



Cineplex Inc.: It's All About the Diversification

Description

There are lots of investing stories where it all went wrong. I'm not talking about a stock tanking and losing money. I'm talking about the opportunities missed because people couldn't see the long-term opportunity. **Cineplex Inc.** ([TSX:CGX](#)) is one of those stocks. Because I couldn't see beyond the movie theatre business, I didn't see how much diversification the company had, which makes it such an appealing target.

Don't get me wrong ... movies are still at its core. But, as we'll see, it's more than just that; the company recognized it couldn't be dependent on Hollywood if it was going to survive.

Think about how the business of a movie theatre works. Hollywood releases high-quality moves, such as *Star Wars* or *The Avengers*. People flock to see these flicks and, while they're there, they buy a couple of sodas, some popcorn, and maybe candy. The real money for the theatre isn't in the ticket price; in many instances, the theatre might only get 20% of the total ticket price. Therefore, the only way they can make money is if they can get people to buy concessions.

The problem is, if there are no high-quality movies coming out of Hollywood, people are unlikely to go to the theatre; thus, revenue drops. Cineplex recognized this problem and has been rolling out a series of initiatives that will make it easy to sell concessions without depending on Hollywood.

The first is its Rec Room initiative. These are large, multi-purpose rooms that are well suited for businesses to have outings or families to spend a few hours. With activities such as arcade games, axe throwing, and race car driving, the Rec Room is all about keeping people hooked for a while. And there are plenty of different types of food and drink for their customers to purchase.

The first Rec Room launched in Edmonton back in September. It will be launching one in Toronto and Calgary in 2017, with another 10-15 in total planned in the coming years. While we don't know what the revenue numbers for these locations are, I'm quite bullish on their potential.

The other diversification is in the eSports business, which is competitive video gaming. It bought World Gaming last year, which gives it the ability to stream its own competitive games on the big screen. This is another example of how it is able to sell concessions for people that watch the games. While it's still

a new business in Canada, people *love* this. In 2015, 36 million people watched the *League of Legends* championship.

Here's why both of these initiatives excite me ... neither of these depend on Hollywood. If awful movies are released, people will still want to watch eSports and visit the Rec Room. This gives Cineplex more control over the growth of its business. Since the bulk of its profits come from concessions, this allows it to double down on what it knows.

This diversification is going to be significant for Cineplex going forward. If it is successful, the revenue should be significant. I'm optimistic about the future of Cineplex and believe the company is worthy of holding in your portfolio.

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1. Editor's Choice

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1. TSX:CGX (Cineplex Inc.)

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