

Hollywood studios took a \$2bn hit on new movies during 2006

*Studios must address spiralling costs, particularly
unrealistically high payments for talent*

New York, 12th November 2007: London based media analyst firm Screen Digest (www.screendigest.com) today launches Global Media Intelligence (GMI), a new division dedicated to delivering high quality research and analysis to institutional investors in the US.

GMI's latest report - 'Do Movies Make Money' - published today projects that after five years of exploitation across all global media, the 132 medium-to-big budget films released by the leading US studios in 2006 will produce a loss of \$1.9 billion pre-tax. This compares to a profit of \$2.2 billion for the new releases of 2004.

Despite a recent surge in box office returns, GMI believes that the movie business has seen costs rising faster than revenue for the past several years. Revenues from DVD sales, which accounted for 75% of growth and significant profits from 1999 to 2004, have experienced a worldwide decline over the past three years. A detailed title-by-title analysis was carried out for this report which shows the trend accelerating further in the first half of 2007 with US DVD sales down 12.5% from 2006, with international sales mirroring this decline.

Some executives in the Hollywood studios are looking to the new technologies of Video on Demand and subscription based TV to fill the gap left by DVD. However, GMI estimates that while VoD will offer a superior share of the consumer dollar over traditional pay channels (60% versus 40%) it will not deliver at the lofty levels predicted in the early days of the industry and will not help the studios put "old wine in new bottles."

Financing films has also become a major concern. Until recently, the industry used to generate its own capital entirely from internal sources. However since 2004 when

revenues started to decline, the industry has been forced to seek outside financing, mostly from hedge funds and private equity. GMI believes that this source of capital will not be available on the attractive terms that until recently prevailed.

Sophisticated investors are becoming aware of just how thin, or even non-existent, movie profit margins can be.

One of the biggest sources of increasing costs is for the stars of the movies, particularly the "gross participations" paid to top actors, directors and producers. These costs totalled \$3 billion in 2006 - nearly double that of five years ago. While the studios are currently in negotiations with writers, actors and directors over fees, these salaries are not the main issue; the current cost of producing, casting and advertising movies in the present environment simply exceeds the likely returns.

Roger Smith, author of the report believes the outlook is bleak "Our analysis of the business of the Hollywood studios may come as a surprise to investors and even some people within the industry. We believe there is little chance of the negative revenue trend reversing in the coming years. New technology will not deliver anything like the revenue initially predicted, and as DVD sales continue to decline and the cost of making movies increases, the message is simple: the Hollywood studio's must begin a serious attempt to reign in costs, like News Corporation's Fox have done, if they are to survive."

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About GMI (Global Media Intelligence)

Global Media Intelligence (GMI) is a market research service designed specifically for media-focused institutional investors. Our 40 analysts cover television, motion pictures, video games, mobile media, home entertainment and broadband media, tracking dozens of markets and hundreds of companies all over the world. GMI has recently entered into an exclusive US distribution agreement with Merrill Lynch.

GMI is a division of London-based, Screen Digest, the leading provider of research, data and strategic consulting services to the world's most important media organizations since 1971. Our service includes one-on-one analyst access, searchable and downloadable databases, regular in-depth reports and regular analyst commentary covering critical issues and emerging trends. GMI provides investors with the tools and analysis need to see beyond conventional wisdom.

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