



The Walt Disney Company Q3 FY11
Earnings Conference Call

AUGUST 9, 2011

Disney Speakers:

Bob Iger

President and Chief Executive Officer

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the third quarter 2011 Walt Disney Company earnings conference call. My name is Deanna and I will be your operator for today. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. (Operator instructions). As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the call over to your host, Mr. Lowell Singer, Senior Vice President of Investor Relations. Please proceed.



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

Thanks, operator. Good afternoon everyone, and welcome to The Walt Disney Company's third quarter 2011 earnings call. Our press release was issued 45 minutes ago. It is now available on our website at www.Disney.com/investors. The call is being webcast, and the webcast will also be available on our website, as will a transcript of today's remarks.

Joining me in Burbank for today's call are Bob Iger, Disney's President and Chief Executive Officer, and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob will lead off, followed by Jay, and then we will be happy to take your questions. So with that, let me turn it over to Bob and we'll get started.

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

Thank you, Lowell, and good afternoon. I'm pleased to report that we had a strong third quarter, driven by our Media Networks and Parks & Resorts businesses. Net income in the quarter was up 11% on a 7% revenue increase. EPS for the quarter, adjusted for comparability, grew 16% to 78 cents.

Given the economic news of the past week, I am sure there is interest in what we are seeing. During the past few days, we haven't seen any change in the pace of activity in our Parks & Resorts, advertising or consumer products businesses. Jay will follow up with more detail on specific trends in his comments, and we of course continue to closely watch key trends in these areas.

Over the past few months, we have had opportunities to meet with a number of investors and analysts. Since we obviously can't meet with everyone listening to this call, I want to take a different approach to my comments today, and expand a bit on our strategy and discuss some of the opportunities we are most excited about.

Let me start with ESPN. The growth in our Media Networks segment in Q3 was primarily driven by ESPN. ESPN remains incredibly well positioned today given its ability to deliver comprehensive, high quality coverage of major sports events, the value it provides to fans, advertisers and multi-channel operators, and its disciplined approach to programming acquisition.

ESPN's long-term commitment to serving sports fans continues to pay off with growth in reach and engagement. Our research shows that each week almost 107 million people watch, listen, read or log-on to ESPN branded media. The average person now spends six hours and 35 minutes with ESPN branded media each week.



The value of sports also continues to be reflected in the advertising marketplace. In this year's upfront, ESPN enjoyed all-time highs in both pricing and total dollars committed, with tremendous strength in our upfront NFL and College Football sales.

ESPN also continues to provide great value to multi-channel video operators. In Beta Research's 2010 Cable Operator Study, ESPN retained its position as the network with the most perceived value for the 11th consecutive year.

And ESPN2 placed second for the sixth straight year. So we are very pleased with ESPN's competitive position and the value we provide to fans and all of our partners. So it's certainly clear to us, and I hope clear to you, that with ESPN, the #1 sports brand, along with Disney, we own two of the most powerful brands in media.

Let me also spend a moment on the sports rights acquisition marketplace. John Skipper, ESPN's head of content, often says, "The next time we are the only bidder for a sports package will be the first time." We never take competition lightly, and the fact is, competition for television sports rights has always existed, but our focus has remained unchanged: we have been and will continue to be diligent in our bidding and willing to pay fair prices for rights that will benefit and create long term value for ESPN and the company.

We recently reached two new agreements that illustrate this approach. In May, we signed a 12-year deal for multi-platform rights for a wide array of Pac-12 Conference sports, including football & basketball. This deal strengthened our position as *the* leader in college sports television.

And last month, ESPN reached a 12-year deal to be the exclusive US broadcaster of Wimbledon. Given our investment in technology, ESPN was able to offer Wimbledon the distribution platforms on which to air more than 900 LIVE hours of tennis during the two week tournament. Matches will air on ESPN, ESPN 2 and ESPN 3. This deal will enhance and expand our coverage of Wimbledon, and add another blue chip event to ESPN's great stable of popular and important sports programming.

In our recent sports rights negotiations, we have obtained long-term deals, and in addition to the two deals I just mentioned, in the past few years we reached a 15 year deal with the SEC and a 12 year deal with the ACC. Long-term deals provide us with greater cost visibility and allow us to build a longer-term relationship with fans.

Also in our negotiations, we seek access to broad multi-platform rights, extending from television to online to our authenticated service. This multi-screen, multi-platform approach should also enable more growth, particularly as new platforms and new patterns of consumption emerge.



During the past few months, we also pursued deals for the NHL and the Olympics, two attractive sports properties. In both cases, we made bids that made economic sense for ESPN, and we exhibited financial diligence and discipline, and avoided burdening ESPN with new commitments that would have lowered ESPN's margins.

Now, turning to broadcasting, we delivered earnings growth at our Broadcasting business this quarter driven, in part, by affiliate revenue growth at ABC and our owned TV stations. We are in the process of negotiating cash retransmission payments for our owned television stations and license fees from our affiliated stations. Our owned stations have already reached agreements with several large multi-channel distributors with more to come, and we believe our owned TV stations are getting paid per sub cash retransmission rates that are comparable to what other station groups are earning. We have already completed license agreements with non-owned affiliates covering more than 60% of our affiliate footprint. To give you some perspective on what this means financially: We now expect these annual revenue streams to total between \$400 million and \$500 million dollars by fiscal 2015.

At the Studio, we enjoyed strong creative success during the quarter. *Pirates of the Caribbean: On Stranger Tides* became the eighth film to earn more than one billion dollars in global box office. Over the past few months, Marvel's *Thor* and *Captain America: The First Avenger* both opened to strong box office results. *Thor* has earned almost \$450 million in global box office and *Captain America* is on track to deliver similar results. Both films, along with *Iron Man* and *Hulk*, are key components of Marvel's *Avengers* franchise. Marvel's approach, starting with great characters and stories, attracting great film makers, and producing high quality films, bodes well for our next film, *The Avengers*, which we are aiming to turn into another great franchise for the company.

Cars 2 opened on June [24], and is on its way to earning well above \$500 million in global box office. *Cars* remains one of the most important franchises at the company.

I'm excited about our upcoming films. And tomorrow, *The Help*, from DreamWorks will open and we are very encouraged by the early response to this film. This Thanksgiving, *The Muppets* return to the big screen in a family comedy we believe will reinvigorate a once great franchise. In December, we will distribute *War Horse*, a Steven Spielberg directed epic from Dreamworks that is bound to get a lot of attention, and in March, we will release the live action-film *John Carter*, from Andrew Stanton, whose previous films include *Finding Nemo* & *Wall-E*. In May, we will release *The Avengers*. And finally, in June, Pixar's next original film, *Brave* will hit theatres.

Our Disney Channel business remains very strong as well. During the third quarter, Disney Channel's ratings were up 10% while Disney XD's ratings were up 24%. And this past Friday, Disney Channel's original movie *Phineas and Ferb: Across the 2nd Dimension*, which is the most recent installment in this franchise, debuted to phenomenal success, becoming cable TV's #1 movie of the year in Total Viewers and the #1 scripted telecast on all TV this year with Kids. Disney Channel now distributes 100 channels around the world.



Now let me discuss our Parks & Resorts business, specifically our capital investment strategy. We deploy capital in this business with a focus on expanding our markets, providing differentiated guest experiences, and creating long term growth. In order for a project to move forward, it must deliver attractive double-digit returns on invested capital, and support our brand and our strategy. Fiscal 2011 and fiscal 2012 will be peak years for our Parks capital spending given the timing of a number of projects that were approved independent of each other over the past five years. Let me briefly update you on five of those projects.

Next year, we will complete our redesign of Disney California Adventure with the opening of 'Cars Land' and an entirely new entrance to the park. The expansion and redesign of California Adventure was a must, to not only increase length of stay and attract new visitors, but to correct a justified perception problem that the price to value relationship for this park was not what it needed to be. 'World of Color' and 'The Little Mermaid - Ariel's Undersea Adventure,' the two first attractions to open as part of this project, helped drive record Q3 attendance at the Disneyland Resort and our investment in California Adventure is beginning to generate returns.

This year, we launched the Disney Dream and next year we will introduce its sister ship, the Disney Fantasy. We have a unique competitive position as the creator of, and the leading brand in, the family cruise market. We are very encouraged by the Dream's performance, thus far, and expect this investment to drive mid-teen returns on invested capital.

In Orlando, we are significantly expanding Fantasyland. This is the most popular land at the Magic Kingdom, which is our most popular park around the world. This project will double the size of Fantasyland and enhance the guest experience, particularly during peak periods. This is the first major enhancement we have made to the Magic Kingdom since its 1971 opening. We expect this initiative will drive higher levels of guest satisfaction encouraging guests to spend more time, and more of their vacation dollars, with us.

In Hong Kong, we are in the midst of creating three new themed areas including 'Toy Story Land.' We expect this expansion to perpetuate the upward momentum we have been enjoying at Hong Kong Disneyland.

And finally, as you know, we recently reached final agreement to build a park in Shanghai. We believe the economic benefits to The Walt Disney Company of this park will be significant given the growth we expect in the Chinese economy and leisure travel and entertainment in China. We are optimistic about the returns Shanghai Disneyland can generate for the company and we see it as one of our most exciting and important projects.

Each of these five investments exceeded our stringent hurdle rate requirements and is expected to be accretive. We continue to believe that investment in parks projects like these is an excellent use of the company's capital.



In closing, we are optimistic about our creative pipeline across our businesses, and confident our current long-term strategy will create shareholder value. Great brands demonstrate their value through all economic environments. Thus, with Disney, ESPN, Pixar, Marvel and ABC, we remain well positioned for whatever economic conditions we face in the future.

And with that, let me turn the call over to Jay.

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

Thanks, Bob and good afternoon everyone. I will now take a few minutes to discuss our Q3 results in more detail and highlight a number of comparability items that will impact our Q4 results.

Media Networks was the largest contributor to the year-over-year increase in operating income, driven primarily by ESPN. At Cable Networks, growth in operating income was due to increased affiliate revenue at ESPN and Disney Channel resulting from contractual rate increases, as well as higher equity income.

During the quarter, ESPN was able to meet, by a few hours, the same programming commitments that it met in Q3 of last year. As a result, net affiliate revenue recognition related to program covenant timing in Q3 was comparable to the prior year. Thus, the \$228 million in deferred revenue we mentioned during our last call was actually recognized in Q3. We estimate that the EPS impact of this timing shift is 6 cents.

Year-over-year ad revenue comparisons at ESPN were affected by the impact of the men's FIFA World Cup and game seven of the NBA Finals last year. We estimate that ESPN's ad revenue was up 9% if you exclude these items from the prior year. When these items are included in the prior year, ad revenue at ESPN was down 1% compared to last year.

At Broadcasting, operating income growth was driven by lower programming costs and higher ad revenue at the ABC Television Network. At our owned TV stations, ad revenue was down 8% as a result of lower political spending in the quarter and the sale of our Flint and Toledo stations. Excluding the effect of these items from the prior year, ad revenue was up 2%.

Thus far in Q4, ABC Network scatter pricing is running more than 25% above upfront levels, with some deals priced well above that level. Ad sales at ESPN and ABC Family are pacing up versus prior 6year. TV station ad sales are pacing down mid single digits. I'll remind you that our stations generated approximately \$55 million in revenue from political spending in the second half of last year, so station results in Q4 will face a difficult comparison.

At the Parks & Resorts segment, operating income growth was driven primarily by increased guest spending at our domestic parks and higher passenger cruise days, partially offset by



higher operating costs. Results also reflect lower royalties from Tokyo Disney Resort and a prior year benefit from a real estate transaction at Disneyland Paris. Also, keep in mind that operating results this quarter include two weeks of the Easter holiday while last year included one week.

While our reported Q3 segment margins declined by 50 basis points, without the impact of the Easter shift, the Tokyo earthquake and the Disneyland Paris real estate transaction, we estimate that theme park margins would actually have increased by 40 basis points versus the prior year.

Domestic parks attendance was up 2%. After adjusting for the Easter holiday shift, attendance was up 1%. Per capita spending was up 8% driven by higher admissions, merchandise and food and beverage spending.

Average room spending at our domestic hotels was up an impressive 14%. Occupancy at our hotels was about one percentage point below prior year levels at 81%. The increase in per room spending that we are seeing is consistent with the strategy we articulated to reduce discounting. As illustrated by our Q3 results, we remain willing to make a short-term trade-off between modestly lower occupancy and significantly higher room pricing, as we believe that a return to normalized pricing levels will drive greater long-term profitability.

So far this quarter, domestic hotel reservations are pacing down 2% versus prior year levels, while booked rates are up mid single digits.

Results at our international parks were impacted by lower royalties from the Tokyo Disney Resort and a decrease at Disneyland Paris that was primarily due to the real estate transaction. We continue to see improvement at Hong Kong Disneyland Resort driven by higher attendance and guest spending.

Disney Cruise Line's performance this quarter reflected the successful launch of the Disney Dream, which contributed to operating income in its first full quarter of operation.

At Studio Entertainment, operating income was down from last year as a result of the lower domestic theatrical performance of *Cars 2* compared to *Toy Story 3*, and lower worldwide theatrical performance of *Thor* compared to *Iron Man 2*. While we were very pleased with the global box office performance of *Pirates 4* this quarter, its operating results were comparable to those of *Alice in Wonderland* in Q3 last year, as increased revenue was largely offset by higher marketing and distribution costs, which we incurred in the quarter.

At Consumer Products, operating income was up during the quarter as a result of growth in earned licensing revenue for *Cars* merchandise and higher revenue for Marvel properties. On a comparable basis, Disney-branded earned licensing revenue was up 10% year-over-year.



At the Interactive Media segment, lower operating results were driven by the acquisition of Playdom, including \$21 million in purchase accounting adjustments. Results at our console games business improved during the quarter due to higher unit sales and lower marketing expense, partially offset by higher cost of sales reflecting fees paid to the developer of *Lego Pirates of the Caribbean*.

As Bob commented, our strategic position and the strength of our brands give us reason to remain optimistic about our future. However, I want to identify some comparability issues that will impact our Q4 results. As I mentioned earlier, ESPN achieved many of its key programming commitments in Q3, so revenue recognition related to those commitments in Q4 will be comparable to the prior year. Therefore, the \$228 million in deferred revenue recognized in Q3 will not be recognized in Q4.

Additionally, at Media Networks, we expect to incur higher programming and production costs at ESPN due to contractual increases in rights costs for college football, NFL, Major League Baseball, along with costs associated with our new ACC contract and the start-up costs to launch the Longhorn Network.

ABC faces a difficult comp in television syndication given sales of shows in the prior year, including *Ugly Betty* and *My Wife and Kids*.

At Studio, *Cars 2* will continue to face a difficult global box office comparison versus last year's release of *Toy Story 3*. Additionally, the Q4 home video release of *Thor* faces a difficult comparison to last year's home video release of *Iron Man 2*.

We estimate, on a combined basis, the higher costs at ESPN, lower syndication sales at ABC and challenging studio comps will impact our Q4 earnings by about 7 cents per share.

And finally, we significantly increased our pace of share repurchase during the quarter by buying back 35.1 million shares for approximately \$1.4 billion. Year to date, we have repurchased almost 89 million shares for \$3.5 billion. We continue to view the repurchase of our stock as a very attractive use of our capital and will continue to return capital to shareholders via dividends and share repurchase in a financially prudent manner as part of our overall cash deployment strategy.

Now I'll turn the call over to Lowell for questions.

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

Thanks, Jay. Operator, we are ready for the first question.



Q&A

Operator

(Operator instructions) The first question will come from the line of Michael Nathanson, Nomura.

Michael Nathanson – Analyst, Nomura

I only have two for Jay. Jay, can you provide an update? When you provided your ESPN pacing number on the last call, I think it was running in mid-single digits, and it ended up, I believe, virtually flat. So, what happened over the quarter besides, it looks like, a slowing of the pacings. So what impacted that number?

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

Yea, the World Cup numbers in fact, impacted the second half of the quarter and were after the pacings data that we gave as of the call, Michael, which explains the difference.

Michael Nathanson – Analyst, Nomura

And then let me ask you this. On the Dream, it's now included in the revenues this quarter, for the whole quarter. Is the Dream margin higher or lower than the average domestic margin? Is that affecting the year-over-year change in margin for you guys?

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

Yes. It's incrementally a higher margin than the rest of the cruise business.

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

He's asking whole business, though. Right?

Michael Nathanson – Analyst, Nomura

Yes, the whole Park business, yes.



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

Yes, both.

Michael Nathanson – *Analyst, Nomura*

Okay.

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

So are you good, Michael? Okay, operator, next question, please.

Operator

Your next question comes from the line of Spencer Wang, Credit Suisse. Please go ahead.

Spencer Wang – *Analyst, Credit Suisse*

Thanks. Good afternoon. Just a two-part question on theme parks, to follow up on Michael's question. Jay, it looks like the underlying cost growth at Parks is still kind of the low double-digit area, even when you kind of normalize out the one-time stuff. So I was just hoping you could give us a little bit more color on what's driving that, since I thought it was a fairly fixed cost business. Is that just the impact of pension and other things? Any more color there would be helpful.

And then, just secondarily, maybe for Bob, if the economy does weaken domestically, how would you address that in the parks? Would you revisit the promotions strategy that you implemented back a few years ago, or would there be a different approach? Thank you.

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

Let me start with your margin question. The reported margin numbers don't reflect, obviously, a lot of things that we have coming online for which we are experiencing launch costs and pre-revenue costs. And the list is the Aulani Resort, the things that are coming on in DCA, some spending behind our next-generation work in Florida and, believe it or not, some expenses against the Shanghai project, which of course we won't see revenue on for years and years. So, if you actually - I mentioned 40 basis points - if you actually add back those factors, it's about another 100 basis points in margin growth in the quarter. So I've said for a long time that, yes, other things you mentioned like pension and so on are all part of the equation. But we don't see any reason why, when these projects are coming in at their long-term revenue versus costs equation that we won't be able to get back to the kinds of margins we've seen historically.



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

And you also have to consider, Spencer, and Jay covered this a bit, but just to reiterate, our Parks footprint globally is simply bigger with more lands, more attractions, more resorts. There are going to be increased costs. I think it's right to look at margins versus cost because we simply are going to be running a bigger and bigger business.

On the second part of your question, if the economy weakens would we reconsider promotion strategy. Yes, at some point we might. We will take a look at what impact a weakening economy has on us. As I mentioned at the beginning of my comments, so far, over the last few days, we really haven't seen that much of a change. Now, we are currently selling basically a shoulder period, mostly, which is the fall, where there is some discounting anyway. We will take a look at holiday bookings as the year progresses. It's way too early to predict whether we would be discounting or not. But my gut is, based on the trends that we've seen this past year, that it's not something I think we will necessarily have to do quickly.

Spencer Wang – *Analyst, Credit Suisse*

Great, thank you very much.

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

Thanks, Spencer. Operator, next question, please.

Operator

Your next question comes from the line of Ben Swinburne, Morgan Stanley.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. And, Jay, thanks for the color about fourth quarter. I wanted to maybe just dial into the cable comment you made about increased costs. If you look at the first nine months here, your media nets margins and certainly your cable margins are up nicely. So you've seen operating leverage in cable. Are we going to see margins decline in cable in the fourth quarter, as part of the increase in programming and production costs? I understand it's going to be higher, but maybe just sort of putting a little more context behind it would be helpful.

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

I'm not going to predict margins, Ben, for the quarter. But there are a couple of factors in place that we think are strategic that are contributing to those cost increases, namely building Disney



XD as well as Disney Junior. And then some of the just contractual cost increases that I mentioned that go along with the new football deals and so on, I mean the increased football costs as well as the Longhorn Network and so on and so forth. So I won't predict margins, but I will tell you that those, plus some additional new programming at ABC Family, will have an impact on the quarter. But we consider those very strategic investments in the building of these networks and believe they will have returns.

Ben Swinburne – Analyst, Morgan Stanley

Okay, and then just on the Parks, you also mentioned, I think, book rates were I think you said pacing plus 2. Is that a number that's relevant in the context of the 14% RevPAR growth that you just put up this quarter? I mean, should we be looking at those two as sort of comparable? And if so, why the business deceleration?

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

Yes. Maybe I misstated it, but just to restate it, we said that bookings were pacing down 2% in terms of volume but up mid-single digits in terms of price.

Ben Swinburne – Analyst, Morgan Stanley

Okay.

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

And remember when -- fourth quarter is our peak quarter, and our peak quarter a year ago probably did not see the kind of discounting that we saw in the third quarter. So when you look at growing your rates in peak periods, it's always a little more challenging.

Ben Swinburne – Analyst, Morgan Stanley

Okay, last question, I promise. Bob, on the film business, you were one of the earliest ones to call out the trends in home video. You've made a lot of changes in the cost structure. Can you just update us today on where all that stands? You've brought distribution together at the studio. Is there more to come on the expense front in terms of overhead reduction at the film business, given the trends there? Or you think you have right-sized it?



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

Well, I think we will continue to watch trends. I don't think they have necessarily been heading in any more positive of a direction. I think the attention that we are paying right now to cost is more in the production of films than necessarily in the structure of the studio. And it's our intention to take a very careful look at what films cost, and if we can't get them to a level that we are comfortable with, we think that we are better off actually reducing the size of our slate than making films that are bigger and increasingly more risky.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you.

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

Thanks, Ben. Operator, next question please.

Operator

Your next question comes from the line of Doug Mitchelson, Deutsche Bank.

Doug Mitchelson – *Analyst, Deutsche Bank*

Thanks so much, two for Bob; one is real quick. Bob, is there any time frame that you could give us on the mid-teens return on invested capital that you expect from the cruise ships? And the bigger question -- just on flow-through to the bottom line from retrans and reverse retrans. ABC is unique in that among the big four broadcast networks it doesn't have an NFL package, and there is some concern the NFL will get some of those retrans dollars when they come up for renewal and ABC doesn't have that. Does ABC change its programming strategy at all, knowing that you're going to have this robust retrans revenue coming in over the next few years?

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

The second part of the question first. You are right in your assessment of the flow-through because there isn't a pass along to any sports leagues through ABC. We have weaned ABC of expensive and relatively risky sports properties. And, therefore, it's our goal and aim to basically maintain that strategy and to take whatever increase revenues we get from retransmission consent or what I will call affiliates fees to the bottom line. It's a solidifying, basically, and I guess, improving way to manage that business.



On the first part, the double-digit returns on invested capital in the cruise ships, it's basically -- our experience with the two ships that were launched in the 90s has been double-digit. And so far, in terms of the Dream, we believe that we will be able to maintain that same double-digit returns, or mid-teens returns for the new ship, and then, hopefully, for the Fantasy, which comes on board next year. Over time.

Doug Mitchelson – Analyst, Deutsche Bank

(Multiple speakers) Over time, okay.

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

I don't think we want to predict when that business is going to stabilize, Doug, but you know, we are very encouraged by the first full quarter of the Dream already being accretive to our margins. So, you know, we remain a relatively small, I would call it boutique, cruise line, and it shouldn't take forever for us to absorb that capacity.

Doug Mitchelson – Analyst, Deutsche Bank

Thanks so much.

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

Operator, next question please.

Operator

The next question comes from the line of Anthony DiClemente, Barclays Capital.

Anthony DiClemente – Analyst, Barclays Capital

I have one for Jay and one for Bob. First, for Jay, with interest rates this low, I mean I know you talked about pension costs on your last call and you talked about it becoming a tailwind over the next five years. But just given the expectation as of the last month or so, it's kind of hard to get too aggressive on pension plan returns, I would think. Can you just give us a little bit of color on that as you see it? Is it possible that you're going to have to make adjustments to your assumptions, including your discount rate? And then a follow-up for Bob. Thanks.



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

I guess, like everyone else, we will have to wait and see. But pension rates of return have been pretty low for a while. We, in fact -- in the past quarter, you will see in our balance sheet and cash flow statement the reflection of a bit of a buydown of our pension liability because it was so incredibly cheap for us to borrow money that we took advantage of that borrowing to buy down that liability a bit. But I think it's something we will carefully manage. Obviously, the growth in medical and post-retirement medical costs is something that we are keenly aware of, have been dealing with now, like a lot of companies, for a number of years, but not something that we feel will either get out of control or will we be inclined to let it get out of control in terms of downdraft.

Anthony DiClemente – *Analyst, Barclays Capital*

Okay, thanks. And, Bob, you started off the call talking a lot about ESPN. It strikes me that ESPN 3 could very well possibly be an under-monetized aspect of ESPN and Disney. I'm aware of the sensitivities to putting more stream programming onto ESPN 3. You have the leagues there, your suppliers that I'm sure are cognizant of the value of it, and then you've got your distributors, who you don't want to undermine the relationship you have with your affiliates by offering this content direct to the consumer. But I'm pretty sure that consumer wants more sports streamed to devices like iPads and like phones. And so, as you look out, as the negotiations that you have with both sides of this -- what really needs to happen for more sports or live sports to be streamed to mobile devices via ESPN 3?

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

I think we have a pretty interesting opportunity here, and that is to, in effect, have our cake and eat it too, which is a means of saying that with a pretty aggressive approach to authentication, reflected already in deals that we have made that have been long-term for ESPN, we can incentivize customers to either sign up with or stick with multichannel distributors. At the same time, we can offer the multichannel distributor packages or new elements to the ESPN package that will enable them to sell expanded packages to their customers, which has the effect of really, two things -- one, raising more revenue; and, two, providing the customer with an even broader array of sports and sports-related material. I mentioned the Wimbledon deal. ESPN has created the technology to offer just about every match -- I think maybe every match -- that will be played at Wimbledon over a two-week period of time. And they have an ability to offer that to distributors, which gives distributors an opportunity to offer a broader array of services to their customer. I guess it's a means of my saying that, in this case, the relationship that we have with the distributors is a very valuable one, and it's one that we aim to respect by both protecting what we currently have and determining or figuring out ways that we can expand on it.



Anthony DiClemente – *Analyst, Barclays Capital*

Thanks.

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

Operator, next question please.

Operator

Your next question comes from the line of Jessica Reif Cohen, Bank of America Merrill Lynch.

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

Thank you. A couple of questions. First, you guys recently bought out your partner in India. Can you give us an update on what you paid for it and, kind of, what you see as the prospects there?

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

Well, we own roughly 50% of what is essentially India's largest film company. And as we look at that market, Jessica, we believe that there are some great opportunities for growth for this company as not only the market expands, particularly with new technology, but as it becomes even more hospitable to -- basically, to foreign investment. And so what we have done is we have actually made an offer to buy out the public and also buy out our partner, which is going through now, basically a process in India, essentially a regulatory process, as well as the typical process that you would go through if you were essentially tendering shares.

Our view on this, by the way, is not only about the long-term prospects for India, but it's pretty consistent with what role M&A plays in our overall capital deployment. I know that Jay talked about this back in February, when we had our investor meeting. But we decided to take an even closer look at it since that meeting. And we determined that, between fiscal '06 and 2010 we deployed about \$13 billion for acquisitions. We now estimate that 90% of that capital was allocated toward acquisitions that are creating value for the company. What I mean by that is deals in which our rate of return exceeded the cost of capital. So we now estimate that the businesses that we acquired for \$13 billion represent about \$23 billion in enterprise value. So our M&A strategy has clearly worked. By the way, when we look at enterprise value we are looking at the value to the company in many ways -- Pixar, a great example of that, and the huge impact it has had on the Disney brand as a for instance. So we're going to continue to deploy capital in this direction. We like growth in international markets. I mentioned Shanghai



earlier. India clearly is another example of a high-growth market that we think investing in, at least in today's world, is a smart move.

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

Thank you, and then, on just new forms of distribution for television, I guess television and film, you guys made a very short-term deal with Netflix. I don't think you've announced anything yet with Netflix international or Amazon or anyone else. Can you just give us an update on how you are thinking about kind of the new model for distribution and how accretive it could be in the coming years?

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

Well, we are in discussions with Netflix and with a number of other entities in the space, and I think it's likely that we will make more deals in this space. Our overall approach, of late, has been to make deals that increase revenue while, at the same time, protect and respect the basically multichannel or the channel distribution value that we see today. And so we're looking at deals that are largely library in nature, meaning very little, if any, content that would be in-season, mostly prior season but also trying to build into at least some of these deals some form of authentication, not necessarily the ones that you described but in others that will allow access to our programming faster or in a more aggressive window, if the customer is a multichannel subscriber. I think it's a means of growing the business. There's clearly a thirst for filmed entertainment, particularly branded, high-quality entertainment. And what we're seeing, I think stimulated in part by not only higher connectivity speeds but significant development in mobile technology, particularly tablets, and we're looking at platforms that are emerging that are creating all kinds of new business opportunities for content providers.

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

And just a really quick follow-up -- you mentioned retrans could get -- or retrans and reverse comp could get to \$400 million to \$500 million by fiscal 2015. Can you give us the base, currently, so that we have a sense of how it ramps?

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

No.

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

Thank you.



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

Operator, next question please.

Operator

The next question will come from the line of Vasily Karasyov, Susquehanna.

Vasily Karasyov - *Analyst, Susquehanna*

Hi. Good afternoon. Thank you. To follow up on the M&A question, there were press reports that you were involved in the auction of HIT Entertainment in the UK. And without asking you to comment on specific transaction, can you tell us how you view your character portfolio at this point? Do you feel like it's complete after you bought Pixar and Marvel, or do you still think there is room for additional characters?

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

We have, as far as I can tell, anyway, the most valuable array of characters in the world when you consider Marvel and Pixar and Disney, to name a few. And Muppets, by the way. It's interesting, we continue to create value or mine from those that we have. I mentioned *The Avengers*, I mentioned *Muppets*, I mentioned *Phineas and Ferb* on the Disney Channel. There's a constant, basically, either refreshment of characters that we've got, or invention of new ones here. So we don't have what I'd call a strategic hole, but we have looked expansively at opportunities across the world to buy either new characters or businesses that are capable of creating great characters and great stories for those characters. Marvel is a great example of that. And we will continue to do that. But, because there isn't a great strategic hole to fill, we've got so many already, we will be judicious in what we would be willing to pay for them.

Vasily Karasyov - *Analyst, Susquehanna*

Thank you very much.

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

Thanks, Vasily. Operator, next question please.

Operator

The next question comes from the line of John Janedis, UBS.



John Janedis – *Analyst, UBS*

Thank you. Given the macro weakness in Europe, have you guys seen a change in reservation trends from international guests at the park? And maybe on a related note, I think you pushed through ticket price increases in June. Is there any evidence that you are seeing an impact on attendance or length of stay? Thanks.

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

On the international front we have actually seen an uptick in our international business, particularly to Florida. And we're seeing it actually, right now, during this quarter. Jay, do you want to handle the other question?

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

I wouldn't read too much, John, into the timing of the price increase. There's a lot of moving parts there. We generally increase in the course of the summer. Last couple of years, it has been a little later in the summer, but I wouldn't read a whole lot into that. What I will say is that, whether you look at in-park spending or per-room spending, we are seeing the kind of trends that we strategically set ourselves up to see, which is to reduce broad-based discounting, use promotions selectively to fill the trough weeks that occur in every quarter of every year, whether it's a high-water year or a low-water year. And the net result of that is that, across the board, our revenue per guest is up at our theme parks, and we continue to see that moving into Q4.

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

We also think that investment like the kind that we talked about earlier does enable more price elasticity. So when you look at the kind of investment that we are making in California Adventure, it's not just to fix what, as I cited, was perceived to be, and rightfully so, a miss creatively or a hole; it's to enable more price elasticity. We're adding not only capacity but we're adding a significant amount of fairly attractive experiences or attractions, which gives us the ability to price a little bit more aggressively, sometimes even in tough markets.

John Janedis – *Analyst, UBS*

Thank you.

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

Thanks, John. Operator, next question please.



Operator

The next question comes from the line of Alan Gould, Evercore Partners.

Alan Gould – *Analyst, Evercore Partners*

Thank you. Jay, what kind of visibility do you have on affiliate fee revenue from the cable, going out five years? How much of that is visible right now?

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

Well, as you know, we have done a number of deals that have been announced out there. We have got, over the next three to four years, some very big deals coming up. So I guess I would call the visibility partial, the deals that we have already locked in, obviously, and what their growth rates are and the unknowns of deals that we don't have. So I don't know how to fully answer your question, but that's the insight I can give you.

Alan Gould – *Analyst, Evercore Partners*

Can you give us a sense, say, of how much is rolling off per year?

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

No, I don't want to get into the details of the timing there. But, you know, they are big deals and they're hard to keep secret when they are in play. You will know about it. You will know about it when it's happening.

Alan Gould – *Analyst, Evercore Partners*

Okay, thank you.

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

Thanks, Alan. Operator, next question please.

Operator

The next question comes from the line of David Bank, RBC Capital.



David Bank – *Analyst, RBC Capital*

Thanks very much. So my question is, if you follow what movies, what some of your competitors are doing with their programming in Hulu, and I would suspect you guys might be looking to do, too, would be to narrow the windows for content availability without authentication for some of the content while potentially locking it in for a relatively long time. The question is, across what percentage of MSO and other distribution platforms have you kind of locked in authentication mechanisms for ABC? Like, do you essentially have authentication programs in place for the majority of distribution?

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

The answer is, we don't. The only authentication deals we have done to date are for ESPN. We fully expect and plan to do authentication deals for our other networks as well, but we haven't cut any to date. I will say -- the one thing you mentioned in your question, David, I don't think we will make long-term deals for the content because I think the world is changing too much. But you are right in your assessment that we will basically push the window back or make access to the programming more difficult or later, except if a customer is authenticated as a subscriber. And I think you will see, over the next few years, a lot of deals done that enable this.

We now have to hope that not only is the technology improved that enables authentication, but that the whole user experience gets better. Just as a for instance, there have been over 2.5 million downloads of the Watch ESPN App. A lot of people downloaded it, but they were subscribers to services that hadn't cut authentication deals with us yet. But even where there were subscribers to services that had cut authentication deals, the user experience still could be better; it needs to improve. So I think this is kind of a developing situation. I think it's very exciting because of what it provides us, what it provides the distributor and what it provides the consumer. But you're still at the beginning of the beginning on this.

David Bank – *Analyst, RBC Capital*

Okay, thank you.

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

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

Operator

The last question will come from the line of David Miller, Caris & Company.



David Miller – Analyst, Caris and Company

Hi. Good afternoon. Congratulations on a stellar print. Bob, a question for you and a follow-up for Jay, if I may. On the retrans comments that you made in your prepared remarks, how are you managing negotiations with your non-owned affiliates? Are you just basically telling these guys, you know, hey, we want \$0.25 per sub per month, and you go out and get whatever spread you want from the cable MSO? Or are you saying to them, look, we want half of what you get from the cable MSO because we're providing all the programming? Some context around that would be great. And then also, Jay, I think it was 90 days ago, it may have been during the conference circuit that you mentioned that the pattern that you are seeing with regard to bookings at the hotels, particularly in Orlando, kind of was sort of structured around the value segment filling up first and then the luxury segment filling up first. Just sort both ends of the continuum filling up first, and then the middle would kind of fill in later. Are you seeing any change at all at the margin with regard to the pattern of that, particularly over the last four weeks, with all of what's happened in the capital market? Thanks very much.

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

David, I'm not prepared to give you much detail on the nature of the deals that we've struck with our affiliates. I can say that there are different facets to them that create some leeway in terms of how the deals are cut with the distributors. But I just don't want to get into detail about those. But so far, ABC has made a tremendous amount of progress. I think it's reflective of the fact that these stations that we don't own recognize the fact that the world indeed has changed. And, while they all are encouraged by the retransmission consent fees coming and becoming more and more real, they also realize that a lot of the value created comes from the programming that the network provides them. And that's (multiple speakers) because of the deals that have been cut. You got it right, but I just don't want to give you the details, basically.

David Miller – Analyst, Caris and Company

Got you.

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

David, in answer to your other question, there hasn't been an appreciable change in the way that rooms have booked up, from what you described and from what I described. But I will give you this insight. In Q3, from a rate perspective, whereas rates were up across the board, they were up significantly more in the value and moderate segment than they were in the higher end segments, as you might expect when you're coming off an economic downturn, that people at the end of the economic spectrum are going to be the ones that could not come and that they kind of rush to it when they can. In terms of the booking window, you know, we've lengthened about a week over the last five or six months, from 13 weeks to 14 weeks on our



average booking. Read into that what you will; I'm not sure there's a giant statistical difference between the two, to be honest with you.

David Miller – *Analyst, Caris and Company*

Yes, wonderful, thank you very much.

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

David, thanks a lot, 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. Let me 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. This concludes today's call. Have a great 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 October 2, 2010 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.