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Viewing revolution poised to hit the big screen



By Matthew Garrahan in Los Angeles
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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 one-time gimmick that has become a consistent, premium-priced crowd-puller.

Coming soon to your living room

Hollywood rarely speaks with one voice, yet the studios that make up the film industry are in broad agreement about the potential impact of 3-D, writes Matthew Garrahan.

But while a consensus has emerged on the benefits 3-D can bring to animated films, the jury is out on the impact it will have on live-action movies.

"The issue with 3-D is that the property has to make sense," says Scott Sherr, senior vice-president of digital cinema operations at [Sony](#). "The industry doesn't yet have a clear vision of the future of 3-D for live-action, but we do know that it makes sense for animation."

Jeffrey Katzenberg, chief executive of [DreamWorks Animation](#), says the technology will eventually be used in all films – live-action as well as animation. “If we look back to the transition from silent film to sound . . . five years later, there were no silent films being made. And if you look back from the transition from black and white to colour . . . five years later all movies were being made in colour.”

He also anticipates 3-D making its way into the home. “Over the years it will transition into every device that we use to watch content.”

Sandy Climan, chief executive of 3eality Digital, a 3-D production company, agrees. He expects to see early 3-D applications for home use unveiled at January’s Consumer Electronics Show in Las Vegas.

Mr Climan is most excited about what the technology could ultimately do for sports broadcasting. The technology has already been tested with boxing and “puts you right in the ring”, he says.

Sales of high-definition TV in the US were soaring before the recent slowdown in consumer spending, partly because HD TV sets have greatly enhanced the experience of watching sport on TV.

“These new TVs are 3-D ready,” says Mr Climan. “HD is a stopping-off point on the way to 3-D.”

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 ultimately 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.

Military solution to viable projection

When Michael Lewis, the chief executive of Real D, began thinking about how to create a viable 3-D projection system for cinemas, he turned to Stereographics, a company that designed 3-D applications for Nasa and the US military, writes Matthew Garrahan.

"Their products were used with the Mars rover," he says. "You don't want to drive a \$500m vehicle off a cliff because you can't see in 3-D."

After licensing Stereographics software, Real D eventually bought the company so it could create its own 3-D projection system. With Shamrock, the private equity group chaired by Roy Disney, an early investor in Real D, Mr Lewis's company has become a key player in a fast-expanding industry.

Real D technology is used on 1,500 screens globally and the company has contracts to install another 5,000, once those cinemas install digital systems.

Like the studios producing 3-D movies, Mr Lewis has patiently waited for the big cinema chains to convert to digital. He says the recent agreement between the consortium of the biggest US cinema chains and five of the biggest Hollywood studios, was "huge" for Real D.

"Now this deal has been completed it gives the content producers and distributors confidence that there's going to be a platform for their 3-D investments," he says.

He says 3-D is attractive even with only a limited number of screens available for distributors. "Walden Media's *Journey to the Centre of the Earth* in 3-D was expected to make about \$50m at the box office and it made more than \$100m," he says.

Repeat business is an important factor with 3-D, he adds.

"That's one thing we have lost in the movie business . . . when I was a kid I would go and see a movie three or four times."

"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, such as a RealD or Dolby box, 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. "It is arguably the strongest bank standing."

He predicts there will 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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3-D cinema: past, present, future

By Steve Bernard, Mario Lendvai and Jeremy Lemer
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The lure of 3-D cinema has never been stronger. The format is a consistent crowd-puller that attracts a premium price from cinemagoers. As a result Hollywood is preparing to spend big money on rolling out 3-D compatible digital projection technology at theatres across North America (read Matthew Garrahan's analysis [here](#)). In this interactive graphic we take you through the history of the technique, show you the latest 3-D cinema setups and crunch some statistics on the industry.

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