



## Cineplex (TSX:CGX) Investors: Get Ready for a Bumpy Ride

### Description

Earlier this month, I'd mentioned that summer blockbusters wouldn't be enough to [save Cineplex \(TSX:CGX\)](#). That position still holds true, and, if anything, the conditions for recovery are worse than previously thought. Here's what that means for Cineplex investors.

### From bad to worse?

Cineplex was already facing declining numbers prior to the onset of the pandemic. Customers are increasingly turning towards streaming services to catch the latest Hollywood blockbusters. There really is no comparison; customers can typically get a month of unlimited streaming access for less than a single movie ticket. Throw in the convenience of accessing that content at any time from an increasing number of devices, and you have an attractive offering.

If that weren't enough, many of those streaming businesses are throwing billions at developing their own content. Apart from attracting a growing number of A-list stars, those streaming studios hold exclusivity over their own content on their streaming platform.

Again, the losers in this scenario are traditional theatres, which isn't good news for Cineplex investors.

To make matters even worse, many of those streaming platforms are now releasing Hollywood blockbusters directly onto their platforms. We've already seen this happen with several much-anticipated movies over the past year. Examples include *Wonder Woman 1984*, *Godzilla vs King Kong*, and *Mortal Kombat*.

### Why that model is changing

*Space Jam: A new Legacy* and *Black Widow* are two other recent releases that stand to greatly impact that traditional movie-and-popcorn business.

Let's start with *Black Widow*. Following a series of COVID-related delays, the movie dropped into both

theatres and on Disney+ earlier this month. In that first weekend, the movie earned a whopping US\$80 million. That may not seem like much for an MCU film, but recall that many theatres remain closed or at limited capacity. In other words, it was a great opening.

Unfortunately, the second weekend at the box office saw the film bring in just US\$26.3 million. The main culprit of that drop, according to the National Association of Theatre Owners (NATO) was the simultaneous (streaming and theatrical) release model adopted by **Disney**, the studio behind *Black Widow*.

Under that model, subscribers pay a single upfront charge (\$35 in Canada) to stream the blockbuster. That's still far less than what most customers would pay to watch the movie in a theatre if you factor in a family and concessions.

With COVID numbers starting to rise in many markets again, that could lure more subscribers to play it safe and stream the movie from home (and save some money).

Now, let's take a look at the latest *Space Jam* movie. That movie is geared towards younger audiences, many of which are not yet vaccinated. That factor alone makes a compelling case to watch the movie at home instead of within a theatre.

## Cineplex investors: Your move

Cineplex isn't alone in facing a shaky future. The COVID-19 pandemic changed many of the long-established norms in our daily lives. Some of those may return post-pandemic, others such as the movie-and-popcorn business may evolve into something new.

That new element could be Cineplex's efforts to diversify its business. This includes initiatives both related and unrelated to its core movie business. A prime example of this includes the Cineplex store, which is an effort to counter the proliferation of streaming services. The same could be said of Cineplex's Rec Room concept. The live entertainment venues proved to be popular prior to the pandemic and should provide a viable revenue stream post-COVID.

Unfortunately, that recovery, and by extension, [growth](#) is still a fair distance off, which isn't good news for Cineplex investors.

While no business is without risk, the risk involved in investing in Cineplex at this juncture may just be just too great in my opinion. Fortunately, there are plenty of other stocks to consider, many of which [offer an impressive dividend](#).

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