The Walt Disney Company

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As discussed —
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Michael

Michael D. Eisner

OCT 16 1995
by fax (confirmed by voice)

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The Walt Disney Company®

Michael D. Eisner
Chairman and CEO

October 10, 1995

Mr. Michael Ovitz
President
The Walt Disney Company
500 South Buena Vista Street
Burbank, CA 91521

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Dear Michael:

You started at the company this month, and as I have noticed how quickly and brilliantly you have taken to the company and the company to you, I thought I would tell you just that. It is already working. And I wanted to also tell you how comfortable I am with our team, of you, me, Sandy and Steve. And particularly delighted with a personal partnership that will flourish and grow between us. Your instincts were right in coming to The Walt Disney Company and mine were right in suggesting it.

I thought I would write you a letter to describe what the mission is here at Disney for the next decade as I see it, what I expect of us, and what others expect. We have, of course, already discussed this in many ways — in body language, in our early actions and interfacing — but I still thought if I put it in writing, the discipline would be productive.

There is no need to tell you how unique this company is, and it is that uniqueness that sets us apart. But as a public company operating in the United States, in California, and the world, we also operate like other public companies.

Our goal is to increase wealth for our shareholders, otherwise known as the owners of the company. We must do that without forgetting the value of our brand, without forgetting our responsibility to our cast members, without forgetting the communities in which we serve, without forgetting the quality of our work. But to be clear, without increased shareholder value, we will not be here to protect the other things. Luckily the protection of the Brand, the attention to quality of our products, and the excellence we pursue in of all our endeavors, will in fact, increase revenues and earnings.

Our goal is to increase creative productivity through superior work. We have learned over the long road, that doing it better pays off, that short cuts lead to short earnings, and that setting the highest standards drives the highest results. The rush to mediocrity of most businesses, the rush to short-term results that most firms take, and the acceptance of the lowest common entertainment situations that appeals to many does not work for us. And because many, many other corporations or individuals do not believe as we do, or because many firms have short-term financial needs, or because many firms are run by management for management; we generally stay away from partnership and joint ventures.

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And where we are forced into shared relationships, usually outside the United States, we never give up creative control, total and complete creative control. We recognize that business control is creative control.

This is a practical letter. Obviously I believe in a higher goal for our company. I believe in always striving for excellence. I believe we have an obligation to the institution of Disney to carry on the tradition. But luckily the practical and the romantic come together. Unless we hold to the above principles as sacred, we will falter, our products will become mediocre, others will denigrate our Brand (if we do not ourselves), and someone else will be brought in by the owners to get us back in line.

Basically we are an operating company, operating the Disney Brand all over the world, growing the Disney Brand all over the world, maintaining it, improving it, promoting and advertising it with taste. Our time must be spent insuring that the Brand never slides, that we innovate that Brand, nurture the Brand, experiment and play with it, but never diminish it. Others will try to change it, from outside and in. We must resist. We are not a fad, and it is the Disney name and products that live through fads.

How do I see our jobs, our partnership?

We are the hired managers of this great institution, (maybe a little bit owners, too), but subject to and responsible to all the owners. We must remember that, not because either of us think otherwise, but that realization will keep us on course, human, humble, vulnerable, sharp, responsible and ethical. We both know many, many leaders of industry who forget either their positions or their mortality. Once that happens, it is only a matter of time before they either fail (the likely scenario) or the real owners (the Board) reminds them.

We are the leaders of something like 100,000 cast members which is an awesome thought, and to be effective we must devise, over time, how we work together. But in the meantime, leading by example is a good start. We must concentrate on the operations. We must concentrate on continuing to lead creatively. We must throw out mediocrity. Our only criteria for our products we commit to should be excellence and fiscal viability. We must not commit to anything that is cheap and average or expensive and average. Average is awful. We must not commit to anything that is fantastic but not affordable or with no hope of fiscal return. We must leap over the hurdle. We must commit to what we love and what makes economic sense — make at least the "hurdle" rate. And we must lead by ethical standards that the whole company sees and buys into. This is a moral position but also a practical one. Too many effective corporate executives "go down" over stupid, self-serving actions, executives who believe they are above the rules or have outside conflict of interests. Not only is such action stupid, but usually results in shame and failure. Frank Wells and Barry Diller taught me to act like "Caesar's wife". That is good practical advice for all executives but especially public company executives and doubly appropriate for executives in the public eye.

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The "deal" is not the essence of Disney although we are a big transaction-oriented company. Operations are the thing. The deal is a means to an end, a means to get television series' made, movies made, theme parks built, consumer licenses awarded, talent connected. But the deal cannot take the lead. We will never give anyone a "favored nations" clause in any area, nor a "key man" clause in any area ever. We will never (I should say hardly ever) give an arrangement where we finance something and receive less than 50% of the real profits. And on and on. The point here is that we "blow" deals. We cannot have everything, and we are satisfied with what we do; not concerned with what others do. If we ever took on the principle we had to have everything, we would be out of business quickly.

The Strategic direction is set, for now. It is a strong direction toward quality and innovation. We know our audience, and predominately it is a family audience. We should not lament that others appeal more strongly to the disenfranchised teenage audience. They always come back when they become franchised adults with children. And, of course, part of our strategic direction includes assimilating Capital Cities/ABC, a rather Herculean task.

The Strategic direction must also be continually questioned by us and the Board. I doubt it will be radically changed, but certainly tweaked and improved for the times. The Capital Cities/ABC deal was part of that process.

Acquisitions are a tricky area. In American business, an overwhelming number, maybe 70% plus, have not worked, and in many, if not most, situations, have trashed the parent company and put the senior management into consulting businesses!! Most acquisitions are made in a cauldron of CEO ego, mixed with the "keeping up with the Jones" syndrome, a little fear and boredom thrown in, stirred with rationalization, spiced with bad research and bad projections, and covered with yes men and wrapped in press releases. They are born in the maternity ward of hope and almost always end up in the funeral home of restructuring. We do not want to initiate an acquisition on Page One of the New York Times only to end up on page 43 as a "by the way". Acquisitions are a very dangerous area and one in which we must proceed with caution. Mistakes in this area rarely give management a second chance.

I feel about acquisitions exactly as I feel about everything else. We don't need them. We don't need the overly expensive movie or television show. We do not need the actor who has priced himself out of the market. We do not need the acquisition that, even if we feel it fits strategically, is economically ridiculous.

Most companies create the fiction that they can run anything better than the management of a target company. Often that is not true. And most companies project growth for target companies after they take over that are unrealistic, and they pay the dollars today for that future growth. If these acquiring companies are lucky and can manage the new company, and it does grow to the projections, then after a decade of hard work, of work that has taken their eye "off the ball", then they break even. A sorry tale for the CEO to tell his

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grandchildren for which he will have a lot of time. (He will have been replaced years earlier.) If we make an acquisition, we want the value of the growth we project, not the shareholders of the targeted company. It is how you buy that counts!!!! And of course it is what you buy for Disney that counts as much.

Acquisitions are something we should look at and almost never do, an odd statement from the company that just spent $19 Billion buying ABC! Here is a top ten list of things that come to my mind that we should ask before we make an acquisition:

(1) Why? Do we really need this diversion?

(2) Is it a strategic fit?

(3) Can we manage it?

(4) Is it way undervalued?

(5) How secure are the cash flows?

(6) Does it really fit with THE DISNEY COMPANY?

(7) Is it of enough size to be worth our while?

(8) Is it essential to protect our core businesses?

(9) What kind of dilution will we face to our earnings (of course if we've answered #4 correctly this would not be a problem.)?

(10) What will the world think of our endeavor? Or saying it the other way, will the outside establishment think we are ego driven deal junkies buying unrelated assets that do not enhance the Disney franchise and take our eye off our real businesses; and get us into businesses we have no right be in? The "bigger the toy, the bigger the boys" is not our game.

Our partnership is born in corporate heaven, but I thought writing this letter would help articulate what is on my mind. Our company is moving so fast. We are so busy. I just wanted to use the solitude of a plane ride to articulate what we discuss on the run. I need, want and cherish the accumulated information and experience you have had in creating and running Creative Artist Agency for 20 years. And I want you to have the benefit of my years at ABC, Paramount, and Disney.

Corporate Governance is an interesting area. I love it, but I fear and respect it. It is public and dangerous. The risks and downside potentials are great. But one cannot go lower than zero. The upside however is infinite. And that rise toward the sky will be exhilarating, rewarding and fun for both of us. But with this governance comes

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scrutiny, from your owners, your employees, the governments around the world, and ourselves. I look forward to this adventure.

Now that I am done writing this letter I realize I was writing it as much to myself as to you. This letter has been helpful in letting me think through the beginning of a new Era at the company. I guess what this letter says is all so obvious, but it did take me many years to be able to even state the obvious. What better time to put the thoughts in writing as we begin this new chapter in our lives.

Those are my thoughts. Let's have fun. This is basically your first week on the job and I can already see how well it is all going to work. Let's find some time to discuss the future.

See you tomorrow,

MDE:vg