



3D Cinema: Exhibitors race to reap the rewards from the next big thing in film as this time around 3D is not a gimmick

London 21st June 2007 Screen Digest (www.screendigest.com) today releases its latest report, 'The Business Case for Digital 3D Cinema Exhibition'. The report looks at the rationale for the roll-out of 3D screens and finds that early adopter exhibitors are already reaping very strong returns on their investments. Exhibitors who are not planning to equip their theatres with 3D screens run a serious risk of being left behind.

As the Hollywood Studios invest heavily in movies designed exclusively for 3D, the number of screens will need to increase dramatically from its current low base in order to support this new wave of 3D films.

The lure of premium content will drive rapid growth by exhibitors in the number of 3D-ready screens and in these early stages of the market, first adopters have already capitalized on the preferential box office returns from the first slate of movies. Nevertheless, questions still remain as to whether there is real value for exhibitors in continuing to invest in a large-scale rollout of 3D-ready screens.

The race to 3D

At the end of 2006 there were 258 digital 3D screens worldwide, but expansion has been rapid with each new release resulting in a mushrooming of screens. During the first six months of 2007, the number of screens worldwide has almost tripled to 750, with 85 percent of them in the US and much activity in Korea, Australia and Germany. With seven screens, the UK is second in Europe behind Germany, which boasts 22.

The rollout of 3D equipment (comprising 3D glasses, hardware, and if necessary, a silver screen) is highly concentrated among the leading multiplex operators, and the top five movie theatre chains in the US now control over 80 per cent of the market by screens. Globally, there are now 41 cinema chains in 21 different territories, which have equipped more than one digital 3D screen. By 2009, Screen Digest forecasts that there will be over 5,000 enabled digital 3D screens worldwide, equivalent to more than 5 per cent of modern cinema screens. Three quarters of these will be in the US.

3D equals 3x the revenue

Analysis of box office data from the first four digital 3D releases (*Chicken Little*, *Monster House*, *Nightmare before Christmas 3D* and *Meet the Robinsons*) has shown that digital 3D screens generate on average three times more revenue, driven by a 2.4 times higher attendance ratio per screen when compared with 2D screenings for the all important first weekend. Moreover, the introduction of flexible ticket pricing has opened up a new profit share structure in which exhibitors share the resulting 'surcharge' revenue from higher ticket prices with the Studio, an incentive for both sides of the industry alike.

Break-even analysis

Screen Digest has produced financial analysis which suggests that exhibitors will require a regular supply of at least three 3D movies a year in order to see a return on their investment in the equipment.

Applying an average price premium of \$2.00 per movie ticket, exhibitors could net over \$50,000 profit per screen, once a critical benchmark of seven 3D releases is met per annum, and the costs for the 3D equipment have been deducted. The emergence of rival digital 3D systems, led by proprietary technology from Dolby/Infitec, will drive the market harder beginning 2008. RealD is currently the leading supplier of digital 3D equipment, accounting for just under 95 per cent of the market in first half 2007.

3D comes at a good time for the cinema industry

In recent years, cinema admissions in the key markets worldwide have stabilized as some movie-goers have chosen to stay at home. However, just as the technology gap between cinema and home cinema was getting smaller, the advent of digital 3D has enabled the cinema industry to raise the bar higher, and maintain its competitive edge.

Charlotte Jones, Screen Digest Analyst and author of the report says “Digital 3D has the potential to give the cinema industry a shot in the arm to counter flat admissions over recent years. Just as the gap between cinema and home cinema seemed to be getting smaller, the cinema industry has again proven that it can reinvent itself in the face of competition from other release windows. Superior box office returns from early digital 3D releases point towards a strong business case for a rapid roll-out of 3D screens.”

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About this research

The data in this press release is taken from Screen Digest's latest report ‘The Business Case for Digital 3D Cinema Exhibition’ published this month. It examines the potential market for digital 3D cinema and the revenues and profit margins at the exhibition level and business models for a large scale roll out of 3D-ready screens. It considers each of the formats available, including the range of investments, as an addition, to basic D-cinema systems.

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