



HOULIHAN LOKEY

CINEMA INDUSTRY

MARKET UPDATE | SPRING 2020



Houlihan Lokey Theatrical Exhibition Market Update

Dear Client,

There has been much concern and speculation over the future prospects of the theatrical business globally, due to COVID-19 closures. While we remain optimistic about the strength and importance of the theatrical window and expect pent-up demand for cinematic experiences as well as pent-up supply from the major studios by the time the business resumes to normal, the potential for lingering impacts from stay-at-home orders and social distancing on theatrical exhibition is still unclear. Additionally, the ongoing high-profile dispute between a leading theatrical operator AMC and Universal Pictures further highlights the uncertainties surrounding the current windowing model.

The past several weeks have taken a major toll on theatrical exhibition. With a few exceptions, cinema locations have been closed worldwide. To date, the biggest box office losses have been recorded in Asia, with China, Japan, and South Korea ending the first quarter of 2020 down 88%, 64%, and 53% over the same period last year, respectively. French and Spanish box office results have been hardest hit in Europe, down 31% and 21% in the first quarter of 2020. Domestic box office was down 25.4%, totaling \$1.8 billion in the first quarter of 2020 versus \$2.4 billion for the same period last year.

In the absence of domestic theatrical window, some studios have opted to release their titles straight to premium video-on-demand (PVOD). Universal Pictures' *Trolls World Tour* has been the first big-budget film released as a \$19.99 PVOD-exclusive title on April 10. With nearly 5 million rentals in the U.S. and Canada, translating to an estimated \$100 million in revenue in three weeks since release, the PVOD digital release may have already eclipsed the revenue to Universal Pictures generated by the original *Trolls* film over the course of its domestic theatrical run. Other studios have also rushed to release films on PVOD (at various pricing levels ranging from \$4.99 to \$19.99) for those titles that had a brief theatrical release prior to the cinema closures, such as Paramount's *Sonic the Hedgehog*, Disney's *Onward*, Sony's *Bloodshot* and *Bad Boys for Life*, Warner Bros.'s *Birds of Prey*, and Universal Pictures' *The Invisible Man* and *Fantasy Island*.

Despite studios moving theatrical releases for their big-budget tentpoles into late 2020 and 2021, with studios having slated a number of upcoming titles for on-demand services or their streaming platforms (such as Universal's *The Hunt*, *The Invisible Man* and *Emma*, and Disney's *Artemis Fowl*), many in the industry are cautiously questioning whether PVOD will increasingly become the new norm or default releasing platform.

Coming off a year that yielded unprecedented box office returns from the likes of *Avengers: Endgame*, the theatrical window remains a critical part of the entertainment ecosystem. For the past five years, the domestic box office exceeded \$11 billion, while globally the theatrical box office reached a new record of \$42.2 billion in 2019. Domestically, 268 million people (approximately 76%) went to the movies in 2019. There were nine films that crossed a billion-dollar mark in global box office in 2019. Top 20 films domestically generated \$6.3 billion, or 55% of the total U.S./Canadian box office.

Despite the strength and proliferation of mobile devices and streaming, moviegoing is a national and international cultural phenomenon and appeals to a wide range of population and age groups. Perhaps contrary to the popular opinion that younger people don't go to the theaters, according to MPA, per capita attendance was the highest among the 12–17 and 18–24 age groups at 4.9x and 4.7x, respectively.

As cinemas globally shuttered, we have seen some of the top domestic and international exhibitors take drastic measures to keep afloat in the interim. On the domestic front, the No. 1 theater circuit AMC furloughed all 600 of its corporate employees, including CEO Adam Aron, and announced a

Houlihan Lokey Theatrical Exhibition Market Update

\$500 million debt issue to provide liquidity over the coming months. Cinemark, the No. 3 domestic exhibitor has laid off 17,500 hourly employees and furloughed half of their corporate headquarters' staff. Cineworld's board suspended quarterly dividends, and the company's executive directors are deferring salary and bonus payments. Moreover, Cineworld's \$2.1 billion acquisition of Cineplex is subject to debt limit considerations. In March, Cineworld, with an existing debt load of \$3.4 billion, warned investors that a prolonged cinema closure could put it at risk of default on its loans. Currently, the market's valuation of the Cineplex stock is far from the C\$34.00 per-share, all-cash offer (originally offered by Cineworld), whereas Cineplex shares have recently traded around C\$10.50. Publicly traded exhibitors' shares are down more than 50% year-to-date.

Despite heavy debt loads of the cinema operators, the recent private debt issuances indicate that there are both interest and belief in the resurgence of the exhibition business. On April 17, AMC announced that it priced its previously announced \$500 million aggregate principal amount of 10.500% first lien notes due 2025 in a private offering. AMC's \$4.7 billion debt was already the largest obligation in the industry and has traded at distressed levels. Cinemark, with \$1.8 billion in debt, still managed to raise \$250 million in a private debt sale of 8.750% senior secured notes due 2025.

According to the National Association of Theater Owners, there are roughly 5,548 indoor movie theaters in the U.S., with a total of 40,613 screens and 559 drive-ins. With more than 50 domestic exhibitor providers in North America, we anticipate further debt issuances as well as consolidation in the theatrical exhibition space. Based on the White House's plan for reopening the U.S. businesses, movie theaters would be a part of the initial phase of proposal to reopen major parts of the economy. Georgia has allowed the movie theaters to reopen as of April 27 and Texas has permitted them to reopen as of May 1. Several other states (including South Carolina, Oklahoma, and Alaska) have also taken steps to reopen. While the capacity will be limited at first—such that the cinemas would be allowed to operate at 25% capacity—it is a significant step in the restoring of the theatrical business.

The studios are keen on theaters reopening. The bulk of filmed entertainment revenues globally is coming from the theatrical window, and the studios will unlikely trade in their tentpole and franchised releases with direct-to-consumer alternatives. Disney, which had eight films in the top 15 globally that generated \$10.7 billion in box office worldwide, released only three movies theatrically year to date in 2020. They plan to release 14 more films theatrically in 2020, starting with *Mulan* on July 24. A week before that, Warner Bros. has Christopher Nolan's *Tenet* scheduled to release on July 17.

On the following pages, we have included a brief overview of the relevant market information and data regarding the domestic theatrical exhibition space. We will continue to monitor the industry developments and look forward to staying in touch with you.

With our regards,



Roy Kabla
Managing Director
Global Co-Head of TMT
RKabla@HL.com
212.497.4193



Teddy Shaw
Director
TShaw@HL.com
212.712.6556



Zrinka Dekic
Vice President
ZDekic@HL.com
310.788.5371



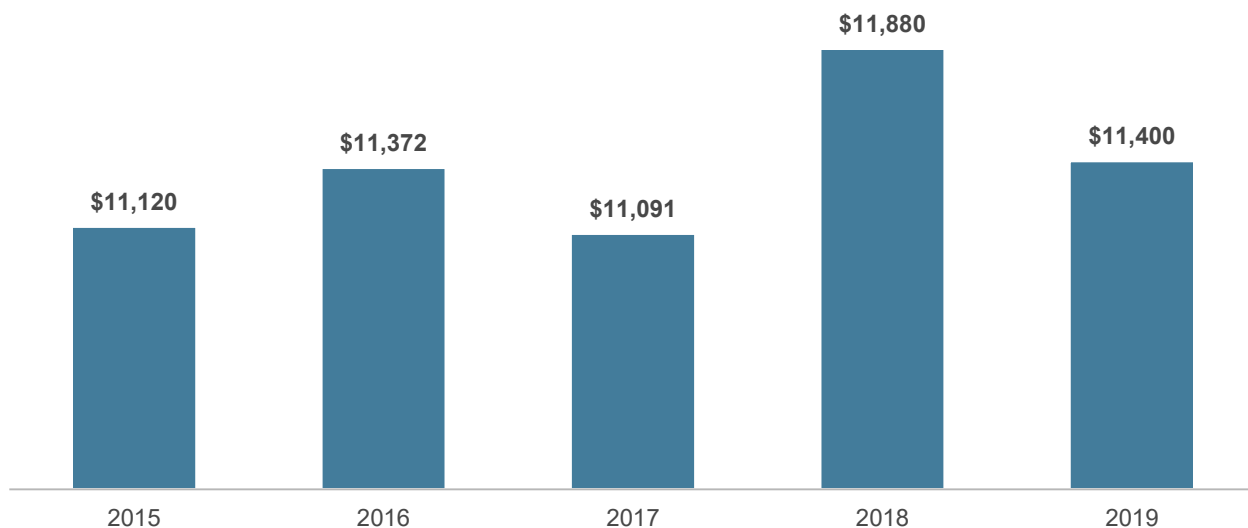
Andy Shu
Analyst
AShu@HL.com
310.789.5780

Domestic Theatrical Box Office Overview

Domestic theatrical box office generated \$11.4 billion in 2019, with ~268 million people in the U.S. and Canada attending a movie at least once compared to ~263 million in 2018.

Historical Box Office Revenues⁽¹⁾

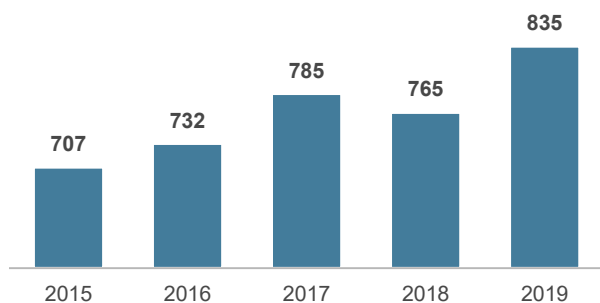
(\$ in millions)



"Today, box office performance is a cultural obsession, ritually reported by national newspapers every Monday morning, and tracked on Sunday night on the news tickers of CNN, Fox News and E! Box office grosses are information as public as the daily stock tables. They ricochet at the speed of light between theater chains, studio databases and the Web sites and research firms that track their fluctuations from hour to hour, ticket to ticket. They affect the stock of multinational companies and shape the media campaigns of America's top consumer products. They drive studio promotions. Their implications are dissected by advertisers, marketers and cultural anthropologists of all stripes."

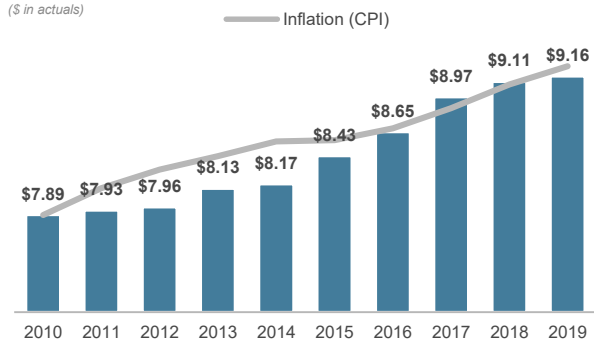
—Dade Hayes and Jonathan Bing, "Open Wide"

Historical Number of Films Released⁽²⁾



Historical Average Ticket Prices⁽³⁾

(\$ in actuals)



Sources: National Association of Theatre Owners, Motion Picture Association, IMDb, Federal Reserve Bank of Minneapolis.

(1) Represents total revenue and average sales in calendar year regardless of film release date.

(2) Only includes films that opened in calendar year and earned any box office revenue in the U.S. and Canada in the same year.

(3) Inflation line assumes 2010 as base year.

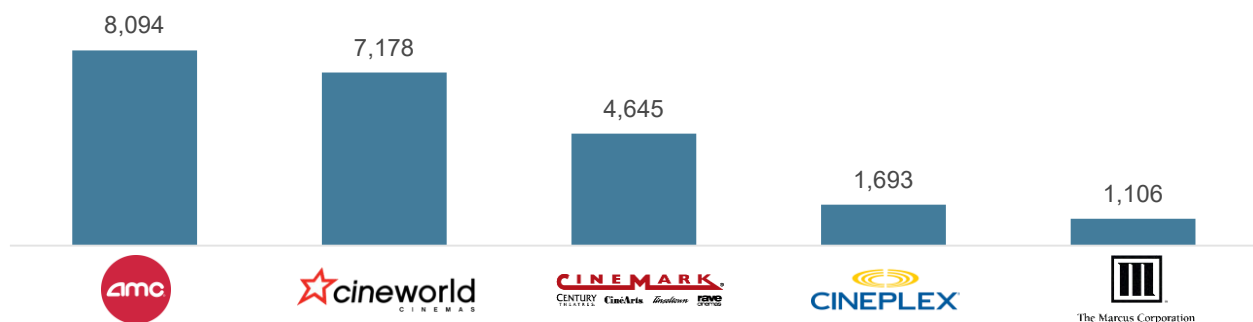
Domestic Exhibitor Competitive Landscape

Competitive Landscape Overview

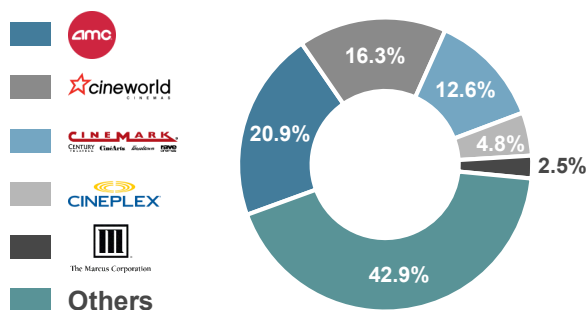
- AMC is currently the largest cinema operator in North America, with 8,000+ screens solely in the U.S.
 - AMC also operates 368 theaters with 2,947 screens throughout Europe and Middle East.
- In December 2019, Cineworld announced an agreement to acquire Cineplex for C\$2.8 billion.
 - Upon closing, the transaction would combine the second and fourth largest cinema operators in the U.S. and Canada and make Cineworld the largest cinema operator in North America.
- The top five theater operators account for ~56% of all screens and ~57% of the box office market share.

Largest Domestic Cinema Operators⁽¹⁾

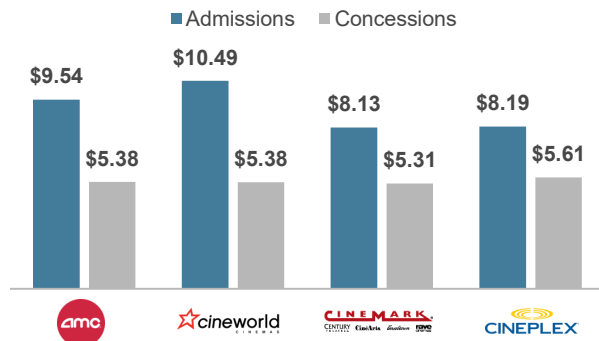
(Total number of domestic screens)



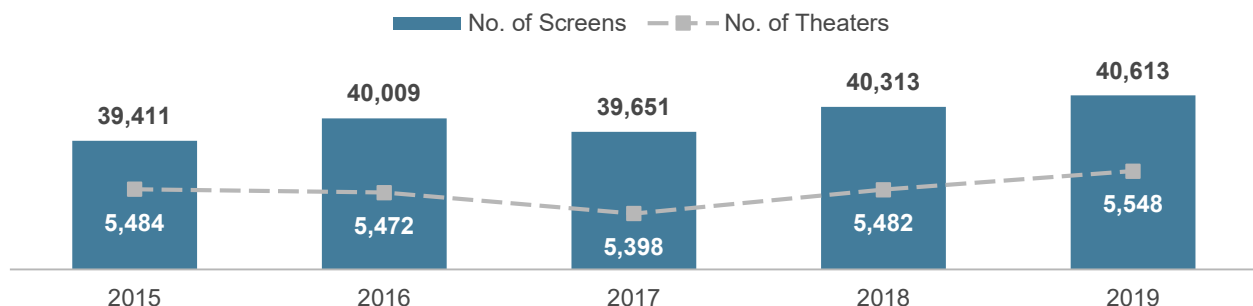
2019 Box Office Market Share



FY 2019 Revenue per Patron⁽²⁾



Domestic Theaters and Screens







Sources: National Association of Theatre Owners, public filings.

Note: All Cineplex financials converted to USD using a CAD-USD exchange rate of 0.77 as of December 31, 2019.

(1) Total screens for all companies as of end of Q4 2019.

(2) Attendance figures and average pricing per patron unavailable for Marcus Theatres.

Select Large Domestic Theatrical Exhibitors

Exhibitor	Exhibitor Group	Headquarters	Exhibitor	Exhibitor Group	Headquarters
	Wanda/AMC	Leawood, Kansas		Alamo Drafthouse	Austin, Texas
	Cineworld	Knoxville, Tennessee		Premiere Cinema Corp.	Hollister, California
	Cinemark	Plano, Texas		Goodrich Quality Theaters	Kentwood, Michigan
	Cineplex Entertainment (Canada)	Toronto, Ontario		Southern Theatres	New Orleans, Louisiana
	Marcus Theatres	Milwaukee, Wisconsin		Georgia Theatre Company	Saint Simons Island, Georgia
	Harkins Theatres	Scottsdale, Arizona		Cohen Media Group	Los Angeles, California
	Caribbean Cinemas	Santo Juan, Puerto Rico		Cinépolis	Dallas, Texas
	Cinemex	Miami, Florida		NCG Cinemas	Owosso, Michigan
	IMAX	Mississauga, Ontario		Marcus Theatres	Troy, Michigan
	B&B Theatres	Salisbury, Missouri		Reading International	Culver City, California
	Bow Tie Cinemas	New York, New York		Regency Theatres	Agoura Hills, California
	Malco Theatres	Memphis, Tennessee		United Entertainment Corp.	St. Cloud, Minnesota
	National Amusements	Norwood, Massachusetts		Megaplex Theatres	Sandy, Utah
	Studio Movie Grill	Dallas, Texas		Marquee Cinemas	Beckley, West Virginia
	Kinepolis Group	Calgary, Alberta		Galaxy Theatres	Henderson, Nevada

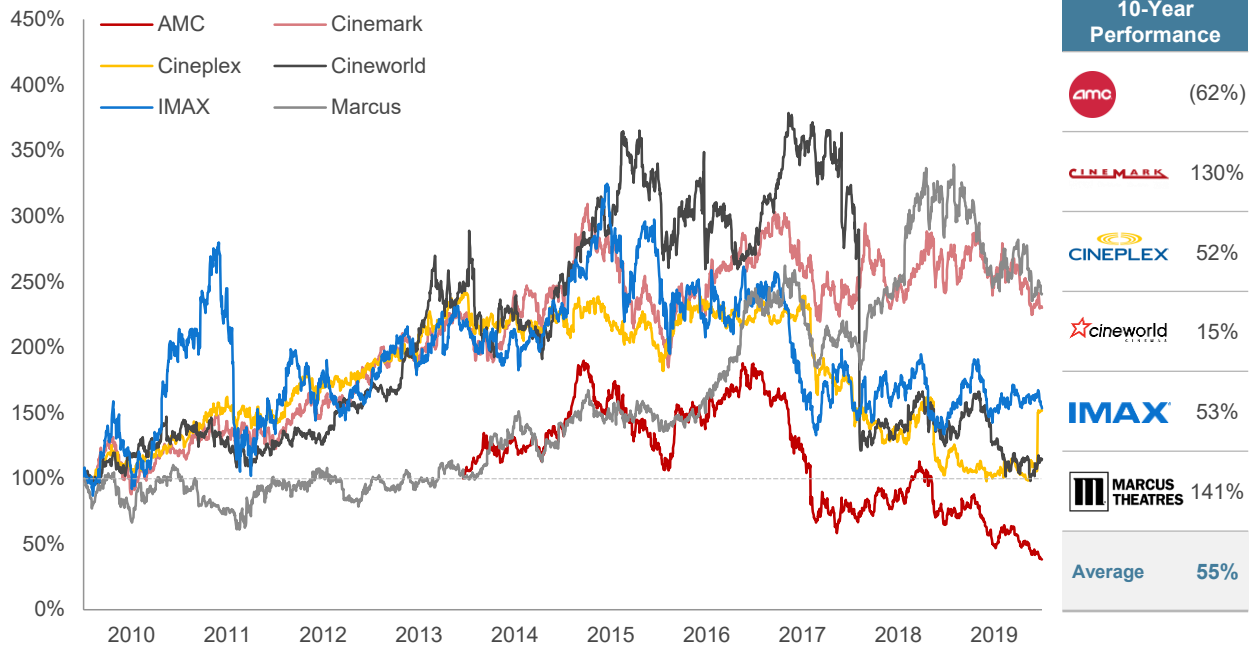
Sources: Company websites, other publically available information.

Note: Largest domestic theatrical exhibitors based on domestic screen counts.

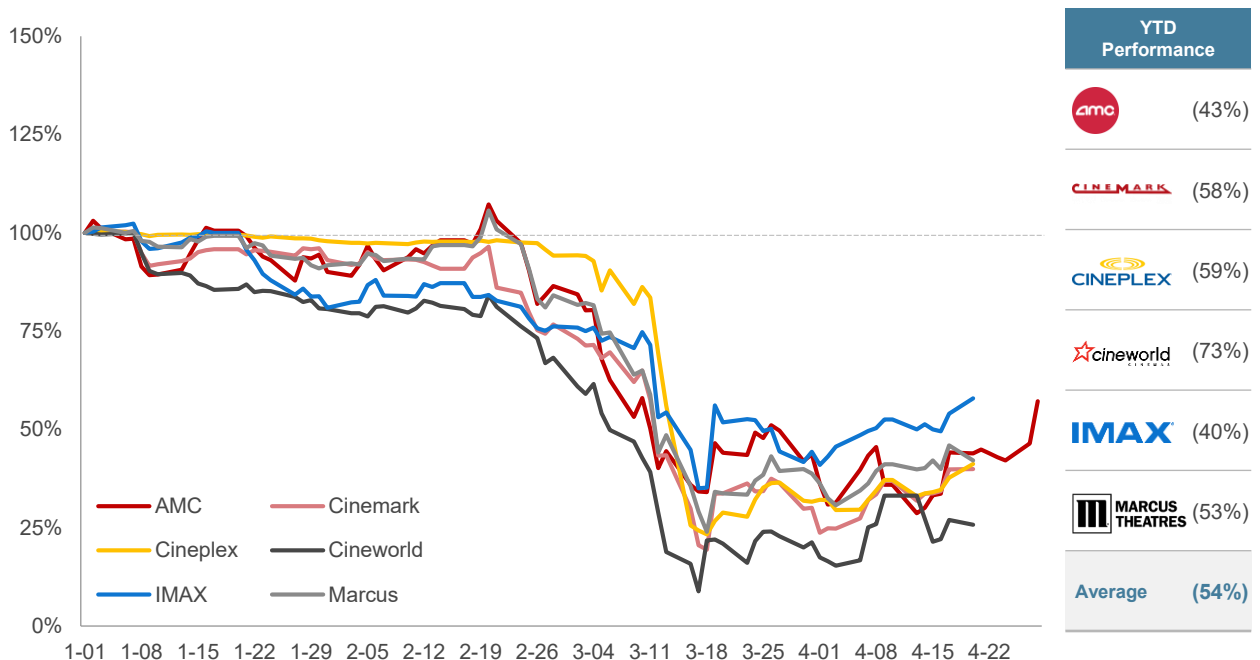
Select Domestic Exhibitor Stock Performance

Year-to-date losses have been significant across all of the major theatrical exhibitors.

10-Year Domestic Exhibitors Stock Price Performance



YTD Domestic Exhibitors Stock Price Performance

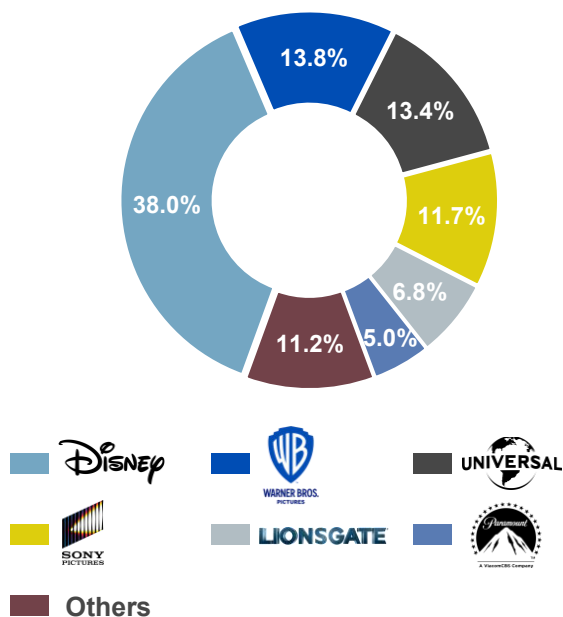


Domestic Studio Competitive Landscape

Competitive Landscape Overview

- In 2019, the top 6 film studios accounted for nearly 90% of all domestic box office revenues.
 - Disney, with the inclusion of 21st Century Fox, accounted for more than one-third of all box office revenues and seven of the top 15 grossing films of 2019.
- In late 2019, Disney also introduced its own streaming service, Disney+, which offers the full catalog of Disney films to subscribers.
 - Disney is the only major film studio to roll out a streaming service platform with exclusively original content.
- WarnerMedia, the parent of Warner Bros., owns HBO and offers content from a variety of studios.

2019 Film Studio Market Share⁽²⁾

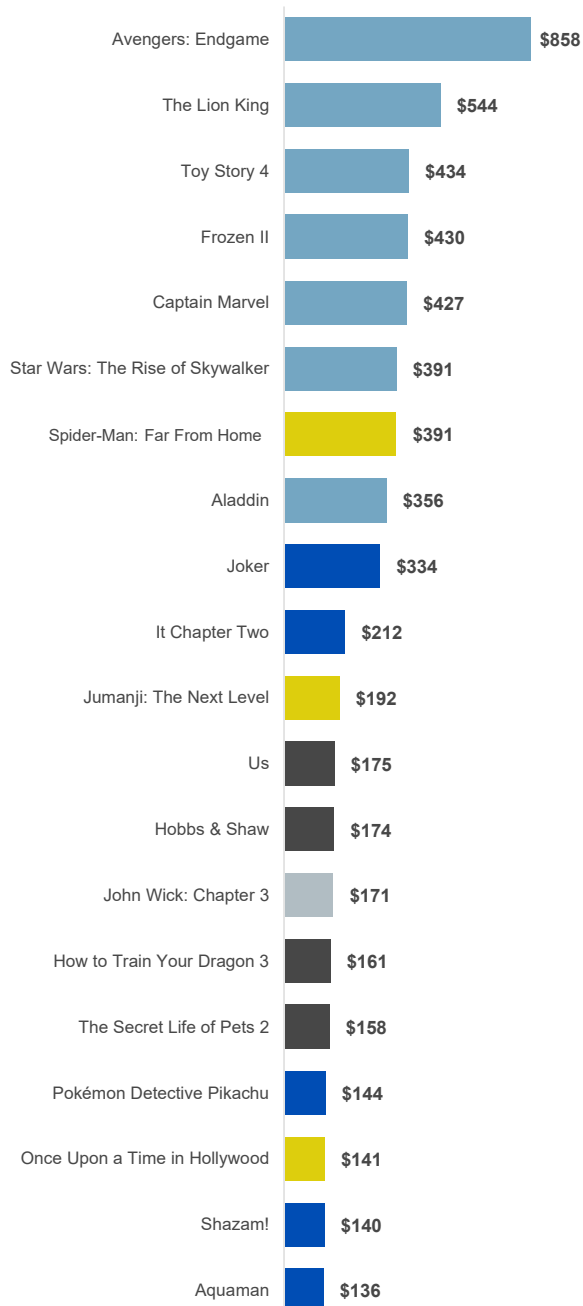


“Opening movies is a smash-and-grab business for the studios. They shatter glass, set off alarms and try to escape with the loot before somebody calls the cops.”

—Dade Hayes and Jonathan Bing, “Open Wide”

2019 Top 20 Grossing Films⁽¹⁾

(\$ in millions)



Sources: National Association of Theatre Owners, Internet Movie Database, CNBC.























(1) Represents only box office sales.






















(2) As of December 29, 2019.

Select Recent Cinema Transactions

Theatrical exhibition space has experienced significant consolidation in the recent years.

(\$ in millions)

	Notable Cinema Transactions										
Target Company											
Date	Dec-19	Dec-19	Sep-19	Jul-19	May-19	May-19	Apr-19	Dec-18	Dec-18	Nov-18	Jun-18
Acquirer											
TEV	NA	\$3,159.7	\$152.3	NA	NA	\$286.3	\$23.4	\$29.3	\$100.0	\$126.0	NA
Cinemas	20	165	10	5	4	17	1	2	52	22	NA
Screens	46	1695	164	47	NA	251	15	47	252	208	NA

	Notable Cinema Transactions										
Target Company											
Date	Jun-18	Dec-17	Dec-17	Sep-17	Jan-17	Sep-16	Jul-16	Mar-16	Oct-15	Apr-15	Jan-14
Acquirer	Not Disclosed										
TEV	\$53.0	\$32.6	\$5,893.1	\$100.3	\$972.8	\$40.7	\$1,198.7	\$1,187.1	\$38.1	\$550.1	\$896.9
Cinemas	1	2	561	44	68	4	244	271	5	66	99
Screens	NA	13	7315	303	463	NA	2243	2917	37	444	966

How Houlihan Lokey Can Help

Our firm is extremely well equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both strategic and a financial perspectives.

What We Offer

1 Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services

2 Financial Restructuring

Company Advisory

Financial Restructuring

Distressed M&A

Liability Management

Creditor Advisory

3 Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

We are widely recognized as a leading M&A advisor to the middle market and have long-standing relationships with capital providers, including commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors. Few other investment banks maintain the breadth of relationships and capital markets intelligence that we do.

Financial Restructuring

We have the largest restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 restructuring transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000 to 2019.

Financial and Valuation Advisory

For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation helps inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

Why We're Different



Deep Digital Media Industry Expertise



Strong Relationships With Key Buyers and Investors



Solution-Oriented Capital Markets Platform



Dominant in Special Situations and Restructuring



Senior-Level Commitment and Dedication



























Superior Work Product/Technical Abilities



Creativity, Imagination, Tenacity, and Positivity

Select Media and Entertainment Transactions

Houlihan Lokey has significant experience advising companies and creditors in the media and entertainment industry.

 <p>has amended its Amended and Restated Exhibitor Services Agreements with</p> <p>Cinemark USA, Inc.</p> <p>and</p> <p>Regal Cinemas, Inc.</p> <p>Financial Advisor</p>	 <p>has confirmed a Chapter 11 Plan of Reorganization</p> <p>Creditors Committee Advisor</p>	 <p>has paid a cash dividend of \$5.00 per Class A and Class B common share</p> <p>Financial Opinions</p>	 <p>a portfolio investment of</p>  <p>has received an investment from</p>  <p>Sellside Advisor</p>
 <p>a portfolio company of</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>\$34,000,000 equity investment for the IMAX Original Film Fund</p> <p>Financial Advisor*</p>	 <p>We rendered a valuation opinion for corporate planning purposes to Alamo Drafthouse Cinema.</p> <p>Financial Opinion</p>	 <p>has successfully completed a financial restructuring of its €2.4bn credit facilities</p> <p>Company Advisor</p>
 <p>has confirmed a "prepackaged" Chapter 11 Plan of Reorganization</p> <p>Creditor Advisor</p>	 <p>has secured a Senior Secured Term Loan from</p>  <p>Financial Advisor*</p>	 <p>Six Flags Entertainment Corporation has confirmed a Chapter 11 Plan of Reorganization</p> <p>Debtor Advisor</p>	 <p>Panavision Inc.</p> <p>has confirmed a recapitalization</p> <p>Creditor Advisor</p>
 <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>has confirmed a Chapter 11 Plan of Reorganization, restructuring approximately \$18 billion of liabilities</p> <p>Creditors Committee Advisor</p>	 <p>and</p>  <p>has been acquired by</p>  <p>Sellside Advisor</p>	 <p>United Artists Theater Company</p> <p>has confirmed a "pre-arranged" Chapter 11 Plan of Reorganization</p> <p>Debtor Advisor</p>

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company. Tombstones included herein represent transactions closed from 2000 forward.



Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank

- **1,500+** Employees
- **22** Locations Globally
- **~\$1 Billion** of Revenue
- **~\$3 Billion** Market Cap

Corporate Finance

2019 M&A Advisory Rankings All U.S. Transactions

	Advisor	Deals
1	Houlihan Lokey	184
2	Goldman Sachs & Co	167
3	JP Morgan	141
4	Morgan Stanley	122
5	Evercore Partners	112

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 M&A Advisor All U.S. Transactions

Top 10 Global M&A Advisor

Leading Capital Markets Advisor

Financial Restructuring

2019 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	Houlihan Lokey	76
2	PJT Partners Inc	43
3	Moelis & Co	36
4	Lazard	29
5	AlixPartners	19

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 Global Restructuring Advisor

1,000+ Transactions Completed Valued at
More Than \$2.5 Trillion Collectively

Technology, Media, and Telecom

2014 to 2019 M&A Advisory Rankings U.S. Technology, Media, Entertainment & Telecom Transactions Under \$1 Billion

	Advisor	Deals
1	Houlihan Lokey	198
2	Goldman Sachs & Co	162
3	Raymond James Financial Inc	155
4	Morgan Stanley	154
5	Evercore Partners	144

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 Technology, Media, Entertainment, and
Telecom Transactions Under \$1 Billion 2014 to
2019

33 Completed Transactions in 2019

Financial and Valuation Advisory

2000 to 2019 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	Houlihan Lokey	1,057
2	JP Morgan	929
3	Duff & Phelps	734
4	Morgan Stanley	621
5	Bank of America Merrill Lynch	612

Refinitiv (formerly known as Thomson Reuters). Announced
or completed transactions.

No. 1 Global M&A Fairness Opinion Advisor
Over the Past 20 Years

1,000+ Annual Valuation Engagements

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