May 2, 2011

The DEG's First Quarter 2011 Home Entertainment Report is compiled by DEG members, tracking sources and retail input.

Due in part to a 25 percent reduction in box-office revenue of the home entertainment new release slate for the first quarter of 2011, U.S. home entertainment spending in the period was down 9.8 percent.

Sell-through was down 18 percent for the quarter, as anticipated, since there were four tentpoles accounting for $1 billion of box office released on Blu-ray and DVD in first quarter 2010 but no such equivalent for first quarter 2011. Further, the Easter holiday, a considerable home entertainment buying season, was not part of first quarter this year, accounting for some of the period's decline. However, the second quarter is off to a strong start, with sell-through up 20 percent in the first few weeks alone.

The industry has proven resilient, with modest gains posted in a number of key areas. According to The NPD Group's recent "Entertainment Trends in America" report, while digital home video options are gaining in popularity, more than three quarters of U.S. consumers continue to view movies on DVD and Blu-ray Disc.

In Blu-ray Disc software sales, consumer spending was up nearly 10 percent over the same period 2010. Blu-ray 3D software is also beginning to show signs of material growth, with anticipated retail sales of more than $100 million for the year.

Additionally, Blu-ray Disc hardware increased, with sales (inclusive of BD set-tops, PS3s and HTiBs) up more than 13 percent over first quarter 2010. This brings total household penetration of all Blu-ray compatible devices to nearly 30 million U.S. homes.

Further, nearly seven million HDTVs were sold to U.S. consumers in first quarter 2011, up 11 percent over first quarter 2010. HDTV penetration life-to-date is more than 64.5 million U.S. households.

Emerging formats such as digital distribution provided additional growth for the industry with electronic sell-through spending up nearly 11 percent and consumer spend on VOD up nine percent in the quarter. In total, digital movie transactions were up close to 10 percent over the same period last year.

The home entertainment business is morphing as increased enhancements to technologies like Blu-ray Disc, Blu-ray 3D and new digital service offerings are made available. Our analysis demonstrates that home entertainment consumers still have a strong appetite for value and convenience.

Amid the macro-economic challenges we face, the DEG expects a number of growth opportunities for the remainder of 2011, fueled by an impressive array of blockbuster theatrical releases in the third and fourth quarters. This will help the industry to round out 2011, with consumer spend flat, or up slightly, and transactions up by the end of the year.

DEG FIRST QUARTER 2011 HOME ENTERTAINMENT REPORT

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Q1-2011 U.S. CONSUMER SPENDING AND TRANSACTIONS BY FORMAT			
U.S. Consumer Spending	**Q1**	**Q1**	**% Chg**
($ in millions)	**2010**	**2011**	**YOY**
Sell-Thru Packaged Goods	$ 2,584.80	$ 2,068.03	-19.99%
Sell-Thru (including EST)	$ 2,712.09	$ 2,208.61	-18.56%
Rental:			
Brick and Mortar Rental	$ 688.96	$ 440.00	-36.14%
Subscription (physical and streaming)	$ 523.00	$ 695.82	33.04%
Kiosk	$ 281.14	$ 367.79	30.82%
Total Rental (including streaming,excluding VOD)	$ 1,493.10	$ 1,503.61	0.70%
Total Rental (including VOD)	$ 1,928.45	$ 1,976.83	2.51%
Digital:			
Electronic Sell-Thru	$ 127.29	$ 140.57	10.44%
VOD	$ 435.34	$ 473.23	8.70%
Total Digital	$ 562.63	$ 613.80	9.09%
Total U.S. Home Entertainment Spending	$ 4,640.53	$ 4,185.44	-9.81%