



## It's Time to Think Differently About Cineplex (TSX:CGX)

### Description

It's time to think differently about **Cineplex** ([TSX:CGX](#)). The pandemic may finally be heading to an end, but not everyone will be willing or able to go back into theatres. Apart from the pandemic, Cineplex has a host of other issues that need to be addressed.

### Cineplex: On borrowed time?

Canada's largest entertainment company continues to adhere to the century-old movie-and-popcorn business model. That model, in its simplest form, is to charge admission to a show and then offer concessions to patrons while there.

What made that business model work was the exclusivity factor. Studios would release content that was exclusively in theatres before distributing it downstream to other channels. The exclusive factor allowed theatre chains like Cineplex to generate lots of revenue and keep a steady flow of traffic coming into theatres. Keep in mind, however, that the traffic was based largely on the quality of content coming out of Hollywood.

The pandemic disrupted that model significantly, as theatres were shuttered, and studios kept postponing releases. But there's another event that predated COVID that should be mentioned. That's the advent of streaming services.

Streaming services offer subscribers access to nearly infinite content for a low monthly fee. In fact, that monthly fee is often less than the price of a single movie admission ticket. If that weren't enough, that content can be streamed to any connected device anywhere.

With a few streamers on the market, Cineplex could still compete. The company introduced VIP seating, better menu items, discounted ticket times, and lucrative rewards.

Cineplex also diversified through the addition of Rec Room sites. Rec Rooms are large multi-configurable rooms that offer games, food, and live entertainment. Unfortunately, just like its theatres, Rec Room locations were closed during the pandemic.

## Here's the real problem

Now that COVID cases are declining and businesses are reopening, Cineplex can begin to recoup some of that lost revenue. But here's the real problem and why we need to think differently about Cineplex:

Some of that revenue isn't coming back.

When theatres were shuttered, the studios transitioned to online streaming channels. Armed with multi-billion-dollar budgets, those studios have cranked out content non-stop for the past year. In the case of Cineplex, there are two more headaches to consider.

First, much of that new content is exclusive to streaming subscribers. This is effectively ending the only in theatres exclusivity model.

Second, let's circle back to the cost of those streaming services. Currently, not all of those services are available yet in Canada. Assuming they will be, the monthly cost to subscribe to *all* could be less than two movie tickets and a large popcorn.

## It's time to think differently about Cineplex

Let's circle back to pre-pandemic Cineplex. Cineplex was innovating into new areas while reducing its reliance on its core theatre business. The company still offered an impressive monthly dividend.

Those days are in the past now. Will Cineplex recover? In my opinion, yes. I do think Cineplex can stage a recovery, but that recovery will be long and painful, and the company will not resemble its pre-pandemic self.

This is a different market today. People are more inclined to subscribe to one or more streamers than pay for a single admission. There are also those people who are still wary about getting into an enclosed area sitting next to strangers.

In my opinion, there are [far better options to consider](#) at this juncture, many of which still [offer juicy dividends](#). If you're invested in Cineplex already, you may want to hold on for the long ride.

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