



Business Planning for Riverfront Park IMAX® Theatre – “Phase 1-C”

Update of Pro Forma Scenario for Digitally-Equipped Giant Screen Theater

Report submitted to:

Ms. Juliet Sinesterra, Project Manager, Spokane Parks & Recreation Department (“Client”)

Date: August 9, 2103

1. PHASE 1-C GOAL: To help the Client update its assessment of whether or not a business case can be made for replacing the existing IMAX® film projection system with a digital projection system.
2. KEY ASSUMPTIONS/BACKGROUND: Client continues to study the feasibility of renovating the IMAX Theatre (“Theater”), in conjunction with the Riverfront Park Master Plan. The new pro forma operating scenarios produced in this report are based on the Theatre being retrofitted with a DCI-compliant ^(a), non-IMAX digital projection system, including a 4K ^(b) resolution projector with a traditional xenon lamp light source, 3D module, new screen, and audio system. Client is also interested in the National Geographic brand and digital film program for theaters. Client does not require an update to the scenario based on a new IMAX digital projection system.
3. CONSULTANT’S WORK PLAN:
 - a. Reviewed and analyzed operating results of the Riverfront Park IMAX Theatre for all of 2012 and the first half of 2013. (Also reviewed 2008 – 2011 results).
 - b. Produced an updated pro forma forecast of potential attendance, revenues and operating net income, assuming two similar scenarios, both using the same technology (DCI-compliant digital projection): (1) no licensed brand for naming the Theatre, and no package of digital films, (2) adopting the National Geographic brand and digital film program.
 - c. Reviewed and updated the estimated (“rough order of magnitude”) capital expenses for acquiring a non-IMAX, DCI-compliant digital projection system incorporating latest technologies. This was informed by data provided to Consultant from an accomplished digital cinema integrator.

- d. Deliverable: A pro forma capital expense and income statement, with supporting schedules of key assumptions, to illustrate the breakeven level of attendance and revenues.

4. SUMMARY OF KEY FINDINGS & CONCLUSIONS

- a. Based on the included assumptions, and projecting from recent actual Theatre expenses, the breakeven level of attendance and operating revenue after factoring in all operating costs (including indirect expenses but not depreciation), are as follows:

	No licensed brand; no programming package	National Geographic Branded Theater with Digital Film Program
Breakeven level of Attendance (000's) (cash basis)	84	87
(% change vs 2012 att.*)	113%	119%
(% change vs 2008 att.**)	4%	7%
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Breakeven level of Gross Operating Revenue (\$000's) (cash basis)	\$ 740	\$ 770
(% change vs 2012 rev.*)	203%	216%
(% change vs 2008 rev.**)	-9%	-5%
* 2012 full year revenue was \$244K, and attendance was \$40K.		
** 2008 full year revenue was \$815K, and attendance was 81K. 2008 was the last full year that RPIT had regular access to (2D) IMAX DMR (Hollywood) films.		

NOTE: On an accrual cash basis (including depreciation charges), the breakeven attendance levels are 100K and 103K respectively.

- b. Overall, Consultant views the risk of *not* achieving a sustained breakeven operation on a cash basis, as “moderate to medium”, or a “5” on a 10-point scale. On an accrual breakeven basis, Consultant views the risk as “medium to elevated”, or a “7” on a 10-point scale.
- c. Compared to not doing so, adopting the National Geographic Branding, Supplemental Marketing & Programming Program offers a comparable breakeven level of attendance, but a *reduced risk* of achieving breakeven, because of the supplemental marketing provided by Nat Geo which has the potential to raise the profile and awareness of the Theatre, that should drive incremental attendance. The direct marketing support provided by Nat Geo, by their estimates, is valued at \$95K - \$125K per year.

- d. Achieving operating results that sustain a financial breakeven (or better) will require the following;
- i. Programming: (a) Retain the 40-minute, family-friendly, documentary as the staple of programming, with a full daily schedule, 7 days a week.
(b) Include Hollywood programming, on a “Delayed-Release” ^(c) basis, with a steady evening show schedule (2 shows/night), 7 days/week, plus extra matinee shows on weekends. (In general, offer more shows than in the past to capture higher attendance). Retain a professional film buyer to most-cost-effectively manage the acquisition of attractive Hollywood features.
 - ii. Personnel: Hire a fulltime Theater Manager who handles programming, oversees sales & marketing (including the schools program, private screenings rentals), and oversees the front-of-house (hourly) personnel. The Theater Manager and several members of the hourly staff would be trained on the digital projection system, which does not require dedicated staffing in the projection booth during all show-hours.
 - iii. Marketing: Increase overall marketing effort and spending to the levels shown. Ticket bundling and day/season’s passes with other Riverfront Park attractions should continue. The marketing strategy must leverage the Theatre’s status as the *largest screen*, with the most advanced projection system in Spokane. (If installed today, a two-projector, 4K system with 3D would probably be the most technologically advanced in the city, and it is unlikely a bigger screen would be added to any local multiplex theaters). New Theatre branding should incorporate “Giant Screen” in the name (e.g. “National Geographic Giant Screen Theatre”).
 - iv. Concessions: Upgrade the concession stand, to deliver the target levels of per capita revenue.
 - v. Technology: Install the digital projection system as described. -Specifically, a dual 4K resolution projection system, with 3D.
 - vi. Other assumptions: see Pro Forma schedules, beginning on **page 5**.
- e. Other developments which should improve the achievability of the breakeven scenario include:
- i. Improvements to exterior signage and lighting and sight lines, of/to the Theatre building.
 - ii. Improvements to the furniture, fixtures, and finishes of the Theatre interior, upgrading its aesthetic and comfort, in line with the new, state-of-the-art digital projection technology.

- iii. The addition of exhibit space near or contiguous to Theatre, which can host major traveling exhibitions that would be cross-marketed with the Theatre.
 - iv. A strategic, cross-promotional relationship with the Mobius Science Center. This would ideally involve joint ticketing.
 - v. Adding new restaurant, retail, or recreational tenants of the Park, whose demographics and drawing power would be synergistic with the Theatre.
- f. Caveats:
- i. The rough-order-of-magnitude capital expense forecast is for the Theatre presentation equipment and installation services only. The potential cap/ex in this report does not include: building construction, renovations (furniture (e.g. seats), fixtures (e.g. concession stand), and finishes (e.g. carpet and wall treatment); changes to mechanicals/electrical, the improvements mentioned in section “e” above. The cap/ex figure also does not include architectural, engineering, acoustical or other services, the IMAX equipment de-installation, or the Theatre’s re-launch marketing.
 - ii. The decision to proceed with the purchase and installation of a new digital projection system should be based on: a formal RFP phase with digital cinema integrators; confirmation that project funding for the upfront capital expenses can be secured; a comprehensive, 5-year business plan for the Theatre.

Footnotes/Glossary:

(a): “DCI-compliant” means any digital cinema component that is designed to meet the DCI Specification, which is the worldwide, open-system standard for digital cinema. “DCI” is the acronym for Digital Cinema Initiatives, the ad hoc organization formed in 2002 by the seven major Hollywood studios, to develop common standards for use by all manufacturers of digital cinema equipment, ensuring interoperability of equipment and anti-piracy protection of content. The first DCI Specification was released in 2005, and it has had updates.

(b) “4K”: when used in connection with digital projectors, this is a measure of image resolution. The “K” refers to one thousand pixel columns. “2K” is shorthand for an image of up to 2,048 pixels wide; a “4K” image is up to 4,096 pixels wide. 4K is the highest resolution available for DCI-compliant projectors. A 4K image is sharper, has more resolution, than 2K; factoring the difference in pixel rows on the vertical dimension of an image frame, 4K actually has four times the amount of image information of a 2K image. For reference, the current IMAX Digital system uses two 2K projectors. Many commercial multiplex theaters, including AMC, use a single Sony 4K projector, but they rarely get films delivered with 4K resolution. Most new giant-screen films are available in digital 4K.

(b): “Delayed Release” means starting the run of a new Hollywood film a few weeks after its initial release to commercial, first-run theaters. This is also referred to as booking films “off the break”.

5. PRO FORMA INCOME STATEMENT, CAP/EX, and SUPPORTING SCHEDULES

Schedule 1A: P&L ASSUMPTIONS - Revenues				
("\$" column represents annualized dollar amounts, unless otherwise noted)				
A) Operating Revenue Assumptions	Pro Forma Year with DCI Digital 2D/3D			
	No licensed brand; no programming package		National Geographic Branded Theater with Digital Film Program	
	\$	other units	\$	other units
TOTAL Breakeven Attendance (accrual basis)		84,412		86,668
Attendance - 40 min. documentaries		56,748		59,004
% 3D		70%		70%
% 2D		30%		30%
Average attendance per show (breakeven level)		33		34
Percentage that 40 min. doc's are of total attendance		67%		68%
Attendance - Hollywood features		27,664		27,664
% 3D		30%		30%
% 2D		70%		70%
Average attendance per show		38		38
Percentage that Hollywood Features are of total attendance		33%		32%
Average Ticket Price - 40 min. documentaries (Schedule 4)	\$	6.34	\$	6.58
Average Ticket Price - Hollywood Features (Schedule 4)	\$	8.34	\$	8.42
Average Ticket Price - weighted average of above	\$	7.00	\$	7.17
Food & Beverage Concessions, matinee docs - \$ per cap	\$	1.00	\$	1.00
Food & Beverage Concessions, Hollywood Features - \$ per cap	\$	3.00	\$	3.00
Food & Beverage Concessions per cap - wtd avg.	\$	1.66	\$	1.64
F&B Cost of Goods Sold		22%		22%
# Private screenings/facility rentals per year		6		6
Average PS&FR revenue (net of costs)	\$	1,200	\$	1,200

Schedule 1B: P&L ASSUMPTIONS - Costs				
("\$" column represents annualized dollar amounts, unless otherwise noted)				
B) Operating Cost Assumptions	No licensed brand; no programming package		National Geographic Branded Theater with Digital Film Program	
	\$	other units	\$	other units
Projection System Royalty fixed ("Rent", indexed)	\$	-	\$	0
Projection System Maintenance fee per year	\$	6,500	\$	6,500
Film Rental savings (% of GBO) from Nat Geo program				5%
Percentage of Matinee Show Schedule that is a Nat Geo film		0%		50%
Film Rental (40 documentaries) (per head / % of GBO)		1.78	1.68	25.5%
Film Rental (Hollywood Theatrical) (per head / % GBO)		46%		46%
Film Rental % GBO (Hollywood Features) - wtd avg		34%		32%
Prints (Digital, on hard drives)	\$	3,000	\$	3,000
Film Buyer Fees (Hollywood Features only)	\$	6,000	\$	6,000
Total Programming Cost	\$	209,248	\$	208,039
Theater Marketing Expense - paid - 40 min Documentaries	\$	60,000	\$	60,000
Theater Marketing Expense - paid - Hollywood Features	\$	30,000	\$	30,000
National Geographic Brand Royalty (included in Marketing, Schedule 6) (per head)	\$	1.07	\$	1.40
Documentaries (40 min.) per week (average, see Schedule 2)		33		33
Hollywood Feature shows per week (average, see Schedule 2)		14		14
Total "Show hours" per week (average)		61		61
Total Shows per week (average)		47		47
Shows per year (approx.)		2,444		2,444
3D shows per year		1,390		1,390
Personnel Costs (annualized) - (Schedule 3)	\$	179,953	\$	179,953
Utilities	\$	75,000	\$	75,000
Supplies	\$	7,500	\$	7,500
Other Taxes, Fees & Charges	\$	7,500	\$	7,500
Indirect Expenses as % of Personnel Costs		49.08%		49.08%
General maintenance	\$	8,000	\$	8,000
3D Glasses cost per use	\$	0.08	\$	0.08
Lamp Cost per show hour	\$	2.67	\$	2.67
Depreciation for new Digital Projection System - see Schedule 5.	\$	84,638	\$	84,638
Depreciation of other assets, currently in use (IMAX building improvements, seating, small digital projector)	\$	9,000	\$	9,000

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Schedule 2- SHOW SCHEDULE ASSUMPTION							
	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
10:00							
11:00							
12:00							
1:00							
2:00							
3:00							
4:00							
5:00							
6:00							
7:00							
8:00							
9:00							
10:00							
11:00							

Legend	shows/wk, on average	Shows per Year
Optional school shows - 40 min. documentaries	2	
Public shows, summer - 40 min. documentaries / School shows during school year	2.5	
Optional 12 noon show - 40 min. documentaries	1.5	
Public shows - 40 min. documentaries, throughout year	27	
<i>sub-total weekly avg.</i>	33.0	1,716
Public shows - Hollywood features	14	728
<i>Average week # of shows per week</i>	47.0	2,444
<i>Average week # of show-hours</i>	61.0	

Schedule 3: PERSONNEL COSTS			
Pro Forma Year with DCI Digital 2D/3D			
	Rate	no. of hrs per wk	Annual Cost
<u>Management/Fulltime</u>			
Theatre Manager	\$ 27.00	40	\$ 56,160
sub-total salaries			56,160
benefits (FT only)	25.0%		\$ 14,040
payroll taxes	7.65%		4,296
Sub-total Management/salaried			\$ 74,496
<u>Part-time - Daytime only (50 wks/yr)</u>			
Projection Techs (1/4 of show hours)	\$ 14.00	8.3	5,775
Lobby/Auditorium Hosts	\$ 9.50	59.6	28,301
Concessions Hosts	\$ 9.50	14.9	7,075
payroll taxes	7.65%		3,148
Sub-Total Operating / Part-time			\$ 44,300
Total Personnel Cost for daytime/40-min docs programming only			\$ 118,796
<u>Part-time - Evenings only (for Hollywood Features) (52 wks/yr)</u>			
Assistant Techs (half of show-hours)	\$ 18.70	15.8	15,315
Box Office Hosts (evenings only)	\$ 9.50	21	10,374
Lobby/Auditorium Hosts	\$ 9.50	35	17,290
Concessions Hosts	\$ 9.50	28	13,832
payroll taxes	7.65%		4,346
Sub-Total Part-time Evenings			\$ 61,157
TOTAL PERSONNEL COST			\$ 179,953
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Schedule 4: THEATER TICKET PRICES

		Current IMAX 2D Film Theater Pricing	No licensed brand; no programming package	National Geographic Branded Theater with Digital Film Program
40-minute doc's, Theater-only (Gross ticket price, includes 5.0% admission tax)	Adult	\$ 8.50	\$ 8.75	\$ 9.00
	Senior / Teen	7.50	7.75	8.00
	Child	6.00	6.25	6.50
	Adult group	7.00	7.25	7.50
	Senior/Youth group	6.00	6.25	6.50
	Child group	5.00	5.25	5.50
	School group	4.25	4.50	4.75
	Passes (Day & Season)	6.25	6.50	6.75
	Comp	0.00	0.00	0.00
Weighted Average ATP, all ticket types, 40-min. docs, NET of admission tax		\$ 6.11	\$ 6.34	\$ 6.58
Hollywood Feature net ATP* (see below)			\$ 8.34	\$ 8.42
Weighted Average ATP, including Hollywood Features, net of admission taxes			\$ 7.02	\$ 7.19

	Current IMAX 2D Film Theater Pricing	No licensed brand; no programming package	National Geographic Branded Theater with Digital Film Program
*Hollywood Features			
Adult - 3D	n/a	\$ 12.25	\$ 12.25
Senior - 3D	n/a	11.25	11.25
Child - 3D	n/a	8.25	8.25
Adult - 2D	10.25	10.25	10.25
Senior - 2D	9.25	9.25	9.25
Child - 2D	5.75	6.25	6.25
All Discounts (avg.)	7.25	7.25	7.25
Comps	0.00	0.00	0.00
Average Ticket Price ("net ATP")		\$ 8.34	\$ 8.42

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**Schedule 4B: COMMERCIAL THEATER TICKET PRICES IN
SPOKANE**

	AMC River Park Square	Regal Northtown Mall	Garland Theater
Adult - IMAX 2D/3D	\$ 16.00		
Senior / Teen - IMAX 2D/3D	15.00		
Child - IMAX 2D/3D	13.25		
Adult - 3D (RealD)	\$ 14.00	\$ 14.00	
Senior / Teen - 3D (RealD)	13.00	11.50	
Child - 3D (RealD)	11.25	11.50	
Adult - 2D	\$ 10.50	\$ 10.50	\$ 4.50
Senior / Teen - 2D	9.50	8.00	4.50
Child - 2D	7.25	8.00	4.50

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Schedule 5: CAP/EX & RELATED PROJECTION SYSTEM COSTS

		DCI Digital 2D/3D with two Christie 4k digital projectors; MasterImage 3D
Type of Projection System Agreement		Purchase Agreement
Screen size (same as current)		69' X 53'
Image size (shorter than current)		69qx 37q
Max. # of seats		396
	Description	Cost
Equipment (projection, sound, screen)	4K Projectors (2), custom lenses, server (1), lamps, show control system, related equipment	\$ 170,500
	Digital sound system (7.1), basic cinema package - speakers, processor, amps, racks, speaker wiring.	65,000
	Screen sheet, silver	31,000
	Screen structure (retain existing)	-
	3D system, cleaning machine, racks for glasses, initial supply of 3D glasses (1200)	23,200
	Other media: scaler, Blu-ray player player, closed captioning, assistive listening system, racks, etc.	15,000
Sub--total Equipment		\$ 304,700
Services (shipping, installation labor, travel & per diems, etc.)		\$ 61,700
Sub-total Installed System		\$ 366,400
Contingency	10%	\$ 36,640
<i>Sub-Total CAP/EX,</i>		\$ 403,040
Sales & Use Taxes	5%	\$ 20,152
GRAND TOTAL of ALL UPRONT COSTS, for purposes of 5-year depreciation		\$ 423,192

Footnotes:

Subject to a site visit, the RFP specification, access to accurate as-built drawings with complete building measurements.

Assumes a 3D system from MasterImage3D. Other 3D systems could be considered.

Does not include: Architectural, Engineering, Construction, Mechanical/Electrical, Acoustic and other consultants; IMAX de-installation; re-launch marketing.

Schedule 6: PRO FORMA INCOME STATEMENTS, NORMALIZED YEAR 2+

	Pro Forma Year with DCI Digital 2D/3D	
	No licensed brand; no programming package	National Geographic Branded Theater with Digital Film Program
Attendance - 40 minute documentaries	56,748	59,004
Attendance - Hollywood Features	27,664	27,664
Breakeven Total Annual Attendance (cash basis**)	84,412	86,668
Average ticket* - 40 min. documentaries	\$ 6.34	\$ 6.58
Average ticket* - Hollywood Features	\$ 8.42	\$ 8.42
Average ticket* - weighted average	\$ 7.00	\$ 7.17
Concession per cap (wtd. average)	\$ 1.66	\$ 1.64
* net of admission taxes		
GROSS OPERATING REVENUE		
Admissions (net)	\$ 592,938	\$ 621,154
Private Screenings & Facility Rentals	7,200	7,200
Concessions	139,740	141,996
Total Gross Operating Revenue	\$ 739,878	\$ 770,350
COST OF GOODS SOLD (concessions)	\$ (30,743)	(31,239)
GROSS MARGIN	\$ 709,135	\$ 739,111
OPERATING EXPENSES		
Programming	\$ 209,248	208,039
Personnel	179,953	179,953
Marketing*** (printing & advertising)	90,000	121,058
Utilities	75,000	75,000
Supplies	7,500	7,500
Repairs & Maintenance	32,113	32,239
Other Contracts	7,000	7,000
Other Taxes, Fees & Charges	7,500	7,500
Interfund Charges	12,500	12,500
Indirect Expenses	88,321	88,321
Total Operating Expenses	709,135	739,110
NET OPERATING INCOME	\$ 0	\$ 0
DEPRECIATION		
Depreciation of New Theater Equipment	\$ 84,638	\$ 84,638
Depreciation - Other	9,000	9,000
Total Depreciation	93,638	93,638
NET INCOME	\$ (93,638)	\$ (93,638)
** Including Depreciation, the accrual-based breakeven level of attendance is:	99,931	102,703
*** In the Nat Geo scenario only, "Marketing" includes the National Geographic brand royalty of 5% of Admissions. However, the Theatre gains \$95,000-\$125,000 in direct marketing support from Nat Geo, at their cost).		
NOTICE: The projections in these schedules are based on the included assumptions and formulas. The actual results will vary from pro forma forecasts, and the variance may be material. These schedules are provided by Blaze Digital Cinema Works LLC ("Blaze") for City of Spokane on the understanding that neither party is engaged in rendering accounting, tax counsel, or other financial services. These schedules are for illustration and the City's internal business planning purposes only.		

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