Cineplex Inc. (TSX:CGX) Continues to Break the Reliance on Hollywood

Description

I've long been an advocate for **Cineplex Inc.** (TSX:CGX) as a viable investment option, making note of the bevy of new ventures and opportunities the company is making to reduce its reliance on Hollywood and its traditional blockbuster release schedule.

Cineplex has a very simple business model that has changed little in over half a century since the first movie theatres began to appear across the country. In short, that model is to charge an admission to a show and then offer concessions to the people watching that show. The model has worked well for the company over the years, justifying Cineplex's inclusion into nearly any long-term portfolio.

But as simple as that business model may sound, it has come under threat recently from two points.

First, many people are no longer willing to pay the (higher) admission charge, especially as a nearly endless number of streaming options are at our disposal through smartphones and smart TVs.

Second, the movie-and-popcorn model is itself under threat from the very studios that are releasing those movies. A flop for Hollywood means that few people will want to watch the movie, and Cineplex will not reap the profits that the company needs.

New ideas, same outcome

Over the past few years, Cineplex has rolled out a series of new product offerings, such as the VIP experience, which provides larger, recliner-style seating and a full menu to patrons for a higher price-point, and the multi-configurable Rec Room concept, which provides games and live entertainment options to customers; it can host anything from small birthdays to corporate-sponsored events.

Both options have proven incredibly popular, with the four existing Rec Room locations earning $16.1 million in the most recent quarter. Several more Rec Room locations are set to open over the next year that should provide further lift for that segment.

Cineplex has also branched out into entirely new areas in recent years, such as the company's digital media arm, which is responsible for the growing placement of digital menu boards in fast-food establishments. The media segment even scored a major win in the most recent quarter to provide menu boards for fast-food establishments in Argentina, Brazil, and Uruguay.

Finally, Cineplex is invested in WorldGaming; the company hosts a series of events and tournaments that draw in a growing number of gaming enthusiasts to both watch and participate, adhering to Cineplex's core charge-an-admission-and-offer-concessions rule.

Most recently, Cineplex announced last month a new initiative that will have the company partner with a ride-sharing business Uber Eats to allow delivery of Cineplex's concession items to customers outside its theatres, including hot dogs, popcorn, nachos, pop, and candy.

In total, Cineplex will be selling 60 concession products and combos to customers in British Columba, Alberta, Ontario, and Quebec through this latest deal. One such combo that is advertised includes an HD movie rental, two medium popcorns, two medium-sized candies, and two drinks for $28.99.

It's a perfect example of the emerging service industry that is becoming more popular in everything from buying clothes online to grocery delivery services.

Final thoughts: Will it work, and is Cineplex a good investment?

Cineplex's latest innovation is not unlike any of its previous attempts — unique and appealing to a certain niche, but not likely to be successful enough on its own to replace lost revenues from the core movie-and-popcorn business.

While streaming services and new devices may continue to erode Cineplex's core mobile business, overall the company is moving in the right direction to become a multi-faceted entertainment company, and that is where the long-term opportunity for investors lies.

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