

Long Term Viability of 'The Showcase with IMAX'

The Global Cinema Market, as it is currently constructed, is a rapidly decaying dinosaur that will soon be extinct. Market forces, such as the changing movie audience and politics, are rapidly shaping the future of the cinema experience.

The Showcase with IMAX is built from the ground up to be fiscally and structurally sound to thrive in these prevailing winds of change.

Parameters of the Discussion:

- ✚ The Showcase with IMAX is scheduled to open in the fourth quarter of 2016.
- ✚ For the sake of this confab,
 - **Short Term** will be defined as the first three (3) year span of a ten (10) year bank loan.
 - **Long Term** will be defined as the subsequent seven (7) years of the aforementioned.

There are two areas that must be considered to understand the long term viability of 'The Showcase with IMAX'.

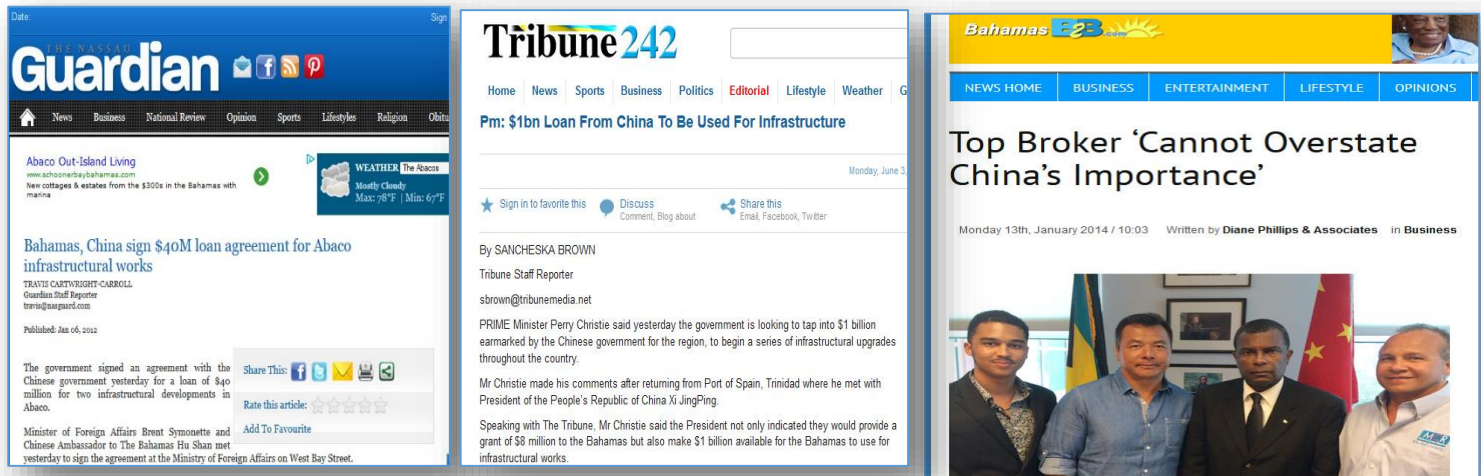
- ✚ Global Market Trends
 - i. Direction of the Market
 - ii. Expansion of the Traditional Concession Stand

Global Market Trends

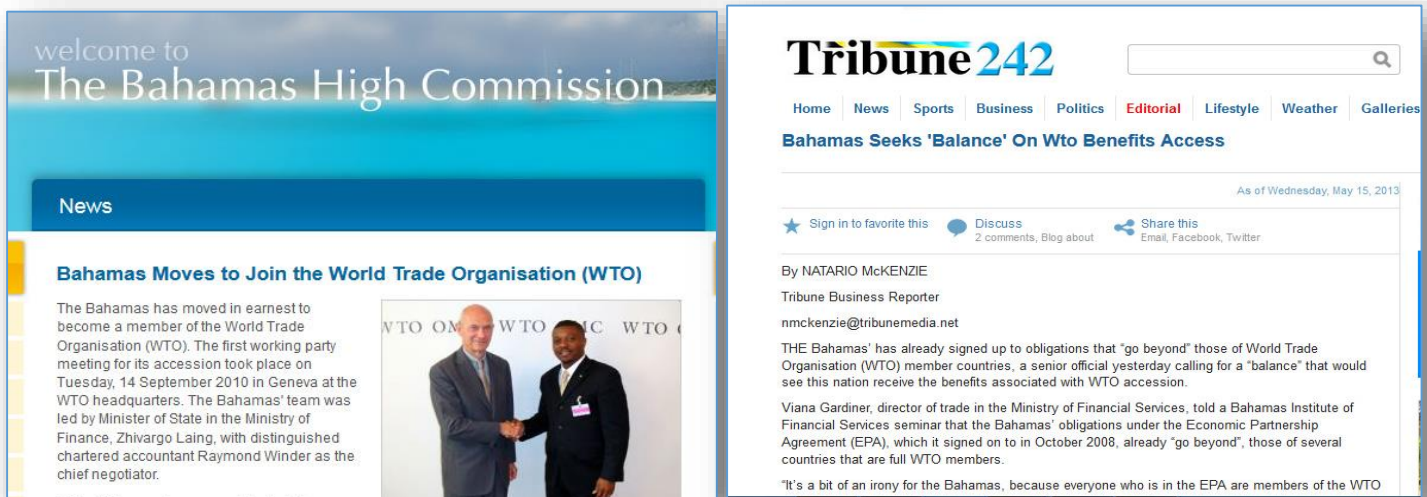
I. Direction of the Market

Understanding the future of cinema in the Bahamas requires a look at the present political/ policy changes that have happened or are about to transpire.

A. Growing relationship with China and the Bahamas



B. The Bahamas application for entry into the World Trade Organization (WTO)

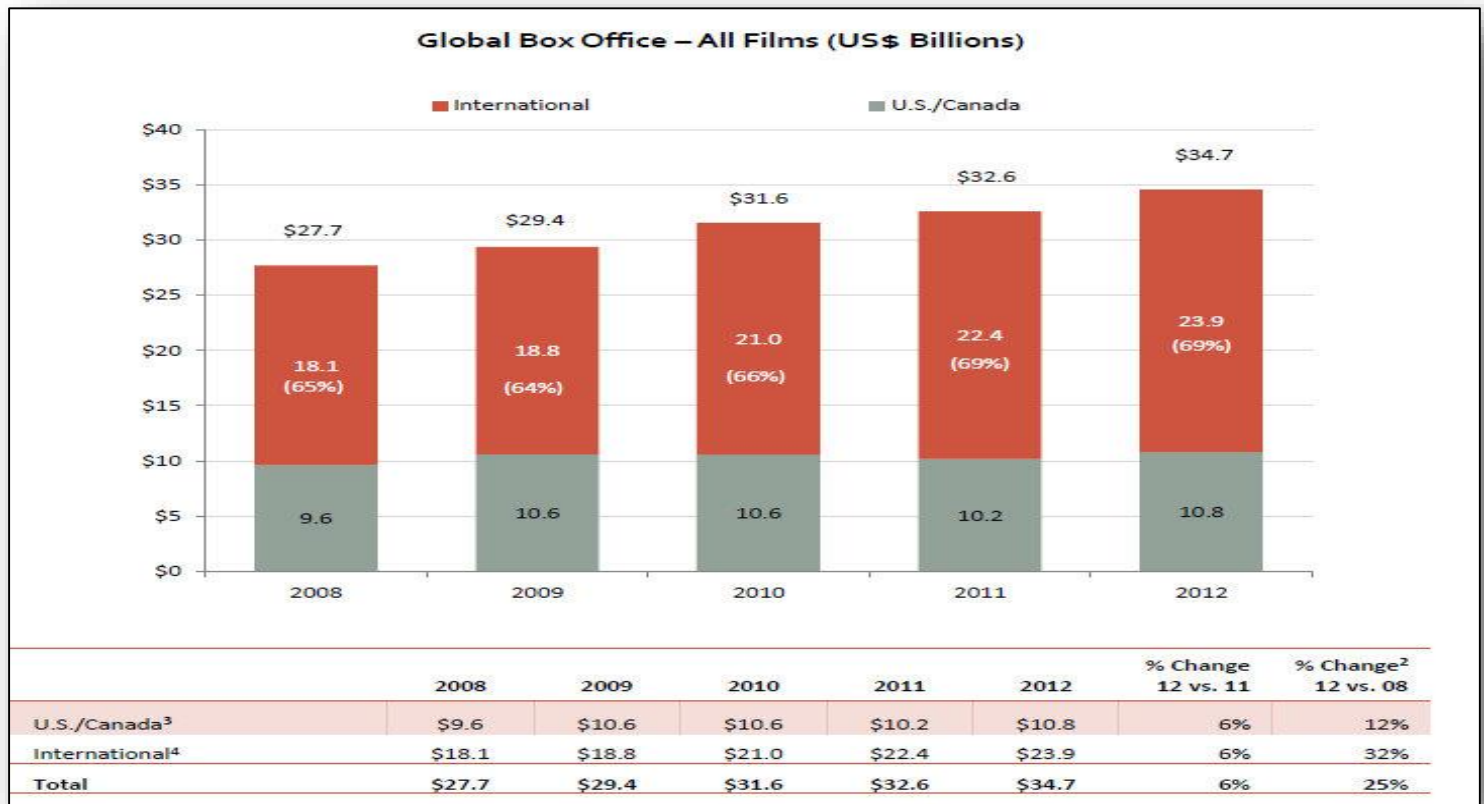


These two points are very relevant for similar reasons. Both of these situations will open Bahamian borders, thereby severely limiting the protectionist policies of the government.

Why is this relevant?

China is now the most important player in the cinema industry.

The landscape of the movie industry has changed. The Global Box office (BO) is growing faster than the US BO.



By 2018 China's BO. will become the largest in the world surpassing the US'BO.

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China's Box Office To Surpass The U.S. By 2018, Says IMAX CEO

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With this switch comes the ability to be the determining factor of movie content in Hollywood. If that gigantic shift was not enough, the Chinese have instituted two (2) changes.

1. Welcome to the New 'Hollywood' of the Pacific



Wang Jianlin, China's richest man is building the world's biggest movie studio to replace Hollywood and meet his country's growing demand. What does he put as the centerpiece of the \$8 billion development? An IMAX R&D center.

world's biggest. The facility will also include an Imax research and development center, cinemas and China's biggest film and celebrity wax museums. The first phase is planned to open in June 2016 and it will be fully operational by June 2017.

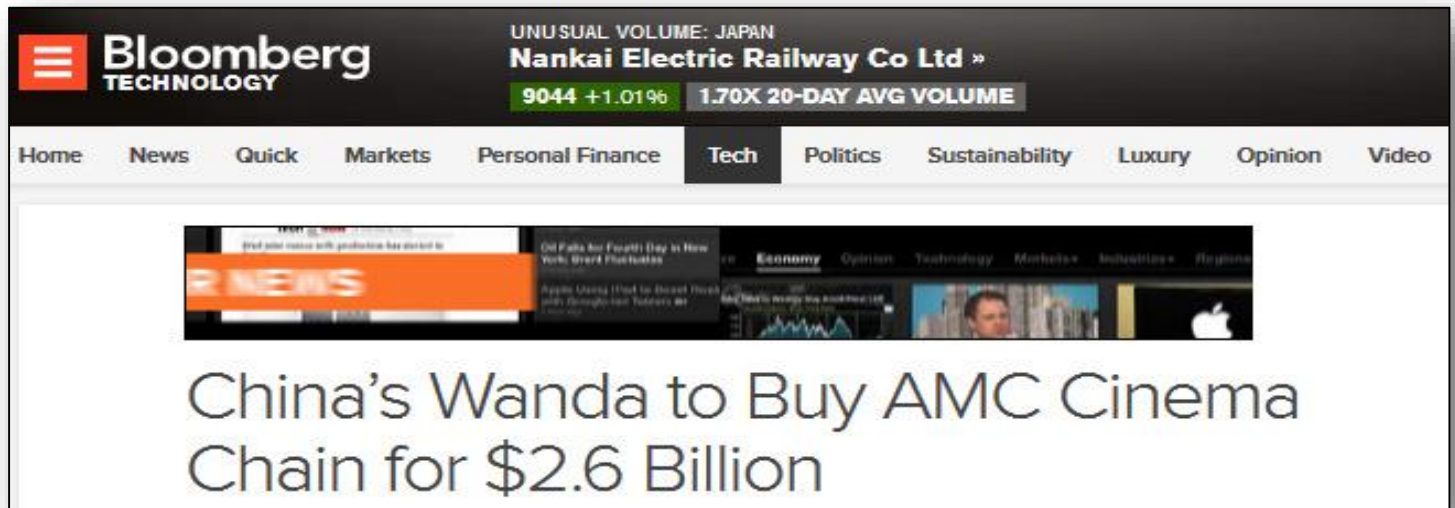
This new content from China will need theaters to play in, hence step two (2)

2. Two Asian companies are in a race to become the #1 movie chain in the World: Wanda Group of China and CJ CGV of South Korea

They are doing this by expanding into new territories and buying competitors or opening their own franchises.

Example:

Wang Jianlin and the Wanda Group bought American Movie Cinemas (AMC) to become the largest movie chain in the world.



CJ CGV has taken the opposite approach, buying smaller cinema chains.



CJ CGV acquires Vietnam's leading cinema chain

Source | 2011/07/11 | 1305 views | Permalink | 0 Comments

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Korea's Multiplexes Expand to Southeast Asia

by Ji Yong-jin / Nov 26, 2012

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Following Vietnam, CGV Takes Over Multiplex Chain in Indonesia



CJ CGV is working on taking over Blitz Multiplex, the second biggest multiplex in Indonesia.

The acquisition fund is believed to be around \$100 million. Blitz was first opened in Bandung Indonesia and now commands a 10% market share. CGV presently possesses 9 theaters with 69 screens and the screens.

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Yonhap News Agency | September 26, 2013 1:25am

S. Korean cinema chain CJ to open '4DX' movie theater in western China

BEIJING, Sept. 26 (Yonhap) — The Chinese affiliate of CJ Group, Korea's entertainment and conglomerate, said Thursday it will open a "4DX" movie theater in the Chinese city of Chongqing, which is expected to grab a bigger share of China's movie market.

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4DX first cinema opened in Bulgaria

On 24/05/2013, 12:45



The first theater that offers technology 4DX, was opened today in the new multiplex Cinema City Paradise. First screening in the most modern cinema in the country was "Fast and Furious 6".

By the end of 2013 CJ CGV was one fifth of the way to their goal.

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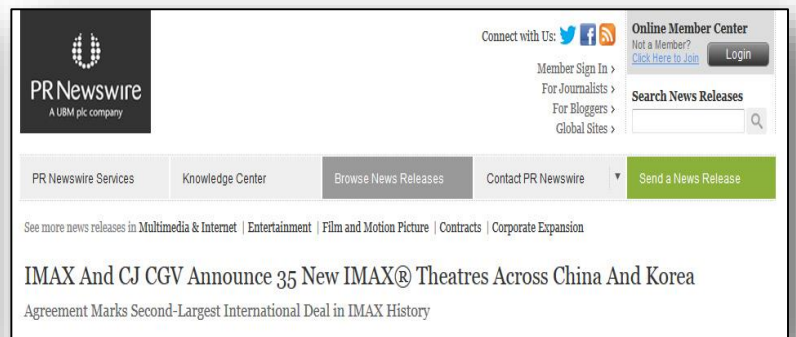
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What is the relevance of this to the Showcase with IMAX and the Bahamas?

The ever increasing Asian influence in the Bahamas combined with the WTO's free trade requirement have opened the market for entry to Wanda and CJ CGV.

Why is the Showcase with IMAX averse to their market penetrance?

Understanding the tools of choice these corporations use to enter markets then differentiate themselves from existing theaters is key.



Both CJ CGV and Wanda use IMAX as their preferred weapon for market penetration. CJ CGV has more potential to expand because of their proprietary theater system



Fortunately for the Showcase with IMAX, the same holds **10 year exclusive contracts** for both IMAX and 4DX technologies in the Bahamas. A contractual relationship has already been developed with CJ CGV the largest developer of Asian/ K-POP content.

II. Expansion of the Traditional Concession Stand

How concessions will be handled is a differentiation factor in the Bahamian market as it has been in the past.

History Lesson

One of the dynamics that allowed Galleria Cinemas to eclipse RND Cinemas in the early 2000s was concessions.

When movie patrons arrived at RND cinemas in the late 90s, they had a choice. Either they could fight through the cramped lobby to get concessions on a long line or join the line to their theater for a good seat. Many customers chose the latter.

When Galleria Cinemas entered the market in 1999 with their seemingly endless lobby and expansive food choices, Bahamians were smitten. Hence besides the revenue from movie ticket sales, Galleria had a fiscal advantage with its concession profit margin.

Déjà vu

As the Showcase with IMAX enters the market, concessions again become a point of differentiation. How? This first requires a look at the global trends for long term viability to be realized.

Global Movement



Concessions are the Holy Grail of theater chains. Ironically, popcorn and other theater staples weren't allowed in cinemas until after the Great Depression. Theater owners did not like the mess these food items created.

For theater owners over the last decade concession sales have grown faster than ticket sales. This global phenomenon has been attributed to the worldwide recession. During recessionary periods more people go to cinemas.

Economic Downturns and the Box Office

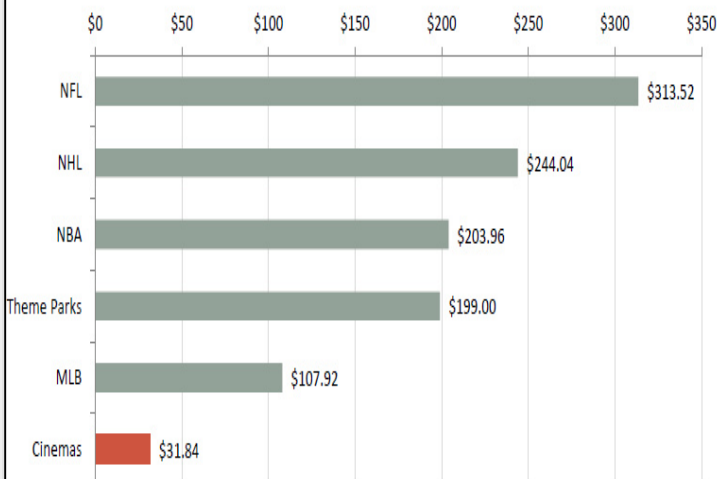


- No one wishes tough economic times on anyone. It is a fact, however, that **movie theaters do especially well during economic downturns**.
- During the **last eight recession years** since 1965, movie theaters' box office and admissions increased in **six** of them.

Why? It's the cheapest form of entertainment that allows one to escape from everyday woes.

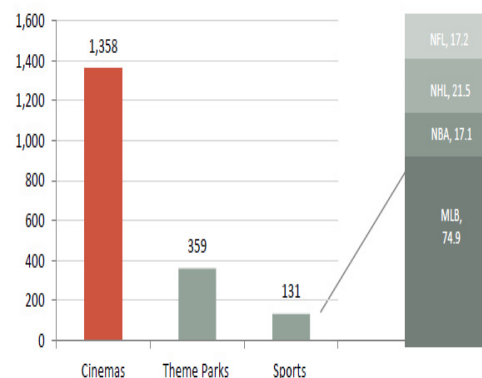
2012 Average Ticket Price for a Family of Four (US\$)¹¹

Sources: NATO, Sports Leagues, International Theme Park Services



Movie theaters continue to draw more people than all theme parks and major U.S. sports combined.

2012 Attendance (Millions)¹¹



The average cinema ticket price increased by 3 cents in 2012, less than the 2% increase in inflation as measured by the consumer price index (CPI). A movie still provides the most affordable entertainment option, costing under \$40 dollars for a family of four.

In the Bahamas, the issues are the opposite. The choice are even less for family entertainment. Hence movies are the de facto choice to escape everyday reality.

Globally, people are combining entertainment and the desire to eat out while at the movies.



Researchers at Columbia University and Hudson Square Research studied this phenomenon.

Marla Backer, an entertainment analyst at Hudson Square Research, links this shift to the recession. Over the past few years, she said, the restaurant industry has suffered as consumers cut down on spending. “People still wanted to have a night out, but they didn’t want to pay for a sit-down dining experience,” the cost of which can swiftly rack up, she said. “That provided an opportunity for theaters to capture some of that cash that the consumer wasn’t spending in restaurants.”

The Big Three theater chains AMC, Regal and Cinemark are seeing the difference:

Regal Entertainment, AMC Loews and Cinemark — which rely on concessions for one-quarter to one-third of their total income — all report that the average consumer now spends more on food and drink — up to 5 percent more in the past year alone — for two reasons: The food is pricier, and customers simply buy more food.

Two of the Big Three have expanded their offering to accommodate this shift in consumer spending.

AMC's Screen and Fork and Regal's Cinebarre lounge/ dine- in theater concepts have been very successful.

Cinebarre — part owned by Regal Entertainment, the biggest movie theater chain in the U.S. — has six cinemas across the country and plans to open three more this year. Cinebarre offers table service and hot food, snacks and alcoholic beverages. For example, its cinema in Charlotte, N.C., charges \$6 for a ticket, \$8 for a “When Harry Met Salad” and \$6 for a “Donnie Daiquiri.”

Cinebarre makes about 70 percent of its profits from food, said the company's chief executive, Terrell Braly.



Cinebarre movie theaters offer table service and an extensive menu of hot dishes and non-traditional cinema

Forbes Magazine commented on the thriving industry for theaters:

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'Dinner And A Movie' Gets A Makeover

In a month when U.S. consumer confidence reached its lowest point in history, Cinebarre's December 2008 same-store sales were up by 25% from December 2007, which means that Braly's almost-too-simple idea—people want more for their money in a shorter amount of time—is proving true. Cinebarre is set to open a fourth theater in Seattle May 27, 2009.

What is the draw to these lounges in Cinemas? AMC, the world's leading movie understands the draw to these lounges; Premium formats in the facility like IMAX.




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Why Betting on AMC Entertainment Goes Beyond Movies

By [Michael Carter](#) | [More Articles](#) | [Save For Later](#)
January 6, 2014 | [Comments \(2\)](#)

Is dinner and a movie transforming into dinner at the movies? That is one of the hopes of **AMC Entertainment Holdings** (NYSE: [AMC](#) ) , which competes with theater-exhibition operators like **Cinemark Holdings** (NYSE: [CNK](#) ) and **Regal Entertainment Group**

In recent years, entertainment-technology providers like **IMAX** (NYSE: [IMAX](#) ) have helped theater operators provide another reason for moviegoers to forgo their home-entertainment systems and visit a movie theater. But since the last time AMC Entertainment was publicly traded in 2004, the movie-theater experience has evolved, and betting on AMC Entertainment today goes beyond movies.

With nearly half of its auditorium in IMAX or 3D, AMC has used this premium to maximize its concessions. They are able to charge more compared to its competitors with less IMAX screen.

	Average Ticket Revenue	Average Concession Revenue	Total Average Revenue Per Attendee
AMC Entertainment	\$9.04	\$3.92	\$12.96
Cinemark	\$5.92	\$2.99	\$8.91
Regal Entertainment	\$8.93	\$3.58	\$12.51

The table above shows that AMC Entertainment is able to attract moviegoers that prefer to watch movies in 3D, IMAX, or **RealD** premium formats, which demand higher ticket prices. In fact, nearly half of AMC Entertainment's 4,950 screens are either in IMAX or RealD 3D formats.

This is a huge positive for AMC Entertainment since 3D box office sales throughout the industry were nearly the same in 2012 as in 2011, despite fewer 3D film releases.

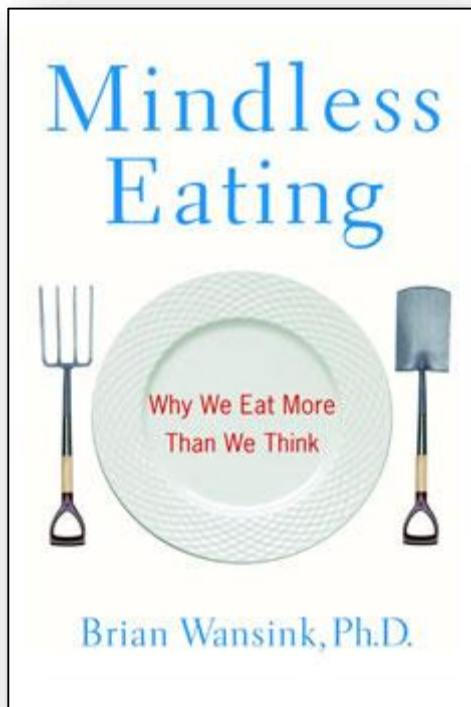
Question:

But isn't all food the same whether it come from the lounge in a theater or a restaurant?

The answer is a resounding **NO** in the eyes of consumers.

Researchers have found that consumers look at food served in a restaurant as the main attraction versus food served at a movie theater where the movie is the main attraction.

Dr. Brian Wansink author of, 'Mindless Eating: Why we eat more than we think' describes this phenomenon



When consumers decide what to do with their evening, they compare the cost of just the movie ticket — not the concession — to that of alternatives, such as dinner in a restaurant, said Brian Wansink, author of "Mindless Eating: Why We Eat More Than We Think." Once inside the theater, however, the consumer subconsciously wants to get the most out of the evening, so buys from concessions as part of that investment, even though that cost wasn't calculated in the original equation.

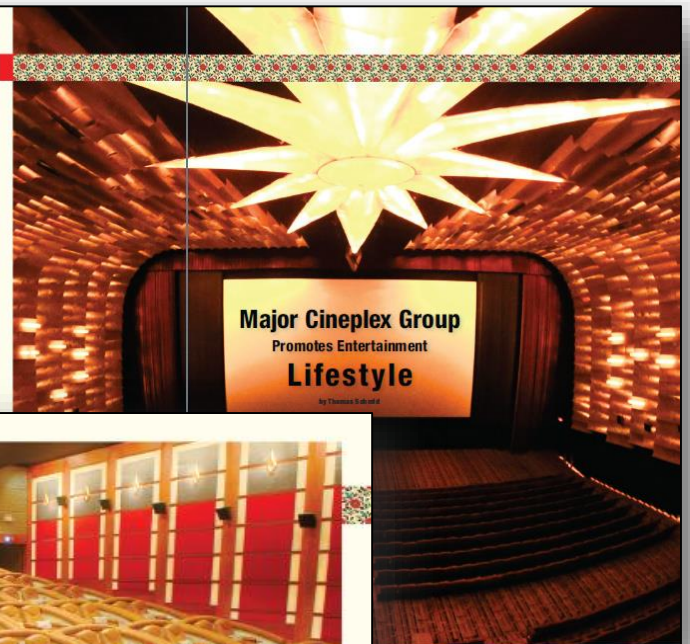
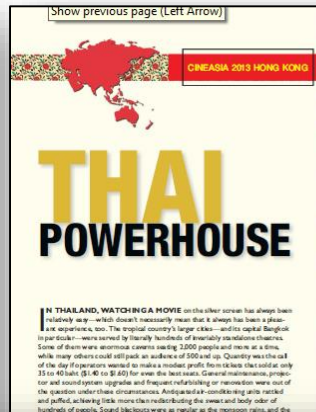
. Entertainment Industry Analyst described the buying habit of Theater patrons at concession stands and in cinema lounges as being in a vacation mind set.

"Going to the movies is around \$10, and there's a mental barrier there," said Chad Beynon, an entertainment analyst at Macquarie Research. "So theater owners will hold the ticket price at \$10, and raise the price on concessions instead."

Beynon likened this to how people think about vacations: Consumers try to save when choosing flights or hotels, but once on holiday, they're often willing to spend plenty at a better restaurant.

This premise may be new to the western hemisphere but lounges and VIP theaters have been an entertainment fixture for more than a decade in Asian and European cinemas.

In fact the lead consultant for this project Jim Patterson was just honored by industry magazine, Film Industry Journal, Dec 2013, for his role in structuring the VIP experience.



fast-food outlets, or lounge in a comfy chair in one of the seating corners while admiring the tastefully decorated walls. "We frequently earn 'boots' and 'ahs' for our wall decorations," asserts Patterson. Even a visit to the squeaky clean bathroom turns out to be a most pleasant revelation in a country not necessarily noted for its spotless public facilities.



JIM PATTERSON

Viet's corporate vision of "entertainment lifestyle" continues once audiences venture into one of the currently 16 theatres that make up Paragon Cineplex (together with the lobby) share a floor area of approximately 162,000 square feet (just over 15,000 square meters). Here, no ridiculously minuscule 30-seat theatre with uninspiring, drab walls exists, where audiences are squeezed in like canned sardines, the first row being just eight feet from the screen. Instead, the amazing spaciousness and luxurious ambience that already characterize the lobby also continue throughout the theatres, with plenty of leg and elbow room for everyone, plush carpeting and incredibly comfortable reclining chairs. All theatres are also thoroughly insulated to prevent sound leakage. Paragon Cineplex's largest cinema, the



Jim's facility was recognized as one of the best theaters in the world because of its extensive offerings to movie goers.



Whether it's the lounges or the innovative technology, Paragon has been driving the movie going experience for over a decade.

With Jim's guidance on the project, this is what The Showcase will bring to the Bahamian people. Whether it's the lounges upstairs or exotic gourmet popcorn down stairs, The Showcase with IMAX will have differentiated concessions from Galleria Cinemas.