

Understand the Showcase with IMAX's EBITDA Margin

When the Showcase with IMAX's EBITDA Margin (34%) is compared to AMC's EBITDA Margin (17.7%) it may appear to be inflated. This, however, is not the case. In actuality, its AMC's EBITDA Margin that's deflated when compared to global theater standards.

Industry Investment Analysis Group, Redwood Capital, in a report labelled, 'CINEMA OPERATOR INDUSTRY Sector Review May 2014', compiled the following:

TABLE 1: KEY VALUATION PARAMETERS

Multiples Snapshot														
Name	Price	52Week		MCap	EV	CY 2013		2013-14 growth		Net Debt-to-EBITDA	EV/Rev		EV/EBITDA	
		High	Low			Revenue	EBITDA	Revenue	EBITDA		LTM	2014E	LTM	2014
North America														
Cinemark Holdings	28.54	34.35	26.59	3,293	4,760	2,551	579	7.9%	8.3%	2.52	1.9x	1.7x	8.2x	7.6x
Regal Entertainment	18.65	20.14	16.17	2,913	4,947	2,877	552	10.8%	13.0%	3.69	1.7x	1.6x	9.0x	7.9x
Cineplex	37.51	40.30	29.89	2,361	2,622	956	184	25.4%	20.7%	1.49	2.7x	2.2x	14.3x	11.8x
Carmike Cinemas	29.51	32.60	15.44	680	991	635	111	12.6%	22.9%	2.79	1.6x	1.4x	8.9x	7.2x
Reading International	7.43	7.64	5.50	177	315	258	37	n.a.	n.a.	3.66	1.2x	n.a	8.6x	n.a
AMC Entertainment	23.86	26.68	n.a.	2,323	3,972	2,634	399	7.7%	20.0%	4.14	1.5x	1.4x	10.0x	8.3x
Europe														
Cineworld Group	5.11	7.42	4.39	1,347	1,533	667	101	38.7%	93.9%	1.82	2.3x	1.7x	15.1x	7.8x
Kinepolis Group	197.28	202.14	131.06	1,041	1,164	339	103	6.0%	2.6%	1.18	3.4x	3.2x	11.3x	11.0x
Global City	11.65	12.46	8.35	596	868	416	96	7.1%	1.5%	2.93	2.2x	2.0x	9.7x	8.9x
AFM Uluslararası Film Produksiyon	6.43	6.48	4.56	87	97	51	5	n.a.	n.a.	1.97	1.9x	n.a	17.8x	n.a
Asia Pacific														
Amalgamated	7.93	8.23	6.87	1,253	1,253	704	105	46.7%	64.0%	(0.00)	1.8x	1.2x	11.9x	7.3x
CJ CGV	49.25	56.50	38.15	1,042	1,318	868	112	-6.9%	15.4%	2.47	1.5x	1.6x	11.8x	10.2x
Major Cineplex Group	0.57	0.76	0.45	504	636	236	51	2.6%	35.5%	2.60	2.7x	2.6x	12.5x	9.3x
PVR	8.05	10.93	4.68	322	413	205	28	31.1%	70.4%	2.64	2.0x	1.5x	14.6x	8.6x
Inox Leisure	1.78	2.11	0.84	171	203	91	14	n.a.	n.a.	1.49	1.5x	n.a	9.9x	n.a
Tokyu Recreation	5.74	5.84	4.89	168	212	288	23	n.a.	n.a.	1.86	0.7x	n.a	9.3x	n.a
Bona Film Group	6.30	8.92	3.58	380	495	149	13	14.4%	53.9%	8.75	3.3x	2.9x	38.2x	24.8x
Average				1,098	1,518	819	148	15.7%	32.5%	2.71	2.0x	1.9x	13.0x	10.1x
Median				680	991	416	101	10.8%	20.7%	2.52	1.9x	1.7x	11.3x	8.6x

Source: Capital IQ, data as of March 26, 2014

This noted report pegged the Global EDITDA Margin at 32.5%. Hence when evaluating the Showcase with IMAX's EBITDA Margin (34%), the same falls in line with global standards.

However, if US investors still want an appraisal of Showcase's EBITDA Margin with a US Cinema Chain, a more appropriate comparison is in order.

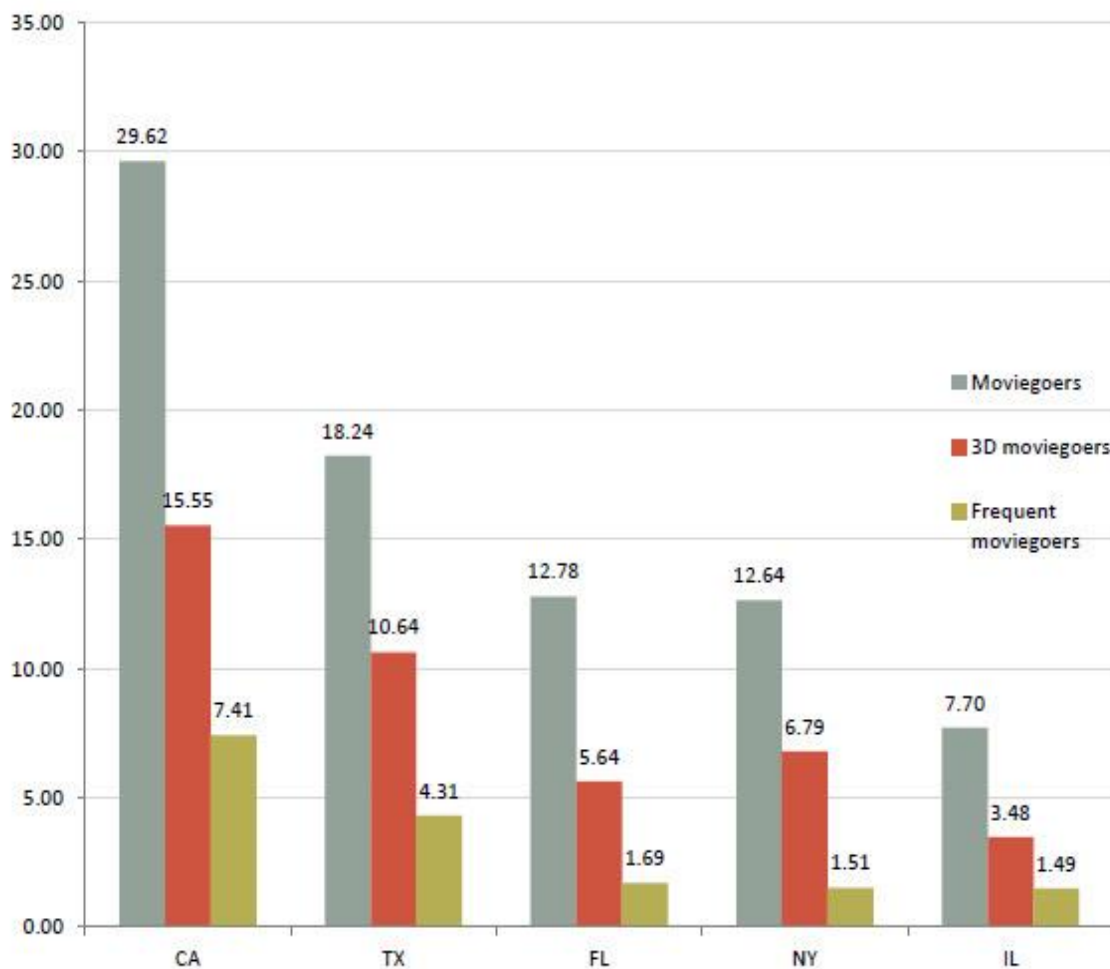
For financial assessment purposes, it is more relevant to liken a chain with similar conditions as that of the anticipated investment in the Bahamas. For reasons that will be laid out in the analysis, Marcus Theaters (the 5th Largest US Theater Chain) is a better comparison:

Analysis:

1. Demographics

AMC is a nationwide company, yet it obtains more than 40% of its revenue from the top 5 cinema markets. There they compete with other national cinema brands for market dominance.

Top 5 U.S. States by Number of Moviegoers (Millions)¹⁵



(Courtesy of the Motion Picture Association of America)

Marcus Theaters' demographic approach is centered on smaller communities in only seven Midwestern states. In 83% of the markets it inhabits, Marcus Theaters is in the top two players in those territories.

Why?

Marcus Theater applies the 'Bigger Fish in Smaller Pond' Approach. Though they have cinemas in bigger cities, Marcus tackles communities between 90,000 to 1,500,000 people where competitors lack the resources to respond to their acclaimed product mix.

Showcase with IMAX's demographics are more aligned with Marcus Theaters.

Why?

In the Nassau, with a population of 300,000 there will only be two operators (Showcase and Galleria Cinemas). Showcase will be introducing its exclusive product mix of 3D, IMAX, 4DX and VIP services to a market where **only** 2D movies are offered by its sole competitor.

2. Entertainment Options and Their Direct Effect of Ticket Sales and Concessions

AMC has seen a large increase in concession sales. For the first quarter 2015, food and beverage revenues were a record \$200.5 million, compared to \$181.8 million for the quarter ended March 31, 2014. Food and beverage revenues per patron increased 10.6% to \$4.48, an all-time high.

AMC Ticket revenue has been another story. Though concessions revenue has increased steadily over the last five years, tickets sales have decreased. Ticket revenue has been bolstered by higher ticket prices, namely IMAX and 3D premiums. Removal of these two revenue catalysts show an even sharper decline in ticket sales and revenue.

Marcus Theaters from 2004 to 2014 increased its per-person concession and ticket revenue in every single year.

Why?

AMC is in larger cities where they are competing for the entertainment dollar with diverse entertainment choices. Marcus Theaters, however, is bucking national trends of declining admissions by competing in markets where they have the main attractions for miles around. These communities make cinemas the destination of choice because it is the only choice. There are fewer concerts, sporting events even few high end restaurants. This allowed Marcus Theater to come into communities and offer full service dining options in their theater, thereby strengthening their concession sales.

SHOWCASE EBITDA ANALYSIS by REVENUE DIVISION							
	TOTAL		Cinema	Concessions	Restaurant	Arcade	Advertising
Square Footage	85,000		52,000	15,000	6,500	10,000	1,500
Revenue:	16,622,170.42		\$8,388,346	\$3,390,507	\$2,036,736	\$902,581	\$1,904,000
COGS:	(6,351,332.33)		\$4,383,453	\$847,627	\$712,858	\$180,516	\$226,879
Gross Profit	10,270,838.09		\$4,004,893	\$2,542,880	\$1,323,878	\$722,065	\$1,677,121
Expenses							
Employee:	1,780,644.96	As per Division	\$770,005	\$352,320	\$560,400	\$49,920	\$48,000
Utilities:	1,233,941.92	As Per Energy Load*	\$764,219	\$181,797	\$78,524	\$111,304	\$98,098
Other	1,680,101.93	As a % of TTL SQ Foot	\$1,027,827	\$296,489	\$128,478	\$197,659	\$29,649
Expense Total	4,694,688.81		\$2,562,051	\$830,606	\$767,403	\$358,883	\$175,747
EBITDA	5,576,149.28		\$1,442,842	\$1,712,275	\$556,476	\$363,182	\$1,501,375
EBITDA Margin	33.55%		17.20%	50.50%	27.32%	40.24%	78.85%
	Blended						
		* The HVAC component of utility is assigned by square footage, all other components by equipment load per division					