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Declining Consumer Interest in Optical: Hi Def Not Yet a Factor

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OSTA Conference
September 19th, 2007

Next Generation DVD Remains a Difficult Sell to US Consumers

- Awareness is low
 - Only 20% of consumers are aware of HiDef
- Case is not clear
 - Consumers are very happy with upconvert DVD
- VG consoles aren't the content Trojan Horse
 - Few consumers (6%) watch movies on their console
- Last generation drivers not available
 - PC market is mostly closed to next generation optical opportunity
 - Growth in capacity of NAND flash and HDDs has rendered much of the storage/backup benefit that optical offered consumers irrelevant

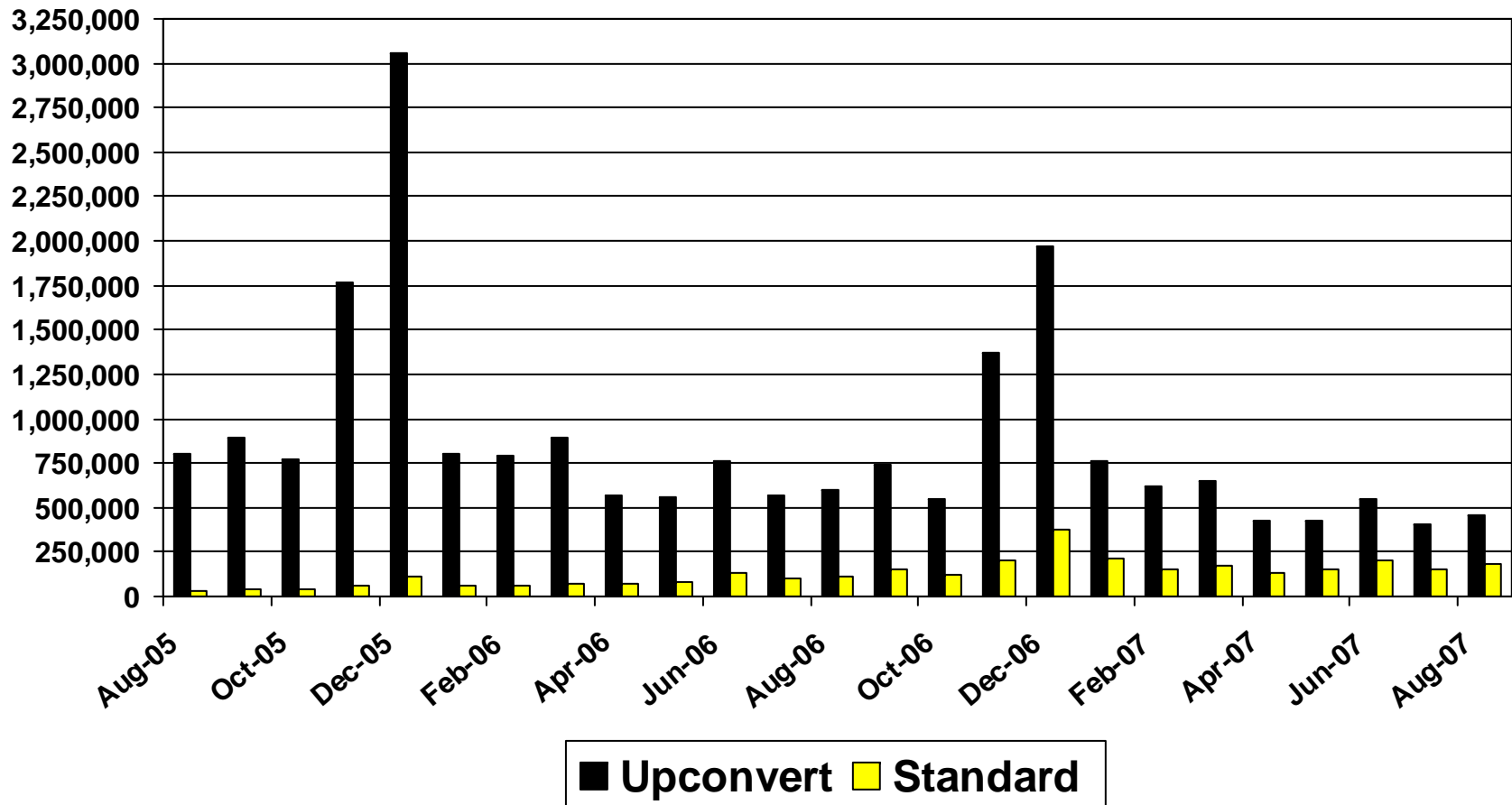
But Some Bright Spots of Opportunity Show Themselves

- HD owners want it.... And they are rapidly growing
 - 11% of consumers say they will buy a Next Gen player in the next 6 months
- TV pricing and margin compression means retailers and brands need to offer compelling reasons to upsell LCD, Plasma and Rear Projection TVs
 - HiDef provides a quantifiable reason for consumers to buy up (higher resolution) and buy big (larger screens)
 - 85% of non Hi Def buyers say they don't own a HD TV
 - 53% of Next Gen DVD owners bought to optimize their movie experience
 - 23% bought it at the same time as their HD TV
- Format wars have been net positive driving player costs down faster and farther than typical at this stage
 - Customers expect to pay \$358 for a Hi Def player

Key Next Gen Optical Sales Stats

- Burning is a non-starter....less \$1m worth of blank discs sold this year so far
- Less than .5% of Notebooks and under .25% of desktops sold through channels in 2007 included a Next Gen optical drive
- NBs with Next Gen drives sell for \$2113 vs \$885 for standard NBs
- Total retail \$ of standalone players are still less than \$100m since launch
- VG platforms have sold 200k HD DVD drives and 1.8m PS3

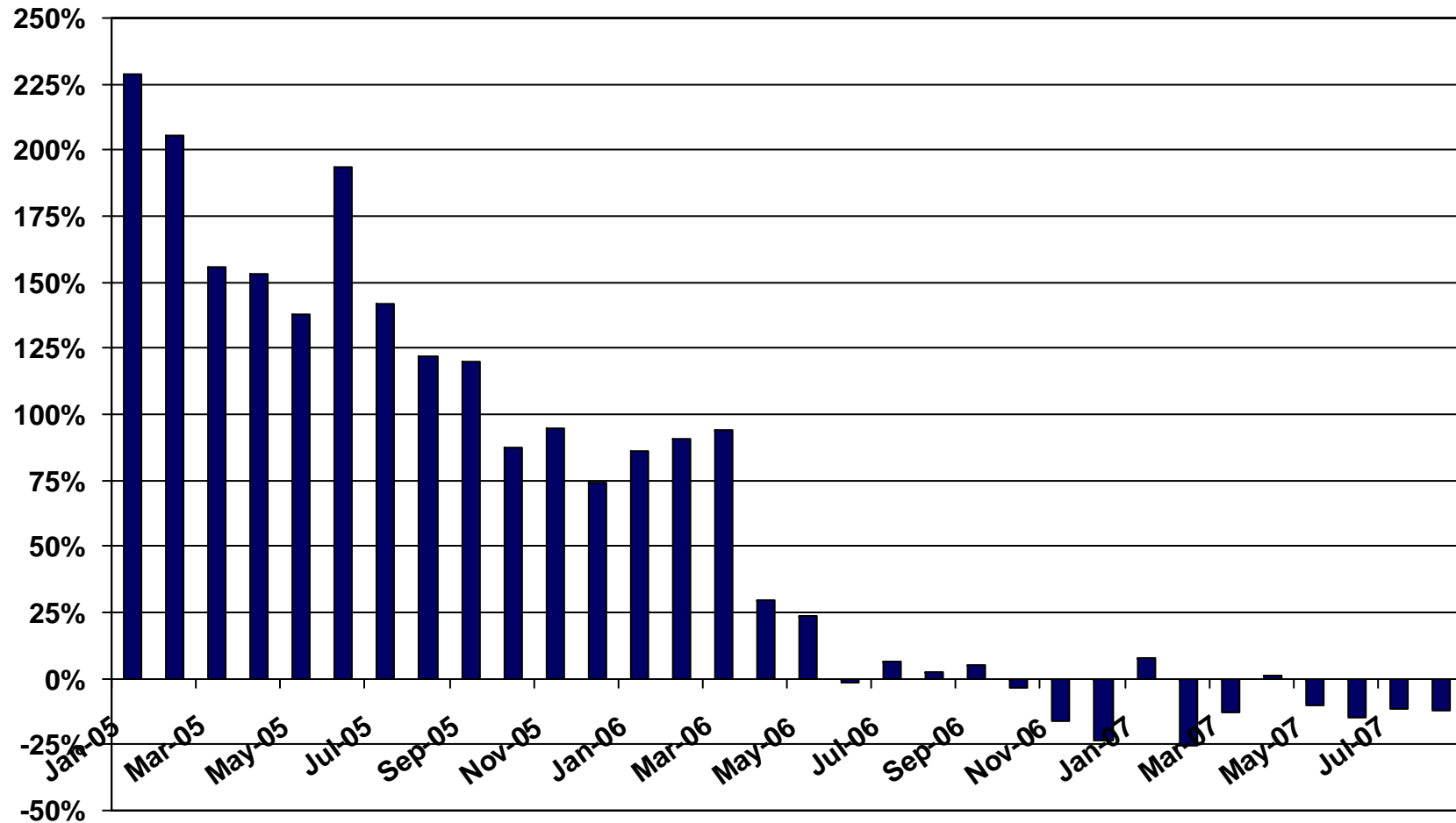
Upconvert Players represent a growing % of a declining business



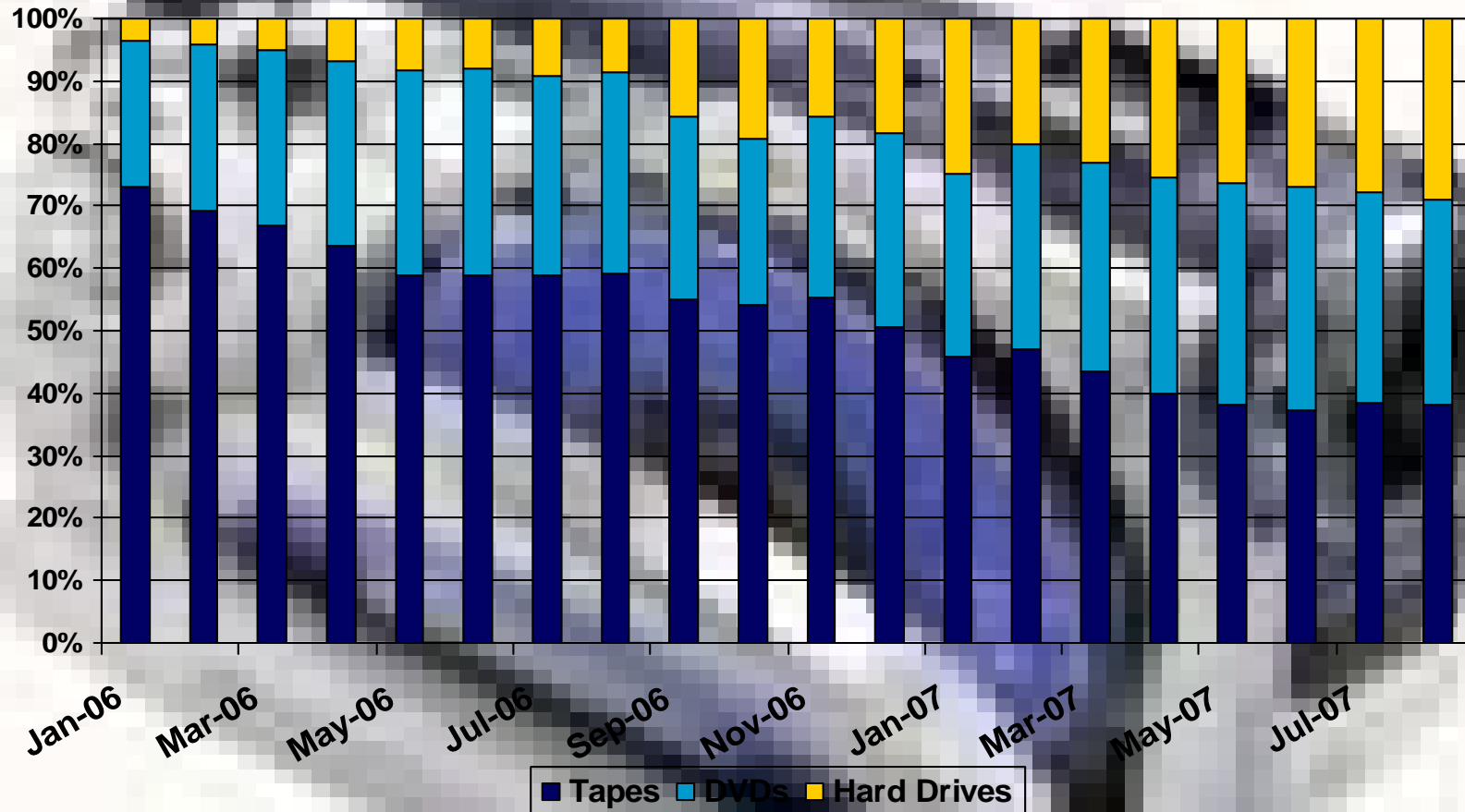
Source: The NPD Group / Retail Tracking Service

And consumers show little interest in DVD recording

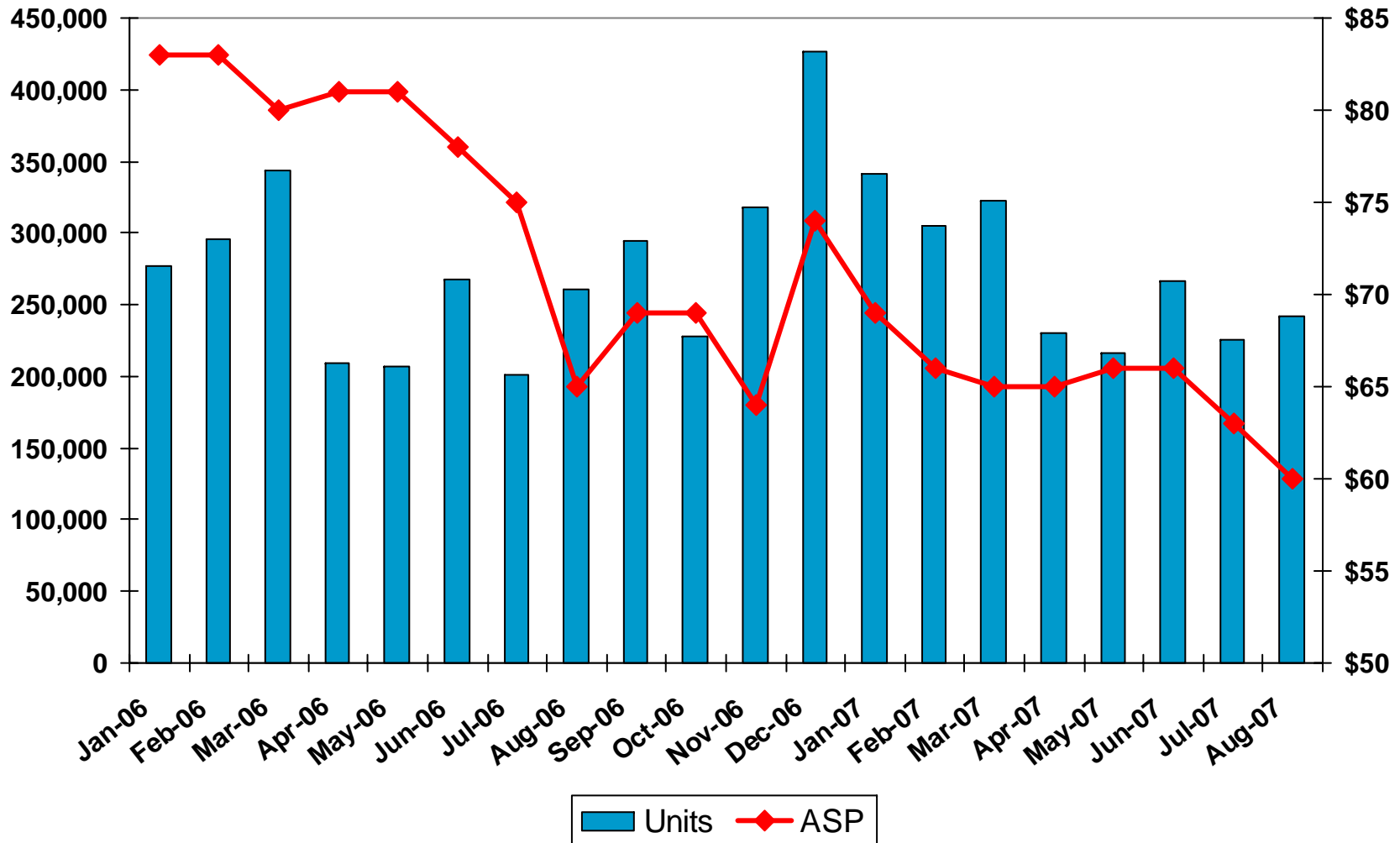
Unit Growth in DVD Recorders



DVD Camcorders Have had Just a Short Run as Top Dogs



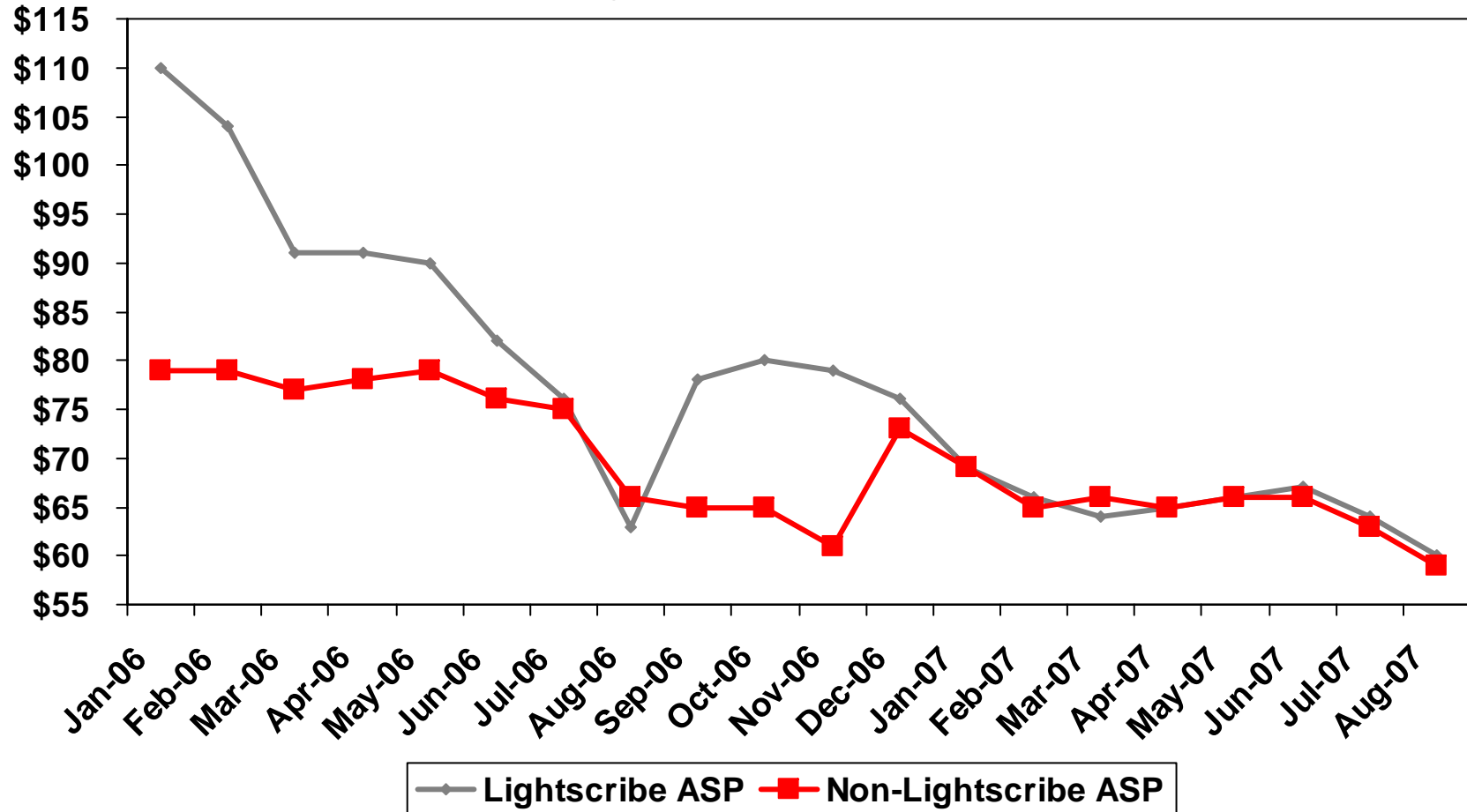
PC DVD Burner Aftermarket is stagnant with falling prices



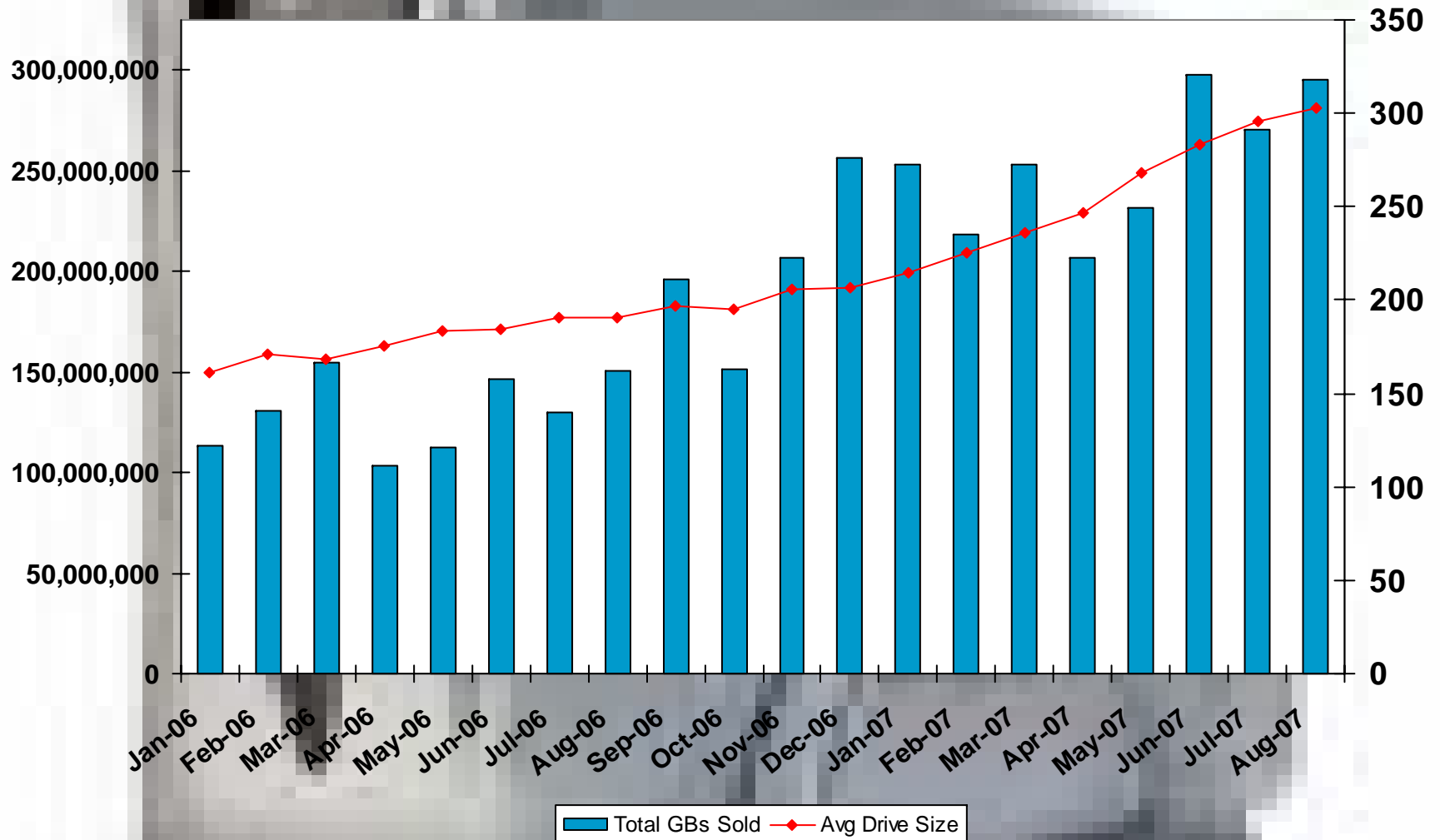
Source: The NPD Group / Retail Tracking Service

New technologies designed to inspire consumers have not

ASPs of Lightscribe Enabled Drives

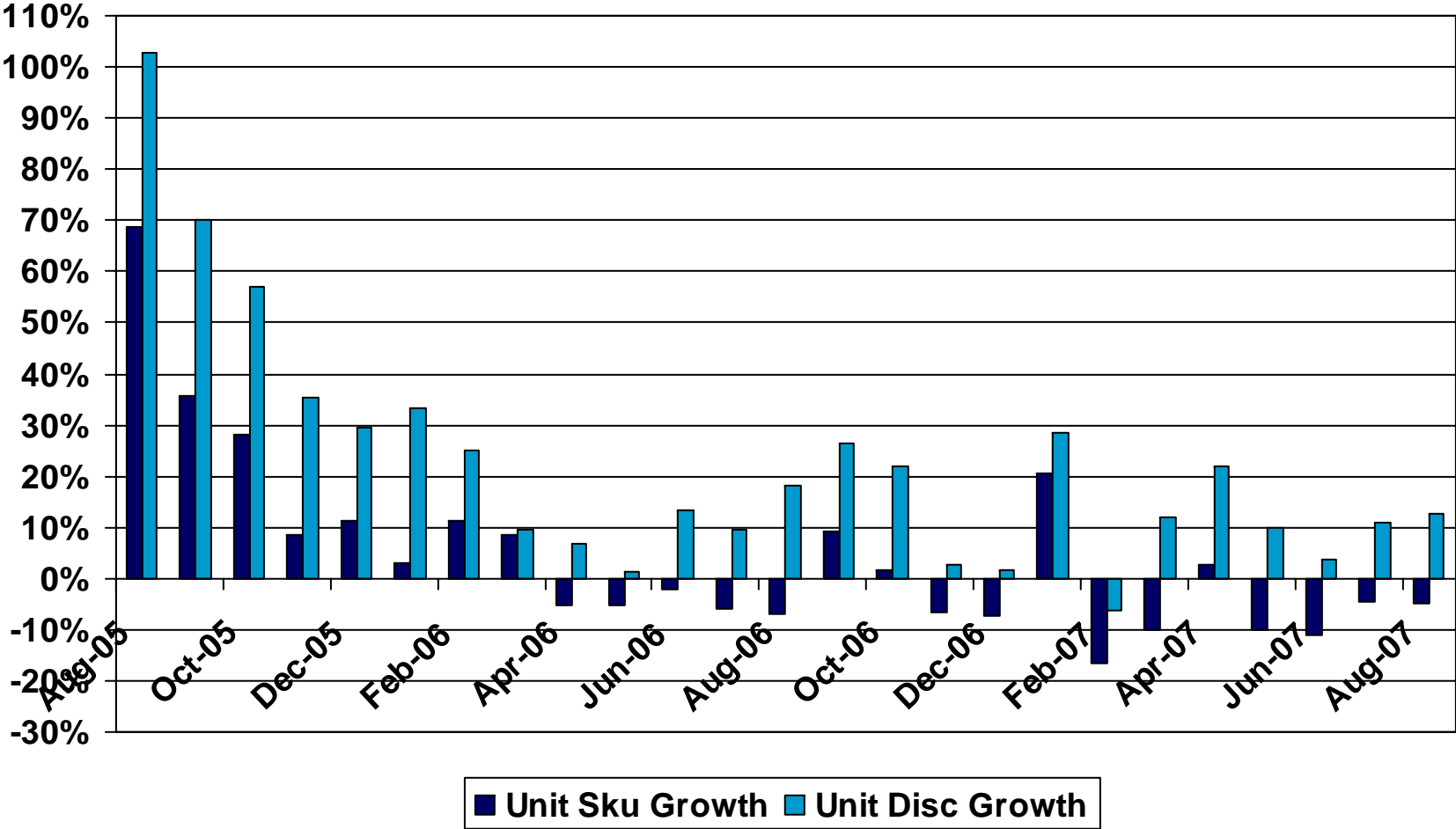


Consumers can't get enough Hard drive space



As blank DVD sales continue to slide

DVD Unit Sku and Disc Growth



Source: The NPD Group / Retail Tracking Service

- Consumer adoption of Next Generation optical is dependent on the rapid uptake of HDTV... a process that is in place today
- Case not yet made to majority of market as to why they want this product...but early adopters are interested
- Consumer interest is limited to the home entertainment stack...
 - The outlook for a secondary rapid growth phase around writing and rewriting is poor, unlike CD and DVD adoption
- Last generation technologies around DVDs and CDs are losing the market's interest before the next generation has fully built out its potential