paisley cinema

demand study

Prepared for Renfrewshire Council, Renfrewshire House, Cotton Street, Paisley, PA1 1AD

by Entertainment Solution Services Ltd. (ESS)

July & September 2022

Entertainment Solution Services Ltd., Mercury House, 19-21 Chapel Street, Marlow, Buckinghamshire, England, SL7 3HN, United Kingdom

TABLE OF CONTENTS

This report is prepared on the instruction of Renfrewshire Council, located at Renfrewshire House, Cotton Street, Paisley, PA1 1AD, United Kingdom and Paisley Community Trust.

As the report involves future forecasts, it can be affected by a number of unforeseen variables. The report conducted by Entertainment Solution Services Ltd., contains research undertaken on location, available through public domains, and views and assumptions of all participants, based upon their existing knowledge of the market. All public domain research is referenced.

Entertainment Solution Services Ltd (ESS), its directors, consultants and family members, including its partner company Paguro Ideas Ltd, covenants to have no interest, direct or indirect, that conflicts in any manner or degree with the performance required under this contract. ESS has conducted this report on a neutral and non biased manner, with the result of this report being based on official data and information.

All parties have used their best general knowledge to assemble data and templates to assist the client in assessing various options. These numbers are indicative only and are to be used as guides only. The purpose of this report is to re-asses a previously conducted study to determine the commercial feasibility of a multi-screen cinema in Paisley town centre, taking into considerations recent global events such as the pandemic, geopolitical and economic challenges.

1. BACKGROUND

Retail patterns, working from home, and how people spend their leisure time has changed significantly over the past few years. Whilst trends such as online shopping, home office and preferring experienced based leisure activities has steadily increased over the past decade, the pandemic has accelerated these trends rapidly.

Paisley's High Street, as many High Streets across the UK, has seen a decline in footfall, due to poor offers, surplus of retail floor space, and increase in anti social behaviour.

Renfrewshire Council and Paisley Community Trust aims to return the High Street back into a thriving, community and socially inclusive town centre, by delivering investment and regeneration to the area. Through the proposed re-introduction of residential, re-location of key-retailers, and additional F&B and leisure offers into the heart of the town, Renfrewshire Council's vision is to transform the town centre into a healthier, sustainable and more prosperous space.

Initial research, conducted over the last decade by Craigmount, Three Sixty Architecture, Paisley Community Trust and Creative Services Scotland, indicated that Paisley town centre could benefit from a town centre multi-screen cinema. This research however was administered in pre-pandemic and during pandemic times, and new research and site analysis is required to determine the need for a cinema, considering changes in the market due to the on-going consequential impacts of the pandemic, geopolitical and economic challenges.

Renfrewshire Council and Paisley Community Trust has therefore commissioned Entertainment Solution Services Ltd to conduct a post-pandemic, independent and expert re-evaluation for the demand of an additional cinema in the Renfrewshire area. The independent and neutral evaluation will be key in determining likely market potential for a cinema in Paisley town centre and to re-assess the commercial feasibility of a multi-screen cinema in Paisley town centre, taking into consideration effects of the pandemic, and current geopolitical and economic challenges.

Commissioned Commercial Analysis Agreed:

Review the cinema market Globally / Nationally and in the Glasgow Area region, to include the post-pandemic viewing outlook for entertainment including cinema, and undertake a market analysis of the Renfrewshire and surrounding catchment area to ascertain the potential for an additional cinema in Paisley Town Centre.

The study will focus on admissions, box office revenues and the potential impact on current offers within the drive-time area – Braehead, Linwood and Silverburn.

a. Existing cinema seat supply and refurbishment alteration impacts
b. Average level of occupancy per cinema seat over last 5 years
c. Average level of box office turnover per cinema seat over last 5 years
d. In-depth analysis of the area and surrounding area
e. Research into demographic profiles
f. Propensity to visit within 5 & 10–minute drive time
g. Assess likely on-going commercial, economic, and social value benefits to the town centre
h. Differentiation in the quality standards of this existing provision
i. Any proposed or completed investment into this existing supply by existing operators
j. Identification of any gaps in the existing provision – including niche opportunities, separate from current mainstream cinema operations
k. Options for operator model and anecdotal evidence of interest – depending on research findings
l. Funding options - public or private sources

Depending on findings:

i) recommendation on site, what size and type of venue could be commercially viable
ii) reasons why any option may be commercially unviable
iii) profit & loss assessment on existing offers –added for demonstrating purposes

2. EXECUTIVE SUMMARY

Renfrewshire Council and Paisley Community Trust aims to return Paisley's High Street back into a thriving, community and socially inclusive town centre, by delivering investment and regeneration to the area. Through the proposed re-introduction of residential, re-location of key-retailers, and additional F&B and leisure offers into the heart of the town, Renfrewshire Council's vision is to transform Paisley town centre into a healthier, sustainable and more prosperous space.

Under consideration to support the regeneration and to increase the footfall in Paisley, was to build a multi-screen cinema within the town centre. In order to determine commercial viability of a town centre cinema, Paisley Community Trust delivered a feasibility study in 2021, following on from the *Paisley is Open* report produced in 2020 and supported by the Scottish Government, Renfrewshire and the Scottish Towns Partnership. The study concluded that a cinema within the town centre would be commercially viable and benefit the area and its residents as a whole.

This research however was administered during pandemic times, and new, independent research and site analysis was required to determine the need for a cinema, considering on-going fundamental and structural changes in the cinema market due to the impacts of the pandemic, current geopolitical and economic challenges on a global and national level.

After year-on-year box office increases, globally and on a national level, cinemas found themselves in unchartered waters when the pandemic, and now the cost of production, including energy cost crisis, hit. Worldwide, the majority of cinemas were closed for months during the pandemic and once open again, had to operate on reduced seating capacities. In addition, there has been a severe disruption to film production and a lack of new weekly content being released in cinemas.

Overall, the global box office fell by 72% in 2020, finishing the year with only $12 billion in ticket sales, compared to a record year in 2019, which grossed $45.5 billion globally.

The UK box office in 2020 accounted for 44 million admissions with a total box office of £307 million, a dramatic decrease of 76% compared to 2019's box office revenue of £1.25 billion, making 2020 the lowest UK box office revenue since records began.

2021 saw a recovery compared to 2020 with a UK box office of £602 million, which overall was 51.99% down compared to pre-pandemic 2019.

Admissions for the first 6-months of 2022 are down by 26.4% compared to the same period of pre-pandemic 2019. The second half of 2022 contains more fallow periods than peaks and as a result Cineworld, the world's 2nd largest cinema chain, has filed for bankruptcy, whilst Vue Cinemas are in the process of legal restructuring, given their on-going financial challenges.

Overall, Cineworld and Vue's difficulties effect 45% of the UK's cinema screens. More cinema failures will follow as the market bumps along the bottom. Until there is a full understanding and alignment of how film production, film distribution and cinema exhibition in the post-pandemic world will effectively function again, there are significant unknown risks.

The U.K. cinema market is in a period of transition and change, that is required to re-invent itself and, re-build and re-capitalise from a base where there are now more active screens than in 1950, but with cinema ticket sales levels from the mid-1980's. Full recovery, if at all, may take a decade to deliver, with exceptional peaks (Top Gun: Maverick) and troughs (August - November 2022) to manage along the way.

The UK box office is currently entirely driven by high budget productions such as "Doctor Strange in The Multiverse of Madness", "Top Gun: Maverick", "Jurassic World: Dominion" and "Minions: Rise of the Gru". Mid budget productions and niche/arthouse content, vital to a healthy box office, have underperformed massively, with many releases going straight to SVoD (Subscription Video on Demand).

The trend clearly shows that younger audiences still want to see highly anticipated, high-budget films with exceptional special effects and globally beloved actors on a big screen, whilst older audiences are hesitant to return to the cinema, preferring SVoD platforms, which they have become accustomed to using during the pandemic.

Cinema isn't always the solution to High Street challenges. From 1985 (opening of multi-screen cinemas) through to 2002 there was a consistent upward trend of ticket admits (people) and a steady per screen average. From 2002 to 2019 a total of 1,400 screens (+44%) were added across the UK, but that has only added 0.1% to admissions totals or 110 annual admits per additional screen by 2019. Presently there is a significant disconnect in the UK between consumer demand and total screen supply that pre-dates the pandemic and will now impact sector sustainability and cinema recovery post-pandemic.

Renfrewshire has the largest number of screens per head of population by local authority area in Scotland - 15,500 - and exceeds the UK average of 14,625 by a considerable margin. Paisley itself has access to 5 cinemas with a total of 62 screens within an under 20-minutes drive time.
The Renfrewshire cinema screen density per 100,000 people is 14.5 (Showcase and Odeon Braehead only) and therefore more than double the Central Scotland (7.3) and U.K (6.5) totals e.g., London with 7.4 screens per population or Northern Ireland, which ranks number 1 within the UK, with 11.3 screens per head of population.

The existing Renfrewshire (and the Glasgow area) cinemas have been impacted materially by the pandemic. Cineworld have entered a Bankruptcy process (Chapter 11) in the USA with a U.K. restructure almost certain to follow.

Vue are in the process of recapitalising, while Odeon (AMC) and are most likely to also enter restructuring phases. Showcase (National Amusements) faired better through the pandemic as they have little property lease exposure in market.

The existing cinemas within the Paisley drive-time ring attract admissions from outwith Renfrewshire, yet they are under-trading at present.

Showcase De Luxe (recent refurbishment) has fared best when comparing the pre-pandemic 2019 box office with the 2021 post-pandemic box office, with a decrease of 19.08%.

Odeon Braehead and Odeon Glasgow Quay registered a box office decrease of 66.24% and 68.97% respectively, comparing pre-pandemic 2019 to post pandemic 2021. Braehead will be re-geared or re-structured within the current lease period that expires in 2032.

Both sites have been operating on a reduced schedule for several months, with the Odeon Braehead having been closed all day Monday's and Tuesday's regularly during the reporting period. Normal programme resumed end of July 2022 for school holidays, indicating that it is commercially more viable to operate on reduced shows and on reduced operating days, than to have the cinemas open.

While the Renfrewshire screens are concentrated in two locations, and may not be the preferred options today, historic planning permission decisions were approved for Odeon Braehead and Showcase Paisley. ESS recommends that there is no current or near future commercial justification to increase screen provision either at existing locations or at an alternative venue within the local authority area. Current long-term contracted freehold and leasehold screen supply provision exceeds demand requirement levels.

Key questions that ESS would wish for Renfrewshire and Paisley Community Trust to consider are:

1. Can a new cinema development survive a long-term or sustained decrease in admissions alongside an increased cost base? In the post pandemic world, an increase of 40% in admissions is likely to be required to meet the higher and more volatile operational costs.

2. Will there be an increase in admissions beyond pre-pandemic levels by building more cinemas or will the market be further diluted?

3. What responsibility will the Studios take - product quantity versus product quality – will the movies deliver? There is a shrinking of mid-market supply and less opportunity to diversify content.

If there is a public sector justification to add additional screen capacity in Paisley, that is a local authority and PCT decision to make. However, if the key test for large scale funding support for a project is one of “market failure” then there is no case or justification to build more screens. An intervention to deliver a new multi-screen cinema would increase the local authority area supply of screens further but likely result in market failure and / or a very aggressive (but reasonable) commercial response from the existing operators and their landlords. The likelihood is that it will result in market failure of one or other of the existing cinemas and / or the value destruction and failure of the proposed new venue.

As a result, the ESS report did not recommend what a new site could deliver in size, type of venue or commercial viability. The risks of developing, constructing, opening and operating in the most competitive of U.K. markets amid capital, consumer and operational market volatility require serious consideration by all stakeholders and are far beyond the remit of this report alone.

While the findings may read as negative, it is the stark reality of where the market is at present, and it is useful to reflect on all that is going on in and around Paisley and the broader world outlook, with no certainty as to their duration or of the outcomes:

1. Economic, geopolitical challenges and fast technical advances are putting enormous pressure on cinemas. Record high inflation and the rise in living costs will lead to cuts in consumer spending, with non-essentials, such as cinema and leisure activities having to give way in order to cover essentials.

2. The steep rise in energy costs, which is expected to rise even further, will have a massive impact on the running of cinemas, which could result in higher ticket prices, or in worst case scenario, force cinemas to either close totally or to operate on reduced shows and/or reduced screens. (see Exhibitor letter to Chancellor or the Exchequer-Appendix). Furthermore, there is a possibility that cinemas could be forced to shut down, due to lack of energy supply, with preference given to essential industries.

3. Technical advances such as the rapidly advancing metaverse will challenge cinemas even further, with Disney and ViacomCBS (owned by National Amusements) already in talks to see how they can get all of their intellectual property into the metaverse, in order for their customers to watch any Disney or ViacomCBS production, TV shows and movie, in the virtual world. On paper this could eventually lead to physical cinemas being made redundant.

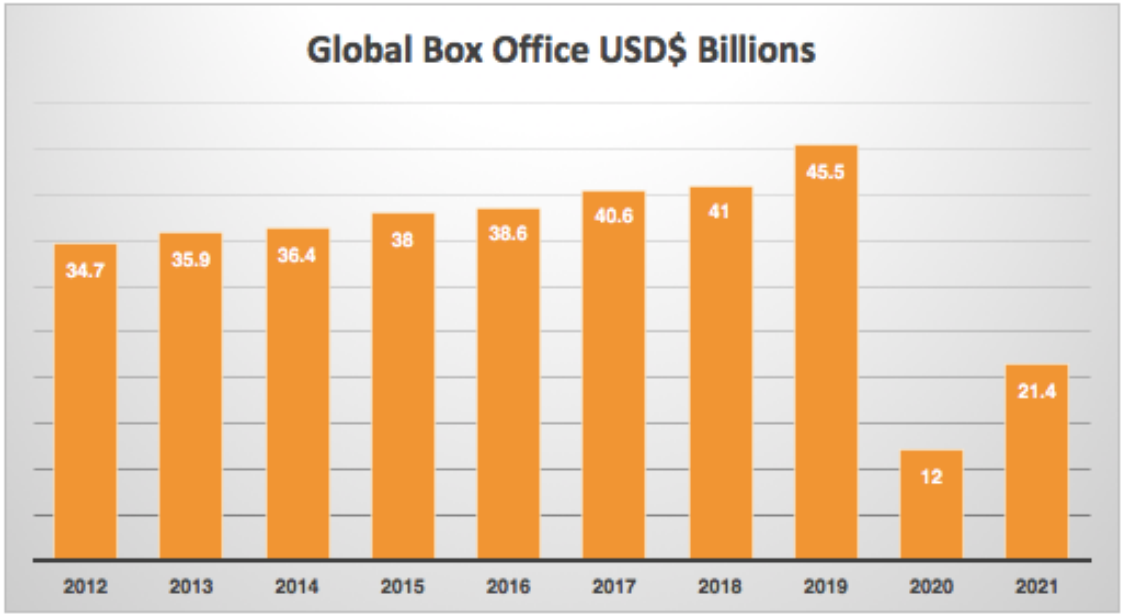
3. GLOBAL CINEMA MARKET OVERVIEW

After year on year box office increase, the global cinema sector faced major challenges during 2020 as a result of the pandemic. With the vast majority of cinemas closed or operating on reduced seating capacity, or closure due to lack of content, 2020 saw the global box office slump to a 2-decade low level.

Overall, the global box office fell by 72% in a beleaguered 2020 for the cinema industry, finishing the year with only $12 billion in ticket sales, compared to a record year in 2019, which grossed $45.5 billion globally.

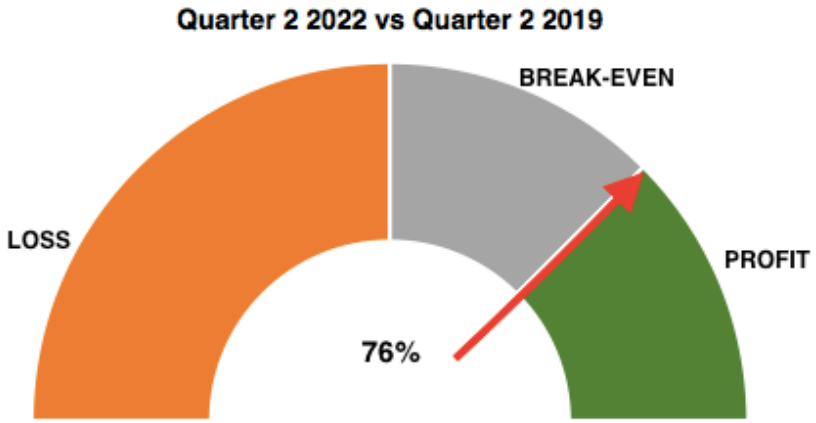
The North American market, United States and Canada, experienced an 80 % decline in box office ($2.2billion), with the typical moviegoer visiting the cinema 1.5 times in 2020, down from 4.6 times in 2019.
The rest of the regions generated $9.8 billion in ticket sales, representing 81% of the overall global market. The majority, $6billion were earned by the Asia Pacific region, with China taking the top spot with $3 billion, due to being less dependent on Hollywood films and favouring home-grown productions. The EMEA region, Europe, Middle East and Africa suffered a combines 61% drop to $3.3 billion, while Latin America suffered the biggest losses with an 82% drop to $0.5 billion.[i]

2021 saw a 78% uplift to the global box office compared to 2020, mainly due to releases such as “Spider Man: No Way Home” and “Bond: No Time to Die”, yet 2021’s box office was still 48% down on the average of the last three pre-pandemic years.[ii]



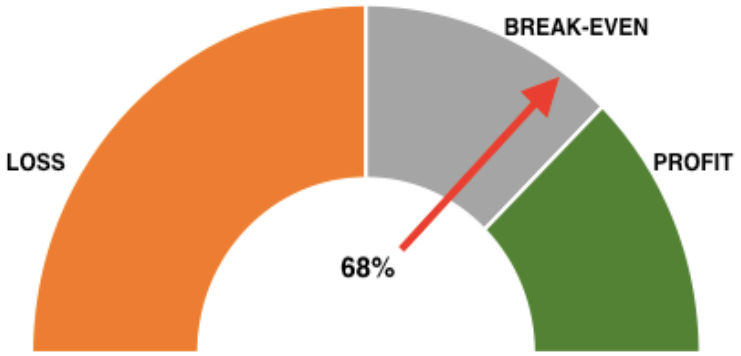
Whilst 2022 has seen a steady box office recovery compared to 2021, mainly due to releases such as “Doctor Strange in the Multiverse of Madness” ($900m), Top Gun: Maverick which has surpassed a global box office of $1.18 billion and Jurassic World: Dominion ($878m).

As of 7th July 2022, and the strong entry of Minions: The Rise of the Gru, US exhibitors finished out the quarter strong, generating 92% of the box office from the same week in 2019. The second quarter of 2022 generated 76% of Q2 from 2019. The overall year-to-date grosses after 26 weeks are 68% of the 2019 numbers for the same period.



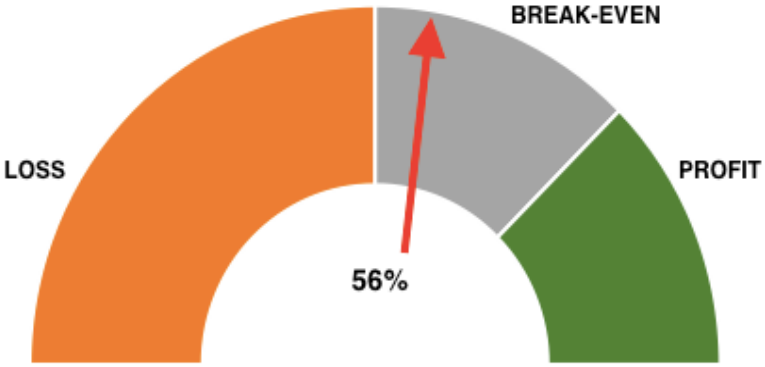
U.S. Box Office Results Week 13		
2022	$2,550,611,000	76% (2022 vs 2019)
2019	$3,343,741,000	

YTD 26 Weeks 2022 vs 2019



U.S. Box Office Results Week 26 Year to Date		
2022	$3,874,128,000	68% (2022 vs 2019)
2019	$5,690,580,000	

Quarter 1 2022 to Date vs Quarter 1 2019



U.S. Box Office Results Week 13		
2022	$1,323,322,000	56% (2022 vs 2019)
2019	$2,346,839,000	

Source: Screendollars.com

Any global recovery, if at all, of the film industry will be slowed by geopolitical challenges, economic factors such as high inflation and its consequent rise in living costs and supply of big screen films.

The big five Hollywood studios – Disney, Warner Bros, Sony, Universal and Paramount have halted all film releases in Russia and Belarus, while the war in Ukraine has of course halted all cinema activity.

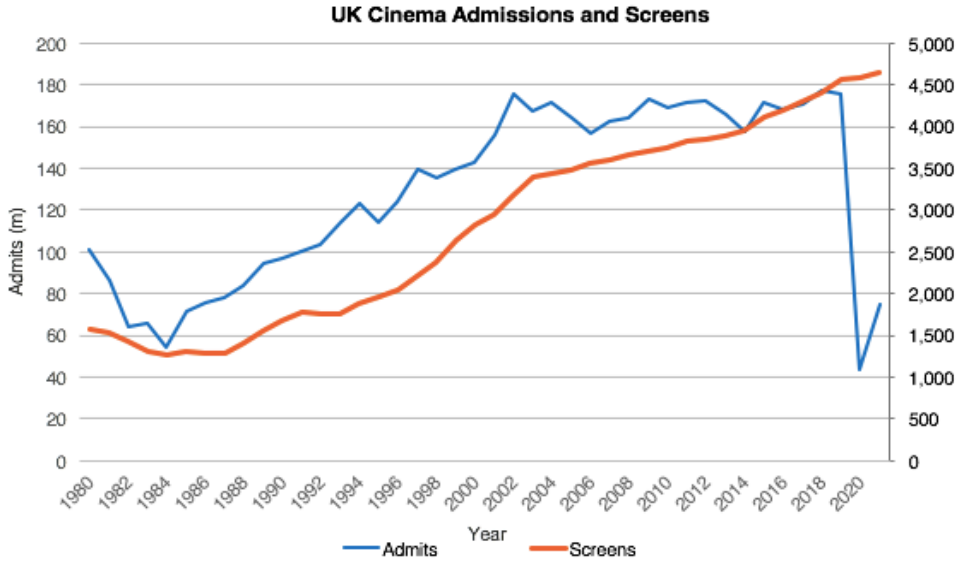
Russia is the world's 10th-largest market by box office revenues, worth about $1bn before the pandemic for cinemagoers seeing foreign and home-grown fare, and the sixth biggest in terms of ticket sales. The overall impact on the global box office is likely to be about $500m.

In addition, China's recent closure of a significant amount of cinemas again, due to rising Covid-19 cases, affected the traditionally strong-hold box office regions such as Hong Kong and Shanghai in the earlier months of 2022.

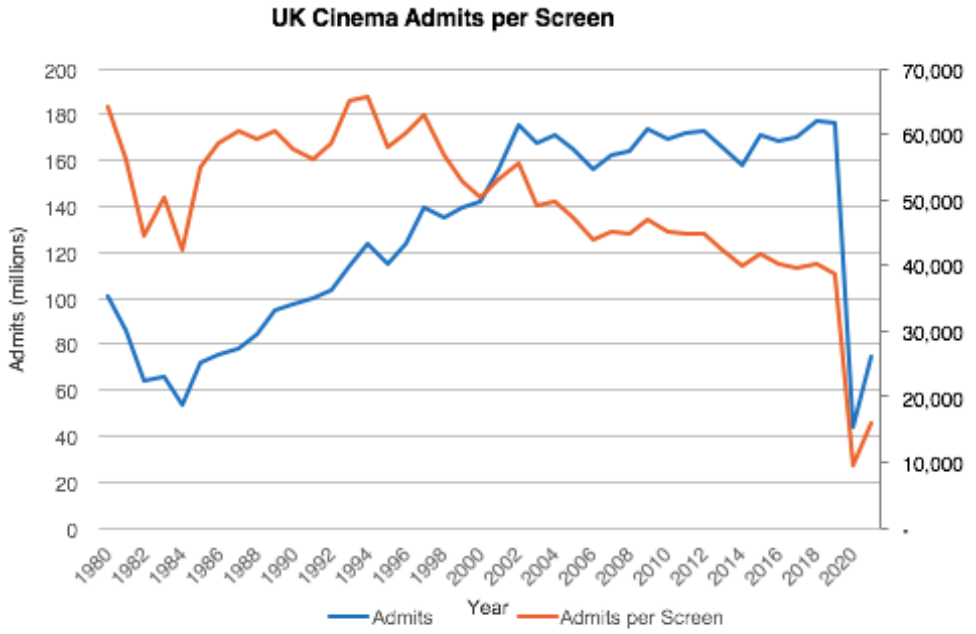
Overall, Gower Street Analytics revised its global box office forecast downwards for 2022 from USD$33.2 billion to USD$31.5 billion. The revised global projection was due to movies such as *The Black Phone* and *Morbius* (which turned out to be a box office disaster), moving out of Quarter 1 of the release schedule, Disney-Pixar's *Turning Red* skipped movie theatres completely in favour of a streaming premiere and potential tentpole releases such as *Mission: Impossible 7*, *The Flash,* and *Aquaman and the Lost Kingdom* moving into 2023.[iii]

4. UK CINEMA MARKET OVERVIEW

The UK currently has 843 cinemas with a total of 4,596 screens (a population of 14,625 per active cinema screen). Between 1985 (opening of multiplexes) and 2002 when new sites were built and opened at fast pace, there was an upward trend in cinema admissions.



From 2002 to 2019 a total of 1,400 screens (+44%) were added across the UK, which only added 0.1% to admissions totals or 110 annual admits per additional screen by 2019, highlighting a significant disconnect in the UK between consumer demand and total screen supply that pre-dates the pandemic, and will now impact the cinema sector #sustainability and #cinema recovery post-pandemic.

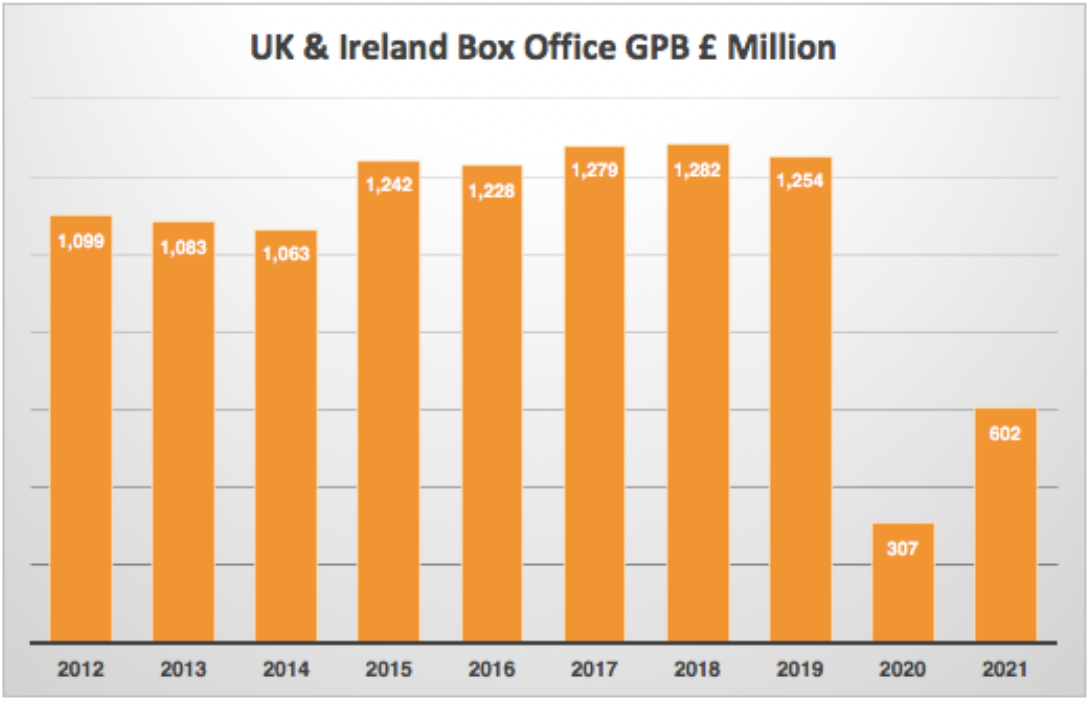


Overall, the UK exhibition sector faced the same major challenges during 2020 as the majority of the cinemas worldwide.

In an effort to reduce the transmission risk of COVID-19, the UK Government required all cinemas to close at the end of Q1 2020. Restrictions were eased at the beginning of Q3, which enabled cinemas to reopen if they had additional safety measures in place (including operating at reduced capacity); however, further national and regional restrictions were implemented during periods in late Q3 and Q4 which required many cinemas to close again.[iv]

Due to cinema closures, operating on reduced seating capacity and the lack of theatrical releases, 2020 only accounted for 44 million admissions with a total box office of £307 million, a dramatic decrease of 76% compared to 2019's box office revenue of £1.25 billion[v], making 2020 the lowest UK box office revenue since records began.

Total admissions for 2021 reached 74 million admissions, an increase of 68% on 2020's admissions. The year presented two very different half years of business for UK cinemas. The first four months were marked by cinemas being closed and reopening from early May. Then October saw the release of Bond: No Time to Die and 16.4 million admissions, the third highest October on record. The trajectory of recovery saw admissions reach 38.8 million in the final quarter of the year. The total box office generated by all films on release in the UK and the Republic of Ireland in 2021 was £602 million, a 144% increase on the £247 million in 2020.[vi]



2021 saw a total of 497 films released, in comparison to 896 releases in 2019 in the UK and Republic of Ireland. This was due to cinemas partly closed and distributors pulling planned releases due to uncertainty of the market. Whilst a significant drop in revenue of mid-range releases was registered (went straight to SVOD), 2021 saw 2 films reach the £90 million - £100,000 million mark; No Time to Die and Spider Man: No Way Home.

Superhero films were on trend, grossing more than £161m in cinemas in the UK & Ireland, from just six releases, accounting for almost 28% of the year's total box office. Five of the top 10 highest grossing films of the year were based on comic books putting even more importance on tentpole releases.[vii]

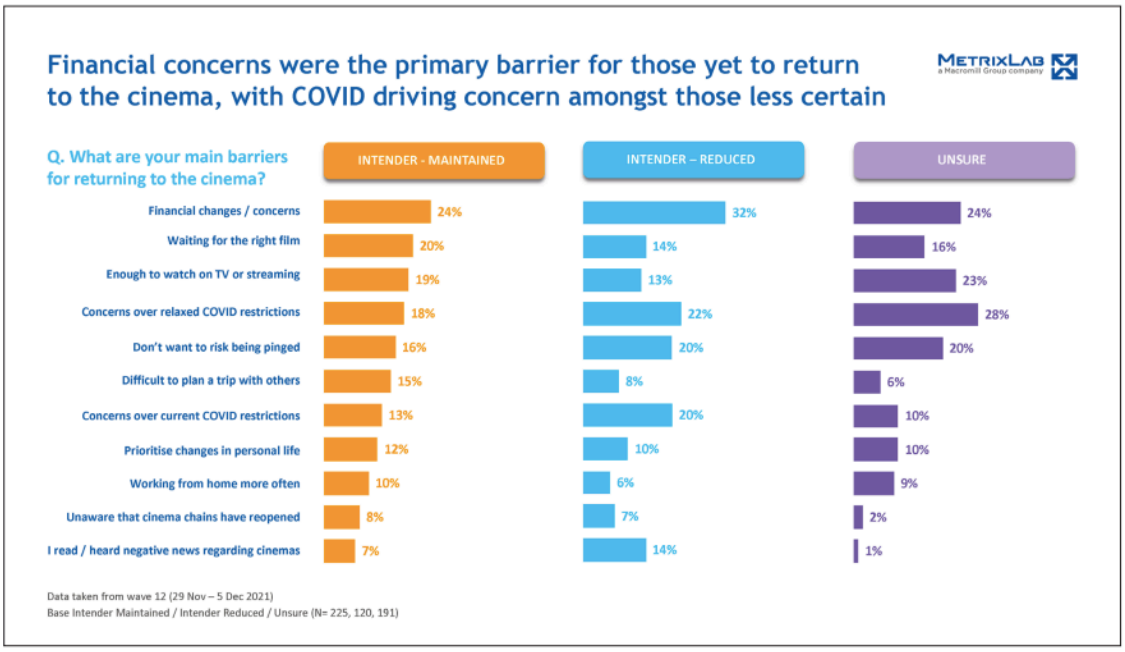
BOX OFFICE RANGE CINEMA RELEASES			
Total UK/ROI Box Office Releases	2021	2020	2019
£1 - £1,000	36	25	33
£1,001 - £10,000	127	133	205
£10,001 - £50,000	139	117	230
£50,001 - £100,000	36	42	86
£100,001 - £500,001	78	74	169
£500,001 - £1,000,000	25	17	42
£1,000,001 - £4,000,000	24	22	70
£4,000,001 - £7,000,000	10	3	17
£7,000,001 - £10,000,000	5	4	13
£10,000,001 - £20,000,000	12	6	16
£20,000,001 - £30,000,000	3	0	6
£30,000,001 - £40,000,000	0	0	3
£40,000,001 - £50,000,000	0	1	2
£50,000,001 - £60,000,000	0	0	1
£60,000,001 - £70,000,000	0	0	1
£70,000,001 - £80,000,000	0	0	1
£80,000,001 - £90,000,000	0	0	1
£90,000,001 - £100,000,000	2	0	0
TOTAL	497	444	896

Source: Comscore

According to a survey commissioned by the UK Film Distributor Association (FDA), conducted by Metrix Lab, younger age groups (13-24 year olds), alongside parents, were the most likely to have returned to the cinema in 2021. An increase in frequency of attendance was also registered, with a significant increase of people visiting the cinema 3 times or more. However, financial concerns topped the list of barrier for those yet to return to the cinema, followed by "waiting for the right film" and "enough to watch on TV and streaming".[viii]

It is worth noting that the survey was undertaken between 29th November – 5th December 2021, at a time when inflation was considerably lower compared to the present.

KEY FINDING BARRIERS FOR RETURN



A more honed survey participant segmentation gave good insight into potential barriers for returning to cinemas. A squeeze on finances and waiting for key films were prime factors for the more avid cinemagoers, whilst COVID concerns were paramount for the most hesitant returners.

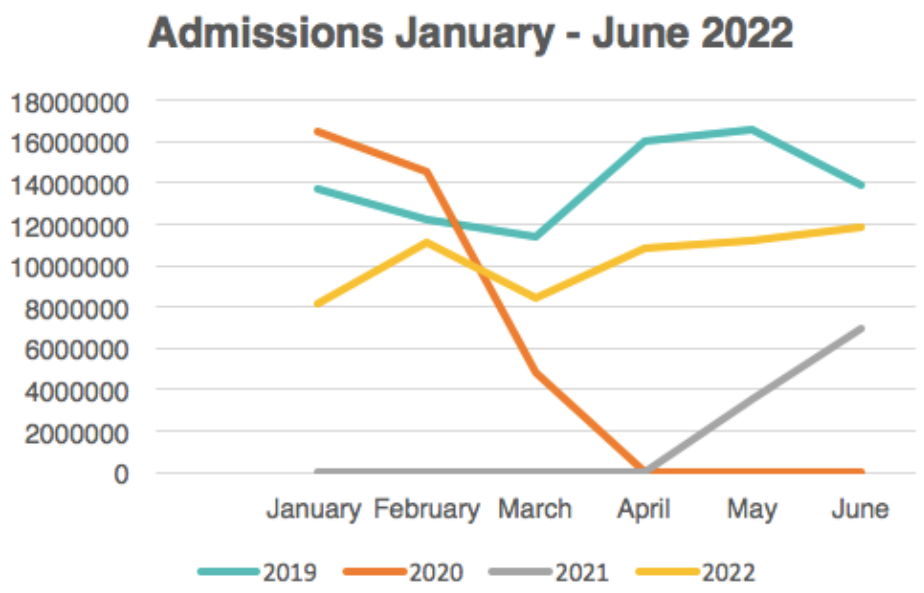
FDAYEARBOOK2022

The UK Box Office for Quarter 1 of 2022 was 20.3% behind the same quarter of pre-pandemic 2019. "The Batman", released in the UK on the 4th March, took an impressive £38,606,543, making it the largest grossing film of the period in the UK. Interestingly the top two films this year closely echo the start of 2019, with a new superhero at No.1 ("The Batman" vs "Captain Marvel") and a family animated sequel at No.2 ("Sing 2" vs "How to Train Your Dragon: The Hidden World"). Box office performances for both were stronger in 2022, particularly for "Sing 2" taking £32.6m against "The Hidden World's £20.0m.[ix]

April saw the return of the well-loved Crawley family in period drama "Downton Abbey: A New Era", generating a total UK box office of £15m, which compared to the first Downton Abbey movie is a disappointing 50% down to its prequel.

May opened strong with the release of "Doctor Strange in The Multiverse of Madness" with £19.7m (Sept 2022: £42m) and "Top Gun: Maverick" grossing £37.1m with a total UK box office of £81.6m (Sept 2022), making it Tom Cruise's highest-grossing film to date. June 2022 benefitted from strong May hold-over "Top Gun: Maverick", the release of "Jurassic World: Dominion" (Sept 2022: £34.7m) and Baz Luhrmann's "Elvis" (Sept 2022: £24.9m). Pixar's Toy Story spin off "Lightyear" has only managed a disappointing £9.3m, compared to Toy Story 4 which opened at £13.3m in June 2019.

Admissions for the first 6-months of 2022 are down by 26.4% compared to the same period of pre-pandemic 2019.



	January	February	March	April	May	June
2019	13,711,441	12,226,237	11,430,575	15,981,248	16,570,282	13,920,453
2022	8,195,772	11,134,546	8,422,607	10,821,011	11,257,394	11,861,867
% Change	-40.22%	-9.34%	-26.31%	-38.50%	-32.28%	-14.78%

Overall Admissions -26.4%

July was an upwards month with “Minions: The Rise of the Gru” opening strong with £10.4m (Sept 22 - total £44.2m) and yet another Marvel Studios superhero production “Thor: Love and Thunder”, sequel to “Avengers: Endgame”, with £37.1m (Sept 22). Niche and arthouse content is however still underperforming massively, with e.g. Brian & Charles, a UK production with overall good reviews, only managing a weekend opening of £71,890 on 143 prints across the UK, making it a disastrous screen average of £503 over a 3-day period with an overall box office of £311k.

Box office results for August 2022, with no major blockbusters on release, were weak with “DC League of Super Pets” totalling £14m (Sept 22), “Bullet Train” managing £9.2m (Sept 22), “Nope” £7m, and “Beasts” opening up on 599 prints and a box office of just over £600k over 3 days.

Overall, hesitancy in the cinema sector remains, with the number of big releases this year remaining below pre-pandemic levels. The UK box office is currently entirely blockbuster driven, with independent or smaller releases underperforming massively, such as e.g. Emma Thompson’s “Good Luck, Leo Grande” managing a box office of just over £1m in its entire release.

Forecasts by Omdia and the UK Cinema Association (represents interests of approx. 90% of UK cinema operators by whom they are funded) both predict that, despite the UK being one of the better performing markets, the UK box office will not surpass 2019 levels until 2023[x].

ESS however does not envision a full box office recovery to pre-pandemic 2019 levels by 2023. It is ESS's opinion that rising inflation (possibly followed by recession), will reduce household spend in the UK drastically with cuts having to be made on leisure activities such as cinema in order to cover price increases for essentials. A government forced shut down of cinemas can not be ruled out in the case of a nationwide lack of energy supply, with essential industries given preference.

In addition, changed viewing habits, particularly by the 50's plus, who still are not rushing out to the cinema, will have a major impact on mid range and arthouse releases, with box office revenues and content releases being predominantly tentpole driven – yet, currently there is a lack of these tentpole releases.

People still want to see highly anticipated, high-budget films with exceptional special effects and globally beloved actors on a big screen, but as above, mid-range films and more specialized content, which are vital to a healthy box office, are and will severely underperform. Increasingly, studios will focus on the production of big budget films, in the hope they will become box office magnets. Mid-budget and niche productions will decrease and be made for straight to SVoD platform releases, rather than for the big screen.

5. RENFREWSHIRE DEMOGRAPHICS

2021 population estimates for Paisley are 77,220 people, making it the fifth most populated settlement in Scotland and the largest town in Scotland with a population density of 2,897 per square kilometre. Paisley Campus (UWS) has approx. 10,000 students.

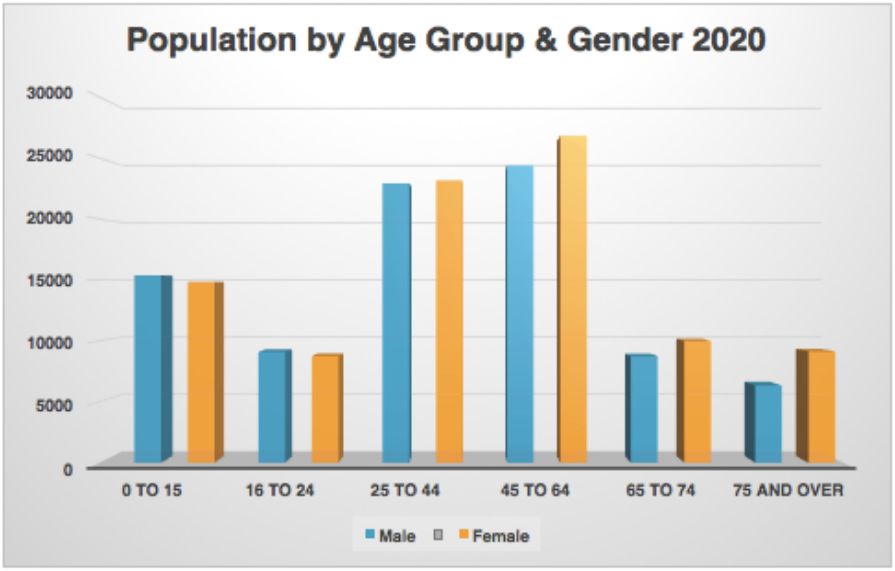
Renfrewshire as a whole has an estimated population of 179,390.There were more females (51.6%) than males (48.4%) with 97.27% of the population being of white origin, a further 1.78% are Asian, Asian Scottish or Asian British, 0.46% are African, and 0.07 are Caribbean or Black.[xi]

Population by age group, by gender, Renfrewshire, 2020

Age Group	Male	Female	All People	% of population
All People	86,780	92,610	179,390	100
0 to 15	15,366	14,816	30,182	16.8
16 to 24	9,089	8,731	17,820	9.9
25 to 44	22,920	23,151	46,071	25.7
45 to 64	24,356	26,808	51,164	28.5
65 to 74	8,721	9,983	18,704	10.4
75 and over	6,328	9,121	15,449	8.6

https://www.nrscotland.gov.uk

In terms of overall size, the 45 to 64 age group was the largest in 2020, with a population of 51,164. In contrast, the 75 and over age group was the smallest, with a population of 15,449. In 2020, more females than males lived in Renfrewshire in 4 out of 6 age groups.[xii]



The median age in Renfrewshire is higher than the United Kingdom average of 40, with a median age of 43.2 years old, which is older than the average UK population.

Renfrewshire is situated in the West of Scotland, and shares borders with five other local authorities; the City of Glasgow, East Renfrewshire, Inverclyde, North Ayrshire, and West Dunbartonshire. It includes the towns of Paisley, Renfrew and Johnstone, smaller towns such as Erskine and Linwood, and villages such as Bishopton, Bridge of Weir, Elderslie, Houston, Inchinnan, Kilbarchan, Langbank, and Lochwinnoch.

The area incorporates attractions such as Braehead Shopping Centre on the banks of the River Clyde, Glasgow International Airport, the historical Paisley Abbey, St Mirren Park (an 8,000-seated stadium, home to St Mirren Football Club), and the University of the West of Scotland.

Working Age: Over two-thirds of the Renfrewshire population are of working-age. (Census 2011)

Economic Activity: 68.7% of people aged 16 to 74 in Renfrewshire are economically active.

Deprivation: There are approximately 38% of households in Renfrewshire that are not deprived in any dimension (Census 2011), yet according to the 2020 Scottish Index of Multiple Deprivation (SIMD), Paisley Ferguslie, is one of the top 10 deprived areas in Scotland[xiii] and recently has been ranked at number 5 for the unhappiest places to live.[xiv]

Qualifications: Renfrewshire is ahead of the UK in all but 1 qualification category (NVQ1 and above) but marginally lacks behind Scotland in 4 qualification levels. (NVQ3, NVQ2, NVQ1 and “no qualifications).[xv] Overall, females have higher qualifications than males. (Census 2011)

Employment Industries: The main employment industries were human health and social work activities, and wholesale and retail trade. (Census 2011)

Housing: Over 40% of all households in Renfrewshire are purpose-built blocks of flats or tenement buildings, and a quarter of household properties are owned outright (Census 2011)

Unemployment in May 2022 was lower with the Renfrewshire region, than compared to the average Scotland and UK unemployment rate. Male unemployment stood at 4.2%, whilst female unemployment was half the number; 2.1%

Wages: People living in Renfrewshire earn 6.6% more than their more than the Scottish national average and 8.18% more compared to the UK average.[xvi]

Vehicle Ownership: According to the 2011 Census, over a third of the households (35%) in Renfrewshire do not have an access to a car or van, this is higher than the national average (29%). Respectively, approximately 65% of the households have access to at least one car/van as highlighted.[xvii]

Health: 80% of people believe they have 'Very Good or Good Health' and 69% of people have no long-term health conditions. (Census 2011)

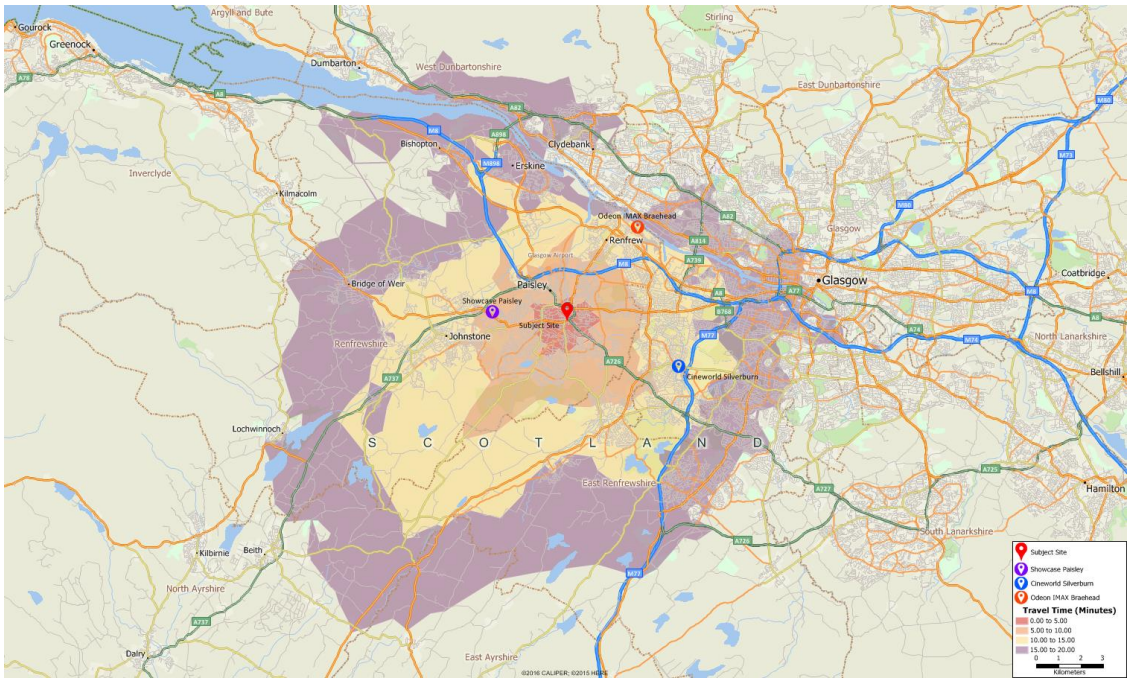
6. PAISLEY CINEMA MARKET

6.1 Drive-Time Analysis Paisley

When analysing a significant catchment, it is generally accepted that a 10-20-minute drive-time is adopted as the commercially desirably and reasonable travel distance for potential cinema-goers. It is also acknowledged that people are willing to drive longer, if they feel an offer is more to their liking and a location "ticks more boxes".

Paisley Drive-Times	10 Minutes **Un-Restricted**	10 Minutes **Restricted**
Total Population	**95,730**	**62,916**

Paisley Unrestricted 20-minute Drive Time Catchment



Currently there are 5 cinemas within an approx. 20-minute drive-time (depending on day & time), with an additional 4 cinemas between a 22 – 25-minute drive (Cineworld Renfrew Street, Vue Cinema Glasgow St. Enoch and Grosvenor Picture House).

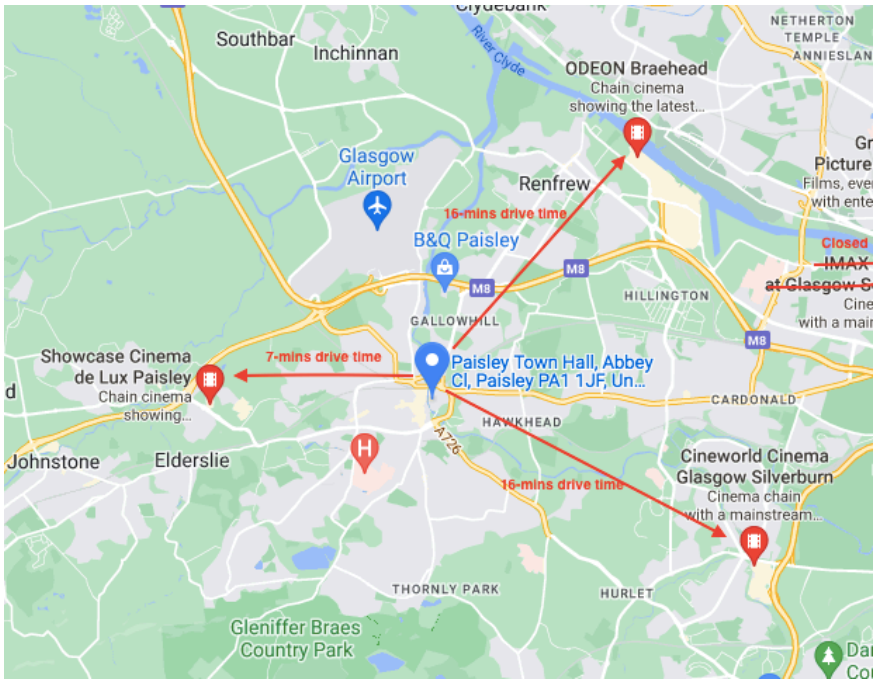
Cinemas within the 20-minute drive-time have a combined 62 screens & 9,358 seats per performance.

Operator	Location	Drive Time (min)	Screens	Seats	Year Opened
Showcase De Lux	Paisley	7	14	1,537	refurb 2019
Odeon	Braehead	16	12	2,327	2007
Cineworld Silverburn	Glasgow	16	14	1,985	2015
Odeon Luxe	Glasgow Quay	17	12	941	refurb 2017
Empire Cinemas	Clydebank	19	10	2,568	2005
Total			**62**	**9,358**	

Closest and most convenient cinemas for Paisley currently are Showcase De Lux, Odeon Braehead and Cineworld Silverburn. Combined, these three sites offer 40 screens with a seating capacity of 5,849 per performance, 23,396 seats per day and an annual seating capacity of 8,516,144; based on the UK average of 4 performances a day.

The British Film Institute annual report in 2020 noted that there were 6.8 screens per 100,000 people across the U.K., with the average for Central Scotland being 7.7 screens per 100,000 people.

The Renfrewshire cinema screen density per 100,000 people is 14.5 (Showcase and Odeon Braehead only) and therefore more than double the Central Scotland and U.K. totals e.g., London with 7.4 screens per population or Northern Ireland which ranks number 1 within the UK with 11.3 screens per population.[xviii]



Overall, cinemas within the 20-minute drive time catchment area, suffered a combined box office drop of 55.37% when comparing box office revenues from pre-pandemic 2019 and post-pandemic 2021. This is above the average national box office decrease of 52.40%. Yet, were it not for the relatively "mild" drop of the Showcase Cinema De Lux (see below), the combined box office decrease of the remaining drive-time cinemas would be around 64.5%. It needs to be noted though, that Renfrewshire was the worst hit pandemic area in Scotland, which will have impacted overall box office recovery. [xix]

Operator	Location	Screens	B/O 2019 £	B/O 2020 £	B/O 2021 £	2019 vs 2021 %
Showcase De Lux	Paisley	14	2,114,823	846,248	1,711,239	-19.08
Odeon	Braehead	12	3,015,355	577,174	1,017,780	-66.24
Cineworld	Silverburn	14	4,619,178	947,780	1,844,539	-60.06
Odeon Luxe	Glasgow Quay	12	5,338,750	1,338,748	1,656,090	-68.97
Empire Cinemas	Clydebank	10	1,786,019	367,177	669,507	-62.51
TOTAL		62	16,874,125	4,077,127	6,899,156	-55.37

Least hit appears to be the Showcase De Lux Paisley with a drop of 19.08%.

This however is due to:

a) The cinema having undergone a refurbishment in 2019, with screens closed during the refurbishment. This impacted the overall 2019 box office and the site refurbishment was completed in the months leading immediately prior to the pandemic.

b) The cinema has slightly higher admission prices being a De Lux site

c) Audience favouring newly refurbished, easy to access cinema within the area with the retail parks providing more personal space and free car parking.

Worst decline in box office was registered at both Odeon sites, with Odeon Luxe Glasgow Quay dropping by 68.97% in 2021 compared to pre-pandemic 2019. This hit was most likely due to the nearby (under 10-minutes' drive time) Sovereign Centros developed Vue St Enoch, which opened in June 2021. Odeon Braehead's 66.24% drop was partly affected by the refurbishment of the Showcase De Lux in Paisley.

6.1.1. Showcase De Lux Paisley

The Showcase De Lux is the closest cinema to Paisley town centre, with a drive-time of approx. 7-minutes. The cinema is located at Linwood Leisure Park and features 14 screens. The cinema was refurbished in 2019 and opened in December 2019 with a reduced seating capacity of 1,537 luxury recliner seats, compared to its original 3,800 seats. Ticket prices range between £8.60 - £9.90 for standard adult tickets, depending on day and time of visit. This excludes any extra charges for 3D performances. The cinema shows mainly mainstream films but does offer event cinema such as ballet and opera and cross-over niche product.
In addition, the cinema has a games area, conference & meeting facilities, guest service and a party room.

Showcase De Lux suffered the least box office drop with 19.08 within the 20-minute drive time ring, when comparing pre-pandemic 2019 to post-pandemic 2020. However, there are several reasons:

- The cinema having undergone major refurbishment in 2019, with screens closed during the refurbishment. This impacted the overall 2019 box office.
- The cinema has slightly higher admission prices being a De Lux site
- Audiences favouring new cinema within the area – *"curious to see"*

Operator	Location	Screens	B/O 2019 £	B/O 2020 £	B/O 2021 £	2019 vs 2021 %
Showcase De Lux	Paisley	14	2,114,823	846,248	1,711,239	-19.08

The refurbishment of the Showcase de Lux was completed in December 2019, just a few months before the pandemic cinema closure. Due to the reduction of the seating capacity by more than half of its original seats, naturally seat occupancy went up compared to 2019. Overall, seat occupancy between 2017 and 2021 was 6.52%. Box office revenue for 2019 vs 2021 fell by 19.08%, yet admissions dropped by 25.43% for the same period. Meaning, that proportionally, admissions dropped more as ticket prices at a De Lux site are higher than in normal multiplex sites. Showcase increased ticket prices by 3% following the refurbishment. Box office revenue held up far better than the 4 nearest competing sites, whose overall drop was 64.44%.

Showcase De Lux Paisley	Seats	Box Office £	UK Average Ticket Price £	Admissions	Max Seating Capacity	Occupancy %
2017	3,800	2,380,908	7.49	317,878	5,532,800	5.74
2018	3,800	2,231,141	7.22	309,022	5,532,800	5.58
2019	3,800*	2,114,823	6.93	305,169	5,532,800	5.52
2020	1,537	846,248	6.75	125,370	2,237,872	5.60
2021	1,537	1,711,239	7.52	227,558	2,237,872	10.16
		9,284,359	7.18	1,284,998		6.52

* Showcase was refurbished in December 2019, hence higher seat number used

6.1.2. Odeon Braehead

The Odeon Cinema Braehead, 16-minutes' drive, is located within the Xsite Braehead. The cinema features 12 screens, including an IMAX screen, with a total seating capacity of 2,327 (per performance). A standard adult ticket is priced at £10.00, excluding any extra charges, which makes it slightly more expensive than the Showcase De Lux offering recliner seats.

Odeon Braehead has been closed on Monday's & Tuesday's for the past few weeks. No films were scheduled before 17:00 on Friday's and earliest performances on Wednesday's & Thursday's are at approx. 18:00. A full cinema programme, including morning and matinee shows, were only advertised for Saturday & Sunday's, indicating it is commercially more viable to have the cinema closed weekday afternoons. According to their website, all day performances resumed from Saturday 23rd July.

One of the reasons, for the cinema to operate/has operated on reduced shows and screens, could be the decline in footfall, which according to analytics by the British Retail Consortium, dropped 26.7% in UK Shopping Centres in May 2022.[xx]

Operator	Location	Screens	B/O 2019 £	B/O 2020 £	B/O 2021 £	2019 vs 2021 %
Odeon	Braehead	12	3,015,355	577,174	1,017,780	-66.24

Odeon Braehead dropped 66.24% in 2021 compared to its 2019 box office result and way above the national average drop in box office of 52.50%. Pre-pandemic Odeon Braehead had a seating occupancy of 12.81%, which dropped to 3.99% in 2021 – a result of lack of product, cinema hesitancy and the refurbishment of the Showcase Cinema De Lux.

Odeon Braehead	Seats	Box Office £	UK Average Ticket Price £	Admissions	Max Seating Capacity	Occupancy %
2017	2,327	3,714,456	7.49	495,922	3,388,112	14.63
2018	2,327	3,257,755	7.22	451,213	3,388,112	13.31
2019	2,327	3,015,355	6.93	435,116	3,388,112	12.81
2020	2,327	577,174	6.75	85,507	3,388,112	2.52
2021	2,327	1,017,780	7.52	135,343	3,388,112	3.99
		11,582,520	7.18	1,603,101		9.45

6.1.3. Cineworld Silverburn

A 16-minutes' drive from Paisley, the 14 screen Cineworld Silverburn has a total of 1,985 seats. Standard adult ticket prices are £9.89, Children £6.29 and Students £8.09.

The Silverburn Shopping Centre is an out-of-town shopping centre located on Barrhead Road in Pollok, Glasgow, Scotland. The development replaced a modest shopping centre with a 1,000,000-square foot retail destination anchored by tenants Tesco, Next, Marks & Spencer and Debenhams. Silverburn caters for a target population from across the West of Scotland.
Developed by Retail Property Holdings Ltd, Silverburn's 1,00,000-square metres of retail and leisure space makes the Centre one the largest shopping destinations in the United Kingdom.
Opened in October 2007, Silverburn was designed by Building Design Partnership and constructed by Bovis Lend Lease. Silverburn houses the largest Scottish Tesco Extra in Scotland.

The Silverburn Leisure Extension:
In 2015, Silverburn extended the Centre's offer with a leisure development. The £20 million, 100,000 square foot extension was a significant addition to the footprint of Silverburn that has helped to build its regional appeal.
Anchored by a 50,000-square foot, Cineworld Silverburn's leisure extension included an overhaul of the Centre's food and beverage offer. Silverburn offers sixteen new and redesigned restaurants within the extension alone including Thaikhun, Five Guys, Cosmo, and Zizzi. The cinema's primary access route is through the food court and restaurants. In total, Silverburn offers a mix of some 25 cafes and restaurants to complement the retail offer.

The cinema offer has proven to be highly successful and delivered 800,000 ticket sales and £5m of box office revenue in 2016. Subsequent to the opening of the Silverburn Leisure Extension, the Centre has experienced a 7.9 percent increase in footfall and 11.7 percent increase in like-for-like catering sales year-to-date.
Please note that these figures are pre-pandemic figures.

Comparison between trading levels of 2019 and 2021 highlight a -60.06% drop compared to pre-pandemic levels, which is higher than the average UK drop of 52.40% and does not consider Scotland's pandemic position with longer lockdown periods. In addition, Debenhams closed and the Silverburn centre was up for sale. Eurofund Group, an international real estate investment and development company, and Henderson Park, a private equity real estate firm, have bought the Southside centre for £140 million.

According to Alberto Esguevillas, chief executive officer:
"Silverburn represents a fantastic opportunity to take a good centre and transform it into the leading asset in its catchment. Eurofund's vision is to utilise our team's strong asset management and operational expertise to unlock latent value and reposition Silverburn as the leading retail, leisure and food and beverage destination in Scotland."[xxi]

Cineworld previously also managed the IMAX at Glasgow Science Centre but decided to walk away from the project during the pandemic to concentrate on commercially operations elsewhere in the city.

Cineworld Silverburn's box office dropped by 60.06% in 2021 compared to pre-pandemic 2019 and operated on a seating occupancy of 8.48% in 2021 compared to 23.06% in 2019.

Operator	Location	Screens	B/O 2019 £	B/O 2020 £	B/O 2021 £	2019 vs 2021 %
Cineworld	Silverburn	14	4,619,178	947,780	1,844,539	-60.06

Cineworld Silverburn	Seats	Box Office £	UK Average Ticket Price £	Admissions	Max Capacity	Occupancy %
2017	1,985	5,279,430	7.49	704,864	2,890,160	24.38
2018	1,985	4,859,962	7.22	673,125	2,890,160	23.29
2019	1,985	4,619,178	6.93	666,548	2,890,160	23.06
2020	1,985	947,780	6.75	140,412	2,890,160	4.85
2021	1,985	1,844,539	7.52	245,284	2,890,160	8.48
		17,550,889	7.18	2,430,233		16.81

6.1.4. Odeon Luxe Glasgow Quay

The Odeon Luxe Glasgow Quay, 17-minutes' drive, is located in the Laurieston district to the South-West of the city centre, off Paisley Road. The 12-screen Odeon opened on 20th September 1996 with 2,559 seats. Seating capacities in the screens ranged from 428, down to 89. Following refurbishment, it re-opened in November 2017 as the Odeon Luxe, with the seating capacity reduced to 941 luxury recliner seats.
The average standard Adult price is between £12.00 and £15, depending on day and time, and exclude extra charges such as 3D.

During June and July, like Odeon Braehead, the Odeon Luxe only advertised a reduced film schedule. Whilst Saturday's and Sunday's offered films all day long, any film between Friday and Monday to Thursday started at 17.00 or later.

Operator	Location	Screens	B/O 2019 £	B/O 2020 £	B/O 2021 £	2019 vs 2021 %
Odeon Luxe	Glasgow Quay	12	5,338,750	1,338,748	1,656,090	-68.97

Odeon Luxe experienced the biggest box office drop, -68.7%, within the 20-minute drive time ring and operated on an occupancy rate of 16.07% in 2021. A key factor for the above average decease is most likely the opening of the Vue Cinema St Enoch in June 2021, offering all films, every day and anytime, for £8.99 online and for £9.99 for tickets bought at the cinema.

Odeon Luxe Glasgow Quay	Seats	Box Office £	UK Average Ticket Price £	Admissions	Max Seating Capacity	Occupancy %
2017	2,559*	2,596,476	7.49	346,659	3,725,904	9.30
2018	941	5,064,104	7.22	701,399	1,370,096	51.19
2019	941	5,338,750	6.93	770,382	1,370,096	56.06
2020	941	1,338,748	6.75	198,333	1,370,096	14.47
2021	941	1,656,090	7.52	220,225	1,370,096	16.07
		15,994,169	7.18	2,236,999		29.42

6.1.5. Empire Cinema Clydebank

Empire Cinema Clydebank is located approx. 19-minutes away from Paisley town centre. The 10-screen cinema opened in October 1988 under AMC, was then taken over by UCI, and became an Empire Cinema in 2005. The cinema is a traditional multiplex cinema, which by today's standards looks somewhat tired.

The cinema features 2,568 screens with standard adult prices starting at £7.95, depending on day and time. Empire Clydebank dropped 62.51% in 2021 compared to 2019. Over the past five years, Empire operated on an average 4.90% occupancy rate, making it the cinema with the lowest occupancy rate within the drive-time ring.

Operator	Location	Screens	B/O 2019 £	B/O 2020 £	B/O 2021 £	2019 vs 2021 %
Empire Cinemas	Clydebank	10	1,786,019	367,177	669,507	-62.51

Empire Clydebank	Seats	Box Office £	UK Average Ticket Price £	Admissions	Max Seating Capacity	Occupancy %
2017	2,568	1,958,902	7.49	261,536	3,739,008	6.99
2018	2,568	1,834,533	7.22	254,090	3,739,008	6.79
2019	2,568	1,786,019	6.93	257,723	3,739,008	6.87
2020	2,568	367,177	6.75	54,397	3,739,008	1.45
2021	2,568	669,507	7.52	89,030	3,739,008	2.38
		6,616,137	7.18	916,776		4.90

6.2 Quality Standards of Existing Cinemas

Quality standards in terms of technology, pricing and seating varies to a certain degree within the drive-time ring, but there is no difference in the actual film offers.

Showcase De Lux Paisley and Odeon Luxe Glasgow Quay both offer superior recliner seats, which offer ample leg room and personal space, Dolby Digital Sound and Real D 3D. Odeon Luxe in addition offers an iSense screen which also features Dolby Atmos Sound and 4K projection, whilst Showcase offers an XPlus screen with 360 Dolby Atmos sound and ultra-high definition projection. Both, iSense and XPlus screens are very similar and can be compared with an IMAX experience.

Overall ticket prices at the Showcase De Lux are cheaper (£8.60 - £9.60 standard adult) compared to £12.00 – 15.00 standard adult at the Odeon Luxe Glasgow Quays. Both chains offer loyalty schemes:

Showcase INSIDER (free registration):

- 10% on tickets, snacks and drinks
- £7.50 tickets after 7.00pm Sunday and all day Monday & Tuesday
- Exclusive Advance Screenings

Independent to the INSIDER scheme, Showcase has their own Video on Demand (VOD) service, offering new and old films via the “Showcase at Home” App on Amazon Fire TV and Firestick.

Odeon myLIMITLESS (from £14.99 a month):

- Allows limitless watching of films
- Exclusive Advance Screenings
- 10% discount on selected food and drink

Cineworld Silverburn, whilst not offering recliner seats, the Silverburn site has a modern lobby area and offers a Superscreen (similar to IMAX experience), Dolby Atmos, Real D 3D and Dolby Digital sound.

Ticket prices range from £10.75 to £14.20 for a standard adult ticket. Cineworld’s UNLIMTED card is available from £15.99 a month and enables customers to watch as many films a month as they want, discount on selected food & drink and exclusive advance screenings.

Odeon Braehead’s offers are similar to the Odeon Luxe Glagow Quay, and whilst not every seat is a recliner seat, screens at Braehead feature a certain amount of reclining Premier Seats. The cinema offers an IMAX screen with IMAX immersive sound, whilst the remaining screens all have Real D 3D and Dolby Digital sound. Odeon has plans to upgrade and refurbish the cinema to Luxe standards with developer capital support, either during the course of the next ten years or at lease expiry as part of a re-gearing exercise.

The Empire Cinema Clydebank, whilst featuring Dolby Digital sound is the most traditional cinema within the area and has not had any major updates in recent years. It looks tired and outdated, yet the cinema serves its purpose. Standard adult tickets start at £7.95, making it the cheapest cinema for afternoon performances within the area. There have been on-going discussions to re-gear, re-locate or refurbish this cinema and ultimately one of the options will come to fruition.

Overall, cinema standards when it comes to technology and seating, with the exception of Empire Clydebank, are of similar level. Ticket prices vary for each site with Empire Clydebank offering the cheapest afternoon ticket and the Showcase De Lux overall the cheapest standard adult evening ticket, despite being a De Lux site.

From a film programming point of view, all cinemas focus on mainstream releases and show exactly the same products.

6.3 Gaps in Existing Cinema Provision

Paisley has fairly easy access to 5 cinemas within the drive-time ring and to all of Glasgow City centre offers by train. Quality standards vary from conventional cinemas to Luxury sites with recliners or a combination of both; recliners and standard seats. Ticket prices vary from site to site to reflect the level of comfort and technology catering for a broad range of customers.

The actual film offers are identical in all 5 sites with all operators focusing on mainstream product. Given the number of cinemas and screens within the area, there generally should not be any reason for the lack of alternative content in order to cater for all ages, tastes and interests. Yet, all operators did offer alternative content is some shape or form before the pandemic.

Even cinemas known for their broad range of content, such as the Grosvenor Picture Theatre (does not report any box office figures) and the Everyman Glasgow, are currently showing the very same mainstream films; Top Gun, Elvis & The Black Phone (w/c 24th June).

The 3-screen Everyman Glasgow, which opened in October 2018, experienced a 42.44% drop when comparing pre-pandemic 2019 to 2021. This overall stronger performance is in line with the Pandemic Site Analysis, as per Comscore. Known for its Boutique style venues with average seat price of approx. £8.25, the Everyman offers table service, bespoke menus and diverse programming. Currently the cinema offers blockbuster releases only.

Everyman Glasgow	Seats	Box Office £	UK Average Ticket Price £	Admissions	Max Seating Capacity	Occupancy %
Oct-18	204	147,804	8.25	17,916	*51,408	34,85
2019	204	1,006,310	8.25	121,977	222,768	54.75
2020	204	322,637	8.25	39,108	222,768	17.55
2021	204	579,209	8.25	70,207	222,768	31.51
		2,055,960	8.25	249,207		25.95

*based on 3 performances a day x 84 days as cinema opened in October

Box Office 2019 vs 2021: minus 42.44%

Changed viewing habits, cinema hesitancy, high electricity prices and inflation, and to some extend Brexit, have changed the landscape of cinema significantly, whereby mid range and niche products are simply underperforming and the majority are currently not commercially viable. In fact, in many cases it is currently commercially more viable to close screens than to operate them, due to following:

Changing Viewing Habits

Streaming services already disrupted the way content was consumed in pre-pandemic times. Then predominantly led by Millennia's and Generation Z, the pandemic lockdowns accelerated the trend dramatically, and awakened an entire new and older audience to OTT services, often initiated by the younger generation. SVoD services are offering an unprecedented amount of films (new & old) and TV series of the highest standards and celebrity names.

Cinema Hesitancy Older Audiences

Older audiences, particularly 50's-plus are still reluctant to return to the cinema.

This might be due to this audience group:

- still being hesitant to visit public places in light of the pandemic
- having become accustomed to streaming in the comfort of their own home
- has shifted their appetite for what they're willing to pay to see in a theatre versus streaming it at home
- simply currently preferring experience bases outdoor activities after a long lock down period.

Straight to SVoD

Many films which originally were produced for the big screen are now being released on platforms such as e.g. Netflix, Amazon Prime, Hulu and Apple TV. Reason for this are poor box office results for anything other than tentpole releases such as e.g. Jurassic World: Dominion, making it commercially more viable for producers to release mid-range films straight on to streaming platforms. This way, marketing budgets (TV advertising, marketing materials, premiers etc.) for films are reduced vastly, in addition to film makers agreeing a price for their content to be streamed before release and not having to share any profits with cinemas.
Trend setter Netflix, who also releases content in cinemas, recently announced to produce less content, but to increase budgets on the films they actually produce. Murmurs within the industry are that Studios will follow suit.

Current box office figures are purely tentpole driven. Box office results for anything but big blockbusters are struggling. The drop in box office for mid range content can be illustrated comparing the weekend box office results for 21st June -23rd June 2019 with the same weekend for 2022.
Whilst both years are dominated by blockbuster releases, the gap from the main releases to mid range/niche releases in 2022 is more than £1million (2022: The Black Phone £1.3m @ #5 vs Jug Jugg Jeeyo £163k @ #6). This is quite unusual and has not been seen in decades yet, is the norm now.

In addition, print numbers make it apparent that cinemas are showing multiple prints of e.g. Elvis, which, whilst common practice for £10 million plus opening weekends, would not have been common for a £4 million opening weekend in the past.

Brexit & High Energy Costs:

Odeon Braehead and Odeon Luxe Glasgow have been operating on reduced shows and days. A return to more expanded operating hours came into place during half term school holidays.
Currently it is deemed commercially more viable to reduce cinema operating hours due to lack of afternoon business and high energy costs. In a bid to get assurances of an industry energy price cap from the government, Cineworld, Odeon, Vue, National Amusement, Empire and Everyman have addressed the issue in a joint letter to the Chancellor of the Exchequer. The letter highlights the very real chance that spiralling energy prices, inflation and wages cost will result in cinema closures and consequently will impact the livelihoods of thousands of employees across the UK. (APPENDIX A)
In addition, cinemas suffer from acute staff shortage, with many foreign staff having left the country or have moved on to new jobs due to the cinema closures during the pandemic.

7. APPRAISAL ASSUMPTIONS

7.1 Odeon Braehead

				2010	2017	2018	2019	2020	2021
PXLS BP	**Odeon Braehead**	**12 Screens**		**BASE**	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**
126,400	Admissions			654,000	495,922	451,213	435,116	85,507	135,343
	Revenue £UK								
802,000		Box Office		3,754,000	3,095,380	2,714,796	2,512,796	480,978	848,150
388,125		Retail		1,616,000	1,363,786	1,265,651	1,244,911	249,538	402,874
40,000		Advertising		203,000	173,573	162,662	161,565	32,703	53,315
10,000		Other		136,000	327,309	297,800	287,177	56,435	89,326
1,240,125		**Total**		**5,709,000**	**4,960,047**	**4,440,910**	**4,206,449**	**819,653**	**1,393,666**
386,250	Cost of Sales	Film Hire		1,498,000	1,315,537	1,153,788	1,067,938	204,416	360,464
116,438		Retail Purchases		351,000	340,946	316,413	311,228	62,384	100,719
8,025		PRS			30,954	27,148	25,128	4,810	8,482
		3D glasses cost / Royalty			8,431	7,671	7,397	1,454	2,301
40,863		Other Costs		79,000	35,946	22,561	21,756	4,275	6,767
551,576		**Total**		**1,928,000**	**1,731,814**	**1,527,580**	**1,433,447**	**277,339**	**478,732**
688,549		**Gross Profit**		**3,781,000**	**3,228,233**	**2,913,329**	**2,773,002**	**542,314**	**914,934**
347,498	Cinema Costs	Payroll		751,000	744,007	666,136	630,967	122,948	243,892
40,125		Marketing			108,338	95,018	87,948	16,834	29,685
113,000		Contracts & Main.			175,000	180,250	185,658	191,227	196,964
30,000		Utilities & Supplies			180,000	183,600	187,272	100,000	285,000
15,000		Insurance			35,000	36,050	37,132	38,245	39,393
5,000		Other		318,000	25,000	25,750	26,523	27,318	28,138
550,623		**Total**		**1,069,000**	**1,267,345**	**1,186,804**	**1,155,499**	**496,573**	**823,071**
137,926		**EBITDA before Property**		**2,712,000**	**1,960,888**	**1,726,525**	**1,617,503**	**45,741**	**91,863**
-	Property Costs	Rent		864,000	1,104,000	1,104,000	1,104,000	441,600	552,000
5,000		Business Rates		237,000	237,000	237,000	237,000	94,800	118,500
-		Service Charges		79,000	90,000	91,800	93,636	37,454	46,818
5,000		**Total**		**1,180,000**	**1,431,000**	**1,432,800**	**1,434,636**	**573,854**	**717,318**
132,926		**Cinema EBITDA**		**1,532,000**	**529,888**	**293,725**	**182,867**	**(528,113)**	**(625,455)**
		5 Year EBITDA							**(147,088)**
PXLS BP	Key Drivers								
6.34	ATP			5.74	6.24	6.02	5.78	5.63	6.27
3.07	Retail per person			2.47	2.75	2.81	2.86	2.92	2.98
0.32	Advertising Per Head			0.31	0.35	0.36	0.37	0.38	0.39
0.08	Other per head			0.21	0.66	0.66	0.66	0.66	0.66
48%	Film Hire %			40%	43%	43%	43%	43%	43%
70%	Gross sales margin %			78%	75%	75%	75%	75%	75%
11%	EBITDA Margin %			27%	11%	7%	4%	-64%	-45%
309	Seat Occupancy PA			281	213	194	187	37	58
21.2%	Seat Occupancy %			19.3%	14.6%	11.8%	11.4%	2.2%	3.6%
	Rent psf			14.40	18.40	18.40	18.40	7.36	9.20
	sq ft		60,000						
	Service Charge (sqft)		£	1.32	1.50	1.53	1.56	0.62	0.78
5	Screens		12						
409	Seats		2,327						

The 12-screen cinema was opened in 2007 as part of the Xscape leisure complex in the Braehead Shopping Centre. The £70m Xscape Braehead leisure complex near Glasgow opened as planned on 6 April that year, despite the collapse of a cinema ceiling during the final stages of construction.

The now renamed Xsite leisure complex comprises of 380,000sq ft. (35,300sq m) is part of the Renfrew Riverside Partnership regeneration programme and includes a 200m ski slope and a 50m beginners' slope – boasting 16 snow guns generating 1,500 tonnes of real snow.

Xsite also hosts a multiplex Odeon cinema, 24 lanes of bowling, extreme sports including climbing walls and an aerial assault course and a number of restaurants and bars such as Five Guys, Nandos and Pizza Express. It was anticipated that Xscape Braehead would attract around four million visitors per year of operation.

Cinema Operational KPI's for the Odeon Braehead at the Xsite development comprising of a 12-screen boutique cinema with 2,327 seats are:

- Lease expiry: 2032 (25-year initial term)
- Demise of c.60,000 sq.ft.
- Tenant's Rent Payable £1,104,000 pa / £18.40 psf with subject to rent reviews
- Ticket sales: peak level of admissions 654,000 in 2010 but in decline.
- Occupancy Level at peak 19.3% in 2010. Currently under 5%.
- Per Seat Utilisation per annum: 281 admits per seat at peak in 2010. Currently 58 per seat.
- Service Charge est. £93,636 pa
- Business Rates Charge £237,000 pa

The cinema is currently loss making because of pandemic and post-pandemic trading challenges. It is assumed that rent, service charge and business rates as well as operational costs were minimised during the pandemic, but given the size and scale of the operation, the business requires to be operated at volume to be profitable.

The demise will be re-geared and refurbished during the remaining lease term which is likely to be extended. Odeon will most likely defend their Renfrewshire position and challenge the use of public funds / state aid to create a competitive cinema offer in the same local authority area.

7.2 Showcase Paisley

			2017	2018	2019	2020	2021
PXLS BP	**Showcase Linwood**	**14 Screens**	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**
126,400	Admissions		317,878	309,022	305,169	125,370	227,558
	Revenue £UK						
802,000		Box Office	1,984,090	1,859,284	1,762,353	705,207	1,426,033
388,125		Retail	874,165	866,807	873,120	365,870	677,370
40,000		Advertising	111,257	111,403	113,314	47,948	89,642
10,000		Other	209,800	203,955	201,412	82,744	150,189
1,240,125		**Total**	**3,179,312**	**3,041,449**	**2,950,198**	**1,201,770**	**2,343,233**
386,250	Cost of Sales	Film Hire	843,238	790,196	749,000	299,713	606,064
116,438		Retail Purchases	218,541	216,702	218,280	91,468	169,343
8,025		PRS	19,841	18,593	17,624	7,052	14,260
		3D glasses cost / Royalty	8,431	7,671	7,397	1,454	2,301
40,863		Other Costs	35,946	22,561	21,756	4,275	6,767
551,576		**Total**	**1,125,997**	**1,055,722**	**1,014,056**	**403,962**	**798,735**
688,549		**Gross Profit**	**2,053,315**	**1,985,727**	**1,936,142**	**797,808**	**1,544,498**
347,498	Cinema Costs	Payroll	476,897	456,217	442,530	180,266	410,066
40,125		Marketing	69,443	65,075	61,682	24,682	49,911
113,000		Contracts & Main.	175,000	180,250	185,658	191,227	196,964
30,000		Utilities & Supplies	195,000	198,900	202,878	100,000	308,750
15,000		Insurance	35,000	36,050	37,132	38,245	39,393
5,000		Other	25,000	25,750	26,523	27,318	28,138
550,623		**Total**	**976,340**	**962,242**	**956,402**	**561,739**	**1,033,221**
137,926		**EBITDA before Property**	**1,076,975**	**1,023,485**	**979,740**	**236,070**	**511,277**
-	Property Costs	Rent					
5,000		Business Rates	167,680	167,680	167,680	67,072	83,840
-		Service Charges	97,500	99,450	101,439	40,576	50,720
5,000		**Total**	**265,180**	**267,130**	**269,119**	**107,648**	**134,560**
132,926		**Cinema EBITDA**	**811,795**	**756,355**	**710,621**	**128,422**	**376,717**
		5 Year EBITDA					**2,783,911**

PXLS BP	**Key Drivers**						
6.34	ATP		6.24	6.02	5.78	5.63	6.27
3.07	Retail per person		2.75	2.81	2.86	2.92	2.98
0.32	Advertising Per Head		0.35	0.36	0.37	0.38	0.39
0.08	Other per head		0.66	0.66	0.66	0.66	0.66
48%	Film Hire %		43%	43%	43%	43%	43%
70%	Gross sales margin %		75%	75%	75%	75%	75%
11%	EBITDA Margin %		26%	25%	24%	11%	16%
309	Seat Occupancy PA		84	81	80	82	148
21.2%	Seat Occupancy %		5.7%	5.6%	5.5%	5.6%	10.2%
	Rent psf		-	-	-	-	-
	sq ft	65,000					
	Service Charge (sqft)		1.50	1.53	1.56	0.62	0.78
5	Screens	14				14	
409	Seats	3,800				1537	

Cinema Operational KPI's for the Showcase Linwood cinema development comprising of a 14-screen luxury cinema with 1,537 seats are:

- Lease expiry: Freehold including ancillary F&B offers.
- Demise of c.65,000 sq.ft.
- Ticket sales: 227,558 in 2021
- Occupancy Level at peak 10.2% in 2021 following refurbishment.
- Per Seat Utilisation per annum: 148 admits per seat
- Service Charge est. £101,439 pa
- Business Rates Charge £167,680 pa

The cinema is currently profitable, as a result of it being a freehold location. The site also includes a number of F&B offers who would suffer economic loss should a High Street cinema be developed.

It is assumed that rent, service charge and business rates, as well as operational costs, were minimised during the pandemic, but given the size and scale of the operation, the business requires to be operated at volume to remain profitable.

The parent company of Showcase, National Amusements Inc. is an American privately owned theatre company and mass media holding company based in Norwood, Massachusetts, and Chaired by Shari Redstone. It is the controlling shareholder of Paramount Global, and manager of brands including Paramount Pictures, CBS TV and ViacomCBS.

National Amusements will most likely defend their Renfrewshire position and challenge the use of public funds / state aid to create a competitive cinema offer in the same local authority area, particularly as a result of their recent new investment in their Paisley cinema. The Linwood site was refurbished shortly before the pandemic and is a core site within the company. Showcase will likely emerge as one of the stronger operators going forward - sites, refurbishments, trimmed down estate but with opportunities to develop or acquire loss making cinemas as a result of pandemic challenges and post-pandemic trading challenges.

Showcase management have a focus on developing and refurbishing locations over the long-term and on selective locations will exit, should alternative uses become available. Their management confirmed that during the pandemic, *"a number of alternative use occupiers have taken the opportunity of approaching us [National Amusements] to enquire about releasing some of our poorer performing sites and to make us "once in a generation" unconditional offers for these sites. We are fortunate to have such an asset base to work from in these challenging times, and the resultant "war chest" will put us in a great position once business resumes and we will probably be the most financially secure cinema operator in the UK as a result, and in a position to pick up new opportunities, should they arise".*

All of the UK commercial cinema operators seek significant capital contributions and rent incentives to open and operate in each locality. Some operators may secure freehold locations in exceptional circumstances. Unless a site was secured and fully capitalised with minimum rent and service charge, it is unlikely be of interest to the operators noted below.

Cineworld:

Film theatre chain Cineworld has filed for bankruptcy due to cinema closures during the pandemic and a current lack of big-budget film releases, hitting trading and the group's liquidity.

Earlier in the year, the company stated that "Despite a gradual recovery of demand since re-opening in April 2021, recent admission levels have been below expectations,", adding that it was still in talks with parties over potential funding, or restructuring of its balance sheet "through a comprehensive deleveraging transaction"

Any deleveraging transaction would likely result in very significant dilution of existing equity interests in the company, Cineworld said.

The company's net debt jumped to $8.9bn at the end of 2021 from $600m a year earlier. It had pinned its hopes on a larger slate of blockbuster sequels such as James Cameron's *Avatar 2* and Tom Cruise's *Top Gun: Maverick*.

However, the Covid pandemic has disrupted filming schedules, leading to lower output. Cineworld earlier this year said it was looking for new sources of cash to meet payment obligations to former shareholders of its US division Regal and a potential multi-million-dollar fine in a dispute with Canada's Cineplex.

The company said it expects operations to remain unaffected despite the near-term hit, and that it expects to meet its business counterparty obligations.

CMC Markets analyst Michael Hewson said the announcement was more unexpected given the recent update from US-based AMC Entertainment which said that the new *Dr.Strange* film and *Top Gun: Maverick* had seen ticket sales double, as American filmgoers had flocked back to the big screen.

"AMC also said that July saw the highest monthly attendance in US theatres since December 2019 as confidence returned. This raises the rather awkward question as to what AMC are doing well that Cineworld clearly aren't, as both can't be right?" he said.

"Either those two films were very popular, or they weren't, and if AMC saw record July admissions, Cineworld probably needs to ask why it didn't. That's the question shareholders need to pose to management."

"It was over a year ago that Cineworld management were facing shareholder revolts over a controversial pay and bonus scheme. Today's announcement is likely to reignite that debate and pose legitimate questions as to the competence of the current management."[xxii]

A bank analyst, who asked not to be named, said rival Vue's recent restructuring may "provide a playbook" for Cineworld.
In July, a group of lenders led by US asset manager Barings and hedge fund Farallon Capital took control of Vue International, the UK's third-largest cinema chain, as part of a £1bn debt restructuring deal, buying out Vue's previous owners.[xxiii]

UK Exhibitors screens by exhibitors with 15 or more screens

Exhibitor Profile 2019	Sites	Comments
Cineworld	101	Likely restructuring process with landlords and investors following Cineworld's filing for bancruptcy.
Odeon	114	Likely restructuring process with landlords and investors as Meme stockholders exit.
Vue	88	Vue International have agreed a controversial £1 billion recapitalisation deal in order to remain solvent. A dept.-for-equity swap will see Alberta Investment Management Corporation, a Canadian pension fund, relinquish their shareholdings.
National Amusements (Showcase)	21	Strongest position of all operators. Focus on major city and retail locations.
Empire Cinemas	15	Anderson family UK: Looking to expand in market with pipeline and fallout from COVID e.g. Movies@ deal
Omniplex	15	Anderson family Ireland: Looking to expand in market with pipeline and fallout from COVID
Everyman Media Group	35	High market cap maintained throughout pandemic and now set to develop 50 new sites within 5 years
Picturehouse (Cineworld)	26	Part of Cineworld. Likely restructuring process with landlords and investors following bancruptcy filing
Light Cinemas	10	At the end of the current investment cycle and a good prospect. Mainstream venues with pipeline and good landlord relations
Reel Cinemas	15	Privately owned and part of a property portfolio and operational business. Value led and strong balance sheet.
Arc Cinemas	5	Operated from Dublin. The challenger and acquisitive brand in the UK at present. Private family fund with flexibility.
Curzon	15	Bought out by Cohen NYC in 2019. Performed well through COVID as the group fund, produce, distribute and screen / stream
Merlin Cinemas	16	Local community cinemas based in Cornwall, Devon, Wales and Northern Scotland. Privately owned.
Movie House Cinemas	5	Northern Ireland only: privately owned and primarily Belfast secondary locations.
Irish Multiplex Cinemas	5	Ward family: Challenged at present and gave up on one site in Dublin which former partners the Andersons are bidding on.
PDJ Cinemas	3	Jervis Family: Owner operator running traditional town / city centre cinemas. Invests only as required.
Savoy Cinemas	5	Privately owned and part of a property portfolio and operational business.
Parkway Entertainment	4	Privately owned and part of a property portfolio and operational business.
Others (includes other independent chains and individual cinemas/multi-use venues)	487	
TOTAL UK	985	

Site Source: BFI Yearbook 2021/ NB: No 2021 figures published yet

7.3 Social Value Considerations to discuss with existing Operators

Employment and Skills:

- Enabling local people to access and obtain the skills needed for part-time or full-time employment in the film and cinema markets
- Providing employees with new skills for the future
- Creating employment opportunities within the community
- Removing barriers to employment in the entertainment industry for under-represented and disadvantaged groups

Local Business & Economy:

- Providing work opportunities for small, medium, micro-sized businesses, social enterprises and minority owned businesses
- Procuring goods and services locally where possible
- Supporting small, medium, micro-sized businesses, social enterprises and minority owned businesses to improve capability and grow a sustainably community

Engagement:

- Carrying out volunteering activities that deliver benefits to local communities
- Partnering with national charities to support employment opportunities and environmental regeneration to meet local needs
- Working with local charities and stakeholders on key themes to deliver additional benefits to the communities in which we work
- Working with education and training providers, industry bodies and charities to offer curriculum support and work experience opportunities
- In collaboration with local charities and community groups, support and encourage the community to live healthier and happier lives.

Environment:

- Using resources efficiently to reduce waste and maximise value
- Playing a part to reduce air pollution, noise, vibration and nuisance within local communities to improve health and wellness
- Promoting sustainable and ethical procurement

Governance, Measurement & Reporting:

- Maintaining clear accountability for delivering this policy
- Monitoring and reporting our social value impact by using recognised independent tools
- Continuously improving standards, efficiency and effectiveness

8. POST PANDEMIC MARKET CHANGES

8.1 Pandemic UK Site Analysis

Individual cinemas' sizes and the type of cinema had an impact on the performance of a cinema during the pandemic. Overall, smaller venues faired better overall than larger multiplexes. Single-screen sites were least likely to reopen, due to concerns for the safety of older audiences, staff and volunteers and their ability to comply with social distancing rules. Almost half of these remained closed, however, those that did reopen delivered a strong performance relative to larger venues, with revenues down 68% in 2020 compared to 2019 total for all single-screen cinemas. Cinemas with 2-3 screens or 4-5 screens also held up "relatively" well, falling by 70% and 73% retrospectively, in 2020.

In contrast, almost all multiplexes with 6 or more screens reopened but their total 2020 revenue fell by 77% compared to 2019, which, considering the largest venues normally drive the overall impact on the box office, as they account for ¾ of all cinema revenue, the impact of the pandemic had a worse effect on multiplex cinemas.

Reasons for to why smaller venues held up better during the pandemic, could be explained by:

- Less reliant on Hollywood blockbusters - diverse programming such as art-house/independent British films, event cinema, catalogue and short windowed titles. (which then where available – releases of these films vastly reduced now)
- Personal relationship between "smaller cinema attendee" and the venue, hence customers are more inclined to support them as a community asset
- Boutique cinemas tend to have fewer than 6 screens and have higher admission prices.[xxiv]

Presentation format has also driven the success of the biggest blockbusters 2021, with IMAX screens contributing over £6.6m of Q1 box office – almost 3% of the total. IMAX market share rose from 2.3% in 2019 to 3.4% in 2021. The current release schedule has 15 IMAX releases slated for 2022, half the number released in 2021.

Now more than ever, audiences need cinema to offer something they can't get at home. This may be the content itself (via an exclusive theatrical window or a live-streamed event), the social experience (with family, friends or a roomful of like-minded strangers), a chance to disconnect (from people or gadgets) or unrivalled technology (the biggest screen, recliner seats or surround sound). Finding the motivating factors for different audiences and titles will be key in tempting people out of their homes, particularly as the cost-of-living crisis develops.[xxv]

8.2 Changing Viewing Habits

As technology has become increasingly democratised and accessible, consumer viewing habits have changed drastically over the past decade. The rise of smart devices, enhanced coverage of high-speed mobile data and streaming platforms has disrupted the way people consume content, well before the Covid-19 pandemic. The Covid-19 pandemic simply accelerated this already existing trend, faster and more profound than could have been envisioned. For a significant proportion of households around the globe, the days of watching programmes on pre-set broadcast or cable TV schedules are over. Instead, consumers favour nonlinear alternative "Over The Top Content" (OTT) platforms such as Netflix and Hulu, that feature unparalleled original, high-quality content and are accessible at any given time and at place.[xxvi]

As social restrictions were imposed due to the COVID-19 pandemic and cinemas were shut, people turned to TV for entertainment and companionship. Old favourites such as e.g., Strictly Come Dancing made a welcome TV return and drew in large crowds, yet the greatest growth was registered in streaming services.

"What you are seeing is a lot more consumers adopting a lot more streaming platforms – and these are continuing to launch at a dizzying pace"

Nick Sava, General Manager Giant Pictures

Whilst streaming services already disrupted the way content was consumed, then predominantly led by Millennia's and Generation Z, the pandemic lockdowns accelerated the trend dramatically, and awakened an entire new and older audience to OTT services, often initiated by the younger generation.

According to latest data by Nielsen, Americans aged 50 and older are powering the growth of streaming video in the U.S., accounting for the biggest increase in time spent on services such as Netflix, NFLX -1.54% Hulu and YouTube. People 50 and over accounted for 39% of streaming watch time as of May, up from 35% a year earlier, the data show. Overall streaming usage increased across the board, but the growth came disproportionately from older audiences and the share of viewing by every other age group decreased over that period. People ages 50 to 64 claimed a larger share of streaming time than those ages 35 to 49 for the first time, according to Nielsen.[xxvii]

For a significant proportion of households around the globe, streaming content is now preferred to pre-set broadcast, such as BBC and ITV, or cable TV.[xxviii]

2020 saw approx. 70% of UK households having at least one streaming provider subscription. (FDA Yearbook 2021)

On another spectrum, Netflix announced in April 22, that they had lost 200,000 subscribers in the first quarter of 2022, and expect to lose approx. two million more in the second quarter. This comes after a long period of sustained growth for the company.

Reasons for losing customers could be a combination of:

- Recent Price Increases (despite increasing inflation)[xxix]
- Having reached the growth ceiling
- Trying to stop password sharing between friends and families[xxx]
- The 2019 Streaming Observer report suggested that the library of movies on Netflix had shrunk 40% since 2014, and that number is likely much higher in 2022[xxxi]
- Netflix is lacking in big franchises, while other streamers are thriving on them
- Netflix now has a lot of competition in the streaming wars (e.g. HBO Max, Apple TV, Amazon Prime, Hulu, Disney+)[xxxii]

Streaming, compared to cinema, theatres and concerts, is still one of the most affordable options to entertain families. Despite the decline in overall streaming, stacking (more than one SVoD subscription) continues to grow among those still in the market. Across total U.S. Streaming, the average subscriber now has 4.2 Streaming subscriptions, up from 3.8 in Q2 2021.

The ‘mature’ services (Amazon Prime Video, Hulu, and Netflix) have all lost share of subscribers in Q3 2021. Instead, the high stacking platforms have gained. Most notably Advertised Video on Demand (AVoD) platforms with AVoD and Free Add Supported Streaming (FAST) such as YouTube saw the greatest gains.
HBO Max share has grown by 24 per cent, now accounting for 15 per cent of all subscribers; Peacock share grew by 30 per cent, accounting for 11 per cent of subscribers; and Discovery+ share grew by 68 per cent, accounting for 6 per cent of all subscribers.
This high stacking and growth of share among maturing platforms in Q3 2021 indicate that below the surface the market can shift quickly. Although huge losses are not anticipated for the overall VoD market, the share of subscriptions may continue to change. Platforms who keep their viewers engaged with leading content will determine who wins in this high stacking market ongoing.[xxxiii]

Ironically, streaming services could also help cinemas, if they were so inclined. Apple Inc. plans to release at least a couple of movies exclusively in cinemas for a real window (30 to 45 days at a minimum). Amazon.com Inc. just bought MGM, which has released movies in cinemas, and it shall be seen if this continuous. Netflix Inc. is still debating what to do about cinemas.

Whilst Netflix does release movies in theatres, but only for a few weeks (and not in most major chains), its latest attempt at a blockbuster, "The Gray Man," a $200 million spy thriller starring Ryan Gosling and Chris Evans, has made less money than "Paws of Fury: The Legend of Hank" over the last week.[xxxiv]

8.3 Cinema Hesitancy: Older Demographics

The pandemic has without a doubt accelerated the trend towards streaming platforms. Current box office figures, whilst on the increase, suggest that younger audiences are still keen to watch tentpole releases, e.g. Top Gun: Maverick, on the big screen in order to get the full experience.

Figures however suggest a slower rebound among older audiences, or moviegoers of 50-years plus.[xxxv]

"Older demographics, the 50-plus audience, are the last to come back"

Mark Zoradi, CEO Cinemark

This might be due to this audience group:

- still being hesitant to visit public places in light of the pandemic
- having become accustomed to streaming in the comfort of their own home
- has shifted their appetite for what they're willing to pay to see in a theatre versus streaming it at home
- simply currently preferring experience bases outdoor activities after a long lock down period.

Traditionally, older audiences tend to watch mid-budget movies, tailored to this very audience (e.g. Downton Abbey), rather than rushing out to see the latest blockbusters. Currently there is no definite answer to why older audiences are more reluctant to return to cinema. Box office results of recent mid-budget films such as Emma Thompson led *Good Luck to You, Leo Grande*, which opened with a disappointing 3-day box office of £238k (£1m total) and *Downton Abbey: A New Era*, which has only managed to achieve £15 million box office in the UK, about 50% less, compared to the prequel, were discouraging indeed.

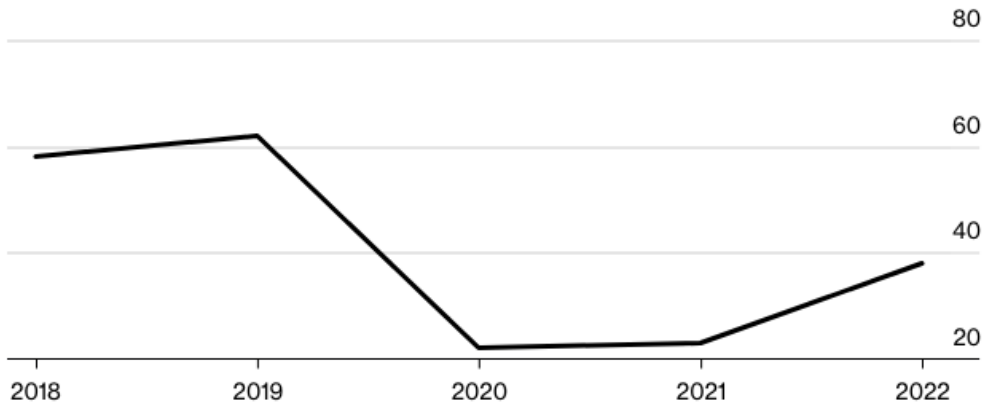
Downton Abbey's poor box office result could however be the case of simple of a) "not being a particularly good film" or b) "over-consumption" of period dramas. The streaming sensation "Bridgerton Season 2" was released a few weeks before Downton Abbey, "The Gilded Age", also a Julian Fellowes written period drama, was released on streaming platforms in January, and Jane Austin's unfinished novel "Sanditon: Season 2" was aired on ITV in March 22.

Ultimately, the older demographic might only need more encouragement to return to cinemas. The answer could be as simple as cinema offers such as reclining seats and high-end food and beverage options…things they cannot get at home.[xxxvi] Losing the older aged audience would inevitably alter cinema programming. Mid-budget movies could disappear from the big screen and go directly to streaming platforms. This in itself would make cinemas even more dependent on big Hollywood blockbusters, and most likely decrease F&B income since older audiences are more likely to spend more on Food and Drinks.

Yet, despite of the current "sluggishness" of the older demographics cinema visiting propensity, event cinema such as "The Phantom of the Opera" (£1.1 million) and upmarket British films like "The Duke" (£5 million) and "Belfast" (£15 million) directed by Kenneth Branagh and starring Judi Dench, have managed to draw in respectable numbers in the UK.[xxxvii]

8.4 Lack of Product

Ticket sales are still down almost 40% from before the pandemic, and predictions, at least for the short term, are concerning, due to the lack of content or, at the very least, not enough movies people want to see in theatres. The current share of movies released on more than 2,000 screens is down more than 30% from both 2018 and 2019.



Source: Comscore

There is no movie coming out over the next two-plus months (Aug/Sept/Oct 2022) that is tracking to debut north of $40 million at the U.S. domestic box office in its opening weekend. Studios have never released many huge movies in August or September, but the slate between now and October is light even by those standards.

Originally, “Black Adam,” a DC movie starring Dwayne Johnson, was supposed to open in August but has been moved to end of October 2022, and the seventh “Mission: Impossible” was supposed to arrive in September, which is now scheduled to open in July 2023.
Hollywood, like the rest of the economy, is suffering from a supply-chain problem. Production halted for months due to the pandemic, and was both slower, and costlier when it resumed.
Even when production finished, the visual-effects industry was often unable to handle all the product. There has been a full meltdown in the sector, according to executives at several studios. Visual-effects houses expected business to slow down during the pandemic. While that happened for a beat, the amount of work they had to do increased as soon as studios figured out the proper protocols.
VFX houses weren’t equipped to handle it all. Many had transitioned to remote work, which made them less efficient. They lost talented staffers to the great resignation and poaching from companies like Meta Platforms Inc. (aka Facebook). Some of the movies mentioned above aren’t done because the visual effects aren’t ready.

This delay in releases is the last thing the cinema industry needs. Theatres are suffering under large debt loads accrued during the pandemic. Vue has already surrendered to its lenders, whilst AMC, the world’s largest chain, was riding high after a bunch of retail investors turned it into a meme stock. But its shares were down more than 40% this year through midday Friday and almost 80% from their peak in June 2021.

The success of a few blockbusters has masked the softness of the middle. Just 10 movies this year account for 65% of all grosses in the US. “Top Gun: Maverick” accounts for almost 14% of the market on its own. Before the pandemic, the top 10 movies accounted for less than 40% of grosses, according to Comscore.[xxxviii]

Whilst cinemas are quick to blame streaming as well for the lack of content, they are short on product because studios have released some titles directly to their own streaming services. Even before the pandemic, major studios had pared back their slates to huge blockbusters and low-budget movies. Mid-budget dramas and action movies were a dying species. Those have been reborn as streaming movies. Studios insist that in 2023 things will be back to some semblance of normal by releasing blockbusters almost every weekend.
By focusing on blockbuster releases only though, cinemas will be totally blockbuster dependent. How the current geopolitical situation and rising cost of living will impact week by week blockbuster releases shall remain seen, as peoples spend most likely will have to be reduced on non essentials.

8.5 Shortened Release Window

Increased Hollywood blockbuster dependency in conjunction with shortened release windows and simultaneous cinema and streaming release dates, as introduced during the pandemic, would also impact film hire.

Throughout the pandemic, movie studios have experimented with streaming as an alternative or supplement to theatres. Warner Bros. released all of its movies this year simultaneously in cinemas and on HBO Max, for instance.

> ***"There may be titles from certain studios that might not have any theatrical exclusivity"***
>
> Jim Orr, President Domestic Theatrical Distribution, Universal Pictures

Some major studios have announced plans for exclusive, but shortened, windows for their theatrical releases, including Warner Bros., giving cinemas a degree of exclusivity while allowing studios to premiere movies on streaming services earlier than they typically would have. This already was a much debated conversation before the pandemic and was accelerated by the pandemic.

The traditional pre-pandemic window of between 75 days to 90 days will be a thing of the past for most releases. 45-day and 30-day windows have emerged as a potential new standard, though it's not concrete. There may be titles from certain studios that might not have any theatrical exclusivity and it is unlikely that release windows will ever go back to one specific windowing model like in pre-pandemic times.[xxxix] Shorter theatrical release windows ultimately could mean shorter film runs in cinemas, with most films being taken off after e.g. 30 or 45 days. This, with the possibility of Hollywood blockbuster led cinemas, which generally tend to have higher film hire, combined with less midrange films which terms are generally lower, could also lead to an increase in overall film hire.

All Studios now have their own streaming platforms or have long term arrangements with already established SVoD platforms in place.

DISTRIBUTOR		THEATRICAL WINDOW	STREAMING PLATFORM	COST
	UNIVERSAL	17-31 Days if opening weekend exceeds $50m +	Peacock	£9.99 per months via NOW TV or included in Sky package
	WARNER BROS	45 Days after theatrical release	HBO Max	£12 per month
	DISNEY	45 Days after theatrical release Twentieth Century Fox bought by Disney March 2020	Disney Plus	£7.99 per month (£79.90 annual subsciption)
	PARAMOUNT	45 Days after theatrical release	Paramount Plus	£6.99 per month
	SONY PICTURES	Traditional Window (approx. 90 days after theatrical release)	Via Netflix	Netflix subscription £5.99 / £9.99 / £13.99 a month
	LIONSGATE PICTURES	Traditional Window (approx. 90 days after theatrical release)	StarzPlay (via Amazon Prime, Apple TV, Virgin TV)	£5.99 a months (requires additional Amazon Prime etc. subscription)

Prices as advertised July 22

8.6 Cinema Market Predictions

Streaming is here to stay, for the foreseeable future at least. Opinions on how streaming will impact cinemas in the long term vary tremendously. Some do not consider it the ultimate threat, others, such as Forbes Magazine, predict that cinemas will become a niche pastime in the face of streaming; which does not even take the fast approach of the metaverse into account.

According to a US survey from June 2020, 39% of American consumers liked the idea of seeing newly released films on streaming services and planned to continue watching them at home rather than in the cinema. Following up on the survey in June 2021, 55% agreed. Consumers who subscribed to e.g. Netflix, Amazon Prime or Disney+ in 2021 are most prepared to continue with their subscription.[xl]

Whilst many forecasts predict a full return to pre-pandemic box office in 2023. The long term future of cinema might look very different though. Depending on various components, such as the older generation not returning to the cinema, could lead to 100% tentpole led cinemas; a trend that can already be observed. This would eradicate smaller, independent films from the big screen in favour of spending more on “definite blockbusters”. Netflix has already announced their focus will be on “making bigger movies, making better movies, and releasing less movies”.[xli] A trend, considering box office results of 2022, will most likely be picked up by the big Studios.

Yet, there is no guarantee that a big production spend equals big box office… some high budget films work, some don’t. Cinemas will be total reliant on blockbusters, which ultimately could mean a release of e.g. 40 films a year with multiplex cinemas having to close some screens in order to be commercially viable. In addition, an increase in overall film hire for exhibitors has to be expected, as big blockbusters tend to have higher film terms compared to mid-budget films.

Shortened release windows will reduce the run of a film in a cinema. Disney Plus, amongst other studios, has already tested simultaneous releases - cinema and streaming - at the same time during the pandemic, the verdict on actual box office results is still out.

Just when cinema goers have pretty much turned their backs on 3D, David Hancock, Chief Analyst, Omdia, forecasts 3D performances will play an important part with the recovery of cinemas. Over half of the world’s cinema screens are equipped with 3D systems, but the revenue earned from a 3D version of a film was in decline even before the pandemic. But the growth of laser illumination helps the 3D cause as it provides a much greater level of brightness. However, the greatest assistance of all may be coming in December 2022: “Avatar: The Way of Water”, followed by Avatar films 3, 4 and 5 every subsequent two years.
How the metaverse and immersive cinema experience will impact the 3D trend, shall remain seen.

As cinemas start the arduous process of recovery, the key question remains: *how do we balance the need to invest with the reduced ability to do so?* Premium cinema takes on a greater importance to the sector, as the premium window generates more revenue. The de facto premium window is the primary revenue generator for many films and is the moment when the cinema's experiential side most differentiates it from in-the-home entertainment. Finding this balance in the years ahead will dictate the health of cinema in the decade to come. It will take a coordinated and sustained effort from all parties to ensure this happens.[xlii]

9. TRENDS ACCELLERATED BY PANDEMIC

9.1 Changing Town/City Centres

Traditionally high streets and town centres provide vitally important functions, such as being focal points for local communities, the centre of economic activity and for job creation and retention as well as being nodal transport hubs and spaces of leisure.
Yet, due to the pandemic which accelerated trends such as the way we shop, the way we work and spend our leisure time, retailers have seen a decline in footfall. According to analytics by the British Retail Consortium, in May 2022, UK shopping centre footfall decreased by 26.7% and high street footfall declined by 13.6%.[xliii]

But every high street and town centre can have a positive future. According to Grimsey review, *there is a need for all towns to develop plans that are business-like and focused on transforming the place into a complete community hub incorporating health, housing, arts, education, entertainment, leisure, business/office space, as well as some shops, embedded libraries and public spaces and embrace smart technology such as free public Wi-Fi, well connected workplaces that support flexible working patters and attract freelancers to high streets and town centres.*
The pandemic has furthered the desire for “localism”, to buy local, to work local, to be entertained locally.

Grimsey points out further key observations for successful development of town centres:

- The key to success is outstanding, talented and committed leadership. Whether this is elected mayors with the mandate and authority to get on with the job, or local government bringing all stakeholders, including the community to develop and implement a plan for the location, strong leadership and vision are essential.

- The curating of a place based on its distinct heritage is multi-dimensional and complex but should feature strongly when developing the “offer”: Why would people want to live, work, play, visit and invest in the “place”? What does it stand for?

- Where we see genuine high street innovation, best practice is often not shared and far too many agencies remain in silos. There is a need for Economically Rational Areas to be established that can draw on the examples of Scotland and Wales to get things done. An independent body (not a membership organisation) is needed to support, question and signpost for local authorities and act as a driver for stakeholder support.

Arguably, the great strength of a vibrant town centre is the diversity of shops, start-ups, entertainment, restaurants, bars and coffee shops and the diversity of its people. From volunteers, graphic designers and community organisers, to students, families and youngster's town centres ought to be intergenerational, safe spaces. Benefits of enhancing town centres:

- Increased economic activity for local businesses
- An opportunity to reinvent the town and provide a greater choice of leisure and evening activities for young people and families
- A better first impression and choice of activities for visitors to the town
- New investment opportunities
- Training and job opportunities for all age ranges
- Improved routes and public spaces in the town centre for all users
- Enhanced historic environment, bringing buildings back into use

A cinema in a town centre could play a vital role in the rejuvenation of an entire high street. A cinema, apart from creating new jobs (cinema and supply chain), and generating a new income source for the council, could, if designed rightly, become a "hub" for all ages. A safe environment to socialise, to hang out and one that is easily accessible and most importantly is community focused and as such forms strong ties with its community. This could be achieved by subsidised or value for money performances for seniors and the unemployed and/or by showing educational and inspirational films for school classes in the mornings. Film can have a leading role in education, if given the chance.

In addition, the cinema could, apart from selling traditional snacks such as popcorn and nachos, offer local produce in form, e.g. cakes, locally produced chocolate, crisps, juices, which again would strengthen the ties with the local community and its trades people further.

9.2 Metaverse

The 2021 buzzword of the tech generation was Metaverse. The development of the metaverse was accelerated by the pandemic, with a lot of tech and entertainment-based companies, most notably Facebook (now META), already investing huge sums in building and providing technology that gives people the taste of the metaverse.

Whilst META is still building their metaverse, South Korean SK Telecom has already developed proprietary technologies in augmented reality (AR) and virtual reality (VR), and launched its new metaverse service called The Ifland on the 4th July 22. SK Telecom proceeded to work on making ifland accessible to the global audience while also creating an ecosystem for mixed reality (MR) in the company's homeland, South Korea.

Its goal is to launch The Ifland metaverse platform in 80 countries this year. Currently, it already has around 8.5 million users, and the company is expecting this number to balloon once the platform debuts around the world.
The company will start opening its ifland service in Europe through its partnership with Deutsche Telekom. From there, the plan is to expand to the United States, and more locations will follow.[xliv]

Basically, metaverse is a virtual world that integrates the elements of the physical world within it, thus giving the users access to a new environment, opportunity to interact with people, consume content among other things, but virtually.
The metaverse is a space created on the internet that uses 3-D virtual environments. People interacting in this environment will be able to create their own avatar or character that represents them, place that avatar in a virtual space, manipulate them with hardware like VR tools and effectively live a life in this space that includes consuming a variety of art forms and visual entertainment - including films, describes indepthcine.com.[xlv]

Effectively, visits to a museum, an amusement park or a cinema, rather than being done physically, will be done via an 'avatar' in a virtually created space for that specific purpose

Facebook, now called Meta, founder Mark Zuckerberg explained metaverse, saying, *"You're going to be able to bring things from the physical world into the metaverse. Almost any type of media that can be represented digitally: photos, video, art, music, movies, music, books, games, you name it."*

The metaverse will have huge implications for movie-making and for physical cinemas. Companies such as India's film production house Pooja Entertainment has already acquired virtual land, with the intention of releasing their Hindi Film Bade Miyan Chote Miyan, directly on to the metaverse.[xlvi]

The entertainment giants Disney[xlvii] and ViacomCBS are already in talks to see how they can get all of its intellectual property into the metaverse, in order for their customers to watch any Disney or ViacomCBS production, TV shows and movie, in the virtual world. It's quite a bold step, but one that is needed because of how rapidly the metaverse is developing. With Disney and ViacomCBS taking the lead, it is just a matter of time when other Hollywood studios will follow suit.[xlviii]

9.3 Immersive, Gamified and Diverse Video Entertainment

Technology is advancing at never before seen speed. The metaverse and Artificial Intelligence will change the way we live significantly. According to McKinnsey & Company, video entertainment will become Immersive, Gamified and Diverse. There will be sensory experiences that change the way people experience or create a story that are going to feel very different from the cinema experience of today.

Imagine going to a movie theatre and having a game console, where there's ten minutes up front of a piece of filmed entertainment but then it turns into a gaming experience. And it's not just in that theatre; it's across 20 different connected theatres. And then you can continue that game with that community when you get home to your game console or episodically over the next several months.

Tom Svrcek – McKinsey & Company

For cinemas to be able to compete, these immersive experiences need to be incorporated and available at cinemas, in order to encourage people to leave the comfort of their homes.

Please watch video (highly informative):
https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/video-entertainment-in-2030

10. CHALLENGES & RISKS

Recent world events such as the pandemic and geopolitical issues have altered the world we live in. With inflation being at a 40-year high, stock shortages, rising energy, raw material and food costs are adding increasingly pressure on supply chains and consumers. Financial experts, such as e.g. Goldman Sachs are predicting a recession already[xlix], with some financial experts forecasting the 2nd Great Depression by the 2030's.[l]

Since January 2020 (when cinemas first closed in China) to May 2022, the cinema exhibition and distribution sector has lost around $60bn (£47.7bn) in expected box office. This is a massive blow to the sector and is having an impact on cinemas in many ways, such as Cineworld filing for bankruptcy.

Having lost those billions of dollars in revenue over two years, it can be assumed that money is tight among cinema exhibitors. The optimism of two years ago surrounding premium cinema, experiential cinema, upgrades and the replacement cycle for equipment, is more a memory than a current reality. The expression 'Make Do and Mend' probably best sums up what many cinema exhibitors are telling their technology teams. The mantra is to use what you have where you can and prioritise what you need for the most important screens. Any available money for investment is being used for new sites (which may well be subject to an unbreakable contract) or new premium screens that build on the need to keep pushing premium cinemas.

Exhibitors are caught between the need to invest to keep the business moving forward and counter the changes in consumer behaviour. They also have to juggle the lack of money to invest, as well as available credit.

Two things are exacerbating the problem: one is a reduction in technology investment budgets. And the second is a component supply chain crisis that is cutting deeply into lead times.
Given the loss of box office income, reduced income is self-evident. This is only one side of the equation though: some exhibitors made it through the pandemic with the help of deferred rent deals from landlords, which will become due in 2022, and/or taking on debt which now needs servicing. The timing of big movies and income flows take on a greater importance than usual. The pandemic has also made lenders cautious, and cinemas will need a track record of recovery in order to access credit and loans. All in all, money and credit will be tight for some time.[li]

10.1 Supply Chain Challenges

Well-publicised issues in the global supply chain are to be contend with. Cinema technology is a global business, and the components used in equipment are often bits of kit that are used by many other applications. Getting hold of these parts when there is a global shortage is not easy - and technology used in cinema is a relatively small area so it won't necessarily be at the head of the queue for essential parts. Supply chain delays make "just-in-time" management of inventory almost impossible and this requires companies to save and store necessary kit (requiring warehousing space), while needing to find ways to reuse components from older machines. This does fit in well with increasing the circular economy of machines and their essential components but can be a burdensome requirement if not already planned for. Higher costs are being demanded for delivery of both parts and equipment, another cost area that manufacturers probably can't absorb on their own. Longer-term, this may well be a beneficial learning curve as sustainability edges higher on the agenda of most companies and governments in the coming years. With the supply chain issues, cinema exhibitors need to find workarounds.

Cinemas are having to shut screens and use pieces of kit from less important auditoria to benefit more deserving ones. Screens within sites are then closed to the public, not just because of a lack of audiences or the supply of films but also due to this lack of equipment. One of the responses to the supply chain crisis is to bring both more knowledge and, previously outsourced, maintenance in-house.

For example, keeping and recycling spare parts and machines around the circuit, rather than investing in new equipment with higher- than-normal lead times. Manufacturers are looking to recycle parts where they can, reusing standard components where possible but also building in the potential to recycle in the design process. This creates a circular economy at several levels and one that the industry needs to build on in future.

Prior to the pandemic, the demand for projectors was already polarised towards either end of the size spectrum, i.e. the need for larger or smaller models, with the middle being squeezed. That trend has continued as exhibitors install larger screens alongside smaller, intimate auditoria. With Sony's 4K solution out of the market the demand is more for 2K than 4K, even though a third of all content going into cinemas is now 4K. It is 12 years since Series 1 machines ceased being supplied to cinemas and the end-of-life cycle has now been triggered for them. Keeping these machines going, a necessity for some at the moment, will require new warranties and access to some parts that are no longer available, again requiring a circular approach to components. Machines are more modular now, which in turn means that when a breakdown occurs this doesn't always require a complicated troubleshooting process or a return to the manufacturer. It may just mean a new modular element, which should result in projectors lasting longer and being cheaper to maintain.

10.2 Rising Inflation & Cost of Living

UK inflation is stood at 9.9% in August 2022, a drop of 0.2% compared to July with rising cost of gas and electricity pushing household energy bills to record levels. The escalating cost of food and transport also contributed to the rising cost of living, deepening the crisis affecting millions of low- and middle-income families. It is estimated that approx. 10% of UK households are already suffering from fuel poverty, with warnings that by the end of 2022, 40% of UK households will face fuel poverty after October's price cap hike.[lii]

According to the Office for National Statistics' monthly report, the 54% increase in the energy price cap in April, which took the average annual gas and electricity bill close to £2,000 for an average household.[liii] The rising energy costs effect cinema operation significantly, with some chains & sites already opting for reduced opening hours and reduced screens.

In a bid to help consumers and businesses cope with the soaring cost of the global energy crisis, emergency measures to freeze gas and electricity prices for UK households at £2,500 a year from 1st October 2022.
Households will see this measure in place for two years, but the details for commercial caps are less clear. For now, the new measure seems to cover the excess for business for a maximum of six months. It is likely that energy prices will continue to be elevated after that, and therefore the real impact for energy companies will be seen after that grace period.

Critics however believe that by limiting the price of energy there will be too much demand relative to the limited quantity of supply. This will exacerbate the energy crisis and increase the risk of blackouts.[liv]

The European Union is expecting Russia to cut off its energy supply to Europe, if no solution is found to the ongoing war. As a worst case scenario, the EU is already working on plans, which would restrict energy supply to non essential industries. Since the UK is actively supporting the Ukraine, the same could be the case for the UK. [lv]

The increase in living costs has/will have a direct impact on consumer behaviour, through cutting unnecessary expenses. Subscriptions such as gym memberships or cinema subscriptions such as "Unlimited" are most likely to have to give way in order to cover more essential expenses, whilst, according to Omdia's[lvi] Media & Entertainment analysts, subscription services such as SVoD services will cement their popularity. Albeit, many consumers may look to reduce their overall spend, by switching to lower-tier packages or discounted family plans, swapping services in and out to access specific content or cancelling contracts where they have multiple subscriptions, such as online video.

The impact on cinema will be slightly negative, according to Omdia, as consumers cut spend on going out and are more selective about the movies they choose to see. Due to rising energy costs and overall increased costs in all areas of life, film production budgets will also rise, most likely leaving cinemas no choice but to increase ticket prices.
The industry is largely reliant on transactional revenue in the form of ticket sales, driven by people's desires to see a particular movie or have a social experience.

However, Omdia forecasts, the impact will be limited by the fact that movie-going is predominantly popular with the middle classes and accounts for a small amount of household spending, with the average number of visits per person at 2.7 times per year. For these reasons, Rob Gallagher from Omdia believes, the cinema sector has traditionally proved recession resistant, as seen in the 2008 financial crisis.

UK 2021 revenue and cost-of-living impact in 2022 for Media & Entertainment segments:

Market segment	Revenue ($ millions), 2021	Cost-of-living impact in 2022
Connectivity		
Consumer mobile	19,155	Negative
Consumer fixed broadband	8,290	Neutral
TV and online video		
Pay TV	6,817	Negative
TV advertising	3,024	Very negative
Subscription online video	4,346	Neutral
Ad-supported online video	1,779	Very positive
Transactional online video	593	Very negative
Games		
Transactional games	4,989	Positive
Games advertising	1,465	Positive
Subscription games	862	Very positive
Music		
Subscription music	1,815	Neutral
Transactional music	78	Negative
Music advertising	138	Positive
Cinema		
Box office	766	Negative

Source: Omdia

Yet, to compare the 2008 financial crisis with the current crises could be seen as a considerable simplification of complex issues, which amongst the many levels of complexity, ignores vast differences in inflation and interest rates, in addition to major technical advances that have been made since.

From a cinema point of view, then, cinemas “competed” at best with pay TV, such as Sky. Streaming in 2008 was a gadget for tech savvy people, certainly not a means of every day entertainment for Mr. & Mrs. Smith. Internet speeds in most countries were still too low to stream feature films, and Netflix and Hulu, which both launched its streaming platforms in 2007, were neither global players nor household names then. Netflix was first available from Internet enabled smart TVs, the PS3 and other Internet-enabled gadgets in 2009. 2010 saw Netflix become available using the Wii, Apple devices, and more internet connected devices. That year also saw Netflix begin to grow internationally with its expansion into Canada, followed by a global expansion into 130 countries in January 2016.[lvii]

Today, the quality, budget, cinematography and cast of productions from e.g. Netflix, Hulu, Amazon Prime, HBO are of highest standards and easily rival any Hollywood or big screen production.

Hence, whilst cinemas proved to be recession resistant during the 2008 financial crisis, circumstances were very different then, with big cinematic entertainment being almost exclusively found in cinemas. Today, event films can be easily and conveniently accessed any day and any time via the living room…screened on a 55-inch TV.

10.3 Further Pandemics

Whilst all indications are that the current COVID pandemic seems to come to an end, further pandemics including lockdowns cannot be ruled out.

10.4 Cinema Specific

Cinema Revenues are dependent on ***box office revenues***. Over half of the cinema revenues are generated by box office sales and as a result, the financial position is largely dependent on the continued popularity and the overall quantity and quality of the films which it shows. Further, there can be no assurance that the cinema will maintain or grow its box office revenues, which could have a material adverse effect on the business, operating or financial results or financial position.

The level of cinema ***box office sales, and revenues, fluctuate*** throughout the course of any given year and are largely dependent on the timing of release of films produced, over which the cinema has no control. As a result, revenues may vary significantly from month to month within any given financial year.

The business could suffer as a result *of* extreme or ***unseasonal weather conditions*** or other exceptional events. Cinema admissions are affected by periods of abnormal, severe or unseasonal weather conditions, such as exceptionally hot weather or heavy snowfall. In addition, cinema admissions may occasionally be impacted by ***large events*** such as the FIFA World Cup or the Olympics.

The ***ability to license films*** on acceptable terms is largely dependent on its relationships with film distributors. The distribution of films involves their licensing for exploitation in various markets and in various media according to established release patterns, including by theatrical release in cinemas. There is no assurance that the cinema will be able to negotiate film licensing fees or agree fees on acceptable terms, or that current film hire margins can be maintained. Failure to continue to renew film rental agreements on favourable terms, to maintain current film hire margins or to continue to receive access to new titles could have a material adverse effect on the business, operating or financial results or financial position.

Retail sales of confectionary items, food and drinks form an important part of the revenues. The ***retail sales generally fluctuate*** in line with admissions and there is no assurance that attendance can be maintained or increased. There can be no assurance that sales or retail spend per head will not decline, either or both of which could have a material adverse effect on the business, operating or financial results. Cost of production including inflation, raw materials, transportation and Brexit may result in an increase in the cost of sale, not all of which will be possible to recover from increases in pricing given the cost of living and broader inflationary pressures in the marketplace.

Screen advertising accounts for a significant contribution to cinema profits
The cinema earns revenue from advertising. Any decline in advertising revenues, whether due to a failure to renew or replace any agreement relating to advertising revenues on favourable terms or otherwise, could have a material adverse effect on the business, operating or financial results or financial position. Revenue earned from advertising is also influenced by the level of admissions, and as such may decrease in the event that admissions do not meet a specified threshold.
Screen advertising experienced a massive -86% drop in 2021 due to the pandemic and cinema closures, with forecasts of a recovery of +213% in 2022.[lviii]

Reputation of the company
Failure to meet the expectations of consumers may have a material adverse effect on the cinema's reputation and financial performance.

Dependency on key members of senior management
The cinema's future success is substantially dependent on the continued services and performance of its Directors and senior management and its ability to continue to attract and retain highly skilled and qualified personnel. The Directors cannot give assurances that members of the senior management team and the Directors will remain with the Company.

Profitability may be reduced due to ***increases in labour, rent and energy costs***
Operating costs include employment, rent and energy costs. These costs may increase more than management currently anticipates, for example, if the level of the minimum wage or the Living Wage in the United Kingdom was to increase due to rising inflation and interest rates; or due to increased market fluctuations in the price of gas and electricity. These cost increases could have a material adverse effect on the business, operating or financial results.

The Cinema may be affected by ***planning laws***
New cinema developments are governed by local government planning policies. In the U.K., planning permission is required for the construction of almost all new premises and applications are considered individually against the local development plan, which includes policies relating to commercial and industrial development. If planning permission cannot be obtained for the premises it may affect the development of the cinema.

The Cinema may face ***increased competition and pricing pressures***
Certain towns and cities in the United Kingdom have relatively few cinema screens per person. Local Authorities in such areas are often interested in supporting new sites. Accordingly, where a drive-time area has an existing cinema, the company it could be subject to competition from new and/or upgraded cinemas operated by other cinema operators, which could materially adversely affect the performance of the cinema development. The cinema may become subject to aggressive pricing competition, especially with box office admissions.

There can be no assurance that the current market pricing environment will remain unchanged. If the cinema were to face aggressive price competition from other cinema operators or increased competition from other forms of leisure activities, it could have a material adverse effect on the cinema's business, operations and financial position.

Dependency on certain key contracts and arrangements:
The cinema requires a number of key contractual agreements with its suppliers in support of its business. The loss of some of these arrangements may cause temporary disruption to the operations and financial performance of the company.

The ***failure of the company's IT systems*** or data controls could impact profitability and its reputation. All suppliers are monitored, and the cinema employs an appropriately qualified team to maintain its systems.

11. APPENDIX

11.1 Feedback to PCT Points Raised in Draft Report

1. Market Failure: The cause and effect principal makes sense but ESS were not asked to review the impact of a new site on the exiting market – out of scope.

2. Demand / Supply: ESS believes that the agreed proposal requirements have been delivered. It was specifically focussed on existing supply and demand.

3. ESS found a lack of demand and over-supply of screens and as a result the report did not recommend what a new site could deliver in size, type of venue or commercial viability. Adding more screens into the area would be akin to fuelling the fire.

4. Consumer Survey: not relevant to this report which focussed on the scope primarily around data driven demand and supply.

5. Broader picture for industry: the market has become increasingly volatile and while there are significant investments in production facilities it is becoming clearer that the cinema market will be focussed on more limited major market releases. When we looked at the data there was a significant debate within our team on the challenges within the market. The report reflects current and on-going market analysis not a volte face, as also referenced in the PXLS response.

6. The report was not sub-contracted. Rob Arthur is a Director of ESS and was (and is) heavily involved in the writing and delivery alongside specialist support, given the Proposal objectives. Bios are clearly stated in the Proposal. ESS worked on a local national and global perspective.

7. PXLS: reporting on the proposed offer is out of the ESS proposal scope.

8. Demand for a High Street cinema in Paisley is out of the ESS proposal scope.

9. Commercial interest: ESS contacted commercial parties during the reporting period to assess interest. Major operators have no capital capacity or are active already in the market. There may be interest from mid-sized operators, but only if the project is fully capitalised – market intervention by local authority to deliver.

10. PXLS – PCT response document: It is a really well presented document. Thank you for sharing. However, the report ESS delivered was based upon a specific agreed proposal accepted by PCT and the response recommendations are outwith the ESS proposal scope.

11.2 Industry Energy Letter

Rt Hon Nadhim Zahawi MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ.

Rt Hon Kwasi Kwarteng MP
Secretary of State for Business, Energy and Industrial Strategy
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London SW1H 0ET.

26 August 2022

Dear Chancellor, Dear Secretary of State,

ENERGY COSTS FOR UK CINEMAS – URGENT ACTION NEEDED

We are writing this letter to both of you as the ten largest UK-based cinema operators, asking for urgent government action at a time when our entire sector is experiencing unsustainable pressures in terms of rapidly-escalating energy costs.

We have in the last year seen overall energy costs in many cases rise by as much as 160 per cent, this at a time when the sector is still recovering from the impacts of the pandemic. Without intervention or help, our energy bills will rise to even more unsustainable levels, with potentially enormous impacts for many of our sites.

While the recovery remains positive – with box office revenues now around 80 per cent of those seen pre-COVID – should the current situation prevail, then there is every likelihood that our companies and many others in the sector will return to the type of crisis situation we very much hoped to have left behind.

During the pandemic all of our companies were hugely grateful for the financial lifeline provided by the Government (though larger operators representing over 80 per cent of the UK cinema market were excluded from the support provided through the Culture Recovery Fund).

It is however no exaggeration to say that without meaningful action to address these challenges, there is a very real chance that a good deal of that effort will have been wasted, as we will each be left with no choice but to consider closing those sites rendered unviable by spiralling wages costs, inflation and in particular energy bills.

This would result in a direct loss of jobs (particularly for those at entry level or early in their working lives). Our companies alone provide direct

employment to around 19,000 people, with the UK cinema industry as a whole employing around 30,000, many of whose livelihoods could be equally impacted.

Any such decisions would also see local communities up and down the country affected, with many high streets at risk of losing the cultural and social as well as economic benefits that comes from having a local cinema.

We of course recognise that there is an imminent change of leadership at the top of Government, and that this request will sit alongside similar demands made of the new administration for action to support other business sector as well as households impacted by many of the same issues.

But we very much hope that there will be an opportunity for our sector and others to work with Ministers and officials to develop a sensible and proportionate response to these unprecedented circumstances which protects cinemas, the nation's favourite cultural activity.

We are copying this letter for information to Rt Hon Nadine Dorries MP, Secretary of State for Digital, Culture, Media and Sport.

We look forward to hearing from you.

Yours,

Shaun Jones
Vice President of Operations and Company Director (UK and Ireland)
Cineworld Cinemas

Carol Welch
Managing Director, UK, Ireland and Commercial Officer, Europe
ODEON Cinemas Group

Toby Bradon
Territory General Manager, UK, Ireland and Denmark
Vue International

Mark Barlow
General Manager, UK Theatres
National Amusements (UK) Ltd

Justin Ribbons
CEO
Empire Cinemas

Alex Scrimgeour
CEO
Everyman Media Group

12. REFERENCES/SOURCES

[i] https://www.boxofficepro.com/global-box-office-down-72-digital-leads-home-entertainment-in-2020/
[ii] https://www.screendaily.com/news/global-box-office-up-an-estimated-78-in-2021-but-well-below-pre-pandemic-levels/5166404.article
[iii] https://gower.st/articles/gower-street-reveals-updated-2022-global-projection-exclusively-with-screen-international/
[iv] bfi-yearbook-2021-exhibition.pdf
[v] bfi-yeabook-2021-uk-market-as-a-whole-full-report.pdf
[vi] https://www.bfi.org.uk/news/official-2021-bfi-statistics
[vii] https://filmdistributorsassociation.com/about-us/fda-resources/yearbooks/2022-yearbook/
[viii] https://filmdistributorsassociation.com/about-us/fda-resources/yearbooks/2022-yearbook/
[ix] https://issuu.com/cinematechnology/docs/ct_jun22
[x] https://www.screendaily.com/news/uk-cinemas-should-resume-pre-pandemic-200m-yearly-admissions-target-says-ukca-head/5169393.article
[xi] https://populationdata.org.uk/paisley-population/
[xii] https://www.nrscotland.gov.uk/files/statistics/council-area-data-sheets/renfrewshire-council-profile.html#table_pop_est_sex_age
[xiii] https://www.gov.scot/news/scottish-index-of-multiple-deprivation-2020/
[xiv] https://www.dailyrecord.co.uk/in-your-area/renfrewshire/paisley-ranked-one-unhappiest-places-25946987
[xv] https://www.nomisweb.co.uk/reports/lmp/la/1946157429/report.aspx?town=Renfrewshire#tabempunemp
[xvi] https://www.nomisweb.co.uk/reports/lmp/la/1946157429/report.aspx?town=Renfrewshire#tabeinact
[xvii] https://www.renfrewshire.gov.uk/media/9354/Background-Paper-6-Transport-Appraisal-2019/pdf/Renfrewshire_Transport_Appraisal_Background_Paper_6.pdf?m=1552918855670
[xviii] https://www.bfi.org.uk/industry-data-insights/statistical-yearbook
[xix] https://www.dailyrecord.co.uk/news/local-news/renfrewshire-worst-covid-infection-rates-23018169
[xx] https://www.retail-insight-network.com/comment/pandemic-ar-technology-footfall/
[xxi] https://www.barrheadnews.com/news/19996880.glasgow-silverburns-new-owners-plan-transform-centre-leading-shopping-facility/
[xxii] https://www.lse.co.uk/news/cineworld-mulls-restructure-as-lack-of-blockbusters-hits-sales-hs2bqf0x33yx721.html
[xxiii] https://www.ft.com/content/e6d9c2be-a46b-438c-a183-475e2eda92a6
[xxiv] https://www.comscore.com/Insights/Blog/UK-and-Ireland-2020-Box-Office-Year-in-Review
[xxv] https://issuu.com/cinematechnology/docs/ct_jun22
[xxvi] https://www2.deloitte.com/us/en/insights/industry/telecommunications/media-consumption-behavior-across-generations.html
[xxvii] https://www.wsj.com/articles/americans-age-50-and-up-are-powering-streaming-growth-11657735607?cid=other-eml-onp-mip-mck&hlkid=2e49a893d69949cc878415948bde5563&hctky=11593039&hdpid=8cb43a69-17d1-4443-a041-09b40856777b
[xxviii] *Source:* TechXplore, by Catherine Johnson, Lauren Dempsey
[xxix] https://www.theguardian.com/media/2022/mar/10/netflix-prices-subscribers-uk-ireland
[xxx] https://www.washingtontimes.com/news/2022/mar/17/netflix-tests-features-stop-users-sharing-their-ac/
[xxxi] https://screenrant.com/netflix-us-movie-library-since-2014-shrank/
[xxxii] https://screenrant.com/why-is-netflix-losing-subscribers/
[xxxiii] https://advanced-television.com/2021/11/04/research-us-streamers-leaving-vod/
[xxxiv] https://www.bloomberg.com/news/newsletters/2022-07-24/the-movie-business-has-a-supply-chain-problem
[xxxv] https://deadline.com/2022/03/streaming-services-mpa-1234977814/
[xxxvi] https://www.businessinsider.com/what-future-looks-like-for-movie-theaters-2022-industry-outlook-2021-12?op=1
[xxxvii] https://issuu.com/cinematechnology/docs/ct_jun22

[xxxviii] https://www.bloomberg.com/news/newsletters/2022-07-24/the-movie-business-has-a-supply-chain-problem
[xxxix] https://www.businessinsider.com/what-future-looks-like-for-movie-theaters-2022-industry-outlook-2021-12?op=1
[xl] https://www.forbes.com/sites/forrester/2021/06/28/post-pandemic-media-consumption-online-streaming-accelerates-a-new-content-experience/?sh=691a406c18cf
[xli] https://www.hollywoodreporter.com/business/business-news/netflix-movies-knives-out-gray-man-red-notice-1235156868/
[xlii] https://issuu.com/cinematechnology/docs/ct_jun22
[xliii] https://www.retail-insight-network.com/comment/pandemic-ar-technology-footfall/
[xliv] https://www.econotimes.com/Metaverse-SK-Telecom-to-launch-its-ifland-virtual-platform-worldwide-1636682
[xlv] https://www.indiatvnews.com/entertainment/news/explained-metaverse-and-how-it-will-shape-the-future-of-cinema-filmmaking-and-viewing-2022-03-08-763238
[xlvi] https://www.forbes.com/sites/swetakaushal/2022/02/15/indias-pooja-entertainment-buys-virtual-land-in-metaverse/?sh=47bfb02c558a
[xlvii] https://www.theguardian.com/film/2021/nov/11/disney-is-latest-firm-to-announce-metaverse-plans
[xlviii] https://streamearte.com/2022/03/movies-in-metaverse/
[xlix] https://fortune.com/2022/03/11/crypto-stocks-nasdaq-goldman-sachs-recession/
[l] https://itreconomics.com/depression
[li] https://issuu.com/cinematechnology/docs/ct_jun22
[lii] https://www.theguardian.com/business/2022/apr/19/energy-chiefs-fear-40-of-britons-could-fall-into-fuel-poverty-in-truly-horrific-winter
[liii] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest
[liv] https://capital.com/uk-energy-crisis-impact-price-cap-markets
[lv] https://abcnews.go.com/International/wireStory/eu-expects-russian-gas-cutoff-release-winter-energy-87072247
[lvi] https://omdia.tech.informa.com/
[lvii] https://www.finder.com/uk/global-netflix-library-totals
[lviii] https://www.statista.com/statistics/262726/cinema-advertising-revenue-in-the-uk/