



Financing models for Digital Cinema

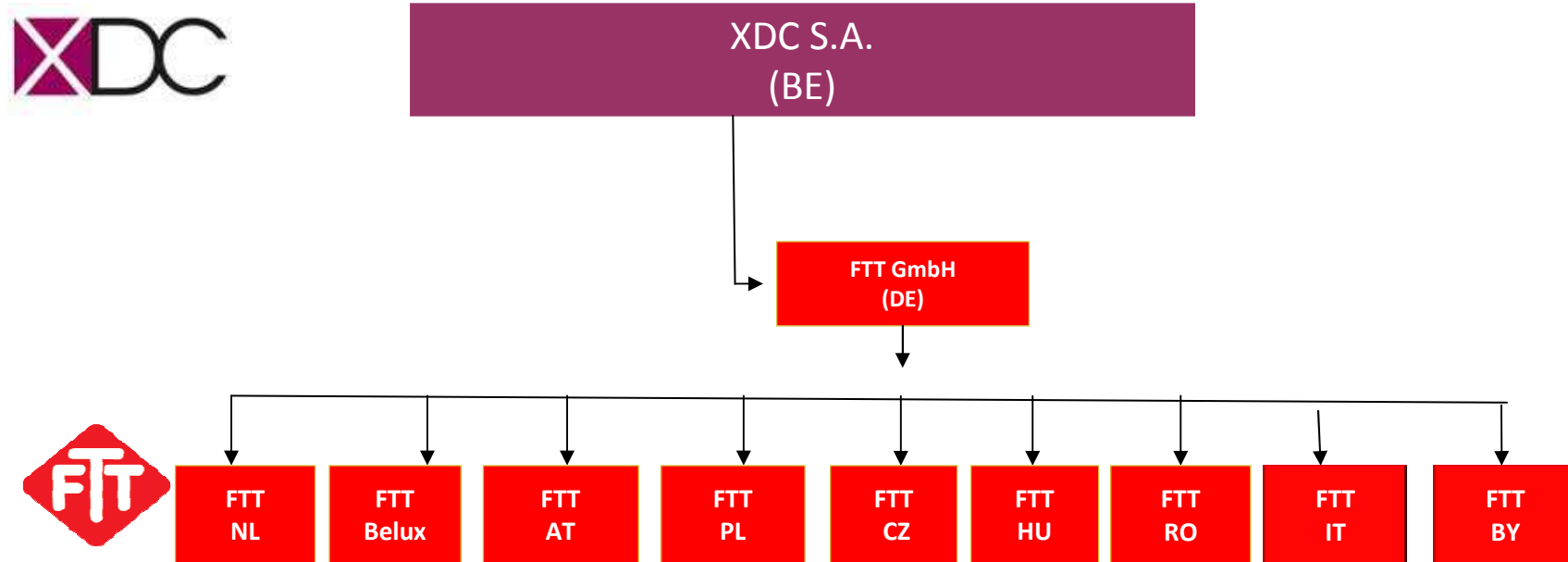
VPF – a solution for many, not for all



FILM-TON-TECHNIK
Hannsdieter Rüttgers GmbH



Who we are ?



- Family business with 50 years experience as Cinema Service Provider for 35 mm equipment (distributor of CM, Dolby, QSC, etc..) and Sound
- 10 years track record in Digital Cinema integration & servicing equipment
- Wholesale and Sale of all leading brands in cinema technology
- Strong European network of affiliates and partners
- 150 people to service the exhibitors, big and small

FTT – XDC group Integrated Full Service Company

Deploying entity (VPF model)



- Studios contractor for operational roll out and equipment financing. Deals with 6 US Majors (including Warner Bros)



- Over 3.000 screens signed, over 1 already .300 deployed
- Revenues collection from distributor's
- Efficient web based VPF back office systems (extranet for exhibitors, distributors, labs)

Supply of digital cinema equipment (non VPF)



- Supply of DC equipment from all brands
- Excellent conditions due to large volume purchases
- 2 years to 10 years warranty
- Service level agreements with vendors
- Service contracts from 2 years to 10 years
- Wholesale to other integrators



Digital Cinema Technology



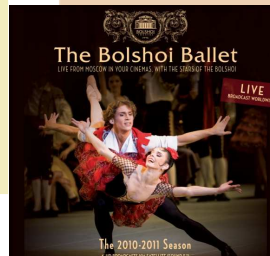
- Over 10 years experience as a server manufacturer (now Barco Server)
- Development of integrated software solutions for theatres
- Integration of third-party DC equipment (Doremi, Dolby, Sony)
- Integration of third-party network solutions (Arqiva, SmartJog, ...)



Content & Network Services



- Digital Lab Services: DCI mastering, KDM management, content delivery, localization, cross platform formatting
- Alternative content sourcing, production and distribution
- Network services: content delivery via satellite and terrestrial solutions



Support & Maintenance



- Closed cooperation with strong local partners
- Servicing exhibitors through maintenance agreement or third party systems
- On-site, helpdesk, online support and monitoring (Network Operations Centre—NOC)
- Central Management System



Combine the best equipments for your specific needs.



visibly yours
2K & 4 K



CHRISTIE
2K & 4 K



SONY
4 K only



NEC
2K & 4 K

+


doremi cinema
2K


4 K


visibly yours
2K & 4 K


DOLBY DIGITAL
2K & 4 K

+

+


Active 3D


Passive 3D


TMS

Overview

1. Existing Financing models
2. What is VPF ?
3. What is the amount of a VPF ?
4. Why are deployment entities required ?
5. Can all cinemas participate ?
6. What are the key points of XDC's VPF agreements ?
7. What are the VPF booking options with XDC ?
8. How is content booked ?
9. Conclusion

Existing Financing models

1. Simple purchase as investment on balance sheet → often impossible for smaller cinemas
2. Simple purchase as investment by bank loan → often complicated to negotiate with banks if financial situation not very positive
3. Public or European support (national plans, like in Germany, European Union (Poland) or Eurimages (Balkans & Turkey) → limited volume, procedures, no budget in most countries

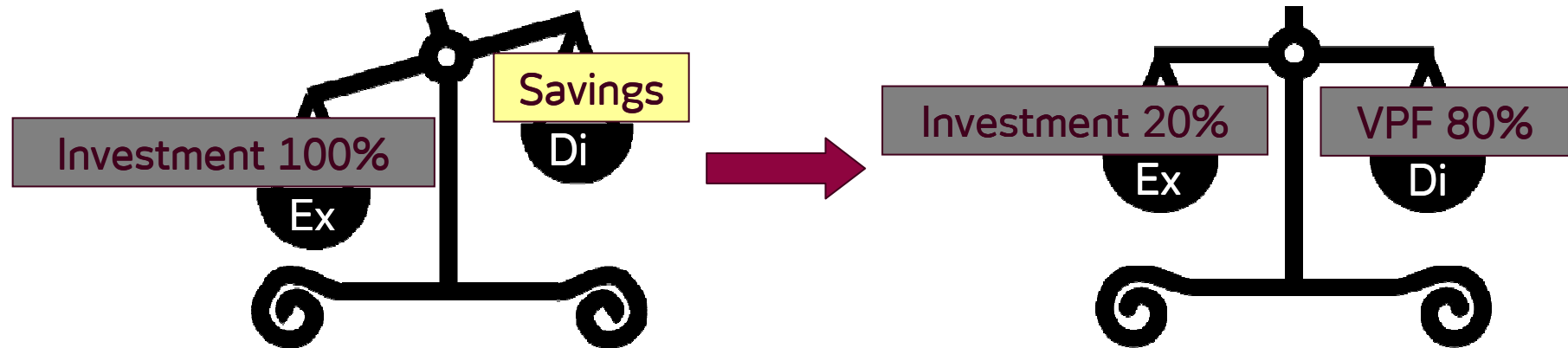
Existing Financing models

4. Financing by direct VPF agreement with studios → only accepted for very big groups, a lot of administrative and legal workload
5. Financing by VPF with 3d party facilitator (XDC, Arts Alliance, Ymagis) → accessible for smaller cinemas if domestic distributors agree on systems and turnrate of national releases is high
6. Refurbished second hand systems (20.000 – 40.000 euros → necessary updates, limited or no warranty
7. Founding of a national buying group → still expensive, difficult to set up



What is VPF (Virtual Print Fee)?

- A Financing model
- Created to balance the inequalities of an all digital film distribution and exhibition industry:

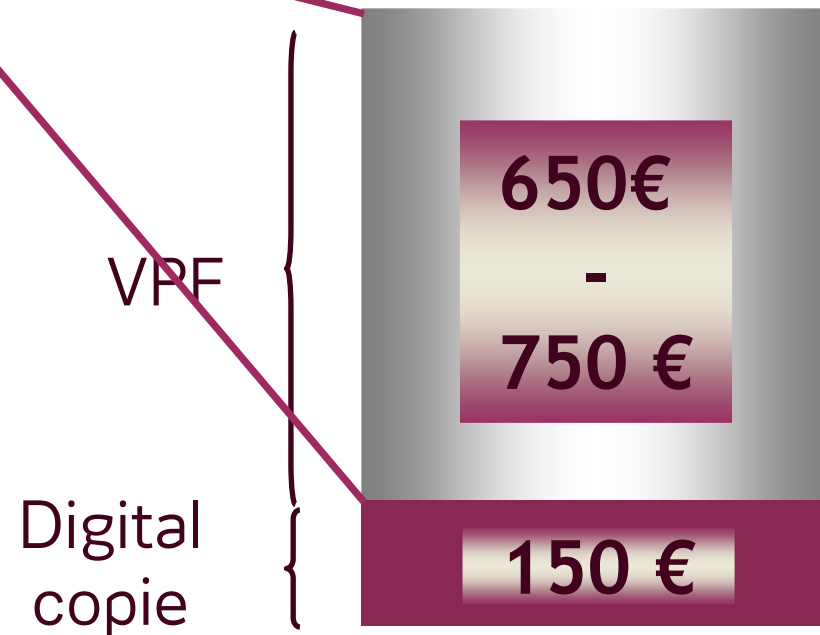


Amount of the Virtual Print Fee

Costs: 35 mm



Costs: Digital



VPF

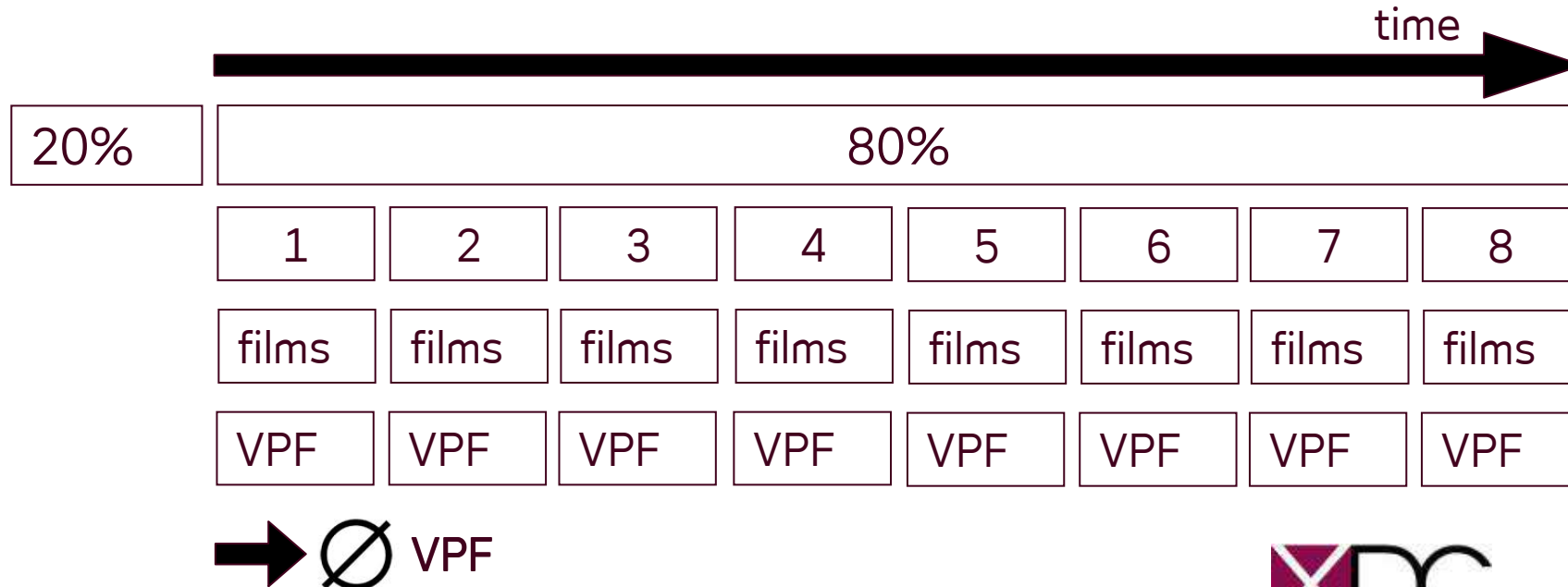
Digital
copie

What is included in a VPF deal, what not ?

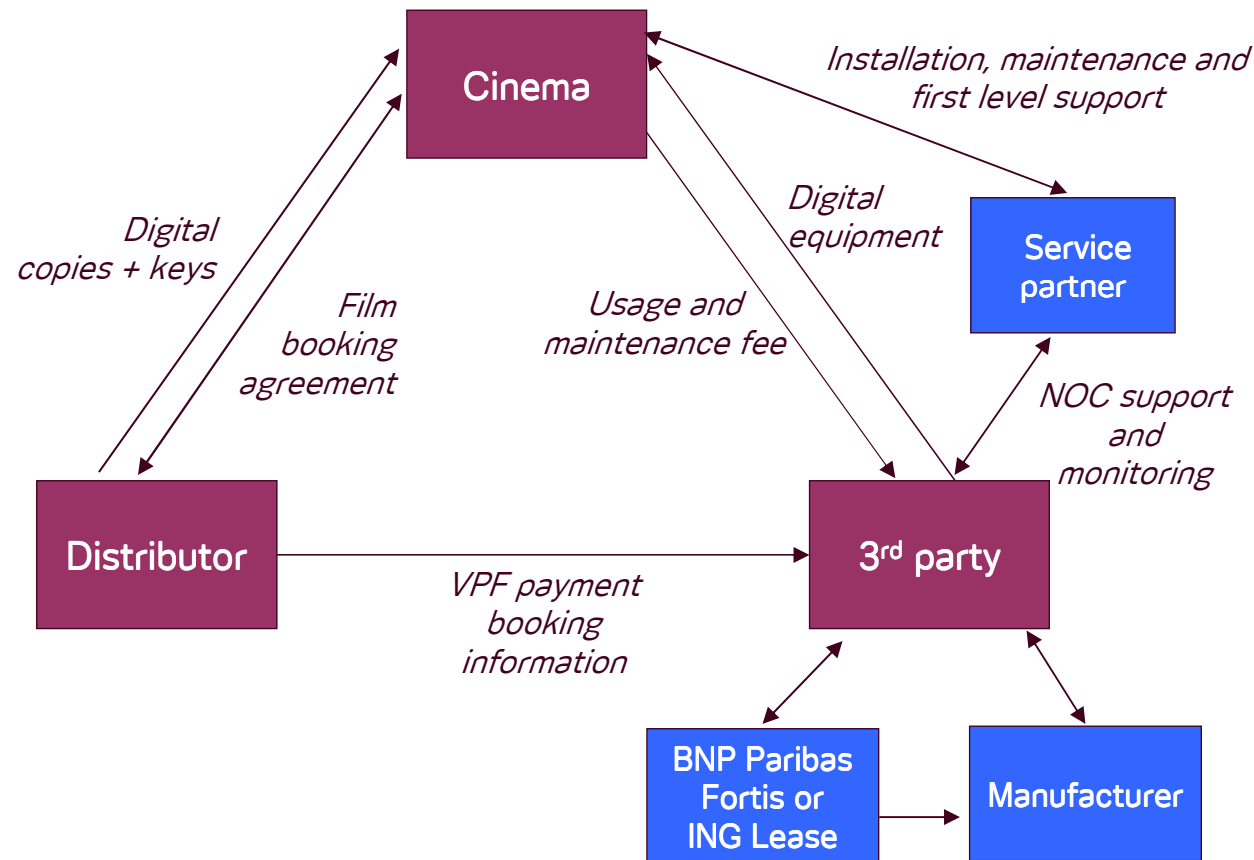
- **Included:** projector, server, Theatre Management System with 10 years warranty
- **Excluded:** Installation, costs, 3D system, audio & sound converter, satellite receiver, etc...
- Example (one screen)
 - Conversion of a screen costs 75.000EUR
 - 20% pays the exhibitor - 15.000EUR
 - VPF financing total 60.000EURcan be paid by monthly rates
- Recoupment period planned to be 7 years
- Required yearly recoupment per screen 8.750EUR
- Required yearly VPFs (turnrate: 16- 20)
- Minimum VPD screens in a country (50 – 1000)

What factored into settling the amount?

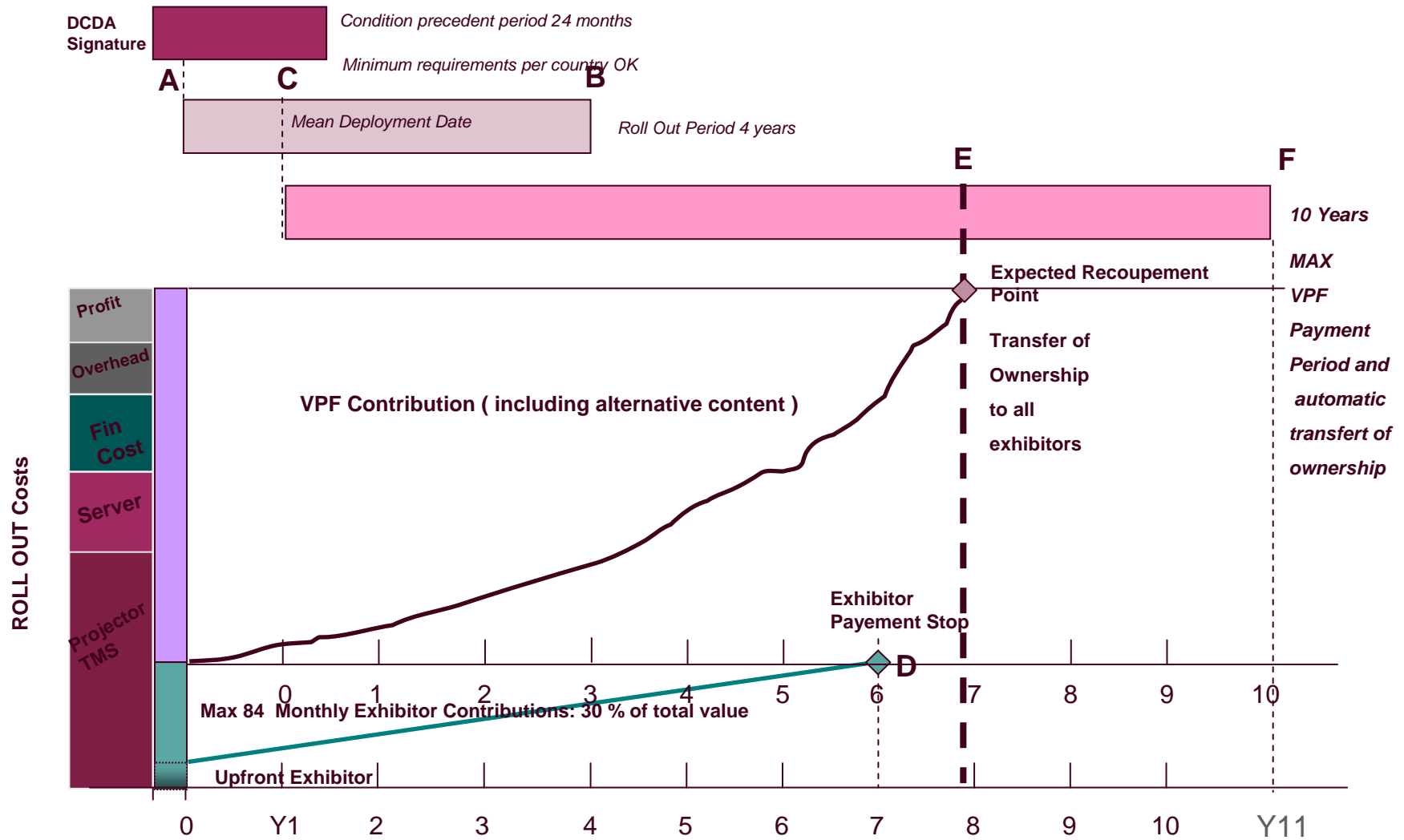
- Financing model initiated by the 6 US majors based on their customers
- aimed for a limited financing period
- Conversion costs per screen + deployment entity was defined and capped
- Resulting in an amount per VPF



VPF does not change the relationship between distributors & exhibitors

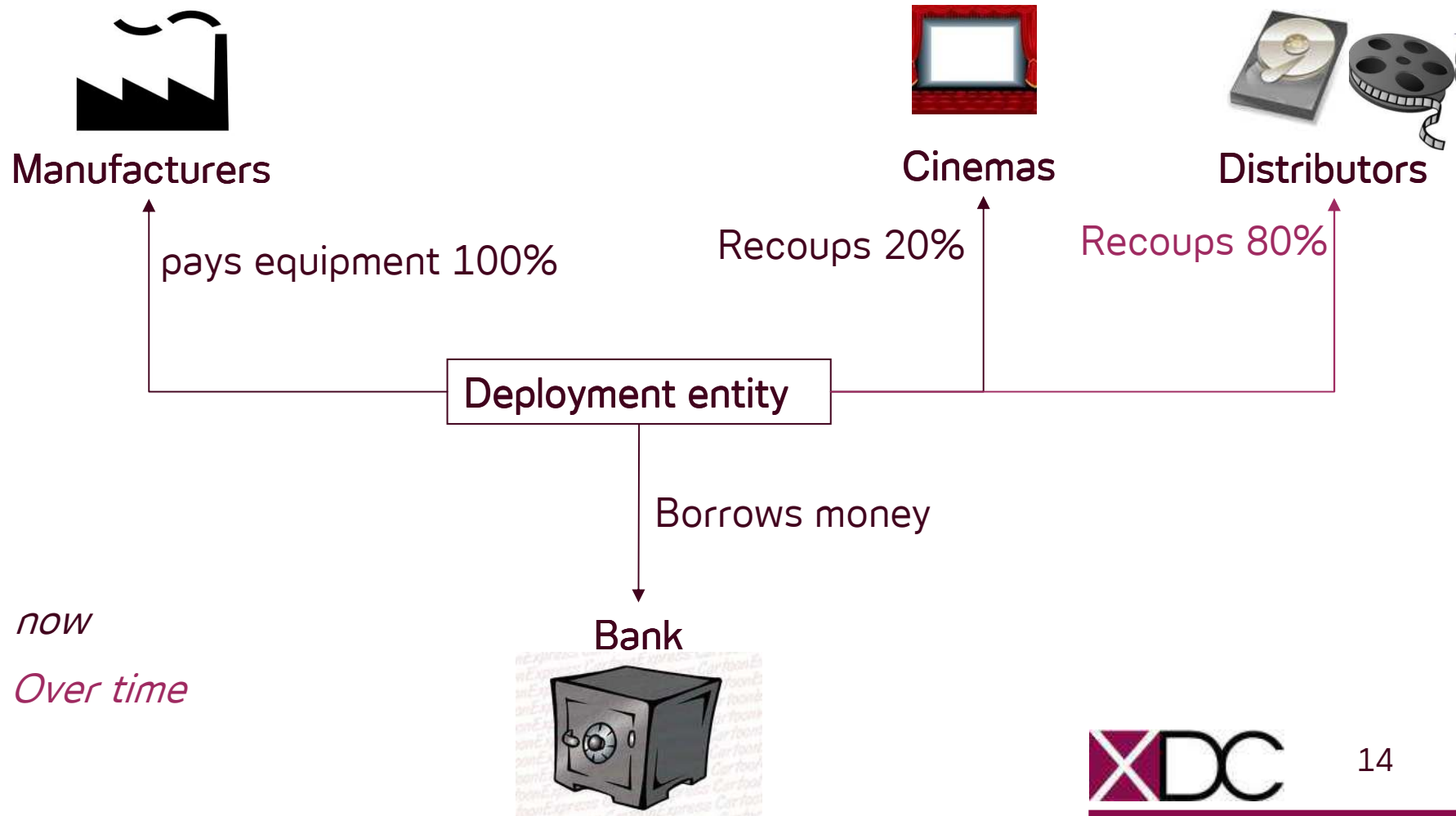


VPF Financing model



Why are deployment entities doing this?

- Need for upfront financing of equipment



Can all cinemas participate?

- **Original model:**
 - only those playing a sufficient number of US studio films to reach the target VPF amount
- **Now:**
 - as more European distributors sign VPF agreements, then also those cinemas could be eligible which play more European films
 - **Example:** in Belgium, all independent distributors agreed to pay VPF. The system is open to all art house cinemas. As they have high turnrates of national releases and not many screens, it works for all involved parties.

Examples of non-studio XDC VPF partners

Country	Exhibitors	Distributors
Austria	Cineplexx AT Hollywood Megaplex StarMovie	Constantin Film Einhorn Film ELMO Movieworld FilmLaden Luna Filmverleih Polyfilm
Portugal	Lusomundo Cinema International Corporation (UCI) Socorama Cinemas	Alambique Unipessoal Bosque Secreto Castelolopes Jumpcut Lusomundo Midas Filmes O som e a Furia Producao Prisvideo Valentim de Carvalho

What are the key points for distributors?

- 2 VPF contracts with different durations

	Free Rider Agreement	Long Term Agreement
duration	▪ Per film	▪ Up to 14 years
VPF Options	Standard Limited	Standard Limited Flat
VPF amount	750€	650€

What are the key points for distributors?

- **No VPFs for:**
 - Trailer and material (max 15min), which are part of the pre-show
 - Sneak Previews
 - Screenings booked 7 weeks after NRD, unless bookings were Limited
 - moveovers (moving film to other screen in same complex – except LE)
 - B2B screenings of the distributor
 - Non-commercial screenings with no admission fee charged
 - Technical failure

- **Reporting & Communication:**
 - Booking report of distributor
 - Recoupment, Roll-out report and right to an audit for distributor

Which VPF options does XDC offer?

- **Distributor/ content owner**
 - pay-per-complex (Standard Engagement)
 - pay-per-show (Limited Engagement)
 - pay-per-copy (Flat Engagement)

- **Exhibitor**
 - pay-per-show (Alternative Content Fee)

What is the difference between SE and FE?

- pay-per-complex (Standard Engagement)
 - Distributors pay 100% VPF in week 1 and less in the following weeks until it stops completely
- pay-per-copy (Flat Engagement)
 - Distributors pay a VPF depending on how many copies they make for the release

What's the point?

- Advantage depends on release pattern:
 - Complexes booked for five to six weeks and not many new complexes during that time → pay-per-complex
 - Many bookings in different complexes within the first five to six weeks → pay-per-copy

How is content booked?

- Distributors (and for ACF exhibitors) insert the booking information via the XDC Extranet
- Intuitive online form: 5min for about 20 bookings

The screenshot displays the XDC Distribution Extranet V2.0 interface. At the top, it identifies the user as 'XDC International' and notes that the user is on a development server. The main navigation bar includes 'ROLL OUT', 'VPF BOOKING' (highlighted), 'LABS WORKFLOW', 'CONTENT DELIVERY', and 'REPORTS'. The current page is 'VPF Booking > Booking'. The main content area contains a welcome message: 'Welcome to the XDC VPF booking application! In this extranet you can encode your bookings for the VPF XDC screens, have an overview of the already encoded bookings and modify the existing bookings. In the next step you can create a new booking (Add booking) or review existing bookings (View Bookings). If you need some help or have some questions do not hesitate to contact Judith Michel (jmi@xdcinema.com or +32 497 34 00 85).' Below the text are two buttons: 'Add a booking' and 'View your bookings'. The footer contains copyright information for XDC 2011 and a page generation timestamp.

Summary

1. VPF is a financing model to balance inequalities
2. Deployment entity is needed for upfront financing
3. Amount of VPF is based on financing model
4. Group of eligible cinemas can be enlarged if more distributors commit to the model
5. 2 VPF agreements:
 - Free Rider (per film)
 - Long term (over time)
6. 3 VPF booking options:
 - Pay-per-complex (Standard)
 - Pay-per-copy (Flat)
 - Pay-per-show (Limited)
7. Booking via XDC extranet with personal log in

What are popular concerns?

- VPF will interfere with the exhibitor – distributor relationship
 - Examples
 - Exhibitor kicking out films earlier to achieve annual turn rates
 - Distributors don't give films to under performing cinemas as long as they still have to pay a VPF



Conclusion



Thank you!

FTT – XDC Group

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