



ARTS
ALLIANCE
MEDIA

→ digital made easy

DigiTraining Plus 2011

Integration experiences and support models

30 June 2011

Agenda

1. Who is Arts Alliance Media?



2. The Virtual Print Fee model: key principles



3. Adaptability of the VPF model: beyond the large circuits



4. Next steps: the future of digitisation through VPF



1. Who is Arts Alliance Media?



Company Background

Arts Alliance Media (AAM) was founded in 2003 and is based in London, with offices in Paris, Amsterdam, Barcelona and Berlin. The company is Europe's leading provider of digital cinema technology, content and deployment, dedicated to building the largest digital cinema delivery network in Europe, and to supplying digital content - films, alternative programming and live events.



Arts Alliance Ventures is AAM's main investor and is a venture capital organisation supporting a growing network of entrepreneurs. They have a "hands on approach" to investment and provide both creative talent and strategic advice to Portfolio Companies in the technology, services and communications sectors.

Arqiva is a minority investor in AAM and is a communications infrastructure and media services company, which operates at the heart of the broadcast satellite and mobile communications markets. The company is at the forefront of network solutions and services in the digital world. Arqiva provides much of the infrastructure being television, radio, satellite and wireless communications in the UK and has a significant presence in Ireland, mainland Europe and the USA.



Delivering the digital future

With strong investors, AAM has been able to leverage relationships and knowledge base to build a strong foothold and will continue to expand with their long term view and support

AAM's Business Lines

AAM has five business lines that can function independently but greatly benefit from the synergies of operating as part of one integrated company

1 - FINANCING SOLUTIONS

Arts Alliance Media offers several options to help cinemas convert to digital. AAM was the first company in Europe to have deals with 5 of the major Hollywood studios to fund a digital cinema rollout of up to 7,000 screens, under a Virtual Print Fee financing model.

2 - EXHIBITOR SERVICES

AAM provides Installation, Maintenance & Support, and 3D to cinemas across Europe. All areas make the physical conversion of a cinema to digital, and the day to day management and operations, as easy and comprehensive for cinemas as possible.

3 - SOFTWARE SOLUTIONS

AAM's extensive experience in creating software for digital cinema has afforded AAM the opportunity to provide solutions for other integrators, exhibitors and distributors who need to better manage the digital cinema process and truly capitalise on all it offers.



4 - DISTRIBUTOR SERVICES

AAM's in-house Digital Lab handles every aspect of the digital cinema content supply chain, from encoding and encryption through to generation and delivery of play-out keys to cinemas. Our established and experienced team have processed thousands of titles and shipments of digital prints.

5 - ALTERNATIVE CONTENT

AAM is actively involved in sourcing, managing, distributing and promoting Alternative Content. AAM is building a network of cinemas capable of showing pre-recorded and live content helping to create a new offering for content owners and cinemas.



AAM "sells DIGITAL CINEMA".

AAM's current aim is to facilitate a smooth transition to digital cinema: this is achieved by partnering with distributors and exhibitors, addressing their present needs (ie: switching from 35mm to digital) and supporting them in the long run.

WHY DIGITAL CINEMA?

benefits for **EXHIBITORS**

- Efficiency: an entire cinema, including projection booths operations, can be managed from a single computer
- 3D
- Programming flexibility (a film in digital format can be easily transferred between one screen and another)
- Additional revenue streams (eg: alternative content)

benefits for **DISTRIBUTORS**

- Cost savings: a 35mm print carries a fixed cost of \$800-\$1200 plus delivery per each screen; a digital print can cost between \$60 and \$200 per site.
It has been estimated that Hollywood Studios will save up to \$1bn per year as soon as the theatrical distribution pipeline will be entirely digital.
- 3D
- Lower risk (piracy and transportation/delivery)

SUPPORTING THE TRANSITION TO DIGITAL CINEMA

AAM addresses the Exhibitors' needs with:

FINANCING SOLUTIONS

in partnership with distributors

THE VIRTUAL PRINT FEE (VPF) MODEL

"EXHIBITOR FINANCING"
VPF MODEL

"AAM-FINANCING"
VPF MODEL

EXHIBITOR SERVICES

- **EQUIPMENT PROVISION**

- **INSTALLATION SERVICES**

- **MAINTENANCE and SUPPORT SERVICES**


Significant Achievements

1st Nationwide Rollout in Europe

- ➔ AAM was the only European digital solutions provider to install a nationwide digital screen network (winning competition against the likes of Dolby and Thomson Technicolor)

1st European VPF

- ➔ First European Virtual Print Fee (VPF) arrangement with major U.S. studios to fund costs of digital conversion of cinema screens (allocation for 7,000 screens)

1st VPF Funded Rollout in Europe

- ➔ Signed first VPF deal with European cinema chain Cinema Georges Raymond (CGR)
- ➔ To date signed up over 3,000 screens with top exhibitors in UK, France, Germany, Spain, Italy, Denmark, Holland: Opportunity to reach over 6,000 in the pipeline

Global Software Business

- ➔ In-house developed TMS, LMS and Back Office reporting systems used in all VPF rollouts
- ➔ Software licensed to Japan and Australia with current trials touching over 5,000 screens

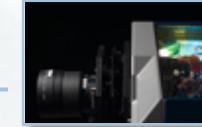
Strong Content Flow

- ➔ Mastered over 1,000 films and delivered more than 20,000 prints
- ➔ Handled worldwide releases of pre-recorded and live content

Strong Financial Standing with powerful Investor Base

- ➔ Profitable company: 80% year-over-year revenue growth in its current fiscal year
- ➔ Completed funding of CGR (€20m) during challenging financial conditions
- ➔ Sankaty (a division of Bain Capital) financing of €50m (with room to grow)
- ➔ Arts Alliance Ventures backing represents long term commitment and knowledgeable investor
- ➔ Arqiva brings strategic relevance as well as solid financial capability

2. The Virtual Print Fee model: key principles



Forecast Digital Cinema Screens

	<i>actual 2009</i>	<i>actual 2010</i>	<i>forecast 2012</i>	<i>forecast 2014</i>
Benelux	268	546	1,190	1,281
France	959	1,910	3,378	4,983
Germany, Aust, Switz	830	1,597	3,426	4,898
Greece, Cyprus	35	67	173	344
Ireland	101	156	336	474
Italy	166	640	1,279	1,807
Scandinavia	467	1,143	2,737	3,796
Spain, Portugal	642	1,415	3,298	3,800
UK	268	546	1,190	1,281
WESTERN EUROPE	3,893	8,368	17,843	24,537
CENT+ EAST EUROPE	690	1,697	2,654	4,543
CENT+ S. AMERICA	425	1,226	2,525	4,906
ASIA-PACIFIC	3,513	8,426	15,832	22,334
AFRICA-MID EAST	82	265	648	1,130
NORTH AMERICA	7,736	16,522	34,793	39,323
WORLDWIDE	16,339	36,504	74,295	96,773

- ➔ Currently worldwide digital screens top 16,000 but expected to be almost 25,000 by year end
- ➔ Includes only Studio Approved "DCI** Compliant" systems
- ➔ Expected to grow by around 50% this year
- ➔ Larger footprint represents more opportunity with new screens looking for interesting content, other than traditional movies
- ➔ Approximately 15% of worldwide screens are currently satellite-enabled

**WHAT'S THE FINANCING MODEL
MAKING THIS HAPPEN?**

THE "VIRTUAL PRINT FEE"

Source: Screen Digest

*2009 = actual figures

** DCI = Digital Cinema Initiatives the industry body which involves all the studios and defines the standards for digital cinema

Virtual Print Fee

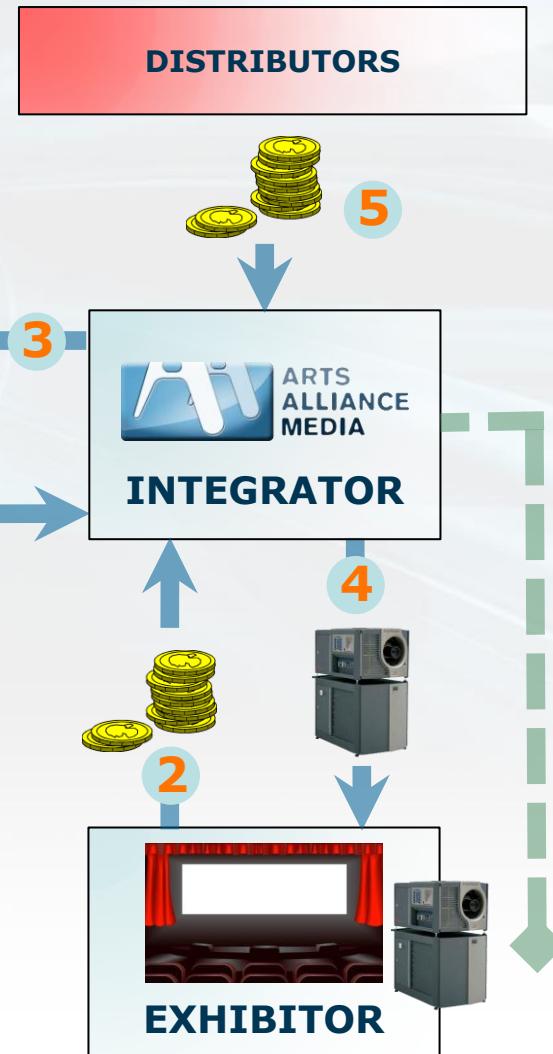
VPF deal overview

- ➔ The VPF deal is a mechanism by which Distributors contribute the major element towards the cost of the digital cinema equipment, using the savings they make switching to a digital format from 35mm.
- ➔ An integrator or the Exhibitor procures, finances and installs digital projection equipment in cinemas.
- ➔ All costs of the rollout are put into a 'recoupment pool'.
- ➔ Every time a film is booked digitally, the distributor pays a Virtual Print Fee which is used to pay off the recoupment pool. Moveovers* are not charged for.
- ➔ Exhibitors also contribute to the recoupment pool via a rental fee
- ➔ A VPF deal is a long-term contract, where digital cinema equipment is installed in a screen and financed for up to 10 years.
- ➔ Distributors guarantee to make digital versions of content available and to pay VPFs when bookings are made.
- ➔ The model ensures distributors and exhibitors each pay their "fair share".

* Moveover: when a film moves from one screen to another

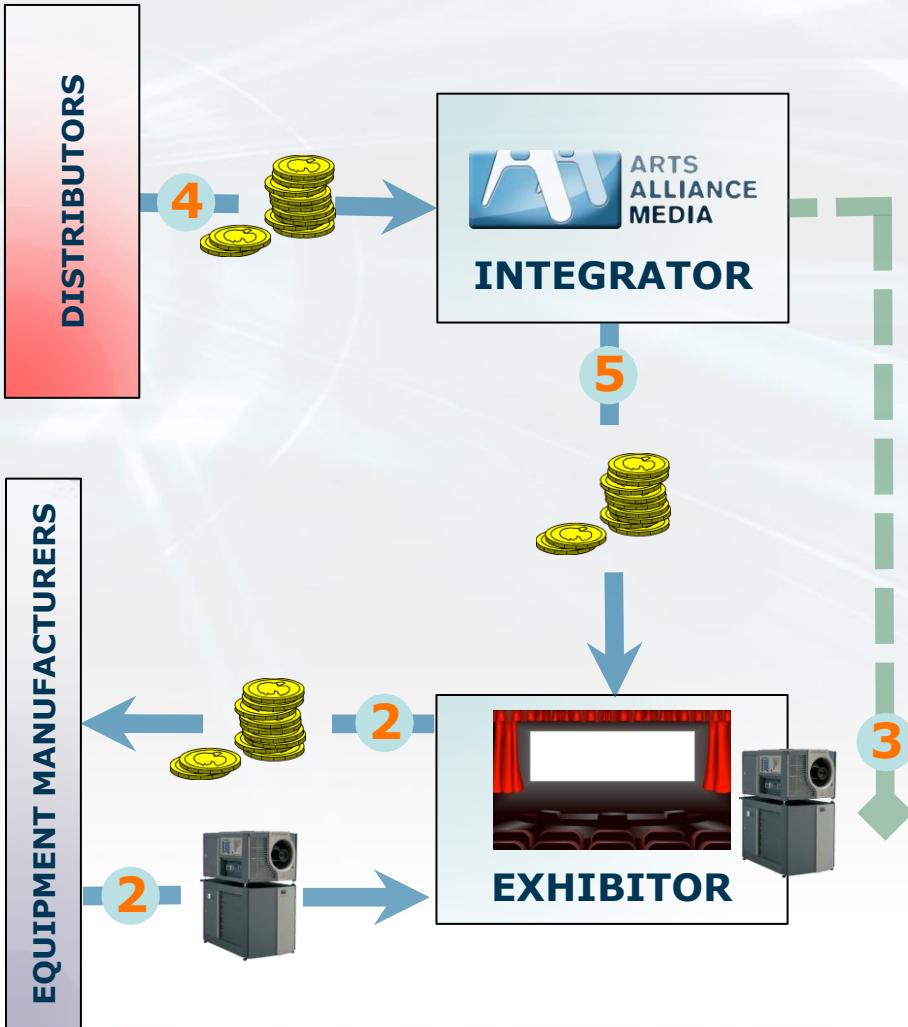
AAM-financing VPF model

EQUIPMENT MANUFACTURERS



1. AAM and Exhibitor sign a VPF-based deal for the rollout of digital equipment
 2. The Exhibitor pays an upfront contribution
 3. AAM sets-up financing and purchases the digital cinema equipment
 4. AAM installs the digital cinema equipment
 5. Distributors pay a VPF for each film booked and played by the Exhibitor in digital format
- §.** For the entire duration of the term (10 years) AAM supports and maintains the digital cinema equipment (the Exhibitor will be required to sign a maintenance deal)
- §.** At the end of the term, or as soon as all costs are recouped, the Exhibitor gains full ownership of the equipment

Exhibitor financing VPF model



1. AAM and Exhibitor sign a VPF-based deal for the rollout of digital equipment
 2. Exhibitor purchases the digital cinema equipment
 3. The equipment is installed (by AAM or under AAM's supervision)
 4. Distributors pay a VPF for each film booked and played by the Exhibitor in digital format
 5. AAM regularly pays a contribution to the exhibitor to reimburse the equipment cost over a period of time
- s.** *For the entire duration of the term (10 years) AAM supports and maintains the digital cinema equipment (the Exhibitor will be required to sign a maintenance deal)*
- s.** *The Exhibitor owns the equipment from the beginning*

The Recoupment Pool

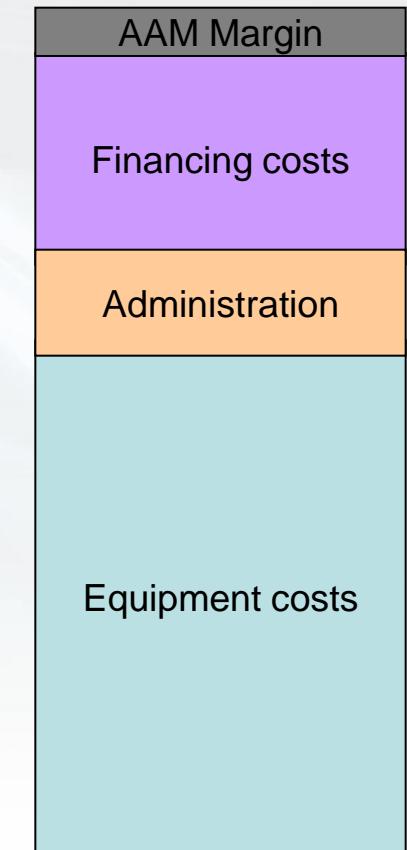
- The Recoupment pool comprises all costs actually incurred in the rollout, plus a capped margin for the integrator
- Integrators usually set up a separate company which rolls out equipment and collects VPFs and cinema contributions
- This company is obligated to report to distributors the level of costs it incurs and the revenues received
- Once the revenues equal the recoupment pool expenditure, everyone stops paying

Payable once equipment costs recouped

Interest payments

Payments, accounting, legal etc.

Server, projector, central storage, TMS, cabling etc.



3. Adaptability of the VPF model: beyond the large circuits



VPF: a flexible model

Common misconceptions about the VPF model:

- 1. VPF = Hollywood Studios**
- 2. VPF is only for large cinema circuits**

WRONG!

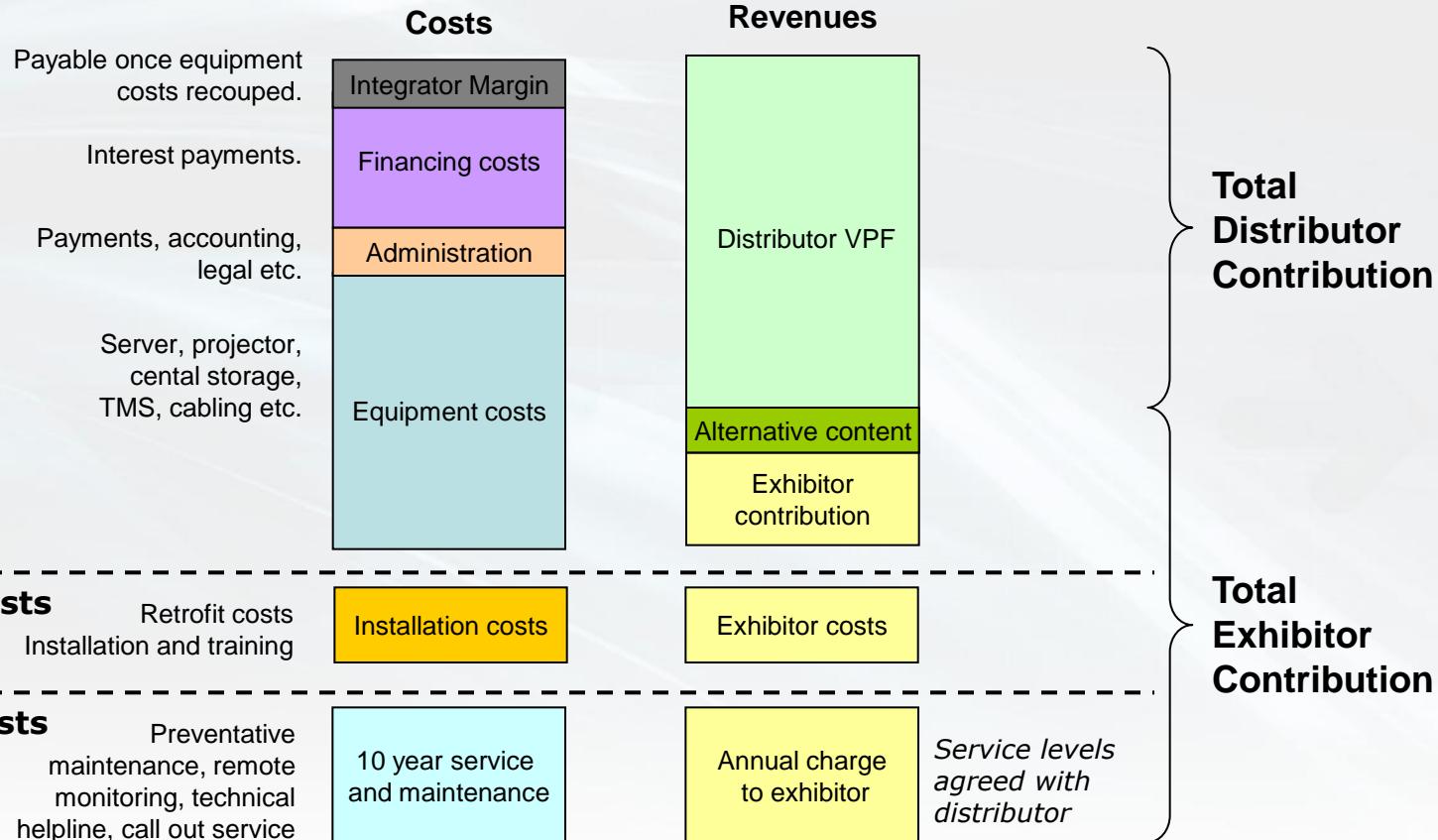
The VPF model is a way of sharing the costs of digitisation, which can be adapted and applied to a wide range of contexts.

There are several examples in Europe of how the VPF model has been implemented to support the digitisation of small cinemas (including second run and art-house cinemas):

- Cinema Digitaal in the Netherlands
- Film & Kino in Norway
- The Italian direct VPF agreement
- Digital Funding Partnership in the UK
- ...

Recoulement Principles

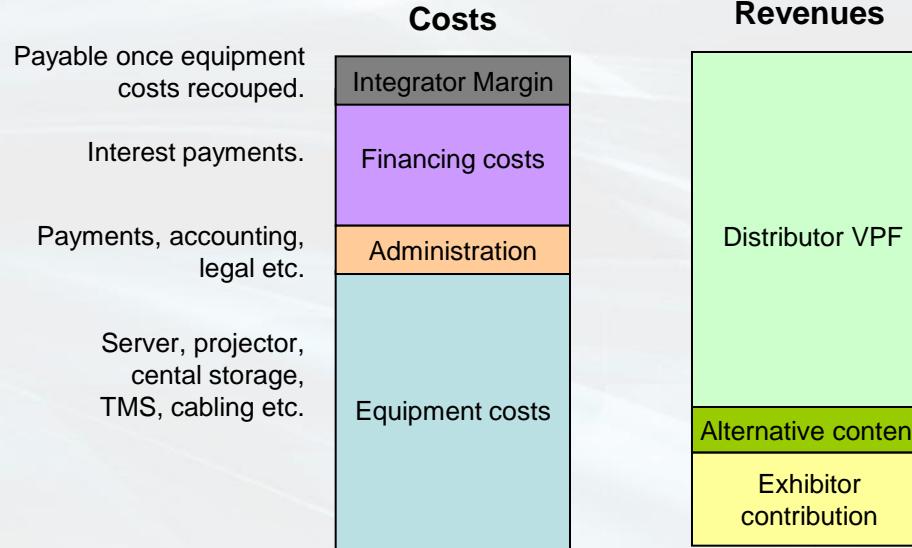
Recoulement Pool



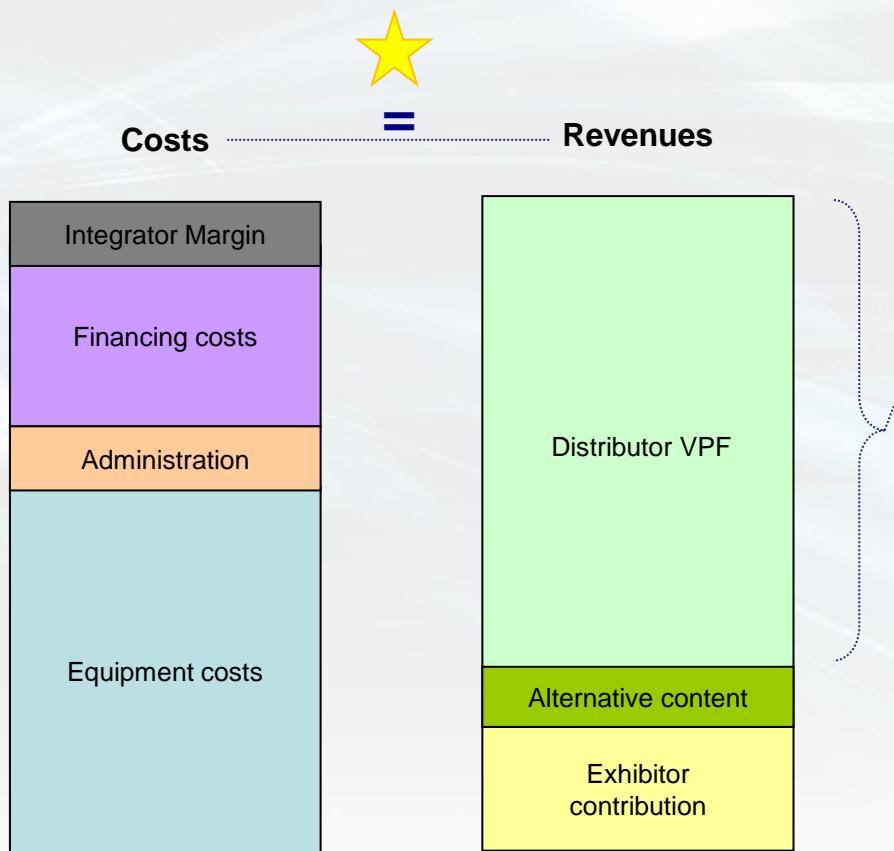
VPF goes to zero after 10 years or when costs are recouped, whichever is the earlier

Recoupment Principles

Recoupment Pool



Common issues

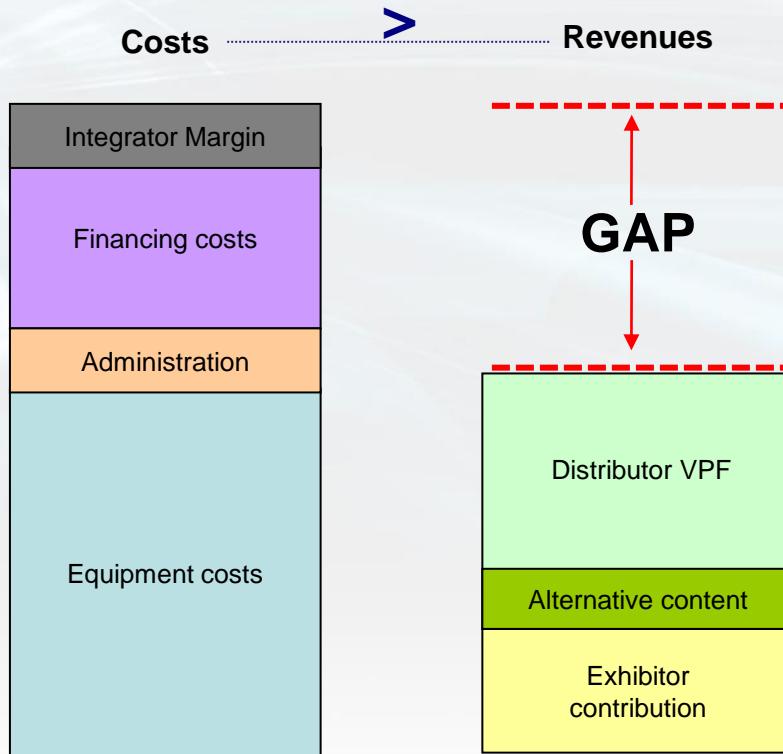


Determined by:

- Distributors' willingness to pay a VPF.
- VPF amount.
- Recoupement period (eg: distributors willing to pay for just 5 years, instead of the standard 10-year term).
- Print turnover → how many prints that generate a VPF are booked/screened by the Exhibitor.



Common issues



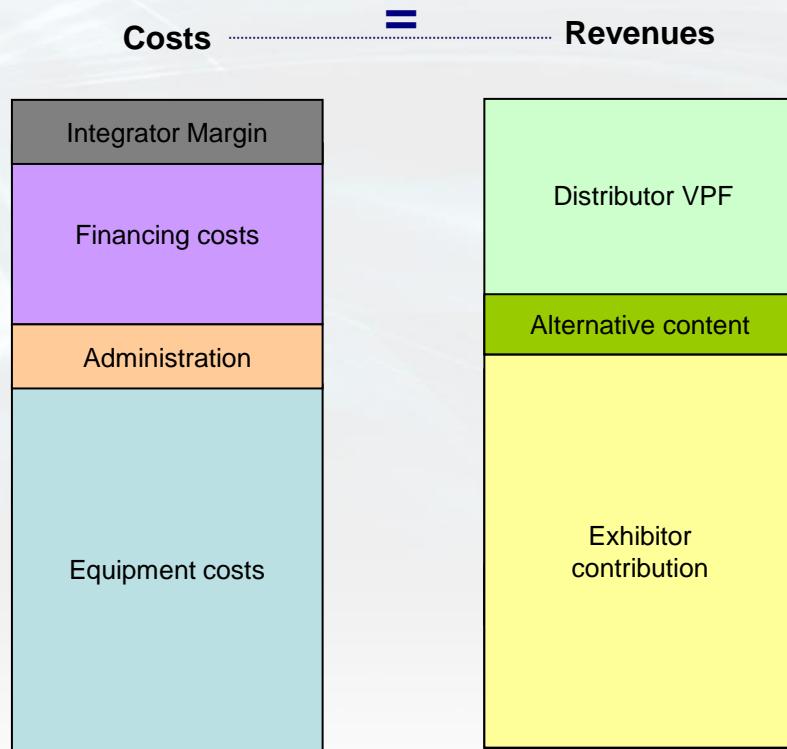
If....:

- a cinema books/screens a low number of prints that generate VPFs
- (the VPF amount is too low)
- (the recoupment period is too short)

→ revenues may no longer be sufficient to cover the costs of digitisation.



The VPF model must be adapted, opening its structure to new sources of revenue.



How to close the gap...:

1. INCREASING THE EXHIBITOR CONTRIBUTION

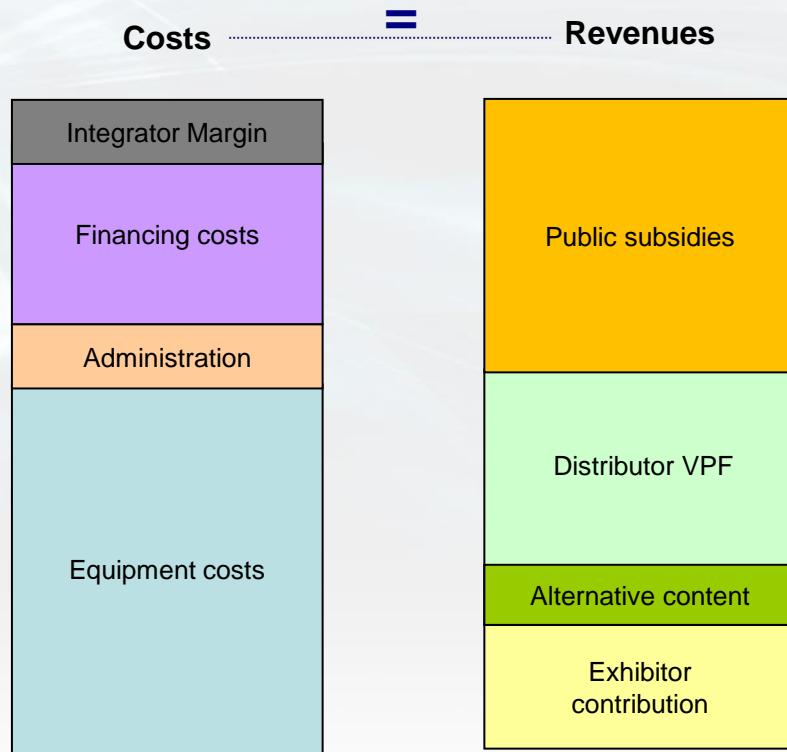
the exhibitor recoups only a small portion of the equipment cost through VPFs.

Pros:

- Immediate
- No need to involve further parties or engage into negotiations with distributors

Cons:

- Undermines the purpose of the VPF model (ie: to share the costs of digitisation according to the benefits gained by the parties involved).



How to close the gap...:

2. SOURCING ADDITIONAL FUNDING

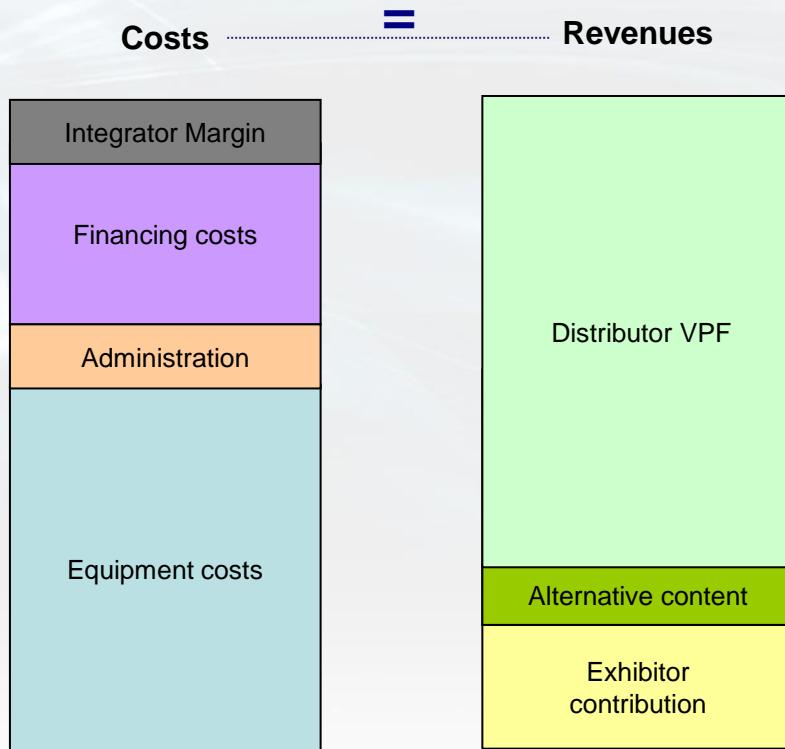
typically in the form of subsidies from public sources

Pros:

- Makes the VPF model viable, while preserving its key principles.
- Relieves pressure from exhibitors and distributors.

Cons:

- Obtaining public subsidies may be a lengthy process.
- Such subsidies are often scarce; it becomes hard to assign them and prioritise the recipients.



How to close the gap...:

3. GROUPING

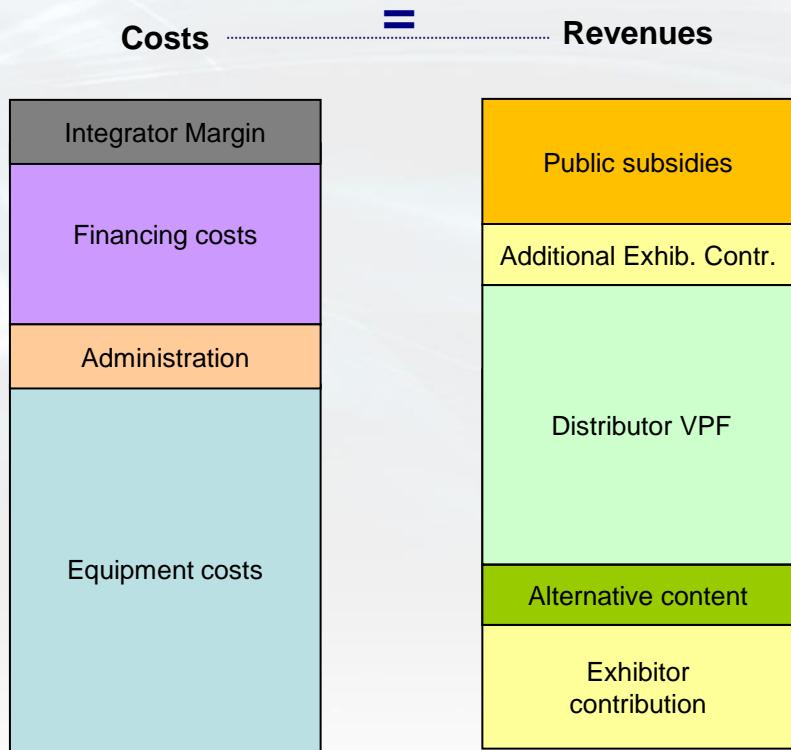
by forming a buying group, Exhibitors with higher print turnovers can balance those with lower ones (ie: the average print turnover becomes enough for everyone to recoup the investment).

Pros:

- Everyone benefits from switching the market to digital distribution.
- More negotiating power with distributors and suppliers.

Cons:

- Exhibitors with higher print turnovers may be reluctant to indirectly support other players in their market.



MIXED APPROACHES HAVE PROVEN TO BE THE MOST SUCCESSFUL:

- 1. A buying group is created**
→ the average number of potential VPFs increases
- 2. The Exhibitor contribution is slightly increased.**
→ additional revenues
- 3. Public subsidies are sourced**
→ additional revenues

The Cinema Digitaal model

A SUCCESSFUL EXAMPLE:

« CINEMA DIGITAAL » IN HOLLAND

Aim of the project is to support the digitisation of 500 screens across the country, from small art-house cinemas to large exhibition chains.

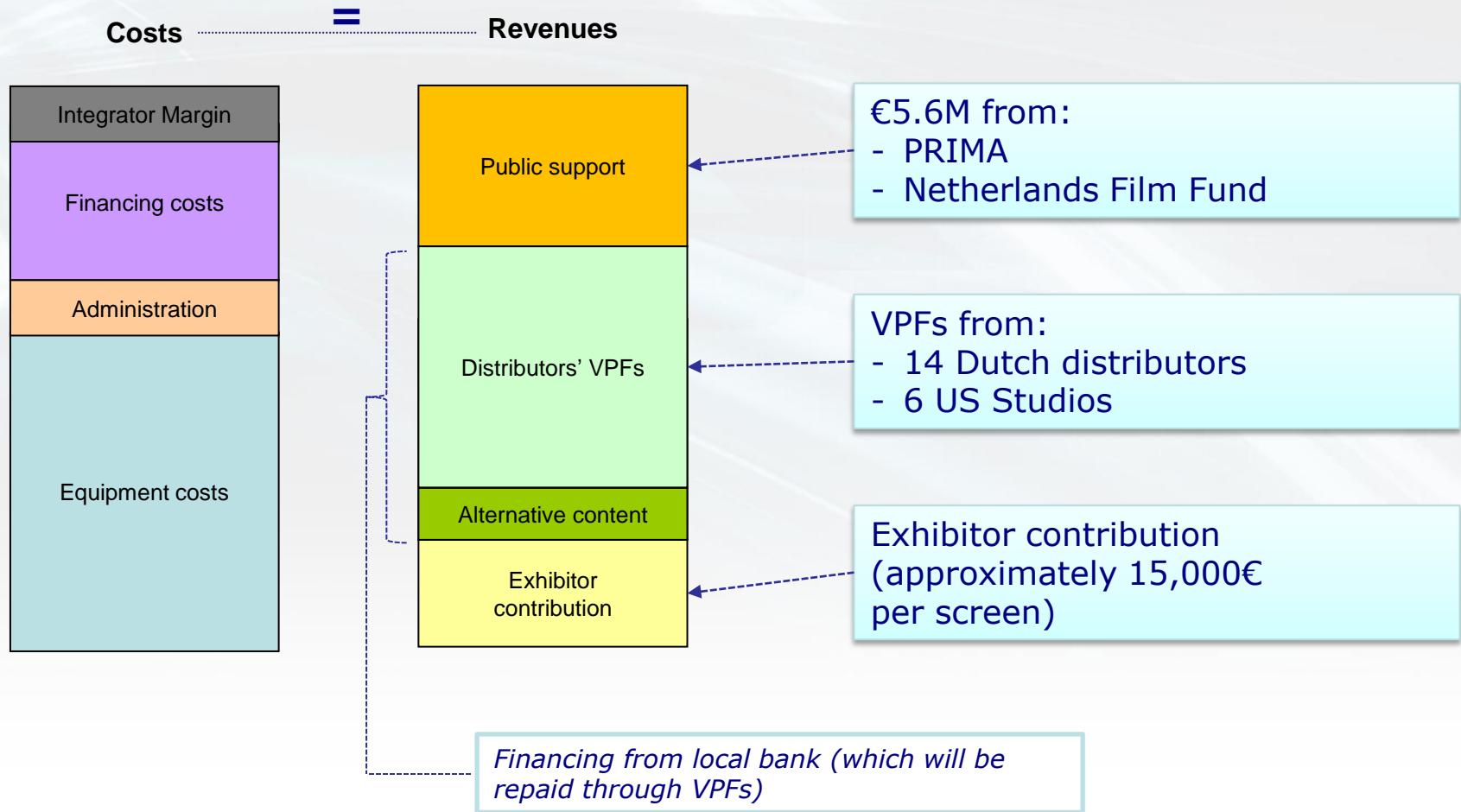
Cinema Digitaal is a unique not-for-profit organisation formed by the Dutch Association of Cinema Exhibitors (NVB), the Association of Film Distributors (NVF) and EYE Film Institute Netherlands. Operating as a central management entity, Cinema Digitaal is in control of the digitisation project.

The scheme is funded by:

- **VPFs from local Dutch distributors** (which signed up to VPF deals from AAM)
- **VPFs from US Studios** (through AAM's existing deals)
- the **Dutch government**, through a grant from PRIMA (Project Implementation ICT Agenda) and the Netherlands Film Fund (Nederlands Fonds voor de Film)
- the **Exhibitors** themselves, through a contribution of approximately 15,000€ per screen.

AAM will manage the collection and administration of VPF payments. Also, AAM will be the scheme's exclusive integrator – providing, installing and maintaining the equipment, as well as providing VPF financing.

The Cinema Digitaal model



4. Next steps: the future of digitisation through VPF



The future of the VPF model

★ THE VPF MODEL CAN BE VIABLE FOR NON-MAINSTREAM CINEMAS

The key to the future of digitisation:

- ➔ Exploiting the readily-available support models
- ➔ Buying groups: mutual support
- ➔ Associations can play a key role
- ➔ Involvement of local financing institutions
- ➔ Involvement of local distributors
- ➔ Creative models
- ➔ Speed



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