer trends and technology; and our unique, proven ability to leverage creative assets across our entire company to drive significant, long-term value.

And Star Wars is an obvious example. We're still six weeks away from releasing the first new film in a decade, but you can already see the impact and value of that franchise in various businesses.

We have Star Wars products in numerous retail categories, especially toys and games. And the huge global response to the brief glimpse of new merchandise we revealed on *Force Friday* in September suggests the demand will only grow with the release of new movies. A new generation is connecting with Star Wars through Disney XD's animated *Star Wars Rebels*. And fans and gamers around the world are anxiously awaiting the November 17th release of the highly anticipated *Star Wars Battlefront* from EA -- praised as the ultimate Star Wars gaming experience. We're expanding the franchise in our Parks and Resorts, adding Star Wars-themed lands in Disneyland and Disney World. And we're also using digital platforms to familiarize global consumers with the franchise and to market the film in truly innovative ways. And, of course, we're very excited about the December 18th release of *Star Wars: The Force Awakens*. And if the reaction to the trailers and ticket presales are any indication, we're not the only



ones. J.J. Abrams and his cast and crew have delivered a truly epic adventure, but, what's even more exciting to us, is that this movie is only the beginning of a new generation of phenomenal Star Wars storytelling. We'll have three new Star Wars films in theaters between now and the end of 2017, with even more to come.

One of our greatest strengths is our willingness to embrace change and adapt to new trends and technologies to create extraordinary experiences that are relevant to consumers. That's especially true in the media space.

From our perspective, there are three key elements that are essential for success in media today. First, you have to have a quality product, preferably high-quality branded product. Next, you need to create a fantastic user experience with an incredible interface and navigation -- you have to make the service easy-to-use and the content easy-to-find. And the third essential element is mobility. Consumers now dictate where they want to access media, and it is essential for legacy distributors to crack the mobile code. The demand for great content is stronger than ever, but consumers are demanding a better user experience and they're migrating to platforms and services that deliver it.

Because of our great brands and franchises, we are uniquely positioned to use new platforms to reach more people and to do so in more compelling ways. And we intend to use these platforms to augment distribution and connect with consumers more directly.

DisneyLife, our new direct-to-consumer service in the UK, is a perfect example. Launching later this month, DisneyLife will give users unprecedented access to the vast universe of Disney storytelling, including hundreds of movies and thousands of TV episodes as well as music, books and more. It delivers a great experience with an incredible degree of personalization, including the ability to watch and read in several different languages.



The Disney-branded content is fantastic, the user-friendly interface is very interactive and intuitive, and it's designed to be mobile, with apps for IOS and Android. So, we are three for three. We are very proud of this product, it definitely speaks to where we are going as a company. And we see opportunities to grow the concept across other markets, and perhaps other brands, in the future.

We're proud of our results this year, and believe our continued strong performance validates our long-term strategy to drive growth and shareholder value. Tom will take you through some of those highlights, and then we'll turn it over to Christine to walk you through the details of our fourth quarter and talk about some trends going forward.

Tom?

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

Thanks, Bob, and good afternoon everyone.

As the media landscape continues to evolve, our uniquely valuable collection of in-demand brands and content puts us in a great position to deliver extraordinary experiences across platforms in the ways that Bob just discussed. By doing so, we have the opportunity to increase our engagement and deepen our connection with consumers.

ESPN is a perfect example. The brand is stronger than ever, thanks to the largest array of sports properties in the industry and ESPN's well-earned reputation among sports fans for consistently over-delivering, especially when it comes to live sports. In Fiscal 2015, ESPN was the #1 full-time cable network in all major demos, delivering more than half of the year's Top 50 cable telecasts. ESPN's first College Football Playoff actually delivered the three biggest audiences in cable history as well as an 83% ratings increase over the prior year's Bowl Championship Series.



In addition to having the best portfolio of sports rights in the business, ESPN has been a multi-platform pioneer for years, leveraging technology to keep fans connected to the best in sports wherever they are. WatchESPN remains one of the most elegant and user-friendly mobile services in the market today, and ESPN continues to innovate, creating and enhancing a very robust suite of services that are embraced by sports fans across the country. In September alone, 94.4 million fans spent 10.3 billion minutes engaging with ESPN on digital platforms, setting a new record for unique visitors and engagement in the sports category.

The demand for sports programming, especially live sports, is incredibly strong. And, no matter how they choose to engage, sports fans continue to trust ESPN to provide the best overall experience and the marquee events that matter most.

Turning to our Studio, our strategic focus on high-quality, branded movies continues to drive value across our businesses. Since their respective acquisitions by Disney, Pixar movies have averaged roughly \$660 million in global box office, and Marvel films have averaged \$820 million. And that success continues. The global box office receipts for Pixar's *Inside Out* are over \$845 million to date. And Marvel's *Ant-Man* has totaled \$515 million worldwide so far, exceeding the global box office totals on the original films for both *Thor* and *Captain America*.

In addition to the *Star Wars* movies Bob mentioned, we have a spectacular slate of releases scheduled for 2016, representing our full array of fantastic brands, starting with the release of Pixar's *The Good Dinosaur* later this month. Disney Animation's *Zootopia* opens next March, followed by Disney's live-action adventure, *The Jungle Book*, in April. In May, we'll release Marvel's *Captain America: Civil War*. And later that month, Johnny Depp returns as the Mad Hatter in *Alice Through the Looking Glass*. Fans of Pixar's *Finding Nemo* will finally get their wish for a sequel when *Finding Dory* opens in June. We've successfully introduced some fantastic but lesser-known superheroes into the Marvel cinematic universe with last year's *Guardians of the Galaxy* and again with *Ant-Man* this year, and we're looking forward to doing the same with



Doctor Strange next year. We also have another great movie from Disney Animation, *Moana*, which will be in theaters for families to enjoy about a year from now.

I've been at Disney a long time, and I can't remember a movie slate that comes close to this one. It truly reflects the strength of the unprecedented pipeline of extraordinary content being generated under our unparalleled portfolio of brands.

One of the things we're most looking forward to in 2016, of course, is the grand opening of Shanghai Disney Resort next spring. We are well down the road in the construction of this spectacular, world-class destination in the most populous city in the most populous country on earth. As Bob has said, we committed ourselves to making this resort authentically Disney and distinctly Chinese. We were just there last week, and it is extremely gratifying to see how well we are delivering on that promise. The park features some of the best in Disney storytelling and innovation we've ever achieved, and our collaboration with Chinese cultural experts, creative talent and artisans is apparent throughout. At this point in the construction, all the major structures and landmarks are in place, and you really get a sense of the phenomenal experience in store for our guests when they walk through the gates of this spectacular destination next spring. From the grand scale to the smallest detail, it's absolutely extraordinary, and it's something only The Walt Disney Company could create.

We've begun holding a number of job fairs in China to find the talent we need to deliver the world-class experience guests expect from Disney, and the response has been overwhelmingly positive. There is a palpable excitement in China about Shanghai Disney, along with a great deal of pride, all of which we share.

And now Christine will walk you through the details of our performance and then we'll take your questions. Christine?



Christine McCarthy – Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company

Thanks, Tom and good afternoon everyone. Excluding items affecting comparability, fourth quarter earnings per share were \$1.20, an increase of 35% over last year, and for the full year were a record \$5.15. Fourth quarter and full year results benefitted from an additional week of operations in our fiscal calendar this year. Our fiscal 2015 earnings represent a record for the company even after excluding the estimated effect of the 53rd week. The financial results this quarter and for the full year demonstrate the effectiveness of our strategy of investing in high-quality, branded content. I am going to spend a few minutes discussing our fourth quarter results in more detail and then I'll highlight some factors that will impact our results in fiscal 2016.

Studio Entertainment had another record year with almost \$2 billion in operating income in fiscal 2015, 27% higher than last year. This is a business that only two years ago generated less than \$700 million in operating income, so the growth demonstrates the power of the investments we've made and our ability to execute against our strategy. The success of the Studio has been broad-based due to an unrivaled portfolio of film properties and our unique ability to take this great content and monetize it across multiple windows and businesses. Studio operating income more than doubled in the fourth quarter compared to last year due to growth in television distribution and higher worldwide theatrical results. Theatrical results reflected the performance of *Inside Out* and *Ant-Man* in the fourth quarter compared to the performance of prior year releases, which included *Guardians of the Galaxy* and *Maleficent*. Studio operating income also benefited from lower impairments in the quarter compared to prior year.

At Media Networks, growth in operating income in the fourth quarter was driven by an increase at Cable while Broadcasting results were in line with the prior year quarter. Growth in Cable operating income was driven by ESPN and, to a lesser extent, worldwide Disney Channels and higher equity income from A&E. The increase at ESPN was driven by the benefit of the 53rd



week and higher affiliate and advertising revenue. Programming costs were relatively flat in the quarter as higher costs for a full quarter of the SEC Network, additional U.S. Open tennis rights and contractual increases for Major League Baseball and the NFL, were offset by the absence of rights costs for NASCAR.

Domestic Cable affiliate revenue was up 17% in the fourth quarter, and up 8% excluding the benefit of the 53rd week.

Ad revenue at ESPN was up 5% in the quarter. Two factors affected the comparability of ESPN's ad growth in the quarter, the 53rd week and the absence of the men's World Cup. We estimate that ESPN's ad revenue was up 9% when you exclude the net impact of these two factors.

So far this quarter, ESPN's ad sales are pacing up significantly compared to last year, reflecting a very strong advertising marketplace for sports and the timing of key College Football bowl games. The six New Year's Eve and New Year's Day College Football Playoff bowl games, including the two semi-final games, will air in the first fiscal quarter this year, whereas these games aired during the fiscal second quarter last year.

Broadcasting operating income was comparable to the prior year quarter as higher affiliate and advertising revenue were largely offset by higher programming costs, an increase in equity losses driven by Hulu, and lower income from program sales compared to the prior year. Programming costs were higher in the quarter due to an extra week of programming, as well as an increase in marketing spend to support the launch of the fall season. The extra week had minimal impact to Broadcasting's operating income for the quarter, as the extra week of ad sales was roughly equal to the incremental programming spend.

Ad revenue at the ABC Network was up mid-teens percent in the fourth quarter. Excluding the extra week, ad revenue was up mid-single digits. Quarter-to-date, primetime scatter pricing at the ABC Network is running 16% above upfront levels.



At Parks and Resorts, the investments we've made in our domestic parks continue to drive higher guest visitation. Attendance at our domestic parks was up 15% in the quarter, and up 7% excluding the benefit of the 53rd week. Disneyland in particular saw very strong attendance growth due to tremendous excitement for the 60th anniversary celebration. Per capita spending was up 1% on higher admissions, merchandise and food and beverage spending. Per room spending at our domestic hotels was up 7% and occupancy was up 1 percentage point to 84%.

Operating income growth at our domestic operations was due to the benefit of an additional week along with higher guest spending and attendance at our domestic theme parks, partially offset by higher costs. Operating income at our international operations was lower in the quarter due to a decline at Hong Kong Disneyland and higher pre-opening expenses for Shanghai Disney Resort.

So far this quarter, domestic resort reservations are pacing up 5% compared to prior year levels, while booked rates are up 8%.

At Consumer Products, operating income was higher in the fourth quarter as a result of growth in our licensing business, partially offset by higher marketing costs. Growth in licensing was driven by sales of Star Wars Classic, Avengers and Frozen merchandise. On a comparable basis, earned licensing revenue was up 9%. Licensing revenue and the 9% earned licensing revenue growth I just mentioned do not reflect the revenue from Q4 sales of *Star Wars: Episode VII* merchandise, which we cannot recognize until the film is released.

During the fourth quarter, the market presented us with an opportunity to repurchase our shares at very attractive levels. We repurchased almost 31 million shares for \$3.3 billion in the fourth quarter, bringing our fiscal 2015 share repurchase to about 60 million shares for approximately \$6.1 billion.



We've talked for a long time about the benefit of having a strong balance sheet. Our ability to significantly increase our pace of repurchase this quarter is a great example of this. Over the past five years, we've been able to repurchase about \$25 billion of our stock at an average price of roughly \$58 per share, and we've accomplished this while actively investing for future growth and without compromising the strength of our balance sheet and the financial flexibility it provides. We will continue to be opportunistic in our approach to buying back our stock, and we still expect to repurchase between \$6 billion and \$8 billion during fiscal 2016.

Turning to fiscal 2016, I now want to highlight a couple of timing and comparability items, and also provide some insight into our capex plan for the year.

In fiscal 2016, ESPN doesn't have any major new sports rights contracts kicking in, so we expect total Cable programming and production costs to be up low- to mid-single digits for the year. Earlier I mentioned that the six New Year's Eve and New Year's Day College Football Playoff bowl games will air in fiscal Q1 this year compared to fiscal Q2 last year. As a result, the costs associated with these games will shift into Q1, so we expect total Cable programming and production costs to be up high-teens in Q1 and be down high-teens in Q2.

At Parks and Resorts, quarterly results will be impacted by a shift in the timing of the New Year and Easter holiday periods due to our fiscal calendar. The entire New Year's holiday period will fall in Q1 in fiscal 2016, whereas about a week of the holiday period fell in Q2 last year. We estimate this will shift about \$90 million in operating income into Q1 this year that was recognized in Q2 last year. The Easter holiday period will fall during the second quarter this year, whereas the holiday fell during the third quarter last year. As a result, we will recognize about \$90 million in operating income in Q2 this year that we recognized in Q3 last year.

We have demonstrated our ability to deploy capital profitably across the company, including at Parks and Resorts. We've announced a number of new Parks and Resorts projects that will be



underway during fiscal 2016. As a result, these projects will collectively drive an increase in total company capex of about \$800 million in fiscal 2016 compared to fiscal 2015.

As Tom discussed, we are very excited to open Shanghai Disney Resort later this fiscal year. As we've said in the past, pre-opening expenses will ramp up considerably and we estimate these pre-opening expenses to be a little under \$300 million in 2016.

Fiscal 2015 was another great year for the company. Given the strength of our brands and a relentless focus on creativity and innovation, we will continue to execute against our strategy, which should benefit shareholders in 2016 and in the years to come.

I'll now turn the call back over to Lowell for Q&A.

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

Okay. Thanks, Christine. Operator, we are ready for the first question.

Q&A

Operator

(Operator Instructions) Our first question comes from Michael Nathanson from MoffettNathanson. Please go ahead.

Michael Nathanson – *Analyst, MoffettNathanson*

Thank you. I have two for Bob. Bob, as you know, seldom have words on a conference call created so much analysis as yours did last quarter. I wondered now that we're 30 days past -- or



90 days past the last conference call, is there's anything that you feel you need to clarify or return to given the world's reaction to those comments?

And the second question would be, there was a report in Sports Business Journal last week that ESPN had traded price inflation for lower minimum guarantees. And we fielded a ton of calls of whether or not there is a risk that ESPN could be hurt by skinny bundles over time. I wonder if you could comment about that, too?

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

Okay. Well, regarding your first question, there's nothing that I would either retract or in any way change. To just reiterate what we did, we updated guidance that we had given in 2014 about ESPN's sub fees, and that guidance holds today. We also decided to be candid, I think maybe refreshingly so, about what the industry was experiencing in terms of sub losses during roughly the last period. And we feel that there certainly should be no reason to panic over comments like that.

The fact remains that we're in an environment today that's definitely changing. It's different than the environment before. There's a lot more competition for people's time. With that interestingly enough, we have an opportunity to distribute our content in many different ways than we ever have before -- in more different ways than we ever have before. So there's not only a silver lining, but there's a glass half full perspective on this, and that's what we have.

We also know, specifically related to ESPN, that not only is the brand strong, which is evidenced, by the way, in the ratings -- 50 of the top cable shows in fiscal 2015 -- of the 50 top cable shows in fiscal 2015, 26 were ESPN's -- and in addition to that, live television and live sports in particular is incredibly strong in this environment, demand for it has probably never been greater interestingly enough.



So that's I guess a long way around my saying that we don't have anything to really add to the comments that we've made. We feel bullish about ESPN and ESPN's business. We like the environment because we think long-term it gives us more opportunities. I should also add that ESPN has been at the forefront of using technology to create more compelling product for its consumers and to be present on more platforms.

In terms of your second question, Michael, we really don't comment specifically about aspects of the negotiations or the deals that we have with the multichannel distributors. I can only say, specifically related to your question, that that article was not factually correct.

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks, Bob.

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

Thanks, Michael. Operator, next question please.

Operator

And our next question comes from Alexia Quadrani from JPMorgan. Please go ahead.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. Two questions. My first one is Disney recently made several new announcements on Over-the-Top, with DisneyLife in the UK and I think today with Sony Vue. Do you view these as



potentially additive I think financially to Disney or more filling a potential hole for subscriber losses over time?

And then my second question is just on the Consumer Products commentary about Star Wars. I guess any way you can help us quantify I think what the opportunity there for Consumer Products is? Both sort of big picture, but also in terms of the shift that we're going to see into the December quarter?

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

We are looking at a number of new opportunities to distribute our content. I guess there are different ways you could look at it. We believe that we're seizing these opportunities to augment what is still a primary form of us delivering content to consumers on the TV side, and that's the multichannel package through MVPDs. DisneyLife is a direct-to-consumer proposition that we are launching in the UK in a few weeks. We've already commented about it publicly, but to reiterate it's essentially an app experience, which we like because the app experience tends to be far more rich and textured and a better user interface, which is really important. I am going to come back to that Alexia. It has hundreds of movies, thousands of TV shows, songs, books, and games. And we like the concept from a consumer proposition perspective. We believe there will be other opportunities outside of the UK, and we believe there will be other opportunities like that for some of our other brands. But we are not rushing into that right now.

I also think what you're seeing in the multichannel environment this year, you're probably seeing some attrition, which is always the case from current large bundle subscribers. Most of that is due to economic factors. At the same time, we think it's possible that young people are not signing up as quickly as they once did, and we think that points to a pretty interesting dynamic, and that relates to cost and user experience.



And we think that the primary ingredients for success in media today is one, you have to have great product and we certainly have that; the user interface has to be great, and that means easy-to-find, easy-to-use product, and we challenge all the legacy distributors to distribute -- to deliver that because we think that could be one of the factors in terms of why young people are not signing up; and the third thing is mobility, people want to watch these channels and these programs on mobile devices, and frankly, the experience when you try to do that as a multichannel subscriber, is not as easy or as good as it needs to be. So they are being challenged by these new entrants, and we're seizing the opportunity to basically distribute our content with these new entrants because we think they deliver better user experiences, and the price-to-value relationship, particularly for some of the smaller bundles that are out there, also tends to be attractive to younger people.

So we're going to continue to look for opportunities. We like the trend. We think that the more the merrier in terms of new platforms, and it's clear also -- and Sony Vue is a great example of that -- that these platforms cannot launch successfully without the array of channels that we provide. They came to us to negotiate a deal because it was clear the product that they had launched was not getting -- was not penetrating the marketplace as much as I think they expected, and they needed ESPN, Disney and ABC.

Do you want to handle the Consumer Products question on Star Wars?

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Hi, Alexia. Regarding your question on Consumer Products, we were very pleased with the earned licensing revenue of 9% in the quarter, but that was driven by Star Wars Classic, Avengers and Frozen. What it didn't include was the merchandise related to *Star Wars: Episode VII*. And the reason it didn't was because there's an accounting rule that doesn't allow merchandise with the new IP attached to it to be recognized until after the film is released.



So while we were very encouraged by the results of *Force Friday* and the continued performance of that *Episode VII* merchandise that's already in the marketplace, that result will be included in our first quarter results for Consumer Products.

Alexia Quadrani – *Analyst, JP Morgan*

Okay. Thank you very much.

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

Thanks, Alexia. Operator, next question please.

Operator

And our next question comes from Jessica Reif Cohen from Bank of America Merrill Lynch. Please go ahead.

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

Thank you. I have two questions. First on Hulu, you mentioned in the press release and actually on the call that there were losses in fiscal 2015 and further investment in fiscal 2016. I was wondering if you could, one, quantify it, and two, talk about how Hulu strategically can benefit Disney over the coming years?

And second question relates to Shanghai. Tom and Bob, since you just came back, could you give us an update on, one, have you changed anything regarding expectations? How big do you



ultimately think you will get in China? And how do you think Shanghai Disneyland will impact other parts of your business there?

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

Sure Jessica. Let me talk about Hulu. I'll leave it to them to speak to the specifics of their investment, but it's true that Hulu has and is going to continue to step up their investment in both acquiring and producing original programming and programming from others. And that will continue to increase their losses in the near term.

We believe it's going to create value over time, and we think there's value in them strengthening their offering. And furthermore, that the market is big enough for them and others to thrive. So we feel good about where they're going strategically.



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

Regarding Shanghai, we haven't really changed expectations I think about anything, except that from the time that we broke ground until now, we did decide to build a larger park for opening, and with that came a delay in terms of when it would open. I think we initially anticipated it would open in the latter part of this calendar year. And once we decided to build a larger park, which we are glad about, we pushed it into 2016. What we are currently thinking is that it will open sometime in the spring of 2016, and we're guessing that sometime between now and the end of this calendar year we will announce an opening date.

We feel great about what we're building, and we still feel great about the market. We continue to be impressed with the buzz that we see whenever we go to China, and you're right, we were there last week and three weeks before that. And it is, in fact, the talk of the town. And we think for good reason, not only is it highly anticipated as a product, but interest in Disney is significantly higher now than it's ever been, thanks in part too to the growth in the movie industry.

So we think this is a big event. We love what it represents at many levels. More than anything else, we think it's a great opportunity for us to grow our business in Asia and particularly in China, and with the experience we expect to deliver with what we're building, we think it's going to open up the door for even more opportunities there, both in Shanghai and around China.

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

Thanks, Jessica. Operator, next question, please.



Operator

And our next question comes from Anthony DiClemente from Nomura. Please go ahead.

Anthony DiClemente – *Analyst, Nomura*

Thanks. I have two. First for Bob, in light of kind of the conversation that's topical about retaining SVOD rights, ABC sold *How to Get Away With Murder* to Netflix recently. And I'm just hoping you can walk us through your latest thinking around the SVOD marketplace.

And then secondly, I suppose for whomever would like to take it, I wanted to ask about the layoff announcement at ESPN, and if you could just please talk about that decision, how should investors interpret what's going on at ESPN? Should we assume that this is the sort of thing that ESPN might have to do in order to make room for rights fee increases in the coming years?

Thank you.

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

Well, so I'll start with the ESPN question, and the best interpretation of that is that you should see it as not connected to anything else. ESPN is quite healthy operationally, but at the same time, we have and will continue to assess our operations. We are going to not let any of them stand still, and we are focused on driving all of them to be both effective and efficient as they move forward.

So ESPN has been innovating all along, and they are going to continue to do so, and that impacts how they position themselves and how they staff.

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



Regarding the decision we made on *How to Get Away With Murder* and the relationship with Netflix, we have had a good relationship with Netflix. They've been extremely aggressive buyers of our content. A movie deal kicks in starting in 2016, and they've bought both original programming, the Marvel program is a good example, and a lot of off-network programming from us. And those decisions were all made to monetize our content at the highest levels.

In fact, as I've said, we've never seen greater demand for our content than we are seeing today. I think it's really important for us -- I can't speak for the whole industry -- to maintain flexibility because it's a dynamic marketplace. It continues to change. And that essentially means that when we made these decisions to sell these shows to Netflix, those decisions made the most sense for us in terms of the economics.

Longer-term, it's possible that we'll make different decisions based on other factors. And it is possible that off-network programs will end up either being bundled with our multiplatform -- multichannel services, or as part of apps that the Company brings out to sell directly to customers, as is the case with DisneyLife.

The most important thing for us in this is flexibility, and that's what we have maintained and what we'll continue to maintain.

Anthony DiClemente – Analyst, Nomura

Thanks very much.



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

Thank you, Anthony. Operator, next question, please.

Operator

And our next question comes from Doug Mitchelson from UBS. Please go ahead.

Doug Mitchelson – *Analyst, UBS*

Thanks so much. A question for Bob and a couple of clarifications from Christine. So, Bob, I was hoping you could give further details of the strategic rationale for DisneyLife. Because, as you said, it speaks to where the Company is going. I know you talked about it, but why the UK rather than the US? And how did you arrive at that price point? How much overlap, if any, is there with the content that you are distributing on your networks through the Pay-TV platform in the UK?

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

We're launching in the UK for a variety of reasons. One, it's a strong Disney market, a huge affinity for the Disney brand, and so we wanted to test this in a market where there was already strong brand affinity.

Second, we looked carefully at what was available to us to put on this platform. Because we obviously have to factor in -- speaking of flexibility, by the way -- deals that already exist that encumber us from gaining access to the product to sell on our own, and we had an opportunity to bring this to market in a manner that worked in relation to the product available and the deal that we have mostly with Sky in the UK.



And we're doing this because when you look at technology today -- and I know that Apple referred to this when it announced its Apple TV product -- the app experience is, I will call it a 3-D experience versus the 2-D experience that linear television offers. Because you can go to an app and you can choose from a menu of multiple choices in terms of media, and you can essentially use it in ways that we think are far more compelling and typically a better user experience. And I mentioned that earlier. I can't emphasize that enough. Today's consumer, when they are faced with a user experience that is sub-par, where they just can't find anything, they can't navigate things, or they find them and they just don't work well, you don't keep a consumer -- it used to be you don't keep a consumer happy, now it's you just don't keep a consumer -- because they have other choices. So we like the app-based experience.

We're also very interested in taking product directly to consumers as a company. If you look at the profile of this Company, outside of the Disney stores and our theme park business, the customers that buy Disney typically buy through third parties. There's nothing wrong with that, by the way. We do great business with movie theater chains and big-box retailers and multichannel distributors. But given the way the world is and what technology makes available and given the passion that our customers have for our brands -- Marvel, Disney, Pixar, ESPN, Star Wars -- we have an opportunity to reach the consumer directly in ways that our competitors can't come close to doing.

So it is a competitive advantage, and it is an opportunity that technology is providing us, and it's something ultimately that you'll see more of, both from a consumer proposition perspective and from a Company perspective.

The pricing we debated a lot about. We're going to market with a price that we think reflects the value of the product that we are offering and the experience that we are offering. I can't tell you that we are absolutely certain if it's the right price, it's the price that we decided to take it out to the market with. What we do know is we've created an elegant product. It's a really good user experience. We love the look, the feel and the navigation and we'll see. It also has the



ability to provide the content in multi languages, as a for instance, so you can imagine the opportunities in terms of other markets both in Europe and the rest of the world. And it is also technology we can use for those other brands.

Doug Mitchelson – *Analyst, UBS*

Thank you, Bob. Very helpful. And, Christine, just Shanghai Park launch losses, a little under \$300 million in fiscal 2016. To be clear, is that only up until the launch, or is that meant to be an estimate for full year 2016 for the park? Thank you.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, that's the full year estimate for the year.

Doug Mitchelson – *Analyst, UBS*

Thank you.

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

Thanks, Doug. Operator, next question, please.

Operator

And our next question comes from David Bank from RBC Capital Markets. Please go ahead.



David Bank – *Analyst, RBC Capital Markets*

Thanks. I have two questions. A little bit of a follow-up on the last two questions to start with. It seems that, Bob, in particular you have always stood out as kind of a thought and action leader with respect to these new distribution technologies. You just kind of termed it flexibility, I think. The first live streaming cable app, the first streaming broadcast network app, the first iTunes episodic content deal, probably the first to sign a light domestic streaming cable product. Now the first to do a direct consumer branded subscription product in the UK. So clearly you're comfortable with this.

I guess the question is: Does thought leadership and flexibility, though, mean at some point you kind of have the ability to move in the opposite direction, right? And that all these things that have worked so well for you have essentially allowed you to sell what you already have for more money, you know an authenticated app. You are sort of making more money, and you're not breaking up the bundle.

Do you think we are at the point where the sale of SVOD content, given the way it fragments the audience, could ultimately be damaging the ecosystem such that you might use flexibility to pull content back from that kind of platform? I guess that is such a long question. Let me leave it at that, and thanks for answering it.



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

Well, I think you were complementing me, and I appreciate that. I'll comment on that, and I will comment on sort of the real crux of the matter or the question. I'm struck with something that Steve Jobs once said when he was asked about technology and how he developed it. And he said that he starts with the consumer and he works backward to technology. And we're actually doing that, too, we're thinking about the consumer. And the consumer today is a different consumer than before. They don't just want to sit in a living room on a couch and watch our product on a fixed screen on the wall with a remote control in their hand. They want to do it in many more ways, and they have the authority, thanks to technology, to make those decisions.

So we are starting with what we believe the consumer wants. Every one of those examples that you used, which sounds like a strategic initiative for the company, is actually a strategic initiative for the consumer. It's really that simple. And this is a company that has been consumer facing from the start, and I think actually when you look at what we do at our Parks, it's a great example of that.

And all of these things that we're doing, we have -- we're trying to take a very, very expansive look at the consumer today and where that consumer is going, particularly the younger consumer.

So second, as it relates to, well, maybe in a strange way, flexibility, all of these things are designed to obviously create product that we think ultimately benefits the shareholders of The Walt Disney Company, but also to learn from. And if we take product out that may work at a given time but long-term have a negative impact on businesses or business models that can continue to create more value for us, then we'll retract and we'll cut back.

Look, we've got a lot of good things going for us, and in reality the multichannel business model, while facing more competition than ever before, is still a huge driver of value for this



Company. What we ultimately would want to do would be to do whatever we can working with the distributors to make that product more compelling and more consumer facing than it ever has been. That's really the biggest goal.

As it relates to SVOD and those things, I think we could get to a point where off-network programs, both in season and prior season, are bundled with the channels that the programs were originally on. And that may be a feature that's offered to multichannel subscribers that's designed as a means to perpetuate that business model or make that business model more consumer friendly.

So I am not going to suggest that we are set in our ways or stuck in the business model of the future to the point where it damages the former business model in ways that either aren't necessary or that are premature.

David Bank – *Analyst, RBC Capital Markets*

Thanks very much.

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

David, thanks for the question. Operator, next question, please.



Operator

Our next question comes from Ben Swinburne from Morgan Stanley. Please go ahead.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you, good afternoon. Christine, can you just update us on the currency calculations we should be thinking about, or currency factors on the hedges that you laid out last quarter now that we are 90 days later, thinking about fiscal 2016?

And sticking with fiscal 2016, I think it's a fairly clean year for domestic affiliate revenue growth. There's no big renewals, and you've lapped SEC. So any help on modeling out domestic affiliate revenue growth in 2016 would be helpful, too. Thank you.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Okay. Thanks, Ben. So let's talk about foreign exchange as we did give that information last quarter. And as we mentioned at the time, we were fully hedged going into fiscal 2016. So that estimate that we gave you of about a \$500 million impact year-over-year is still the right estimate looking forward to the year, so there's no change on that. And the impact for fiscal 2015, it was a modest negative impact from what was originally given, but that's only because some of our businesses outperformed. So, once again, we are fully hedged based on the estimates as we are going into the fiscal year.

On the Cable affiliate growth, we updated our three-year affiliate guidance on the last earnings call, and we don't intend to update it again. We also aren't, or we don't give annual guidance on



affiliate revenue growth. But I will remind you that fiscal 2015 did benefit from the launch of the SEC network, and that is something that we will be comping against in fiscal 2016.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you.

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

Okay. Thanks, Ben. Operator, next question please.

Operator

And our next question comes from Jason Bazinet from Citi. Please go ahead.

Jason Bazinet – *Analyst, Citi*

Just a question for Mr. Iger. I think when the history books are written, they'll sort of point to your tenure at Disney. Maybe the most important decision you made was sort of reinvigorating the IP pipeline with Pixar and Marvel and Lucas. And my question is, how do you know or what is the right way to think about the limiting factors? In other words, how do you know if enough -- if what you have is enough? Is it finding the right IP out in the marketplace that is the constraint? Is it how much the organization can actually effectively monetize through all the divisions? Is it something else?



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

I'm not 100% sure, Jason, whether you are talking about making more or buying more.

Jason Bazinet – *Analyst, Citi*

Well, either one. I'm glad you went through your film slate for 2016, and it's very broad-based. But I mean, I don't know. I just, I can't --

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

Well, let's start, first of all, with I call it a making more of what we own already, meaning these great franchises and brands. You know that you're making too much when either your quality is going down or the marketplace is telling you that there's fatigue or they've had enough. We don't see that in any of the products that we are making or that you cited. Pixar had one of its most successful releases ever with *Inside Out* and its most original this past year, and we're really excited about *The Good Dinosaur*, and of course, we have *Finding Dory*, the sequel to *Nemo*, next year as a for instance.

On Marvel, obviously *Avengers 2: Age of Ultron* did extremely well, over \$1.4 billion in global revenue, in global box office. And we've got *Captain America 3: Civil War* coming up this year and a pretty rich pipeline thereafter. Of both sequels, things like *Thor* and *Captain America*, as I mentioned, and *Ant-Man*, but also original, like *Dr. Strange* for instance. We like that balance.

Star Wars we're just getting into. Obviously premature, but we are basically planning roughly a Star Wars release a year for the next six years. Three of them, part of the saga: *VII*, *VIII* and *IX*. Three will be stand-alone films. I think we have only announced two of those three. *Rogue One* being the first, which comes out in December of 2016.



So we don't think we're oversaturated. If anything, we think that we are very, very well balanced in terms of taking these products to market.

In terms of products that -- or franchises that we don't own, obviously I'm not going to comment on that. Except I can say that with Disney, which has also never been stronger, by the way, just look at the Oscars that we've won for *Frozen* and *Big Hero 6*; the box office; the excitement about this movie *Zootopia* that is coming up, which I think is going to be a real sleeper hit, and that's coming up in actually first quarter -- end of the first calendar quarter, rather, of 2016.

I think with Disney and Pixar and Marvel and Lucas/Star Wars, we don't really have much of a need. Our pipeline is pretty rich, the richest ever for us. But we will be opportunistic. If we see something that we feel is as attractive as these others have been, that's leveragable across markets, across businesses over long periods of time, which is what we really consider a franchise, then we certainly have the capital structure to be able to take advantage of the opportunity.

Jason Bazinet – *Analyst, Citi*

Thank you.

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

Thanks, Jason. Operator, next question please.

Operator

And our next question comes from David Miller from Topeka Capital Markets. Please go ahead.



David Miller – *Analyst, Topeka Capital*

Hey, guys. Congratulations on the stellar results. Christine, just a housekeeping item for you. The Park margins at 16.9%, just outstanding by any measure but not a record, and I believe they were down year-over-year, although only 45 basis points or so. If you look at the previous three quarters, you had record margins at the Parks. Was that just because of the pension and retirement costs that you cited in the press release? Or was there something else going on there? Just curious. Thanks a lot.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

Yes, thank you, David. Yes, the margins, as you cited, were down at 16.9%. That's actually 40 basis points, not 45, but who's counting.

David Miller – *Analyst, Topeka Capital*

Sorry about that.

Christine McCarthy – *Senior Executive Vice President and Chief Financial Officer, The Walt Disney Company*

That was primarily due to the performance of Hong Kong Disneyland and also some pre-opening expenses at Shanghai Disneyland.

Domestically -- talking about domestically, specifically, there were some year-over-year increases that impacted the margins, and one of those would have been the *Magic* dry dock, which is one of our cruise ships.



David Miller – *Analyst, Topeka Capital*

Got it. OK. Thank you.

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

All right. Thanks, David. Operator, we have time for one more question.

Operator

And our next question comes from Barton Crockett from FBR Capital Markets. Please go ahead.

Barton Crockett – *Analyst, FBR Capital*

Okay. Great. Thanks for squeezing me in. What I'd like to follow-up on is the outlook for the declines in Pay-TV subscriptions. So, on the last call, you acknowledged that there is a modicum of decline, whether it is 1% or 2%, something like that seems to be the industry numbers. But it would seem to me that that decline is unlikely to go on in perpetuity, that there is a sticking point. There is a group of people who won't -- are not likely to cancel Pay-TV because, among other things, they like sports, and they are avid sports fans and you can't get that very easily outside of Pay-TV. And other reasons, maybe economic reasons, are driving the cancellations.

Have you guys done research that would suggest to you where these declines and subs might end? You know, if we are down 1% for a couple of years, does it stop then? What are your learnings telling you about where the sticking point is on declines?



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

You know, we're not going to make any predictions about what's going to exactly happen with subs. At the end of the day, we talked about the subs in the terms that we've had, and generally what we're seeing is consistent with what we talked about last quarter.

Having said that, as Bob indicated earlier, this market is going to continue to evolve, and one of the things that we're going to see is that there is room for optimizing the bundle of programming that people receive. There are opportunities to increase the price-value relationship, as well as the user experience of those. And, as we indicated earlier, the program availability will likely be augmented over time. Bob talked about the possibility of in-season stacking being offered through the programming services that we offer.

So I think you are going to see the bundle continue to evolve, and I think you're going to see the industry -- programmers and distributors alike -- respond to the consumer empowerment with increasingly strong product. And at the end of the day, we feel really good about the positioning of our major branded services -- ESPN, Disney, ABC -- to play a vital role in that optimization of the bundle.

So I think that this is going to play out over a long period of time, and for a very, very long period of time you're going to see that bundle be the primary means by which people get their programming.

Barton Crockett – *Analyst, FBR Capital*

Okay. Great. Thanks a lot.



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

Thank you, Barton, and thanks, again, everyone, for joining us today.

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.

I'll also remind you that certain statements on this 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, and 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.

Have a good afternoon, everyone.

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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 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.