The Arts Alliance Media Digital Cinema Proposition

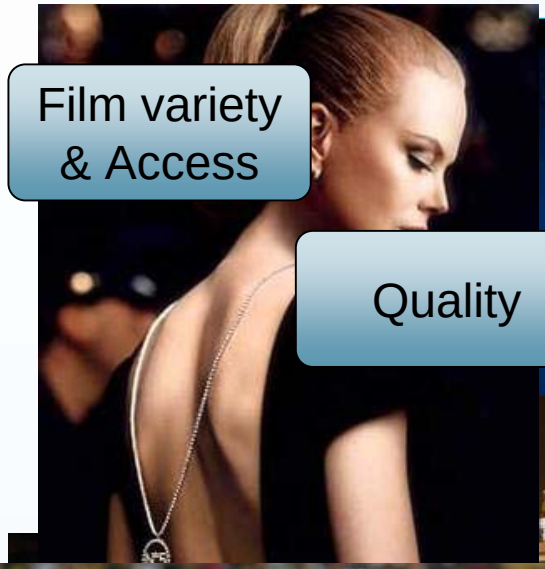
Digitraining Plus
Kuurne, March 2007

digital made easy

Contents

- Why change to digital cinema?
- Rollout options
- AAM services
- Benefits of partnering with Arts Alliance Media

Benefits Of Digital Cinema



Film variety & Access

Quality

‘Alternative’ Content

Flexible Advertising

Operational Efficiency

3d & Innovation

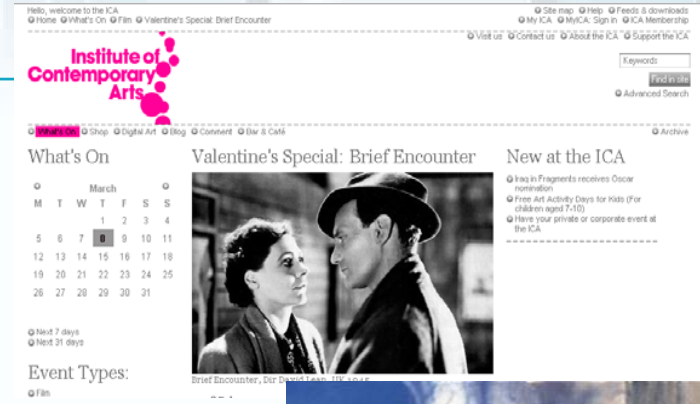
Film Variety & Accessibility

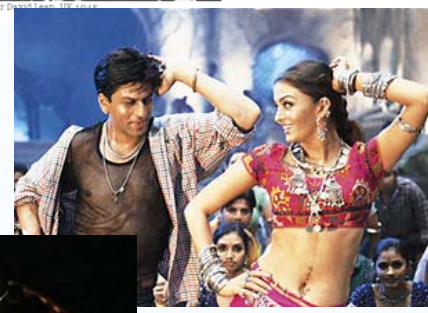
- Vastly reduced cost of prints means less restriction on numbers made and hence easier access to a wider range of content.
- Prints do not have to be returned after the run, so holding over successful films is always possible
- Many films can be stored on a cinema central server, meaning films can be changed more easily – one off bookings are easier.
- Different versions of films can be sent and managed
  - Subtitled/dubbed
  - Hearing-impaired
  - In the future, different cuts of films can also be used

Example: Pan's Labyrinth – original release date November 2006; 21 prints sent out on release – to date, 63 prints have been sent and film is still playing March 2007

Film Variety & Accessibility

- Micro markets can be served – giving the audience more of what they want :
  - Bollywood films in areas of high demand
  - Special themed events – i.e. showing of restored Casablanca for Valentines Day
  - Special seasons – i.e. late night horror showings
  - Mother and Baby screenings – appropriate films can be played during traditionally quiet times (weekday mornings)
  - Dirty Dancing 20th anniversary – release on Valentine's Day was widest ever UK digital release – on 79 screens. 90% of prints were digital, and film was #12 in UK charts for February 14th

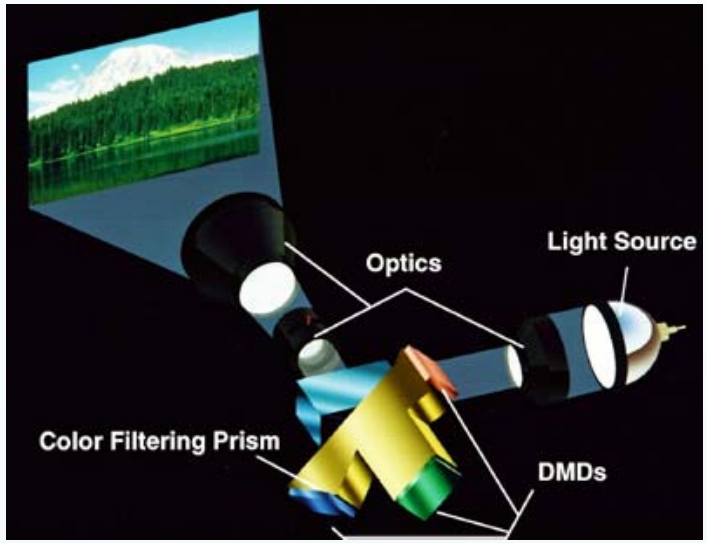




Quality

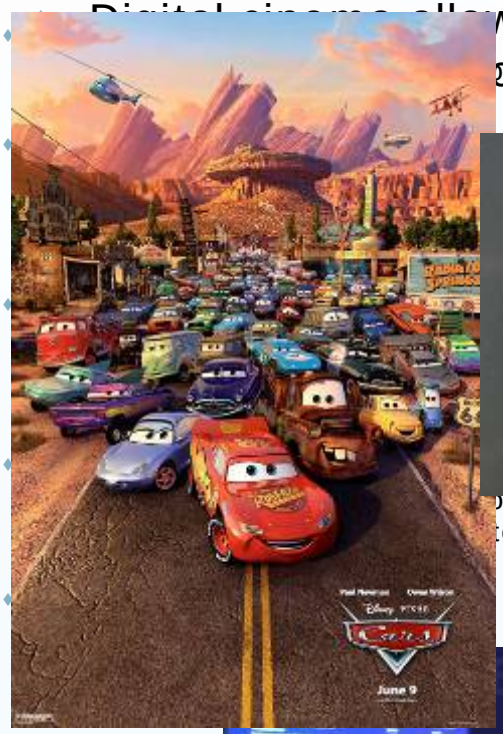
- Unlike 35mm film, digital prints do not degrade over time, so there's no scratches or imperfections. The 5000th showing of the film looks as good as the 1st, meaning the audience see a pristine version of the film, every time.

- The film is projected in crystal clear quality – 2k resolution (2046 x 1080 pixels) at every screening.



Alternative Content

- Digital cinema allows a wide variety of non- feat
  - ...occupancy in off peak times,



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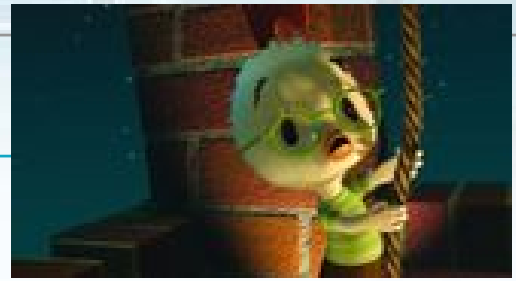
Advertising

- Advertising flexibility: digital advertising means more adverts can be stored on a server and easily selected and played.
- Advertising can be targeted to a particular audience, depending on the feature.
- Different ad reels can be played at different times of day.
- Time sensitive advertising (i.e. for a particular TV show) can be easily programmed.
- Digital advertising can be interleaved with trailers and house ads.

Operational Efficiency

- Digital projectors are simple to operate, meaning potential for reducing overhead costs.
- No building up of 35mm reels required – therefore reduced time for setting up shows.
- Shows can be started remotely (i.e. from the box office).
- Equipment can be monitored from outside the projection booth allowing staff to focus on front of house duties.

3D



- Digital technology enables 3D films to be shown from a single projector and server, with a vastly improved viewing experience over 35mm 3D

- 3D offers a unique experience over home entertainment
- Many high profile directors (Lucas, Rodriguez, Cameron, Burton) are making or remaking their films in 3D, solely for digital exhibition

- Evidence to date shows a 3D films takes approximately 3x the box office as the 2D version of the same film
  - 2D screenings at a complex with a 3D screen also show increased average takings
- Films to date: Chicken Little, Monster House, Nightmare Before Christmas
- Upcoming: Meet the Robinsons, Avatar
- Number of 3D screens currently over 700, predicted to be over 1000 by end of 2007, and 3000 in the US by 2009 (10% of all US screens)

Why Now?

- Technology
  - The technology is accepted as being as good if not better than film
  - DCI (the group formed by the Hollywood Studios) has spent 3 years getting all the studios to agree to a standard and nearly 2 years of technical development has occurred since the spec was released
- Cost Pressure
  - Equipment costs have fallen to an acceptable level
  - Rising costs of talent and marketing require studios to find cost savings
- Evidence
  - Over 2000 screens installed in the US: it's working
  - Trials are underway in the UK for commercial deployment (Odeon)
  - Major Hollywood talent (i.e. Lucas, Zemekis) is behind the format

- Why change to digital cinema?
- Rollout options
- AAM services
- Benefits of partnering with Arts Alliance Media

Rollout Options

There are 2 main options to rollout digital cinema:

1. Cinema pays for equipment themselves and arranges leasing and distributor contributions themselves

2. Cinema works with a third party provider, who already has leasing, equipment and distributor deals in place

Option 1 – Go It Alone

- Exhibitor takes responsibility for all aspects of the deal:
  - Selects and procures the equipment
    - Possible to do this in conjunction with a third party integrator
  - Arranges financing/leasing (if required)
  - Directly approach distributors to negotiate contribution to the costs
  - Administers contributions

ADVANTAGES	DISADVANTAGES
No third party to take a margin	Very time intensive to negotiate with distributors and equipment providers
Exhibitor can deal directly with distributors	Lack of experience in range of equipment
	Will need to educate potential lessors in digital equipment
	No scale benefits for procurement
	Administering distributor contributions

Option 2 – Work With a Third Party Provider

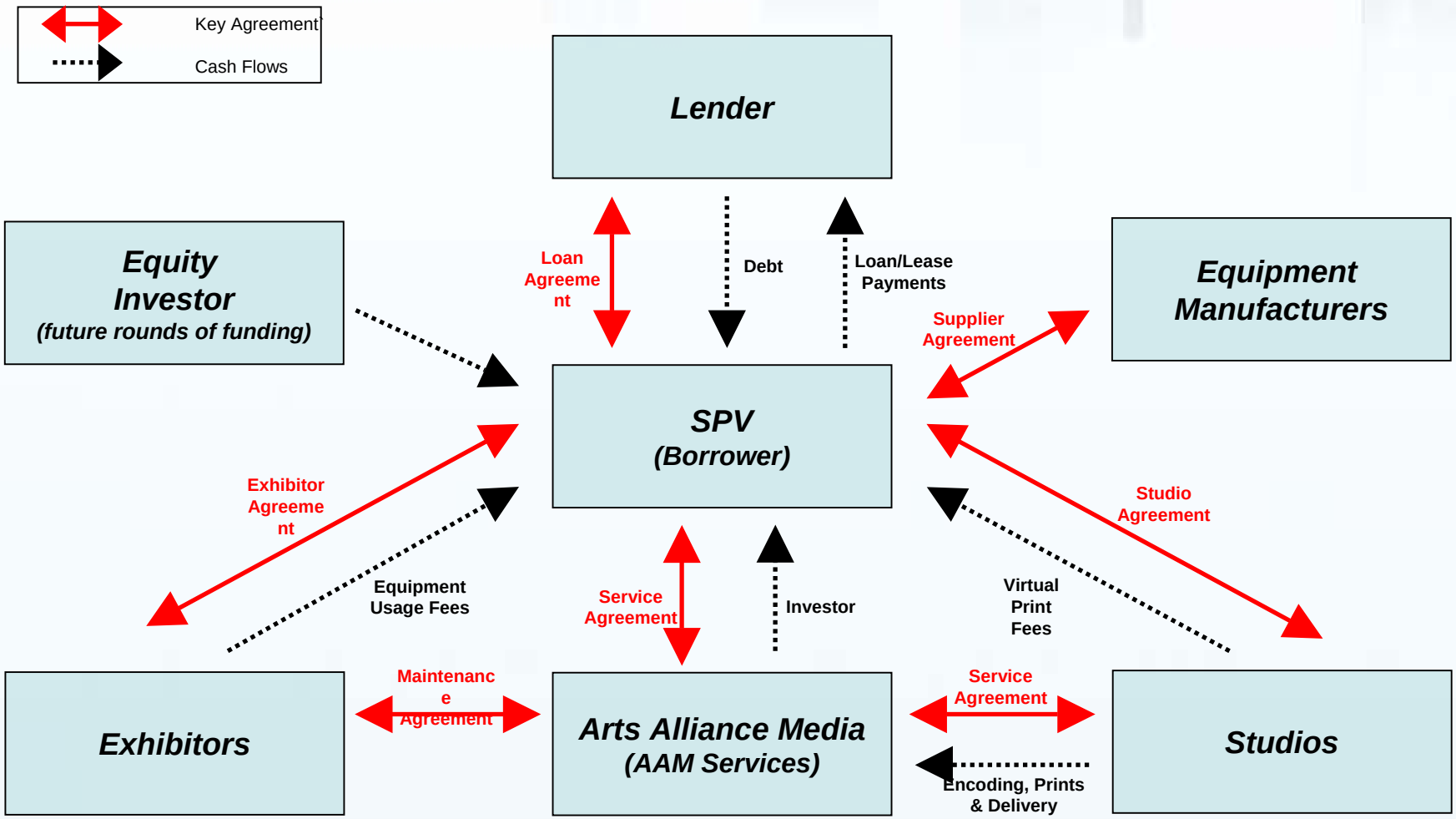
- Third party provider (TPP) procures, integrates and leases the equipment to the cinema
- Exhibitor pays fixed annual contribution for 5 years to cover 15-25% of total costs
- TPP negotiates with distributors to fund the balance of the equipment costs

ADVANTAGES	DISADVANTAGES
Financing arranged for you and TPP takes the risk of the equipment being paid off or not	Third party takes a margin (although this is offset by discounts achieved through scale benefits)
TPP handles all studio/distributor negotiations and uses bargaining power of thousands of screens	TPP owns equipment until end of contract
TPP has significant technical expertise and R&D into selecting best equipment and integrating it into your cinema	
Utilises buying power from providing equipment to multiple cinema chains	
Guarantees that your equipment is technically compliant with industry standards and takes responsibility for its maintenance and performance	

Distributor Contributions: VPF Model

- What is the VPF (Virtual Print Fee) Model?
  - A third party pays up front for the digital equipment.
  - Distributors and exhibitors pay over time to recoup the cost.
  - Exhibitors sign up to agreed service & maintenance commitments, as well as paying ‘usage fee’ to cover cost of lease.
  - Distributors save money every time a digital (rather than 35mm) print is shipped, therefore;
  - Every time a digital print is shipped, distributors pay a Virtual Print Fee towards recoupment of equipment. Approximately 80% of costs will be paid for by Hollywood studios.
  - When cost is recouped, the cinema will own the equipment.

VPF Model - Financing Structure



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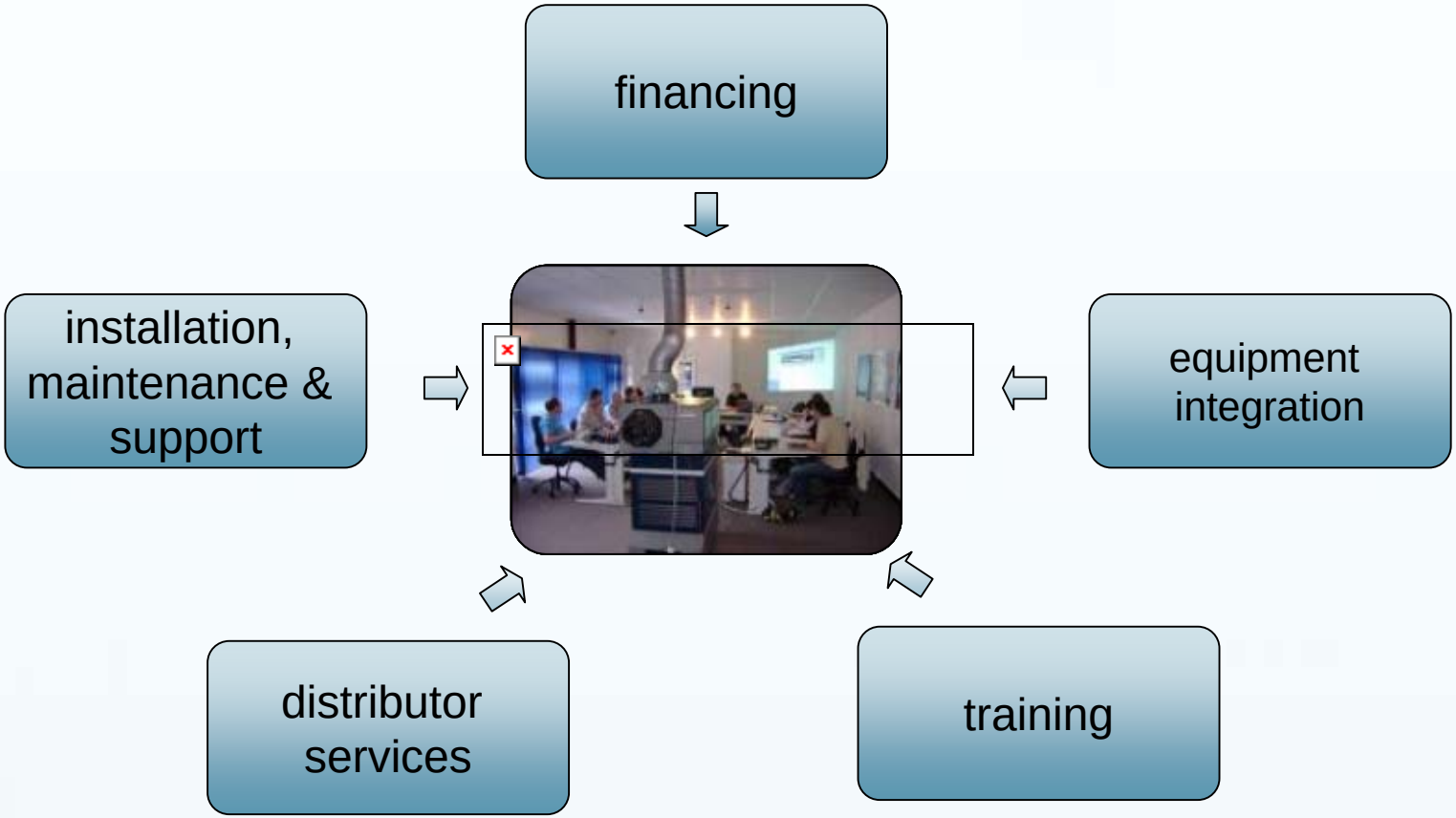
AAM Services



AAM Services

- Complete end-to-end service
  - Source, finance, install and support necessary equipment and provide training
  - Deliver and manage content
  - No need for other intermediaries

- AAM acquires, encodes, encrypts and stores studios' digital content
  - AAM delivers content on hard drives which are loaded onto cinema servers
  - Synergies – same content can be used for Digital Home too

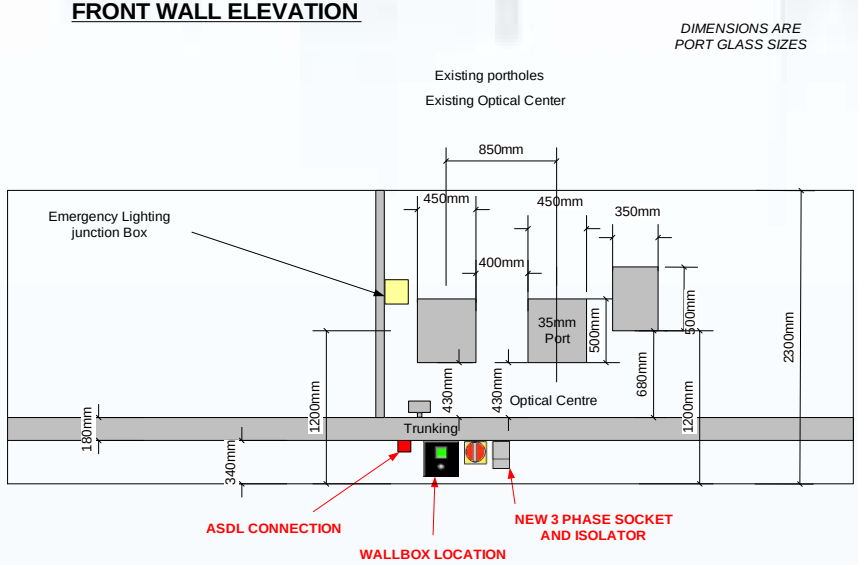
Equipment Integration

- AAM takes care of all the equipment issues:
  - Selection of component parts
  - Integration with existing systems
  - Peripheral hardware
- We are equipment agnostic and will work to find the best solution for your needs.
- Manufacturers we have worked with include:

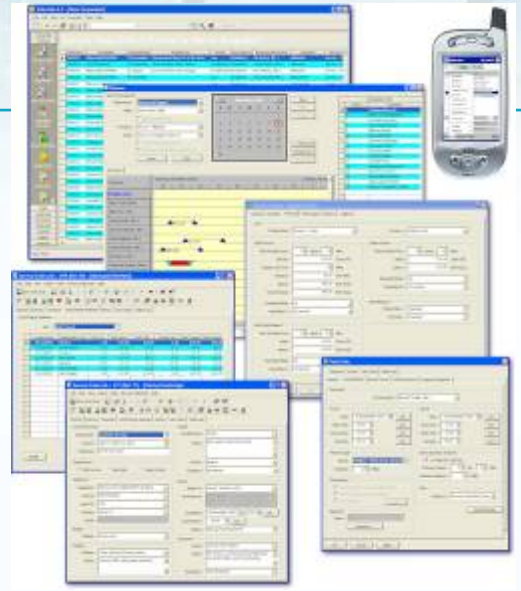
Installations

- AAM's engineers carry out detailed site surveys and produce integration reports with recommendations on alterations to accommodate digital cinema equipment
- AAM receives equipment at its operations centre for pre-build, set up and testing prior to delivery to the cinema
- Once the cinema alterations are completed, AAM installs the equipment at site

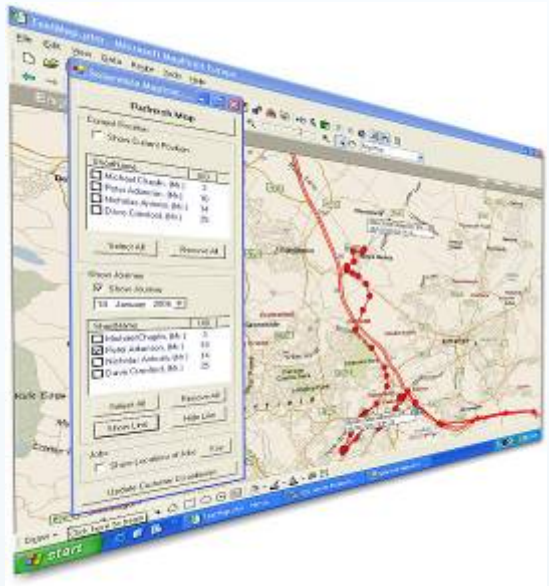
ALTERATIONS
FRONT WALL ELEVATION



Service & Support



- 24/7 telephone hotline
- Remote diagnostics via our Network Operations Centre (NOC)
- On site call outs by a trained engineer
- Preventative maintenance visits

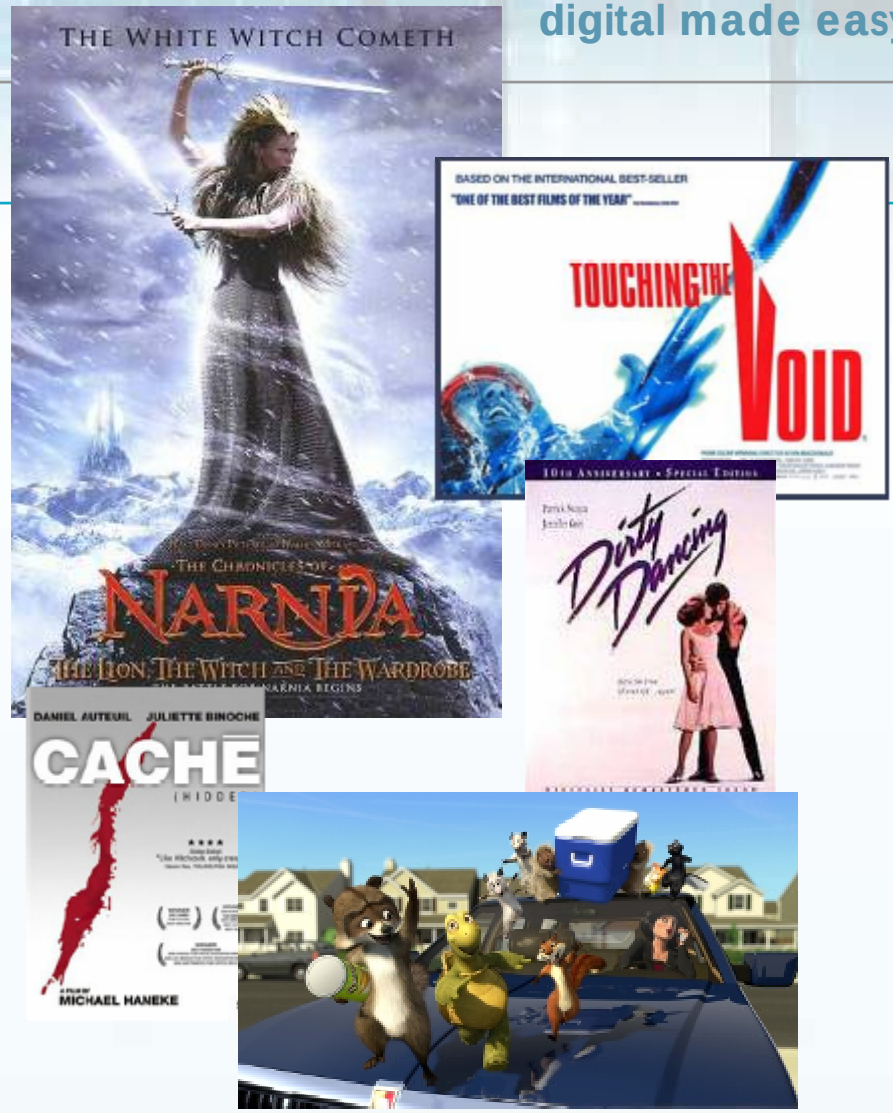


Training

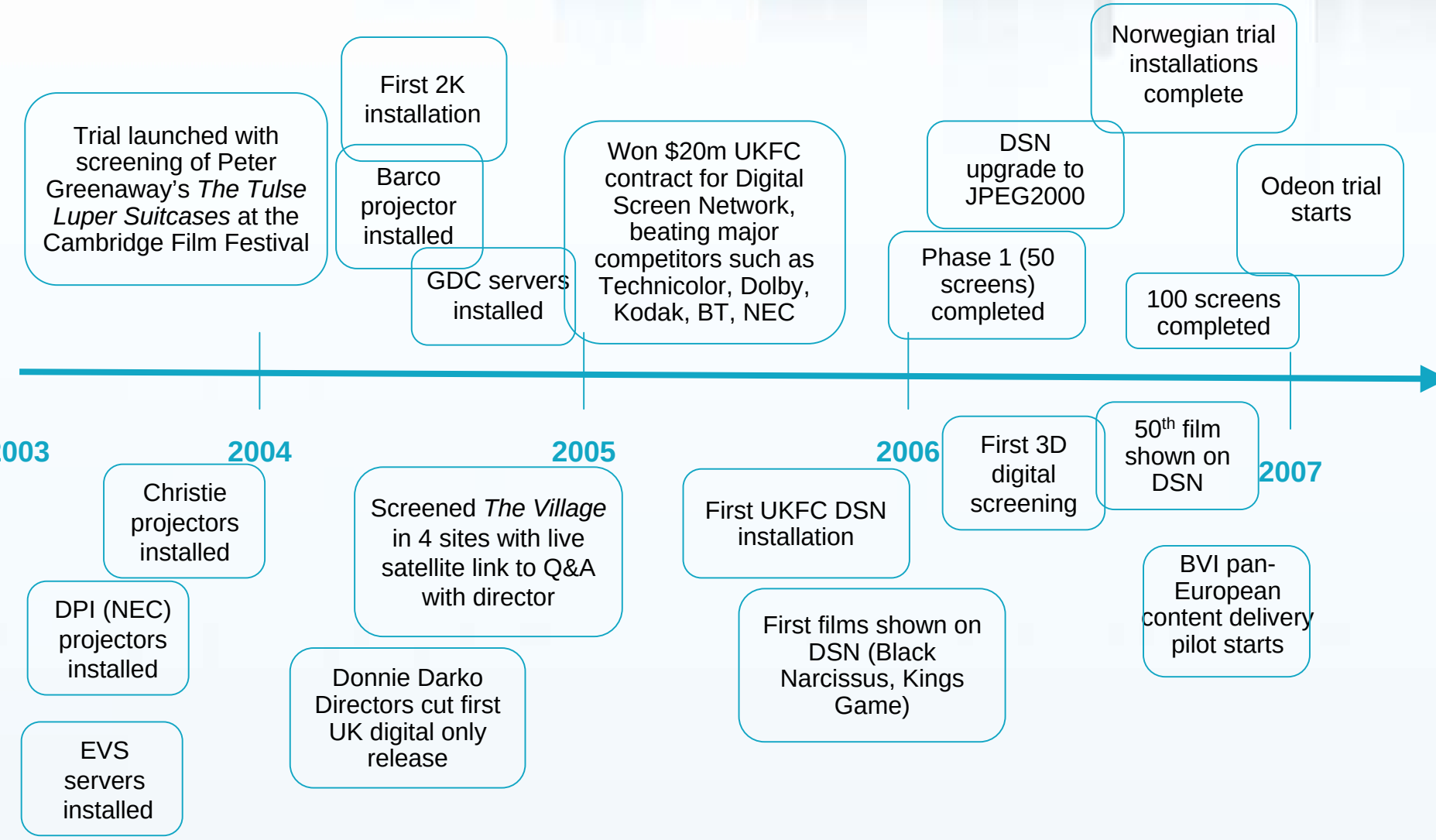
- For projectionists, technicians & cinema managers
- Courses are run from either the AAM Operations Centre in Byfleet or offsite at cinema locations
- Course takes 1.5 days
- It combines tutorial, group exercises, hands-on equipment training and concludes with a test
- AAM put significant focus on training and believe it is a key factor in maintaining uptime
- Courses are run by AAM engineers, preferably local to the attendees' cinemas

Distributor Services

- AAM provides a full range of encoding, print and key management services:
  - Encoding, encryption and packaging all to current DCI standards
  - Print creation and delivery
  - Key generation and delivery
  - (Arrangements about keys decided between exhibitors and distributors)
  - Repackaging and versioning
- All services carried out in our in house facilities – FACT and MPA approved, complete with full digital cinema for quality control
- AAM has unparalled experience in Europe – we have worked with almost 100 titles and have delivered over 800 digital prints
- Clients include:



Arts Alliance Digital Cinema Achievements to Date



Odeon Trial

- Selected by Odeon as one of 2 integrators for 6-12 month DC trial which started February 2007
- AAM are managing 9 screen trial in one London site
  - Site surveys, installation and integration of Odeon's chosen equipment
  - Remote monitoring and ongoing maintenance
- Odeon have negotiated VPFs directly with studios
- Paramount, Universal, Fox & Sony all lined up to provide content
- AAM also working with Carlton Screen Advertising to provide digital adverts

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Arts Alliance Media to digitize Odeon multiplex

By Stuart Kemp

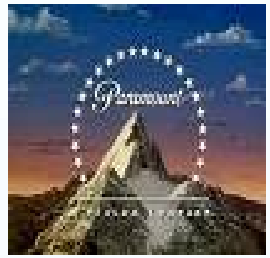
Jan 19, 2007

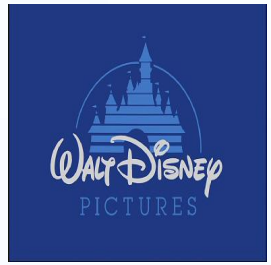
LONDON -- Odeon Cinemas, the U.K.'s largest theater chain, has finalized a pact with digital cinema installation specialist Arts Alliance Media, to completely digitize one of its nine screen multiplexes for six months, the parties

Digital Screen Network

- AAM is installing and maintaining the UK Film Council's 240 screen Digital Screen Network
- 200 screens installed to date
- 7-9 new installs a week
- All 240 screens due to be operating by May 2007

DC Studio Update – 2 Likely To Close In 30 days





- In advanced stages of VPF deal negotiations with 3 studios

- Why change to digital cinema?
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AAM Experience

- Since October 2005:
  - UK Film Council Network – 200 screens
  - Trial programme in Norway in partnership with Agder Energi (10 screens)
  - Almost 100 films played on the Digital Screen Network
  - Over 15,000 shows
  - Advanced discussions with all major studios

UK FILM COUNCIL

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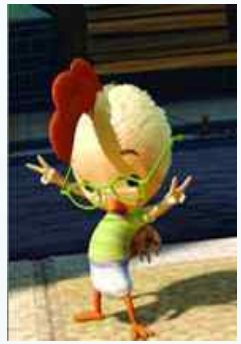

Benefits Of Partnering With Arts Alliance Media

- We provide you with a complete digital cinema service – top to bottom, 360 degrees, 24/7.
- We will take responsibility for all aspects of your digital set up:
  - Manufacturer independent: we will choose the best technical solution for your needs
  - Strong relationships with the studios and we can manage for DC
  - State-of-the-art integration and maintenance
- We are a provider, not a gatekeeper – we don't interfere in the distributor/exhibitor relationship.
- Proven track record:
  - Unparalleled experience in Europe working with DCI compatible systems
- Access to funding.

Board Of Directors

- AAM's directors and management team have considerable media experience:

Sir Robin Miller
Non-Executive Director
Ex CEO/Chairman EMAP
Ex Non-Exec Director Channel 4
Ex Chairman HMV

Thomas Høegh
Chairman
Manages group of entertainment and venture capital companies including Arts Alliance Advisors

Simon Relph
Non-Executive Director
Ex CEO British Screen Finance
Ex Chairman BAFTA
Ex British Screen Advisory Council
Ex Governor British Film Inst.

Howard Kiedaisch
CEO
Ex Universal Pictures
Ex PolyGram Video
Ex EMI Music Publishing
Ex Orion Pictures

Mark Livingstone
President
Ex CEO LOVEFiLM
Ex Woolworths
Ex LEGO
Ex Discovery Stores
Founder, Telstar

Martine Vice-Holter
Non-Executive Director
Managing Director, Høegh Capital Partners
Ex McKinsey
Ex Goldman Sachs

Management Team

Howard Kiedaisch
CEO

Universal Pictures International (CFO/COO)
PolyGram Video
EMI Music
Orion Pictures

Mark Livingstone
President

LOVEFiLM
Woolworths
Telstar Electronic Studios

Fiona Deans
Director, Digital Cinema

AtomShockwave
BBC Online
bol.com (Bertelsmann)

Rich Philips
Head of Technical Operations

Independent Post Production Consultant
TSI

Rob Ray
IT – Engineering

Universal Pictures Int'l
Warner Brothers Int'l
Era Software

Gemma Richardson
Sales Director

Pinewood-Shepperton (sales + mktg)
Sony Pictures
Cannon Cinemas

Max Metral
IT-Development

PeoplePC – division of Earthlink (CTO)
Microsoft
Firefly, Inc

Patrick Foley
CFO

Universal Pictures Intl
PolyGram Filmed Entertainment

thanks for listening

digital made easy