



Cineplex (TSX:CGX) Innovates: Can CineClub Succeed?

Description

Are you invested in **Cineplex** ([TSX:CGX](#))? Canada's largest entertainment company remains a topic of discussion for existing and prospective investors. Cineplex announced results for the second quarter this week. Nobody was expecting the company to post a surprise profit. Cineplex posted a loss of \$103.7 million, or \$1.64 per diluted share, in the most recent quarter later today.

But rather than drill into more detail on [pandemic-era losses](#), let's look at a new intriguing offering called CineClub that Cineplex announced this week. The hope is that offering could help stem those losses from getting worse. More specifically, will CineClub succeed?

A new offering, but the same core problem

CineClub is a monthly subscription service, which the company hopes will get subscribers off their couches (and, by extension, streaming services) and back into physical theatres.

For a monthly charge of \$9.99, subscribers to this new service will get a free movie ticket, as well as the option to buy two additional movie tickets for \$9.99 each. Premium experiences are still going to cost more, and the free ticket can't be used for special events.

Additionally, being part of CineClub also means that subscribers will get discounts on concessions as well as on gaming in Rec Room and Playdium locations. Those discounts also extend to purchases made at the Cineplex Store.

So, will this work in reversing Cineplex's sharp decline during the pandemic? This is an intriguing model, to say the least. Cineplex is pushing heavily to get people back into theatres, which remains its primary revenue driver.

The only problem is that the lack of theatre attendance is not just because of the pandemic, but also because customer tastes are changing. People are less inclined to go and see a movie in person at a considerable cost and on a fixed schedule, when streaming allows for unlimited viewing from pretty much anywhere at any time.

It's a colossal shift in the market that is challenging the traditional movie-and-popcorn business. And that's not necessarily a bad thing. Earlier this month, we even saw some actors speak out on the streaming release model (and, by extension, the lost earnings for actors when compared with an exclusive theatrical release).

Will CineClub succeed?

Cineplex is continuing to do what it has been doing for several years — innovating its dated business model. Unfortunately, there's little incentive for existing streaming subscribers to get off their couches and come back into theatres. CineClub's incentives right now are still reliant on in-person gatherings. Perhaps most importantly, this new subscription service is entirely dependent on two factors outside of Cineplex's control.

Specifically, theatres need to reopen to capacity to cater to those potential customers. Additionally, Hollywood needs to start churning out new films that people want to see (only in theatres). We may see the former come to fruition in the next few months, some studios are shifting more towards streaming.

Final thoughts

One thing I admire about Cineplex is the company's sense of innovation. From VIP seating to the Rec Room, and now CineClub, the company continues to show promise. But will CineClub succeed where others have failed? Unfortunately, factors outside of Cineplex's control are making a full recovery difficult in the short term.

There's no reason to doubt that Cineplex will recovery from its pandemic lows, which makes it [undervalued](#) at present. Unfortunately, that recovery could be far out from now. Offering services such as CineClub may slow the bleeding but won't stop it entirely.

Only when those external factors change to allow that recovery to take shape will we see a full recovery. And until that happens, there are [far better options](#) on the market to consider.

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