

European film exhibition

Outlook

December 2015

- An analysis of the European film exhibition sector



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G2Mi Research provides research and advisory services covering the global TMT industries, including the entertainment industry.

2015 performance

The latest box office data suggests that the public can still be persuaded to visit the cinema for the right film content (double digit growth in admissions in some large European markets). International films such as Jurassic World, Minions, Spectre and Star Wars and domestic content (e.g. Ocho Apellidos Catalanes in Spain and Les Nouvelles aventures d'Aladin in France) should help cinema operators achieve a strong financial performance in 2015. The year also saw the private equity investors, Bridgepoint and the ambitious Mexican chain, Cinepolis make substantial investments in European cinema, whilst Terra Firma started to look for a buyer for the Odeon & UCI Group.

The shares of listed European operators (Cineworld, Kinopolis) have had a good performance compared to their US peers (Cinemark, AMC, Carmike, Regal). The US operators tend to have a regional or urban/suburban focus and in some cases (Cinemark) have expanded into Latin America.

Long term outlook

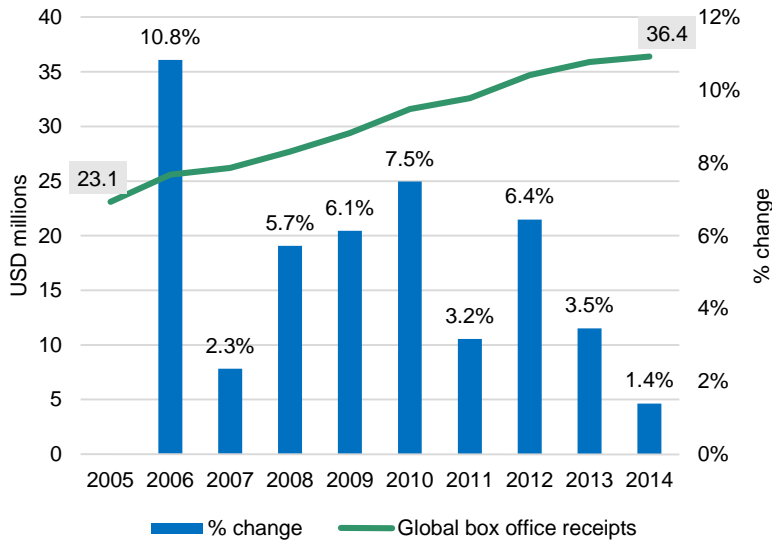
Whilst cinema attendance is relatively stable (-2.3% CAGR in key markets), the industry faces significant long term challenges as the home cinema experience becomes an increasingly attractive alternative (4K TV, high speed internet and multiple video streaming options). The industry's response is to invest in a better consumer experience (premium seating, availability of alcohol and improved food choice) alongside some uniquely cinematic differentiators such as 3D and IMAX viewing. In addition to this, cinemas are offering alternative content such as broadcasting live events. The studios are also experimenting with different film formats (e.g. 70 mm) better suited to cinematic viewing.

The need for investment presents an opportunity for the large operators to expand by acquiring groups which are sub-scale. In our view, the markets which present attractive opportunities for acquisition-led growth include France, Germany and Italy.

Asia and Latin America driving growth in global box office

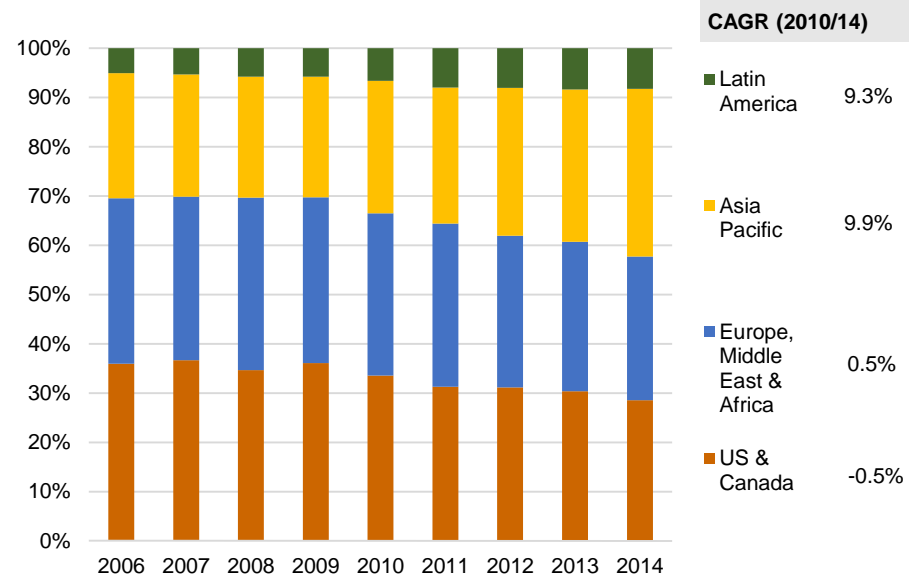
2015 appears to be a relatively strong year for box office receipts; the US market has seen 7.3% growth in 9M 2015 – and the fourth quarter is benefiting from strong releases such as the latest Star Wars film.

Global Box Office Receipts (2005 – 2014)



The rate of growth in box office receipts declined to 1.4% in 2014 – the lowest in the last ten years.

Box Office Receipts by region (2005 – 2014)



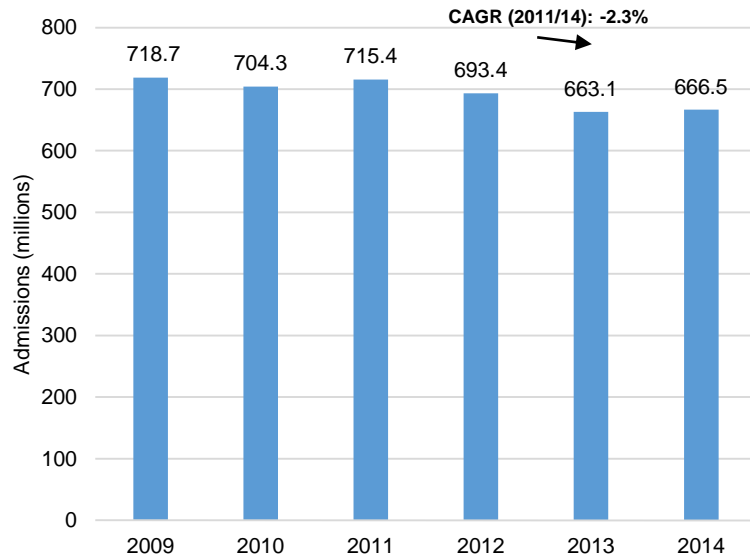
Asia's share of the market has grown to 34% from 24% in 2005.

Notes *MPAA data, BoxOfficeMojo, G2Mi Analysis

The five largest European markets are seeing an average annual decline of approx. 2.5% in admissions and box office receipts...

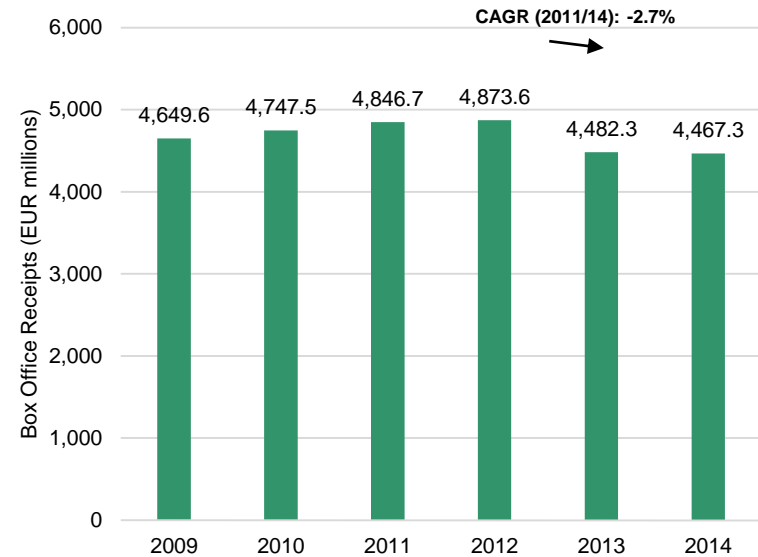
...though a relatively strong pipeline of both local and international films suggests 2015 will be a strong year (UK and Germany may see double digit growth in box office receipts)

Admissions



France has the largest market in terms of admissions (208.4 million in 2014).

Box Office Receipts

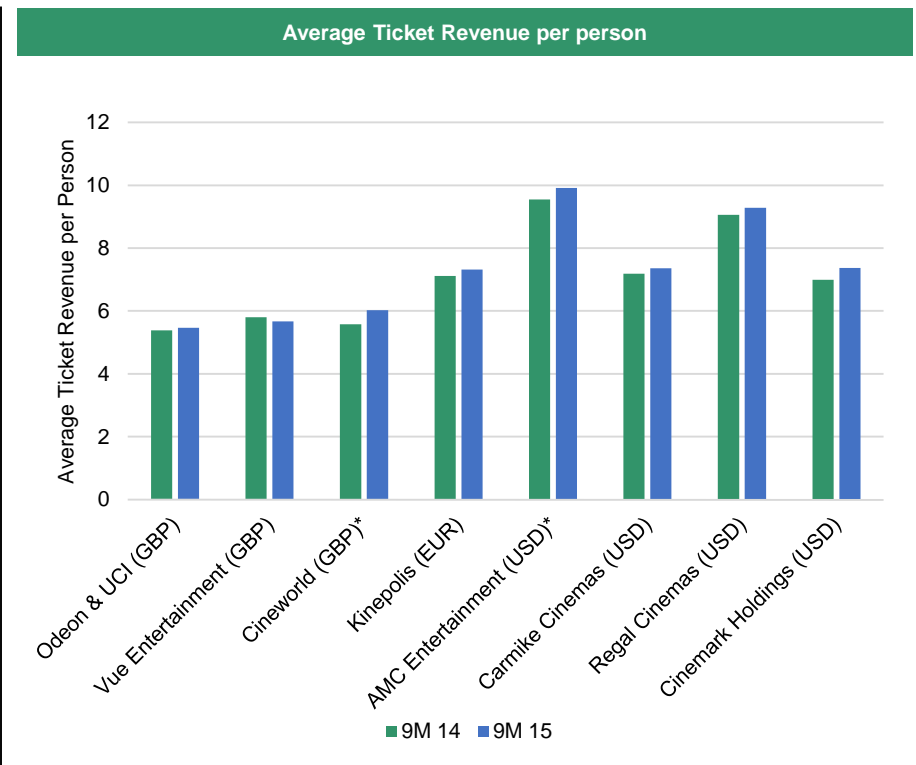
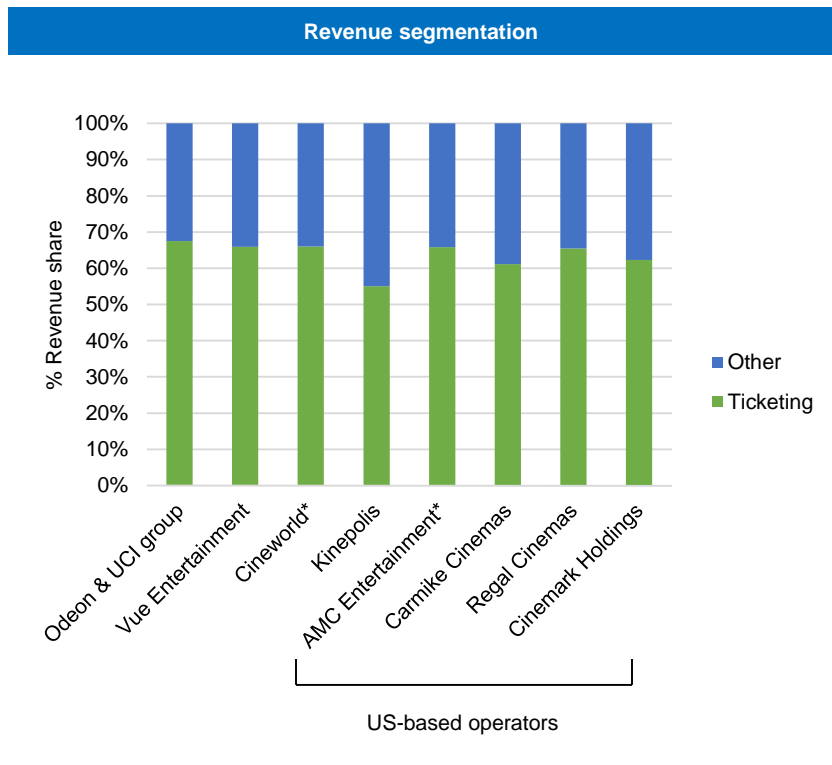


Spain and France exhibited growth in 2014, whereas UK, Italy and Germany had single digit declines.

Notes Includes UK, Germany, France, Spain and Italy only, *UNIC data, G2Mi Analysis

Box office receipts account for approx. two thirds of revenues

Major operators continue to drive up average ticket revenues per person – through initiatives such as additional charges for IMAX, 3D, premium seating and peak time attendance



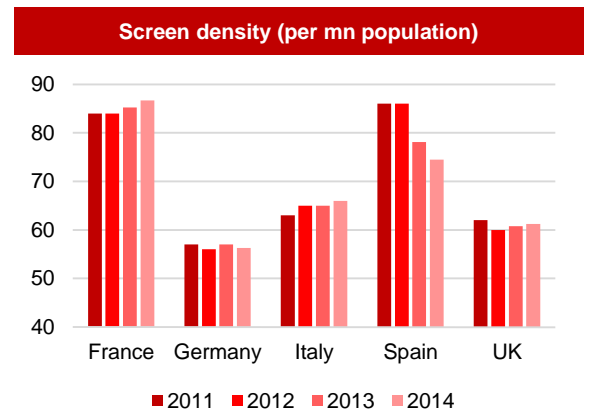
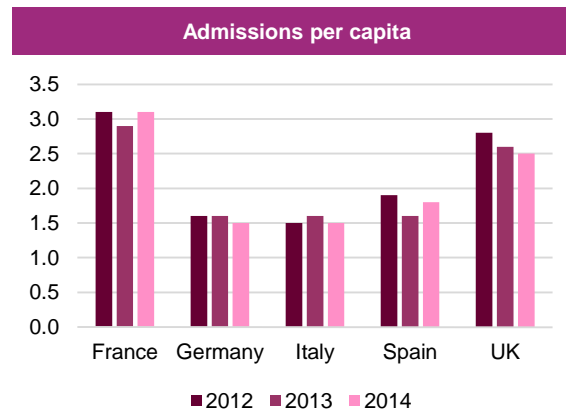
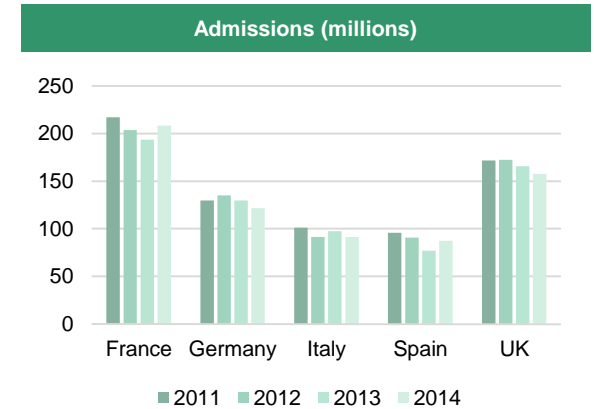
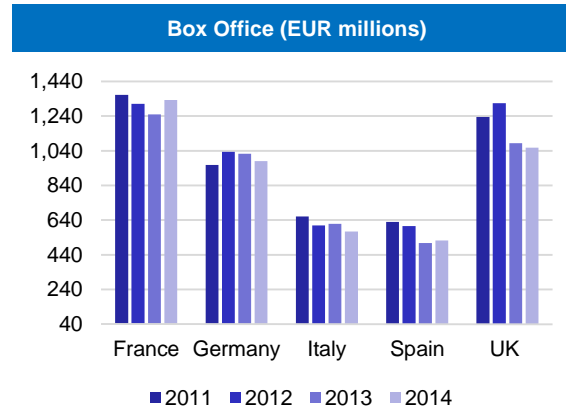
Notes Company data; 9M 2015 figures; *Half Year figures

European countries have distinct characteristics in terms of cinema reach, content preferences and screen density

Europe's largest countries have quite distinct markets, with attendances in France at close to twice the level in Germany and Italy.









Apart from the UK, the other territories have a strong market for local language content (from 20% in Spain to approx. 40% in France).

2015 is a strong year with successful releases such as Minions, Furious 7, Spectre, Mission Impossible and Jurassic World.



Five operators have developed a pan-European presence

Selected European operators

Company	Ownership	No of cinemas / screens	LFY Revenues	% Revenue growth	Admissions (millions)	Countries where active
 	Terra Firma	240 / 2,223	GBP 657.4 mn (+4%)	+15.8% (9M 2015)	78.5 (2014)	UK, Ireland, Spain, Germany, Italy, Portugal, Austria
	OMERS, Alberta IMC	187 / 1,742	GBP 660.3 mn (-7.1%)	+2.2% (9M 2015)	80.3 (2014)	UK, Germany, Poland, Italy, Taiwan
	Listed	217 / 2,045	GBP 619.4 mn (+52.5%)	+36.1% (9M 2015)	82 (2014)	UK, Ireland, Poland, Israel, Hungary, Czech Republic, Bulgaria, Romania and Slovakia
	Gaumont (34%); Pathe (66%)	101 / 995	EUR 686.307 million (+2.7%)	N.A.	65.7 (2014)	France, Switzerland, Netherlands
	Listed; Kinohold (46.14%)	35 / 398	EUR 261.9 million (+6.8%)	+13.1% (H1 2015)	19.7 (2014)	Belgium, France, Spain, Netherlands, Switzerland, Poland
	Event Hospitality & Entertainment (Australia)	54 / 490	EUR 121 million*	N.A.	N.A.	Germany
	Raymond family	39 / 418	EUR 162.9 million**	N.A.	N.A.	France

Notes Company data; G2Mi Analysis; *Greater Union Filmpalast GmbH figure; **2013 figures

2015 saw the entry of the Mexican operator, Cinepolis, with the acquisition of Cines Yelmo in Spain

Selected European M&A transactions

Date reported	Summary	Description
21-Aug-15	Vue International acquires Dutch cinema chain, JT Bioscopen for EUR 85 million	Vue International has acquired the Dutch cinema chain, JT Bioscopen for EUR 85 million. JT has 21 cinemas and 111 screens across 20 towns and cities. The company opened 7 new sites in the last 4 years which are amongst the most modern cinemas in the world; these include multiplexes in Hilversum, Hoorn and Eindhoven - which feature the first
13-Jul-15	Cinepolis acquires Spanish cinema chain, Cines Yelmo	The Mexico cinema operator, Cinepolis, has acquired the Spanish chain, Cines Yelmo for an undisclosed amount. Cines Yelmo had 2014 revenues of EUR 78.69 million (Yelmo Films SL).
10-Jul-15	Kinepolis acquires the cinema operator, Utopolis group	Kinepolis has acquired the cinema operator, Utopolis group (Utopia SA). Utopia SA comprises 13 cinema complexes located in 4 countries (the Grand Duchy of Luxembourg, the Netherlands, Belgium and France). In 2014, the Group had 3.4 million visitors and achieved a turnover of EUR 41 million and EBITDA of EUR 7.5 million. Utopia SA operates 3 cinemas in Luxembourg (two in Luxembourg City and one in Esch-sur-Alzette), 5 in the Netherlands (Oss, Almere, Zoetermeer, Den Helder and Emmen), 4 in Belgium (Mechelen, Turnhout, Aarschot and Lommel) and one in France (Longwy).
08-Jul-15	Kinepolis acquires the French cinema, Megaroyal	Kinepolis has acquired the French cinema, Megaroyal from the Derobert family. Megaroyal is near Lyon and has 12 screens (2,100 seats). It receives 600,000 visitors a year.
28-Apr-15	Bridgepoint acquires Nordic Cinema Group for SEK 4.7 billion	The private equity investor, Ratos has sold Nordic Cinema Group, the leading cinema operator in the Nordic and Baltic regions, to Bridgepoint. The enterprise value amounts to SEK 4,700 million (Ratos received SEK 1,700m for its shareholding). Nordic Cinema Group (NCG) was formed in 2013 through a merger of Bonnier-owned SF Bio and Ratos-owned Finnkino and is the leading cinema operator in the Nordic and Baltic regions with 66 wholly owned cinemas with 444 screens in approx. 50 towns. NCG is also co-owner of an additional 48 cinemas. In 2014 Nordic Cinema Group's sales totalled SEK 2,612 million. 58% of NCG's shares are owned by private equity conglomerate Ratos, 40% is owned by Bonnier Holding and the remainder is owned by management. Under the terms of this acquisition, Bridgepoint will become the majority shareholder, with Bonnier re-investing part of its proceeds to take a reduced stake alongside management.

ABOUT THE AUTHOR

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