



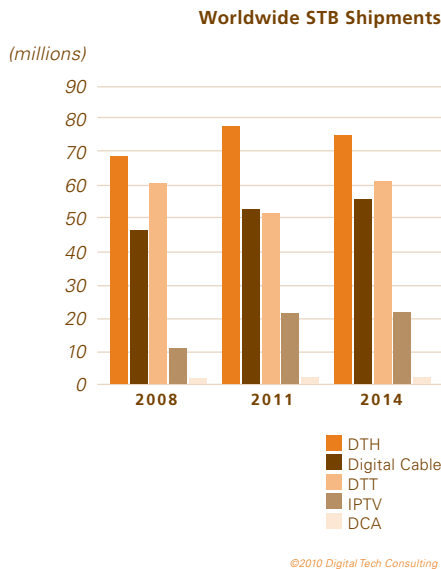
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Some Bright Spots in a Flattening of Worldwide STB Shipments

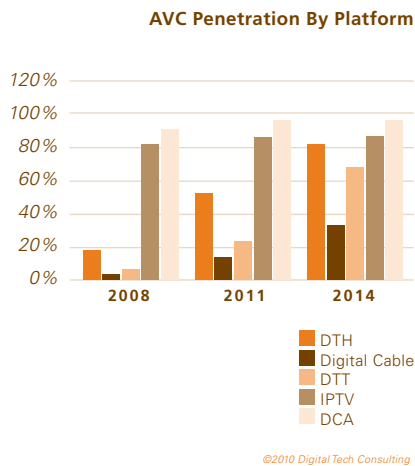


Though growth rates are slowing overall, a closer look at shipment numbers reveals several pockets of near term opportunity for the worldwide STB market. Worldwide shipments are expected to peak by 2013 at just under 230 million, up from 199 million in 2008, but certain sectors, such as Digital Terrestrial Television (DTT) STBs and AVC cable STBs, will show far greater swings in growth over the period.

DTH satellite, which has dominated STB shipments for sometime, will continue to be the largest single platform. DTH satellite shipments will see a particular bump over the next two years as operators worldwide transition their platforms to AVC through both SD and HD services. Much of this growth will come from India where several DTH satellite systems continue to spur rapid new subscriber growth. The DTH satellite opportunity clearly lies in AVC models, however, which are forecasted to grow from just over 16 million in 2008 to 67 million in 2014.

IPTV, now a well established pay TV pipeline, will make up an increasing share of the worldwide market, rising from just 7% in 2008 to 11% in 2014. New subscriber growth is slowing, however, making this an increasingly replacement driven market prone to supplier consolidation rather than new entrants.

DTT STBs will see a dip in shipments over the next couple of years, following the U.S. analog TV shut-off that caused a spike in 2008/2009. But several important analog shut-offs worldwide are approaching after 2011, including the UK, France, Canada and Japan to name just a few. These will provide windows of opportunity for volume shipments as these countries prepare for completing those transitions.



Digital cable STB shipments, meanwhile, will see a leveling of growth over the next five years, as China's digital subscriber growth slows and as other more mature systems ebb and flow in their replacement cycles. Shipments may offer greater revenue opportunities however, as they become increasingly higher margin AVC models (though these margins too are likely to drop somewhat over time). The percentage of digital cable STB shipments including AVC will grow from just 2% in 2008 to 37% in 2014. Correspondingly, digital cable STB shipments will grow from just 3% of all AVC shipments to 13% in 2014.

Video Communications: Video Presence for Everyone

Like many emerging markets it can be difficult to visualize all possible applications of a technology, what potential business models are, or what kind of strategies major players will employ to generate consumer interest. And the up-and-coming video communications software and device market is no different. Instant messaging purveyors have seized on the technology to offer face-to-face video communication as a "value add" to lure users to their applications. And it seems to be working; video presence is no longer confined to high-level business operations. High-speed IP networks, low-cost web cams and improved video compression are letting the rest of us in on video conferencing and video chatting.

Consumers are eagerly riding the face-to-face video communications wave since quality has significantly improved and costs are way down. The PC has become the unattested conduit for the market as video communications desktop application software floods the scene. Some businesses are replacing expensive and cumbersome traditional video conferencing systems with desktop applications; so holding a multi-location meeting is as easy as clicking a mouse. Other businesses that still have a need for high-end conference room applications are incorporating the desktop application with high-end systems.

As with any emerging market, which technologies will be used and how they will be used isn't necessarily clear for desktop video communications. All applications basically enable the same thing – a two-way, real-time video communication between individual points. But current purveyors of the technology present it for different uses and deliver different experiences to end users. One of the areas in which technical uniformity is currently absent is the use of video codecs. Some desktop software application providers, such as Google and Microsoft have adopted open-standards video compression technology with the use of the AVC codec. DTC estimates that in 2009 a little over 70 million first-instance downloads of the AVC codec onto PCs came from video instant messaging applications, and we expect 238 million AVC downloads to come from those applications in 2014.

The main competitor to the MPEG standard is On2's proprietary technology, which is used by Skype, AOL, Yahoo!, TenCent QQ (Asia's biggest provider), and ooVoo. The video communications market is wide open and seemingly ripe for dynamic growth. With no obvious video technology heir apparent and so many avenues for the market to travel it seems that video communications could be the "next big thing". But as with all "next big things" questions loom. What business model would allow for the market to be profitable? How sustainable are status-quo implementations of desktop video communication applications? How competitive will the market become?

While questions currently outnumber answers, one thing is for certain. Video communication technology is a viable marketplace. Sustained growth in the desktop application market can lead to video communication on mobile devices and even the TV. And with the explosive growth that DTC expects to see in the market coupled with advances in technology perhaps the best question to ask is what's next?

“High-speed IP networks, low-cost web cams and improved video compression are letting the rest of us in on video conferencing and video chatting.”

Making the Transition

Second in a series of articles about making the transition from analog to digital terrestrial TV.

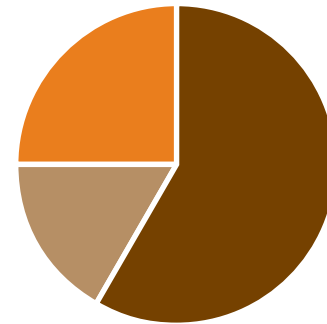
The complicated task of moving a country's broadcast TV infrastructure from analog to digital lies ahead for many countries. Although lessons have been learned from those who have already completed transitions, the uninitiated cannot rely on their predecessors for a reliable road map,

Every country has unique criteria that require a customized approach to implementing a digital terrestrial TV (DTT) system. Through DTC's extensive work in measuring and analyzing the DTT market since its inception, we have prepared a DTT planning guide that focuses on the fundamental issues any country – large or small – must consider when building a DTT system. The excerpt below focuses on criteria that must be considered when selecting technical specifications for the preparation, delivery and reception of content. Although these decisions must be made in concert with choosing a transmission standard, for purposes of extracting an excerpt, we focus here only on a few of the things to consider when selecting technical specifications.

Choosing Technical Specifications

- The cost and availability of infrastructure equipment and consumer receivers must be carefully weighed. This step will require broadcast equipment and receiver equipment cost analyses.
- If over-the-air (OTA) viewers represent a small population, it's best to select commonly used specifications. Potential suppliers and service providers who do not foresee a reasonable payback for supplying your market may have to increase prices or decline to participate at all.
- Make sure you understand all costs that go into making a receiver. Added to components and manufacturing are royalties, which make up a significant segment of receiver costs. The ratio of costs illustrated in the pie chart is one example of a basic DTT set-top receiver specified for one country. Each country's specifications will differ, as will the royalty bill for receivers. This example doesn't include additional costs added by mark ups from manufacturers and retailers.
- System builders must carefully weigh the need to future proof the system against advantage of adopting currently widely-used specifications.
- Be careful to weigh the desire to use the latest technologies against how those will work with existing professional broadcast equipment, commonly specified receivers, and legacy content.
- Technical specifications must also be considered for auxiliary items that make up part of the receiver system. These items can include things like antennas and remote controls. The types of antennas currently used by viewers must be carefully considered, plus propagation issues, when selecting specifications.
- Is there a desire/need to build a DTT system that incorporates a pay TV component? Whether designed to accommodate pay services right away or at a later date, conditional access systems must be considered. Conditional access systems come in different varieties that can mix hardware and software security.

Costs by Category for Basic Set-Top Receiver



■ Bill of Materials
■ Licensing Costs
■ Assembly, Shipping & Storage

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To read the entire *Analog to Digital TV Planning Guide*, please go to http://dtcreports.com/documents/dtt_dtc.pdf

DOMESTIC CHINESE LCD DTV QUARTERLY TRACKING SERVICE

Need help finding reliable information on the Chinese LCD DTV market? The Chinese digital TV market is one of the most important and fastest growing markets in the world. A roadmap for the domestic Chinese TV market and its primary players is an essential ingredient for participation in this dynamic market place. DTC, in a joint project with China-based RedTech Advisors, now offers a LCD DTV quarterly tracking service that delivers difficult-to-obtain reliable data.

This tracking service will include current and cumulative quarterly shipment estimates for LCD DTVs shipped into the Chinese market and concise analysis on market, top brand shipment estimates and trends for each quarter. For more information on this domestic Chinese LCD DTV quarterly tracking service, please visit <http://dtcreports.com/documents/chinadtv.pdf>

Digital TV Receivers: Worldwide History and Forecasts (2008-2014)

4th Edition | March 2010 US | **\$1,750**

This data-intensive report delivered in a spreadsheet format provides worldwide historical data and forecasts of digital TV receivers. DTH satellite, digital cable, IPTV, and terrestrial platforms are all forecasted in this report that provides a thorough and concise snapshot of the future of digital TV devices.

The report includes:

- Shipment data for STBs and IDTVs for 2008-2014
- Regional and top vendor market shares for 2010
- A section of charts and graphs for ease of interpretation and presentation
- An executive summary that gives an overview of this rapidly changing market.

For more information, please visit
http://dtcreports.com/report_stb.aspx

Digital Tech Consulting is a market research firm providing strategic information and analysis to help companies succeed in the consumer digital marketplace. To learn more about DTC and how our analysts might help your company, please contact us at the information below.

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