AHEDA presentation
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It has been a long twelve months since the last AHEDA conference that I attended in Pyrmont.

Not long after last year's conference Netflix and Stan were launched, and their arrival is the latest - but possibly the most disruptive – recent development to challenge the established business models around both theatrical and home entertainment. Although there is now more competition for the consumer's time and money, this shift may help to connect audiences to more paid subscription and transactional online content, as new customers embrace new technology.

Digital disruption is radically rewriting the rules of our business in much the same way that it did with other creative industries such as music and publishing, altering not only established release patterns and revenue models but causing seismic shifts in audience behaviour and expectations.

We saw just a few weeks ago, research released by Canstar Blue that showed Netflix is blitzing the ranks with consumer satisfaction. Out of a possible 5-star rating, Netflix was the only paid TV service in Australia to be awarded 5-stars, followed by Stan at 4, with Foxtel, Presto and Quickflix all equal on 3-star rating.

It was also not long after these launches that Screen Australia released an Issues Paper focusing on the changing local and global distribution landscape. This paper pointed out that this was perhaps the most challenging time for Australian feature films – certainly theatrically – in living memory – and it was likely to only get harder.

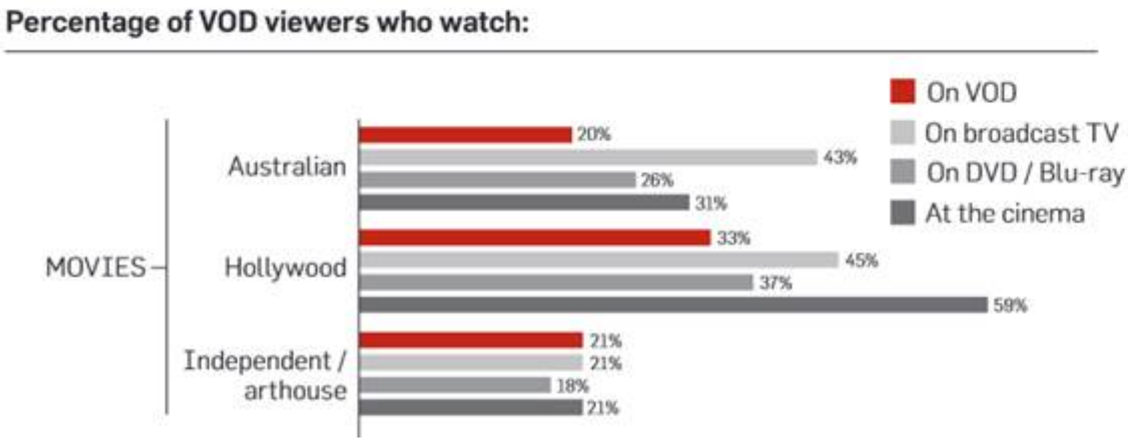
The paper noted the massive increase in competition in the spaces for films where Australian content traditionally played – in particular the limited release/s of less than 100 screens. Essentially, there were more films available for fewer slots. This means that the intense competition for screens and audiences is primarily impacting smaller films, while Hollywood blockbusters continue to enjoy a large box office haul. At the same time, audience behaviour was changing, and the release patterns were increasingly calling either for a very low cost run or to go for a go big or go home approach.

The paper noted that the home entertainment market, across traditional rental and sell-through, as well as through all of the emerging VOD services – be they transactional, ad-supported or subscription driven – was going to become a more important place for audiences to access Australian content in the future.

Having said that, it is worth noting that home entertainment has been a very strong place for Australian audiences consuming our product. Previous research that we have done has demonstrated that Australian films index better on home entertainment than at the cinema

For example, in 2014- when cinema box office was at rock bottom, Australian titles accounted for 7.2% of value of overall Australian DVD retail sales (up from 5.9% in 2013). And 1.8% of blue ray (up from 1.5) which is probably not surprising as blue ray tends to be high action and effects driven – the sort of film that you MUST have on BluRay.

And NIELSEN research commissioned by Screen Australia in 2014 supported the theory that the cinema is the most popular way to watch Hollywood films, television the most popular way to watch Australian films. Independent/arthouse films were the most 'platform-agnostic'.

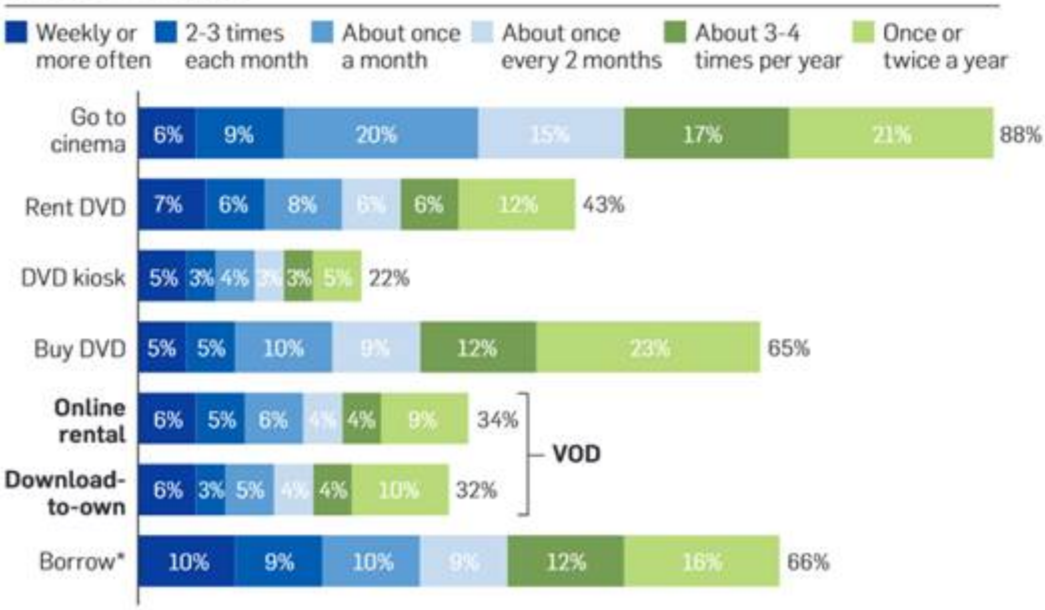


Interestingly TV drama – has been a key driver for home entertainment revenue – and a top earning program type for Australian DVD titles – which had an 8% share of the category. Titles like *Top of the Lake*, *Miss Fisher's Murder Mysteries*, *Anzac Girls*, and *A Place to call home* have all performed well on DVD.

Screen Australia research Hearts and minds – 2013– clearly showed that when it came to consumption of local screen stories – TV was the dominant platform – either via free to air or DVD. Comments from some of the participants in this research found that people will watch the 'classics' DVDs (think *Muriel's Wedding*) over and over again, with many also stating that the way they discover Australian films, is by a family member bringing home the DVD because they either missed it at the cinema, or they didn't hear about it.

Last audience behaviour research – 2014 – showed that people were still primarily consuming content via cinema and DVDs – rather than VOD. It also showed that those people who were switching to VOD still consumed content via other more conventional means – both going to cinema and also purchasing DVDs:

Frequency of watching movies and TV programs on various platforms among VOD viewers



*Borrowing or exchanging movies or television content with friends or family via USB stick, DVD or through filesharing.

While our latest research is already of date both in terms of audience behaviour as well as the data on actual business results, it is still a useful comparative tool for us to measure against, and will be something that we will build upon, as technology continues to change.

If we move back to our 2015 distribution paper, what we did note, however, was the re-emergence of the cinema as an important element in the release ecology, and in an era of digital abundance its importance in setting the weather for other ancillary releases down the track.

Strangely enough, having released this paper, we then saw Australian films register a record year - sailing past the 2001 record of $63.4m in October, finishing at just over $88m in revenue. While the figures are great on paper - we mustn't forget that the success of these films is largely down to playing to the genres that we know work in Australia. Good-feel family films; culturally relevant dramas, and Hollywood blockbuster-style films.

While this was rightly celebrated – we now had evidence that despite the quiet 2014, that Australian audiences still were interested in watching Australian films – the key take away from our Issues paper still held. In short, those Australian films that made a significant contribution to the box office results were ones that played well to those audiences still attending theatrical – in particular kids/family films (Paper Planes, Oddball, Blinky Bill), blockbusters (Mad Max), and films that skew to females and older audiences, and preferably both (Dress maker, Last Cab). In other words, theatrical could work well – in fact spectacularly well – for Australian films that played well to these audiences.

Where it is working less well – and this around the world – is in the area of independent and arthouse fare. In other words, the sorts of films that Australia has generally produced over the past 40 years. While this has always been a challenged part of the market, the appetite for audiences to watch these films in a cinema setting has diminished dramatically. Films that would have taken 3,4 and perhaps $5M ten years ago, are now unlikely to take half of these numbers. $1m has become the new benchmark of success. Films like Holding the Man – which took just north of $1M – was the 2015 film which fitted into this category.

So, despite last year's somewhat freakish theatrical result for Australian films, we are all too aware of the fact that audience behaviour has fundamentally changed. The genie, if you like, has been let out of the bottle. The movie theatre has become a destination for audiences seeking very particular sorts of cinematic experiences.

We want to ensure that our local films continue to resonate with audiences and to create a cultural legacy for future generations. The challenge is to consider the audience from the outset in devising distribution strategies that compel and capture attention in a far more challenging market. This is something we are hoping to achieve through our Gender Matters and Family Film initiative – acknowledging and targeting an audience, and trying to capitalise on it from the very beginning.

People are watching more content than ever on an increasing array of platforms – both at home and mobile. In terms of audiences, this is where we have to increasingly focus our attention. The real challenge for the production sector, however, is that the dollars are not necessarily following. (STATS re dollars worldwide – collapse of amount of money being generated by VOD – digital cents etc). As anyone in this room who understands film financing would understand, this is having profound consequences for the broader film investment ecology.

So have there been any learnings from our overall returns from our returns/recoupment?

While the investors' income may come from home entertainment and ancillary sources after the Distributor has recouped the MGs, the bulk of the return to the distributors is from theatrical sources. Theatrical revenue was worth 64% of total income to the distributor while DVD and VOD returned around 31%. When the films released in 2015 which include our most successful box office performers and which have not yet had a long DVD life, are removed the DVD numbers don't change greatly; theatrical returning 55% and DVD and VOD about 31%.

An initial look at our figures, show that from this small sample, DVD remains steady. It's likely that family films will do better in physical DVD sales particularly as these numbers include Christmas sales.

VOD returns are still a very small percentage of total income compared to DVD. In our sample of films released in 2013-14 only 8% of the revenue returned to the film was from VOD compare with 23% for DVD.

We recognise the importance of the home entertainment marker, and will continue to monitor our returns and recoupments to help paint a clearer picture, of where we currently sit.

One other thing that 2015 reaffirmed was the interconnectedness of the sector that I mentioned earlier – and in particular the impact that a good theatrical release can have on the later releases of certain films in the chain.

The early results for Dressmaker, Oddball and Last Cab show very strong DVD sales well above distributor expectations and indicate the importance of a strong theatrical in building awareness and interest in films for the home entertainment market.

So what we are doing at Screen Australia? Well, we are playing with all sorts of home entertainment releasing pilots – both hard and soft

In the last couple of years, the guidelines for the P&A loan program has evolved to reflect the changing distribution landscape, originally the fund was designed to broaden the theatrical release by boosting the advertising spend and screen count for local films. We acknowledge that each film has a unique pathway to market and some titles, with the right campaign, can reach their potential and connect with audiences without following the traditional distribution model. As a result we can support Australian titles looking for a Home Entertainment premiere.

An area of great interest for us is 'how can the noise and heat created in the lead up to a theatrical release be emulated for a direct to Home Ent title"? With fragmentation of the media landscape we want to explore new digital marketing strategies and social media executions that can be cost effective ways to build excitement and interest in our slate of films.

We recently supported eOne and its release of KILL ME 3 TIMES starring Simon Pegg. The distributor presented a strong marketing plan and we were keen to experiment with innovative ways of amplifying awareness for a DTD release with clever digital marketing and paid advertising boost. [I've asked eOne for a post campaign report and some anecdotal performance comments for KM3T, stay tuned]

Home Entertainment continues to be a crucial link in the screen content chain and although there are challenges ahead, business models may adjust, audiences are hard to reach but there are more screens available than ever and they need quality content.

Given our content diet has been so drastically expanded it is critical that Australian content makes its presence felt across all platforms.

New platforms for content present new innovative options for the industry – from partnerships, to collaborations, we can build on our existing frameworks to ensure that we are moving and embracing new technologies, as well as adapting to audience behavior and expectations.