Q2 FY16 Earnings Conference Call

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Disney Speakers:

Bob Iger

Chairman and Chief Executive 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 Company quarter two fiscal year 2016 earnings conference call. My name is Katie, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. I will now turn the call over to Lowell Singer, Senior Vice President of Investor Relations. Please go ahead, sir.

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

Good afternoon and welcome to The Walt Disney Company's second quarter 2016 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 being webcast, and the webcast and the transcript will also be available on our website.

Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer, and Christine McCarthy, Senior Executive Vice President and Chief Financial Officer. Christine is going to lead off, followed by Bob, and then, of course, we will be happy to take your questions.

So with that, let me turn the call over to Christine to get started.

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

Thanks, Lowell and good afternoon everyone. Second quarter earnings per share, excluding items affecting comparability, were up 11% to $1.36, marking the 11th consecutive quarter in which we've delivered double digit growth in adjusted earnings per share. Our financial results this quarter, which I will discuss in more detail in a moment, demonstrate once again how the strength of our brands and a relentless focus on creative excellence and execution can continue to drive growth across our businesses and create value for our shareholders.

Our Studio delivered another great quarter with operating income up 27% versus last year. The growth in operating income was primarily due to the worldwide theatrical success *of Star Wars: The Force Awakens* and Disney Animation's *Zootopia*.

Fiscal 2015 was a record year for the Studio, and the first half of fiscal 2016 is off to a record start with over $1.5 billion dollars in operating income due to the phenomenal performance of our film slate. Fiscal year to date, *Star Wars: The Force Awakens* has generated almost $2.1 billion dollars in global box office. *Zootopia* has generated $960 million dollars, making it the #1 film of the year so far, and the second highest grossing Disney Animation Studio film behind *Frozen*. I'll also note that *Zootopia* is the #1 animated film of all time in China, grossing over $235 million dollars to date.

The success of our Studio is no accident—it is the result of our strategy of making high-quality branded films and leveraging that success across a number of our integrated businesses. No company does a better job than Disney in creating, cultivating and extending the value of a franchise. As a result, when we have a successful film franchise, we are able to drive industry-leading returns on investment.

At Parks and Resorts, the investments we've made to both maintain a high-level of guest experience and to drive demand continue to pay off. In Q2, the segment set new second quarter records in both revenue and operating income.

Our domestic operations, in particular, continue to benefit from strong demand from guests, specifically at our domestic parks and at Disney Cruise Line. Operating income at our domestic operations was up over 20% in the quarter and margins were higher by about 300 basis points. Attendance at our domestic parks was comparable to the second quarter last year, and per capita spending was up 8% on higher admissions, food and beverage, and merchandise spending. Per room spending at our domestic hotels was up 5% and occupancy was down 1 percentage point to 88%.

Second quarter results reflect the unfavorable impact of the New Year's holiday shifting into our first fiscal quarter, which was largely offset by the favorable impact of the shift of the Easter holiday. The shift of the Easter holiday period will also have an impact on Parks' third quarter results, as the holiday period fell in the second quarter this year, whereas the holiday period fell during the third quarter last year. As a result, about 90 million dollars in operating income was shifted into Q2 that was recognized in Q3 last year.

Domestic resort reservations for the third quarter are pacing up 5% compared to prior year levels, while booked rates are down 2% reflecting the impact of the Easter holiday shift.

Our cruise business set new second quarter records in revenue and operating income, driven by higher ticket pricing and onboard spending. Disney Cruise Line continues to be a market-leader in innovation, creativity and guest service. The business achieved record financial performance in 2015 and that strength continues in fiscal 2016 with Disney Cruise Line generating its best first half ever. During the second quarter, we announced plans to build two additional ships that will be completed in 2021 and 2023. Our decision to expand the fleet was driven by the outstanding guest response to our product and a business in which we have a strong competitive advantage and where we believe we can drive attractive returns on investment. Growth in domestic operations was partially offset by a decline at our international parks due primarily to pre-opening spending at Shanghai Disney Resort. We are extremely excited for the grand opening of the resort, which Bob will discuss in greater detail.

Operating income at Media Networks was up 9% in the second quarter due to growth in Cable, which was primarily driven by higher operating income at ESPN. The higher results at ESPN benefited from lower programming and production costs in the second quarter and higher affiliate revenue, partially offset by lower advertising revenue.

Lower programming costs and advertising revenue reflect the shift of six New Year's Eve and New Year's Day College Football Playoff bowl games, including the two semi-final games. These games aired during our first fiscal quarter this year, whereas they aired during our second fiscal quarter last year.

The shift in timing of the bowl games had an adverse impact on ESPN's ratings and CPMs in the second quarter, which were partially offset by an increase in units sold. As a result, ESPN's ad revenue was down 13%, but we estimate ad revenue would have been up about 3% adjusted for the timing of the bowl games. So far this quarter, ESPN ad sales are pacing up 5% versus prior year.

Broadcasting operating income was down in the second quarter as growth in affiliate and advertising revenue was more than offset by lower income from program sales compared to prior year, as well as higher programming costs.

Ad revenue at the ABC Network was up 5% in the second quarter and benefited from higher rates, but was adversely impacted by lower ratings in the quarter compared to prior year. So far this quarter, scatter pricing at the Network is pacing 20% above upfront levels.
Media Networks affiliate revenue was up 5% adjusted for the adverse impact of foreign exchange and Leap Day, driven by 4% adjusted affiliate revenue growth at Cable and double-digit growth at Broadcasting.

At our Consumer Products and Interactive segment, operating income was lower in the quarter. Our merchandise licensing business was up in the quarter but segment results were weighed down by an adverse impact from foreign exchange, as well as lower results from both our Disney Stores business and Infinity.

When you look at the segment results, it's important to note our underlying merchandise licensing business remains very strong. On a comparable basis, earned licensing revenue was up

18% in the second quarter. This was driven by strong ongoing demand for *Star Wars* merchandise, partially offset by the expected difficult year-over-year *Frozen* comparison. Merchandise licensing was also impacted by lower minimum guarantee shortfall recognition in the quarter which relates to the shift in our fiscal calendar.

So while some headwinds and timing-related ins and outs impacted second quarter results, we are quite pleased with our first half segment results. Comparable earned licensing revenue was up over 20% for the first half of the fiscal year, which helped drive merchandise licensing operating income growth of over 20% and segment operating income growth of 12%.

During the quarter, we took a charge of $147 million dollars in connection with the shutdown of our Infinity console games business. Going forward, our console games strategy will focus solely on licensing our great portfolio of content.

We continue to actively repurchase our shares, and in the second quarter we bought back 20.8 million shares for $2 billion dollars. Fiscal year to date, we've repurchased about 47.3 million shares for approximately $4.9 billion dollars.

And with that, I will now turn the call over to Bob.

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

Thanks, Christine, and good afternoon.

Since Christine has already covered our businesses in the quarter, I want to focus on a couple of things we're very excited about – the unbelievable momentum of our Studio and the grand opening of Shanghai Disney Resort, which is now just about a month away.

Since our acquisition of Pixar, we've released 27 movies under the Pixar, Disney Animation, Marvel and Lucasfilm brands – with an average global box office of about $770 million each.

And, as Christine mentioned, the Studio's winning streak continues. This weekend, our 2016 box office total crossed $1 billion domestically, $2 billion internationally, and $3 billion globally – reaching those milestones faster than any studio in history.

Zootopia's fantastic performance is just the latest in a string of incredibly successful original movies from our animation studios including *Inside Out*, *Big Hero 6* and *Frozen*, to name a few.

We're also having tremendous success re-imagining Disney classics as exciting live-action movies – most recently with *The Jungle Book*, a stunning movie pushing the limits of innovation and technology to bring some of our most beloved characters to life in a spectacular new way. It's been gratifying to see the worldwide response – global box office for *The Jungle Book* to date is $783 million, including almost $150 million in China, and in India, it's now the highest grossing Hollywood movie in history.

And of course, Marvel's *Captain America: Civil War* just opened around the world to wide acclaim and huge box office. Its domestic debut last weekend generated almost $180 million in box office, making it the 5th biggest opening weekend of all time. With this success, our Studio has delivered five of the top six opening weekends on record. Global box office to date for *Captain America: Civil War* is more than $705 million and climbing.

There are now 13 films in the Marvel Cinematic Universe, generating almost $10 billion in global box office to date.

We've got an unprecedented pipeline of terrific movies on the way -- with major release dates announced through the end of the decade. In the near term, we're looking forward to *Alice Through the Looking Glass* and Pixar's *Finding Dory*, which will both be in theaters this summer.

We're obviously thrilled with our Studio's performance and its position going forward, but what we're most excited about right now is the grand opening of the spectacular Shanghai Disney Resort on June 16th.

I was there again last week, as we were putting the finishing touches on the resort. We began trial operations over the weekend, allowing invited guests to explore the park and enjoy some of the attractions, entertainment and dining experiences. It's incredibly exciting for all of us to see the park truly come alive for the first time – and the initial feedback from guests so far has been absolutely phenomenal.

We'll continue to fine tune everything over the next few weeks to ensure the experience we deliver on opening day is everything we want it to be for our guests. After 17 years of working on this project, I'm still awed by it, the scale, the detail, the sheer artistry. It's all breathtaking. I find something new to marvel over every time I visit. And I know our guests will do the same. Even though it has all of the Disney details, it's unlike any other destination we've ever created. We set out to build something truly extraordinary – and we've succeeded in a way that far exceeds our most ambitious expectations. We've re-imagined everything – even our most familiar, iconic attractions have been elevated and transformed with the help of cutting edge technology that allows us to take our creativity farther.

Anchoring our first-ever Pirates-themed land, Shanghai's Pirates of the Caribbean: Battle for the Sunken Treasure, is the first attraction inspired by the blockbuster movie franchise. Its stunning size and incredible technological innovation allow us to immerse our guests in a grand adventure on the high seas like never before.

We've also reimagined the Disney castle -- expanding the size and introducing more entertainment, experiences and shopping….and we're introducing new lands and brand new attractions throughout the park, like the *Tron* Light Cycles. We've taken great care to create a number of stunning features and original experiences especially for our Chinese guests as well, including some unbelievable entertainment throughout the resort, such as our first-ever Mandarin production of *The Lion King*.

It really is impossible to overstate our excitement about this spectacular resort -- it represents the very best that Disney has to offer in a way that is both respectful and relevant to the people of China – or, as we have been saying, it is authentically Disney and distinctly Chinese -- and we can't wait to share it with the world.

Opening the gates and officially welcoming our first guests will be one of the proudest and most exciting moments in the history of this phenomenal company, not to mention a monumental achievement.

And with that, I'm going to turn the call back over to Lowell, and Christine and I will be happy to take your questions. Lowell?

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

Bob, thanks a lot. Operator, we are ready for the first question.

Operator

Thank you sir. We will now begin the question and answer session. (Operator Instructions) And we have our first question from Anthony DiClemente. Please go ahead.

Anthony DiClemente – *Analyst, Nomura*

Good afternoon and thanks for taking my questions. I will start with one for Bob. Bob, I hope you find this to be a fair question. I think investors would value any context that you could provide us with respect to Tom's resignation last month, and looking forward, if you can give us any update on CEO succession plans and, specifically, help us out with the probability that your contract could potentially be extended beyond June of 2018?

And then, Christine, you said, I think, recurring cable network affiliate fee growth at cable was 4% in the quarter. I think that was 0.5 point ahead of the 3.5% that you realized the last quarter. Could you just talk about the drivers of the 4% in terms of rate and volume and any forward outlook that you would be willing to provide us? Thanks a lot.

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

Anthony, thank you, and I don't mind your question at all. Obviously, Tom was a valued colleague and a friend of mine and many others at the company, and so we are sorry what came to pass, but we don't really have much more to say about that.

I will say that or remind people that I have just over two years left on my contract as CEO of the company, and the board is very actively engaged in a succession process as it has been actually for some time. And it believes that it has ample time to identify a successor under timing circumstances that will be just fine for the company.

I have nothing really to add in terms of the extension of my contract, except that I don't currently have any plans to extend beyond the June expiration date. That is June of 2018.

Anthony DiClemente – *Analyst, Nomura*

Okay. Thanks.

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

Anthony, your question on the affiliate revenue growth. For Media Nets, the number we gave you was 4% adjusted affiliate growth at cable. That was based on a solid rate of growth with some offset from foreign exchange and subs.

Anthony DiClemente – *Analyst, Nomura*

Okay. And I think just as a follow-up, last quarter you had talked about an uptick earlier in the year from lighter packages, I think in part driven by Sling TV subscribers. So do you care to talk about that? Were the lighter bundles, were the Sling TV like services a driver of subs in any way? Can you characterize the trajectory of those subs for ESPN? That would be helpful. Thanks.

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

Yes, Anthony, I will take this one. We launched with Sling, as you referenced. We also launched with Sony Vue, and the numbers on both those platforms have been encouraging and they did contribute incremental subs for ESPN this last quarter.

But we are also in discussions with a number of entities, some current distributors that are coming forward with new packages and some completely new distributors. All have expressed an avid interest in having ESPN and our other channels included in their initial offerings, and we are very, very encouraged by the discussions and negotiations that we are having.

But, other than the Verizon settlement that was mentioned today, we don't really have any new news to give you on this at the moment, except to say, again, that there are a number of new entrants in the marketplace. They all want ESPN, but we like the status of our talks with them, and we actually like the trends as well.

These products are very attractive because they are offering consumers more choice. They typically are better at mobility, and their user interface is really positive -- is really strong. And those are all really important when it comes to today's environment.

So we think, long-term, given the discussions that we have and given the experience that we have had these last few months, we feel good about what we are seeing.

Anthony DiClemente – *Analyst, Nomura*

Okay thanks a lot.

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

Anthony thanks for the question. Operator next question please.

Operator

Our next question comes from Alexia Quadrani from J.P. Morgan. Please go ahead.

Alexia Quadrani – *Analyst, J.P. Morgan*

Thank you. I just wanted to start off, if I can, maybe, Bob, follow up with your commentary just now about being in discussions with a number of potential over the top or streaming partners there. How expansive do you think that opportunity can be? If you look out for the next few years, do you think it can be a meaningful positive or have a meaningful positive impact on either your subs or affiliate revenue outlook?

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

I think it will have a meaningful effect on the marketplace for us. I can't really give guidance in terms of where I think it is going to end up, whether we will be ahead of what our projections were at one point. But there definitely are very, very encouraging signs in terms of what we have seen already, and we are not at liberty to give numbers for Sling or for Sony, except we can say that we anecdotally were told that, after ESPN was included in their package, they saw some very, very encouraging sign-ups or trends in terms of sign-ups.

So I think this is all very positive for us, and as I just mentioned as a response to the prior question, the conversations we are having have been quite productive. We just haven't concluded new deals to announce as of today.

Alexia Quadrani – *Analyst, J.P. Morgan*

And then a follow-up if I can. Just looking at the Parks business, you have got a lot of moving pieces there. Obviously, the big opening in Shanghai. You have got expansion plans domestically. Dynamic pricing going on, all the technological innovations there. I guess, what do you see as the biggest opportunity for a contributor for profit growth, you know, going forward?

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

I think you're going to see a number of contributors. It will take some time for Shanghai to contribute because we have got startup costs, and we are walking before we run there as well. But, eventually, we have a very, very optimistic outlook about the park that we are opening there and about the market in general. We like the steps that we have taken in terms of pricing. We have taken a number of steps or made a number of steps to essentially grow revenue. In some cases, actually, at the expense of some attendance where we are changing our pricing approach, sometimes in part to moderate attendance so that the park experience is a little bit better, but all designed with the effect of essentially raising revenue.

We like the -- as you mentioned, we like some of the investments that we are making on the technology front. We also like what we have got in the works in terms of expansion and other locations. The *Star Wars* lands that we are building in Florida and in California; *Avatar* in Florida, which opens before that. We announced two new cruise ships. That is coming down the road -- 2021 and 2023 as a for instance. We are looking at other expansion opportunities in Hong Kong and Tokyo. And, generally, we think that you are going to see a number of contributors to growth across that sector.

Alexia Quadrani – *Analyst, J.P. Morgan*

Thank you very much.

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

Thank you Alexia for the questions. Operator next question.

Operator

Our next question comes from Michael Nathanson from MoffettNathanson. Please go ahead.

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks. I have one for Christine, and then I will ask one to Bob. Christine, can we focus a bit on Consumer Products, which surprised us? Can you walk through the impacts to profit growth? If you look at the first quarter, you guys were up 23% in profits. This quarter you were down 8%. So what impacted that delta in growth, and how do you think about growth in Consumer Products the rest of the year?

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

Sure. Thanks, Michael. You're absolutely right. The first-quarter growth was 23% followed by the 8% decline this quarter, and there are several factors that slowed the overall growth rate.

The first I would like to mention is that the earned revenue growth was strong again in Q2 at 18%. Now, that compares to an extremely strong growth in Q1 that was 23% in earned revenue growth, but, again, second quarter was very strong at 18%.

Star Wars, we all know, was a great contributor in Q2, but it didn't have quite the massive contribution it had in Q1. And also, remember in Q1, we had the Q4 deferral of the *Episode VII* merchandise revenue -- the revenue associated with that merchandise. So that from Q4 was also moved into Q1, which had a bolstering effect on Q1.

We also had a timing issue of guaranteed shortfall payments that helped in Q1, and they were a drag in Q2, as I mentioned in my comments.

And also, lastly, I will mentioned that *Battlefront* was a much more significant driver in Q1 than it was in Q2. And I think if you look at those, that -- those are good contributing factors to the quarter to quarter decline.

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

And, Michael, before you ask me a question, I think it is really important with this business not to look at it as a quarterly business. Because we are not only continuing to support the 11 billion-plus franchise that we have as a company, but we continue to create intellectual property that is leverageable across our consumer products businesses. Now, not all as leverageable as *Star Wars* and *Frozen* is, for instance, but when you look at *Zootopia* and you look at *Jungle Book*, somewhat small so far, but *Captain America* won't be. The impact of *Captain America* long-term on that business and the other Marvel properties, the reintroduction of *Spider-Man*. *Spider-Man* is the hottest -- or the number one Marvel character from a consumer merchandise perspective. And reintroducing Spider-Man successfully as we have done in *Captain America* through the release next year -- 2017 of *Spider-Man* -- is something that also has to be considered. So it is the kind of business that I think is very difficult to measure in terms of the bottom-line success on a quarterly basis. We just don't run it that way.

Michael Nathanson – *Analyst, MoffettNathanson*

Right. And it is hard for us to model it, too.

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

And, Michael, I know you asked about guidance going forward, and we don't provide guidance, but as Bob mentioned, we think we have the best portfolio of properties, and we are very encouraged by what we see in this business.

Michael Nathanson – *Analyst, MoffettNathanson*

Okay. Thanks. Bob, can I just ask you one on Hulu? Last week, Hulu confirmed the launch of a virtual MSO sometime next year. And as a partner in Hulu and someone who has talked a lot about having the opportunity in the marketplace, I wonder what would you like to see as a design that maybe fits between the large bundle of the MVPDs and what Sling and Sony Vue are doing? So if you could actually build something for the future, what are the elements that you think are missing from today's marketplace?

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

Well, I will answer it. Before I do, Hulu has become an important investment for us, not just as a distributor of the programs that we make, but ultimately as a buyer of original product and, ultimately, as the distributor of our channels. And we think they have a great opportunity to become an OTT MVPD because they can leverage their current user base, and they also have a good user interface.

I don't want to speak for them fully, but what they are looking at is a best of cable approach, which I guess the response specifically to your question would put them between the big expanded basic bundle category and some of the lightest packages that are available like some of what Sling has put out.

We feel really good about the opportunity. We are also fully aligned with our partners at 21st Century Fox on the strategy. And I also know that there have been questions asked about what the impact of going into the distribution business is on our current distribution partners. And, to that, I would respond, even though you didn't ask the question, there are a number of our current distribution partners that are in the content ownership, content creation business. Most notably, Comcast and its purchase of NBC/Universal. So we don't think that there is any negative impact whatsoever to us going into the business of distributing our channels.

Michael Nathanson – *Analyst, MoffettNathanson*

Thanks Bob.

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

Thank you Michael. Operator next question please.

Operator

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*

Thanks, a follow-up on the Hulu question. Does this change -- could you say anything about the timing of the launch and you said best of in between the bigger bundle, but what it will look like and anything -- if you could say anything on pricing, and does it change the way you will sell or plan to sell to SVOD and OTT?

And moving away from that, on the advertising market it has been incredibly (inaudible). How are you thinking about approaching the upfront market? Are there any changes in your sales approach into the upfront generally speaking?

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

I will answer the second part of the question first. We are not going to get into details in terms of our strategy going into the upfront, except that we would agree with what you said. We see a very robust marketplace and a very strong upfront ahead, both for our broadcast network for ABC and for ESPN. We are very encouraged with what we see, but we are not going to disclose what our strategy is going in.

Your question about Hulu, they have -- I don't think they have been specific about when they are going to launch or what their pricing is going to be. But I will reiterate what I said earlier, and that is we are fully aligned with our partners at 21st Century Fox on plans to launch, on what their user interface is, on what their approach is in terms of the overall package. We will have individual negotiations with them for our channels, of course. But we like their strategy from a pricing perspective and in terms of what their ultimate consumer offering or consumer proposition is.

I don't think I will comment much about what we are doing in the SVOD space. This is still a very dynamic marketplace, and we continue to look for opportunities to sell our content. I will say that we have never seen a better marketplace to sell intellectual property into, and the strategy that we deployed a while ago to invest in the creation of intellectual property is one that we believe in even more today, and we are going to continue to invest more in creating intellectual property. And one of the best examples of that would be Marvel and what we have been able to do with Netflix in terms of multiple original series, renewal of second seasons on two of them, and the addition of another series from Marvel to Netflix. And the fact that Marvel has been in discussions with other distributors as well, and so demand on their product is pretty significant.

Plus, we are looking at obviously continuing to invest under the ABC banner, under the Disney banner, and potentially under the Lucas banner. So there are many opportunities for us to sell content to a fairly voracious marketplace right now for that content.

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

And can I just -- one other follow-up on Shanghai. You mentioned the dynamic pricing. Can you just talk about how much of a difference it might be (inaudible). And also, what the impact of having the park will be because when you talk about the movies, you talk about how well they did, the recent movies in China. Obviously, having the parks as promotions help that even further. So maybe just an overall ripple effect that you should get once the park is fully opened.

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

The pricing that we have in China is for basically peak and off-peak periods, and there are more off-peak days than there are peak days. There is roughly a $20 differential between peak and off-peak and somewhere in the neighborhood of $76 a day for the peak and $56 for the off-peak. There is also some pricing for children and some pricing for senior citizens.

And the reaction to the pricing has actually been quite positive so far, as well as reaction to the pricing for our hotels and the pricing for *The Lion King* show, which is a Mandarin produced *Lion King*. It is the full Broadway show, but it is a separate ticket. And so far, so good. We have actually had no negative reactions whatsoever to our pricing approach.

The value of our intellectual property in China is on the rise. That is obviously, as you noted, Jessica, evident in how our movies are doing. It is having a very positive impact on our brand and our brands that would include Disney and Marvel, in particular. We do have a Marvel presence in the park. It will grow over time, so there will be all kinds of opportunities, particularly for character interaction with Marvel characters. I know there was interest in a recent visit to Disneyland here in California that there was a line early in the morning for our guests to meet *Zootopia* characters. I can tell you that *Zootopia* having done so well in China, there will be *Zootopia* characters in our park in China sooner that we had initially anticipated.

But, in general, you are going to find a park that is going to take advantage of what is clearly a growing interest in our intellectual property, as well as a blend of some original intellectual property, too. We wanted this park to be unique in that it would have things that our other parks in our other locations around the world didn't have, but it is definitely a blend.

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

Thank you.

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

Thanks Jessica. Operator next question please.

Operator

Our next question comes from Omar Sheikh from Credit Suisse. Please go ahead.

Omar Sheikh – *Analyst, Credit Suisse Securities*

Thanks. Just a couple of questions. First for Christine, going back to Consumer Products, if I could. Could you maybe let us know what the annualized revenue and operating income contributed by Infinity was so we know what to strip out going forward? And also maybe what the FX headwind was in the quarter at Consumer Products. That will be helpful.

And then a question for Bob. I know there have been press reports about your potential interest in MLB's BAM unit. I wonder whether you couldperhaps comment on that if you care to? But, just maybe more broadly, could you maybe update us on your thinking on potentially taking some of the contracts or content that you have control over and taking it direct to consumer? Thanks.

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

Thanks, Omar. On Infinity, we don't disclose those numbers by product, but I will answer your question on foreign exchange headwinds for the segment. In this quarter, the FX impact on Consumer Products was $18 million, and -- but I also want to reiterate that our forecast for the year-over-year change, which we gave you previously, of $500 million for the year is still the same outlook, and we are not making any change to that. And that is for the entire company.

Omar Sheikh – *Analyst, Credit Suisse Securities*

Okay. Thanks.

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

Omar, I am not really going to make a specific comment about our interest in acquiring a stake in BAM. I will say that we have been very impressed with their product. It is obviously quite evident, if you are engaged with Major League Baseball on digital platforms, probably among the best out there.

On the direct to consumer front, we have talked about this often. We are blessed with brands and products that give us the opportunity to take them direct to consumer. It is not always that simple. In that we have agreements with current distributors that have to be considered, although they don't go forever. And, obviously, we have to get it right from a technology perspective.

I will say that the product that we launched in the UK, DisneyLife, which was deemed experimental on our part because we really wanted to see not only how consumers behave with the product, but what the pricing should be, and whether the technology platform that we created for it or put it on would work, and we have been really encouraged by that. We have had great consumer reviews, and we are pleased to say that the transition from basically free to pay has gone really well, too. And so we are looking at other opportunities around the world to distribute that product to.

There has also been great interest in our movies and our television shows on the platform, but, interestingly enough, as time has passed and people are using it more, we are finding they are going to our books, our games and our music as well. So it is a good product, it seems to be working, and we think there are more opportunities for it.

Omar Sheikh – *Analyst, Credit Suisse Securities*

Alright then. Thank you very much.

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

Omar thanks for the questions. Operator next question please.

Operator

Our next question comes from Doug Mitchelson from UBS. Please go ahead.

Doug Mitchelson – *Analyst, UBS*

Thanks so much. I have one for Bob and one for Christine. I will just ask them both upfront, I think. Bob, you have got a lot of discussion on the call already about what we are calling OTTMVPDs for now. We need a better acronym for sure, I think. But I am interested in the advertising side for the IP streaming world. Has Disney been rethinking advertising models including ad loads? Has your vision for the future of TV advertising informed your strategy for the Media Networks division? And, Christine, the 5% hotel bookings pacing for the June quarter, that is despite the tough Easter comparison? So the core trend would actually be better than that? Am I thinking about that right? Thanks.

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

I mentioned earlier, Doug, where the dynamic marketplace is, and I was referring to distribution opportunities. But the same thing would apply on the advertising front. Ben Sherwood and I had a discussion yesterday about this as it related to the non-ESPN Media Networks. Just about everything is on the table right now, including ad load and pricing and advertising, integration into programming, as a for instance, and I think you're going to see just a lot of shifting in terms of not only what we are selling, but how advertisers are buying into all different kinds of television product. I don't know that right now it is a time to declare anything specific in terms of a strategy because, again, it is such a changing marketplace, except to say that there is strong demand right now for television product, and it is obviously evident in how everybody is feeling about the upfront.

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

And, Doug, to answer your question on the resort bookings, to date for the third quarter being up 5%, that is incorporating the fiscal year -- our fiscal year impact of Easter the way it fell this year. So the short answer to your question is yes, it does incorporate that.

Doug Mitchelson – *Analyst, UBS*

And, Bob, if I could follow up. Maybe I am fishing here a little bit, but you have a much greater exposure to affiliate revenue in your Media Networks business than advertising revenue. Is that the position that you prefer? Do you think affiliate revenue is, you have got a lot more visibility over the next five years than advertising revenue, or do you think perhaps it will end up being the reverse?

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

Well, we are at a very high level when it comes to affiliate revenue, and you are right in terms of the total number. We do have more exposure as well. We have in the past preferred that to advertising, although there is nothing wrong with advertising. We certainly drive a lot of it.

Obviously, with the discussion that has been in the marketplace about the shifting dynamics of distribution and, to some extent, some of the sub erosion, that would perhaps call some of that into question. But we would still take our hand in terms of being more subscription centric then advertising centric. Because we still believe there is much more certainty in that than advertising, which, as you know, has tended to be somewhat cyclical in nature, at times can be fickle in nature based on a variety of other conditions.

And as we look at distribution, we still think that there is huge demand for these channels, particularly in the United States, but worldwide as well. And while consumers are clearly shifting their habits in terms of television, we still think that the subscription channel model is going to dominate the marketplace for certainly the next five years, if not many years thereafter.

Doug Mitchelson – *Analyst, UBS*

Thanks so much.

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

Doug, thanks for those questions.   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. One for Bob and a follow-up for Christine. Bob, can you talk a little bit about how you are looking at the Sling product roadmap. DISH talked on their call about wanting to bring Disney's channels into their multi-stream service, and you have been quite complementary of the single stream product lately. I'm just wondering how you feel about, A), them offering two different products in the marketplace shortly, and, B), what are the puts and takes to including your networks in the multi-stream product, whether the Hulu plans sort of impact your thought process there? And then I have a quick follow-up for Christine.

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

When we initially launched on Sling, we liked the single stream. It was a new product, and we wanted to be careful about the impact of that on our bigger business. When Sling decided to launch the multi-stream products, we were unable to conclude an agreement with them right away, meaning to launch with them when they launched the product. But they have subsequently come back and engaged with us. In fact, I talked to Charlie Ergen -- I met with Charlie Ergen personally a couple of weeks ago, and we are engaged in discussions with him about possibly being included in the new product in the future. But I don't want to comment more on those discussions.

And I don't think Hulu, at least from our perspective, didn't have an impact on it at all. We are looking for multiple opportunities to distribute our product. New platforms because, as I said earlier, we like what the new platforms offer to consumers. And we will continue to look pretty expansively at current and new entrants in the marketplace, and we believe there will be even newer entrants in the marketplace, Hulu being included, in the months and years ahead.

Ben Swinburne – *Analyst, Morgan Stanley*

Got it. And then, Christine, just going back to cable, would you be able to give us the domestic affiliate revenue growth for the quarter? And should we be thinking that you are reiterating the three-year CAGR and OI for cable, which I think it is mid-single digits? Is that still that we should be thinking about with two quarters left?

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

Yes, the domestic cable affiliate revenue outlook that was updated last August of high single digits is still intact, and that, as you know, is from fiscal 2013 to fiscal 2016 on a compounded annual rate. So that is still intact.

Ben Swinburne – *Analyst, Morgan Stanley*

And the OI? Sorry.

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

Oh, the OI. That component of the outlook is intact as well. That was cable operating income up mid-single digits over that same time period, still on a compounded annual growth rate.

And on the domestic cable, affiliate revenue growth. This quarter, as well as last quarter, we gave you total Media Networks and total Cable affiliate revenue growth, and we gave you some color on the Broadcasting affiliate revenue growth as well. We won't be providing domestic cable affiliate revenue growth. We manage our media businesses collectively, and we negotiate our affiliate agreements on a consolidated basis, and that is how we are going to report the affiliate revenue.

And if you recall, we started providing domestic cable affiliate revenue because there were a number of business model changes with our international networks that created some noise in our affiliate growth comparisons, and those changes are largely behind us.

Ben Swinburne – *Analyst, Morgan Stanley*

Okay thank you.

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

Thanks Ben. Operator, next question please.

Operator

Our next question comes from Jason Bazinet from Citi. Please go ahead.

Jason Bazinet – *Analyst, Citi*

Just a question for Mr. Iger. I think even before the decision to shutter Infinity, we were at least getting questions from institutional investors about Disney acquiring a console or a videogame company, I should say. I am not going to ask you to comment on that, but can you just refresh us in terms of what caused you to start as a licensor of your content and pivot into consoles and now move back into licensing, what the lessons learned were?

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

We thought we had a really good opportunity to launch our own product in that space. I realize it was console space, but it was also -- essentially a large component of it was the toys -- they call it toys to life space -- the toys to life business. And, in fact, we did quite well with the first iteration of it, and we did okay with the second iteration. But that business is a changing business, and we did not have enough confidence in the business in terms of it being stable enough to stay in it from a self-publishing perspective. You know that you take on substantially more risk, particularly when it comes to manufacturing and managing the inventory, the toy inventory of that business. And, in fact, as Christine noted, a good part of the write-off that we just announced comes from having to write off that inventory that we took responsibility for when we went into the publishing business. And we just feel that it is a changing space and that we are just better off at managing the risk that that business delivers by licensing instead of publishing. It is just that simple.

We did fine with the product initially. We actually made a good product. I give the developer a lot of credit for the product that they made. It was extremely well received. But we knew going in that there would be a lot of risk with this product, and in fact, we did so well initially, it gave us the confidence to continue with it. The truth of the matter is that the risk that we cited at the beginning when we went into this caught up with us.

Jason Bazinet – *Analyst, Citi*

Okay. Very good. Thank you.

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

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

Operator

Our next question comes from Todd Juenger from Sanford Bernstein. Please go ahead.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Hi thanks for taking the question. Like most people, one for Christine and, hopefully, one for Bob. Christine, on the A&E equity income, I know there are a lot of puts and takes there and a new one with Vice. I just hope you might be able to -- willing to comment on whether this quarter was emblematic of how it is going to look for a while with the startup move there, with your partner at Vice, and -- or anything else we should be thinking about in terms of advertising affiliate that would affect that equity income for the next many quarters?

And then, Bob, if you don't mind, I would love to hear your thoughts on ABC. You mentioned conversations with Ben Sherwood before. You have got new leadership at ABC. When you think about what you are hoping, Bob, Ben will accomplish there and what his marching orders are, given all the changes and attracting primetime audiences and advertising and the backend value of content, what are we hoping to see there? What should we be looking for to see if it is on track and delivering what you are hoping? Thanks for your thoughts.

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

Okay. I will take the first one, Todd, on A&E. As you noted, A&E was down year over year. The biggest driver of that was a decrease in ad revenue coupled with an increase in programming expense. And, as you mentioned, with Vice being in there as well, there was a negative impact of the conversion of the H2 channel, Viceland, that factored through A&E's numbers, and Viceland, as you know, recently launched and it is still in a startup phase. So I think you have to give them time to get up to speed, and A&E is dealing with some aging shows and putting on new programming. And so this is just something that we will be watching on a quarterly basis.

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

Todd, on the ABC front, first of all, I obviously like the management changes that were made. I have known Channing Dungey for a long time. Putting her in charge of primetime programming, I think, is a great move, and I have the utmost confidence in Ben as well.

I don't know that there is a big headline here. I have said to Ben what I have said publicly and Ben and I are both in accord on this, and that is that you have to look at the business as not just a distribution or a network business but as a content creation business, too. And ABC, under ABC Productions, has done a great job of creating content that is leverageable beyond the ABC

Network into a world that has an unbelievable appetite for that content. And that is just -- that is not just domestic. That is globally as well.

So the goal at ABC is to program the network aggressively, but to also support our Studio operation aggressively because that is a very, very important, if not integral, component of the value chain. The obvious -- the most obvious in that is make great programming. These days, there is so much -- there are so many more series that are available to consumers, and it puts a tremendous amount of pressure on programmers, not only to make things great, but to make things that make noise, that stand out. And the other thing that I -- and that is, again, a given.

The other thing that I mentioned is I don't think you should be held back by any of the old rules. You should think out-of-the-box. The world has changed so much that the old rules just don't always apply, and he needs to, I think, consider that. And that is about it. I have seen all the pilots this year. I had the ability to watch most of them while I was in China last week, believe it or not. I like what I see. And, as I said earlier, I like the marketplace. And I think, given the ownership of programming and the fact that a lot of these new shows are ours and a lot of the shows that we put on last year, including *Quantico*, has done quite well, I feel quite good about the prospects for that business.

Todd Juenger – *Analyst, Sanford C. Bernstein*

Thank you very much.

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

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

Operator

Okay and our final question comes from David Millerfrom Topeka Capital Markets. Please go ahead.

David Miller – *Analyst, Topeka Capital*

Thanks. Just one for Christine. Looking at the park margins here, 15.9%, truly outstanding for a fiscal Q2, just given that fiscal Q2 is usually your weakest quarter. Christine, in your opinion, how much of this is due to *MyMagic+*? How much of a contributor is that just given that the design of *MyMagic+* was just to get people moving around more, get people to have a more efficient experience, if you will, around the park? Just curious what the contribution was if there is any way you can quantify it. Thank you.

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

Thanks, David. *MyMagic+* has been around for several quarters and a few years, so it has really been incorporated into the base business and the way the Parks manages their business. So I think another way of looking at Parks margins is to look at the strength of the domestic operations this quarter. And, as you noted, the 15.9% was a total segment, including our international operations, but the domestic business was up 20% in OI and their margins were up 300 basis points. So it is part of the way we do our business, but the business domestically has done extremely well.

David Miller – *Analyst, Topeka Capital*

Wonderful. Thank you very much.

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

I want to add one thing. I am actually kind of surprised that after almost 45 minutes of questioning we didn't get one question about our Studio. But I just wanted to reiterate that the Studio's results were up tremendously in the quarter and up over 60% for the first two quarters of the year. They have had three movies in the marketplace. Just recently, *Zootopia*, which is well over $900 million worldwide; *Jungle Book*, which is well over $700 million worldwide and climbing; and then *Captain America* which had one of the best openings any movie has had in the history of the business, and the slate going forward is just fantastic. Whether you are looking at Disney Live Action, Disney Animation, Pixar, or Marvel and Lucas. And I just feel that we have done a lot of work as a company to grow that business. In fact, Studio OI for the first half of the year is over $1.5 billion. And I just want to make sure that we give credit where credit is due to a Studio that has done a fantastic job, and is firing on more than all cylinders. Thank you.

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

Bob, thanks. That really does conclude today's call. A reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our IR website.

Let me also remind you 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 SEC.

This concludes today's call. Thanks, everyone, for joining us.

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Forward-Looking Statements:

Management believes certain statements in this call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance as of the time the statements are made. Management does not undertake any obligation to update these statements. Actual results may differ materially from those expressed or implied. Such differences may result from actions taken by the Company, including restructuring or strategic initiatives (including capital investments or asset acquisitions or dispositions), as well as from developments beyond the Company's control, including:

- adverse weather conditions or natural disasters;
- health concerns;
- international, political, or military developments;
- technological developments; and
- changes in domestic and global economic conditions, competitive conditions and consumer preferences.

Such developments may affect travel and leisure businesses generally and may, among other things, affect:

- the performance of the Company's theatrical and home entertainment releases;
- the advertising market for broadcast and cable television programming;
- expenses of providing medical and pension benefits;
- demand for our products; and
- performance of some or all company businesses either directly or through their impact on those who distribute our products.

Additional factors are set forth in the Company's Annual Report on Form 10-K for the year ended October 3, 2015 and in subsequent reports on Form 10-Q under Item 1A, "Risk Factors".

Reconciliations of non-GAAP measures to closest equivalent GAAP measures can be found at www.disney.com/investors.