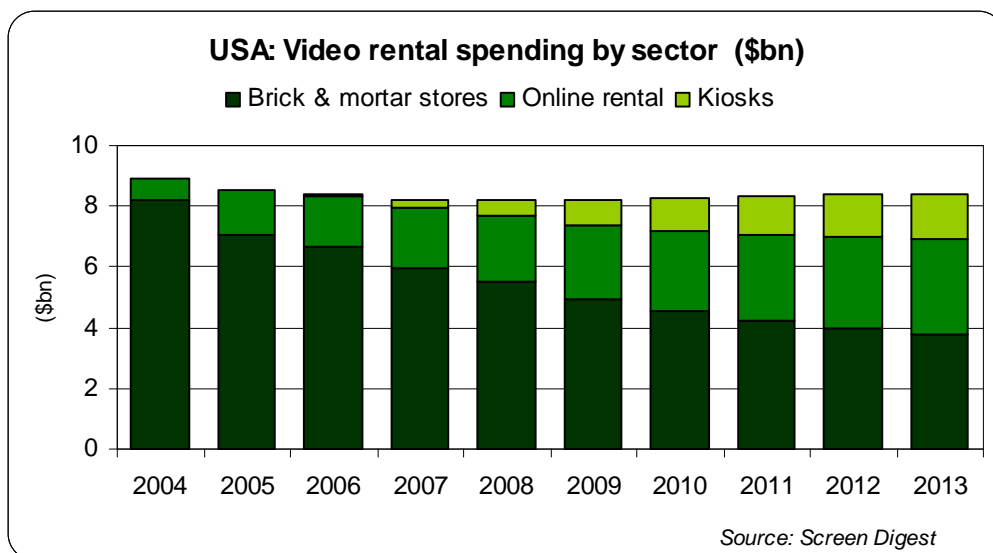




Coming to a kiosk near you: Could the latest US video rental phenomenon breathe life into European sector?

London, 1st September 2009: After years of playing second fiddle to DVD retail, video rental could be set for a revival according to the latest research from media analysts Screen Digest (www.screendigest.com).

Strong growth in the online rental of DVDs and increasing demand for Blu-ray Disc rental is mitigating the relentless downward trend in traditional brick and mortar rental stores in both Europe and the US. But while European rental is still on a downward trajectory - Screen Digest expects spending to decline by 11% this year and by an average of 6% annually 2010-2013 - the company's US research arm Adams Media Research (AMR), says US rental spending will be stable or even slightly up this year and will maintain its value out to 2013.



A fundamental reason for this dramatic difference in outlook is the presence of a third area of growth specific to the US market: \$1-a-night video rental kiosks. By the end of 2009, almost 25,500 of these recession-friendly automated rental points will have been installed around the US, the vast majority operated by Redbox, a division of

Coinstar. Between them they will persuade US consumers to part with \$830m in rental spending, an increase of over 70% on 2008 according to AMR, which expects spending through this channel to expand at an average of 15% a year by 2013. Cash-strapped consumers looking for an affordable way to entertain the family may welcome this development, but Hollywood is less happy. In fact, studios believe that Redbox and its rivals are undermining their more lucrative retail DVD business – not only by offering cut-price rentals but also through the subsequent cheap sale of millions of ‘previously-viewed’ discs. As a result, Universal, Fox and most recently Warner have all introduced rules restricting the sale of DVDs to kiosks for anything up to six weeks from their first release, sparking legal challenges from Redbox. Sony, Lionsgate and Paramount meanwhile have opted for an alternative strategy, signing deals with Redbox to ensure that their titles get top billing in the machines. Crucially however, both approaches specifically prohibit the sale of ex-rental discs.

Could kiosks get Europeans renting again?

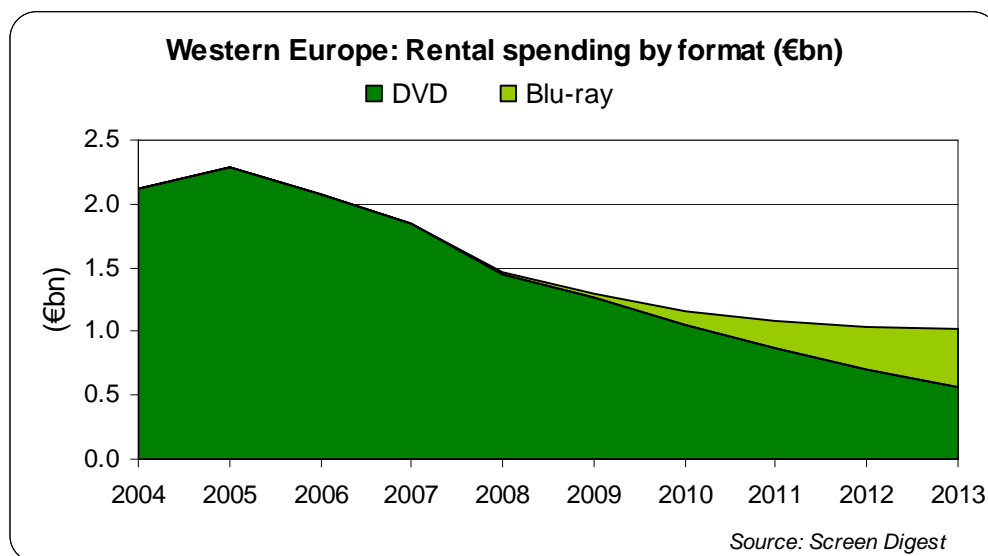
The US tends to set international video trends, so could a similar phenomenon help stabilise rental spending in Europe? Screen Digest believes not. “The concept of rental kiosks was actually invented in Italy about 20 years ago”, says Screen Digest Head of Video Helen Davis Jayalath, “and was quickly adopted across much of southern Europe. But unlike in the US, European kiosks tend to be operated by traditional rental stores and are seen as an extension of their business – they don’t tend to compete so aggressively on price. And there are plenty of markets – including the UK – where despite regular attempts the idea has simply not taken off due to a combination of cultural and legal issues.”

More importantly, however, adds Davis Jayalath, “We don’t believe that rental is strong enough in any European territory these days to support a substantial \$1 (or €1 or £1)-a-night business.” In 2008, the 100m DVD households in the US made almost 2.6bn DVD and BD rental transactions between them – an average of more than 25 per household per year. Meanwhile Europe’s 135m DVD homes rented just 472m times –3.5 times per household. Widespread piracy (both physical DVDs and illegal downloading), a growing range of legal TV and internet-based video-on-demand services and, above all, the ever-lower cost of buying legitimate DVDs, have

combined to ensure that DVD rental has become a minority pastime in Europe. Even in the US, Blockbuster recently welcomed studio moves to implement a window before kiosk release, telling analysts that “\$1 per viewing is not a sustainable industry model.” This is despite the fact that the rental chain is rolling out its own cut-price kiosks in partnership with self-service technology giant NCR.

Try-before-you-buy could boost Blu-ray rental

So is rental really a spent force in Europe? There is one bright light on the horizon. Screen Digest believes that the hi-def Blu-ray Disc (BD) format could play a key role in the rental sector over the next few years. “Consumers who are considering upgrading to BD may be more inclined to do so if they can rent, as well as buy, the more expensive hi-def discs needed to make the most of it” says Screen Digest Senior Analyst Richard Cooper. “And by the end of this year there will be 11m European households who own a Sony PlayStation 3 games console – which is one of the best BD players out there. Rental, which is the ultimate ‘try-before-you-buy’ option, is a great way of persuading them to dip their toe in the Blu-ray water.”



In fact, new research from Screen Digest indicates that European consumers could be spending as much as €461m (\$648m) a year on renting the hi-def format by 2013. This is on top of the forecast €3.2bn (\$4.5bn) they will be spending on buying movies and TV series on the hi-def discs, making the total European BD market in 2013 worth €3.7bn (\$5.4bn) compared with DVD spending of €5.3bn (\$7.8bn). In the US, where rental remains a mainstream pursuit, BD could be worth over \$5.0bn in

consumer spending by 2013, with almost \$10.0bn more being spent on buying the discs. There, the combined figure of \$15.0bn is almost twice the amount Screen Digest expects US consumers to spend on buying and renting DVDs that year.

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About this research

The research in this press release is taken from Screen Digest's continuous service, Video Intelligence. Excerpts of the research are published in the August issue of the newsletter *Screen Digest*.

About Helen Davis Jayalath, Head of Video

Helen heads up Screen Digest's Video team and has overall responsibility for the company's coverage of the packaged media business. She has been analysing the international video business since 1991 and is widely acknowledged as a leading authority in the field. Helen has led the expansion of Screen Digest's coverage of the sector since 1994, including the development of the online Video Intelligence service which set new standards for market information about the video industry.

About Richard Cooper, Senior Analyst, Video

Richard Cooper is responsible for the ongoing development of Screen Digest's online Video Intelligence service, including designing, constructing and maintaining the detailed computer models that underpin Screen Digest's video forecasts. His other responsibilities include tracking the expanding Blu-ray Disc replication sector and monitoring trends in emerging markets. Richard joined Screen Digest in 2006, following contract work with Disney as a market analyst. Prior to this he worked for MVC, a specialist music and video retailer, initially as a Category Planning Analyst and subsequently as Business Insight Manager.

About Screen Digest

Screen Digest is the pre-eminent firm of industry analysts covering global media markets. Headquartered in London, with offices in Los Angeles and Monterey, California, New York and Australia, we employ a team of 40 specialist analysts covering film, television, broadband, mobile, cinema, home entertainment and gaming. Our online services and reports provide the information and analysis that hundreds of media companies worldwide base their decisions on. Most recently we have launched Global Media Intelligence (GMI), a new service which provides research and analysis specifically for media-focused institutional investors. Screen Digest acquired Monterey, California-based Adams Media Research in 2007.

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