
# The Worst Summer Box Office in Decades: Is Cineplex Inc. in Trouble?

## Description

Summer revenue at the North American box office is down over 10% from the same period last year, as the 2017 slate has failed to successfully lure movie goers this season. The last few weeks of summer do not typically produce attendance in line with the rest of the season. However, in spite of a weak summer, there are some huge movies coming to close the year, which should give total box office performance a big boost.



**Cineplex Inc.** (TSX:CGX) released its second-quarter earnings on August 2 and reported a drop in profit and attendance. The stock has fallen 19% since the news and 21% in 2017 as of close on August 18. Revenue was up 7.7% to $364.1 million but missed analyst expectations, though a caveat was added that this was an unusual period. This was in reference to the abysmal performance of movies produced by Hollywood this summer — the worst in several decades.

Cineplex has attempted to reduce its dependence on cinema performance by branching out into non-traditional theatre content. For example the upcoming boxing match on August 26, pitting Conor McGregor against Floyd Mayweather, will be shown at Cineplex locations and is expected to be an enormous draw. Fans are able to pay a lower fare rather than the expensive pay-per-view fee that goes for $100 or more.

Investment in diversification has driven up costs. Operating expenses saw a 21.4% increase in the second quarter. Amusement revenue increased 85.9% in large part due to the acquisitions of Tricorp Amusements and SAW LLC. The efforts led to an 11% drop in adjusted EBITDA to $38.1 million.

Cineplex recently introduced “Rec Room” complexes in Edmonton and Toronto which offer bars and gaming entertainment. The company is expected to open up to 20 more in Canada. It is also partnering with Texas-based Topgolf to open up to seven locations that offer drinks, food, and electronic golf entertainment.

Even with the dips in attendance, box office revenue increased 2.4% to $170.7 million, and theatre food service experienced growth of 2.7% to $99.4 million.

The long-term diversification efforts for Cineplex are still a work in progress. Though early projects like the Rec Room have pulled in substantial revenues the efforts have been a drag on earnings. This is a transformation which will likely have to work out issues as the company attempts to reduce its dependence on Hollywood output.

However, investors should be aware of the slate of movies that are going to be released in the second half of 2017. *Justice League*, *Blade Runner 2049*, and, most especially, the next installment in the *Star Wars* franchise promise to pull in big audiences. The revenues produced by this late-year bump should serve as a tremendous boost for box office revenues in the final quarters and spill over into 2018 as the final *Star Wars* film is to be released in late December.

Investors willing to gamble should take a look at Cineplex — a stock hovering around its 52-week low. It also boasts a 4% dividend yield at $0.14 per share. If you want to bet on a late season box office boom, you should add Cineplex to your portfolio.

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**Date**
2025/08/22
**Date Created**
2017/08/23
**Author**
aocallaghan