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Disney Speaker:

Bob Iger

Chairman and Chief Executive Officer

PRESENTATION

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

Good morning.

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

Good morning.

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

How are you?

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

I'm great.

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

I've had a cold, and I just put a cough drop in my mouth. So I just thought I would finish by the time that you finished.

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

It's okay. You're here. That's all that counts.

So it's great to have you, love having you back. Disney has enjoyed substantial growth during your tenure as CEO. When you first took over as CEO in 2005, you quickly made a number of moves that surprised the market in a very, very positive way: obviously, buying Pixar; you moved Monday Night Football from ABC to ESPN; you pushed strategic planning back to the divisions, which, I think dramatically improved morale at the company, like, immediately.

In more recent years, you've driven the company, have leapfrogged the industry in terms of IP acquisitions and exploitation; the only company with a unique branded film strategy; theme parks have flourished; Media Networks have grown substantially, although admittedly, the growth rate has slowed.

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

You now have 2 years remaining on your current employment contract with the company. Can we -- can you discuss what your current key priorities -what are your key priorities as CEO during your remaining time?

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

Sure. Thank you. I'm a big believer in establishing very specific priorities for myself because it enables me to manage my time better, and it also sends a message to the company, directly from me, about what's important. So I actually let people know what my priorities are. So for instance, over the years, you've mentioned some of them, integrating Pixar, turning Disney Animation around, integrating Marvel, getting our first Star Wars movie made and made well, opening Shanghai Disneyland. Those are a number of examples of things I have established as my own personal priorities. Obviously, the macro priorities like growing the company at robust rates. Now with my tenure winding down, my 2 biggest priorities are what we announced a few weeks ago, which is the direct-to-consumer proposition or businesses for ESPN and Disney; and secondly, the succession process and a smooth transition for my successor. I'm confident that both will be great for the company, but those are -- that's how I intend to spend a significant amount of my time in the next 1.5 years to 2 years.

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

The pace of change in the business has meaningfully accelerated over the last few years, night and day. What must -- can you talk about the things Disney is doing to stay ahead of the curve?

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

Well, I think the most important thing one has to do when they're contending with change is to admit that it's occurring and to assess very carefully what the change -- what the impact of the change is on all the businesses. Every year, we have a Board retreat at the company. And this year, in June, we decided that we would have every business unit present to the Board how their businesses were being disrupted and how they were contending with that disruption, which was incredibly valuable, obviously, for the Board to hear firsthand what changes in the businesses would be doing to the company, how they have been affecting the company and what we're doing about it. And secondly, it was great for the business unit heads because it was -- they've got a further commitment to recognizing the change, embracing the change and doing something about it. What emerged from that meeting, which didn't surprise us, is that if you look at change and disruption across all of the Disney businesses from Parks and Resorts to the motion picture business, to Theme Parks, to media, the most dramatic change or the most -- the biggest impact from disruption is being felt by the Media Networks, as I think you'd expect. Just your presentation I think touched on some of that. And that's not -- I don't think I'm saying anything that's a surprise, particularly to this audience, but you look at how linear networks are being viewed, you look at live viewing, you look at the impact on the bundle, you look at the impact of new competitors in the marketplace, particularly in the direct-to-consumer over-the-top space, you look at the opportunities that that creates. And so from that presentation and that discussion, we decided that accelerating our controlling position in BAMTech, which I know we're going to talk about, would be the smartest thing we could do to contend with the disruptive forces on the media space, both in terms of strengthening the business but also investing for growth.

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

Maybe switching gears a little bit, but what role do you see multi-channel operators and digital multi-channel operators having in your long-term growth potential?

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

Well, the traditional multi-channel operators and the emerging multi-channel operators, the digital and the OTT, will drive value for the company for the foreseeable future. The -- even though there's been, obviously, a lot of focus on sub losses in the multi-channel ecosystem, the traditional distributors still deliver a lot of value for our channels in the company and for other companies' channels, too. And we like the trend that we're seeing on the digital MVPD front, too, and there's been nice growth there, and we hope that continues. So I think our relationships will remain relatively consistent, at least for the near-term. What happens long term, not 100% sure. Clearly, as we go into the direct-to-consumer space and launch company-owned apps, the distributors, whether they are the traditional ones or the emerging distributors, will have an opportunity to distribute that app just as they do the Netflix app, for instance. So I think the relationship -- even if the business changes dramatically, the relationship with the distributors, while it may change as well, it will continue. It will be maintained.

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

Before we talk about the direct-to-consumer products, can we just talk about ESPN? This fall, you begin ESPN's renewal cycle with traditional distributors. Can you talk about your top priorities and the negotiations? How do you balance the need for rate increases versus the widest possible distribution?

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

Well, first of all, we have a great hand. Live sports is incredibly strong, incredibly popular, remains that way. Secondly, the ESPN brand is strong, and its array of sports rights is also deep and quite attractive. And so we have all the confidence in the world that as we enter a new cycle of extensions with the traditional distributors that we're well positioned. We intend to drive significant value in those negotiations. I think you have to look at it as a blend of distribution and price. I don't want to get specific about it. But as we enter these negotiations, one that's -- we're in the middle of right now, we intend to use the strong hand that we have with the brands that we have as we negotiate these new deals and position us well going forward. I should also point out that by the end of 2019, we probably will have extended over 50% of our distribution base. In other words, the deals that are up between now and the end of '19, which we expect to conclude by that period of time, represent over 50% of the business on the distribution front. And again, we think with ESPN, in particular, with Disney and with ABC, we have a -- we're well-positioned going into these discussions.

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

Okay. So let's talk about what everybody wants to hear, which is your direct-to-consumer plans. Can you tell us -- what more can you tell us about both the ESPN DTC product and also the Disney DTC?

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

Well, I'll take a step back for a minute because I mentioned BAMTech. The most important thing for us to do in considering the launch of anything in the direct-to-consumer space was to have the technological capability and other capabilities to create a product and to distribute it successfully and to manage customers effectively. What BAMTech has, and we were -- we own 33% of it, is really significant. They are the most robust live streaming platform that exists today. They have the ability to deliver easily 10 million live streams at a time, for instance. That was incredibly important, particularly as we considered an ESPN product. In addition to that, they have a really strong ad technology platform, which gives us an opportunity to better monetize advertising and deliver more value to advertisers. They're great at customer management--that's both onboarding customers, essentially attracting customers, maintaining customers, billing, et cetera, and they're very strong when it comes to user data, which is also very valuable.

So we saw in that platform exactly what we needed to consider going into the space, and we would not have made the decision to go into that space until we had those capabilities. As we've looked at the trajectory of the business, we realized that there are very few brands that exist today that actually can go direct-to-consumer. We know of some already. Netflix clearly created that value over time. HBO is an example of that. But when you think about all these brands that exist in media, there are very few that you can actually see as a direct -- as they exist today as a direct-to-consumer brand. ESPN and Disney are 2 of them, which is quite interesting, and we've known that for a while and we've invested with that in mind. But what struck us is that the opportunity is now presenting itself for us not only to go into that space but to use our move into that space as a long-term strategy for the company in terms of creating growth and solidifying our media businesses. So let's take both of them, Disney and ESPN, and they're very, very different.

Let me start first with Disney. What we're going to do with the Disney direct-to-consumer app or platform is, first of all, we're going to launch it in late 2019. We're doing that for 2 reasons. First of all, as we exit the Netflix output deal, we don't get access to our theatrical release movies until the beginning of '19. Secondly, we wanted time to actually develop and build up original programming for the platform. So late '19, we'll launch a Disney-branded service. It will have -- it will be the output distributor for the theatrical release movies. What we announced at earnings when we announced the BAMTech controlling position is that the Disney movies would be on this platform. We left open what we were going to do with Marvel and Star Wars. We've now decided that we will put the Marvel and Star Wars movies on this app as well. So it will have the entire output of the Studio: animation, live-action at Disney, including Pixar, Star Wars and all the Marvel films. In addition to that, we have been spending a fair amount of time for a fairly long period of time developing original content on the movie side for the app. So the Studio is going to produce -- is already developing and will produce 4 to 5 original films exclusively for the app, primarily live-action. And I'm guessing, at least for now, what we have in development is all Disney-branded. In addition to that, the Studio library product will be available on the app, too, and you have to figure, there's roughly 400 to 500 films.

On the TV side, we're going to create 4 to 5 original Disney-branded television series for the app, and we're going to produce probably 3 to 4 television movies that are Disney-branded. In addition to that, television library will be on the app, and you have to think about that in terms of roughly 7,000 episodes of Disney-branded TV. It also will have recent seasons of all the Disney Channel programming, not in-season. And then, on top of the movies and the TV product, we will have thousands of shorts. We produce a lot of short-form content under the Disney brand. We'll produce more original short-form content for this app, but we'll use a lot of the short-form content that we've already created.

You have to think of the Disney app as more of a traditional SVOD service with all the content that I just described and a monthly fee. I know that there's been a lot of curiosity about what we will charge and how much we will invest in everything that I just described, and we intend to get more specific about that in the months ahead. I'm not going to promise a time, but we know of the interest in that. But I have described essentially a very, very rich treasure trove of high-quality branded content for this app, and so we're going to launch, we're going to launch big, and we're going to launch hot, in our opinion. And we're very confident that as you look at the TV space or the media space, I should say, there is not only room and a demand for Disney, but we'll have the content to back that up. And then, in addition to that, what I've been describing as largely a domestic service, we're going to launch internationally as well, and it's possible that some markets will launch the service earlier than we'll launch in the United States because of windowing opportunities that we have on the motion picture side that we don't have here in the United States. On the ESPN -- do you want to?

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

That was pretty amazing now.

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

We'll move on to ESPN?

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

Yes.

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

I guess, I just made some news. And that was much more specific than we've been, not just the Star Wars and the Marvel films but much more specific. We spend a lot of time developing original content for this app, so I'm not going to -- not making any announcements now, but we have a good sense of what original movies will be made and what original TV shows will be made, for instance.

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

But this is a product that's not currently on -- in traditional pay TV?

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

Doesn't exist anywhere.

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

Right. So you're not taking anything away. So moving to ESPN where you do have product.

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

Well, before we get off that, the Disney Channel will still exist, and we're not taking product off of the Disney Channel in the United States. What we will do is we're going to create one app, a Disney app. On that app, you'll be able to watch Disney Channel shows on authenticated --

under authenticated circumstances or with authentication, and you'll be able to subscribe to the Disney service that I just described. If you don't want to subscribe to the service but you're -- you have a multi-channel service, then you can authenticate Disney and watch the Disney Channel and some other free content that will exist there. But if you want Disney plus everything I just described, you can subscribe to that on top of your multi-channel subscription. And again, it's one app, so one download, very, very simple for the consumer. If you are not a subscriber of a multi-channel service, you can subscribe to the Disney app alone. You just can't see the channel programming. That makes sense?

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

Absolutely. Do you expect it to be integrated into the set-top box, into that environment?

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

We expect that this app will get -- we've already heard from a number of distributors who would like to distribute the app. It's Disney.

On the ESPN front, you have to look at it a little differently. Here, we're probably going to launch sometime this spring. We will launch with 10,000 live sporting events that are not currently on ESPN's linear channels. And those will include Major League Baseball, the National Hockey League, MLS, some other tennis and a lot of college sports that we own the rights to already. So it will be 10,000 new live sporting events in the first year. As I described on the Disney side, it will be one app. It will be an ESPN app that exists today. Today, on that ESPN app, you can watch ESPN's linear channels live, authenticated. That will continue to exist. On top of that, in the same app, you'll be able to subscribe to, let's call it, a plus service. We've not named it officially. You'll be able to subscribe to significantly more sports programming than you get just through the linear channels. So if you are a big sports fan, again, one app experience, you can watch the linear channels on ESPN or you can buy up to 10,000 new sporting -- extra sporting events for the year.

Over time, I think the way you have to look at this is this will be a sports marketplace platform. Think what iTunes is, for instance, where you will be able to go to the platform and actually buy almost on an à la carte basis, a sport, a sporting event, a season, a league, maybe a conference, as a for instance. You'll be able to pick and choose, over time, what it is you want. It won't necessarily be a one-size-fits-all. We may launch it that way, but the goal eventually is to create something that the sports fan can essentially use to design what their sports media experience can be.

Obviously, in both cases, we're looking at mobile-friendly platforms. We're looking at user-friendly platforms as well. That's one of the things that BAMTech provides us. And we're looking for really robust direct customer management opportunities and advertising opportunities on the ESPN front. The Disney side will not have advertising. So 2 platforms, 2 products: 1 in the spring of this year, 1 in the latter part of 2019; 1 ESPN-branded, 1 Disney-branded. But we're going to really limit the number of the apps that we put into the marketplace because we don't want to create consumer confusion. So one destination in each case, one download, pretty simple. Basically, it enables us to create upsell opportunities and manage the customer in a more effective way and enables the customer to access ESPN and Disney more efficiently.

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

And the pricing plans on that side of...

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

I'm sorry?

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

I mean, you're launching that one in, let's say, 6 or 9 months. So that one on -- when will you start to talk about pricing?

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

I'm guessing sometime after the first of the year. It'd be pretty soon.

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

So maybe moving on. Having done numerous deals during your tenure, where does M&A fit right now with the new multi-year plan for Disney?

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

Well, we've had, as you know, over the -- you cited some of them, over the last 12 years, my tenure, we've had a mix of capital -- or the manner in which we've allocated capital to shareholders or return capital to shareholders, I should say. M&A has been one of the buckets that we've allocated capital. And that's actually returned value to shareholders because the acquisitions of Pixar, Marvel and Lucas clearly enabled us to grow the company and our bottom line. In addition to that, we've continued to allocate capital on organic growth. Theme Parks is a great example of that, for instance. We've increased our buybacks over time, and we've also increased our dividend. Interestingly enough, the M&A side enabled us actually to increase our capital returns on the other side. In other words, the -- our earnings from those acquisitions -- first of all, we also acquired great IP, so it enabled us to invest more in original -- I'm sorry, in organic growth. When I looked yesterday, we had a meeting, we were looking at all the activity at our parks, and the amount of expansion that is tied to Pixar, Marvel and Star Wars is extraordinary. So the M&A enabled that. In addition, the M&A, as I mentioned, created growth for the company, which enabled us to grow our dividend and also continue to buy back our shares. I think as you look forward, you have to consider it's likely to continue to be a blend.

Obviously, I can't discuss any specifics on the M&A front, but we've shown a willingness to be opportunistic when it comes to M&A, to take some -- make some pretty big bets, and fortunately, of the big ones that we've made, they've really paid off well.

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

They have. Before we turn to the individual segments, given that there are just a few weeks left in fiscal 2017, could you give us an update on your overall outlook for the year?

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

Well, you're right, there are just a few weeks left, so it's a little early. But I think you have to look at the year as being roughly in line with -- on an EPS basis what we delivered in fiscal '16, and that's for a few reasons, some, by the way, very topical. We mentioned, all the way at the beginning of the year, the impact of the NBA, big growth in cost to ESPN on the rights front. We also did not have a big Star Wars movie. We had *Rogue One*, but we didn't have -- *The Force Awakens* was over $2 billion in box office and huge consumer products in '16. We didn't have that in '17. In addition to that, we have had some impact already from Hurricane Irma. There, we've seen cancellations in Orlando, and we've also had to cancel 3 cruise itineraries and shorten a couple of others. And then lastly, there will be some expenses in fiscal '17 that are tied to the BAMTech acquisition. So those 4 things will result in roughly equivalent EPS, '17 versus '16. We haven't announced the quarter, obviously, but as people model it, they should factor those in.

Now '18, by the way, I'm not giving guidance, but obviously, ESPN has absorbed the cost, the balloon effect of the NBA rights. We also have 2 Star Wars films, *The Last Jedi*, which is this December; and then a Han Solo film in May, and we have 4 Marvel films, so -- and we have -- we'll have another year of Shanghai. We can talk about that. But -- so '18 will be a stronger year than '17 was citing some of those reasons.

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

So let's talk about Shanghai. I mean, that's been a clear -- Parks, in general, has been a clear beneficiary of technological change. Shanghai is open over a year, a little over a year. Can you talk about the progress that you've made in Shanghai? And what about the Parks' halo effect on Disney's other businesses in China?

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

Shanghai has been an incredible success. First of all, to be nicely profitable, and we'll be more specific when we announce earnings, but in its first year of operation, it's a big deal. And the profitability is due to its popularity. Our attendance has been great. I'm not going to update that. The last time we were public about it, we said 13 million, it's obviously more than that. No need to update right now. Length of stay is about 2 hours longer per day or per visit than we expected, so people are obviously enjoying it. Guest satisfaction is tremendous. Hotel occupancy is high, and about 2/3 of our visitors are coming from out of the Shanghai region, and that means that it's a national tourist destination in China. So demand is extraordinary.

We're -- and we're already building expansion. We're going to open Toy Story Land in the spring, and the land that we have there has ample opportunity for expansion. And we've been talking with our partners in Shanghai about that expansion, what it will be and when it will come, but it's enormous opportunity for the company on top of what has already been an enormous success.

There is a halo effect on the brand when we look at some of the surveys that we've done about the brand in China. Clearly, we've seen a nice uptick in people's admiration of and awareness of Disney, which is great. I can't give you any sense of how we monetize that right now. It clearly has a positive effect. It's not bad. But I think you have to figure that this being as popular as it is creates more opportunity for us in the most populous country in the world right now, and that opens up possibilities on multiple fronts from Consumer Products to Media. But there's obviously some regulation there that we have to deal with, the movie opportunities that it opens up. And then ultimately, it opens up more possibilities in terms of other theme parks on the mainland, but that's -- we're way early for that.

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

Right. Right. And then, let's talk a little bit about your U.S. growth strategy for Parks. You're building 2 new Star Wars lands: 1 in Florida at Disney's Hollywood Studios; 1 in California at Disneyland. In Orlando, you recently opened a game-changing new investment with Animal Kingdom and *Pandora - The World of Avatar*. Can you give us an update on those activities? What's going on?

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

Yes. Our Parks business had a tremendous fiscal 2017, and there's really nice momentum there. Pandora was a big success. It's really transformed Animal Kingdom. One of the attractions at Pandora, the *Flight of Passage*, the banshee ride, is the highest-rated attraction at Walt Disney World, and the park is just booming in terms of people. So it's been a great investment for us, and we have rights to build other Pandora lands at other parks. So we think that given the success that we've seen and the fact that Jim Cameron will eventually get a movie out, there's some other opportunities there.

The Star Wars Lands are rising as we speak. One will open up in fiscal '19, both open up in calendar '19: one will be in fiscal '19; the other one is likely to be in early fiscal '20. They're huge and I think very exciting in terms of how we're using technology to create really interesting attractions and experiences. And clearly, Star Wars is very popular here.

We're also opening *Toy Story Land* in Orlando this spring. We're building 3 cruise ships that will be on the seas '21, '22, '23. So this -- on the domestic front -- and we also have announced a hotel expansion and expansion of Marvel IP in the parks in California and in Florida. So there's a lot going on, clearly.

But we think it's -- given what our margin expansion in that business and given the incredibly strong increase in return on invested capital in that space, which has come mostly from putting capital into franchises and branded content, our returns have been better. We feel the investment that we're making in capital in that business domestically and internationally is a good investment for the company and a good growth strategy.

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

One last question on Parks, which is the hotels. You've actually done some extensive upgrades to your Orlando lodging inventory. Can you talk about the key aspects of your plans here? And how should we think about the possible lifts to your businesses?

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

About the what?

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

The lift to the business, to the Theme Park business from the...

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

Well, hotels, they're integral to the whole experience. We obviously have been focused for a number of years on getting people to stay on property. When they do, they tend to stay longer and spend more money, particularly when it comes to length-of-stay, food and beverage and merchandise, as a for instance. So it all ties into the holistic strategy of the business, which is to grow it basically in every direction.

There's also -- I think you have to consider a lot of competition in the marketplace, some disruption modest, Airbnb-type disruption, and as I said, more competition. Clearly, Universal has been in an expansive mode fairly recently, and so we offer something that's pretty unique from a hotel experience when we put IP into those hotels. And so as we expand, we're expanding to strengthen our competitive position and to do the kind of things that we talked about. The Star Wars Hotel is maybe one example of building IP into a hotel experience. Something we really haven't done before, but it's -- I think you just have to look at it as part of a whole and in part, as a means of contending with more competition in the space.

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

So let's move on to the filmed entertainment area. There's been a lot of focus on this year's box office performance, which has been good for you but not really so great for the rest of the industry. Do you think the moviegoing industry -- do you think moviegoing, in general, is undergoing a secular change? Or is it just really -- are the recent trends really just reflecting the product?

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

Well, I think a little bit of both. Maybe I should come back to that. We've built the preeminent studio in the movie business today, and we've done so by creating premium product, high-quality, branded franchise tentpole product for a premium experience, the moviegoing experience, premium in the sense that large screens, and then particularly, if you look at where capital has been put into that business, where there've been improvements in the movie theater experience, it's been I think really positive from a consumer perspective. And we managed to do it with real focus on really 8 to maybe 12 films a year. We're not looking for quantity. We're looking for quality, and it is working.

When you look at the overall environment of the business, first of all, I think what you've seen recently is largely due to the movies that have been released. It was a quiet end of the summer and then some. And I know I just look at -- I love movies, and I look for movies to watch every weekend, and it's been slim-pickings the last 3 weeks, 4 weeks, whatever. And so I think this --

you see a lot of headlines about it, but I think it's really the result of slates that just weren't as strong as they could have been.

I do think there are some secular changes that we're seeing. You cited some of it in your presentation earlier. This results from so much more competition for people's time with filmed entertainment. And all of the growth you've seen from particularly the direct-to-consumer businesses: Netflix, obviously, leading the way; Amazon getting into it; Apple getting into it; Showtime being in it. I could go on and on.

Clearly, it's taking people's time away from doing other things. And when you add to that the ease-of-use and growth in screen quality in the home, I think it means that the moviegoing experience is less forgiving – than it used to be. In other words, you have to make a great movie, and it has to be a great experience. It's why I think our strategy has worked because our films are designed for that big screen experience. There are a lot of others that are not. I think that's where there's real challenge. For the studios that are in the business of making smaller films, I don't necessarily -- I don't mean smaller and less in quality but just smaller, then I think there's a lot of pressure on them to not only market them successfully and rise above the din or all the noise out there from others that are marketing filmed entertainment. There's just a lot of pressure on them. It's very, very hard.

And I think what you're seeing in terms of -- or what you're hearing about in terms of the premium VOD window, it may be going there -- is due to a need that studios have to figure out how to better monetize their investment in films. That does not work for us. We're -- my mantra or my charge to the Studio is make them big and make them great. And as I said earlier, so we're making premium films for the premium experience. We're not going to change that. It's working for us. So the premium VOD window is not something that we're interested in. Where we are going to invest, which I mentioned earlier, is we are going to make lower-budget, smaller Disney films, but we're going to put them on our own proprietary service on an exclusive basis and monetize them that way as opposed to a premium VOD window, which we just don't -- I'm not commenting about it for the rest of the industry, but it's no interest to us.

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

But do you think it will happen for the rest of the industry? Do you think that window will actually finally open up?

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

I think you will see a window open up. I don't know where it ends up. I don't know whether it's successful or not. I think you have to look at it as probably a big serious experiment. I say experiment because I don't think the industry really knows whether it's going to work for them or not. But I think there's enough momentum around trying that it's likely to happen. It will happen, not for us. Don't expect to see Disney, Pixar, Marvel and Star Wars there.

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

Right. So one last question. We have a couple of minutes left. So aside from I guess just to move on to Consumer Products, aside from Star Wars, what other franchises should we expect to be material drivers of Consumer Products performance over the next, say, 12 to 24 months?

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

Well, we have here -- first, you mentioned Star Wars, you said aside from, we do have a big Star Wars movie coming out, so I think that's going to probably strengthen our Consumer Products business there. What is looming is Mickey's 90th birthday, which is 2018. That's going to be celebrated heavily across the company. We tend to discount Mickey a bit because he was created in 1928, but he's still one of the most popular products, if not I think the most popular single character in the world. And we have a lot in store in terms of support -- not only supporting that character but leveraging his 90th birthday. There was a lot of debate over the years, by the way, about whether you celebrate Mickey's birthday because no one wanted to admit that he was old, but we've decided that old is good, particularly in this world, and 90 is a special birthday.

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

And is this the typical Disney where the anniversary is not 12 months but 18 or 24 months?

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

Oh, I think if this works, it's going to be a very long birthday. We may try to stretch it to his 100th. I don't know. We've got a lot of activity. I have to think about it all. I don't know that I could really cite another specific franchise. We have an Avengers film that we're very excited about in May. That should help on the Marvel front. *Spider-Man* did fairly well for us this past year, so there should be some halo effect on that. We are putting out a 30 minute -- I think it's a 30 minute *Frozen*, I'll call it a short, that we are distributing with *Coco* in -- which is a Pixar film theatrically for a few weeks in November, and that should help the *Frozen* franchise. The *Frozen* franchise is still mammoth but substantially down from where it was when we released the film and the year, hence. So this may help that. We're also launching a *Frozen* show on Broadway. It will open in March. I was in Denver on Friday night because we're doing previews in Denver, and there were 2,700 people at the theater in Denver. And I'm convinced that half of them were wearing Anna and Elsa dresses. I seemed to be in a sea of Anna and Elsa dresses. So I think that franchise will have a little bit of pop, but I can't cite any other specific ones.

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

Great. I mean, we have time for maybe one question, if that's okay.

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

Okay. From what? From the audience?

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

From the audience, if that's okay.

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

Up to you.

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

If there are any.

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

That's a lot of pressure on that one person. You could skip it. Maybe we should skip it.

Audience

You mentioned ESPN app as an iTunes-like analogy eventually and given how iTunes was a great consumer experience but "ruined" the music business, how do you feel about the other sports content rights owners and how maybe willing would they be to participate in something like that? Have you...

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

Well, when I talk about it -- I think you have to think about it as a sports marketplace. We're probably going to start out with one big bundle of live sports, the 10,000 events that I cited. But I think if you look at where consumers are going, we've seen, over time, a pretty significant shift in authority from the distributor and the creator of content to the consumer of content. And I think the consumer probably, over time, given particularly what digital technology enables them, will demand more of a pick-and-choose experience, meaning more of a tailored experience for them. It doesn't mean there won't be many that buy a big bundle of things, but I think there are opportunities. And I think you also have to think about it in terms of price yield. Meaning -- and this is done, by the way -- one thing to look at is how Sky Sports does it in the U.K. with the Premier League. You could potentially buy a match. We would still license bulk. We might license. So in terms of the sports league or organizer, they would get a license fee from us for all of the rights, but we would monetize it differently than we're currently monetizing it. So in other words, if there were big matches, this past weekend, the Alabama-Florida State and you just wanted to buy that, we might sell that to you, that game. You pay a premium for it or you just wanted to buy a golf match on Father's Day or give a gift to someone of a sports league or something. We think that -- we know the technology is going to enable it. We think, ultimately, the consumer will demand something like that. That's not imminent, but how -- the way we're looking at it over time and the technology capabilities that we have will give us the ability to enable that kind of consumption, that kind of purchase. And I think, again, we will do it if we believe the revenue yield justifies it. In other words, instead of a monthly subscription at x amount of money, we actually may be able to monetize better by selling premium events or on-demand events in a different way.

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

Great. With that, thank you so much for coming.

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

Thank you.

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Forward-Looking Statements:

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

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

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

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

Additional factors are set forth in the Company’s Annual Report on Form 10-K for the year ended October 1, 2016 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.