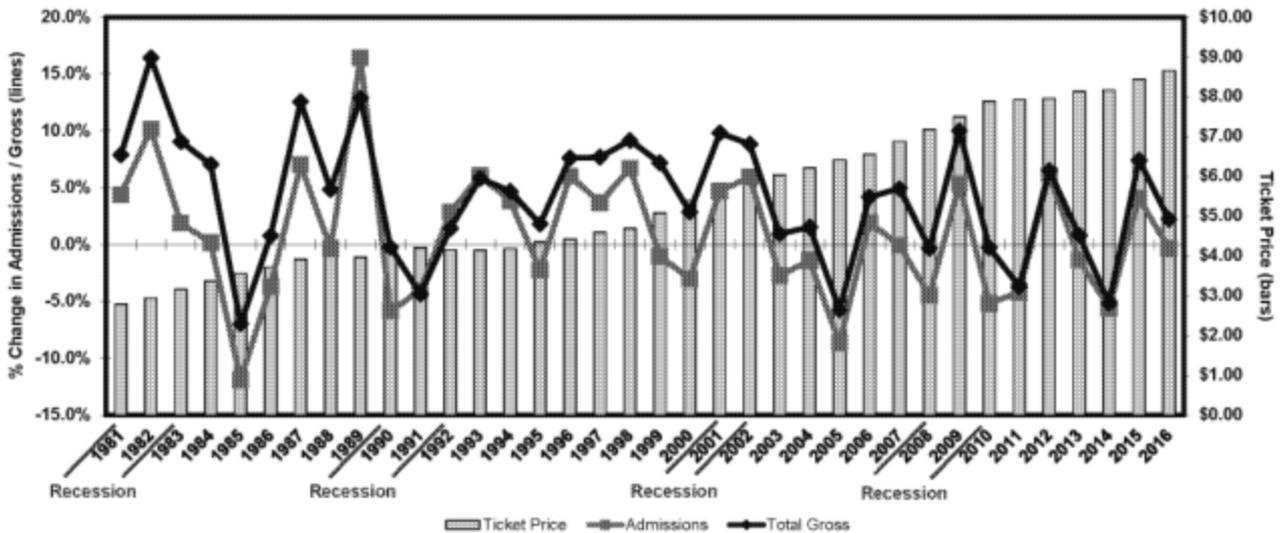




Theaters:

Our long-standing belief is that the performance of the theater exhibitors is linked more closely to the quality and appeal of the film release slate than the health of the overall economy. The chart below tracks trends in ticket prices, admissions, and total gross, and we think does a decent job showing that there is no clear link between admissions levels and the state of the economy (i.e., admissions were up during the most recent "official" recessions).

Ticket Prices & Box Office Grosses/Admissions at a Glance:



Source: Boxoffice Mojo.com, NBER, Deutsche Bank estimates

After 2 record-setting years in a row in 2012 and 2013, the industry took a breather in 2014 (down ~5.2%). Turned out to be a brief breather as the box office bounced back to a new all-time high in 2015 (+7.4%) and again in 2016 (+2.2% to \$11.38bn). Over this period, attendance was ~3.4% lower (2 up years, 3 down years) while ticket prices rose ~8.7%.

Given the high bar set in 2016, initial expectations for 2017 were for it to come up short. Yet a surprisingly fast start to the year (+4.6%) had many thinking another record box office year was in store. However, a slow summer (-14.9%) put a wrench in those plans, and with just a couple weeks left to go, 2017 is pacing down ~3% Y-o-Y. Top films of 2017 so far are "Beauty and the Beast" (\$504.0mm), "Wonder Woman" (\$412.6mm), "Guardians of the Galaxy Vol. 2" (\$389.8mm), "Spider-Man: Homecoming" (\$334.2mm), and "It" (\$327.5mm). "Star Wars: The Last Jedi," which opened December 15th, is currently at \$241.6mm and is likely to finish the year near the top of the heap.

The industry remains focused on creating a better theater-going experience for consumers. This includes premium food options, alcoholic beverages, better sound, cushy reclining La-Z-Boy-style leather seats, and the ability to reserve specific seats in advance. While all these improvements are evident in elevated capex levels (on average it costs approximately \$200,000 to \$250,000 per screen to convert, with landlords typically footing 35% to 40% of the bill), the benefits include attendance bumps, higher sales of advance tickets (up from high-single digits % of tickets sold a couple years ago to hi-teens % today), and elevated concessions per cap. Thus we see this spend as a smart use of cash for the exhibitors as they try to keep the theater-going experience