



National Association of Theatre Owners

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CinemaCon State of the Industry
Las Vegas, Nevada
12 April 2016

Welcome to CinemaCon 2016, where the motion picture industry comes together. CinemaCon is about passionate movie theater professionals, like Marquee Award winner David Passman of Carmike Cinemas; like NATO's Chairman John Loeks of Celebration! Cinema; and dedicated theater managers like the Regal team sitting up there in the top balcony. And this year we welcome two new national circuit CEOs to CinemaCon - Adam Aron of AMC, and Mark Zoradi of Cinemark.

CinemaCon is also about cutting edge cinema technologies and delicious new food and beverage products, brought to us by the International Cinema Technology Association and the National Association of Concessionaires. ICTA's President, Michael Archer, and NAC's President, Terry Conlon, are with us here this morning. I invite all NATO members to visit their members on the trade floor this week.

And of course CinemaCon is about inspiring movies experienced on the big screen. Thank you to Chris Dodd and the MPAA team for your tremendous support, and to your members who bring us those spectacular movies. Each of the six MPAA members will make presentations this week, beginning with Paramount last evening and continuing with Warner Bros., Sony, Disney, Universal and Fox. Returning supporter Lionsgate will also be on hand, as will first timers STX and Amazon. Please join us to experience all nine of these exciting presentations.

This industry family of three constituencies - exhibitors, suppliers and movie distributors - together produced record-breaking numbers in 2015. The domestic box office was up a solid 7.5% to \$11.1 billion. Our industry's growth has continued this year, with box office up a strong 12.7% in the first quarter. Cinema admissions have continued to soar lately with a trio of summer-type blockbusters early in the year - *Deadpool*, *Zootopia* and *Batman vs. Superman*.

The international market also broke records, though local currency devaluations slightly mask how truly historic the year was. The global exhibition haul of \$38.3 billion would have likely exceeded \$40 billion had it not been for weak currencies in key markets. Admissions numbers tell the real story overseas. Ticket sales soared by an astounding 51.2% in China; 14.7% in Mexico; 14.3% in Germany; 7.8% in Spain, and 7.4% in Brazil.

Why is the cinema industry, both here and abroad, growing? Some of the reasons are obvious. Great movies, spread over all twelve months, were exhibited in fabulous movie theaters with the best in sight and sound, luxurious seating, and expanded food and beverage.

But today I want to emphasize three other, less-understood reasons for our success. The first reason might surprise you. Teenagers love the cinema experience and their support for our industry is growing.

What's that, you say? Don't we all know that teenagers can't get away from their iPads, video games and smart phones?

To be certain, teens and young adults are spending more and more time on their devices. According to a recent study, YouTube is a must-have service for 67% of consumers aged 13-24, while only 36% cite pay TV. What's more, a majority of those consumers say they can live entirely without cable or satellite television. They find the content on TV less interesting, and the technology format less versatile.

Indeed, my thirteen year-old daughter told me last week that she strongly prefers to watch video content on her iPad because it is mobile and private, and because she controls it. She rarely watches television. But she still goes to the movies, and that reflects her age demographic.

Teenagers remain the strongest segment of movie-goers. Last year per capita ticket sales for Americans aged 12 to 17 was 7.3, with the highest growth rate of any age demographic. That demographic represents only 8% of the U.S. population, but a stellar 16% share of movie tickets purchased. Teenagers constitute not only our most frequent guests, but they are also the highest spenders. Teenagers have the highest rate of support for 3D and premium large format screens.

The small screens of television may hold less appeal for teenagers. But the big screens of cinema, and the personal screens of hand-held devices, can co-exist quite well.

A strong youth audience for cinema signals future industry growth as we develop another generation of movie-goers. A second bright sign for the future is that diverse audiences around the globe are making their voices heard. Historically, three of the biggest cinema markets were the United States, Europe, and Australia. And in the old days those territories weren't nearly as diverse as they are today. Now, the overseas theatrical markets with the fastest growth rates are found in Asia and Latin America. And here in the U.S., Hispanics have the highest rate of cinema visits.

No doubt the construction of state-of-the-art cinemas in all cultures and neighborhoods has enabled this growth. And there is another factor as well. The more that movie casting looks like the world, the more the world goes to the movies. Consider these demographics on U.S. ticket sales for *Furious 7* compared to the other biggest blockbusters of last year. In the U.S., a majority

Caucasian country, white folks accounted for only 40% of the tickets sold for the movie. And globally the diverse cast of that franchise has helped to drive record sales. At CinemaCon we champion the diversity of our industry, not just because it's the right thing to do, but because diversity matters for business.

My third reason for sustained strength in the theatrical market has been the subject of some news lately, but for all the wrong reasons. At NATO we continue to believe that exclusive theatrical release windows drive success in theatrical markets and in ancillary movie markets as well. Exclusive theatrical windows make new movies into events. Success there establishes brand value and bolsters revenue in downstream markets.

In the development of a recent strategic plan for the organization, NATO's members overwhelmingly declared that preservation of theatrical windows constitutes the highest priority for the industry, and our members intend to execute that plan.

To be sure, more sophisticated window modeling may be needed for the growing success of a modern movie industry. Those models will be developed by distributors and exhibitors in company-to-company discussions. Working together on smarter windows can grow the pie for everyone.

There are, of course, other ways to ensure continued growth in the business - like working harder to connect with our guests to keep them coming back. In a breakout year like 2015, some guests came to the cinema who hadn't come for a while. That is a great time to show off the new amenities our members can offer.

Excellent customer service also drives repeat business. That's why we count on our front-line theater managers and staff to ensure a friendly, clean and accessible theater environment for all of our guests.

In a new program, studios and exhibitors are working together to thank our guests in a new way. Check out this piece. [Creative America spot roles] As our partners in distribution make more creative spots like those, I encourage more exhibitors to run them in your cinemas. Contact us at NATO if you are interested.

And finally, good and regular training helps to produce excellent customer service. That's why NATO is pleased to announce a new training program [NATO Training spot roles]. We have developed new, online training materials regarding such subjects as safety and security; guest relations; workplace behavior; and movie ratings.

Thank you to all our delegates for attending this year's convention, and thank you for your attention here this morning.

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It's not every day that I get the opportunity to introduce a new entertainment company for their first presentation on the CinemaCon stage. But in 18 short months, STX Entertainment has developed into a significant distributor of content for your big screens. Please help me welcome STX's Founder, Chairman and CEO Robert Simonds, and President Sophie Watts.