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Harnessing the Value of the VPF

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The VPF is a complex model

To paraphrase Winston Churchill:

“The VPF is the worst funding model ever invented – except for all the others”

The VPF and the smaller cinema dilemma

- Works well for large, national circuits that are predominantly first run and mainstream in programming
- Works less well for smaller independently owned cinemas and less mainstream in programming due to differential turn rates and local distributor willingness to contribute
- In any case, such arrangements are difficult/impossible to access either via studios or third party integrators

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More on the VPF

- Despite what was said yesterday, the average VPF payment is MUCH less than €650-750.
- Tapered rates according to position in the release do not help many cinemas
- Flat rate payments only help a small number of cinemas. Subsequent cinemas probably receive little if any benefit
- Penalties for turn rate under-delivery can be severe and wipe out other benefits. This is a cinema risk, not the third party’s risk
- If release patterns change then turns will not be met (most/all current business plans assume no change to historical booking practices).

The UK Solution for Independent Cinemas

- Combine a number of cinemas into one strategic group and negotiate as one single entity
- Carry out a comprehensive ‘turn rate’ analysis
- With the correct mass and symmetry within the group, turn rates (i.e. number of digital films played on release date) are good enough to drive a deal comparable to those experienced by the major companies
- Such a strategy gains support from the studios and makes a deal very attractive to third party providers

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- A legal entity consisting of approx.
  - 400 screens
  - 130 cinemas
  - 100+ different owners
  - Combined turn rate of 16+
  - Mainstream and more specialised cinemas
  - Full and part time cinemas
  - Both privately and publicly owned

Business Model

- All turns are shared across the group e.g. as with a ‘circuit’
- Integration partner funds approx. 75/80% of roll-out costs via its own banking arrangements
- DFP cinemas fund the balance from own resources
- Turn rates should see ‘recoupment’ for all parties in approx. 8 years
- 100% commercial model i.e. no public or government subsidies – unique in Europe to date.
- However, lack of any public subsidy means no programming quotas

Issues

- Politically and legally complex and time consuming
- Accessing finance for small businesses more difficult since banking crisis
- Many different mouths to feed and needs to be met
- Not every single cinema fits the model so possibly still some casualties
- Not a free ride – overhead needs to be funded by cinema members
- Demanding in terms of knowledge and expertise
- However…

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Current status

- Terms agreed with integration partner (XDC)
- Long form contract finalised
- All finance in place
- Main Roll-out to commence Q3 2011(some 25 systems already deployed)
- Total roll-out time estimated at 12-18 months
- So all is very positive so far
- BUT, VPF offers are rapidly coming to an end. Unless deals are done soon then they will be gone

QUESTION:
IS THIS AN EXPORTABLE MODEL?

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