



National Association of Theatre Owners

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CinemaCon State of the Industry
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Hello CinemaCon 2017! It's such an honor to be back here once more, joining all of you in a celebration of the movie-going experience. Each one of you -- the passionate industry professionals gathered in this room -- contributed toward another stellar year at the box office. Thank you for what you do every day.

And for a few of you I want to give a special shout out. To Byron Berkley -- champion of independent theater owners and consummate NATO volunteer - congratulations on your award today. To NATO's leadership, thank you to Chairman Loeks, Vice Chairwoman Miles, and Secretary Logan, as well as Marquee Award winner and Treasurer Berkley.

In addition to passionate theater operators, terrific box office returns also come from delicious food and beverage service and cutting edge cinema technologies. NATO appreciates the support of the National Association of Concessionaires and its President, Terry Conlon, as well as the International Cinema Technology Association and its President, Michael Archer. All exhibitors should check out the sold-out trade floor this week and see what these folks have to offer.

Success in the movie business also depends on exceptional customer service, like that provided by hundreds of Cinemark managers who join us this morning in the top balcony! Let's give some love to all theater managers on the front lines of our business.

Excellent services and experiences would mean little, though, without great movies on the big screen. This week you will see more product than ever before from a record-breaking ten different studios. CinemaCon would be nothing without the support of these companies.

This week at CinemaCon NATO will emphasize two themes - one to be expected, but one a bit out of the ordinary. As should come as no surprise, NATO will champion the movie-going experience and discuss very strong numbers at the box office. Additionally, given the rapidly changing nature of the public-policy focus in many territories around the world, NATO will also speak out about the benefits exhibitors derive from globalization.

First, let's celebrate the strong state of our industry by looking back at the year just completed. When the year 2016 began, many pundits predicted that movie-going would take a dive in 2016 but rebound the following year. But one beautiful aspect of this magical business is that no one knows anything until tickets go on sale and our guests begin to speak with their wallets. Despite earlier harbingers of decline, we did just fine in 2016, thank you very much! According to comScore - NATO's Official Data Partner -

domestic box office receipts broke a new record at \$11.37 billion in the U.S. and Canada. That is a 2.1% increase from 2015 and the eighth straight year revenues have exceeded \$10 billion.

Yes we had some big hits. There were nine titles that grossed over \$300 million in 2016, while there were only six in 2015. But in an equally encouraging sign that runs counter to earlier trends, films that grossed between \$50 and \$100 million accounted for \$250 million more in 2016 than in the prior year.

On the international scene, the numbers are a bit complicated even though they remained strong. In 2016 the global box office for all films released in each country around the world reached \$38.6 billion, up one percent from 2015. The international portion of that total came to \$27.2 billion, down very slightly from \$27.3 billion in 2015. Had it not been for currency devaluations in many important territories, international box office would have set a new record last year. In China, for example, the box office was down \$200 million when measured in dollars, but actually posted a 3.7% increase when measured in local currency. In the United Kingdom, box office totals when measured in dollars were damaged by Brexit and the devaluation of the pound. In the end, 2016 proved to be a much better year than most predicted. Indeed, records at the global and domestic box office are worthy of celebration.

As we turned the page to 2017, analysts then predicted that the first quarter could not stand up to the same period in 2016. Then along came unanticipated upsides from movies like *Get Out* and *Split*, long-running Academy favorites such as *Hidden Figures* and *La La Land*, and predicted smash hits like *Beauty and the Beast*, *Logan*, and *LEGO Batman*. Though we have four days left in the first quarter, I think it's fair to say that the industry is up again - by more than 5%. And the slate for the rest of the year simply looks amazing, as you are seeing this week here at CinemaCon.

The strength of the movie theater industry has not just been the story of this past year, though - or the past two or eight. Despite all the excited talk about the internet and streaming disrupting the movie business, domestic box office has been on a steady upward path for more than a decade. There has been disruption in the industry - just not in the movie theater industry.

Take a look at this slide.

In 2001, domestic box office totaled \$8.11 billion. Last year, domestic ticket sales brought in \$11.37 billion. In the last fifteen years, domestic movie theaters and their distribution partners have seen box office revenue increase by 40%.

Mind you, this performance was not only a rebuke to the idea of disruption – it was in the face of two recessions, 10% unemployment and a U.S. median income that is only now returning to the levels last seen 17 years ago.

Admissions have held steady, fluctuating with the popularity of the movies we offer in a fairly narrow but consistent range. At the same time, the industry has not held still, investing billions of dollars to completely change our core projection technology, creating opportunities for new technologies like 3D, high dynamic range, high frame rates and immersive sound. Theaters now offer Premium Large Format screens, restaurant and alcohol service, reserved ticketing, loyalty programs, and ticketing apps, all while maintaining an average ticket price that, adjusted for inflation, is lower than the average ticket price in 1976.

Strong domestic box office results would not be possible without NATO's diverse membership: from large chains operating in major metropolitan hubs to independently-owned cinemas in small towns across the country. This week we celebrate the entire spectrum.

Another common misconception about our industry is that millennials aren't going to the movies. Research indicates otherwise. According to data from comScore's PostTrak in-theater polling, 55% of frequent moviegoers—defined as seeing four movies in theaters over the past two months—fall into the 18-34 age range. The MPAA defines frequent moviegoing as once a month or more, and according to their annual report 15.2 million millennials showed that level of attendance in 2016--a 16% jump from 2015. Millennials are also responding well to innovations in the theatrical space. In our own custom survey of 2,000 moviegoers that was conducted by NATO's Young Members Committee, 40% of millennials who've been to a theater with reclining seats answered that they go to the movies more often because of them, and 32% who've experienced reserved seating say that they seek out the theatrical experience more frequently because of that option.

NATO's second theme is a new one for the CinemaCon stage. Earlier we discussed global records at the box office. We should also talk about how our business benefits from a global world view.

Open and diverse societies can drive movie attendance. In the United States, for example, Hispanics constitute the most frequent movie-goers in most years. comScore's data for 2016 indicates that Hispanics made up more than 21% of the domestic movie-going audience even though they were less than 18% of the population.

Asian American per capita movie attendance grew substantially in 2016, from 4.9 to 6.1 times a year, and Asian Americans substantially over-index on ticket buying compared to their population.

Similarly, African American per capita attendance also grew in 2016, from 3.5 to 4.2 times a year, and African Americans also over-index compared to their population.

A global world view also allows for the freer movement of goods. For exhibition, this means lower costs on items key to the movie-going experience. NATO member Alejandro Ramirez Magaña of Cinépolis wrote recently that his Mexican-based company buys popcorn from Iowa and Indiana and cheese for their nachos from Wisconsin because the trade policies between Mexico and the United States make those products affordable. Should free trade policies between those two countries change, and prices rise, Cinépolis would likely buy what today is slightly more expensive popcorn from Argentina, and would have to find another source for cheese as well.

Exhibitors in many territories import their equipment, and the average movie-theater-equipment import duty around the world is between 9 and 10 percent (with some countries going as high as 100 percent.) Protectionist policies could drive those duties higher, while greater free trade would lower them.

International agreements and institutions also serve to protect intellectual property and combat movie theft. Exhibitors around the world lose billions of dollars each year to movie theft, and the losses would be much greater if not for a coordinated global war on piracy.

In recent years we've stressed how important it is to have a diverse slate of films in order to achieve strong box office results. The global nature of our industry encourages directors from all around the world to bring their unique visions to major productions. This week, you'll be seeing plenty of exciting footage from directors who weren't born in the United States.

Finally, exhibition is itself becoming a global business. American-based AMC is going into Europe with the acquisitions of Odeon and Nordic. Chinese company Wanda has invested in AMC and has acquired Hoyts in Australia. Korean based CJ-CGV has acquired Mars in Turkey and is opening cinemas in the U.S. Mexican-based Cinépolis operates now in four continents, with cinemas across Latin America, India, Spain and the U.S. And these are only a few examples of an accelerating trend of international consolidation.

CinemaCon, too, has become a global convention and NATO is participating in an effort to improve international coordination among exhibitors. We will champion our global business throughout the week. To our delegates who operate in more than 90 countries around the world, thanks for coming to the show!

Finally, thank you for your support by being here this morning. It is such an honor to represent this amazing business.

It's now time to get back to the "show" in show business. Please stay right where you are for this morning's exciting presentation from STX Films.