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IBISWorld Industry Risk Rating Report

May 16 2009

Movie Theaters in the US: 51213

Contents

Risk Overview

INDUSTRY DEFINITION & ACTIVITIES

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

The primary activities of this industry are:

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

INDUSTRY RISK SCORE

Forecast Period: December 31, 2009

Three types of risk are recognized in our analysis. These are: risk arising from within the industry itself (structural risk), risks arising from the expected future performance of the industry (growth risk) and risk arising from forces external to the industry (external sensitivity risk). These three types of risk are evaluated and each scored separately. These scores are then amalgamated to form a composite score which represents the overall risk affecting the industry.

Risk	Score
Structural Risk	5.12
Growth Risk	6.37
External Sensitivity Risk	7.72
Overall Industry Risk Score	6.73

RISK RATING ANALYSIS

Risk Score Trend Analysis

During the current 2009 forecast period, industry risk is forecast to be at a HIGH level in the Movie Theatres industry. Contributing high risk factors include slower growth in the upstream supply of films and stagnant per capita disposable income.

Industry risk has been HIGH since 2005 apart from in 2007 when risk declined to MEDIUM-HIGH. The lower level of risk in 2007 was due to stronger growth in per capita disposable income and upstream supply of movies.

Risk Score Context

IBISWorld data shows that the Industry Gross-Product weighted risk score for all US industries in 2009 falls into the HIGH risk band. In addition, the data illustrates that risk in the Information sector (of which this industry is a member) is at a MEDIUM-HIGH level. As such, the level of forecast risk in the Movie Theatres industry is similar to that of the US economy and higher than that of the more specific Information sector.

Structural Risk Analysis

Structural risk is forecast to be at a MEDIUM level over the outlook period. The primary high risk factors are a high level of competition, a medium level of industry volatility and the fact that the industry is in the mature stage of its economic life cycle.

Strong competition, particularly for younger consumers, is being felt from relatively newer technologies such as personal computers, DVDs, home theater systems and the internet. The increased affordability of home theater systems means that they are taking up a larger share of discretionary entertainment spending at the expense of movie theaters.

In recent years there have been moves to consolidate theater operations in order to restrain costs, particularly single screen theaters, and this trend is expected to continue. Most major operators have filed for Chapter 11 bankruptcy protection, and growth in revenues has been attributable more to increases in ticket prices than growth in admissions until very recently.

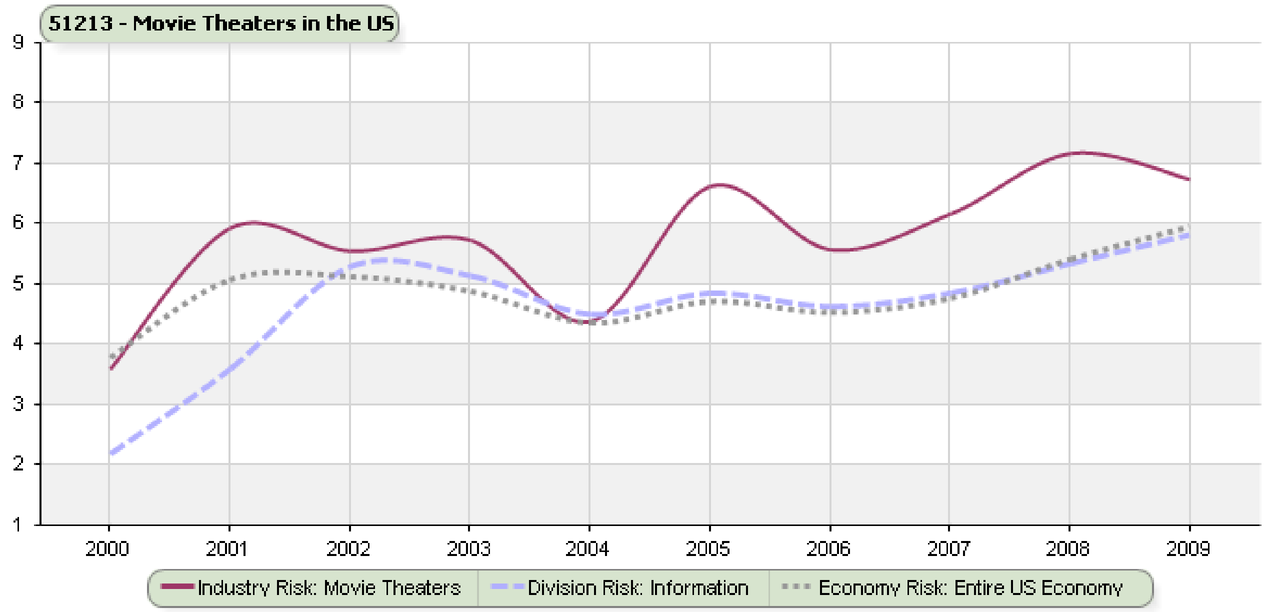
Offsetting risk are medium and steady levels of barriers to industry entry. The costs involved with establishing multi-screen theater operations are significant, particularly with the introduction of new digital technology. There are also operational barriers to entry in the form of problems in obtaining access to movie product from major distributors. These problems are not as significant for niche or art house theater operators.

Growth Risk Analysis

Revenue risk is forecast to be at a MEDIUM-HIGH level over the forecast period. Annual growth is forecast to be low at 1% in 2009. Revenues are expected to be impacted by continuing movie piracy and an increased uptake in alternate means of film distribution such as the internet, mobile phones, iPods and other handheld devices. Many consumers are foregoing theaters as the gap between theatrical and home release of films decreases. Sales from concession stands, in which theater operators enjoy a high profit margin, are also expected to experience slow growth as they are dependent upon theater attendance.

Sensitivity Risk Analysis

Sensitivity risk is forecast to be at a VERY HIGH level over the forecast period. The industry is mainly sensitive to the supply of movie products, changes in per capita disposable income, and competition from television services. The number of blockbuster movies released in the early part of this decade, attracting a high volume of customers, is unlikely to be replicated in the short-term. In addition, stagnant per capita disposable income is forecast to adversely affect consumer expenditure on entertainment. Finally, the industry continues to face strong competition from television services.


51213 - Movie Theaters in the US
9
8
7
6
5
4
3
2
1
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
Industry Risk: Movie Theaters
Division Risk: Information
Economy Risk: Entire US Economy

Structural Risk

The structural score for an industry is a weighted aggregation of structural dimension scores (SDS). These scores are functions of classifications representing quantity of or exposure to seven key indicators.

Structure Variable	Level	Trend	Score	Weight
Barriers to Entry	high	increasing	1	13
Competition	high		9	20
Industry Exports	low	increasing	2	7
Industry Imports	low	steady	2	7
Level of Assistance	none	steady	7	13
Life Cycle Stage	mature		5	20
Volatility of Industry	medium		5	20
Overall Structural Risk Score			5.12	

BARRIERS TO ENTRY

The level of barrier is high
The trend of barrier is 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.

Analysis

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.

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.

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.

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.

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 VOLATILITY

The level of volatility is medium

- Significant growth in revenues from good economic, employment and household income growth conditions.
- Regular releases of blockbuster movies can significantly affect admissions and concessions revenues.
- Also there had been significant improvement in facilities, through investment in multiplexes.
- This had been accompanied by significant increases in real ticket prices.

Growth Risk

In general, a high growth rate in an industry is associated with a lower overall risk of failure in a company in the industry. That is, success comes relatively easily in a quickly growing market, but a contracting market tests management skills to a much greater level, as each dollar earned requires a greater effort. Growth Scores for this industry are below:

	%	Score
Recent Growth 2006-2008	-0.08	5.66
Forecast Growth 2008-2009	-3.70	6.61
Overall Growth Risk Score		6.37

RECENT GROWTH ANALYSIS

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 theatre release dates.

Overall industry profitability is estimated 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. 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.

FORECAST GROWTH ANALYSIS

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.

Both profit and employment growth within this industry is expected to remain under considerable pressure, as competition increases, reducing ticket prices and concessions revenue. Overall, it is expected that while the industry's financial situation will remain fairly poor, despite the 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 eventually consider investing further internationally to boost both revenue and profits.

Sensitivity Risk

The significance of external sensitivity factors on the performance of the industry has been evaluated. The most significant (five to six) factors are identified, and weightings are chosen to represent how significant each sensitivity is on the performance of the industry. It should be noted that as other (less significant) sensitivities affect industries, and for other reasons, these weightings should not be taken as mathematical inputs to a general equilibrium model for the industry.

Sensitivity List	Weight	Score	Weighted Score
Per Capita Disposable Income	40.00	8.50	3.40
Competition from Substitutes - Television Broadcasting - Movie Theaters	20.00	9.00	1.80
Upstream Supply - Movie and Video Production	40.00	6.30	2.52
Overall External Sensitivities Risk Score			7.72

PER CAPITA DISPOSABLE INCOME

Summary

This report analyzes the level of per capita disposable income in the US, as measured by the Bureau of Economic Analysis, and denominated in chained 2000 dollars. Disposable personal income is defined as personal income less personal current taxes.

Latest Data

According to data from the final data release from the Bureau of Economic Analysis for the fourth quarter of 2008, real per capita disposable income increased at an annualized rate of 1.7% over the three months to the end of December. Though disposable income actually declined in nominal terms, deflation over the quarter resulted in inflation-adjusted positive growth. For 2008 as a whole, per capita disposable income increased by 0.3% to reach $28,741.

The latest available income data shows that aggregate disposable personal income (not per capita) increased by 1.3% in real month-on-month terms in January, resulting partially from cost-of-living adjustments to social security payments as well as pay rises for government employees. Aggregate disposable income then declined by 0.4% in February.

Five-Year Trend

In 2003, per capita disposable income stood at $26,588. Aggregate growth in this figure over the following five years was 8.1%; on an annualized basis this translates into growth of 1.6%. By comparison, aggregate growth in real per capita disposable income over the five years to the end of 2003 was 10.2%; on an annualized basis this translates into growth of 2%.

Data Volatility Level

According to IBISWorld calculations, real per capita disposable income displays a low level of volatility. Changes in the level of this measure are tied to movements in factors such as unemployment, wages and salaries, economic growth and inflation.

Influencing Factors

Disposable income is the amount of income available after taxes and some non-tax payments have been accounted for. Examples of non-tax payments include; passport fees, fines, forfeitures and donations. It is this income that determines an individual's consumption and saving patterns, as it relates to the amount that can be spent on goods and services, or put away for personal savings.

A small disposable income means spending may be limited to the purchase of necessary items and may affect an individual's ability to participate in other community or social activities. Personal savings may also be limited, or even negative in the case that consumers borrow (for example, via the use of credit cards) to finance spending beyond the incomes at that time. Rates of saving in the US were recorded to have been negative during the time from 2005 to 2007, though recent amendments to the data by the Bureau of Economic Analysis suggest the rate was actually slightly positive over the period.

In 2008, the top five state/districts in the US in terms of (nominal) per capita disposable income were, in order: the District of Columbia, Connecticut, New Jersey, Wyoming and Massachusetts. The states with the lowest disposable incomes were Utah, Mississippi, West Virginia, Arkansas and Kentucky.

In addition to levels of economic growth and the overall effect on employment levels, growth in disposable income can also be affected by changes in overall levels of education across the nation. For those over 25 who work full-time, those who has only completed high school had median pre-tax earnings of $26,712 in 2007 inflation-adjusted dollars over the 2005-07 period, according to the Census Bureau. This amount increases to $46,277 for those with a bachelor's degree and $61,104 for those with a graduate or professional degree.

Historical Analysis

Per capita disposable income has typically followed trends in employment and economic growth, steadily increasing over recent decades. These economic elements interact, and as per capita income increases, more income is spent on discretionary goods and services causing the economy to expand. As a consequence, per capita income growth has been strongest in the early-to-mid 1980's and mid-to-late 1990s, periods of strong economic prosperity.

However, while per capita disposable income increased significantly in the 1980's, since that decade income distribution has been characterized by growing inequality. In 2003 the bottom 20% of the population earned 4.1% of total income. In comparison, the wealthiest 20% earned 47.6%. In 1980 these figures were 5.3% and 41.1% respectively. In addition, the top 5% of income earners earned approximately 20.5% of the national total in 2003, compared to 14.6% in 1980.

Outlook

As a result of provisions of the stimulus package, including the extension of unemployment benefits and the enactment of payroll tax credits of $400 per worker in addition to other credits such as those on education and on sales of homes and cars, IBISWorld now predicts that per capita disposable income growth will be barely positive over 2009, growing by 0.5% compared to previous predictions of a decline. Increases in unemployment will mute some of these positives, however, hence the small size of the projected rise in income.

As the economy recovers in 2010, times will still be tough as high unemployment will make times effectively feel like a continuation of the recession for households, and per capita income is projected to grow by a subpar 1.4% before increasing at rates in line with longer-term trends later over the outlook period. Annualized growth in per capita disposable income over the five years to the end of 2014 is forecast to be 2.3%, with a final figure of $32,369 at the end of the outlook period.

Graph: Per Capita Disposable Income

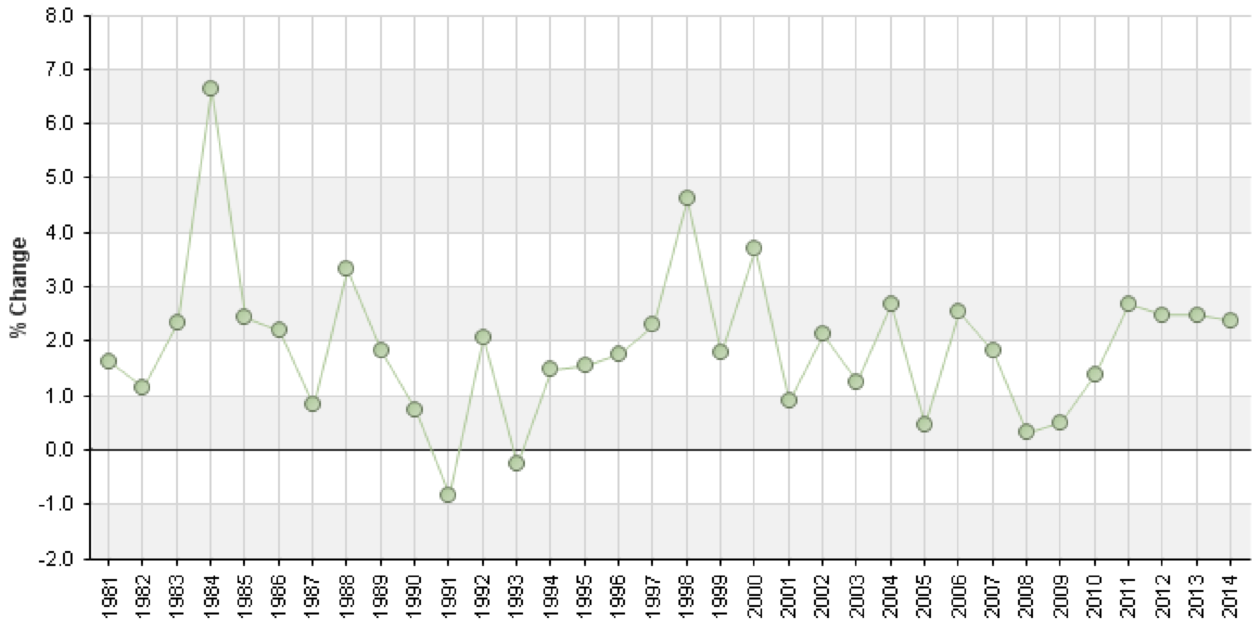


Table: Per Capita Disposable Income

Year	Dollars	% Change
1981	17,217	
1982	17,418	1.17
1983	17,828	2.35
1984	19,011	6.64
1985	19,476	2.45
1986	19,906	2.21
1987	20,072	0.83
1988	20,740	3.33
1989	21,120	1.83
1990	21,281	0.76
1991	21,109	-0.81
1992	21,548	2.08
1993	21,493	-0.26
1994	21,812	1.48
1995	22,153	1.56
1996	22,546	1.77
1997	23,065	2.30

Year	Dollars	% Change
1998	24,131	4.62
1999	24,564	1.79
2000	25,473	3.70
2001	25,704	0.91
2002	26,253	2.14
2003	26,588	1.28
2004	27,302	2.69
2005	27,434	0.48
2006	28,134	2.55
2007	28,648	1.83
2008	28,741	0.32
2009	28,892	0.53
2010	29,296	1.40
2011	30,087	2.70
2012	30,840	2.50
2013	31,611	2.50
2014	32,369	2.40

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.

UPSTREAM SUPPLY - MOVIE AND VIDEO PRODUCTION

Source: 51211a - Movie and Video Production in the US - Constant turnover data

Graph: Upstream Supply - Movie and Video Production

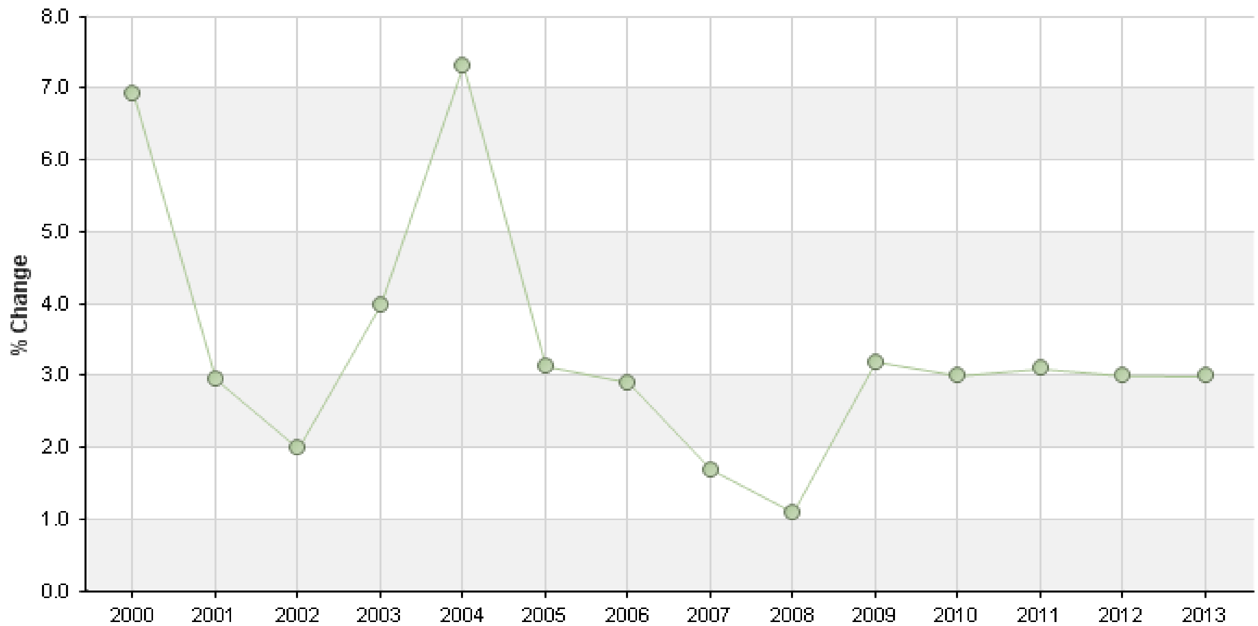


Table: Upstream Supply - Movie and Video Production

Year	Million Dollars	% Change
2000	27,285	
2001	28,091	2.95
2002	28,650	1.99
2003	29,794	3.99
2004	31,975	7.32
2005	32,977	3.13
2006	33,937	2.91
2007	34,514	1.70
2008	34,894	1.10
2009	36,010	3.20
2010	37,091	3.00
2011	38,240	3.10
2012	39,388	3.00
2013	40,569	3.00

Industry Risk and Industry Risk Scoring Methodology

WHAT IS INDUSTRY RISK?

IBISWorld Industry Risk evaluates the inherent risks associated with hundreds of different industries in the United States. Industry Risk is assumed to be "the difficulty or otherwise of the operating environment". This approach is new in that it analyses non-financial information surrounding each industry.

The Industry Risk score is forward looking, and the score looks at expected Industry Risk over the next 12-18 months. The methodology is based on industry classifications and is designed to identify and quantify risks inherent in specific industries both now and into the 12 month forecast.

Industry-based information would, for example, enable the examination of a loan book (portfolio) with regards to risk, which would enable a more sophisticated assessment of risk spread and pricing to risk. Alternatively, individual exposures can be better evaluated using an assessment of structure and key drivers of change in the industry of the exposure.

THE INDUSTRY RISK SCORING METHODOLOGY

A numeric scoring system is used and is based on a scale of 1 to 9, where a score of 1 represents the lowest risk and 9 is the highest risk. For each of the three major risk categories (Structure, Growth and External Sensitivities) a component score is derived from various sub components. Finally an overall score is derived by combining the three major risk categories.

Overall Score: This is derived from an amalgamation of the various component scores, as explained below:

Structure Score: This score is made up by analyzing internal industry risk factors. These factors are an industry's; level of volatility, barriers to entry, external assistance, trade exposure imports and exports (if any), industry life cycle, and amount of competition. This component contributes to 25% of the overall score.

Growth Score: This figure is derived as an amalgamation of background and forecast growth scores. This component contributes to 25% of the overall score.

Sensitivity Score: This figure is derived by examining external and exogenous factors which affect risk within the industry. Examples include input costs, number of housing starts, commodity prices, etc. This component contributes to 50% of the overall score.

RISK RATING SCORE DEFINITION

Risk Score	Level of Risk
1 - 3	Very Low
>3 - 4.1	Low
>4.1 - 4.7	Medium - Low
>4.7 - 5.3	Medium
>5.3 - 5.9	Medium - High
>5.9 - 7	High
>7 - 9	Very High