The outlook for packaged media

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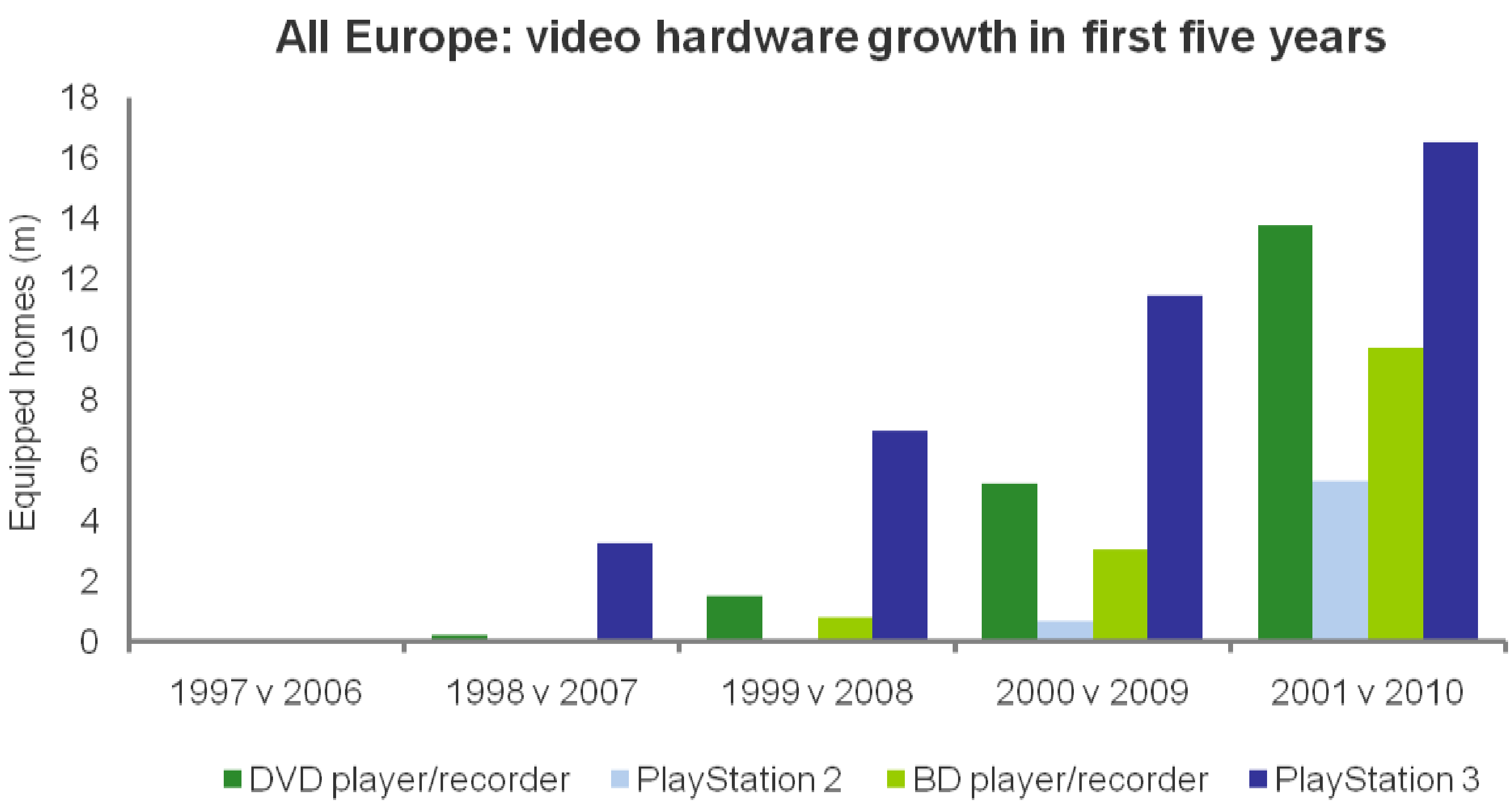
Frankfurt, 20 May 2010

Agenda

- Looking back: Blu-ray and DVD take-up compared
- Impact on entertainment spending forecasts
- How pricing strategies can affect video spending
- Looking ahead: 3D

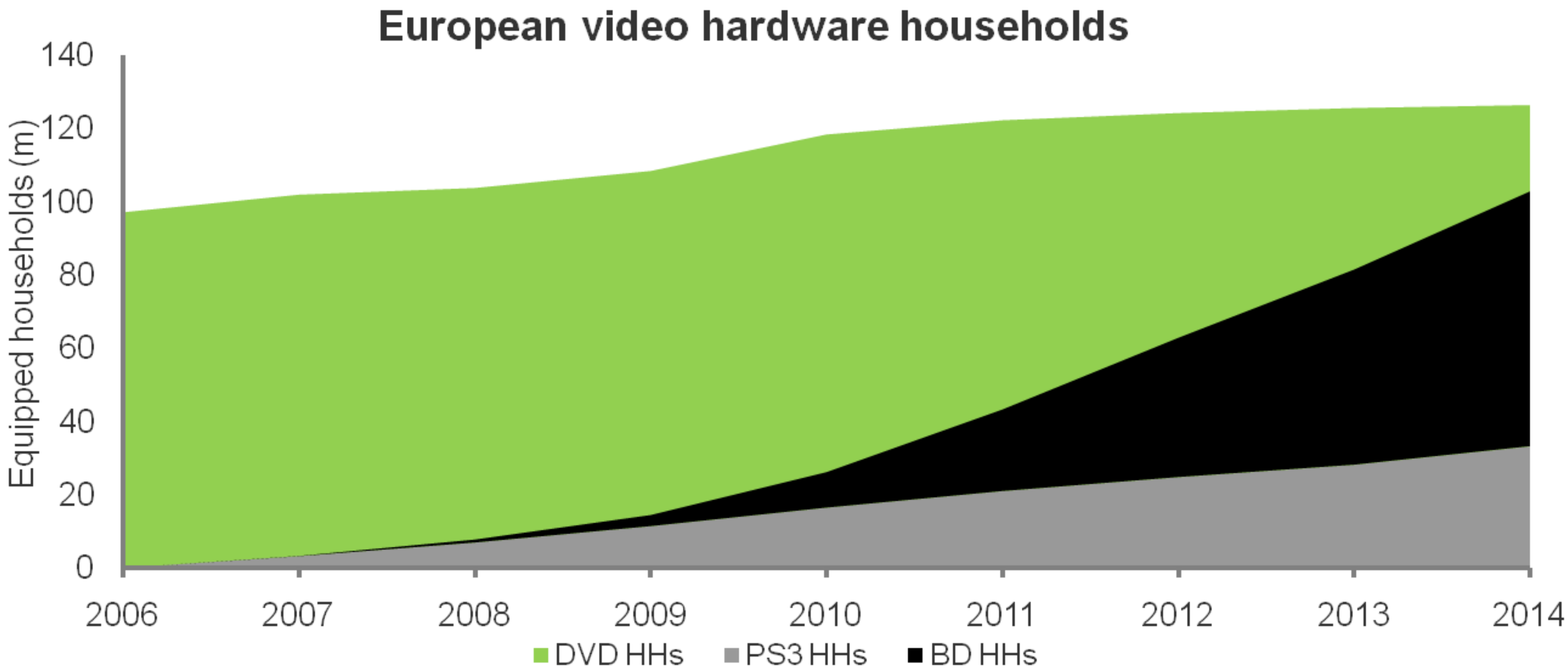
How does Blu-ray adoption so far compare to DVD in its early years?

- BD standalone player sales are lagging historic DVD adoption
- PS3 outsold standalone BD models by 4:1 last year
- PS2 did not play role in take-up of DVD



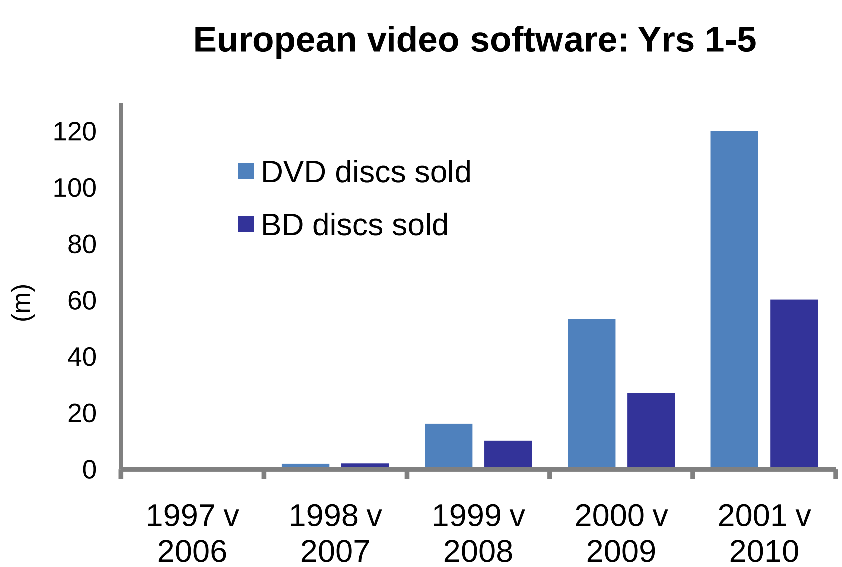
Recession has positioned BD as an expensive upgrade to existing ‘good enough’ systems

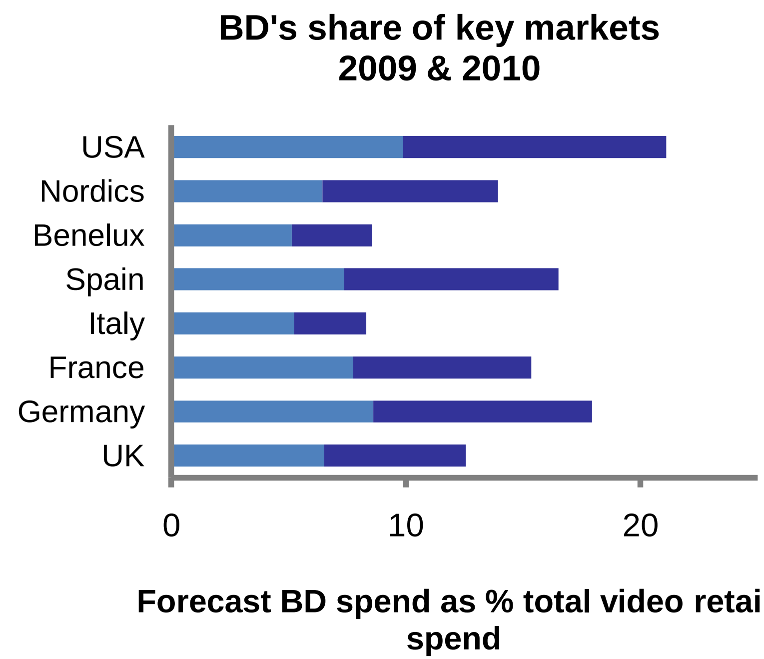
- Consumers need more of a reason to upgrade
- BD hardware growth will also be constrained by HDTV penetration
- BD standalones will only ever achieve around two-thirds the penetration of DVD
- Installed BD-base will continue to be split between standalones and PS3



Despite strong PS3 take-up, software sales are about 50% of equivalent DVD sales

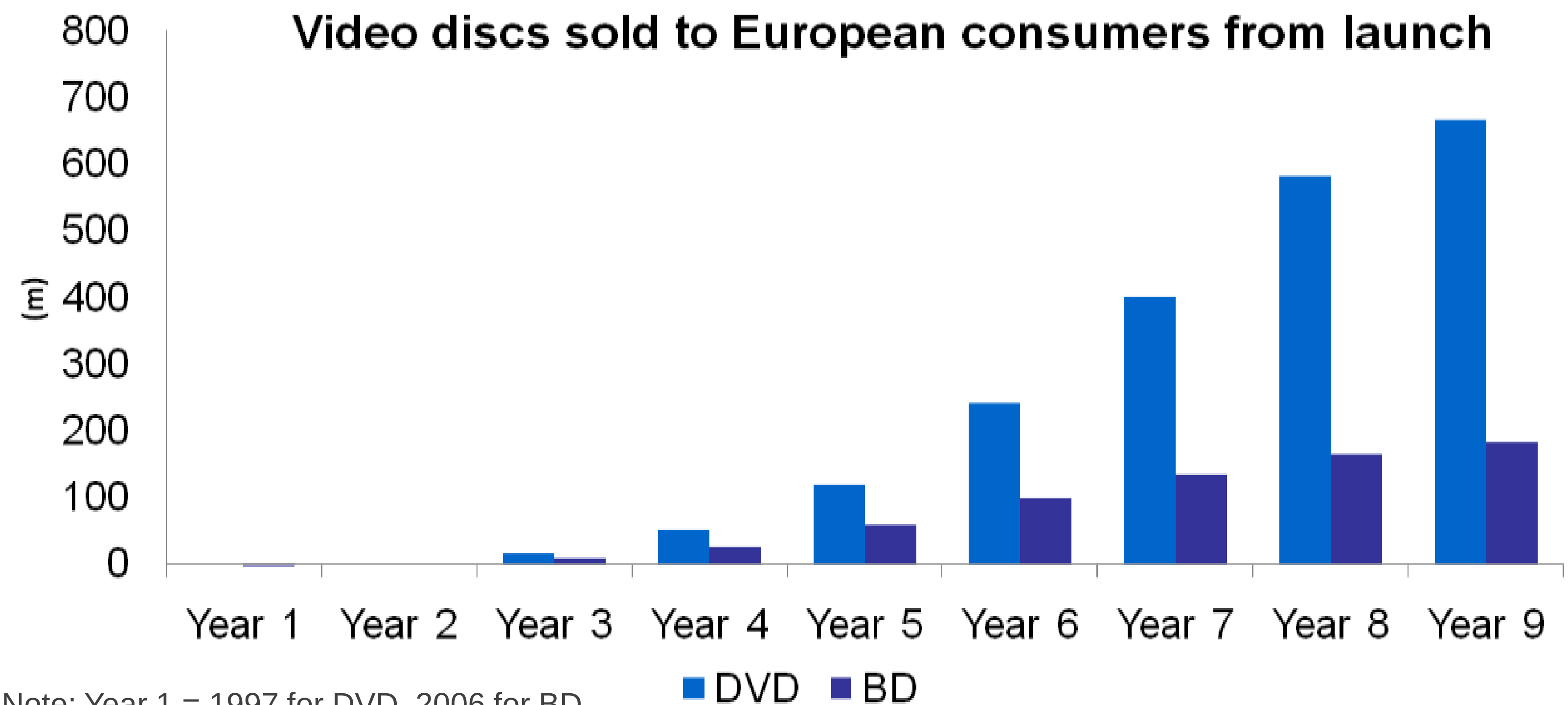
- Backwards compatibility means BD homes continue to buy DVDs
- PS3 HHs don't buy as many discs as standalone BD homes
- In 2009 BD conversion rates (volume) trailed behind DVD/VHS in 2000 (~15%)
  - UK average 3.4% - but *Terminator: Salvation* and *Star Trek 11* achieved >20%
  - France 4.8% - but top 5 blockbuster movies achieved >20%
  - Germany 5.7% –top chart titles sold >40%





Blu-ray will continue to share market with 'good enough' DVD format

- BD software will only ever achieve around one third of the sales of DVD
  - Consumers will cherry-pick BD content with minimal catalogue replacement
- BD will continue to cost more because it's more expensive to produce

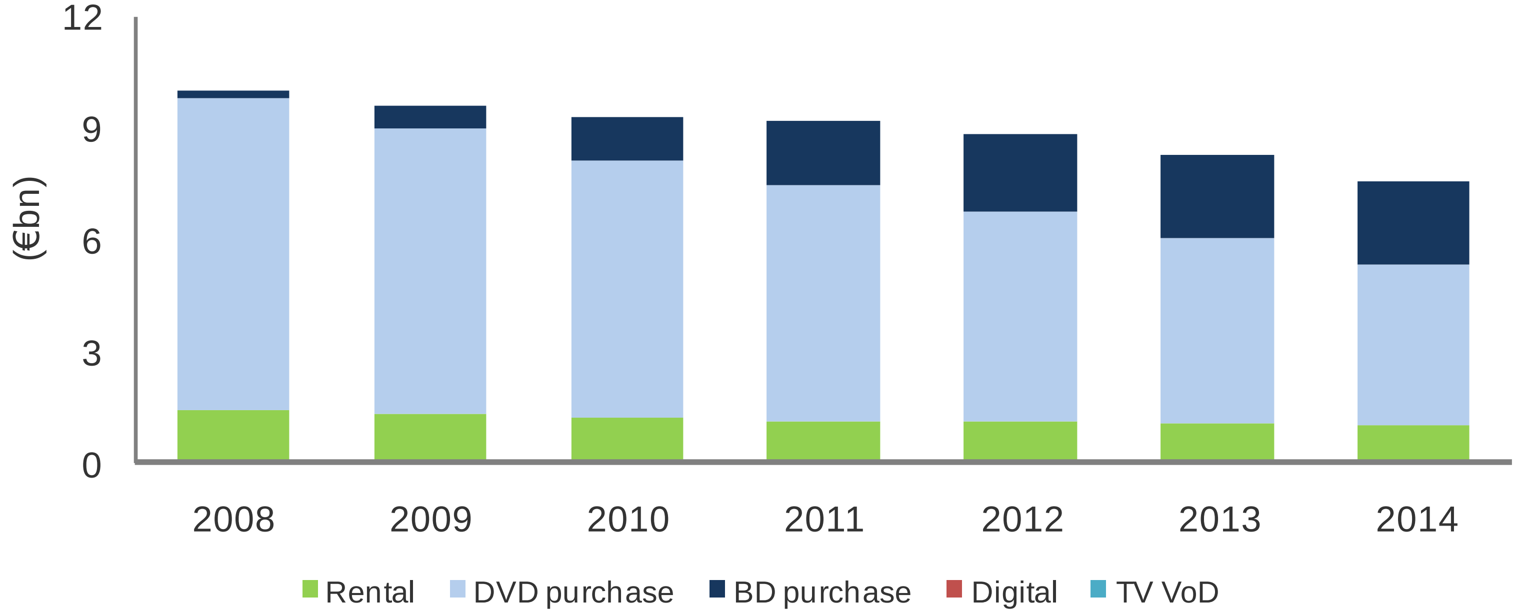


Note: Year 1 = 1997 for DVD, 2006 for BD

The bottom line: Blu-ray will not compensate for declines in DVD spending

- The matured DVD format plateaued around 2007 and has gone into decline
- Blu-ray Disc sales are growing but will not compensate DVD decline
- European rental market is marginal, forecast to drop by a third to €1bn
- Total physical video spending by 2014 is forecast at €7.6bn

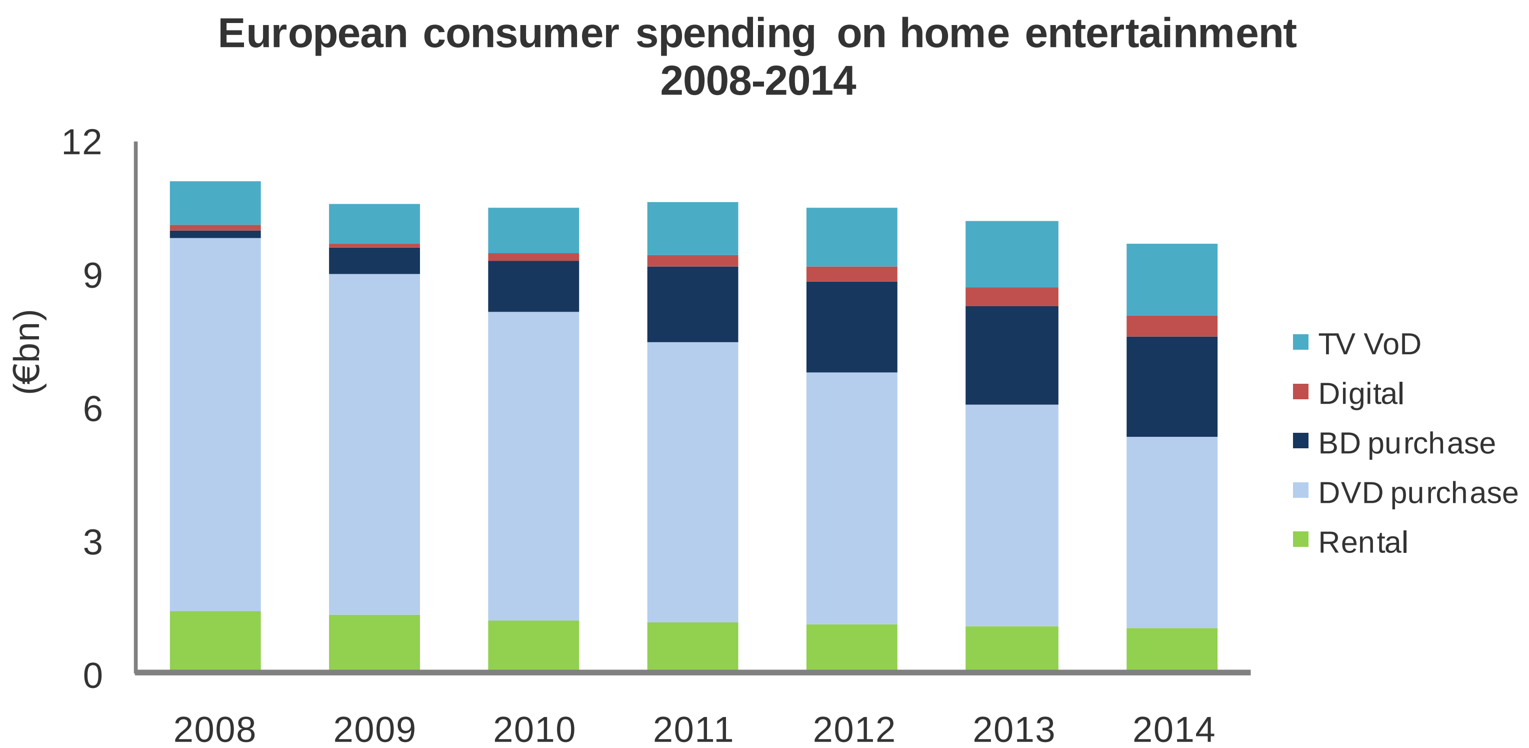
European consumer spending on home entertainment 2008-2014



Notes: Local currencies converted at fixed 2009 exchange rates

But digital delivery and TV VoD will help offset the difference

- Digital movies (retail and rental) and TV VoD (on-demand movies, TV and sports) will add €2.1bn to home entertainment spending
- Giving a combined physical/digital video spending figure of €9.7bn by 2014



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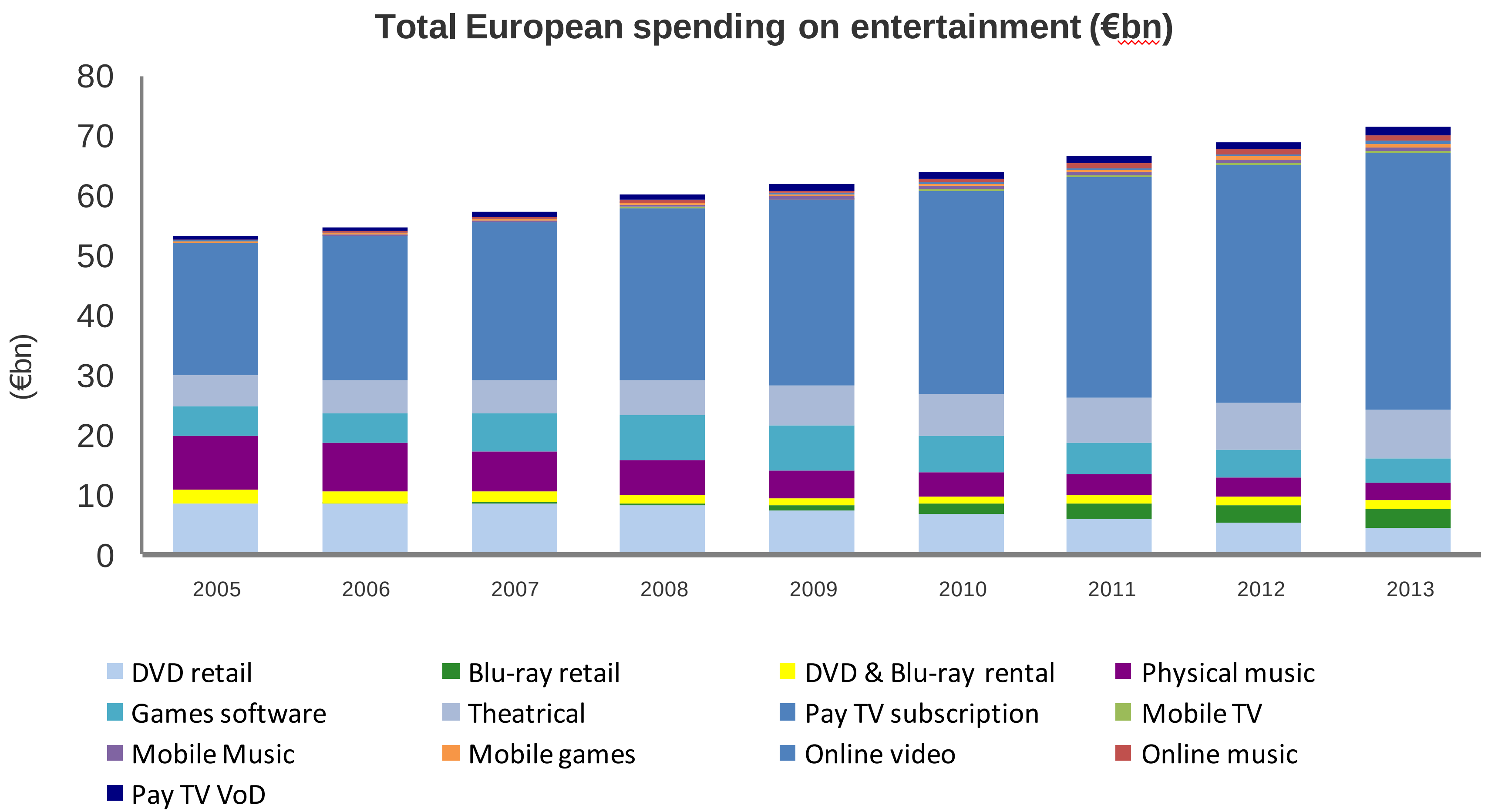
Overall, however, the entertainment pie is getting bigger

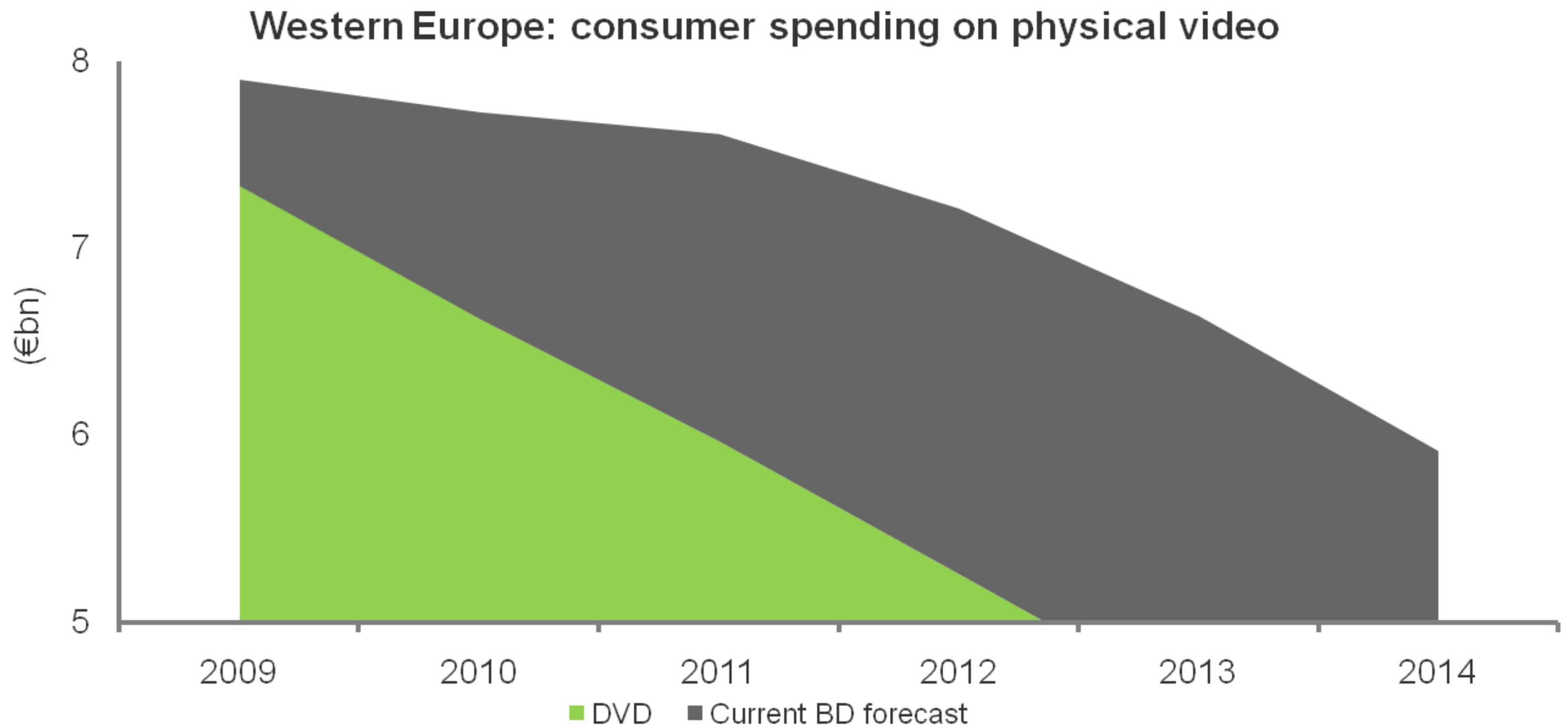


BD pricing strategies could be crucial to sustaining consumer spending

- Screen Digest's dynamic model allows us to build different forecasting scenarios
- If we adjust prices, the model automatically adjusts volume sales based on previous history
- We can then see what impact changes have on total spending

Based on current forecasts, consumers will spend €5.9bn on buying physical video in 2014

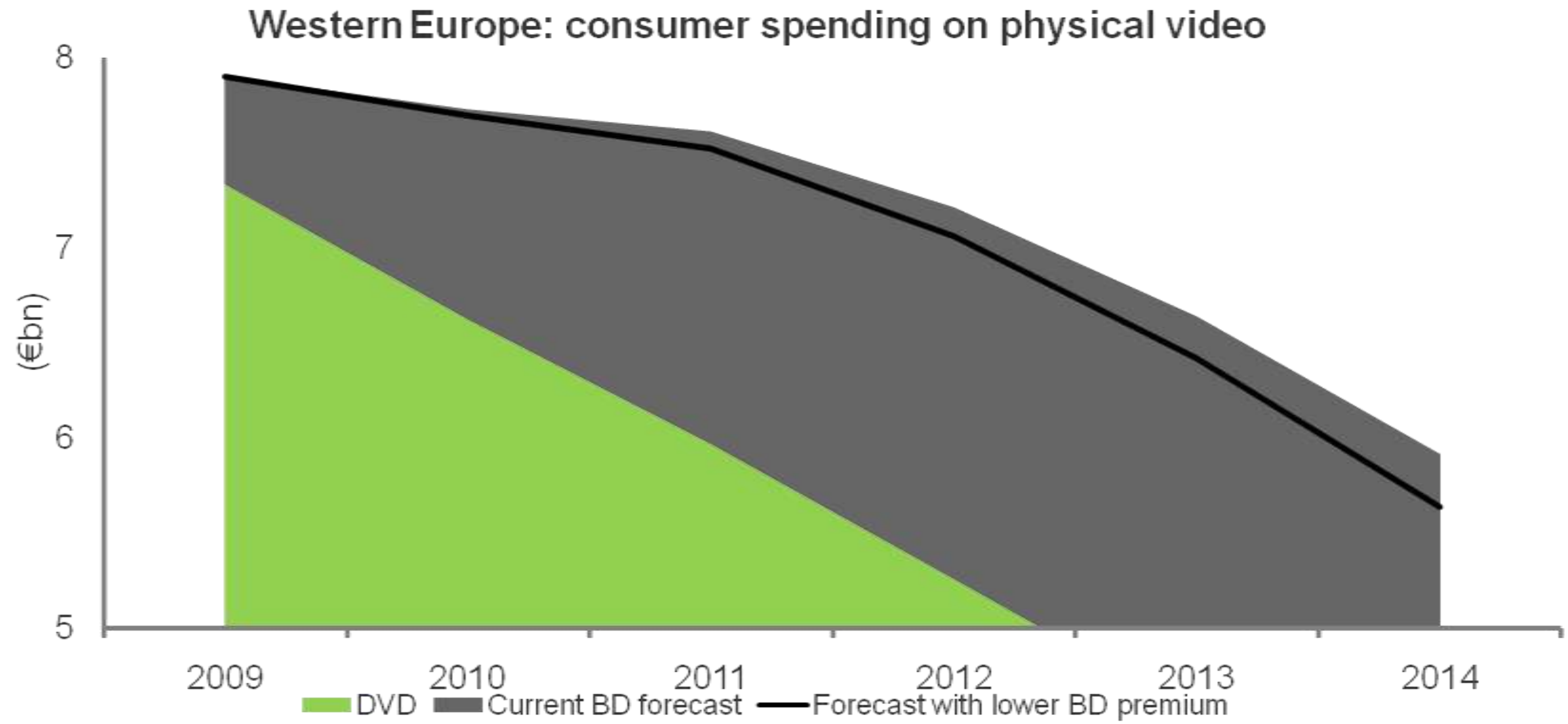
- In 2009, BD premium was 92% (BD €21.31 v DVD €11.30, ~ €10)
- In 2014, BD premium forecast as 33% (BD €12.06 v DVD €9.05, ~€3)



But what if BD premium drops to 13% in 2014?

Worst case scenario

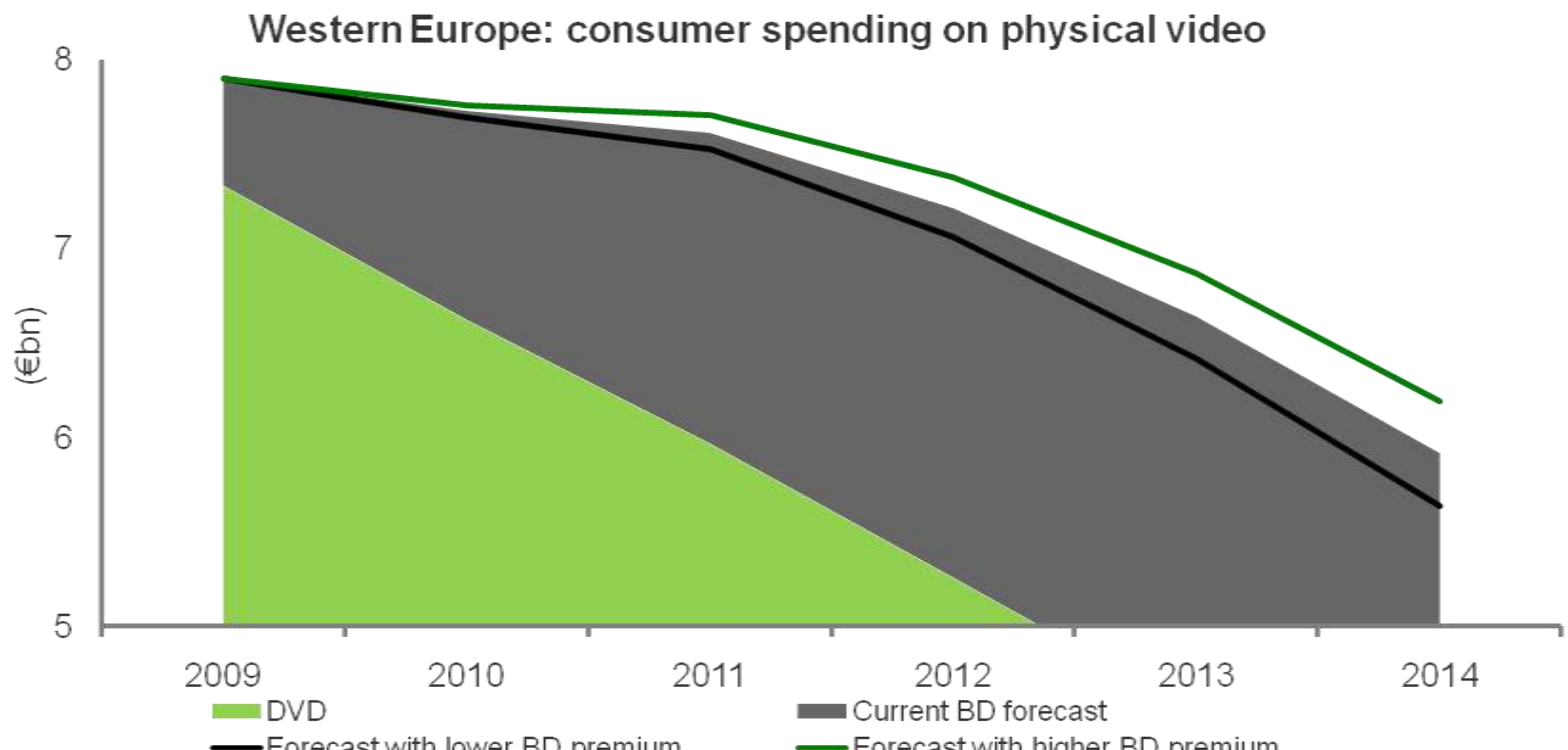
- BD price would be €10.31, down €1.75, DVD still €9.05 – BD premium is €1.26
- Although volumes rise, model shows spending **falling** to €5.6bn (down €300m)
- Effectively €750m in spending is wiped off over five year period



What if BD premium stays above 50%?

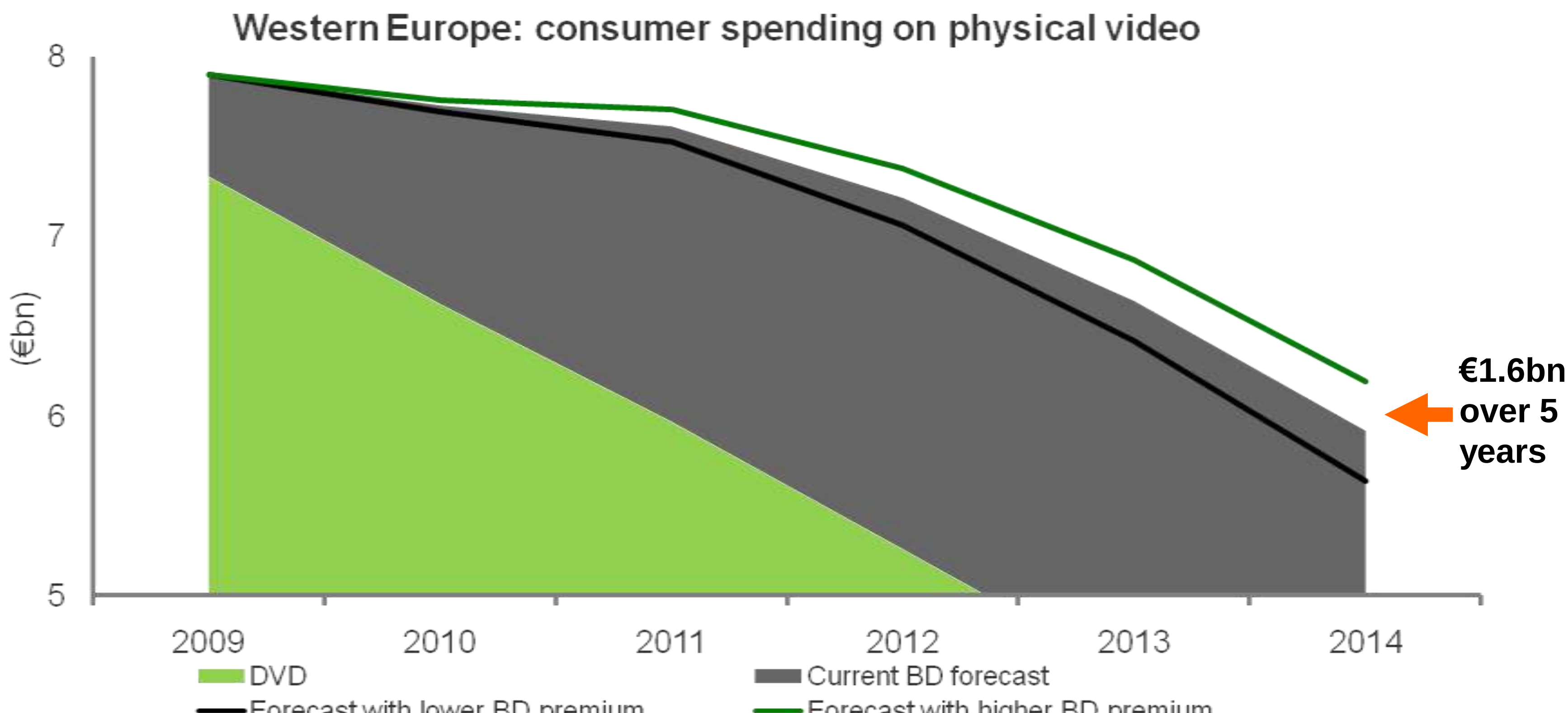
Best case scenario

- If BD premium is 53% in 2014, average BD price is €13.93 (DVD + €4.88)
- Volumes fall, but spending **rises** to €6.2bn, + €800m over five years

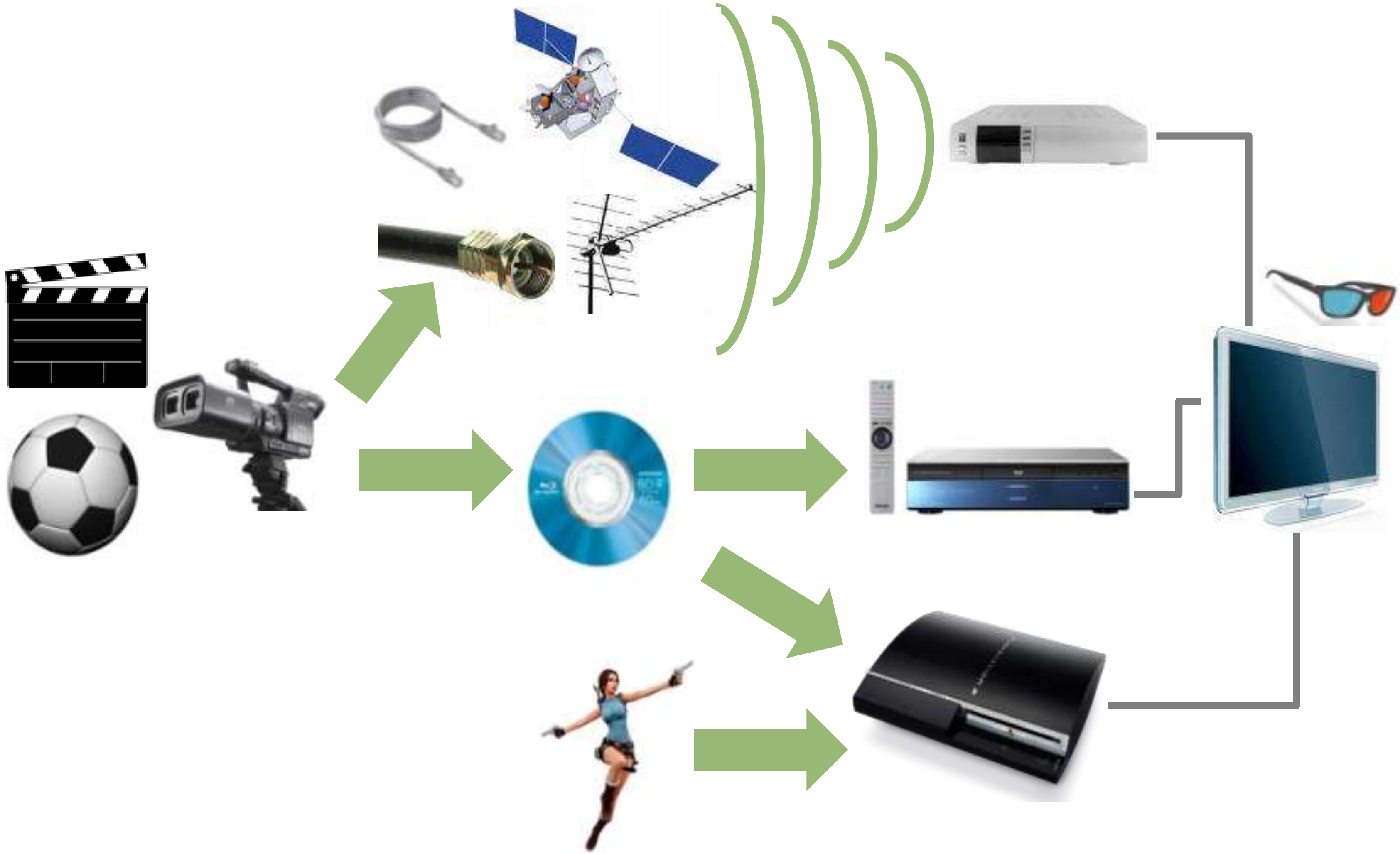


Maintaining the BD premium is crucial to sustain consumer spending

- The price change is relatively small for consumers (BD €10 & €14 v DVD €9)
- But gap between the two scenarios amounts to **over €1.6bn** over five years
- BD price strategies could have a significant impact on industry already in decline!

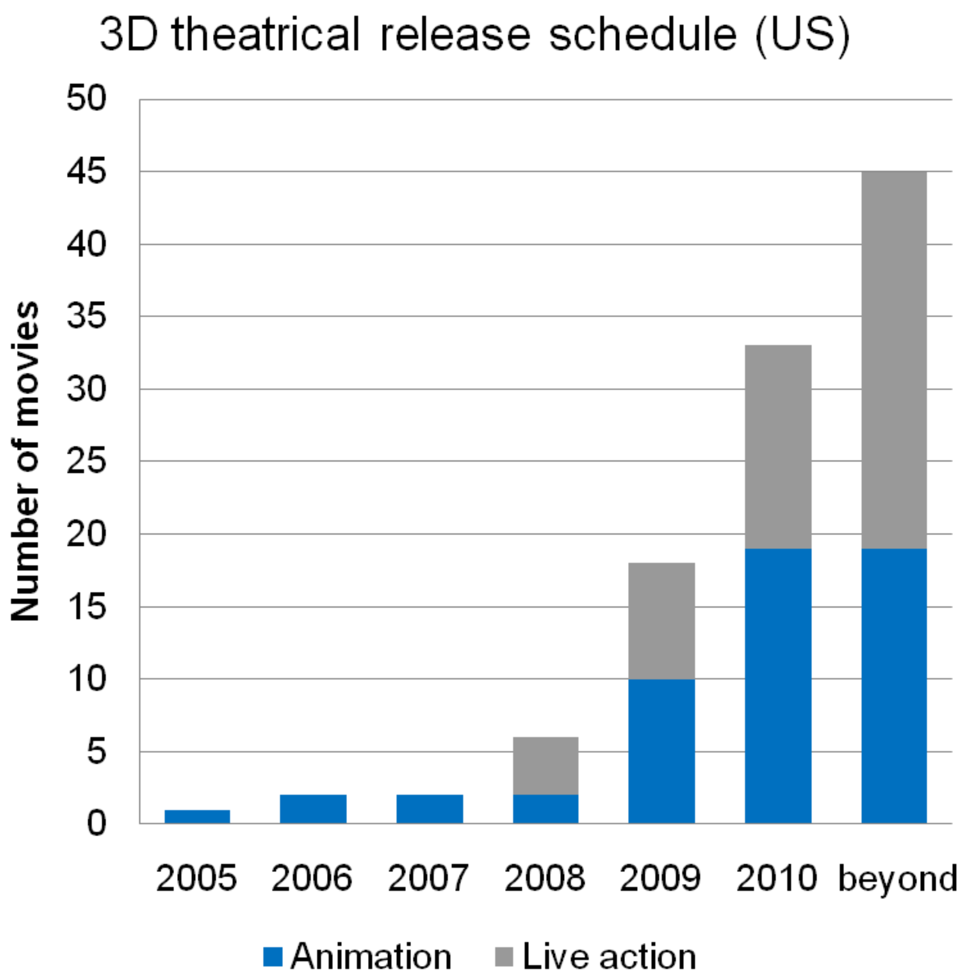


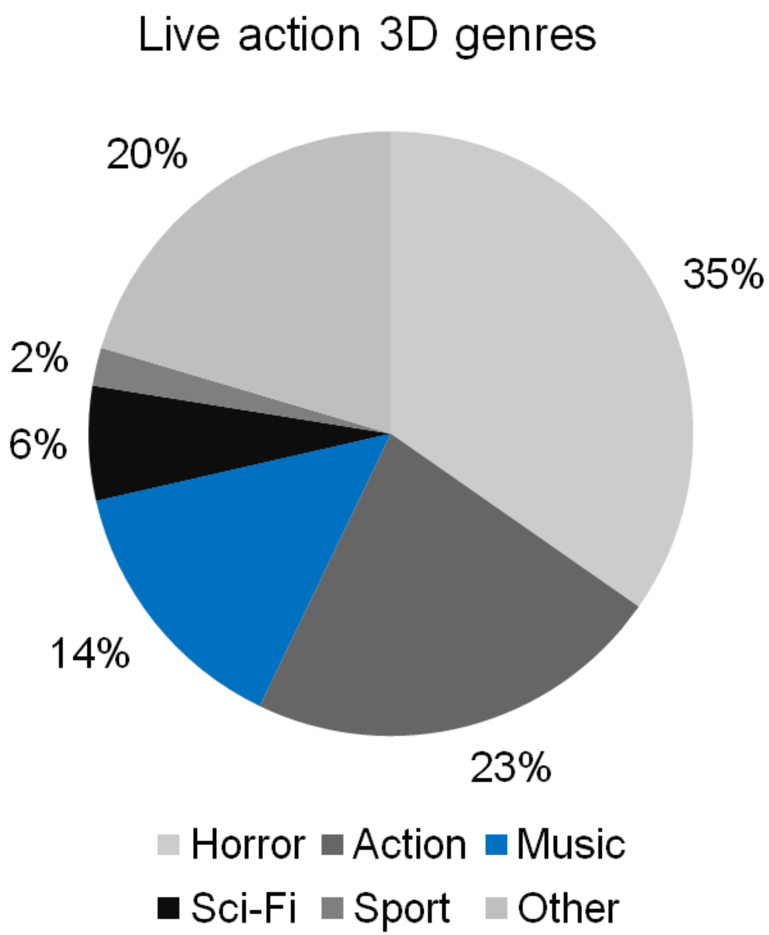
3D – like HD – is a complete ecosystem



…and it's all ready to go NOW!

Studios are committed to 3D production across all genres





Distribution via BD looks to be the biggest opportunity to bring 3D to the home

- Several studio 3D BD releases already confirmed with more to come
  - Disney: *A Christmas Carol, Alice in Wonderland, Toy Story 3*
  - Sony: *Cloudy With a Chance of Meatballs, Open Season*
  - DreamWorks Animation: *Monsters vs Aliens, Shrek 1, 2 & 3*
  - Fox: *Ice Age: Dawn of the Dinosaurs*

- 3D sport will be a huge consumer attraction and flag-waver
- **BUT** unlike broadcast TV, BD offers 3D in full 1080p to both eyes
  - Every 3D BD will play on all glasses and screen type (in theory!)
  - Backwards compatible with 2D BD players (in theory!)

- Expect a number of announcements about 3D this year
- But 2011 will be the year when things happen
- BD is set to be <u>the</u> delivery platform for 3D for the immediate future

Thank you!

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