NEWTON ABBOT CINEMA

Advisory Report

Prepared for Teignbridge District Council, Forde House, Newton Abbot, TQ12 4XX

By

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This report is prepared on the instruction of Teignbridge District Council, Forde House, Newton Abbot, TQ12 4XX, United Kingdom.

As the report involves future forecasts, it can be affected by a number of unforeseen variables. The report conducted by Entertainment Solution Services Ltd., contains research undertaken on location, available through public domains, and views and assumptions of all participants, based upon their existing knowledge of the market. All public domain research is referenced.

Entertainment Solution Services Ltd (ESS), *its directors and consultants covenants to have no interest, direct or indirect, that conflicts in any manner or degree with the performance required under this contract. ESS has conducted this report on a neutral and non-biased manner, with the result of this report being based on official data and information.*

All parties have used their best general knowledge to assemble data and templates to assist the client in assessing various options.

Any numbers are indicative only and are to be used as guides only.

1. BACKGROUND

Entertainment Solution Services Ltd (ESS) was approached by Thomas Phillips, Estate Surveyor at Teignbridge District Council (TDC) to conduct a specialist cinema feasibility study to establish the viability of a proposed new 4-screen venue in Newton Abbot.

The cinema scheme is a key part of the multi-million-pound regeneration of the town centre, and would see a four-screen cinema built in the north-west corner of Market Square. Under the council's "Future High Street" plans, the landmark Grade II listed Market Hall and Alexandra Cinema building will be returned to its original flexible design as the new four-screen cinema replaces the screens at the "Alex".

As a result of the pandemic, rising project delivery costs and the volatility being witnessed within the cinema sector, there is a debate as to whether the project remains viable amongst council members and officials.

As a consequence, during an extraordinary Full Council meeting held on the 6 September 2022, a Motion was passed by Members instructing Officers to: ''engage consultants to look into the night-time economy and assess the viability of the cinema.''

The ESS proposal to address this is set out below:

Commercial Analysis

Updated Cinema Market study:

- Post pandemic overview of the market; demographic profile and cinema visit propensity to ascertain admissions potential
- Review of the existing and newly proposed cinemas within the immediate region and undertake a SWOT (strengths, weaknesses, opportunities, and threats) analysis and review current admissions in relevant catchment
- Admission estimates options for the proposed Newton Abbot cinema scheme
- Assess the viability of the new proposed Newton Abbot cinema including current night time economy

Financial Summary:

- Give best estimates of general admissions forecasts
- Revenue forecasts, including ancillary income streams growing out of post pandemic trade.
- Review rental, service charge and capital commitments for WTW-Scott Cinemas including a full lease term Profit & Loss (P&L) summary
- Determine the breakeven point to ensure that the business is sustainable for the long-term

- Case Study Insights and contact where applicable i.e., Ashington, Northumberland and other significant local authority projects.
- One site-visit early in the project reporting period
- Be available in person and on video conferencing to attend a Question-and-Answer and / or Full Council briefing session with key local authority stakeholders

2. EXECUTIVE SUMMARY

After year-on-year box office increase, the global cinema sector faced major challenges during 2020 as a result of the pandemic. With the vast majority of cinemas closed, 2020 saw the global box office dropped to a 2-decade low level.

Overall, the UK cinema exhibition sector, whilst performing slightly better than its European counterparts, faced and still faces the same major challenges as most cinema venues worldwide.

Due to cinema closures, operating on reduced seating capacity, lack of theatrical releases and general cinema hesitancy, 2020 only accounted for 44 million admissions with a total box office of £307 million, a dramatic decrease of 76% compared to 2019's box office revenue of £1.25 billion, making 2020 the lowest UK box office revenue for more than 20 years.

Total admissions for 2021 reached 74 million admissions, an increase of 68% on 2020's admissions. The total box office generated by all films on release in the UK and the Republic of Ireland in 2021 was £602 million, an approximate increase of 144% increase on the 2020 pandemic box office, yet down 52% on pre-pandemic 2019.

Currently, UK admissions are still down by over 30% compared to the same period of 2019.

Whilst audiences are still returning to cinemas for "huge spectacles" (e.g. Top Gun: Maverick), it remains to be seen if original dramas and comedies still have any place in theatres going forward or if those genres have now been subjugated to streaming.

Pandemic-induced production delays, apprehensive Hollywood studios continuing to postpone blockbuster release dates, and a wider lack of mid-budget films have already impacted the cinema industry negatively. Most notably 45% of the UK's cinema screens are in the process of being restructured, as a result of pre-pandemic unsustainable debt accumulation and pandemic cinema closures.

Production delays, changed viewing habits and general uncertainty within the market, will push back the timeline on a full recovery for cinema owners, according to some trade experts, until 2023/2024.

ESS however does not envision a full box office recovery to pre-pandemic 2019 levels by 2023 or by 2024. It is ESS's opinion that high inflation, increase in living costs, geo-political challenges, in addition to changed viewing habits will require a long due elimination process, and the need for cinema to re-invent itself.

To “just put on a film” is simply not enough anymore. Cinemas have to become event driven social and community hubs again in order to make it “worthwhile” for people to leave the comfort of their homes. The ambitions of WTW-Scott Cinemas and Teignbridge District Council (TDC) for the Market Walk site will deliver this hub opportunity.

As part of Teignbridge District Councils’ Future High Streets re-generation plans for Newton Abbot, a new reasonably sized four-screen cinema located in the north-west corner of Market Square is planned. In addition, there are plans to develop a Food Hall and Market in the landmark Grade II listed Market Hall and find alternative uses for the Alexandra. The new cinema is planned to be operated by WTW-Scott Cinemas, the same operator that currently holds the lease of the Alexandra.

Overall, the Alexandra cinema operated on, a high for cinema, approximately 33% occupancy rate between 2015 and 2019. This dropped to approximately 8% in 2021 and overall box office revenue decreased by about 76% when comparing pre-pandemic 2019 with post pandemic 2021. These decreases however, were seen across the UK and are not exclusive to one site.

Yet, as a result of the pandemic, rising project delivery costs and the volatility being witnessed within the cinema sector, and an additional capital contribution request of £600,000 from WTW-Scott Cinemas towards their cinema fit out and Furniture, Fixture and Equipment (FF&E) costs, there is a debate as to whether the project remains viable amongst council members and officials.

TDC are not alone in questioning the opportunity cost to develop a cinema. Cinema Case Studies, references to current local authority led developments in other parts of the UK, and the social value impact are outlined within the main report. In broad terms, cinemas provide an uplift in town centre activity, particularly in holiday periods or during the 6pm – 9pm trading times. As highlighted in the Case Studies, the Eurofund owned town centre zoned site at Silverburn, Glasgow (not city centre), the uplift delivered can be as much as 11% on Food & Beverage (F&B) sales and 8% on footfall.

Newton Abbot has the capacity to deliver a similar percentage uplift if all of the component parts work in unison – transport links, car parking, F&B and cinema combined with social value impacts.

However, the capital cost to deliver the cinema and retail units at Market Walk, including shell & core; cinema fit out and FF&E is now estimated to be £8.37 million (AECOM and UNICK Cost Reports). The estimated capital budget for the cinema specific elements is £2.83 million. Inflating costs of labour, materials and production challenges are all having an impact on the potential to deliver the proposed Newton Abbot cinema.

The biggest risks to the project are Construction and Timing:

a) The indicated inflation allowances for project construction and delivery of between 10% and 15% are not representative of the cost increases in market now or likely to be going forward. The development and construction market remains highly cost volatile.

b) Timing of the project, alongside the broader recovery of the film and cinema markets, are issues that are foremost in the minds of the WTW-Scott Cinemas' Directors. The family traded Scott-WTW South West, has no corporate external borrowings; lower property lease commitments, and retains more cash liquidity within the business than their distressed major cinema operator counter-parts. The accounts prior to the pandemic and during the pandemic are robust, even in the most challenging of circumstances.

Mark Williams, Director at WTW-Scott Cinemas, provided the latest set of accounts through to March 2022 to ESS. They highlight a business that has retained cash reserves and liquidity throughout the pandemic and is generally self-sufficient to support current operations.

The Directors have provided additional funds to the business to enable it to fund capital commitments including the new Bridgwater site and had anticipated to be able to finance Newton Abbot's development through trading that did not materialise as a result of the pandemic. The Directors at WTW-Scott are hesitant about putting the entire business at risk, when the timing of sector recovery and the completion of the proposed Newton Abbot site, at a higher cost than originally anticipated, could put the whole company at risk.

Three Cinema Trading Forecast Options have been provided for review.

Option 1:

WTW-Scott Cinemas Newton have presented a financial appraisal that assumes 145,000 ticket sales per annum (15% occupancy) as the "Expected" outcome for the cinema. This forecast reflects WTW-Scott Cinemas timing of recovery challenges with known and unknown risk factors impacting trading performance going forward, and results in an operator investment payback period of 114 years excluding the TDC capital contributions to warm shell delivery.

ESS estimates that £7.33 million of property costs are payable (rent, service charge and business rates) through the 30-year period of lease and that the site will be marginal and loss making for the duration of the lease.

Property Cost with little Earnings Before Interests, Taxes, Depreciation and Amortisation (EBITDA) coverage is high risk and limits the capacity of the operator to re-invest into the asset through the duration of the lease term.

Option 2:

> ESS has prepared an alternative Trading Forecast reflective of a more stable market environment in Newton Abbot that assumes 152,000 ticket sales per annum (16% occupancy) as the “Likely” outcome for the cinema, at the same levels of rent and property costs as agreed with WTW-Scott Cinemas. This forecast provides realistic small to mid-sized operating metrics that are broadly like WTW-Scott’s, with the exception of film cost, F&B costs and ticket sales.

The impact reduces the investment payback period to a more realistic 6.5 years based upon Net Profit (EBITDA) set against WTW-Scott capital investment of £1.3m and excluding the the TDC capital contributions to warm shell delivery. ESS estimates that the £7.33 million of property costs remain constant and are payable (rent, service charge and business rates) through the 30-year period of lease, and £6.26 million of EBITDA (post property cost) is achievable by the operator.

An 85.5% cushion of Property Cost to EBITDA is far lower risk and enables sufficient cash coverage for property costs, and to re-invest into the asset through the duration of the lease term.

Option 3:

> Option 3 forecast provides the same operating metrics as Option 2 except that WTW-Scott Cinemas capital investment is zero and TDC provides a full £2.83 million capital contribution with an enhanced lease rent payable of £16 psf.

The payback period is inconsequential as a Turnkey so long as the on-going operation is profitable. ESS estimates that £9.00 million of property costs are payable (rent, service charge and business rates) through the 30-year period of lease, and £4.58 million of EBITDA (post property cost) is achievable by the operator.

A 50.9% cushion of Property Cost to EBITDA is far low risk and enables sufficient cash coverage for property costs, and to re-invest into the asset through the duration of the lease term.

Key Conclusions:

1. From an ongoing operational perspective, for a duration up to 30 years, the proposed cinema is likely to be commercially viable provided there are ancillary and complimentary offers and services e.g. trendy F&B offers available.

2. However, the cost to deliver the cinema is rising as a result of broader economic challenges. These increases are outwith control of TDC and WTW-Scott Cinemas at the present time.

3. There is still a willingness from WTW-Scott Cinemas to operate a new cinema in Newton Abbot, but not to the extent that it risks the entire company and its employees at the present time.

4. ESS recommends sensitive dialogue between WTW-Scott and TDC, to manage delivery timings and expectations.

3. OPPORTUNITIES - TEIGNBRIDGE TEN STRATEGY

"Making Teignbridge a healthy and desirable place where people want to live, work, and visit," is the Vision for Teignbridge District Council who aim to be, *"commercial and financially self-sufficient, delivering value for money in meeting our [TDC's] overall vision and strategic priorities. Our investments will enhance the area and the customer experience and our [TDC's] ways of working will continuously improve."*

To enable the best outcome for the proposed cinema in Market Walk, Newton Abbot, the development should tie into the TDC Ten Year Strategy with all positive references and attributes identified and explored. Any negative challenges or risks need to be addressed. The opportunities set within the parameters of the Teignbridge Ten include:

- Action on climate to be a carbon neutral district: TDC need to continue to keep the district clean, green and safe to make sure it is a desirable place to live, work in and visit. Cinema will deliver a 6pm – 9pm audience of all ages and enable residents to travel less far to cinemas offering a broader choice of films and screens.
- *"A roof over our heads to provide more, better and affordable homes while encouraging our young people to stay."* TDC want to ensure the future economic viability of the district by providing more job opportunities and affordable housing.
- Clean scene to keep the district clean will benefit all local stakeholders including the cinema customers who will recognise and respond accordingly. A clean district that is attractive to TDC residents and visitors alike.
- Going to town – TDC will support proposals for quality evening, cultural and leisure opportunities. The cinema at Market Walk is a significant TDC investment that will open up and enable a greater use of town centre space for the community and re-purpose under-performing retail space to leisure.
- Great places to live and work, to provide well designed quality neighbourhoods' – TDC is growing in population, but also has an ageing population that will require to adapt to the needs of the evolving population demographics. TDC wish to ensure that new neighbourhoods are real communities; safe, inclusive and accessible to all, close to, or including, local jobs, facilities, sports and leisure opportunities, with high quality public open spaces which support social interaction
- Investing in prosperity to create jobs and wealth: The Market Walk cinema development will create new employment opportunities directly and indirectly (F&B) and other leisure activities. It will also enable more local resident disposable income to be spent in Newton Abbot. TDC intend to invest TDC's own money into new developments which enhance TDC's economy and to design and deliver regeneration and improvement schemes.

- Moving up a gear to improve travel options enables more people to utilize town centre facilities including the localised Market Walk cinema. TDC are committed to providing bus improvements and park and ride services to key employment and shopping centres.
- Out and about and active to provide opportunities for healthy active lifestyles: cinema is a "cultural hub" enabling customers of all ages to view films, opera, ballet, theatre and sports. The proposed cinema in Market Walk will enable more inclusivity, choice and improved access to all screens, particularly for the 20% of TDC residents who have health or disability issues. Opportunities for Autistic Friendly, Senior "Silver Screen" shows on midweek afternoons, live to cinema events, Kid's Club, Family Shows etc. Regular cinema trips may help boost wellbeing according to a UCL study: https://www.ucl.ac.uk/brain-sciences/news/2020/jan/why-watching-movie-could-improve-wellbeing
- Strong communities to liaise with, help and support TDC communities: the Market Walk cinema should engage with many different activities and will need to become an event driven social and community hub in order to make it "worthwhile" for people to leave the comfort of their homes.
- Vital, viable council: TDC finances are going to be increasingly 'home grown' and tied in with TDC's local economic fortunes and ability to raise incomes. A long-term lease of the cinema will deliver a multi-million pounds' income stream to TDC.

Other enabling points for the viability and sustainability of the Market Walk cinema are:

- TDC Population: 132,800
- TDC households: 60,500 – 2.2 residents per household
- 197 residents per square kilometre
- Working Age Population (16 -64 years): 63%
- Life Expectancy is greater than the UK average: Male 80 and Female 84
- 80% of the population report their health as Good or Very Good
- 74% of the population own their homes with or without a mortgage
- 5,735 enterprises in TDC
- 82% of population are actively in work
- Average Pay per week is £521
- 12,064 sqft of efficient cinema space with:
    - 4 screens
    - 651 seats
    - Ground Floor level access onto Market Walk
- Food Hall and Market proposed

- Current footfall (up to Sept.2022) stands at approximately 1.9m
- Close to public transport links for local and national travel
- Enhanced public realm
- New and improved access routes to Market Walk
- Improved inter-connectivity with all parts of Newton Abbot town centre
- University and College facilities in town
- Heritage offer including port and parks

A diverse range of eateries and entertainment options within the close vicinity of the proposed cinema, are essential for long-term sustainability. With people having adopted changed viewing habits during the pandemic, additional offers are essential to “making it worthwhile to leave the home”.

Consideration ought to be given to add co-working creative studios/ office hubs, which would be complimentary to the overall offer of cinema, entertainment and F&B.

In a society where digitalisation and urbanisation are swiftly expanding, creative individuals require a safe space to further explore their individuality with other like-minded creative. These hubs are a space to nurture aspiring ideas to boost the creative economy, generating not only economic, but also social and cultural value for communities on a local as well as on a global stage.

If the aspiration is to enhance Newton Abbot’s status as a University town with accommodation to develop creative and cultural activities (https://www.exeter.ac.uk/study/undergraduate/courses/) access to a campus or site, libraries, creative and learning hubs, F&B, accommodation and transport are essential.

Creative hubs encourage increased daytime footfall and would attract a younger audience to the town centre.

4. INDUSTRY OVERVIEW

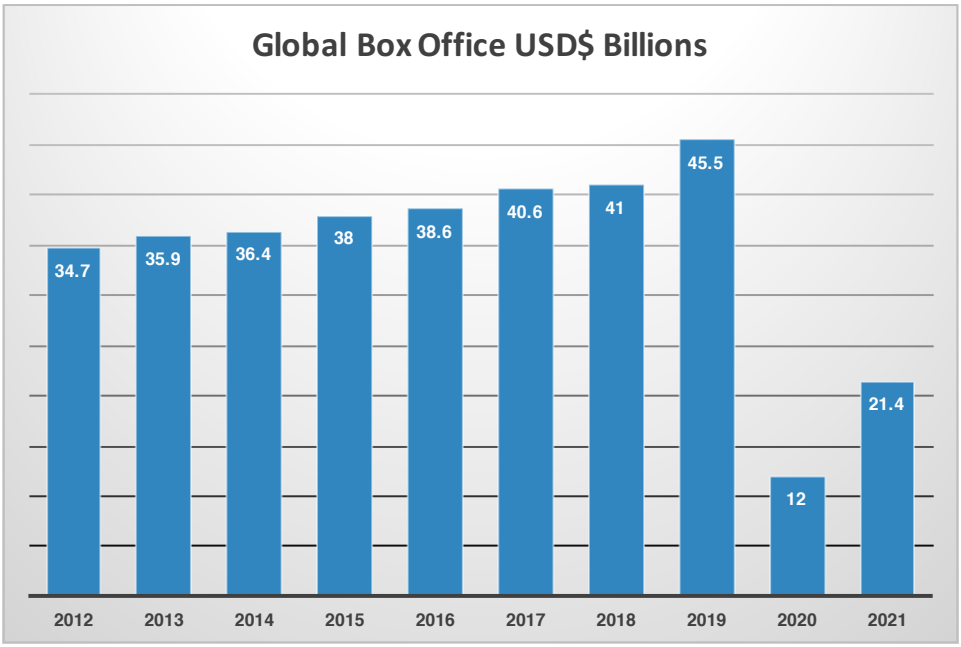
After year-on-year box office increase, the global cinema sector faced major challenges during 2020 as a result of the pandemic. With the vast majority of cinemas closed during the pandemic and consequently operating on reduced seating capacity, or closure due to lack of content, 2020 saw the global box office slump to a 2-decade low level.

4.1 Global Cinema Market Overview

Overall, the global box office fell by 72% in a beleaguered 2020 for the cinema industry, finishing the year with only $12 billion in ticket sales, compared to a record year in 2019, which grossed $45.5 billion globally.

The North American market, United States and Canada, experienced an 80 % decline in box office ($2.2billion), with the typical moviegoer visiting the cinema 1.5 times in 2020, down from 4.6 times in 2019.
The rest of the regions generated $9.8 billion in ticket sales, representing 81% of the overall global market. The majority, $6billion were earned by the Asia Pacific region, with China taking the top spot with $3 billion, due to being less dependent on Hollywood films and favouring home-grown productions. The EMEA region, Europe, Middle East and Africa suffered a combines 61% drop to $3.3 billion, while Latin America suffered the biggest losses with an 82% drop to $0.5 billion.[i]

2021 saw a 78% uplift to the global box office compared to 2020, mainly due to releases such as “Spider Man: No Way Home” and “Bond: No Time to Die”, yet 2021’s box office was still 48% down on the average of the last three pre-pandemic years.[ii]

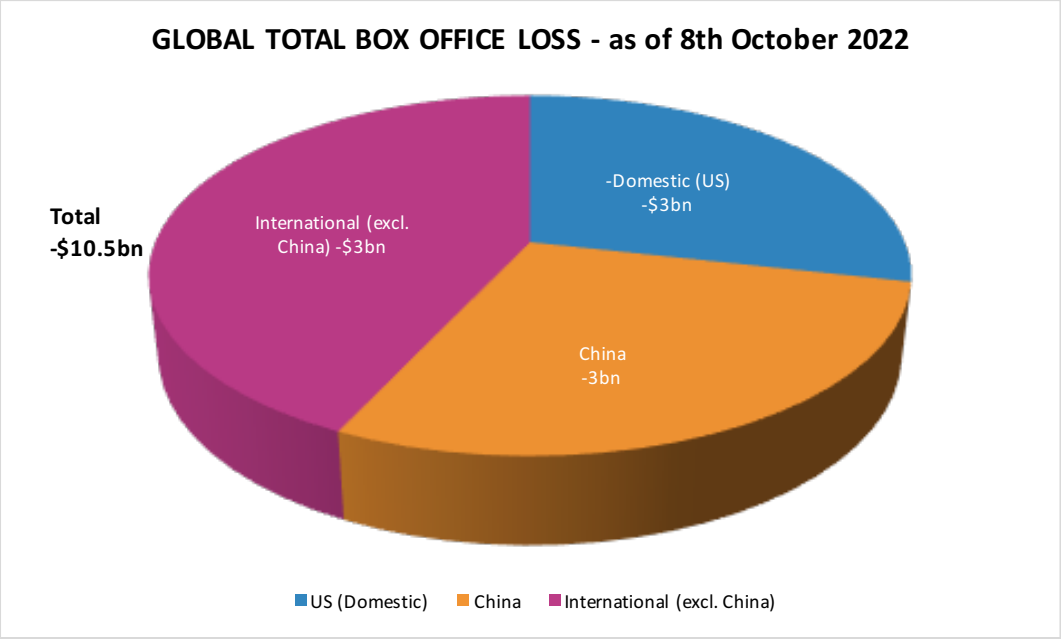


Source: Gower Street Analytics

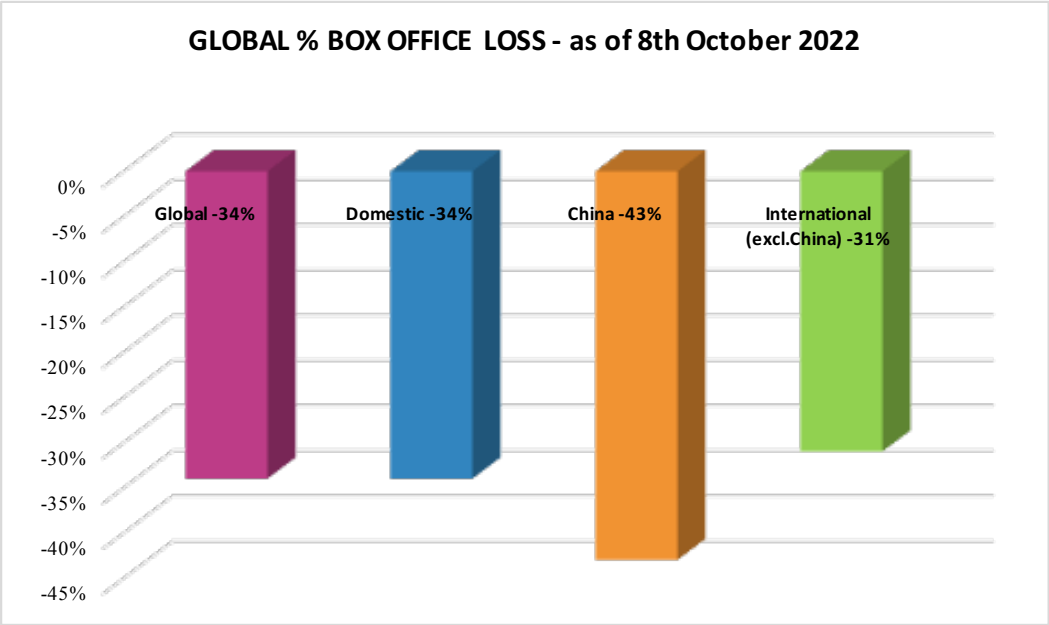
2022 has seen a steady box office recovery compared to 2021, mainly due to releases such as “Doctor Strange in the Multiverse of Madness” ($955m), Top Gun: Maverick which has surpassed a global box office of $1.4 billion, Jurassic World: Dominion ($950m), Minions: The Rise of Gru ($900m), and Thor “Love and Thunder ($748m)

Yet, the trend of recovery over the few last month’s ground to a halt in August and September. After reaching a pandemic-era peak with $3.37 billion in July, August achieved a global total of $2.37 billion, with September finishing as the worst month since April.

As of October 8, the global box office in 2022 stands at approximately $19.9 billion, tracking 44% ahead of 2021 at the same stage ($13.8bn) and -34% behind the average of the last three pre-pandemic years (2017-2019) - a deficit of -$10.5 billion.[iii]



Source: Gower Street Analytics

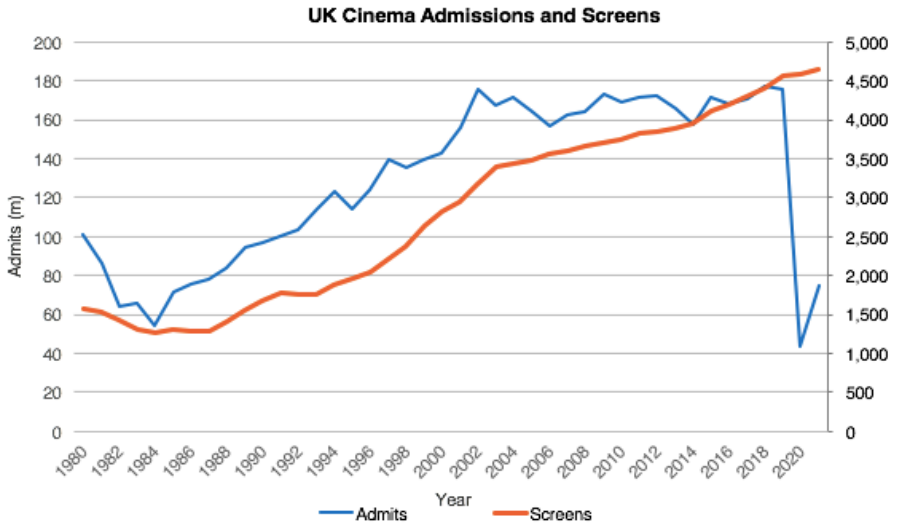


Source: Gower Street Analytics

Any global recovery of the film industry will be slowed by geopolitical challenges, economic factors such as high inflation and looming recession, in addition to a lack of big screen films. Gower Street Analytics just revised their global box office estimate again and forecasts a global box office of $27.1billion for 2022, a decrease of approximately 36% down to pre-pandemic 2019 ($42.3b).[iv]

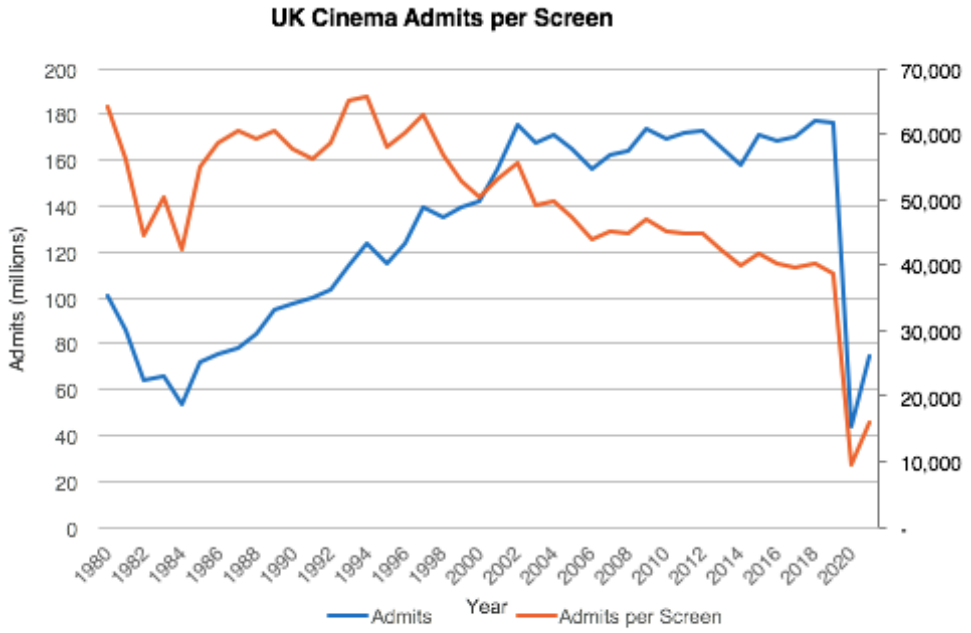
4.2 UK Cinema Market Overview

The UK currently has 843 cinemas with a total of 4,596 screens (a population of 14,625 per active cinema screen). Between 1985 (opening of multiplexes) and 2002 when new sites were built and opened at fast pace, there was an upward trend in cinema admissions.



Source: BFI

From 2002 to 2019 a total of 1,400 screens (+44%) were added across the UK, which only added 0.1% to admissions totals or 110 annual admits per additional screen by 2019, highlighting a significant disconnect in the UK between consumer demand and total screen supply that pre-dates the pandemic, and will now impact the cinema sector #sustainability and #cinema recovery post-pandemic



Source: BFI

4.3 Impact of Covid-19 on UK Cinemas

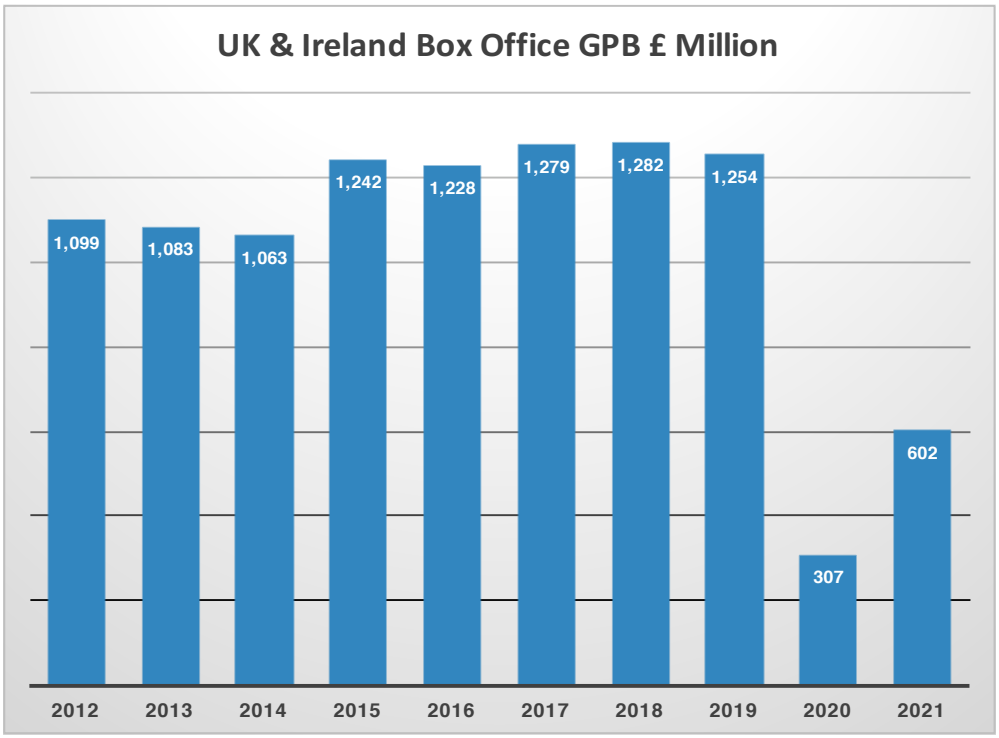
Overall, the UK exhibition sector faced the same major challenges during 2020 as the majority of cinemas worldwide.

In an effort to reduce the transmission risk of COVID-19, the UK Government required all cinemas to close at the end of Q1 2020. Restrictions were eased at the beginning of Q3, which enabled cinemas to reopen if they had additional safety measures in place (including operating at reduced capacity); however, further national and regional restrictions were implemented during periods in late Q3 and Q4 which required many cinemas to close again.[v]

Due to cinema closures, operating on reduced seating capacity and the lack of theatrical releases, **2020** only accounted for 44 million admissions with a total box office of £307 million, a dramatic decrease of 76% compared to 2019's box office revenue of £1.25 billion[vi], making 2020 the lowest UK box office revenue for more than 2 decades.

Total admissions for **2021** reached 74 million admissions, an increase of 68% on 2020's admissions. The year presented two very different half years of business for UK cinemas. The first four months were marked by cinemas being closed and reopening from early May. Then October saw the release of Bond: No Time to Die and 16.4 million admissions, the third highest October on record. The trajectory of recovery saw admissions reach 38.8 million in the final quarter of the year.

The total box office generated by all films on release in the UK and the Republic of Ireland in 2021 was £602 million, a 144% increase on the £247 million in 2020.[vii]



Source: BFI

2021 saw a total of 497 films released, in comparison to 896 releases in 2019 in the UK and Republic of Ireland. This was due to cinemas partly closed and distributors pulling planned releases due to uncertainty of the market. Whilst a significant drop in revenue of mid-range releases was registered, which went straight to Subscription Video on Demand (SVoD), 2021 saw 2 films reach the £90 million - £100,000 million mark; No Time to Die and Spider Man: No Way Home.

BOX OFFICE RANGE CINEMA RELEASES

Total UK/ROI Box Office Releases	2021	2020	2019
£1 - £1,000	36	25	33
£1,001 - £10,000	127	133	205
£10,001 - £50,000	139	117	230
£50,001 - £100,000	36	42	86
£100,001 - £500,001	78	74	169
£500,001 - £1,000,000	25	17	42
£1,000,001 - £4,000,000	24	22	70
£4,000,001 - £7,000,000	10	3	17
£7,000,001 - £10,000,000	5	4	13
£10,000,001 - £20,000,000	12	6	16
£20,000,001 - £30,000,000	3	0	6
£30,000,001 - £40,000,000	0	0	3
£40,000,001 - £50,000,000	0	1	2
£50,000,001 - £60,000,000	0	0	1
£60,000,001 - £70,000,000	0	0	1
£70,000,001 - £80,000,000	0	0	1
£80,000,001 - £90,000,000	0	0	1
£90,000,001 - £100,000,000	2	0	0
TOTAL	**497**	**444**	**896**

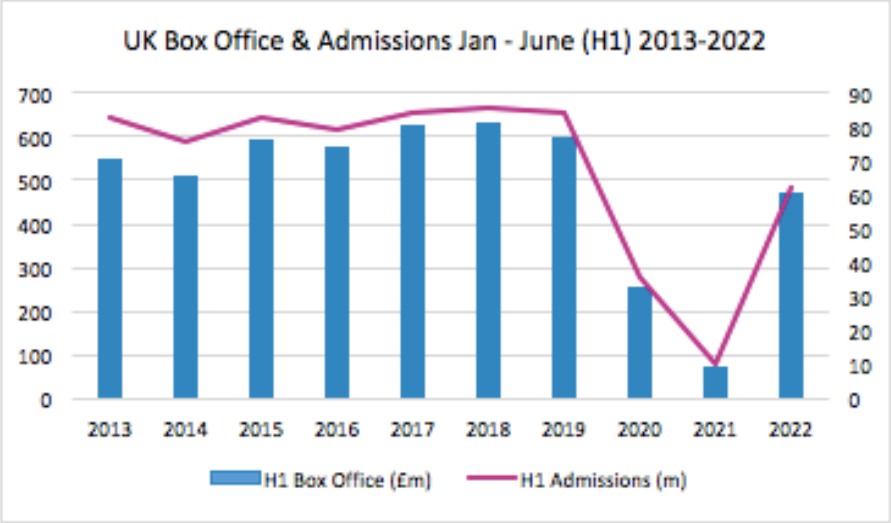
Source: Comscore

Superhero films were on trend, grossing more than £161m in cinemas in the UK & Ireland, from just six releases, accounting for almost 28% of the year's total box office. Five of the top 10 highest grossing films of the year were based on comic books putting even more importance on blockbuster releases.[viii]

Cinemas continued to implement COVID protection measures for a part of the first half of **2022** (H1), therefore admissions and box office revenues reported in this release are atypical. In the comparative first six months of 2021 all cinemas in the UK and Republic of Ireland were closed. Cinemas reopened across the UK nations between the final week of May and the start of June in 2021. In 2020 cinemas had to close at end of Q1 due to the start of the Coronavirus pandemic and remained closed for the rest of the first half of the year.

- The first six months of 2022 registered 61.7 million cinema admissions in the UK, almost a five-fold increase (+488%) than the same period in 2021, 72% more than H1 2020 and 26.4% lower than H1 2019.
- The total UK and ROI box office revenue for all films released in H1 2022 was £473 million, a more than four-fold increase (+435%) higher than for H1 2021; 142% higher than H1 2020; and 19% lower than H1 2019.

- The highest grossing film released in H1 2022 was *Top Gun: Maverick** with just under £71 million (Sept.2022 - £81.6m), representing 15% of the total box office for the period.
- With box office revenues of £42 million in H1, *Doctor Strange In The Multiverse Of Madness* was the highest earning UK-qualifying film.
- The Oscar® winning *Belfast* was the highest earning UK independent release with a total box office of £15 million.
- The average UK cinema ticket price for H1 2022 was £7.63. This compares to an average ticket price of £7.40 in H1 2019.
- Eight of the top ten grossing films of the period are sequels or part of pre-existing franchises. Two video game film adaptations are also included in the list.[ix]



Source : CAA, Comscore, BFI RSU analysis

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
H1 Box Office (£m)	547.2	508.2	591.4	572	625.1	631	594.6	251.4	71.3	470.5
H1 Admissions (m)	82.5	75.6	83.1	79.1	84.2	85.4	83.9	35.9	10.5	61.8

	Title	Country of Origin	Box office gross (m)	Distributor
1	Top Gun: Maverick*	USA	70.6	Paramount
2	Doctor Strange In The Multiverse Of Madness*	UK/USA	42.1	Walt Disney
3	The Batman	UK/USA	40.8	Warner Bros
4	Sing 2*	USA	32.9	Universal
5	Jurassic World: Dominion*	UK/USA	31.7	Universal
6	Sonic The Hedgehog 2*	USA/Japan	26.7	Paramount
7	Uncharted	USA/Spain	24.2	Sony
8	Fantastic Beasts: The Secrets Of Dumbledore	UK/USA	20.9	Warner Bros
9	Belfast	UK	15.6	Universal
10	Downton Abbey: A New Era*	UK/USA	14.9	Universal

Source: Comscore
Box office gross = cumulative gross up to 10 July 2022.
Films with an asterisk (*) were still being exhibited on 10 July 2022.
UK and Republic of Ireland are a single "territory" for film distribution purposes.

Monthly cinema admissions in the UK, H1 2018 to H1 2022

	2018 (million)	2019 (million)	2020 (million)	2021 (million)	2022 (million)	% change on 2021	% change on 2020	% change on 2019
January	16.2	13.7	16.5	0.0	8.2	N/A	-50.4	-40.2
February	16.1	12.2	14.5	0.0	11.1	N/A	-23.4	-9.0
March	13.5	11.4	4.8	0.0	8.4	N/A	75.1	-26.3
Q2 total	**45.8**	**37.4**	**35.9**	**0.0**	**27.8**	**N/A**	**-22.6**	**-25.7**
April	15.5	16	0.0	0.0	10.8	N/A	N/A	-32.4
May	13.7	16.6	0.0	3.5	11.3	221.9	N/A	-32.2
June	10.4	13.9	0.0	7	11.9	69.5	N/A	-14.7.
Q2 total	**39.6**	**46.5**	**0.0**	**10.5**	**34.0**	**223.2**	**N/A**	**-27.0**
H1 Total	**85.4**	**83.9**	**35.9**	**10.5**	**61.8**	**487.6**	**72.0**	**-26.4**

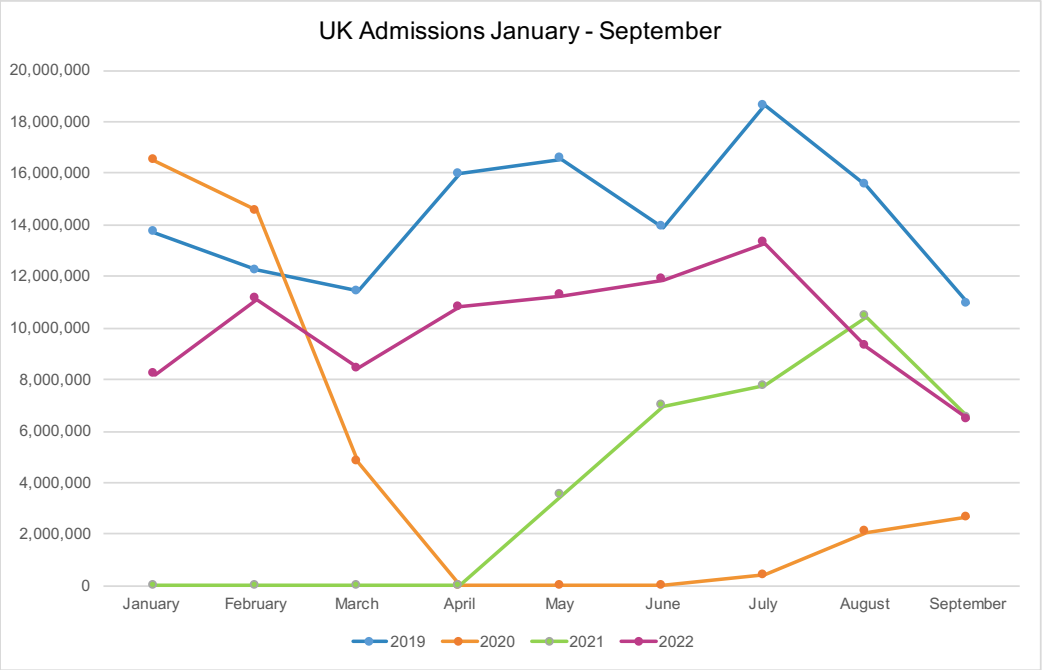
Source: CAA, Comscore

July was another upwards month with Top Gun: Maverick, accumulating another £13.5 and a total UK box office of over £82m. “Minions: The Rise of the Gru” and Marvel Studios “Thor: Love and Thunder” strengthened the July box office further with a total box office of £44.2m and £37m respectively. Niche and arthouse content was and still is underperforming massively, with e.g., Brian & Charles, a UK production with overall good reviews, only managing a weekend opening of £71,890 on 143 prints across the UK, making it a disastrous screen average of £503 over a 3-day period with an overall box office of £311k.

August and September 2022, as expected, were poor cinema months due to lack of blockbuster releases. Overall, August was the 3rd worst month of 2022, after January & March, with a disappointing 9,267,827 admissions, a 40% decrease compared to the same period of 2019.

September disappointed even further, affected by a lack of blockbuster releases and the death of her majesty, finishing on a below-average total of 6.5 million admissions, a decrease of 41% compared to pre-pandemic 2019.

Overall, admission figures for 2022 are currently down 30% on 2019 (currently no official October figures available).



Source: UKCA

	2019	2022	% Change
January	13,711,441	8,195,772	-40.22%
February	12,226,237	11,134,546	-9.34%
March	11,430,575	8,422,607	-26.31%
April	15,981,248	10,821,011	-38.50%
May	16,570,282	11,257,394	-32.28%
June	13,920,453	11,861,867	-14.78%
July	18,646,247	13,298,179	-28.68%
August	15,553,494	9,267,827	-40.41%
September	10,958,104	6,468,371	-40.97%
Overall % Change			-30.16%

Source: UKCA & ESS

4.4 UK Industry Outlook

Overall, hesitancy in the cinema sector remains, with the number of big releases this year remaining below pre-pandemic levels. The UK box office currently almost entirely blockbuster driven, yet, there is a blockbuster drought.

Pandemic-induced production delays, jittery Hollywood studios continuing to postpone blockbuster release dates, a wider lack of mid-budget films, from rom-coms and buddy movies to dramas, and a general “cinema hesitancy” particularly by the 50’s plus, will push back the timeline on a full recovery for cinema owners until possibly 2024, according to analysts.

Several major international cinema groups were highly leveraged prior to the pandemic, primarily Cineworld, AMC (Odeon) and Vue. As a result of the liquidity and credit challenges, there is market uncertainty. Cineworld, the world’s 2nd largest cinema chain has filed for Chapter 11 bankruptcy protection in the USA, and Vue Cinemas are having to restructure with bondholders taking control of the company.

While blockbuster films continue to pull in the crowds, the streaming revolution may have permanently reduced the number of mid-budget films, essential to a healthy box office and valuable commercial “fillers” for theatres between blockbusters, that make their way to the big screen.

Audiences are still returning to the cinemas for “huge spectacles” (e.g. Top Gun: Maverick), but it remains to be seen if original dramas and comedies still have any place in theatres going forward or if those genres have now been subjugated to streaming.

There's still a lot being produced and released, but many titles are either headed directly to streaming or being delayed because the industry is experiencing a lot of the same problems as the rest of the economy. Hollywood has supply chain issues with a backlog of films still not finished or postponed production start, due to the pandemic.

Overall, demographic trends in cinema going have not, as yet, returned to pre-pandemic norms. The over-55s remain reluctant to return to the cinema, and family trips have not bounced back to pre-pandemic levels, possibly because of streaming services' wide range of kid-friendly content and lower cost of watching.

Yet, the last weekend in August, the live performance of Dutch violinist Andre Rieu's Maastricht summer concert beat Hollywood films including Idris Elba's *Beast* and Brad Pitt's *Bullet Train* to the top spot, indicating that older audiences are willing to return to the cinema and pay higher admission prices for the right, event driven content.[x]

Forecasts by Omdia and the UK Cinema Association (represents interests of approx. 90% of UK cinema operators by whom they are funded) both predict that, despite the UK being one of the better performing markets, the UK box office will not surpass 2019 levels until 2023[xi], with other industry experts predicting a full recovery by 2024.

ESS however does not envision a full box office recovery to pre-pandemic 2019 levels by 2023 or by 2024. It is ESS's opinion that rising inflation (followed by recession), will reduce household spend in the UK drastically with cuts having to be made on leisure activities such as cinema in order to cover price increases for essentials and utilities. An increase in ticket prices may also not be ruled out due to the rising costs of operating cinemas (electricity, heating etc.), which would deter even more people to go to the cinema, and making streaming offers financially even more attractive (e.g. Netflix to offer an Advert driven package by the end of 2022 in the UK for approx. £4.99 per months)[xii]

In addition, changed viewing habits, particularly by the 55's plus, who still are not rushing out to the cinema, will have a major impact on mid-range and arthouse film production and releases, with box office revenues and content releases being predominantly blockbuster driven, yet, currently there is a lack of these blockbuster releases.

People still want to see highly anticipated, high-budget films with exceptional special effects and globally beloved stars on a massive screen, but as above, mid-range films and more specialized content, which are vital to a healthy box office, will suffer. Increasingly, studios will focus on the production of big budget films, in the hope they will become box office magnets. Mid-budget and niche productions will decrease and be made for straight to SVoD platform releases, rather than for the big screen.

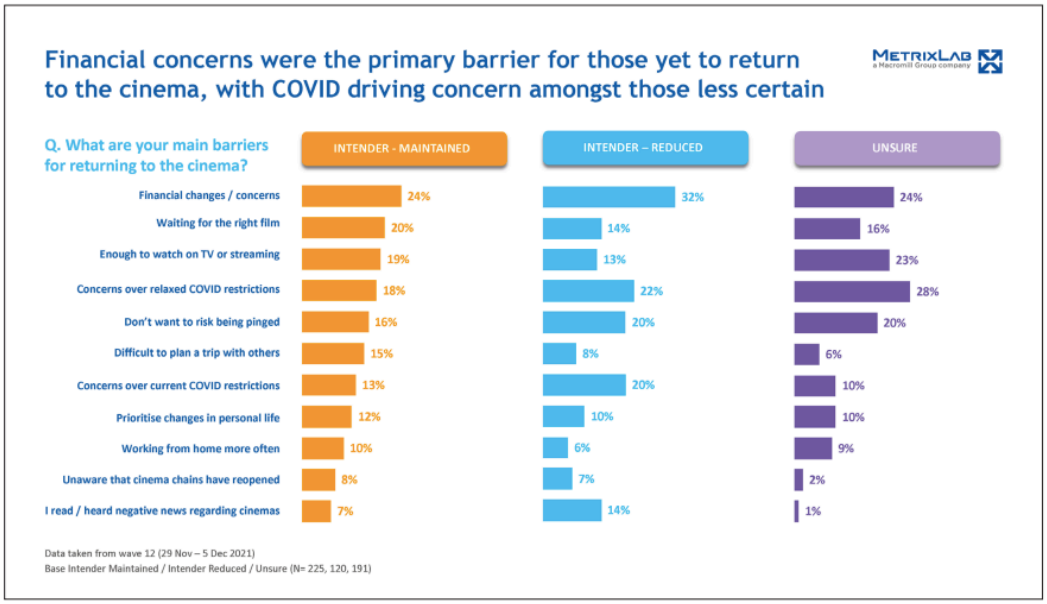
It is ESS' opinion that a rather a long overdue elimination process has to start, with non-profitable sites to close and a need for cinema to re-invent itself in order to attract large numbers of audiences back to the cinema again. To "just put on a film" is simply not enough anymore.

Cinemas have to become event driven social and community hubs again in order to make it “worthwhile” for people to leave the comfort of their homes.

According to a survey commissioned by the UK Film Distributor Association (FDA), conducted by Metrix Lab, younger age groups (13–24-year-olds), alongside parents, were the most likely to have returned to the cinema in 2021. An increase in frequency of attendance was also registered, with a significant increase of people visiting the cinema 3 times or more. However, financial concerns topped the list of barriers for those yet to return to the cinema, followed by “waiting for the right film” and “enough to watch on TV and streaming”.[xiii]

It is worth noting that the survey was undertaken between 29th November – 5th December 2021, at a time when inflation was considerably lower compared to the present.

KEY FINDING BARRIERS FOR RETURN



A more honed survey participant segmentation gave good insight into potential barriers for returning to cinemas. A squeeze on finances and waiting for key films were prime factors for the more avid cinemagoers, whilst COVID concerns were paramount for the most hesitant returners.

FDAYEARBOOK2022

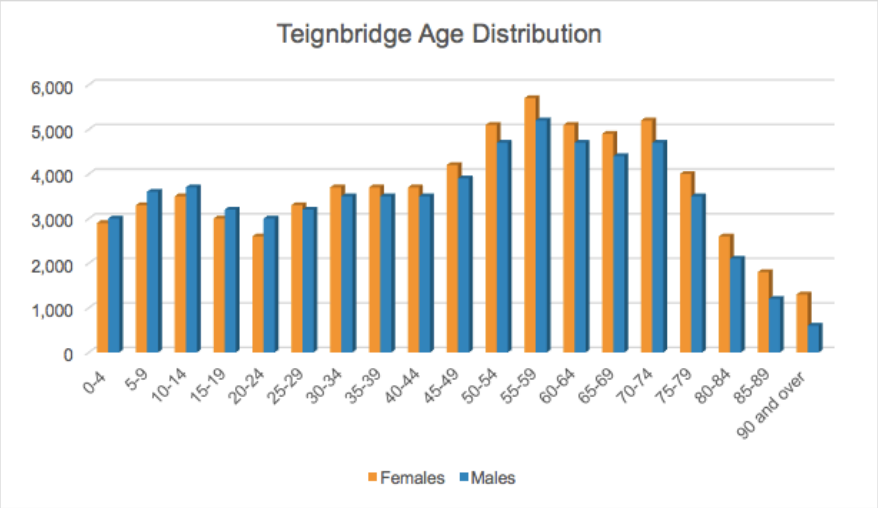
5. TEIGNBRIDGE COUNCIL DEMOGRAPHIC OVERVIEW

According to the new Census 2021, Teignbridge's' population has increased from approximately 124,200 in 2011 to 134,800 in 2021, whereby 52% are females and 48% are males. This is an increase of 8.5%, which is higher than the overall increase for England (6.6%), where the population grew by almost 3.5 million to 56,489,800.

Nearby areas like East Devon and Exeter have seen their populations increase by around 13.8% and 11.1%, respectively, while others such as Mid Devon saw an increase of 6.5% and Torbay saw smaller growth (6.4%).

As of 2021, Teignbridge is the 15th most densely populated of the South West's 30 local authority areas, with around one person living on each football pitch-sized area of land or 200 residents per square kilometre.

There has been an increase of 25.8% in people aged 65 years and over, making Teignbridge an ageing population district council.
An increase of 2.9% in people aged 15 to 64 years, and an increase of 5.3% in children aged under 15 years was registered.



Source: www.ons.gov.uk

Overall, there are 59,800 households with at least one usual resident in Teignbridge.[xiv]

5.1 Newton Abbot

Newton Abbot's population is estimated at 26,790 (E2020).

According to the 2011 Census, Newton Abbot has more than 10,444 homes. As the key settlement within Teignbridge District, the town faces significant development pressures over the next 20 years, with more than 4,230 homes proposed in Plan Teignbridge alongside 52 hectares of land for employment space. The development will create significant growth in the town's population with inevitable pressure on local infrastructure and services.

- Newton Abbot competes with employment opportunities available elsewhere in South Devon, particularly the employment opportunities available at sites such as Exeter Science Park and in Torbay (Newton Abbot Neighbourhood Development Plan 2016-2033).
- 26% of those in employment currently commute more than 10km for work (NOMIS 2013)
- The town's geography and road network create a tendency for young families to live in the town but work elsewhere.
- Out-migration and the risk of the town increasingly becoming a dormitory town represent a significant pressure for planners (Newton Abbot Neighbourhood Development Plan 2016-2033).
- In the NDP Survey results, 76% of those responding said that the main reason for them not being able to secure employment within the town was a lack of suitable job opportunities. (Newton Abbot NDP Consultation Report)
- The 2011 Census indicates that the key employment sectors within Newton Area Town are professional, skilled and elementary occupations.
- The number claiming Job Seekers Allowance in the town currently stands at 0.62% of resident population aged 16-64. This is significantly below the national England average of 1.9%. (NOMIS 2014)
- 63% of residents commuting to work by car (Census 2011)
- In terms of deprivation, four areas in Newton Abbot town are in the most deprived 25% nationally in three or more indices of the 2010 Index of Multiple Deprivation[xv].

5.2 Newton Abbot Vision & Development

The “Town Centre Masterplan Delivery Strategy 2018” as delivered to Teignbridge Council recognised the significant potential to develop Newton Abbot into *the* premier South Devon market town, by providing facilities for an increasing local and wider population. Plans include for the town centre to become pedestrian friendly, have good transport connections, to increase leisure and entertainment opportunities, to offer high quality market and retail and to enhance the night time economy.

With the Council being a strategic landowner, the Council can take a proactive and long-term approach to regeneration and strengthened its position even further by purchasing the Market Walk shopping centre in 2016.

In particular, the core regeneration area is focused on the Market Walk Shopping Centre, the Cattle Market, Sherborne Road and Halcyon Road car parks. The Masterplan also identifies an opportunity to expand the town centre to the north in order to provide additional retail and leisure space.

Key regeneration opportunities include:

- Market Walk shopping centre and car parks to the north (Halcyon Road, Sherborne Road and Cattle market car parks)
- Cricketfield Car Park
- Bradley Lane (industrial estate) redevelopment in the west of the town centre
- Change of use eastern part of Queen St and to peripheral areas → focus on retail and commercial activity in the town centre

The retail offer is proposed to be enhanced through the redevelopment of the town centre. Plans include the provision of larger A1 Class units to encourage new and larger retailers into the town centre, as well as the expansion of the town centre northward and change of use to facilitate increased retail provision. Leisure uses are also encouraged, including the development of a cinema in the centre.

Currently, the regeneration area is comprised of poor-quality buildings, with underutilised facades exacerbated by a lack of capital investment in the shopping centre since its opening almost 30 years ago.

Public realm improvements are highlighted as essential to improving the connectivity and attractiveness of town centre, and key plans include the enhancement of the Market Square as a focal space for the town centre, and improvement of pedestrian connections within the centre.

By June 2022 reports emerged that, “plans have been submitted for a huge new four-screen cinema in the centre of Newton Abbot as plans to spend millions of pounds of Government money in the town gather pace. The cinema scheme is a key part of the multi-million-pound regeneration of the town centre, and would see a four-screen cinema built in the north west corner of Market Square.[xvi]

“The application on behalf of Scott Cinemas is for a two-storey rectangular building, which will not only host the four screens on the upper level but will also have ground floor space to accommodate restaurants or cafes”, which Teignbridge Council says will complement existing Market Square businesses and boost the night-time economy. The ground floor units will face out on to a paved area, like Market Walk, and the council says it will provide a safe and attractive environment for cinema goers as well as for residents or visitors relaxing outside in the town centre.

“To build the new state-of-the-art cinema, some of the modern extension to the Market Hall building will be demolished, returning it to be more in line to its original shape and size.” The buildings currently hosting New Look, the former Shauls Bakery and the upstairs link to Clarks are planned to be demolished. Teignbridge Council will be discussing short and long-term relocation options with tenants to minimise disruption, enable continuity of trade and retain their business within Newton Abbot town centre. The regeneration project, which will provide and and protect jobs, also aims to boost economic activity by making the centre of Newton Abbot more pedestrian friendly, encouraging greater footfall in the town and enabling people to move more freely between the town centre, the library and the Asda store.

Artist's impressions of the proposed new cinema in Newton Abbot

Yet, there has been opposition, particularly to plans to make the Alexandra Cinema and theatre into a “multi-use” space.

Regeneration proposals for the centre of Newton Abbot

Perspective- External view
Group Ginger

Initially, subject to approval, work was expected to start in early 2023 with the new cinema scheduled to open in the middle of 2024.

However, in September 2022 it was announced that plans for the new four-screen cinema in Newton Abbot were delayed. The decision to delay and review the cinema opportunity followed a request by WTW-Scott Cinemas, who applied in June 2022 for an additional £600,000 in funding prior to signing the Agreement for Lease, without which TDC cannot move forward on the development scheme. The Members decision to review the viability – and therefore incur an additional delay – came from the original WTW-Scott Cinemas request.

The cinema is to be funded by using parts of a £9.2 million grant from the Future High Streets Fund (FHSF), which would involve building an empty structure (Warm Shell as described in Agreement for Lease) which would be handed over to WTW-Scott Cinemas to complete the fit-out.
But a report debated in an extraordinary meeting of Teignbridge Council suggested a rise in inflation and extra pressures on costs and budget would need councillors to agree a further £600,000 for the scheme.

In a full council meeting at the Buckland Athletic Football Club, Liberal Democrat member for Kenton and Starcross and leader of the council Alan Connett called for any decision on the extra money to be adjourned until they had more information about the development.

Cllr Connett proposed an amendment asking for external auditors to provide a report on the governance of the Future High Street Fund relating to the proposed new cinema, including the global as well as national state of the cinema industry due to Cineworld Cinemas going into administration [USA Chapter 11 Bankruptcy protection] and Vue Cinemas issuing a profit warning [bondholders converting debt to equity and shareholders losing control and their investments].

The two amendments were combined, and the council agreed to commission an audit into the project and to engage consultants to look into the night-time economy and assess the viability of the cinema. No additional money would be paid to the project until the research has been done.[xvii]

6. ALEXANDRA CINEMA NEWTON ABBOT

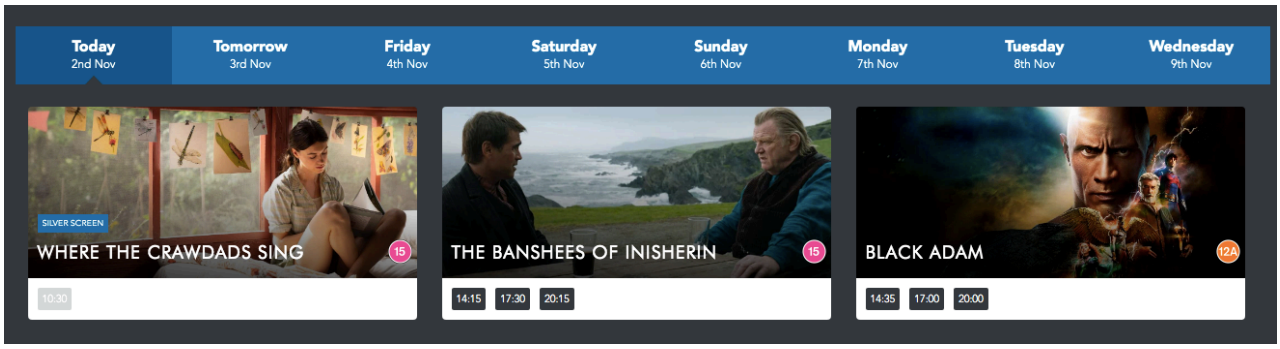
The 2-screen Alexandra Cinema and Live Performance space, a Grade II Listed building currently features 2 cinema screens and live performance space (back of house, orchestra pit, stage lighting) with a total seating capacity of 228 seats.

The cinemas layout is an obstacle in regard to programming films. Screen 1 is very accessible and also hosts live performance. Screen 2 is located on the second floor, only accessible via a steep and narrow staircase. This makes the screen far less accessible for less able people or a more mature audience, more likely to suffer from mobility issues. Equally, the staircase might be challenging for young children, in addition to a lack of WC facilities on the screen 2 level. When live performance shows are active, Screen 2 has sound leakage issues that most likely date back to when the space was split from a single performance area into two screens.

Whilst the 2-screen Alexandra cinema predominantly shows blockbusters, it offers a wide range of special performances, such as Kids Crew (Saturday morning kid's screenings), Saver Monday's, Silver Screen screenings, subtitle screenings and event cinema such as National Theatre Live. A loyalty programme has been discussed but is not in active operation.

As a 2-screen cinema, the Alexandra is naturally limited with the amount of films that can be featured and for how long a film can be shown. This can can cause programming challenges at peak periods and in most cases restricts individual films to a 2-week run, or in the case of live to cinema events (opera, ballet, theatre) the current cinema has limited capacity to book entire seasons.

It is highly likely that customers living within Newton Abbot will travel to surrounding areas particularly Paignton and also Exeter and Plymouth to access a broader range of films.



Source: Scott Cinemas

6.1 Performance Review Alexandra Cinema

Between 2015 and 2019 the cinema operated on an average occupancy rate of approximately 33%, which dropped to 7% during the pandemic and slightly recovered to an estimated occupancy rate of 8% in 2021.

The trading numbers exclude the periods of time when the live performance activities takeover the venue.

Alexandra Newton Abbot	Seats	Admissions	Max Capacity	Occupancy %
2015	228	80,736	248,976	32.42
2016	228	81,239	248,976	32.62
2017	228	83,496	248,976	33.53
2018	228	86,138	248,976	34.59
2019	228	82,528	248,976	33.14
2020	228	17,398	248,976	6.98
2021	228	19,578	248,976	7.86
		451,113		16.59

Maximum Seating capacity based on 3 daily shows x 364 days a year

All figures are indicative only

Source: ESS

Overall, the cinema box office revenue decreased by approximately 76% when comparing pre-pandemic 2019 with post pandemic 2021.

Operator	B/O £ 2019	B/O £ 2020	B/O £ 2021	2019 vs 2021 %
Scott Newton Abbot	453,904	95,398	107,679	-76.27

Box Office: estimated ticket price £5.50

All figures are indicative only - Source: ESS

6.2 Five Year Analysis Scott Cinema Newton Abbot – WTW-Scott Proposal

The 5-year Profit & Loss review for the WTW-Scott Cinemas 4-screen cinema development at Newton Abbot (WTW-SCOTT Cinemas South West Ltd /No. 04685978 covenant) Market Walk Shopping Centre, Newton Abbot that is registered at the Land Registry under title number DN380148 comprising a modest 12,064 sqft of NLA, takes into account the key rental provisions:

Screens: 4
Seats: 651

Lease Term Proposed: 25 years with a likely opening date scheduled for September 2024 for delivery of a warm shell and core unit for a 4-screen cinema and associated foyer areas and capped services.

WTW-Scott Cinemas have proposed that the lease term shall be extended to 30 years in lieu of an increase in capital contribution from TDC from £900,000 to £1.5m. The 30-year period provides a long-term income stream.

Longstop Date: a period of thirty (30) months after the date of the Agreement for Lease.

Rent Commencement Date: will be six (6) months from and including the Access Date.

Principal Base Rent: £141,000 / £11.69 per square foot.

Years 1-5: £141,000
Years 6 -10: £145,259
Years 11 -15: £149,617
Years 16 -20: £154,105
Years 21 -25: £158,728
Years 26 - 30: £163,490

Top-up Rent Provision: WTW-Scott Cinemas have agreed to increase the top-up rent in the event admissions go above specific thresholds, as below:

Admits	Existing PSF	Proposed PSF	Change from HoT
Base	£11.69	£11.69	£0
155,000	£12.25	£12.25	£0
170,000	£12.75	£13.50	£0.75
185,000	£13.25	£14.00	£0.75
200,000	£14.00	£15.50	£1.50

Base rent is £141,028.16

Source: ESS

Service Charge: Initial Service Charge £2.50 per square foot.
Rates Payable £63,000pa including water

Cinema Development Capital Cost*:*

a. AECOM Stage 4 Interim Cost Report, July 2022 for Shell, Core and Enabling Works (including retail units covering 2,051 sqm): £5,538,358 (£2,700 per sqm cost)

b. July Reported Cinema Specific Costs were:

- Fit Out Works: £1,743,987.50
- FF&E Works: £863,947.26
- Client Contingency & Fees: £225,896.74
- **Base Cinema Contract Sum: £2,833,831.50**

TOTAL DELIVERY COSTS: £8,372,189.50 (a + b)

The cost of operator cinema delivery has increased by £249,940 split between Fit Out (70%) and FF&E (25%) plus other professional fees including contingencies (5%) from the cost reports provided. It is likely that the current cost of production challenges is having an impact on the cost to deliver the Newton Abbot cinema, but the increase in costs is 50% less than the additional capital requested.

Element	Bridgewater July Cost (£)	Original Cost (£)	Increased Cost (£)	Variance +/-	
GF Holding Tender (Excluding Provisional Sums)	£ 926,126				
Wilden Service Tender	£ 692,053				
JD Electrical Tender	£ 419,845				
Provisional Sums (GFH Tender)	£ 71,500				
Fit Out Works	£ 2,109,524	1,570,000	1,743,988 £	173,988	69.6%
FF&E Works	£ 1,312,115	799,897	863,947 £	64,051	25.6%
Client Contingency	£ 171,706	118,495	130,397 £	11,902	
	£ 3,593,345	**£ 2,488,392**	**£ 2,738,332**	**£ 249,940**	

All figures are indicative only - *Source: ESS*

Landlord Capital Contribution to Tenant's Fit Out from Hot Shell: £1.5 million requested by the operator up from £900,000 - an increase of 67%. Because cinemas are treated as "anchor tenants" they are in a strong position to seek significant or full capital contributions. TDC's contribution of 53% to WTW-Scott Cinemas set up is modest when compared to the local authority commitments.

WTW-Scott Cinemas have informed TDC they are unable to proceed with signing the pre-let on the current terms (a capital contribution of £900K and a rent of £11.69 sqft) without additional capital support of £600K.

This review has been prompted by a sharp increase in the fit-out costs of the Bridgwater Scott's cinema which is on-site and due to open in October this year. WTW-Scott Cinemas has indicated whilst they are willing to proceed with investing in the new outlet, including a further injection of shareholder funds, they will need a higher capital payment to bridge the gap of £600K. The estimated budget for the fit-out is currently £2.83m.

WTW-Scott Cinemas have offered TDC the ability to claw-back some of the £600K if there is an underspend in the fit-out budget, to be reviewed on an open book basis.

Terms proposed are:

- Subject to AECOM validating this as a suitable starting budget, this would be referenced in the AFL.
- Then at Practical Completion, the final account would be reviewed to determine the outturn cost.
- TDC will approve the tenant's specification which equates to the £2.83m budget – no material changes shall be made to the specification without TDC's approval not to be unreasonably withheld.
- WTW-Scott Cinemas has proposed a time-limited provision where if the tenant went into administration, then TDC would have the option to acquire the tenants fit-out for £1. This provision is likely to be limited to no more than c.7 years, but that offer has to be tested legally.

Covenant – lawyers we are reviewing if a parent co. guarantee is required and the extent to which the current tenant company contains all of the company's assets.

Trading Performance: There are two options for TDC to consider:

6.3 Option 1: WTW-Scott Cinemas Newton Abbot Market Walk Trading Forecast

WTW-Scott Cinemas Newton have presented a financial appraisal that assumes 145,000 ticket sales per annum as the "Expected" outcome for the cinema. This forecast reflects WTW-Scott Cinemas timing of recovery challenges with known and unknown risk factors impacting trading performance going forward particularly:

a. Presenting a cinema proposal that would result in a payback period of 114 years based upon Net Profit (EBITDA) set against WTW-Scott Cinemas capital investment of £1.3m (excluding the £1.5 million TDC capital contribution).
b. Operating metrics and in particular ticket prices, film hire, and food costs that are out of synch with pre-pandemic metrics.

c. ESS estimates that £7.33 million of property costs are payable (rent, service charge and business rates) through the 30-year period of lease and that the site will be marginal and loss making for the duration of the lease.
d. There would be little explainable rationale to seek an extension to the lease (or indeed continue lease negotiations) if the outcome is one where the site is presented as being highly marginal.
e. Property Cost with little EBITDA coverage is high risk and limits the capacity of the operator to re-invest into the asset through the duration of the lease term.
f. The site may be able to break even at 135,374 admits or 93% of its' potential peak admissions, as presented by WTW-Scott Cinemas, but it leaves no margin for any under-performance. The easiest cost to cut would be marketing, but that would be self-defeating. Upward inflationary pressures on cost and limited opportunities to increase sales prices impact this appraisal.
g. The WTW-Scott Cinemas proposal is set against trading accounts that deliver operating margins that exceed the Newton Abbot proposal.
h. The WTW-Scott proposal assumes that the cinema peaks at 15% occupancy levels.

Yet, as a result of the pandemic, rising project delivery costs and the volatility being witnessed within the cinema sector, and an additional capital contribution request of £600,000 from WTW-Scott Cinemas, there is a debate as to whether the project remains viable amongst council members and officials.

As previously stated, the cost to deliver the cinema and retail units at Market Walk, including shell & core; cinema fit out and FF&E is now estimated to be £8.37 million (AECOM and UNICK Cost Reports). The estimated capital budget for the cinema specific elements is £2.83m.

The cost overrun at the cinema is projected to be £249,940 according to the reports reviewed including professional fees and contingencies (5%), split between Fit Out (70%) and FF&E (25%). It is likely that the current cost of production challenges is having an impact on the cost to deliver the Newton Abbot cinema.

The WTW-Scott Cinemas proposal assumes that the cinema peaks at 15% occupancy levels. As a consequence, there would be no explainable rationale to seek an extension to the lease to 30 years (or indeed continue lease negotiations) if the outcome is one where the site only starts to become nominally profitable in Year 8, but not to the extent that it can payback capital expenditure. However, the 30-year lease provision provides an improved TDC development appraisal return from a long-term tenant commitment.

ESS undertook an independent review of costs with our development consultant working on and delivering current cinema projects as well as meeting with WTW-Scott's Senior Director, Mark Williams.

Key Information provided by ESS Development Consultant was:

- *Construction costs this year have significantly exceeded inflation due to supply chain shortages, with some items increasing by 20-25% and more. The indicated inflation allowances of between 10% and 15% are not representative of the cost increases we are seeing now or likely to see going forward.*
- *Whilst the supply chain may have stabilised by 2024, it would be unrealistic to believe prices will come down significantly as a result. The best we can hope for is price stability.*
- *The unit costs identified and compared (sound walls, doors, etc.) in the Aecom report are consistent with current market costs.*
- *There are several sizable costs associated with the shell, such as diverting the utilities and demolitions, which are very site specific. Overall, £2.7k/m2 does not sound unreasonable.*
- *The one element of the Aecom shell report that is challengeable is the inflation allowance (Q4/22 – 2.77% & Q2/23 – 1.62%). The two allowances look very optimistic in the current climate.*
- *The fit-out costs are not straightforward to accurately price-check as there are operator specific requirements and also different types of offers (boutique v standard multiplex) However, the project delivery team will have to work extremely hard to bring the cinema fit out in on budget based on the figures provided (£2.83 million fit out). At present, some of the unit rates are lower than current market pricing, but there is also the general upward trend on prices to consider.*
- *Budget allowances are currently higher that assumed for Newton Abbot on suspended ceilings, doors and frames and toilet cubicles, etc., but that may be based on possibly higher specification fit out works. Wall and floor finishes are about in line with what would be allowed for a 'standard' cinema, but lower than required for higher specification finishes.*
- *Fixtures and fittings are again about in line with what would allow for a 'standard' cinema, but lower than required for higher specification finishes.*
- *Mechanical and Electrical allowances are in line with what should be budgeted for on a screen count basis, but lower than the recommended allowance based on cost/m2. M&E is one of the hardest elements to predict at present due to price volatility in the market.*
- *Sprinklers are not identified as a line item, but they are likely to be required.*

- *Seats are very dependent on the specification. It is possible to purchase and install a 'standard' seat for the budget allowance, but the luxury and recliner allowances are tight. It all really depends on the specification of the seat.*
- *FF&E allowances are not generous but are manageable overall.*
- *Prelims are about right for a 16-week fit out, but I cannot see any allowances for OH&P on the main contract works or MCD on the mechanical and electrical works.*
- *Fees are minimal, with only budget allowances for the Architect and Principal Designer. Presumably, the architect would act as contract administrator, but there's nothing in for a project manager, structural engineer, QS / cost consultant, MEP design or local authority fees.*
- *It would be wrong to say that a cinema could not be fitted out for the reported budgets, but it would most likely involve significant compromises in the specification and standard of the finishes that WTW-Scott might not understand or be prepared to accept as representative of the brand.*
- *If Bridgwater was based on a similar cost plan and is over budget, it is unrealistic to expect a different outcome in Newton Abbot.*

In discussion with Mark Williams, Senior Director at WTW-Scott Cinemas, he highlighted the significant market challenges the company has faced during the pandemic. The company has seen the cost of development increase significantly and that current market volatility was very unsettling. The key issues highlighted by Mr Williams were the increasing costs of construction linked to the levels of business and costs of operation going forward (further outlined in Section 5.5). The company does not take on significant levels of debt – if any - and have remained focussed on being a cautious and long-term viable business based in the South West.

WTW-Scott Cinemas 5-Year P&L Newton Abbot

	WTW-SCOTT Cinemas	UK P&L 2020	Newton Abbot Breakeven	Newton Abbot Yr 1	Newton Abbot Yr 2	Newton Abbot Yr 3	Newton Abbot Yr 4	Newton Abbot Yr 5
Admissions		583,463	135,374	116,451	131,007	145,564	145,564	145,564
Revenue £UK								
	Box Office	2,870,640	663,333	570,609	654,774	742,077	756,919	772,057
	Retail	1,014,958	311,361	267,837	307,343	348,322	355,288	362,394
	Advertising	413,184	65,007	55,920	64,168	72,724	74,178	75,662
	Other	174,834	51,534	44,330	50,869	57,651	58,804	59,980
	Total	**4,473,616**	**1,091,234**	**938,696**	**1,077,154**	**1,220,774**	**1,245,190**	**1,270,093**
Cost of Sales	Film Hire	1,443,213	358,200	308,129	353,578	400,722	408,736	416,911
	Retail Purchases	422,804	115,203	99,100	113,717	128,879	131,457	134,086
	PRS	-	6,633	5,706	6,548	7,421	7,569	7,721
	3D glasses cost / royalty	-	1,218	1,048	1,179	1,310	1,310	1,310
	Other Costs	5,199	4,776	4,776	4,776	4,776	7,278	7,278
	Total	**1,871,216**	**486,031**	**418,759**	**479,798**	**543,108**	**556,350**	**567,306**
	Gross Profit	**2,602,400**	**605,203**	**519,937**	**597,356**	**677,666**	**688,839**	**702,788**
Cinema Costs	Payroll	974,797	136,760	156,297	179,351	203,187	207,250	211,395
	Marketing	-	23,217	19,971	22,917	25,973	26,492	27,022
	Contracts & Main.	160,804	40,257	40,257	41,465	42,709	43,990	45,310
	Utilities & Supplies	97,124	102,439	102,439	105,512	108,678	111,938	115,296
	Insurance	20,417	15,080	15,080	15,532	15,998	16,478	16,973
	Other	476,095	61,493	61,493	63,337	65,237	67,195	69,210
	Total	**1,729,237**	**379,246**	**395,538**	**428,116**	**461,782**	**473,344**	**485,207**
	EBITDA before Property	**873,163**	**225,957**	**124,399**	**169,240**	**215,884**	**215,495**	**217,581**
Property Costs	Rent	144,054	141,028	141,028	141,028	141,028	141,028	141,028
	Rates	46,227	53,000	53,000	53,000	53,000	53,000	53,000
	Service Charges	100,939	30,160	30,160	30,160	30,160	30,160	30,160
	Total	**291,220**	**224,188**	**224,188**	**224,188**	**224,188**	**224,188**	**224,188**
	Cinema EBITDA	**581,943**	**1,769**	**(99,789)**	**(54,948)**	**(8,304)**	**(8,693)**	**(6,607)**
	5 Year Cinema EBITDA							**(178,340)**

Key Drivers			Breakeven	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
ATP £		4.92	4.90	4.90	5.00	5.10	5.20	5.30
Retail per person £		1.74	2.30	2.30	2.35	2.39	2.44	2.49
Advertising Per Head £		0.71	0.48	0.48	0.49	0.50	0.51	0.52
Other per head £		0.30	0.38	0.38	0.39	0.40	0.40	0.41
Film Hire %		50%	54%	54%	54%	54%	54%	54%
Gross sales margin %		58%	63%	63%	63%	63%	63%	63%
EBITDA Margin %		13%	0%	-11%	-5%	-1%	-1%	-1%
Seat Occupancy			208	179	201	224	224	224
Seat Occupancy %			14%	12%	14%	15%	15%	15%
Rent psf	11.69							
sq ft	12,064							
Service Charge (sqft)	£ 2.50							
Screens	4							
Seats	651							
Contribution from Advance	£1,500,000							
Tenant's Capex	£1,351,129							
Gross Capex	£2,851,129							

All figures are indicative only - *Source: ESS*

WTW-Scott Cinemas KPI's for a cinema development comprising for a 4-screen cinema with 651 seats:

- Demise of c 12,064 sqft with rent psf of £11.69
- Tenant's Rent Payable £141,000 pa
- Capital required (warm shell spec) £2.83 million plus additional pre-opening costs.
- Ticket sales: 145,564 (peaking in year 3 of re-opening) with a £4.90 average ticket price
- Occupancy Level: 15% - given small seating capacity in a solos position

- Service Charge £30,160
- Business Rates Charge estimate: £53,000
- EBITDA % -1% at peak levels of admissions

WTW-Scott Cinemas Rent Charges

Year	Rent £	Business Rates £	Service Charge £	Cinema EBITDA £
Year 1	141,028	53,000	30,160	- 99,789
Year 2	141,028	53,000	30,160	- 54,948
Year 3	141,028	53,000	30,160	- 8,304
Year 4	141,028	53,000	30,160	- 8,693
Year 5	141,028	53,000	30,160	- 6,607
Year 6	145,259	53,000	33,297	- 9,866
Year 7	145,259	53,000	33,297	- 8,940
Year 8	145,259	53,000	33,297	- 8,056
Year 9	145,259	53,000	33,297	- 7,214
Year 10	145,259	53,000	33,297	- 6,419
Year 11	149,617	53,000	36,759	- 13,493
Year 12	149,617	53,000	36,759	- 12,799
Year 13	149,617	53,000	36,759	- 12,159
Year 14	149,617	53,000	36,759	- 11,578
Year 15	149,617	53,000	36,759	- 11,058
Year 16	154,105	53,000	40,582	- 18,914
Year 17	154,105	53,000	40,582	- 18,527
Year 18	154,105	53,000	40,582	- 18,212
Year 19	154,105	53,000	40,582	- 17,972
Year 20	154,105	53,000	40,582	- 17,813
Year 21	158,728	53,000	44,803	- 26,581
Year 22	158,728	53,000	44,803	- 26,594
Year 23	158,728	53,000	44,803	- 26,699
Year 24	158,728	53,000	44,803	- 26,902
Year 25	158,728	53,000	44,803	- 27,207
Year 26	163,490	53,000	49,463	- 37,040
Year 27	163,490	53,000	49,463	- 37,564
Year 28	163,490	53,000	49,463	- 38,206
Year 29	163,490	53,000	49,463	- 38,971
Year 30	163,490	53,000	49,463	- 39,866
TOTAL 2024 - 2054	4,561,140	1,590,000	1,175,321	- 696,989
EBITDA / PropCost				-9.5%

All figures are indicative only - *Source: ESS*

6.4 Option 2: Five Year Analysis Newton Abbot – ESS Review

ESS has prepared two alternative Trading Forecasts reflective of a more stable market environment in Newton Abbot that assumes 152,334 ticket sales per annum as the “Likely” outcome for the cinema. With marginal, but more positive, adjustments to the cinema operating expectations the proposed cinema will deliver a positive return for the operator and be more sustainable as a going concern throughout the lease term.

Option 2 forecast provides realistic small to mid-sized operating metrics including:

a. The WTW-Scott Cinemas capital investment of £1.3m (excluding the £1.5 million TDC capital contribution) remain constant.
b. Rent, Service Charge and Business rates are constant.
c. While The WTW-Scott Cinemas proposal assumes that the cinema peaks at 15% occupancy levels, ESS projects that 16% is achievable, given the growing population.
d. Operating metrics and in particular film hire, and food costs have been adjusted to normalized levels from higher WTW-Scott Cinemas cost forecasts.
e. Ticket pricing has been adjusted to higher but achievable levels for the Newton Abbot area while still being sensitive to ensure that they are affordable.
f. The payback period reduces to a more realistic 6.5 years based upon Net Profit (EBITDA) set against WTW-Scott Cinemas capital investment of £1.3m (excluding the £1.5 million TDC capital contribution).
g. ESS estimates that £7.33 million of property costs remain constant and are payable (rent, service charge and business rates) through the 30-year period of lease, and £6.26 million of EBITDA (post property cost) is achievable by the operator. An 85.5% cushion of Property Cost to EBITDA is far lower risk and enables sufficient cash coverage for property costs, and to re-invest into the asset through the duration of the lease term.
h. There would be a rationale to sign and deliver the lease if the outcome is one where the site breaks even at 108,919 admits or 71.5% of its’ potential peak admissions.

While the pandemic has had a significant impact on costs of production as well as the trading environment, the proposed Newton Abbot cinema has the ability to be profitable at peak demand, but also be able to breakeven on 11.5% seat occupancy levels.

The cinema in Newton Abbot has the capacity (seats) to deliver far greater numbers of admissions as and when the cinema market recovers, and also when the overall impact of the Market Walk area developments are activated in full.

ESS Five Year P&L Newton Abbot – assuming 2024 opening

	WTW-SCOTT Cinemas	UK P&L 2020	Newton Abbot Breakeven	Newton Abbot Yr 1	Newton Abbot Yr 2	Newton Abbot Yr 3	Newton Abbot Yr 4	Newton Abbot Yr 5
Admissions		583,463	108,919	121,867	137,101	152,334	152,334	152,334
Revenue £UK								
	Box Office	2,870,640	617,787	691,231	793,187	898,946	916,925	935,263
	Retail	1,014,958	250,513	280,295	321,638	364,523	371,814	379,250
	Advertising	413,184	60,543	67,741	77,732	88,097	89,859	91,656
	Other	174,834	46,689	52,239	59,945	67,937	69,296	70,682
	Total	**4,473,616**	**975,533**	**1,091,505**	**1,252,502**	**1,419,503**	**1,447,893**	**1,476,850**
Cost of Sales	Film Hire	1,443,213	290,360	324,878	372,798	422,504	430,955	439,574
	Retail Purchases	422,804	70,144	78,482	90,059	102,066	104,108	106,190
	PRS	-	6,178	6,912	7,932	8,989	9,169	9,353
	3D glasses cost / royalty	-	980	1,097	1,234	1,371	1,371	1,371
	Other Costs	5,199	5,036	5,036	5,036	5,036	7,617	7,617
	Total	**1,871,216**	**372,698**	**416,406**	**477,058**	**539,967**	**553,219**	**564,104**
	Gross Profit	**2,602,400**	**602,835**	**675,100**	**775,444**	**879,536**	**894,673**	**912,747**
Cinema Costs	Payroll	974,797	133,233	152,266	174,725	197,946	201,904	205,943
	Marketing	-	21,623	24,193	27,762	31,463	32,092	32,734
	Contracts & Main.	160,804	41,097	41,097	42,330	43,600	44,908	46,255
	Utilities & Supplies	97,124	102,575	102,575	105,652	108,821	112,086	115,449
	Insurance	20,417	15,080	15,080	15,532	15,998	16,478	16,973
	Other	476,095	63,949	63,949	65,867	67,843	69,878	71,975
	Total	**1,729,237**	**377,555**	**399,159**	**431,868**	**465,671**	**477,347**	**489,328**
	EBITDA before Property	**873,163**	**225,280**	**275,941**	**343,576**	**413,864**	**417,326**	**423,419**
Property Costs	Rent	144,054	141,028	141,028	141,028	141,028	141,028	141,028
	Rates	46,227	53,000	53,000	53,000	53,000	53,000	53,000
	Service Charges	100,939	30,160	30,160	30,160	30,160	30,160	30,160
	Total	**291,220**	**224,188**	**224,188**	**224,188**	**224,188**	**224,188**	**224,188**
	Cinema EBITDA	**581,943**	**1,092**	**51,752**	**119,388**	**189,676**	**193,138**	**199,231**
	5 Year Cinema EBITDA							**753,185**

Key Drivers		Breakeven	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
ATP £	4.92	5.67	5.67	5.79	5.90	6.02	6.14
Retail per person £	1.74	2.30	2.30	2.35	2.39	2.44	2.49
Advertising Per Head £	0.71	0.56	0.56	0.57	0.58	0.59	0.60
Other per head £	0.30	0.43	0.43	0.44	0.45	0.45	0.46
Film Hire %	50%	47%	47%	47%	47%	47%	47%
Gross sales margin %	58%	72%	72%	72%	72%	72%	72%
EBITDA Margin %	13%	0%	5%	10%	13%	13%	13%
Seat Occupancy		167	187	211	234	234	234
Seat Occupancy %		11%	13%	14%	16%	16%	16%
Rent psf	11.69						
sq ft	12,064						
Service Charge (sqft)	£ 2.50						
Screens	4						
Seats	651						
Contribution from Advance	£1,500,000						
Tenant's Capex	£1,351,129						
Gross Capex	£2,851,129						

All figures are indicative only - *Source: ESS*

ESS Review for a cinema development comprising for a 4-screen cinema with 651 seats:

- Demise of c 12,064 sqft with rent psf of £11.69
- Tenant's Rent Payable £141,000 pa
- Capital required (warm shell spec) £2.83 million plus additional pre-opening costs.
- Ticket sales: 152,334 (peaking in year 3 of re-opening) with a £5.67 average ticket price

- Occupancy Level: 16% - given small seating capacity in a solos position
- Service Charge £30,160
- Business Rates Charge estimate: £53,000
- EBITDA % 16% at peak levels of admissions

ESS Newton Abbot Cinema Rent, Service Charge and Business Rates Charges

Year	Rent £	Business Rates £	Service Charge £	Cinema EBITDA £
Year 1	141,028	53,000	30,160	51,752
Year 2	141,028	53,000	30,160	119,388
Year 3	141,028	53,000	30,160	189,676
Year 4	141,028	53,000	30,160	193,138
Year 5	141,028	53,000	30,160	199,231
Year 6	145,259	53,000	33,297	179,359
Year 7	145,259	53,000	33,297	183,984
Year 8	145,259	53,000	33,297	188,642
Year 9	145,259	53,000	33,297	193,332
Year 10	145,259	53,000	33,297	198,052
Year 11	149,617	53,000	36,759	194,981
Year 12	149,617	53,000	36,759	199,758
Year 13	149,617	53,000	36,759	204,561
Year 14	149,617	53,000	36,759	209,389
Year 15	149,617	53,000	36,759	214,241
Year 16	154,105	53,000	40,582	210,802
Year 17	154,105	53,000	40,582	215,694
Year 18	154,105	53,000	40,582	220,603
Year 19	154,105	53,000	40,582	225,528
Year 20	154,105	53,000	40,582	230,467
Year 21	158,728	53,000	44,803	226,573
Year 22	158,728	53,000	44,803	231,531
Year 23	158,728	53,000	44,803	236,495
Year 24	158,728	53,000	44,803	241,462
Year 25	158,728	53,000	44,803	246,431
Year 26	163,490	53,000	49,463	241,975
Year 27	163,490	53,000	49,463	246,935
Year 28	163,490	53,000	49,463	251,887
Year 29	163,490	53,000	49,463	256,827
Year 30	163,490	53,000	49,463	261,751
TOTAL 2024 - 2054	4,561,140	1,590,000	1,175,321	6,264,445
EBITDA / PropCost				85.5%

All figures are indicative only - *Source: ESS*

6.5 ESS 5-Year – Turnkey Operation Option with Full Capital Contribution

Option 3 forecast provides the same operating metrics as Option 2 except:

a. The WTW-Scott Cinemas capital investment is zero and TDC provides a full £2.83 million capital contribution with an enhanced leased rent payable of £16 psf.
b. Service Charge and Business rates are constant.
c. The payback period is inconsequential as a Turnkey so long as the on-going operation is profitable.
d. ESS estimates that £9.00 million of property costs are payable (rent, service charge and business rates) through the 30-year period of lease, and £4.58 million of EBITDA (post property cost) is achievable by the operator. A 50.9% cushion of Property Cost to EBITDA is far low risk and enables sufficient cash coverage for property costs, and to re-invest into the asset through the duration of the lease term.
e. There would be a rationale to sign and deliver the lease if the outcome is one where the site breaks even at 118,821 admits or 78% of its' potential peak admissions.

The Turnkey Option 3 for the Newton Abbot cinema has the ability to be profitable at peak demand, but also be able to breakeven on 12.5% seat occupancy levels.

	WTW-SCOTT Cinemas	UK P&L 2020	Newton Abbot Breakeven	Newton Abbot Yr 1	Newton Abbot Yr 2	Newton Abbot Yr 3	Newton Abbot Yr 4	Newton Abbot Yr 5
Admissions		583,463	108,919	121,867	137,101	152,334	152,334	152,334
Revenue £UK								
	Box Office	2,870,640	617,787	691,231	793,187	898,946	916,925	935,263
	Retail	1,014,958	250,513	280,295	321,638	364,523	371,814	379,250
	Advertising	413,184	60,543	67,741	77,732	88,097	89,859	91,656
	Other	174,834	46,689	52,239	59,945	67,937	69,296	70,682
	Total	**4,473,616**	**975,533**	**1,091,505**	**1,252,502**	**1,419,503**	**1,447,893**	**1,476,850**
Cost of Sales	Film Hire	1,443,213	290,360	324,878	372,798	422,504	430,955	439,574
	Retail Purchases	422,804	70,144	78,482	90,059	102,066	104,108	106,190
	PRS	-	6,178	6,912	7,932	8,989	9,169	9,353
	3D glasses cost / royalty	-	980	1,097	1,234	1,371	1,371	1,371
	Other Costs	5,199	5,036	5,036	5,036	5,036	7,617	7,617
	Total	**1,871,216**	**372,698**	**416,406**	**477,058**	**539,967**	**553,219**	**564,104**
	Gross Profit	**2,602,400**	**602,835**	**675,100**	**775,444**	**879,536**	**894,673**	**912,747**
Cinema Costs	Payroll	974,797	133,233	152,266	174,725	197,946	201,904	205,943
	Marketing	-	21,623	24,193	27,762	31,463	32,092	32,734
	Contracts & Main.	160,804	41,097	41,097	42,330	43,600	44,908	46,255
	Utilities & Supplies	97,124	102,575	102,575	105,652	108,821	112,086	115,449
	Insurance	20,417	15,080	15,080	15,532	15,998	16,478	16,973
	Other	476,095	63,949	63,949	65,867	67,843	69,878	71,975
	Total	**1,729,237**	**377,555**	**399,159**	**431,868**	**465,671**	**477,347**	**489,328**
	EBITDA before Property	**873,163**	**225,280**	**275,941**	**343,576**	**413,864**	**417,326**	**423,419**
Property Costs	Rent	144,054	193,024	193,024	193,024	193,024	193,024	193,024
	Rates	46,227	53,000	53,000	53,000	53,000	53,000	53,000
	Service Charges	100,939	30,160	30,160	30,160	30,160	30,160	30,160
	Total	**291,220**	**276,184**	**276,184**	**276,184**	**276,184**	**276,184**	**276,184**
	Cinema EBITDA	**581,943**	**(50,904)**	**(243)**	**67,392**	**137,680**	**141,142**	**147,235**
	5 Year Cinema EBITDA							**493,206**

Key Drivers		Breakeven	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
ATP £	4.92	5.67	5.67	5.79	5.90	6.02	6.14
Retail per person £	1.74	2.30	2.30	2.35	2.39	2.44	2.49
Advertising Per Head £	0.71	0.56	0.56	0.57	0.58	0.59	0.60
Other per head £	0.30	0.43	0.43	0.44	0.45	0.45	0.46
Film Hire %	50%	47%	47%	47%	47%	47%	47%
Gross sales margin %	58%	72%	72%	72%	72%	72%	72%
EBITDA Margin %	13%	-5%	0%	5%	10%	10%	10%
Seat Occupancy		167	187	211	234	234	234
Seat Occupancy %		11%	13%	14%	16%	16%	16%
Rent psf	16.00						
sq ft	12,064						
Service Charge (sqft)	£ 2.50						
Screens	4						
Seats	651						

All figures are indicative only - *Source: ESS*

ESS Review for a cinema development comprising for a 4-screen cinema with 651 seats with a full TDC capital contribution to deliver:

- Demise of c 12,064 sqft with rent psf of £16.00
- Tenant's Rent Payable £193,024 pa
- Capital required (warm shell spec) £2.83 million plus additional pre-opening costs.
- Ticket sales: 152,334 (peaking in year 3 of re-opening) with a £5.67 average ticket price

- Occupancy Level: 16% - given small seating capacity in a solos position
- Service Charge £30,160
- Business Rates Charge estimate: £53,000
- EBITDA % 10% at peak levels of admissions

Year	Rent £	Business Rates £	Service Charge £	Cinema EBITDA £
Year 1	193,024	53,000	30,160	(243)
Year 2	193,024	53,000	30,160	67,392
Year 3	193,024	53,000	30,160	137,680
Year 4	193,024	53,000	30,160	141,142
Year 5	193,024	53,000	30,160	147,235
Year 6	198,815	53,000	33,297	125,803
Year 7	198,815	53,000	33,297	130,428
Year 8	198,815	53,000	33,297	135,087
Year 9	198,815	53,000	33,297	139,776
Year 10	198,815	53,000	33,297	144,496
Year 11	204,779	53,000	36,759	139,818
Year 12	204,779	53,000	36,759	144,596
Year 13	204,779	53,000	36,759	149,399
Year 14	204,779	53,000	36,759	154,227
Year 15	204,779	53,000	36,759	159,078
Year 16	210,923	53,000	40,582	153,984
Year 17	210,923	53,000	40,582	158,876
Year 18	210,923	53,000	40,582	163,786
Year 19	210,923	53,000	40,582	168,711
Year 20	210,923	53,000	40,582	173,650
Year 21	217,250	53,000	44,803	168,051
Year 22	217,250	53,000	44,803	173,009
Year 23	217,250	53,000	44,803	177,973
Year 24	217,250	53,000	44,803	182,941
Year 25	217,250	53,000	44,803	187,909
Year 26	223,768	53,000	49,463	181,698
Year 27	223,768	53,000	49,463	186,658
Year 28	223,768	53,000	49,463	191,610
Year 29	223,768	53,000	49,463	196,549
Year 30	223,768	53,000	49,463	201,473
TOTAL 2024 - 2054	6,242,792	1,590,000	1,175,321	4,582,793
EBITDA / PropCost				50.9%

All figures are indicative only - *Source: ESS*

6.6 Annual Reports: WTW-Scott UK vs Vue Cinemas

While Vue's cinema (former Apollo) at Paignton has performed well historically, the corporate entity faces several challenges in the forthcoming years, with liabilities requiring to be restructured. Vue has entered a restructuring process with bondholders that will result in existing shareholders (including senior management) losing control and having their investments wiped out. The process is due to be completed in late 2022.

In the 2021 Going Concern section of their company Statutory Accounts released in early June 2022, it is highlighted that Vue projects potential covenant breaches and a potential liquidity need during the final quarter of 2022. It is assumed that the liquidity requirement can be mitigated through the provision of new money by September 2022 [£88 million]. It is highly likely that Vue will have to seek additional liquidity support as recovery of the sector will take longer than their company forecasts estimate.

In comparison, the family traded Scott-WTW South West, has no corporate external borrowings; lower property lease commitments, and retains more cash liquidity within the business. The accounts prior to the pandemic and during the pandemic are robust, even in the most challenging of circumstances:

Annual Reports	WTW-Scott	WTW-Scott	WTW-Scott	WTW-Scott	Vue	Vue	Vue	Vue
Reporting for 2020 - 2021	Actual £	Actual £	Actual £	**Var 21 v 19**	**Actual £**	**Actual £**	Actual £	**Var 21 v 19**
	2019	2020	2021	%	2019	2020	2021	%
Sites	7	7	7	0.0%	228	225	227	-1.3%
Screens	**18**	**18**	**18**	0.0%	**1,997**	**1,980**	**1,996**	-0.9%
Admissions (millions)	0.6	0.4	0.3	-46.3%	95.10	38.6	32.4	-59.4%
Total Revenue £	4.1	0.3	2.3	-42.8%	847.55	352.9	386.1	-58.4%
Lease Costs £	0.1	0.1	0.1	3.6%	137.87	95.8	104.9	-23.9%
Operating Income - EBITDA	0.6	- 0.5	- 0.2	-134.5%	138.60	43.5	35.7	-68.6%
Lease %	3.5%	50.1%	6.4%		0	0	27.2%	
EBITDA %	14.3%	-186.0%	-8.6%		16.4%	12.3%	9.3%	
Cash or Equivelants £	2.66	1.77	1.55	-41.7%	131.16	181.17	149.39	38.1%
Corporate Borrowings £	-	-	-		1,588.94	1,893.78	1,972.52	19.2%
Total Lease Commitments £					920.50	934.06	860.64	1.5%
Total Assets £	4.3	3.4	3.1	-28.0%	1,433.9	2,159.5	2,043.0	50.6%
Total Liabilities £	0.6	0.1	0.1	-78.2%	1,989.7	3,054.0	3,159.7	53.5%
Total Assets less Liabilities £	3.6	3.3	2.9	-19.1%	- 555.9	- 894.5	- 1,116.6	60.9%
Liabilities as a % of Assets	**15.0%**	**4.1%**	**4.5%**		**138.8%**	**141.4%**	**154.7%**	
Cash % of Total Liabilities	417.99%	1277.73%	1117.36%		**6.59%**	**5.93%**	4.73%	
Cash or Equivelants per Screen £	147,867	98,581	86,208	-41.7%	65,677	91,500	74,845	39.3%
Corporate Borrowings per Screen £	-	-	-		795,664	956,456	988,236	20.2%
Liabilities per Screen £	35,375	7,715	7,715	-78.2%	996,367	1,542,440	1,582,996	54.8%

All figures are indicative only - *Source: ESS*

6.7 WTW-Scott Cinemas South West Ltd - Balance Sheet March 2022

CONFIDENTIAL INFORMATION – REDACTED

[redacted]

Timing of the project, alongside the broader recovery of the film and cinema markets are issues that are foremost in the Director's minds.

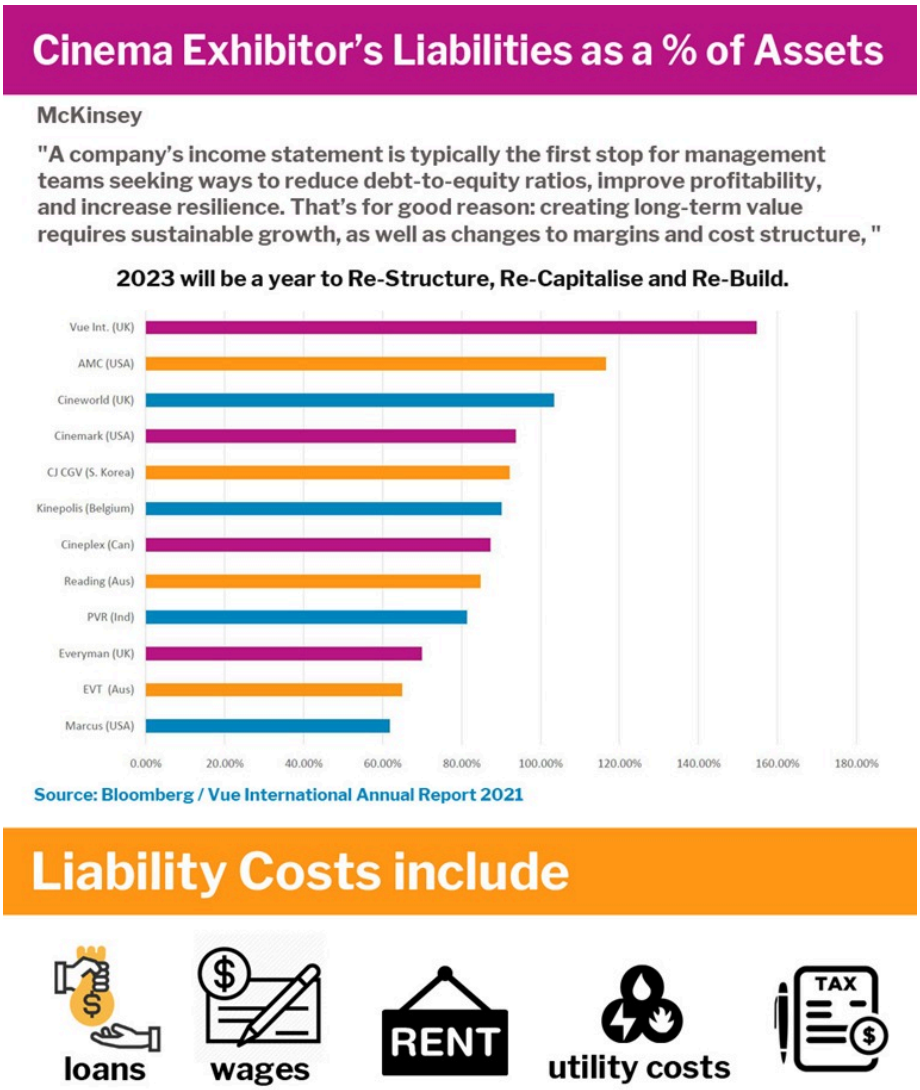
[redacted]

6.8 Cinema Exhibitor's Liabilities as a % of Assets

The Coronavirus pandemic and related lockdown/ closure periods have created instability and uncertainty amongst all cinema operators globally that are heavily reliant on Hollywood content, which significantly includes the U.K. Reasons include:

- Government health and work restrictions, customer confidence and uncertainty around the virus, until vaccines are rolled out
- Lack of film product as a direct consequence of the above
- High levels of pre-pandemic debt carried by the major chains
- Limited cash reserves and liquidity.

Every closure period increased the uncertainty in the cinema market on all fronts. The resulting turbulence through the pandemic period will almost inevitably include the emergence of new challenger cinema operators with new structured capital and strategic direction. However, this will take at least an 18-24-month period from now.



6.9 UK Exhibitors and Alternative Operator Options

During a Zoom with Mark Williams, Director at WTW-Scott Cinemas, it was established that in principle WTW-Scott Cinemas are still interested in operating the proposed new cinema in Newton Abbot. Yet, concerns with regards to the current and near future development of the cinema market, in addition to challenges such as e.g. high inflation, were made apparent.

In the case of WTW-Scott Cinemas deciding against going forward with the proposed Market Walk cinema, other cinema operators should be approached and presented with the opportunity.

The three major chains operating in the UK have no capacity to invest in cinema at present as a result of their precarious financial positions:

a. In the process of re-structuring their finances: Cineworld Group plc (including Picturehouse) was founded in 1995 and is now one of the leading cinema groups in Europe. Originally a private company, it re-registered as a public company in May 2006 and listed on the London Stock Exchange in May 2007. Currently, Cineworld Group plc is the only quoted UK cinema business. Cineworld's acquisition of Regal Entertainment Group has created the second largest cinema business in the world (by number of screens). Cineworld currently operates in the UK, Ireland, Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Romania, Israel and the US. The company operates 747 sites and 9,139 screens globally.
b. Refinancing their European operations: Odeon Cinemas Group is Europe's largest cinema operator. https://celluloidjunkie.com/wire/amcs-subsidiary-odeon-finco-plc-announces-offering-of-senior-secured-notes-due-2027-to-refinance-odeons-term-loan-facility Through subsidiaries it has over 360 cinemas, with 2,900 screens in 13 countries in Europe, 120 cinemas with 960 screens are in the U.K. Odeon was acquired by AMC Theatres in 2016 to become the largest movie exhibition company in the U.S., Europe and the world with approximately 1,000 theatres and more than 11,000 screens across the globe.
c. Vue International is one of the world's leading cinema operators, spanning across nine countries, 2228 sites and 1,992 screens. The group has leading positions in the U.K., Ireland, Germany, Denmark, Netherlands, Italy, Poland, Lithuania and Taiwan. From its inception in May 2003 Vue International has grown organically and through strategic acquisitions.
d. National Amusements (Showcase) are the ultimate owners of the film studio, Paramount Global. Their development focus is on acquiring substantial sites for their "De Lux" model – i.e., 60,000 sqft with high levels of footfall and admissions capacity of 800,000+ admissions.

e. Empire Cinemas have a presence in Central London and across the UK. Operating both Empire and Tivoli (boutique) offers. Newton Abbot may be too small a footprint, but they could be approached to identify interest
f. Omniplex, IMC and Moviehouse develop cinemas entirely in Ireland.
g. Everyman Media Group are a luxury boutique cinema offer who have continued to invest and develop sites throughout the pandemic. They are listed on AIM and have access to capital. They could be a credible option for Newton Abbot.
h. The Light has established a strong base from its origins in New Brighton and Wisbech following the acquisition of the former Cineworld in Cambridge and new capital investment. Newton Abbot may be too small a footprint, but they could be approached to identify interest.
i. Reel Cinemas are a family run business who have continued to develop sites through the pandemic and are active in market. They are a similar type of offer to Scott Cinemas. The business has zero debt and could be approached to identify interest.
j. The Arc Cinemas are a Dublin based family run business who have continued to develop sites through the pandemic and are active in the UK market. The business self-funds projects from their broader property investment business. The Arc could be approached to identify interest.
k. Curzon focused primarily on the South East and London or select Regional City Centres with their art house and luxury cinemas.
l. Merlin Cinemas, based in Penzance, have recently opened the New Central in Torquay. While they would be a good option, Merlin may wish to focus on Torquay solely. It would be recommended to approach Merlin only after other less competitive offers have been identified.
m. PDJ Cinemas and Savoy Cinemas are active in the Midlands. Both could be approached to identify interest.

UK Exhibitors screens by exhibitors with 15 or more screens

Exhibitor Profile 2019	Sites	Comments
Cineworld	101	Restructuring process with landlords and investors following Cineworld's filing for bancruptcy.
Odeon	114	Likely restructuring process with landlords and investors as Meme
Vue	88	Vue International have agreed a controversial £1 billion recapitalisation deal in order to remain solvent. A dept.-for-equity swap will see Alberta Investment Management Corporation, a Canadian pension fund, relinquish their
National Amusements (Showcase)	21	Strongest position of all operators. Focus on major city and retail locations.
Empire Cinemas	15	Anderson family UK: Looking to expand in market with pipeline and fallout from COVID e.g. Movies@ deal
Omniplex	15	Anderson family Ireland: Looking to expand in market with pipeline and fallout from COVID
Everyman Media Group	35	High market cap maintained throughout pandemic and now set to develop 50 new sites within 5 years
Picturehouse (Cineworld)	26	Part of Cineworld. Restructuring process with landlords and investors following bancruptcy filing
Light Cinemas	10	At the end of the current investment cycle and a good prospect. Mainstream venues with pipeline and good landlord relations
Reel Cinemas	15	Privately owned and part of a property portfolio and operational business. Value led and strong balance sheet.
Arc Cinemas	5	Operated from Dublin. The challenger and acquisitive brand in the UK at present. Private family fund with flexibility.
Curzon	15	Bought out by Cohen NYC in 2019. Performed well through COVID as the group fund, produce, distribute and screen / stream
Merlin Cinemas	16	Local community cinemas based in Cornwall, Devon, Wales and Northern Scotland. Privately owned.
Movie House Cinemas	5	Northern Ireland only: privately owned and primarily Belfast secondary
Irish Multiplex Cinemas	5	Ward family: Challenged at present and gave up on one site in Dublin which former partners the Andersons are bidding on.
PDJ Cinemas	3	Jervis Family: Owner operator running traditional town / city centre cinemas. Invests only as required.
Savoy Cinemas	5	Privately owned and part of a property portfolio and operational business.
Parkway Entertainment	4	Privately owned and part of a property portfolio and operational business.
Others (includes other independent chains and individual cinemas/multi-	487	
TOTAL UK	**985**	

Site Source: BFI Yearbook 2021/ NB: No 2021 figures published yet

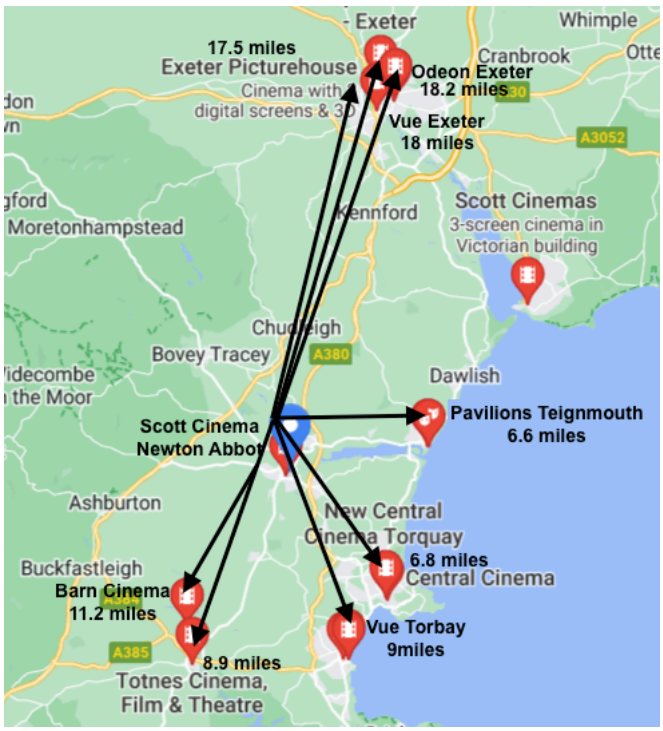
7. ANALYSIS LOCAL COMPETITORS

Whilst Newton Abbot only offers one 2-screen cinema, within 20 miles a further 8 cinemas can be found. Of these, 4 sites are part time cinemas with the Vue Paignton (Torbay) being the closest full time cinema to Newton Abbot, and a further 4 full time cinemas in Exeter; Odeon Exeter, Vue Exeter and the Picturehouse Exeter.

Of the 4 independent cinemas, New Central Torquay, Totnes Cinema, Pavilions Teignmouth and the Barn Cinema, within a 20-miles drive zone, two cinemas are not considered as direct competition; the Pavilions Teignmouth and the Totnes Cinema, as both sites are playing films off date on heavily reduced shows.

Of the two independent cinemas which are considered indirect competition to Newton Abbot, the New Central Cinema Torquay, and the Barn Cinema, neither are reporting their box office revenue to approved industry data collection companies (e.g. Comscore), hence ESS is unable to provide any data for these two sites.

Although Exeter's population with 131,000 being approximately 5 times the population of Newton Abbot, the Exeter's cinemas, all operated by one of the big UK chains, are relevant to the Newton Abbot area as Exeter is relatively easy to get to and are likely to attract commuters. In addition, Exeter's cinema box office revenue serves as good and important example of past and current industry developments.



Source: Google Map

7.1 New Central Cinema Torquay

With a distance of just under 7 miles to the centre of Newton Abbot, the New Central Cinema in Torquay was acquired by Merlin Cinema in August 2019. The former BHS (British Home Stores) department store is under construction and will feature 13 screens once finished, making it the largest multiplex in Devon. The cinema will include a new restaurant and ice cream bar.

Due to the pandemic, development of the building has been slow. The Central Cinema (former Theatre Royal/Odeon) also operated by Merlin Cinemas closed on March 16, 2022.

The New Central Cinema opened 3-screens (338 seats) on 15th April 2022. All three screens are licensed to allow customers to consume alcohol in the screen. Another 10-screens are planned in the development.

The cinema's programming includes the obvious blockbuster releases, but also has a strong event cinema line-up such as live opera and ballet from the Royal Opera House, live National Theatre performances, and live Concerts (e.g. Coldplay), advertised.

Standard adult ticket prices are advertised as following:

Cinema Prices

Adult 15 years & over	£ 8.50
Adult with a Movie Magic Card 15 years & over	£ 6.00
Senior Adult 60 years & over	£ 7.50
Senior Adult with a Movie Magic Card 60 years & over	£ 5.50
Child 14 years & under	£ 6.50
Child with a Movie Magic Card 14 years & under	£ 4.50
Mini Merlins	£ 2.50

Event Cinema Pricing
Prices vary for each individual event showing, please see individual screenings.

Magic Mondays
Every Monday we offer 2 for 1 off the standard ticket price for two Movie Magic cardholders coming together. Available on feature films, even on Bank Holidays, at all Merlin Cinemas.

Meerkat Movies
The Meerkat Movies 2 for 1 film deal is accepted at all Merlin Cinemas.

The New Central Cinema is positioned in the middle of a failing retail pitch with multiple units closed and very limited evening (6pm – 9pm activity). The environment while walking to or using the multi-storey car park is not positive. The venue is several streets back from core Torquay leisure provision. As cinemas require height and volume the takeover of a failed BHS store with more limited ceiling to floor height and many more structural columns than a cinema creates a compromised cinema offer.

While the cinema offers parking, an initiative from Torbay Council to support local businesses, which grants access to floors 1-5 at Lower Union Lane multi-storey car park it does not feel safe to walk up an isolated corridor to the side of the cinema during the darker evening periods when cinema is at peak demand.

The New Central Cinema will be in direct competition with the 3-miles away Vue Cinema Torbay and to some extend to the planned Newton Abbot Scott cinema.

7.2 Vue Cinema Torbay - Paignton

Located approximately 9 miles from Newton Abbot, the 9-screen Vue cinema features around 1,638 seats.

The cinema was originally opened in 1999 following an Apollo led redevelopment of the Festival Hall Theatre into a cinema and complimentary restaurants. The cinema is leased to Vue from BAE Systems Pension Fund on a 25-year term due to expire in early 2032. Harvester and a Mobility Shop are also BAE tenants on-site with one further restaurant unit vacant. The landlord is Torbay Council.

The cinema has not been refurbished since being taken over from Apollo Cinemas in 2014 and had limited investment from 1999 through to the sale to Vue. Therefore, the venue looks tired but functional, while being expensive to maintain.

With so much investment in residential, leisure and hotels in the Torbay area, including significant developments taking place in the immediate areas surrounding the Vue Paignton, the property may well be more valuable for re-development at the end of lease or beforehand.

At present, the cinema plays a typical multiplex programme but does offer event cinema such as opera and ballet in addition to live UEFA Championship 2022/2023 matches.

Vue Torbay offers all standard tickets for £4.99 if bought online, regardless of day, age or time, with the exception of event cinema and 3D performances, which are more expensive.

Overall the cinema has a tired feel and seats are in need of upgrading, however, the discounted ticket price makes the Vue Torbay one of the cheapest full-time cinemas within the area to watch any new release.

In pre-pandemic 2019, the cinema generated an approximate box office of £1.7 million, with an approximate 315,600 admissions. (@£5.50 average ticket price/event cinema prices higher plus buying ticket at cinema/£5.99)

Comparing pre-pandemic 2019 with post-pandemic 2021, the box office decreased by almost 57%.

Operator	B/O £ 2019	B/O £ 2020	B/O £ 2021	2019 vs 2021 %
Vue Torbay (9)	1,736,125	426,033	747,829	-56.92

All figures are indicative only - *Source: ESS*

When comparing the first 37 box office weeks of 2022 (est. £810k) with the same period in 2019 (est.£1.2m), the Vue Torbay is currently an approximate 34% behind pre-pandemic box office levels.

Based on an average of 3.5 shows a day by 364 days a year (x-mas day closed), Vue operated on an occupancy rate of approximately 16% before the pandemic, which dropped to 3.71% during the pandemic and recovered to 6.51% in 2021. The occupancy rate for the first 37 weeks of 2022 is estimated 10%.

Vue Torbay	Seats	Box Office £	Vue Average Ticket Price £	Approx. Admissions	Max Capacity	Occupancy %
2017	1,638	1,945,186	5.50	353,670	2,086,812	16.94
2018	1,638	1,890,580	5.50	343,742	2,086,812	16.47
2019	1,638	1,736,125	5.50	315,659	2,086,812	15.12
2020	1,638	426,033	5.50	77,460	2,086,812	3.71
2021	1,638	747,829	5.50	135,969	2,086,812	6.51
		6,745,753	5.50	1,226,501		11.75

Maximum Seating capacity based on 3.5 daily shows x 364 days a year

All figures are indicative only - *Source: ESS*

7.3 Barn Cinema Dartington

Located in a renovated 14th century barn at Dartington Hall, the Barn Cinema is approximately 11.2 miles from Newton Abbot. The cinema with its unique setting features one screen with 190-seats and an additional 120-seat Studio Theatre. The Barn is a member of the Europa Cinemas Group of arthouse cinemas, hence, whilst blockbuster releases are featured off date in the programme, the cinema shows a wide range of arthouse product in addition to event cinema such as live performances from the Royal Opera House.

A standard adult ticket is advertised between £7.00 - £9.00, depending on the time of the screening.

Whilst the Barn cinema is not considered as being in direct competition with Newton Abbot, the unique setting and the wide range of products shown, particularly live events, could effect the Newton Abbot cinema (or vice versa), particularly when it comes to event cinema (e.g. live opera & ballet).

7.4 Picturehouse Exeter

The 2-screen Picturehouse Exeter, part of the now insolvent Cineworld Group is located approximately 18.2 miles from Newton Abbot.

Known for its sleek, modern yet comfy style, the cinema features two screens with a total sating capacity of 299 seats, including sofa seating and reclining seats. Whilst Picturehouse in the past has focused on arthouse, niche and cross over products, it does not shy away from mainstream releases. More now than ever due to a general lack of arthouse product, brought on by the pandemic.

The cinema has free Wi-Fi and features a bar/café which offers freshly made pizza, cakes, salads and a wide range of Fairtrade products.

Ticket prices are generally higher in the boutique style cinema compared to traditional cinemas. Standard adult tickets cost around £12.10, student and retired tickets £11.10 and child tickets start at £8.40. Premiums are charged for 3D performances and event cinema such as live opera and concerts.
Picturehouse does offer a “Happy Monday” where standard tickets start at £5.70.

In pre-pandemic 2019, the cinema generated an approximate box office of £750k, with an approximate 162,000 admissions.
Comparing pre-pandemic 2019 with post-pandemic 2021, the box office decreased by more than 70%.

Operator	B/O £ 2019	B/O £ 2020	B/O £ 2021	2019 vs 2021 %
Picturehouse Exeter (2)	750,633	246,361	224,702	-70.06

All figures are indicative only - *Source: ESS*

Whilst smaller, independent cinemas faired a bit better during the pandemic due to the more personal approach and with this creating a more loyal customer base, arthouse cinemas were generally worse off in 2021. This was (and still is) due to a general lack of arthouse and niche product available, in addition to a still existing hesitancy of the older audiences returning to the cinema.

Before the pandemic, Picturehouse Exeter operated on approximately 43% seat occupancy. This is very much in line with boutique cinema offers, as the screen numbers are fewer and the screens are smaller than a traditional cinema setting.

Picturehouse Exeter	Seats	Box Office £	P/H Exeter Average Ticket Price £	Approx. Admissions	Max Seating Capacity	Occupancy %
2017	299	1,758,240	10.45	168,253	380,926	44.17
2018	299	1,747,985	10.45	167,271	380,926	43.91
2019	299	1,691,007	10.45	161,819	380,926	42.48
2020	299	360,825	10.45	34,529	380,926	9.06
2021	299	613,265	10.45	58,686	380,926	15.40
		6,171,322	10.45	590,557		31.00

Max Seating capacity based on 3.5 daily shows x 364 days a year
All figures are indicative only - *Source: ESS*

Based on an estimated income of £275k box office revenue for the first 37 weeks of 2022, current seat occupancy of the Picturehouse is about 9.70%.

The newly refurbished Vue Cinema (1.2 miles) would have hit the Picturehouse to some extend, as ticket prices are overall cheaper at the Vue, yet the seats are luxury recliner seats, and film programming of both sites would be very similar at the moment due to the lack of niche products.

Whilst the Picturehouse is located in Exeter and is not perceived as direct competition to a new site in Newton Abbot, the Boutique style cinema allows customers to watch films in an upmarket environment.
In addition, the café/bar and lounge area encourages customers to spend time there, either before or after the film, and offers a far superior menu compared to traditional cinemas which allows customers to “make it a night out”,

7.5 Odeon Cinema Exeter

Located about 18.2 miles from Newton Abbot, the 4-screen, 944-seat Odeon feels tired and in need for a refurbishment. The cinema offers a number of premier seats in each of its screens, which are an extra £2.00 to the standard adult price of £6.00.

The cinema’s programming focuses on main releases but does play event cinema.

The Odeon Exeter box office decreased by approximately 60.85 when comparing pre-pandemic 2019 to post-pandemic 2021.

Operator	B/O £ 2019	B/O £ 2020	B/O £ 2021	2019 vs 2021 %
Odeon Exeter (4)	949,371	186,919	371,626	-60.85

All figures are indicative only - *Source: ESS*

Before the pandemic, the site operated on an estimated 10% seat occupancy, which decreased to 2% during the pandemic and is currently estimated to be around the 5.6% mark, when comparing the first 37 weeks of 2022 to 2019. Overall, the site would have been hit considerably by the newly refurbished Vue Exeter, which is a mere 0.3 miles from the Odeon cinema.

Odeon Exeter	Seats	Box Office £	UK Average Ticket Price £	Approx. Admissions	Max Seating Capacity	Occupancy %
2017	944	1,005,664	7.49	134,268	1,374,464	9.76
2018	944	1,022,376	7.22	141,603	1,374,464	10.30
2019	944	949,371	6.93	136,994	1,374,464	9.96
2020	944	186,919	6.75	27,692	1,374,464	2.01
2021	944	371,626	7.52	49,418	1,374,464	3.59
		3,535,956	7.18	489,975		7.12

Max Seating capacity based on 4 daily shows x 364 days a year

All figures are indicative only - *Source: ESS*

The cinema is not considered direct competition to a new cinema in Newton Abbot, due to distance, programming and being out of date.

7.6 Vue Cinema Exeter

Located approximately 19 miles from Newton Abbot, the 7-screen Vue Cinema underwent a refurbishment during the lockdown period. The originally 1,037 seats were replaced with 469 luxury recliner seats, offering superior leg room.

The film programming is in typical multiplex style, with blockbuster releases taking priority over arthouse films. As the Vue Torbay, the cinema does offer events such as live performances from the Royal Opera House, in addition to live streams of the upcoming UEFA's Champions League 2022/2023 matches.

Ticket prices at the Vue Exeter vary, depending on time, day and method of buying tickets (online vs on site) and start from £7.99 for a Super Saver ticket, up to £10.99 for a standard adult ticket bought at the cinema.

The Vue Exeter narrowly held up the best within Exeter, with a decrease of just under 60% when comparing 2019 to 2021.

Operator	B/O £ 2019	B/O £ 2020	B/O £ 2021	2019 vs 2021 %
Vue Exeter (7)	2,646,699	649,766	1,059,281	-59.97

All figures are indicative only - *Source: ESS*

Whilst the cinema operated on an occupancy rate of over 28% in 2017 with a seating capacity of 1,037 seats, it is estimated that the cinema currently operates on 33% with the reduced seating of 469. (37 weeks - September 2022)

Vue Exeter	Seats	Box Office £	UK & Vue Average Ticket Price £	Approx. Admissions	Max Capacity	Occupancy %
2017	1,037	3,193,422	7.49	426,358	1,509,872	28.23
2018	1,037	2,853,167	7.22	395,176	1,509,872	26.17
2019	1,037	2,646,699	6.93	381,919	1,509,872	25.29
2020*	469	649,766	9.49	68,469	682,864	10.02
2021	469	1,059,281	9.49	111,621	682,864	16.34
		10,402,335	8.12	1,383,542		21.21

Maximum Seating capacity based on 4 daily shows x 364 days a year

*Refurbished during lockdown - reopened August 2020

All figures are indicative only - *Source: ESS*

With a distance of about 19 miles to Newton Abbot, the Vue cinema with its recliner seats and affordable ticket offers is likely to still attract some commuters from the Newton Abbot area but is unlikely to have a direct impact on the new cinema in Newton Abbot.

8. CASE STUDIES

Across the UK, Councils are taking steps to regenerate town/city centre areas into vibrant, community focused and future proof hubs.

8.1 Case Study Ashington

Similar to Teignbridge District Council, Northumberland County Council and its wholly owned regeneration company, Advance Northumberland, has taken positive steps to transform the town centre of Ashington.

With a population of approximately 28,000, an overall aging population, akin to Newton Abbot, Ashington has significant potential to repurpose and refocus and create a complete town centre community hub. Currently Ashington has no first run multi-screen cinema within a 10-minute drive ring.

Ashington's regeneration plans are to create a performance space and youth and community facility at Wansbeck Square, while also providing an animated "Gateway" from the new Ashington Railway Station into the town centre, will very much strengthen this transformative community centred approach.

A significant part of the regeneration programme of Ashington's town centre is the development of Portland Park, which aims to deliver investment and regeneration which will see the expansion of the Ashington town centre through creating high-quality jobs, retail and leisure. Included in the planned investment is a 6-screen multiplex cinema.

In a Street Survey in Ashington town centre, 92% said that Portland Park would be their main cinema. This positive interest in cinema was further validated by a separate and similarly positive Town Council led survey.

When the Cinema Prospectus was opened up to the market, there was significant operator interest in Ashington from a number of operators, with Reel Cinemas, a family funded and community focused operator, providing consistent and positive feedback on their willingness to move forward with the Portland Park cinema development.

Since the survey was conducted in pre-pandemic times, including the cinema prospectus, a new feasibility study was commissioned earlier this year to determine if the results of the previous study would still be applicable to post-pandemic times, which have seen significant changes to the cinema market overall.

Considering new market research, such as findings by Comscore, found that overall, smaller venues faired slightly better overall than larger multiplexes during the pandemic, whereby a community focused approach fostered a more loyal customer base, who were more inclined to support their local venue then larger chains.

Additionally, the UK box office has performed better than its European counterparts but hesitancy remains, particularly from cinema goers of the ages of 50's plus. A general lack of product and changed viewing habits favouring streaming have been taken into consideration. Overall, forecasts of a box office recovery to pre-pandemic levels vary, from some industry experts forecasting 2023 as fully recovered, and others not expecting a full recovery before 2024/25, if at all.

Ashington's research concluded that the proposed 6-screen Reel cinema has the capability to operate on a 18% occupancy level, with annual admissions of 169,000 at its peak. However, should trade fall to 118,300 ticket sales (13% seat occupancy & a per capita rate of 2.3) which is 70% of the ESS projected admissions in the business appraisal plan, then the cinema will still break-even commercially.

Reel Cinemas, who are still very much committed to the site, estimate higher levels of trade.

With no first run multi screen cinema within the immediate 10-minute drive-time, more so longer distances to Berwick and beyond, population reach is above a healthy 51,000. Commercial viability can be achieved by Reel Cinemas while deploying their post-pandemic "value pricing" model.

8.2 Case Study Òran Mór Arts & Entertainment Venue, Glasgow

The Òran Mór, located in the heart of Glasgow's West End, has successfully managed to combine several F&B offers with arts & entertainment offers.
Located in the former Kelvinside Parish Church, Òran Mór, Gaelic for 'great melody of life' or 'big song', offers a Victorian Bar and Whisky Bar, John Muir Room Restaurant, The Brasserie Restaurant, Private Dining Room, Live Music Venue, Night Club, and a stunning Auditorium with mural ceiling by Alasdair Gray, used for theatre and comedy performances.

As well as hosting the now internationally recognised *A Play, a Pie and a Pint* Lunchtime Theatre, Òran Mór also provides the setting for corporate and private events, weddings and ceilidhs.[xviii]

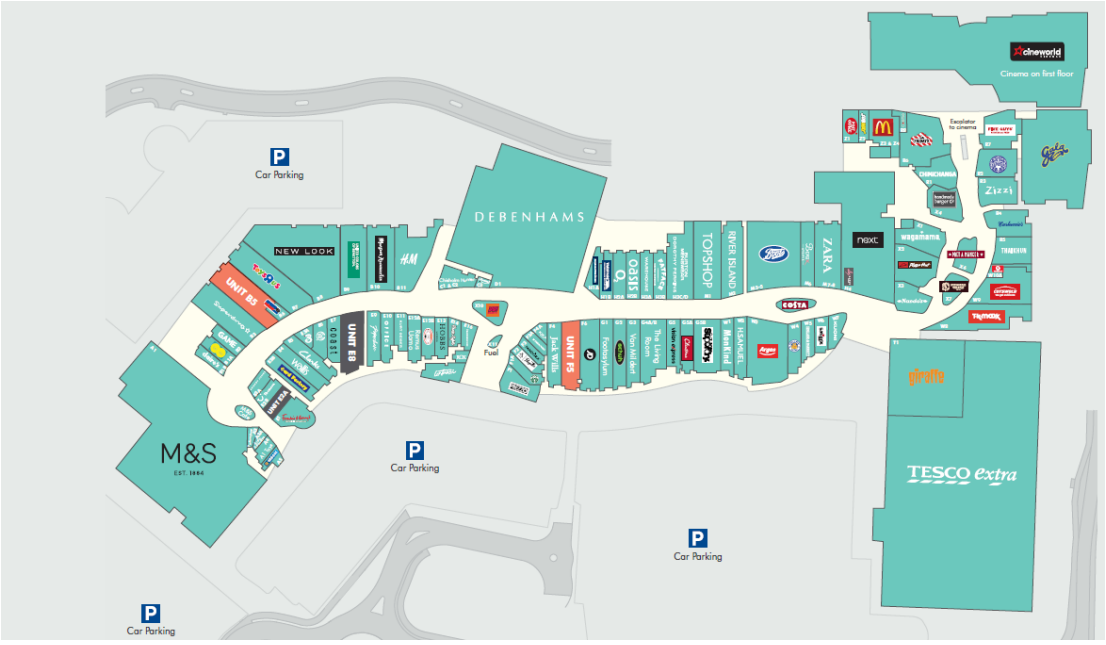
The venue also supports Scottish artists such as actors, writers and painters under their "Arts for All" programme, and exhibit and display their works throughout the building, all year round.

8.3 Case Study Silverburn Shopping Centre, Glasgow

The Silverburn Shopping Centre (known simply as 'Silverburn') is an out-of-town shopping centre located on Barrhead Road in Pollok, Glasgow, Scotland. The development replaced a modest shopping centre with a 1,000,000-square foot retail destination anchored by tenants Tesco, Next, Marks & Spencer and Debenhams. Silverburn caters for a target population from across the West of Scotland. It attracts visitors from within the Ayer catchment.

Developed by Retail Property Holdings Ltd, Silverburn's 1,00,000-square metres of retail and leisure space makes the Centre one the largest shopping destinations in the United Kingdom.

Opened in October 2007, Silverburn was designed by Building Design Partnership and constructed by Bovis Lend Lease. Silverburn houses the largest Scottish Tesco Extra in Scotland.



Silverburn Shopping Centre: Snapshot	
Catchment Size	1,900,000
Retail Floor Area (square metres)	100,000
No. of Stores	109
Anchor Tenants	4
Parking	2,000
Opening Date	25th October 2007
Developer	Retail Property Holdings Ltd
Designer	Building Design Partnership

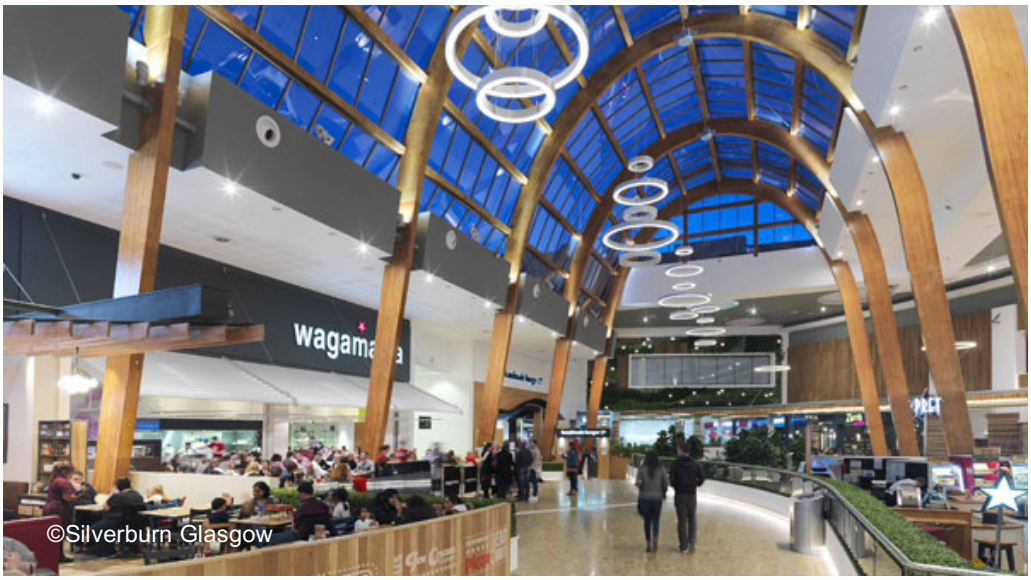
The Silverburn Leisure Extension:

In 2015, Silverburn extended the Centre's offer with a leisure development. The £20 million, 100,000 square foot extension was a significant addition to the footprint of Silverburn that has helped to build its regional appeal.
Anchored by a 50,000-square foot, 14-screen Cineworld multiplex, Silverburn's leisure extension included an overhaul of the Centre's food and beverage offer. Silverburn offers sixteen new and redesigned restaurants within the extension alone including Thaikhun, Five Guys, Cosmo, and Zizzi. The cinema's primary access route is through the food court and restaurants. In total, Silverburn offers a mix of some 25 cafes and restaurants to complement the retail offer.

The cinema offer has proven to be highly successful and delivered 800,000 ticket sales and £5m of box office revenue in 2016. Subsequent to the opening of the Silverburn Leisure Extension and the Centre has experienced a 7.9 percent increase in footfall and 11.7 increase in like-for-like catering sales year-to-date. Please note that these figures are pre-pandemic figures.
Comparison between trading levels of 2019 and 2021 highlight a -60.06% drop compared to pre-pandemic levels, which is higher than the average UK drop of 52.40% and does not consider Scotland's pandemic position with longer lockdown periods. In addition, Debenhams closed and the Silverburn centre was up for sale. Eurofund Group, an international real estate investment and development company, and Henderson Park, a private equity real estate firm, have bought the Southside centre for £140 million. According to Alberto Esguevillas, chief executive officer: *"Silverburn represents a fantastic opportunity to take a good centre and transform it into the leading asset in its catchment. Eurofund's vision is to utilise our team's strong asset management and operational expertise to unlock latent value and reposition Silverburn as the leading retail, leisure and food and beverage destination in Scotland."*[xix]

Operator	Location	Screens	B/O 2019 £	B/O 2020 £	B/O 2021 £	2019 vs 2021 %
Cineworld	Silverburn	14	4,619,178	947,780	1,844,539	-60.06

All figures are indicative only
Source: ESS


©Silverburn Glasgow


cineworld
©Silverburn Glasgow

8.4 Case Study Everyman Holmes Mill, Clitheroe

Located in the heart of Clitheroe, Lancashire, Holmes Mill is described as “a unique celebration of Lancashire food, drink and entertainment”.

The once redundant cotton mill has been transformed into the most spectacular food & drinks, lifestyle and leisure destination.

Among the attractions of this late Victorian Grade II-listed former textile mill are The Spinning Block (a boutique hotel, bistro, bar and grill), The Boiler House (home to Bowland Brewery and the Beer Hall, which includes, at 105ft, one of the longest bars in Britain!) and The Weaving Shed. The latter is home to Bowland Food Hall, a cafe - and, since 18th October 2019, a four screen Everyman cinema.

The Holmes Mill development is event driven, with basic weekly events to festivals such as food festivals, live concerts, comedy, engine room sessions to name a few.


©Holmes Mill


©Holmes Mill Food Market


©Everyman Cinemas

8.5 Feedback for Recent Developments

Broxtowe Council: The Arc Cinema, Beeston, Nottingham (open)
Greg Marshall of Broxtowe Council said, *"This development has been a long time in the making and we are thrilled that the time has come to open its doors. This is community wealth building at its best, a Council backed initiative that works closely with business and developers to secure jobs and long term economic gain for Broxtowe. Everyone has faced a difficult time during COVID so we're delighted that the Arc Cinema decided to invest in Beeston. We want local businesses and communities to thrive and be proud to call this town their home."*

https://westbridgfordwire.com/arc-cinema-beeston/

©Arc Cinema – Artists Impression

Cherwell District Council - The Light, Castle Quay Waterfront, Banbury (open)
The Light has opened at Castle Quay Waterfront, Banbury, Oxfordshire, as part of a major redevelopment alongside the Oxford Canal. Cherwell District Council has paid for the new centre itself. It bought the Castle Quay shopping centre, on the other side of the canal, in 2017.

https://www.bbc.co.uk/news/uk-england-oxfordshire-61763988

West Northamptonshire Council – The Arc Cinema, Daventry (open)
Cllr Lizzy Bowen, West Northamptonshire Council's Cabinet Member for Economic Development, Town Centre Regeneration and Growth, said: *"We're absolutely thrilled to see this wonderful new cinema open its doors to the people of Daventry and the surrounding area. The Arc Cinema have done a great job creating a really impressive, high-quality facility, and I can't wait for the local community to experience it. With a new public square, and with two restaurants also due to open in the coming weeks, Mulberry Place offers a fantastic new leisure destination for the local community to really be proud of. We're delighted to have been able to deliver this project, which will also provide a huge boost to the local economy, creating jobs, increasing footfall in the town centre and helping to attract new businesses and investment."*

https://www.rad.radio/much-anticipated-arc-cinema-opens-to-the-public/

©Arc Cinema Daventry

Preston City Council – The Arc Cinemas (AFL signed at Animate)
Preston City Council's leader, Councillor Matthew Brown concluded: *"The Animate development is a key project in Preston's 15-year City Investment Plan and will help complete the long awaited regeneration of our city centre with the asset in the ownership of the city so Prestonian's can benefit more directly from it. It's fantastic to see a growing independent leisure operator committing to the project and Preston which is an acknowledgement of the attractiveness of investing in our community. Bringing tenants like Arc here will stimulate further investment and boost the local economy so more local people can benefit."*

https://www.lancashiretelegraph.co.uk/news/20158470.arc-cinema-signs-25-year-lease-prestons-animate/

9. MARKET OPPORTUNITIES

Being “just” a cinema that “just” shows films in times of easy and convenient access to thousands of titles via SVoD’s such as e.g. Netflix, Amazon and Hulu, is simply not enough anymore. Whilst there will always be films that audiences want to see on a big screen, e.g. Top Gun: Maverick, cinemas need to find ways to lure back the more mature audiences to the cinemas. This, in ESS’ opinion will take time and cinemas will need to start engaging with their customers again, by offering more than just cinema – by being event driven and inclusive to all:

- Being event driven (e.g. event cinema – red carpet – black tie – tied in with centre retailers) by “making it worth” for customers to come to cinema
- Being pro-active (e.g. tribute screening of Grease Sing Along a day after Olivia Newton John’s passing was announced – larger cinema operators e.g. Cineworld often lack initiative
- Being inclusive (e.g. “#Gentleminions” example – offer separate, supervised screenings rather than banning teenagers)
- Discount options and offers that involve cinemas, retailers and F&B outlets
- Event cinema such as ballet and live opera, combined with e.g. wine tasting event, evening wear cat walk, book signings, or cinema & fine dining offers within walking distance to centre to make it a night out (F&B offers within centre are currently weak)
- Supervised kid’s screenings (parents can go shopping)

On a larger scale, Newton Abbot could benefit greatly from creative hubs. ESS recommends for Teignbridge District Council to consider a long term view and explore digital and creative leisure & entertainment, including work options, due to the exponential technical advances that are being made, which will change our world fundamentally.

It is by now widely accepted that Artificial Intelligence will replace about 800 million jobs worldwide by 2030 in areas such as e.g. language translation (2024), driving trucks by 2027, working in retail by 2031 and working as surgeons by 2053 with researchers believing there is a 50% chance of AI outperforming humans in all tasks in 45 years and of automating all human jobs in 120 years. [xx]

In order to prepare generations for this inevitable change, steps ought to be made now, to ensure nobody is left behind. This can be achieved by offering opportunities now to

a) Get acquainted with new technology
b) Offer opportunities to advance

9.1 Commercial, Economic & Social Benefits of a Cinema

Any cinema will have an economic impact and should benefit across the lease term to both, the landlord and the tenant but must also benefit the community at large…a fact that has been neglected by many cinema operators for too long. By operating an all inclusive and holistic cinema, highly significant levels of Social Values (a measurable local authority investment valuation process) could and should be delivered:

Employment and Skills:

- Enabling local people to access and obtain the skills needed for part-time or full-time employment in the film and cinema markets
- Providing employees with new skills for now and into the future
- Creating employment opportunities within the community
- Removing barriers to employment in the entertainment industry for under-represented and disadvantaged groups

Local Business & Economy:

- Extend the precinct or neighbourhood opening times beyond traditional retail hours and offer an alternative all-weather experiential offer throughout the year.
- Providing work opportunities and create a symbiosis between cinema and local small, medium, micro-sized businesses, social enterprises and minority owned
- Procuring goods and services locally where possible, rather than buying from multinationals
- Combined cinema offers such as e.g. cinema ticket & dinning
- Supporting small, medium, micro-sized businesses, social enterprises and minority owned businesses to improve capability and grow a sustainable community (e.g. enable local artists to exhibit their work in the cinemas café & bar area)
- Outdoor screenings with a range of local vendors offering various types of foods and drinks

Engagement:

- Offer talker screenings, film clubs, film quizzes, senior citizens screenings to bring like minded people together
- Engage customers in programming (within reason-e.g. film suggestion box)
- Engage with young film makers and offer opportunity to screen their shorts/films etc.
- Educational screenings in collaboration with schools
- Screenings for the elderly (including residents of elderly care home) with possible transport to and from the cinema?
- Carrying out volunteering activities that deliver benefits to local communities
- Partnering with national charities to support employment opportunities and environmental regeneration to meet local needs
- Working with local charities and stakeholders on key themes to deliver additional benefits to the communities in which cinemas operate in
- Working with education and training providers, industry bodies and charities to offer curriculum support and work experience opportunities
- In collaboration with local charities and community groups, support and encourage the community to live healthier and happier lives.

Environment:

- Using resources efficiently to reduce waste
- Donate left over foods to food banks
- Playing a part to reduce air pollution, noise, vibration and nuisance within local communities to improve health and wellness
- Promoting sustainable, local and ethical procurement

Governance, Measurement & Reporting:

- Maintaining clear accountability for delivering this policy
- Monitoring and reporting social value impact by using recognised independent tools (recommended)
- Continuously improving standards, efficiency and effectiveness

10. POST PANDEMIC MARKET CHANGES

There is no doubt the cinema industry has changed fundamentally over the past 2 ½ years, and will have to change even further in order to attract back customers to pre-pandemic levels.

10.1 Pandemic UK Cinemas Site Analysis

Individual cinemas' sizes and the type of cinema had an impact on the performance of a cinema during the pandemic. Overall, smaller venues faired better overall than larger multiplexes. Single-screen sites were least likely to reopen, due to concerns for the safety of older audiences, staff and volunteers and their ability to comply with social distancing rules. Almost half of these remained closed, however, those that did reopen delivered a strong performance relative to larger venues, with revenues down 68% in 2020 compared to 2019 total for all single-screen cinemas. Cinemas with 2-3 screens or 4-5 screens also held up "relatively" well, falling by 70% and 73% retrospectively, in 2020.

In contrast, almost all multiplexes with 6 or more screens reopened but their total 2020 revenue fell by 77% compared to 2019, which, considering the largest venues normally drive the overall impact on the box office, as they account for ¾ of all cinema revenue, the impact of the pandemic had a worse effect on multiplex cinemas.

Reasons for to why smaller venues held up better during the pandemic, could be explained by:

- Less reliant on Hollywood blockbusters - diverse programming such as art-house/independent British films, event cinema, catalogue and short windowed titles. (which then where available – releases of these films vastly reduced now)
- Personal relationship between "smaller cinema attendee" and the venue, hence customers are more inclined to support them as a community asset
- Boutique cinemas tend to have fewer than 6 screens and have higher admission prices.[xxi]

Presentation format has also driven the success of the biggest blockbusters 2021, with IMAX screens contributing over £6.6m of Q1 box office – almost 3% of the total. IMAX market share rose from 2.3% in 2019 to 3.4% in 2021. The current release schedule has 15 IMAX releases slated for 2022, half the number released in 2021.

Now more than ever, audiences need cinema to offer something they can't get at home. This may be the content itself (via an exclusive theatrical window or a live-streamed event), the social experience (with family, friends or a roomful of like-minded strangers), a chance to disconnect (from people or gadgets) or unrivalled technology (the biggest screen, recliner seats or surround sound). Finding the motivating factors for different audiences and titles will be key in tempting people out of their homes, particularly as the cost-of-living crisis develops.[xxii]

10.2 Changing Viewing Habits

As technology has become increasingly democratised and accessible, consumer viewing habits have changed drastically over the past decade. The rise of smart devices, enhanced coverage of high-speed mobile data and streaming platforms has disrupted the way people consume content, well before the Covid-19 pandemic. The Covid-19 pandemic simply accelerated this already existing trend, faster and more profound than could have been envisioned. For a significant proportion of households around the globe, the days of watching programmes on pre-set broadcast or cable TV schedules are over. Instead, consumers favour nonlinear alternative "Over The Top Content" (OTT) platforms such as Netflix and Hulu, that feature unparalleled original, high-quality content and are accessible at any given time and at place.[xxiii]

As social restrictions were imposed due to the COVID-19 pandemic and cinemas were shut, people turned to TV for entertainment and companionship. Old favourites such as e.g., Strictly Come Dancing made a welcome TV return and drew in large crowds, yet the greatest growth was registered in streaming services.

"What you are seeing is a lot more consumers adopting a lot more streaming platforms – and these are continuing to launch at a dizzying pace"

Nick Sava, General Manager Giant Pictures
usheru.com/page/podcast

Whilst streaming services already disrupted the way content was consumed, then predominantly led by Millennia's and Generation Z, the pandemic lockdowns accelerated the trend dramatically, and awakened an entire new and older audience to OTT services, often initiated by the younger generation.
According to data by Nielsen, Americans aged 50 and older are powering the growth of streaming video in the U.S., accounting for the biggest increase in time spent on services such as Netflix, NFLX -1.54% Hulu and YouTube. People 50 and over accounted for 39% of streaming watch time as of May, up from 35% a year earlier, the data show. Overall streaming usage increased across the board, but the growth came disproportionately from older audiences and the share of viewing by every other age group decreased over that period.

People ages 50 to 64 claimed a larger share of streaming time than those ages 35 to 49 for the first time, according to Nielsen.[xxiv]

For a significant proportion of households around the globe, streaming content is now preferred to pre-set broadcast, such as BBC and ITV, or cable TV.[xxv]
2020 saw approx. 70% of UK households having at least one streaming provider subscription. (FDA Yearbook 2021)

Whilst Netflix announced in April 22, that they had lost 200,000 subscribers in the first quarter of 2022, and expect to lose approx. two million more in the second quarter.

Reasons for losing customers could be a combination of:

- Recent Price Increases (despite increasing inflation)[xxvi]
- Having reached the growth ceiling
- Trying to stop password sharing between friends and families[xxvii]
- The 2019 Streaming Observer report suggested that the library of movies on Netflix had shrunk 40% since 2014, and that number is likely much higher in 2022[xxviii]
- Netflix is lacking in is big franchises, while other streamers are thriving on them
- Netflix now has a lot off competition in the streaming wars (e.g. HBO Max, Apple TV, Amazon Prime, Hulu, Disney+)[xxix]

Streaming, compared to cinema, theatres and concerts, is still one of the most affordable options to entertain families. In order to offer cheaper services, Netflix has just announced a new Advertised Video on Demand (AVoD) service, which will offer all content with advertisement before and during films/TV shows. The service will launch in the UK by the end of this year and is priced at £6.00 a month; half of the price of the currently advertising free subscription.
Despite the decline in overall Streaming, stacking (more than one SVoD subscription) continues to grow among those still in the market. Across total U.S. Streaming, the average subscriber now has 4.2 Streaming subscriptions, up from 3.8 in Q2 2021.

The ‘mature’ services (Amazon Prime Video, Hulu, and Netflix) have all lost share of subscribers in Q3 2021. Instead, the high stacking platforms have gained. Most notably AVoD platforms saw the greatest gains. HBO Max share has grown by 24 per cent, now accounting for 15 per cent of all subscribers; Peacock share grew by 30 per cent, accounting for 11 per cent of subscribers; and Discovery+ share grew by 68 per cent, accounting for 6 per cent of all subscribers. Netflix just announced, it will also offer an AVoD package in the UK by the end of this year. Prices will be around £6.00 per month, which will be half the price of an advert free package.

This high stacking and growth of share among maturing platforms in Q3 2021 indicate that below the surface the market can shift quickly. Although huge losses are not anticipated for the overall SVoD market in Q4 2021, the share of subscriptions may continue to change. Platforms who keep their viewers engaged with leading content will determine who wins in this high stacking market ongoing.[xxx]

Ironically, streaming services could also help cinemas, if they were so inclined. Apple Inc. plans to release at least a couple of movies exclusively in cinemas for a real window (30 to 45 days at a minimum). Amazon.com Inc. just bought MGM, which has released movies in cinemas, and it shall be seen if this continuous. Netflix Inc. is still debating what to do about cinemas. Whilst Netflix does release movies in theatres, but only for a few weeks (and not in most major chains), its latest attempt at a blockbuster, "The Gray Man," a $200 million spy thriller starring Ryan Gosling and Chris Evans, has made less money than "Paws of Fury: The Legend of Hank" over the last week.[xxxi]

10.3 Older Demographics

The pandemic has without a doubt accelerated the trend towards streaming platforms. Current box office figures, whilst on the increase, suggest that younger audiences are still keen to watch blockbuster releases, e.g. Top Gun: Maverick, on the big screen in order to get the full experience.

Figures however suggest a slower rebound among older audiences, or moviegoers of 50-years plus.[xxxii]

> ***"Older demographics, the 50-plus audience, are the last to come back"***
>
> Mark Zoradi, CEO Cinemark

This might be due to this audience group:

- still being hesitant to visit public places in light of the pandemic
- having become accustomed to streaming in the comfort of their own home
- has shifted their appetite for what they're willing to pay to see in a theatre versus streaming it at home
- simply currently preferring experience bases outdoor activities after a long lock down period.

Traditionally, older audiences tend to watch mid-budget movies and are more inclined to watch niche and arthouse content, tailored to this very audience (e.g. Downton Abbey), rather than rushing out to see the latest blockbusters. Currently there is no definite answer to why older audiences are more reluctant to return to cinema, yet, there is a clear trend with older audiences adopting to streaming services- from free, add-supported services to subscription offerings.

This comes as more Gen X consumers and baby boomers part way with their cable services. Once older viewers start streaming, they are more likely to browse and see what else they can watch, and tend to spend more time watching TV than younger people.[xxxiii]

Box office results of recent mid-budget films, targeted towards the more mature audience, such as Emma Thompson led *Good Luck to You, Leo Grande* and *Downton Abbey: A New Era* where disappointing and well below pre-pandemic levels, with e.g. *Downton Abbey: A New Era* only managing to achieve £15 million box office in the UK, about 50% less, compared to the prequel.

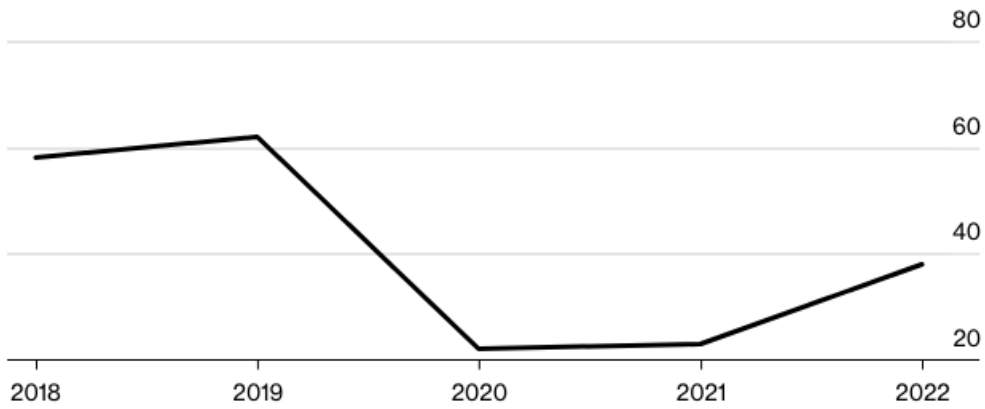
Yet, event cinema such as the live performance of Andre Rieu's 2022 Maastricht Summer Concert, streamed in cinemas over the weekend of 27th & 28th August 22, managed to take the number 1 spot with box office takings of almost £800,000, beating new releases such as Idris Elba's Hollywood produced *Beast*. A good indication that the more mature audience is willing to return to the cinema for event driven products.

Ultimately, the older demographic might only need more encouragement to return to cinemas. The answer could be as simple as cinema offers such as reclining seats and high-end food and beverage options…things they cannot get at home.[xxxiv]

Losing the older aged audience would inevitably alter cinema programming. Mid-budget movies could disappear from the big screen and go directly to streaming platforms. This in itself would make cinemas even more dependent on big Hollywood blockbusters, and most likely decrease F&B income since older audiences are more likely to spend more on Food and Drinks.

10.4 Lack of Product

Ticket sales are still down almost 40% from before the pandemic, and predictions, at least for the short term, are concerning, due to the lack of content or, at the very least, not enough movies people want to see in theatres. The current share of movies released on more than 2,000 screens is down more than 30% from both 2018 and 2019.



Source: Comscore

There is no movie coming out over the next two-plus months (Aug/Sept/Oct 2022) that is tracking to debut north of $40 million at the U.S. domestic box office in its opening weekend. Studios have never released many huge movies in August or September, but the slate between now and October is light even by those standards.

Originally, “Black Adam,” a DC movie starring Dwayne Johnson, was supposed to open in August but has been moved to end of October 2022, and the seventh “Mission: Impossible” was supposed to arrive in September, which is now scheduled to open in July 2023.

But Hollywood, like the rest of the economy, is suffering from a supply-chain problem. Production halted for months due to the pandemic, and was both slower, and costlier when it resumed. Even when production finished, the visual-effects industry was often unable to handle all the product. There has been a full meltdown in the sector, according to executives at several studios. Visual-effects (VFX) houses expected business to slow down during the pandemic. While that happened for a beat, the amount of work they had to do increased as soon as studios figured out the proper protocols.
VFX houses weren’t equipped to handle it all. Many had transitioned to remote work, which made them less efficient. They lost talented staffers to the great resignation and poaching from companies like Meta Platforms Inc. (aka Facebook).

This delay in releases is the last thing the cinema industry needs. Theatres are suffering under large debt loads accrued during the pandemic. Vue has already surrendered to its lenders, whilst AMC, the world's largest chain, was riding high after a bunch of retail investors turned it into a meme stock. But its shares were down more than 40% this year through midday Friday and almost 80% from their peak in June 2021.

The success of a few blockbusters has masked the softness of the middle. Just 10 movies this year account for 65% of all grosses in the US. Before the pandemic, the top 10 movies accounted for less than 40% of grosses, according to Comscore.

Whilst cinemas are quick to blame streaming as well for the lack of content, they are short on product because studios have released some titles directly to their own streaming services. Even before the pandemic, major studios had pared back their slates to huge blockbusters and low-budget movies. Mid-budget dramas and action movies were a dying species. Those have been reborn as streaming movies. Studios insist that in 2023 things will be back to some semblance of normal by releasing blockbusters almost every weekend.[xxxv]

By focusing on blockbuster releases only though, cinemas will be totally blockbuster dependent. How the current geopolitical situation and rising cost of living will impact week by week blockbuster releases shall remain seen, as peoples spend most likely will have to be reduced on non essentials.

10.5 Shortened Release Windows

Increased Hollywood blockbuster dependency in conjunction with shortened release windows and simultaneous cinema and streaming release dates, as introduced during the pandemic, would also impact film hire.

Throughout the pandemic, movie studios have experimented with streaming as an alternative or supplement to theatres. Warner Bros. released all of its movies this year simultaneously in cinemas and on HBO Max, for instance.

> ***"There may be titles from certain studios that might not have any theatrical exclusivity"***
>
> Jim Orr, President Domestic Theatrical Distribution, Universal Pictures

Some major studios have announced plans for exclusive, but shortened, windows for their theatrical releases, including Warner Bros., giving cinemas a degree of exclusivity while allowing studios to premiere movies on streaming services earlier than they typically would have. This already was a much debated conversation before the pandemic and was accelerated by the pandemic.

The traditional pre-pandemic window of between 75 days to 90 days will be a thing of the past for most releases. 45-day and 30-day windows have emerged as a potential new standard, though it's not concrete. There may be titles from certain studios that might not have any theatrical exclusivity and it is unlikely that release windows will ever go back to one specific windowing model like in pre-pandemic times.[xxxvi]

Shorter theatrical release windows ultimately could mean shorter film runs in cinemas, with most films being taken off after e.g. 30 or 45 days. This, with the possibility of Hollywood blockbuster led cinemas, which generally tend to have higher film hire, combined with less midrange films which terms are generally lower, could also lead to an increase in overall film hire.

In addition, almost all studios now have their own streaming platforms or have long term arrangements with already established SVoD platforms in place.

DISTRIBUTOR		THEATRICAL WINDOW	STREAMING PLATFORM	COST
	UNIVERSAL	17-31 Days if opening weekend exceeds $50m +	Peacock	£9.99 per months via NOW TV or included in Sky package
	WARNER BROS	45 Days after theatrical release	HBO Max	£12 per month
	DISNEY	45 Days after theatrical release Twentieth Century Fox bought by Disney March 2020	Disney Plus	£7.99 per month (£79.90 annual subsciption)
	PARAMOUNT	45 Days after theatrical release	Paramount Plus	£6.99 per month
	SONY PICTURES	Traditional Window (approx. 90 days after theatrical release)	Via Netflix	Netflix subscription £5.99 / £9.99 / £13.99 a month
	LIONSGATE PICTURES	Traditional Window (approx. 90 days after theatrical release)	StarzPlay (via Amazon Prime, Apple TV, Virgin TV)	£5.99 a months (requires additional Amazon Prime etc. subscription)

11. INDUSTRY RISKS

Recent world events such as the pandemic and geopolitical issues have altered the world we live in. With inflation being at a 40-year high, stock shortages, rising energy, raw material and food costs are adding increasingly pressure on supply chains and consumers. Financial experts, such as e.g. Goldman Sachs are predicting a recession already[xxxvii], with some financial experts forecasting the 2nd Great Depression by the 2030's.[xxxviii]

Since January 2020 (when cinemas first closed in China) to May 2022, the cinema exhibition and distribution sector has lost around $60bn (£47.7bn) in expected box office. This is a massive blow to the sector and is having an impact on cinemas in many ways. Major cinema chains such as Cineworld, whilst narrowing their losses from $3 billion (£2.38 billion) in 2021, partly thanks to "Spider-Man: No Way Home" to $708 million (£562 million), had to file for bankruptcy.

Having lost those billions of dollars in revenue over two years, it can be assumed that money is tight among cinema exhibitors. The optimism of two years ago surrounding premium cinema, experiential cinema, upgrades and the replacement cycle for equipment, is more a memory than a current reality. The expression 'Make Do and Mend' probably best sums up what many cinema exhibitors are telling their technology teams. The mantra is to use what you have where you can and prioritise what you need for the most important screens. Any available money for investment is being used for new sites (which may well be subject to an unbreakable contract) or new premium screens that build on the need to keep pushing premium cinemas.

Exhibitors are caught between the need to invest to keep the business moving forward and counter the changes in consumer behaviour. They also have to juggle the lack of money to invest, as well as available credit.

Two things are exacerbating the problem: one is a reduction in technology investment budgets. And the second is a component supply chain crisis that is cutting deeply into lead times.

The loss of box office income, reduced income is self-evident. This is only one side of the equation though: some exhibitors made it through the pandemic with the help of deferred rent deals from landlords, which will become due in 2022, and/or taking on debt which now needs servicing. The timing of big movies and income flows take on a greater importance than usual. The pandemic has also made lenders cautious, and cinemas will need a track record of recovery in order to access credit and loans. All in all, money and credit will be tight for some time.[xxxix]

11.1 Supply Chain Challenges

Well-publicised issues in the global supply chain are to be contend with. Cinema technology is a global business, and the components used in equipment are often bits of kit that are used by many other applications. Getting hold of these parts when there is a global shortage is not easy - and technology used in cinema is a relatively small area so it won't necessarily be at the head of the queue for essential parts. Supply chain delays make "just-in-time" management of inventory almost impossible and this requires companies to save and store necessary kit (requiring warehousing space), while needing to find ways to reuse components from older machines. This does fit in well with increasing the circular economy of machines and their essential components but can be a burdensome requirement if not already planned for. Higher costs are being demanded for delivery of both parts and equipment, another cost area that manufacturers probably can't absorb on their own. Longer-term, this may well be a beneficial learning curve as sustainability edges higher on the agenda of most companies and governments in the coming years. With the supply chain issues, cinema exhibitors need to find workarounds.

Cinemas are having to shut screens and use pieces of kit from less important auditoria to benefit more deserving ones. Screens within sites are then closed to the public, not just because of a lack of audiences or the supply of films but also due to this lack of equipment. One of the responses to the supply chain crisis is to bring both more knowledge and, previously outsourced, maintenance in-house.

For example, keeping and recycling spare parts and machines around the circuit, rather than investing in new equipment with higher- than-normal lead times. Manufacturers are looking to recycle parts where they can, reusing standard components where possible but also building in the potential to recycle in the design process. This creates a circular economy at several levels and one that the industry needs to build on in future.

Prior to the pandemic, the demand for projectors was already polarised towards either end of the size spectrum, i.e. the need for larger or smaller models, with the middle being squeezed. That trend has continued as exhibitors install larger screens alongside smaller, intimate auditoria. With Sony's 4K solution out of the market the demand is more for 2K than 4K, even though a third of all content going into cinemas is now 4K. It is 12 years since Series 1 machines ceased being supplied to cinemas and the end-of-life cycle has now been triggered for them. Keeping these machines going, a necessity for some at the moment, will require new warranties and access to some parts that are no longer available, again requiring a circular approach to components. Machines are more modular now, which in turn means that when a breakdown occurs this doesn't always require a complicated troubleshooting process or a return to the manufacturer. It may just mean a new modular element, which should result in projectors lasting longer and being cheaper to maintain.

11.2 Rising Inflation & Cost of Living

The UK inflation is currently at a 40-year high with a rate of 10.1 %.
Rising cost of gas and electricity pushed household energy bills to record levels. The escalating cost of food and transport also contributed to the rising cost of living, deepening the crisis affecting millions of low- and middle-income families.

According to the Office for National Statistics' monthly report, the 54% increase in the energy price cap in April, which took the average annual gas and electricity bill close to £2,000 for an average household.[xl] The rising energy costs effect cinema operation significantly, with some chains & sites already opting for reduced opening hours and reduced screens.

On a European level, the European Union is expecting Russia to cut off its energy supply to Europe, if no solution is found to the ongoing war. As a worst case scenario, the EU is already working on plans, which would restrict energy supply to non essential industries. Since the UK is actively supporting the Ukraine, the same could be the case for the UK. [xli]

The increase in living costs has/will have a direct impact on consumer behaviour, through cutting unnecessary expenses. Subscriptions such as gym memberships or cinema subscriptions such as "Unlimited" are most likely to have to give way in order to cover more essential expenses, whilst, according to Omdia's[xlii] Media & Entertainment analysts, subscription services such as SVoD services will cement their popularity. Albeit, many consumers may look to reduce their overall spend, by switching to lower-tier packages or discounted family plans, swapping services in and out to access specific content or cancelling contracts where they have multiple subscriptions, such as online video.

The impact on cinema will be slightly negative, according to Omdia, as consumers cut spend on going out and are more selective about the movies they choose to see. Due to rising energy costs and overall increased costs in all areas of life, film production budgets will also rise, most likely leaving cinemas no choice but to increase ticket prices.
The industry is largely reliant on transactional revenue in the form of ticket sales, driven by people's desires to see a particular movie or have a social experience.

However, Omdia forecasts, the impact will be limited by the fact that movie-going is predominantly popular with the middle classes and accounts for a small amount of household spending, with the average number of visits per person at 2.7 times per year. For these reasons, Rob Gallagher from Omdia believes, the cinema sector has traditionally proved recession resistant, as seen in the 2008 financial crisis.

UK 2021 revenue and cost-of-living impact in 2022 for Media & Entertainment segments:

Market segment	Revenue ($ millions), 2021	Cost-of-living impact in 2022
Connectivity		
Consumer mobile	19,155	Negative
Consumer fixed broadband	8,290	Neutral
TV and online video		
Pay TV	6,817	Negative
TV advertising	3,024	Very negative
Subscription online video	4,346	Neutral
Ad-supported online video	1,779	Very positive
Transactional online video	593	Very negative
Games		
Transactional games	4,989	Positive
Games advertising	1,465	Positive
Subscription games	862	Very positive
Music		
Subscription music	1,815	Neutral
Transactional music	78	Negative
Music advertising	138	Positive
Cinema		
Box office	766	Negative

Source: Omdia

Yet, to compare the 2008 financial crisis with the current crises could be seen as a considerable simplification of complex issues, which amongst the many levels of complexity, ignores vast differences in inflation and interest rates, in addition to major technical advances that have been made since.

From a cinema point of view, then, cinemas “competed” at best with pay TV, such as Sky. Streaming in 2008 was a gadget for tech savvy people, certainly not a means of every day entertainment for Mr. & Mrs. Smith. Internet speeds in most countries were still too low to stream feature films, and Netflix and Hulu, which both launched its streaming platforms in 2007, were neither global players nor household names then. Netflix was first available from Internet enabled smart TVs, the PS3 and other Internet-enabled gadgets in 2009. 2010 saw Netflix become available using the Wii, Apple devices, and more internet connected devices. That year also saw Netflix begin to grow internationally with its expansion into Canada, followed by a global expansion into 130 countries in January 2016.[xliii]
Today, the quality, budget, cinematography and cast of productions from e.g. Netflix, Hulu, Amazon Prime, HBO are of highest standards and easily rival any Hollywood or big screen production.

Hence, whilst cinemas proved to be recession resistant during the 2008 financial crisis, circumstances were very different then, with big cinematic entertainment being almost exclusively found in cinemas. Today, event films can be easily and conveniently accessed any day and any time via the living room…screened on a 55-inch TV.

11.3 Further Pandemics

Whilst all indications are that the current COVID pandemic seems to come to an end, further pandemics including lockdowns cannot be ruled out.

11.4 Cinema Specific

Cinema Revenues are dependent on ***box office revenues***. Over half of the cinema revenues are generated by box office sales and as a result, the financial position is largely dependent on the continued popularity and the overall quantity and quality of the films which it shows. Further, there can be no assurance that the cinema will maintain or grow its box office revenues, which could have a material adverse effect on the business, operating or financial results or financial position.

The level of cinema ***box office sales, and revenues, fluctuate*** throughout the course of any given year and are largely dependent on the timing of release of films produced, over which the cinema has no control. As a result, revenues may vary significantly from month to month within any given financial year.

The business could suffer as a result *of* extreme or ***unseasonal weather conditions*** or other exceptional events. Cinema admissions are affected by periods of abnormal, severe or unseasonal weather conditions, such as exceptionally hot weather or heavy snowfall. In addition, cinema admissions may occasionally be impacted by ***large events*** such as the FIFA World Cup or the Olympics.

The ***ability to license films*** on acceptable terms is largely dependent on its relationships with film distributors. The distribution of films involves their licensing for exploitation in various markets and in various media according to established release patterns, including by theatrical release in cinemas. There is no assurance that the cinema will be able to negotiate film licensing fees or agree fees on acceptable terms, or that current film hire margins can be maintained. Failure to continue to renew film rental agreements on favourable terms, to maintain current film hire margins or to continue to receive access to new titles could have a material adverse effect on the business, operating or financial results or financial position.

Retail sales of confectionary items, food and drinks form an important part of the revenues. The ***retail sales generally fluctuate*** in line with admissions and there is no assurance that attendance can be maintained or increased. There can be no assurance that sales or retail spend per head will not decline, either or both of which could have a material adverse effect on the business, operating or financial results. Cost of production including inflation, raw materials, transportation and Brexit may result in an increase in the cost of sale, not all of which will be possible to recover from increases in pricing given the cost of living and broader inflationary pressures in the marketplace.

Screen advertising accounts for a significant contribution to cinema profits
The cinema earns revenue from advertising. Any decline in advertising revenues, whether due to a failure to renew or replace any agreement relating to advertising revenues on favourable terms or otherwise, could have a material adverse effect on the business, operating or financial results or financial position. Revenue earned from advertising is also influenced by the level of admissions, and as such may decrease in the event that admissions do not meet a specified threshold.
Screen advertising experienced a massive -86% drop in 2021 due to the pandemic and cinema closures, with forecasts of a recovery of +213% in 2022.[xliv]

Reputation of the company
Failure to meet the expectations of consumers may have a material adverse effect on the cinema's reputation and financial performance.

Dependency on key members of senior management
The cinema's future success is substantially dependent on the continued services and performance of its Directors and senior management and its ability to continue to attract and retain highly skilled and qualified personnel. The Directors cannot give assurances that members of the senior management team and the Directors will remain with the Company.

Profitability may be reduced due to ***increases in labour, rent and energy costs***
Operating costs include employment, rent and energy costs. These costs may increase more than management currently anticipates, for example, if the level of the minimum wage or the Living Wage in the United Kingdom was to increase due to rising inflation and interest rates; or due to increased market fluctuations in the price of gas and electricity. These cost increases could have a material adverse effect on the business, operating or financial results.

The Cinema may be affected by ***planning laws***
New cinema developments are governed by local government planning policies. In the U.K., planning permission is required for the construction of almost all new premises and applications are considered individually against the local development plan, which includes policies relating to commercial and industrial development. If planning permission cannot be obtained for the premises it may affect the development of the cinema.

The Cinema may face ***increased competition and pricing pressures***
Certain towns and cities in the United Kingdom have relatively few cinema screens per person. Local Authorities in such areas are often interested in supporting new sites. Accordingly, where a drive-time area has an existing cinema, the company it could be subject to competition from new and/or upgraded cinemas operated by other cinema operators, which could materially adversely affect the performance of the cinema development. The cinema may become subject to aggressive pricing competition, especially with box office admissions.

There can be no assurance that the current market pricing environment will remain unchanged. If the cinema were to face aggressive price competition from other cinema operators or increased competition from other forms of leisure activities, it could have a material adverse effect on the cinema's business, operations and financial position.

Dependency on certain key contracts and arrangements:
The cinema requires a number of key contractual agreements with its suppliers in support of its business. The loss of some of these arrangements may cause temporary disruption to the operations and financial performance of the company.

The ***failure of the company's IT systems*** or data controls could impact profitability and its reputation. All suppliers are monitored, and the cinema employs an appropriately qualified team to maintain its systems.

12. CONCLUSION

Over the past 2 ½ years, the film & cinema industry has, without a doubt, experienced unseen turmoil, brought on by the pandemic and geopolitical challenges.

Currently the UK cinema market is an approximate 30% down when compared to the average of the three pre-pandemic years; 2017, 2018 & 2019.
Whilst opinions on "the speed of recovery" for the global as well as the UK cinema box office vary, it is ESS opinion that a full box office recovery in the UK to pre-pandemic levels (if at all) will not be imminent and a long term view has to be taken.

The lack of films, changed viewing habits in favour of SVOD platforms, high inflation and the stark rise in living costs will defer a full recovery of the UK box office well beyond 2025 or even longer.

Yet, cinema is still a desirable leisure activity which, given the availability of "visually spectacular & entertaining" productions, attracts and will attract large audiences for the foreseeable future. Studios as well as SVOD platforms have already announced to focus on high budget productions, rather than spending money on mid-range productions. Whilst this means ultimately there will be less films available for the big screen, the ones that are available are anticipated to attract higher numbers of audiences (e.g. Top Gun: Maverick, Marvel Studio productions).

Newton Abbot's only cinema is the 2-screen Alexandra, operated by WTW-Scott Cinemas. Despite its challenges and tired look, the cinema operated on a high occupancy level of approximately 33% in pre-pandemic times, clearly indicating that there is an appetite for cinema in Newton Abbot.

The proposed 4-screen cinema in the heart of Newton Abbot, complimented by ample and modern F&B and retail offers, is very much in trend and in line with current industry developments. Preference is given to less and smaller screens, built in city/town centres opposed to out-of-town multiplex cinemas.
A 4-screen cinema can accommodate blockbuster releases on date in addition to event cinema such as live opera, concerts and ballet, family product, educational screenings and niche products, in order to attract new and diverse audiences.

WTW-Scott Cinemas, the same operator that currently holds the lease for the Alexandra, is earmarked as the operator of the new cinema in Newton Abbot, yet, so far WTW-Scott Cinemas has not signed the agreement for lease.
Ongoing concerns about the current market volatility in addition to the increased cinema fit-out costs due to high inflation, are on the potential operator's mind.

ESS is of the opinion that a 4-screen cinema in Newton Abbot has the potential to operate on an occupancy rate of 16%, equalling about 152,000 admissions per annum and therefore to be commercially viable in the long run.

In addition to the commercial and economic benefits the cinema is aligned to the Teignbridge Ten strategy, hence add social benefits such bringing like minded people together, community spirit, skills development, etc.

Should WTW-Scott Cinemas decide not to take over the new cinema, ESS recommends for TDC to approach other cinema operators in order to guarantee a cinema provision.

Despite the changing landscape it is ESS' opinion that a 4-screen cinema within the heart of Newton Abbot is likely to be commercially viable, providing the cinema is event driven, community focused and there are ample ancillary and complimentary offers and services available within the vicinity of the proposed site.

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