CASE 20

The Walt Disney Company: Its Diversification Strategy in 2012

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The Walt Disney Company was a broadly diversified media and entertainment company with a business lineup that included theme parks and resorts, motion picture production and distribution, cable television networks, the ABC broadcast television network, eight local television stations, and a variety of other businesses that exploited the company's intellectual property. The company's revenues increased from \$35.5 billion in fiscal 2007 to \$40.9 billion in fiscal 2011, and its share price had consistently outperformed the S&P 500 since 2003. While struggling somewhat in the mid-1980s, the company's performance had been commendable in almost every year since Walt Disney created Mickey Mouse in 1928. Disney CEO Robert Iger commented on the company's performance since becoming its chief manager in 2005, as well as on its situation in 2012 during an investor's conference in May of 2012.[1]

> I inherited a great company seven years ago, obviously a strong brand in Disney and a strong business in ESPN. As I look back on the seven years, what I think I'm most proud of is that I made a strong company stronger with the acquisition of some very, very valuable and important brands for the company—notably, Pixar and Marvel. And the company today is extremely brand-focused. It's where we invest most of our capital. And those brands are not only stronger in the United States than they were before, but they are stronger globally.
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> With that in mind, the company is also more diversified in terms of the territories that it does business in. So, while we are still predominantly a U.S.-based company, meaning well more than 50 percent of our bottom-line profits are generated from the U.S., we're far more global than we ever have been. And we've planted some pretty important seeds to make the international side of our business even bigger in the years ahead—notably, in some of the big emerging markets but also in some of the more developed markets outside the U.S.
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> We also adopted, I think, just at the right time, seven years ago, a technology-friendly approach, believing that nothing the company was going to do was going to stand in the way of technology and its developments. And, rather than watch technology throw threat after threat at us and disrupt our very valuable business models, we decided to embrace it and use it to not only enhance the quality of our product and the connection we have to our customers and make the company more efficient but, ultimately, to reach more people in more ways. And I'm pleased to say that that has definitely worked.
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> The other thing that I think is very notable about the company is that, as many businesses as we are in, and as many territories as we operate in, the company is managed in a very cohesive fashion. The credit really belongs to a senior management team that knows where the value is created at the company, is invested in The Walt Disney Company and not in [their] individual business, and [strives for] coordination between the businesses . . . is a real distinguishing factor or attribute of our company. And it sets us apart from many companies in the world, and it certainly sets us apart from all media companies.[2]

As the company entered its fourth quarter of 2012, it was coming off of a record-setting third quarter, but faced several strategic issues. The company had invested nearly \$15 billion in capital in its businesses during the past five years, including a 43 percent investment in a \$4.5 billion theme park in China, the construction of two new 340-meter ships for its Disney Cruise Line, and the acquisitions of Pixar and Marvel. The company had also funded an aggressive share buyback plan that had placed demands on its cash reserves. In addition, not all of the company's business units were providing sufficient returns on invested capital and some business units competed in challenging industry environments. Going into 2013, Iger and Disney's management team planned to evaluate the corporation's diversification strategy.

COMPANY HISTORY

Walt Disney's venture into animation began in 1919 when he returned to the United States from France, where he had volunteered to be an ambulance driver for the American Red Cross during World War I. Disney volunteered for the American Red Cross only after being told he was too young to enlist for the United States Army. Upon returning after the war, Disney settled in Kansas City, Missouri, and found work as an animator for Pesman Art Studio. Disney, and fellow Pesman animator, Ub Iwerks, soon left the company to found Iwerks-Disney Commercial Artists in 1920. The company lasted only briefly, but Iwerks and Disney were both able to find employment with a Kansas City company that produced short animated advertisements for local movie theaters. Disney left his job again in 1922 to found Laugh-O-Grams, where he employed Iwerks and three other animators to produce short animated cartoons. Laugh-O-Grams was able to sell its short cartoons to local Kansas City movie theaters, but its costs far exceeded its revenues—forcing Disney to declare bankruptcy in 1923. Having exhausted his savings, Disney had only enough cash to purchase a one-way train ticket to Hollywood, California, where his brother, Roy, had offered a temporary room. Once in California, Roy began to look for buyers for a finished animated-live action film he retained from Laugh-O-Grams. The film was never distributed, but New York distributors Margaret Winkler and Charles Mintz were impressed enough with the short film that they granted Disney a contract in October 1923 to produce a series of short films that blended cartoon animation with live action motion picture photography. Disney brought Ub Iwerks from Kansas City to Hollywood to work with Disney Brothers Studio (later to be named Walt Disney Productions) to produce the Alice Comedies series that would number 50-plus films by the series end in 1927. Disney followed the Alice Comedies series with a new animated cartoon for Universal Studios. After Disney's *Oswald the Lucky Rabbit* cartoons quickly became a hit, Universal terminated Disney Brothers Studio and hired most of Disney's animators to continue producing the cartoon.

In 1928, Disney and Iwerks created Mickey Mouse to replace Oswald as the feature character in Walt Disney Studios cartoons. Unlike with Oswald, Disney retained all rights over Mickey Mouse and all subsequent Disney characters. Mickey Mouse and his girlfriend, Minnie Mouse, made their cartoon debuts later in 1928 in the cartoons, *Plane Crazy, The Gallopin' Gaucho,* and *Steamboat Willie. Steamboat Willie* was the first cartoon with synchronized sound and became one of the most famous short films of all time. The animated film's historical importance was recognized in 1998 when it was added to the National Film Registry by the United States Library of Congress. Mickey Mouse's popularity exploded over the next few decades with a Mickey Mouse Club being created in 1929, new accompanying characters such as Pluto, Goofy, Donald Duck, and Daisy Duck being added to Mickey Mouse cartoon storylines, and Mickey Mouse appearing in Walt Disney's 1940 feature length film, *Fantasia*. Mickey Mouse's universal appeal reversed Walt Disney's series of failures in the animated film industry and became known as the mascot of Disney Studios, Walt Disney Productions, and The Walt Disney Company.

The success of The Walt Disney Company was sparked by Mickey Mouse, but Disney Studios also produced several other highly successful animated feature films including *Snow White and the Seven Dwarfs* in 1937, *Pinocchio* in 1940, *Dumbo* in 1941, *Bambi* in 1942, *Song of the South* in 1946, *Cinderella* in 1950, *Treasure Island* in 1950, and *Peter Pan* in 1953, *Sleeping Beauty* in 1959, and *One Hundred and One Dalmatians* in 1961. What would prove to be Disney's greatest achievement began to emerge in 1954 when construction began on his Disneyland Park in Anaheim, California. Walt Disney's Disneyland resulted from an idea that Disney had many years earlier while sitting on an amusement park bench watching his young daughters play. Walt Disney thought that there should be a clean and safe park that had attractions that both parents and children alike would find entertaining. Walt Disney spent years planning the park and announced the construction of the new park to America on his *Disneyland* television show that was launched to promote the new $17 million park. The park was an instant success when it opened in 1955 and recorded revenues of more than $10 million during its first year of operation. After the success of Disneyland, Walt Disney began looking for a site in the eastern United States for a second Disney park. He settled on an area near Orlando, Florida in 1963 and acquired more than 27,000 acres for the new park by 1965.

Walt Disney died of lung cancer in 1966, but upon his death, Roy O. Disney postponed retirement to become president and CEO of Walt Disney Productions and oversee the development of Walt Disney World Resort. Walt Disney World Resort opened in October 1971—only two months before Roy O. Disney's death in December 1971. The company was led by Donn Tatum from 1971 to 1976. Tatum had been with Walt Disney Productions since 1956 and led the further development of Walt Disney World Resort and began the planning of EPCOT in Orlando and Tokyo Disneyland. Those two parks were opened during the tenure of Esmond Cardon Walker, who had been an executive at the company since 1956 and chief operating officer since Walt Disney's death in 1966. Walker also launched The Disney Channel before his retirement in 1983. Walt Disney Productions was briefly led by Ronald Miller, who was the son-in-law of Walt Disney. Miller was ineffective as Disney chief executive officer and was replaced by Michael Eisner in 1984.

Eisner formulated and oversaw the implementation of a bold strategy for Walt Disney Studios, which included the acquisitions of ABC, ESPN, Miramax Films, and the Anaheim Angels, and the Fox Family Channel, the development of Disneyland Paris, Disney-MGM Studios in Orlando, Disney California Adventure Park, Walt Disney Studios theme park in France, and Hong Kong Disneyland, and the launch of the Disney Cruise Line, the Disney Interactive game division, and the Disney Store retail chain. Eisner also restored the company's reputation for blockbuster animated feature films with the creation of *The Little Mermaid* in 1989, *Beauty and the Beast* in 1991, *Aladdin* in 1992, and *The Lion King* in 1994. Despite Eisner's successes, his tendencies toward micromanagement and skirting board approval for many of his initiatives and his involvement in a long-running derivatives suit led to his removal as chairman in 2004 and his resignation in 2005.

The Walt Disney Company's CEO in 2012, Robert (Bob) Iger, became a Disney employee in 1996 when the company acquired ABC. Iger was president and CEO of ABC at the time of its acquisition by The Walt Disney Company and remained in that position until made president of Walt Disney International by Alan Eisner in 1999. Bob Iger was promoted to president and chief operating officer of The Walt Disney Company in 2000 and was named as Eisner's replacement as CEO in 2005. Iger's first strategic moves in 2006 included the $7.4 billion acquisition of Pixar animation studios and the purchase of the rights to Disney's first cartoon character, Oswald the Lucky Rabbit, from NBCUniversal. In 2007, Robert Iger commissioned two new 340-meter ships for the Disney Cruise Lines that would double its fleet size from two ships to four. The new ships ordered by Iger were 40 percent larger than Disney's two older vessels and entered service in 2011 and 2012. Iger also engineered the acquisition of Marvel Entertainment in 2009, which would enable the Disney production motion pictures featuring Marvel comic book characters such as Iron Man, the Incredible Hulk, Thor, Spider-Man, and Captain America. All of the movies produced by Disney's Marvel unit had performed exceptionally well at the box office, with *The Avengers*, which was released in May 2012, recording worldwide box office receipts of more than $1 billion. Disney's Miramax film production company and Dimension film assets were divested by Iger in 2010 for $663 million. A financial summary for The Walt Disney Company for 2007 through 2011 is provided in Exhibit 1. Exhibit 2 tracks the performance of The Walt Disney Company's common shares between August 2002 and August 2012.

EXHIBIT 1 Financial Summary for The Walt Disney Company, Fiscal 2007–Fiscal 2011 (in millions)

	2011(1)	2010(2)	2009(3)	2008(4)	2007(5)(6)
Revenues	$40,893	$38,063	$36,149	$37,843	$35,510
Income from continuing operations	5,258	4,313	3,609	4,729	4,851
Income from continuing operations attributable to Disney	4,807	3,963	3,307	4,427	4,674
Per common share					
Earnings from continuing operations attributable to Disney					
Diluted	$2.52	$2.03	$1.76	$2.28	2.24
Basic	2.56	2.07	1.78	2.34	2.33
Dividends	0.40	0.35	0.35	0.35	0.31

(Continued)

EXHIBIT 1 *(Continued)*

	2011(1)	2010(2)	2009(3)	2008(4)	2007(5)(6)
Balance sheets					
Total assets	$72,124	$69,206	$63,117	$62,497	$60,928
Long-term obligations	17,717	16,234	16,939	14,889	14,916
Disney shareholders' equity	37,385	37,519	33,734	32,323	30,753
Statements of cash flows					
Cash provided by operations	$ 6,994	$ 6,578	$ 5,319	$ 5,685	$ 5,519
Investing activities					
Investments in parks, resorts, and other property	(3,559)	(2,110)	(1,753)	(1,578)	(1,566)
Proceeds from dispositions	564	170	185	14	1,530
Acquisitions	(184)	(2,493)	(176)	(660)	(608)
Financing activities					
Dividends	(756)	(653)	(648)	(664)	(637)
Repurchases of common stock	(4,993)	(2,669)	(138)	(4,453)	(6,923)
Supplemental cash flow information					
Interest paid	377	393	485	555	551
Income taxes paid	2,341	2,170	1,609	2,768	2,796

(1) The fiscal 2011 results include restructuring and impairment charges that rounded to $0.00 per diluted share and gains on the sales of Miramax and BASS ($0.02 per diluted share), which collectively resulted in a net adverse impact of $0.02 per diluted share. See the discussion of the per share impacts in Item 7.

(2) During fiscal 2010, the Company completed a cash and stock acquisition for the outstanding capital stock of Marvel for $4.2 billion (see Note 4 to the Consolidated Financial Statements for further discussion). In addition, results include restructuring and impairment charges ($0.09 per diluted share), gains on the sales of investments in two television services in Europe ($0.02 per diluted share), a gain on the sale of the *Power Rangers* property ($0.01 per diluted share), and an accounting gain related to the acquisition of The Disney Store Japan ($0.01 per diluted share). Including the impact of rounding, these items collectively resulted in a net adverse impact of $0.04 per diluted share.

(3) The fiscal 2009 results include restructuring and impairment charges ($0.17 per diluted share), a non-cash gain in connection with the AETN/Lifetime merger ($0.08 per diluted share) and a gain on the sale of their investment in two pay television services in Latin America ($0.04 per diluted share). Including the impact of rounding, these items collectively resulted in a net adverse impact of $0.06 per diluted share.

(4) The fiscal 2008 results include an accounting gain related to the acquisition of the Disney Stores North America and a gain on the sale of movies.com (together $0.01 per diluted share), the favorable resolution of certain income tax matters ($0.03 per diluted share), a bad debt charge for a receivable from Lehman Brothers ($0.03 per diluted share) and an impairment charge ($0.01 per diluted share). These items collectively had no net impact on earnings per share.

(5) During fiscal 2007, the Company concluded the spin-off of the ABC Radio business and thus reports ABC Radio as discontinued operations for all periods presented.

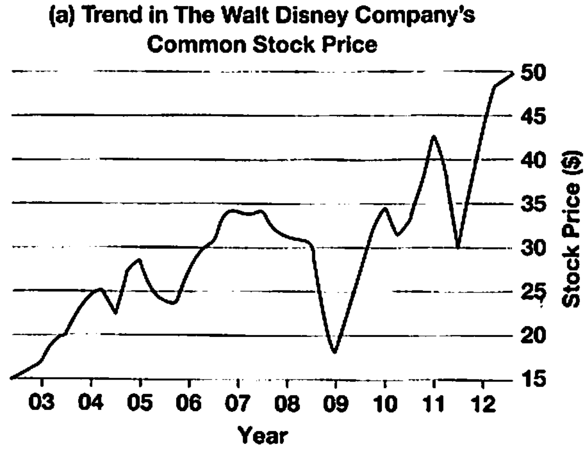
(6) The fiscal 2007 results include gains from the sales of E! Entertainment and Us Weekly (together $0.31 per diluted share), the favorable resolution of certain income tax matters ($0.03 per diluted share), an equity-based compensation plan modification charge ($0.01 per diluted share), and an impairment charge ($0.01 per diluted share). These items collectively resulted in a net benefit of $0.32 per diluted share.

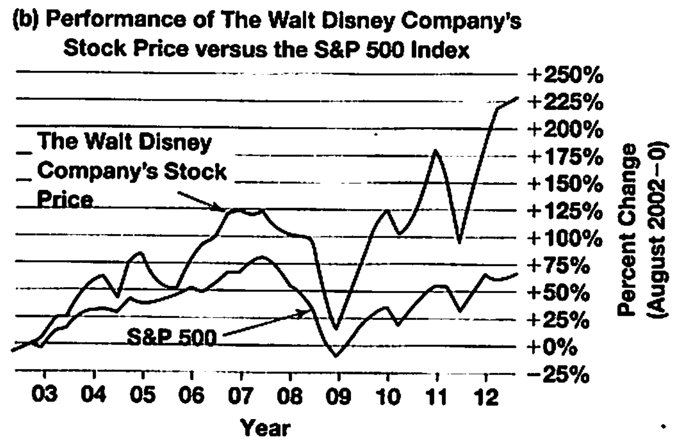
Source: The Walt Disney Company 2008 and 2011 10-Ks.

THE WALT DISNEY COMPANY'S CORPORATE STRATEGY AND BUSINESS OPERATIONS IN 2012

In 2012, The Walt Disney Company was broadly diversified into theme parks, hotels and resorts, cruise ships, cable networks, broadcast television networks, television production, television station operations, live action and animated motion picture production and distribution, music publishing, live theatrical productions, children's book publishing, interactive media, and consumer products retailing. The company's corporate strategy was centered on (1) creating high-quality family content, (2) exploiting technological innovations to make entertainment experiences more memorable, and (3) international expansion. The company's 2006 acquisition of Pixar and 2009 acquisition of Marvel were executed to enhance the resources and capabilities of its core animation business with the addition of new animation skills and characters. The company's 2010 acquisition

EXHIBIT 2 Performance of The Walt Disney Company's Stock Price, August 2002 to August 2012





of Playdom gave the company new online gaming capabilities, and its 2011 acquisition of UTV was engineered to facilitate its international expansion efforts. When asked about the company's recent acquisitions during a media, cable, and telecommunications conference in May 2012, Disney chief financial officer Jay Rasulo made the following comments:[3]

> Our acquisition strategy is pretty clear. Either we are buying IP that is under-exploited, underused by the owners . . . Or we're buying capabilities to reach consumers in new places or in new ways.
>
> Marvel, like Pixar, was primarily an IP acquisition. We knew there was buried treasure there. The company was doing well to exploit it, but it was doing it largely through third parties.
>
> We decided to make our big play on *Avengers* . . . It's done $1.3 billion as of today in the worldwide box office. Hasn't even opened in Japan yet. So it's definitely still got some running room. And in addition to the box office, it's hitting in consumer products. There's a social game. It's just exactly what we envisioned when we purchased [Marvel].
>
> If you look at the other end of the spectrum . . . Playdom did not own a lot of IP but had a capability in social gaming that we simply did not have. Certainly we could have built it, but it would have taken a long time. Social gaming, as you all know, was taking off and continues to rise like a rocket. And we wanted to jumpstart ourselves into that space, so we bought that company with the idea of using both IP we had and the creation of new IP to get into the social space.
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> UTV . . . is sort of a geographic. We want to grow in India. We want to grow in China. We want to grow in Russia and in Turkey, the big four and the ten after. But you need an entry strategy. And with UTV, we became the largest studio, an owner of nine television networks, and a bigger and more grounded distribution

network for the Disney IP than we have in that market. Our ambition in India is clear. We want to be the family brand of India.

Disney's corporate strategy also called for sufficient capital to be allocated to its core theme parks and resorts business to sustain its advantage in the industry. The company expanded the range of attractions at its Disney California Adventure park with the addition of the $75 million World of Color water and light show in 2010 and the $200 million Radiator Springs outdoor race track in Cars Land in 2012. Bob Iger, Disney's chairman and CEO, discussed the company's approach to allocating financial resources during an investors' conference in May 2012:[4]

> Well, first of all, it begins with an overall evaluation of how we deploy capital across the company. So, if the theme park group comes to us with a proposal to renovate Fantasyland in Florida, we obviously look at it in a very discrete fashion, meaning what are the likely returns on that specific capital investment. But we look at it against the whole capital expenditure needs of the company over a given year, or over a given period of time.
>
> So, if you look back in the seven years since I've been CEO, we've actually deployed capital in multiple ways. We've just increased our dividend. We've purchased a fair amount of our stock. We have now 103 Disney Channels worldwide, which took capital to do that. And, of course, we've invested more in our parks and resorts, which includes our theme parks.
>
> Once we decide what kind of capital we believe we might be willing to invest over a period of time as a company, we take a very, very hard look at the specific opportunity or the specific request.

The Walt Disney Company's corporate strategy also attempted to capture synergies existing between its business units. Two of the company's highest grossing films, *Pirates of the Caribbean: On Stranger Tides* and *Cars 2* were also featured at the company's Florida and California theme parks. Disney had also made much of its content available digitally, including its WatchESPN services for Internet, smartphone, and table computer users, its growing list of Disney Publishing e-book offerings, and family content available through its **Disney.com/**YouTube partnership.

Disney's international expansion efforts were largely directed at exploiting opportunities in emerging markets. In 2012, the Disney Channel reached 75 percent of viewers in China and Russia and was available in more than 100 countries, compared to 19 countries in 2002. Disney opened a Toy Story Land attraction at Hong Kong Disneyland in 2011 and had two more lands planned for the Hong Kong resort. The company was also developing the Shanghai Disney Resort that would include two themed hotels, attractions, and the largest interactive Magic Kingdom-style castle built at any Disney park. Bob Iger also made the following comments about the company's international strategy during the May 2012 investors' conference:[5]

> When we talk about growing internationally for instance, we know that we've had opportunities to invest in that business to, essentially, increase our footprint internationally. So the opening of Hong Kong Disneyland in 2005 and the expansion of Hong Kong Disneyland that's already underway—in fact, we're opening three new lands. One's already open, one is opening this summer, and then there's a third to come later in the year.
>
> And then, of course, Shanghai Disneyland—and that's one where I think is probably the best opportunity the company's had since Walt Disney bought land in central Florida in the 1960s. This is a 7.5-square-kilometer piece of land sitting in Pudong, right in the heart of Shanghai. 330 million live within three hours commuting distance to this park. We stood on a tower overlooking a cleared piece of property recently. I couldn't believe its size. But I'm certain that it will fulfill its potential in what is the world's most populous country in the world.

In 2012, the company's business units were organized into five divisions: Media networks, parks and resorts, studio entertainment, consumer products, and interactive media.

Media Networks

The Walt Disney Company's media networks business unit included its domestic and international cable networks, the ABC television network, television production, and U.S. domestic television stations. The company's television production was limited to television programming for ABC and its eight local television stations were all ABC affiliates. Six of Disney's eight domestic television stations were located in the ten largest U.S. television markets. In all, ABC had 238 affiliates in the United States. When asked about Disney's ABC-related businesses, Bob Iger suggested that the businesses made positive contributions to the company's overall performance.[6]

> The television studio, ABC, the network, and the eight stations that we own are a nicely profitable business for us and should continue to be nicely profitable. One of the reasons they're profitable is that, by using the studio and the network to support the creation of pretty high-quality, intellectual property or filmed entertainment, we've taken advantage of what has been a real growth market globally in the consumption of American-based filmed entertainment.

We think we have distinctive, local news brands. Our stations tend to be—most of them are number one in the market. If they're not number one, they're number two. And they tend to rely on a very strong local news brand.

Exhibit 3 provides the market ranking for Disney's local stations and its number of subscribers and ownership percentage of its cable networks. The exhibit also provides a brief description of its ABC

EXHIBIT 3 The Walt Disney Company's Media Networks, 2011

Cable Networks	Estimated Subscribers (in millions)[1]	Ownership %
ESPN[2]		
ESPN	99	80.0
ESPN2	99	80.0
ESPNEWS	73	80.0
ESPN Classic	33	80.0
ESPNU	72	80.0
Disney Channels Worldwide		
Disney Channel–Domestic	99	100.0
Disney Channels–International[3]	141	100.0
Disney Junior[3]	58	100.0
Disney XD – Domestic	78	100.0
Disney XD – International[3]	91	100.0
ABC Family	98	100.0
SOAPnet	74	100.0
A&E/Lifetime		
A&E[2]	99	42.1
Lifetime Television	99	42.1
HISTORY	99	42.1
Lifetime Movie Network	82	42.1
The Biography Channel	65	42.1
History International	64	42.1
Lifetime Real Women[3]	18	42.1

Broadcasting

ABC Television Network (238 local affiliates reaching 99% of U.S. television households)

Television Production

ABC Studios and ABC Media Productions (daytime, primetime, late night, and news television programming)

Domestic Television Stations

Market	TV Station	Television Market Ranking[4]
New York, NY	WABC-TV	1
Los Angeles, CA	KABC-TV	2
Chicago, IL	WLS-TV	3
Philadelphia, PA	WPVI-TV	4
San Francisco, CA	KGO-TV	6
Houston, TX	KTRK-TV	10
Raleigh-Durham, NC	WTVD-TV	24
Fresno, CA	KFSN-TV	55

(1) Estimated U.S. subscriber counts according to Nielsen Media Research as of September 2011, except as noted below.

(2) ESPN and A&E programming is distributed internationally through other networks discussed below.

(3) Subscriber counts are not rated by Nielsen and are based on internal management report.

(4) Based on Nielsen Media Research, U.S. Television Household Estimates, January 1, 2011.

Source: The Walt Disney Company 2011 10-K.

broadcasting and television production operations. The division also included Radio Disney, which aired family-oriented radio programming on 34 terrestrial radio stations (31 of which were owned by Disney) in the United States. Radio Disney was also available on SiriusXM satellite radio, iTunes Radio Tuner and Music Store, XM/DIRECTV, and on mobile phones. Radio Disney was also broadcast throughout most of South America on Spanish-language terrestrial radio stations. The company's 2011 acquisition of UTV would expand the division's television broadcasting and production capabilities to India.

Among the most significant challenges to Disney's media networks division was the competition for viewers, which impacted advertising rates and revenues. Not only did the company compete against other broadcasters and cable networks for viewers, it also competed against other types of entertainment that consumers might enjoy. For example, consumers might prefer to watch a DVD, play video games, or browse the Internet rather than watch television. The effect of the Internet on broadcast news had been significant and the growth of streaming services had the potential to affect the advertising revenue potential of all of Disney's media businesses. However, Bob Iger believed that technology provided great opportunities for Disney.[7]

> It's no longer just a television market. . . it's a media world. And it's rich. And it's no longer just in the home; it's everywhere. It's in school, in your car, walking down the street. You name it, you can consume media. And it's not just filmed entertainment, it's casual games and surfing websites and social networking.
>
> We're launching a TV everywhere app for the Disney Channel. This is like the WatchESPN app that we launched a while back, an app that will enable kids or anyone, for that matter, to watch the Disney Channel and its programs on a mobile device using our app, provided they are subscribers of a multichannel service. . . . And I know that the adoption rate for the ESPN app has been great. It's a fantastic product. And, we're going to launch. . . ABC, ABC Family, and so on.

In summarizing his thoughts about the opportunities for Disney's media programming, Iger concluded,[8]

> We believe that high-quality, branded entertainment is going to continue to deliver real value to our shareholders, not just the value that we've delivered in the past but growth in a world that enables more and more distribution of that product and more consumption of it. Every one of our brands is in high demand by any new platform. You can't launch a platform today without some good content on it, and we're very well-positioned, probably better than anybody in the business, in that regard.

Operating results for Disney's media networks division for fiscal 2009 through fiscal 2011 is presented in Exhibit 4.

Parks and Resorts

The Walt Disney Company's parks and resorts division included the Walt Disney World Resort in Orlando, the Disneyland Resort in California, the Aulani Disney Resort and Spa in Hawaii, the Disney Vacation Club, and the Disney Cruise Line. The company

EXHIBIT 4 Operating Results for Walt Disney's Media Networks Business Unit, Fiscal 2009–Fiscal 2011 (in millions)

	2011	2010	2009
Revenues			
Affiliate fees	$8,790	$8,082	$7,407
Advertising	7,598	7,028	6,566
Other	2,326	2,052	2,236
Total revenues	18,714	17,162	16,209
Operating expenses	10,376	9,888	9,464
Selling, general, administrative, and other	2,539	2,358	2,341
Depreciation and amortization	237	222	206
Equity in the income of investees	(584)	(438)	(567)
Operating Income	$6,146	$5,132	$4,765

Source: The Walt Disney Company 2011 10-K.

also owned a 51 percent interest in Disneyland Paris, a 47 percent interest in Hong Kong Disneyland Resort, and a 43 percent interest in Shanghai Disney Resort. Disney also licensed the operation of Tokyo Disney Resort in Japan. Revenue for the division was primarily generated through park admission fees, hotel room charges, merchandise sales, food and beverage sales, sales and rentals of vacation club properties, and fees charged for cruise vacations.

Revenues from hotel lodgings and food and beverage sales were a sizeable portion of the division's revenues. For example, at the 25,000-acre Walt Disney World Resort alone, the company operated 17 resort hotels with approximately 22,000 rooms. An 18th hotel with 2,000 rooms would be added at the Walt Disney World Resort in 2012. Walt Disney World Resort also included the 120-acre Downtown Disney retail, dining, and entertainment complex where visitors could dine and shop during or after park hours. Walt Disney World Resort in Orlando also included four championship golf courses, full-service spas, tennis courts, sailing facilities, water skiing, two water parks, and a 220-acre sports complex that was host to over 200 amateur and professional events each year.

Walt Disney's 461-acre resort in California included two theme parks—Disneyland and Disney California Adventure—along with three hotels and its Downtown Disney retail, dining, and entertainment complex. Disney California Adventure was opened in 2001 adjacent to the Disneyland property and included four lands—Golden State, Hollywood Pictures Backlot, Paradise Pier, and Bug's Land. The park was initially built to alleviate overcrowding at Disneyland and was expanded with the addition of World of Color in 2010 and Cars Land in 2012 to strengthen its appeal with guests. Rasulo discussed the history and shortcomings of Disney California Adventure in 2012:[9]

> We were starting to see rejection from Disneyland because it was simply too crowded every day. And we built [Disney California Adventure] both to expand the resort in terms of its offering, but also to pull people away from Disneyland.
>
> Well, the concept wasn't strong enough. It didn't have a great nighttime appeal, so the stays over there were very short, and the people would come back to Disneyland in the evening and accentuate the problem. Now you will see a totally renewed park with a real strong concept called Cars Land, built around the movie *Cars*. It's 12 acres. It's compelling. It's one of the biggest attractions we've ever done with a land around it. And we've already seen World of Color increase attendance at the resort.

Disney held a 51 percent ownership stake in Disneyland Paris and its seven hotels, convention center, shopping, dining, and entertainment complex, and 27-hole golf facility. The company had a 47 percent ownership interest in Hong Kong Disneyland Resort, which included two hotels. A staged expansion of Hong Kong Disneyland, that included three new lands—Toy Story Land, Grizzly Gulch, and Mystic Point—was expected to be completed by 2013. Disney received royalties from the operation of Tokyo Disney Resort, which was owned and operated by Oriental Land Company, a Japanese corporation in which Disney had no ownership interest. Disney would have a 43 percent ownership interest in Shanghai Disney Resort, which would be a $4.5 billion project including Shanghai Disneyland, two themed hotels, a retail, dining, and entertainment complex, and an outdoor recreational area. The resort in China was expected to open in 2016.

The company also offered timeshare sales and rentals in 11 resort facilities through its Disney Vacation Club. The Disney Cruise Line operated ships out of Port Canaveral, Florida, and Los Angeles. Disney's cruise activities were developed to appeal to the interests of children and families. Its Port Canaveral cruises included a visit to Disney's Castaway Cay, a 1,000-acre private island in the Bahamas. The popularity of Disney's cruise vacations allowed its original two-ship fleet to be booked to full capacity year-round. Bob Iger commented on the business's strong performance while addressing investors in May 2012:[10]

> The cruise ships [were] a solid business in that we had mid-teen returns on invested capital in two legacy ships that had been built in the 1990s. We believe that we had a quality product, that there was definitely room for us to add capacity, and that the market was there for us to expand in it. And we built two ships, the *Dream*, which launched in early 2011, and the *Fantasy*, which launched a couple of months ago. Again, a very specific look at return on invested capital for the two new ships. Interestingly enough, our four ships are about 90 percent booked for the year. The *Dream*, which we sailed, as I mentioned, [in] early 2011, was accretive, bottom line, the first full quarter of operation. The same thing will be true for the *Fantasy*. And it's just an incredible, high-quality product.

The division's operating results for fiscal 2009 through fiscal 2011 are presented in Exhibit 5.

Studio Entertainment

The Walt Disney Company's studio entertainment division produced live-action and animated motion

EXHIBIT 5 Operating Results for Walt Disney's Parks and Resorts Business Unit, Fiscal 2009–Fiscal 2011 (in millions)

	2011	2010	2009
Revenues			
Domestic	$9,302	$8,404	$8,442
International	2,495	2,357	2,225
Total revenues	11,797	10,761	10,667
Operating expenses	7,383	6,787	6,634
Selling, general, administrative, and other	1,696	1,517	1,467
Depreciation and amortization	1,165	1,139	1,148
Operating Income	$1,553	$1,318	$1,418

Source: The Walt Disney Company 2011 10-K.

pictures, pay-per-view and DVD home entertainment, musical recordings, and *Disney on Ice* and *Disney Live!* live performances. The division's motion pictures were produced and distributed under the Walt Disney Pictures, Pixar, and Marvel banners. The division also distributed motion pictures under the Touchstone Pictures banner. Bob Iger summarized the division's strategy with the following comments.[11]

> The strategy for our motion picture group, or our studio, is very clear. We are likely to make two animated films a year, a Pixar and a Disney. There will be some times over the next five years that you could see two Pixar films in one year and a Disney. But, basically, you're looking at two a year. We intend to make, probably, two Marvel films a year going forward, and that slate is pretty defined over the next three to four years. And then, somewhere in the neighborhood of six to eight, probably closer to six, Disney-branded live action films. . .We're not in the business of making 20 films a year or more than that. We are only in the business of making those branded films—Disney, Pixar, and Marvel. We believe that our returns on investment in those branded movies are likely to be better than the overall industry. And, when we have success with a Disney, Pixar, or a Marvel film, we can leverage it much more broadly and deeply and for a longer period of time than we can in any other film that we might make.

Most motion pictures typically incurred losses during the theatrical distribution of the film because of production costs and the cost of extensive advertising campaigns accompanying the launch of the film. Profits for many films did not occur until the movie became available on DVD or Blu-ray disks for home entertainment, which usually began three to six months after the film's theatrical release. Revenue was also generated when a movie moved to pay-per-view (PPV) / video-on-demand (VOD) two months after the release of the DVD and when the motion picture became available on subscription premium cable channels such as HBO about 16 months after PPV/VOD availability. Broadcast networks such as ABC could purchase telecast rights to movies later as could basic cable channels such as Lifetime, Hallmark Channel, and ABC Family. Premium cable channels such as Showtime and Starz might also purchase telecast rights to movies long after their theatrical release. Telecast right fees decreased as the length of time from initial release increased. Also, the decline in DVD sales and rentals had affected industry revenues as motion pictures moved to lower-revenue-generating telecasts more quickly. The operating results for The Walt Disney Company's Studio Entertainment division for fiscal 2009 through fiscal 2011 is presented in Exhibit 6.

Consumer Products

The company's consumer products division included the company's Disney Store retail chain and businesses specializing in merchandise licensing and children's book and magazine publishing. In 2011, the company owned and operated 208 Disney Stores in North America, 103 stores in Europe and 46 stores in Japan. Its publishing business included comic books, various children's book and magazine titles available in print and ebook format, and smartphone and tablet computer apps designed for children. The company's bestselling apps in 2011 were Disney Princess Dress-Up and Cars 2. Licensing revenues were generated from the use of Disney's portfolio of characters by manufacturers of toys, apparel, home décor, stationery, footwear, and

EXHIBIT 6 Operating Results for Walt Disney's Studio Entertainment Business Unit, Fiscal 2009–Fiscal 2011 (in millions)

	2011	2010	2009
Revenues			
Theatrical distribution	$1,733	$2,050	$1,325
Home entertainment	2,435	2,666	2,762
Television distribution and other	2,183	1,985	2,049
Total revenues	6,351	6,701	6,136
Operating expenses	3,136	3,469	3,210
Selling, general, administrative, and other	2,465	2,450	2,687
Depreciation and amortization	132	89	60
Equity in the income of investees	—	—	(4)
Operating Income	$ 618	$ 693	$ 175

Source: The Walt Disney Company 2011 10-K.

consumer electronics. In 2011, Disney was the largest licensor of character-based merchandise in the world. The division's sales were primarily affected by seasonal shopping trends and changes in consumer disposable income. An overview of the division's operating results for fiscal 2009 through fiscal 2011 is presented in Exhibit 7.

Interactive Media

Disney's interactive media business unit produced video games for handheld game devices, game consoles, and smartphone platforms. The division also developed games and other content for **Disney.com** and Disney's websites for its parks and resorts and studio entertainment division. The interactive media division had found it difficult to compete in the highly seasonal video game industry and had suffered losses each year between fiscal 2009 and fiscal 2011. In addition, the division's sales were affected dramatically by the timing of new console releases and the popularity of its game titles. In 2010, the company acquired Playdom, Inc., a company that developed online games for social networking sites to help speed the company's product development capabilities in that area. In summing up the division's performance and future prospects, CEO Iger stated:[12]

> We have an interactive division that includes games and a number of our Disney-branded websites. We've lost money in that space. The division overall is small when you compare it with the other big divisions of

EXHIBIT 7 Operating Results for Walt Disney's Consumer Products Business Unit, Fiscal 2009–Fiscal 2011 (in millions)

	2011	2010	2009
Revenues			
Licensing and publishing	$1,933	$1,725	$1,584
Retail and other	1,116	953	841
Total revenues	3,049	2,678	2,425
Operating expenses	1,334	1,236	1,182
Selling, general, administrative, and other	794	687	597
Depreciation and amortization	105	78	39
Equity in the income of investees	—	—	2
Operating Income	$ 816	$ 677	$ 609

Source: The Walt Disney Company 2011 10-K.

the company and it will continue to be relatively small. We've said that we're targeting 2013 as a year of profitability. It's about time, because we've invested a fair amount . . . Our goal now and our strategy is to diversify our gaming efforts. Some modest investment on the console front, very Disney-branded and Marvel-branded, some investment on the mobile front, and investment on the social games front.

Operating results for Disney's Interactive Media division for fiscal 2009 through fiscal 2011 are presented in Exhibit 8. The company's consolidated statements of income for fiscal 2009 through fiscal 2011 are presented in Exhibit 9. The Walt Disney Company's balance sheets for fiscal 2010 and fiscal 2011 are presented in Exhibit 10.

EXHIBIT 8 Operating Results for Walt Disney's Interactive Media Business Unit, Fiscal 2009–Fiscal 2011 (in millions)

	2011	2010	2009
Revenues			
Game sales and subscriptions	$ 768	$ 563	$ 565
Advertising and other	214	198	147
Total revenues	982	761	712
Operating expenses	732	581	623
Selling, general, administrative, and other	504	371	336
Depreciation and amortization	54	43	50
Equity in the income of investees	—	—	2
Operating Loss	$(308)	$(234)	$(295)

Source: The Walt Disney Company 2011 10-K.

EXHIBIT 9 Consolidated Statements of Income for The Walt Disney Company, Fiscal 2009–Fiscal 2011 (in millions, except per share data)

	2011	2010	2009
Revenues	$40,893	$38,063	$36,149
Costs and expenses	33,112	31,337	30,452
Restructuring and impairment charges	55	270	492
Add: Other income	75	140	342
Net interest expense	343	409	466
Add: Equity in the income of investees	585	440	577
Income before income taxes	8,043	6,627	5,658
Income taxes	2,785	2,314	2,049
Net Income	5,258	4,313	3,609
Less: Net Income attributable to noncontrolling interests	451	350	302
Net Income attributable to The Walt Disney Company (Disney)	$ 4,807	$ 3,963	$ 3,307
Earnings per share attributable to Disney:			
Diluted	$2.52	$2.03	$1.76
Basic	$2.56	$2.07	$1.78
Weighted average number of common and common equivalent shares outstanding:			
Diluted	1,909	1,948	1,875
Basic	1,878	1,915	1,856

Source: The Walt Disney Company 2011 10-K.

EXHIBIT 10 Consolidated Balance Sheets for The Walt Disney Company, Fiscal 2010–Fiscal 2011 (in millions, except per share data)

	October 1, 2011	October 2, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,185	$ 2,722
Receivables	6,182	5,784
Inventories	1,595	1,442
Television costs	674	678
Deferred income taxes	1,487	1,018
Other current assets	634	581
Total current assets	13,757	12,225
Film and television costs	4,357	4,773
Investments	2,435	2,513
Parks, resorts, and other property, at cost		
Attractions, buildings, and equipment	35,515	32,875
Accumulated depreciation	(19,572)	(18,373)
	15,943	14,502
Projects in progress	2,625	2,180
Land	1,127	1,124
	19,695	17,806
Intangible assets, net	5,121	5,081
Goodwill	24,145	24,100
Other assets	2,614	2,708
Total assets	$72,124	$69,206
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	$ 6,362	$ 6,109
Current portion of borrowings	3,055	2,350
Unearned royalties and other advances	2,671	2,541
Total current liabilities	12,088	11,000
Borrowings	10,922	10,130
Deferred income taxes	2,866	2,630
Other long-term liabilities	6,795	6,104
Commitments and contingencies		
Equity		
Preferred stock, $.01 par value		
Authorized—100 million shares, Issued—none	—	—
Common stock, $.01 par value		
Authorized—4.6 billion shares, Issued—2.7 billion shares	30,296	28,736
Retained earnings	38,375	34,327
Accumulated other comprehensive loss	(2,630)	(1,881)
	66,041	61,182
Treasury stock, at cost, 937.8 million shares at October 1, 2011 and 803.1 million shares at October 2, 2010	(28,656)	(23,663)
Total Disney Shareholder's equity	37,385	37,519
Noncontrolling interests	2,068	1,823
Total Equity	39,453	39,342
Total liabilities and equity	$72,124	$69,206

Source: The Walt Disney Company 2011 10-K.

THE WALT DISNEY COMPANY'S THIRD QUARTER 2012 PERFORMANCE AND ITS FUTURE PROSPECTS

The Walt Disney Company recorded record earnings per share during its first nine months of fiscal 2012 with its media networks division achieving an 8 percent period-over-period increase in operating profit, its parks and resorts division seeing a 24 percent increase in operating profits, its studio entertainment division operating profit increasing by 28 percent, and its consumer electronics operating profit increasing by 10 percent between the first nine months of 2011 and the same period in 2012. The operating loss for Disney's interactive division decreased from $214 million for the nine months ended July 2, 2011 to $140 million for the nine months ending June 30, 2012. Disney CEO Bob Iger summarized the company's position at mid-2012.[13]

> I can say I look back at the last year and breaking ground in Shanghai, launching two new cruise ships, opening up *Cars Land* in a couple of weeks, buying a media company in India, buying a network in Russia to brand the Disney Channel, all big—and buying our stock back and increasing our dividend and, I think, proving to the world that the Marvel acquisition was a strong acquisition. So it's been, I'll call it a rich and aggressive time, one that we feel good about in terms of the impact on our bottom line, both current and future. And we'll continue to look opportunistically. We obviously have demonstrated that we're not averse to allocating capital in multiple directions.

ENDNOTES

[1] As quoted by Bob Iger, Chairman and Chief Executive Officer of The Walt Disney Company, during the Sanford C. Bernstein Strategic Decisions Conference, May 30, 2012.
[2] Ibid.
[3] As quoted by Jay Rasulo, Senior Executive Vice President and Chief Financial Officer of The Walt Disney Company, during the Nomura U.S. Media, Cable, and Telecom Summit, May 30, 2012.
[4] As quoted by Bob Iger, Chairman and Chief Executive Officer of The Walt Disney Company, during the Sanford C. Bernstein Strategic Decisions Conference, May 30, 2012.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] As quoted by Jay Rasulo, Senior Executive Vice President and Chief Financial Officer of The Walt Disney Company, during the Nomura U.S. Media, Cable, and Telecom Summit, May 30, 2012.
[10] As quoted by Bob Iger, Chairman and Chief Executive Officer of The Walt Disney Company, during the Sanford C. Bernstein Strategic Decisions Conference, May 30, 2012.
[11] Ibid.
[12] Ibid.
[13] Ibid.