

WHERE KNOWLEDGE IS POWER

IBISWorld Industry Report March 31 2009

Movie Theaters in the US: 51213

#### DISCLAIMER

This product has been supplied by IBISWorld Inc. ('IBISWorld') solely for use by its authorized licenses strictly in accordance with their license agreements with IBISWorld. IBISWorld makes no representation to any person with regard to the completeness or accuracy of the data or information contained herein, and it accepts no responsibility and disclaims all liability (save for liability which cannot be lawfully disclaimed) for loss or damage whatsoever suffered or incurred by any other person resulting from the use of, or reliance upon, the data or information contained herein. Copyright in this publication is owned by IBISWorld Inc. The publication is sold on the basis that the purchaser agrees not to copy the material contained within it for other than the purchasers own purposes. In the event that the purchaser uses or quotes from the material in this publication - in papers, reports, or opinions prepared for any other person - it is agreed that it will be sourced to: IBISWorld Inc.

# Contents

Recession Update: March 30 2009	3
Industry Definition	4
ACTIVITIES (PRODUCTS AND SERVICES)	
DEMAND & SUPPLY INDUSTRIES	
Key Statistics	5
INFLATION ADJUSTED (CONSTANT) PRICES	
REAL GROWTH	
RATIO TABLE	5
GRAPHS	
Segmentation	
PRODUCTS AND SERVICE SEGMENTATION	
MAJOR MARKET SEGMENTS	
INDUSTRY CONCENTRATION	
GEOGRAPHIC SPREAD	
Market Characteristics	
MARKET SIZE	
DEMAND DETERMINANTS	
DOMESTIC AND INTERNATIONAL MARKETS BASIS OF COMPETITION	
LIFE CYCLE	
Industry Conditions	
BARRIERS TO ENTRY	
TAXATION	
INDUSTRY ASSISTANCE	
REGULATION AND DEREGULATION	
COST STRUCTURE	
CAPITAL AND LABOR INTENSITY	
TECHNOLOGY AND SYSTEMS	18
INDUSTRY VOLATILITY	19
GLOBALIZATION	
Key Factors	
KEY SENSITIVITIES	
KEY SUCCESS FACTORS	
Key Competitors	
MAJOR PLAYERS	
PLAYER PERFORMANCE	21
Industry Performance	
CURRENT PERFORMANCE	
HISTORICAL PERFORMANCE	
Outlook	
V V V	Y

•• 🐏

# Recession Update: March 30 2009

### Immediate Impact - NEGATIVE

IBISWorld believes that the impact of the current recession on this industry will be negative.

The rising unemployment and its negative effect on household disposable income is expected to have a disastrous effect on this industry.

### Headwind

The recession will continue to cause unemployment rates to rise and household income levels to fall. As movie-going is a discretionary expenditure item, it will be deferred until the economy improves.

### Tailwind

The recession is not expected to present this industry with any opportunities.

### **Structural Changes**

There are a few large national operators and many smaller, independent ones. Consolidation among the latter group will occur, as revenue falls and profit margins are reduced.

### Can the Industry Weather the Storm?

If the industry is to survive the downturn brought on by the recession, it will have to discount prices and offer packaged ticket prices along with popcorn, ice-cream and soda price incentives to attract movie-goers.

### FORECAST - Revenue to fall and profit margins reduced

As this industry is seasonal, it will experience its strongest growth in the fourth quarter of 2009. This growth will be relatively subdued in comparison to the growth in the fourth quarter of 2010. The slightly more subdued growth in the final quarter of 2009 is due to the recession.

	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Quarterly Revenue \$m	2786.0	2946.0	2701.0	3070.0	2784.0	2762.0	2571.0	3110.0
Real Revenue Growth	-3.7	5.7	-8.3	13.7	-9.3	-0.8	-6.9	21.0
Forecast real revenue growth %			2008	2009	2010	2011	2012	2013
as published March 2009			-2.7	-3.7	-2.4	2.4	1.9	1.8

NOTE: This one page recession update discusses industry dynamics since the last update of the industry report and over the next few months. The purpose of this update is to provide additional information for the short term. The full report analyses the fundamentals of the industry over a longer time frame, and reflects the situation at the time of publication.

### Recession 2009: Whitepaper Available

If you would like a broader view of the factors driving this recession, please download our special report from www.ibisworld.com/recession2009.

\*\* 2\*

3

# **Industry Definition**

This industry comprises establishments primarily engaged in operating motion picture theatres and/or exhibiting motion pictures or videos at film festivals, and so forth.

### ACTIVITIES (PRODUCTS AND SERVICES)

The primary activities of this industry are:

- Motion picture theatre operation
- Drive-in motion picture theatre operation

The major products and services in this industry are:

- Miniplex Theatres (two to seven screens)
- Single Screen Theatres
- Multiplex Theatres (eight to fifteen screens)
- Megaplex theatres (more than sixteen screens)

### **DEMAND & SUPPLY INDUSTRIES**

- 42245 Confectionery Wholesaling in the US
- 51211a Movie & Video Production in the US
- 51211b Television Production in the US
- 51212 Movie & Video Distribution in the US
- 54181 Advertising Agencies in the US

\*\* (\*

# Key Statistics

## INFLATION ADJUSTED (CONSTANT) PRICES

	2005	2006	2007	2008	2009	
Industry Revenue	*11,825	*11,895	*12,205	*11,876	*11,436	\$Mil
Industry Gross Product	*4,867	*4,877	*4,984	*4,884	*4,684	\$Mil
Number of Establishments	*4,798	*4,735	*4,664	*4,608	*4,525	Units
Number of Enterprises	*4,759	*4,640	*4,547	*4,456	*4,345	Units
Employment	*130,936	*129,626	*127,962	*126,170	*123,520	Units
Exports						
Imports						
Total Wages	*1,740	*1,771	*1,820	*1,805	*1,767	\$Mil
Domestic Demand	NC	NC	NC	NC	NC	\$Mil
Box Office	*9,749.2	*9,839.1	*10,053.8	*9,797.7	n/a	\$Mil
Tickets Sold	1,379.2	1,406	1,404.6	1,337.5	n/a	Million

### **REAL GROWTH**

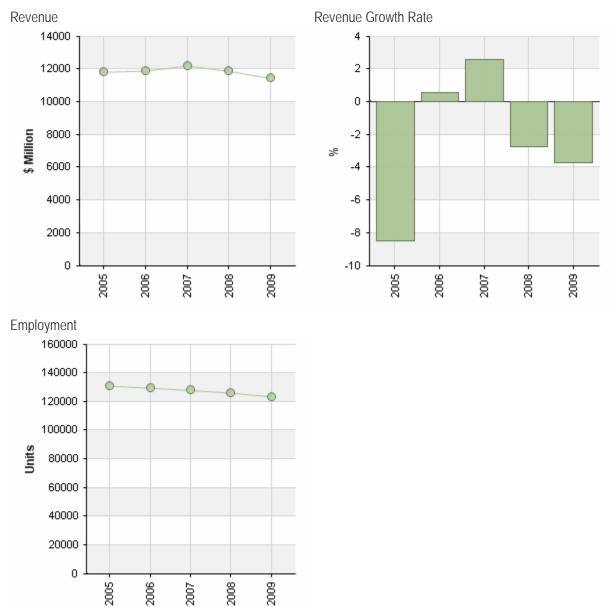
	2005	2006	2007	2008	2009	
Industry Revenue	*-8.5	*0.6	*2.6	*-2.7	*-3.7	%
Industry Gross Product	*-11.4	*0.2	*2.2	*-2.0	*-4.1	%
Number of Establishments	*-3.0	*-1.3	*-1.5	*-1.2	*-1.8	%
Number of Enterprises	*-2.9	*-2.5	*-2.0	*-2.0	*-2.5	%
Employment	*-4.2	*-1.0	*-1.3	*-1.4	*-2.1	%
Exports	NC	NC	NC	NC	NC	%
Imports	NC	NC	NC	NC	NC	%
Total Wages	*2.0	*1.8	*2.8	*-0.8	*-2.1	%
Domestic Demand	NC	NC	NC	NC	NC	%

### RATIO TABLE

	2005	2006	2007	2008	2009	
Imports share of Domestic Demand	NC	NC	NC	NC	NC	%
Exports Share of Revenue	NC	NC	NC	NC	NC	%
Average Revenue per Employee	*0.09	*0.09	*0.1	*0.09	*0.09	\$Mil
Wages and Salaries Share of Revenue	*14.71	*14.89	*14.91	*15.2	*15.45	%

\_ \_ \_ \_ \_ \_ \_ \_ \_ \_ \_ \_ \_ \_ \_ \_

### GRAPHS

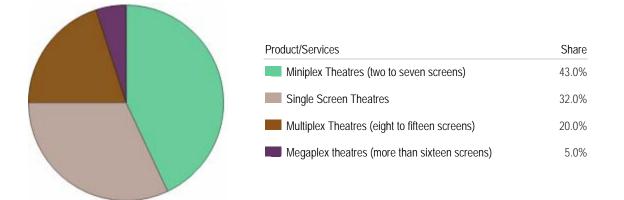


Note: Unless specified, an asterisk (\*) associated with a number in a table indicates an IBISWorld estimate and references to dollars are to US dollars.

•• :•

# Segmentation

### PRODUCTS AND SERVICE SEGMENTATION



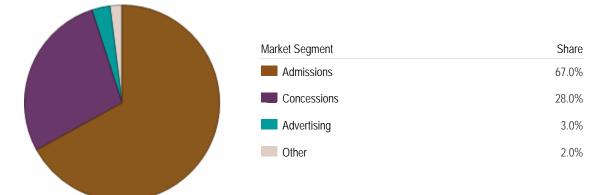
Between 1980 and 2007, the number of indoor screens increased from 17,590 to 39,347 in 5,547 theatres, while drive-in screens decreased from 3,561 to 730.

The trend towards larger theater complexes with a higher number of screens continued during 2007. This allows for economies of scale, with higher labor and capital productivity and for screen seating capacity to be adjusted according to demand.

In 2007, there were a total of 6,277 theatres (which fell from 6,356 in 2006). About 27.8% of theatres were single screen theatres (down 0.3% in theater number, but up 0.3% in screens in 2007), 36.6% were miniplexes with between 2 and 7 screens with a total of 9,159 screens (down 2.8% in theaters and 2.6% in screens), 25.8% were multiplexes with between 8 and 15 screens, with a total of 17,902 screens, (down 2.6% in theaters, but up 1.3% in screens) and 616 were megaplexes with 16 or more screens, with a total of 11,268 screens (up 4.2% in theaters and 3.8% in screens). The total number of screens increased from 22,765 in 1986, to 37,396 in 2000, with the development of multiplexes, after which it declined to 35,280 in 2002, before it increased to 40,077 in 2007.

Also, within the indoor theatre component, some major operators have primary, high admissions price complexes as well as secondary, budget facilities and admissions theatres which screen movies after the initial movie season at primary complexes ended.

### MAJOR MARKET SEGMENTS



IBISWorld estimates that about 67% of industry revenue is derived from gross box office receipts, 3% from screen advertising and 28% from sales of food and beverages (on which gross margins of 80% can apply) from owner-operated refreshment bars. The remainder is derived from rent, leasing, hiring and from operating and non operating areas. All revenue is derived from household expenditure, apart from advertising income.

#### **Audience Profile**

Research by the MPAA has indicated that 27% of movie goers classify themselves as frequent attendees and account for 82% of all admissions and that 60% of movie goers are either frequent or occasional goers. Also, 19% of movie admissions are from persons aged 12-17 years, and 12-24 year olds account for 30% of the audience, while over 40 year olds account for 40% of the movie audience.

However, 40% of frequent movie goers tend to be aged from 12-24 years and 51% of teenagers indicate that they are frequent movie goers, compared to 24% of adults. In 2001, 54% of teenagers attended movies frequently, compared with 45% in 1996, but single adults continue to go to the movies more than married adults. Nearly a third of parents with teenage children are frequent movie goers and adults who attended college go to the movies more frequently than those who are not college educated.

By gender, males usually attend more movies than females. While on a per capita basis, the average person attends 5.3 times a year, the Hispanic population attends around 9.9 movies a year (and account for 15% of all admissions), the Black population attends 7.8 movies a year (11% of total admissions) and the White population attends 8.1 films a year, on average, and accounts for 68% of all admissions.

Changes in audience profile and demand has been reflected in classification of movies both produced and screened. Between 2003 and 2007, while a constant 5% of movies screened were classified as 'G', the share of 'PG' classified films increased from 15% to 30%. However, PG-13 classified film share dropped from 60% to 50% and 'R' rated films declined from 20% to 15%.

### INDUSTRY CONCENTRATION

This industry is highly concentrated

In 2007 the top four players were estimated by IBISWorld to control about over 62% of total industry revenue, following the continuing consolidation of operators. The concentration level has particularly increased since 2002, with a number of the major operators purchasing a number of small and larger operators, following their release from Chapter 11 proceedings. In 2003, the concentration level increased again as Regal Entertainment acquired many of Hoyts Cinemas assets, but subsequently sold some of Hoyts international cinema holdings.

In January 2006, AMC completed of its merger with Loews Entertainment, which had interests in 415 theaters with 5,672 screens across 29 States and the District of Columbia and 11 countries, with 24,000 staff and 250 million admissions annually. In August 2006, Cinemark acquired Century Theaters Inc. which operated 78 theaters with 994 screens in 12 western States.

The latest figures from US Census related to establishment size by employment is for 2005 and is displayed below.

No. of Employees	Units Establishments	Percent Total
1-4	920	17.9%
5-9	679	13.2%
10-19	1174	22.9%
20-49	1560	30.4%
50-99	649	12.7%
100-249	143	2.8%
250-499	4	0.1%
500-999	0	0.0%
1000+	0	0.0%
Total	5129	

Distribution of Employer Establishments by Employee Size, 2005

Source: US Census - County Business Patterns

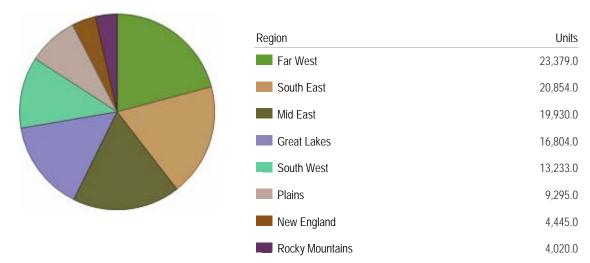
Note: Released June 2007. Information relates to employer establishments only (i.e. excludes non-employer establishments).

The industry is divided between a large number of small establishments, but with some significant operators with a large number of employees, which would have increased further to 2007, due to on-going industry consolidation.

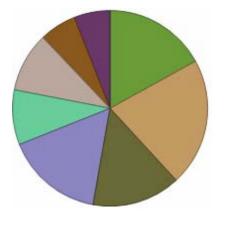
The table indicates that over two thirds of establishments had between 10 and 49 employees. There was still a significant number that had more than 100 employees. However, 30% are still small operations, with 9 employees or less, and two operators had more than 1,000 employees. The level of industry concentration is expected to increase in the near future, due to further consolidation.

### **GEOGRAPHIC SPREAD**

Year: 2009 Share of Employment by Region

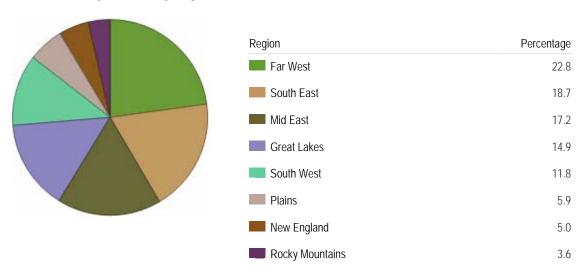


### Share of Establishments by Region



Region	Units
Far West	871.0
South East	1,086.0
Mid East	751.0
Great Lakes	830.0
South West	465.0
Plains	506.0
New England	313.0
Rocky Mountains	307.0

### Share of Industry Revenue by Region



\*\* (\*

The industry is broadly distributed according to population, as indicated in the table below.

Population Distribution by Region, 2007

Region	Percentage Population
New England	4.8
Mid East	15.9
Great Lakes	15.3
Plains	6.7
South East	25.1
South West	11.7
Rocky Mountains	3.4
Far West	17.1
Total	100

Source: IBISWorld

There is a slightly higher concentration in the Far West and South East regions, which have a concentration of some of the largest cities, and a greater propensity to view films. Some of the cities in these regions also have a close association with the film production industry.

This level of geographic concentration is expected not to change in the near future.

\*\* \$\*

## Market Characteristics

### MARKET SIZE

IBISWorld contends that the demand for movie theatre attendance is not one for a homogeneous product, but is for a package of services, that can be highly differentiated. The package includes and varies according to whether it is a new release movie, its quality and sound presentation, as well as the comfort, location and ease of access to the theatre complex. The two basic motivations are the movie going experience itself and demand for a particular movie.

Given this, economic conditions are also important, particularly trends in the real growth in household disposable income, which is affected by growth in unemployment and from tax and interest rate movements, as well as high gas prices. Changes in consumer sentiment also has a significant effect on industry demand. This was indicated in 2008 when the number of tickets sold fell 4.8% to 1,337.5 million, while the box office gross also fell, by 0.4%, to \$9,630 million, but only as average ticket prices continued to rise to \$7.20 in 2008 from \$6.88 in 2007 (4.7% in nominal terms). The highest grossing movie in 2008 was 'The Dark Knight'.

IBISWorld forecasts that, in constant 2009 prices, the Movie Theatres industry will generate \$11,436 million in revenue in 2009, which represents real decline in revenue of 3.7%, due to the continuing economic recession, and rising unemployment. This will continue to adversely impact on household disposable income growth and, therefore, movie-going demand. Ticket price discounting will occur.

The industry in 2009 is forecast by IBISWorld to comprise about 4,345 enterprises, operating at 4,525 establishments or locations, representing respective declines of 2.1% and 1.8% over 2008, due to continuing industry consolidation, as economic condition deteriorate.

In 2009, the industry is expected by IBISWorld to employ about 123,520, which is 2.1% less than in the previous year. Wages paid, in constant 2009 prices, is \$1,767 million, and is expected to also fall by 2.1% in real terms over the year.

### LINKAGES

#### **Demand Linkages**

■ 54181 - Advertising Agencies in the US Demand for cinema advertising

#### Supply Linkages

42245 - Confectionery Wholesaling in the US Supply of confectionery, ice-cream, drinks etc.

51211a - Movie & Video Production in the US Supply of movies

51211b - Television Production in the US Supply of movies

■ 51212 - Movie & Video Distribution in the US Distribution of movies

### DEMAND DETERMINANTS

IBISWorld contends that the demand for movie theatre attendance is not one for a homogeneous product, but is for a package of services, that can be highly differentiated. The package includes and varies according to whether it is a new

release movie, its quality and sound presentation, as well as the comfort, location and ease of access to the theatre complex. The two basic motivations are the movie going experience itself and demand for a particular movie. There are, therefore, both price and non-price factors involved in demand. In the latter category can be included the taste and preferences of consumers, the stage of a movie's lifecycle, the time of the year, the session time, as well as, income and demographic effects.

The release of a series of blockbuster movies can also increase admissions and industry revenue significantly, as was witnessed throughout the period from 2002 to 2004.

The highest frequency of attendance in the population occurs with the 18 to 24 year old age group. There has, however, been an audience profile shift, partly due to demographic changes, in terms of the progressive aging of the population. This has important implications on the types of movies required to be produced and screened to ensure that the demands of this older age group can be satisfied.

Economic conditions is important, particularly changes in real household disposable income, which is affected by changes in the growth of employment and from tax and interest rate movements, as well as high gas prices. Changes in consumer sentiment also has a significant effect on demand.

The traditional summer holiday season accounts for about 40% of industry annual revenue, so there is a high level of seasonality.

### DOMESTIC AND INTERNATIONAL MARKETS

Domestic and International Markets Exports Exports in this industry are low

Exports in this industry are increasing

**Domestic and International Markets Imports** 

Imports in this industry are low Imports in this industry are steady

#### Domestic and International Markets Analysis

The industry primarily services the needs of the domestic market, however, three of the top six operators have purchased or developed theatres overseas, either solely or in a joint venture arrangement with local companies, in countries such as: Spain, Turkey, Hungary, Latin America, Japan and Canada. However, the actual share of revenue derived by these international operations typically accounts for under 9% of the total.

AMC Entertainment Inc as at December 2007 operated 359 theatres with a total of 5,138 screens, of which the vast majority (4,595) were located in North America. It has theatres in UK, Mexico, Hong Kong and France, but generates about 90% of its revenue from the domestic market.

At the end of September 2007, Cinemark's aggregate screen count was 4,596, with screens in the United States, Canada, Mexico, Argentina, Brazil, Chile, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Colombia. Also it had commitments to open six new theatres with 83 screens by the end of 2007 and 14 new theatres with 183 screens in 2008.

### BASIS OF COMPETITION

Competition in this industry is high Competition in this industry is increasing

#### Internal Industry Competition

IBISWorld indicates that the basis of industry competition includes admission prices, but is more related to access to a continuing supply of quality and first release movie product (including regular blockbusters) which suits the particular audience which is being targeted. Links with movie distributors with a strong list of film releases is, therefore, a must.

Some operators offer cut price first release movies but these can be at older style theatres, while many others provide combined offers, of a movie ticket, plus discounted drinks, popcorn etc. as part of a packaged deal. Also important, is the location of the theatre, within or near a shopping center/mall (or in a complex which has a number of entertainment related retailers) and also providing easy access and car parking.

The quality of the theatre's facilities (including now digital vision and audio equipment, stadium seating in a multiplex complex) and, increasingly, the session times and the day of the week for screenings are also important.

During the mid-1980s, a reduction in industry revenue occurred due to the introduction of close substitutes in the home entertainment area (i.e. video cassette recorders).

#### **External Competition**

Competition is currently being felt from personal computers, DVD players, home theatre systems and the internet, the latter which is of particular entertainment value to young people. It is the rapid penetration of the in-home entertainment equipment into households which affects industry revenue as it leads to competition for a share of household disposable income spent on entertainment.

### LIFE CYCLE

Life Cycle Stage The life cycle stage is mature

#### Life Cycle Reasons

- Aging of the population
- Competition from in-house entertainment substitutes
- Poor financial returns and associated rationalization.
- Low growth in industry revenue.
- Significant industry consolidation.
- Popularity of home theater systems
- Piracy of newly released movies.

#### Life Cycle Analysis

IBISWorld contends that the industry is in a mature phase of its development, as witnessed by the recent significant operator site and screen consolidation process associated with the filing for Chapter 11 Bankruptcy protection by most major operators in the early 2000s. The filings followed the significant investment in new multi-theatre complexes and increased debt levels. However, the resultant growth in admissions was only marginal, until the more recent release of a string of blockbuster movies. The consolidation processes continued to late-2007.

The industry's revenue growth is again resulting more from significant growth in real ticket prices, rather than increased demand.

Given this, consolidation of theaters, particularly single screen ones, is continuing. The industry is also facing significant competition from the internet delivery of movies and the current availability of video-on-demand services by cable and satellite networks using digital technology. Significant competition is continuing to result from other sources of entertainment, including from DVDs and home theater systems and movie piracy is having a major impact on theater demand.

•• :•

# **Industry Conditions**

### **BARRIERS TO ENTRY**

Barriers to entry in this industry are high These barriers are increasing

- The main barrier is having access to the latest release movies in a timely manner.
- Industry consolidation now means the top four operators now control over 60% of industry revenue.
- Industry consolidation is continuing.
- Digital screen technology conversion costs are high and favors larger operators.

IBISWorld contends that the current barriers to entry are high and increasing, and relating to the following.

Barriers to entry may be associated with the dominance of major players, for new operators seeking to enter major regional or national markets. In 2007 the top four players were estimated by IBISWorld to control about over 62% of total industry revenue, following the continuing consolidation of operators. The concentration level has particularly increased since 2002 and continued to late-2007. There may, however, still be local opportunities available for niche players in certain markets. However, the current cost of digital screen technology and conversion is significant, and favors the larger operators. There are, also, significant costs associated with establishing multi-screen theatres with stadium seating.

Indirectly there may be some operational barriers to entry, in terms of obtaining access to suitable movie product from the major distributors, all of which have agreements for the supply of movies from the major Hollywood studios. This barrier may not be as significant for niche or art house theater operators. Also, movies from the major distributors can tie an operator into screening a movie for a certain number of sessions per day (sometimes with times of sessions also forming part of the agreement) and for a certain number of weeks.

Depending on the release, the revenue sharing agreement with the distributor, may also commence at 55% of box office for the first week, but then declining to between 25% and 33% by weeks 3 to 5. This imposes a significant cost on revenue generated.

### TAXATION

Goods	Tax Rate*	Тах Туре				
Entertainment tax	5 - 10	Industry Specific				
*Percentage of value unless otherwise specified						

Some States have a local city tax imposed an amusement or entertainment and/or a ticket tax, which can be around 5%. For instance, in Pittsburgh, a 5% entertainment tax applies to all sports and entertainment ticket sales.

### INDUSTRY ASSISTANCE

The level of Industry Assistance is none The trend of Industry Assistance is steady

There are no specific tariffs for this industry

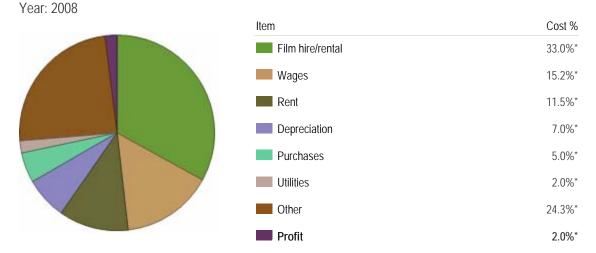
The industry receives no government assistance.

### **REGULATION AND DEREGULATION**

The level of Regulation is light The trend of Regulation is steady

The main regulation relates to adhering to the movie's classification for audience admission in terms of the selling of tickets. Since November 1, 1968, the Motion Picture Association of America and the National Association of Theatre Owners have undertaken the ratings of films on a voluntary basis. There is no regulation of ticket prices. The industry does, however, have to also comply with the general food handling, disability access, public safety and occupational health and safety regulations.

### COST STRUCTURE



Similar to most service industries, there is a need to have a significant labor input in all areas, from ticket selling to cleaning and film acquisition for screening. As such, wages account for around 15% of revenue. However, the most

significant costs are film hire/rental - which accounts for around a third of total revenue, and which increases with any increases in admissions revenues, under various revenue sharing arrangements with film distributors and producers. Also, rental/leases on buildings is a significant cost, due to the need to usually be located within or near a major shopping mall or other entertainment complexes.

While many major operators had in the recent past made significant losses, the recent financial restructuring of a number of major operators, coupled with some increased demand and average ticket prices, the financial losses have been significantly reduced and many are making profits again. For fiscal 2003 and into early 2004, the net income to revenue margin tended to be in the range of between 2% and 5%.

Due to recent industry consolidation to 2007, the profit margin for larger operators had increased above that level, but is expected to have fallen to 2.0% or less in 2008 and 2009 as the effects of the economic recession hits this industry.

### CAPITAL AND LABOR INTENSITY

The level of Capital Intensity is low

• The industry is customer service-based with a need for a high level of interaction and service.

The labor intensity of this industry is determined by the ratio of labor to capital. To calculate this ratio, wage and depreciation costs (taken from the cost structure) are utilized as proxies. The proportion of costs related to wages is about 15% and the proportion related to capital is about 7% and the ratio of labor to capital is 1:0.46, meaning that for every dollar spent on wages, an additional forty six cents is spent on using and replacing buildings and equipment.

The industry has a high level of labor input in areas such as ticket selling, cleaning, security; and information.

This occurs despite the recent significant investment by major operators in multiplexes and megaplexes (although the rental/leasing of cinema complexes is increasing) and in internet information, booking and ticket selling. Major operators also have a high proportion of young, part-time and casual employees in their employees to cover varying demand over the day/week or year and for lower wage cost considerations.

### **TECHNOLOGY AND SYSTEMS**

The level of Technology Change is high

Since the mid-1990s, the most significant change in this industry has been the investment in multiplexes and megaplexes. However, another major change recently occurring, is the introduction of digital visual and audio equipment. There is also the prospect of the distribution of movies to theaters by satellite or broadband, thereby, significantly reducing film distribution costs. While this technology is still very expensive (up to \$150,000 per screen) it has appeared in some theaters, especially those operated by Regal Entertainment Group. Plasma screens in foyers which offer quality previews of films and some advertising, are also appearing. In December 2005, Carmike Cinemas announced that it had entered into an agreement to install 2,300 digital cinema projection systems, using 2K DCI-compliant DLP Cinema projectors, throughout the US. It subsequently installed these to 2007. Most other major operators did similarly over the same period. According to the MPAA, at the end of 2007, there were a total of 6,455 digital screens installed in theaters globally, with 72% (or 4,648) available in the US.

Some major operators are also signing agreements with major cable distributors to supply better quality short film product, for screening before the main feature.

Touch screen cinema ticketing machines, using Windows based software has been introduced. The system also provides scheduling and financial reporting components. Only limited training is required by staff to operate the system. EFTPOS and credit cards facilities for payment are also becoming available. Self service ticketing machines have been introduced, together with automated phone booking service and reserved seating becoming available again for popular sessions. Domestically, some cinemas have introduced touch screens for patrons to view trailers prior to booking.

All major operators now provide information on films, sessions and previews on the Internet and/or a phone information line. Advertising of sessions in newspapers has been reduced with the increased use of this technology. Ticket sales over the internet is available - with the ability to print tickets on customers' own printers or to collect them in theater foyers, without waiting. In October 2005, Cinemike Cinemas signed an agreement with Fandango to allow for online and phone movie ticketing services.

Eastman Kodak has introduced its Screencheck Experience program, which monitors and improves projection in theatres.

Distribution of movies to exhibitors in digital disk format (instead of film stock) is emerging, but is associated with an increasing fear of film piracy potential. Reduced costs to distributors from releasing films to theaters in this format, however, may have to be shared with theatres.

### INDUSTRY VOLATILITY

The level of volatility is medium

Medium revenue volatility in this industry generally equates to the release of a series of blockbuster movies in the late-1990s and early 2000s, which has not been repeated to 2007. As well, significant increases in average ticket prices, has been used to offset some of the recent decline in audience numbers and growth.

### **GLOBALIZATION**

The level of Globalization is low The trend of Globalization is increasing

Three operators, Regal Entertainment, Cinemark USA, Inc, & AMC Entertainment Inc., have purchased or developed, either solely or in a joint venture arrangement with a local theatre companies. More recently many have sold some of their international interests and purchased domestic operators to now become dominant players in the US market.

# Key Factors

### **KEY SENSITIVITIES**

The key sensitivities affecting the performance of the Movie Theaters industry include:

### Competition from Substitutes - Television Broadcasting - Movie Theaters

The industry is affected by the increasing rate of penetration of households by cable TV and other entertainment related household equipment, such as DVDs, VCRs, movies over the internet etc.

#### Per Capita Disposable Income

Description: The level of and/or movements in real per capita disposable income.

The demand for movie attendance is dependent on changes in real household disposable income which is affected by changes in the growth rate of employment and from tax and interest rate changes.

#### Upstream Supply - Movie and Video Production

The industry is affected by the regular production and distribution of blockbuster movies.

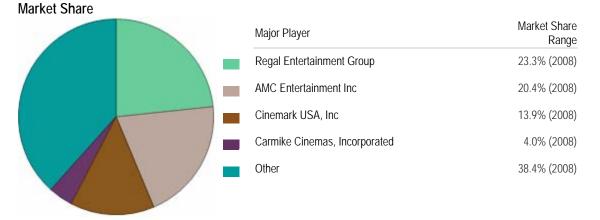
### **KEY SUCCESS FACTORS**

The key success factors in the Movie Theaters industry are:

- Ability to quickly adopt new technology Ability to link onto new and latest digital visual and audio equipment to increase the audience entertainment experience and attract increased advertising revenue.
- Access to multiskilled and flexible workforce Access to a supply of young casual workers to cover daily, weekly and annual demand peaks and for cost considerations.
- Being part of a group buying, promotion and marketing scheme Being part of a chain operation to obtain cost advantages, as well as access to blockbuster films.
- Guaranteed supply of key inputs Guaranteed on-going supply of quality movies in line with local audience tastes and demands.
- Proximity to key markets Identifying key local market segments for movies to be shown and offering easy access - including parking.

# Key Competitors

### MAJOR PLAYERS



### PLAYER PERFORMANCE

Regal Entertainment Group

Market Share: 23.3%

#### Summary

Regal Cinemas is the largest operator in this industry, is based in Knoxfield, Tennessee, and is also involved with IMAX 3-D theatres. At the end of January 2002, it was reported that Anschutz Corp was to consolidate its theatre chains, Regal Cinemas, United Artist Theatre Circuit and Edwards Theatres into one entity, which would save up to \$25 million in overheads. In May 2002 this occurred, the new company was renamed Regal Entertainment Group and a \$342 million IPO was floated in the same month.

At the end of 2007, it had 527 theaters (down from 539 in 2006) with a total of 6,388 screens (down from 6,403), but average screens per theatre increased to 12.1, from 11.9 previously.

In January 2008, Regal announced that it entered into an agreement to acquire Consolidated Theaters for \$210 million in cash. It will acquire 28 theaters and 400 screens, largely in Georgia, Maryland, North Carolina, South Carolina, Tennessee and Virginia.

The company was formerly owned by investment firms, Hicks Muse Tate and Furst, in association with Kohlberg Kravis Roberts. It had previously emerged from bankruptcy at the end of January 2002, owned by billionaire, Philip Anschutz.

In March 2005, Regal, together with AMC, announced the merger of their cinema screen advertising businesses in a new joint venture company, National CineMedia LLC. This company focuses on the marketing and sale of cinema advertising and promotional products, business communications and training services and the distribution of digital alternative content. The company represented 11,200 North American theater screens, of which 8,200 were digital and with a total of 450 movie admissions annually.

In July, the company acquired Eastern Federal Corporation for \$125.2 million and it owned 21 theaters and 230 screens, mainly in Florida, North Carolina and South Carolina.

In 2000 and 2001, around \$450 million of debt of Regal Cinemas was acquired by Mr. Anschutz, who also owned United Artists Theatre Circuits, which made it the sixth largest operator in this industry, and the two entities were eventually merged.

The following three tables provide an overview of the performance of this company in the key areas of financials, revenue by source, attendances, the average ticket price and expenditure on concessions by patrons.

#### **Recent Performance**

#### **Recent Company Performance**

Fiscal Year	Million Dollars Revenue	Percent Growth	Million Dollars Net Income	Percent Growth
2002	2140.2	N/C	117.2	N/C
2003	2489.9	16.3%	185.4	58.2%
2004	2468.0	-0.9%	82.5	-55.5%
2005	2516.7	2.0%	91.8	11.3%
2006	2598.1	3.2%	86.3	-6.0%
2007	2661.2	2.4%	363.0	320.6%

Source: SEC Filings

Note: Fiscal year ending December.

#### Revenue by Source

Fiend Veer	Million	Dereent Crowth	Million	Doroont Crowth	Million	Dereent Crowth	Million	Dereent Crowth
Fiscal Year	Admissions	Percent Growth	Concessions	Percent Growth	Other	Percent Growth	Total	Percent Growth
2002	1453.7	N/C	588.3	N/C	98.2	N/C	2140.2	N/C
2003	1690.0	16.3%	646.2	9.8%	153.7	56.5%	2489.9	16.3%
2004	1657.9	-1.9%	636.4	-1.5%	173.7	13.0%	2468.0	-0.9%
2005	1662.2	0.3%	659.8	3.7%	194.7	12.1%	2516.7	2.0%
2006	1727.1	3.9%	696.7	5.6%	174.3	-10.5%	2598.1	3.2%
2007	1804.5	4.5%	735.0	5.5%	121.7	-30.2%		N/C

Source: SEC Filings

#### Audience Data

Fiscal Year	Million Total Admissions	Percent Growth	Dollars Average Ticket Price	Percent Growth	Dollars Average Concession Expenditure
2002	241.4	N/C	6.02	N/C	2.44
2003	265.6	10.0%	6.36	5.6%	2.43
2004	253.8	-4.4%	6.53	2.7%	2.51
2005	244.3	-3.7%	6.80	4.1%	2.70
2006	247.4	1.3%	6.98	2.6%	2.82
2007	242.9	-1.8%	7.43	6.4%	3.03

Source: SEC Filings

Movements in revenue are derived from acquisitions as well as changes in admissions, average ticket price and concessions expenditure by patrons. For instance, the results for 2004 were in line with the reduced release in the number of blockbuster movies, the number of admissions declined 4.4% to 253.8 million, but the average ticket price still increased 2.7% to \$6.53. The average expenditure on concessions per patron also increased 3.3% to \$2.51.

#### Investment in Technology

It also invested in digital technology to enhance the audiences' movie experience. In January 2004, Regal revealed plans for four new cineplex sites throughout New York and Massachusetts, which were opened in Spring 2005. In March, it indicated its digital content network, CineMedia, was built around low cost projectors and supported by other digital equipment which could cost around \$150,000 per screen. They were operated by the screening of movies with a computer hard drive or DVD player which is linked to a central network server. It provided the opportunity to increase advertising revenue using new, higher quality digital formats and for films and other products, which included live concerts feeds distributed to theaters via cable or satellite. In early 2004, it had the digital network in 394 theaters, with a total of 4700 screens and developed a 20 minute advertising segment that was called "The 2wenty". This played before the movie's advertised starting time and is filled with long-form advertisements which are designed to both entertain and inform.

In January 2003, the company announced that it aimed to raise its market share of the domestic movie theater industry from 23.0% to 30.0%, mainly through acquisitions. Also in that month, Regal announced it had entered into a multi-year programming and marketing alliance with Turner Broadcasting Systems Inc and Time Warner Inc which covered its in-theater Digital Content Network (DCN). These latter companies were to provide digital video content, which included entertainment, sports and educational programming, as well as on-screen and in-lobby marketing and advertising products. The companies were also to provide short form entertainment product, which could be sourced from areas such as the Cartoon Network and Turner Network Television for pre-feature screening. A similar venture was signed with Vivendi Universal Entertainment.

In February 2003, Regal announced that it had purchased 52 of 97 Hoyts theaters for \$200 million in cash and stock, from Consolidated Press Holdings, Australia. These theaters had 554 screens. This increased the company's presence in the Northeast region, (especially Boston and Washington). In March, it announced that it planned to open 118 new screens over the next two years, all with stadium seating, computerized box office and customer service desks in the lobbies for collection of pre-paid tickets, which could be booked through REGmovies.com or E-Z Ticket Kiosks.

Investment in the digital content network screens continued at an average of \$15,000 per screen, and with an expected total investment now of about \$73 million.

In late-2002, Regals' digital delivery system was online at around 2,000 screens and 575 plasma screens in the lobbies of theaters in 15 designated markets and planned to be online at 4,500 screens by December 2003. The cost to build the digital network at an average of \$15,560 per screen to all the 4,500 screens was estimated at \$70 million. However, advertising revenue was expected to increase significantly. The current \$7,000 digital projectors were not of high enough quality to project films, but the satellite network, when established, together with higher quality projectors (when projector standards are eventually agreed by film studios) was expected to make it more attractive to advertisers.

#### **AMC Entertainment Inc**

Market Share: 20.4%

#### Summary

AMC Entertainment Inc is the second largest theater operator and has its head office in Kansas City. At the end of December 2007, it operated 359 theaters with a total of 5,138 screens, of which the vast majority (4,595) were located in North America. It has theaters in UK, Mexico, Hong Kong and France, but generates about 90% of its revenue from the domestic market.

In July 2004, J.P. Morgan Partners and Apollo Management purchased AMC Entertainment Inc, with the deal worth \$1.67 billion in cash and \$748 million in assumed debt, less \$399 million in AMC's cash and equivalents, through a \$19.50 cash per share deal. This deal received all required anti-trust approvals and was completed in the third quarter, fiscal 2005.

#### **Recent Performance**

A summary of the recent financial performance of this company is provided in the table and analyzed further below.

Recent Compa	ny Performance					
Fiscal Year	Million Dollars Revenue	Percent Growth	Million Dollars Net Income	Percent Growth	Units Employees	Percent Growth
1999	1027	N/C	-16.0	N/C	12300	N/C
2000	1123	9.3%	-55.0	243.8%	12800	4.1%
2001	1214.8	8.2%	-105.9	92.5%	13900	8.6%
2002	1341.5	10.4%	-11.5	-89.1%	17700	27.3%
2003	1791.6	33.6%	-20.3	76.5%	18300	3.4%
2004	1782.8	-0.5%	-10.7	-47.3%	17200	-6.0%
2005	1806.6	1.3%	-80.3	650.5%	15600	-9.3%
2006	1730.5	-4.2%	-188.8	135.1%	21400	37.2%
2007	2461.6	42.2%	116.9	-161.9%	22900	7.0%

Source: SEC Filings

Note: Fiscal year ending March.

Decent Company Derformence

The company was one of the few majors in this industry which had not applied for Chapter 11 bankruptcy protection and achieved this through a combination of acquisitions, as detailed below, increasing ticket prices and reducing costs, which included closing 800 screens across underperforming theater sites.

Its list of acquisitions include the following.

In June 2005, the company announced the acquisition of Loews Cineplex and their respective holding companies, Marguee Holdings Inc. and LCE Holdings LLC into Marguee Holdings, which was controlled by J.P. Morgan Partners LLC and Apollo. Combined these two companies had 450 theaters, 5,900 screens across 30 States and 13 countries and with 24,000 employees and 280 million admissions annually. In January 2006, the company announced the completion of its merger with Loews Entertainment, with interests in 415 theaters with 5,672 screens across 29 States and the District of Columbia and 11 countries, with 24,000 staff and 250 million admissions annually.

In January 2006, AMC announced the completion of its merger with Loews Entertainment, which had interests in 415 theaters with 5,672 screens across 29 States and the District of Columbia and 11 countries, with 24,000 staff and 250 million admissions annually. In April, the company was acquired by ONEX Corporation. In 2007, AMC Entertainment raised \$20 million from sale of its 9% share in Fandango, an online ticket provider, to Comcast.

In March 2005, AMC together with Regal announced the merger of their cinema screen advertising businesses in a new joint venture company, National CineMedia LLC, which will focus on the marketing and sale of cinema advertising and promotional products, business communications and training services and the distribution of digital alternative content. The company represented 11,200 North American theater screens, of which 8,200 were digital and with a total of 450 movie admissions annually. In June AMC merged with Loews Cineplex and their respective holding companies, Marguee Holdings Inc. and LCE Holdings LLC into Marquee Holdings, which was controlled by J.P. Morgan Partners LLC and Apollo. Combined these two companies had 450 theaters, 5,900 screens across 30 States and 13 countries and with 24,000 employees and 280 million admissions annually.

In December 2003, the company acquired three 16-screen megaplex cinemas from MegaStar Cinemas LLC in Atlanta and Minneapolis-St Paul. AMC also entered preliminary discussions with Loews Cineplex Entertainment Corporation about a possible business combination.

In March 2002, it completed the acquisition of GC Companies Inc., for \$168.5 million, which included 66 theaters with 621 screens and a 50 % joint venture partnership that operated 17 theaters and 160 screens in South America. The firm also purchased New Orleans's based theater company, Gulf States Theaters for \$45.8 million.

#### Cinemark USA, Inc

Market Share: 13.9%

#### Summary

This company has its head office in Plano, Texas, operates a number of discount theatres, has an on-line theatre ticket purchase system and generates about three quarters of its revenue from its domestic operations.

In March 2004, it signed a definitive merger agreement with affiliates of Madison Dearborn Partners Inc in a transaction worth \$1.5 billion. In August 2006, the company acquired Century Theaters Inc. which operated 78 theatres with 994 screens in 12 western States. It was a founding member of the Fandango internet ticketing company. At the end of September 2007, Cinemark's aggregate screen count was 4,596, with screens in the United States, Canada, Mexico, Argentina, Brazil, Chile, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Colombia.

The recent financial performance of this company is summarized in the following table and discussed further below. Revenue performance is based around acquisitions, as well as revenue derived from domestic and international theater attendances, which is driven by the quality of film releases.

Fiscal Year	Million Dollars Revenue	Percent Growth	Million Dollars Net Income	Percent Growth	Units Employees
1998	571	N/C	11.0	N/C	8600
1999	731	28.0%	-1.0	-109.1%	8600
2000	786	7.5%	-10.4	N/C	8000
2001	854	8.7%	-4.0	-61.5%	8000
2002	939	10.0%	35.6	-990.0%	12500
2003	958	2.0%	44.7	25.6%	12700
2004	1024	6.9%	41.0	-8.3%	13200
2005	1021	-0.3%	48.4	18.0%	N/A
2006	1221	19.6%	0.8	-98.3%	13600
2007	1683	37.8%	88.9	11012.5%	N/A

**Recent Company Performance** 

Source: SEC Filings

Note: Fiscal year ending December.

Revenue performance to 2002 was driven by a slate of blockbuster movie releases, which was not repeated in subsequent years. Both domestic and international box office trends were similar due to this factor. However, in 2007, the company indicated that domestic box office receipts benefited from a slate of better quality movie releases as the year progressed.

In fiscal 2005, while domestic patrons to Cinemark USA Inc decreased 7.1% to 105.6 million and international patrons fell 8.5% to 60.1 million, this was partially offset by increased admission prices.

#### Carmike Cinemas, Incorporated

Market Share: 4.0%

#### Summary

At the end of September 2007, this company operated 270 theatres with a total of 2,369 screens across 37 States. Carmike's theatres are largely located in small to mid-sized communities and some cinemas are operated in conjunction with other entertainment facilities, including ice skating rinks. It operates multiplexes, as well as, discount second run theaters.

In August 2000, the company filed for Chapter 11 bankruptcy protection and commenced the consolidation process with its theaters and around 100 sites were closed. It emerged from Chapter 11 in mid-January 2002. Prior to the Chapter 11 filing, the company operated 436 theaters and 2,802 screens, but after emerging from the it, Carmike operated 323 theaters with 2,328 screens.

In May 2005, the company acquired GKC Theatres for a net purchase price of \$62.1 million, and added 30 theatres with 263 screens across Illinois, Indiana, Michigan and Wisconsin. In July, the company announced that its Carmike 7 cinemas would become a discount theater, which offered \$2 admissions for all seats, all shows. While in August 2005, the company acquired GKC Theatres which added 30 theaters and 263 screens.

#### Recent Performance

The recent financial performance of this company is summarized in the table below.

Fiscal Year	Million Dollars Revenue	Percent Growth	Million Dollars Net Income	Units Employees
1997	458.6	N/C	20.2	10500
1998	481.6	5.0%	-30.6	10234
1999	484.1	0.5%	-21.9	11068
2000	459.3	-5.1%	-75.1	9097
2001	457.0	-0.5%	-125.4	9059
2002	506.5	10.8%	-39.8	9310
2003	493.1	-2.6%	107.4	9030
2004	495.3	0.4%	28.4	7821
2005	468.9	-5.3%	0.2	7908
2006	495.5	5.7%	-0.02	N/A
2007	489.3	-1.3%	-126.9	6838

**Recent Company Performance** 

Source: SEC Filings

Note: Fiscal year ending December

Revenue trends were dictated by audience demand, as well as rising average ticket prices. The quality of the slate of film releases also has a dramatic impact. For instance, in 2006, the film slate was weaker than expected, apart from 'Happy Feet'. The company proceeded with its digital installation program in its theaters and expected that this would improve advertising and provide alternative programming options.

For 2005, it experienced an 8.5% reduction in total attendances to 57.9 million, and revenue fell despite a 3.5% increase in average admission prices to \$5.35 per person. There was also an 8.2% increase in average concessions expenditure to \$2.52 per person. Film exhibition costs decreased 3.7% to \$168.3 million (or 35.9% of total revenue). This generally moved in line with reduced admissions revenue as part of revenue sharing arrangements with movie producers and distributors, but offset by some reduced film rental rates. At year end the company operated 299 theaters with a total of 2,383 screens. Average attendance per screen was 24,283.

In May 2000, Carmike Cinemas announced that it joined the online movie ticketing business and that the company's objective was to provide consumers with movie-related content and the ability to purchase tickets via the Internet, telephone or wireless devices.

•• :•

# **Industry Performance**

### CURRENT PERFORMANCE

IBISWorld forecasts that, in constant 2009 prices, the Movie Theatres industry will generate \$11,436 million in revenue in 2009, which represents a real decline in revenue of 3.7%, due to the economic recession which will continue to adversely impact on household disposable income growth and, therefore, movie-going demand.

The industry is sensitive to changes in real household disposable income which is affected by changes in growth of employment, taxes and interest rates, as well as high gas prices. Industry performance will also depend on the release of blockbuster movies and competition from substitutes including cable TV, the internet and DVDs and other in-home entertainment facilities.

Over the same time period, industry employment is expected by IBISWorld to decrease at an average annual rate of 2.0% to 123,520, due to continuing industry consolidation and reducing revenue growth recently.

IBISWorld expects overall industry profitability to continue to fall resulting from reducing attendances and the associated decrease in revenue from admissions, and particularly in high margin concessions sales. However, larger operators, due to their recent domestic under performing site consolidation processes, may improve profit margins slightly over time. Major operators have also been aggressively increasing ticket prices to offset some of the decline in attendances.

#### Trends

In general, the following tables indicate that the industry had, until recently, enjoyed the benefits of an increased average number of visits per capita to the theaters, particularly associated with the run of blockbuster movies between 2002 and 2004. Also important was increased average admission price, due to the financial situation of major operators, and the investment in higher quality multiplex facilities, shown by screen numbers, although establishment numbers has continued to decrease.

Year	Units Average Admissions per capita	Dollars Average Admission Price \$
1980	4.5	2.69
1985	4.4	3.55
1990	4.8	4.23
1993	4.8	4.15
1996	5.0	4.35
2000	5.2	5.08
2001	5.3	5.39
2002	5.7	5.66
2003	5.4	6.03
2004	5.2	6.21
2005	4.7	6.41
2006	4.8	6.55
2007	4.7	6.88
2008	N/A	7.20

Theater Admissions per capita and Average Ticket Prices (in nominal dollars)

Source: Motion Picture Assoc USA

Total Number of Indoor and Outdoor (Drive-in) Screens and Theaters

	Units		Units	
Year	Screens	Percent Growth	Theaters	Percent Growth
1980	17590	N/C	N/A	N/C
1984	20200	14.8%	N/A	N/C
1990	23689	17.3%	N/A	N/C
1994	26586	12.2%	N/A	N/C
2000	37396	40.7%	7421	N/C
2001	36764	-1.7%	7070	-4.7%
2002	35280	-4.0%	6050	-14.4%
2003	35786	1.4%	6066	0.3%
2004	36594	2.3%	6012	-0.9%
2005	38852	6.2%	6216	3.4%
2006	39668	2.1%	6356	2.3%
2007	40077	1.0%	6277	-1.2%

Source: Motion Picture Assoc USA

This table indicates the strong growth experienced by the industry from 2002 to 2004, but with declining growth then to 2008, due to the release of a number of blockbuster movies over the former period, The industry has, more recently, experienced declining box office takings to 2008, as the number of blockbuster movies released slowed and admissions fell since 2004, as well as the economic recession in 2008. There has also been increased competition from other areas of entertainment (i.e. video-on-demand services by digital cable and satellite operators and the emerging internet movie sites) as well as from other entertainment substitutes.

#### Box Office Gross - Nominal Dollars and Growth

Year	Million Dollars Box Office	Percent Growth
1984	4031	N/C
1985	3794	-5.9%
1986	3778	-0.4%
1987	4253	12.6%
1988	4458	4.8%
1989	5033	12.9%
1990	5022	-0.2%
1991	4803	-4.4%
1992	4871	1.4%
1993	5154	5.8%
1994	5396	4.7%
1995	5494	1.8%
1996	5912	7.6%
1997	6366	7.7%
1998	6949	9.2%
1999	7448	7.2%
2000	7661	2.9%
2001	8413	9.8%
2002	9155	8.8%
2003	9240	0.9%

•• :•

2004	9381	1.5%
2005	8841	-5.8%
2006	9210	4.2%
2007	9664	4.9%
2008	9630	-0.4%

Source: boxofficemojo.com

#### Revenue

Over the five years to 2009, real industry revenue is expected by IBISWorld to decrease at an average annual rate of 2.4%, due to the release of fewer blockbuster movies, compared to the early 2000s. Also relevant is the economic recession since 2008, with unemployment rising, which is adversely affecting the demand for theater tickets. The industry has also to contend with on-going global movie piracy and increasing competition from other entertainment areas, and including home theater systems and DVD movie releases being moved closer to theater release dates.

#### **Recent Years**

In 2009, the forecast is for continuing the economic recession to continue, with increasing unemployment, but with some positive flow-on effect from the interest rate reductions in 2008 and from the Federal government budgetary stimulus package. This will begin to have some positive impact on real household disposable income growth and consumer expenditure on entertainment, but only slightly and towards year end. Further consolidation among operators will occur and sites and screens will reduce over time. IBISWorld estimates that real industry revenue will decrease, by about 3.7%, on top of the significant fall in 2008.

IBISWorld estimated that in 2008 the industry experienced a real decline in revenue growth of about 2.7%, due to the emerging economic recession. The industry was affected from the flow-on from the sub-prime mortgage crisis, with a combination of falling business and consumer sentiment, rising unemployment, lower wages growth and also by continuing high gas prices at least in the first half year. This is despite lower interest rates, and tax reductions in mid-year, but which any beneficial impact will only commence during 2009. Competition from other forms of entertainment, especially in-home ones (including home theater systems and cable and satellite TV) will occur. Movie piracy will continue to be a factor affecting theater attendances for this industry. The top grossing movie was 'The Dark Knight'.

For 2007, the industry was adversely impacted by the flow-on effects on consumer and business sentiment from the subprime mortgage crisis, increased unemployment and high gas prices towards year end. Many of these factor severely affected real household disposable income growth. However, a flurry of movie releases by distributors led to more box office successes that included: 'Pirates of the Caribbean: Dead Man's Chest', 'Harry Potter and the Order of the Phoenix', '300', 'Ocean's 13'. 'Rush Hour 3', 'I Am Legend', 'Shrek the Third', 'Transformers', 'Spider Man 3', American Gangster', 'Charlie Wilson's War', 'Atonement', 'Alvin and the Chipmunks' and 'Juno'. Overall, it was estimated by IBISWorld that while admissions rose marginally to 1,400 million, real industry revenue increased 2.6% due only to higher average ticket prices. Domestic industry consolidation continued and many major operators sold further international cinema holdings, as they focused more on the North American market.

#### Early in the current performance period

For 2006, subdued economic growth together with increased interest rates to mid-2006, and high gas prices, adversely affected growth in real household disposable income. This flowed through into consumer expenditure on entertainment, which included movie tickets. There were good box office performances by 'Pirates of the Caribbean: Dead Man's Chest', 'Cars', 'X-Men the Last Stand', 'Night at the Museum', 'The Da Vinci Code' and 'Superman Returns'. Due to this, the industry was estimated by IBISWorld to have experienced real revenue growth of about 0.6%, as admissions increased marginally to 1,395 million, together with increased average ticket prices and a slightly improved average annual admissions per capita to 4.81. The industry continued to experience increased competition from digital cable and satellite

TV and associated bundled services and from other areas of entertainment. Further consolidation occurred and included the merger of AMC Entertainment and Loews Cineplex Entertainment Corp. in January. This led to the industry continuing to operate on a relatively sounder financial basis than earlier in the decade.

According to IBISWorld, good, but slightly lower economic growth, together with the flow on effects of increased interest rates in 2004 and throughout 2005, along with high gas prices, had an adverse effect on growth in real household disposable income. This flowed through into consumer expenditure on entertainment, which included movie tickets. Also relevant was the absence of any blockbuster releases. The industry, therefore, was estimated by IBISWorld to have experienced a further and significant real reduction in total revenue and profitability. Admissions fell for the third consecutive year, by about 7.3% to 1,376 million and the box office fell 4.2%, in nominal terms, to \$8,832 million. The industry also experienced increased competition from digital cable and satellite TV and associated bundled services and from other areas of entertainment. Consolidation of theater sites and screens also occurred. The recent acquisition of major exhibitors continued, as AMC acquired Loews. Overall, real industry revenue was estimated by IBISWorld to have decreased 8.5%.

In 2004, IBISWorld indicated that the gross box office takings increased, in nominal terms, by 0.5% to \$9,215 million and also resulted from reduced concessions and other revenue. Attendances fell 2.4% to 1,484 million. Overall real industry revenue was estimated by IBISWorld to have decreased about 2.3%. The highest grossing films was "Shrek 2" (\$436 million). The average ticket price, however, increased 3.2% to \$6.21. This was the second consecutive year of reduced admissions, but resulted after some recent record years from the release of a series of blockbuster movies. The industry also continued to experience increased competition from digital cable and satellite TV and associated bundled services and from other areas of entertainment. Consolidation among operators continued and the overall number of theaters and screens was reduced. For individual operators some marginal increase in real revenue still occurred, but was dependent upon the extent to which ticket and concession prices could be increased in a very competitive environment. The industry continued to undergo changes in ownership, with a number of investment banks, in association with others, taking control of some of the key operators during 2004 and which was expected to place it on a more stable financial and operating basis.

For 2003, the release of a further sequel to 'Harry Potter' and the final sequel of 'Lord of the Rings' boosted admissions in the latter part of the year. In 2002, the industry experienced its highest level of admissions and box office takings ever. In 2003, therefore, the gross box office fell to \$9,165 million and total admissions was also lower at 1,521 million, down 4.9%. Overall, IBISWorld estimated that real industry revenue declined about 2.3%. "Finding Nemo" was the highest grossing film with a box office take of almost \$340 million. While fewer films grossed over \$200 million, 25 films grossed more than \$100 million (compared with 22 in 2002), but many releases did not have strong seasons beyond their first week. The industry continued to experience increased competition from digital cable and satellite TV and associated bundled services and from other areas of entertainment. Also, continued stagnation in economic growth and fluctuations in consumer sentiment during the first half of 2003 did not assist industry revenue growth, although conditions improved significantly over the second half.

#### Major Barriers to Future Growth

The major barrier to future industry growth is the significant levels of competition from other technology seeking a share of households' entertainment expenditure. Cable TV and the associated movies on demand and other interactive services associated with these digital services is potentially now a significant emerging competitor to the Movie Theater industry.

### HISTORICAL PERFORMANCE

The overall trends in admissions and the gross box office takings, in nominal dollars, is provided in the table below, and indicates the competition from video cassette recorders in the mid-1980s and the reduced admissions during the early 1990s economic recession.

	Million	Descent Crowth	Million Dollars	Demonst Crowth
Year	Admissions	Percent Growth	Gross Box Office	Percent Growth
1983	1196.9	N/C	3766.0	N/C
1984	1199.1	0.2%	4030.6	7.0%
1985	1056.1	-11.9%	3749.4	-7.0%
1986	1017.2	-3.7%	3778.0	0.8%
1987	1088.5	7.0%	4252.9	12.6%
1988	1084.8	-0.3%	4458.4	4.8%
1989	1262.8	16.4%	5033.4	12.9%
1990	1188.6	-5.9%	5021.8	-0.2%
1991	1140.6	-4.0%	4803.2	-4.4%
1992	1173.2	2.9%	4871.0	1.4%
1993	1244.0	6.0%	5154.2	5.8%
1994	1291.7	3.8%	5396.2	4.7%
1995	1262.6	-2.3%	5493.5	1.8%
1996	1338.6	6.0%	5911.5	7.6%
1997	1387.7	3.7%	6365.9	7.7%
1998	1480.7	6.7%	6949.0	9.2%
1999	1465.2	-1.0%	7448.0	7.2%
2000	1420.8	-3.0%	7660.7	2.9%
2001	1487.3	4.7%	8412.5	9.8%
2002	1639.3	10.2%	9519.6	13.2%
2003	1574.0	-4.0%	9288.5	-2.4%

Trends in Admissions and Gross Box Office since 1983

Source: National Center for Education Statistics

Note: Box Office is in nominal prices

#### Early 1990s

In the early-1990s, subdued economic growth, and the impact this had on the growth in household disposable incomes, had a significant impact on this industry, and the total revenue, (which included box office plus concessions and other sales). It was estimated that total revenues decreased, as admissions fell.

#### 1993 to 1997

From 1993 to 1997, the industry generally enjoyed a period of continuous growth. The number of admissions increased from 1.24 billion to 1.39 billion (or 12%) and revenue growth was assisted by real increases in the average admission price, particularly between 1995 and 1997, and increased concessions revenue. Over this period, the average annual admissions per capita also increased to 5.2. The growth was assisted by a number of factors, which included the increased levels of investment by major operators in the higher quality and better located multiplexes and by the release of a successive number high quality and high grossing/blockbuster feature movies. The total number of movies released also increased from around 411 in 1995 to 510 in 1997. However, between 1995 and 1997, the number of indoor theaters decreased from 7,151 to 690,3 (or 3.5%), many of which were the old style single screen theaters, as the investment in multiplexes increased.

#### Late-1990s

In 1998, the number of admissions reached the (then) peak of 1.48 billion, but subsequently fell to 1.47 billion in 1999 and then to 1.42 billion in 2000, a fall of 4.1 per cent over 1998. The average per capita number of admissions also declined from 5.5 to 5.2 over the same period. The reduced admissions was caused by both a lack of on-going blockbuster

releases, as well as, increased average admission prices, which rose by around 15 per cent. Competition from others areas of entertainment increased over this period, particularly from cable TV and the internet.

While demand fell, the supply of indoor screens increased from 30,825 in 1977 to 36,679 in 2000, or 19%. In fact, over the decade from 1990 to 2000, the total number of indoor screens increased by 61%, but the average number of admissions per screen per annum fell from 48,120 to 37,970.

Over this period, the financial returns to operators was affected by their significant and continued investment in newer multiplex and megaplex facilities. The higher financing costs witnessed decreased profit margins from 1999 and resulted in increased operator consolidation, with some mergers. By October 2000, 11 major industry operators, included Loews, Cineplex, United Artists and Carmike Cinema, had filed for Chapter 11 bankruptcy protection. Many of these companies had borrowed funds to build new multiplexes, but also kept many of their old theater buildings and sites, which led to significant cash flow problems, as admissions fell to the end of 2000.

The investment in multi-screen theaters led to a smaller number of seats per screen, with an average of around 350, however, there was also a higher level of fixed costs associated with the higher quality buildings and new technology. Due to this, the major operators sought to implement operational cost savings through the multi-tasking of staff members and the hiring of an increased number of young and casual/temporary workers. They also sought to take advantage of technology to reduce costs, particularly in the areas of providing on-line information on movie sessions and this being associated with on-line ticket sales, such as MovieTickets.com. The latter, was a joint venture between the major cinema operator, AMC Entertainment, and listed internet entertainment company, Hollywood.com. Inc. When this product was initially launched in 2000, the internet site had the potential to offer online movie tickets for over 2000 screens and session listings for over 30,000 screens nationwide.

Blockbuster films also have an effect on admissions (and revenue from ticket sales and concessions) and returns of operators. In 1999, while the total number of films released decreased, the number of blockbusters increased. However, in 2000, the number of blockbuster releases decreased and affected attendances. This was reversed in both 2001 and 2002, with the release of "Lord of the Rings", "Harry Potter" series of films and some other successful movies, which included animated ones.

There has also been changes in the types of movies which people preferred to view, with few R rated movies proving popular and a move away from movies with a high level of action and, especially, violence, especially around September 11, 2001.

#### Early 2000s

Over the period from 1997 to 2000, the movie theater industry had to also contend with increased competition from the cable networks. This particularly related to the roll out of digital optical fiber networks and the availability of better quality and more channels, often in a bundled format with other services, and sometimes at the same or a cheaper price. Also, the cable networks substantially increased their investment in new programming and the household penetration rate continued to increase. Since 1990, there had been also a significant increase in households with computers (to nearly two thirds by 2000). A significant proportion of these had internet access and for many young people this became a substitute for their usual out of home entertainment activities, including movie-going.

In 2001, strong real industry revenue growth of about 7.2% was estimated by IBISWorld to have occurred, from about 1.47 billion admissions. Box office receipts also increased to \$8.24 billion, related to the release of many blockbuster movies, which included "Shrek", "Rush Hour 2", "Monsters Inc.", "The Mummy Returns" and, later in the year, the first parts of the series of "Lord of the Rings" and "Harry Potter". Each of these movies grossed over \$200 million. However, due to some major operators filing for Chapter 11 bankruptcy protection, the industry underwent a consolidation process, which led to the closure of many underperforming locations and screens. It was also estimated that there was a net reduction of 177 locations and 386 screens. While there continued to be some new theater openings, investment

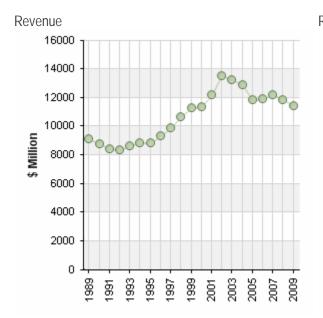
decreased by about 40% over 2000. The financial situation of the industry generally improved as underperforming theaters and screens were closed or sold by major operators, operating costs were reduced and from the increased revenue, which accompanied the increased admissions. Also, average admission prices increased to about \$5.60, or by 20 cents over 2000. The genre of movies released during the year changed, with less R rated movies, and more family ones, and these tended to be the better performers at the box office.

For 2002 represented another good real revenue growth one with real revenue growth estimated by IBISWorld at about 11.3%. There were about 1.57 billion admissions and box office receipts increased to \$9.16 billion. This was again related to the release of a string of blockbuster movies, that included "Spider Man", "Signs", "My Big Fat Greek Wedding" and the sequels to "Star Wars", "Lord of the Rings" and "Harry Potter". Each of these movies eventually grossed over \$220 million. Many of the major operators came out of Chapter 11 bankruptcy and as the industry underwent a further round of consolidation as they acquired many of the smaller ones, particularly in geographic areas where they were formerly under-represented. Funds were now being largely used for acquisitions, rather than for investment in new theaters. The industry's financial situation continued to improve as operating and financing costs fell and assisted by increased revenue. This resulted from both increased admissions, some increase in average admission prices and from the flow on effects of increased admissions on concessions and other revenue. The emphasis on screening more family movies continued.

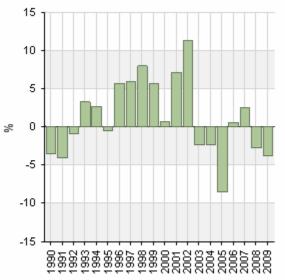
#### Revenue (constant prices)

	Revenue \$ Million	Growth %
1989	9,096.0	N/A
1990	8,777.0	-3.5
1991	8,426.0	-4.0
1992	8,350.0	-0.9
1993	8,626.0	3.3
1994	8,859.0	2.7
1995	8,814.0	-0.5
1996	9,313.0	5.7
1997	9,872.0	6.0
1998	10,663.0	8.0
1999	11,271.0	5.7
2000	11,349.0	0.7
2001	12,164.0	7.2
2002	13,539.0	11.3
2003	13,227.0	-2.3
2004	12,923.0	-2.3
2005	11,825.0	-8.5
2006	11,895.0	0.6
2007	12,205.0	2.6
2008	11,876.0	-2.7
2009	11,436.0	-3.7

•• ••

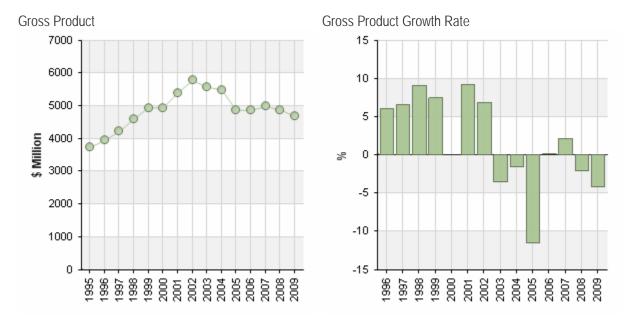


Revenue Growth Rate



### Gross Product (constant prices)

	Gross Product \$ Million	Growth %
1995	3,731.0	N/A
1996	3,958.0	6.1
1997	4,220.0	6.6
1998	4,605.0	9.1
1999	4,950.0	7.5
2000	4,949.0	0.0
2001	5,406.0	9.2
2002	5,779.0	6.9
2003	5,577.0	-3.5
2004	5,493.0	-1.5
2005	4,867.0	-11.4
2006	4,877.0	0.2
2007	4,984.0	2.2
2008	4,884.0	-2.0
2009	4,684.0	-4.1

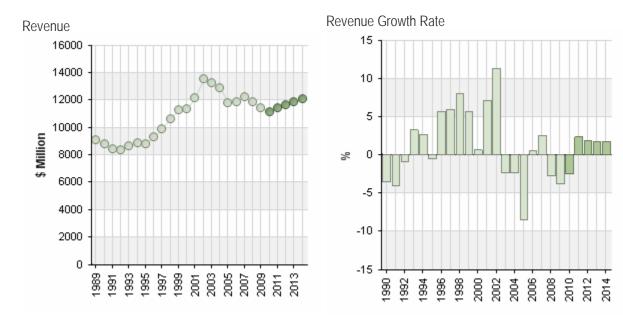


•• :•

# Outlook

### Revenue (constant prices)

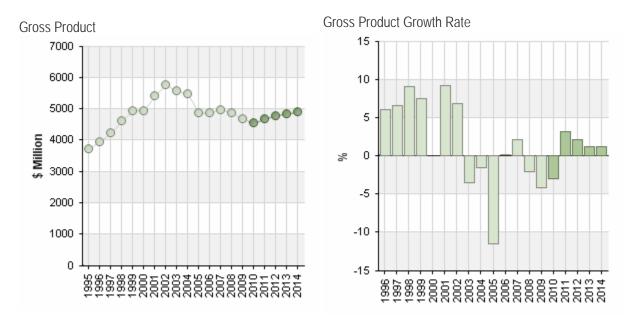
	Revenue \$ Million	Growth %
2010	11,162.0	-2.4
2011	11,430.0	2.4
2012	11,647.0	1.9
2013	11,856.0	1.8
2014	12,070.0	1.8



### Gross Product (constant prices)

	Gross Product \$ Million	Growth %
2010	4,543.0	-3.0
2011	4,689.0	3.2
2012	4,792.0	2.2
2013	4,849.0	1.2
2014	4,907.0	1.2

•• ••



Over the five years to 2014, real industry revenue is expected by IBISWorld to increase at an average annual rate of only 1.1% associated with the forecast subdued economic growth. Economic conditions will improve from the slowdown in 2009, supporting a recovery in household disposable income growth. Also important is the release of a number of blockbuster movies in the early 2000s, that possibly could not be achieved again over the short term. Furthermore, the industry faces continuing competition from other forms of entertainment, and including home theatre systems and from DVD movie releases closer to their theatre release dates, as well as digital network TV and cable and satellite cable TV systems with enhanced viewer entertainment systems, including pay-per-view and movies-on-demand features. There are also now a plethora of ways to access and view movies - over iPod, mobile phones, the internet. Continuing significant activity in piracy of movies will also stunt industry growth.

Over the same time period, industry employment is expected by IBISWorld to continue to decline at an average annual rate of 0.05% to 123,227, relating to mainly to the above reasons, even though there will continue to be a shift towards the use of casual employees, to lower costs and to better meet peak customer demand periods.

Industry profitability will not increase due to the further decline in attendances in 2009. The industry also has significant fixed costs - in equipment and buildings, and from the shift to digital screening technology. Major operators, due to their past, and on-going, significant screen consolidation processes, however, may achieve above industry average returns.

#### 2010

In 2010, the forecast is for continuing sluggish economic growth, with high unemployment, but with some positive flow-on effect from the interest rate reductions in 2008 and Federal government budgetary economic stimulus packages. This will begin to have some positive impact towards year end on real household disposable income growth and consumer expenditure on entertainment. However, some further consolidation among operators is also expected to occur and sites and screens will reduce over time. IBISWorld estimates that real industry revenue will still decrease, by about 2.4%, after the significant fall in 2009.

#### 2011-2014

Forecast continuing relatively subdued, but improving, economic growth right through this period, is expected by IBISWorld to lead to similar outcomes in terms of industry performance as has occurred in over the previous five years.

Stronger growth in industry revenue requires the release of another string of blockbuster movies over a short time period, and which will be assisted by new digital technology installed in theaters.

From 2010 onwards significant competition in the entertainment industry - from substitutes and video-on-demand services - is expected to lead to reducing real revenue growth. Both profit and employment growth within this industry is, therefore, expected to remain under considerable pressure, as competition increases, reducing ticket prices and concessions revenue.

#### Trends

Overall, it is expected that while the industry's financial situation will remain fairly poor, despite the financial restructuring of many operators and the associated reduction in debt and interest costs. However, in the medium term the industry could consolidate to only two or three dominant national operators. Investment funds will continue to be used for acquisitions rather than for the building of new theater complexes. Some of the major operators may, again, eventually consider investing further internationally to boost both revenue and profits (and, therefore, value added growth).

Over the outlook period the industry will have to contend with far greater competition from entertainment substitutes including more movies being delivered to households via the internet and from increasing household penetration of the digital cable, satellite and free to air TV services. This includes interactive TV, pay-per-view and video on demand facilities on new releases and movie libraries. There will also be increased competition from DVD players/recorders and from home theater systems. This is expected to reduce theater attendances and lead to some ticket discounting. Real growth in industry revenue is, therefore, expected to decline to 2013.

This period will also coincide with the increasing availability of digital audio and visual movie screening and distribution technology in theaters. While this will significantly enhance the movie experience, it will also be costly, and possibly coincide with reducing margins for all but major players.