

Viewing revolution poised to hit the big screen

Matthew Garrahan

JPMorgan has been cast in a vital role for a cinematic transformation, says Matthew Garrahan. While the world waits for the great thaw in credit markets, Hollywood executives are paying particularly close attention to the efforts of bankers at JPMorgan.

Backed by commitments from film studios and equity from Blackstone, the bank is preparing to raise debt of about 1bn to fund the installation of digital systems in up to 20,000 North American cinema screens.

Assuming it succeeds, the financing will become a turning point in the entertainment industry because it will pave the way for the mass adoption of 3-D cinema, a consistent crowd-puller.

Hollywood has assembled a pipeline of new 3-D releases, but needs the digital screens if the films are to achieve their full potential. But the studios are confident the financing will succeed and trigger a transformation which some say will be as profound as the addition of sound in the 1920s and the introduction of colour in the 1950s.

"It is the next great revolution ... it will be as important as those other changes," says Jeffrey Katzenberg, chief executive of DreamWorks Animation, which released the Shrek series.

His company is at the forefront of the 3-D push. Walt Disney, Universal Studios and Fox Filmed Entertainment have made similar bets on the new technology.

All DreamWorks Animation films will be released in 3-D starting next March with *Monsters vs Aliens*. Disney has six 3-D films out in the next 14 months: the first, *Bolt*, an animated movie, comes out in November. Fox will release the animated *Ice Age 3* next summer and follow up in early 2010 with *Avatar*, a live-action 3-D film from James Cameron.

The attraction of 3-D is clear. Judging by the success of films released in the format this year, such as Disney's *Hannah Montana* movie, audiences are willing to pay a premium for the experience. "It makes about 3.5 times what the same theatre would do with a 2-D film," says Dick Cook, chairman of Walt Disney Studios.

The company set the bar high when the 3-D *Hannah Montana* earned more than \$30m in its opening weekend from only 700 screens - a tiny fraction of the 37,000 2-D screens in the US. "Audiences crave something new," he adds. "Digital 3-D gives us the opportunity to take the entire theatrical experience and make something unique."

But as with 2-D, the success of 3-D films will depend on their quality, says Richard Greenfield, an analyst with Pali Research. "It's all about content. A bad movie will still be a bad movie in 3-D." Still, the studios supporting 3-D say it can enhance storytelling. Fox is making a big investment with *Avatar*, which has a budget above \$220m.

It is banking on James Cameron, who ushered in a new era of special effects in 1992 with *Terminator 2*, to work his magic again.

"3-D in the hands of a master like James Cameron is an entirely new level of cinematic craft," says Jim Gianopulos, chairman of Fox Filmed Entertainment. "Anything that enhances the audience's ability to immerse itself in the story is a tremendous opportunity for the filmmaker." The success of *Avatar* will partly depend on the number of 3-D-ready screens available by the time of its release. There are about 1,300 3-D screens in the US at the moment but thousands more could be configured once funding is secured for digital conversion.

The cost - about \$70,000 per screen - will initially be borne by the US cinema chains that are part of the Digital Cinema Implementation Partners consortium, which has enlisted JPMorgan to raise the money.

Walt Disney, Paramount Pictures - which distributes DreamWorks Animation films - Universal Pictures, Fox and Lionsgate, have signed up to the DCIP plan and are sharing the financial burden of conversion.

The savings they generate from the new digital systems' will be used to pay off the loans taken out by JPMorgan. Once screens are converted, exhibitors will then need to license a 3-D projection system, but the studios will not need to make additional capital investment.

Yet with credit markets in effect closed, it is unclear when JPMorgan will do the financing. Mr Katzenberg says he is confident in the bank's ability to complete the deal. He predicts there will be 2,500-3,000 3-D screens in the US by the end of 2009. When *Shrek Goes Fourth* is released in summer 2010, he expects there to be 7,500 US 3-D screens. By then, up to 85 per cent of the company's US ticket sales will come from 3-D screens, he says.

With DVDs and high-definition TV sets, the home entertainment experience has gone through its own revolution, adds Mr Katzenberg. "But the theatre experience hasn't really changed for decades. 3-D is a gigantic shot in the arm for the industry."

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