

Email from Michael Paris

From: Michael Paris [<mailto:Michael.Paris@cinplex.com>]

Sent: October 13, 2017 9:15 AM

To: Sutherland, Shelley (AF - Corporate Revenue) <Shelley.Sutherland@Saskatoon.ca>

Subject: Amusement Tax Report - Comments from Cineplex

Shelley:

As discussed, below are a few points to consider for your report from an industry perspective. Please note that as a publicly traded company, we are not at liberty to share non-public confidential information about specific markets. That notwithstanding, I have included some recent third party research that you may find useful for your report.

1) Changes in Theatrical Exhibition since Repeal of the Saskatoon Amusement Tax

Since the City of Saskatoon repealed its Amusement Tax in 2007, the business of theatrical exhibition has continued to adapt to an expanding universe of in-home, out-of-home, and online competition for the public's leisure time and disposable income. The flood of entertainment options that have become available has resulted in flattening consumer demand that has caused a shift among theatrical exhibitors to focus on value added offerings and other enhancements to the guest experience.

In 2007, exhibitors were principally concerned about the size, number, and proximity of competing exhibitors. The industry in Canada has since consolidated from 7 to 4 medium to large-scale exhibitors and they are now focused on a much broader array of competitive concerns, including:

- The ability to maintain and grow theatre attendance and movie-going frequency;
- The seating capacity, location, quality and reputation of an exhibitor's theatre;
- The level of customer service and amenities such as premium seating, VIP Cinemas, specialized auditoriums (such as UltraAVX) and variety of food service offerings;
- The quality of projection and sound equipment, including specialized projection systems such as 3D and digital offerings; and
- Marketing and promotional programs, including loyalty programs.

The common thread is that exhibitors are more concerned than ever about the quality of the overall guest experience. It is no longer enough to monitor what a competitor may be screening across town, today's industry is increasingly concerned about how the guest feels from the moment they choose a "night at the movies" as their preferred entertainment option.

The shift in focus is easy to understand – the consumer has far more entertainment options in 2017 than they had 10 years ago.

Today, out-of-home competitors include fellow exhibitors, sporting events (the SaskTel Centre increased its capacity to 15,000 in 2008), cultural venues (the \$80M Remai Modern opens later this month), live music, live theatre (the Persephone Theatre moved into the Frank & Ellen Remai Arts Centre at River

Landing in 2007) and restaurants. In-home competitors include secondary movie distribution channels, such as cable and satellite television, DVDs / Blu-ray discs, Video On-Demand, as well as pay-per-view services and a variety of new streaming / download services via the Internet, including Netflix, CraveTV and others. Exhibitors must also compete with new gaming platforms, virtual reality experiences, and other forms of entertainment delivered via smartphones and apps.

Cineplex believes that movie theatres compete well with these alternative forms of entertainment as a result of cinema's lower cost and higher availability. Notwithstanding the belief that a night at the movies is good value for the consumer, recent research from Telefilm suggests that cost and competition are the primary causes of the increasing economic challenges facing exhibitors:

- **Cost impacts cinema attendance:** Every year, roughly two thirds of Canadians go to the movies at some time. According to the TeleFilm research, Canadians report going to the movies less often. Costs, a preference for at-home viewing and a perceived lack of films that need to be seen at the cinema were provided as key reasons for the reported variability in attendance.
 - *Understanding and engaging with audiences* (November 2016) - <https://telefilm.ca/en/studies/understanding-and-engaging-with-audiences>, Pg. 37.
- **Cinema competes against multiple channels:** Films are viewed primarily at home. Moviegoing is most popular among younger Canadians, with attendance at movie theatres then tending to decline with age. The proportion of Canadians with a Netflix subscription has grown substantially, to over 40%. This increases to 60% among millennials.
 - *Audiences in Canada: Trend Report* (July 2016) - <https://telefilm.ca/en/studies/audiences-canada-trend-report>, Pg. 2.

In order to maintain its value proposition in Saskatoon, Cineplex has sought to keep its pricing consistent while continuing to invest in its facilities (ex. Scotiabank Theatre Saskatoon and VIP). The objective is to ensure its theatres remain state-of-the-art and become a meeting place as well as an entertainment destination. However, the most pressing matter for the consumer continues to be the price of a cinema ticket.

Because entertainment is considered a luxury good (as opposed to a necessity or commodity), consumers are highly sensitive to changes in price. Exhibitors must deliver superior entertainment offerings and service than their competition and must do so at a lower cost to the consumer.

As noted by KPMG in its 2016 "Revenue Tools Options Study" provided to the City of Toronto, cinema tickets are uniquely sensitive to price increases when compared to other forms of entertainment:

"... admission revenues to live entertainment are generally considered to be price elastic. This is due in part to the fact that entertainment is considered a luxury good. Based on information provided by a standard economics textbook, the price elasticity for movie theatres is assumed to be -0.87 while that of live sporting events and shows is assumed to be -0.23. Another study cited that the elasticity of performing arts tickets is between -0.3 and -0.6;43 the average of this range (-0.45) was used for the analysis. **These figures mean that a 10% increase in movie ticket prices will reduce demand by 8.7%** but the same 10% increase in the cost of live performing arts tickets will reduce demand by only 4.5%. Similarly, the same increase in live sports entertainment tickets will reduce demand by only 2.3%. **These differences in demand impact are due in part to the fact that there are not many substitutes to the unique experience that live entertainment provides, whereas one could wait for a movie to stream**

online instead of going to the cinema. Competition for movie theatres from internet streaming services is likely increasing given the advent of services such as Netflix.”

In summary, the past decade has put increasing pressure on theatrical exhibitors to compete with a wide variety of new entertainment options and to anticipate new challenges – especially those arising from innovative and disruptive technologies. Just as Saskatoon has made significant investments in the last decade to help its economy compete in a global marketplace, theatrical exhibitors have also been required to adapt.

2) Changes in Resident Behaviour in Saskatoon

As noted above, Cineplex is not at liberty to disclose non-public confidential information about specific markets. That being said, in light of its Abatement Agreement with the City of Saskatoon dated May 18, 2005, Cineplex has no specific data on the before and after effects of the Amusement Tax on the behaviour of Saskatoon residents. The reason is that the Amusement Tax was never made visible to guests at a Cineplex location in Saskatoon as the Scotiabank Saskatoon Theatre was constructed after (and as a condition of) the Abatement Agreement.

To the extent Cineplex or its predecessors collected the Amusement Tax on the sale of cinema tickets in Saskatoon, the proceeds were:

- a) returned by the City of Saskatoon in the form of abatements and grants equivalent to the Amusement Tax proceeds collected;
- b) never separately identified to guests and never directly increased the ticket price charged; and
- c) only ever remitted from September 1, 2006 up until the time the Amusement Tax was repealed on or about July 1, 2007.

Notwithstanding the above, our records of the press coverage from 2007 suggest there was some concern from fellow exhibitors that the Abatement Agreement with the City of Saskatoon resulted in a disproportionate burden among the other businesses who were required to collect and remit the Amusement Tax. To the best of our knowledge, those concerns would still apply today as the Abatement Agreement will remain in effect in perpetuity as it concerns the reintroduction of any Amusement Tax or similar bylaw that would apply to Scotiabank Theatre Saskatoon and VIP.

I hope the above is helpful for your purposes. Please don't hesitate to be in touch if you have any questions.

Kind regards,

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