

'Business Case for 3D: Part II'

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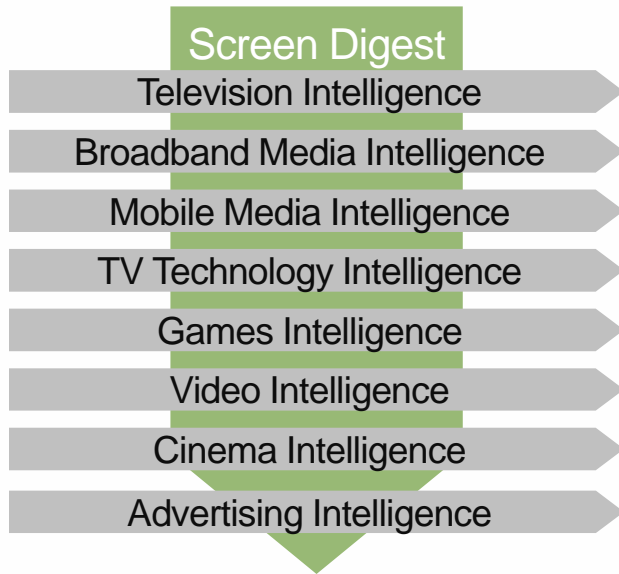
Screen Digest

3D Summit

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screen**digest**

Screen Digest Overview



Background

- Over 40 full time analysts looking exclusively at the global media industry
- Over 35 years of experience tracking and forecasting media markets worldwide
- Detailed models and granular data for established and emerging markets by operator as well as the total market
- Constantly updated forecasts throughout the year, not just a quarterly or half yearly intervals
- Experienced and long established senior analysts in every sector

The Business Case for 3D

- Market status on digital cinema
- Focus on global 3D screen growth
- D-cinema deployment issues
- 3D box office results
- Creative opportunities in 3D?
- How will 3D impact the value chain?
- Forecasts and perspective

3D Facts at a Glance

- **21**

#.3D d-cinema releases, 8 3D-only releases

- **\$1bn+**

Global 2009 3D box office revenues, 56% from US 3D screens

- **x7**

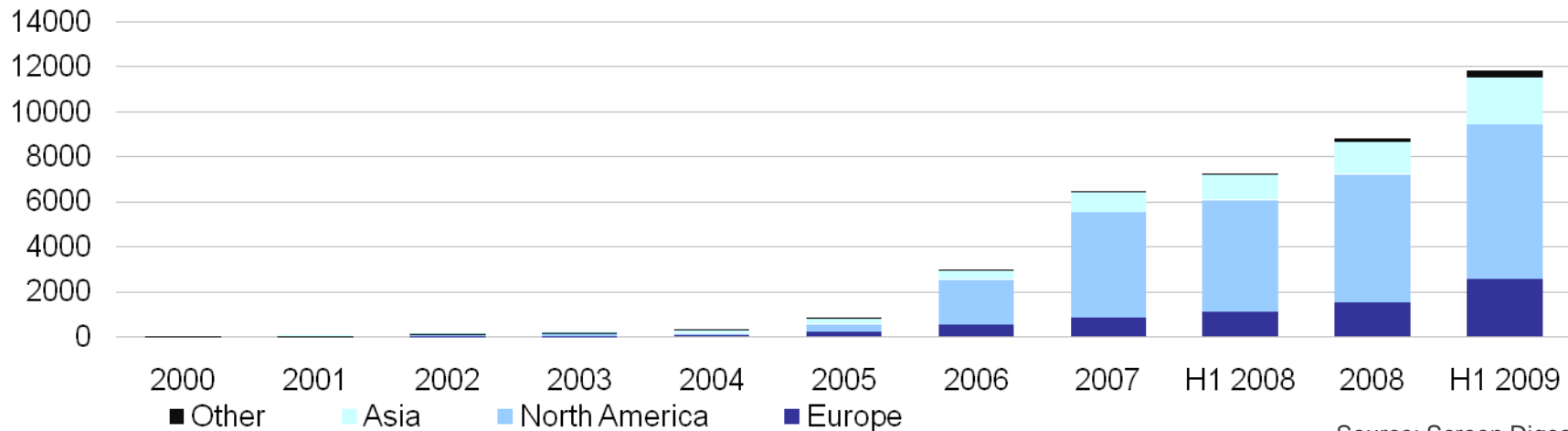
Increase in number of 3D digital screens since H1 2007

- **5,392**

#. Global 3D digital screens (June 2009), 50% in North America

Digital screen base rose by 35% in H1 2009

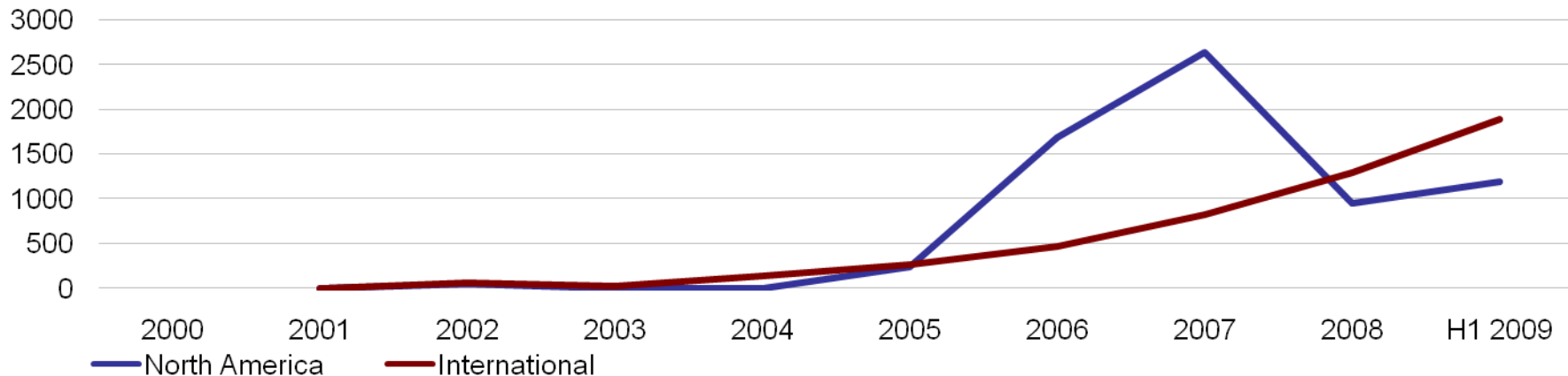
D-Cinema screens by world region



Source: Screen Digest

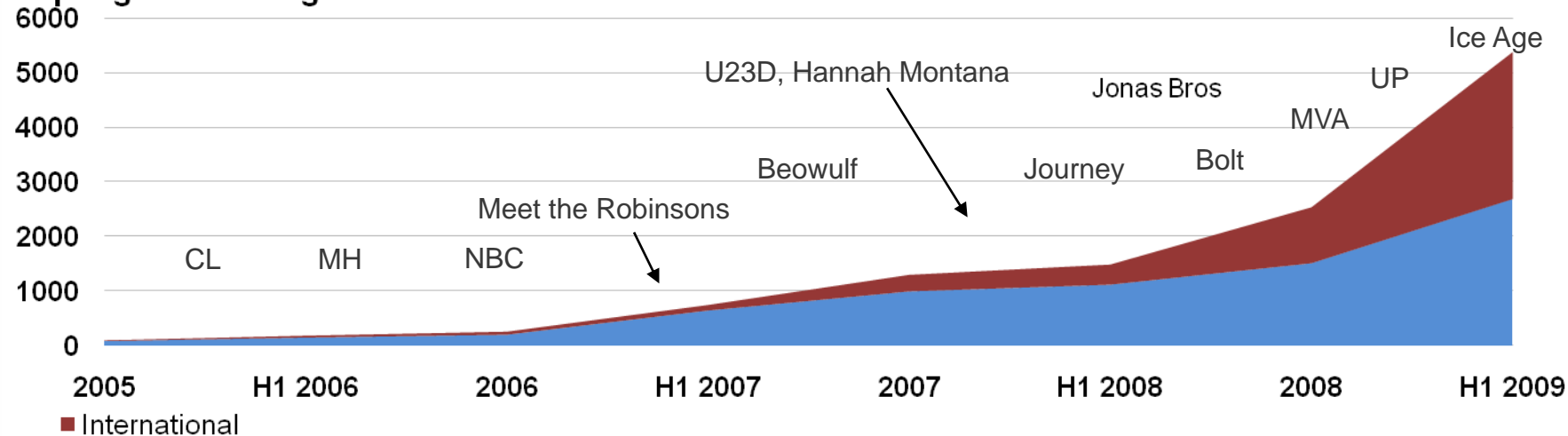
International circuits drove d-cinema growth as DCIP circuits were still on hold

Net new screen deployments



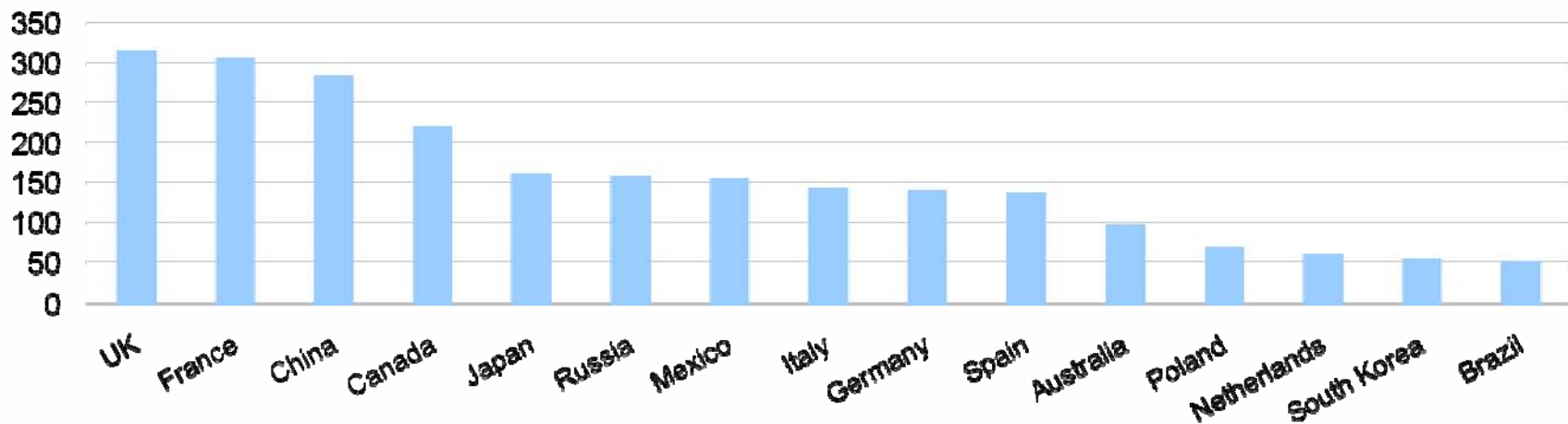
Digital 3D screen count more than doubled in H1 2009 driven by demand to capitalise on 3D title releases

Rapid growth in digital 3D screens



UK is leading international territory for 3D screens: driven by competition between leading circuits

Top 15 territories by digital 3D screens



3D and digital deployment issues

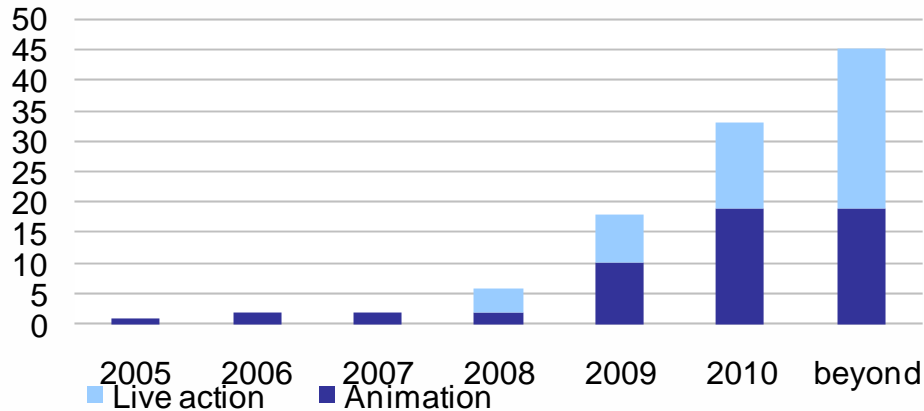
- Partial conversions, geared towards 3D have maintained, and even sped up, pace of rollout
- However, exhibitor 2D digital ambitions on hold, which may mean another lull once 3D momentum slows
- Risk to wider roll out and VPF financing mechanism
- VPF still the only functioning model in the market but more flexible terms emerging
- Exhibitors still need to see upside from full multiplex conversions and seamless transition of data around a site
- DCIP financing salvaged
 - highly significant as provides reassurance to exhibitors that digital not wavering
 - Signals to other lenders that d-cinema financing is back on

Projector resolution: 4K's breakthrough

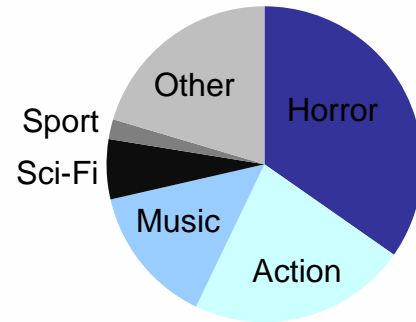
- DCI written to include 2K and 4K solutions
- Given industry development to date, and historic cost differential, **2K was developing as industry standard**
- **DCIP circuits now placing strategic bet on 4K technology**
- Yet to be seen if mindset mirrored internationally
- **Impact** : 4K could now be considered at least as an equal format, and at best as new industry norm
- Rise of 4K also destabilised the market by adding another layer of uncertainty

Studios remain primary driving force of 3D content

- Studios account for 60% of 3D content, Majority are animated titles

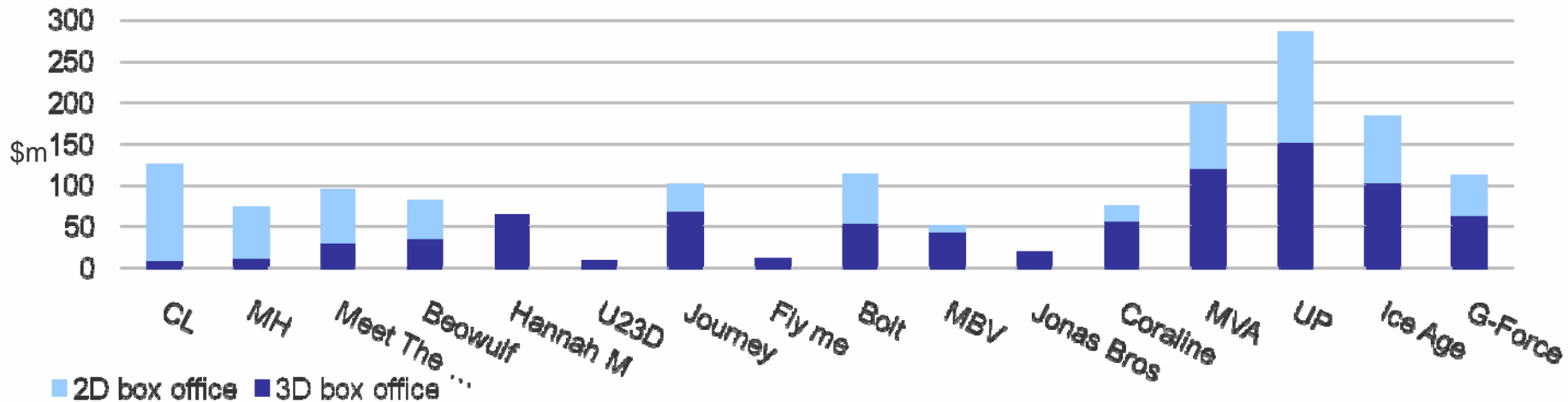


Live action genres in %



Disney's UP took \$150m+ from US 3D screens, international 3D screens potentially potent

Total box office split 3D/2D



Lack of 3D screen infrastructure is major roadblock

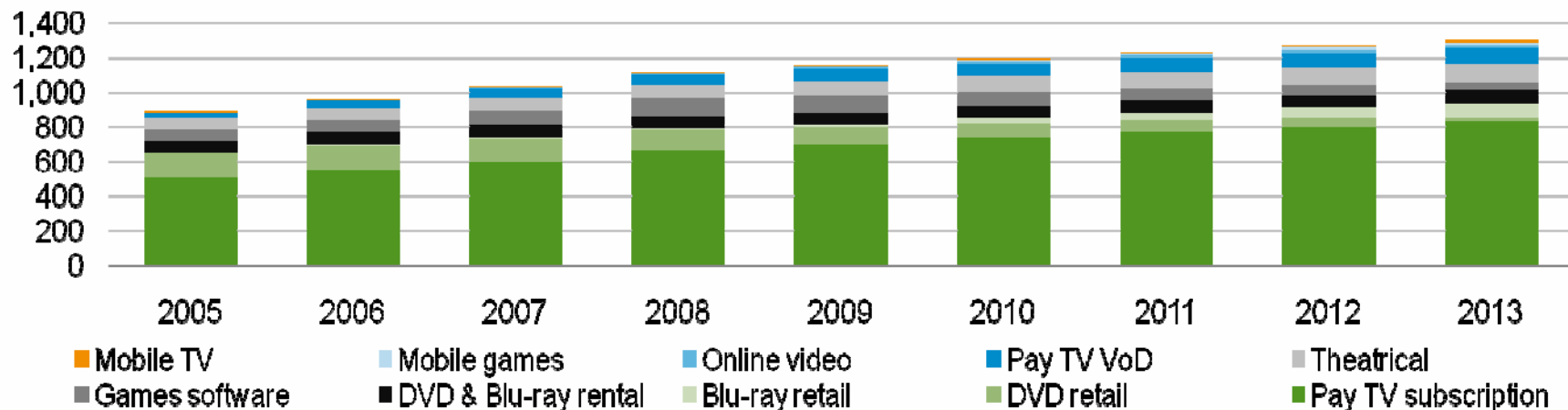
- **3D movie revenues are being squeezed by shorter release windows**
- DCIP decision will go some way to avert tension in run up to Avatar
- Situation exacerbated in 2010 with potentially 30 3D title releases compacted to an average 1.8 weeks
- Also curtails unique uplift from 3D over duration of theatrical run
- Technicolor and other entities looking to alleviate pressure on 3D titles, by introducing film based 3D competency and exposing maximum potential of 3D
- Like Avatar, next benchmark will be availability of major title in pure 3D
- Studios must factor loss of intrinsic revenues in standard 2D both theatrically and in the home

Theatrical priming the 3D value chain

- ALL platforms now looking to replicate now proven attributes of 3D
 - Premium compelling content and flexible pricing mechanism
 - Converting flattening sales and revenues back into growth
 - Providing competitive advantage or differentiation
 - Has implications for reducing loss of revenues from film theft at all stages of product lifecycle
 - Early momentum instilled through anaglyph releasing to home/games platform

Household spending on entertainment is set to grow to over \$1,300/year in 2013

Annual US consumer entertainment spend per household (\$)



Regardless of the technologies available, standards will ultimately drive the market

- All potential platforms require purchase of new 3D capable display units
- Growth will largely depend on dedicated content, with major releases acting as key drivers
- New consumer hardware would be an additional challenge but not insurmountable
 - Blu-ray player in 7% of US DVD HH's, but 53% by 2013
- 2010 will be a crucial in underpinning road map to the home
 - First HD 3D home releases expected
 - Culmination of efforts by various industry bodies and consortia for standardisation practises
 - Amid significant commercial push by both broadcasters and CE manufacturers
- It is too early to predict proliferation of 3D-capable displays, but based on previous trends, there are 2 broad scenarios

In summary...

- 3D is now a mainstay of theatrical box office
- More genres are being exposed to 3D and 3D-only releases will begin to permeate
- Careful integration of 3D, immersive experience rather than superfluous effect
- 3D pricing is elastic but audiences increasingly demand value for money
- Studios keen to push for 3D in downstream windows to counter intrinsic loss of value on flat screens in cinemas and the home
- Ultimately work by standards bodies will largely determine road map
- Studios will remain driving force to exploit 3D across the value chain, including opening up of library titles in 3D
- Ultimately, theatrical window will remain primary viewing experience for superior 3D presentation

Thank you

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