Newsletter / Issue One / July 2012

CinemaxX and Vue

Those of you who are also readers of our blog, Black Dove, may have been reminded of our headline last November (Is CinemaxX the Cheapest Exhibition Stock in Europe?) this week as Vue paid €6.45 a share for the company, subject to the usual regulatory approvals. In fact the offer by Vue was not particularly generous, equating to an enterprise value of almost exactly six times historic EBITDA, at the lower end of current stock market valuations for exhibition stocks. (Nevertheless it does compare very favourably with the €3.30 at which CinemaxX shares were languishing when we wrote about the company.)

So how did Vue pull off the deal at such a low valuation? First, the company seems to have had an advantage over other exhibitors already owning circuits in Germany, as it could promise the smoothest path possible through the regulatory approval process. A sale to Vue raises no competition issues. Second, while Vue can hope to improve CinemaxX' profitability by applying its well-developed marketing expertise to the circuit, it is a more difficult proposition for private equity buyers. Bluntly, Germany is a difficult market and there is simply no growth story. In Germany the typical private equity strategy of pumping up a circuit with more multiplexes and flipping it, is more or less guaranteed to end in disaster.

Why? Because Germans obstinately refuse to visit cinemas as often as most other Europeans. The most convincing reason offered for this state of affairs is that, in German eyes, going to the cinema, especially multiplexes, is extravagantly expensive. In Britain Vue is known for targeting its marketing and pricing strategies towards different groups of consumers. Presumably the company's executives will be looking to do the same in their German acquisition.

All of which makes a fitting swan song for Black Dove which, following a review of the way we have been doing things, will soon be no more. Instead of maintaining a separate blog we will be publishing an occasional newsletter, of which is the first issue.

We are also aiming to bring a more methodical approach to bear on our monitoring of publicly-quoted exhibition stocks. A spreadsheet comparing valuations is the first step; it is available (free) on our web site.

Large Screen Cinema

For any of you who may have missed it, we published a report on **Large Screen Cinema** late in June. It focuses on the digital systems that are found in multiplexes rather than the large format film-based systems familiar from science museums. While IMAX is still the dominant player in this digital sector, a growing number of exhibitors are devising and branding their own proprietary systems. While hard profit and loss data is scarce in this area some exhibitors, at least, seem to be making very attractive returns from the higher ticket prices these large screen concepts command.

With North American and Western European markets now mature, aside from consolidation like Vue's acquisition of CinemaxX noted above, revenue growth from higher prices is looking like the only route forward, and large screen formats could play an important part in this.

Worldwide Digital Large Screen Theatres 2008-2012

screens	2008	2009	2010	2011	2012
IMAX	46	151	276	443	476
OBS	1	19	96	210	295
Total	47	170	372	653	771

Note: OBS - own brand systems; 2012 May; earlier years December
Source: IMAX, Dodona Research, Large Format Examiner