

2014

YEARBOOK

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2014

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Introduction



2013 saw the publication of the first AHEDA Yearbook and this is our second, covering now the full calendar year of 2014. The feedback from our inaugural effort was positive so we commissioned new research and have collated industry data to provide insight and analysis.

Never before has such information or business intelligence been necessary to help understand firstly what just happened, but also from that understanding, to predict the path forward as best we can.

The Australian home entertainment industry is again in a state of disruption — and opportunity — with the arrival and significant early adoption of Subscription Video on Demand (SVoD) services, with three having launched in Q1 this year already (Presto TV, Stan and Netflix joining Presto Movies and Quickflix).

A few key points stand out to me amongst all the data and analysis. Firstly, is that the physical DVD/BD business was worth A\$980 million in 2014 and digital sales hit A\$160 million with a combined value of over A\$1.1 billion.

Secondly, new release film and TV content continues to excite and do well across all platforms whether it be physical or digital.

The consumer appetite for engaging and entertaining film and TV content has never waned; and it never will. The 2015 movie slate is one of the most impressive in recent years and will provide a major boost for both theatrical and home entertainment sectors with major titles including: *50 Shades of Grey*, *Mad Max*, *Star Wars*, *Hunger Games*, *Terminator*, *Avengers* and *Jurassic Park*. The challenge is the disruptive nature of technology and how we embrace and adapt as an industry.

As I write, the Government is introducing legislation into the Parliament aimed at allowing rights holders to seek a Court Order to allow ISPs to block copyright infringing websites. What this will allow is content owners — through a court process — to have websites like thepiratebay.org blocked by all Australian ISPs. This is a tremendous win for our industry and along with a code to deal with peer-to-peer piracy and education campaigns we are looking at, represents tangible ways to reduce the piracy impact on our sector. It has taken a lot of effort by a lot of people to get to this point but it is very exciting.

I would like to thank the contributions to the Yearbook from Lori Flekser of the MPDAA and IPAF, IHS Technology and GfK.

My hope is that the AHEDA Yearbook becomes a sought after annual publication which is accessed throughout the year in offices locally and overseas; and just possibly give business leaders some new insights.

Simon Bush
CEO, AHEDA

While television's golden age and social media have given consumers an enormous appetite for TV content, it comes with an unfortunate sting in the tail — it has introduced enormous volatility to the digital channel.



Foreword



The state of the Australian home entertainment film industry: Managing Director's insight

It's hard not to get a feeling that someone working deep within the bowels of the Hollywood dream factory has uncovered a magic formula for drama and entertainment.

It's often remarked that TV production in particular is going through a golden age and it shows no sign of ending soon. The concepts are novel, the treatments are highly intelligent, the story telling is superb, the characters are mesmerising and the product overall is utterly addictive.

If equivalent breakthroughs had been achieved in physics, you could almost imagine the human race would already be slipping through wormholes to explore the universe's depths at leisure.

It is little wonder then that some distributors are reporting that TV accounts for a greater share of their physical and digital home entertainment sales than feature film. It's also the reason that the launch of Netflix, and Fairfax and Nine Entertainment Co's Stan subscription video on demand (SVOD) services receive acres of coverage in the national business press. The concept of pay TV is being redefined rapidly.

Stan and Netflix have bet on exclusive rights to popular TV content to gather customers and it appears to be paying off. For instance, Stan has exclusive rights to the *Breaking Bad* spin-off *Better Call Saul*. Meanwhile, Netflix has gone so far as to invest in it's own content such as the US remake of the BBC classic *House of Cards* and *Orange is the New Black*.

This would have been hard to imagine five years ago and it's an acknowledgment that using public internet infrastructure for delivering paid entertainment is viable.

However, it also means that new content delivery platforms and strategies continue to splinter the audience — be they catch-up TV and advertising supported video on demand (AVOD) on game consoles and Smart TVs, or SVOD on tablets and Google Chrome.

At the same time, the growth of social media has all but synchronised the hype around TV and films tempting (and often prompting) many consumers to rationalise away morality and steal entertainment from shady online sources.

It's a potent and volatile mix and the commercial acrobatics that the home entertainment distribution industry faces are getting more interesting.

Research from Europe suggests that the entrance of subscription services like Netflix Australia and Stan are not likely to impact retail disc sales.

However, they may impact sales of digital inventory, reducing their ability to help offset declines in the physical retail channel.

Digital delivery strategies are demonstrating plenty of scope for refinement and one senior industry executive said that the sector was learning fast.

“I think we’ve become far more sophisticated with the marketing campaigns and it’s almost blurring the lines between marketing and publicity,” said one senior industry source making a firm but silent nod in the direction of social media.

Another senior industry executive said that the rulebooks for release strategies were being thrown out the window especially in the case of TV.

The industry has already seen TV release windows synchronise around the world but now even the sacred theatrical window is coming under threat. Last November, in an unprecedented move, the makers of the Australian made title *The Mule* launched the film direct-to-web.

At the time, the film’s director and lead actor Angus Sampson, used this analogy to describe release windows in an interview with ABC Radio National: **“Here’s an item available for purchase, here’s a pair of jeans, we’ll put them in our shop window, now we’re going to take them away for four months and not let you buy it.”**

Not so long ago, such a view would have been considered radical. Today it’s a sign that the entertainment industry is drawing on all of its skill and experience to adapt to the increasingly mercurial distribution paradigm it faces.

The challenge is to do so in a way that doesn’t recklessly endanger the billions of dollars it invests and reinvests in high-quality entertainment.

The Digital Question

As we made clear 18 months ago, retreating from the physical channel and investing millions in digital channels isn’t a realistic option. The desire among consumers to be first to have new release titles and a higher quality viewing experience has ensured that the physical disc business remains robust.

While physical sales have steadily declined in Australia since 2009 (when disc sales peaked at A\$1.57 billion) they still represent the overwhelming lion’s share of revenue currently generated by the home entertainment industry.

In the 12 months to September 2014, sales of Blu-ray and DVD discs declined 10% over the previous year to fall to A\$0.98 billion in 2014. Notably, Blu-ray sales did not grow over the previous year.

However, in terms of value, that still represented over 81% of the revenue generated by the 100 million units of inventory sold or rented in both the physical and digital channels.

Digital sales volumes increased from 22% to 26%. However, in terms of value, their contribution to the mix only grew by 2% — naturally, its harder and harder to make consumers value digital product as much as they do physical.

The cautious optimism toward the digital transition that home entertainment distributors exhibited last year remains just that — cautious.

While television’s golden age and social media have given consumers an enormous appetite for TV content, it comes with an unfortunate sting in the tail — it has introduced enormous volatility to the digital channel.

To get a sense of this volatility, this how one senior industry executive who reported having a good year in the digital channel described a three month lull in sales of the distributor’s digital inventory.

“TV series after TV series were landing that were almost category killers. You know, everyone was watching *House of Cards*, everyone was watching *Game of Thrones* and everyone was watching the final season of *Breaking Bad*. There was this huge block of time dedicated to five or six major series taking a much larger share of the pie than we’ve seen in the past,” the executive said.

Another senior industry executive suggested that there might need to be more experimentation with early Electronic Sell Through (EST) and release strategies.

The industry has already successfully experimented with EST for the release of feature films with *World War Z* being a noted example.

When the film was launched here in 2013, its distributor Paramount Home Entertainment Australia gave download-to-own sales a one-week head start over VoD and physical retail for the movie's local launch.

The industry executive flagged the possibility of conducting similar experiments with TV content and narrow the gap between broadcast (by whatever means) and physical and digital retail.

“Consumers don’t really understand release windows. I think we can get too hung up in the industry about windowing and dating. Ultimately the consumer doesn’t get it — as much we think they do, they don’t,” the source said.

“I think what we’ve really got to do is make it really easy and simple for the consumer. If somebody has seen or heard that something is being advertised on a subscription channel and if they can’t then access that for six months by other legitimate means, there is the danger that they will then go and pirate it,” the executive explained.

Piracy

In 2009 when the film industry confronted iiNet in the Federal Court for a tense legal battle over the extent to which ISPs can be held liable for online copyright infringement, there was an unforgettable moment of comedy.

The judge presiding over the matter had accepted a piece of evidence from iiNet’s lawyers and, using the courts complicated nomenclature for such things, declared that it would be filed with an exhibit number starting with the letters “R–R”.

With impeccable comic timing, the film industry’s star barrister, Tony Bannon SC, leapt to his feet and said **“...and may I say your honour that’s highly appropriate”**.

“Appropriate” as they were dealing with matters of internet piracy (think eye-patches and pegged legs and you’ll get there).

The laughter across the court was probably closest that the internet and the entertainment industries have ever come to bipartisanship on the issue.

The years of legal impasse and the failure of the federal Attorney-General’s department to broker a truce between ISPs and the entertainment industry through successive governments has allowed illegal downloading of TV and movies to flourish. And it continues to drive change in the home entertainment market.

Recent research indicates that piracy continued to grow in Australia throughout 2014. Thankfully, the number of consumers engaging in piracy has not grown substantially but the volume of internet traffic carrying illegally copied content has.

“I’m hoping that the introduction of SVOD platforms will temper piracy rates but it certainly won’t bring them down to the level that industry is looking for. That’s why we need new legislation,” one senior industry executive observed

This is despite home entertainment industry efforts to make affordable legal methods to consume content available. For instance, Netflix’s third season of *House of Cards* should have been more resilient to online piracy than other titles as 32% of US household subscribe to the service. Instead it was heavily pirated throughout the US and the rest of the world with Australian consumers being the fourth worst offenders.

The change in government at the last election does appear to have given the home entertainment industry a more sympathetic champion in Attorney-General George Brandis.

As a result, the internet industry has developed a draft code for a three-strikes Copyright Notification Scheme which will require ISPs take on a role in policing online piracy.

Under the code, from September 1 ISPs will be required to supply copyright owners with information to identify customers that have received three warnings to cease illegal downloading activity within a 12-month period.

The stick being waved at consumers is not the threat of disconnection but rather the “expedited preliminary discovery process” which would see them losing the anonymity that currently protect them from legal action by content owners.

One senior industry executive said that the code alone was inadequate. He argued that Australia’s legislators needed to introduce laws making it possible to force ISPs to block access to websites that promote and profit from piracy.

For instance, under UK laws it’s possible for content owners to seek court orders for ISPs to block websites that provide indexes for peer-to-peer file sharing programs like BitTorrent. The British Phonographic Industry used the laws to block 21 torrent indexing sites in the UK last October.

“I think what we’re seeing in most mature markets in both Europe and the US, and increasingly Asia, is both graduated response and site blocking as the norm now. So Australia wouldn’t be going out on a limb to introduce it. It would be late to the party and we’ve seen that blocking in particular has been very effective,” the executive explained.

NBN

The NBN remains a two-edged sword for the home entertainment industry, but whichever way it swings the change of government means that it will do it a little bit sooner.

As we found last year, the national broadband network’s construction could accelerate online piracy. However, fast, reliable and ubiquitous broadband also has the potential to make commercial cloud-based video services more feasible.

The new government has scrapped Labor’s all-fibre design for the network and opted for what it calls a multi-technology mix. In broad terms it means NBN Co’s new management now has a mandate to use as much existing telecommunications infrastructure to build the network while still achieving a high-speed makeover.

Rather than replacing copper connections with fibre all the way to homes and buildings, fibre nodes will be pushed deeper into the network to push broadband over shorter copper lengths to achieve higher speeds. Where possible, it will also make use of Telstra and Optus’ cable infrastructure to complete the upgrade.

The government claims that the new plan will see the NBN built sooner and at less expense — and so too will any digital opportunity or cost that it carries for the home entertainment industry.

The only thing that is certain is change.

Andrew Colley

The Australian Home Entertainment Distribution Association gratefully acknowledges the following executives for contributing their time, wisdom and experience to the preparation of this report:

Jim Batchelor

Managing Director, Universal Sony Pictures Home Entertainment Australia

Chris Chard

Managing Director and Co-CEO, Roadshow Films Group

Paul Weigard

Founder and Managing Director, Madman Entertainment

Market overview



The AHEDA Yearbook has sections covering both the physical and digital sides of the Australian home entertainment film and television sector. This overview provides a snapshot of industry data provided in the Yearbook.

Digital Business

The digital home entertainment market (EST and VoD) continues to perform strongly and IHS has forecast that it will grow to A\$277 million by end of 2018 off the 2014 base of A\$160 million.

Supporting the development of the digital home entertainment market in 2014 was growth in the number of broadband-connected devices, albeit at a slower rate compared with 2013. The installed base of connected devices grew 11% to more than 100 million by year-end 2014 compared with the previous year.

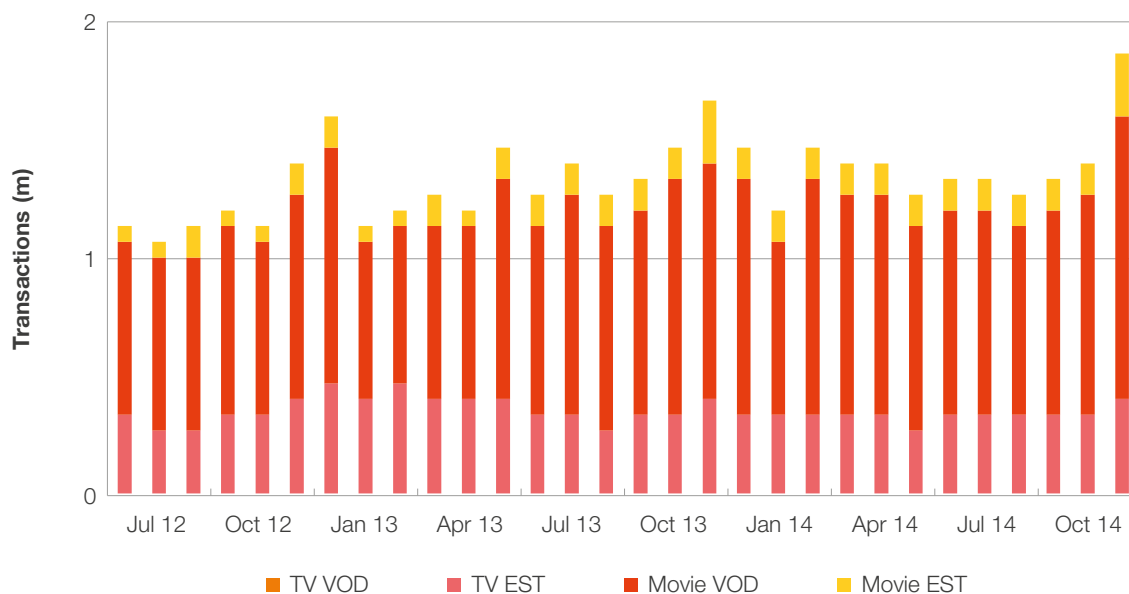
The penetration of smartphones is expected to reach more than 70% in 2014, similar to most western markets. Mobile 4G subscriptions have reached relatively high rates of adoption with 35% of total subscriptions now being sold with high speed mobile internet access.

AHEDA data shows that digital movie rentals (movie VoD) continue to outperform the remaining digital video market growing by 8% to A\$83.4 million at the end of the financial year. When combined with movie EST transactions, the total movie genre equates to 75.5% of transactions or 73.1% in revenue at A\$119.8 million over the financial year.

TV content consumed on a rental basis (TV VoD) remains niche in part because many major titles are only offered as EST. TV VoD has less than 0.5% of the digital video market in terms of transactions despite growing by 29.3% in 2014 and 46.5% in consumer revenues year-on-year, ending the year on A\$0.6 million. TV EST transactions in H1 2014 fell by 12% year-on-year but consumer revenues grew by 5%, although this was a decline on the previous year's growth of 14%.

Although TV content transactional volumes are significantly lower than movies, the purchasing of complete series of TV shows as a single transaction has meant that the average revenue per transaction is higher on average. This has resulted in movies share of revenues in the digital video market being 1.5 percentage points lower than in terms of transactions.

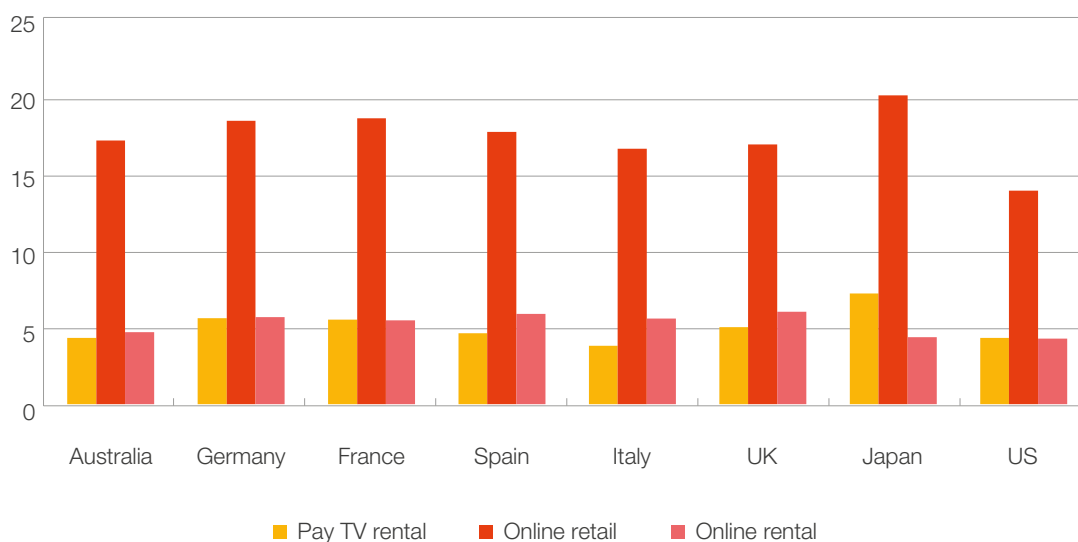
AUSTRALIA: MONTHLY CONSUMER TRANSACTIONS (M)



The AHEDA data on consumer pricing is interesting as it shows that movie VoD prices decreased by a total of A\$1.22, a decline of 21% and that movie EST prices show stark fluctuations throughout the year due to seasonal promotions.

There was three consistent periods of decline appeared throughout the calendar year: late June into early July, September, and December. The graphic below shows that Australian consumers are well served by international standards on average pricing of digital content with some of the lowest movie VoD prices in the world.

2014: AVERAGE TRANSACTIONAL MOVIE PRICE (US\$)



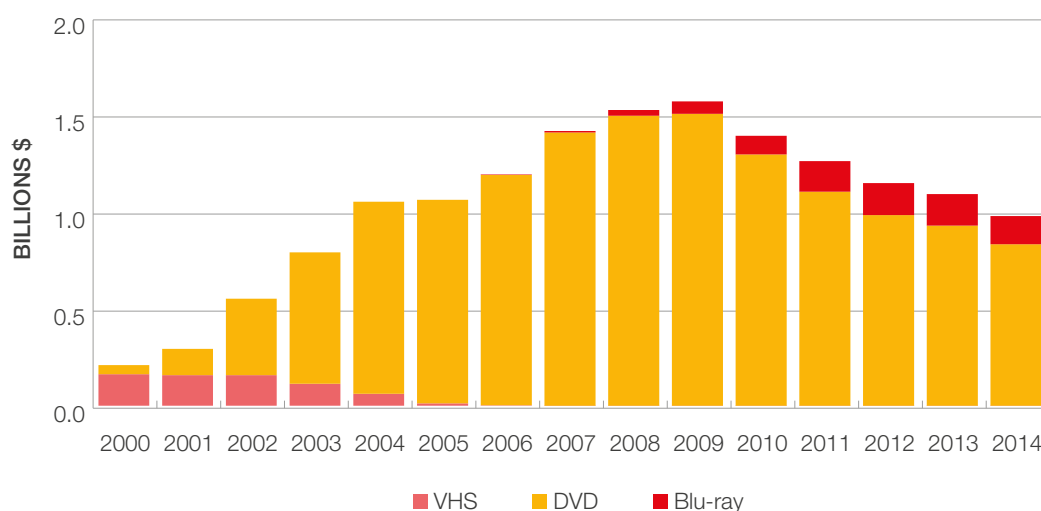
AHEDA data also shows that the Pay TV–VoD market grew steadily in 2014 in both transactions and revenues. Revenues increased by 10% and transactions by 11% with new release titles remaining the dominant genre accounting for more than 90% of the market. IHS predicts on the back of the AHEDA data that this market will grow at a compound annual growth rate of 5.6% between 2014 – 2018.

Physical Business

In 2014, the physical DVD and Blu-ray retail channel sold nearly 54 million discs, for a total value of A\$0.98 billion.

This represented a 10% year-on-year decline in value, with an equal rate of decline for both the DVD and Blu-ray formats. Volume was also in decline, with 2014 being the first year that the Blu-ray format recorded a drop in volume.

GfK RETAIL TRACKING: PHYSICAL RETAIL MARKET VALUE BY FORMAT



Source: GfK Retail Tracking

Blu-ray generated A\$146 million in value in 2014, with nearly 7 million discs sold. The Blu-ray format registered a decline in volume for the first time in 2014, down 11% year-on-year. This was also the first time that the Blu-ray decline was equal to DVDs in both value and volume. Blu-ray generated 16% of the market value and 14% of the market volume in 2014, reflecting the slightly higher price of the average Blu-ray disc.

The TV Series format grew to represent 15% of all Blu-ray sales. This is still a low percentage of overall TV Series sales, but it reflects a steady growth in sales of TV Series on the Blu-ray format. The titles that perform well on Blu-ray are movie titles from the action, adventure and sci-fi genres with TV series, while behind the DVD format, is also growing in popularity on Blu-ray.

TV series again has seen strong category growth on physical disc sales with TV series accounting for 36% of value in 2014. What is also interesting, but perhaps not surprising, is that certain TV series generated a significant portion of the TV disc sales with *Game of Thrones* seasons 1 to 3 taking out the top 3 positions on best selling TV titles in 2014.

It is clear from the data that catalogue movies struggled in 2014 with GfK attributing this to “catalogue fatigue” where consumers have already populated their libraries.

Physical disc sales will continue to generate over 80% of the total value of the industry and given the strong reliance on TV series and new release movies on DVD and BD the industry should have a strong retailing year in 2015 given the slate coming such as: *Hunger Games*, *Terminator*, *Mad Max*, *Star Wars*, *Jurassic Park*, *Avengers* franchises along with another series of *Game of Thrones*.

Hardware trends

The chapter on hardware trends gives pointers to how consumers may behave in the future based on device preference for watching video content. Encouragingly, TVs remain the key device for watching video entertainment and act as a hub for a myriad of other devices. GfK analysis and data shows that video entertainment is consumed nearly 60% on the TV, followed by PC at 27% and mobile devices (tablets and smartphones at 14%).

Digital
consumer
market growth
continues to
remain strong,
growing 19%
over all in 2014.

”

Digital home entertainment market

2

IHS analysis of the Australian video market shows that the digital video market — online EST, online rental and Pay-TV VoD continued to grow in 2014. The digital video market, for movies and TV, grew by A\$4.4 million or 13% in consumer revenues (consumer spend minus sales tax). IHS forecasts that the market will grow to A\$277 million by year-end 2018.

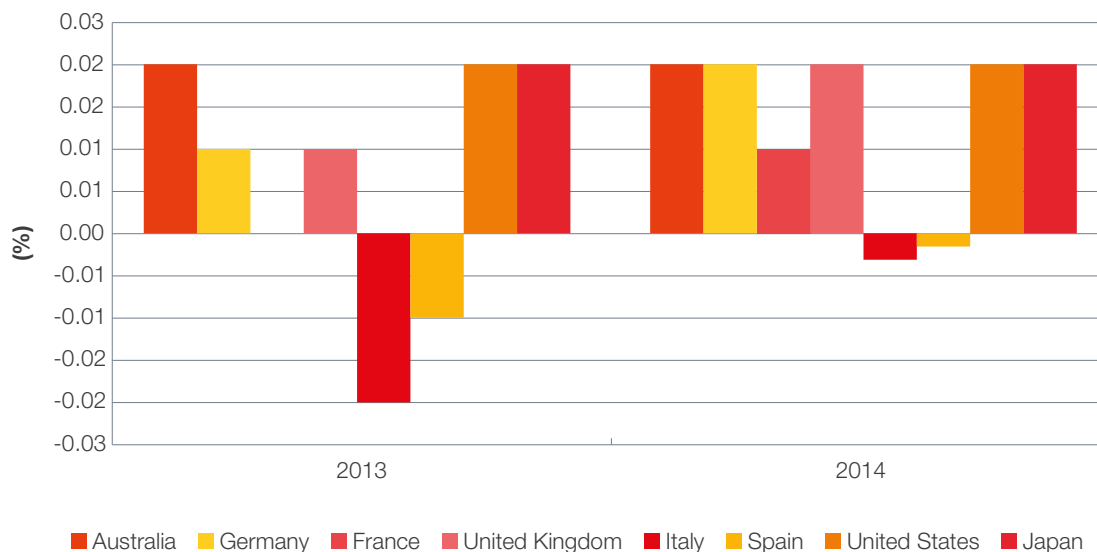
Macroeconomic and Infrastructure Trends

Macroeconomic factors

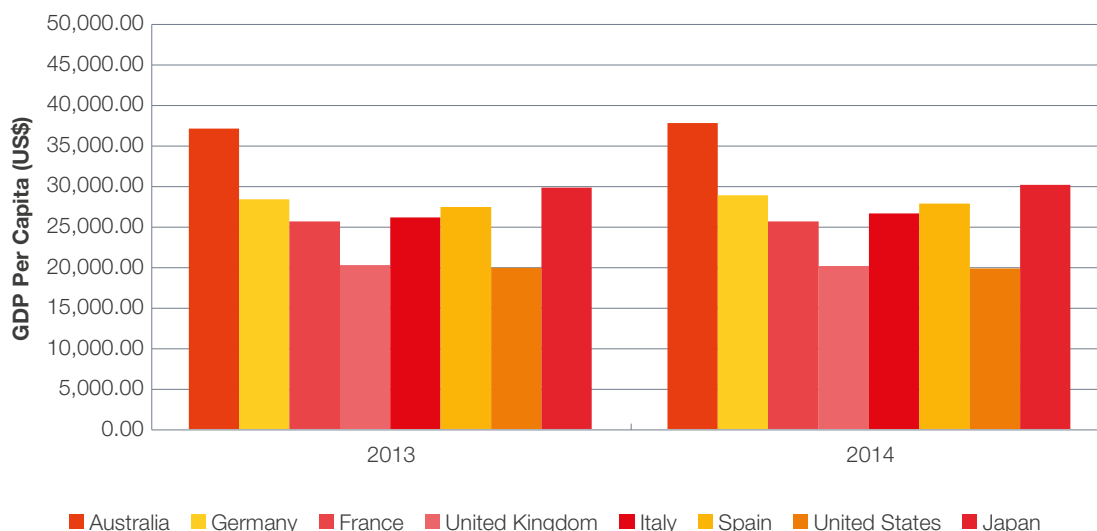
Despite continued economic growth in 2014, Australia's growth outlook remains constrained by an unwinding mining investment boom, frugal consumers as fiscal consolidation is implemented and an unstable employment market. However, according to IHS Economics, the Australian economy will grow in real terms by 2.4% in 2014 to reach US\$1.42 trillion and will outperform other developed economies such as the UK, France and neighbouring Japan. This growth is expected to continue in 2015 with real GDP to increase by 2.8% to US\$1.46 trillion.

Although real GDP continues to grow, consumer sentiment remains broadly pessimistic as households caution over the country's economic outlook and their own finances with the labour-force participation rate at multi-year lows. Household indebtedness is currently being mitigated by the Reserve Bank of Australia's judicious management of monetary policy which is also expected to help maintain consumer spending. The economy's retail sector is still heavily focused on traditional retail with online retail sales in July 2014 estimated to be worth A\$591 million, versus traditional retail sales of A\$22.9 billion according to IHS Economics.

REAL GDP GROWTH ACROSS COUNTRIES (%)



REAL GDP PER CAPITA ACROSS COUNTRIES (USD)



Broadband Infrastructure

In 2014, the Australian Government-owned NBN Co made significant progress in deploying an open-access, superfast network known as the National Broadband Network (NBN). The aim is to connect 8 million premises by 2019 via a mixture of technologies: fibre-to-the-premises (FTTP), fibre-to-the-node (FTTN), fibre-to-the-distribution-point (FTTDP), fibre-to-the-building (FTTB), HFC (hybrid fibre coaxial), satellite and fixed wireless. The NBN passed nearly 750,000 premises and had 322,000 paying customers by the end of 2014, up 35% and 53% respectively from 30 June 2014.

It is therefore well on its way to meeting its target of hitting 1 million serviceable premises and 480,000 paying customers by 30 June 2015.

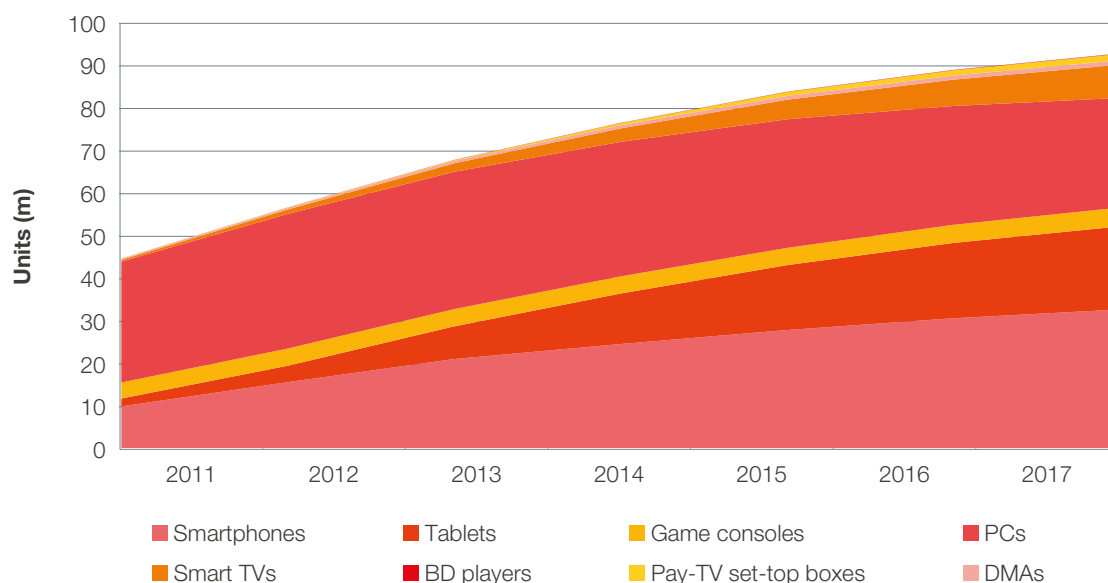
In 2014, the focus of deployment was on connecting brownfield sites and new developments through FTTP and more remote areas through fixed wireless and satellite. Deals reached with Australia's two largest operators in December 2014 will drive the availability of wholesale superfast broadband through HFC and FTTN. Telstra and Optus agreed to gradually pass ownership of parts of their copper and HFC networks to NBN Co (Telstra in areas where they are the fastest and most cost-effective way of connecting premises).

By September 2014, Australia had 6.7 million fixed broadband connections, a penetration rate of nearly 75% of households. This penetration rate is expected to continue rising as the availability of affordable 25Mbps-capable broadband in underserved areas grows.

Supporting the development of the digital home entertainment market in 2014 was growth in the number of broadband-connected devices, albeit at a slower rate compared with 2013. The installed base of connected devices grew 11% to more than 100 million by year-end 2014 compared with the previous year. The personal computer installed base continued to decline in 2014 to 18.9 million, a decrease of 4.2% over the same period. However, the PC remains the dominant single connected device with an installed base 11% larger than smartphones (16.8 million) and 67% larger than tablets (6.3 million).

The penetration of smartphones is expected to reach more than 70% in 2014, similar to most western markets. Mobile 4G subscriptions have reached relatively high rates of adoption with 35% of total subscriptions now being sold with high speed mobile internet access. Despite the relatively high level of 4G adoption, IHS expects that mobile data caps and connectivity issues will continue to hamper smartphone consumption of OTT video whilst using mobile networks. However, Australian consumer spending on mobile applications is higher than the Western European average, forecast to be US\$12.73 per capita compared to US\$9.7 in Western Europe.

CONNECTED DEVICE INSTALL BASE (UNITS, M)



IHS forecasts that household purchasing power will increase as disposable income grows over the next two years at a rate that will outstrip the consumer price inflation index. However, it is expected that the increase will be used to reduce household debt rather than for frivolous spending.

IHS expects that consumer spending on home entertainment will remain roughly stable as a portion of disposable income. However, spending on big box item's is likely to be stunted which will slow the growth of the connected device installed base.

Services and Definitions

ONLINE SERVICES: TRANSACTIONAL MOVIES AND TV

COMPANY	SERVICE	BUSINESS MODEL	RENTAL LAUNCH DATE	RETAIL LAUNCH DATE
Telstra	Bigpond Movies	Rental	Q1 06	
Sony Computer Entertainment Europe (SCEE)	PlayStation Store	Rental, retail	Q2 10	Q2 10
Apple	iTunes Store (I TS)	Rental, retail	Q3 08	Q4 10
Foxtel	Foxtel Download	Rental	Q4 09	
Microsoft	Xbox Video	Rental, retail	Q4 09	
MUBI	MUBI	Rental	Q1 09	
Sony	Video Unlimited (Qriocity)	Rental	Q4 10	
Quickflix	Quickflix	Rental	Q1 12	
Hybird Television Services	Quickflix	Rental	Q1 12	
Sony	Sony Entertainment Network	Rental, retail	Q2 11	Q2 11
Viewster AG	Viewster	Rental	Q1 12	
Google	Youtube Films	Rental	Q2 12	
Google	Google Play Movies	Rental, retail	Q2 12	Q4 12

ONLINE SERVICES: SUBSCRIPTION VIDEO SERVICES

COMPANY	SERVICE	BUSINESS MODEL	LAUNCH DATE
Quickflix	Quickflix	Standalone/bundled with	Q4 11/Q2 13
Foxtel	Foxtel	Standalone	Q3 13
Code 7 Entertainment	MovieFlix	Standalone	Q2 99
Code 7 Entertainment	Movie Way	Standalone	Q1 08
FIDD Aps	Movieeurope	Standalone	Q2 08
MUBI	MUBI	Standalone	Q1 09
FetchTV	FetchTV	Standalone/Pay TV	Q2 10
Access Digital Entertainment	Ezyflix	Standalone	Q3 13
Foxtel	Presto Movies	Standalone	Q1 14
Foxtel	Presto TV	Standalone	Q1 15
Foxtel	Presto Entertainment	Standalone	Q1 15
StreamCo (Nine Entertainment and Fairfax Media)	Stan	Standalone	Q1 15
Netflix	Netflix	Standalone	Q1 15

PAY-TV: TRANSACTIONAL MOVIES AND TV

COMPANY	PLATFORM	TECHNOLOGY	BUSINESS MODEL	LAUNCH DATES
Foxtel	Cable	nVoD	RENTAL	1999
Optus TV	Cable	nVoD	RENTAL	1999
Foxtel	Satellite	nVoD	RENTAL	1999
Foxtel	Satellite	Push-VoD	RENTAL	2007
Foxtel	Satellite	IP-VoD	RENTAL, FREE	2008
Fetch TV	IPV/OTT	IP-VoD/OTT	RENTAL SUBSCRIPTION	2010

DEFINITIONS AND EXAMPLES

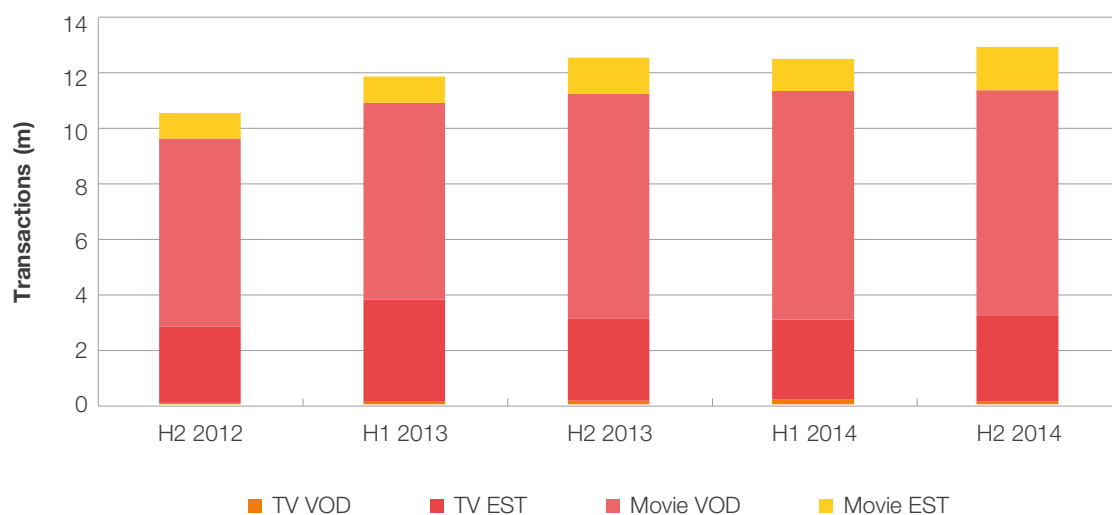
TERM	DEFINTION AND EXAMPLES
Pay-TV On-Demand (Pay-TV VoD)	The practice of paying for a rental on an a la carte basis over a closed pay TV network. Formally speaking it applies to a temporary right of use that is purchased by a one off payment. It can be either movies or TV shows. For example, a movie rental through Foxtel's satellite TV platform.
Online Rental (Online VoD)	The practice of paying for a rental on an a la carte basis over the open internet. Formally speaking it applies to a temporary right of use that is purchased by a one off payment. It can be either movies or TV shows. For example, a movie rental through iTunes.
VoD (Digital Rental)	The practice of paying for a rental on an a la carte basis over the open internet and/or closed pay TV networks (i.e. Pay TV on-demand and online rental combined)
Electronic Self-Through (EST) (Online Retail)	Refers to paid for transactional non-physical purchases for ownership of film entertainment content, excludes adult, event, free, sport and subscription content unless otherwise stated.
Digital Video	Refers to retail and rental transactions movies and TV content purchases via both the open internet (online) and closed pay TV networks (Pay-TV-on-demand).
Online Subscription (Online VoD)	Refers to subscription video on demand (other referred to as 'streaming') over the open internet and is the temporary rights of use accessed with a recurring payment. For example, a subscription package through Quickflix.

Australian Digital Market

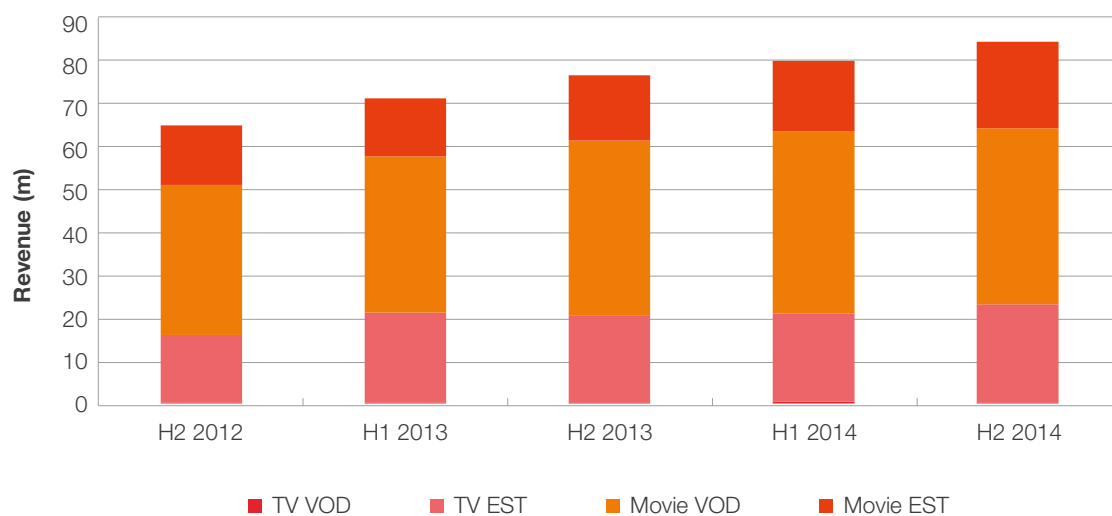
General Market Trends

Analysis of the data from AHEDA members indicates that the Australian digital market grew by 5% in H2 2013, remaining level at the same level in H1 2014 at 12.5 million transactions and rising to 13 million in H2 2014, an increase of 1.08 million transactions compared to H1 2013. Consumer revenues grew by A\$7.94 million to A\$84.30 million from H2 2013, a growth rate of 9%.

AUSTRALIA TRANSACTIONS (M)



AUSTRALIA TRANSACTIONS (M)



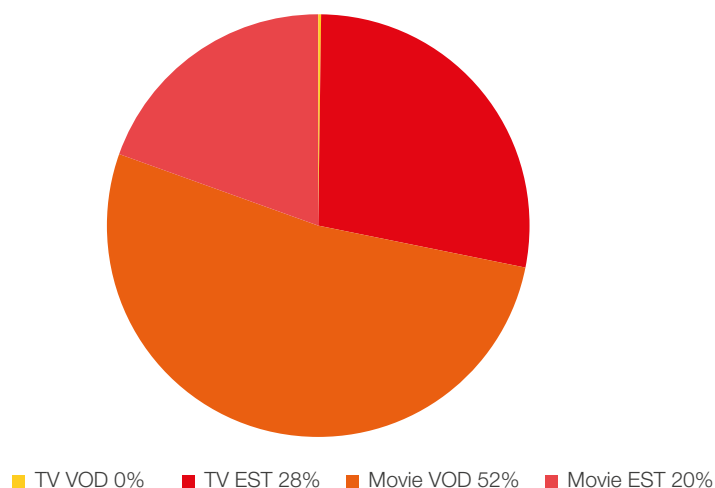
AHEDA data shows that digital movie rentals (movie VoD) continue to outperform the remaining digital video market growing by 8% to A\$83.4 million at the end of the financial year. When combined with movie EST transactions, the total movie genre equates to 75.5% of transactions or 73.1% in revenue at A\$119.8 million over the financial year.

TV content consumed on a rental basis (TV VoD) remains niche. TV VoD has less than 0.5% of the digital video market in terms of transactions despite growing by 29.3% in 2014 and 46.5% in consumer revenues year-on-year, ending the year on A\$0.6 million.

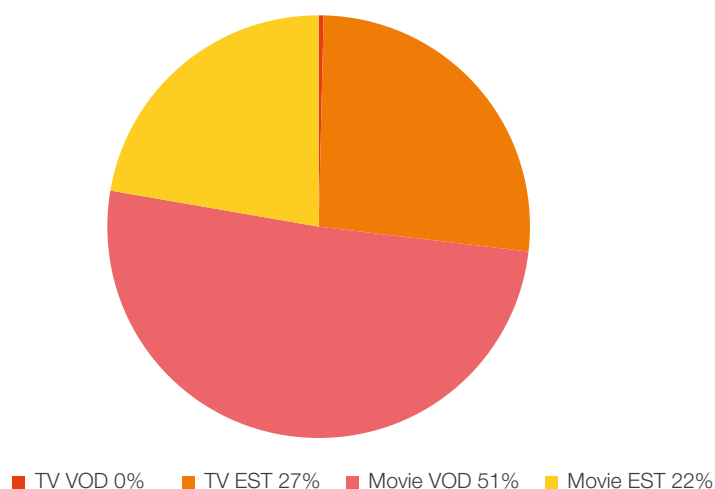
TV EST transactions in H1 2014 fell by 12% year-on-year but consumer revenues grew by 5%, although this was a decline on the previous year's growth of 14%.

Although TV content transactional volumes are significantly lower than movies, the purchasing of complete series of TV shows as a single transaction has meant that the average revenue per transaction is higher on average. This has resulted in movies share of revenues in the digital video market being 1.5 percentage points lower than in terms of transactions.

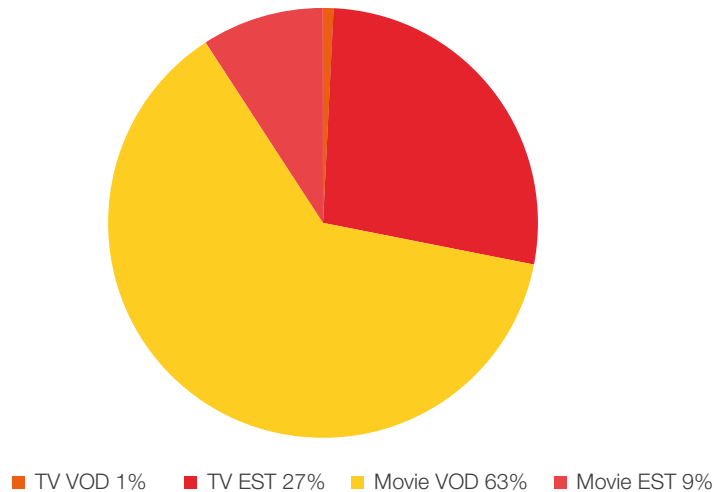
AUSTRALIA: CONSUMER REVENUE 2013



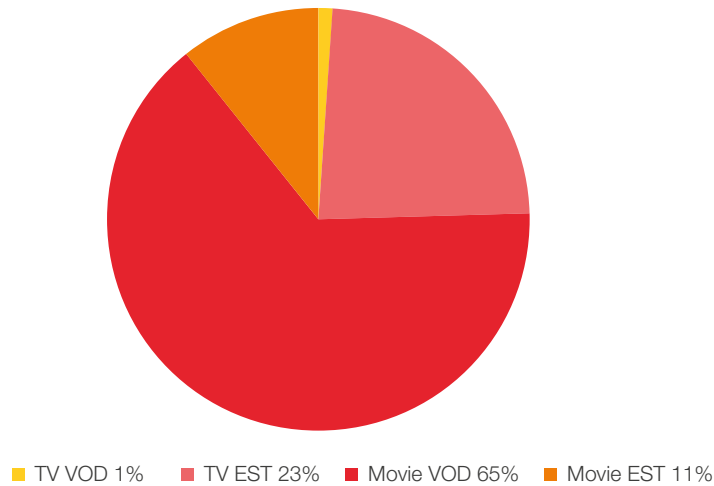
AUSTRALIA: CONSUMER REVENUE 2014



AUSTRALIA: TRANSACTIONS 2013



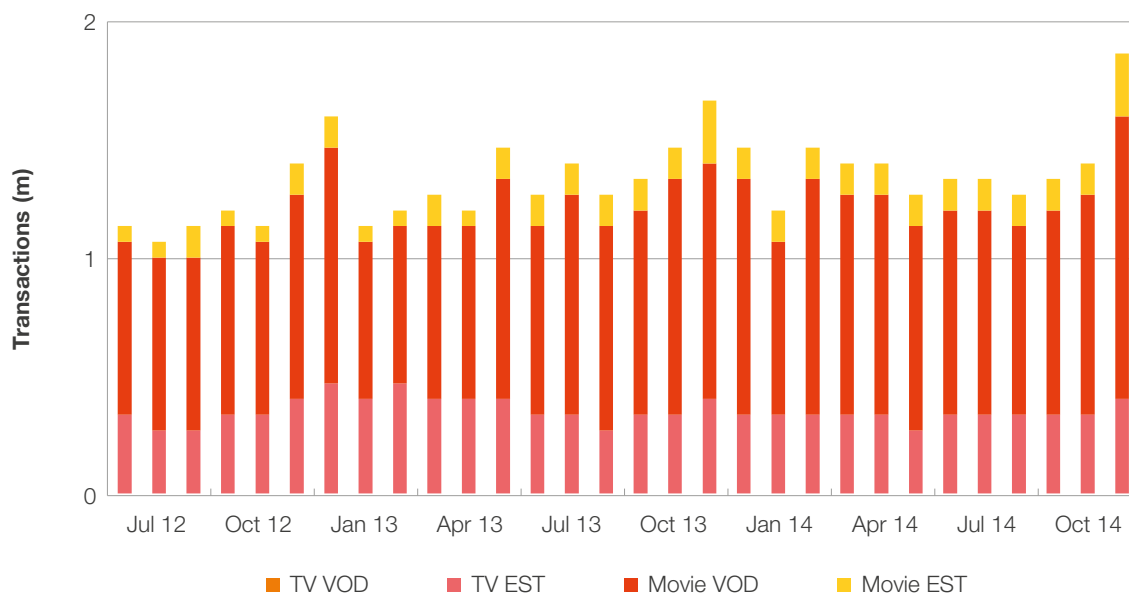
AUSTRALIA: TRANSACTIONS 2014



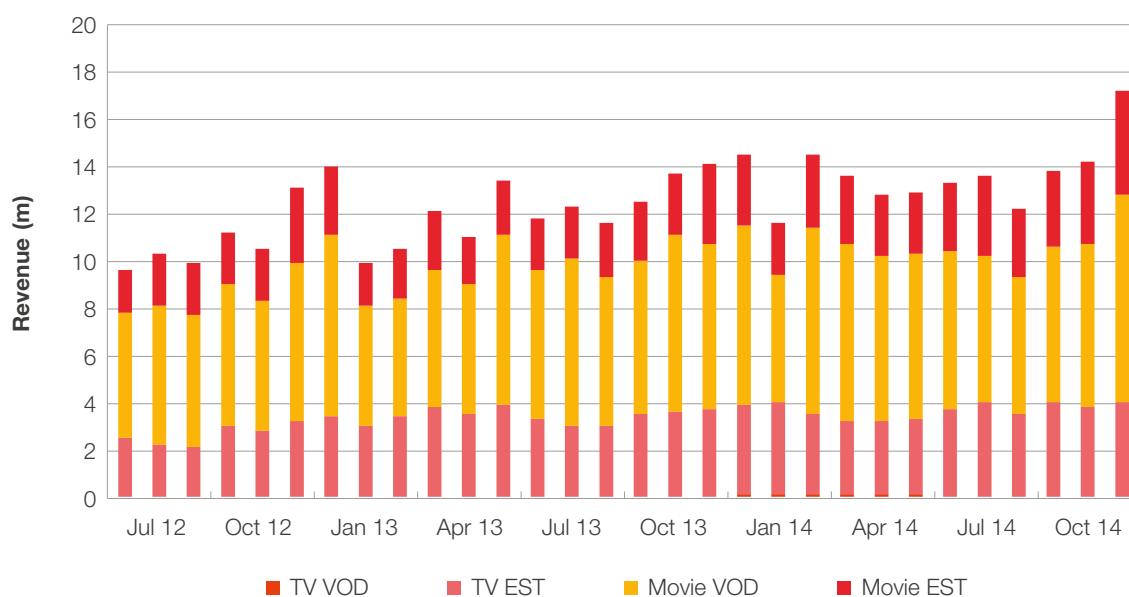
Digital video market revenue grew at a compound rate of 2.1% over 2014 to 2,787.9 million transactions between H1 2013 and H2 2014. This is 6 percentage points lower than the growth rate over 2012 through 2013. Revenues however grew by 5.5% as more expensive HD content continued to grow in popularity.

In terms of monthly transactions and consumer revenues Australia has some clear seasonal variances: January and December are peak transactional periods equating to an average of 20.2% of annual revenue. Though a general increasing trend can be observed, overall the market remains title driven in nature. Forecasts on an individual quarter must take into account the theatrical and television release slate for the period.

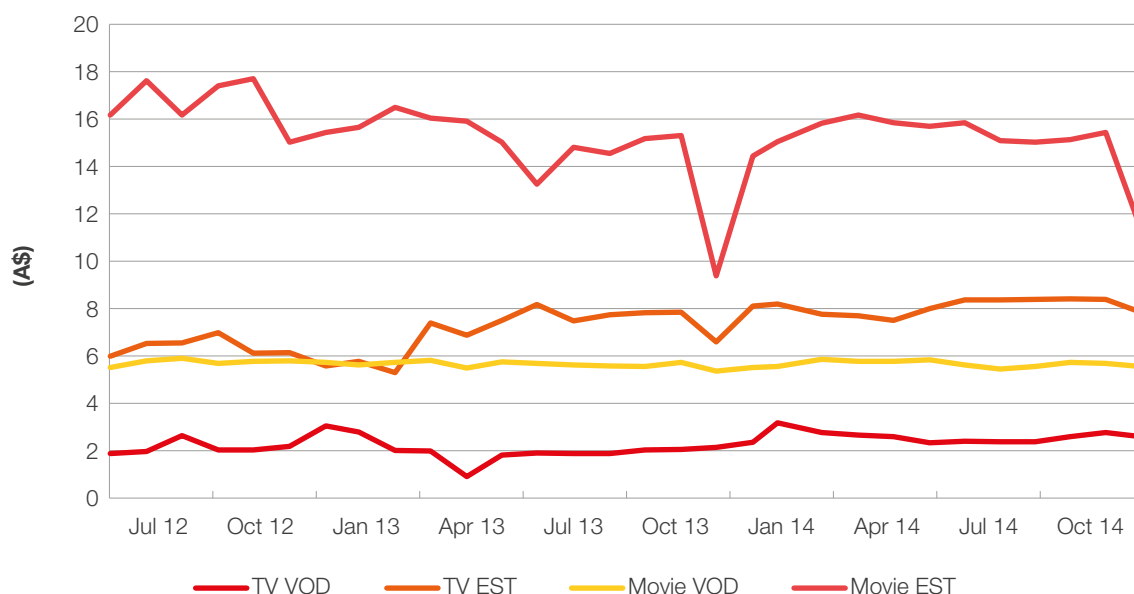
AUSTRALIA: MONTHLY CONSUMER TRANSACTIONS (M)



AUSTRALIA: MONTHLY CONSUMER REVENUES (M)



AUSTRALIA: CONSUMER AVERAGE SELLING PRICE (A\$)



AHEDA consumer pricing information shows a broadly level trend over the period January 2012 to year 2014. The average variance between the opening and closing prices of the period H2 2012 and Year end 2014 was A\$0.58 across all genres. TV EST experienced the largest price increase with the average transactional price increasing by A\$3.21 to A\$7.91. Movie VoD decreased by a total of A\$1.22, a decline of 21%, movie EST prices show stark fluctuations throughout the year due to seasonal promotions.

Three consistent periods of decline appear throughout the calendar year: Late June into Early July; September; and December. In terms of transactions both July and September are both periods of decline, with the lower transactional volume contributing to the lower average selling price. However, December, transactions are notably high. The decrease in this period can be attributed to a combination of factors, firstly promotional activity and second from consumers gifted with new devices during the Holiday season trying out movie EST services on lower priced familiar library titles.

Australian Pay-TV on Demand Market

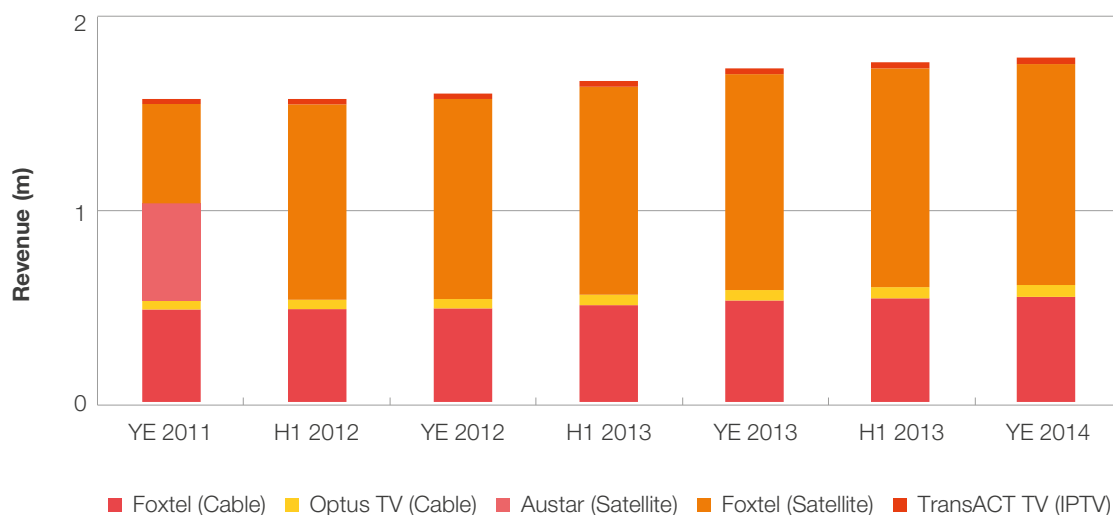
Wider Pay-TV Market

Satellite remains the most popular pay-TV platform in Australia in 2014 growing by 2.3% to reach 1.7 million subscribers generating A\$1.9 billion in revenues. However, reductions in ARPU to A\$91.20, the lowest ARPU since 2010, means that though subscriptions continue to increase revenues have declined by 1.9% between 2011 and 2014. IHS forecast that this reduction will continue into 2015 as more consumers opt for basic television packages. Given its near monopoly position Foxtel's decision to significantly reduce the price of its basic package has also had a significant effect on revenues. In terms of market position, Foxtel's Cable and Satellite service remains somewhat unchallenged with revenues, equating to 96.06% of subscription revenues in 2014.

The move from Foxtel follows increasing pressure from smaller competitor and OTT services. Additionally, pay-TV operators in the country are looking to triple play opportunities to strengthen their offering. Since 2010, partnerships have arisen between several local ISP's and a third party IPTV provider FetchTV.

Fetch, owned by Malaysian operator Astro, is an IPTV STB that offers linear IPTV channels, and rental movies on demand. IPTV growth accelerated to 11.5% in 2014 ending on 52,000 subs.

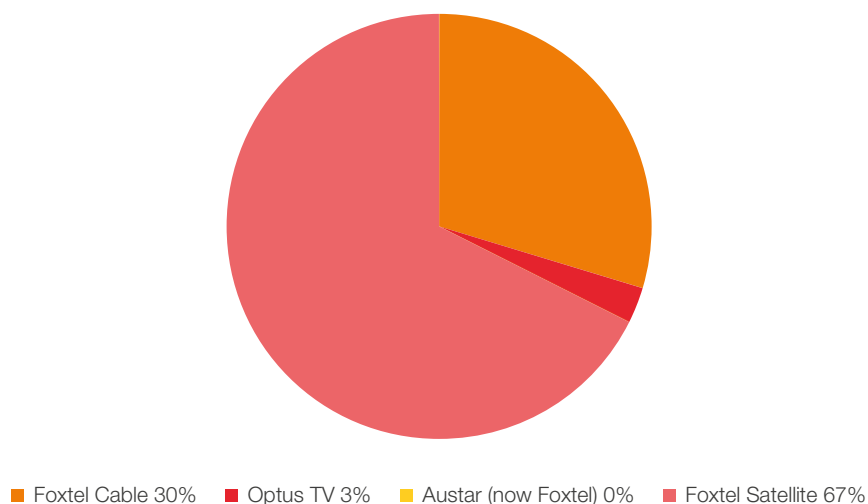
AUSTRALIA: PAY-TV SUBSCRIBERS BY OPERATOR (M)



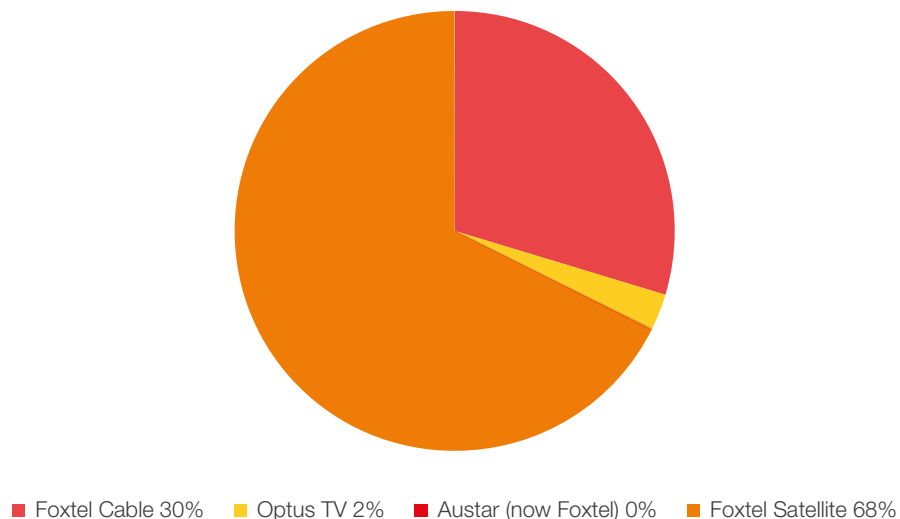
Pay-TV on Demand

In 2013 Live PPV events were the leading pay-TV VoD revenue generator. Foxtel's satellite service generated A\$12.8 million or 21.1% of the pay-TV VoD market making it the single largest on demand revenue stream of that year. In 2014, this number rose to A\$13.6 million, a close second to Foxtel's own cable based Near VoD (nVoD) service at A\$13.8 million. The overall market has seen little change over the past year with Foxtel maintaining its position as the market leader in both transactions and revenues in the pay-TV VoD space.

MOVIE AND TV TRANSACTIONS BY OPERATOR, 2013



MOVIE AND TV TRANSACTIONS BY OPERATOR, 2014



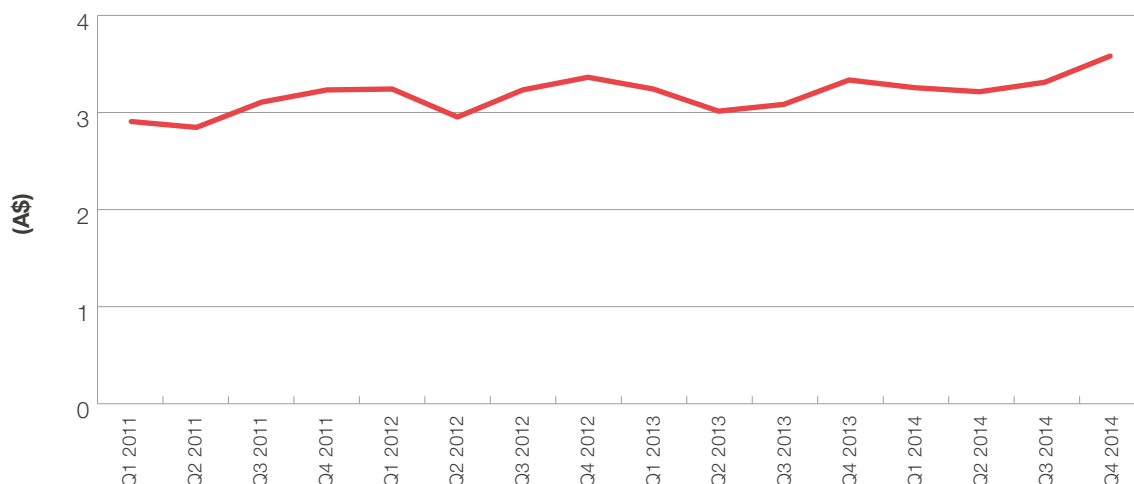
In terms of total technology revenues Near VoD (nVoD) a TV on Demand technology which uses multiple broadcast channels playing the same content at staggered start times, remains the market leading delivery mechanism with a 31% share of all pay-TV VoD revenue. IP-VoD and true VoD continue to grow as the market develops. In 2013, IP-VoD and tVoD equalled 14.6% of total pay-TV VoD market revenue. In 2014, this had risen to A\$3.5 million, a year-on-year growth rate of 30.2%. However in terms of the number of enabled homes for the different forms of pay-TV VoD there exists a significant disparity between the number of households enabled for nVoD and IP/true VoD delivery.

In 2014, 30.3% of Australian pay-TV VoD enabled homes were able to access content via nVoD, whilst only 10.9% were enabled for tVoD and/or IP-VoD. IHS analysis indicates that the average spend for IP/true VoD content was A\$25.70 per enabled household compared with A\$20.20 for nVoD homes.

True VoD is growing rapidly and cannibalising other forms of pay-TV VoD. This development in the pay-TV VoD sector is similar to other developed market such as the UK, US and France. Unlike nVoD, which is essentially a linear broadcast, IP-VoD and tVoD can be accessed immediately and offers full PVR functionality, allowing viewers to pause, rewind and skip ahead as they wish.

Push VoD system are capable of delivering a similar experience in terms of control, but require large partitioned hard drive to be viable. Even then content is limited by storage issues and can only be accessed once the download is complete. IHS forecasts that by 2018 IP/true VoD will replace nVoD as the leading form of pay-TV VoD in Australia in both transactions and consumer revenues.

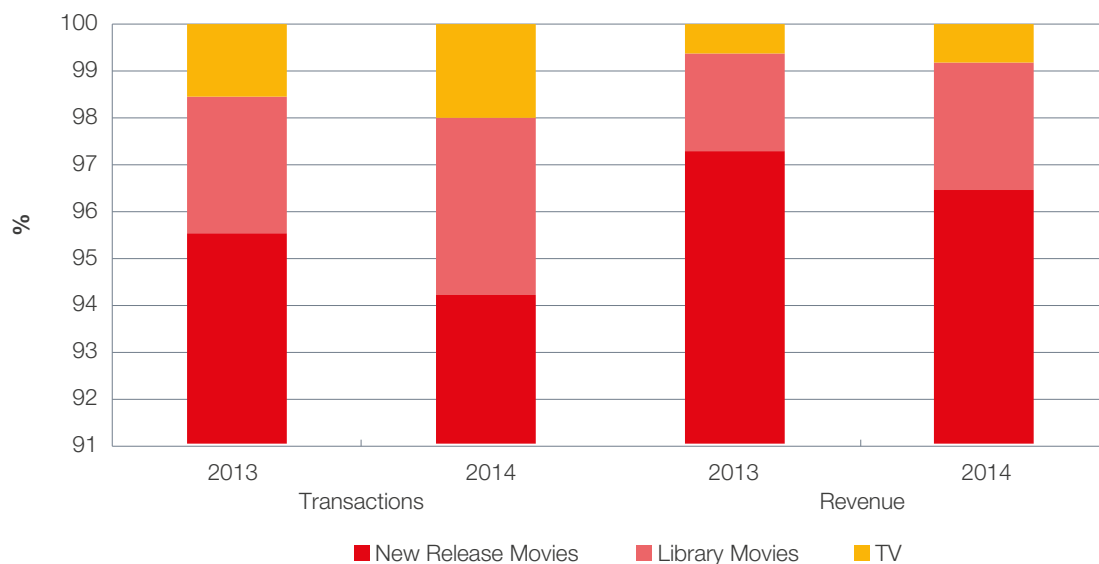
QUARTERLY NEW-RELEASE MOVIE REVENUES PER TV SUBSCRIBER



AHEDA quarterly data shows two trends in quarterly new release movie revenue. In 2014, the seasonality observed from January 2011 to H1 2013 continues, although it is less pronounced; average pay-tv spend per user on Television on Demand content is rising even as the overall revenue per user decreases.

The seasonality in pay-TV VoD is much the same as that observed in the wider digital market with decline in Q2 returning to growth in Q3 and peaking in Q4. This leads to an average ARPU decline of 6% decline in Q2 between 2012 and H1 2014. Over the total period the quarterly ARPU increased A\$0.34 to A\$3.58, an increase of 10.5%.

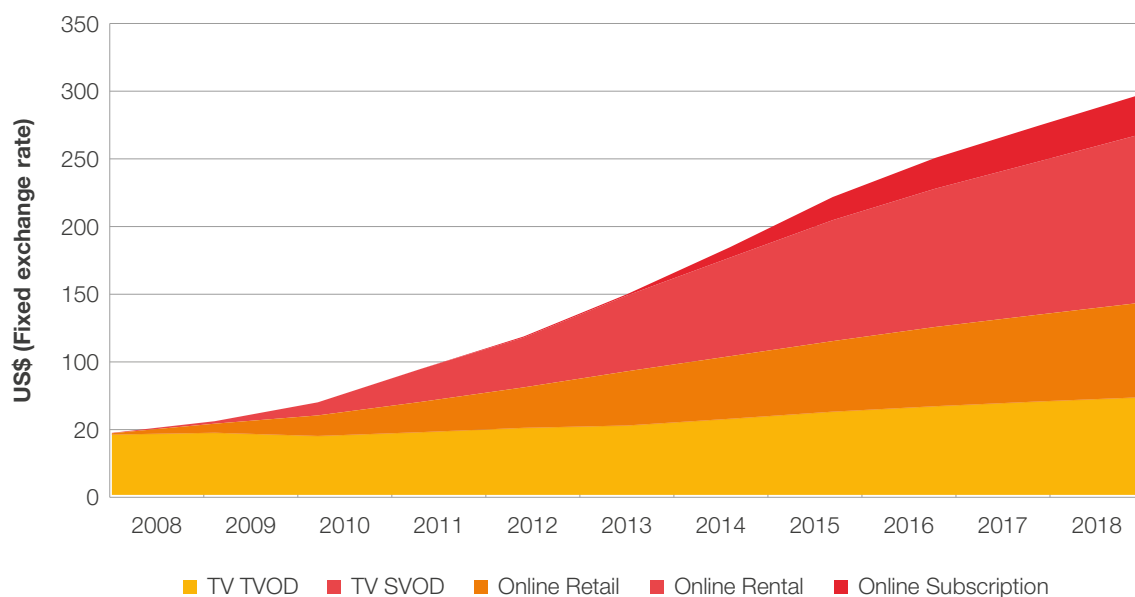
PAY-TV ON-DEMAND TRANSACTIONS AND REVENUE BY GENRE



In 2014, Australia saw a notable rise in transactions and revenues. IHS Analysis of AHEDA member's digital data reveals revenues increasing by 10% to A\$17.08 million, while transactions rose by 11% to 3.4 million. Library movie transactions increased their share of the total market from 2.9% in 2013 to 3.8% in 2014 but remain niche. In both revenue and transactions new release titles remain the dominant genre accounting for more than 90% of the market.

IHS expects the total pay-TV VoD market to grow at a compound annual rate of 5.6% between 2014 and 2018, and is forecast to be worth AU\$18.6 million in 2018. TV shows remain a small part of the total pay-TV VoD revenues constituting less than 0.5% of the total market in 2014.

AUSTRALIA: ONLINE AND TV-BASED VOD SPENDING



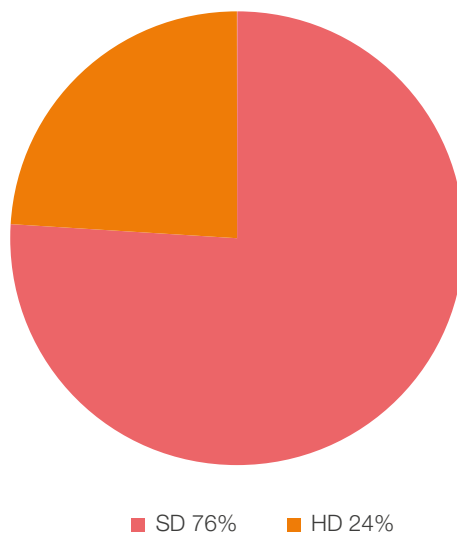
In 2014, OTT video services dominate the total digital video market accounting for 69.3% of 2014 total spending. This is forecast to grow by 6 percentage points to 75% by 2018 at the expense of the pay-TV VoD market. The growth in connected televisions is a major contributor to this trend as consumers are greeted with more and increasingly convenient consumption methods. Connected Televisions refer to any TV set connected to the internet either by either in-built network capabilities (smart TVs) or through being attached to an internet enabled device (DMAs, games consoles, smart Blu-ray Disc players). In 2014, 14% of all connected devices were designed with the television as the native display, a figure set to grow to 20% by 2018.

These devices are all designed to bring OTT content directly to the living room and to potentially rival a pay-TV operators' STB as the gatekeeper to premium content within the household. The presence of the major international content providers Apple, Google, Microsoft and Sony Entertainment Network in the connected devices space means that television operators will face increasing pressures in the online content market as more and more primary televisions become connected televisions.

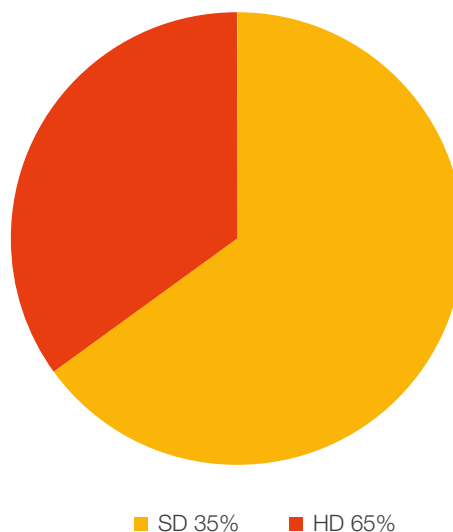
Australian OTT Market

Online Rental Movies

AUSTRALIA: MOVIES RENTAL SHARES OF HD/SD IN CONSUMER REVENUES (2013)



AUSTRALIA: MOVIES RENTAL SHARES OF HD/SD IN CONSUMER REVENUES (2014)



- + HD continues to erode the market share of SD content
- + Television Operators are launching online video services, with Foxtel offering standalone VoD packages to PC's ,Smart TV's, consoles and Android/IOS tablets and mobiles
- + The overall market has grown by A\$23 million

The online movie rental market in Australia grew by A\$16.3 million between 2012 and 2014. Between 2014 and 2018 the online movie rental market revenues are expected to grow at a compound annual growth rate (CAGR) of 14%, to A\$84.9 million. In 2014, Standard Definition (SD) content remains prominent with 65% of the total transaction in the market and 61% of revenues.

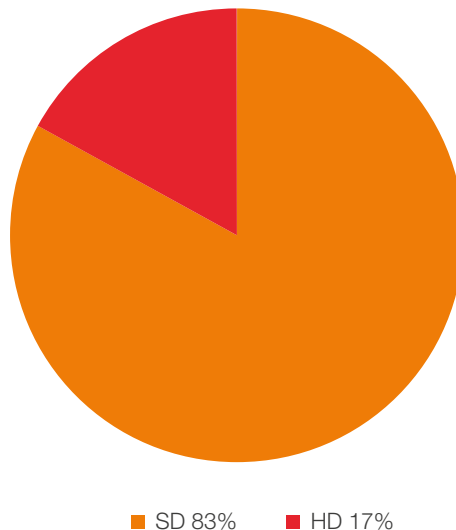
Consumers continue to move towards High Definition (HD) content; however, IHS forecasts that SD content will continue to hold the majority of transaction in 2018 (56%).

International operators continue to maintain a strong presence in the Australian market with AHEDA information indicating that in 2014 International OTT providers accounted for exactly 50% of the market. Local pay-TV operators are the largest local services in the OTT market with total revenues of services such as Foxtel Go Store equating to A\$27.6 million in 2014.

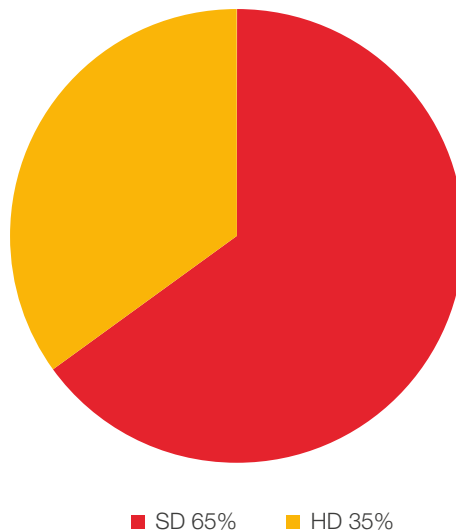
Google, Microsoft, Apple, and Sony all benefit from a native device ecosystem to build their online video service upon. These device ecosystems allow consumers to continue their video experience with a familiar brand. In this respect other OTT operator are at a disadvantage and instead must depend on heavy marketing, or exclusive content in order to increase their market share significantly.

Online Retail Movies

AUSTRALIA: MOVIES EST SHARES OF HD/SD IN CONSUMER REVENUES (2013)



AUSTRALIA: MOVIES EST SHARES OF HD/SD IN CONSUMER REVENUES (2014)



- + Movie EST revenues grew by 30% since 2012.
- + Consumers regularly continue to opt for VOD content over EST
- + International operators maintain a dominant position in the EST Market

Since the beginning of 2012, the EST market has grown 30% to reach A\$40 million by 2014. The majority share of revenue remains SD content, which accounts for 69% of the total OTT movie revenues. As in other western markets, where EST has declined in favour of increased VoD spend, Australia's EST revenues have begun to decline falling from A\$21 million in 2013 to A\$20.6 million. Meanwhile all other sections of the OTT market have continued to grow.

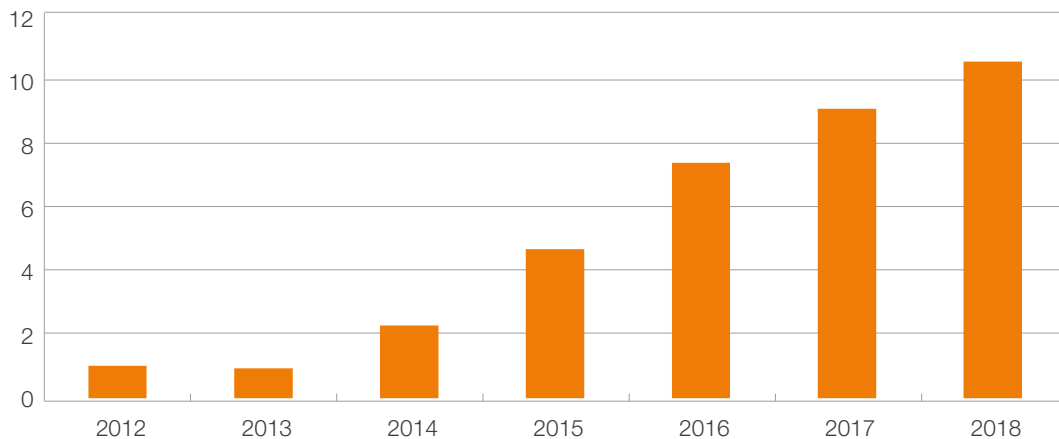
International operators currently account for 82% of the OTT EST market with pay-TV operators own OTT services and smaller OTT services accounting for the remaining market revenue.

Australian SVoD Market

Historically, the online SVoD business segment was relatively small compared to other business models with only A\$2.5 million revenue in 2014. The online SVoD market has developed slowly with the leading service being local disc-by-mail and online streaming service Quickflix. However, with global online video service Netflix entering the Australian and New Zealand territories in March 2015 the market is set to see explosive growth.

Several local video providers have responded to Netflix's planned launch by launching their own online SVoD streaming services. These companies will hope to replicate the success of Sky in the UK, who launched Now TV, a separate standalone online SVoD service, to compete, albeit not directly in terms of content, with Netflix.

SVOD REVENUES



Quickflix is Australia's oldest SVoD service which provides disc-by-mail and online streaming service. Quickflix's stand-alone online streaming option is priced from A\$9.99 with a 14-day free trial. The streaming service can be bundled with a rent-by-mail DVD service for A\$19.99. Quickflix also launched a premium service where consumers can rent new release titles individually. Despite attempting to move consumers to its online SVoD service the rent-by-mail physical disc service remains the main business of the company.

Stan, a service from a joint venture between Fairfax and Nine Entertainment Co, launched in January 2015. At launch the service offered more than 750 titles — a mix of TV content, movies and documentaries, at a price of A\$10 a month. In order to attract more customers, Stan has made a deal with Vodafone to bundle the service for free with a Vodafone subscription for several months.

Another new comer in the online SVoD market is Presto. A joint venture between pay-TV providers Foxtel Telstra, and most recently Seven West Media (SWM). Presto launched in January 2015 and already has licensed content from SWM. Presto has two packages to choose from: Presto Movies and Presto TV which are free for 30 days before costing A\$14.99 for both packages or A\$9.99 individually.

Presto, like Stan, is offered as a bundle but to Telstra customers. In a market where data caps are not uncommon, Presto has a competitive advantage in that its content will not count against these caps for Foxtel Broadband and Telstra Bigpond fixed-line broadband customers. Telstra mobile customers can also sign up for a three-month free Presto trial. It has been reported that a Presto app is also being developed to bring Presto to Telstra's T-Box STB PVR.

Presto TV catalogue has a collection of TV shows from HBO, SHOWTIME, CBS, Viacom International Media Networks and local content from Foxtel, Seven Network and ABC Commercial. Presto Movies has a catalogue of movies from the major studios and key independents players.

Netflix will now enter a very different online SVoD market than was present at the end of June 2014. It will face significant competition from the new entrants to the market but will hope to leverage its own Netflix Originals such as *House of Cards* (season 3) and *Marco Polo*. Netflix has already made a deal with Australia's pay-TV service Fetch TV to be on the IPTV STB and announced an "un-metering" deal with ISP iiNet. Optus is also reportedly planning a similar unmetered access to Netflix for its broadband subscribers.

IHS expects the online SVoD market to more than double in 2015 to A\$4.6 million in consumer revenues. Subscriber numbers will increase by 800% to more than 155,000 paying subscribers by the end of 2015. The main contributor to this growth is expected to be Netflix with a thousand-title catalogue, competitive pricing options and its existing relationship with a large number of connected devices platforms. However, the local services have some exclusive content, such as *The Lego Movie* on Stan, and will also contribute to the market expansion.

The Australian Digital Market in context

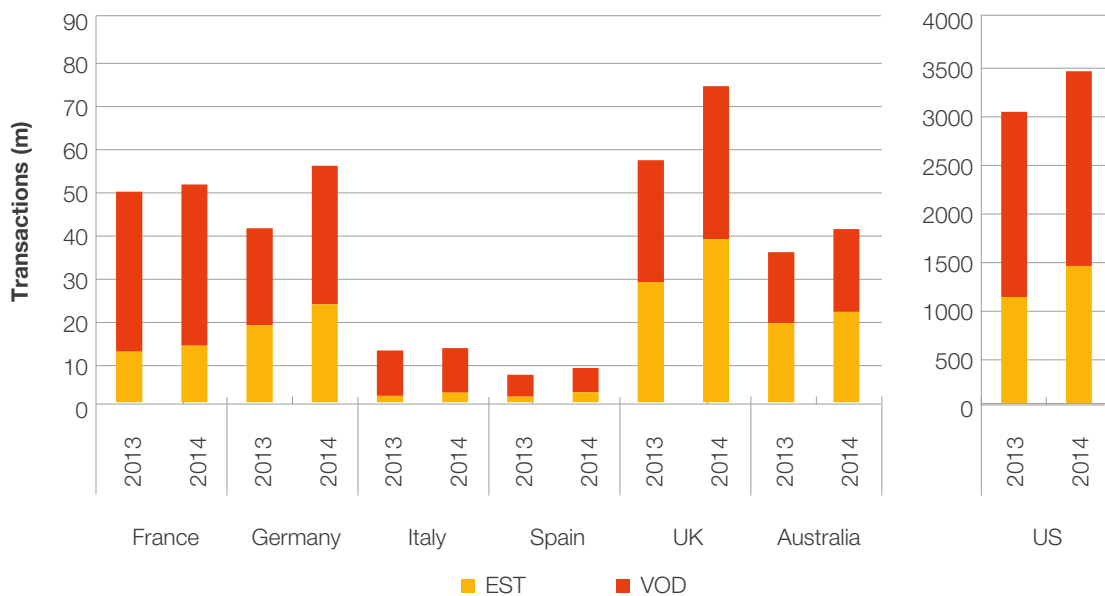
Despite the Macroeconomic factors discussed earlier, the Australian digital video landscape remains in a strong growth position. In 2014, the digital video market grew by 19% compared to 2013. Over the forecast period 2014 to 2018 the Australian digital market is expected to grow by a CAGR of 5% to reach US\$140 million. Australian consumer spending increased by US\$34.9 million in 2014.

The largest digital revenue growth in the 2014 financial year came from the digital rental market which grew by US\$16.9 million to US\$73.2 million. However, the largest proportional growth occurred in the SVoD category which grew by 88% in terms of consumer revenue and gained 3% market share. Similarly, in the US SVoD continued to grow at a strong rate with an increase in consumer spend from US\$4 billion US\$5.1 billion and a 3% increase in market share bringing its share of consumer spend beyond the 50% threshold.

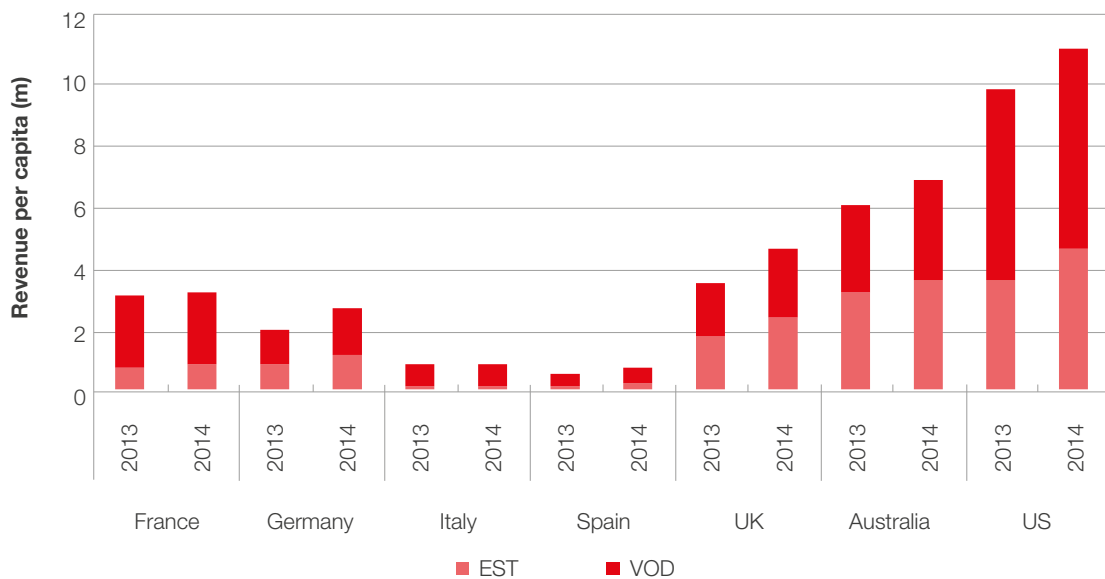
Australia's position in the global market was largely unchanged in 2014. The overall VoD market grew by 13.3%, tracking alongside the US resulting in, a 4% proportional value against the US, unchanged between 2013 and 2014. Compared to the major Western European markets Australia's growth rate was the third largest. The German digital video market experienced the largest growth of 28.8%.

Germany, like Australia, has notably comparatively low levels of pay-TV VoD access on its pay-TV networks and similar broadband household penetration of 63–65%. As in Australia, the key international digital content providers are all present in the major European markets: Microsoft Xbox; Google Play; iTunes; and the Sony Entertainment Network. These services maintain a strong grip on the market although impact of local providers cannot be discounted.

VO D AND EST TRANSACTIONS (M)



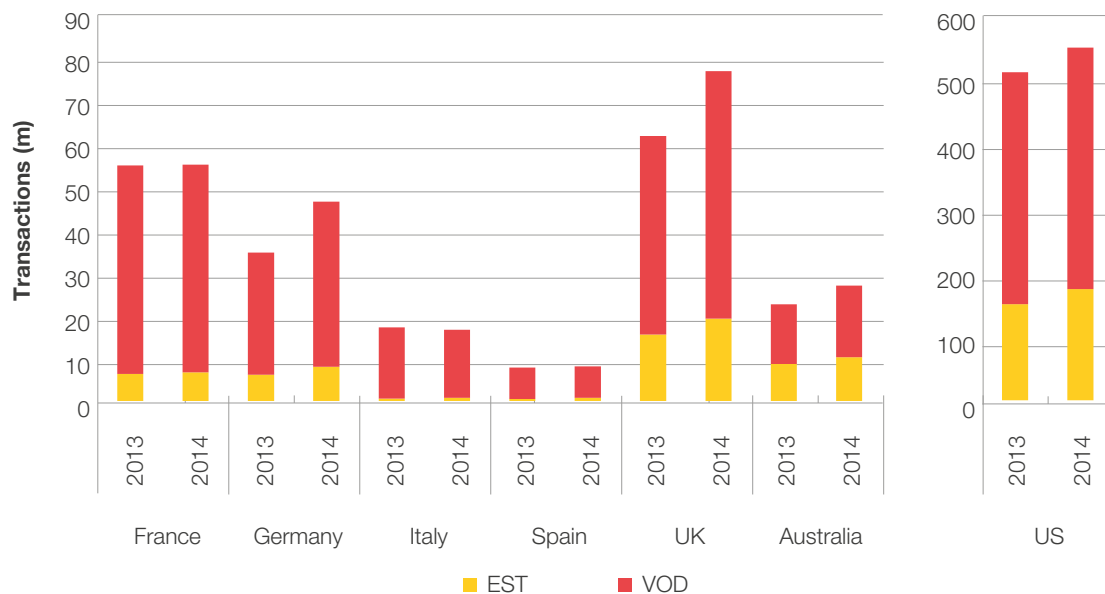
VO D AND EST TRANSACTIONS PER CAPITA



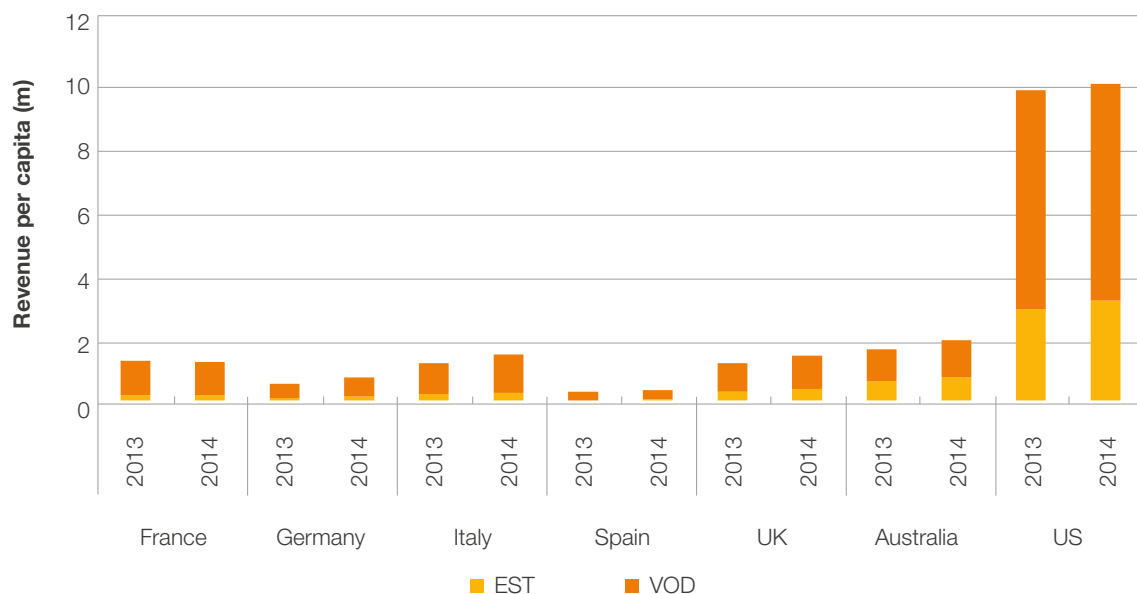
The number of VoD transactions in the US dwarfs those recorded in the rest of the world making comparisons with the US difficult. The number of transaction recorded by Australian consumer ranks the country between Germany and Italy in 2014. Australia has experienced above average transaction growth at 16.2% in 2014, higher than the US, UK, Germany and France and Spain.

VoD and EST transactions per broadband household remain strong in Australia with the country's digital video market recording 4.8 transactions per broadband home in 2014. This figure is higher than the UK (3.4 per broadband household), France (2.9), Germany (1.70), and Spain (0.75). This suggests that the Australian market is already significantly developed compared to other non-US territories.

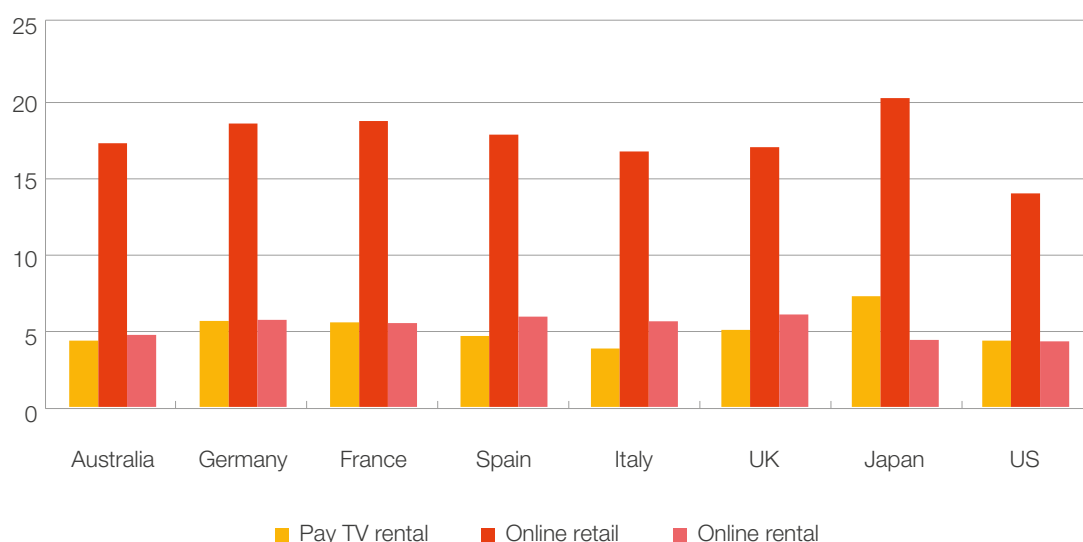
VOD AND EST CONSUMER REVENUE (US\$m)



VOD AND EST CONSUMER REVENUE PER CAPITA (US\$)



2014: AVERAGE TRANSACTIONAL MOVIE PRICE (US\$)



Consumer revenue per capita in Australia grew by 13.9% in 2014 slightly below the average of 15% for Australia, France, Germany, Italy, Spain, the UK and the US. The German market experienced the largest proportional growth at 26.4%, while in revenues the US grew by US\$4.20 per capita to reach US\$10.8 per capita. As observed in Australia the international market seems heavily weighted towards VoD content with only a small portion attributable to EST.

Online pricing in Australia is in line with the rest of the world with EST prices significantly higher than pay-TV VoD and online rentals.

Digital in the wider video sector

Consumer spending on physical video continues to decline in Australia, as in other world markets, and as a result IHS forecasts a continuation of the drops in overall home entertainment spending. Home entertainment spending in Australia will decline at a CAGR of -7% between 2014 and 2018.

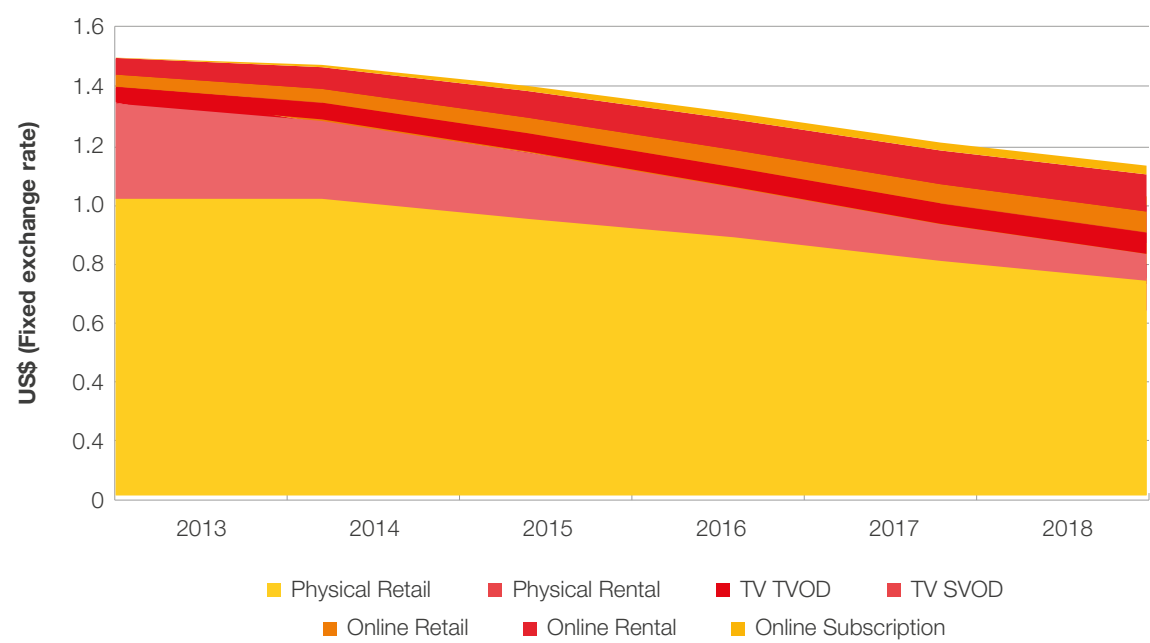
DVD retail spending is expected to fall by 75% to US\$425.8 million in 2018, with Blu-ray Discs (BD) also expected to decline by 30% to US\$ 205.5. Though SVoD and transactional VoD services are often looked to as an explanation for changes in consumer behaviour, this tends to be an oversimplification of underlying market environment changes.

As more advanced STB's are distributed by pay-TV operators they often incorporate PVR and catch-up functionality. These devices effectively reintroduce home video recording into consumers' homes, a practice previously diminished through the spread of the pre-recorded DVD. Allowing consumers' access to their broadcast content on their own terms, either stored on the STB or through broadcaster catch-up services, re-established time-shifting behaviours for content stemming from linear TV. Increasing amounts of content being held in this fashion, often for long periods of time, reduce consumers' the need to purchase or rent a physical product leading to declines in the market. Whilst VoD is not the principal reason for the decline it remains both an indicator of the advance of STB functionality and a contributor to more, albeit paid for, time shifted content.

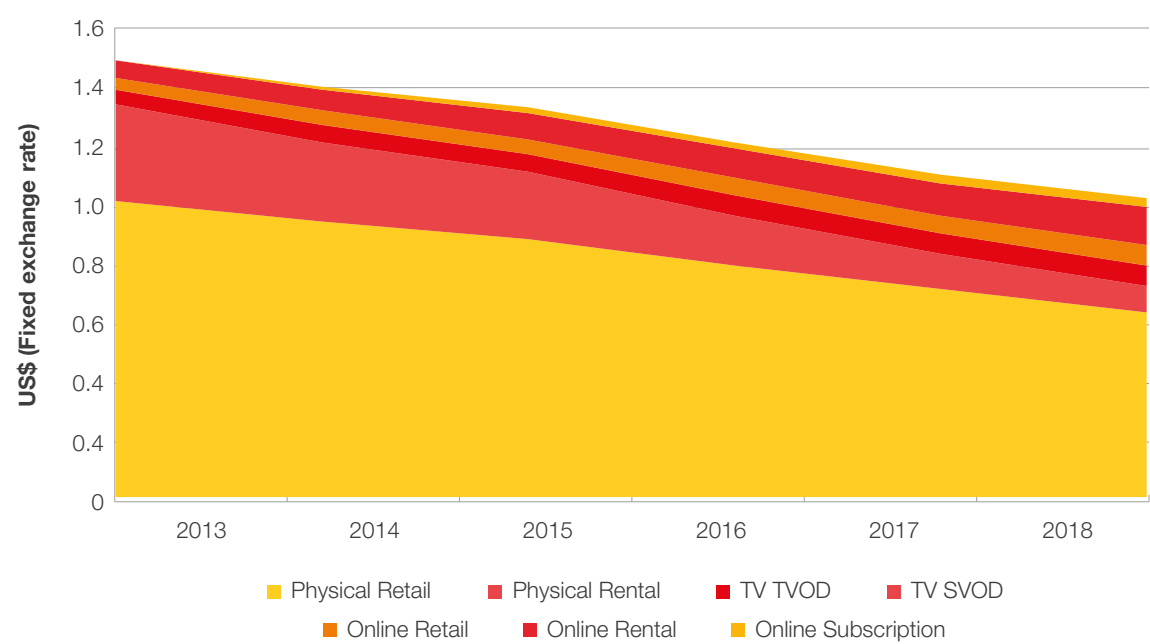
The arrival of SVoD services in Australia place further pressure on the physical disc market particularly for consumer spending on library movie or TV content. When compared to a DVD boxset the monthly subscription price of around US\$9.64 makes these services a value for money alternative for many consumers. In addition, some competition for new release DVD and BD sales will come from online transactional services. As part of a wider global initiative such services are increasing the number of titles released in advance of the physical disc release.

The Australian physical market declined in 2014 by an estimated US\$127 million, 11% compared to the previous year. IHS analysis indicates that the Australian physical market will continue to decline throughout the forecast period with the market in 2018 being valued at US\$722 million, a reduction of 67% from 2014.

AUSTRALIA: TOTAL VIDEO SPENDING



US: TOTAL VIDEO SPENDING



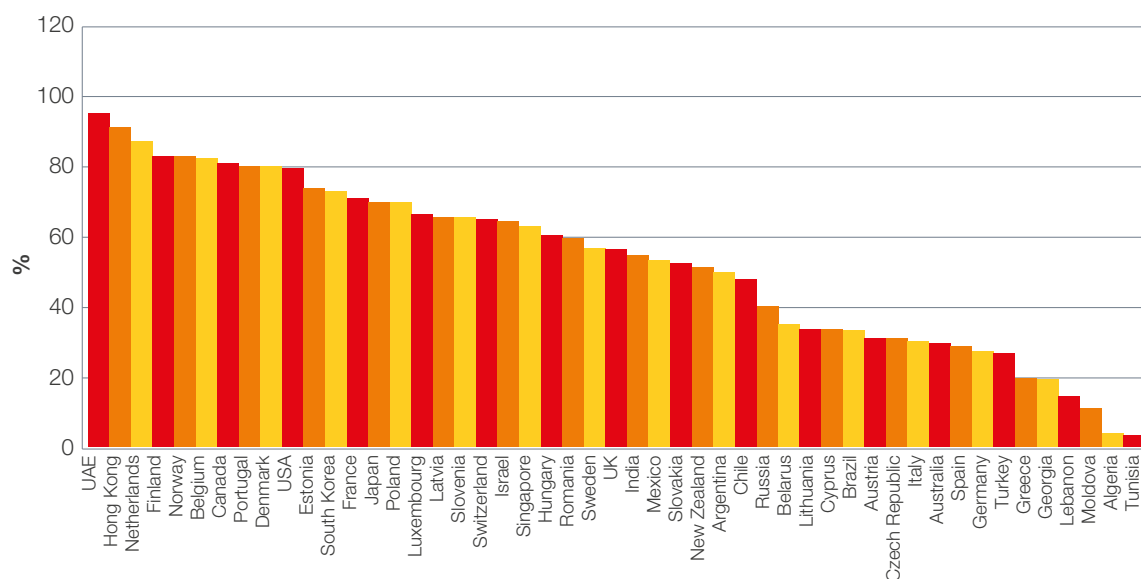
In both the US and Australia declines in physical media have driven decline in overall home entertainment market. Over 2014 OTT digital revenues have continued growth well into the double figures with the US growing by 19% and Australia by a slightly stronger 23%. IHS forecasts that the growing SVoD industry in the US will continue to supplement the existing VoD market leading to the US home entertainment now maintaining a level of growth. However, the smaller more nascent OTT retail and SVoD sectors in Australia, owing to later service launches and a weaker delivery infrastructure, will not replace this lost consumer spending within the forecast period.

The product mix within the home entertainment industry will also change dramatically through the forecast period. Historically, movies have accounted for the largest proportion of the content in through physical and transactional digital markets. In contrast through popular SVoD services TV shows account for the greatest level of viewing and make up the majority of the content offering.

Subsequently, in SVoD driven markets big name TV shows will become increasingly important investments as studios' realign their priorities to meet consumer demand. This is not to say that an end to the Hollywood blockbuster is in sight. However, with popular shows such as *The Big Bang Theory* and *Breaking Bad* costing around USD 2 to 3 million per episode and *Game of Thrones*, reported as the most downloaded show in Australia costing USD 6 million an episode, it is easy to see that studio investment in high quality TV serials as opposed to feature films is growing.

Wider Australian Entertainment Industry Trends

PAY-TV PENETRATION BY COUNTRY

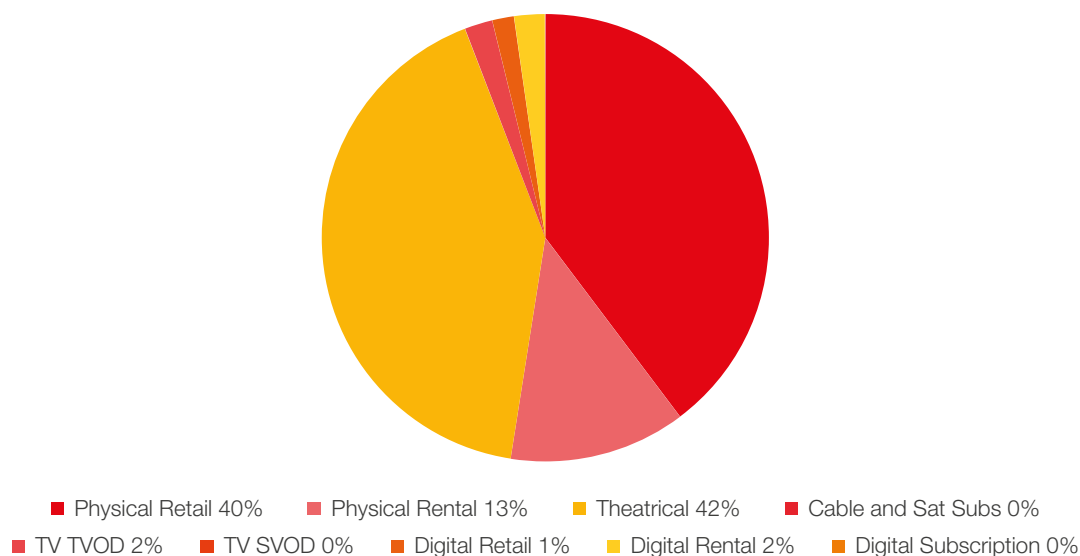


IHS 2013 forecast remains relevant as we look ahead to 2018. Spending in the wider video market inclusive of physical, online, pay-TV and theatrical is expected to be relatively stable around US\$4.5–5 billion. Consumer spending will decline by 6% between 2013 and 2018, from US\$4.9 billion to US\$4.6 billion.

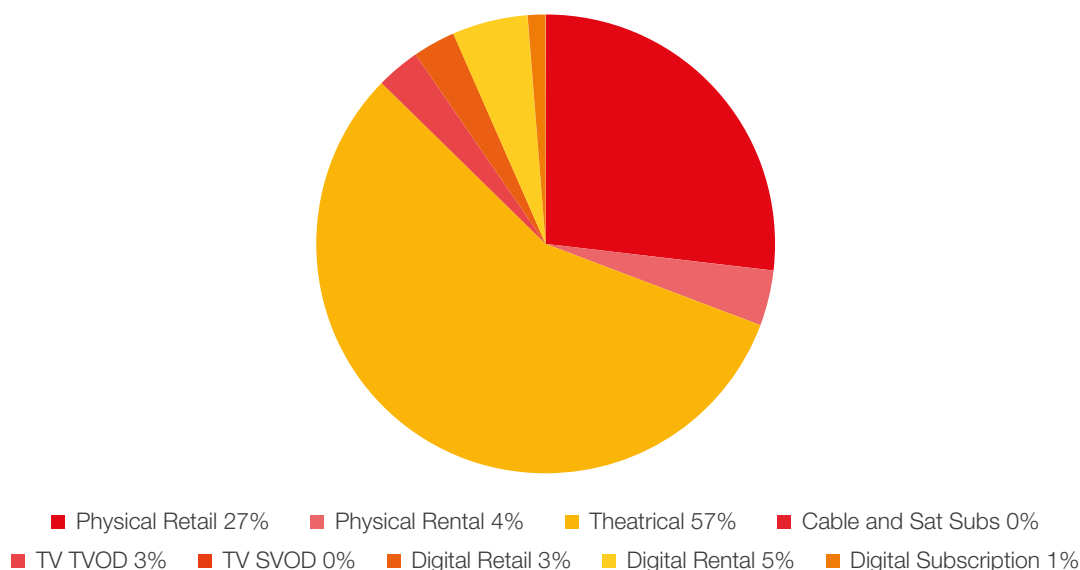
Pay-TV subscriptions will continue to be the most significant part in the entertainment industry, its market share remaining steady at 46% (+/- 3%) over the period 2013 to 2018. Despite this, Australia's Pay-TV penetration remains well below the global reported average of 53%. With 70% of the population still opting for Free TV options, Australia trails well behind other western nations such as the UK (56%) the US (79%) and the Netherlands (87%), while in the Asia Pacific region South Korea, Japan and Singapore also reported higher penetration figures (73%, 69% and 63% respectively)

Consumer spending at the box office will increase though the forecast period to account for 26% of total entertainment consumer spending at the end of 2018. OTT and pay-TV VoD spending is expected to remain relatively niche as linear television continues to dominate the home entertainment space. Additionally, the VoD market itself will continue to be dominated by free catch-up content rather than premium paid VoD and EST.

AUSTRALIA: TOTAL FILMED ENTERTAINMENT INDUSTRY CONSUMER SPENDING SPLIT BY SEGMENTS (2013)



AUSTRALIA: TOTAL FILMED ENTERTAINMENT INDUSTRY CONSUMER SPENDING SPLIT BY SEGMENTS (2018)



Conclusion

The growth observed over the previous two years in Australia's digital markets has continued in spite of less favourable economic conditions. This is a product of an improving infrastructure and a rapidly growing connected device install base. Local operators and International services vie for control of the market place and with consumers benefiting from improved services and a deeper level of content offerings. Transactional growth between H1 2012 and H1 2014 was 17% generating an additional A\$20.9 million in revenues as a result. Per capita, Australian VoD and EST revenue continues to outperform the key European markets. However, the US remains lead the global market in this respect.

Online VoD services drive digital consumption with movie rentals at the forefront of the push — having grown 14% in 2014. Television EST growth faltered in 2014 eventually dipping into decline. However movie EST increased, growing 18% over 2013 to A\$16.4 million.

The transition from SD to HD content is being enabled as improved broadband infrastructure opens up the high definition streaming as a viable option to more Australian households. Despite the declines in TV EST, the overall EST market grew to account for 46% of the Australian digital market.

The online retail and rental video segments are led by the big international players such as Apple's iTunes and Microsoft's Xbox Video, though the online rental segment also has strong local players such as Telstra. To date, the Australian OTT SVoD market is led by services such as Presto and Stan which have launched ahead of Netflix in a move aimed at securing their position in the market.

Pay-TV operators have sought to wrestle control of the digital market from OTT providers. However their impact so far has been relatively limited and OTT services still account for a 69% share of the market. The television on demand space is dominated by Foxtel's satellite and cable offering which, though IP-VoD enabled, raises the majority of its revenue through nVoD transactions.

Digital consumer market growth continues to remain strong, growing 19% over all in 2014. However, with total revenue being just 13% that of the physical market digital video has been unable to compensate for the continued declines in DVD and BD. As a result the overall spend on pre-recorded media in Australia has declined.

Despite this, the outlook for the filmed entertainment industry remains positive. Satellite and cable TV subscription revenues, combined with the ongoing strength in theatrical box office, will keep consumer spending relatively flat over the next five years.

IHS Technology

In 2014, the physical DVD and Blu-ray retail channel sold nearly 54 million discs, for a total value of A\$0.98 billion.



Physical home entertainment market

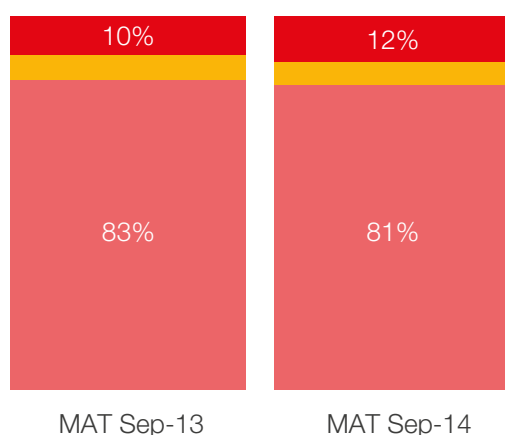


Physical vs. Digital

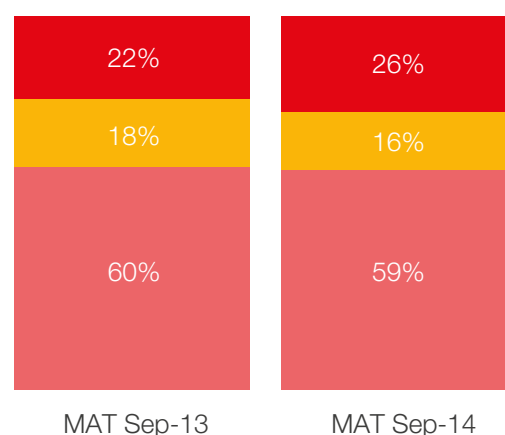
There are many different ways to access your home entertainment content, from 'physical' DVD and Blu-ray discs, through to digital rental and piracy. New services such as Stan and Netflix are launching in 2015, providing yet further options for the consumption of digital content.

In the 12 months to September 2014, nearly 100 million units were sold or rented across both physical and digital channels, generating revenue of A\$1.3 billion. The physical retail channel still accounted for the majority of that revenue, with 81% share of the market¹. The digital channel grew in both volume and value, and represented a quarter of all paid volume.

SALES VALUE % BY MAT



SALES VOLUME % BY MAT



■ Digital (EST + VOD) ■ Rental (Physical) ■ Retail (Physical)

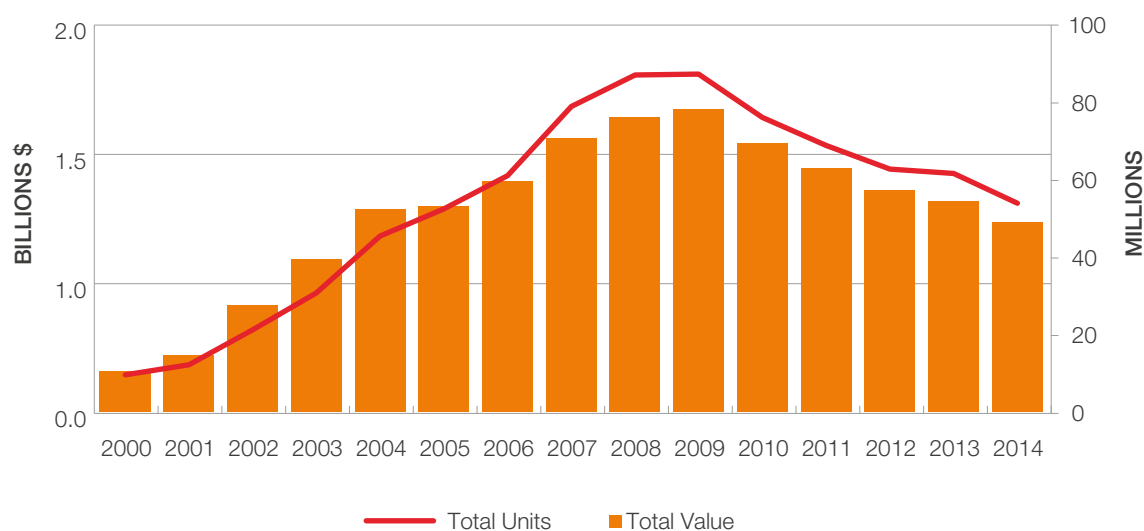
Piracy is not represented above but was one of the main methods of acquisition to grow in 2014. The penetration of piracy was fairly stable, however, the volume increased quite significantly. In other words, there was not a significant increase in the number of pirates; rather, consumers who are pirating are downloading more.

Historical Trends

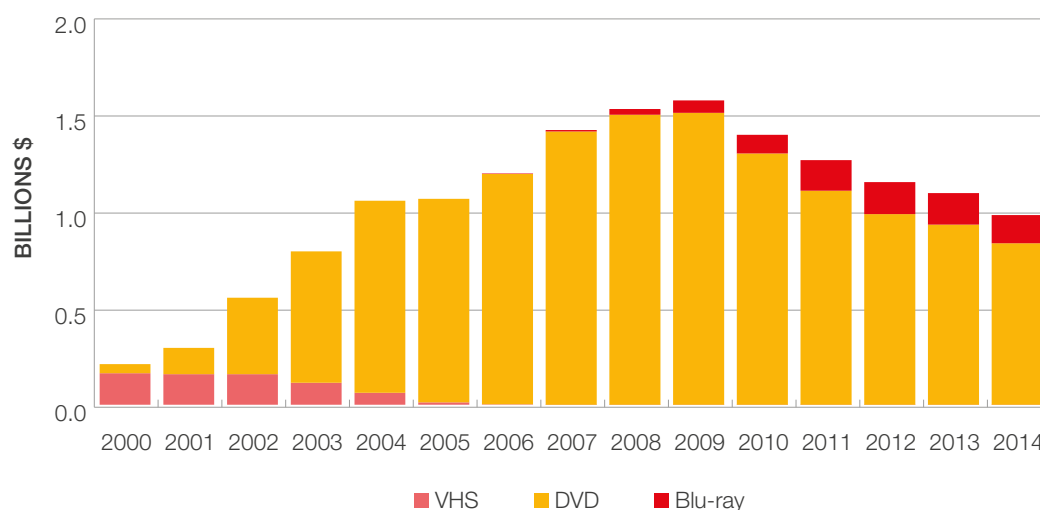
The physical disc retail market generated just under A\$1 billion in value in 2014. The market peaked in 2009 with 87 million disc sales, and A\$1.57 billion revenue. Since then, the DVD market has gradually declined, while Blu-ray disc sales were on the up until 2014.

¹ GfK Retail Tracking, October – September 2014, factored to 100%. Factored AHEDA rental reporting. AHEDA Digital members. Excludes piracy.

GfK RETAIL TRACKING: PHYSICAL RETAIL MARKET SIZE



GfK RETAIL TRACKING: PHYSICAL RETAIL MARKET VALUE BY FORMAT



Source: GfK Retail Tracking

Current Trends

In 2014, the physical DVD and Blu-ray retail channel sold nearly 54 million discs, for a total value of A\$0.98 billion.

This represented a 10% year-on-year decline in value, with an equal rate of decline for both the DVD and Blu-ray formats. Volume was also in decline, with 2014 being the first year that the Blu-ray format recorded a drop in volume. The rate of decline also quickened, moving from 6% in 2013 to 10% in 2014.

Walt Disney's *'Frozen'* was the top-selling title in 2014 and is already the 30th top selling title of all time. The 29 titles above *'Frozen'* have all been in circulation for more than 3 years, illustrating just how strongly *'Frozen'* performed in its first year of release.

GfK RETAIL TRACKING: TOP SELLING TITLES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	FROZEN (2013)	WALT DISNEY STUDIOS	ANIMATED
2	THE LEGO MOVIE	ROADSHOW	ANIMATED
3	HOBBIT THE DESOLATION OF SMAUG	WARNER BROS	ADVENTURE
4	THE HUNGER GAMES: CATCHING FIRE	ROADSHOW	ACTION
5	GAME OF THRONES SEASON 3	WARNER BROS	TV – DRAMA
6	GUARDIANS OF THE GALAXY	WALT DISNEY STUDIOS	ADVENTURE
7	THOR THE DARK WORLD	WALT DISNEY STUDIOS	ACTION
8	GRAVITY (2013)	WARNER BROS	SCI-FI
9	HOW TO TRAIN YOUR DRAGON 2	20TH CENTURY FOX	ANIMATED
10	TRANSFORMERS AGE OF EXTINCTION	PARAMOUNT	SCI-FI

Source: GfK Retail Tracking

Though it was snubbed at the Oscars, Roadshow's *'Lego Movie'* was the second top selling title for the year, while Warner Bros' *'Hobbit: The Desolation of Smaug'* came in at number 3.

5 of the top 10 selling titles were movie sequels, highlighting the importance of strong licenses.

This bodes well for 2015, with a range of blockbuster licenses due to release sequels throughout the year.

When ranked by value, the top 10 selling title mix is very similar, though the higher priced boxset, *'Game of Thrones Seasons 1–3'*, moves into the top 10.

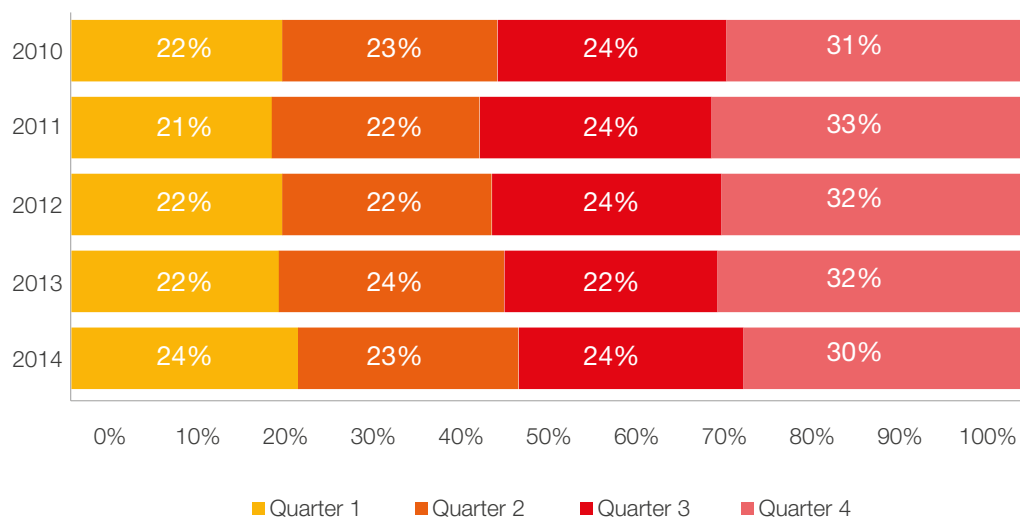
GfK RETAIL TRACKING: TOP SELLING TITLES, FULL YEAR 2014, RANKED BY VALUE

	TITLE	DISTRIBUTOR	GENRE
1	FROZEN (2013)	WALT DISNEY STUDIOS	ANIMATED
2	GAME OF THRONES SEASON 3	WARNER BROS	TV – DRAMA
3	HOBBIT THE DESOLATION OF SMAUG	WARNER BROS	ADVENTURE
4	THE LEGO MOVIE	ROADSHOW	ANIMATED
5	THE HUNGER GAMES: CATCHING FIRE	ROADSHOW	ACTION
6	GUARDIANS OF THE GALAXY	WALT DISNEY STUDIOS	ADVENTURE
7	THOR THE DARK WORLD	WALT DISNEY STUDIOS	ACTION
8	CAPTAIN AMERICA THE WINTER SOLDIER	WALT DISNEY STUDIOS	ADVENTURE
9	GAME OF THRONES SEASON 1–3	WARNER BROS	TV – DRAMA
10	GRAVITY (2013)	WARNER BROS	SCI-FI

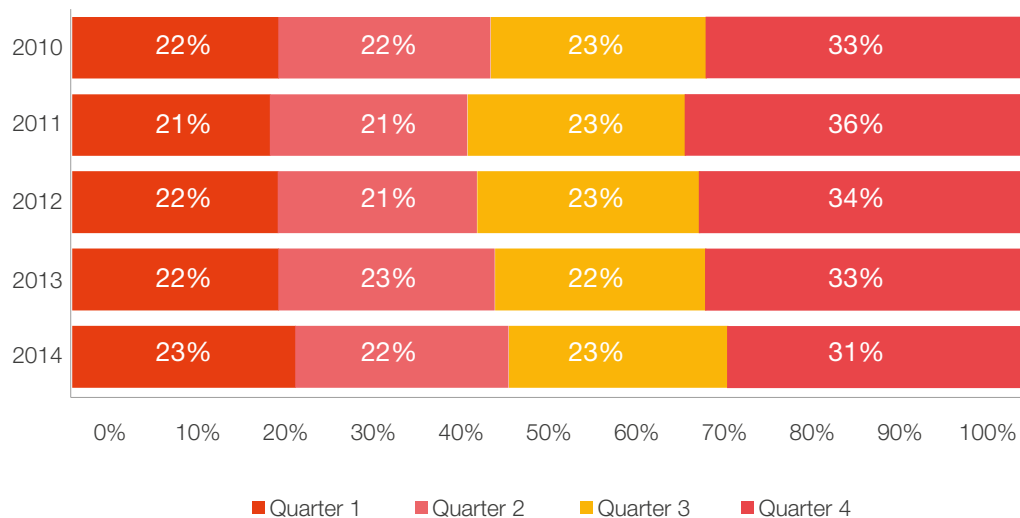
Seasonality

In 2014, there was a slight variation in the market seasonality compared to previous years. Quarter 1 generated 24% of the market volume, the highest percentage in recent years, while quarter 4 accounted for just 30%. In value, the trends are very similar, with an over-performance in quarter 1 and an under-performance in quarter 4.

GfK RETAIL TRACKING: MARKET SEASONALITY BY QUARTER — VOLUME SHARES



GfK RETAIL TRACKING: MARKET SEASONALITY BY QUARTER — VALUE SHARES

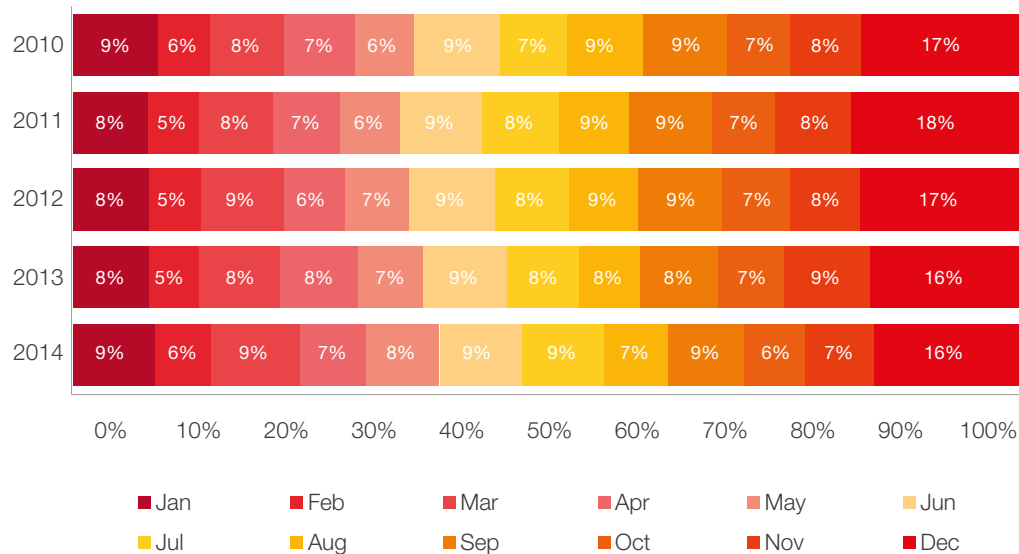


Split by month, it is possible to examine seasonal trends in more detail. For quarter 1, each of the first 3 months recorded higher percentage shares than 2013, while for quarter 4, it was not December that fell in its share of annual sales; rather, it was the lead-in months, October and November.

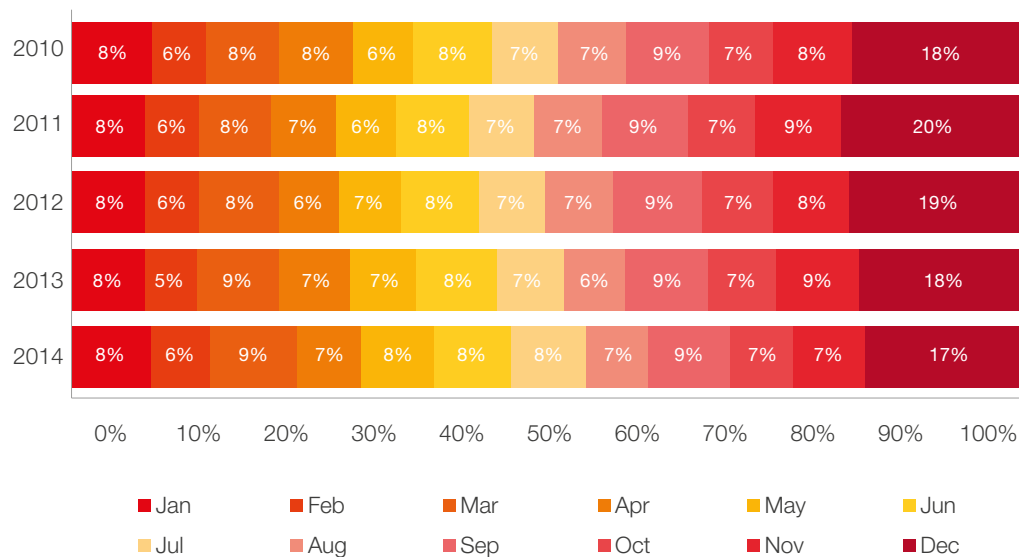
December still remains the critical month for the Video Entertainment market, generating 16% of 2014's volume sales, and 17% of the value.

One of the drivers for the change in seasonality was the strength of the TV Series category at the beginning of 2014. While the rest of the market declined by 9% in volume in quarter 1, 2014, TV Series grew by 12%.

GfK RETAIL TRACKING: MARKET SEASONALITY BY MONTH – VOLUME SHARES



GfK RETAIL TRACKING: MARKET SEASONALITY BY MONTH – VALUE SHARES

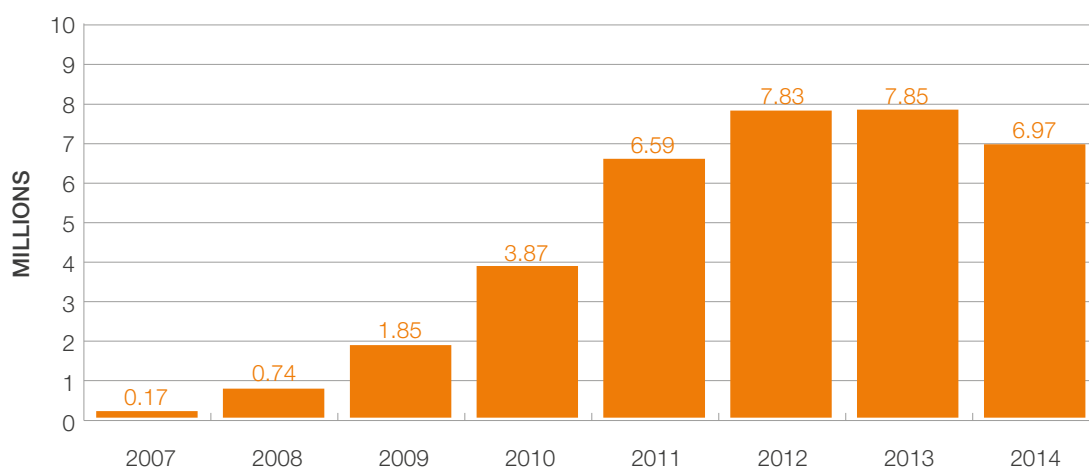


Format Trends

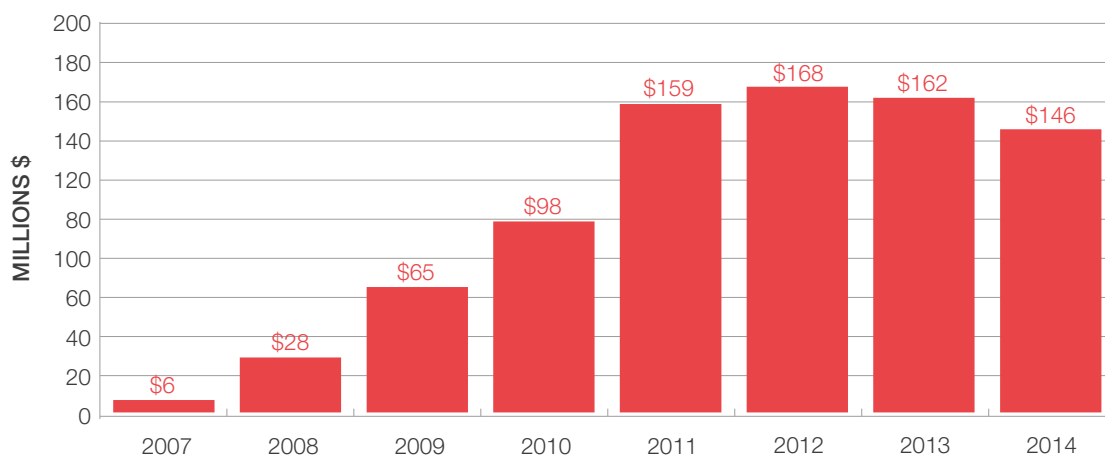
Blu-ray generated A\$146M in value in 2014, with nearly 7 million discs sold. 2014 was the first year in which the Blu-ray format registered a decline in volume — down 11% year-on-year. This was also the first time that the Blu-ray decline was equal to DVDs in both value and volume.

Blu-ray generated 16% of the market value and 14% of the market volume in 2014, reflecting the slightly higher price of the average Blu-ray disc. After the early development of the Blu-ray format, its share of the physical channel has remained stable for the past three years.

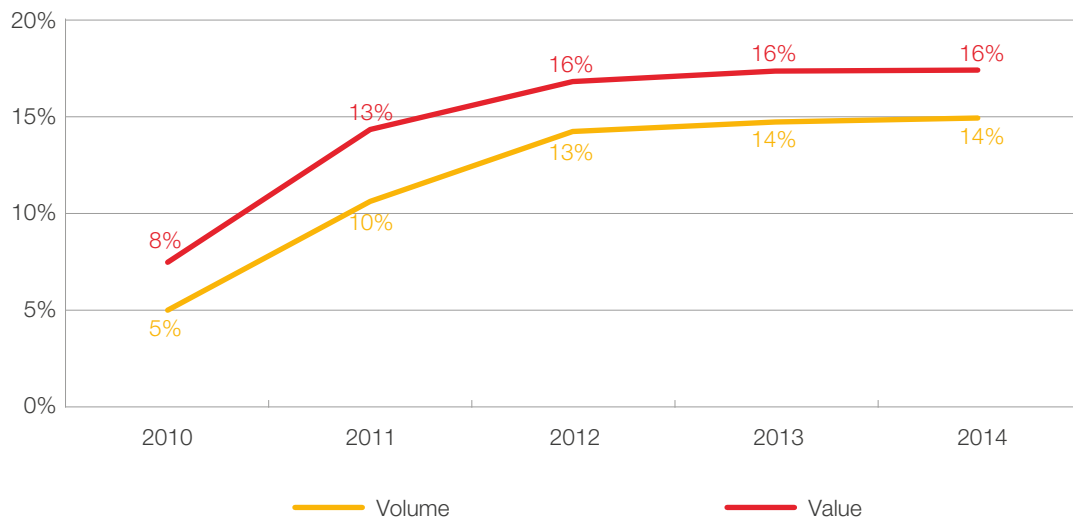
GfK RETAIL TRACKING: BLU-RAY VOLUME SALES (MILLIONS)



GfK RETAIL TRACKING: BLU-RAY VALUE SALES (MILLIONS)

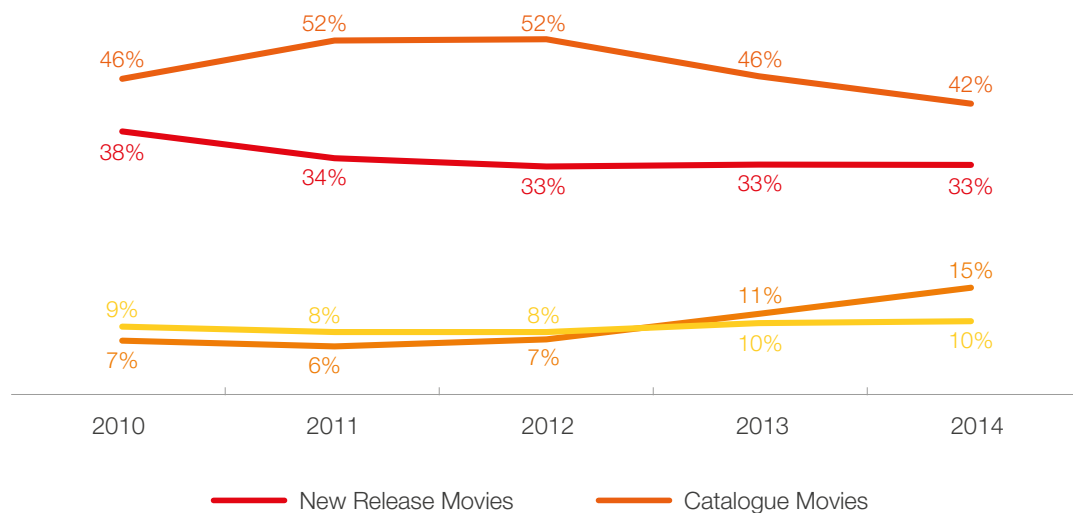


GfK RETAIL TRACKING: BLU-RAY PERCENTAGE OF MARKET



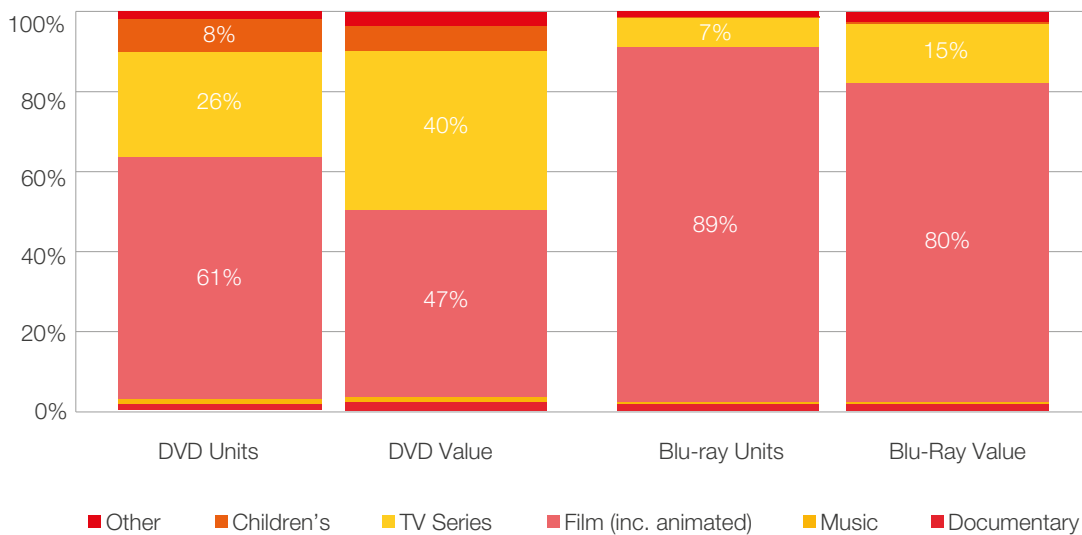
The decline of Blu-ray has been fuelled by the older catalogue movie titles. This segment had accounted for a significant portion of Blu-ray sales in previous years, but declined in share in 2014. In contrast, the TV Series category grew to represent 15% of all Blu-ray sales. This is still a low percentage of overall TV Series sales, but it reflects a steady growth in sales of TV Series on the Blu-ray format.

GfK RETAIL TRACKING: BLU-RAY SALES VALUE % BY TYPE



The titles purchased for Blu-ray are quite different to the usual mix for DVD. TV Series, though growing on Blu-ray, is still much stronger on the DVD format. Children's titles are also sold largely on DVD. Movie titles make up the majority of sales for Blu-ray, representing 80% of all Blu-ray sales in 2014.

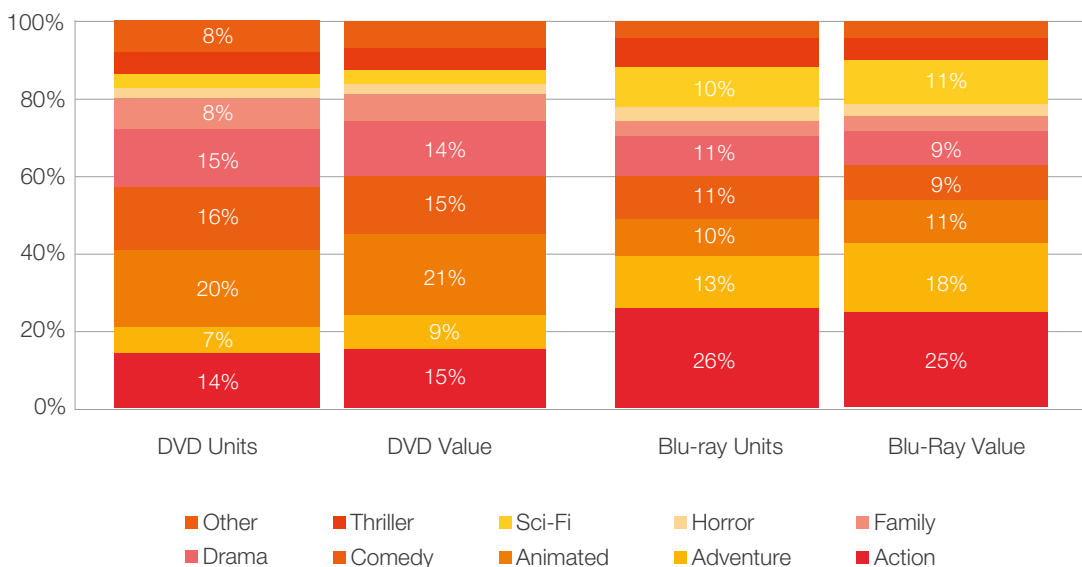
GfK RETAIL TRACKING: CATEGORY PERFORMANCE BY FORMAT — 2014 VALUE %



Films in the action, adventure and sci-fi genres all over-index for Blu-ray. These genres accounted for over half of all Blu-ray films sold in the past 12 months, compared to a quarter for DVDs.

The animation genre is particularly strong within DVD, with comedy and drama also showing a skew towards the format.

GfK RETAIL TRACKING: GENRE SHARES BY FORMAT



**GfK RETAIL TRACKING: TOP SELLING DVD TITLES, FULL YEAR 2014,
RANKED BY VOLUME**

	TITLE	DISTRIBUTOR	GENRE
1	FROZEN (2013)	WALT DISNEY STUDIOS	ANIMATED
2	THE LEGO MOVIE	ROADSHOW	ANIMATED
3	THE HUNGER GAMES: CATCHING FIRE	ROADSHOW	ACTION
4	HOBBIT THE DESOLATION OF SMAUG	WARNER BROS	ADVENTURE
5	GAME OF THRONES SEASON 3	WARNER BROS	TV – DRAMA
6	GUARDIANS OF THE GALAXY	WALT DISNEY STUDIOS	ADVENTURE
7	HOW TO TRAIN YOUR DRAGON 2	20TH CENTURY FOX	ANIMATED
8	THOR THE DARK WORLD	WALT DISNEY STUDIOS	ACTION
9	TRANSFORMERS AGE OF EXTINCTION	PARAMOUNT	SCI-FI
10	GAME OF THRONES SEASON 2	WARNER BROS	TV – DRAMA

**GfK RETAIL TRACKING: TOP SELLING BLU-RAY TITLES, FULL YEAR 2014,
RANKED BY VOLUME**

	TITLE	DISTRIBUTOR	GENRE
1	HOBBIT THE DESOLATION OF SMAUG	WARNER BROS	ADVENTURE
2	FROZEN (2013)	WALT DISNEY STUDIOS	ANIMATED
3	THE HUNGER GAMES: CATCHING FIRE	ROADSHOW	ACTION
4	GUARDIANS OF THE GALAXY	WALT DISNEY STUDIOS	ADVENTURE
5	GRAVITY (2013)	WARNER BROS	SCI-FI
6	THE LEGO MOVIE	ROADSHOW	ANIMATED
7	THOR THE DARK WORLD	WALT DISNEY STUDIOS	ACTION
8	CAPTAIN AMERICA THE WINTER SOLDIER	WALT DISNEY STUDIOS	ADVENTURE
9	GAME OF THRONES SEASON 3	WARNER BROS	TV – DRAMA
10	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	ADVENTURE

Sales of 3D titles are also included within Blu-ray. 3D accounts for 10% of Blu-ray sales units, but just 1% of the total market. There were over 710,000 3D units sold, with the majority of sales in the live action movie category. Interestingly, 3D sales in that live action movie category increased by 1% on the previous year, while all other 3D categories decreased by 23%.

GfK RETAIL TRACKING: TOP SELLING 3D BLU-RAY TITLES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	HOBBIT THE DESOLATION OF SMAUG	WARNER BROS	ADVENTURE
2	GRAVITY (2013)	WARNER BROS	SCI-FI
3	AVATAR (2009)	20TH CENTURY FOX	SCI-FI
4	FROZEN (2013)	WALT DISNEY STUDIOS	ANIMATED
5	EDGE OF TOMORROW	ROADSHOW	ACTION
6	GUARDIANS OF THE GALAXY	WALT DISNEY STUDIOS	ADVENTURE
7	GREAT GATSBY (2013)	ROADSHOW	DRAMA
8	JURASSIC PARK	UNIVERSAL	ADVENTURE
9	THOR THE DARK WORLD	WALT DISNEY STUDIOS	ACTION
10	CAPTAIN AMERICA THE WINTER SOLDIER	WALT DISNEY STUDIOS	ADVENTURE

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After free to air TV,
consumption of
physical discs
remains the
most prevalent
form of home
entertainment.

Consumer behaviour



The data for this chapter is taken primarily from the GfK ConsumerScope survey, an online syndicated survey into video entertainment. The survey is conducted continuously throughout the year amongst approximately 6,000 Australians aged 14 to 65 years per quarter.

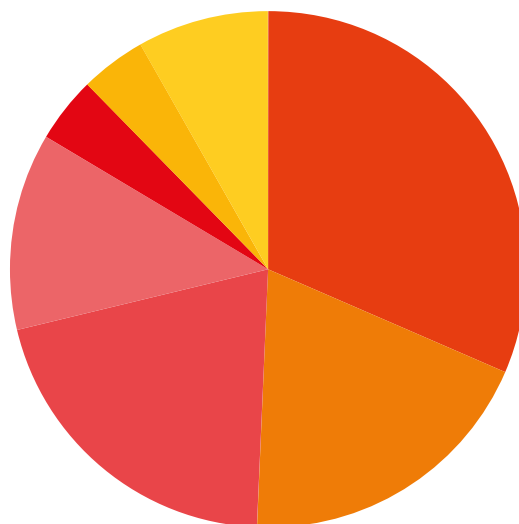
Home entertainment consumption trends

Evolution of the home entertainment market has been gaining pace across multiple dimensions: content; formats; screens; and devices used. In particular, paid digital is gaining traction, assisted in part by easier access to viewing on the TV screen (e.g. using Chromecast, Apple TV and Smart TV apps), an increase in viewing on mobile devices¹ and the growth of subscription video on demand (SVOD). The 2015 Australian launch of big subscription video on demand (SVOD) services (Presto re-launch, Stan and Netflix) is likely to have a significant impact on the home entertainment industry in Australia.

Overall, the home entertainment market is growing, with an increasing number of titles bought/acquired per month per person across all formats (to 7.2 titles per month).

¹ For more detail on hardware and devices used in home entertainment, see GfK's chapter on hardware trends.

GfK CONSUMERSCOPE: AVERAGE NUMBER OF TITLES BOUGHT/ACQUIRED IN LAST MONTH BY FORMAT



■ Direct piracy 2.3 ■ Indirect piracy 1.4 ■ Disc purchase 1.5 ■ Disc rental 0.9 ■ EST 0.3 ■ VOD 0.3 ■ SVOD 0.6

Source: GfK ConsumerScope (Q2'2014)

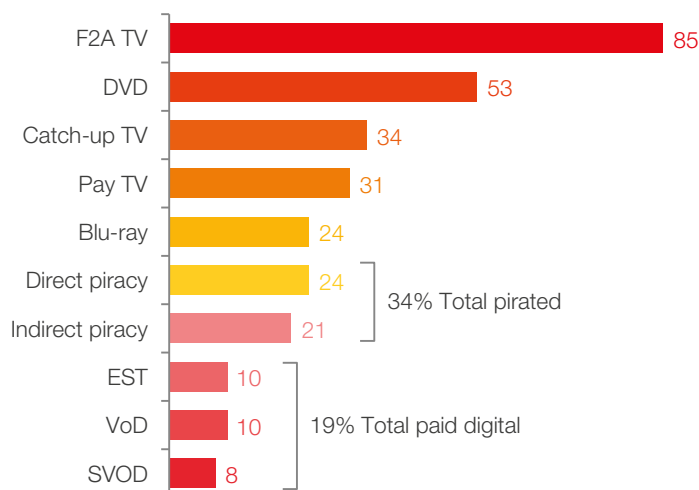
Base: Total sample aged 14–65 years (n=6,310)

Note that direct piracy refers to pirated content that is downloaded/streamed directly from the internet. Indirect piracy refers to pirated content that has been copied from others (e.g. via USB, hard drive). VOD = paid video on demand/digital rental. EST= electronic sell through (a digital purchase to keep).

Physical discs are still a very important format in the home entertainment market. After free to air TV, consumption of physical discs remains the most prevalent form of home entertainment, with 57% of the population (aged 14–65 years) having watched a DVD or Blu-ray disc in the past month.

Nonetheless, digital home entertainment is very significant in the home entertainment market. Almost three in five (58%) Australians have consumed digital home entertainment in the past month. Unfortunately, the majority of digital content consumed was free, in the form of piracy or catch-up TV, each consumed monthly by 1/3 of the population. While only 19% of the population paid for digital content (EST, VOD or SVOD) in the past month, this proportion is likely to increase substantially in 2015 with the entrance of new SVOD providers into the Australian market.

GfK CONSUMERSCOPE: LAST MONTH CONSUMPTION (%)

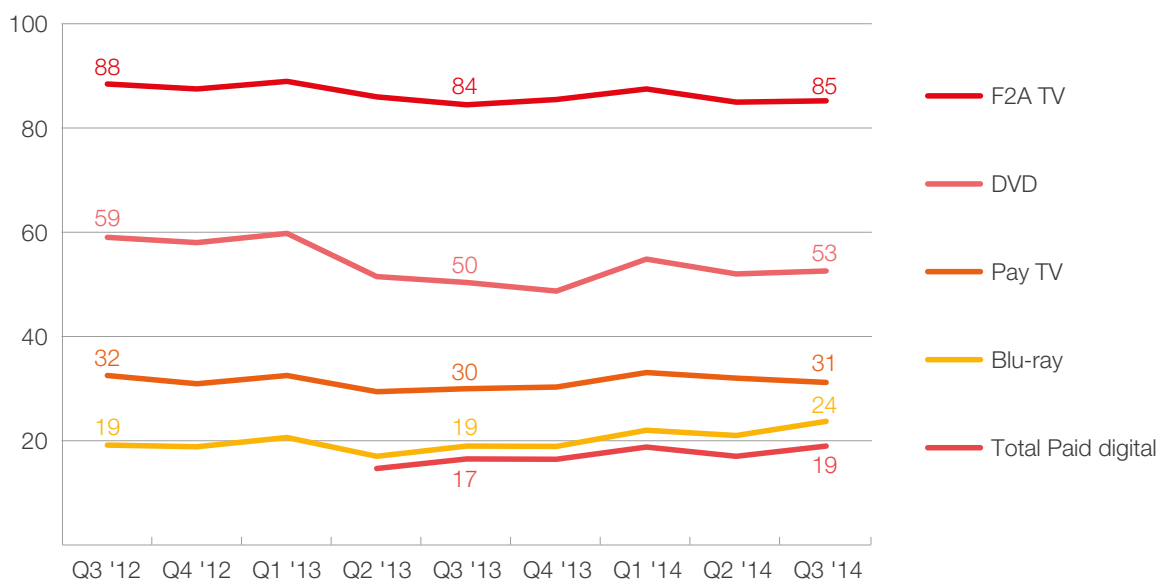


Source: GfK ConsumerScope (Q3'2014)

Base: Total sample aged 14–65 years (n=6,539)

The incidence of watching free to air TV and DVDs in the past month has significantly decreased over the past two years, while the incidence of Blu-ray disc viewing has increased.

GfK CONSUMERSCOPE: LAST MONTH CONSUMPTION OVER TIME

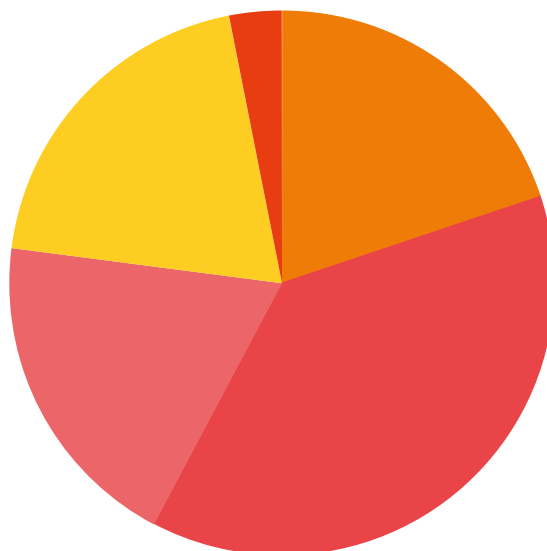


Source: GfK ConsumerScope (n=approx. 6,000 per quarter)

Base: Total sample aged 14–65 years *SVOD was only added in the survey in Q2'14.

Although the majority of the population have consumed a physical disc in the past month (57%), it is increasingly clear that consumers rarely rely on just one form of media. They choose the delivery type based on available content, level of involvement, price and ease of access. The largest segment of consumers still watches both discs and digital, however, the majority of digital consumption is free (catch-up TV/piracy).

GfK CONSUMERSCOPE: SUMMARY FORMAT CONSUMPTION IN PAST MONTH



■ Digital only 20% ■ Digital and discs 38% ■ Discs only 19% ■ TV only 20% ■ None 3%

Source: GfK ConsumerScope (Year End Q3'2014) Which of the following have you watched in the last month?

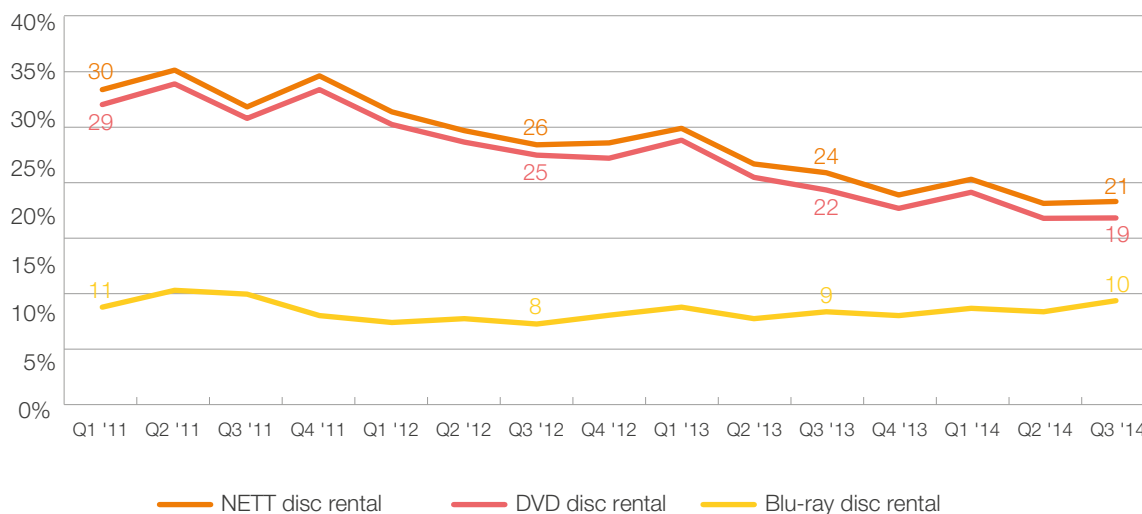
Base: Total sample aged 14–65 years

Note: total digital includes EST, VOD, SVOD, piracy (excl. copied pirated content) and CUTV – Paid digital includes EST/VOD/SVOD

Disc rental

Disc rental is in decline. Over the past three years, the proportion of the population renting discs has declined from 30% per month to 21% per month. This decline in rental has been driven by DVD rental, while Blu-ray disc rental is holding its own.

GfK CONSUMERSCOPE: INCIDENCE OF PAST MONTH DISC RENTAL



— NETT disc rental — DVD disc rental — Blu-ray disc rental

Source: GfK ConsumerScope (n=approx. 6,000 per quarter)

Base: Total sample aged 14–65 years

Not only are fewer people renting discs, but those who are still in the physical rental market are renting fewer discs per month than they used to. However, there are still some opportunities in the disc rental sector: while rental stores continue to hold the majority of the disc rental market, they are in decline (69%, down from 85% in quarter 3, 2011), and rental kiosks are increasing in share (17%, up from 4% in quarter 3, 2011).

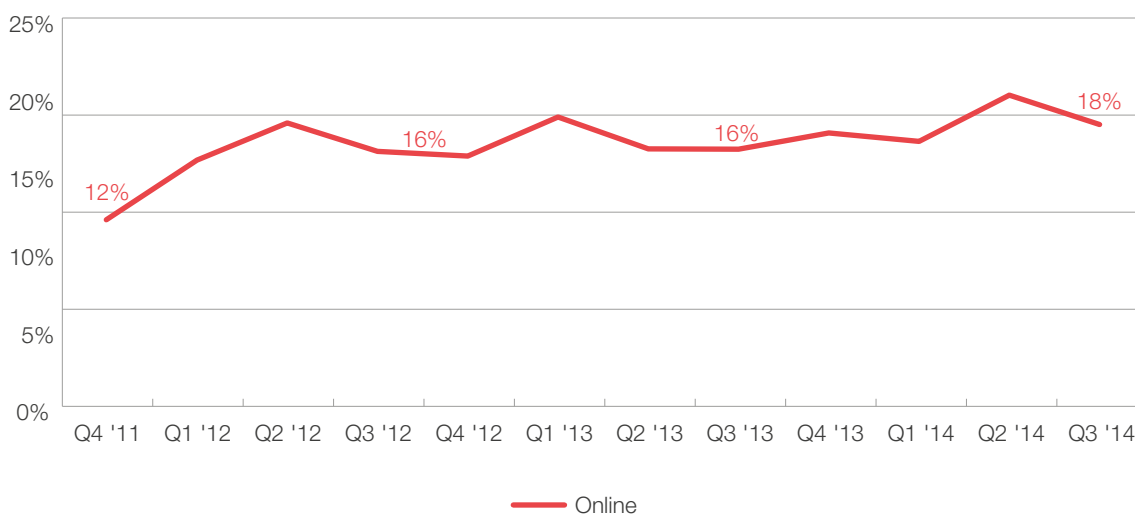
Lapsed renters of discs do not leave the home entertainment market altogether. Instead, they are most likely to substitute disc rental with watching purchased discs or pay TV. Since average disc prices have declined (particularly for new release titles), for some, disc purchase may now be perceived as representing a better value for money proposition than renting.

The online purchase of physical discs is an opportunity

In Australia and globally, online shopping is strengthening across most categories. In Australia, between 2009 and 2013 there has been a 32% increase in online spending (from A\$7 billion to A\$9.2 billion).²

In the home entertainment category specifically, not only can content be consumed digitally but physical content can be purchased digitally. This is a growing opportunity. While the majority of discs continue to be purchased in-store, over the past three years online purchase of discs has increased in share, and now almost one in five physical disc purchases are made online.

GfK CONSUMERSCOPE: ONLINE CHANNEL VOLUME SHARE (DVD/BLU-RAY DISCS)



Base: Purchased discs in the last month (approx. sample size 1,600 per quarter).

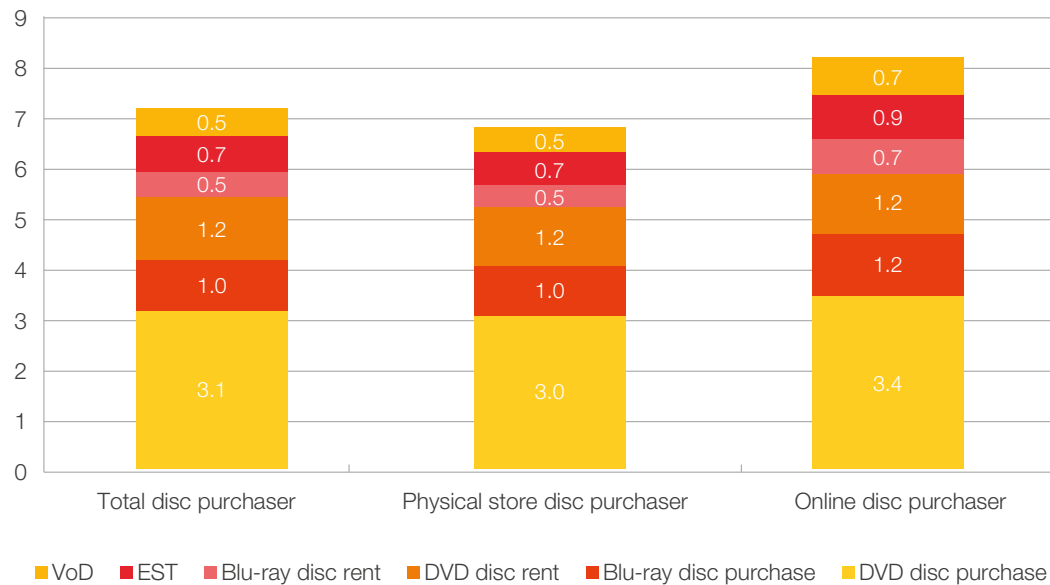
Source: GfK ConsumerScope Which of these best describes that purchase?

Many Australians were introduced to the concept of buying discs online by Amazon (UK and/or US): motivated by the free shipping offers to Australia from the UK, and the strong exchange rates. Now that the free shipping offers are uncommon, and the exchange rate is much less advantageous, the purchase of discs online from Australian physical disc suppliers is steadily growing.

Online disc purchasers are very valuable home entertainment customers. They purchase more discs than in-store disc purchasers and are more involved with all forms of home entertainment, particularly online formats (piracy, EST, SVOD). These consumers feel comfortable with the online environment, and their demographic profile is also similar to purchasers of digital content; males aged 18–54.

² 'Household use of information technology 2012–2013', Australian Bureau of Statistics (ABS), 25 Feb 2013

GfK CONSUMERSCOPE: NUMBER OF TITLES PURCHASED



Base: Purchased disc in the last month (n=6,457)

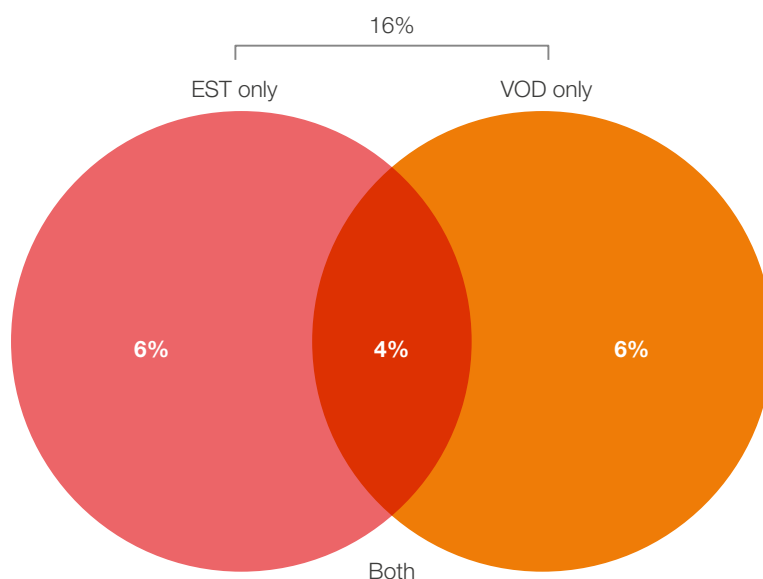
Source: GfK ConsumerScope (Q3'2014) How many titles have you personally...? Which of these best describes that purchase?

Given the growth of online shopping, the low shipping costs of DVDs, and the high value of online disc purchasers, it is important that retailers have a strong online offering for physical discs. Online disc sales presents a growing opportunity for Australian retailers who offer the right mix of price, range (movies and TV), easy to use platform, search functionality (as most on-line purchases are planned), and delivery options.

VOD and EST

Incidence in the population of those who consume paid video on demand/digital rental (VOD) and electronic sell through (EST— e.g. a digital purchase to keep) is now equal, with 10% having consumed each of these formats in the past month. Interestingly, they are two different target markets with little cross-over. While 16% have consumed EST or VOD in the past month, only one quarter of these (4% of total) have consumed both. Part of the reason for these two separate markets is that Foxtel, the key supplier of VOD, doesn't offer EST.

GfK CONSUMERSCOPE: CONSUMPTION OF EST AND VOD



Base: Total sample (n=6,310)

Source: GfK ConsumerScope (Q3'2014)

GfK Consumerscope data shows that the main reason to rent digitally rather than purchase EST, is that VOD consumers are unsure if they would want to watch the title again until they have seen it. Other barriers to EST purchase include the higher cost of EST and limited digital storage. Conversely, the main motivations for EST buyers to digitally purchase rather than rent, is that they want to re-watch the movie, that it is good value for money, and that they like to have a collection.

While physical still dominates the paid home entertainment market, digital is becoming more important. GfK Consumerscope has found that the key barriers to a shift to digital includes the perception that VOD/EST is comparatively expensive; that for some, accessing digital content on the TV is difficult³; and that many like to have a physical collection⁴.

Catch-up TV

Australian free-to-air TV broadcasters have been utilising internet based catch-up TV services for over five years with great success. Monthly consumption of catch-up TV has grown significantly from 18% of the population in quarter 2, 2011, to 34% of the population in quarter 3, 2014, even surpassing the number of people accessing Pay TV (31%).

Catch-up TV has been a very good way of introducing digital home entertainment to the population. One main difference between catch-up TV and other digitally acquired media is how it's consumed. Whereas EST, VOD and even pirated content is watched primarily on a TV, the majority of catch-up TV is watched on a PC, and is most often watched in solitude.

³ However, the introduction of media players such as Google Chromecast and Apple TV and apps on internet connected devices is increasing ease of access. For more detail on developments in TV hardware, media players and devices, see the Hardware chapter.

⁴ Having a physical collection was the reason for not buying EST for 61% of past month disc buyers.

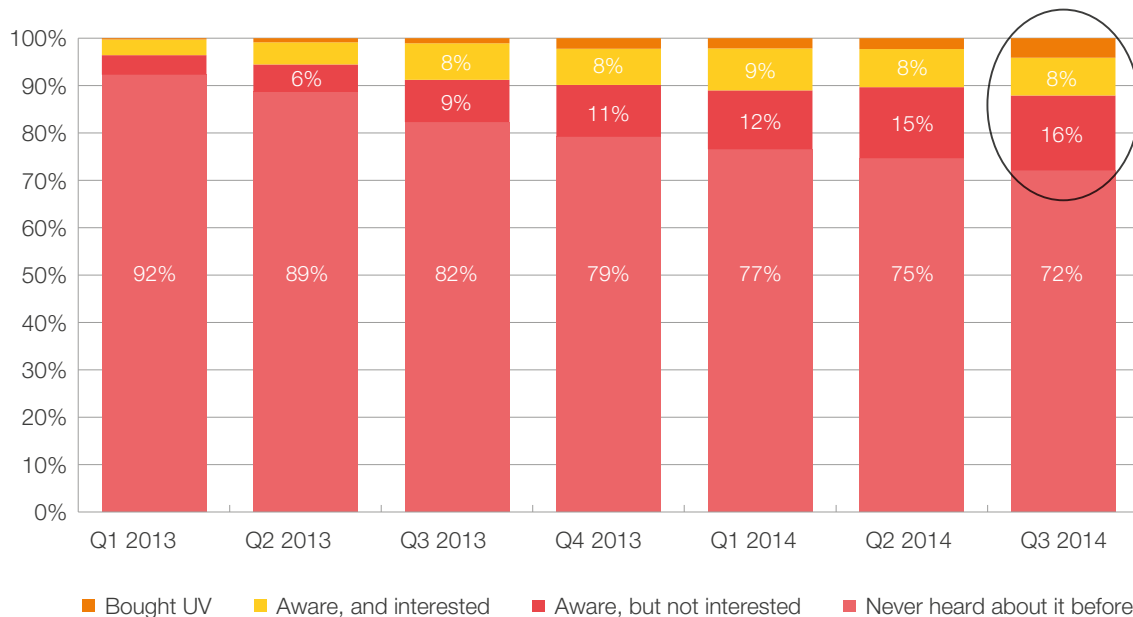
Ultra Violet (UV)

Ultra Violet (UV) was launched in Australia in May 2013. It is a digital copy of a title that is included with some physical discs, primarily Blu-ray combo packs. Consumers are provided with a code to access the movie and add it to their digital collection for streaming to different devices such as their PC, smartphone or tablet.

UV was introduced to add value to the physical disc purchase, and to act as a bridge between the physical and digital markets.

Awareness, interest, and purchase of UV among Australians is slowly growing from a low base, with 28% aware of UV, 12% interested in UV, and 4% aware that they have ever bought video content containing UV.

GfK CONSUMERSCOPE: ATTITUDES TOWARDS ULTRAVIOLET



Base: Total sample (approx. n=6,000 per quarter)

Source: GfK ConsumerScope (Q3'2014) Thinking about the UltraViolet concept shown below, which of the following best describes you before today?

GfK ConsumerScope data shows that the opportunity (awareness, consideration and purchase) for UV is greatest amongst young males, specifically those aged 25–34 years, those who already purchase VOD and/or EST, and Blu-ray purchasers/renters. The increased appeal to these groups makes sense because those who already purchase VOD/EST are familiar with the digital format, and Blu-ray purchasers and renters are being reached via Blu-ray combo packs and are therefore more aware of UV.

Pirates and DVD consumers are the least likely to be interested in UV. This is likely to be because pirates have little need to buy a tangible disc to access the digital copy — they can simply get the digital copy for free. DVD consumers are less likely to be exposed to combo packs, and thus UV.

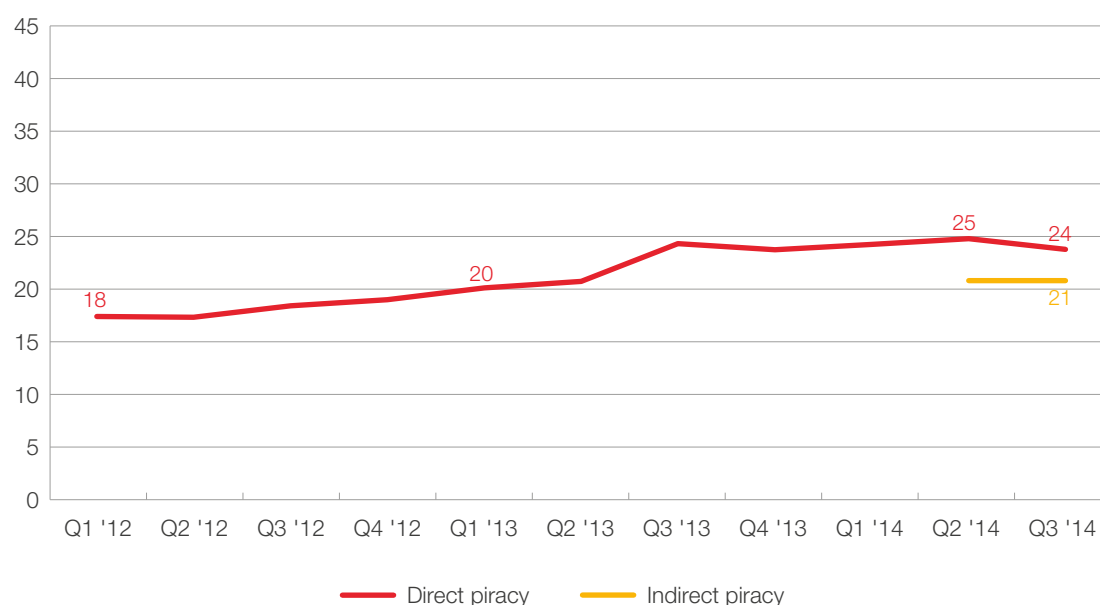
Piracy

Piracy is a very common source of home entertainment acquisition in Australia. Piracy of video entertainment takes two forms: direct piracy where pirates download/stream content directly from the internet; and indirect piracy where consumers obtain copied pirated content from others (e.g. via USB, or hard drive).

The GfK Consumerscope data shows that one in three Australians aged 14–65 years pirate (directly or indirectly) and it accounts for half (48%) of home entertainment (excluding free-to-air and pay TV) acquisition volume.

The incidence of direct piracy has stabilised at 24% of the population. In addition, 21% are copying pirated content from others (indirect piracy). A total of one third of the population acquired any type of pirated content in the past month.⁵

GfK CONSUMERSCOPE: LAST MONTH PIRACY INCIDENCE



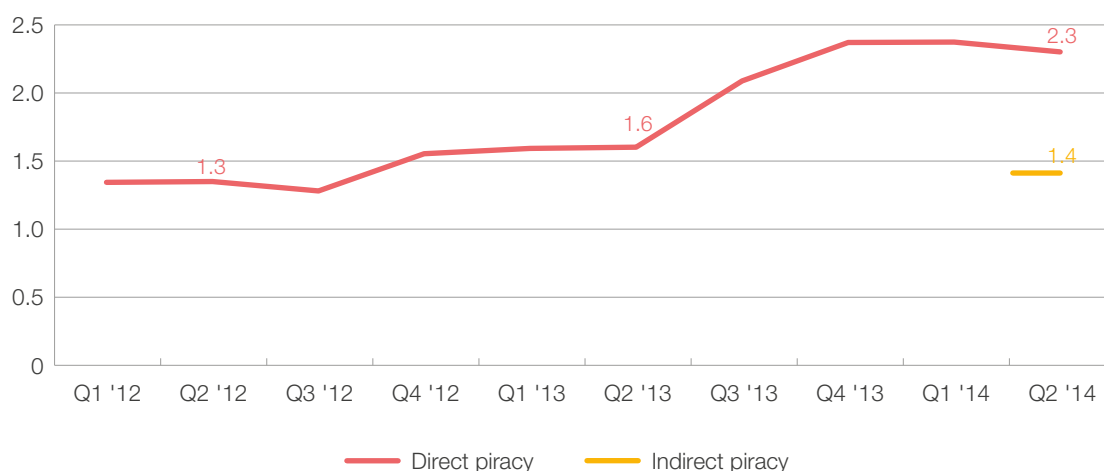
Base: Total sample (n=approx.. 6,000 per quarter)

Source: GfK ConsumerScope Thinking about the last month How many titles have you personally...pirated from the internet / copied titles from someone else (e.g. via USB, hard drive) (shared pirated content)?

While direct piracy volume has shown a steady increase over time to 2.3 titles per person per month, in the past six months piracy volume has stabilised at this level.

⁵ These figures are quite similar to the June 2014 research commissioned by the IP Awareness Foundation "Exploring online piracy behaviour and attitudes amongst Australian adults" where 29% of Australians aged 18–64 downloaded or streamed pirated content at least once a month. The research did not measure indirect piracy.

GfK CONSUMERSCOPE: NO. OF TITLES ACQUIRED IN THE PAST MONTH (VOLUME)



Base: Total sample (n=approx.. 6,000 per quarter)

Source: GfK ConsumerScope Thinking about the last month How many titles have you personally...pirated from the internet / copied titles from someone else (e.g. via USB, hard drive) (shared pirated content)?

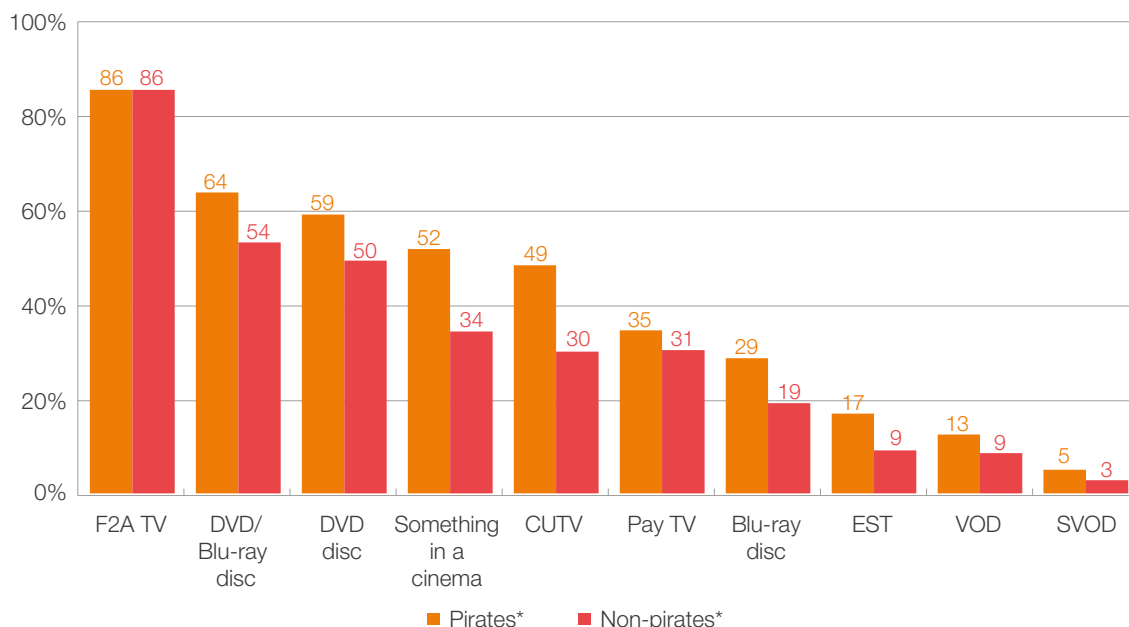
Who is most likely to pirate home entertainment?

In the case of both direct and indirect piracy, the perpetrators are most likely to be males aged 18–34 and females aged 14–34. The indirect pirates are slightly older than the direct pirates.

The good news is that pirates consume home entertainment in a wide range of formats. In fact, they are more heavily involved than non-pirates in all forms of video entertainment (with the exception of free-to-air TV), and are spending more on home entertainment than those who don't pirate. In particular, they are much more likely to be going to the cinema and are more likely to be paying for digital titles (EST, VOD and SVOD).⁶ For example, significantly more pirates (17%) than non-pirates watched EST in the past month.

⁶ The fact that pirates are more involved in digital paid home entertainment than non-pirates was also found in June 2014 research commissioned by the IP Awareness Foundation "Exploring online piracy behaviour and attitudes amongst Australian adults".

GfK CONSUMERSCOPE: LAST MONTH USE OF FORMAT – PIRATES VS. NON-PIRATES



Base: Total sample (n=approx.. 6,000 per quarter)

Source: GfK ConsumerScope (Year End Q3'2014)

*Note that "Pirates" in this chart refer to direct pirates and "Non-pirates" refer to everyone other than direct pirates.

While price is clearly one of the motivating factors for piracy, it is not the only reason for pirating. Ease of access (to content and screening of content on the TV) and early availability of content are also key reasons for piracy. One of the challenges in tackling piracy of TV series is the window between overseas and local release dates. Australians expect to access content at the same time as the rest of the world, particularly with the growth in social media and the high probability of spoilers. The industry has been making an effort to shortening the windows for both TV and paid content which should assist in reducing the motivations for piracy.

We would expect to see some decline in piracy once good quality SVOD services at a reasonable price are taken up, in a similar way to music piracy when music streaming subscriptions such as Spotify and Pandora were introduced. The future introduction of Australia's voluntary Internet Service Provider (ISP) industry code on piracy and site blocking may also help to stem video piracy.

About GfK

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Two key barriers
for out-of-home
viewing are the
infrastructure
and the limited
data caps we
have available
in Australia....
However, there
has been
progress



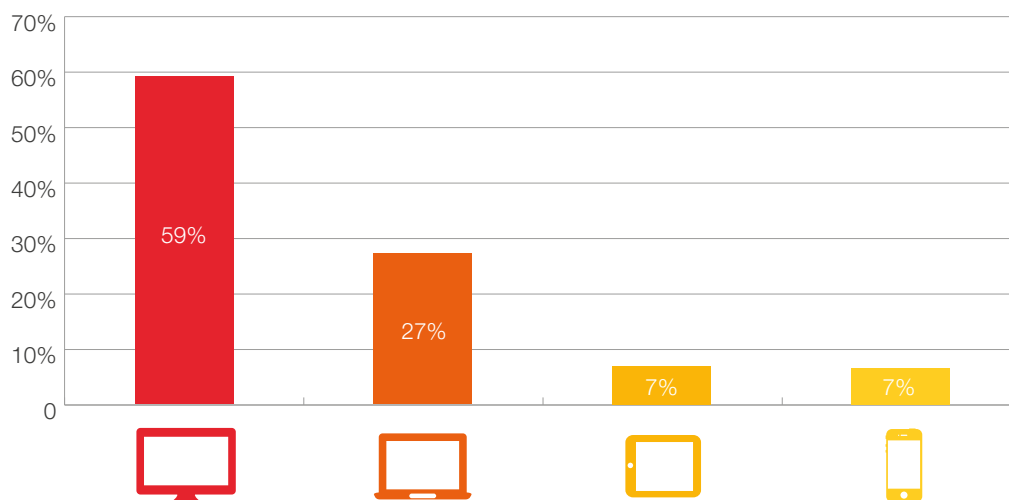
Hardware trends

5

Devices, and Emerging Viewing Patterns

TVs are the key device for video entertainment and act as a hub for many different types of devices. Nearly 60% of our time spent watching video entertainment is on the TV, followed by PCs at 27% and mobile devices (smartphones and tablets) at 14%.¹

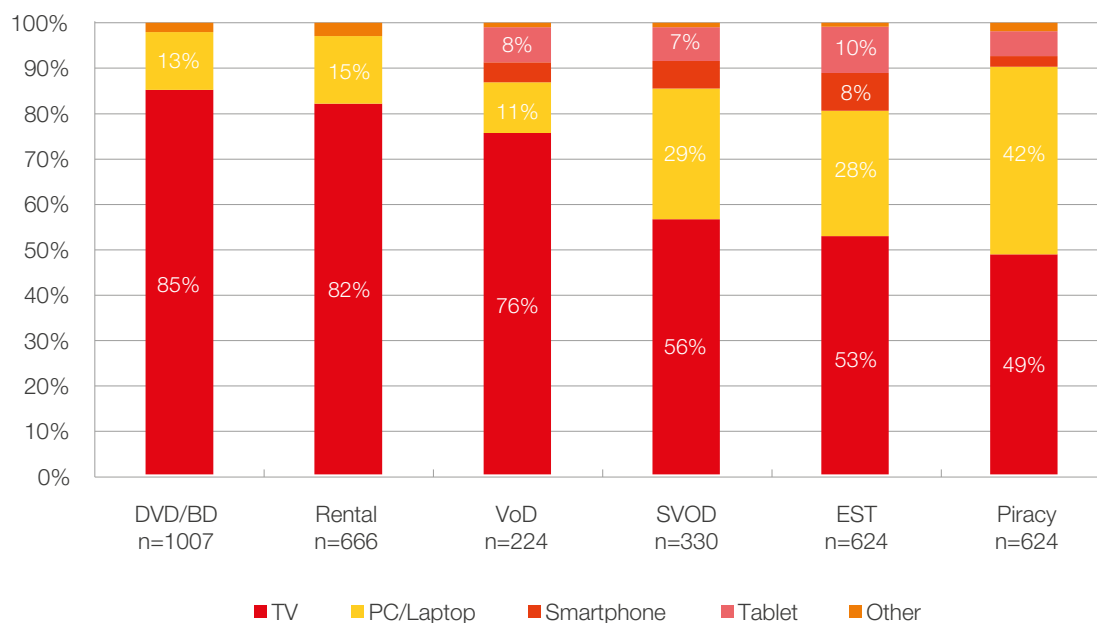
GfK CONSUMERSCOPE: DEVICE CONTENT WATCHED ON IN Q3 2014 (%). N = 6,539



The device used depends heavily upon the type of content that is being consumed. Physical discs are watched mainly on the TV, while the new emerging digital platforms are more varied and have a higher proportion of content watched on a mobile device. For piracy, PCs are highly represented, reflecting the source of the content.

¹ GfK ConsumerScope, Device content watched on (% of time watched on these devices), Q3 2014, N=6539

GfK CONSUMERSCOPE: DISPLAY USED — COMPARISON ACROSS PLATFORMS Q3 2014

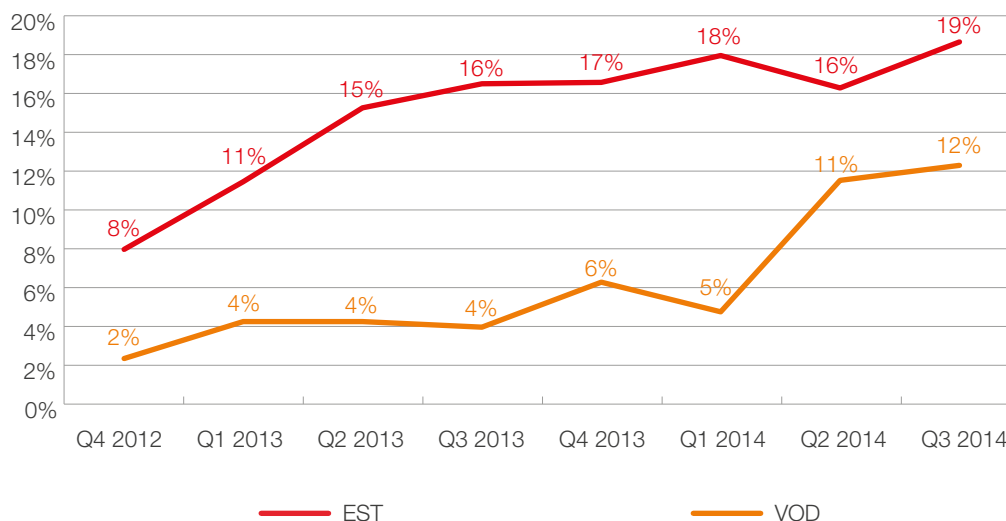


Mobile Devices, not Mobile Viewing

The amount of content watched on mobile devices has been growing over time. This is led mainly by the digital formats. Paid digital downloads (EST – Electronic Sell Through) and On Demand (VOD and subscription VOD) have both seen an increase in content watched on a mobile device.

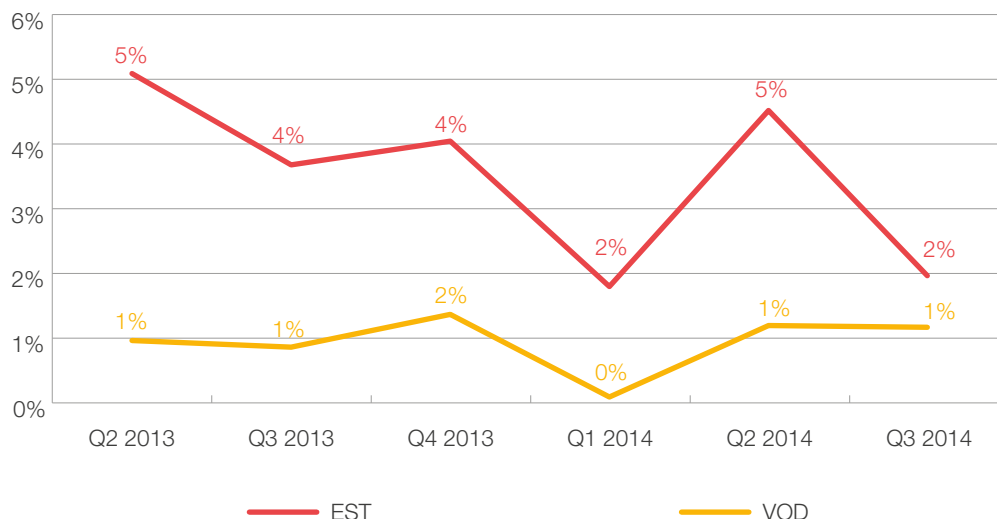
In Q3 2014, 19% of EST and 12% of VOD content was watched on a mobile device². One key thing to note though is that even though this content was watched on a mobile device, most of it was still watched inside the home.

GfK CONSUMERSCOPE: MOBILE DEVICES % OF EST AND VOD

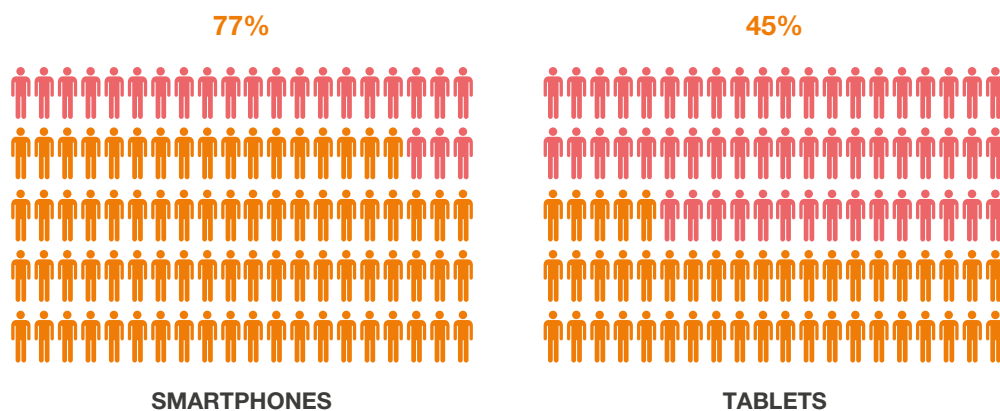


² GfK ConsumerScope, What did you use as a display to watch the EST/VOD copy? N=489

GfK CONSUMERSCOPE: OUT-OF-HOME VIEWING % OF EST AND VOD



Out-of-home viewing remains a challenge, though there are factors that may help lead to change in this area. Firstly, Australia has a high penetration of both smartphones and tablets. 77% of people own a smartphone, whilst 45% of people have a tablet³.



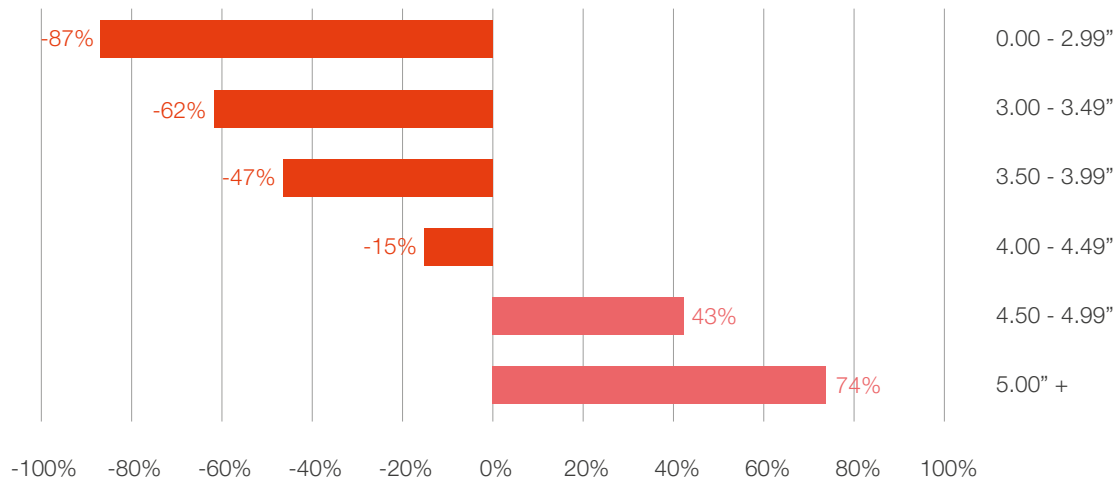
Source: GfK ConsumerScope: Mobile devices penetration

This means that most Australian consumers have the necessary devices to watch content out-of-home. Secondly, smartphones are getting bigger. The sales for smartphones with screens larger than 5 inches grew by 74% in 2014, and represented nearly a third of all smartphone sales during that time⁴.

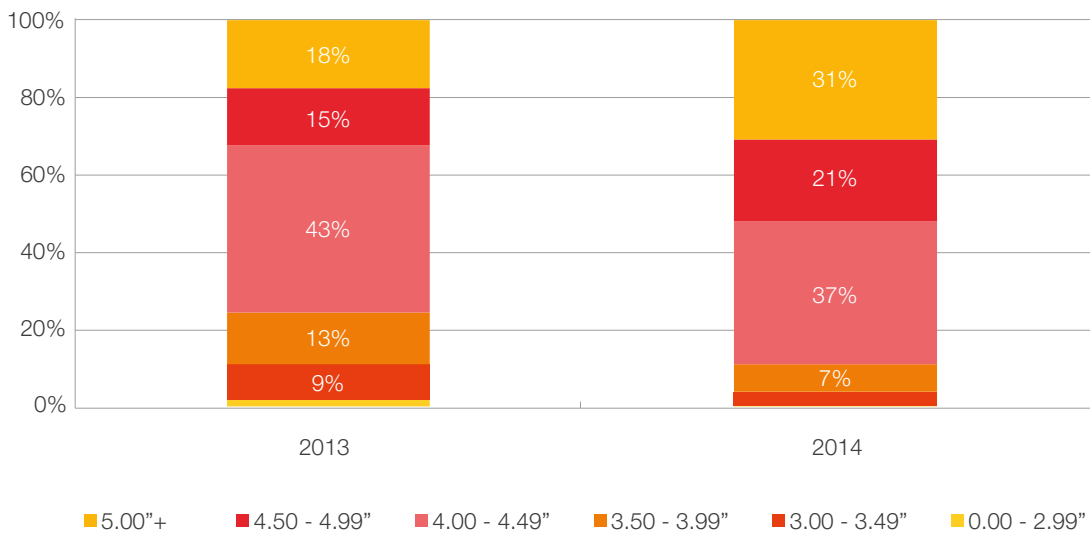
³ GfK ConsumerScope Screener H2 2013 (14–69 year old) – n: 8,270

⁴ GfK Retail Tracking. Smartphone units by display size (excludes commercial, direct, grocery channels)

SMARTPHONES: % CHANGE BY SCREEN SIZE



SMARTPHONES: SCREEN SIZE BY YEAR

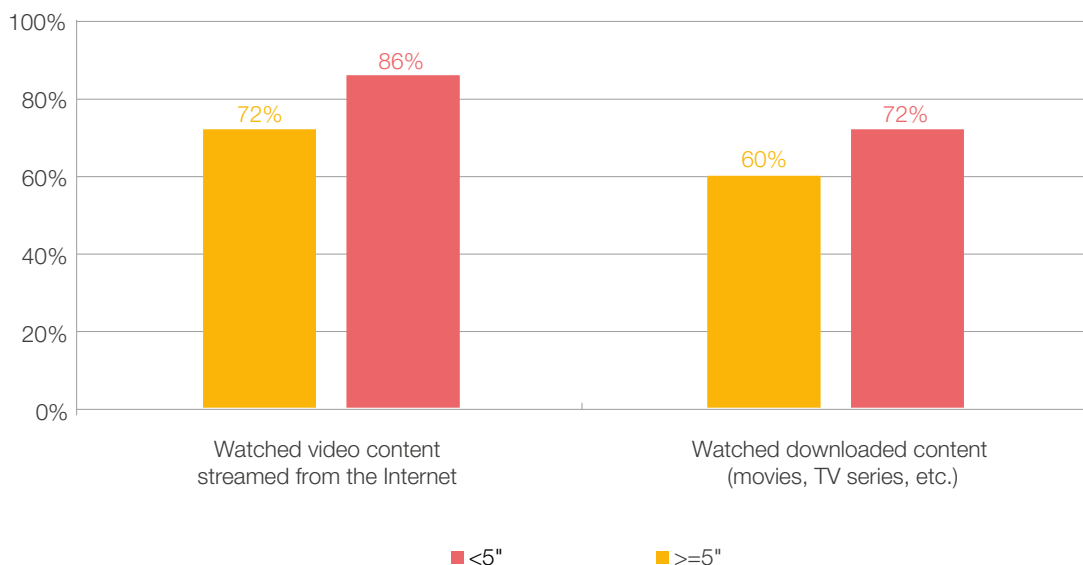


Source: GfK Retail Tracking – Smartphones by Screen size

The bigger a smartphone, the more likely we are to watch video content on it. 86% of consumers who had a phone with a screen size of 5" or larger streamed video content from the internet (with YouTube being a significant portion of that) and they also watched more downloaded content than those with smaller phones⁵.

⁵ GfK Smartphone ConsumerScope: What have you done in the last month on your phone? H2 2013. N=1308

GfK CONSUMERSCOPE: WHAT HAVE YOU DONE IN THE LAST MONTH ON YOUR PHONE?



Two key barriers for out-of-home viewing are the infrastructure and the limited data caps we have available in Australia compared to other countries, such as the UK. However, there has been progress in this regard. Network service providers now have bigger data plans available, as well as initiatives such as data sharing, to help alleviate consumer concerns regarding excessive use of data. The faster 700 Mhz 4GX service has also been launched in Australia, so that consumers can now have more data, and faster delivery; 2 key factors that influence out-of-home viewing.

Players — DVD, Blu-ray and Digital Media

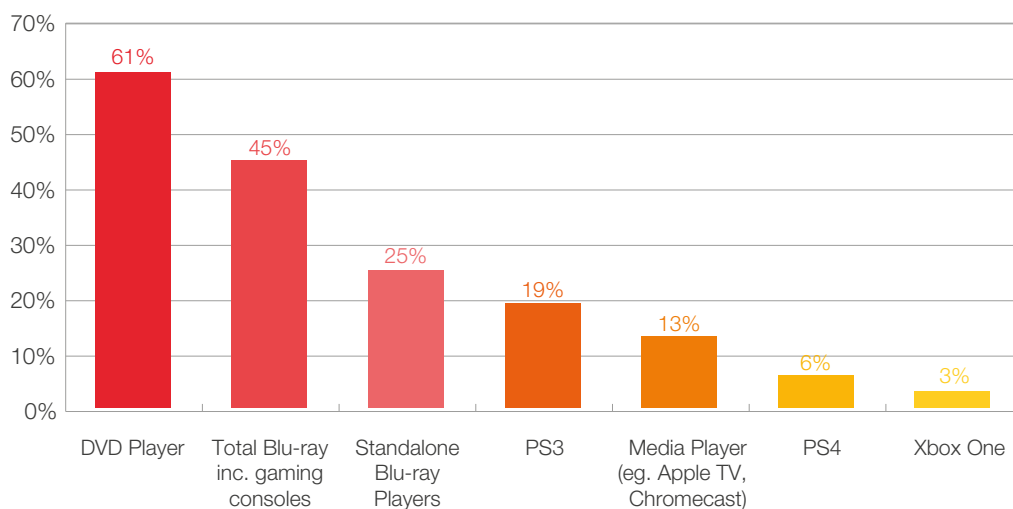
There are many different types of devices that play video content, ranging from DVD players, to gaming consoles and Apple TV.

DVD players are still well represented in homes, with 61% of Australian households having a stand-alone DVD player⁶. Blu-ray players are not far behind, especially when gaming consoles with integrated Blu-ray are factored in. A big shift in this area was the PS4 and Xbox One, at the end of 2013. The Xbox One was the first of its kind to have Blu-ray capability. It is, however, worth noting that the overall penetration of Blu-ray devices did not greatly increase with these launches, indicating that a lot of these new consoles replaced earlier console iterations.

The Chromecast also launched in 2014 and, along with Apple TV, account for the majority of media player sales.

⁶ GfK ConsumerScope: Which of the following equipment do you have at home? Q3 2014 – N: 6539

GfK CONSUMERSCOPE: WHICH OF THE FOLLOWING EQUIPMENT DO YOU HAVE AT HOME? Q3 2014 – N: 6,539

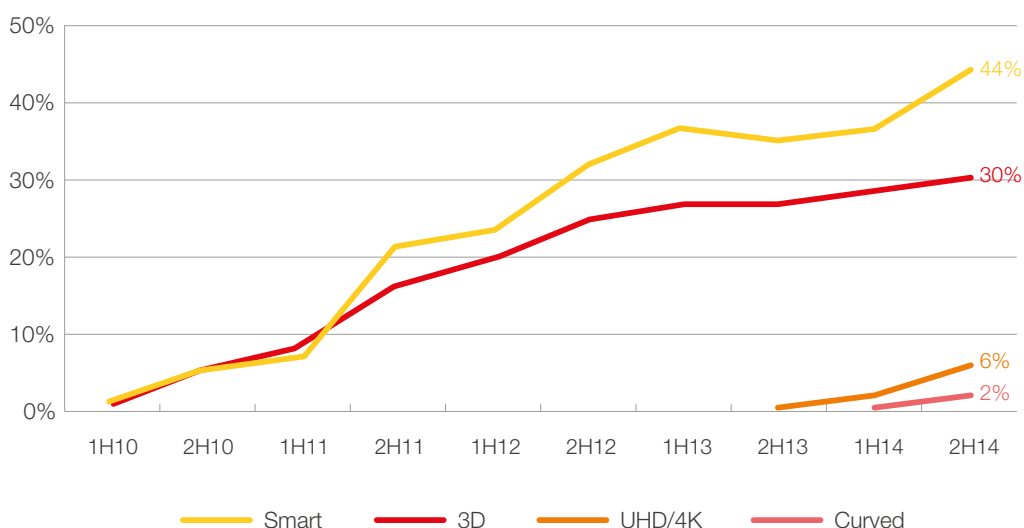


TVs – Smarter and Clearer

As shown earlier, the TV is still the main device used for watching video entertainment content. New features, such as curved TVs and ultra-high definition (UHD), have helped drive innovation in this mature market.

Smart functionality is a key feature, with 44% of all TVs sold in the second half of 2014 having the capability to access the internet and use apps⁷. Just under a third had 3D functionality, while the newer UHD and Curved features accounted for 6% and 2% respectively of volumes sold.

GfK CONSUMERSCOPE – NUMBER OF TITLES WATCHED %



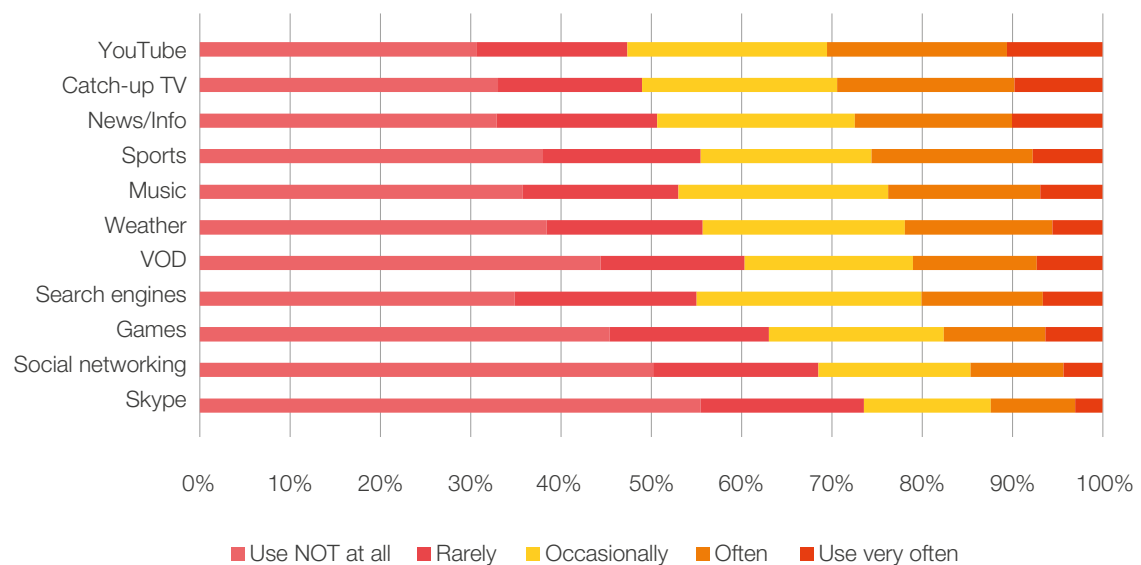
⁷ GfK Retail Tracking. TV units by feature (excludes commercial, direct, grocery channels)

Smart TVs and UHD are both of particular relevance to video entertainment as they offer new ways for consumers to access content. Catch-up TV apps are among the most used on Smart TVs and users rate the experience positively when compared to other TV features.

GfK TV CONSUMERSCOPE: USAGE OF 3D/SMART FUNCTIONALITY H1 2014, N = 1,778

	3D	SMART
Use functions 'often' or 'very often'	25%	40%
Has slight or extreme positive impact on viewing experience	55%	75%
Likelihood to recommend (top 3 out of 10pt scale)	40%	59%

GfK TV CONSUMERSCOPE: SMART TV APP USAGE H1 2014, N = 902



For UHD (or '4K'), the content is quite limited in Australia, but it is likely that this will develop over time. Netflix are a key proponent of this internationally as they have already launched 4K streaming services in other countries around the world and are expected to launch this service in Australia.

The other significant trend in the TV market is the move towards bigger screened TVs. Sales for TVs with a screen size of 50" or greater increased by 5% and now account for over a third of all sales units⁸.

Hardware vs. Software; a Chicken-and-Egg Relationship

For new hardware features like UHD/4K, or even the more established Smart functionality, if UHD content doesn't exist, or the applications for Smart TV are limited, there will not be an active demand for these features. Conversely, without the hardware in place to view new content, then it is impossible to watch, and it will not get the necessary consumer take-up. This is very much a 'chicken-and-egg' relationship.

We already see evidence of a mismatch between hardware and software trends. Blu-ray players are available in 45% of houses, but only account for 14% of software sales. 30% of all TVs sold in 2014 had 3D capability, but only accounted for 1% of software sales. These trends highlight that even when the content is available, it has to be suitable content, that is wanted by consumers, at a price that is considered to be reasonable.

Hardware devices in Australia will continue to evolve in the coming years. New products like the Oculus Rift and other VR headsets, plus the launch of services like Netflix, will mean that we can expect the changes to keep on coming!

About GfK

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⁸ GfK Retail Tracking. TV units by feature (excludes commercial, direct, grocery channels)



Netflix drives
changes in
Consumer
behaviour,
which favour
all SVoD
services.

Subscription Video on Demand



Summary of Findings

- + SVoD uptake has a statistically significant relationship with the transactional home entertainment market, where markets with increasing SVoD subscriptions show a corresponding decrease in transactional home entertainment spend.
- + Trends in physical video software transactions do not directly relate to SVoD as there is significant interference from other factors.
- + However, SVoD has a cannibalistic effect on the consumption of transactional digital media.
- + International markets will become increasingly important, eventually representing around a third of Netflix revenue.
- + IHS analysis suggests that the effect of a Netflix launch does not have an overly negative impact on existing SVoD services, as revenues on rival services continue to increase.
- + SVoD affects traditional linear broadcast television. While this does take time away from advertising based media, the associated losses will not be proportional as the reduction in viewing should be in terms of minutes and not viewers.
- + Netflix does not generally disrupt the current windowing structure in markets, but instead occupies the same window as free TV, excepting a limited number of high profile deals with key content providers such as Disney.
- + Netflix own produced content will be increasingly important as global rights to this means that content appears first on Netflix and then on other platforms such as physical.
- + Netflix will largely not compete with traditional content aggregators for premium content. It is likely that a single high profile piece of content will be acquired to raise profile, but in order to justify the relatively low pricing point, content acquisition costs must be minimised.
- + Netflix is being increasingly viewed as a premium channel, such as HBO and an emerging trend is for Pay TV operators to bundle Netflix as part of their offering.
- + In Australia linear TV will see a slight dip in viewing, but not a proportional drop in advertising revenues. The major apparent effects will be an increase in the decline of the transactional home entertainment market, which will be an increase of about 1% for an every 60,000 extra SVoD subscribers.

Definitions

SVoD Subscription video on demand (often referred to as 'streaming') conveys temporary rights of use accessed with a recurring payment (e.g. Netflix 'streaming').

Transactional Home Entertainment market comprises digital retail and rental, pay TV TVoD, and physical rental and retail video transactions.

Electronic Sell-Through (EST) also known as Digital Retail or Online Retail — refers to paid for transactional non-physical purchases for ownership of film entertainment content; excludes adult, event, free, sport and subscription content unless otherwise stated.

TV TVOD: the practice of paying for a rental on an a la carte basis over a closed pay TV network. Formally speaking it applies to a temporary right of use that is purchased by a one off payment. It can be either movies or TV shows. For example, a movie rental through Foxtel. Physical video Software market comprises transactions on all packaged video media formats (predominantly Blu-ray Disc and DVD) across the retail (sell-through) and rental sectors.

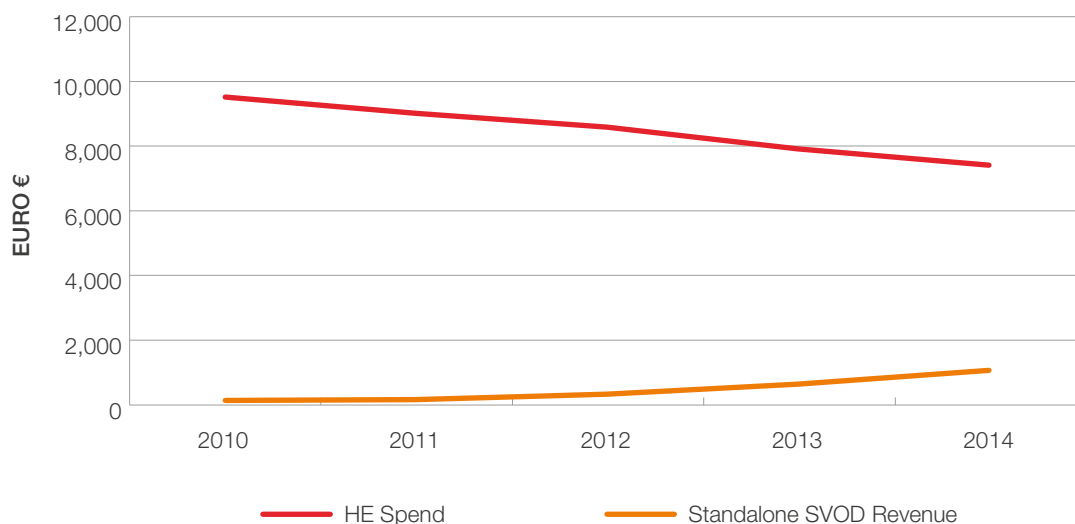
Transactional Digital market comprises Pay TV TVoD and digital retail and rental transactions.

The Impact of SVoD Report: Part 1

IHS agreed to conduct an in-depth statistical analysis of SVoD markets across Western Europe to examine the relationship between subscription service uptake and the impact on transactional home entertainment market size — across both physical and digital distribution platforms.

Netflix rolled-out its streaming service in Western Europe starting in January 2012 with the UK and Ireland, followed by expansion into the Nordic regions later that same year and continued to launch in new Western European markets across 2013 and 2014. Netflix entered into a UK SVoD market already populated by niche services, sports leagues, an offering from BSkyB, and a service from Amazon. However, other Western European markets were less developed from a SVoD stand-point and saw very strong revenue growth for SVoD over short periods of time.

WESTERN EUROPE HOME ENTERTAINMENT SPEND VS STANDALONE SVOD REVENUE



By year-end 2014, standalone SVoD services such as Netflix had launched in 16 Western European markets — Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK. Standalone SVoD continued to demonstrate strong growth in Western Europe with a 77% increase in combined revenue between 2013 and 2014.

However, when revenue generated from Netflix is subtracted from the regional total, the overall year-on-year growth for SVoD drops to 18%. This indicates that Netflix had a significant impact on growing the regional SVoD market in 2014.

In contrast, the Western European transactional home entertainment (HE) market (digital rental and retail, pay TV TVoD, and physical rental and retail video transactions), faces a decline. Total spend for transactional HE platforms in Western Europe decreased from €9.5 billion in 2010, to €8.6 billion in 2012, down to €7.4 billion in 2014 (a CAGR of -6.4% 2010–2014). A number of factors contributed to this decline including; difficult economic conditions, increasing PVR take-up, and a decrease in shelf space for physical disc retail. However, markets with a well-established SVoD offer, demonstrated a more pronounced decline for transactional HE spend. Between 2010 and 2014, European markets with little or no standalone SVoD declined by a yearly average of 2.9%. However, in markets where SVoD gained a foothold combined HE spend declined by a yearly average of 8.4% during the same period.

IHS has used a regression analysis model with one variable, 'SVoD' subscriptions and one predicted (endogenous) value, 'Transactional HE Spend'. The data used for establishing any relationship is observed data, recorded prior to this examination and applied to models designed to demonstrate the stated relationship. Each predicting model was tested against the null model (i.e. the transactional market can be described solely by the mean of observed values, which is constant) and tested at 5% significance ($\alpha=0.05$).

To determine significance we must determine two factors:

1. That a relationship exists between 'SVoD' and the 'Transactional HE market'.
2. That a relationship does not exist between 'SVoD' and 'Transactional HE' in markets lacking SVoD.

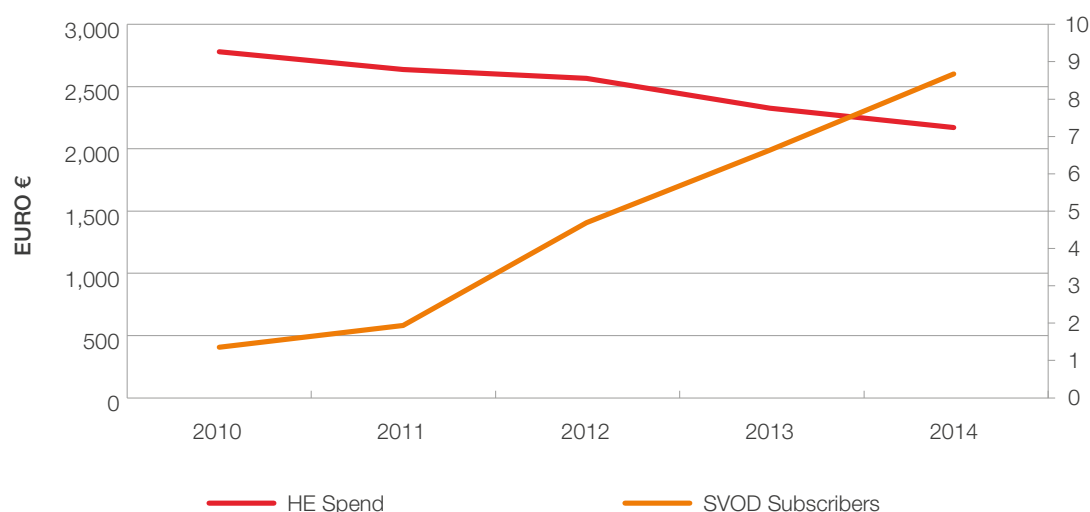
Total Transactional Home Entertainment

Regression analysis for the combined Western European SVoD market, predicted the transactional (digital rental and retail, pay TV TVoD, and physical rental and retail video transactions), market for the combined territories, using SVoD subscription information with an r-squared (co-efficient of determination) value of 0.98. Meaning that 98% of the variation around the mean value of HE spending could be explained using only the given value of SVoD subscription. In addition, to explain the significance of the predicted result, IHS used a significance level of 5% and then for each model calculated a corresponding p-value — indicating the probability that the results are purely co-incidental. For the combined SVoD market the p-value was 0.0012 (0.12%), well below the 5% threshold of coincidence.

IHS tested the hypothesis that the longer a SVoD service is available to consumers, the more apparent the negative impact it has on HE transactional spending.

The UK, as one of the more established SVoD markets, demonstrates a stronger relationship between these variables. Using a regression model, the UK data indicated a more pronounced decline in transactional HE spending. In this case the model returned a co-efficient of determination of 0.99, meaning that 1% of the variation of the change in total HE spend was unexplainable using SVoD subscriptions alone. The produced p-value for statistical significance was 0.01%; an extremely low probability that these results are co-incidental. It is, however, important to note that the fewer number of data points used in a one country analysis, makes this a less reliable indicator overall.

UK HOME ENTERTAINMENT SPEND VS SVOD SUBSCRIPTIONS



Testing for other factors

While IHS analysis shows that growth for SVoD subscriptions will accurately predict a decline on transactional HE spending, our analysis also determines if coincidental values are in effect. For example, does HE spend following the same trend due to another variable affecting both SVoD and HE? To test this, IHS uses data from SVoD markets to predict the value of HE spend in markets without a SVoD presence. A failure to establish a significant relationship will strongly suggest that there is no other variable affecting the trend.

HE spend data was taken from Poland, Hungary and Greece and regression was re-run against these countries with the SVoD data taken from established SVoD markets. The model returned a co-efficient of determination of 0.34, meaning that 66% of the deviation of HE spend values from the mean value are unexplainable by the SVoD subscription data. This is much lower than those values for markets with established SVoD. The model also produced a p-value of 0.29. As previously stated, our threshold (alpha) was 0.05 and as our p-value, is larger than our significance, this strongly suggests that the sets are not related, and any correlation between them is likely to be co-incidental.

Physical Home Entertainment

IHS tested the hypothesis of subscription VOD services causing a decline in the physical video software market (all formats, retail, and rental). IHS data for physical video transactions were used in regression analysis against the same subscription data set used for the total transactional HE market tests. Physical video transactions showed a strong correlation with VoD subscriptions. The co-efficient of determination for this model was 0.97, meaning that around 3% of the deviation from the mean value of Physical video transactions are unexplainable using the SVoD data alone. The produced p-value for statistical significance was 0.2%, again indicating a very low probability that the two are related purely by chance.

Data from markets with low SVoD penetration was then used to test for other factors which may be influencing the decline. Markets with low or relatively unestablished SVoD were used and the physical results correlated with SVoD data in the established markets. In this case there was a positive correlation with a co-efficient of determination of 0.96 and a returned p-value of 0.0025. This indicates that factors other than SVoD are predominantly influencing the decline of the physical video market and that SVoD alone cannot be used to predict physical video transactions.

In Summary

IHS analysis finds that an increase in SVoD subscriptions can strongly predict a decline in total transactional HE spending and that the relationship is statistically significant.

The major factor in the decline is due to SVoD being a substitute for transactional HE spend. However, it should be noted that other variables also contribute in markets supporting SVoD, including: changes in certain consumer behaviours that come with adopting new methods of consumption; the use of catch-up TV services; take-up of PVR services; retail pressures on shelf space; and consumer expectations. To quantify this relationship IHS concludes that each SVoD subscription a loss of €151 in Western European HE consumer spending. IHS also concludes that SVoD alone cannot be used to predict consumer spending on physical video software as there is significant interference from other factors.

The Impact of SVoD Report: Part 2

Introduction

IHS analysis concluded that the uptake of SVoD services has a negative impact on transactional HE spending, as is shown in Part 1 of this report. However, there are many segments in any given HE market which are impacted by the growth of SVoD. This section will examine these market segments using qualitative analysis in the following way:

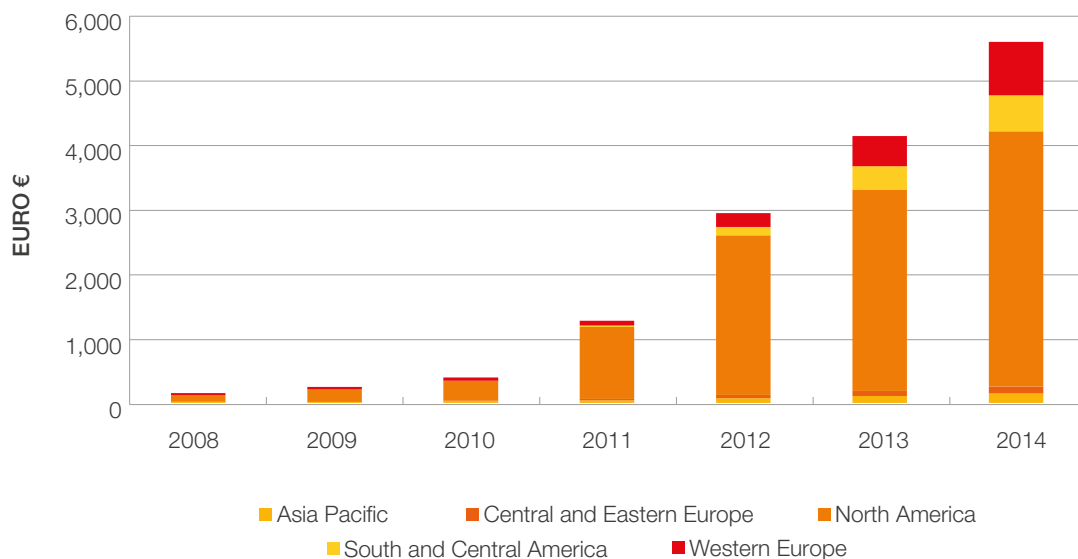
1. Looking at the global growth of SVoD and other underlying trends.
2. How this affects other traditional forms of consuming content (excluding transactional).
3. The pursuit of premium rights and how relatively low cost subscription services fit into the traditional windowing system.

Section 1: The Current State of Subscription VoD

1.1: Global conditions

The global SVoD market is rapidly growing with global revenue increasing 35% in 2014 to reach €5.5 billion (A\$6.29 billion). This growth is forecast to continue at a CAGR of 14% between 2014 and 2018, to reach €9.3 billion (A\$10.6 billion). In the SVoD market, Netflix has been significantly outperforming its competitors. In isolation, Netflix's streaming revenue increased 37% between 2010–2014. However, this explosive rate of growth is forecast to slow as the global expansion of Netflix begins to enter regions that will prove more difficult to monetise. IHS forecast Netflix revenues to grow 13.8% to €4.9 billion (A\$5.6 billion) between 2015 and 2016. By comparison, the total global standalone SVoD market is expected to increase 16% to €7.8 billion (A\$8.9 billion) over the same period.

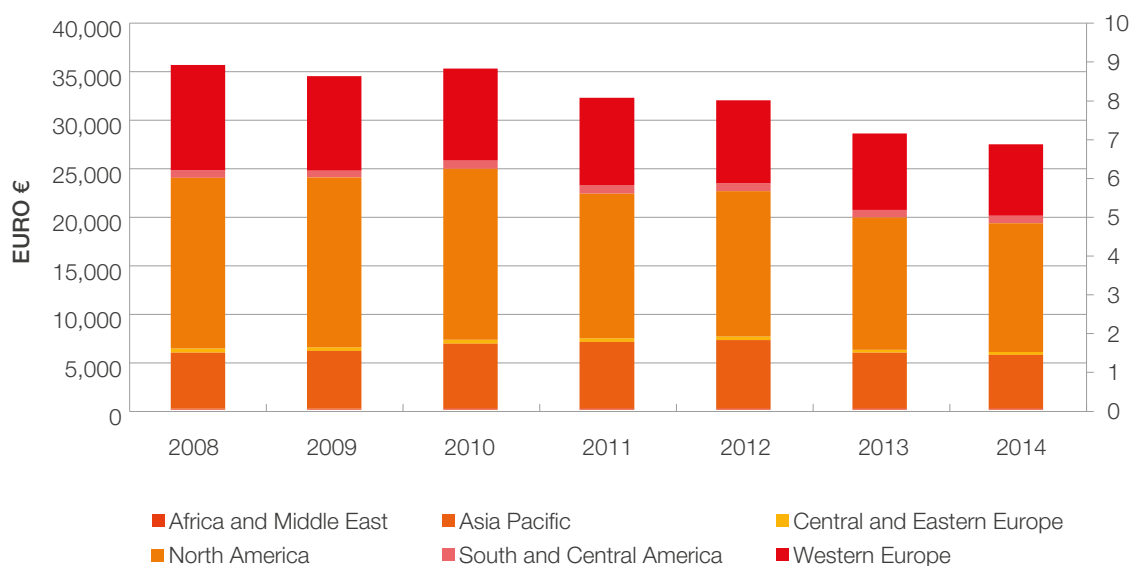
STANDALONE SVOD REVENUE BY REGION



The global standalone SVoD market generates the majority of its revenues in North America, which accounts for 65% of the world total. North America will remain dominant over the forecast period, falling slightly to a 62% share by 2018. As a more mature SVoD market, growth for Netflix has slowed but is still strong in North America with revenue increasing 25% in 2014.

Since the international expansions of Netflix are the most recent, it is to be expected that they would show stronger rates of growth in direct comparison. However, without continued aggressive expansion into new territories, total revenue growth for Netflix in international territories will slow, dropping to around 12% in 2018 compared to 105% in 2014.

TRANSACTIONAL HOME ENTERTAINMENT SPEND BY REGION



This then presents the key issue for Netflix; which markets to target for further expansion. SVoD requires relatively wealthy markets, with high penetration of broadband which are also able to transport cost-effective quality video feeds. Untapped markets include Spain, Portugal, Poland, Greece, Turkey, much of Eastern Europe and parts of the Asia-Pacific. Netflix has already announced plans to expand its service into Japan in 2015, which will be the company's first market in Asia. Each of these markets present unique barriers, with only a few of them being immediately deployable. Japan will provide a vibrant foothold into the Asia-Pacific, but requires significant investment in local content to avoid experiencing the anaemic growth seen by Hulu, before being sold to Nippon TV in 2014. Poland is another example of a market which is immediately deployable, and could provide a vibrant foothold into Central and Eastern Europe, serving as a performance indicator for SVoD in markets with smaller margins and high rates of piracy.

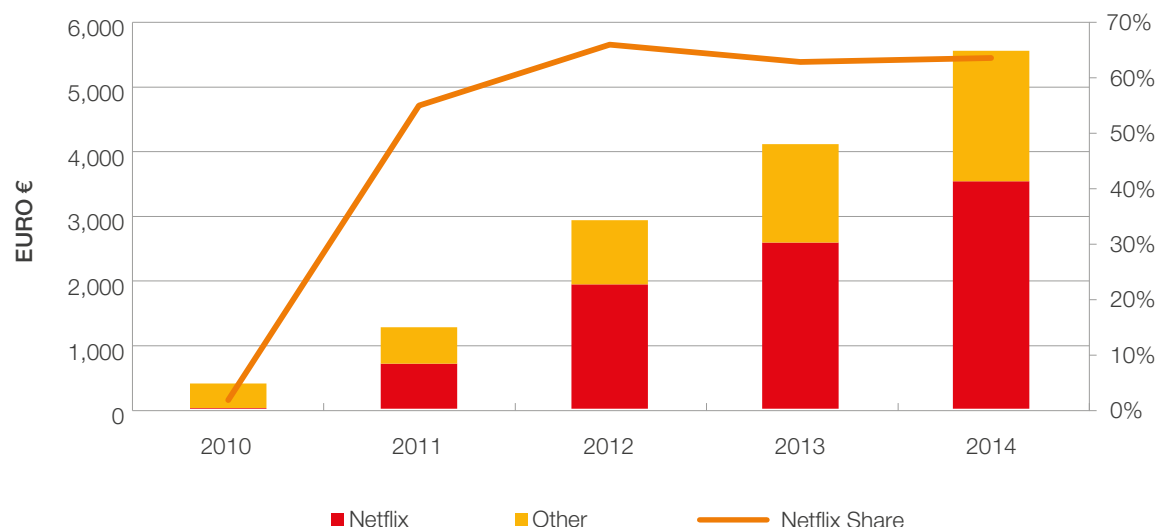
1.2: Netflix's position within the SVoD market

Netflix has enjoyed a period of growth and success since launching its SVoD service in 2007, experiencing only a few hiccups during the process of unbundling its digital streaming service from its DVD-by-mail offering. However, Netflix faces a future where it has the potential to lose market share, both in North America and Western Europe.

Outside of the US, the success of rival pan-regional or local SVoD services is likely to offer consumers added choice and subsequently weaken Netflix's position, whilst fewer new and suitable markets will limit the company's opportunities for expansion. Meanwhile, the US is seeing the success of specialised SVoD services, such as sports programming via Direct TV, which often facilitate much higher ARPUs due to their unique or premium content offering.

Although, many of these new SVoD services are not designed to be in direct competition with Netflix, market traction by these services reduces the significance and impact of Netflix. Instead of being the sole disrupter Netflix is increasingly seen as just another VoD service — serving casually viewed content — rather than premium sports or movies, or a convenient method of binge viewing.

NETFLIX SHARE OF WORLD STANDALONE SVOD REVENUE



International markets, which in 2014 represented around a third of total Netflix revenues, will become increasingly important for maintaining the company's position as a market leader. Netflix is often seen as a market disruptor, negatively impacting incumbent SVoD services in its market expansions. But the effects observed suggest a different reality. With the exception of the UK, in markets where Netflix has launched, the combined revenues generated from standalone SVoD companies excluding Netflix have increased, despite the overwhelming success of Netflix. This indicates that Netflix drives changes in consumer behaviour, which favour all SVoD services.

The decline in SVoD revenue in the UK from 2013 to 2014 can be attributed to Amazon deciding to bundle its Instant Video service within its mainstream consumer product 'Amazon Prime', to boost revenues generated from Amazon's other transactional digital services. However, as Amazon's SVoD offering is bundled with other content services, SVoD revenue generated from the platform is no longer reflected in IHS UK standalone SVoD revenues.

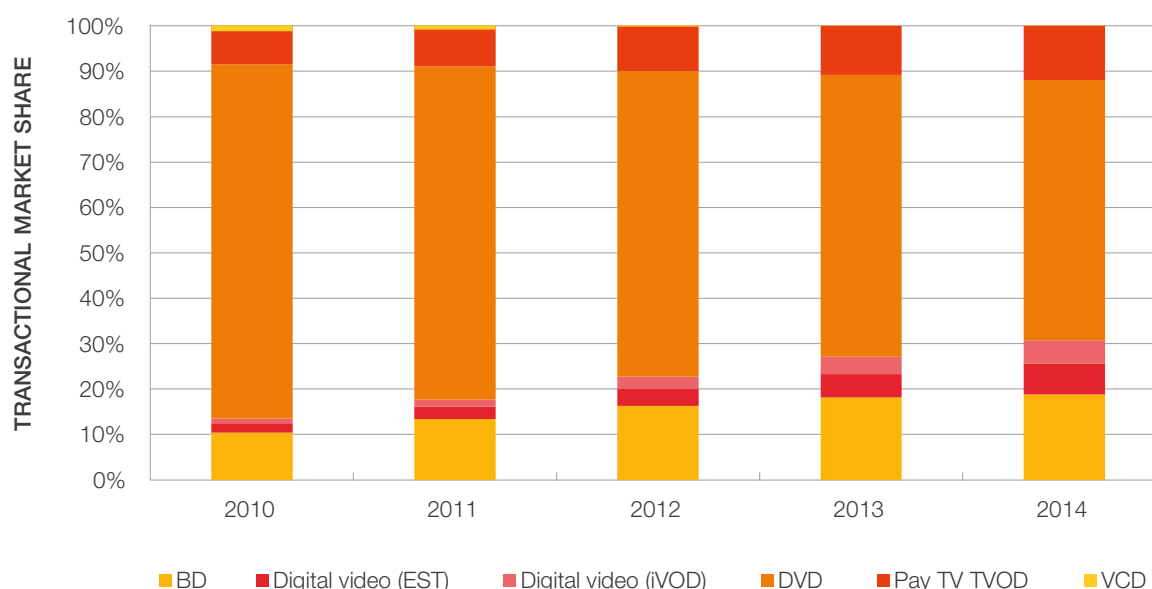
IHS analysis found that the effect of a Netflix launch does not have a completely negative impact on incumbent players or established SVoD markets. There is one area, however, besides transactional HE which does show pressure from the growth of Netflix and SVoD; traditional linear broadcast TV.

Section 2: The True Impact on Home Entertainment

2.1: Transactional Home Entertainment Market

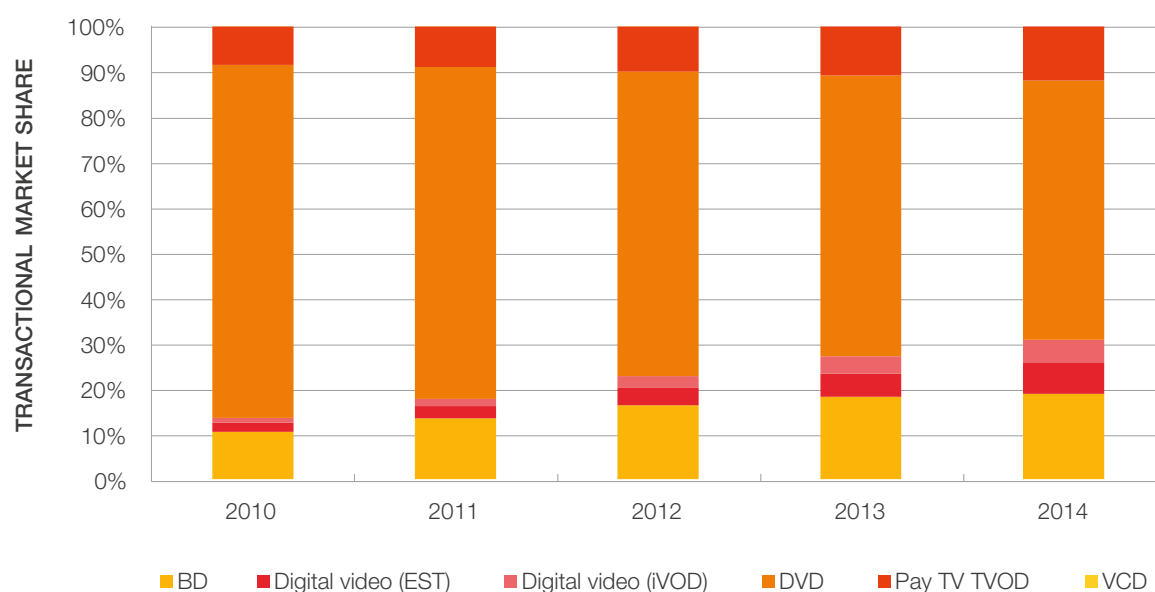
Part 1 of the report highlights that SVoD has a negative impact on the transactional home entertainment market. However, IHS analysis also finds that the same affect does not hold true for the physical video software market (all formats, retail and rental), as factors other than SVoD subscriptions generally have a more significant impact on the market. In markets with SVoD the total spending on transactional home entertainment media declined as a whole, whereas in markets without SVoD this distinct trend was not always observed. In the markets analysed with low a SVoD penetration, the total transactional home entertainment market grew in 2014 due to increased spending on digital formats. However, consumer spending on physical video software decreased regardless of whether SVoD was present or not and adjustments to the data sets were unable to account for this. Furthermore, in markets with low SVoD penetration, physical video software retained a higher percentage of the transactional home entertainment market than markets with high SVoD penetration.

LOW SVOD HE MARKET



This suggests that although SVoD has an overall negative impact on the transactional home entertainment market, this is skewed towards impacting the digital section of the market rather than the physical. In markets with high or low SVoD penetration, the rate of decline of physical video software was similar. This means that in terms of consumer behaviour; SVoD has a cannibalistic effect on the consumption of transactional digital media and transactional digital media can be observed to cannibalise the spend on physical video software.

HIGH SVOD HE MARKET

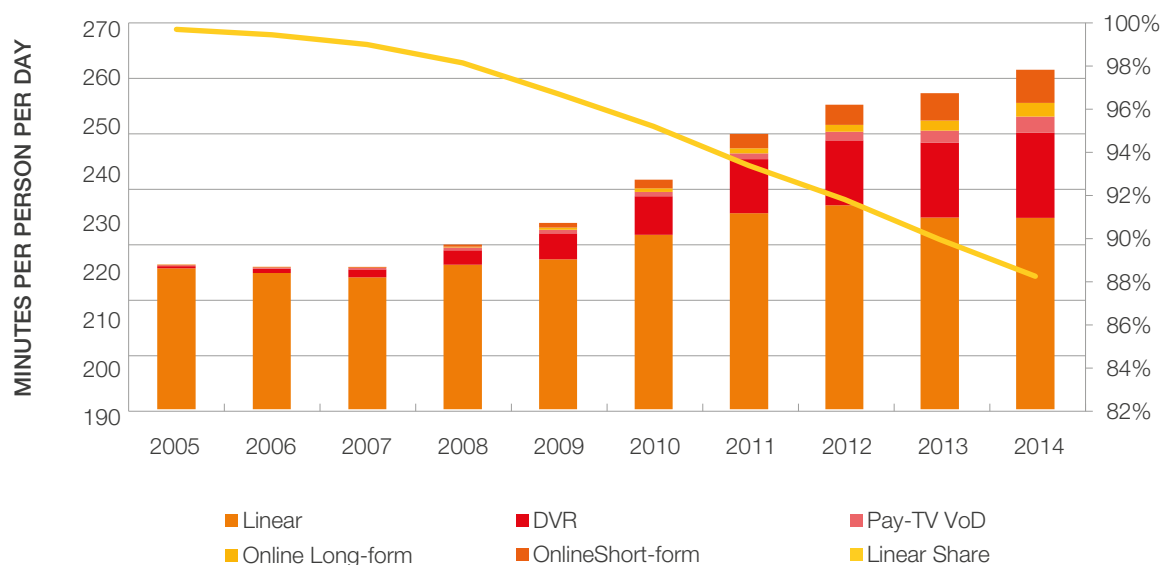


2.2: Linear TV

In the top five European markets of France, Germany, Italy, Spain and the UK (the European big 5), overall time spent consuming video media across all distribution platforms continues to steadily increase. With broadcast television still enjoying yearly incremental increases in minutes spent in front of the main television set – when combined with time shifted viewing on DVRs.

However, in certain markets, notably the UK and some regions of Scandinavia, a true decline in the viewing of linear content is observed and attributed to the growth of SVoD services.

EUROPEAN (BIG 5) VIEWING TIME



In Denmark public broadcaster DR, published findings of an 8% decrease in TV viewing between 2012 and 2013, of which approximately 30% could be attributed to the effect of streaming services competing for eyeballs. When “online video users only” are split-out, the decline in linear television viewing was three-fold — with a decline of 25% over the same period.

While Netflix was not the only SVoD service available in Denmark, it is certainly a key driver of SVoD consumption with a 95% share of the standalone market and a decrease of around 0.1% in TV viewing occurred for every 1% increase in Netflix uptake. In Australia, the average amount of TV viewed per day is less per person than in Western Europe, with 191 minutes viewed compared with 230 minutes across the European Big 5 according to IHS estimates. If the assumption is made that Netflix will grow in a comparable way to European markets, then within three years, Australian viewing of linear TV will decline by around 1%, or just two minutes per person, per day.

It is important to note, that while declines in viewership of this amount are measureable, they may not necessarily correspond to losses in TV advertising revenue in the short term. As long as broadcasters are able to ensure the decline is caused by a reduction in hours of viewing and not a reduction of people viewing, and that ad-sales houses can reliably increase pricing to compensate.

With viewing being lost to a platform not monetized through advertising, sales houses should be better placed to counteract impression declines through price-adjustment strategies — as Netflix is not a competing commercial channel in this sense.

In the traditional or established pay TV markets, Netflix is being viewed as a premium channel, such as HBO. An emerging trend is for Pay TV operators to bundle Netflix as part of their offering. Bundling an existing SVoD service with a pay TV subscription provides pay TV operators with increased customer churn protection. In addition, this bundling strategy allows pay TV operators to provide an on-demand experience to customers, without the need to invest in costly infrastructure or to secure content rights deals.

For a standalone SVoD service, this may not immediately look like the most profitable solution as surely a disruptive and flexible player should be able to leverage the effects of cord cutting, but much of the rationale behind this has to do with the affordability of the truly premium content demanded by the most valuable customers.

Section 3: Where does SVoD fit in the future?

3.1: Dealing with Films and Premium rights

Netflix has thus far been opportunistic in its approach to premium content deals for film and TV, leaving the vast majority of content available on its service classed as catalogue, an often cited criticism when comparisons are made with incumbent pay TV operators. Netflix generally lacks first subscription-window films and its TV catalogue mainly consists of non-current seasons. However, Netflix has behaved opportunistically in securing the rights to a limited amount of premium content such as Disney in the US and is increasingly looking at securing global rights deals.

The company's strategy regarding premium content rights has been primarily marketing focused. Netflix typically makes one major deal for 'first subscription window' films per territory — using them to drive consumer awareness — with the rest of the film library still mainly taken from the back-catalogue. To watch new release films and current TV seasons, consumers still need to pay for a traditional pay TV subscription.

Due to the costs that would be incurred, buying more premium content rights for its offering is not necessarily the best course of action. In the UK and Ireland, for instance, taking control of the bulk of Hollywood first subscription window rights (wrestling them from Sky) would result in an increase of Netflix's direct costs for these markets by between 100% and 150% according to IHS estimates. For the same cost, Netflix can fund the creation of between ten and fourteen new original 13-episode series each year of comparable quality to House of Cards, with global usage rights attached. Direct investment in the production of high-quality original TV series is consequently likely to prove a better use of cash in the short and long term.

Netflix's cost incentives are an issue which content owners should be aware. For the moment, many content owners are happy with the uplifts, which Netflix's emergence into the international online video space has generated for their businesses — particularly in light of the declining physical video software market. But as Netflix continues to see success with its own original content, ultimately the cash-flow it provides to third parties may begin to dwindle. IHS understands Netflix is aggressively seeking to reduce its costs in the latest round of content negotiations internationally according to feedback from industry sources.

As the Netflix subscriber base grows and the service further expands its original content offer, Hollywood studios and broadcasters will need to look towards alternative platforms to fund the next wave of growth and ensure that a competitive rights landscape is maintained for their filmed entertainment content. Otherwise, they risk a repeat of Showtime's move away from acquired content, which resulted in the severing of output deals between the US premium cable network and three US studios.

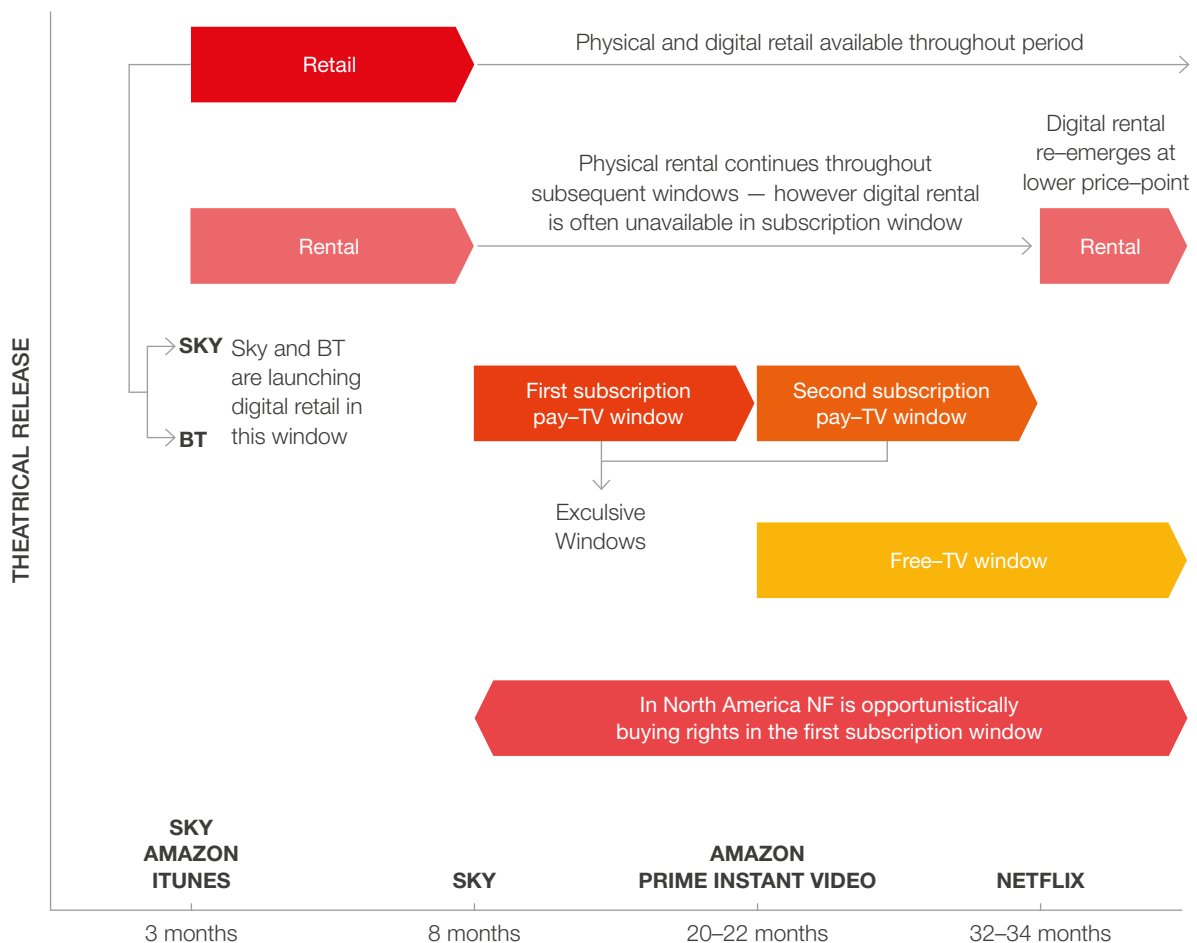
3.2: Fitting into a consumers viewing window

Traditionally, the windowing following a film released in cinemas follows an enforced pattern maintained by a matrix of legal contracts and business relationships. Starting with theatrical, physical retail video, followed by physical video rental, then subscription pay TV and finally a film makes its way onto free-TV. However, the rise of additional digital platforms is beginning to challenge the status quo. While exclusive windows still exist for pay TV companies, diverse methods of monetising content are being experimented including titles skipping parts of the traditional windowing process entirely.

Using the example of the UK market:

Due to longstanding output deals with content aggregators such as Sky, the premium exclusive window for pay TV still largely holds for filmed entertainment content. New VoD market entrant Amazon has emerged, further interrupting the historic flow of content through the distribution chain. In the case of some content, a new window has emerged prior to free TV, either via Amazon's OTT video service on a transactional basis or directly pooled into its subscription offer.

Digital acquisition for new titles is increasingly available throughout the cycle, with select titles released for electronic sell through (EST) even before the physical retail window and or during much of the subscription pay TV window; then re-emerging with a second price point towards the end of the cycle — importantly coinciding with the SVoD window of the more 'budget' Netflix SVoD service. With the effect on consumer value perception around transactional video being impacted, as the digital retail or rental prices of these titles would need to be lowered to compete with monthly subscriptions giving access to the same titles. This change is most apparent in the UK, as this market is in some ways more dynamic than its Western European counterparts and shows clearly how SVoD can affect a market once given a free-rein.



In Germany, Sky Deutschland's VoD service GO/Snap dominates the pay TV window. As in the UK, there is overlap with the free TV window, although typically, the German market is open to a number of platforms and providers at around the 22–45 month mark. In France however, legislation maintains a stricter windowing system, mandating when and to whom video media rights are sold. Physical retail and rental video software releases make up the first four months of the window, followed by 10 months of pay TV (subscription). After this; free co-producers of content enjoy the next 10 months followed by other free TV and finally SVoD. Netflix is able to bypass some of this strict windowing by deploying its own produced content to its service first and following up in other windows later.

Netflix is also increasingly making content deals, both in the US and in International markets, which are disrupting the status-quo. For example, Netflix outbidding NBC premium cable channel Starz for rights to theatrical new release titles from Disney starting in 2016. This move is replicated in the Netherlands, whilst Netflix has also signed content distribution agreements with Disney and Paramount in Canada.

In addition, Netflix raised around €350 million in 2014 for international expansion and series production activities. To put this in context, IHS estimates that US cable network Showtime spent around €240 million on original programming in 2014. Netflix's original content is able to bypass the windowing system, but also at the same time still makes use of traditional revenue streams, as was seen with the release of *House Of Cards* on physical disc for both purchase and rental.

Section 4: Conclusion

Netflix will launch its streaming service in Australia and New Zealand during March 2015. The launch of the Netflix service in Australia and New Zealand marks the official entry of the service in Asia-Pacific.

The service will be available on a number of connected devices including smart TVs, tablets, smartphones, PC/MAC, game consoles, smart TV platforms, and DMAs.

Programming will include original series *Marco Polo* and *BoJack Horseman* as well as several titles for children. The company is yet to disclose any pricing information for the service in Australia. In the USA the monthly subscription price is US\$8.99, so Australian subscribers may expect to pay a monthly fee of A\$11.45 including GST (10%).

Netflix will face strong competition upon entering the Australian market. The established SVoD providers are the home-grown DVD and steaming content provider Quickflix as well as movie streaming service Presto, which is owned-and-operated by Foxtel, Australia's pay TV leader. Foxtel slashed its monthly subscription fee from A\$19.99 to A\$9.99 in August 2014. Meanwhile StreamCo, a joint venture between Nine Entertainment and Fairfax Media launched a SVoD service called Stan on 26 January 2015 (Australia Day), indicating continued interest in the Australian SVoD, despite the pending launch of the American behemoth.

Netflix will bring to the market a number of popular titles, which it has rights to, but importantly some of the premium programming such Netflix's own *House of Cards* and HBO's *Game of Thrones* will be missing having already been sold to Presto.

Linear TV will see a slight dip in the number of casual viewers, but will not see a proportional drop in advertising revenues. The major effect will be an increase in the decline of the Australian transactional home entertainment market. IHS expects to see a continued, but not drastically increased decline in the physical video software market while the increasing size of the subscription VoD market will retard the growth of transactional digital media. The overall decline in the transactional HE market will correlate to about 1% for an every 60,000 extra SVoD subscribers.

IHS Technology was commissioned by AHEDA to look at the impact of Netflix entering into Western European and the UK markets and its impact on domestic SVoD services and the home entertainment market to better understand the potential impact in Australia and this is its report.

Research
identified that
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”

Piracy research: IP awareness



Piracy Research, Generation Me and The Age Of Entitlement

Research Background

The IP Awareness Foundation has been researching the behaviour and attitudes of Australians in regard to content theft since 2007. Qualitative and quantitative studies into 12–17 and 18–64 year old Australians have helped build a database of factual evidence to counteract the tsunami of misinformation and anecdotal distortion propagated in the media and the blogosphere.

In 2014, IP Awareness commissioned two studies by independent researcher Sycamore, with Newspoll. Both studies were conducted nationally and participation was anonymous.

Adult Study — 1189 respondents aged 18–64. Results were up-weighted to ABS data on age, highest level of schooling, sex and area to be representative of total population.

Teen Study — 611 respondents 12–17. Results were up-weighted to ABS data on age, sex and area to be representative of total population.

Adults Only

The Adult Study topline findings include:

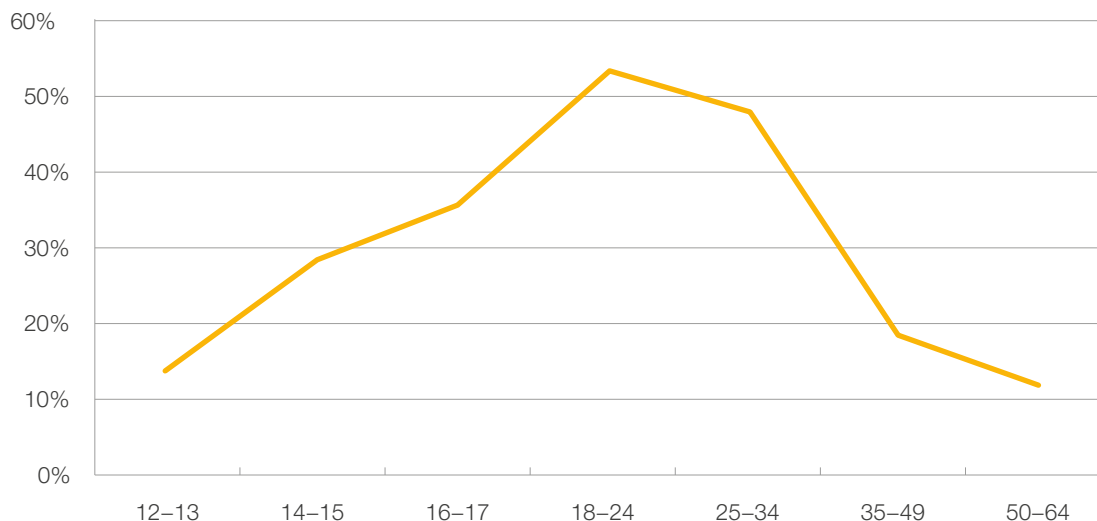
- + Piracy is still not the dominant behaviour of total 18–64 year-old population
- + 60% of Australians say they have never accessed pirated film/TV content
- + 29% of Australians aged 18–64 are active pirates, up 4% since 2013 study



Australia has more non-pirates than pirates with 60% of adults aged 18–64 saying they have never pirated film or TV content online.

That said, a subset of the adult group — the 18–24s — distinguished themselves for all the wrong reasons. Piracy peaks in this group of Australian adults, with 54% admitting to actively accessing pirated films and television shows. Piracy IS the social norm amongst 18–24 year old Australians.

PIRACY ACTIVITY BY AGE



Piracy is not the social norm in most age groups except the 18–24s where more people pirate than don't.

As this graph demonstrates, piracy activity increases with age within the teen group — 14% of 12–13s pirate, which more than doubles to 36% of 16–17s and then peaks at 54% of 18–24s.

This reinforces the need for education amongst young people about the impact of piracy, the value of content and the increasing availability of legitimate options.

Zareh Nalbandian, CEO of Sydney-based Animal Logic, one of the world's most accomplished digital animation, visual effects and design studios, told an Australian newspaper recently he believes children as young as 10 should be taught that illegally downloading films is the same as shoplifting and is costing the country creative jobs.

"If you wait until high school it's all over. The pattern is already set," said Nalbandian.

It will take more than education to change the hearts and minds of the 18–24s, which is increasingly blasé about the impact of piracy. As evidenced by these study findings, this demographic is:

- ✦ Least likely to agree piracy damages the livelihoods of workers in the film and TV industry and can result in the loss of jobs, (36% vs 62% for total adults)

- ✦ Least likely to agree the internet requires more regulation to prevent individuals from downloading pirated content (32% vs 52% for total adults)
- ✦ Least likely to agree that Australia's dubious status as a piracy powerhouse is damaging to Australia's reputation (27% vs 51% for total adults)
- ✦ Least likely to agree that Australian courts should be allowed to block overseas websites that solely profit from pirated material (28% vs 50% for total adults)

The 18–24s had the highest level of disagreement that piracy was stealing (39% vs 25% for total).

Who are The Millennials?

So what else do we know about this demographic of 18–24s?

They fall into the population sector known as Generation Y, Gen Y, 'The Millennials' and 'Generation Aspiration'. Born between 1983 and 2000, they are now aged 15–28.

Mainstream media often gives them a bad rap, accusing them of being selfish, lazy, entitled, unemployable and more.

In Time Magazine's cover story in May 2013, *'The Me Me Me Generation'*, journalist Joel Stein noted that Y's are "fame-obsessed", "cocky about their place in the world" and says "what millennials are most famous for besides narcissism is its effect: entitlement". He says that the selfishness of Generation Y has only been exacerbated by technology and that they are "reality-TV-ready".

Stein says Millennials don't respect authority but don't resent it; have massive fear of missing out; are cool and reserved and not all that passionate; are pro-business but don't identify with big institutions.

Marc Prensky, a US writer and speaker on learning and education, coined the term "digital native" to describe kids of the internet generation¹ and says they thrive on instant gratification and frequent rewards".

Anna Meadows is the Director of independent research company Sycamore and has conducted numerous qualitative and quantitative studies in Australia and Asia into online piracy, including the 2014 IP Awareness Foundation study this story references.

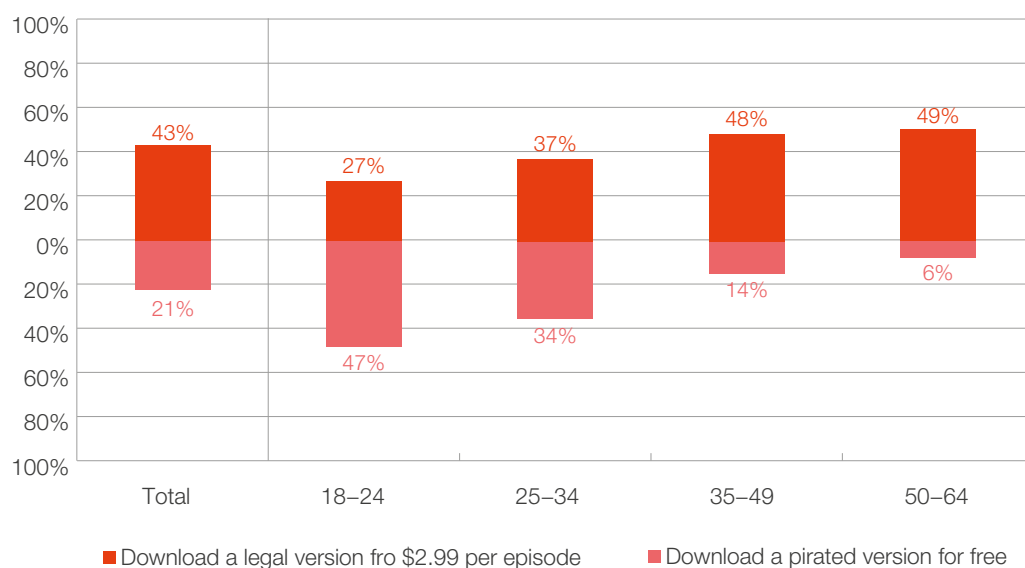
"The 18-24s have always been a group that interests us as they exhibit the highest levels of piracy and the least concern or remorse", says Meadows.

Sycamore's 2009 research study in Australia observed that "the younger online active pirates were demonstrably less sheepish about their behaviour than other pirates — it's second nature to them and they are incredulous they are even being asked to discuss the topic".

"The sense of entitlement certainly comes through with this group in a lot of the studies I have done", says Meadows.

The IP Awareness Foundation's UK counterpart, The Industry Trust for IP Awareness (ITIPA) conducted research that identified that "the so-called Generation Y, has an attitude to online content that it sums up as "Generation Y-pay?"

IF YOUR FAVOURITE TV SHOW WAS AVAILABLE ON AN ONLINE LEGAL SERVICE IN AUSTRALIA AT THE SAME TIME AS IT WAS AVAILABLE IN THE UNITED STATES, WHICH OF THESE WOULD YOU DO?



¹ *Digital Natives, Digital Immigrants* by Marc Prensky, from *On the Horizon* (MCB University Press, Vol. 9 No. 5, October 2001)
© 2001 Marc Prensky

It is clear that the Millennials present a challenge in terms of their levels of piracy activity and attitude to the value of content.

Australian demographer Bernard Salt says Y's want to see creativity. We know they do — they can't seem to get enough film and television content. But according to our study, most of them just don't think it's worth paying for.

Lori Flekser

Executive Director,

IP Awareness Foundation, 2015

A slide presentation of the 2014 research findings is available at ipawareness.com.au

About IP Awareness

IP Awareness Foundation is a not-for-profit industry initiative committed to raising awareness about the value of screen content and the impact of piracy through research, consumer campaigns and education ipawareness.com.au

2015 looks to be a very strong year at the box office...

There are several films that are capable of taking more than A\$30M during their run at the Australian box office, a significant milestone figure that alluded all but one film

— *The Hunger Games: Mockingjay Part 1* (A\$32.7m)

— in 2014.



Theatrical film industry: 2014 box office



2014 promised and delivered a diverse and engaging line up of 505 new films that drew broad audiences into cinemas everywhere. Boxing Day capped the year with a mix of blockbuster franchises and original movies to bring the total box office for 2014 to **A\$1,074,565,480** – another billion dollar year!

TOP 10 FILMS OF 2014 (AS AT 31 DECEMBER 2014)

	TITLE	DISTRIBUTOR	BOX OFFICE IN 2014
1	THE HUNGER GAMES: MOCKINGJAY PART 1	ROADSHOW	A\$32,779,853
2	THE LEGO MOVIE	ROADSHOW	A\$29,834,461
3	TRANSFORMERS: AGE OF EXTINCTION	PARAMOUNT	A\$26,958,295
4	GONE GIRL	FOX	A\$26,863,290
5	HOW TO TRAIN YOUR DRAGON 2	FOX	A\$26,777,232
6	GUARDIANS OF THE GALAXY	WALT DISNEY	A\$26,739,884
7	FROZEN	WALT DISNEY	A\$25,674,174
8	THE WOLF OF WALL STREET	ROADSHOW	A\$23,331,454
9	22 JUMP STREET	SONY PICTURES	A\$22,798,114
10	X-MEN: DAYS OF FUTURE PAST	FOX	A\$22,639,778
TOTAL			A\$264,396,535

Leading the way in 2014 was *The Hunger Games: Mockingjay Part 1* from Roadshow Films which grossed A\$32.8M in Australia, followed by animated film *The Lego Movie* (A\$29.8M), which boasts a substantial portion of production in Australia. Paramount's *Transformers: Age of Extinction* rounded out the top 3 films with a box office gross of A\$26.9M.

The other top performing movies of the year were *Gone Girl* (A\$26.8M), *How to Train Your Dragon 2* (A\$26.77M) and *Guardians of the Galaxy* (A\$26.74M). Next was Disney's *Frozen*, which generated A\$25.67M in Australia in 2014 alone and ranks, worldwide, as the highest-grossing animated film of all time.

The Wolf of Wall Street at #8 (\$23.3M) is the first R-Rated film to make the Top 10 grossing films in Australia since *Basic Instinct* in 1992. Two popular franchises — Sony Pictures' *22 Jump Street* and Fox's *X-Men: Days of future Past* — rounded out the Top 10 films in 2014.

Despite a slight drop of -2.28% in BO from 2013, the 2014 results revealed that cinema going is still one of the most popular forms of entertainment in this country and remains resilient, despite economic flux and in the face of ever increasing leisure options

The split of revenue across key genres shows the domination of action films at the box office despite the number of dramas released being significantly higher.

GENRES

GENRE	FILMS RELEASED			
	2014	BOX OFFICE	2013	BOX OFFICE
ACTION	86	387,134,000	73	323,347,000
ADVENTURE	12	36,533,000	13	89,200,000
ANIMATED	23	127,867,000	18	172,991,000
BIOGRAPHY	14	17,252,000	8	8,322,000
COMEDY	99	169,118,000	82	159,844,000
CRIME	9	26,610,000	15	33,933,000
DOCO	44	3,661,000	38	8,723,000
DRAMA	110	169,112,000	96	152,935,000
FAMILY	7	26,277,000	1	1,220,000
FANTASY	3	2,987,000	3	16,481,000
HORROR	10	11,288,000	12	11,690,000
LIVE	53	4,711,000	35	3,552,000
MUSIC/ MUSICAL	2	1,127,000	2	81,000
MYSTERY	1	1,124,000	1	275,000
ROMANCE	6	747,000	8	18,185,000
SCI-FI	2	21,314,000	3	24,028,000
THRILLER	8	12,333,000	12	29,906,000

39 Australian films were released in 2014, compared to 26 in 2013 and 27 in 2012. However, Australian films made up only 2.43% of the 2014 BO, down from 3.51% in 2013 and 4.25% in 2012. Of note, Russell Crowe's directorial debut, *The Water Diviner* in which he plays an Australian farmer who travels to Gallipoli to discover the fate of his three sons, was released by Universal Pictures, on Boxing Day, taking A\$5.7m to the end of 2014 and has continued to perform well. And Robert Connolly's *Paper Planes*, released at the end of the summer holidays has taken A\$8.6 million, another great local performance.

Up against the comparable USA and United Kingdom market results, the Australian market has performed well and shown great resilience. With an average ticket price of A\$13.68, a night at the movies continues to be good value & a popular out-of-home social occasion.

Film piracy remains a significant threat to the cinema business. The IP Awareness Foundation's 2014 research showed that piracy amongst adults is increasing and that around one in four Australians, aged 12–64 years old, accesses infringing film and TV content from pirate websites. Australian distributors and exhibitors have joined other content creators and copyright owners in urging Government to enable legislation that protects copyright, and have supported education programs that promote an understanding of the impact of copyright infringement on the creative industries.

The digitalisation, expansion and improvement of cinemas by Australian exhibitors has significantly enhanced the movie-going experience. The majority of the 2,041 screens in Australia are digital and exhibitors continue to invest in enhancing the cinema experience with innovations in gold class offers, seating, cinema design, food and ticketing.

Product-wise, 2015 looks to be a very strong year at the box office — not only with a terrific slate of films, but one that is reasonably well phased and diverse throughout the year. There are several films that are capable of taking more than A\$30M during their run at the Australian box office, a significant milestone figure that alluded all but one film — *The Hunger Games: Mockingjay Part 1* (A\$32.7m) — in 2014. There are also a number of high-profile tent pole titles as well as significant film re-boots — such as *Mad Max*, *Jurassic World* and *Terminator*.

Box office for January and February 2015 is already 6% up on the same time the previous year.

TOP 10 BOX OFFICE FILMS 1ST JANUARY – 25 FEBRUARY 2015

	TITLE	CSHIP	COUNTRY	RELEASE DATE	DISTRIBUTOR	BO IN 2015	BO AS AT 25.2.15
1	AMERICAN SNIPER	MA15+	USA	22 JAN 15	Roadshow	17,618,723	17,618,723
2	THE IMITATION GAME	M	UK	1 JAN 15	Roadshow	17,420,906	17,592,824
3	FIFTY SHADES OF GREY	MA15+	USA	12 FEB 15	Universal	17,264,087	17,264,087
4	THE HOBBIT: THE BATTLE OF THE FIVE ARMIES	M	USA	26 DEC 14	Warner Bros	17,094,393	34,782,404
5	PENGUINS OF MADAGASCAR	G	USA	1 JAN 15	Fox/ Dreamworks	14,880,078	15,569,835
6	TAKEN 3	M	FRANCE	8 JAN 15	Fox	14,545,400	14,545,400
7	BIG HERO 6	PG	USA	26 DEC 14	Walt Disney	14,375,881	21,642,598
8	KINGSMAN: THE SECRET SERVICE	MA15+	USA	5 FEB 15	Fox	11,859,531	11,859,531
9	INTO THE WOODS	PG	USA	8 JAN 15	Walt Disney	11,751,894	11,751,894
10	THE WATER DIVINER	M	AUS	26 DEC 14	Universal/ Eone	9,972,968	15,662,788

2010 was theatrical's biggest year ever with A\$1.128M in box office — led by the long blue, tail of "AVATAR", *Toy Story 3*, *Harry Potter & The Deathly Hallows*, *Alice in Wonderland* and *Inception*. A fantastic record breaking result, but that target seems achievable for 2015. The first two months have started so well already that distributors and exhibitors all believe that 2015 is set for the best year we've ever had.

Digital has changed how people engage with media and content forever. And the skills, tactics and resources required to achieve the same outcome now vs. say 10 years ago are very different. Keeping up with the variety of consumer needs and expectations is a challenge. Word of mouth from a positive experience still remains as powerful as ever — whether it be about a film or memorable experience.

Consumers are pretty good at articulating what they don't like or don't value... especially if asked. But people are generally less able to articulate new ideas and concepts that don't currently exist... even if they might have tremendous value to them if available and well promoted. Many industry leaders are starting to champion innovation based on consumer insight, trends and behaviour. And they are then testing and trialing new products, improved services and compelling offers.

The film slate is full, the range and diversity plentiful and whilst the challenges will always keep coming, we've never been as optimistic and positive about our theatrical future.

Stephen Basil-Jones
Chairman, MPDAA

AHEDA members directory



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ENTERTAINMENT ONE FILMS AUSTRALIA PTY LTD

28–30 Queen Street, Chippendale NSW 2008

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MADMAN ENTERTAINMENT PTY LTD

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PARAMOUNT HOME MEDIA DISTRIBUTION AUSTRALIA

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General Manager Reel Dist Karl Wissler

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Building 61, Level 3, Frank Hurley Grandstand,
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T (02) 8353 2100

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Director of Operations Australia Peter McKeon

Director of Sales Australia and New Zealand

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UNIVERSAL SONY PICTURES HOME ENTERTAINMENT (AUSTRALIA) PTY LTD

Level 30, 1 Market Street, Sydney NSW 2000

T (02) 9266 2800

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www.facebook.com/TheViewingLounge

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Appendix: 2014 DVD sales charts by category and best of all time

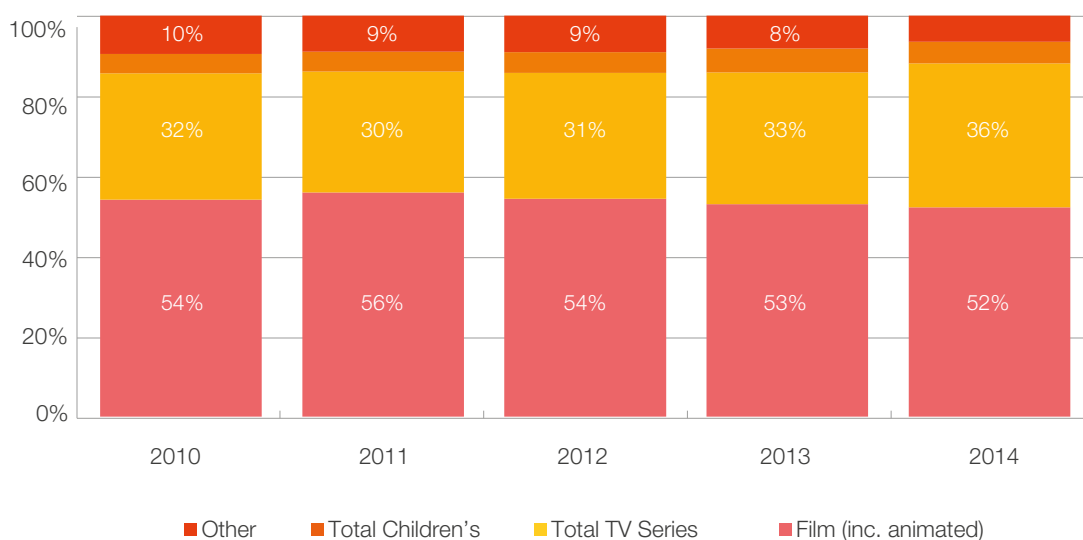


Categories

Looking at the physical retail channel as a whole (DVD and Blu-ray combined), the biggest change in recent years has been the rising share of TV Series, which accounted for 36% of all value in 2014.

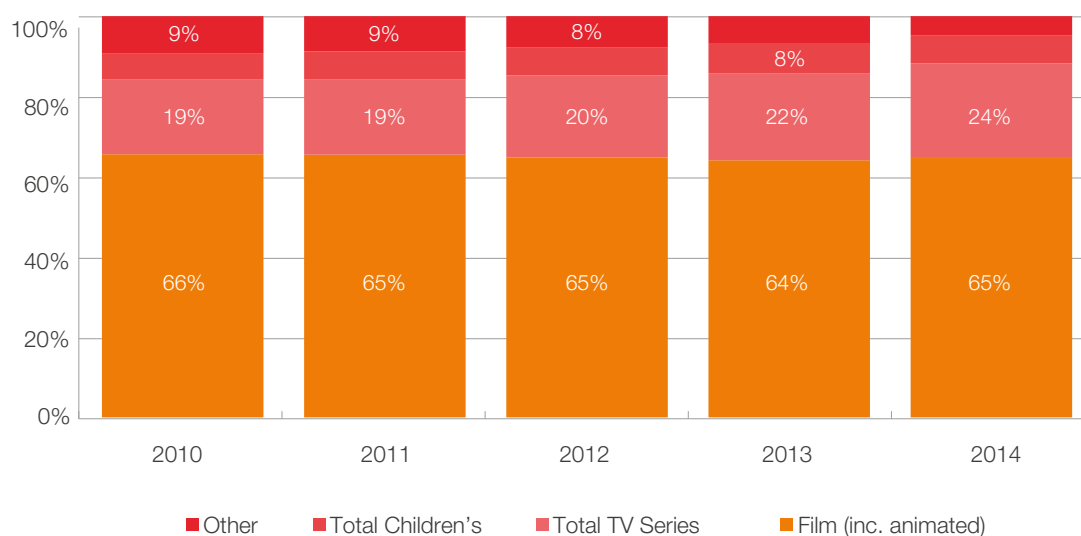
That rise would perhaps be greater still was it not for the impact of piracy. Over 45% of all pirated volume is for TV Series¹, while it accounts for just 24% of disc sales.

GfK RETAIL TRACKING: CATEGORY VALUE % BY YEAR



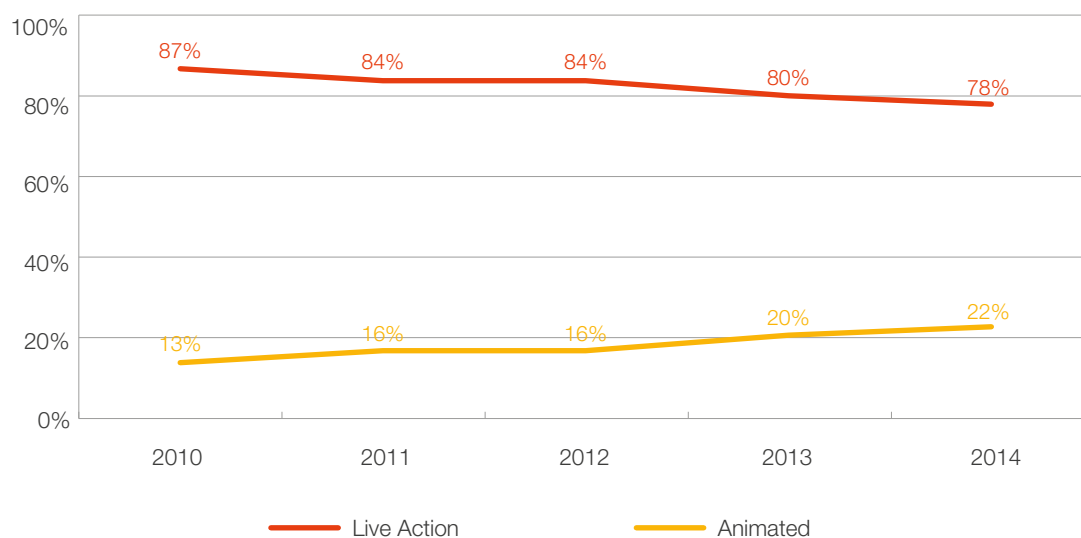
¹ GfK ConsumerScope: Volume of Activity, consumption in the last month? Filtered for piracy. Q3 2014

GfK RETAIL TRACKING: CATEGORY VOLUME % BY YEAR



Categories: Film

GfK RETAIL TRACKING: FILM — ANIMATED VS. LIVE ACTION VALUE %



The film category includes both animated and live action titles. Live action includes action, sci-fi, comedy and drama.

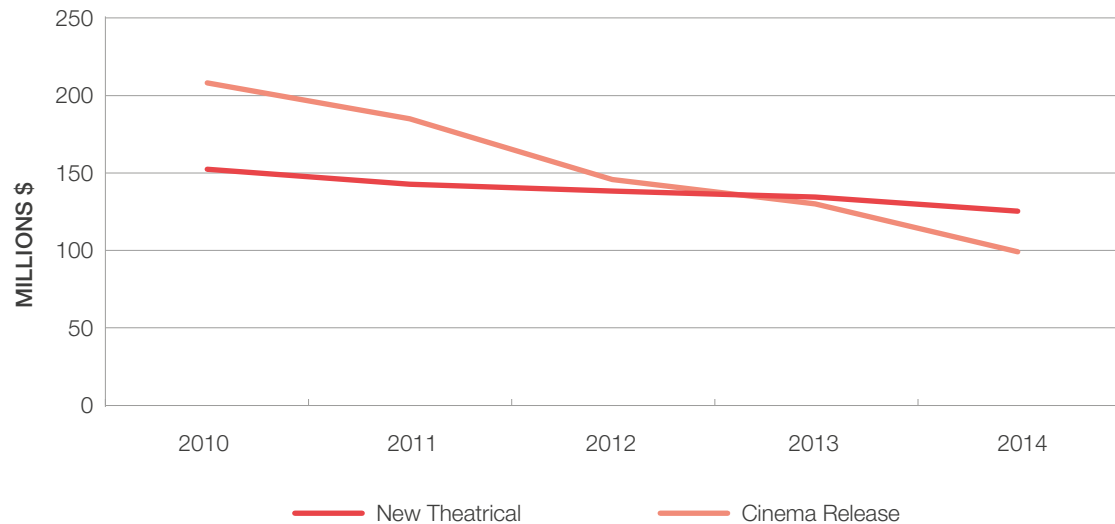
While the live action segment accounts for the majority of the value in the film category, in recent years, there has been a shift towards animated films, which accounted for 22% of all film value in 2014. This was led by the top selling title in 2014; Walt Disney's *'Frozen'*.

Animated titles are still largely sold on the DVD format. Just 10% of animated volume sales were on Blu-ray in 2014, compared to 22% for the live action category. The action, adventure and sci-fi genres are particularly popular on Blu-ray, with more than a third of their sales generated from this higher-quality format.

Sales of film titles can be further analysed by the length of time the title has been available for purchase. New release titles are those that have been available for thirteen weeks or less. Titles older than thirteen weeks are categorised as catalogue.

One of the segments showing the strongest decline in 2014 was catalogue movies, falling 15% in value compared to 2013. A possible reason for that decline may be catalogue fatigue. As the market matures, consumers have populated their home library of catalogue movies, therefore, sales of older titles mature and decline.

GfK RETAIL TRACKING: THEATRICAL CATALOGUE VALUE BY TYPE



The catalogue market can be split into titles that were released within a year of their theatrical release (new theatrical) and titles that were released after that one-year window (cinema release).

Cinema release titles are often re-releases, or titles with new packaging. In 2014, the majority of the decline in catalogue was in this cinema release sub-segment, which dropped by 24%, compared to just 7% decline for new theatrical titles.

GfK RETAIL TRACKING: TOP 5 SELLING CINEMA RELEASE TITLES, 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR
1	THE HUNGER GAMES	ROADSHOW
2	LITTLE MERMAID	WALT DISNEY STUDIOS
3	FINDING NEMO	WALT DISNEY STUDIOS
4	MARY POPPINS	WALT DISNEY STUDIOS
5	ALADDIN (1992)	WALT DISNEY STUDIOS

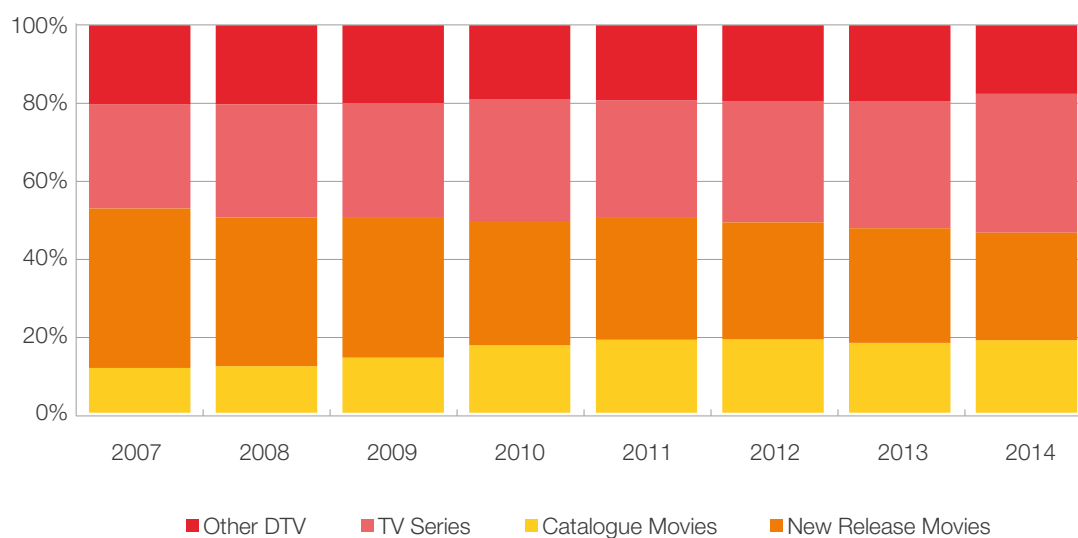
Categories: TV Series

The TV Series category was the top-performing category in 2014. Looking at long-term trends, from 2007 to 2014, the rise in dominance, and importance, of TV is even clearer.

TV Series generated 36% of all value in 2014, with share taken largely from the catalogue category.

Within TV series, there are key licenses that generate a significant proportion of the value. Warner Bros' HBO license 'Game of Thrones' was the top seller, followed by Sony Pictures' 'Breaking Bad'. 5 of the top 10 titles in TV Series are from those 2 licenses.

GfK RETAIL TRACKING: RELEASE TYPE VALUE % BY YEAR



GfK RETAIL TRACKING: TOP 10 SELLING TITLES, TV SERIES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	GAME OF THRONES SEASON 3	WARNER BROS	DRAMA
2	GAME OF THRONES SEASON 2	WARNER BROS	DRAMA
3	GAME OF THRONES SEASON 1	WARNER BROS	DRAMA
4	BIG BANG THEORY SEASON 7	WARNER BROS	COMEDY
5	DOWNTON ABBEY SEASON 4	UNIVERSAL	DRAMA
6	BREAKING BAD SEASON 5 PART 2	SONY PICTURES	DRAMA
7	MRS BROWNS BOYS RIDES AGAIN	UNIVERSAL	COMEDY
8	BREAKING BAD SEASON 1	SONY PICTURES	DRAMA
9	TRUE DETECTIVE SEASON 1	WARNER BROS	DRAMA
10	BREAKING BAD SEASON 5	SONY PICTURES	DRAMA

**GfK RETAIL TRACKING: TOP 10 SELLING LICENSES, TV SERIES, 2014,
RANKED BY VOLUME**

	LICENSE	DISTRIBUTOR
1	GAME OF THRONES	WARNER BROS
2	BREAKING BAD	SONY PICTURES
3	BIG BANG THEORY	WARNER BROS
4	MRS BROWNS BOYS	UNIVERSAL
5	DR WHO	ROADSHOW
6	DOWNTON ABBEY	UNIVERSAL
7	SONS OF ANARCHY	20 TH CENTURY FOX
8	SUPERNATURAL	WARNER BROS
9	WALKING DEAD	20 TH CENTURY FOX
10	TRUE BLOOD	WARNER BROS

Categories: Children's Titles

In 2014, children's titles (titles aimed at children, with a running time under 60 minutes) experienced a year-on-year decline of 18%. During the year, 316 children's titles were released; 80 titles less than the 396 released in 2013. Overall, children's titles accounted for 5% of all market value.

Most of the value in children's is generated from the animated genre, up to 85% in 2014 — a slight increase on previous years.

Roadshow's *'Wiggles'* license was the top selling title of the year, closely followed by Universal's *'Lego'* license.

**GfK RETAIL TRACKING: TOP 10 SELLING LICENSES, TV SERIES, 2014,
RANKED BY VOLUME**

	LICENSE	DISTRIBUTOR
1	WIGGLES	ROADSHOW
2	LEGO	UNIVERSAL
3	PEPPA PIG	20TH CENTURY FOX
4	SCOOBY DOO	WARNER BROS
5	DISNEY MICKEY MOUSE	WALT DISNEY STUDIOS
6	TEENAGE MUTANT NINJA TURTLES	PARAMOUNT/SONY PICTURES
7	ADVENTURE TIME	MADMAN ENTERTAINMENT
8	DORA THE EXPLORER	PARAMOUNT
9	THOMAS & FRIENDS	ROADSHOW
10	SPONGEBOB SQUAREPANTS	PARAMOUNT

Categories: Others

'Other' titles in the disc market include documentaries, music, anime and sport titles.

In 2014, there was a significant dip in sales compared to previous years, with the music genre recording the biggest decline, at 62%. While the overall category was in decline, there were some bright spots, with the anime genre growing by 12%.

Within documentaries, a range of music artists generated sales within the top 10, led by *'One Direction: This Is Us'*, distributed by Sony Pictures.

GfK RETAIL TRACKING: TOP SELLING DOCUMENTARIES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR
1	ONE DIRECTION THIS IS US	SONY PICTURES
2	KATY PERRY PART OF ME	PARAMOUNT
3	COSMOS A SPACETIME ODYSSEY SEASON 1	20TH CENTURY FOX
4	METALLICA THROUGH THE NEVER	20TH CENTURY FOX
5	COAST AUSTRALIA	ROADSHOW
6	KEATING THE INTERVIEWS	ROADSHOW
7	SEARCHING FOR SUGAR MAN	MADMAN ENTERTAINMENT
8	MICHAEL JACKSONS THIS IS IT	SONY PICTURES
9	TRUE STORIES OF WWII	BEYOND
10	SENNA	UNIVERSAL

And within music titles, which consist of actual music performances, rather than music documentaries, Pink's Melbourne tour was the top seller.

GfK RETAIL TRACKING: TOP SELLING MUSIC TITLES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	PINK TRUTH ABOUT LOVE LIVE MELBOURNE	SBME	ROCK & METAL
2	INXS LIVE BABY LIVE	UNIVERSAL MUSIC	ROCK & METAL
3	ONE DIRECTION WHERE WE ARE SAN SIRO	SBME	ROCK & METAL
4	BOB DYLAN THE 30TH ANN. CELEBRATION	SBME	ROCK & METAL
5	ROLLING STONES SWEET SUMMER SUN	SHOCK RECORDS	ROCK & METAL
6	NEIL FINN & PAUL KELLY GOIN YOUR WAY	UNIVERSAL MUSIC	ROCK & METAL
7	COLD CHISEL LIVE TAPES VOL 1	UNIVERSAL MUSIC	ROCK & METAL
8	ROBBIE WILLIAMS 1NIGHT LONDON PALLADIUM	ROADSHOW	DANCE
9	MUSICARES TRIBUTE BRUCE SPRINGSTEEN	SBME	ROCK & METAL
10	ERIC CLAPTON CROSSROADS FESTIVAL 2013	WARNER MUSIC	ROCK & METAL

In the growing Anime genre, Madman Entertainment titles performed particularly well.

'Attack on Titan' and 'Sword Art Online' were both well represented in the top 10.

GfK RETAIL TRACKING: TOP SELLING ANIME TITLES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	ATTACK ON TITAN COLLECTION 1	MADMAN ENTERTAINMENT	ROCK & METAL
2	THE WIND RISES	MADMAN ENTERTAINMENT	ROCK & METAL
3	WOLF CHILDREN	MADMAN ENTERTAINMENT	ROCK & METAL
4	MY NEIGHBOR TOTORO	MADMAN ENTERTAINMENT	ROCK & METAL
5	ATTACK ON TITAN COLLECTION 2	MADMAN ENTERTAINMENT	ROCK & METAL
6	SWORD ART ONLINE VOL 1 AINCRAD PART 1	MADMAN ENTERTAINMENT	ROCK & METAL
7	HOWLS MOVING CASTLE	MADMAN ENTERTAINMENT	ROCK & METAL
8	SWORD ART ONLINE VOL 2 AINCRAD PART 2	MADMAN ENTERTAINMENT	DANCE
9	SWORD ART ONLINE VOL 3 FAIRY DANCE PART 1	MADMAN ENTERTAINMENT	ROCK & METAL
10	PRINCESS MONONOKE	MADMAN ENTERTAINMENT	ROCK & METAL

And finally, one for all Australians, within the sport and health and fitness genres, Roadshow's *'Ashes: The Urn Returns'* led the way.

GfK RETAIL TRACKING: TOP SELLING SPORT AND HEALTH AND FITNESS TITLES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	ASHES: THE URN RETURNS	ROADSHOW	SPORT
2	WWE WRESTLEMANIA 30	SHOCK RECORDS	SPORT
3	2014 AFL GRAND FINAL TEAM A HAWTHORN	SHOCK RECORDS	SPORT
4	BLACK CAVIAR THE HORSE OF A LIFETIME	SCOOTER ENT.	SPORT
5	WWE ROYAL RUMBLE 2014	SHOCK RECORDS	SPORT
6	NBA ULTIMATE JORDAN DELUX ED	BEYOND	SPORT
7	MICHELLE BRIDGES PROJECT	SCOOTER ENT.	HEALTH & FIT
8	1 (ONE) (2013)	20TH CENTURY FOX	SPORT
9	NRL PREMIERS 2014 SOUTH SYDNEY RABBIT	BEYOND	SPORT
10	MICHELLE BRIDGES ITS CRUNCH TIME	SCOOTER ENT.	HEALTH & FIT

Top Seller Charts by Film Genre

GfK RETAIL TRACKING: TOP SELLING ACTION TITLES, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	THE HUNGER GAMES: CATCHING FIRE	ROADSHOW	ACTION
2	THOR THE DARK WORLD	WALT DISNEY STUDIOS	ACTION
3	X-MEN DAYS OF FUTURE PAST	20TH CENTURY FOX	ACTION
4	WHITE HOUSE DOWN	SONY PICTURES	ACTION
5	THE HUNGER GAMES	ROADSHOW	ACTION
6	DIVERGENT	20TH CENTURY FOX	ACTION
7	EDGE OF TOMORROW	ROADSHOW	ACTION
8	300 RISE OF AN EMPIRE	WARNER BROS	ACTION
9	2 GUNS	SONY PICTURES	ACTION
10	47 RONIN (2013)	UNIVERSAL	ACTION

**GfK RETAIL TRACKING: TOP SELLING ADVENTURE TITLES, FULL YEAR 2014,
RANKED BY VOLUME**

	TITLE	DISTRIBUTOR	GENRE
1	HOBBIT THE DESOLATION OF SMAUG	WARNER BROS	ADVENTURE
2	GUARDIANS OF THE GALAXY	WALT DISNEY STUDIOS	ADVENTURE
3	CAPTAIN AMERICA THE WINTER SOLDIER	WALT DISNEY STUDIOS	ADVENTURE
4	AMAZING SPIDER-MAN 2 RISE OF ELECTRO	SONY PICTURES	ADVENTURE
5	MALEFICENT	WALT DISNEY STUDIOS	ADVENTURE
6	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	ADVENTURE
7	NOAH	PARAMOUNT	ADVENTURE
8	PERCY JACKSON SEA OF MONSTERS	20TH CENTURY FOX	ADVENTURE
9	AMAZING SPIDER-MAN	SONY PICTURES	ADVENTURE
10	HERCULES (2014)	PARAMOUNT	ADVENTURE

**GfK RETAIL TRACKING: TOP SELLING ANIMATED TITLES, FULL YEAR 2014,
RANKED BY VOLUME**

	TITLE	DISTRIBUTOR	GENRE
1	FROZEN (2013)	WALT DISNEY STUDIOS	ANIMATED
2	THE LEGO MOVIE	ROADSHOW	ANIMATED
3	HOW TO TRAIN YOUR DRAGON 2	20TH CENTURY FOX	ANIMATED
4	PLANES	WALT DISNEY STUDIOS	ANIMATED
5	TURBO	20TH CENTURY FOX	ANIMATED
6	DESPICABLE ME 2	UNIVERSAL	ANIMATED
7	CLOUDY WITH A CHANCE OF MEATBALLS 2	SONY PICTURES	ANIMATED
8	HOW TO TRAIN YOUR DRAGON	20TH CENTURY FOX	ANIMATED
9	MR PEABODY & SHERMAN MOVIE	20TH CENTURY FOX	ANIMATED
10	MONSTERS UNIVERSITY	WALT DISNEY STUDIOS	ANIMATED

**GfK RETAIL TRACKING: TOP SELLING COMEDY TITLES, FULL YEAR 2014,
RANKED BY VOLUME**

	TITLE	DISTRIBUTOR	GENRE
1	BAD NEIGHBOURS	UNIVERSAL	COMEDY
2	GROWN UPS 2	SONY PICTURES	COMEDY
3	MRS BROWNS BOYS DMOVIE	UNIVERSAL	COMEDY
4	A MILLION WAYS TO DIE IN THE WEST	UNIVERSAL	COMEDY
5	22 JUMP STREET	SONY PICTURES	COMEDY
6	RIPD	UNIVERSAL	COMEDY
7	ANCHORMAN 2 THE LEGEND CONTINUES	PARAMOUNT	COMEDY
8	JACKASS PRESENTS BAD GRANDPA	PARAMOUNT	COMEDY
9	THE OTHER WOMAN (2014)	20TH CENTURY FOX	COMEDY
10	PITCH PERFECT	UNIVERSAL	COMEDY

**GfK RETAIL TRACKING: TOP SELLING DRAMA TITLES, FULL YEAR 2014,
RANKED BY VOLUME**

	TITLE	DISTRIBUTOR	GENRE
1	THE WOLF OF WALL STREET	ROADSHOW	DRAMA
2	THE BOOK THIEF	20TH CENTURY FOX	DRAMA
3	ABOUT TIME	UNIVERSAL	DRAMA
4	CAPTAIN PHILLIPS	SONY PICTURES	DRAMA
5	SAVING MR BANKS	WALT DISNEY STUDIOS	DRAMA
6	RAILWAY MAN	PARAMOUNT	DRAMA
7	THE FAULT IN OUR STARS	20TH CENTURY FOX	DRAMA
8	GREAT GATSBY (2013)	ROADSHOW	DRAMA
9	PHILOMENA	20TH CENTURY FOX	DRAMA
10	MONUMENTS MEN	20TH CENTURY FOX	DRAMA

GfK RETAIL TRACKING: TOP SELLING TITLES — ALL OTHER GENRES COMBINED, FULL YEAR 2014, RANKED BY VOLUME

	TITLE	DISTRIBUTOR	GENRE
1	GRAVITY (2013)	WARNER BROS	SCI-FI
2	TRANSFORMERS AGE OF EXTINCTION	PARAMOUNT	SCI-FI
3	TEENAGE MUTANT NINJA TURTLES (2014)	PARAMOUNT	FAMILY
4	SMURFS 2	SONY PICTURES	FAMILY
5	GODZILLA (2014)	WARNER BROS	SCI-FI
6	RIDDICK	ROADSHOW	SCI-FI
7	DAWN OF THE PLANET OF THE APES	20TH CENTURY FOX	SCI-FI
8	ELYSIUM	SONY PICTURES	SCI-FI
9	PACIFIC RIM	WARNER BROS	SCI-FI
10	MARY POPPINS	WALT DISNEY STUDIOS	FAMILY

The best of all time: Life-to-Date Sales

Since the launch of GfK reporting in August 1997, 'Avatar' tops the chart as the top selling physical disc of all time. 'Avatar' is particularly strong on the Blu-ray format, where it has sold more than double the next biggest title.

As these charts include the sales of a product throughout its lifetime, it is not surprising that most of the titles in the top 10 have been in the market for 10 years or more.

GfK RETAIL TRACKING: TOP SELLING TITLES, LIFE TO DATE, RANKED BY VOLUME

	MODEL	DISTIBUTOR	RELEASE DATE
1	AVATAR (2009)	20TH CENTURY FOX	29/04/2010
2	FINDING NEMO	WALT DISNEY STUDIOS	13/01/2004
3	HARRY POTTER PHILOSOPHERS STONE	WARNER BROS	28/05/2002
4	SHREK	UNIVERSAL	7/11/2001
5	LOTR: FELLOWSHIP OF THE RING	ROADSHOW	6/08/2002
6	MONSTERS INC	WALT DISNEY STUDIOS	30/09/2002
7	HARRY POTTER CHAMBER OF SECRETS	WARNER BROS	11/04/2003
8	TITANIC	20TH CENTURY FOX	14/01/1998
9	LOTR: TWO TOWERS	ROADSHOW	23/08/2003
10	ICE AGE	20TH CENTURY FOX	16/10/2002

GfK RETAIL TRACKING: TOP SELLING DVD TITLES, LIFE TO DATE, RANKED BY VOLUME

	MODEL	DISTIBUTOR	RELEASE DATE
1	FINDING NEMO	WALT DISNEY STUDIOS	13/01/2004
2	AVATAR (2009)	20TH CENTURY FOX	29/04/2010
3	LOTR: TWO TOWERS	ROADSHOW	23/08/2003
4	LOTR: RETURN OF THE KING	ROADSHOW	25/05/2004
5	LOTR: FELLOWSHIP OF THE RING	ROADSHOW	6/08/2002
6	TWILIGHT (2008)	SONY PICTURES	22/04/2009
7	PIRATES OF THE CARIBBEAN	WALT DISNEY STUDIOS	17/03/2004
8	MONSTERS INC	WALT DISNEY STUDIOS	30/09/2002
9	HARRY POTTER PRISONER OF AZKABAN	WARNER BROS	1/12/2004
10	HARRY POTTER CHAMBER OF SECRETS	WARNER BROS	11/04/2003

GfK RETAIL TRACKING: TOP SELLING BLU-RAY TITLES, LIFE TO DATE, RANKED BY VOLUME

	MODEL	DISTIBUTOR	RELEASE DATE
1	AVATAR (2009)	20TH CENTURY FOX	29/04/2010
2	HOBBIT AN UNEXPECTED JOURNEY	WARNER BROS	1/05/2013
3	MARVEL THE AVENGERS	WALT DISNEY STUDIOS	29/08/2012
4	INCEPTION	WARNER BROS	8/12/2010
5	BATMAN THE DARK KNIGHT RISES	WARNER BROS	28/11/2012
6	TRANSFORMERS DARK OF THE MOON	PARAMOUNT	10/11/2011
7	BATMAN THE DARK KNIGHT	WARNER BROS	10/12/2008
8	STAR WARS SAGA EPISODES I-VI	20TH CENTURY FOX	14/09/2011
9	HARRY POTTER DEATHLY HALLOWS PART 2	WARNER BROS	16/11/2011
10	THE HUNGER GAMES	ROADSHOW	17/08/2012

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GfK is the trusted source of relevant market and consumer information that enables its clients to make smarter decisions. More than 13,000 market research experts combine their passion with GfK's 80 years of data science experience. This allows GfK to deliver vital global insights matched with local market intelligence from more than 100 countries.

By using innovative technologies and data sciences, GfK turns big data into smart data, enabling its clients to improve their competitive edge and enrich consumers' experiences and choices.

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