

TIME TO Recline & Relax?

Consumers have so many entertainment options today that exhibitors and the studios have been forced to change with the times. It's clear that movie-goers want to be dazzled by quality films and amid a viewing atmosphere unlike anything they can get at home. The studios have reacted by producing franchise films with top talent and special effects, while exhibitors have done their bit by installing digital and 3D, larger screens and other enhancements, including Event Cinema and an array of dining options. With all such positive developments and more than 25 sequels releasing in 2015, does this mean exhibitors can now sit back and relax?

Luxury recliner seating is since coming into its own, with the larger circuits leading the way. AMC has converted over 600 auditoriums to luxury recliners, with plans for over 1,200 more; while Regal recently announced it would convert over 25% of its screens to luxury seating. Others have announced similar plans, although many exhibitors remain reluctant to reduce seating capacity that results from the larger seats requiring more aisle space. While the jury is still out for the long-term effects, revenue has dramatically increased in certain theatres *despite* there being a 50%, or greater, reduction in seating capacity. Given this, small and mid-sized operators still need to assess the changing [local] landscape to determine if conversion is needed to be more attractive to patrons than the competition and to ensure their theatres aren't viewed as inferior.

Pricing for recliner seating-conversion ranges from \$125k-500k per auditorium, with variances due to many factors including: seating-type, auditorium-size and other associated renovations such as sloped floors, new carpets, etc. While most exhibitors won't have the same access to cash as the larger national circuits, industry financiers are coming to understand the dynamics of recliner seating and thus making available some attractive financing options.

APPROACHING LENDERS

Good planning is essential when approaching lenders for recliner-financing, as the resultant seating capacity-reduction is counter-intuitive to financiers. It's thus imperative to show specifics regarding your changing market-landscape along with the results for theatres that have already converted. As always, it's important to approach several lenders so there's competition for your loan. Lastly, since most lenders won't be excited about financing only the recliner conversion, it may also be necessary to employ some of the more creative financing solutions, outlined below.

- If you own real estate with equity value in excess of the loan balance, many lenders are willing to provide mortgages of up to 65-70% of the property value which could be sufficient to refinance the existing loan as well as provide

Cinema seating trends are changing and the move to luxury recliners is proving popular with exhibitors keen to capitalise on the new opportunity. But how to finance your conversion? New York-based **EFA Partners** explains how best to approach lenders.



- funds for recliners and other theatre-improvements. A sale/leaseback of your property could also yield significant proceeds as several REITs (Real Estate Investment Trusts) have become competitive, offering high property valuations and favorable lease-rates. Like a mortgage, proceeds from these could be used for the recliner-conversion as well as for needs unrelated to the property, such as owner-dividends.
- Many lenders providing cashflow-based loans remain confident about the long-term prospects of the movie theatre industry. Banks will usually provide financing of two-to-three times the historical cashflow generated by an exhibitor. Specialty finance groups also remain a viable alternative for growing exhibitors and, while these groups can be more expensive, loan proceeds can be over four times historical cashflow with amortisation much lower than that of the banks.
- Equipment lessors and lenders have, traditionally, been willing to provide financing for theatre seating and so this should be the case with recliners. These groups will scrutinise the warranties and maintenance needs of recliners since the fabric and mechanics will vary greatly from traditional theatre seating.

Keeping up with the Joneses – or, in this case, with the Regal/AMCs – may be an important factor in protecting market share for small and mid-sized exhibitors; and if the determination is that recliner-seating is the right choice for your theatres, a well-planned approach to several lenders should certainly result in favorable financing for your conversion. **S**

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Since 2009, EFA has been retained by 90+ entertainment, media and telecom clients, placed some \$800m of capital and advised on over \$1.2 bn of additional transactions. Successful recent engagements include exhibitors upgrading with recliner seating, plus other equipment and amenities.