



Silver Screen Cinemas

The Economic Downturn in Poland 2000-2003

Lessons for Ukraine

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Background

Silver Screen Background

- **Silver Screen Cinemas (“SSC”) was founded in 1997 to develop state-of-the-art stadium seating cinemas in Poland’s major cities.**
- **SSC’s investors included Apollo Real Estate, Heidt Capital, Pacific Theatres (400 screens in the US) and the SSC Management Team.**
- **SSC succeeded in creating a strong platform anchored by an experienced management team with compelling financial performance.**
 - **While a smaller market player, the strength of the Company’s portfolio attracted the attention of larger market players, and in 2008 Silver Screen was successfully merged with Multikino S.A. in a cash and share deal**
- **Prior to the Merger with Multikino, SSC operated five cinemas comprised of 44 screens with 8,780 seats.**
 - **Silver Screen Warsaw-Europolex (opened 2/99)**
 - **Silver Screen Gdynia (opened 8/00)**
 - **Silver Screen Lodz (opened 2/01)**
 - **Silver Screen Warsaw-Targowek (opened 11/2003)**
 - **Silver Screen Warsaw-Wola (opened 12/2004)**
- **SSC succeeded in creating one of Poland’s premier cinema brand names, and was the only cinema circuit to receive the title of both SuperBrand and CoolBrand**

Background – Value of Pipeline

- **With a private equity shareholder looking at an exit, Silver Screen began to develop a strong pipeline with an eye to a trade sale.**
 - **Given the successful performance of current platform, however small, the pipeline added and appealing growth story for potential buyers**
- **The suppressed market environment allowed the company to negotiate new cinema leases more favorable economic terms.**
 - **Following an initial aggressive expansion by certain operators, and subsequent inflation of landlord rent expectations, asking rents had then fallen by more than 50% at new projects.**
 - **Silver Screen was the only player still looking actively for new projects for a period of time, most notably for the Targowek and Wola cinemas, both very successful projects financially.**
 - **New opportunities cropped up in untapped tertiary markets with a potential for a practical monopoly situation.**
 - **An example is Silver Screen's Koszalin project, which is performing above business plan by over 25%**



Polish Market Overview

Polish Cinema Market Overview

- **Following the change to a free market economy, the Polish cinema market has grown dramatically.**
 - From 10.5 million admissions in 1992 to 27 million in 1999, a CAGR of 15% over an 8 year timeframe.
- **This rapid market growth and lack of modern screens attracted the attention of many new operators.**
 - Within 13 months from November 1999 to December 2000, a total of 11 multiplexes with 120 screens and 30,000 seats were opened
- **This rapid appearance of modern multiplex screens however coincided with a slowdown in the Polish Economy.**
 - GDP Growth, which had been at 5%-7% per annum for several years running, suddenly fell to just over 1% in 2001 and 2002
 - Unemployment – which had finally been brought to under 10% in 1999 - grew to over 20% by 2004
- **This economic slowdown took its toll on cinema admissions**
 - Despite the addition of modern multiplexes, cinema admissions countrywide fell from 27.2 mln in 1999 to 20.5 mln in 2000
 - In 2001 admissions bounced back to 1999 levels of 27 mln admissions, but only thanks to multiplex development.
 - Markets with no multiplexes still saw a decline of 22% in admissions, whereas markets with multiplexes saw an increase of over 30% in admissions



Effect of Economic Downturn on Cinemas

Effect of Economic Downturn on Cinemas

- **While admissions increased despite the downturn in markets where multiplexes were developed, the increase was not sufficient enough to justify the number of new screens**
 - While total admissions grew, admissions per screen and per seat dropped significantly
 - In Warsaw, admissions per seat in 1999 were around 250, falling to 235 in 2001
- **Due to the optimism in the market preceding the economic downturn, many operators desperate for a foothold in the market bid up rents to unsustainable levels**
 - Most notorious for this was Ster Century, which effectively went bankrupt and was taken over by Cinema City.
- **All operators essentially put development plans on hold due to the economic situation**
 - The few shopping centers developed between 2001-2003 had trouble finding a cinema operator.
 - Targowek and Wola (both in Warsaw) are two cases where the developer built the cinema shell and waited for an improvement in the market to sign the cinema operator.

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Silver Screen response to the Downturn

Silver Screen response

- **Realizing the tough market environment, Silver Screen focused on streamlining its operations and marketizing rents**
 - **These rent reductions were carried out on a “partnership” basis with landlords to ease the tenants downside while protecting the landlord’s upside.**
 - **In one case, the landlord actually made more on the rent reduction in one year due to the addition of percentage rents.**
- **After stabilizing current operations, the company began to look for new, justifiable deals**
 - **Even in an economic downturn, sustainable projects can be found on well-structured terms.**
 - **Two of the companies most profitable projects were projects other operators wouldn’t touch**
- **Managing during a tough economic cycle also entails much more dialogue with shareholders.**
 - **The initial knee-jerk reaction is to sell, sell, sell**
 - **Through well thought out arguments shareholders can accept being patient – but they have to believe you understand what’s going on**

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Conclusion

Conclusion

- **Every economy is cyclical. If you're in any business long enough, you'll hit a downturn.**
 - **The key is understanding how the cycle will effect your business in the medium- to long-term and make appropriate decisions on that basis**
- **Timing is crucial.**
 - **Move back into development phase too soon and you destroy shareholder confidence, wait too long and you've missed the boat.**
- **Work with your partners through tough times**
 - **Finding mutually acceptable solutions is in everyones interest**
- **Look for creative opportunities**