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Movie Theater Industry Outlook

Key Takeaways

1. Movie theater attendance fell in 1H24, with content negatively impacted by strikes.
2. Higher ticket and concession pricing has thus far partially offset slow attendance recovery.
3. Movie theater chains are optimistic about 2H24 and recovering film volumes in FY25 and FY26.

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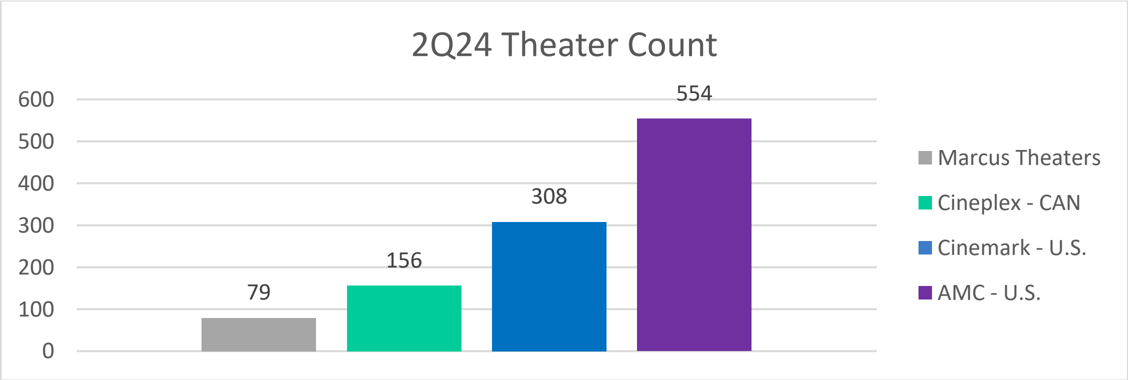
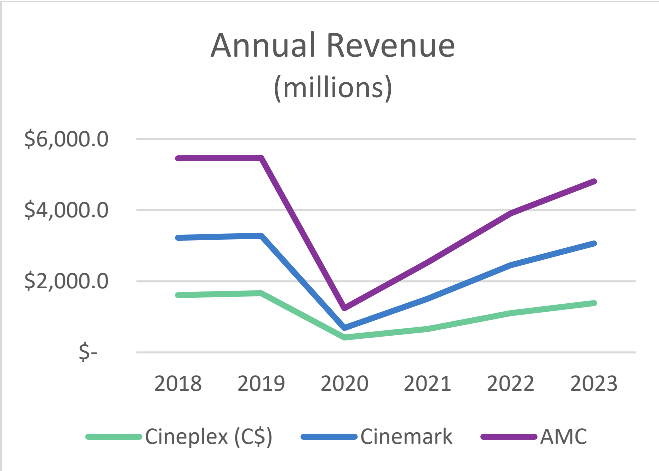
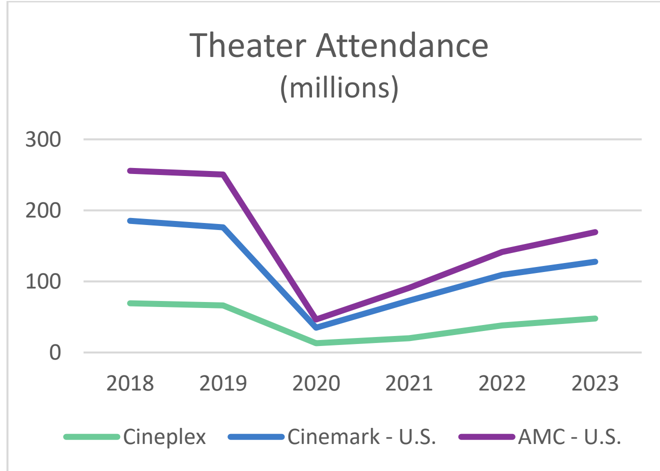
Attendance and Recovery Trends

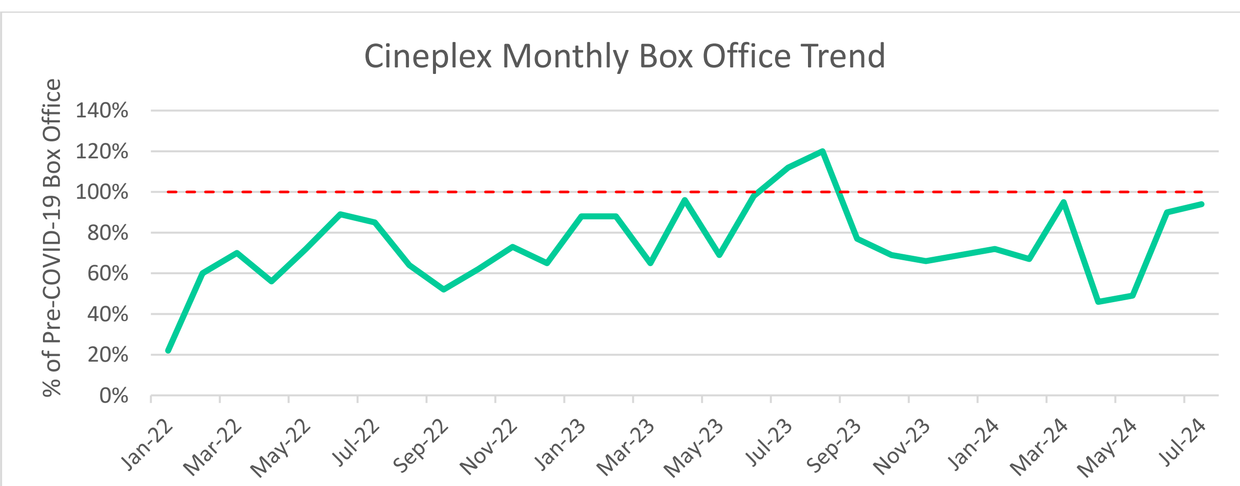
The movie theater industry's recovery from the COVID-19 pandemic has been slow and often uneven, with theater chains struggling to surpass pre-COVID revenue and attendance levels due to a lack of consistent film releases, disruptive events like the writers' and actors' strikes and broad economic pressure from inflation that has held down discretionary spending. Major public movie exhibitors in North America ended FY23 with revenue that was close to but still short of pre-COVID levels; Cinemark was the nearest and reached 95% of FY19 revenue, followed by AMC at 88% and Cineplex at 86%. Attendance was further behind at 69% of pre-COVID levels for Cinemark and Cineplex, and 66% for AMC. Part of the shortfall can be attributed to the closure of many underperforming theaters during the pandemic and recent years. AMC closed 106 net theaters from 2019 to 2023, or 10.6% of its total theater count, Cinemark closed 53 net theaters (9.6%), and Cineplex closed seven net theaters (4.2%). The privately held Cineworld, which operates the Regal Cinemas chain in the U.S., closed dozens of theaters prior to its bankruptcy filing in September 2022, and then went from about 500 U.S. locations at the start of the bankruptcy process to about 350 as it emerged in August 2023.





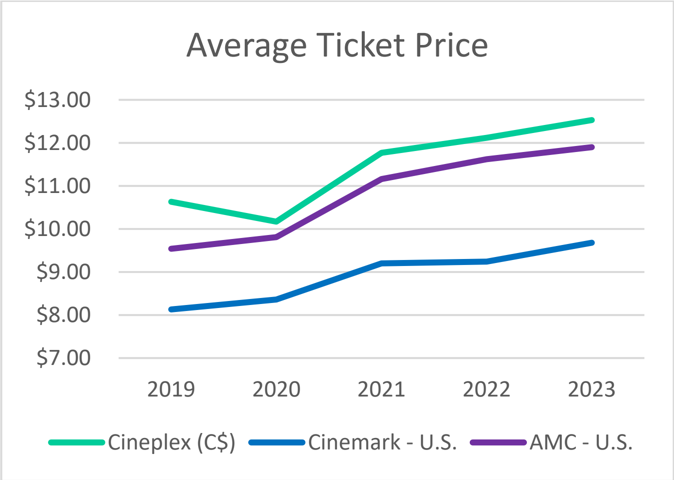


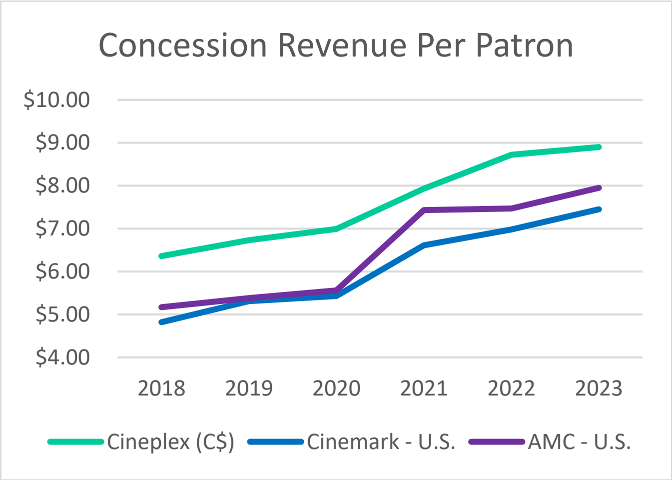
The industry appeared to be reaching a turning point in FY23 with attendance and box office revenue surpassing pre-COVID levels for the first time in the early summer, driven by several major film releases including *Mission Impossible: Dead Reckoning, Barbie* and *Oppenheimer*. However, this positive momentum was abruptly cut off by the dual impact of the Writers Guild of America (WGA) and Screen Actors Guild (SAG) strikes, which began in May and June 2023, respectively, and were not resolved until September and November 2023, respectively. The brief climb above pre-COVID box office levels as well as the subsequent retreat in 2H23 and the carry-over impact on 1H24 can be seen on the chart of Cineplex's monthly box office (below). The months-long work stoppage from the strikes pushed several major film releases to later periods and temporarily sank the industry's box office back to early FY22 levels. According to data from our Retailstat Real Estate Intelligence platform, foot traffic for the period from August 2023 to July 2024 was down by double-digits for all major movie theater chains, including AMC (-17.2%), Cinemark (-18.6%), Regal (-18.9%) and Marcus Theaters (-23.2%). For 2Q24, revenue was down 24% at AMC, 22% at Cinemark, 25% at Cineplex, and 26% at Marcus Theaters, all reflecting the weaker traffic. There is some room for optimism that consumer demand persists, and just needs an increased supply of better quality movies to motivate people to go to theaters, as indicated by the recent uptick in box office results in June and July 2024 due to popular releases such as *Inside Out 2* and *Deadpool & Wolverine*.



Price Increases / Rebuilding Attendance

Although FY23 revenues recovered to 80% to 90% of FY19 levels, theater attendance has lagged and reached just 69% of FY19 levels for both Cinemark and Cineplex and 66% at AMC. The difference is mainly attributable to significant price increases for both tickets and concessions as the exhibitors sought to pass on inflationary pressures and perhaps take advantage of pent-up demand from consumers returning to theaters. According to industry-wide data from the National Association of Theatre Owners, U.S. average ticket price increased 18% over the four-year period from $9.16 in 2019 to $10.84 in 2023. By year, the biggest increase was the 11% jump in 2021, corresponding with the initial reopening of theaters. This was followed by 3.5% and 3% increases in 2022 and 2023, respectively. In contrast, ticket prices rose marginally from 2018 to 2020 at rates of 1.6%, 0.5% and 0.2% prior to the pandemic.





Individually, Cineplex, Cinemark and AMC raised average domestic ticket prices by double-digit percentages in FY21 and then low-to-mid single-digit percentages in FY22 and FY23. For the four-year period from FY19 to FY23, average ticket prices were up 18%, 19%, and 25%, respectively. An increased mix of tickets sold for higher-priced premium formats such as IMAX and 3D has periodically contributed to higher average prices, but this mix often vascillates and is dependent on the types of movies released, reaching high points with films such as 2022's *Avatar: The Way of Water*. Alternative content tends to carry higher ticket pricing, including concert films such as *Taylor Swift: The Eras Tour*. Some theater chains have also tested showings of live sporting events such as UFC and the Olympics. On the other side, an increase in promotional ticket sales such as during AMC's and Cinemark's discount Tuesdays can negatively impact average prices, and this often coincides with periods when film slates are relatively weak. Loyalty program benefits can increase repeat visits, at the cost of discounted pricing on tickets and concessions.

Concession revenue per patron increased at an even higher pace than average ticket prices, rising 32%, 40%, and 48% during the four-year period between 2019 and 2023 for Cineplex, Cinemark and AMC, respectively. Movie theater chains generate much higher profit margins from concession sales than from ticket sales - for Cinemark, FY23 film costs as a percentage of admissions sales was 54% versus food and beverage costs as a percentage of concessions sales of 16% - meaning a comparable increase in concession vs. ticket pricing has a relatively bigger benefit to profitability. Concession revenue has also benefited from an increase in merchandise sales, such as movie tie-in shirts, collectibles, and novelty soda cups or popcorn tubs, though like premium format tickets, merchandise sales are often dependent on the individual appeal of films released.

Ultimately, the significant bump in ticket and concession pricing has been a boon to movie theater chains. However, there is a limit to what consumers are willing to accept, which can be seen in the reduced spending across nearly all retail categories in recent periods. Movie theaters occupy a middle-of-the-road space within the discretionary entertainment spectrum. Since a movie ticket is typically much cheaper in comparison to the costs of attending a concert or sporting event, consumers looking to cut spending can trade down by going to see a movie. At the same time, streaming services have become ubiquitous and home viewing is increasingly the medium of choice for a segment of the consumer base, growing in line with a long-standing trend towards shorter timeframes between exclusive theatrical releases and PVOD (premium video on demand) and home/streaming releases. Before the pandemic, the exclusivity period was usually around 90 days, but that period is now closer to 30 to 40 days on average. Encouraging home viewers to return to movie theaters is key to growing revenue beyond pre-COVID levels and excessive price increases make that more difficult. What appears most likely is that movie theater chains will continue to raise prices but at their present low-single digit rates to balance against wage and other cost pressures and optimize attendance.

Outlook

Heading into 2H24, the major movie chains assert that the toughest impact from the WGA and SAG strikes has passed. With production back on track, film releases will return to their upward trend continuing into 2025 and beyond, and major streaming services like Apple and Amazon have moved towards releasing many of their higher-profile original films exclusively in theaters before their streaming services.

Understandably, movie chains have not provided concrete guidance on how they think attendance and revenue trends will bear out. However, there is a vein of optimism from recent conference calls and industry conferences. Cinemark management stated it was “highly optimistic about the ongoing rebound of theatrical release volume back toward pre-pandemic levels over the next couple of years”. The Company also appears secure enough in its leverage and financial position to consider a return to dividends or share repurchases starting in FY25. AMC said it was “highly confident that the box office will be growing in the second half of 2024” and beyond that into 2025 and 2026. AMC also faces significant issues regarding its heavy debt load that it largely addressed with a refinancing transaction in July and August. Management indicated that higher ticket and concession pricing means it does not necessarily need “movie theater attendance to rise all the way back up to pre-COVID levels for [AMC] to generate pre-COVID levels, or maybe even more than pre-COVID levels of adjusted EBITDA,” but it certainly would not be a detriment.

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