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Digital roll-out in Europe

2012: the year of the watershed

by Elisabetta Brunella,

Secretary General, MEDIA Salles

22 February 2012

Eurocinema Expo, Krakow

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Digitalisation worldwide:

digital screens* increasing everywhere

as at 01 January of each year

		2006	2007	2008	2009	2010	2011
Africa + Middle East	AF	1	3	3	27	75	*289*
Asia and Pacific	AS	207	354	786	1,458	3,469	*8,237*
Europe	EU	204	527	897	1,535	4,684	10,335
Latin America	LA	16	21	26	48	485	*1,670*
North America	NA	173	1,957	4,576	5,660	7,934	*15,654*
TOTAL		601	2,862	6,288	8,728	16,647	*36,185*

* Equipped with DLP Cinema or SXRD technology

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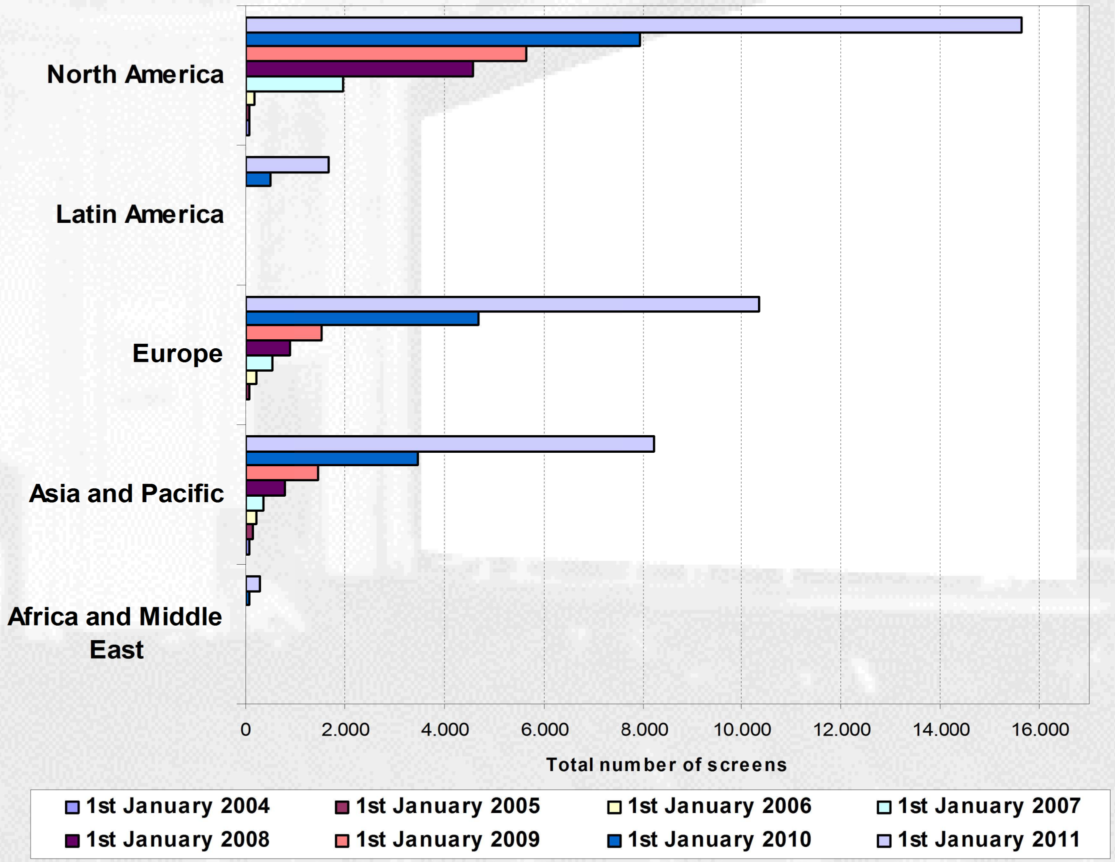
Digital screens – situation worldwide



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Focus on Europe:

Digital cinema sites and screens

(as at 01 January of each year)

	2004	2005	2006	2007	2008	2009	2010	2011
Digital screens	30	55	204	527	897	1,535	4,684	10,335
Digital sites	27	45	148	358	550	821	2,366	4,107

Degree of penetration as at 01 Jan 2011

Screens 29% - Sites 35%

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Focus on Europe

During 2010:
Screens equipped with DLP Cinema or SXRD technology more than doubled

from 4,684 to 10,335

Growth rate in 2010: +120.6%

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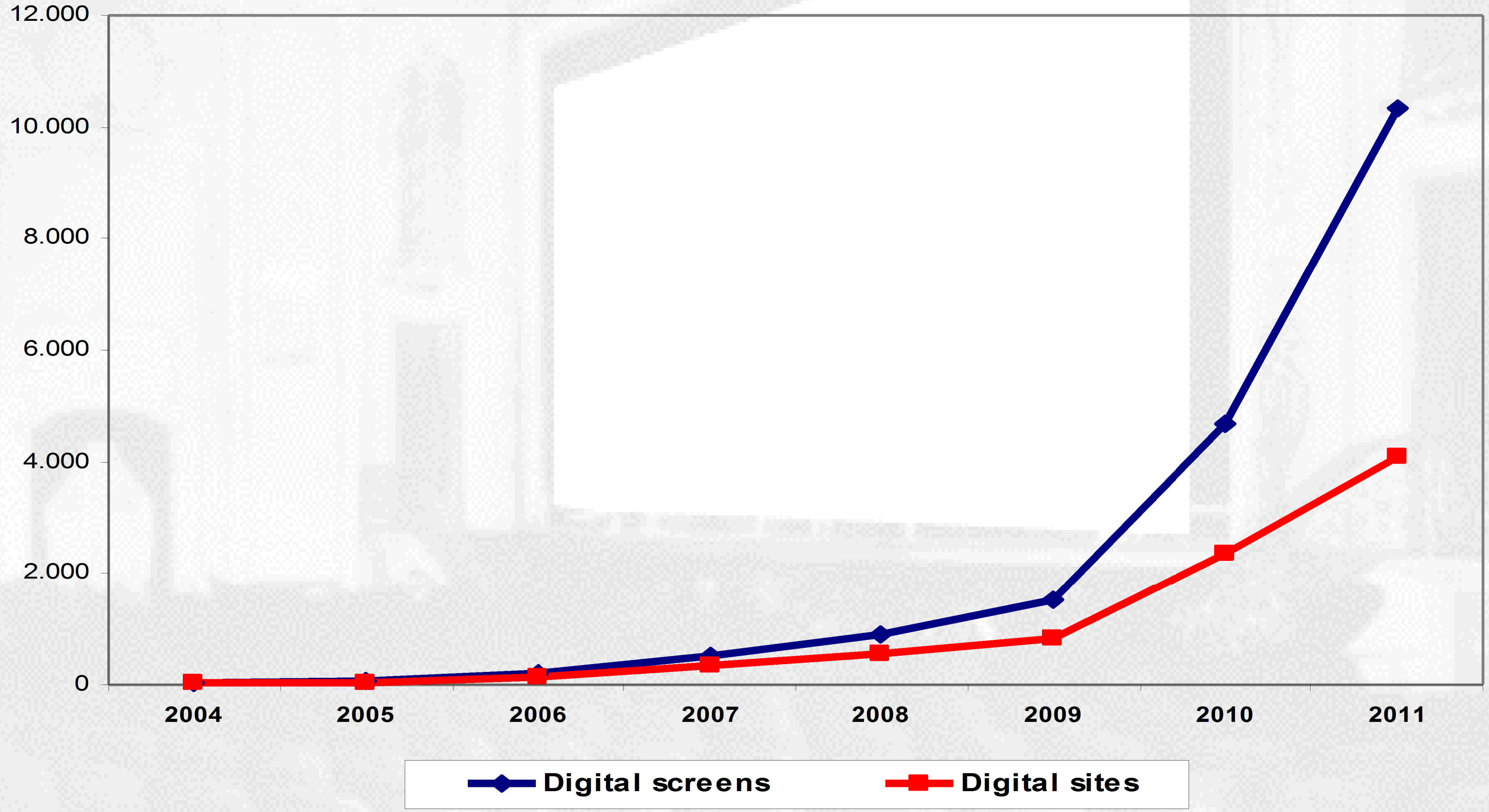
Digital cinema sites and screens in Europe (as at 1 January)



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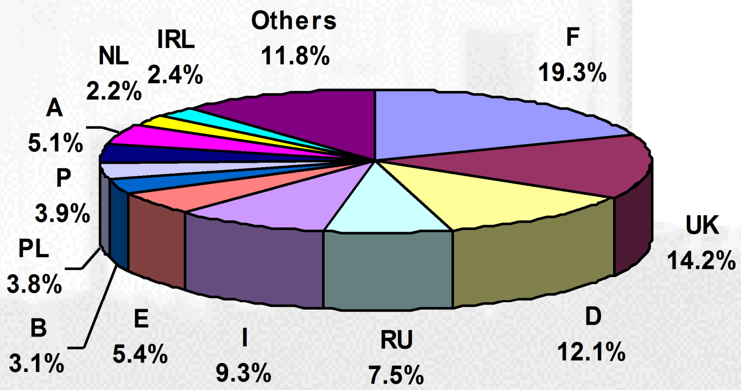
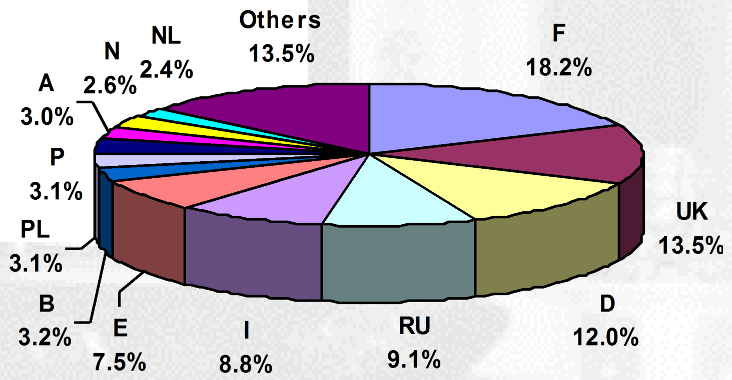
The main digital markets in Europe

(by number of screens)

As at 01 January 2010



As at 01 January 2011



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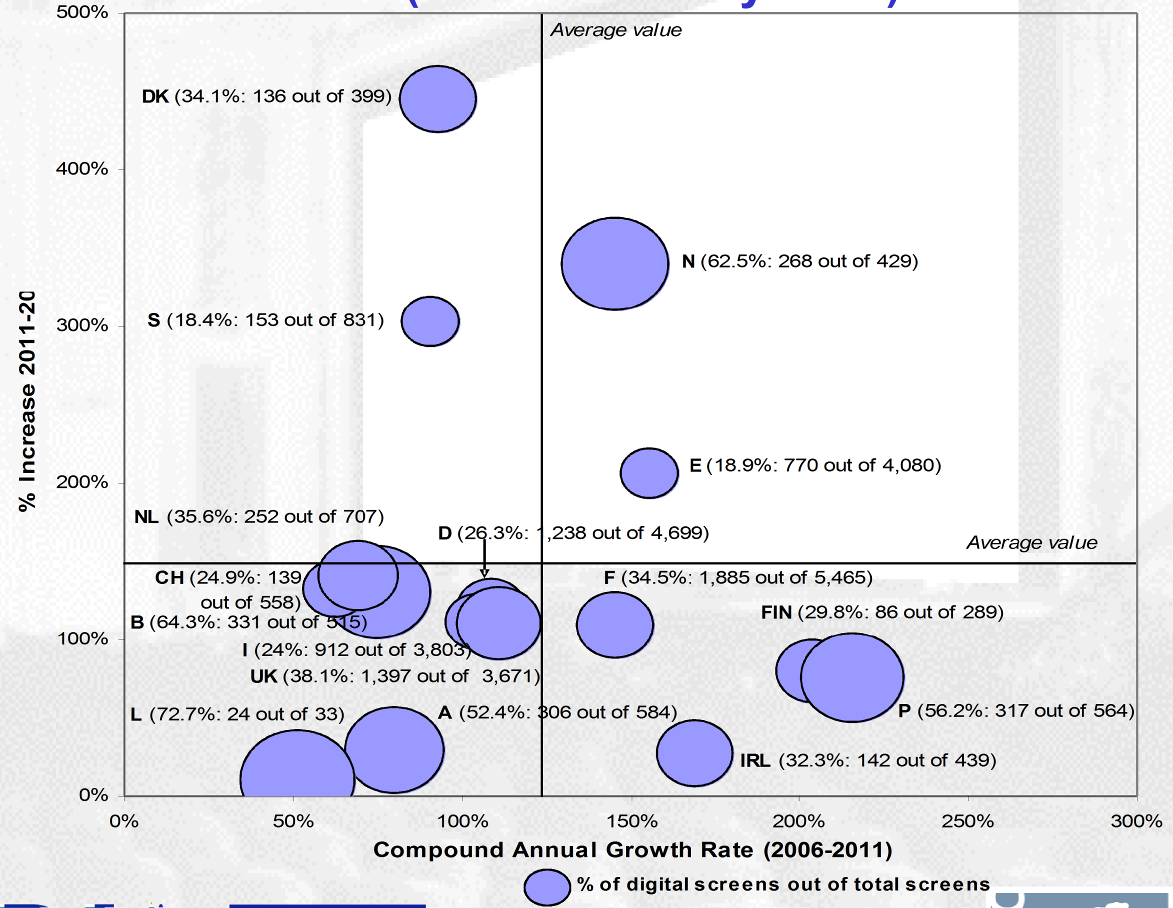
Digital growth in the leading countries of Europe (as at 1 January 2011)



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The average number of screens per site: a very important indicator! The European average continues to increase

	2004	2005	2006	2007	2008	2009	2010	2011
Average number of screens per site	1.1	1.2	1.4	1.5	1.6	1.9	2.0	2.5

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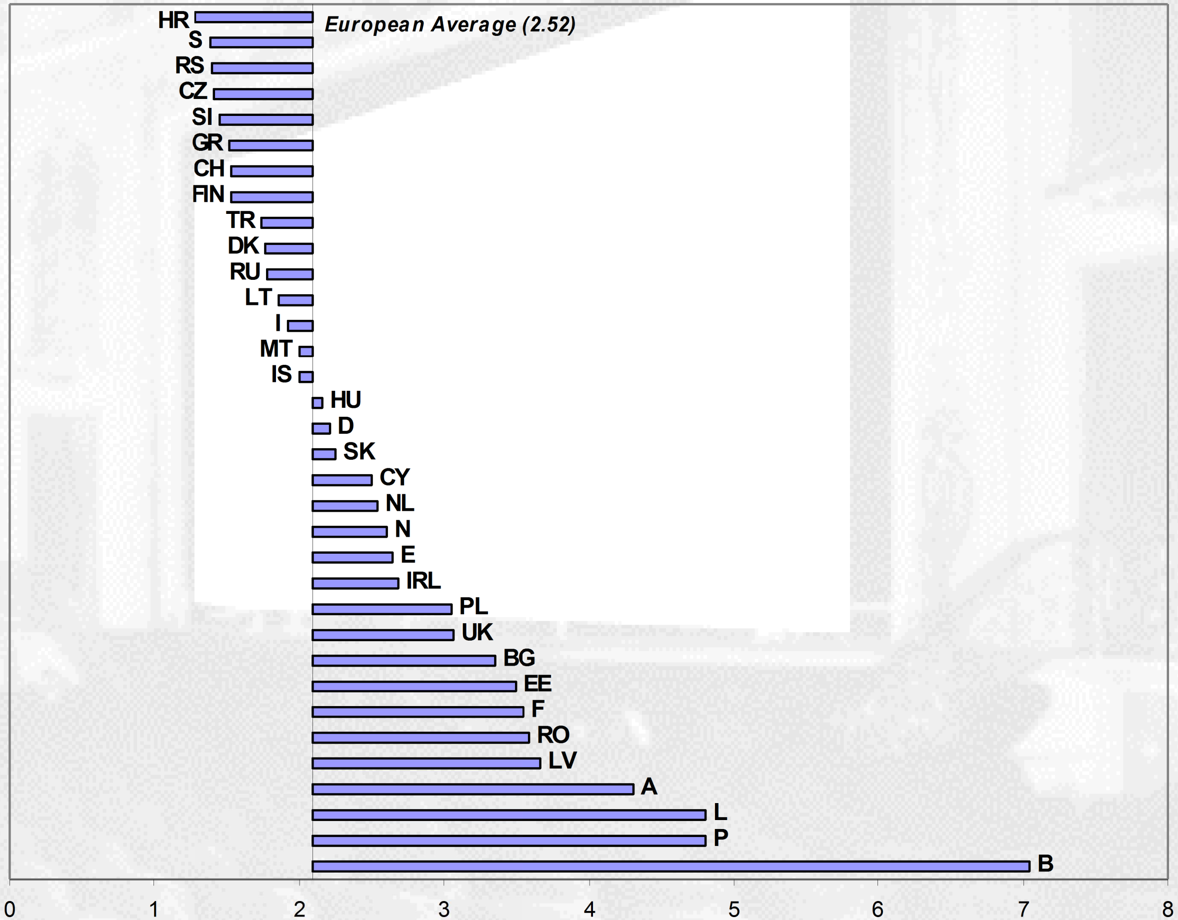
Average no. of digital screens per site in Europe

as at 1 January 2011



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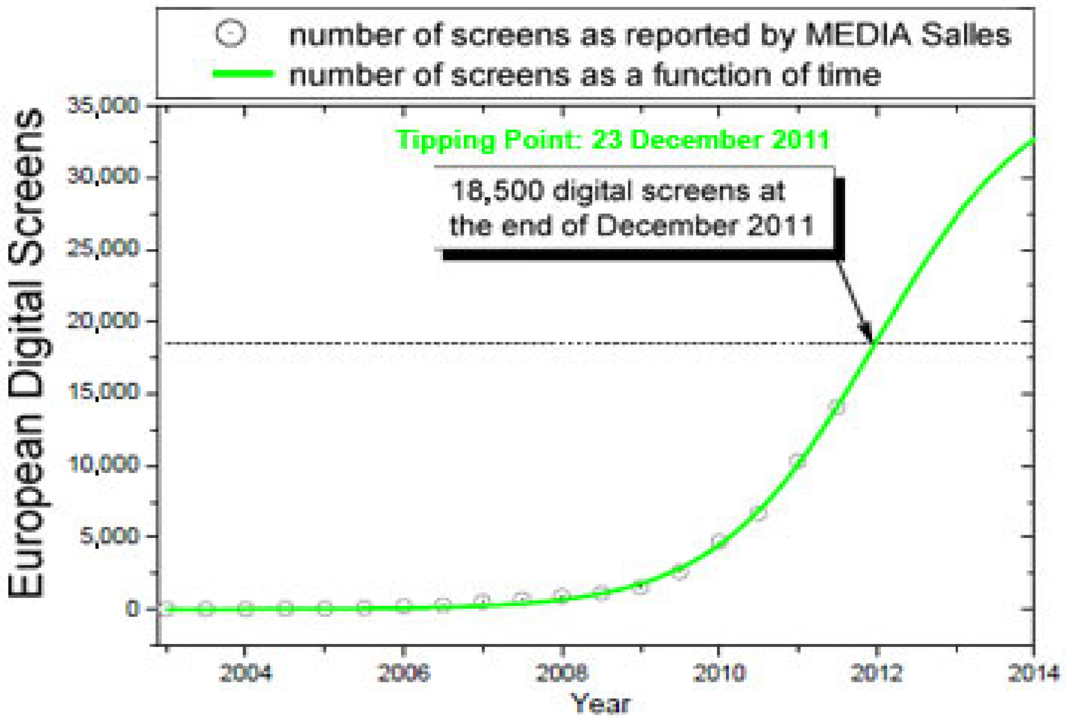
23 December 2011: “tipping point” in Europe

18,500 digital screens

50% of screens have shifted to digital technology



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Digital screens as at 1.1.2012:

18,500

+ 79%
compared to 1.1.2011

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Why has digitisation been growing?

The 3D factor (2009/2010)

Availability of financing schemes (2010/2011)

Leading companies initiative (2011)

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3D screens

	3D screens	Total digital screens	% of penetration of 3D screens out of total digital screens
01 January 2010	3,467	4,684	74%
01 January 2011	8,412	10,335	81%

Growth rate: +143%

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Digital screens in the main European markets

(in brackets 3D):

France 1,885 (1,387 - 74%)

UK 1,397 (1,095 - 78%)

Germany 1,238 (1,113 - 90%)

Russia 941 (937 - 100%)

Italy 912 (842 - 92%)

Spain 770 (602 - 78%)

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3D screens in Western Europe as at 1 January 2011

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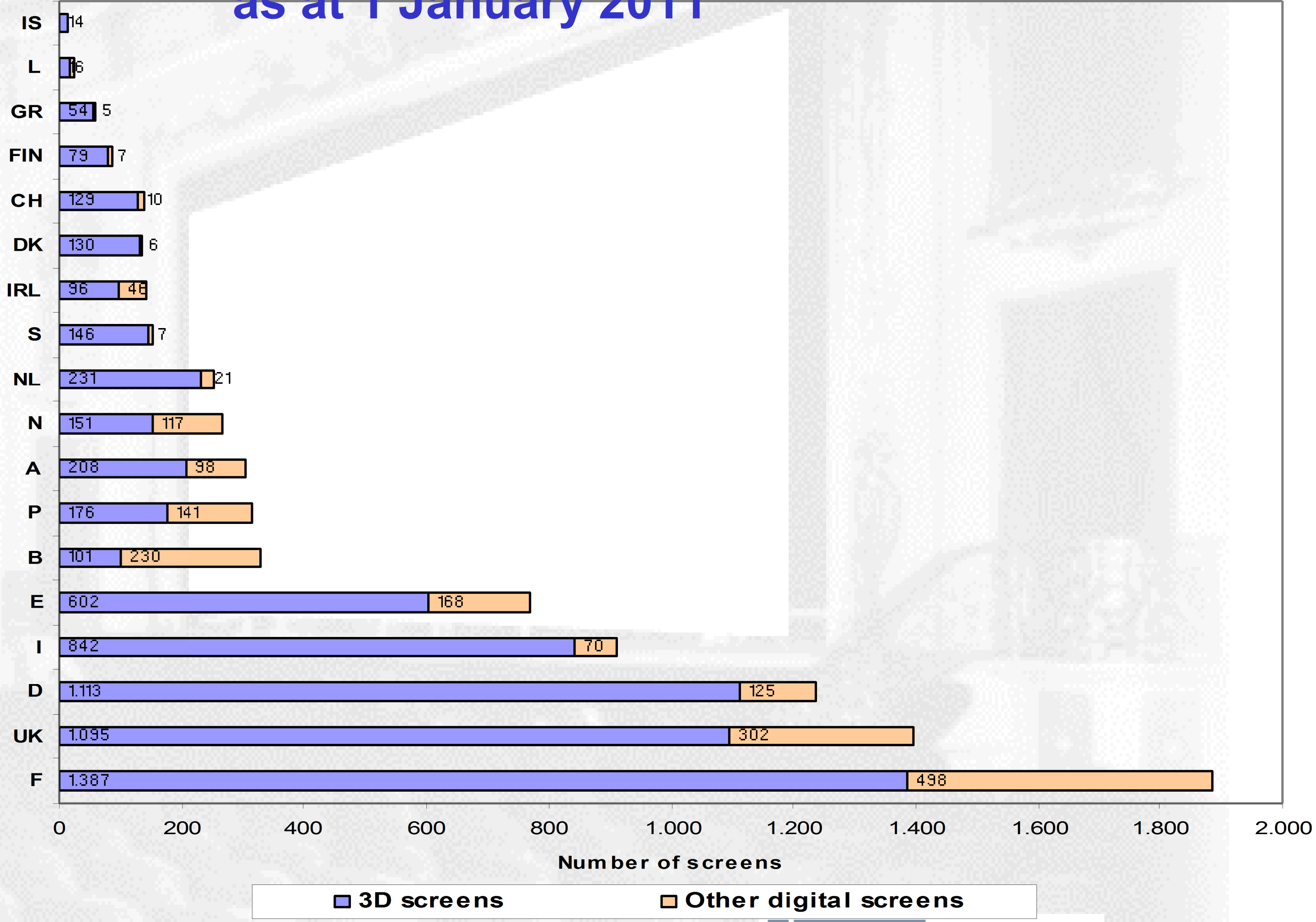

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3D screens in Central and Eastern Europe and the Mediterranean Rim as at 1 January 2011

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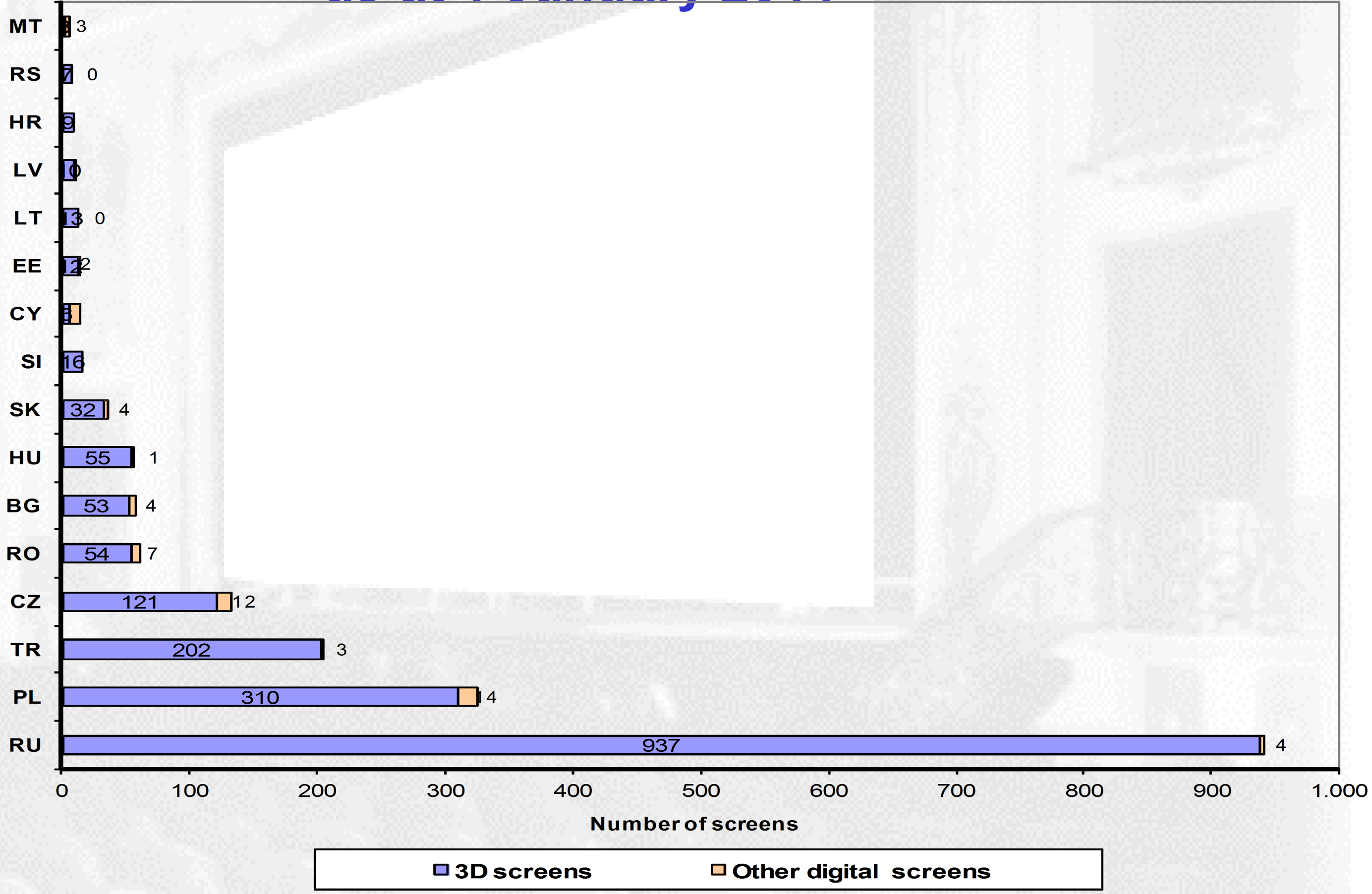

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New in 2011:

3D still growing but it is no more the key factor for the increase of digital screens

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FINANCING SCHEMES

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Virtual Print Fee (VPF) model

The Virtual Print Fee is a financing mechanism
for funding the first purchase of digital cinema equipment.
It is based on content suppliers paying a fee
every time a digital copy of their content is booked.

Virtual Print Fee (VPF) model

The amount of the VPF is negotiated on a case by case basis.
Generally, it has fallen to a level which is below “cost neutrality”,
i.e. allows distributors to actually generate savings.

The actual amount of VPF payments can vary significantly
with ranges reported from EUR 70 to EUR 650 – 750

Virtual Print Fee (VPF) model

VPF payments generally are supposed to cover 75% to 80% of total conversion cost.
They will terminate once the equipment expense is fully recouped, or when the VPF term (generally between 5 and 10 years) expires.

Development of financing models

2002: 7 US majors create DCI venture to develop business model for roll-out

2005: VPF financing available in North America

2005: UK Film Council launches Digital Screen Network

2007: VPF financing available in Europe

2008/2009: Credit crunch

2009: Launch of direct Public Funding schemes

2011: Digital Funding Partnership (GB) signs with XDC

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UNITED KINGDOM

Digital Funding Partnership:

Buying group promoted by the CEA
(Cinema Exhibitors' Association)
Supports digitalisation of small and medium exhibitors

130 operators
400 screens

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DENMARK

Danish Film Institute

Supports digitalisation of cinema sites out of the main cities, promoting digital circulation of Danish and European films thanks to:

up to 27,000 € financing

contribution based on the release of a single Danish film: fixed rate 335 €

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EUROPEAN COMMISSION

MEDIA Programme

Digitalisation of 100 screens across Europe
meeting specific requirements:

programming at least 50% European films,
(at least 30% European non-national films)

financial support, up to 20,000 € per screen, awarded to
co-finance the costs related to the digital transition
(to the exclusion of the costs of digital projectors and servers)

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NORWAY

Objective: no one less

Cinemas are owned by the municipalities

digitalisation on the basis of VPF model:
the State takes part in the process,
in addition to exhibitors and distributors

to help cinemas which would not meet the necessary requirements
from a commercial point of view

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THE NETHERLANDS

Cinema Digitaal

An initiative promoted by the associations of the Dutch cinema exhibitors and distributors with the support of the EYE (the Netherlands Film Institute) and of the Netherlands Film Fund

Objective: digitalisation of all cinemas in the Netherlands (over 500 screens)

the 3 main exhibition companies in the country are not involved in the initiative
(they had already started digitalisation independently)

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FRANCE

CNC

A legislative act imposing VPF agreements and involving all the French distributors

financing support to help small exhibitors (especially art cinemas) buying digital equipment

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GERMANY

FFA

contribution from FFA to co-finance digitisation of screens grossing annually between 40,000 and 260,000 euro

2011

about 1,000 applications
funding allocated to 566 screens
(about one third located in towns with less than 20,000 inhabitants)

additional funding available from Laender

negociations on vpf from distributors managed by ffa to increase aid to small cinemas now underway

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ITALY

The distributor and exhibitor associations agreed in December 2009
to create a VPF agreement for the entire Italian market

from March 2011 the VPF was set at
480 €
for each digital print
782 screens have joined the programme so far

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ITALY

Tax Credit of 50,000 € per screen available until 31 December 2013,
equivalent to 30% of all costs,
up to a maximum of 200,000 € for each company

the credit is linked to a commitment per complex
to play 20% European movies in the first year,
30% in the second year, 50% in the third year

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PRIVATE INITIATIVES

Digitalisation in 2011 has shown
a growing number of exhibition companies, across Europe,
set out on the path to full digitalisation

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DIGITAL SCREENS IN EUROPE SITUATION OF MAJOR EXHIBITORS (AS AT 1ST JANUARY 2011)

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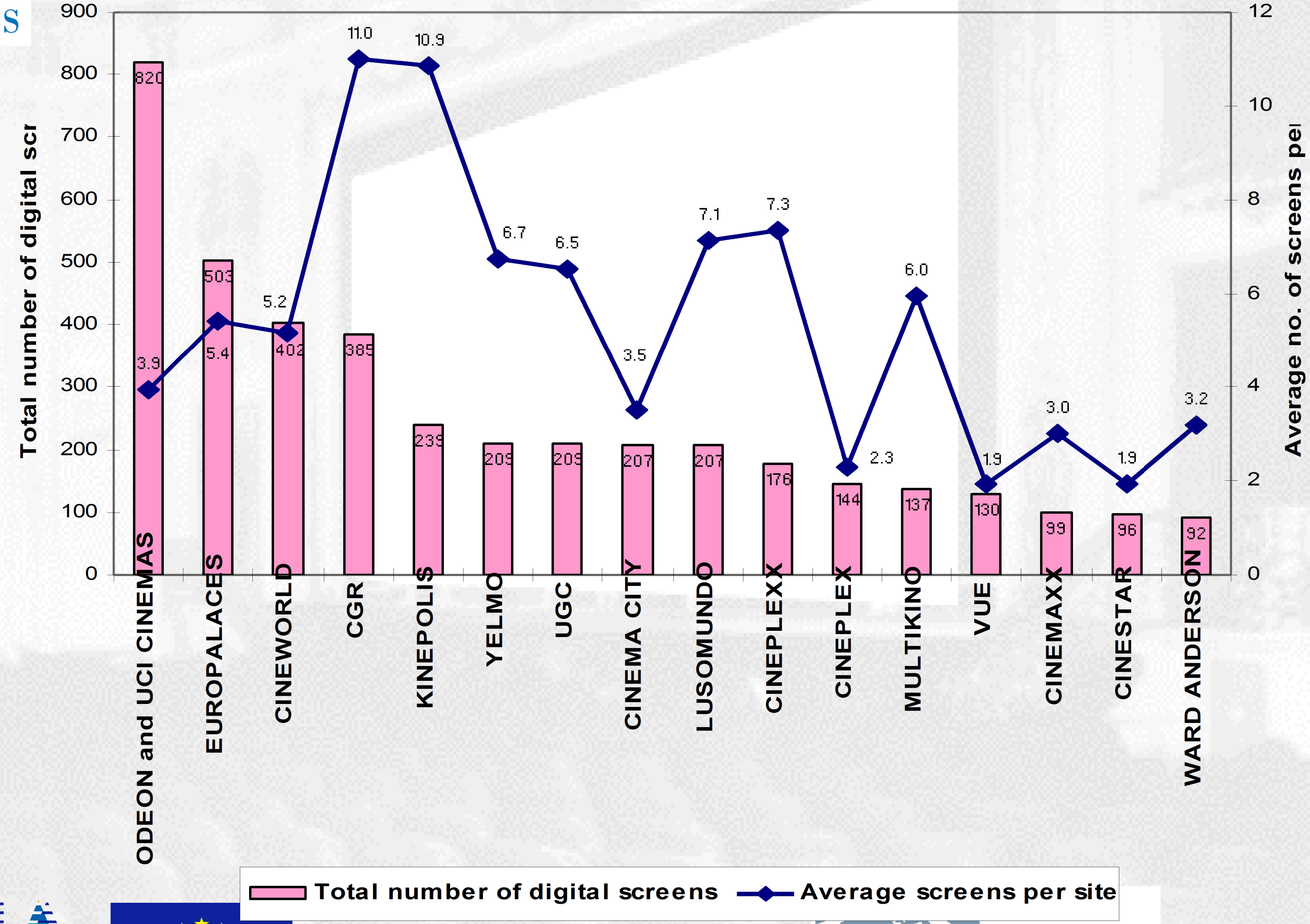

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The big question for 2012:

Can the business models that have supported digitisation of larger groups work for small cinemas and independent exhibitors too?

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EQUIPMENT COSTS

Equipment prices can vary significantly between individual cinemas depending on screen size and adaption requirements

The smaller the order, the higher the equipment prices

Competitive disadvantage for small exhibitors who want to convert on their own

Over 7,000 monoscreens account for about 20% of total European screens

But they only account for 7% of digital screens

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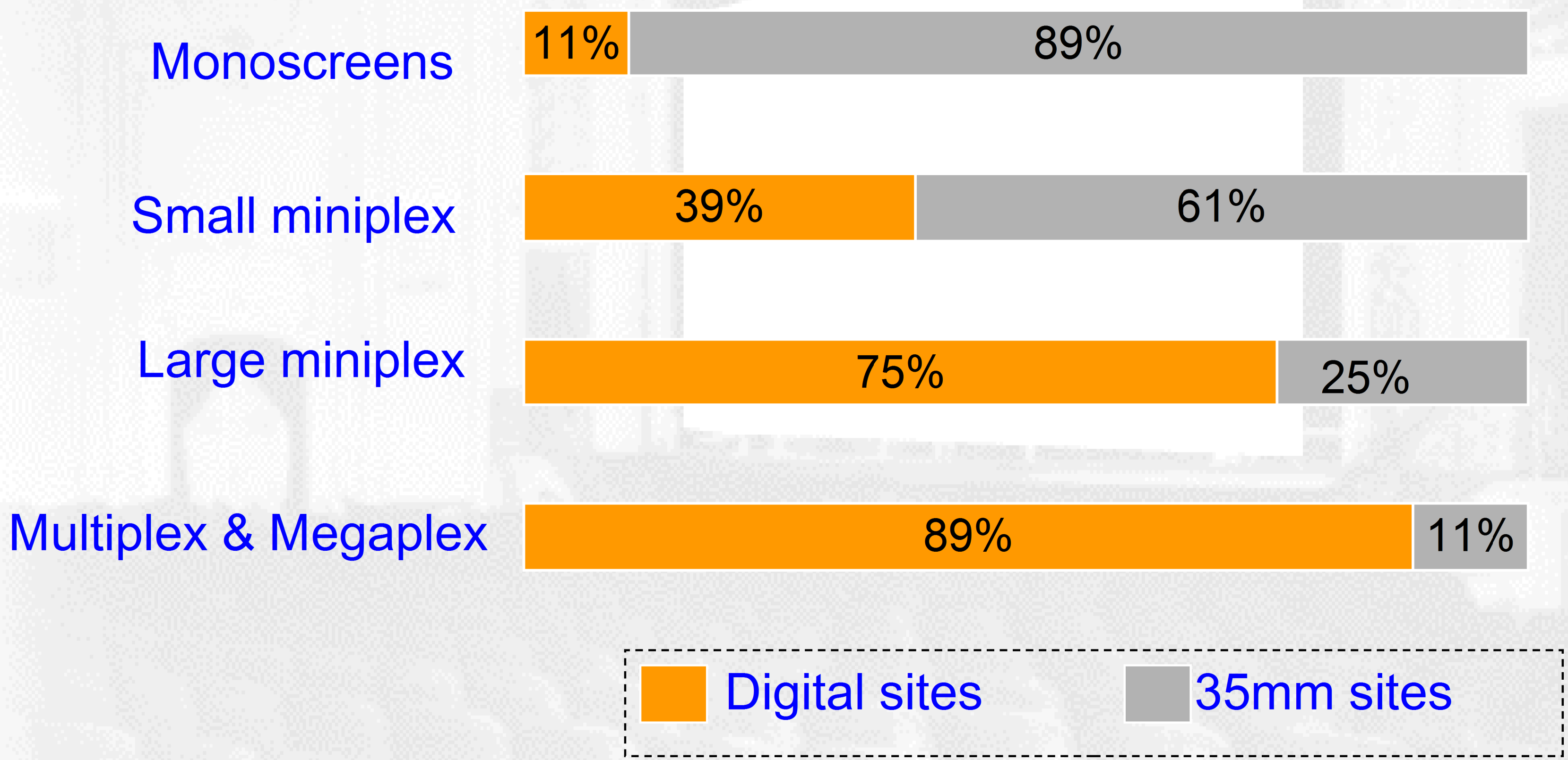
Digital site penetration by screen type



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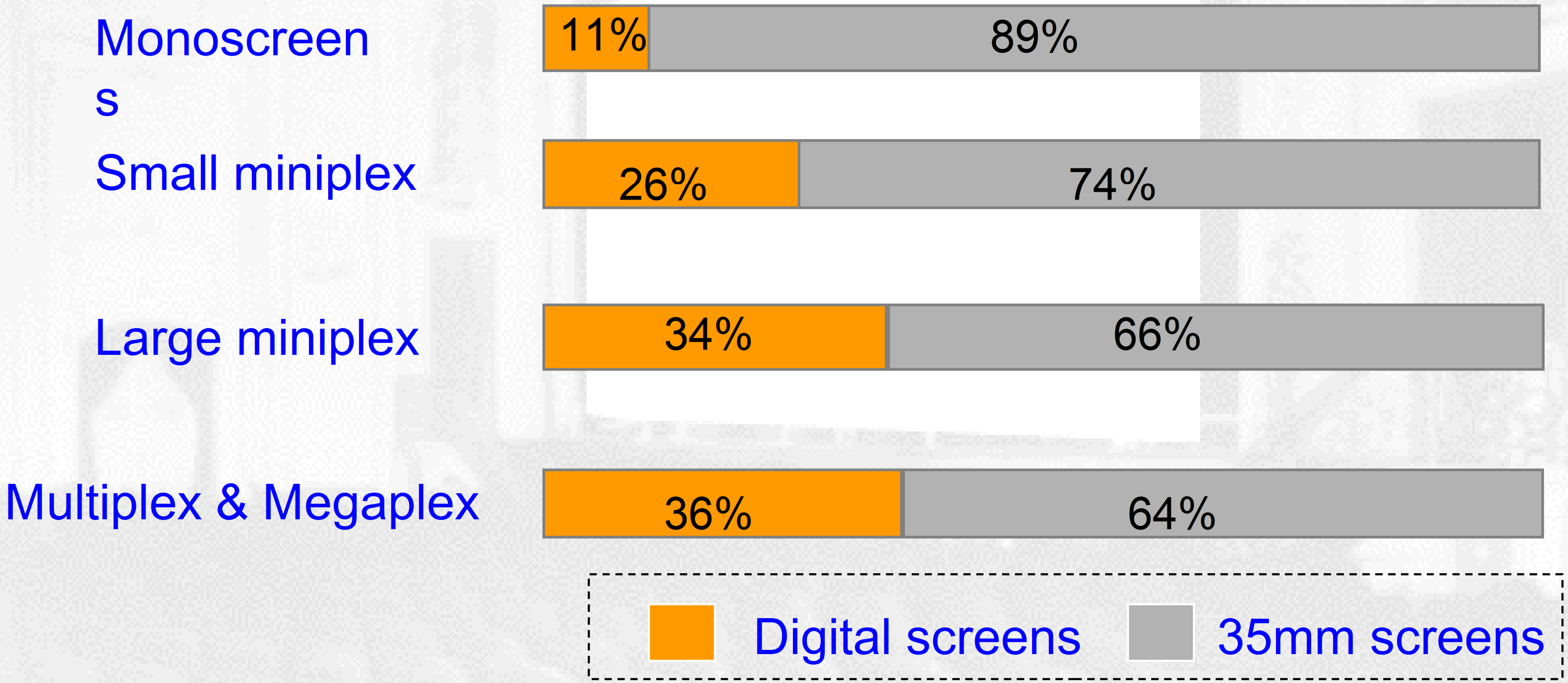
Digital screen penetration by screen type



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By 2010 small cinemas and small exhibitors seem to have significantly lower access to digital projection systems

Digital roll-out will continue at high speed as larger cinemas and the biggest exhibition companies had converted only 30% to 35% of their screens by 2010 and are bound to rapidly digitise their remaining screens

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Some key challenges for small exhibitors

- Significantly lower access to digital cinema
(they represent 64% of exhibitors, but only 15% of them had digital cinema by the end of 2010)

- Financing seems to be the most pressing issue in the short term as time is running quickly now
(Europe has reached the "tipping point" with more than 50% digital screens)

Some key challenges for small exhibitors

- How long will 35mm cinemas be able to survive?

- Increasing competitive disadvantage for smaller cinemas, as digital cinema seems to increase economies of scale

- How to deal with permanent increase in capital expenditures?

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Some key challenges for independent distribution specialized in the distribution of European films

- If exhibitors shift programming to “premium“ content (e.g. 3D content), will European independent films find sufficient “screen time“

- To which extent do independent distributors depend on smaller cinemas who face major difficulties to digitise their screens?

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Some key challenges for independent distribution specialized in the distribution of European films

- Independent ditributors may have to support 35mm distribution longer than majors, which could cause serious financial strain

- While all majors releases are digital, many European producers are apparently still reluctant to invest in digital masters

Increasing competitive disadvantages against larger distributors

An example

Between 2008 and 2010, in Europe, the market share for US films has grown from 65% to 68%

whilst the market share for European films has reached in 2010 the lowest level in the last five years

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Cinema-going in Europe in 2011:

a snapshot on 31 countries

from Ireland to Turkey,

from Russia to Portugal

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New statistics on cinema-going in Europe in 2011

Overall admissions slightly decrease after two exceptional years

1,188.6 M in 2011

-0.6 % compared to 2010 (1,195.9 M)

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New statistics on cinema-going in Europe in 2011

Eastern Europe and Mediterranean Rim

(14 countries):

from 297.6 M in 2010

to 294.0 M in 2011

-1.2 %

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New statistics on cinema-going in Europe in 2011

Western Europe (17 countries):

from 898.3 M in 2010

to 894.6 M in 2011

-0.4%

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New statistics on cinema-going in Europe in 2011

Focus on the 6 major markets, representing 74% of European admissions:

from 888.6 M in 2010

to 882.1 M in 2011

-0.7%

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New statistics on cinema-going in Europe in 2011

Focus on the 6 major markets

No common trends

France: 215.6 M (+4.2%)

United Kingdom: 171.6 M (+1.4%)

Russia: *161.5 M* (-2.7%)

Germany: 129.6 M (+2.3%)

Italy: *108.3 M (-8.5%)*

Spain: 95.6 M (-5.9%)

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New statistics on cinema-going in Europe in 2011

In the Euro-zone first available data shows that average ticket price slightly increases or even decreases

Germany: +1.7 %

Spain: +1.1 %

Italy: *-0.6 %*

Ireland: -3%

Finland: +5.7 %

The Netherlands: +1.3 %

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Has digitisation an impact on admissions?

The case of Norway the first European country fully digitalised since 2011

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Focus on Norway

Admissions in 2011:
11.65 million

+5.8% compared to 2010
(11.0 million)

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Focus on Norway

According to Brigitte Langballe (Film&Kino)

the record in admissions was
to a great extent due to
DIGITALISATION

Focus on Norway

Film & Kino: The engine of digital transition

It allocated to this project important resources deriving from the levy on the cinema sector and negotiated a VPF with the majors and the Norwegian distributors.

This allowed Norway's cinemas – almost all of which are managed by the Municipalities – to make a sustainable investment to take part in a VPF scheme including all types of cinemas.

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Focus on Norway

Brigitte Langballe (Film&Kino):

“Digital projection has, in fact, allowed small – and medium – sized theatres to improve their offer and programme more titles”

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Focus on Norway

Jørgen Stensland (Film & Kino):

"The number of cinemas are about the same as before digitalization. A few have closed down and some new cinemas and especially new screens are being planned. Probably as much as 30 new screens in a few years…

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Focus on Norway

Jørgen Stensland (Film & Kino):

..We have recorded a very high increase in attendance with the smaller cinemas. The smallest ones have increased with 50% in attendance from 2010 - 2011. The next cinema group has an increase in 30%. The biggest cinemas have not had an increase. They already get the content they want."

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Cinema Digitisation: what for?

"Today there are enormous opportunities for creation. My dream is that in this century communication tools will increasingly be in the hands of the people rather than in those of the old powers."

Wim Wenders, Interview by Hans Ulrich Obrist,

Biennale Architettura 2010

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Do you want

to know more about digital cinema roll-out?

To find out how to have access to digitisation schemes?

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- pick up you copy of the new *DiGiTalk*
(http://www.mediasalles.it/digitalk2011/)

- order the brand new European Digital Cinema Report by MEDIA Salles and the European Audiovisual Observatory
(http://www.obs.coe.int/oea_publ/market/european_digital_cinema.html)

- apply to..

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DigiTraining Plus: European Cinemas Experiencing New Technologies

29 August – 2 September 2012

Amsterdam

The five-day intensive course for European cinema exhibitors willing to be prepared to face digital transition.

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DigiTraining Plus:
European Cinemas Experiencing New Technologies

is the only course within the MEDIA Programme focusing on digital technologies applied to cinemas.

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The “DigiTraining Plus” approach and format

A focus on real experiences

A hands-on approach on digital equipment

A mix of

- lectures by experts of worldwide renown;
- accounts from the European distributors and exhibitors who have already experimented with digital technology;
- Q&A sessions + group work;
- technical demos;
- visits to cinemas equipped for digital and 3D screenings.

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Discover the exceptional location:

The brand new EYE Film Institute

opening on 5 April 2012

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The “DigiTraining Plus” main contents

- how is digitisation going to change the cinema industry?

- digital and 3D screens: what’s the situation worldwide?

- the key issues of digital transition: standards – business models – content availability

- the prospects for 3D and alternative contents

- how to make the digital transition as trouble-free as possible

- how to manage and programme a digital cinema

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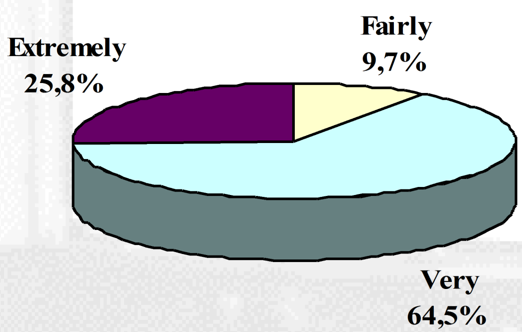
The 2012 edition will be based on the contents and format adopted for the "DigiTraining Plus 2011", with regard to which participants said:

90.3% of participants declared themselves "very or extremely satisfied" with the course

83.9% of participants declared to have "very or extremely increased their knowledge on the state of the art of digital cinema and its future prospects"



70.9% of participants declared that the knowledge gained at the course will be "very or extremely useful for their profession"

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DigiTraining Plus
29 August – 2 September 2012
Amsterdam

- Participation fee: € 850 + VAT

  including lessons, teaching materials, 4 nights' accommodation and the majority of meals; participants must cover travel costs to and from Amsterdam

- Scholarships available: € 220

- Deadline for application: 28 May 2012

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