



Cineplex Inc.: The Entertainment Company Your Portfolio Needs

Description

There are few companies that impress me as much as **Cineplex Inc.** ([TSX:CGX](#)). The entertainment company has evolved over the years to cater to much more than the traditional movie-and-popcorn business model, branching out into new and unexpected areas.

A new take on a tired business model

The exclusivity and potential of the traditional movie business has narrowed significantly in the past decade.

The emergence of smartphones, smart TVs, and a myriad of streaming and on-demand services to view media has removed the exclusivity factor from the equation, and those services are aggressively priced to undercut movie theatres. Furthermore, the release window that typically allocated exclusively to theatres has decreased, leaving a smaller time frame for theatres to capitalize on blockbusters.

The VIP experience from Cineplex targets that exclusivity factor by providing larger recliner-style seats, a chef-inspired menu, and separate concession area for a higher price point. This experience targets a different segment of the company's target audience. This is a perfect example of how Cineplex has evolved a legacy offering into a new revenue stream.

Another example is the Rec Room. Cineplex offers large, configurable, multi-purpose rooms that cater to anything from small gatherings to corporate-catered events. Cineplex offers concessions to customers and keeps them on the premises longer than the duration of a typical movie.

Cineplex is currently constructing a 40,000-square-foot Rec Room in Toronto that will feature, among other things, live music in a setting that accommodates upwards of 200 customers. Cineplex plans to have about 15 of these Rec Rooms open throughout the country over the next few years.

One thing I really like about the Rec Room concept is that it is a hybrid business that exists somewhere between the movie-and-popcorn and bar-and-grill segments. It has the potential, much like the VIP experience, to be wildly successful for the company.

Cineplex also provides a venue for the gaming community. Thanks to the company's acquisition of World Gaming a few years back, Cineplex now hosts large gaming tournaments in theatres that can draw in significant crowds. This new segment is still in its infancy in Canada, but it has grown into a multi-billion-dollar industry abroad. Once again, the simple brilliance behind the model is to get customers onto Cineplex property and offer them concessions.

These initiatives are great, but that's not to say that Hollywood hasn't done its part. Over the past few years, a series of blockbuster releases have kept Cineplex's attendance numbers record high, and that trend doesn't appear to be ending anytime soon; no less than 10 massive blockbusters and sequels are planned for the rest of the year.

More expansion is coming

Earlier this month, Cineplex announced the acquisition of Dandy Amusements International Inc. Dandy is one the leading gaming-machine operators in the U.S. with operations primarily in the western part of the U.S. and Texas. Dandy will be integrated into Cineplex's Player One Amusement Group, which has operations in the U.S. and is currently focused on expansion.

This latest acquisition fits well into other Cineplex's other recent movements, all of which have diversified the company away from the traditional movie business and made it a full-fledged entertainment company.

In my opinion, Cineplex remains a great long-term investment opportunity with plenty of growth prospects and a respectable \$0.135 monthly dividend which offers a 3.2% yield.

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