

The European video business: Key trends and drivers 2009-2010

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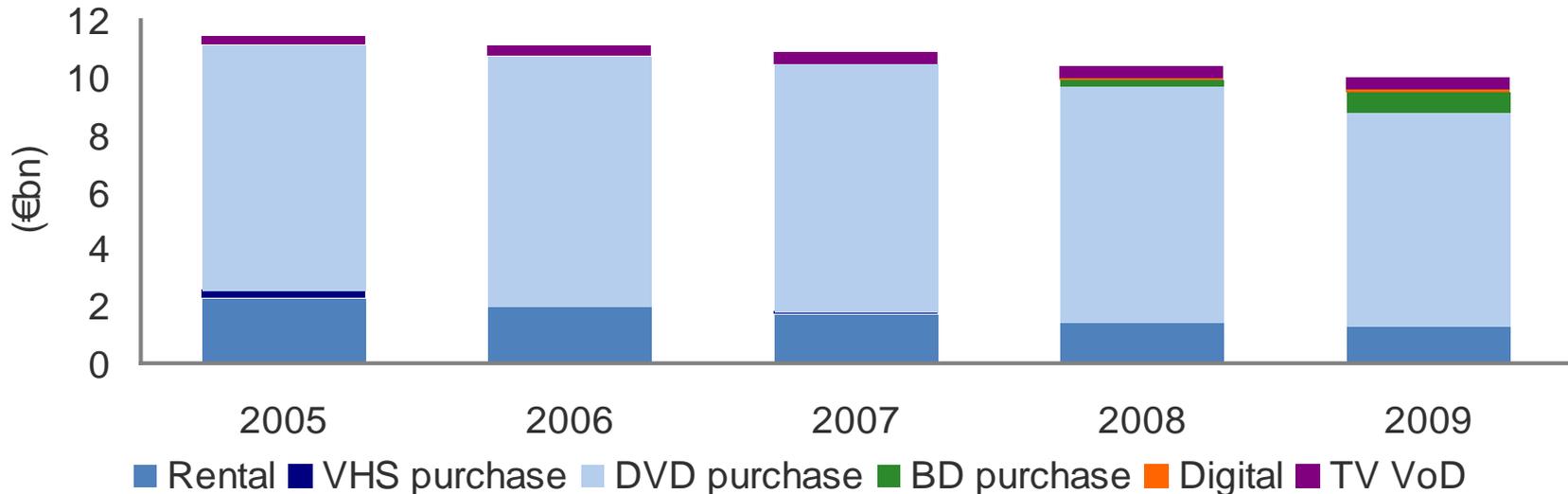
About Screen Digest

- Research firm covering
 - Theatrical film production & distribution, TV, physical video, games, broadband media, mobile media, TV technology and advertising
 - Continuous online Intelligence research services
 - Constantly updated and comprehensive market data and forecasts
 - Flow of analytical reports
 - Custom consultancy
- Based in London and CA (Adams Media Research)
 - Over 40 specialist media analysts
- Organisers of Screen Digest PEVE Digital Entertainment
The leading conference for the international home entertainment business' 11-12 March 2010, London, UK

The bad news: BD didn't compensate for declining DVD sales in 2008 – nor will it in 2009

- Physical spending down 5.4% in 2008; 4.5% decline expected 2009
- Digital delivery to account for <1% of physical spending this year
- Including all movie VoD, decline is -5.2% in 2008; -3.9% in 2009

Total W Europe 'video' spending 2005-2009

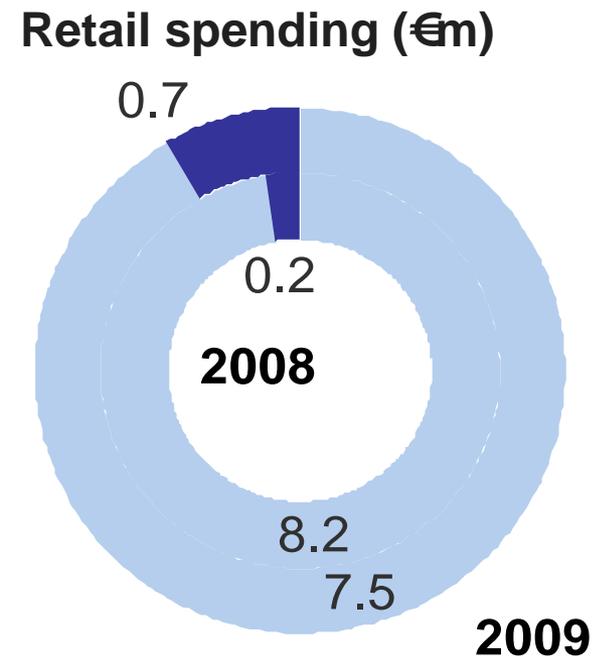
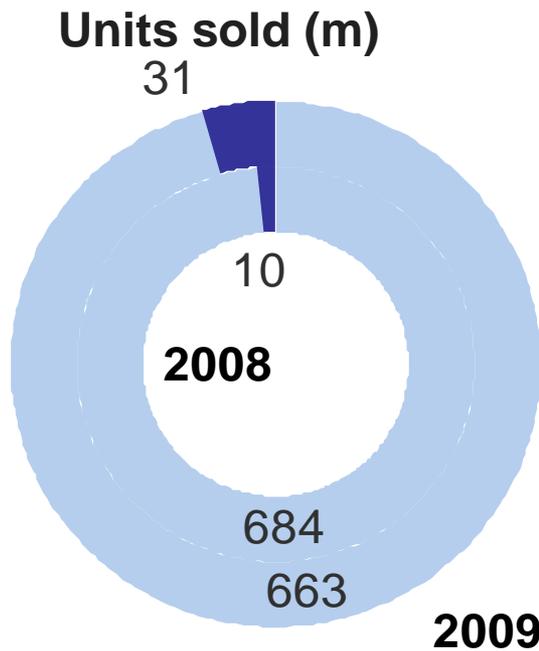


Notes: Local currencies converted at fixed 2008 exchange rates

Physical data covers all mainstream genres; Digital & TV VoD/nVoD data covers movies only

So far BD sales have been limited by a small installed base, high price and recession

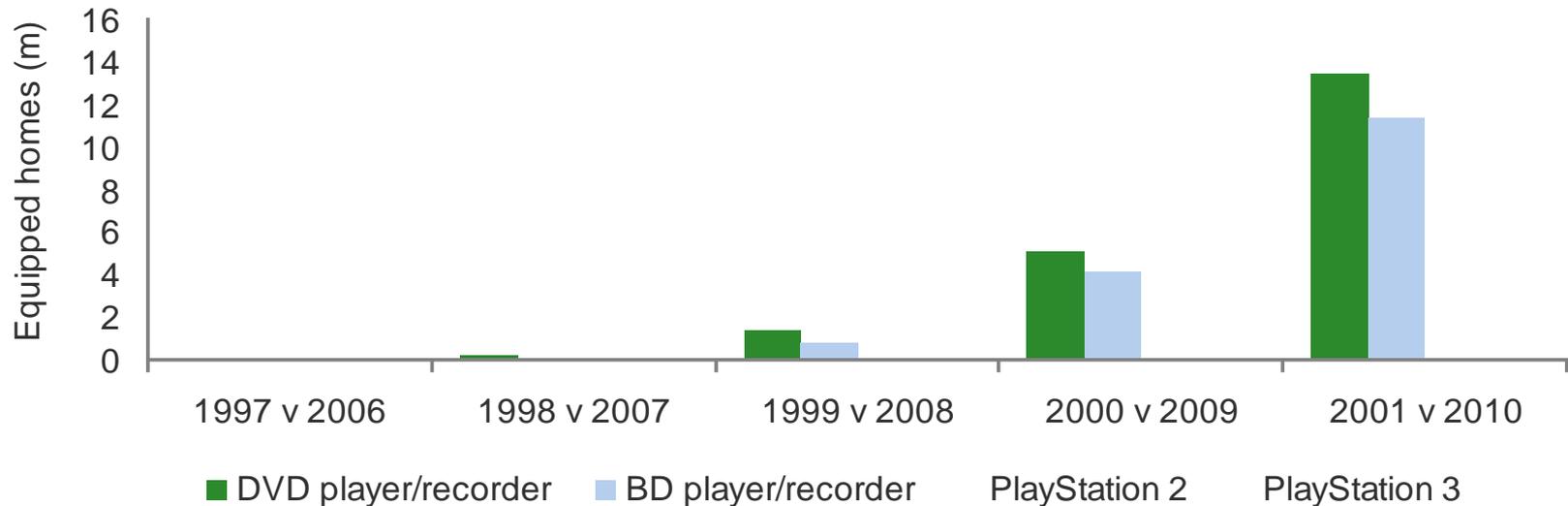
- But format will account for 4% of European unit sales in 2009
- Premium prices mean its share of spending will be 8%



BD standalone sales are slightly lagging DVD

- DVD had a united launch – but software took much longer to appear
- This year BD players could narrow the gap

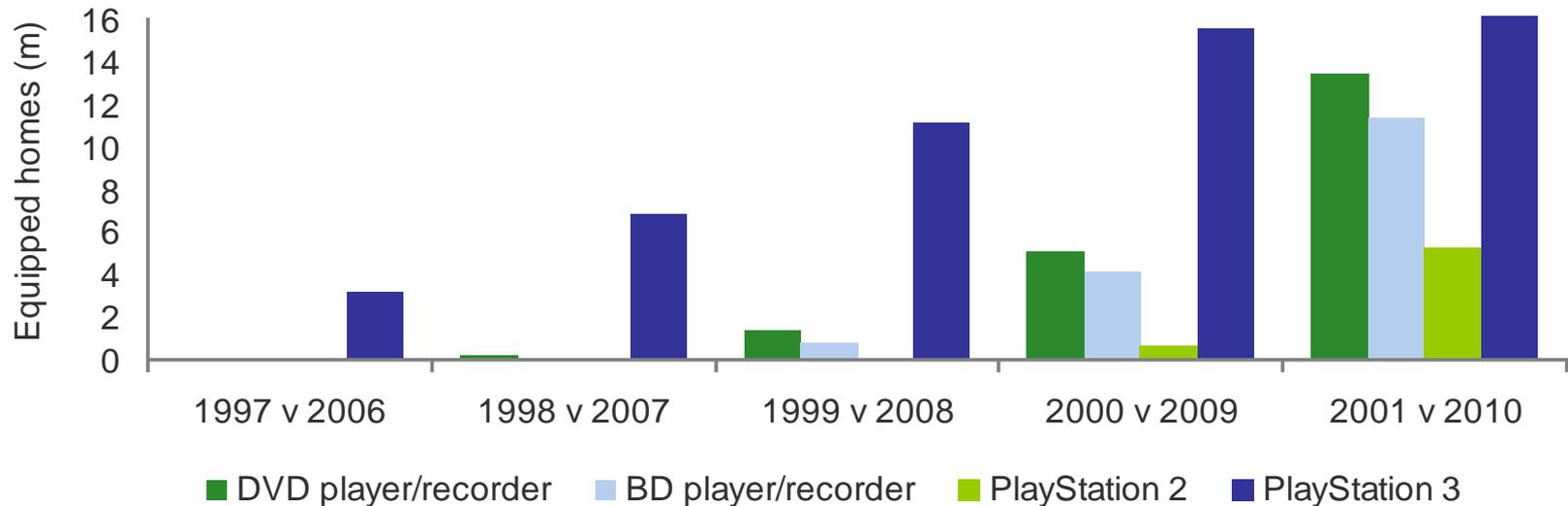
European video hardware growth: first five years



BD standalone sales are slightly lagging DVD

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- This year BD players could narrow the gap
- PS3s outsold all standalone BD models combined by 4:1

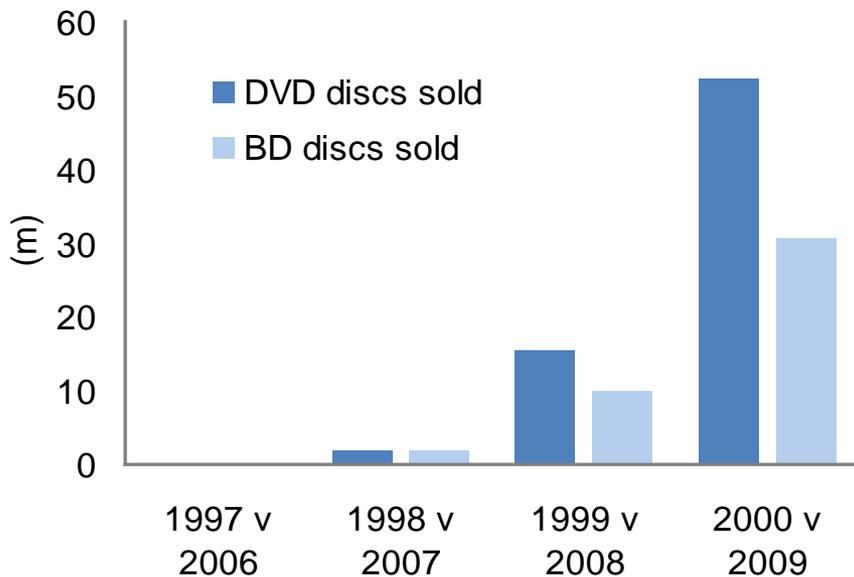
European video hardware growth: first five years



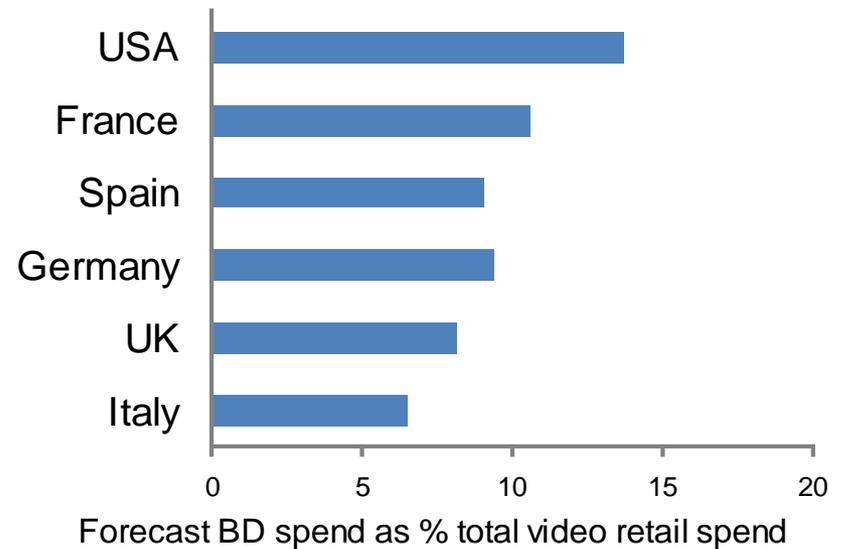
Despite the extra hardware, software sales are about 60% of equivalent DVD sales

- Backwards compatibility means even BD homes continue to buy DVDs
- BD already accounts for >15% of sales on some UK titles

European video software: Yrs 1-4



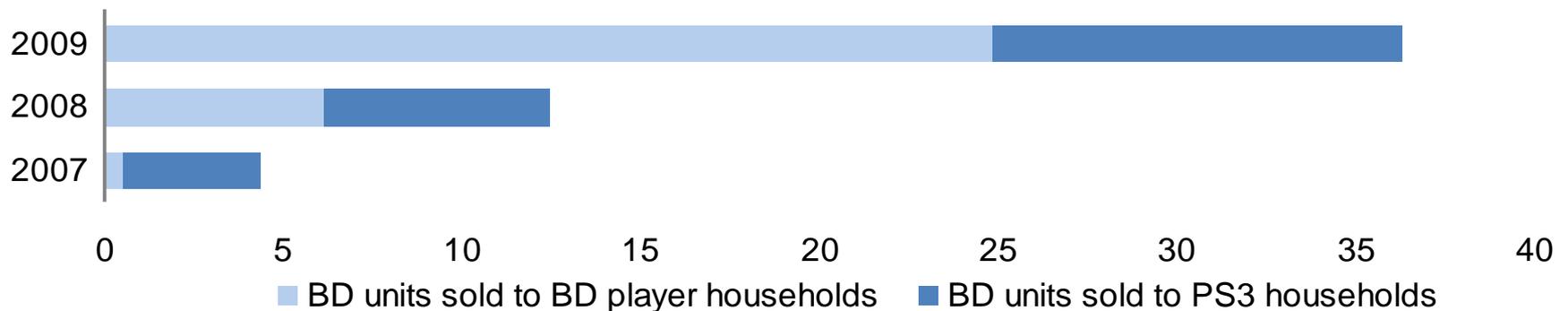
BD's share of key markets 2009



PS3 homes do not buy as many discs as those with dedicated BD players

- BD standalone player HHs will buy almost 6 discs each this year
- Overall PS3 households will still buy less than one BD on average
 - Promotion can help turn gamers into BD buyers
 - And PS3 gamers who subsequently invest in HDTV will find they already have a BD player, creating ‘invisible’ new BD homes
 - PS3 HHs will continue to be an influential consumer group

W European BD video unit sales (m)

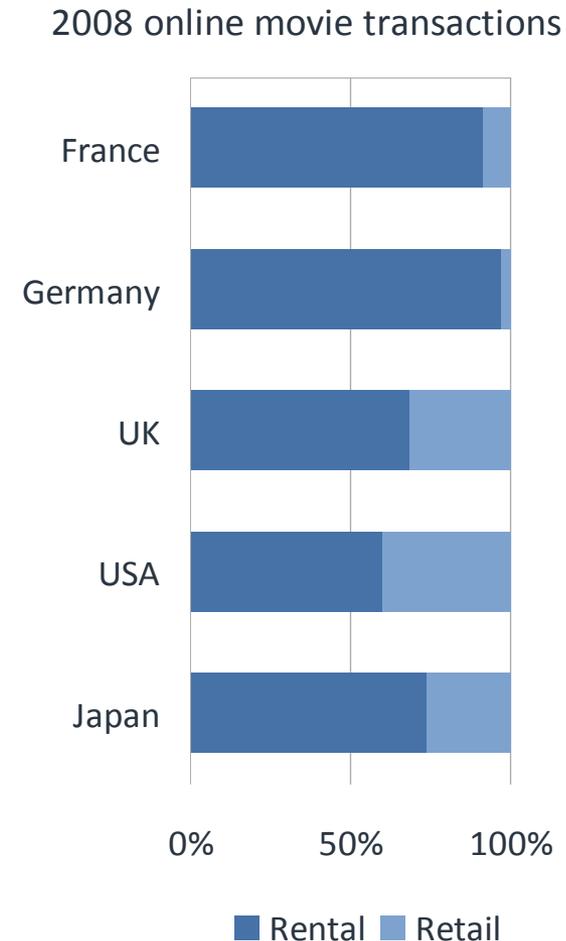


The market for BD is very different to that of DVD

- Home video play-back is ubiquitous across major markets
 - Blu-ray is an upgrade to existing systems not a revolution in home entertainment
 - Only consumers with HDTVs have any interest in upgrading
- Home entertainment encompasses more than ever before
 - TV, VHS or DVD
 - TV, PVRs, VoD, DVD, BD, internet usage, digital video or games
- Recession impacts on growth
- Video content is now seen as a commodity by retailers and owners alike
 - Only way to differentiate is through price
 - Are films or TV shows interchangeable?

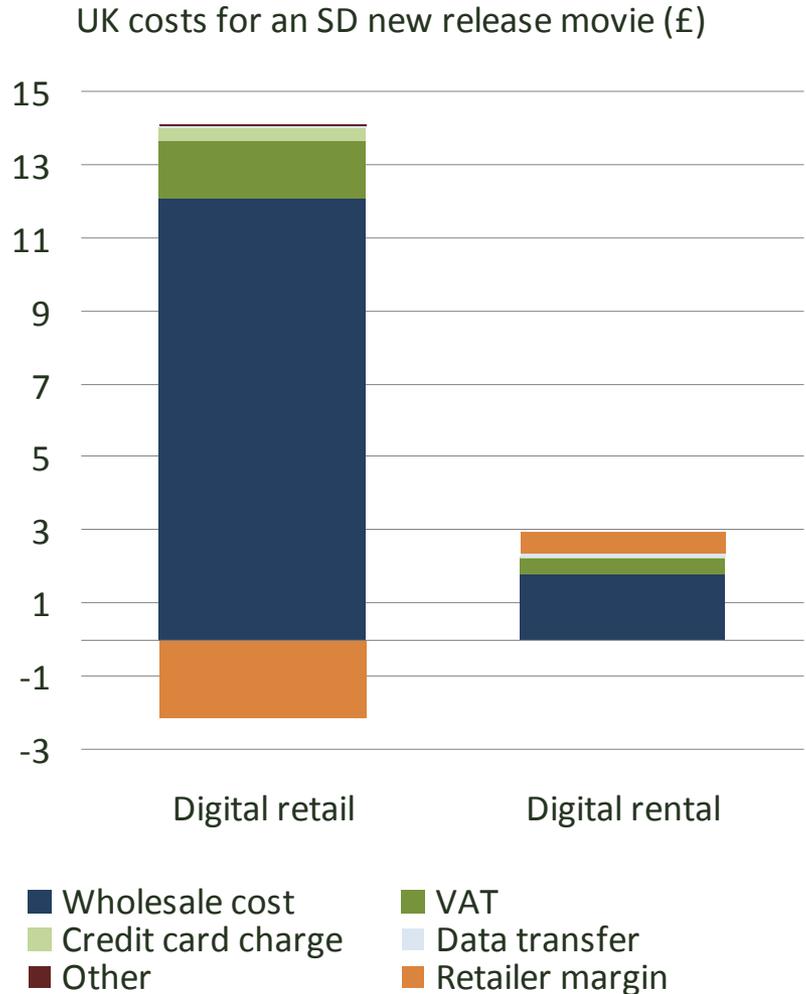
Digital media competes for consumers' time but legitimate digital video market requires a push

- Most transactional online video markets only begin to see substantial growth following an iTunes movies launch
 - According to Screen Digest, in 2008 Apple generated ~50% of all online movie transactions in the UK (June launch)
- Games consoles are closest competitors in paid downloads space in all markets
 - Xbox is a strong competitor in the rental market
 - Driven by large installed base of connected consoles
 - PS3 network has launched



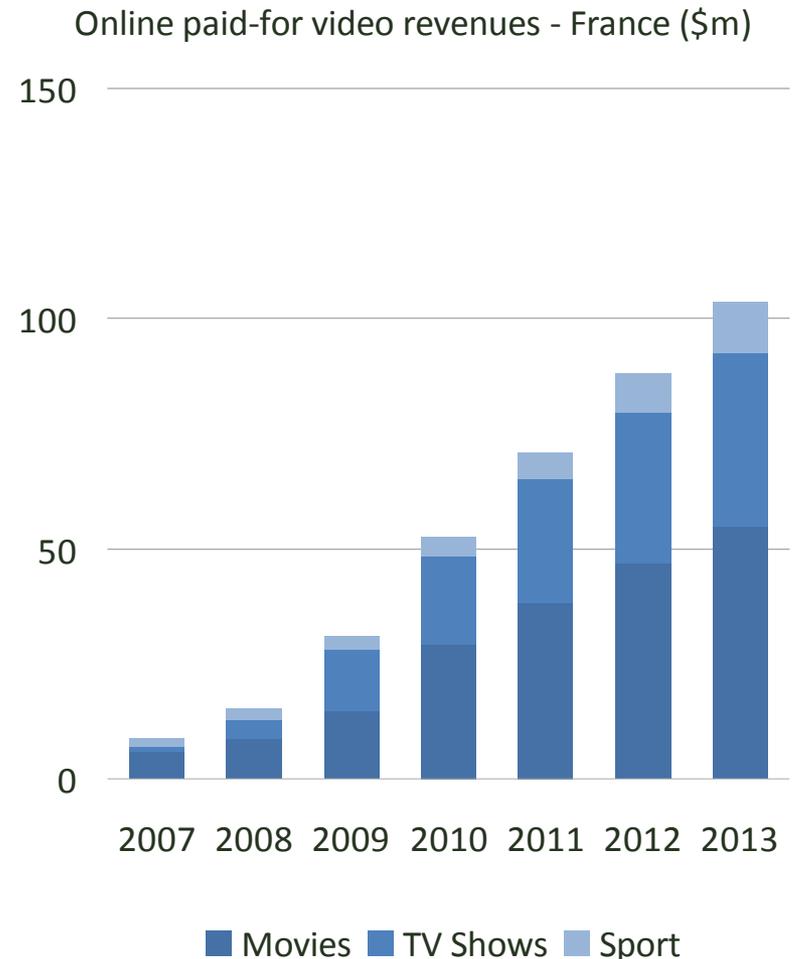
'Value-add economics' means the pure play online movies business is unsustainable

- Digital retail vs. rental:
 - Per transaction, retail is better prospect for content owners
 - iTunes pays 100%+ wholesale on new releases and can price lower
 - iTunes sets wholesale price expectations for all service providers
- iTunes retail price unsustainable for pure-play competitors
- Many stores make loss on new release digital retail, even at higher prices
 - In 2H 2008, 10+ online movie stores closed in US and Europe



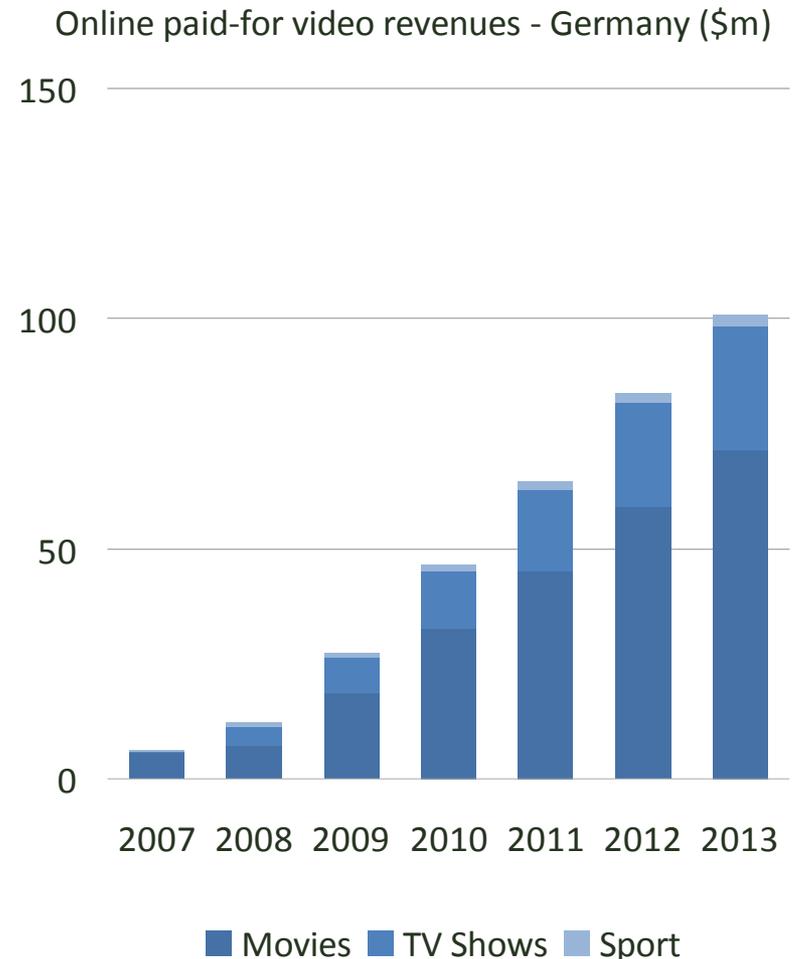
In markets without iTunes movies other brands are developing strong digital presence

- Canal Plus (France)
 - Canal Play store launched in 2005, accessible via IPTV or online
 - Strong movie catalogue; accounted for nearly 40% of 08 online movie transactions in France
 - Looking to expand TV show library
- Canal Plus à la demande bundled subscription
 - Offers movies, sport and catch-up TV shows 'free' to pay TV subscribers online & via IPTV, satellite
 - ~60% of TV subscribers were using the service in Nov 08, averaging 1m downloads/month
 - Partnered with Xbox 360 to supply on-demand content from 2010



iTunes movies has launched in Germany but local providers are well established

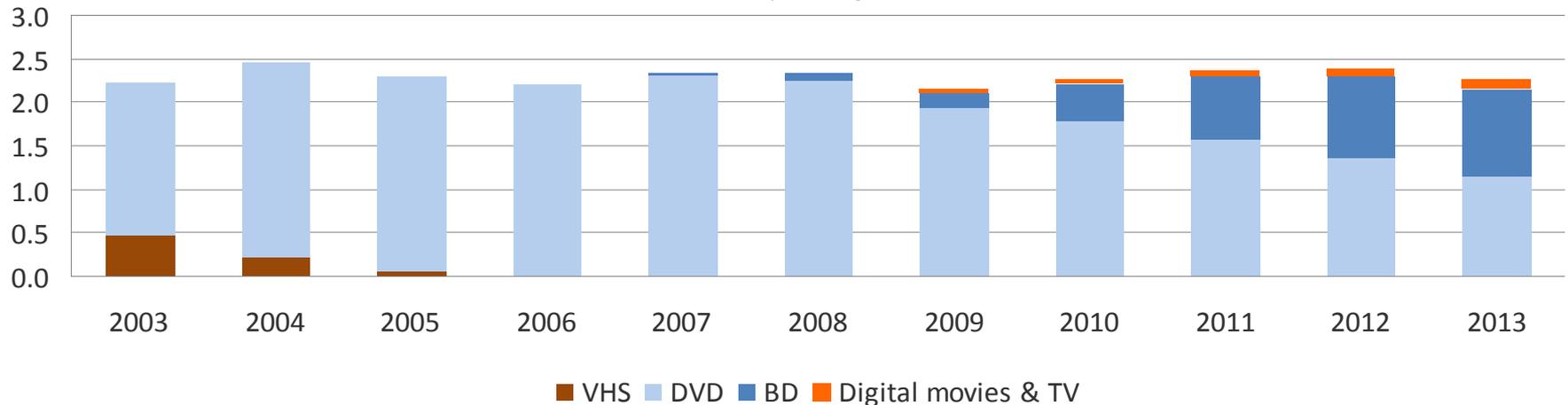
- Videoload & Maxdome
 - Both have the backing of large parent companies
 - Videoload owned by T-Online (which also has substantial TV VoD business)
 - Maxdome is JV between ISP United Internet and Pro7Sat.1
- The two stores have strong catalogues with deals in place with local and US content owners
 - Videos available on rental or subscription basis
- Generated >80% of Germany's online movie transactions between them in 08



UK: what's going on at retail?

- Overall spending on video was flat in 2008 at £2.3bn (€2.6bn)
 - DVD purchase down 3%; BD spending up 300% to £66m (\$122m)
- 2009 Jan-October: total volume down 7%; spending down 14%
 - DVD volume down 9%; value down 17%
 - SD currently forecasting decline of 9.5% in total video spending in 2009

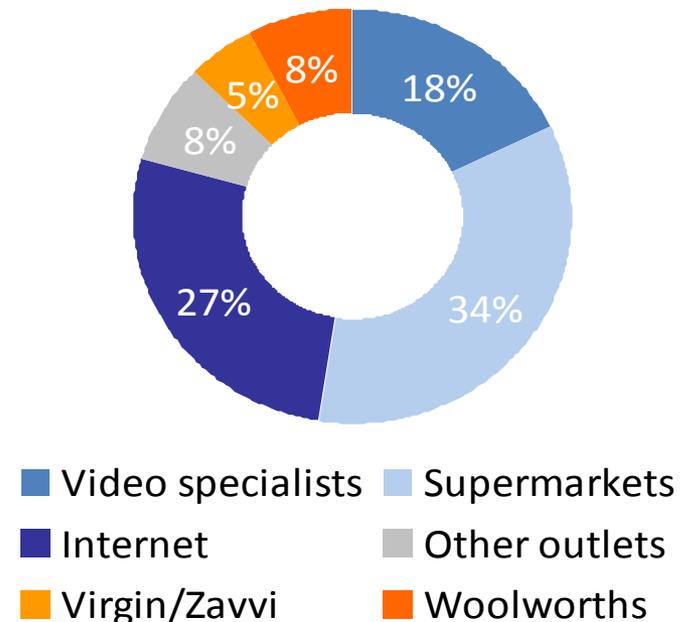
UK consumer retail spending on video 2003-2013 (£bn)



UK: unique market characteristics

- BVA multipliers revised upwards Jan 2009, November 2009 OCC announce intention to restate consumer spending estimates
 - So downward trend more pronounced in BVA data than raw OCC data
 - Actual change was gradual so late 2008 figures arguably too high
- Closure of Woolworths/EUK and Zavvi reduced store base by >900
 - Combined 16% market share in 2007
 - Distance to retail centres is very small in UK (average 2m); consumers go elsewhere for items they want
 - But impulse buying suffered
- Ends dominance of EUK; more direct studio relationship with retailers
- Consumers now expect DVD/BD in supermarkets, so they must stock them

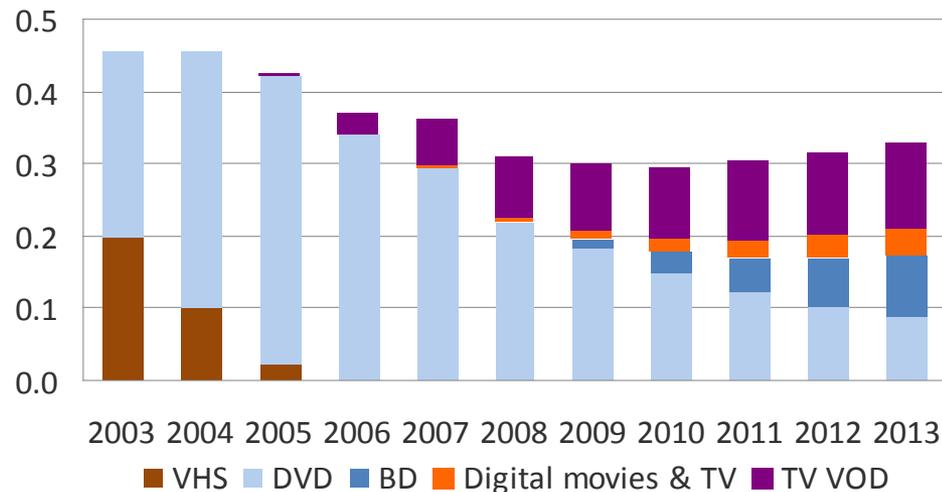
Retailer shares 2008



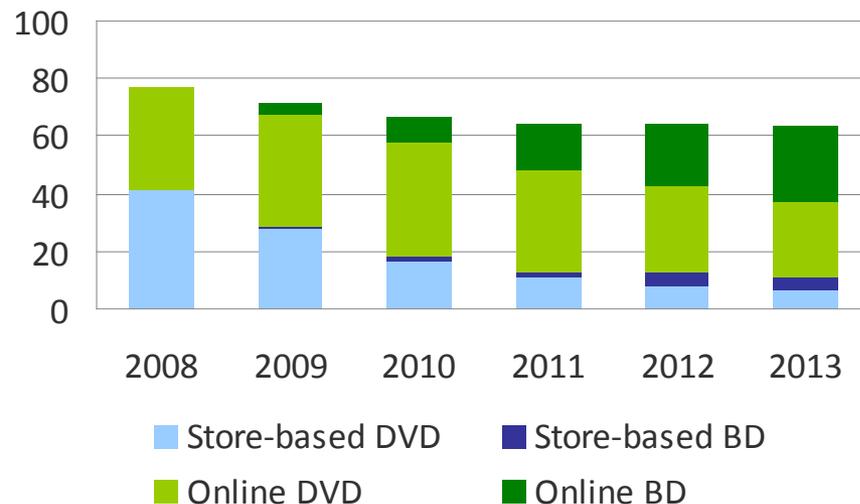
UK: what about rental?

- Rental spend -26%; -40% in stores (TNS)
 - Blockbuster now the only rental chain
 - LoveFilm generates more transactions
 - Collapse of rental reporting mid 2008
 - Online rental spending up 23% in 2008
- No visibility 2009 but online still growing
- Kiosks have been tried
- VoD in the UK dominated by Virgin and BT vision

UK video rental spending 2003-2013 (£bn)

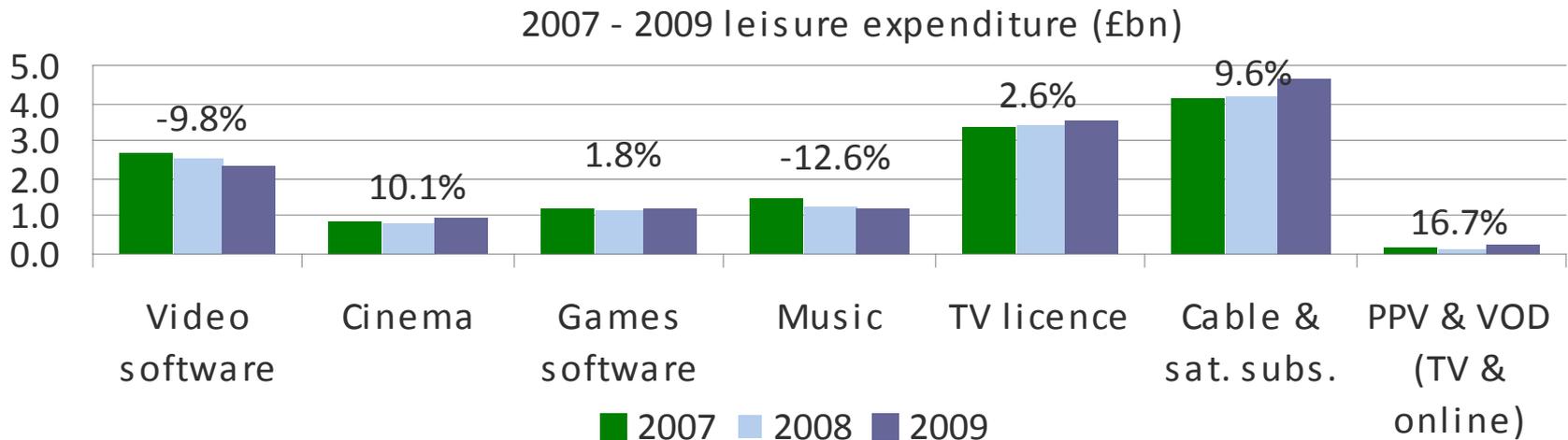


Online vs store-based transactions (m)



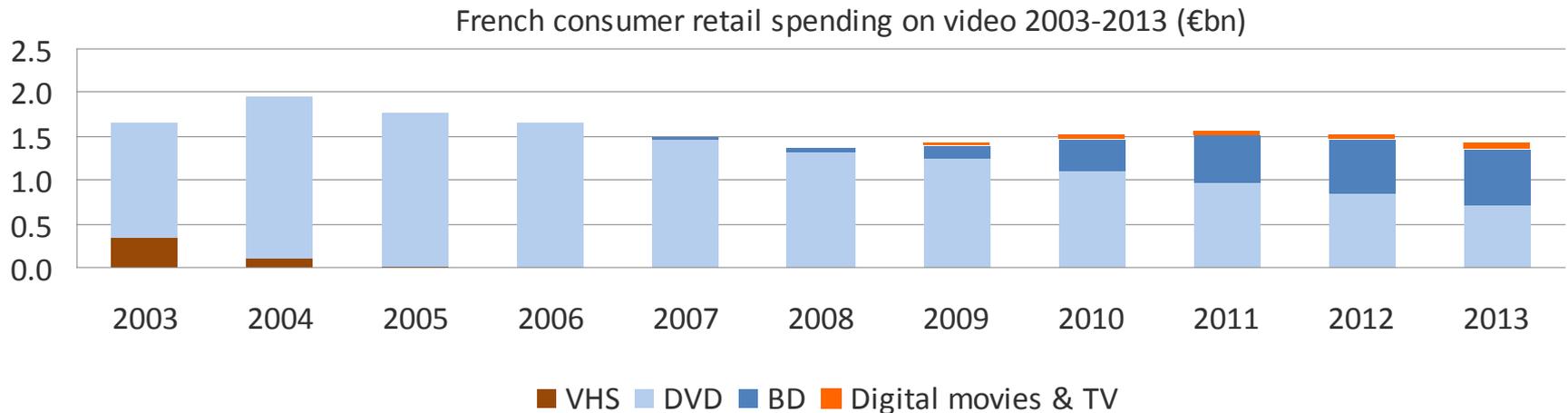
UK: where did the spending go?

- Overall spending on entertainment in 2009 up 1.7% to £14.8bn (€16.7bn)
- Video volume and cinema admissions rose, but while DVD spending was depressed by falling prices, BO was further boosted by higher prices
- Games is the big new challenger for family 'eyeballs'
 - Strong games titles compared with average video slate in 2008
 - 2 of the 3 major consoles currently in up-cycle
- Video's share expected to fall from 17% to 16%



France: what's going on at retail?

- Spending on DVD purchase down 11% to €1.4bn in 2008
 - Both volumes and prices fell
 - BD spending up 400% in 2008, but failed to compensate for DVD declines
- Q3 2009: volume up 13%, value down by just 1.6%
- SD currently forecasting overall spending increase of 1% in 2009 with new window and pricing changes taken into account



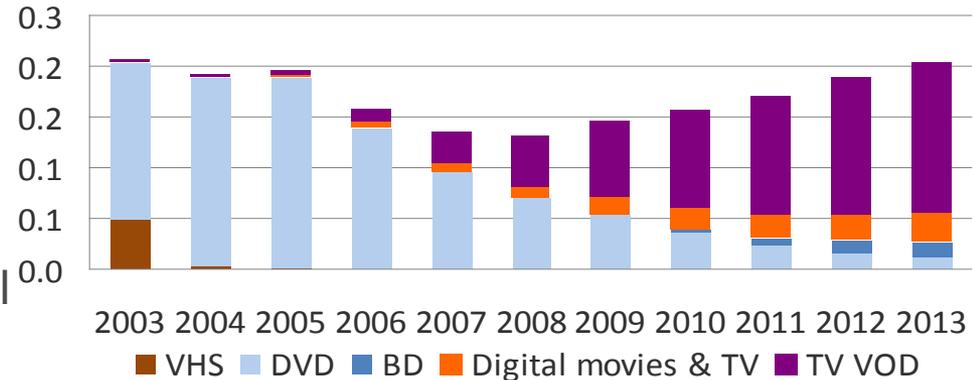
France: unique market characteristics

- Mandatory 6 months theatrical windows meant summer blockbusters missed Christmas market on DVD/BD
 - VoD no more than 6 weeks after video release
- Unique IPTV environment is also attracting consumers away from video
- Online piracy rates are also very high (3-strikes law considered a positive step)
- June 2008: Chatel Law lifts prohibition on selling goods at below cost price
 - Retailers have recently started testing different pricing strategies
 - Distributors (eg, Warner) also experimenting with pricing
 - Experiments so far kept prices down but YoY comparison will improve
- July 2009: Anti-piracy law brings new release windows into effect 'immediately'
 - 4-month window between theatrical & DVD/BD but also PPV/VoD
 - Reduced to 3 months for very small titles
 - Legislation will run for two years with ongoing 6-monthly reviews; after 2 years any involved party can call for review
- Summer theatrical slate will reach video in time for Christmas for the first time
 - boosting 2009 sales
 - But 2010 will compare unfavourably

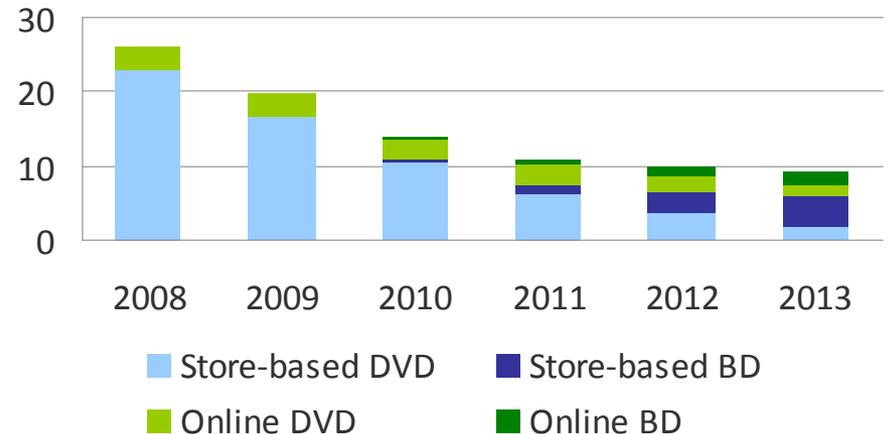
France: what about rental?

- Spending on rental down 27% in 2008; similar trend expected this year
 - But renting of retail units a big issue
 - Local sources fear premium rental market will disappear by 2012
- Despite strong start, online subscription rental has faded away in France
- Kiosks a key feature of rental market
- French VoD a leading market in terms of availability
 - Growth driven by cable digitisation

French video rental spending 2003-2013 (€bn)

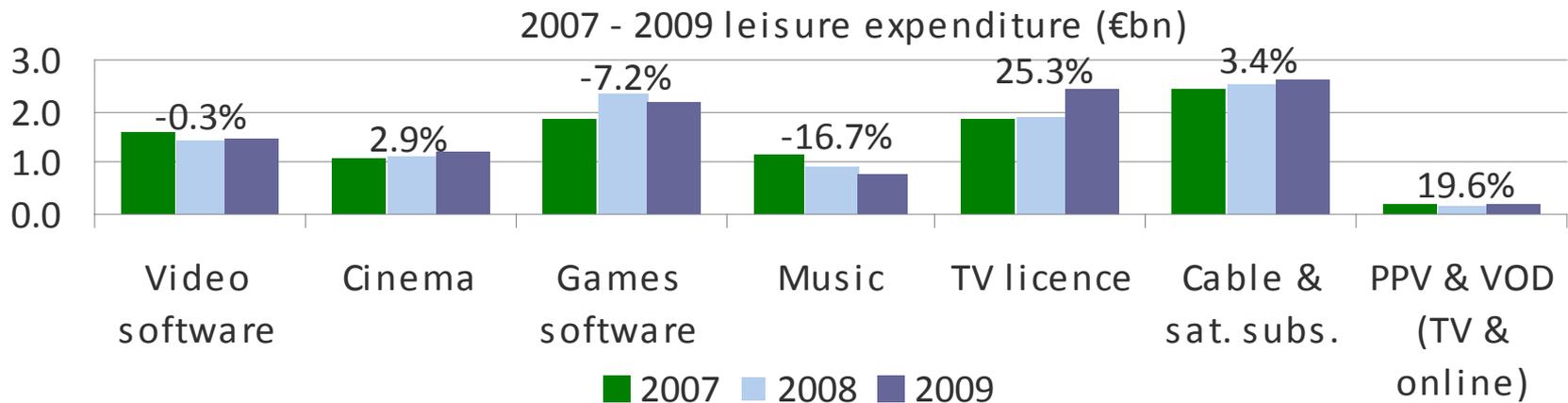


Online vs store-based transactions (m)



France: where did the spending go?

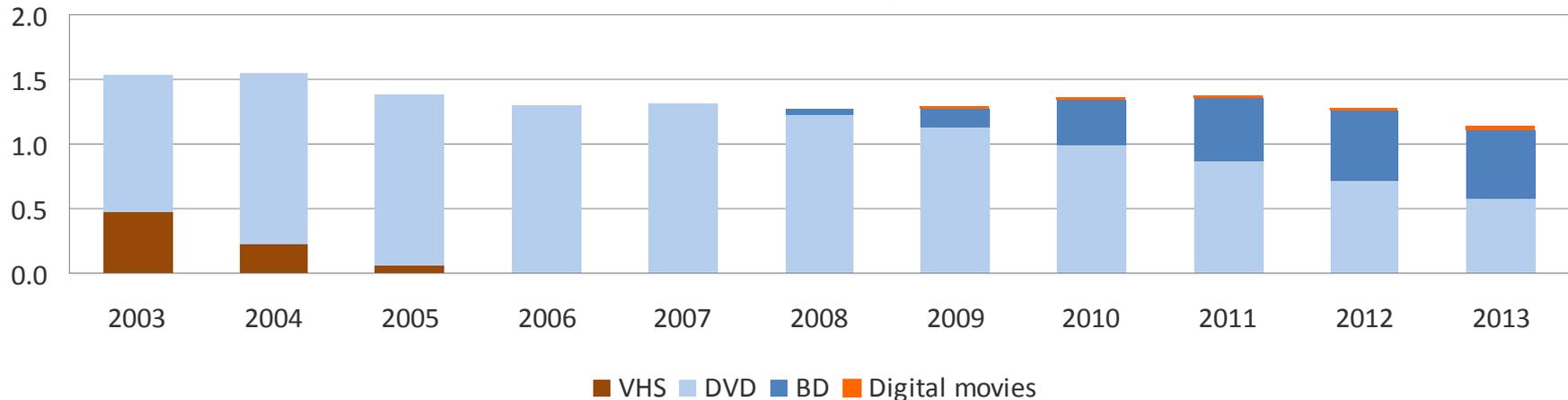
- Overall spending on entertainment up 2.1% to €10bn
- Spending on games software & subscription TV grew at expense of video and music
 - Long windows mean US content is available on VoD very soon after DVD
 - And pirates have plenty of time to profit!
- Video share down from 14% to 13%



Germany: what's going on at retail?

- Spending on DVD purchase down 5% to €1.2bn
 - DVD volumes dropped for first time since launch, by 2%; prices still falling
 - BD spending up 300% to €42m
- Recession appears to have had relatively little impact on German video sector
- Q3 2009: DVD spending fell only marginally; BD up 180%
 - Total retail spending on physical video was up 3%
 - SD currently forecasting growth of 2.3% in 2009

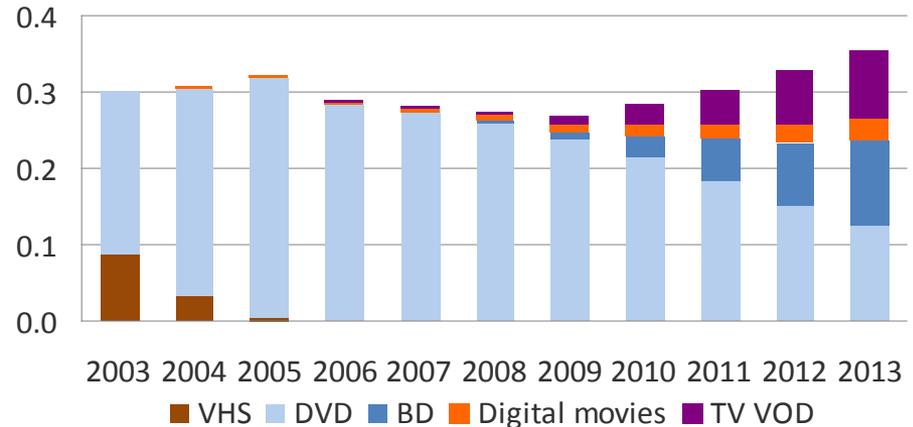
German consumer retail spending on video 2003-2013 (€bn)



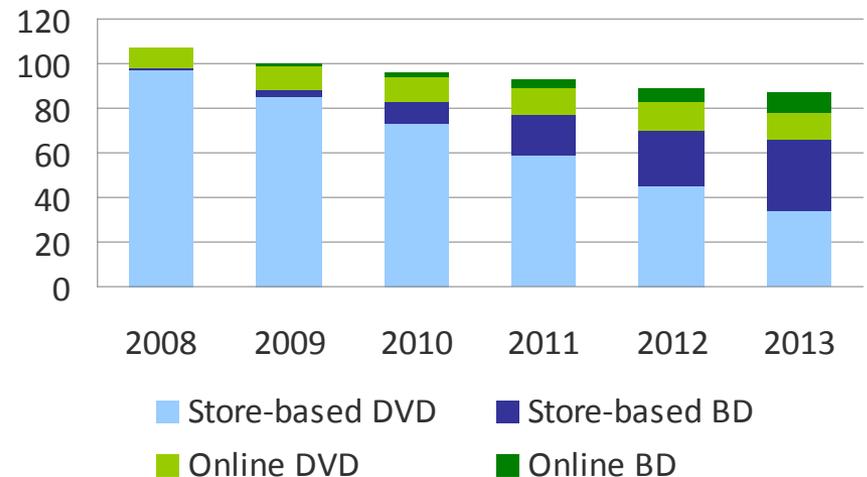
Germany: what about rental?

- Spending on video rental down 4%
 - BD rental €4m in 2008
- Online rental (esp Amazon) helping counter negative sector image: spending up 30%
- Q3 2009: rental spend down 1% despite 3-fold increase in BD transactions
 - SD forecasting 3% decline in 2009
- German VoD still small, hampered by analogue cable network

German video rental spending 2003-2013 (€bn)

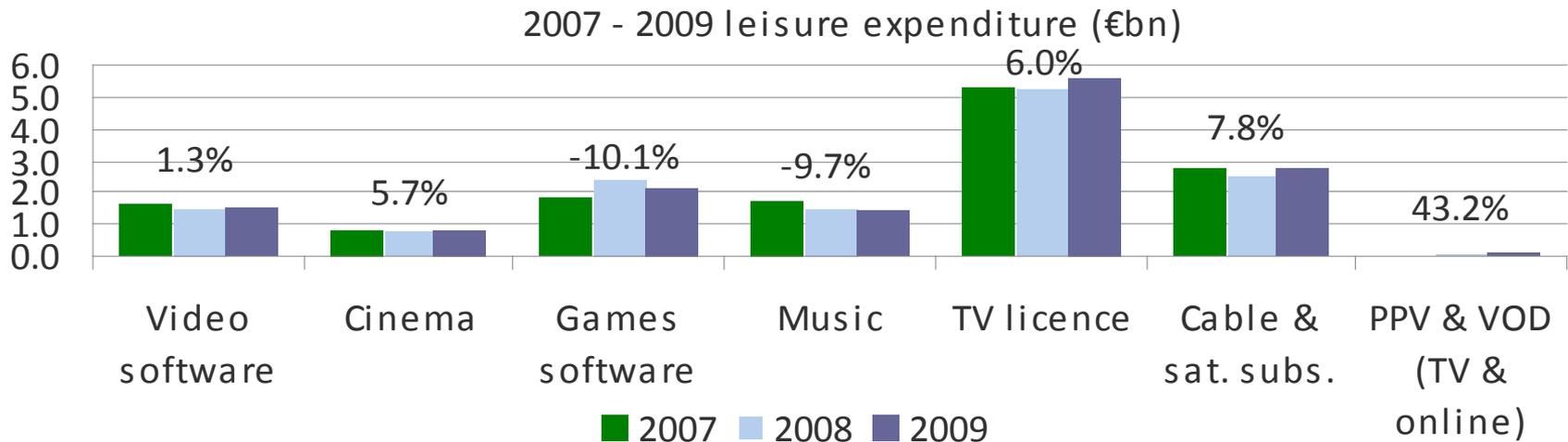


Online vs store-based transactions (m)



Germany: where did the spending go?

- Total entertainment spending up 1.5% at €14.4bn
- Cultural bias away from home entertainment spending may mean recession has had less impact on the sector
- Strong 2008 growth in games spending contrasts with subscription TV revenues
- Video share stable at 11%



Thank you!

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