The Walt Disney Company's Agreement to Acquire Lucasfilm Ltd. Conference Call

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Disney Speakers:

Bob Iger

Chairman and Chief Executive Officer

Jay Rasulo

Senior Executive Vice President and Chief Financial Officer

Moderated by,

Lowell Singer

Senior Vice President, Investor Relations

PRESENTATION

Operator

Welcome to The Walt Disney Company conference call. My name is Mike, and I will be your operator for today's call. [Operator Instructions] Please note this conference is being recorded. I will now turn the call over to Mr. Lowell Singer. Mr. Singer, you may begin.

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

Thanks, Mike. Good afternoon, everyone, and thanks for joining us on such short notice to discuss The Walt Disney Company's agreement to acquire Lucasfilm. We signed and announced this transaction earlier today. We are aware of and very sensitive to the issues that many people are dealing with due to Hurricane Sandy. However, we did want to give you an opportunity to hear our thoughts on the transaction and answer any questions as soon as possible after the announcement, so we do apologize up front for any inconvenience.

Our press release was issued about an hour ago, it's now available on our website. Today's call is also being webcast and a replay and transcript of today's remarks will be available on our website as well. Joining me for today's call are Bob Iger, Disney's Chairman and Chief Executive Officer, and Jay Rasulo, Senior Executive Vice President and Chief Financial Officer. Bob's going to lead off and then Jay will address some of the deal specifics. We'll then be happy to take some of your questions.

So with that, let me turn it over to Bob and we'll get started.

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

Thank you very much, Lowell, and good afternoon. As we just announced, The Walt Disney Company has agreed to acquire Lucasfilm and its world class portfolio of creative content – including the legendary *Star Wars* franchise – along with all of its operating businesses, including Industrial Light & Magic and Skywalker Sound.

George Lucas is a true visionary, an innovator and an epic storyteller – and he's built a company at the intersection of entertainment and technology to bring some of the world's most unforgettable characters and stories to screens across the galaxy. He's entertained, inspired, and defined filmmaking for almost four decades and we're incredibly honored that he has entrusted the future of that legacy to Disney.

Disney has had a great relationship with George that goes back a long way – with *Star Wars* themed attractions in our parks in Anaheim, Orlando, Paris and Tokyo. This acquisition builds on that foundation and combines two of the strongest family entertainment brands in the world. It makes sense, not just because of our brand compatibility and the previous success that we've had together, but because Disney respects and understands – probably better than just about anyone else – the importance of iconic characters and what it takes to protect and leverage them effectively to drive growth and create value.

Lucasfilm fits perfectly with Disney's strategic priorities. It is a sustainable source of branded, high quality creative content with tremendous global appeal that will benefit all of Disney's business units and it is incredibly well suited for new business models, including digital platforms. Adding Lucasfilm IP to our existing Disney, Pixar and Marvel IP clearly enhances our ability to serve consumers, strengthening our competitive position -- and we are confident we can earn a return on invested capital well in excess of our cost of capital.

Star Wars in particular is a strong global brand, and one of the greatest family entertainment franchises of all time, with hundreds of millions of fans around the globe. Its universe of more than 17,000 characters inhabiting several thousand planets and spanning only 20,000 years offers infinite inspiration and opportunities – and we're already moving forward with plans to continue the epic *Star Wars* saga.

The last *Star Wars* movie release was 2005's *Revenge of the Sith* – and we believe there's substantial pent up demand. In 2015, we're planning to release *Star Wars Episode 7* – the first feature film under the "Disney-Lucasfilm" brand. That will be followed by Episodes 8 and 9 – and our long term plan is to release a new *Star Wars* feature film every two to three years. We're very happy that George Lucas will be creative consultant on our new *Star Wars* films and that Kathleen Kennedy, the current Co-Chair of Lucasfilm, will executive produce the films.

George handpicked Kathy earlier this year to lead Lucasfilm into the future. She'll join Disney as President of Lucasfilm, reporting into Walt Disney Studios Chairman Alan Horn and integrating and building the *Star Wars* franchise across our company.

Our successful acquisitions of Pixar and Marvel prove Disney's unique ability to grow brands and expand high-quality creative content to its fullest franchise potential and to maximum value.

We've leveraged Pixar's terrific characters and stories into franchises across our company – from feature films to consumer products, online games, major attractions in our theme parks, and more.

The 2006 Pixar acquisition delivered more than great Pixar content -- it also delivered the means to energize and revitalize the creative engine at Walt Disney Animation – which was crucial to our long term success. Animation is the heart and soul of Disney and our successful creative resurgence will be on full display this weekend when *Wreck-It-Ralph* opens in theaters across the country.

Our acquisition of Marvel three years later combined Marvel's strong global brand and world-renowned library of characters with Disney's creative skills, unparalleled global portfolio of entertainment properties, and an integrated business structure that maximizes the value of creative content across multiple platforms and territories. Our first two Marvel films – *Thor* and *Captain America* grossed a total of more than $800 million at the box office. This year, Marvel's *The Avengers* grossed more than $1.5 billion to become the world's third highest grossing movie of all time – and an important and lucrative franchise for us.

We're looking forward to a robust slate of new Marvel movies – starting with *Iron Man 3* and *Thor: The Dark World* next year, followed by *Captain America: The Winter Soldier* in 2014. And, as we announced previously, Joss Whedon is writing and directing *Avengers 2* and developing a Marvel-based series for ABC.

Pixar and Marvel both fit our criteria for strategic acquisitions – they add great IP that benefits multiple Disney businesses for years to come, and continue to create value well in excess of their purchase price. The acquisition of Lucasfilm is in keeping with this proven strategy for success and we expect it to create similar opportunity for Disney to drive long-term value for our shareholders.

We're clearly excited about this move forward. We believe we can do great things with these amazing assets….we have a proven track record of maximizing the value of our acquisitions and we're poised to do the same with this one.

With that I'll turn this over to our CFO, Jay Rasulo.

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

Thanks, Bob. And good afternoon everyone. Lucasfilm, and more specifically the *Star Wars* franchise, fits perfectly within the Disney portfolio of intellectual properties and the strategic and financial implications of this acquisition are compelling. Our team has spent a tremendous amount of time evaluating this deal and we have concluded that we are uniquely positioned to maximize the value of Lucasfilm's IP in a manner that can generate substantial value for our shareholders above and beyond the purchase price.

In this transaction we will acquire rights to the *Star Wars* and *Indiana Jones* franchises, a highly talented and expert team, Lucasfilm's best-in-class post production businesses, Industrial Light and Magic and Skywalker Sound, and a suite of cutting edge entertainment technologies. Our valuation focused almost entirely on the financial potential of the *Star Wars* franchise, which we expect to provide us with a stream of storytelling opportunities for years to come delivered via all relevant platforms on a global basis.

There are a number of ways our company will derive value from Lucasfilm's intellectual property—some of which can be realized immediately while others will accrue to us over time. George and his team have built *Star Wars* into one of the most successful and enduring family entertainment franchises in history, as well as one of the best selling licensed character merchandise brands in the U.S. and around the world. However, we believe that there is great opportunity to further expand the consumer products business. Today, *Star Wars* is heavily skewed toward toys and North America. We see great opportunity domestically to extend the breadth and depth of the *Star Wars* franchise into other categories. We also plan to leverage Disney's global consumer products organization to grow the *Star Wars* consumer products business internationally.

Let me note that in 2012 Lucasfilm's consumer products business is expected to generate total licensing revenue that is comparable to the roughly $215 million in consumer products revenue Marvel generated in 2009, the year in which we announced our acquisition. With renewed film releases, and the support we can give the *Star Wars* property on our Disney-branded TV stations, we expect that business to grow substantially and profitably for years to come.

We also expect to create significant value in the film business. We plan to release the first new *Star Wars* film in 2015, and then plan to release one film every two to three years. These films will be released and distributed as part of our target slate of 8-10 live-action films per year, and will augment Disney's already strong creative pipeline for many years to come. Lucasfilm has not released a *Star Wars* film since *Revenge of the Sith* in 2005. However, adjusted for inflation, as well as the growth in both international box office and 3D, we estimate the three most recent *Star Wars* films would have averaged about $1.5 billion in global box office in today's dollars. That speaks to the franchise's strength, global appeal and the great opportunity we have in the film business.

We also expect to utilize *Star Wars* in other businesses including Parks & Resorts, in games and in our television business. These initiatives were also considered in our valuation.

Under the terms of the agreement, Disney will buy Lucasfilm for $4.05 billion, consisting of approximately fifty percent cash and fifty percent in Disney stock. Based on Friday's closing price of Disney stock, we will expect to issue approximately 40 million Disney shares in this transaction. We continue to believe our shares are attractively priced at current levels and therefore, we currently intend to repurchase all of the shares issued within the next two years-- and that's in addition to what we planned to repurchase in the absence of the transaction.

Our valuation of Lucasfilm is roughly comparable to the value we placed on Marvel when we announced that acquisition in 2009. Our Lucasfilm valuation is almost entirely driven by the *Star Wars* franchise, so any success from other franchises would provide upside to our base case. I realize it may be challenging for you to quantify our opportunity given the limited amount of publicly available information. But to give you some perspective on the size of the Lucasfilm business-- in 2005, the year in which the most recent *Star Wars* film was released, Lucasfilm generated $550 million in operating income. We've taken a conservative approach in our valuation assumptions, including continued erosion of the home entertainment market, and we expect this acquisition to create value for our shareholders.

In terms of the impact on our financials, we expect the acquisition to be dilutive to our EPS by low single digit percentage points in fiscal 2013 and 2014 and become accretive to EPS in 2015.

Our capital allocation philosophy has been consistent since Bob took over as CEO. In addition to returning capital to shareholders, we have invested, both organically and through acquisitions, in high quality, branded content that can be seamlessly leveraged across our businesses. Our acquisition of Lucasfilm is entirely consistent with this strategy, and we're incredibly excited by the prospect of building on Lucasfilm's successful legacy to create significant value for our shareholders.

With that I'd like to turn the call back over to Lowell for Q&A.

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

Thanks, Jay. Mike, we're ready to take the first question.

Q&A

Operator

Thank you. Our first question is coming to us from Ben Swinburne. Ben, please go ahead.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you. Can you hear me, Lowell?

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

We can hear you, Ben, yes.

Ben Swinburne – *Analyst, Morgan Stanley*

Okay, good thanks. A couple. Maybe just to start out, Bob, when you bought Marvel one of the things you really highlighted was the international licensing opportunity, given Marvel's scale versus Disney's scale. Can you sort of contrast Lucas today and maybe broaden it out looking at other ways the Lucas business is already being distributed, whether it's in the licensing front, or I believe Fox may distribute their films – I could be wrong, but I think they've got relationships. Where is the low hanging fruit on this acquisition vis-à-vis the Marvel deal? And then maybe for Jay, I don't know if you'd be willing to talk about the return on the Marvel acquisition now that you're a few years in. I know that you've obviously had tremendous success with *The Avengers*, but if there's a number you'd share with us internally on how you think about that transaction looking back, that would be helpful?

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

Okay. In the first question, first of all, like Marvel, Lucasfilm's international consumer products go through third-party reps at obviously considerable cost. There's obviously a fee to that. So clearly we will step in for those reps once the deal closes and not only reduce expenses, but we believe substantially increase the footprint from a consumer products perspective of Lucasfilm, *Star Wars* obviously in particular, internationally. If you look at both companies and compare them, Marvel was actually slightly ahead of where Lucas is today internationally. About less than 40% actually of Lucasfilm's consumer products right now comes international, and Marvel's was well above 40%. So there are two big opportunities: one, step in for third parties, reduce costs and be more effective at licensing in general; secondly, simply increase our shelf space internationally and grow revenue in the process.

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

Ben in terms of the Marvel acquisition, I won't get into details with you. I will say that at the time we announced it we said that it was a value-creating transaction for our shareholders and we are – the financial performance since the acquisition of the company has been very consistent with the pro forma under which we made that statement. So we're feeling very good about the way Marvel turned out three years hence. And we feel equally strong about this transaction. It's value-enhancing to shareholders. It shares some characteristics that Bob just mentioned with the Marvel transaction. Of course, some are different.

Ben Swinburne – *Analyst, Morgan Stanley*

Thank you very much.

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

Thanks, Ben. Operator, next question please.

Operator

Certainly. Our next question comes from Alexia Quadrani. Alexia, please go ahead.

Alexia Quadrani – *Analyst, JP Morgan*

Thank you. I know there's a certain amount of sensitivity with how much financial information you can provide, but can you give us some sense of I guess what kind of recurring library revenues this franchise produces every year? I assume their library is quite valuable.

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

Hi, Alexia. I can't really reveal what the breakdown is. I will tell you that if you look at Lucasfilms, about a quarter of their business lies in the film, I would call it, studio-based businesses, which of course, are the flows that come off of that; a little more than a quarter in consumer products. The games business is a little less than 20% and the rest is in the other businesses that we mentioned, those breakdowns being from a most recent year revenue basis.

Alexia Quadrani – *Analyst, JP Morgan*

And then you mentioned I think one film, one *Star Wars* film every two to three years. Are there other movies that we should expect to be released by Lucas?

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

No, we're going to concentrate on the *Star Wars* franchise. What we're buying is – along with the overall company – is a pretty extensive and detailed treatment for what would be the next three movies, the trilogy. We're going to release the first of those three in 2015 and then the expectation is that we'll release numbers two and three, which will be numbers eight and nine of the overall franchise, probably on a cadence of every other year and then go from there. But we've got a lengthy treatment that comes with this that we feel really good about and the film is in what I'll call early-stage development right now.

Alexia Quadrani – *Analyst, JP Morgan*

Okay. Thank you very much.

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

Thanks, Alexia. Operator, next question, please?

Operator

Certainly. [Operator Instructions] Our next question comes from Anthony DiClemente of Barclays. Anthony, please go ahead.

Anthony DiClemente – *Analyst, Barclays*

Hi. Can you guys hear me okay?

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

We can, Anthony, yes.

Anthony DiClemente – *Analyst, Barclays*

Thanks. Congratulations. Just a couple questions. It does seem, Bob, that you're doubling down on the film business at a time when home entertainment trends are very much in flux, so when I look at the valuations of media and the value that's accrued to television or cable TV, I wonder if there's synergies here in terms of cable TV characters, I think about Disney XD, I know you mentioned that and that was an advantage in terms of your Marvel acquisition, and then – so cable TV synergies, and then also wanted to ask about parks and attractions in the parks and what opportunities there could be there?

And then I guess my second or last question would be, what is this – what do *Star Wars* films come in lieu of creatively? I know you're committed to *Avengers* characters and I know this genre is a little bit different, it's not superheroes, it's sort of science fiction or fantasy. But I wonder, do you have concerns about saturation of that type of genre? And if so, are there any plans in sort of altering the cadence of those types of films over time? Thanks a lot, guys.

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

Let me begin with the first part of the question. I don't view this as a doubling down. We are, as Jay mentioned, we're approaching this very conservatively, both in terms of our estimates of what we might reap in box office, even though global outside of the United States, international box office has grown considerably in the last few years. But we're particularly conservative when it comes to secondary markets, home video being the primary one. I won't give you numbers, but the numbers that we've applied here are substantially lower than what we're seeing today in the business. So you can take that for what it means, either we're predicting more erosion, or we've simply decided that they could occur, and therefore, it was prudent for us to be conservative in that regard.

Our strategy has been pretty obvious in terms of motion pictures. We're making one to two Marvel films a year, a Pixar film a year and in most cases will have a Disney animated film a year. And then we're looking to make probably somewhere in the neighborhood of four to six live-action films a year, some of those films will be tent poles. So this will really take the place of a tent pole in 2015, in all likelihood. We don't have a committed slate for live action in 2015 fully. So we're not really looking to increase by any substantial margin our investment in films.

Now one of the things that we're very mindful of is the value of brands and the value of properties that are both known and loved. And we actually determined that we'd be better off as a company releasing a sequel to *Star Wars* than probably most other, I'll call them not-yet-determined films. So we love the fact that this will take its place in our live action strategy as an already-branded, already-known quantity. And we think that, that is obviously a really good hand to have.

On the parks front, there are four very successful attractions. Two of them were recently redone in Florida and in California. The reaction to them has been great. We have ample opportunity to expand the presence of this franchise in our parks, or to actually include this franchise in our parks. Hong Kong and Shanghai obviously would come to mind. But there's room to grow what we've already got, so we feel particularly good about that. We don't really view this as competitive per se, or any more competitive than it's been to other characters or other genres like superheroes. *Star Wars* has been in the market for a long time. I recently saw a survey that had the world's most valuable franchises, at least in 2011. And the *Star Wars* characters popped up as number two on this particular survey that was published in Forbes, which I found interesting. So they're out there. They're very successful. We've been competing with them in many respects for years. I actually think, though, that owning both the superhero franchise through Marvel and I'll call it the fantasy science fiction through Lucasfilm and having all that access from a boy's franchise potential actually strengthens our hand in many respects with licensees and with retailers, and with our own consumer products, or retail chain online and in our stores.

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

Thank you, Anthony. Operator, next question please.

Operator

Yes. Our next question comes from Alan Gould of Evercore. Alan, please go ahead.

Alan Gould – *Analyst, Evercore Partners*

Yes. Thanks. Two questions, I just want to confirm, you said the annual consumer products licensing revenue is about $215 million a year? And secondly, would you be willing to give us an idea of how much of the value was based on your projections for the future *Star Wars* films versus how much from the annuity of what you get from consumer products and studio royalties?

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

Yes. The number you repeated, the $215 million is the 2012 licensing number. Relative to how the value breaks down, obviously we looked very carefully at this. I think that we were very conservative. But given that there, number one, hasn't been a *Star Wars* film in the market since 2005, obviously a lot of the value that we attribute to this deal is to come with the exploitation both on the film side as well as Bob clearly laid out, on the consumer product side where we see enormous opportunity.

Alan Gould – *Analyst, Evercore Partners*

Okay. Thank you, Jay.

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

Thanks, Alan. Operator, next question please.

Operator

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

Todd Juenger – *Analyst, Sanford Bernstein*

Hello, everybody. A couple sort of really technical housekeeping questions, probably for Jay, thanks. So the first, Jay you mentioned dilutive, low single-digit to EPS fiscal year 2013 and 2014 and then accretive. You also mentioned buying back all these shares in two years. So just, sorry to be so technical, but was your comments about the dilution to EPS, was that including the impact of the buyback? Or is that sort of with the share count as standing as of the transaction? I've got another quick one after that if you want to…

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

Yeah. The low single-digit number that I mentioned, Todd, includes the dilutive effect of the 40 million new shares.

Todd Juenger – *Analyst, Sanford Bernstein*

And the accretive EPS comment in 2015 and forward also is pro forma including all those shares? Or is that also assuming that all the shares are bought back by that time?

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

Yes, bought back.

Todd Juenger – *Analyst, Sanford Bernstein*

Got it. Thanks. One other – sorry – real technical one. So you were kind enough to give that breakdown of sort of 25% of revenues from the studio, 25% consumer products, 20% games, if you remember that. I just wanted to clarify, was that in a year when they last made a film? So like 2005? Or is that representative of more recent years?

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

Calendar 2012, Todd.

Todd Juenger – *Analyst, Sanford Bernstein*

Got it. Very helpful.

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

You're welcome.

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

Thanks, Todd. Thanks. Operator, next question please.

Operator

Yes, our next question comes from Jason Bazinet of Citi. Jason, go ahead.

Jason Bazinet – *Analyst, Citigroup*

Thanks so much. I don't have power where I am or a computer, so I may be doing the math wrong. But maybe you can help me with something. You're issuing about $2 billion worth of stock. And you have about $100 billion market cap. So are we to infer that there's no net income from this acquisition? In other words, if you've got no net income and you're issuing 2% more shares, it seems like that would be low single-digit dilutive. Is that – am I doing something wrong?

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

No. Well I didn't hear exactly everything you said. But let me walk through it and be clear.

Jason Bazinet – *Analyst, Citigroup*

Okay.

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

Yes, we are issuing about $2 billion of stock, and you're right about that. But there are also – you know there are other purchase accounting impacts here that have to be taken into account in the dilution, Jason, which is – the largest of which of course in the big picture is the amortization of intangibles and the deferred revenue that always accompanies an acquisition, particularly when there is licensing involved and there are fees paid in advance of the ability to utilize that franchise. So there's also transaction restructuring costs that impact dilution. So it would be very, very hard for you to read what the OI offset to those is in the transaction and I'm not going to reveal that. But you remember you have to include all those things to get to a net dilutive number.

Jason Bazinet – *Analyst, Citigroup*

Okay. Thank you very much.

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

You're very welcome.

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

All right, Jason. Thanks. Operator, next question, please.

Operator

Our next question comes from Michael Senno of Credit Suisse. Please, go ahead.

Michael Senno – *Analyst, Credit Suisse*

How you doing? Thanks for taking the question. Just wanted to see if in this acquisition similar to how with Marvel there was some other deals in place that precluded you from using some of the characters and distributing some of the films immediately, if there are any deals in place with Lucasfilms that would preclude you from starting to utilize the IP immediately.

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

There are very little encumbrances on our ability to make and distribute films going forward and on our ability to exploit characters across multiple mediums and platforms. There are distribution encumbrances on some of the prior *Star Wars* films that were made, notably with Fox, and there are some encumbrances for *Indiana Jones*, largely with Paramount.

Michael Senno – *Analyst, Credit Suisse*

Okay. Thanks.

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

But I would say though, on the whole, what we've got here is far fewer encumbrances to get at value than existed when we bought Marvel.

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

Okay, Michael.

Operator

Our next question comes from Doug Creutz of Cowen and Company.

Doug Creutz – *Analyst, Cowen and Company*

Yeah, thanks. Congratulations on buying *Star Wars*. I would say, Bob, you're risking the wrath of the entire Internet, but this will be – I don't know. I'm excited. Anyway I wondered if you could you talk about what you're doing with the Industrial Light and Magic portion of the business? Is that an important part of the acquisition to you or do you have any particular plans for it?

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

Our current thinking is that we would let it remain as-is. They do great work. They do work for multiple studios. We don't see why that should change at all, and it's a decent business for – it's been a decent business for Lucasfilm and one we have every intention of staying in.

Doug Creutz – *Analyst, Cowen and Company*

All right. Thank you.

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

Thanks, Doug. Operator, next question, please.

Operator

Our next question comes from Tuna Amobi of S&P Capital IQ.

Tuna Amobi – *Analyst, Standard & Poor's*

Hi. So good afternoon. Thanks for taking the question. Can you hear me?

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

Very well.

Tuna Amobi – *Analyst, Standard & Poor's*

All right. So I think, Jay, can you help us understand how you got to the $5 billion kind of calibration of the last Lucasfilms? You mentioned – I'm wondering how much 3D factored into that equation? And how these films might actually affect your 3D strategy, would be helpful? Thank you.

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

Okay. So let me recap. So we said that on average, if you look at the last three films – we didn't go back to the first three because it's just, it's too distant to try to compare box office numbers from 1970, the 70s and early-80s against today's market – but looking at the last three films, we adjusted the actual box office numbers that took place obviously for inflation, but also for the enormous growth of the international box office and the enormous growth that typical blockbuster films realize from the international box office today, relative to when those three films were released. So that was one of the adjustments.

The second adjustment was the prominence of 3D in this type of film. Now when we look forward – I mean those are the numbers, those would take the numbers to $1.5 billion – but when we look forward, I have to say in our valuation that we haircut those numbers pretty substantially, both on their face value of the box office, but also on 3D, which today would account for 40% to 50% of revenue in a film like this. We haircut it very substantially looking forward, not under the assumption but under the risk that that isn't true as we roll out into the future. So that's how we use that $1.5 billion average over the last three films when we started to model forward. I hope that helps.

Tuna Amobi – *Analyst, Standard & Poor's*

Okay, that's very helpful. Just quick question for Bob on how the deal might affect your interactive strategy; it does seem like Lucasfilms has a pretty decent games business, as you alluded to, but when you think about the shift in social gaming, where you've been kind of ramping up versus the console, and it seems like that trend has been kind of shifting now back in the past several quarters, I'm wondering how you see your games business being impacted by Lucasfilms specifically? And the dynamics of the social versus console strategy?

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

We're likely to focus more on social and mobile than we are on console. We'll look opportunistically at console, mostly likely at licensing rather than publishing. But we think that given the nature of these characters and how well known they are and the storytelling that they lend themselves quite nicely as they've already demonstrated to the other platforms.

Tuna Amobi – *Analyst, Standard & Poor's*

As far as your profit target for interactive for next fiscal, did that get affected somehow one way or the other?

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

No. We're still targeting profitability in fiscal 2013.

Tuna Amobi – *Analyst, Standard & Poor's*

Thank you.

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

Thanks, Tuna. Operator, next question please.

Operator

Our next question comes from David Miller of Caris & Company. Please go ahead.

David Miller – *Analyst, Caris & Company*

Yeah. Hey, guys. Congratulations. A few questions. Bob, was there anything going on personally with George Lucas or anything that you can cite with regard to his decision? What was going on his head to sell out now as opposed to five years from now, 10 years from now? Anything you could share on that front that would be great. And then also with regard to the *Indiana Jones* portion, a lot of us analysts are always under the assumption that, you know, the *Indiana Jones* property is a Paramount property. Are there any exit fees that you have to pay out to Paramount or any sort of contractual stuff that you have to unwind with Paramount that was baked into the value of the deal? And then I have a follow-up. Thanks.

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

On the second part of the question, we didn't ascribe any value to the *Indiana Jones* franchise when we valued Lucasfilm because of the encumbrances that exist. We love the franchise, by the way, but it's not factored into the equation, so to speak, in this acquisition.

I don't want to put words in George's mouth to answer your first question. But George said earlier today in doing a few interviews that about four or five years ago he not only started contemplating a form of retirement from Lucasfilm, but he started to put in motion that process. He ultimately identified Kathy Kennedy to be Vice Chairman of the company and ultimately to run the company once he retired. He and I started talking about this about a year and a half ago, but only decided pretty recently that this is something that we both wanted to do. And once we reached that conclusion, we negotiated to obviously close the deal, or sign the deal. He's going to serve as a consultant, as he said today. And he's done some consulting work already on the basic development that's already happened for the first part, or the first trilogy, that will be released starting in 2015. But it's his intent to retire.

David Miller – *Analyst, Caris & Company*

Okay, great. And then, Bob, I remember very specifically your commentary after the Marvel deal was announced some two or three years back that strategically, from a consumer products standpoint, acquiring the Marvel franchise really filled a void with regard to boys' IP. You guys were clocking it at the time with girls' IP with the princesses and the fairies and so on and so forth, but I remember you said you had a hole there with regard to boys' intellectual property and the Marvel acquisition seemed to kind of plug a hole in that. Does this acquisition go further in that regard with regard to giving you that much more supplier power with the big box retailers? Thank you very much.

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

This gives us a great footprint in consumer products globally. We already have a good one; this obviously improves the position in many respects. We never really have looked at sort of boys versus girls in terms of our positioning in the marketplace, we just look for great IP that lends itself to all the varying forms of consumer products that exist today and that will exist into the future. This is one of the great entertainment properties of all time, one of the best branded, one of the most valuable, and it's just fantastic for us to have the opportunity to both buy it, run it and then grow it.

The other thing I want to mention which Marvel is I think clearly going to do is that we have looked to increase our presence in the boys' marketplace on television and we launched the Disney XD Channel a few years ago. We put a few Marvel programs on that channel. We intend to do more and create a strong Marvel block. We really like *Star Wars* potential on TV as well and we think Disney XD will be a great home for that. So that's another opportunity for us in terms of shelf space that we think this is going to enable us to achieve.

David Miller – *Analyst, Caris & Company*

Thank you very much.

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

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

Operator

Okay. Our last question comes from Vasily Karasyov of Susquehanna.

Vasily Karasyov – *Analyst, Susquehanna*

Thank you very much. My question is about the distribution deal. I believe Fox has distribution rights, so I was wondering how that will change with the next installment of the film. And then, Jay, just curious what kind of production costs are you assuming for a film like that? Because as you made a good point, it hasn't been made in a while, so just would be interested to know that. Thank you.

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

We haven't determined production costs for the next film so it's way too premature to predict that. And Fox has certain distribution rights to some of the existing *Star Wars* films, but not to any future films.

Vasily Karasyov – *Analyst, Susquehanna*

So you will distribute it now?

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

When we bought Marvel, Paramount had future distribution rights to certain films. In this case, Fox did not have future distribution rights to *Star Wars*. So they will be distributed by The Walt Disney Company and ultimately co-branded.

Vasily Karasyov – *Analyst, Susquehanna*

Thank you.

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

Thanks, Vasily. And thanks again everyone for joining us today.

Note that a reconciliation of non-GAAP measures that were referred to on this call to equivalent GAAP measures can be found on our website. Let me also remind you that certain statements on this call may constitute forward-looking statements under the securities laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them, and we do not undertake any obligation to update these statements. Forward-looking statements are subject to a number of risks and uncertainties and actual results may differ materially from the results expressed or implied in light of a variety of factors including factors contained in our annual report on Form 10-K and in our other SEC filings. Thanks for joining us today. Have a good day everyone.

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Certain statements in this communication and the attachments may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to a variety of matters, including but not limited to: the operations of the businesses of Disney and Lucasfilm separately and as a combined entity; the timing and consummation of the proposed merger transaction; the expected benefits of the integration of the two companies; the combined company's plans, objectives, expectations and intentions and other statements that are not historical fact. These statements are made on the basis of the current beliefs, expectations and assumptions of the management of Disney and Lucasfilm regarding future events and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. Neither Disney nor Lucasfilm undertakes any obligation to update or revise these statements, whether as a result of new information, future events or otherwise.

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- the possibility of disruption from the merger making it more difficult to maintain business and operational relationships;
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- developments beyond the companies' control, including but not limited to: changes in domestic or global economic conditions, competitive conditions and consumer preferences; adverse weather conditions or natural disasters; health concerns; international, political or military developments; and technological developments.

Additional factors that may cause results to differ materially from those described in the forward-looking statements are set forth in the Annual Report on Form 10-K of Disney for the year ended October 1, 2011, under the heading "Item 1A—Risk Factors," and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Disney.