



# Financing the digital roll-out: where do we stand?

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# Background: market failures

- ◆ Sector dilemma
  - Investment costs need to be born by exhibitors
  - important benefits will be realised by the distributors
- ◆ Considerable potential investment expenditures...
  - 30.000 screens x +/- 70.000 Euro / screen = 2.1 bn Euro
- ◆ ... but financial crisis has lead to a credit crunch
  - Virtually no loans available for this “complicated” sector
- ◆ => market failures justifying public intervention



# What would digitisation cost exhibitors?

## ◆ **Equipment:**

- ◆ 70.000 Euro / screen
- ◆ Life-time: 7 years

## ◆ **Maintenance**

- ◆ 2.500 Euro / year

## ◆ **Reference interest rate**

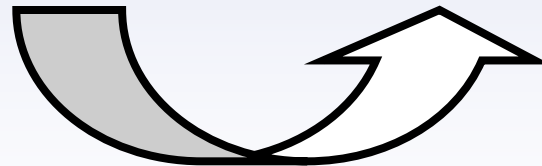
- ◆ 6.5% (risk-free)

## Cost per ticket?

1 screen: 0.75€

3 screens cinema: 0.76€

> 5 screens cinema: 0.61€





# Public Intervention?

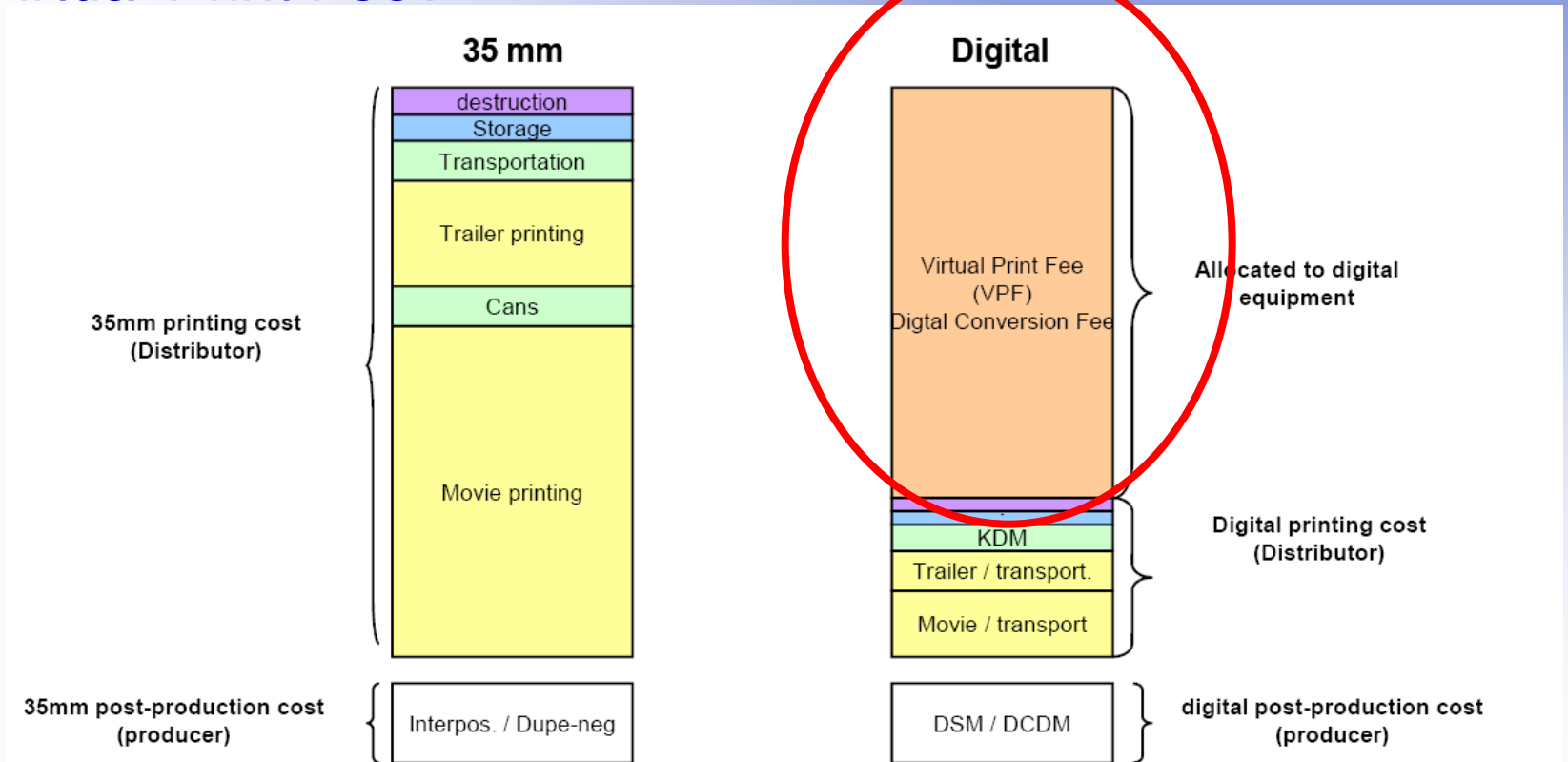
- ◆ **Unequal costs could be “equalized” with public support to a level of**
  - ◆ 0.51 Euro per ticket
  
- ◆ **However, public sector allocations considerable:**
  - ◆ **Cost to EU:**
    - 4.35 million € per year for 5 years per 1000 screens
  - ◆ **EIB Total loan volume:**
    - 30 million € per 1000 screens
  
- ◆ **In current economic climate**
  - ◆ European public sector unlikely to set aside funding for roll-out of 30.000 screens
  
- ◆ **How to get the roll-out rolling?**
  - ◆ Put oil in the cogwheels of the existing market solutions !?
  - ◆ See what market segments remain uncovered, and take it from there



# What's on the market?

## 3<sup>rd</sup> Party VPF model

### ◆ Virtual Print Fee?





# VPF models. What? For who?

- ◆ **Agreements with US major Studios**
  - No 1<sup>st</sup> run US-content = no VPF.
  - VPF paid to **Integrator** on a **per show** basis
    - Integrator purchases the equipment and leases it on to exhibitor
    - Exhibitor pays only +/- 25% of investment cost
- ◆ **Exhibitor agrees to digitise**
  - 50% of screens in first phase
  - up to 100% within 5 years, if all US majors have signed with your Integrator
- ◆ **Exhibitor agrees to a minimum Average Turn Rate (ATR) of 1<sup>st</sup> runs**
  - If ATRs are not met, exhibitor pays a penalty per missing ATR
- ◆ **Exhibitor can play any type of content**
  - Non-participating distributors' content: a penalty fee is paid
  - For alternative content penalty is very low

**+PRO+** + Investment cost for the exhibitor stands at only 25%.

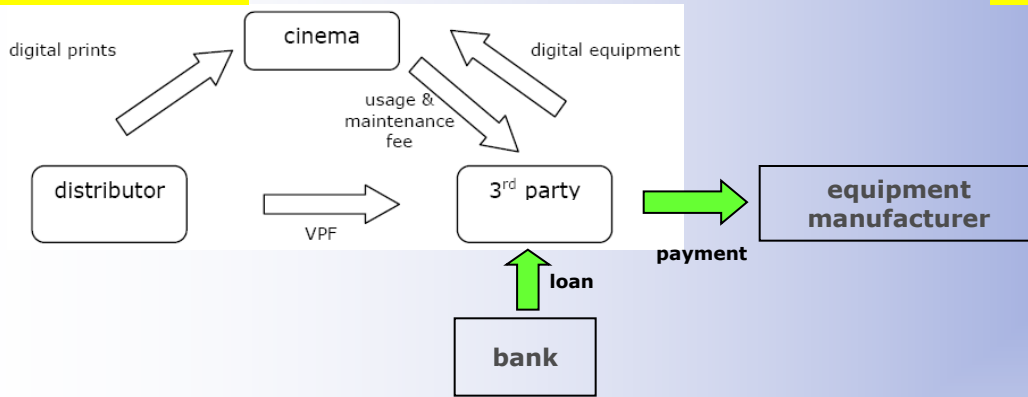
**FOR WHO?** Convenient for commercially oriented cinemas, with a high ATR of US Content

- CON-**
- Limited flexibility of playing EU content, unless distributor is willing to pay access fee
  - Subsidies to exhibitors are discounted from the VPF in the VPF agreements

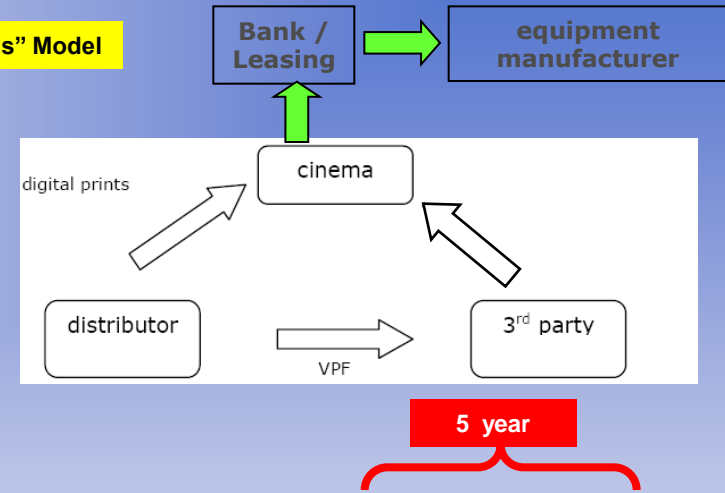


# Three European Commercial Integrators

**“XDC / AAM” Model**



**“Ymagis” Model**



	Fox	Para-mount	Sony	Uni-versal	Disney	Warner	ATR	Digital roll out exhibitor	
XDC	✓	✓	✓	✓	✓	✓	16	50 %	100 %
AAM	✓	✓	✓	✓	✓		15 17-19 (UK)	50 %	80 %
Ymagis	✓	✓	✓	✓	✓		13.2 12.4 (It)- 15.2 (Fr)	50 %	80 % (?)
Sony	✓	✓	✓				?	?	?



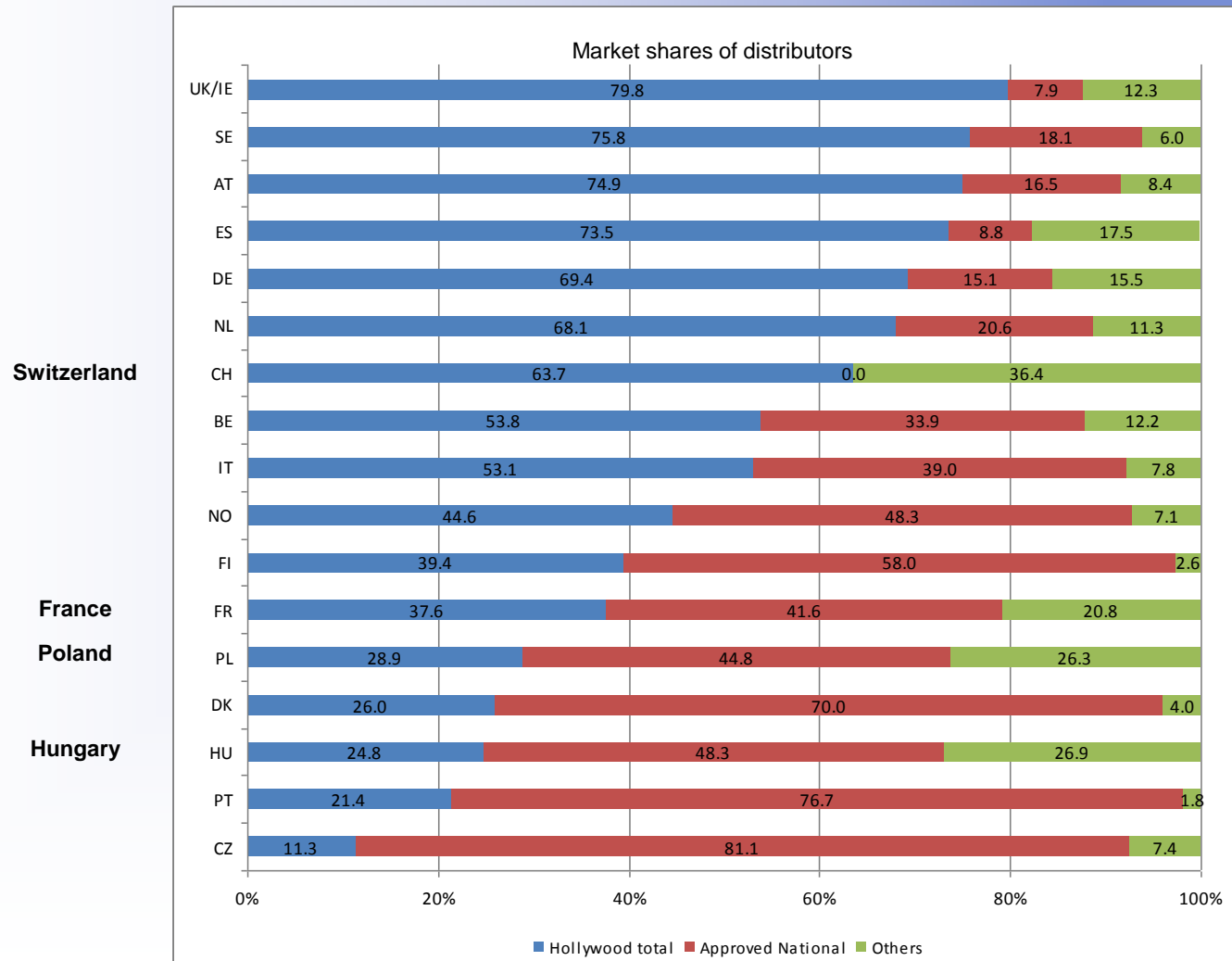
# Market potential

- ◆ Through “budgets” granted by the Studios, integrators are expected to deploy a minimum of 17.500 VPF screens over the next 5 years (maximum 20.000)
- ◆ What segment of the market remains “out of scope”?
- ◆ Out of scope: number of screens:
  - ◆ Number of screens in deployment countries: 30.185
    - Of which already converted (non VPF) to digital: - 1.323
    - Signed VPF deals
      - Ymagis - 190
      - AAM - 470
      - XDC - 761
      - Sony - 1
    - Individual VPF negotiations (some still under progress)
      - Odeon - 1.802
      - Norway - 420
      - Cineworld - 741
      - VUE - 581
      - Cinestar - 545
      - Cinemaxx - 306
      - Kinopolis - 183
    - Integretors’ expected deployment (XDC, AAM, Imagys) - 17.500
  - ◆ Remains not digitized under VPF arrangement 5.362  
(=arthouse cinemas, cinemas not meeting ATRs of US Content, not enough creditworthiness etc)
- ◆ Reasonable to expect that approximately 15% of European screens remain off radar for VPF finance



# Where are other financing models likely to be required?

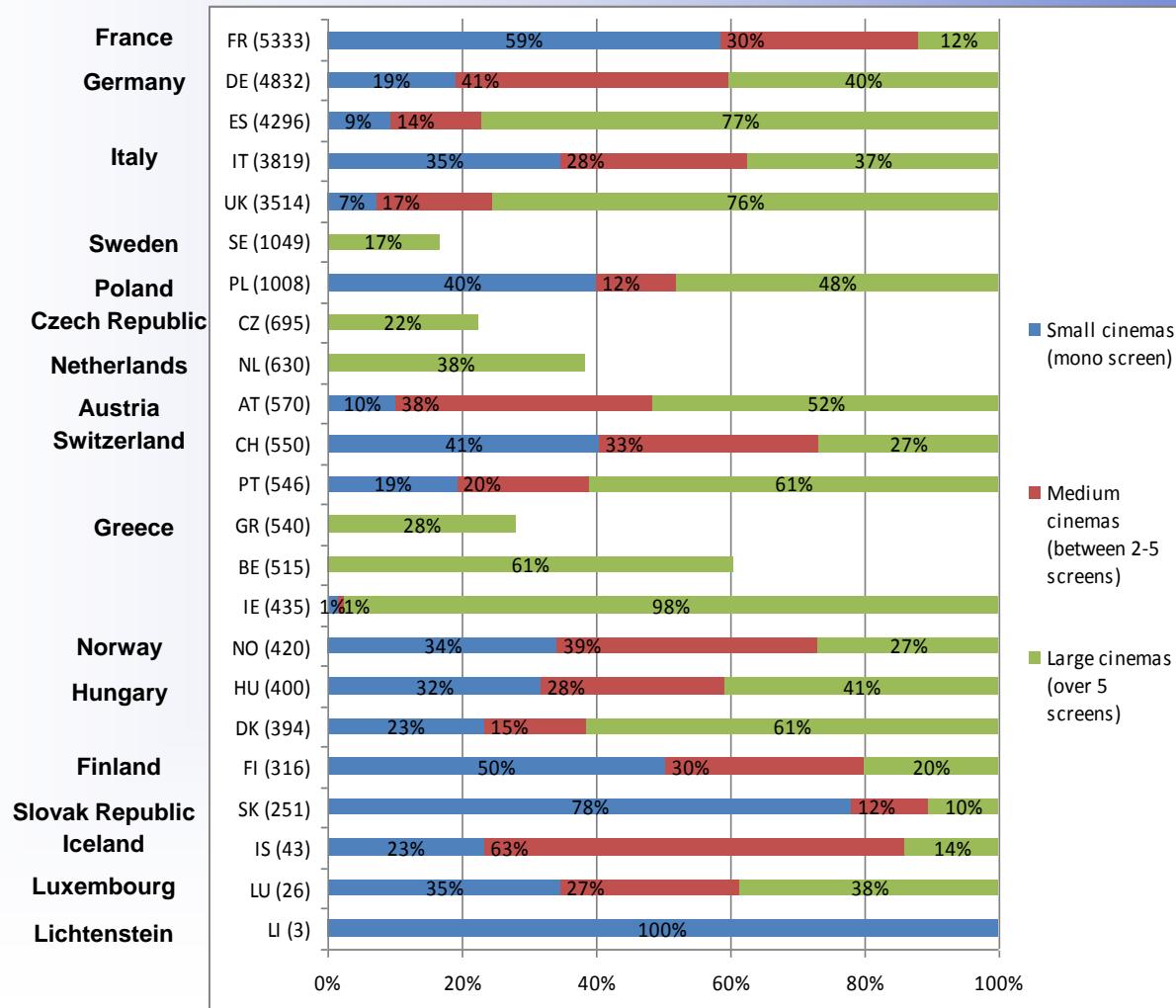
- ◆ Countries with relatively high market share of non-US (approved) distributors





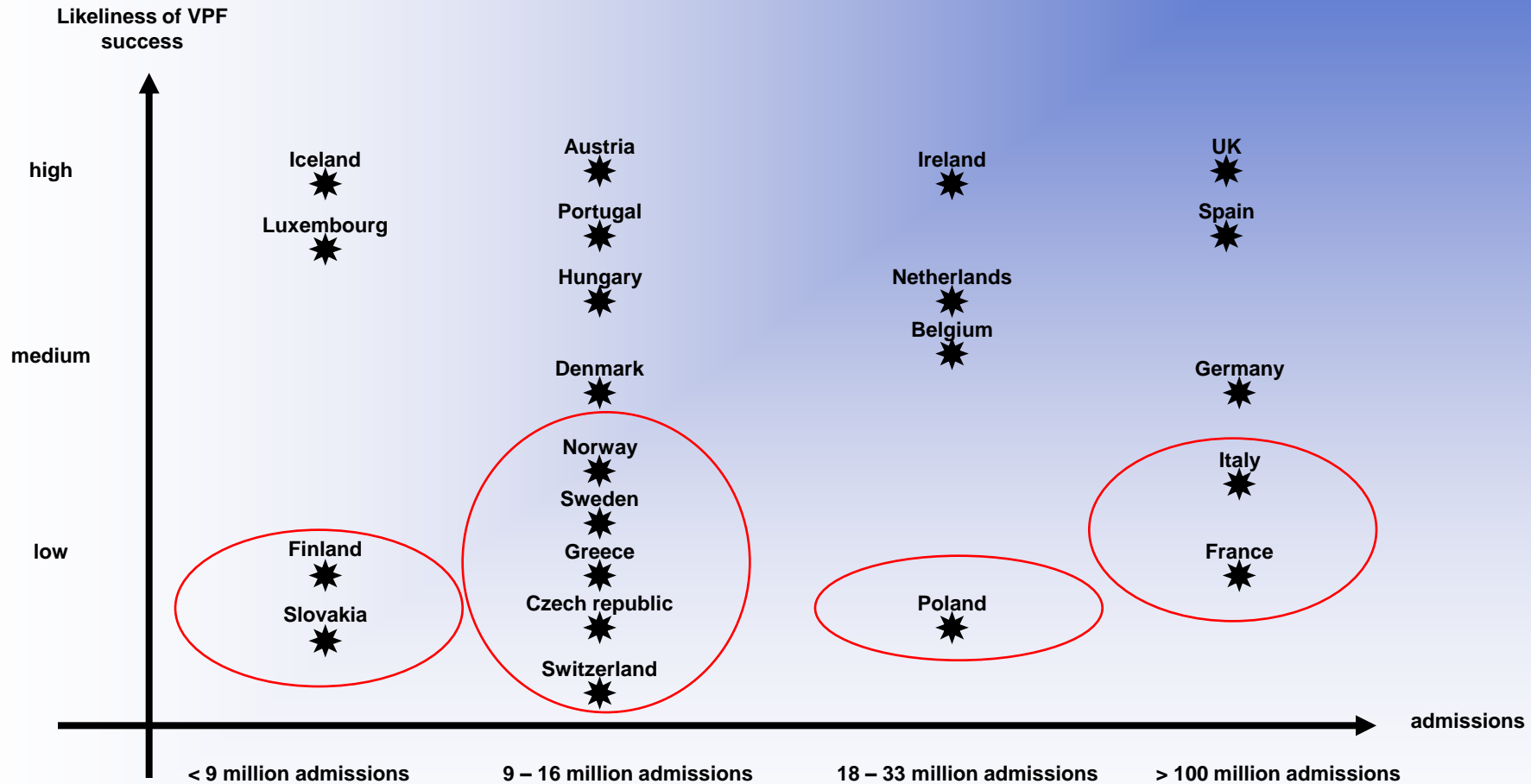
# Where are other financing models likely to be required?

## ◆ Countries with large share of small-medium sized cinemas





# Where are other financing models likely to be required?





# Possible complementary models to VPF

- ◆ **In case of direct purchase of equipment by exhibitors:**
  - ◆ Costs can be reduced by forming “Purchasing groups” and/or leasing agreements
  - ◆ Review of revenue split between distributor and exhibitor on a per ticket basis for digital screenings.
    - Can sector overcome “taboos”?
    - Can exhibitors’ and distributors’ develop a enforceable contract for this purpose?
  - ◆ Propositions from EU distributors to share costs/benefits?
  
- ◆ **Publicly supported models**
  - ◆ For those in-need cinemas only
    - Criteria to be investigated (e.g. low ATR of US content)
    - Per-ticket levy on participating producers and participating cinema’s + “fund” approach
      - Requires supervisory authority & administrator
        - Could be outsourced to Integrators on a fee basis
  
- ◆ **What are concerned cinema’s views and suggestions?**



# Public Schemes?

## ◆ At regional level:

- ◆ None existing

## ◆ At national level:

### ◆ “Working models”

- **Norway: Film &Kino**

- 85% of cinemas are publicly owned
- Film & Kino will convert 420 screens
- VPF agreements with 5 studios

- **UK: Film Council**

- Digital Screen Network (AAM based): 240 screens (with Lottery money)
- Rural Cinema Pilot Scheme (with Lottery money)

### ◆ Debated models: high hopes but ...

- **France:**

- CNC is investigating the setting up of a fund dedicated to the collection and redistribution of distributors' contributions with guarantee from IFCIC for beneficiaries of the Fund
- Implementation: ?
- Concern:
  - permission by the French authority for competition
  - EU Commission's DG Competition decision
  - Are US majors willing to pay VPF for a territory that has a relatively high degree of cinemas with virtually no-US content showings? Devil will be in the detail of the VPF contracts...!
- Relatively long lags of time expected before model will be operational

- **Germany: German Federal Film Board (FFA) “100 model”**

- Financing no longer clear.
- VPF-like payments
- Court case initiated by exhibitors because of proposed tax levied. If claims are not withdrawn, the model seems not viable

- **Italy: tax schemes**

- No agreement from DG Competition



# Thank you

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