



## Is a Media and Amusement Spin-Off on the Horizon for Cineplex Inc.?

### Description

In a [previous piece](#), I'd noted that the only way **Cineplex Inc.** ([TSX:CGX](#)) would get out of its funk is if its media and amusement division further diluted the ailing box office segment, which continues to be in a major secular decline. Over the next few years, the problems at the box office will likely get worse, as video streamers beef up their content budgets, all while major studios opt to skip the theatrical release and head straight to a streaming platform to cut theatre firms like Cineplex out of the deal completely.

"People don't realize how diversified we are as a company. Everybody's treating us like the rest of the exhibitors," said Cineplex CEO Ellis Jacob. "We made a conscious decision to use our infrastructure and human capital to move from a cinema company to an entertainment and media company ... But people still think of us as a movie company."

With a hefty trailing price-to-earnings multiple of 28.29, it's clear that the general public sees the value of Cineplex's generic entertainment assets and the upside that may result should the company successfully dilute its box office segment, which appears to be going the way of the drive-in theatre. Despite falling ~42% from peak to trough, the company still has high-growth expectations; however, in the near term, many are going to be left disappointed, as it's going to take many years before Cineplex can lessen its dependence on Hollywood, as I've mentioned in [previous pieces](#).

That puts shareholders between a rock and hard place, as the short-term pain will likely continue as we head deeper into the "stay-at-home" economy, where it seems like there's little incentive to go out and see a film, even if it's received rave reviews from critics. High-budget box office flops keep happening, and sooner or later, major film producers are going to start taking the path of least resistance by opting for lower-budget straight-to-stream films instead of risking a great deal of capital on what would seem like a guaranteed flop. Just consider Paramount's decision to [sell international rights to Annihilation](#) from the get-go.

At this point, it looks like the movie and popcorn business is quickly fading away. A spin-off of Cineplex's media and amusement business seems like an obvious choice to maximize shareholder value. Mr. Jacob isn't ruling out a spin-off of Cineplex's media and amusement business just yet,

instead stating that he'd rather keep everything "under the same umbrella" before giving a spin-off some serious consideration. Mr. Jacob sees the media and amusement segment growing to account for ~33% of the company's total revenue in five years — up from ~11% in 2017.

It's not a mystery that Cineplex's box office segment has been accounting for less of the total business over the past five years. Looking ahead, it's likely that this box office dilution will accelerate as Cineplex looks at both organic and inorganic growth initiatives to speed up the transition to a "general entertainment company."

### Bottom line

A Cineplex media and amusement spin-off would be great news for investors, but in the medium term, the promising entertainment business will likely continue to be dragged down by meagre box office results. The "boom and bust" of the movie business has happened on numerous occasions in the past, but there are many reasons to believe that this time is different.

For now, I believe Cineplex shares are priced as if the dreaded box office segment was already spun off. I think more pain will be on the horizon and would recommend avoiding shares until they're more reasonably valued. Or you could be patient and wait for a media and amusement business spin-off.

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