



Can the Rec Room Drive Cineplex Inc. to Larger Profits?

Description

No matter what anyone says, the movie business is killing it right now. *Wonder Woman* has been an inspiration to little girls; *Star Wars* is as exciting as the first time I saw it as a kid; and Vin Diesel and the Rock still blow up more cars than anyone else in *The Fast and the Furious*.

If we just look at the numbers, **Cineplex Inc.** ([TSX:CGX](#)) is doing rather well.

Box office revenue was \$734 million in 2016, continuing an upward trajectory since 2011. Its box office per-patron revenue was \$9.84, which is up from \$9.48 in 2015. Its premium services, such as UltraAVX and iMax, are accounting for a much larger percentage of the revenue, which comes with higher margins.

On the concession side, business is also booming. On average, Cineplex is bringing in \$5.65 per patron at the food counter with total revenue in 2016 at \$421.2 million. Movie theatre popcorn may not be the best thing in the world, but people are eating it.

However, while we're in a glory period for movies that have massive market-wide appeal, I believe that the company's slight pivot towards becoming a general entertainment company is absolutely imperative. Right now, Cineplex depends on Hollywood to churn out great movies; what happens if Hollywood falters?

Back in September, Cineplex bought Tricorp Amusements Inc., which generated \$28 million in revenue and adjusted EBITDA of about \$6 million. This company distributes arcade games across the Canada and the United States. Although it's a nice addition, it isn't enough.

The Rec Room offers large multipurpose entertainment centres that bring video arcades, restaurants, and bars in one giant 60,000-square-foot venue. Unlike the movie theatre, which needs a constant churn of content, the Rec Room just needs to have people that want to play.

In Q1, there were only two Rec Rooms, but they brought in \$2.1 million in food and \$2 million amusement revenues. Three additional Rec Rooms will launch in 2017 with a goal of having 10-15 total Rec Rooms across Canada.

But could Cineplex try to boost its revenue from Rec Room-like projects? Fellow Fool contributor Will Ashworth suggested that Cineplex could try to purchase **Dave & Buster's Entertainment, Inc.** ([NASDAQ:PLAY](#)), which is very similar to the Rec Room. All told, Dave & Buster's has 94 locations in the United States and two in Canada. In 2016, it did over US\$1 billion in revenue and US\$239 million in EBITDA.

Obviously, this speculation is just financial pundits playing armchair acquirer, right?

Not exactly...

In 2014, before Dave & Buster's had gone public, Cineplex and Onex, a private equity firm, were trying to acquire Dave & Buster's, offering more than US\$1 billion for it. That deal inevitably fell through, but that doesn't mean that it can't ever resurface. It would be an incredibly expensive takeover, since Dave & Buster's has a US\$2.8 billion market cap, but this is the kind of deal that would allow Cineplex to significantly pivot.

Cineplex is in a tough business. The movie business can bring great riches, but it can also bring terrible sorrow. I believe that the next phase of Cineplex growth will come from its Rec Rooms. And who knows? Maybe in the future, it'll get a massive boost with a solid takeover attempt.

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