

Blu-ray Market Overview

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Media-Tech 2008
Frankfurt, Tuesday 6 May

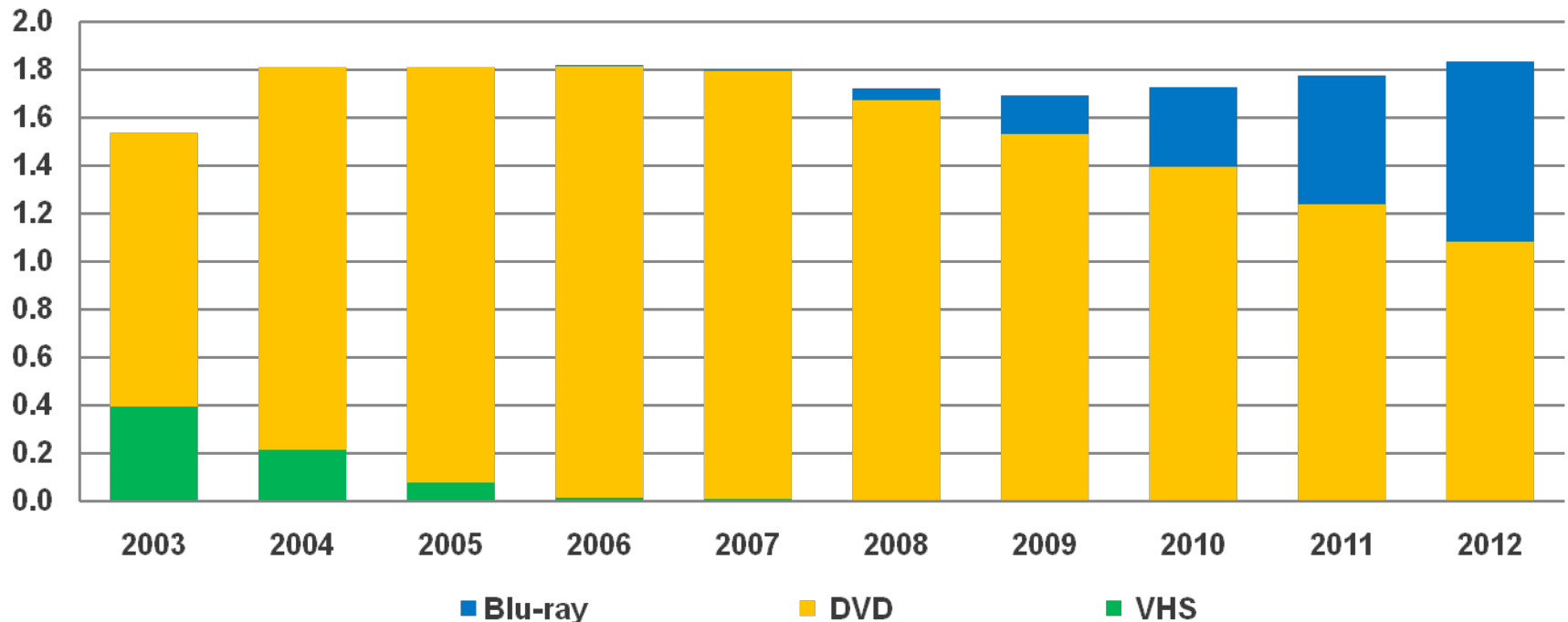
Who are we?

- Media research firm covering
 - Film production & distribution, TV, home video, games, broadband media, mobile media
 - Continuous online Intelligence research services
 - Flow of analytical reports
 - Custom consultancy
- In November 2007 Screen Digest acquired its long-standing US research partner Adams Media Research
 - Company now comprises around 40 analysts
- Organisers of PEVE Digital Entertainment conference

How will the market develop?

- Unit sales to consumer sales likely to decline 2008-2009
 - Predominantly driven by declines in the US
- Unit sales recover as consumers switch to Blu-ray
 - Blu-ray to account for one in three sales by 2011

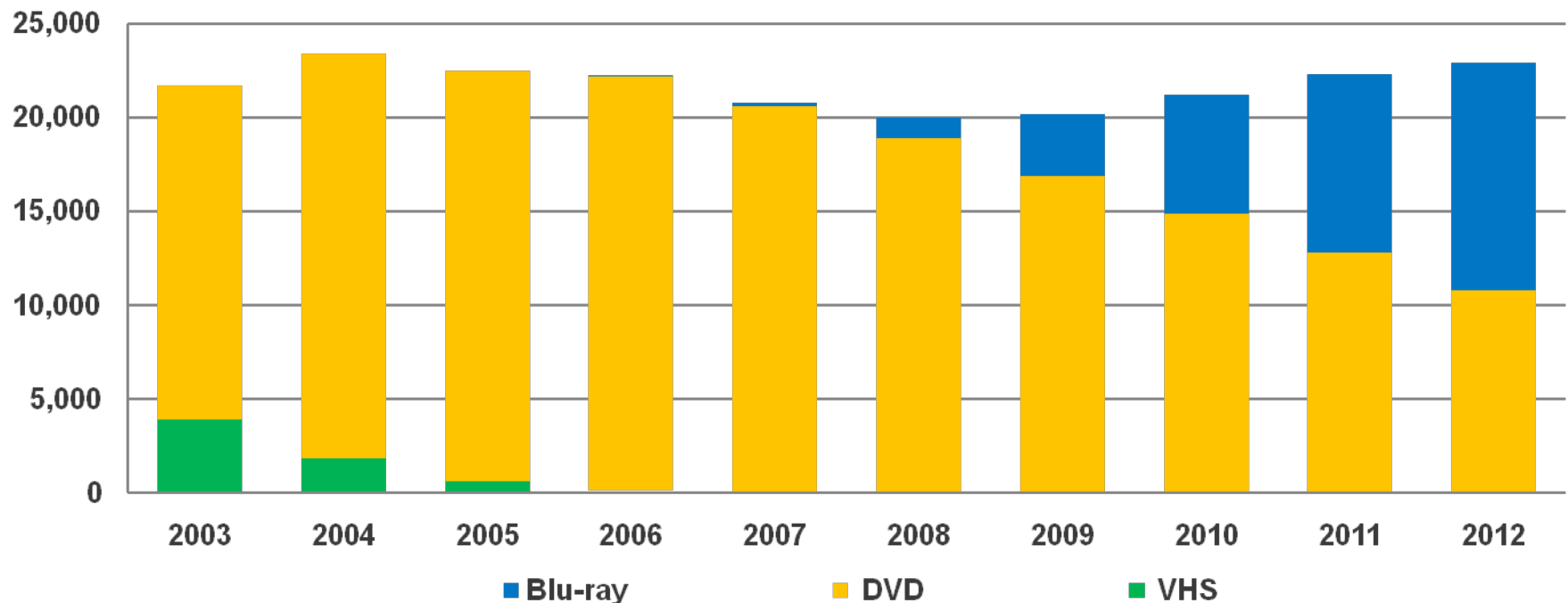
W. Europe & USA: sales to consumers (Bn)



What does this mean for consumer spending?

- Consumer spending on packaged media has been declining since 2004
 - DVD spending has reached a plateau
- As Blu-ray replaces DVD, consumer spending may increase
 - Provided price premium is maintained

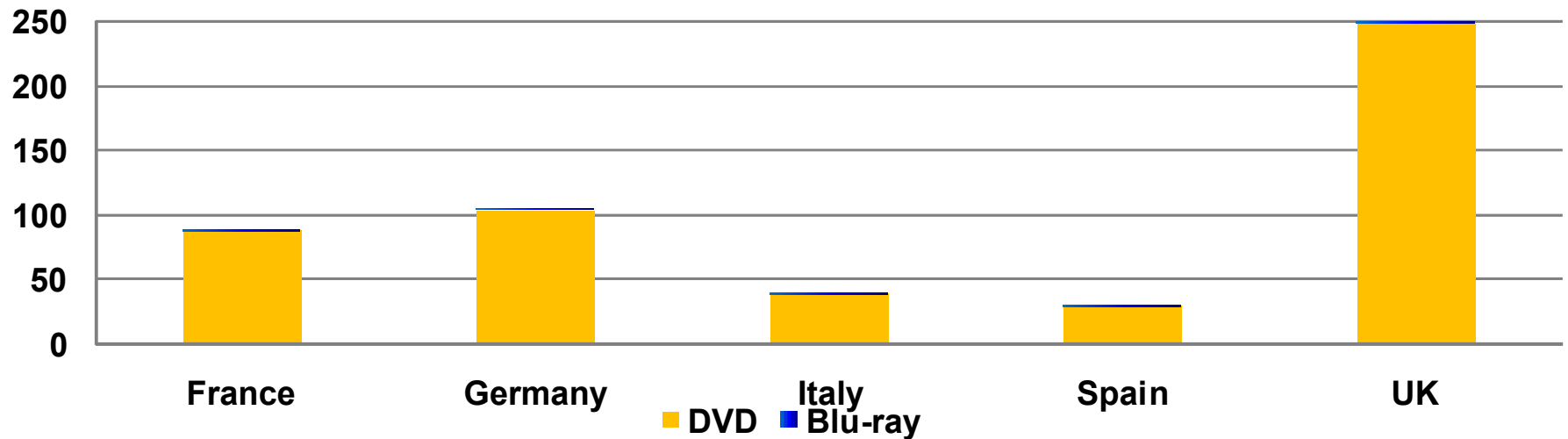
W. Europe & USA: Consumer spending on movies (\$m)



It's still early days for Blu-ray in Europe

- Compared to DVD, Blu-ray Disc barely registered as part of the market in 2007

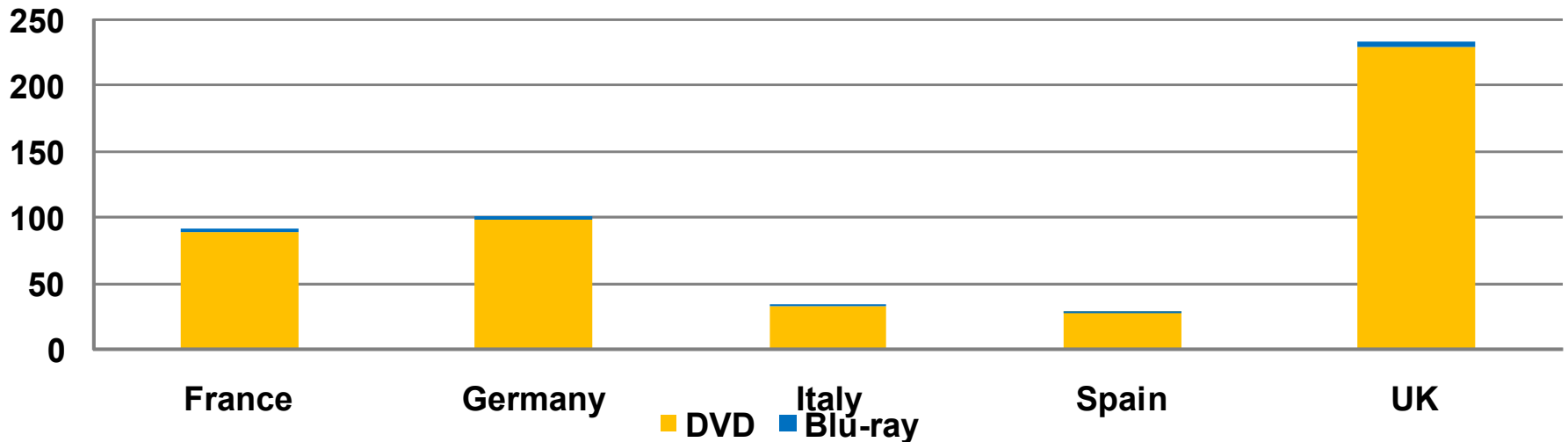
Video discs sold to consumers 2007 (m)



And even in 2008 its share will be minimal

- Blu-ray will account for 2% of total video disc sales in Europe in 2008
- Although its higher price means Blu-ray will punch above its weight
- So why is everyone getting so excited about it?

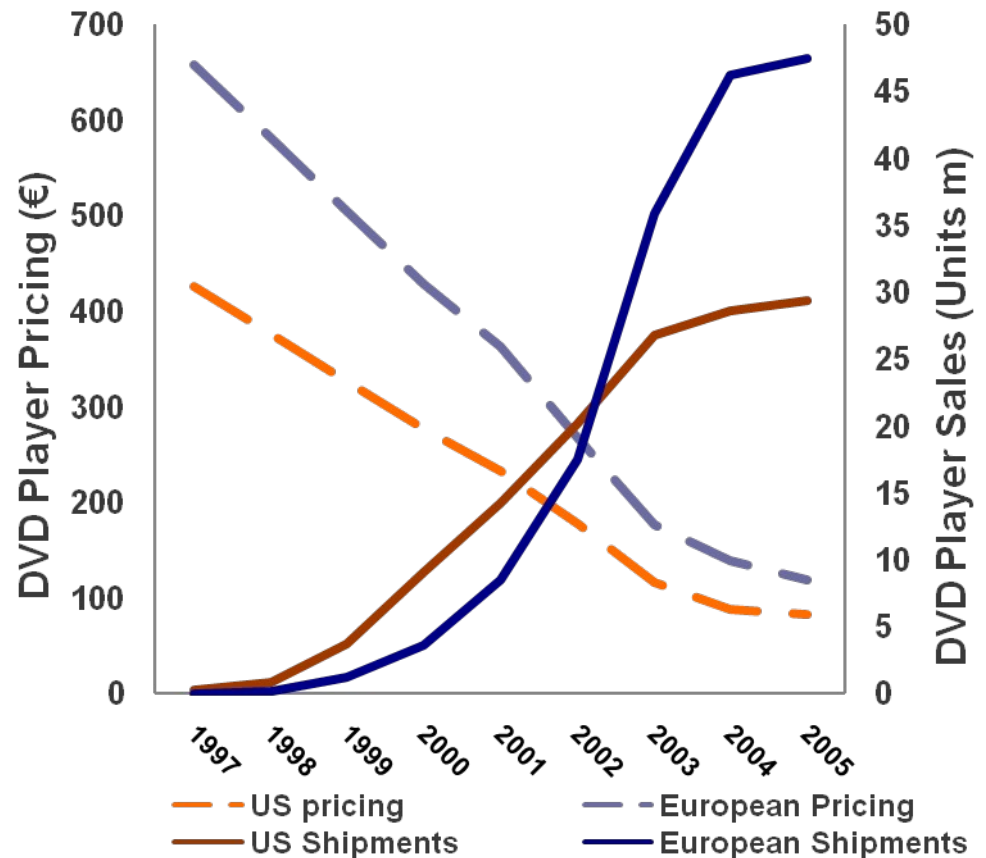
Video discs sold to consumers 2008 (m)



Rate of hardware adoption: DVD

- DVD also took off slowly
- 4 years to reach early mass-market in the US and Europe
- Significant perceived improvement in audio-visual quality
- Consumer price of hardware played a pivotal roll
- Average prices:
 - At launch €650
 - After 4 years >€300
 - Today €100

US and European DVD Player Prices and unit Sales



Rate of hardware adoption: Blu-ray

- The real impact of the format war: rapidly declining hi-def player prices
 - Early entry-level BD players were priced at €1,000
 - Within 12 months this had fallen to €400
- Without the competition between the two formats it is unlikely that prices would have fallen this quickly
 - DVD hardware prices took 5 years to fall to similar levels.
- There are additional factors that will affect Blu-ray take-up

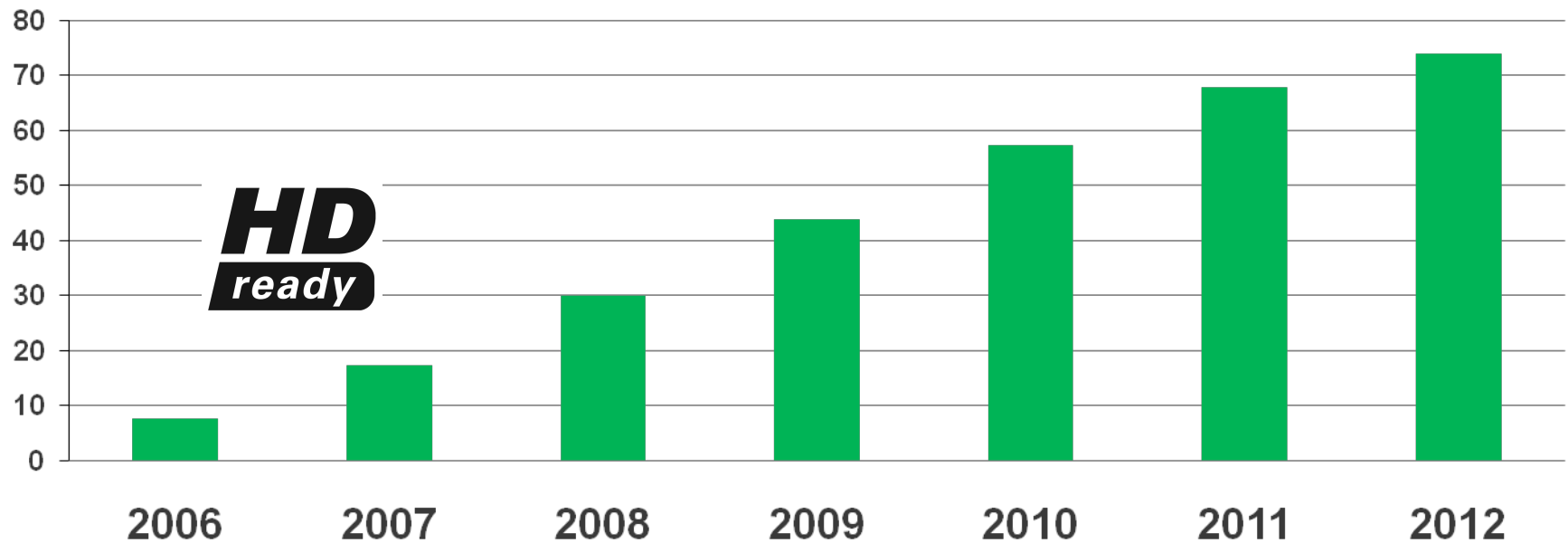
Rate of hardware adoption: Blu-ray

- The rate of HDTV adoption limits the potential for Blu-ray
 - Little value in a video playback device that won't work with the display
 - HDTVs must be 'HD-ready' to accept the HDMI input required for full hi-def
 - But HDTV adoption is increasing swiftly
- HDTV demand will initially be driven by screen size and a desire for flat panel displays
 - Sporting events drive sales
 - Aesthetics influence purchase decisions




HD-display market in Europe

- 28m equipped households at end 2007 (17%)
- Rising to 121m by 2012 (74%)

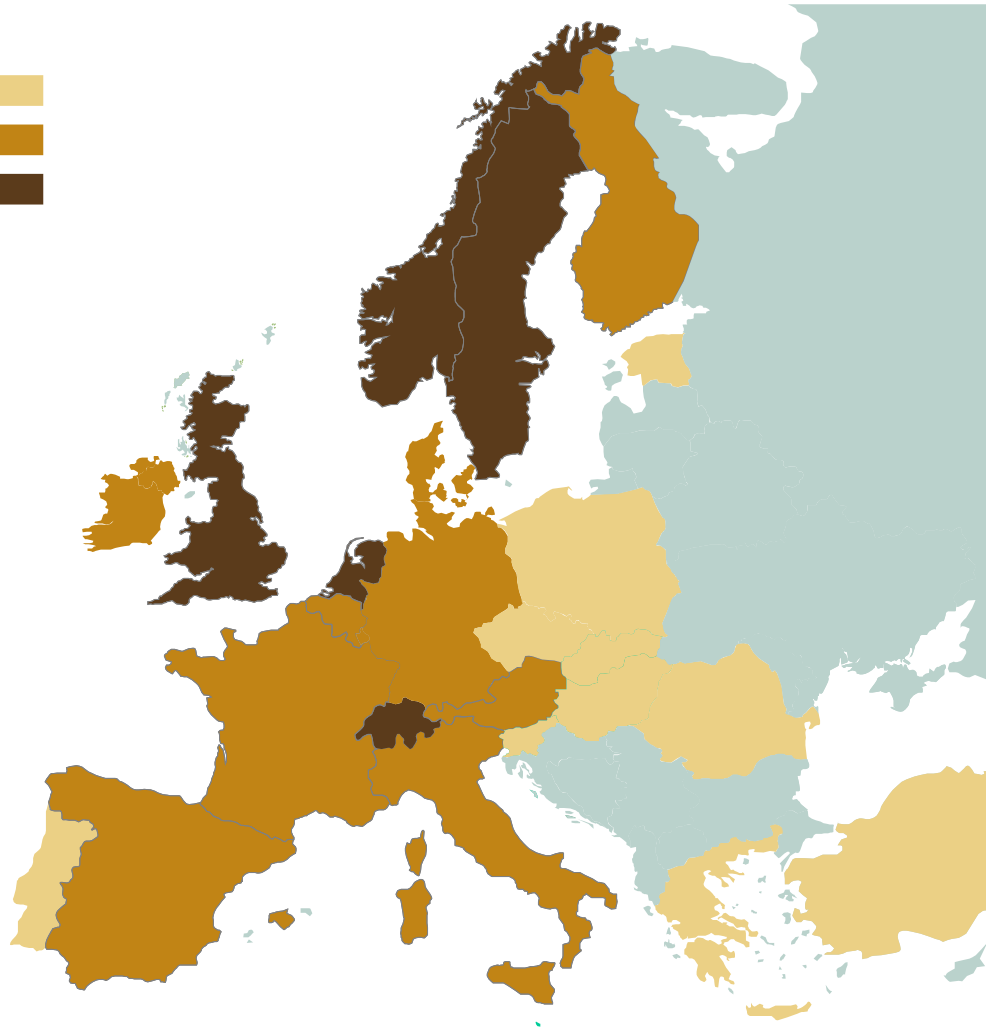
W Europe HDTV penetration (%)







HD-display market Europe: 2007

Less than 10% 
10%-20% 
More than 20% 

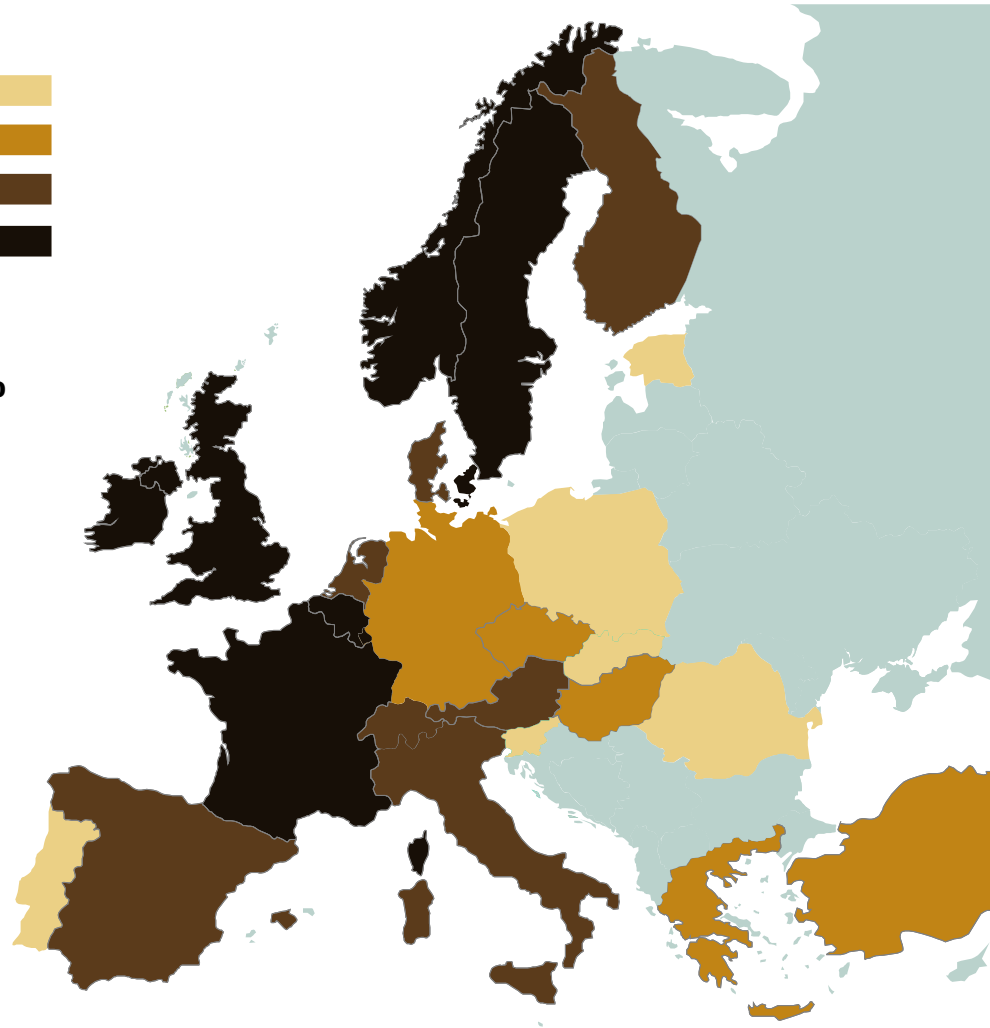
W Europe 17: 17%
C/E Europe 7: 5%
Europe 25: 14%



HD-display market Europe: 2012

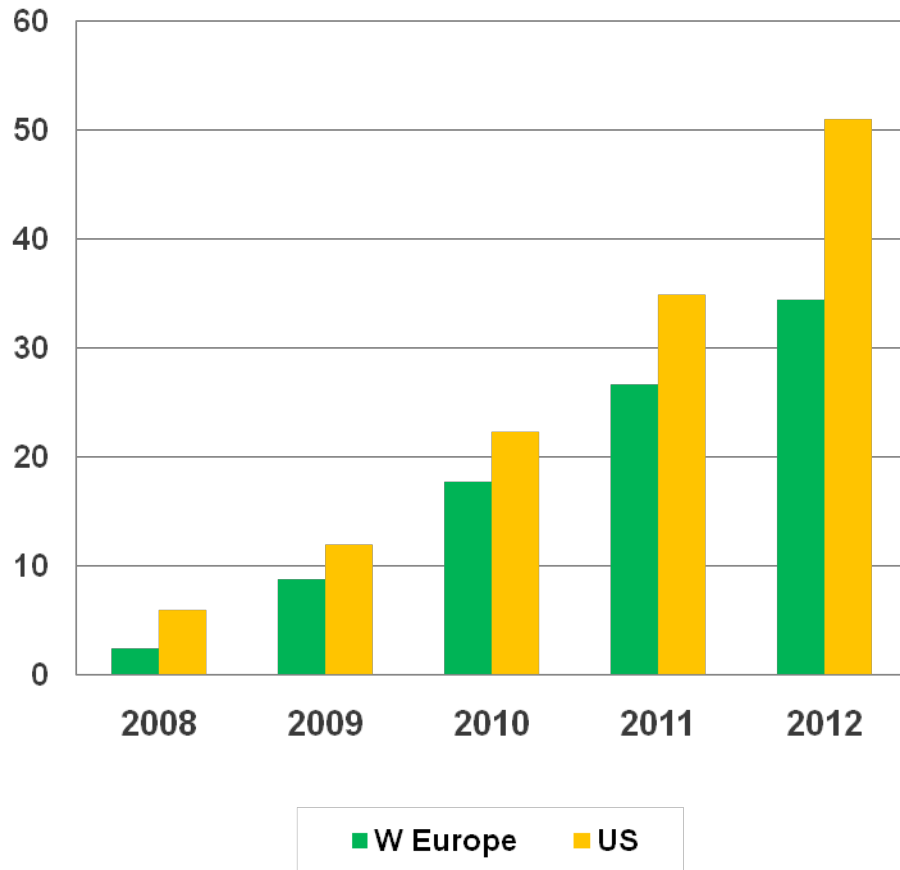
Less than 40% 
40%-60% 
60%-65% 
More than 65% 

W Europe 17: 62%
C/E Europe 7: 38%
Europe 25: 58%



Rate of hardware adoption: BD standalone players

BD standalone penetration of HDTV HHs (%)

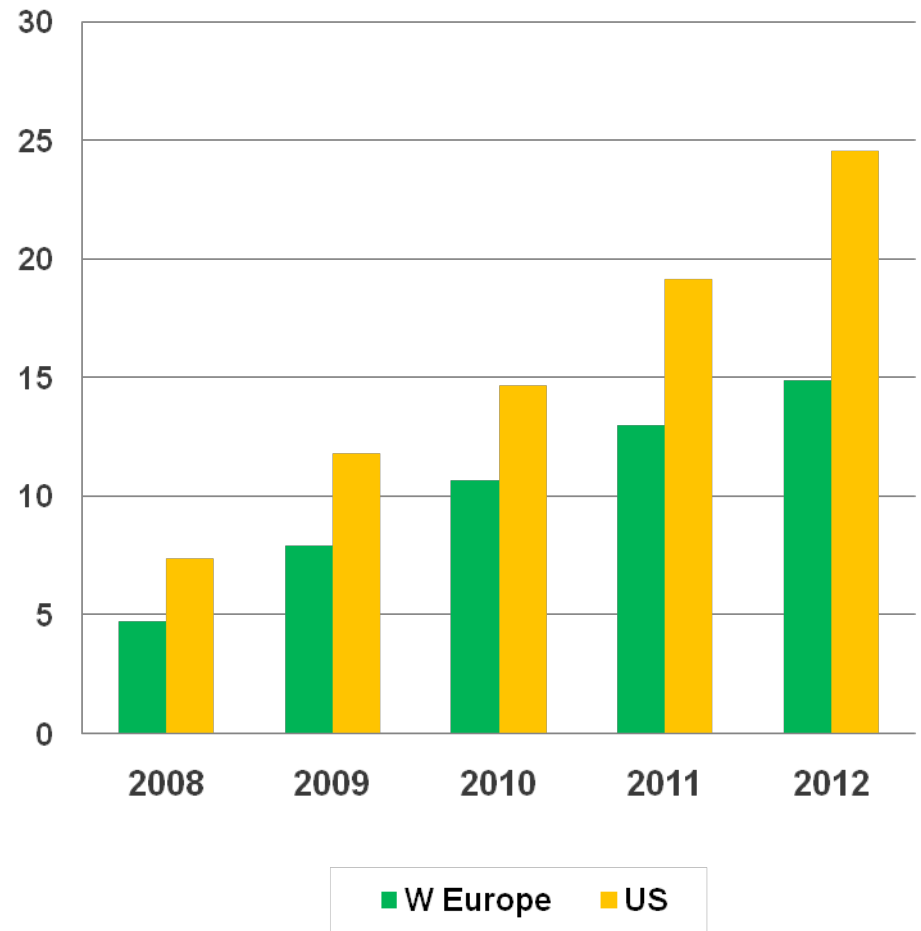


- Constraints of HDTV market means take-up will be slower than for DVD
- But more rapid price erosion resulting from the format war will aid adoption
- Blu-ray's victory means prices have stabilised and average prices will now increase
- Higher spec, higher priced machines will enter the market to service the evolving BD format
- Profile changes may lead to consumer dissatisfaction with some standalone players

Rate of hardware adoption: BD consoles

- Sony's 'Trojan horse', the PS3, can make up the shortfall in early years
- PS3 has proved it can appeal to more than hardcore gamers
- Likely to be the BD player of choice in 2008
 - Low price
 - High spec
 - Future-proof
- In 2007, PS3s outsold all standalone hi-def players combined by 10:1 in Europe

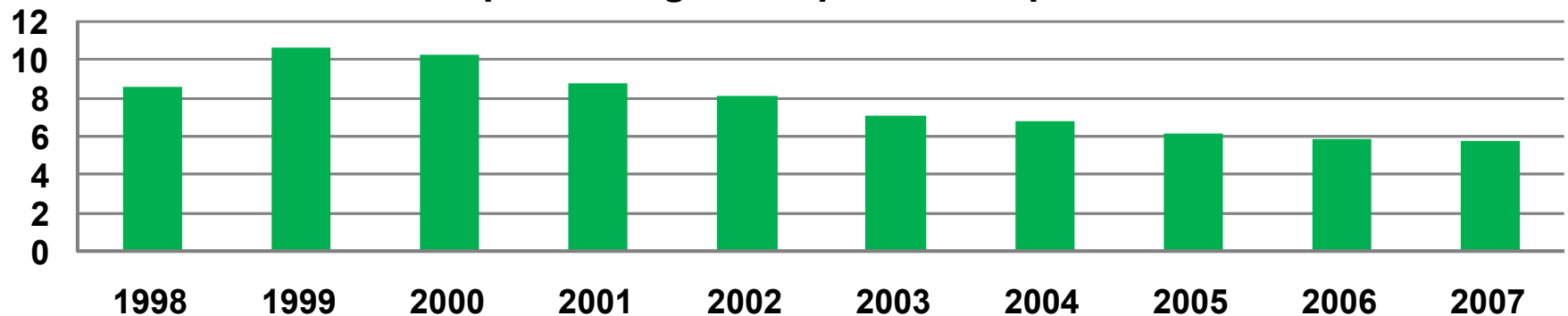
BD console penetration of TV HHs (%)



What will this mean for software?

- DVD showed that, after the first full year, average buy rates naturally decline as market expands beyond earlier adopters
- BD movies will be competing with games titles in PS3 HHs
 - GTA4 is one of many games franchises coming out in 2008
 - Pro Evolution Soccer and FIFA 2008
 - Gran Turismo 5: Prologue
 - Tony Hawk's Proving Ground

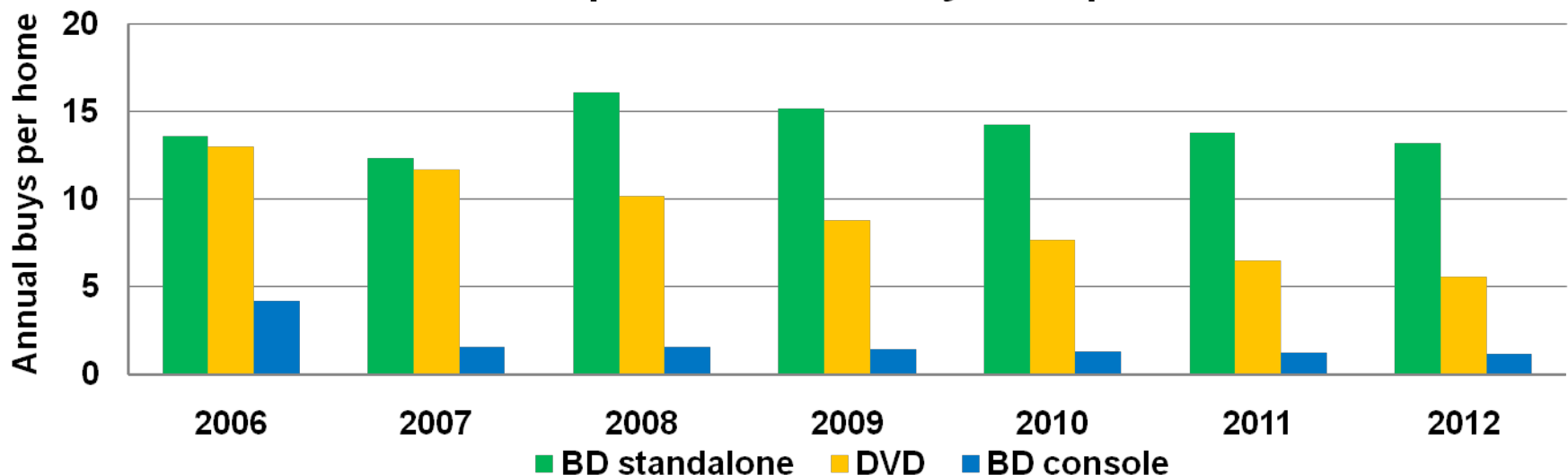
W Europe: Average DVD purchases per DVD HH



In the US, high average buy rates drive the early market

- Average BD unit sales to standalone households is in the low teens
 - Likely to grow in 2008 now the threat of format redundancy is gone
- DVD buy rates will continue to decline
- PS3 buy rate remains low
 - Consumer entertainment spending split between games and video
 - No requirement to link PS3 to a HDTV

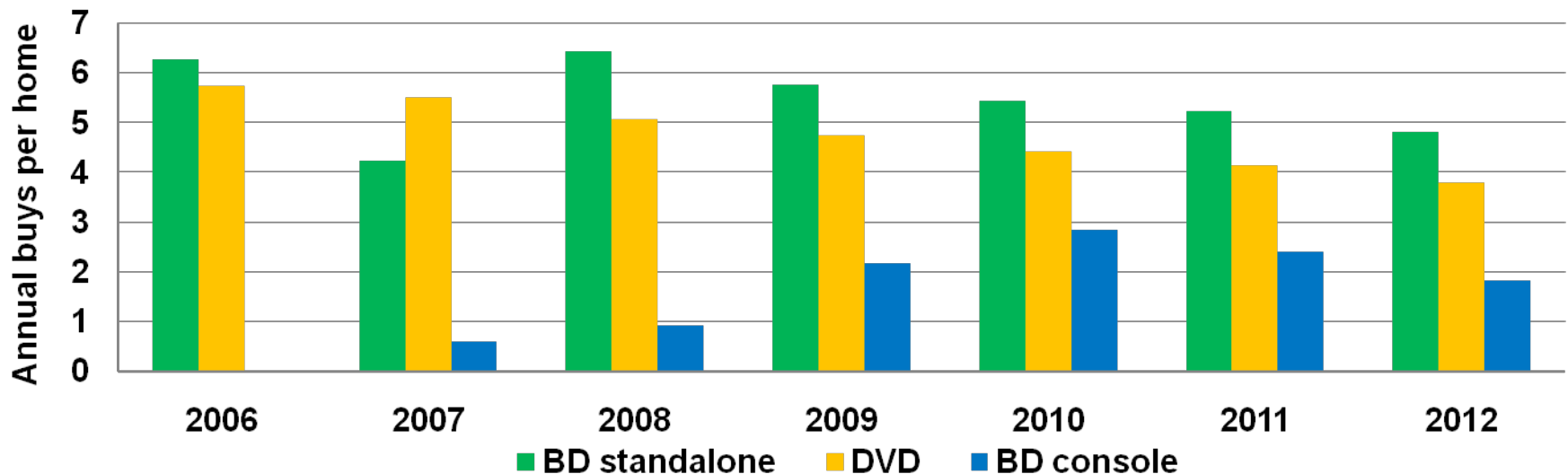
US: Comparative annual buy rates per home



Buy rates in Europe have always been lower

- In Europe average buy rates are far lower than in the US
 - Blu-ray owners will continue to buy DVD
 - DVD buy rates will continue to decline
 - But most BD owners will 'cherry pick' BD titles
- PS3 buy rate remains low
 - Higher cost of hardware in Europe also affects adoption rates

W Europe: Comparative annual buy rates per home

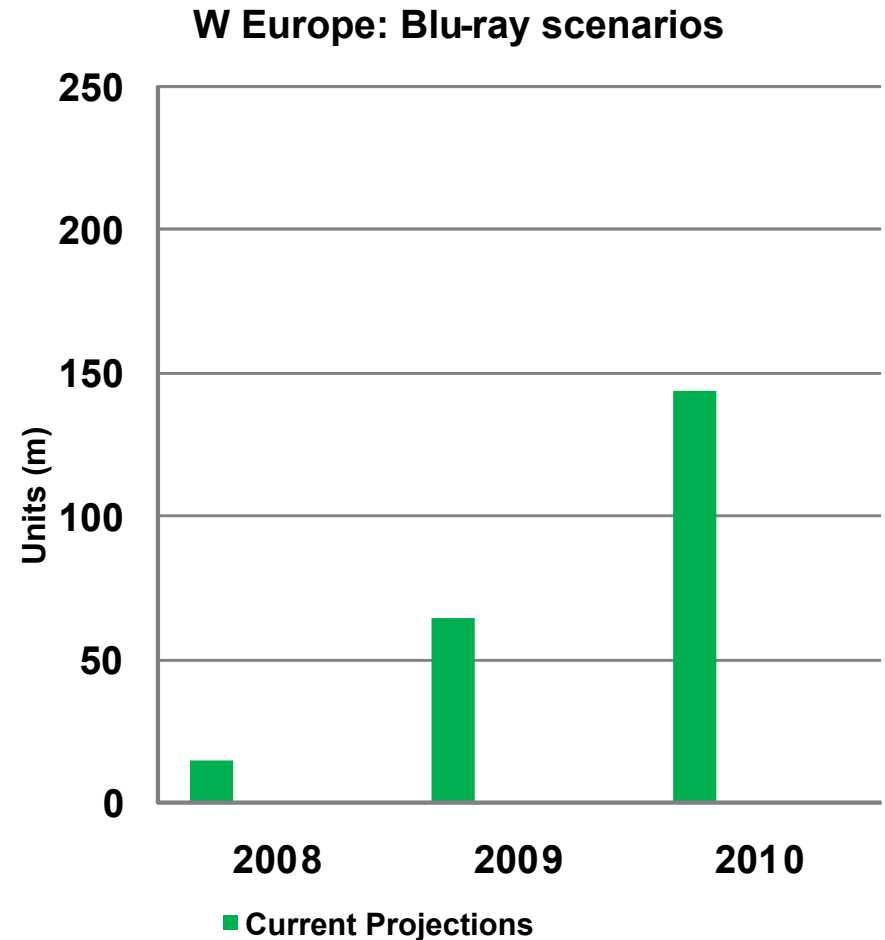


Can PS3 users be turned into BD movie buyers?

- Sony is actively promoting the PS3 as a Blu-ray player in the US
- Research unveiled by Warner at PEVE 2008 showed:
 - Time spent by PS3 owners watching BD movies rose from 15% in Q4 07 to 23% in Jan/Feb '08
 - Proportion of US PS3 homes using console as a BD player rose from 53% in Sept '07 to 80% in Jan '08
 - After Sony's 'watch movies on BD' ad aired, proportion of PS3 HHs buying BD movies rose from <10% to >15% (Oct-Dec '07)
- Christmas gifting and lack of compelling PS3 games may also have been a factor
- But even a small increase in PS3 buy rates could be significant

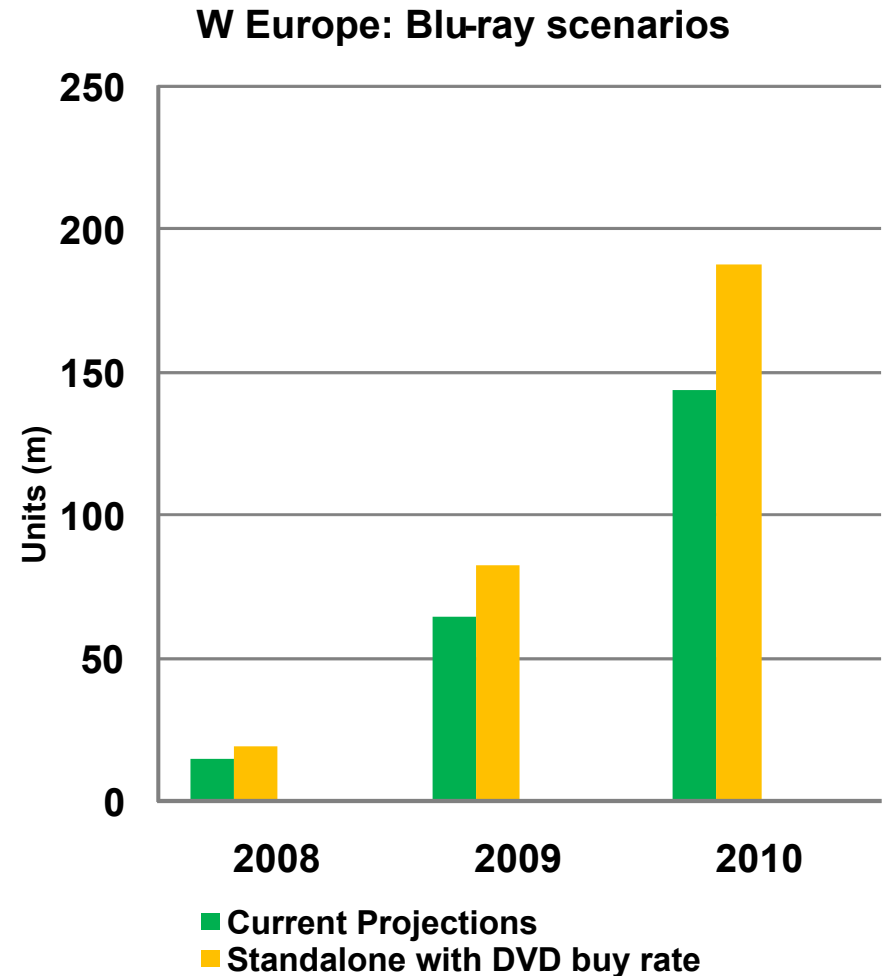
If buy rates grow faster than expected, volume will grow even more quickly

- Current projections for European BD enabled HHs
 - 14m units in 2008
 - 143m units in 2010



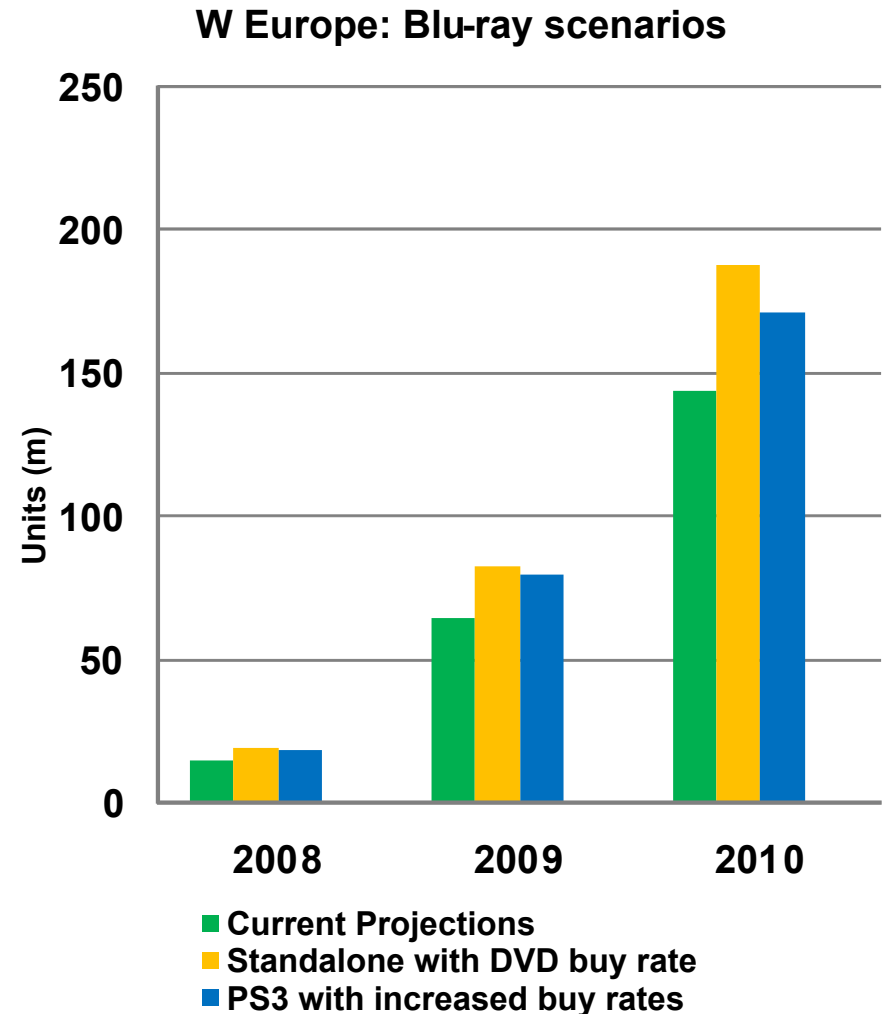
If buy rates grow faster than expected, volume will grow even more quickly

- Current projections for European BD enabled HHs
 - 14m units in 2008
 - 143m units in 2010
- Blu-ray standalone player HHs increase BD buy rates to early DVD levels
 - 18m units in 2008
 - 187m units in 2010



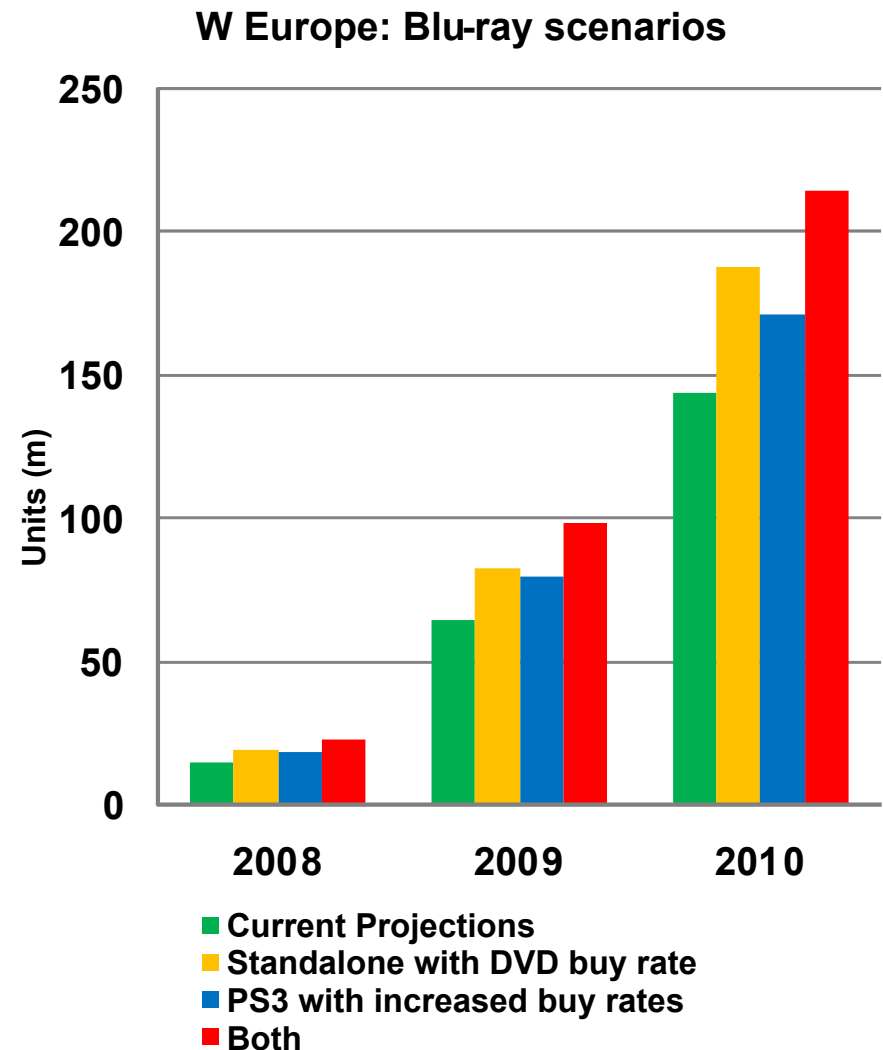
If buy rates grow faster than expected, volume will grow even more quickly

- Current projections for European BD enabled HHs
 - 14m units in 2008
 - 143m units in 2010
- Blu-ray standalone players HHs increase BD buy rates to early DVD levels
 - 18m units in 2008
 - 187m units in 2010
- PS3 BD buy rates rise from less than one per HH to 1.5
 - 18m units in 2008
 - 170m units in 2010



If buy rates grow faster than expected, volume will grow even more quickly

- Neither scenario is unreasonable; possible that both could occur
 - 22m units in 2008
 - 214m units in 2010
- If so, BD demand could be 50% higher than current forecasts



Thank you

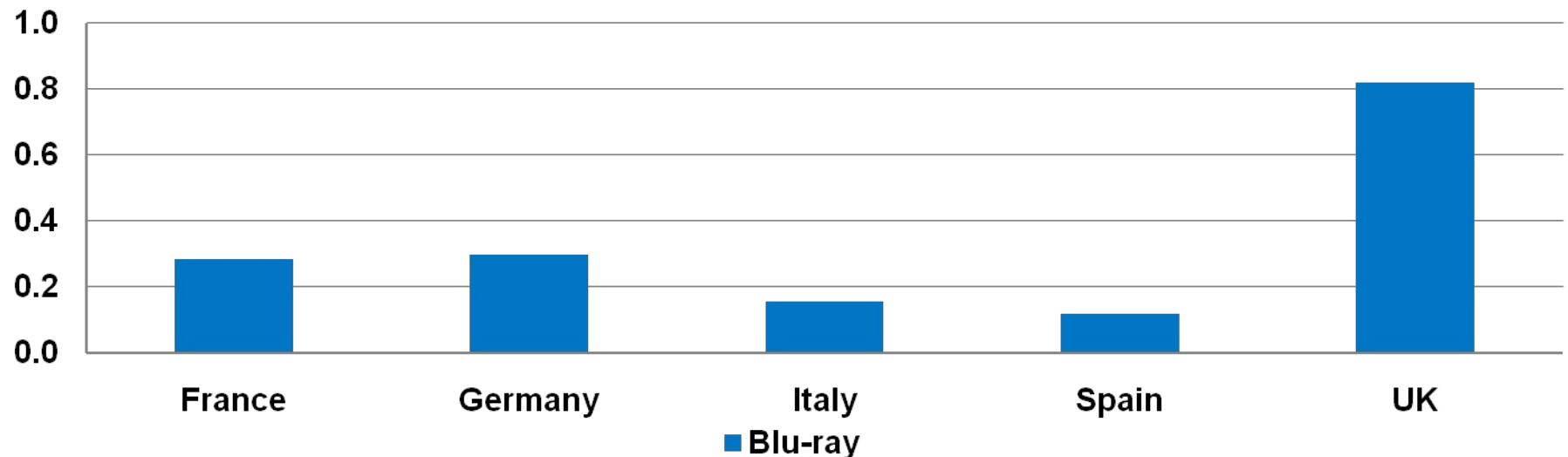
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Blu-ray is yet to make an impact in European markets

US	April 2006	5,192,000 unit sales in 2007
UK	October 2006	819,000 unit sales in 2007
France	October 2006	285,000 unit sales in 2007
Germany	October 2006	300,000 unit sales in 2007
Italy	January 2007	157,000 unit sales in 2007
Spain	January 2007	120,000 unit sales in 2007

Blu-ray discs sold to consumers (m)



Between 2007 and 2012 we expect Blu-ray to boost total spending in most key markets

Retail DVD: market evolution 2007-2012

	<u>Spending</u>	<u>Units</u>	<u>% Hi-def 2012</u>
UK	0.9%	2.6%	34%
France	5.4%	6.0%	42%
Germany	2.3%	0.4%	35%
Italy	4.4%	1.8%	44%
Spain	0.5%	-1.4%	26%