

NON-CONFIDENTIAL VERSION

22 MAY 2013

INITIAL SUBMISSION TO THE COMPETITION COMMISSION

COMPLETED ACQUISITION BY CINEWORLD GROUP PLC

OF CITY SCREEN LIMITED

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SUBMISSION ROAD MAP

1. This Submission by Cineworld Group plc ("**Cineworld**") and City Screen Limited ("**City Screen**") (together, the "**Parties**") concerns the completed acquisition of City Screen by Cineworld (the "**Merger**"). City Screen's cinema business is referred to in this Submission under its principal trading name of **Picturehouse**.
2. The Submission comprises six parts, as follows:
 - **Part I Executive Summary:** this section explains in summary why Cineworld and Picturehouse are differentiated and why the Merger made sense for them both;
 - **Part II The Parties:** this section gives an introduction to Cineworld and City Screen;
 - **Part III The Transaction:** this section provides background on the Merger and further information on the Parties' different rationales, as well as the counterfactual;
 - **Part IV The Relevant Markets:** this section provides a discussion of the markets in which Cineworld and City Screen provide their respective cinema offerings, as well as a discussion of barriers to market entry/exit;
 - **Part V Competitive effects of the Merger:** this section explains why the Merger will not give rise to a substantial lessening of competition ("**SLC**") nationally or in any local area; and
 - **Part VI Conclusions:** this section summarises the key arguments showing why there will be no SLC.

PART I: EXECUTIVE SUMMARY

1. Cineworld and Picturehouse customers demand very different cinema experiences





- 2.1 Customers demand very different experiences from Cineworld and Picturehouse cinemas and it is these different demands which are at the core of the two businesses' separate offerings.
- 2.2 To meet its customers' demands, Cineworld offers a mass-market, generic cinema experience that attracts a wide demographic and is highly efficient and functional.
- 2.3 To meet its customers' demands, Picturehouse offers a cinema experience that caters to a far more defined cinema-going audience that is not attracted by the multiplex model and is, as a result, under-served in many areas of the UK. This target audience comprises more educated, typically older and better off customers who demand a more intimate, mature, non-chain experience, which is as important as the film that they see.
- 2.4 The different target customer expectations inform every aspect of the two business models, including location, physical design, ambience, programming, food and drink offering and marketing approach.
- 2.5 As a result, a Picturehouse cinema can operate separately within the same locality as a multiplex cinema, growing a business from unique and incremental admissions.

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3. Cineworld and Picturehouse have distinctly different business models

- 3.1 The different customer bases of Cineworld and Picturehouse inform every aspect of the two business models, from location, physical design, ambience, programming, food and drink offering and marketing approach. **Table 1** below highlights the key differences between the Cineworld and Picturehouse cinema products.

Table 1: Key differences between Cineworld and City Screen		
		
Location	<ul style="list-style-type: none"> • [REDACTED] • [REDACTED] 	<ul style="list-style-type: none"> • [REDACTED] • [REDACTED] • [REDACTED]
Size	<ul style="list-style-type: none"> • [REDACTED] • [REDACTED] 	<ul style="list-style-type: none"> • [REDACTED] • [REDACTED]
Physical design	<ul style="list-style-type: none"> • Developer-led modern design • Functional and efficient space utilisation • Often warehouse-style architecture 	<ul style="list-style-type: none"> • Architecturally interesting • Not involving property developers • Heritage • Quirky
Ambience	<ul style="list-style-type: none"> • Bright, exciting big spaces • Fast service • Appeals to teenagers and families 	<ul style="list-style-type: none"> • Individually styled spaces • Destination bars • Appeals to university students and mature audiences
Programming	<ul style="list-style-type: none"> • National programming policies • Focus on blockbuster, Top 20 films • Define success by share of box office • Live sports and pop music events • Higher number of screenings per film • Saturation screenings of major new releases 	<ul style="list-style-type: none"> • Each cinema is programmed individually • Blend of programming ranging from 'core' art-house to the best of world cinema • Live opera, theatre, ballet • Higher number of films per screen • Focus on diverse offer
Food and Drink	<ul style="list-style-type: none"> • Soft drinks ([REDACTED]%) • Popcorn ([REDACTED]%) • Alcohol ([REDACTED]%) 	<ul style="list-style-type: none"> • Soft drinks ([REDACTED]%) • Popcorn ([REDACTED]%) • Alcohol ([REDACTED]%)

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The Picturehouse audience has a strong affinity and sense of loyalty to their local cinema. This is evidenced by the large size of the Picturehouse membership which currently stands at approximately [3%]. The Picturehouse membership accounted for [3%] per cent of its admissions in 2012. Members pay between £29 and £40 per year to receive 3 free cinema tickets, discounts on food and drink, discounts with a range of local and national partners, mailings and promotional offers about their local cinema.

- 3.2 The success that Picturehouse has had in building up customer loyalty and an affinity with their cinema is illustrated by Net Promoter Surveys¹. Cineworld was rated with an [3%] (roughly similar to other multiplex chains and indicating a fairly neutral perception of their customer experience) whereas City Screen was [3%], reflecting an extremely positive advocacy of its customer experience by its own customers².
- 3.3 The Picturehouse audience informs the way in which Picturehouse designs its product offer. For example, the Picturehouse audience demands a diverse range of films and alternative content to be shown within an intimate, non-branded environment. The Picturehouse audience also prefers to have good wine and freshly cooked food as part of their night out to the cinema rather than popcorn and fizzy drink. They also don't just use the venues to see films: [3%] of Picturehouse's customers in a recent survey³ said that on at least one occasion they have attended a Picturehouse cinema and not seen a film as part of that visit. For this audience, a multiplex cinema such as a Cineworld is not an adequate substitute for this experience.
- 3.4 The Cineworld audience is more focussed on viewing the latest mainstream film release at a convenient time and in an easily accessible location.
- 3.5 As with Picturehouse, Cineworld's audience informs the way in which Cineworld designs its offer. In contrast to Picturehouse, Cineworld focuses on providing as many screenings as possible of the latest mainstream film, rather than offering a range of films across its screens. In addition, its cinemas are designed to accommodate large numbers of people in an efficient way.

¹ See www.netpromoter.com.

² See Slide 2 of **Item 2.D** submitted to the Competition Commission ("CC"): Clusters Segmentation Report "*Segmentation refresh & brand tracker*" dated 2 November 2011.

³ Please see the results of a survey carried out by Picturehouse and Cineworld in April 2013 and submitted to the CC on 15 May 2013. Please see Question 6 of Picturehouse Survey Data, April 2013 – All Cinemas.

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4. Cineworld customers place a high value on convenience and ease of access



4.1 Cineworld's experience is that its customers choose their cinema first because of its **location** and, second, because of the availability of **free or convenient parking**.

4.2 Cineworld cinemas are designed to cope efficiently with thousands of people seeing films at the same time. Foyers are large and many sales points are dedicated to fast service of popcorn, sweets and drinks. Each cinema auditorium is designed to give the biggest possible screen, best possible sight lines and comfortable seats. Cineworld compete with other multiplex cinemas on convenience of show times, premium auditoria experiences (e.g. IMAX, D-Box and 3D) as well as premium brand retail offerings (e.g. Ben & Jerrys and Starbucks).

5. Picturehouse programming strategy includes screening a large number of different titles

5.1 Picturehouse customers want to see a wider range of films than are available in multiplex cinemas, and are prepared to work around more limited show time options in order to see them. As a result, Picturehouse programmes a far greater range of films per screen than a multiplex would. Picturehouse screened an average of [X] titles per screen over the course of 12 months in 2012 (see **Table 2** below).

5.2 In contrast, and in common with other multiplexes, Cineworld focus on satisfying the much greater initial demand from its larger audience base on the opening week(s) of major new releases, frequently showing the same title across many screens in order to maximise capacity and the choice of film times. As a result, Cineworld screened less than [X] film per screen in 2012. In addition, only [X] per cent of Cineworld's box office revenues were made from outside the top 100 films in 2012 whereas [X] per cent of Picturehouse's box office revenues were made from films outside of the top 100 films in 2012 (see **Table 5** below).

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- 5.3 Whilst digital projection has enabled the growth of alternative content in all cinemas, there is a big difference in the range of content shown. Picturehouse customers have delivered significant business through the screenings of live operas, theatre, ballet and other cultural events: in 2012 this contributed £[X]m to Picturehouse's box office revenue ([X] per cent⁴). In contrast, just [X] per cent⁵ of box office revenue for Cineworld came from alternative content in 2012 and whilst the likes of the opera and theatre screenings are shown in some locations, Cineworld has seen far greater demand for the likes of pop concerts (with [X] being their most successful event to date).

6. **Cineworld and Picturehouse will run as separate businesses under a shared ownership**



6.1 Cineworld and Picturehouse recognise the strengths of each other's approach to meeting their customers' expectations.

- An essential part of the acquisition was a Memorandum of Agreement⁶ which protects the integrity and distinctiveness of the Picturehouse offer.
- In accordance with the Memorandum of Agreement, the Picturehouse Senior Management Team has remained in place and there have been no changes of responsibilities.
- The Picturehouse Senior Management Team, Head Office staff and cinema General Managers remain incentivised to maximise the profitability of the Picturehouse division.

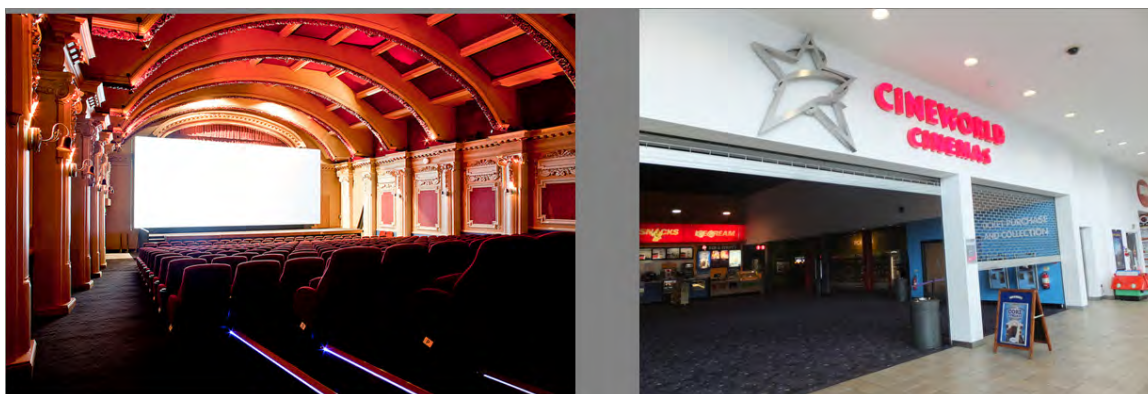
⁴ This is based on Rentrak data. However, City Screen's own records show that over [X] per cent of its box office revenue in 2012 was generated from screenings of alternative content.

⁵ This is also based on Rentrak data. Cineworld consider that this is representative of its total box office revenues generated from alternative content.

⁶ See **Item 1.D** submitted to the CC on 8 May 2013: Memorandum of Agreement between Lyn Goleby and Cineworld, undated.

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- Picturehouse cinemas and proposition will remain distinct and different in every respect from a customer's perspective: this is fundamental to the success of Cineworld being able to grow the Picturehouse business further to Picturehouse's target audience.
 - Cineworld is committed to funding new Picturehouse cinemas alongside its own roll out of multiplex cinemas. For example it has already confirmed funding for new projects in Chiswick and Crouch End.
- 6.2 The management structure of the merged business shows that Cineworld views the two cinema chains as very different propositions. The pre-Merger management structure has been left in place and will remain so and is geographically separated from Cineworld's head office.
7. **Picturehouse and Cineworld provide highly differentiated customer experiences. As a result, a Picturehouse cinema can operate separately within the same locality as (and even next door to) a multiplex**
- 7.1 The Merger allows Cineworld to diversify by owning a complementary business which has evolved a brand and proposition that successfully addresses audiences that Cineworld's multiplex model is unable to address.
- 7.2 The Merger allows City Screen to grow its distinctive Picturehouse cinema business through the opening of new cinemas across the UK, operating as an autonomous division within Cineworld.



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PART II: THE PARTIES

1. Cineworld Group Plc

- 7.3 Cineworld is a major UK operator of multiplex cinemas. The Cineworld business was founded in 1995 by Steve Wiener, who is the current Chief Executive Officer of Cineworld. The first Cineworld multiplex opened in Stevenage in 1996. Cineworld listed on the London Stock Exchange in May 2007. Currently, Cineworld is the only quoted UK cinema business.
- 7.4 Cineworld operates 79 sites in the UK, of which 76 are multiplex sites (i.e. have five screens or more). Cineworld also has a small presence in Ireland with one cinema in Dublin.
- 7.5 Cineworld's growth has been organic, save for its acquisition of UGC cinemas in 2005 which added a total of 42 cinemas to the Cineworld estate. In the past five years, Cineworld has added eight cinemas to its estate, not including the acquisition of City Screen.
- 7.6 A list of Cineworld cinemas and their locations was provided to the CC on 8 May 2013⁷.
- 7.7 Cineworld also operates a joint venture with Odeon, Digital Cinema Media Limited, a screen advertising business formed in July 2008. Digital Cinema Media Limited's primary function is to sell advertising time on cinema screens on behalf of its clients. It also engages in related promotional work between advertisers and cinemas. Digital Cinema Media Limited's clients currently include both Cineworld and City Screen.
- 7.8 In the UK in 2011, Cineworld accounted for 48 million admissions and generated total revenues of £348 million including Cineworld's share of the revenues of the Digital Cinema Media Limited business.

8. City Screen Limited

- 8.1 City Screen is the leading art-house/independent cinema operator in the UK, operating the majority of its 21 cinemas under the Picturehouse brand. The company was co-founded by Lyn Goleby, who remains in the role of Managing Director. The founders established the business in order to offer an alternative type of cinema to audiences which value a broad mix of films not commonly shown at multiplexes and to provide cinemas that serve their local communities, predominantly in city centre locations.

⁷ See **Item 11.B** submitted to the CC on 8 May 2013: Table of Cineworld cinemas.

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- 8.2 City Screen's first cinema opened in Oxford in 1989 following the acquisition of an existing cinema building. The business has grown steadily through the acquisition of existing cinema premises (e.g. The Ritzy Brixton and Regal Picturehouse Henley) and repurposing of redundant buildings (e.g. York and Hackney), as well as through new cinema openings (e.g. Stratford-upon-Avon and Exeter). In addition, City Screen has entered into a number of lease arrangements with local councils in order to provide local cinema offerings not available in the area (e.g. Aberdeen and Southampton). Further details on City Screen's growth are included in the document "*City Screen Limited, The Story so far, Cinemas 1989 to 2009*" which was provided to the CC on 8 May 2013⁸.
- 8.3 In the past five years, City Screen has added three cinemas to its group. These are: Abbeygate Picturehouse Bury St Edmunds (2010), Hackney Picturehouse (2011) and Duke's @ Komedia in Brighton (which opened after the Merger in December 2012). In 2012, City Screen also entered into a partnership with Komedia in Bath to operate a part-time cinema in their venue.
- 8.4 A list of City Screen's cinemas and their locations was provided to the CC on 8 May 2013⁹.
- 8.5 In addition to its primary cinema business, City Screen also operates the following related businesses:
- the City Screen Virtual Business provides film booking services for [X] cinema customers (with the exception of one cinema, all are art-house/independent or luxury style cinemas) across the UK;
 - a theatrical distribution business, Picturehouse Entertainment, which launched in 2010 with the aim of distributing up to six feature films every year. As well as feature films, Picturehouse Entertainment distributes a wide variety of alternative content to cinemas around the UK, such as live satellite transmissions of seasons from arts organisations, such as the Bolshoi Ballet, Glyndebourne and the National Theatre. Cineworld is currently a customer of Picturehouse Entertainment;
 - a ticketing and event management system, Newman Online, for use in its cinemas and in other venues across the UK and in Europe; and
 - a telephone answering and ticket booking service, Picturehouse Bookings Ltd, for Picturehouse customers and five external clients.

⁸ See **Item 13.M**: City Screen, "The story so far, Cinemas 1989 to 2009".

⁹ See **Item 11.C**: Table of City Screen cinemas.

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- 8.6 City Screen's turnover for the year ended 27 December 2012 was £[3<] million¹⁰. This figure includes revenues for those businesses discussed in the previous paragraph; however, [3<] per cent of total revenue was generated by the cinema business in 2012. City Screen's admissions for 2012 were [3<].

¹⁰ All of this turnover was generated in the UK, apart from an insignificant amount (less than £[3<]) in relation to certain Newman Online customers.

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PART III: THE TRANSACTION

1. Overview

1.1 This Submission by Cineworld and City Screen concerns the Merger. The Merger was announced on 6 December 2012. A copy of the press announcement has been provided¹¹.

1.2 In brief, on 6 December 2012 Cineworld entered into an agreement to acquire the entire issued share capital in City Screen from its current shareholders for the aggregate consideration of £[REDACTED]. The Merger was completed on the same day.

1.3 Following the Merger, the City Screen business has been operated as a separate stand-alone division of Cineworld and this separation of the City Screen business will continue. In this regard, a condition of the Merger was the execution, on completion, of a service agreement by Lyn Goleby¹², the founder and existing Managing Director of City Screen. Under this contract, Ms Goleby assumes the role of Managing Director of the new division and will maintain and grow the existing City Screen operating model while working with the Cineworld business to achieve operating synergies where possible. A further condition of the Merger was the execution on completion of a service contract by Clare Binns, Programming and Acquisitions Director of City Screen.

1.4 Critical to the Merger was a Memorandum of Agreement¹³ concluded between Lyn Goleby personally and Cineworld. This sets out key provisions for maintaining and developing the City Screen business model under Cineworld ownership including the following:

- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED].

¹¹ See **Item 5.A** submitted to the CC on 8 May 2013: Announcement to press, 6 December 2012.

¹² See **Item 1.E** submitted to the CC on 8 May 2013: Service Agreement and Performance Share Plan Letter for Lyn Goleby, dated 4 December 2012.

¹³ See Footnote 9.

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2. **Cineworld's strategic rationale for the Merger is to grow City Screen's art-house/independent business**
- 2.1 As set out in the documents provided to the CC on 8 May 2013¹⁴, Cineworld has been seeking to pursue a growth strategy which involves the diversification of its core UK multiplex business. As shown for example by slide 25 of **Item 13.A**, options for achieving [REDACTED].
- 2.2 The niche cinema propositions considered by Cineworld included an art-house/independent style cinema offer which would attract the "avid, anti-mass-consumer film goer". As set out at slide 94 of **Item 13.A** Cineworld does not consider that this type of cinema offer would target the same customers as Cineworld's multiplexes. As Cineworld has no art-house/independent style cinema offer it has chosen to enter this market by acquisition.
- 2.3 Accordingly, Cineworld's strategic rationale for acquiring the City Screen business was to diversify its multiplex cinema offering and in doing so to reach a new and growing market. Cineworld views City Screen's art-house/independent cinema business, as a complementary addition to Cineworld's existing multiplex business. City Screen can and will expand into areas which are served by multiplex cinemas, including Cineworld cinemas.
- 2.4 Through the Merger Cineworld seeks to gain access to a section of the UK cinema industry which has substantial potential for future growth and within which the Cineworld brand and proposition [REDACTED]¹⁵.
- 2.5 Details of how Cineworld intends to achieve its strategy of building further the existing City Screen business are discussed below.

City Screen to operate as a separate stand-alone business entity

- 2.6 City Screen is a successful business, the majority of whose 21 cinemas are operated under the Picturehouse brand, predominantly in small, city-centre sites. City Screen specialises in tailoring its offering towards local communities and screening a wide range of films, with art-house, independent, classic, documentary and world cinema films central to its programming. The City Screen experience generally appeals to a more niche customer base than that which frequents multiplex cinemas.

¹⁴ See, in particular, **Items 13.A, 13.B and 13.C** submitted to the CC on 8 May 2013: Cineworld Board Strategy Day Presentation (21 May 2010); [REDACTED] Presentation given at Cineworld Strategy Day (6 May 2011); and Cineworld Board Strategy Day Presentation (29 June 2012). See also Cineworld Board Strategy Day Presentation (6 May 2011) submitted to the CC on 13 May 2013.

¹⁵ See **Item 6.A** submitted to the CC on 8 May 2013: Cineworld Investor Presentation, dated 6 December 2013.

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- 2.7 As recognised by the Memorandum of Agreement concluded between the Parties (discussed at paragraph 3.4 above), retention of the existing Picturehouse brand and operating model is fundamental to how the City Screen business will be operated under Cineworld's ownership. Accordingly, the newly acquired business is a separate stand-alone division within the Cineworld group and it is operated in accordance with the agreed principles (which are set out in the Memorandum of Agreement).
- 2.8 Preserving separation between the Parties' businesses is not only important from the point of view of Cineworld's strategic plans for maintaining and growing the Picturehouse business, [REDACTED].
- 2.9 Communications to staff at both City Screen and Cineworld in relation to the Merger (see **Annex 1**) emphasise the fact that City Screen will continue to operate as it did prior to its acquisition by Cineworld and that the Merger brings with it significant growth opportunities.
- 2.10 Essential to the continuing success of the City Screen business under Cineworld's ownership is, as discussed at paragraph 1.3 above, [REDACTED].
- 2.11 [REDACTED]. One of the unique characteristics of Picturehouse cinemas is the fact that the programming at each cinema is individually tailored in response to its local audience. [REDACTED].

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Growing the City Screen business

- 2.12 As an agreed part of the Merger, Cineworld has committed resources to develop new cinemas under the Picturehouse brand. A key driver of the sale of City Screen was [X]. On a conservative basis, Cineworld considers that there is potential to grow the number of Picturehouse cinemas from 21 to [X] by end [X] (with a corresponding increase in EBITDA from £[X]m (after synergies) to approximately £[X]m). [X].

Synergies

- 2.13 The Merger also offers the opportunity for potential synergies. As described in a Cineworld board paper relating to the Merger¹⁶, it is expected that the acquisition of City Screen will result in [X] synergies of £[X] million and [X] synergies of approximately £[X] million. Included in the [X] synergies are a film purchasing saving of approximately £[X] million and a saving on food and beverage costs of £[X] million. These savings are expected to be realised as a result of the improved negotiating position of the merged group as a result of volumes to be purchased.
- 2.14 In addition, City Screen will have access to capital under more advantageous terms as part of the larger Cineworld group. This is fundamental to allow City Screen to implement its planned growth strategy. As a result, City Screen growth will occur at a faster pace under Cineworld ownership than it otherwise would have done.

3. City Screen's rationale for the Merger

- 3.1 The background to the Merger from City Screen's perspective was that since 2002 City Screen had been owned by venture capital investors. Arts Alliance investment funds owned more than 60 per cent of the company, with a number of individual cinemas developed through investment from other UK based funds. The principal source of funding for new cinemas was [X].
- 3.2 Venture capital entities typically invest on a short to medium term basis and an investment of ten or more years is at the limits of the duration for a venture capital investment. This meant that there was recognition within City Screen's senior management that an exit strategy was required for these investors. The aim of City Screen's management was to replace these investors with a more straightforward source of future funding, which would be aligned with management ambitions for future growth.
- 3.3 City Screen senior management viewed Cineworld as the ideal purchaser because of the commitments it was willing to give to ensure the continued distinctive nature of the Picturehouse business, and it was also attractive as a publicly listed company with both the funds and motivation to grow the Picturehouse business. City Screen's rationale for merging was, of course, aligned with Cineworld's – to maintain and grow Picturehouse as a separate stand-alone business.

¹⁶ See **Item 2.A** submitted to the CC on 8 May 2013: Cineworld Board Paper relating to the transaction, dated 13 September 2012.

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4. The counterfactual

- 4.1 There was no formal sale process in relation to City Screen and City Screen did not enter into negotiations with any other buyer.
- 4.2 Had Cineworld not acquired City Screen, City Screen would be likely to have remained independent. City Screen management had in 2009 and again in 2011 considered the viability of seeking an AIM flotation, and it is likely that they would have re-considered this option as a means of exit for investors.
- 4.3 In the absence of the Merger, City Screen's growth strategy is unlikely to have been achieved as quickly or as efficiently as the case will be under Cineworld ownership.

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PART IV: THE RELEVANT MARKETS

1. Introduction

- 1.1 Cineworld and City Screen both provide film exhibition services in the UK. At a basic level, film exhibition involves the screening of films to the public in cinemas. It also involves the provision of ancillary facilities such as the sale of food and drinks to cinema-goers. Film exhibitors derive further revenues from the sale of advertising screentime and advertising space at cinemas.
- 1.2 The 'product' offered by a cinema is the overall experience, including not only the film screened but also all the various other elements which contribute to the customer's cinema experience. These elements include the cinema environment, the type of food and beverage offering provided and the type of audience. Thus an event involving the same film shown in two different cinemas can provide a similar or a very different experience depending on the nature of the two particular cinemas.
- 1.3 The cinema products offered by Cineworld and by City Screen provide very different customer experiences: Cineworld operates multiplex cinemas which target the mass market while City Screen's art-house/independent offering targets a niche section of the cinema-going population. The distinctions associated with these two cinema products are described in further detail at sections 3 to 9 below.
- 1.4 In previous CC and OFT decisions, it has been found that film exhibition was in a separate market from film distribution¹⁷. Only one of the Parties, City Screen, is active in film distribution through Picturehouse Entertainment Limited. It is a very small operation, aiming to produce and distribute just 6 specialised feature films per year to art-house/independent cinemas across the UK. Picturehouse Entertainment also distributes a range of alternative content. Picturehouse Entertainment Limited is not material to the assessment of the Merger. Accordingly, the distribution market is not discussed in any further detail in this Submission.
- 1.5 In previous cases the OFT has applied a filter by reference to overlaps between the acquiring multiplex cinema group and other multiplex (but not non-multiplex) cinemas. The non-multiplex independent cinemas have been specifically excluded.
- 1.6 The OFT's standard approach, applied as recently as two decisions in August 2012¹⁸, is as follows:

¹⁷ See for example: The CC's report on the completed acquisition by Vue Entertainment Holdings (UK) Limited of A3 Cinema Limited, 24 February 2006 (the "**Vue/A3 Report**"); OFT decision on the anticipated acquisition by Cineworld Group plc, through its subsidiary Cine-UK Limited, of the cinema business operating at the Hollywood Green Leisure Park, Wood Green ("**Cineworld/Hollywood Green Leisure Park**") 17 March 2008; OFT decision on the completed acquisition by Cineworld Group plc of the cinema business operating at the O2, London ("**Cineworld/O2**") 9 November 2010; OFT decision on the anticipated acquisition by Odeon Cinema Holdings Limited of assets of Reel Cinemas (UK) Limited ("**Odeon/Reel**"), 6 October 2011.

¹⁸ ME/5506/12 *Vue/Apollo*; ME/5569/11 *Odeon/AMC*.

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- only multiplex cinemas (defined as cinemas with a minimum of three screens and around 700 seats) are considered as effective competitors with the acquiring multiplex cinema group;
- a 20 minute drivetime isochrone is adopted around the acquired cinema (with a 30 minute sensitivity test);
- an area is scrutinised further if the merger results in fewer than four (multiplex) fascias remaining within an isochrone.

1.7 Of the eight OFT decisions since 2005 involving an acquisition of cinemas by a multiplex cinema group¹⁹, the OFT applied this filter in every case except one (its 2011 decision in *Odeon/Reel*), where the small number of cinemas acquired (just 4) meant that the OFT considered each area, though even in that case the OFT is clearly applying some variation of the filter.

A. Product market definition

2. Approach to product market definition

2.1 In its *Vue/A3* Report, the CC considered four main possible definitions of the relevant product market for the assessment of the merger of Vue Entertainment Holdings (UK) Limited and Ster Century (UK) Limited²⁰, both operators of multiplex cinemas. The four relevant markets considered were (i) multiplex cinemas, (ii) all cinemas, (iii) all ways of watching films (including cinemas, DVDs and pay-television) and (iv) all ways of using discretionary spend (including films, going to pubs, clubs or other ways of spending time and money in or out of the home). We discuss (iii) and (iv) immediately below, but focus in the remainder of this section on competition in relation to cinemas alone.

A market wider than cinemas

2.2 The narrower market of film exhibition services has been considered as the appropriate frame of reference in all previous CC and OFT merger decisions involving cinema groups. However, the Parties consider that cinema offerings, particularly the art-house/independent product provided by City Screen, may be constrained by other leisure activities as well as by the increasing number of other ways of watching films. The Parties consider that the impact of these constraints on their operations should be taken into account in assessing whether the merger gives rise to an SLC.

¹⁹ In addition to the two cases referred to at footnote 1, these are: ME/1322/04 *Terra Firma/UCI*; ME/1591/05 *Blackstone/UGC*; ME/1858/05 *Vue/A3*; ME/3390/07 *Cineworld/Wood Green*; ME/4650/10 *Cineworld/O2*; ME/5141/11 *Odeon/Reel*.

²⁰ Ster Century (UK) Limited was the sole operating entity of A3 Cinema Limited.

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Other ways of watching films

- 2.3 UK cinema exhibitors of all kinds face a competitive constraint from alternative options open to consumers for viewing films. Indeed, the 2012 [redacted] Report on UK cinemas provided to the CC on 8 May 2013²¹ refers to cinema as being part of a wider film market which includes home video and film on television. Home environments are ever more well-equipped, with access to 3D television and internet streaming services, meaning that cinemas have to work even harder to draw consumers out of their homes²². This is coupled with ever decreasing theatrical windows for new film releases which result in a large proportion of consumers waiting for a film to be available by way of Video on Demand ("**VOD**") or otherwise, rather than going to the cinema.
- 2.4 Some cinema groups have reacted to this by providing their own streaming service. An example is the "Curzon on Demand" service which provides a selection of specially curated contemporary and classic films which can be streamed (in HD where available) from Curzon's website (http://www.curzoncinemas.com/film_on_demand/#). Films can be viewed on PCs, Macs, tablets and smart phones and cost between £2 and £10 each, although some content is available free of charge.

2.5 [redacted].²³

Other leisure activities

- 2.6 In addition, the Parties note that cinemas are increasingly competing for consumers' time and money with a wide range of other leisure activities, including eating out, sporting events and bowling.²⁴
- 2.7 In reaction to this trend, Cineworld has considered [redacted].
- 2.8 City Screen operates a restaurant business at 8 of its sites and bars in all 21 cinemas. City Screen therefore faces competitive constraints with respect to these businesses.

²¹ See page 31 **Item 28.E** provided to the CC on 8 May 2013: [redacted] Report – Cinemas UK, June 2012. The "**2012 [redacted] Report**").

²² See slide 18 of the Cineworld, [redacted] presentation, [redacted], provided to the CC on 13 May 2013.

²³ See slide 90 of the Cineworld Strategy Day presentation, 21 May 2010 (**Item 13.A** submitted to the CC on 8 May 2013) and page 75 of the 2012 [redacted] Report (**Item 28.E** submitted to the CC on 8 May 2013).

²⁴ See the 2012 [redacted] Report (**Item 28** submitted to the CC on 8 May 2013). See also the results of the surveys carried out by Picturehouse and Cineworld in February and April 2013 which suggest a large non-cinema diversion.

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3. Overview of cinema types

- 3.1 All previous OFT and CC cases concerning the film exhibition market²⁵ have involved the merger of multiplex cinema groups. In these cases it has not been necessary for the regulators to examine other types of cinema offerings to any detailed degree because they were not considered to be competitive. In this respect cinemas that are not multiplexes have been considered in the context of whether their activities have had the potential to act as a competitive constraint in certain local areas where competing multiplex groups were merging.²⁶
- 3.2 The Parties are of the view that their businesses are distinct, offering different customer experiences to different cinema-going audiences. It is therefore the Parties' contention that the CC should assess the Merger on the basis of separate markets for multiplex and art-house/independent cinema operations. In any event, however, as explained further below, the Parties' businesses are so highly differentiated that the Merger will not result in an SLC on any basis.
- 3.3 In the UK, film exhibition services are generally provided in one of the following three styles of cinema²⁷:
- **"Multiplex"**: typically these cinemas have 5 or more screens and the experience offered is based on mainstream (Hollywood blockbuster) film product in a branded, high thought put environment. The food and beverage offer is fast-food style, with popcorn and soft drinks being the main performers. The three leading multiplex groups in the UK, Odeon, Cineworld and VUE, define this market;
 - **"Art-house/independent"**: included within this category are cinemas of fewer than five screens, which show a wide range of titles including specialised films, alternative content, as well as quality mainstream films. Within the industry, "independent" would typically be taken to refer to a cinema of this size not operated by a multiplex chain. "Art-house" cinemas are typically considered as even smaller (3 screens or fewer) and are often publicly subsidised; and

²⁵ The Vue/A3 Report; OFT decision on the completed acquisition by Vue Entertainment International Limited of Apollo Cinemas Limited ("**Vue/Apollo**") 24 August 2012; OFT decision on the anticipated acquisition by Odeon Cinema Holdings Limited of the AMC Cinema Birmingham ("**Odeon/AMC**") 24 August 2012; Odeon/Reel; Cineworld/O2; Cineworld/Hollywood Green Leisure Park; OFT decision on the completed acquisition by the Blackstone Group of UGC Cinemas Holdings Limited ("**Blackstone/UGC**") 28 April 2005; and OFT decision on the acquisition by Terra Firma Investments (GP) 2 Ltd of United Cinemas International (UK) Limited and Cinema International Corporation (UK) Limited ("**Terra Firma/UCI**") 7 January 2005.

²⁶ For example, The Vue/A3 Report, paragraphs 6.47-6.50 & 6.77-6.80; Vue/Apollo paragraphs 82-84 & 103; Odeon/AMC paragraphs 40-41; Cineworld/O2, paragraph 45; and Cineworld/Hollywood Green Leisure Park, paragraphs 35-37.

²⁷ Other types of film exhibition in the UK include six stand-alone large format screens (mostly IMAX) and more than 150 screens in theatres and arts centres. (See page 13 of **Item 28.A** submitted to the CC on 8 May 2013: the 2011 Dodona Research Report, "Cinemagoing 20").

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- “**Luxury**”: an emerging cinema offer with largely mainstream content with emphasis on providing a premium customer experience.
- 3.4 The 2012 [3X] Report defines two different types of cinema: multiplex (including Cineworld) and art-house (including City Screen)²⁸. As above, multiplex cinemas are defined as those cinemas with five screens or more, while art-house cinemas are defined as those that specialise in showing mainly films that are not part of the commercial mainstream. City Screen is recognised in that report as having carved a niche for itself in the "art-house sector". However, the Parties consider that using "art-house" on its own is potentially too narrow a definition of this type of cinema and would be better understood by both audiences and the industry as including "art-house" and "independent" style cinemas.
- 3.5 While the core of every cinema business is the exhibition of films (and increasingly alternative content), just as different types of film appeal to different audiences, the individual elements which differentiate the main cinema styles provide such different cinema-going experiences that any competitive overlap between them is minimal.
- 3.6 Multiplex cinemas have come to dominate UK film exhibition. However, there is a growing audience of discerning cinema goers, often with higher disposable income, for whom a traditional multiplex visit is simply not attractive. This audience has a preference for smaller, more intimate 'local' cinemas where they feel part of the fabric, a demand which is increasingly being satisfied by art-house/independent style cinemas²⁹. University students, often benefiting from attractive discounts, are also attracted to this type of cinema as is shown by the level of student membership at Picturehouse which makes it feel like a "club" environment.
- 3.7 The third cinema type identified above, luxury cinema concept, is a relatively new entrant to the UK cinema market. Luxury cinemas generally screen mainstream content with an emphasis on providing a premium customer experience with premium pricing³⁰. Given that Cineworld operates only one luxury cinema business (in Cheltenham) and City Screen is not involved in the luxury cinema sector, luxury cinemas are not discussed any further in this Submission.

²⁸ See Page 1 of the 2012 [3X] Report (Item 28.E submitted to the CC on 8 May 2013).

²⁹ See slide 93 of Item 13.A submitted to the CC on 8 May 2013: Cineworld Board Strategy Day Presentation (21 May 2010).

³⁰ See slide 93 of Item 13.A submitted to the CC on 8 May 2013: Cineworld Board Strategy Day Presentation (21 May 2010).

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- 3.8 In order to illustrate the differences between typical multiplex and art-house/independent cinemas in the UK, the individual characteristics of Cineworld and City Screen are discussed in further detail below by reference to the impact of their main differences on the cinema experience offered to customers. The key elements differentiating the two types of cinema product include: the cinema environment; programming and the range of films exhibited; the food and beverage offerings; different audience profiles and a range of other factors.

4. Cinema environment

- 4.1 The experience for multiplex and art-house/independent customers is influenced significantly by the cinema environment offered by the two types of business. Elements of the cinema environment which differentiate multiplex and art-house/independent style cinemas include: location, size, design, architecture and ambience.
- 4.2 In terms of location, multiplex cinemas such as Cineworld's are typically located in out of town retail parks with free and/or convenient parking and easy access to good road networks. Picturehouse cinemas are located in town and city centres, close to nodes of public transport and easily accessible to large numbers of local customers.
- 4.3 Multiplex operators such as Cineworld focus on attracting a mass market audience by providing multiple screenings (often of the same film in several auditoria) at an affordable price in large³¹, functional and highly branded environments. For example, due to the large audiences which attend Cineworld cinemas, its cinema foyers are not designed to encourage customer dwell-time (for example, there is limited seating). In turn, Cineworld customers expect a fairly uniform level of experience in terms of film choice, seating and food and beverages on offer.
- 4.4 In contrast, Picturehouse chooses to keep its cinemas small in order to retain the intimate ambience which is associated with its cinemas.³² Its cinemas are styled as "grown up" environments which tend to attract mature customers as well as students and "cine-literate" customers. No two Picturehouse cinemas are the same. They come in all shapes and sizes, ranging from the 100 year old Duke of York's Picturehouse in Brighton (identified by the iconic can-can legs on its roof) to the award-winning architecture of the Harbour Lights Picturehouse in Southampton.

³¹ Cineworld cinemas have an average of [3<] screens and [3<] seats per cinema. In terms of floor space, the average Cineworld cinema measures [3<] square feet.

³² City Screen cinemas have an average of [3<] screens and [3<] seats per cinema and its floor spaces are between [3<] square feet.

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4.5 Picturehouse's cinemas are an integral part of the local community and they attract customers who value an idiosyncratic and distinctly "non-multiplex" environment. In addition, Picturehouse customers do not use the cinema purely for film viewing. There are many other attractions, including restaurants and bars, film courses, director Q&A sessions, film quizzes, film festivals and live arts content. The café-bars provided by Picturehouse cinemas allow customers to socialise in an attractive film steeped environment. As a result, Picturehouse audiences treat a visit to the cinema as a social occasion or cultural outing.

5. Programming and range of titles exhibited

5.1 Multiplex and art-house/independent cinemas are focused on providing very different products in terms of the films exhibited. Audiences attend a multiplex in order to see the latest blockbuster films on, or soon after, the weekend that they open. Audiences attend art-house/independent cinemas in order to see a range of films, particularly award-winning and critically-acclaimed films. Due to the more niche nature of the film product offered, these audiences are more prepared to plan their cinema-going around a cinema's timetable.

5.2 The differences between Cineworld and Picturehouse are demonstrated by assessing the range of titles exhibited and their programming strategies.

Range of titles exhibited

5.3 Although multiplexes have many more screens than art-house/independent cinemas, multiplex cinemas aim to maximise the revenue from each blockbuster by showing it as many times as possible for as long as possible (across multiple screens in the first weeks of release). In contrast art-house cinemas aim to show the broadest possible range of films and so several films may be played in the same screen across a day. **Table 2** below illustrates the much larger number of titles shown by Picturehouse cinemas over the past two years as compared to the number shown by Cineworld cinemas. Over 20 times as many films per screen were shown in Picturehouse in 2012.

Table 2: Number of films exhibited by Picturehouse and Cineworld for 2011 and 2012 based on IBOE data					
Year	Total number of releases	Picturehouse	Cineworld	No of films per screen Picturehouse	No of films per screen Cineworld
2012	1,841	[X]	[X]	[X]	[X]
2011	1,588	[X]	[X]	[X]	[X]

Source: International Box Office Essentials ("IBOE")

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- 5.4 The data provided in **Table 2** above includes only those releases monitored by IBOE. IBOE does not monitor all screenings of specialised or repertory (or classic) films, and not all distributors' titles are included in the data. **Table 3** below sets out the considerably higher figures from Picturehouse's own box office systems for the five key areas considered by the OFT.

Table 3: Number of titles screened by Picturehouse in 2012 based on own box office systems			
	No of titles screened	Specialised and alternative content	Mainstream
Bury St Edmunds	[X]	[X]	[X]
Cambridge	[X]	[X]	[X]
Aberdeen	[X]	[X]	[X]
Brighton	[X]	[X]	[X]
Southampton	[X]	[X]	[X]

Source: City Screen

- 5.5 **Table 4** below using the more limited IBOE data demonstrates that in 2011 and 2012 Picturehouse has programmed over [X] per cent more titles than the main UK multiplex operators, despite having far fewer screens per venue.

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Table 4: Number of titles screened by Picturehouse, Vue, Odeon and Cineworld (2011 and 2012) based on IBOE data and percentage by which Picturehouse is higher					
		2012		2011	
Cinema	Total number of screens ³³	No of titles screened	Percentage by which Picturehouse is higher	No of titles screened	Percentage by which Picturehouse is higher
Picturehouse	[X]	[X]		[X]	
VUE	746	469	[X]	492	[X]
Odeon	868	592	[X]	602	[X]
Cineworld	[X]	[X]	[X]	[X]	[X]

Source: IBOE

Programming strategy

- 5.6 A defining feature of an art-house/independent cinema such as Picturehouse is the way in which it is programmed.
- 5.7 The 21 Picturehouse cinemas are programmed individually, under the direction of Clare Binns, who has over 30 years' experience of working in the art-house/independent cinema sector. Clare Binns' programming expertise is key to the success of Picturehouse's business. She also oversees the City Screen Virtual business which provides programming to [X] UK cinemas.
- 5.8 In contrast, Cineworld cinemas are programmed on a more formulaic basis in accordance with national programming policies dictated and measured by market share expectations. The only exception is that certain Cineworld cinemas in locations with strong local Asian populations show more Bollywood films. However, contrary to the OFT's contention at paragraph 38 of its Decision, the Parties are not aware of any evidence of a current trend of multiplexes seeking to differentiate their programming strategies in order to seek to compete with art-house/independent cinemas.

³³ See page 15 of **Item 28.C** submitted to the CC on 8 May 2013: Dodona Report 2013 – Cinemagoing 22, March 2013.

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- 5.9 The range of titles shown in each Picturehouse cinema includes specialised films³⁴, alternative content (including live satellite transmissions of seasons from arts organisations, such as the Bolshoi Ballet, Glyndebourne and the National Theatre), and certain quality mainstream films. Each City Screen cinema has a bespoke programme of films and events chosen or curated according to the preferences of its local audience
- 5.10 The inclusion of mainstream films within a Picturehouse cinema's programming, even though they may be shown at other cinemas in the local area, including multiplexes, is part of Picturehouse's programming strategy for several reasons:
- Picturehouse customers like to see mainstream films at Picturehouse cinemas;
 - Showing mainstream films provides an opportunity to promote and cross market the cinema's broader range of films; and
 - Mainstream films act as an important cross-subsidy for the art-house and independent films that attract smaller audiences.

³⁴ As part of its work in relation to the "Digital Screen Network", the British Film Institute (the "BFI") provides a definition of "specialised films" which is quite broad and relates to films that do not sit easily within a mainstream and highly commercial genre. The BFI also maintains a database of all specialised films released in the UK since 2004 (see <http://industry.bfi.org.uk/specialisedfilmsdb>). The "Digital Screen Network" was a UK Film Council and the Arts Council England initiative to equip cinemas across the UK with digital projection technology. In order to qualify for funding under this scheme, cinemas had to show a certain proportion of specialised films within their overall film mix. In total around 70 per cent of films shown in City Screen cinemas are specialised films within the BFI definition.

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- 5.11 Picturehouse earns a similar proportion of its BOR from films inside the top 20 UK films ([<] per cent in 2012) as from films outside the top 100 ([<] per cent in 2012). In contrast, Cineworld earns the majority of its BOR from the top 20 UK films ([<] per cent in 2012) and a small proportion from films outside the top 100 ([<] per cent in 2012).

Table 5: 2012 Box Office revenues by film rank category							
Film Rank	Total Industry	VUE	Odeon	Cineworld	Picturehouse	Curzon	Everyman
Top 10	35.0%	36.6%	40.0%	[<]%	[<]%	13.3%	24.9%
11 – 20	16.9%	17.0%	17.2%	[<]%	[<]%	4.0%	13.7%
21 – 40	16.6%	17.1%	16.3%	[<]%	[<]%	13.9%	17.9%
41 – 60	10.5%	10.9%	10.0%	[<]%	[<]%	2.0%	7.9%
61 – 80	6.5%	6.8%	6.1%	[<]%	[<]%	0.7%	3.8%
81 – 100	4.3%	4.2%	3.7%	[<]%	[<]%	1.1%	2.7%
101 plus	10.2%	7.5%	6.8%	[<]%	[<]%	65.1%	29.1%

Source: IBOE

- 5.12 Picturehouse cinemas are also focussed on building and meeting an increasing demand for “cross arts” screenings of opera, theatre, dance concerts, and visual arts (referred to as alternative content). In 2012 alternative content made a [<] per cent contribution to Picturehouse’s box office revenue, which is significantly more than the [<] per cent that it generates for Cineworld³⁵. As measured by IBOE, the contribution of alternative content is more than [<] times in Picturehouse cinemas than in Cineworld cinemas as shown in **Table 6**. If measured by Picturehouse box office systems it would be even more. Such is the demand in Picturehouse cinemas that alternative content is frequently shown in the largest auditoria on Saturday nights, decreasing the potential box office return for large films.

³⁵ Figures based on IBOE data.

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Table 6: Proportion of BOR represented by alternative content for 2012				
	Total Box office	Alt Content	% of Box office	Per cinema
Picturehouse	£[X]	£[X]	[X]	£[X]
Cineworld	£[X]	£[X]	[X]	£[X]

Source: Cineworld/Picturehouse

5.13 In some cinemas the decision to screen alternative content has been taken even though it has led to not being able to screen a run of a mainstream film. For example, the Duke of York's Picturehouse in Brighton chose not to show the latest James Bond film on release, Skyfall, because there was an opera broadcast during its opening weekend and other strong content for the Picturehouse audience available over the first two weeks of release.

5.14 It was suggested by the OFT (at paragraph 18 of its Decision) that cinemas can alter their programming strategy easily such that if an art-house style cinema is performing well in an area, a multiplex operating in the same area may simply choose to increase its specialist programming. However, film programming and title range is so central to a cinema group's business that it cannot be changed without fundamentally changing the brand identity and audience expectation which is a long term strategic process. Moreover, a multiplex cannot replicate the customer experience at a cinema like Picturehouse, nor vice versa.

6. Food and beverage offerings

6.1 Picturehouse's café-bars are distinctly different to the branded concession stands at multiplex cinemas such as Cineworld and each contributes to providing a markedly different cinema experience.

6.2 Picturehouse's food and drink offer varies according to each individual cinema. It ranges from a high end restaurant at Cinema City in Norwich (which contributes to Norwich's average spend per cinema ticket sold of £[X]) to three very different cafe bars at the Hackney City Screen (average spend per cinema ticket sold of £[X]) to a small drinks-only bar at the Duke of York's Picturehouse (average spend per cinema ticket sold of £[X]) and an "honesty bar" in the upstairs cafe area at Bury St Edmunds. Cineworld's food and beverage offering is relatively standardised across its multiplex cinemas.

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- 6.3 In comparison to ticket sales, food and drink sales contribute significantly more to the turnover of Picturehouse cinemas than they contribute to the turnover in Cineworld.

Table 7: Contribution of food and drink to total revenues in 2012				
	Cineworld		Picturehouse	
Box Office	£251.6m	75%	£[<]m	[<]%
Food and drink	£82.3m	25%	£[<]m	[<]%
Total	£333.9m		£[<]m	

Source: Cineworld/City Screen

- 6.4 This is further shown in the different levels of “spend per person” at the different cinemas (i.e. the total sales of food and drink divided by the number of tickets sold) which in 2012 was £[<] for City Screen and £[<] for Cineworld (some [<] per cent lower).
- 6.5 The selection of food and drink that Picturehouse customers choose is very different to Cineworld’s customers. Picturehouse customers want freshly cooked food (where it is available) and a drink at the bar as part of the cinema experience. In contrast, multiplex customers look for mainly popcorn and fizzy drinks as part of their cinema experience.

Table 8: Breakdown of food and drink sales for 2012			
Picturehouse 2012 Sales		Cineworld 2012 Sales	
Category	% Of Total Sales	Category	% Of Total Sales
Alcohol	[<]	Soft Drinks	[<]
Food	[<]	Popcorn	[<]
Soft drinks	[<]	Confectionery	[<]
Hot Drinks	[<]	Ice cream	[<]
Popcorn	[<]	Hot Dogs	[<]
Snacks	[<]	Nachos	[<]
Confectionery	[<]	Hot Drinks	[<]
Ice Cream	[<]	Alcohol	[<]
		Other	[<]

Source: Cineworld/City Screen

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- 6.6 Cineworld's customers, like those of other multiplexes, tend to prefer well known food and drink brands (Coke, Starbucks, Mars, Ben & Jerry's). Many of these items are of course also available for Picturehouse customers, but there is a wider range which includes items such as fair trade coffee, own label water (with a donation to charity for each bottle sold), own label bar snacks, a seasonal wine list and local beers.
- 6.7 Picturehouse have always included a bar as an integral part of the Picturehouse cinema-going experience. The bars are styled as destination venues, encouraging customers to meet with friends before or after the film or to use them when they are not attending screenings.



City Screen Picturehouse, York

- 6.8 Following successful demand that was shown in trials in Brighton and East Grinstead (a cinema managed by City Screen until 2008), Picturehouse licensed all its auditoria in 2005 and the ability to take wine and beer into the screening is often cited by customers as a differentiator for Picturehouse cinemas.
- 6.9 Picturehouse customers are increasingly showing a demand for locally-prepared food from non-national branded cafés and restaurants. The majority of Picturehouse cinemas (11 out of 21) meet this demand from kitchens on the premises. Eight Picturehouse cinemas employ professional chefs in kitchens attached to the bars³⁶. Each menu is bespoke to the audience it serves in its cinema – there are no national food policies.

³⁶ These are: Abbeygate Picturehouse, Bury St Edmunds; Arts Picturehouse, Cambridge; Cinema City, Norwich; City Screen, York; Duke's @ Komedia, Brighton; Exeter Picturehouse; Hackney Picturehouse; Ritzy, Brixton.



Cinema City, Norwich

7. Impact of differentiated cinema experience on Cineworld and Picturehouse audiences

- 7.1 Given the marked difference in cinema experience offered by Cineworld multiplex cinemas and Picturehouse's art-house/independent cinemas, it is unsurprising that their audiences are also different.
- 7.2 Picturehouse's "grown up" environments³⁷ attract an older, more discerning type of customer, as well as students and enthusiasts of specialised films³⁸. Picturehouse has a substantial loyal membership base of [X] through paid annual subscriptions. The average attendance of a Picturehouse member is [X] times per year, which is more than [X] the national average for cinemas generally³⁹.
- 7.3 Outside of London, Picturehouse cinemas are mostly located in university cities and experience a degree of seasonality based on university terms. January and February are also particularly busy months for Picturehouse on account of the release of quality films targeted at the film awards season.
- 7.4 Cineworld cinemas attract a wide range of people, although the large majority of its audience is made up of individuals from the 15-35 age-bracket. Families are also a particularly important audience for Cineworld and school holiday periods tend to be some of its busiest times (especially July and August when blockbusters are released).

³⁷ See **Item 13.M**: City Screen, "The story so far, Cinemas 1989 to 2009"..

³⁸ See **Annex 2**, a presentation dated 30 April 2012 developed for cinema advertising company, Digital Cinema Media in respect of City Screen's offering to potential advertisers.

³⁹ The national average for attendance at a cinema in 2012 was 2.73 times. see page 6 of **Item 28.C** submitted to the CC on 8 May 2013: Dodona Report 2013 – Cinemagoing 22, March 2013

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- 7.5 It should be noted that even though some of the same people may attend both a Picturehouse and a Cineworld in some instances, they will do so for different occasions (for example, for a family outing they may go to a Cineworld while they may attend a Picturehouse for a night out with their partner).

8. Other factors

- 8.1 Amongst other factors indicating that Picturehouse and Cineworld do not compete are differences in: ticket pricing strategies; suppliers; competitors; and the approach to new site appraisals.

Differences in ticket pricing strategies

- 8.2 Generally speaking, art-house/independent style cinemas command a higher ticket price than multiplexes given the more niche positioning of their product. The average ticket price for Picturehouse in 2012 was £[§<] while it was £[§<] for Cineworld.
- 8.3 Picturehouse and Cineworld do not compete on ticket price. This is clear from the way in which they set their ticket prices, which will be described in detail in the responses to Question 3 of each of the Market Questionnaires.

Differences in suppliers of Cineworld and Picturehouse

- 8.4 The number of suppliers used by Cineworld and Picturehouse for film content reflects the difference in the content shown by each cinema. As detailed above each Picturehouse cinema has a bespoke selection of films which is curated by the central programming team and tailored to its local audience. Cineworld cinemas are, conversely, programmed at national level with only a small degree of local variance, and as a result the same films tend to be shown at each Cineworld cinema across the board.
- 8.5 Consequently, Cineworld has a much smaller number of suppliers than Picturehouse. As one would expect, Cineworld's top ten film distributors are made up of the major film distributors (including Universal, Warner Brothers and Disney – for a full list please refer to **Item 25.B** provided to the CC on 8 May 2013). Given the bespoke, local programming of each Picturehouse cinema, the list of content providers is much longer than that of Cineworld (see **Annex 3** for a comprehensive list of distributors of specialist content used by Picturehouse).

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Differences in Cineworld and Picturehouse competitors

Picturehouse

- 8.6 Picturehouse does not routinely monitor other cinemas which are located in the same local area as a Picturehouse cinema as their activities are not relevant to its own. An exception is [REDACTED].
- 8.7 In terms of cinema groups, the only one which has a comparable competitive offering to Picturehouse is Curzon. Curzon is an art-house cinema chain with six venues in London, one cinema in Knutsford, Cheshire and one cinema in Stafford. The programming of Curzon cinemas varies at each cinema but typically a Curzon cinema will show a mixture of art-house, world cinema and blockbuster films. Alternative programming at Curzon cinemas includes Q&A sessions and cultural events such as showings of the Met Opera Live. Curzon cinemas have licensed bars and auditoria, which make the cinema a pleasant environment to stay and socialise in before or after viewing a film⁴⁰.
- 8.8 Other than the Curzon cinemas with which Picturehouse primarily competes in London, there are very few other cinemas with which Picturehouse directly competes, given the niche market that Picturehouse has established itself. An example of where such a cross over may occur is the Edinburgh Filmhouse.
- 8.9 The Edinburgh Filmhouse is a publicly funded art-house cinema which has three screens. It shows a mixture of films from art-house and classics to retrospectives. The Filmhouse has digital and 3D capability. In addition to film screenings it also hosts Q&A and panel discussions and has an Education and Learning department that runs workshops and courses. There is a licensed café-bar at the Filmhouse that serves vegetarian and vegan food⁴¹.
- 8.10 As both the Curzon and Filmhouse examples show, these cinemas, like Picturehouse, are distinct offerings with a wide and varied programming schedule and in-cinema experience.

Cineworld

- 8.11 A key part of Cineworld's business strategy is to monitor its competing multiplex operators. Multiplex cinemas offer the public a cinema-going experience which is generally similar across the board. With a view to distinguishing itself from its competitors, Cineworld is actively engaged in the monitoring of the other national multiplex cinema chains with which it competes: [REDACTED] (see **Item 22.A** submitted to the CC on 8 May 2013). Of particular interest are Odeon and Vue, who together with Cineworld make up the so-called "Big Three".

⁴⁰ http://www.curzoncinemas.com/about_us/

⁴¹ <http://www.filmhousecinema.com/about-us/>

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- 8.12 Cineworld also monitors competitors' share of box office by film in order to assist in negotiating deals with film distributors.
- 8.13 Cineworld monitors all aspects of the cinema experience for each of its competitors and compares the results with those of Cineworld with a view to informing strategy. The areas monitored include [redacted] (see **Item 14.D** submitted to the CC on 8 May 2013 for more information).
- 8.14 The other multiplex cinemas are also monitored on an ongoing basis as part of Cineworld's business development strategy. By way of example, [redacted].

New site appraisals

- 8.15 Cineworld and Picturehouse are attracted to very different sites for the opening of new cinemas and tend to appraise new sites on the basis of differing factors.
- 8.16 Picturehouse engaged [redacted] to provide an assessment of growth opportunities for Picturehouse⁴². In agreement with Picturehouse, it identified [redacted] opportunities based on the following criteria:
- [redacted]; and
 - [redacted].
- 8.17 This analysis has informed Picturehouse's development plans. However, other factors will also be important in Picturehouse's decision to enter a new local area. These include:
- [redacted].
 - [redacted].
 - [redacted].
- 8.18 Cineworld's approach to new cinema sites also starts by looking at catchment areas, although consistent with its mass-market product, Cineworld uses total population rather than defining a particular audience demographic. Cineworld's development strategy focuses on [redacted]:
- [redacted];
 - [redacted]; and
 - [redacted].
- 8.19 Cineworld's appraisal of a particular new site will also be influenced by [redacted].

⁴² See **Annex 4** for the report prepared by [redacted] "Demographic Analysis for Picturehouse London Cinemas" [redacted].

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9. Conclusions on the relevant product market

- 9.1 On the basis of the above, the Parties consider that the most appropriate approach to determining the relevant product market for the purposes of assessing the Merger would be to define separate markets for multiplex cinemas and for art-house/independent cinemas. The product offerings of Cineworld and Picturehouse are radically different – in terms of cinema environment, programming and range of titles, food and beverage offerings, audience demographics and a range of other factors. Neither Cineworld nor Picturehouse views the other as a competitor.
- 9.2 If Picturehouse and Cineworld were considered to be part of the same relevant market, the Parties consider that it must take into account the impact of competition for consumers' entertainment spend from other leisure opportunities, as well as the increasing options available to consumers to access film content. This is particularly important for Picturehouse [X].
- 9.3 Even if the CC were minded to define a market by reference to all types of film exhibitor (multiplex, art-house/independent, luxury), it is evident that Cineworld and Picturehouse's product offerings are highly differentiated and on no reasonable view could be considered material competitors to each other. Cineworld is competing with other multiplex operators, in particular Odeon and Vue. Picturehouse has in many ways a unique business model, and one so niche that it is rare outside big cities such as London or Edinburgh for there to be another comparable cinema.
- 9.4 As emphasised in the joint CC/OFT *Merger Assessment Guidelines* (CC2 (Revised)) at paragraph 5.2.2:
- "Market definition is a useful tool, but not an end in itself, and identifying the relevant market involves an element of judgement. The boundaries of the market do not determine the outcome of the [CC's] analysis of the competitive effects of the merger in any mechanistic way. In assessing whether a merger may give rise to an SLC the [CC] may take into account constraints outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others."*
- 9.5 Accordingly, whilst the Parties' view is that separate product markets for multiplex cinemas and for art-house/independent cinemas should be defined, in any event the lack of material competition between Cineworld and Picturehouse means that even on a broader all-cinema market definition no SLC will arise.

B. Geographic market

10. Introduction

10.1 As noted above, previous CC and OFT cinema merger decisions⁴³ have all involved mergers of multiplex operators. They have considered competition in both national and local markets between multiplexes on the basis that competition takes place predominantly at a local level, reflecting the fact that price, content and facilities may be set by cinema managers at a local level, partly in response to local conditions. However, certain competitive parameters may also be determined at a national level (for example, negotiations with distributors for access to film content, screen advertising fees and branding).⁴⁴

11. National level

11.1 Although certain elements of competition between multiplexes do occur at a national level, this is much less relevant in respect of art-house/independent cinemas, which cater their offering to the preferences of the local audience.

12. Local level

Multiplex cinemas

12.1 Whilst previous OFT and CC decisions do not specify the precise parameters of the local markets for film exhibition, in multiplex mergers a 20 minute drive-time isochrone around the acquired cinema has generally formed the starting point for competitive assessment. This approach has been verified with sensitivity analysis using a 30 minute drive-time isochrone. Sensitivity analysis has also involved re-centring isochrones on the acquirer's existing cinemas and/or on population centres.

12.2 Cineworld considers that, outside of London, a 20 minute drive-time broadly accords with the industry approach for multiplex cinemas⁴⁵. In planning new multiplex cinema openings, Cineworld often uses a drive-time of 20 minutes to determine the optimal location of a site. Drive-times are referred to less in the context of art-house/independent cinemas as these are more likely to be situated in town and city centres in order to gain access to their target local audiences.

Art-house/independent cinemas

12.3 Furthermore, the Parties do not consider that the 20-minute drive-time isochrone is an appropriate measure for Picturehouse's art-house/independent cinemas.

⁴³ For example, Odeon/Reel, paragraphs 10-13.

⁴⁴ Terra Firma/UCI, paragraphs 10-28.

⁴⁵ Cineworld considers that drive-time isochrones are an unreliable guide to competition in London. However, given that the Merger does not give rise to any issues in the London area, it is not considered further in this submission.

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13. Conclusions on the relevant geographic market

13.1 On the basis of the above, the Parties do not consider that competition at a national level is relevant to the CC's assessment of the Merger.

13.2 With respect to local markets, the Parties would accept that defining a local market by reference to a 20 minute drivetime is appropriate for multiplex cinemas outside London, where different considerations apply. For art-house/independent cinemas, the evidence suggests that a 20 minute drivetime would not be appropriate and indeed this is not a measure that Picturehouse views as relevant to its own assessment of local competition.

14. Conclusions on relevant markets

14.1 Accordingly, the Parties submit that the most appropriate approach to market definition for the purposes of assessing the Merger would be to define separate relevant product markets for multiplex cinemas and for art-house/independent cinemas, with geographic markets of 20 minutes drivetime for the multiplex market and a wider area for art-house/independent cinemas. However, irrespective of the market definition adopted, the lack of any material competition between Cineworld and Picturehouse means that on any plausible market definition no SLC will result from the Merger.

15. Barriers to market entry/ exit

15.1 Barriers to entry in relation to either multiplex or art-house/independent cinemas in the UK are relatively low. A new entrant would need to obtain the following primary resources:

- Premises: the right premises in the right location at affordable rents;
- Finances: capital costs of build and fit out can be substantial (up to £4 million) but there are plentiful opportunities;
- Films: supply contracts with film distributors. This may involve the payment of a security deposit/bond to a distributor; and
- Licensing / Health and Safety: this is common to the requirements applied to other leisure businesses with some specific additional regulation. Business owners will need to acquaint themselves with local licensing policies which are freely available online.

15.2 While a new cinema operator would have the opportunity to achieve economies of scale by operating more than one cinema, this does not prevent new entrants opening with a single venue⁴⁶ or companies with other primary interests diversifying into film exhibition⁴⁷.

⁴⁶ There are 312 single venue cinema operators in the UK (Source: BFI Statistical 2012 Handbook).

⁴⁷ For example, the largest bar operator in Glasgow, G1, (see www.g1group.co.uk), Soda Film distributors in Bermondsey Square (see www.sodapictures.com) or Firmdale Hotels who have screening rooms in their hotels showing first release films.

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- 15.3 Screen advertising income is usually available for all exhibitors, though the first year's income may be low for a new entrant without a history of admissions on which to base a contract.
- 15.4 New entrants to the cinema sector will not face material barriers in the form of:
- legal or regulatory barriers or qualifications;
 - patents; or
 - specific industry know-how.
- 15.5 We would note the following specific considerations for the two cinema types:
- **Art-house/independent cinemas:** important to the success of art-house/independent cinemas is the strength of its range of titles and programming strategy. This requires specific expertise which can be obtained by employing a skilled film programmer. Alternatively, programming can be outsourced to organisations such as Independent Cinema Office, City Screen Virtual or Curzon Cinemas. Digital film supply means that a wider range of films can be provided to cinemas at a lower cost.
 - **Multiplex cinemas:** New multiplex cinemas generally form part of a larger retail or leisure development. The economic recession of the past few years has resulted in fewer of these developments and thus fewer available opportunities for entry by new multiplex operators. It is also likely to be more difficult for a new entrant to the UK cinema market to secure premises with a new retail or leisure development as such sites tend to require large, established anchor tenants.
- 15.6 The Parties do not consider that there will be a substantial entry into the UK film exhibition market in the form of the establishment of a new national chain of cinemas in the next three years. However, the Parties are aware of a number of planned new cinema openings in various locations across the country. In addition, the Parties understand that the multiplex cinema group, Odeon, is likely to be sold by its private equity owners which may result in the entry of a foreign operator into the UK.

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PART V: THE COMPETITIVE EFFECTS OF THE MERGER

1. Introduction

- 1.1 The strategic rationale of both Parties to the Merger is based on retaining and expanding Picturehouse in its current form as an art-house/independent cinema business. Picturehouse will not alter its strategy or business model in any way as a result of the Merger. Similarly, the Merger will have no impact on Cineworld's multiplex business
- 1.2 As a result the Merger will not have any negative impact on the quality of the products offered by either of Cineworld or Picturehouse – either in terms of the range of films provided or otherwise. Indeed, the Merger will have the effect of the Picturehouse product becoming available to a wider audience through the group's expansion plans. In addition there will be no incentive for the Parties to increase their prices for the very different cinema products they offer.

2. Competitive effects of the Merger at a national level

- 2.1 As recognised in previous OFT merger decisions, certain elements of competition between multiplex cinemas occur at a national level. These include the negotiations with distributors for access to film content, screen advertising fees and branding. However, this is much less relevant in respect of art-house/independent cinemas, which are locally focused businesses and tend not to belong to national networks.
- 2.1 The OFT considered that the Merger will not give rise to national competition concerns given that the combined market shares of the Parties are below 30 per cent (on the basis of cinemas, screens, admissions and BOR) and, in addition, there will be a minimal increment of less than 3 per cent on any measurable basis. Furthermore, post-Merger a number of strong national competitors will continue to operate on the market and will mitigate any effect the Merger may have at a national level.
- 2.2 The Parties agree with the OFT's assessment at a national level and therefore this Submission does not consider further the effects of the Merger at a national level.

3 Competitive effects of the Merger in local areas identified by OFT

- 3.1 The OFT identified five local areas where it considered that there was a realistic prospect of an SLC: Aberdeen, Brighton, Bury St Edmunds, Cambridge and Southampton. In further five areas where Cineworld and Picturehouse both operate cinemas the OFT considered that there was no realistic prospect of an SLC, and the OFT in its decision found no concerns in relation to any other Cineworld or Picturehouse cinemas. Accordingly, we have confined our comments below to the five areas where the OFT did find a realistic prospect of an SLC.

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- 3.2 The Parties do not consider that the Merger may be expected to result in an SLC in any of these five areas. The Picturehouse and Cineworld offerings are so different from each other that the Merger can have no material effect on competition. Below we describe the competitive conditions in each of the five areas, beginning in each case with pictures of the cinemas concerned – pictures which encapsulate the contrasts between Picturehouse art-house independent cinemas and Cineworld multiplex cinemas.

Aberdeen



Cineworld Queen's Links , Aberdeen



Cineworld Union Square , Aberdeen



Belmont Picturehouse, Aberdeen

- 3.3 In Aberdeen, Picturehouse operates the Belmont Picturehouse. Cineworld operates two multiplex cinemas at Union Square and Queen's Links, in competition with the Vue multiplex cinema in the city-centre. As demonstrated by **Table 9** below, the Belmont Picturehouse is less than a quarter the size of the smaller of the two Cineworlds.

Table 9: All cinemas in the Aberdeen area			
Operator	Cinema	Screens	Seats
Picturehouse	Belmont Picturehouse	3	469
Cineworld	Union Square	10	2,382
Cineworld	Queen's Link	9	2,154
Vue	Vue Aberdeen	7	1,470

- 3.4 The map at **Annex 5** shows the location of each of the cinemas in Aberdeen. This shows that the Cineworld Union Square is 0.4km from both the Belmont Picturehouse and Vue Aberdeen, while the Vue cinema is 0.5km from the Belmont Picturehouse.

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- 3.5 Picturehouse operates the Belmont Picturehouse (and has done since 2000) under a Management Services Agreement with Aberdeen City Council⁴⁸. The Management Services Agreement [§<].
- 3.6 Picturehouse was selected to operate the Belmont Picturehouse through an open tender process initiated by Aberdeen City Council in competition with [§<]. Under a Management Services Agreement with Aberdeen City Council, the operator of the cinema is obligated to operate it as an important local cultural resource which provides a diverse programme of films and events in accordance with the Council's strategic cultural objectives for the facility. This primary obligation formalises Picturehouse's programming strategy as regards the Belmont Picturehouse.
- 3.7 In 2012, the Belmont Picturehouse showed [§<] films/arts performances on 3 screens, in contrast to [§<] at Cineworld on 19 screens. Out of the [§<] individual films/ arts performances screened at the Belmont Picturehouse in 2012, [§<] ([§<] per cent) were not shown at either of the Cineworlds in Aberdeen.
- 3.8 The wide range of specialised content on offer at the Belmont Picturehouse is reflected in customers' reasons for choosing to visit it: [§<] per cent of respondents to a survey undertaken by Picturehouse of its active mailing list in February 2013 (the "**Picturehouse Customer Survey**" or "**First Survey**") selected the ability to view a range of art-house/independent films and screen arts events as one of the top three factors influencing their decision to visit the Belmont Picturehouse. In a further survey of both Picturehouse and Cineworld customers carried out in April 2013 (the "**Picturehouse/Cineworld Customer Survey**" or "**Second Survey**"), a majority of the patrons of the Aberdeen Cineworlds and the Belmont Picturehouse who responded to the survey considered that art-house/independent cinemas such as the Belmont Picturehouse appeal to a different audience to multiplex cinemas ([§<] per cent of Belmont Picturehouse respondents and [§<] per cent of Cineworld Aberdeen respondents agreed or strongly agreed with the statement "A multiplex cinema experience is different to an art-house cinema experience").

⁴⁸ See **Annex 6** for the Management Services Agreement between Aberdeen City Council and City Screen in respect of the Belmont Picturehouse

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Belmont Picturehouse, Aberdeen



Cineworld Queen's Links , Aberdeen

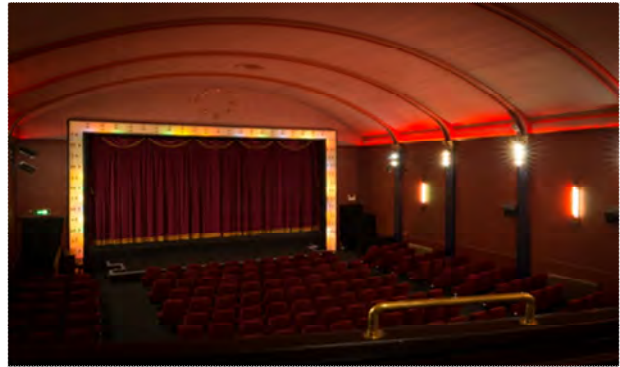


Cineworld Union Square , Aberdeen

Brighton



Duke of York's Picturehouse, Brighton



Dukes at Komedia, Brighton



Cineworld Brighton



- 3.9 In Brighton, Picturehouse operates the Duke of York's Picturehouse and the Duke's @ Komedia (opened in December 2012). Cineworld operates one multiplex cinema. Other cinemas operating in the area include the Odeon and the Orion Burgess Hill (2 screens, 271 seats). As demonstrated by **Table 10** below, the two Picturehouse cinemas combined are only just over a quarter the size of the Cineworld Brighton.

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Table 10: All cinemas in the Brighton area			
Operator	Cinema	Screens	Seats
Picturehouse	Duke of York's Picturehouse	1	283
Picturehouse	Duke's @ Komedia	2	248
Cineworld	Cineworld Brighton	8	2,020
Odeon	Odeon Brighton	8	2,225
Orion	Orion Burgess Hill	2	271

- 3.10 As shown by the map at **Annex 7**, both Picturehouse cinemas and the Odeon have central locations in Brighton. The Odeon is just a short walk from both Picturehouse cinemas, whilst the Cineworld is at the out-of-town marina development, two miles from Brighton Railway Station.
- 3.11 The Duke of York's is housed in an iconic 100 year old building, recognised by can can legs on the roof, and is located in the Preston Circus area. The Duke's @ Komedia shares a building with the Komedia comedy venue which is located in the popular North Laine recreational area of Brighton. Both Picturehouse cinemas are within a 15 minute walk of Brighton Railway Station
- 3.12 The vast majority of the programming at the Duke of York's Picturehouse is dedicated to specialised films and alternative content (as noted previously, it did not show the recent James Bond film, Skyfall, in its opening weeks but annually screens the Eurovision Song Contest, which is very popular with its niche audience). Over the past three years around [X] per cent of films shown at the Duke of York's Picturehouse have not been screened at another cinema in the area. It has shown on average only [X] of the UK's annual top 20 films over the past three years. This is in contrast to the Cineworld Brighton, which has shown [X] of the UK's annual top 20 films for each of the past three years.
- 3.13 In 2012, the Duke of York's Picturehouse showed a total of [X] individual films/arts performances on its single screen while the Cineworld Brighton showed [X] films on 8 screens. Out of the [X] individual films and arts performances shown at the Duke of York's Picturehouse in 2012, only [X] per cent were shown at the Cineworld Brighton.⁴⁹

⁴⁹ Film overlap statistics for Duke's @ Komedia and Cineworld Brighton are not provided here. As the Duke's @ Komedia opened in December 2012, it is not considered that statistics since opening will be representative of a comparable annual overlap. This is particularly the case in the first quarter of the year which is dominated by films released for the film awards season, films which by their nature over-perform with City Screen audiences.

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- 3.14 The Duke of York's Picturehouse is also a Europa cinema. Europa Cinemas is a network of 3,197 cinemas across 68 countries that are funded by the European Union to show European films. In broad terms, to be a member, and therefore attract grant funding, a cinema must have at least 22 per cent of its screenings as first-run (i.e. within a year of their release) European (excluding UK) films.
- 3.15 Picturehouse programmes the new Duke's @ Komedia in conjunction with the Duke of York's Picturehouse, providing it with much needed flexibility. Prior to the opening of the new Duke's @ Komedia, Picturehouse was constrained by certain film distributors who require cinemas to show a particular film for up to two weeks. With just one screen, this had limited commercial viability at the Duke of York's Picturehouse.
- 3.16 Picturehouse's differentiated programming is valued highly by its Brighton customers: [3<] per cent of respondents to the First Survey selected the ability to view a range of art-house/independent films and screen arts events as one of the top three factors influencing their decision to visit the Duke of York's Picturehouse.
- 3.17 The Duke of York's Picturehouse has historically been highly differentiated from the standard offer of the multiplexes and is one of the few single screen cinemas in the country where many film distributors will allow an exhibitor to programme split shows for films on their release date (i.e. two or more films showing in the same auditorium) demonstrating the importance of the Duke of York's Picturehouse to independent releases outside of London. It is also the main host of the Brighton Cine City Festival and is [3<].

Bury St Edmunds



Abbeygate Picturehouse, Bury St Edmunds



Cineworld Bury St Edmunds



- 3.18 In Bury St Edmunds, Picturehouse operates the Abbeygate Picturehouse while Cineworld operates one multiplex cinema. As demonstrated by **Table 11** below, the Abbeygate Picturehouse is just over an eighth the size of Cineworld Bury St Edmunds. The Regal Stowmarket is within a 30 minute drive-time of the Abbeygate Picturehouse. As shown by the map at **Annex 8**, the Abbeygate Picturehouse and the Bury St Edmunds Cineworld are located within walking distance of each other.

Table 11: All cinemas in the Bury St Edmunds area			
Operator	Cinema	Screens	Seats
Picturehouse	Abbeygate Picturehouse	2	186
Cineworld	Bury St Edmunds	8	1472
Regal Theatre	Regal Theatre Stowmarket	1	234

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- 3.19 The Abbeygate Picturehouse and the Cineworld Bury St Edmunds have such a limited overlap in titles screened that they cannot be considered to be close competitors. In 2012, the Abbeygate Picturehouse showed a total of [X] individual films/arts performances on its 2 screens while the Cineworld Bury St Edmunds showed [X] films on 8 screens. Out of the [X] individual films and arts performances shown at the Abbeygate Picturehouse in 2012, only [X] per cent were shown at the Cineworld Bury St Edmunds.
- 3.20 Respondents to the First Survey selected the ability to view a range of art-house/independent films and screen arts events, the design and ambiance of the building and a preference for the audience (compared with a multiplex), as the top three factors influencing their decision to visit the Abbeygate Picturehouse. In addition, a majority of respondents to the Second Survey considered that an art-house/independent cinema experience is different to that of a multiplex cinema experience.
- 3.21 Since Picturehouse opened the Abbeygate Picturehouse in 2010, there has been no impact on Cineworld box office revenue (which has increased from £[X] million to £[X]million in the period) and the Abbeygate Picturehouse has succeeded in growing its revenue from £[X] million to £[X] million in the period. This success contrasts with the failure of the two previous cinema ventures at the site, whose mainstream operations failed to prosper in an area already served by Cineworld. Revenue growth at both sites in this period is indicative of the differentiated products offered by these two cinemas and the ability of the local market to support two cinemas providing highly differentiated products.
- 3.22 The opening of a new cafe/bar at the Abbeygate Picturehouse in November 2012 has further differentiated it from Cineworld. The average food and beverage spend at the Abbeygate Picturehouse is now £[X] (up from £[X] since the new facility opened), while Cineworld Bury St Edmunds has an average food and beverage spend of just £[X].

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Cambridge



Arts Picturehouse, Cambridge



Cineworld Cambridge



- 3.23 In Cambridge, Picturehouse operates the Arts Picturehouse and Cineworld operates one multiplex cinema. As demonstrated by **Table 12** below, the Arts Picturehouse is less than one third the size of the Cineworld Cambridge. Vue also operates a multiplex cinema in the area which is similar in size to the Cineworld.

Table 12: All cinemas in the Cambridge area			
Operator	Cinema	Screens	Seats
Picturehouse	Arts Picturehouse	3	505
Cineworld	Cambridge	9	1700
Vue	Cambridge	8	1821

- 3.24 Picturehouse opened the Arts Picturehouse in 2000 on the site of a former ABC multiplex cinema. It succeeded the Arts Cinema as Cambridge's only art-house/independent cinema. The site was redeveloped to house a public house on the ground floor and cinema on the first floor, so that the Arts Picturehouse offers the usual more intimate cinema experience in contrast to the former ABC. The cinema is located in a busy street in the centre of Cambridge with no parking facilities of its own.

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- 3.25 The Cineworld Cambridge provides a standard multiplex offering and is located 2 miles from the historic centre of Cambridge city in the Cambridge Leisure Park as shown by the map at **Annex 9**. This cinema is served by good transport links and a multi-storey car park.
- 3.26 The Arts Picturehouse is [X] of Picturehouse's cinemas, reflecting the importance of Cambridge's student population and university staff to its audience. In addition it has the [X]. The average spend per head on food and beverage is [X] at the Arts Picturehouse with [X] being the strongest performers.
- 3.27 Programming at the Arts Picturehouse is almost entirely different to that of Cineworld Cambridge such that these two cinemas cannot be considered to be close competitors. Over the past three years [X] per cent of films shown at the Arts Picturehouse have not been screened at another cinema in the area. It has shown on average [X] of the UK's annual top 20 films over the past three years. In contrast, Cineworld Cambridge has shown [X] of the UK's annual top 20 films for each of the past three years.
- 3.28 In 2012, Arts Picturehouse showed a total of [X] individual films/arts performances on its 3 screens while the Cineworld Cambridge showed [X] films on 9 screens. Out of the [X] individual films and arts performances shown at the Arts Picturehouse in 2012, [X] per cent were shown at the Cineworld Cambridge.
- 3.29 The differentiated programming is valued highly by customers of the Arts Picturehouse: [X] per cent of survey respondents to the First Survey selected the ability to view a range of art-house/independent films and screen arts events as one of the top three factors influencing their decision to visit the Arts Picturehouse.
- 3.30 The Arts Picturehouse plays a very important role in Cambridge cultural life. It is the home of the Cambridge Film Festival, which is the third most important film festival in UK after the London Film Festival and Edinburgh Film Festival. The co-founder of Picturehouse is Festival Director and continues to maintain an office out of the cinema for operation of the Festival. The Arts Picturehouse is also the home of the African Film Festival – providing diversity of programming to an under-represented market.
- 3.31 Like the Duke of York's Picturehouse, the Arts Picturehouse is a member of Europa Cinemas. It houses the most Question & Answer sessions with film directors, producers and actors of all the Picturehouse cinemas outside of London.
- 3.32 Together with the Duke of York's Picturehouse, the Arts Picturehouse is integral to the “DNA” of Picturehouse. They are both key non-London cinemas for distributors of independent films.

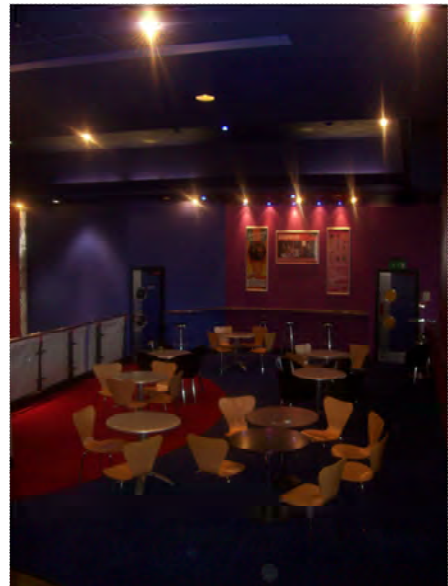
Southampton



Harbour Lights Picturehouse, Southampton



Cineworld Southamton



- 3.33 In Southampton, Picturehouse operates the Harbour Lights Picturehouse and Cineworld operates one multiplex cinema. The Harbour Lights Picturehouse is less than one third the size of the Cineworld Southamton. Other cinemas operating in the area include Odeon (two cinemas in Southampton and Port Solent) and Vue (two cinemas in Eastleigh and Fareham) – all, like Cineworld, multiplexes. This is an area well-served by cinemas (as shown by the map at **Annex 10** and **Table 13** below), with the Harbour Lights Picturehouse offering a unique product, very distinct from the five multiplexes.

Table 13: All cinemas in the Southampton area			
Operator	Cinema	Screens	Seats
Picturehouse	Harbour Lights Picturehouse	2	463
Cineworld	Southampton	5	1651
Odeon	Southampton	13	2677

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Vue	Eastleigh	9	1,571
Apollo	Fareham	5	761
Odeon	Port Solent	6	1,507

- 3.34 Picturehouse worked in partnership with [redacted] the Harbour Lights cinema, which had previously been operated through a not for profit trust that had gone into administration. The cinema is now run on a sustainable commercial basis.
- 3.35 The Harbour Lights Picturehouse has a total of [redacted] members drawn from the local area. It is housed in an award-winning architecturally designed building in the Ocean Village area of the City and has a well-appointed and popular café-bar. The Harbour Lights Picturehouse's offering is highly differentiated from Cineworld Southampton and the Odeon Southampton, which provide a standard multiplex product. Neither multiplex acts as a competitive constraint on the Harbour Lights Picturehouse, which targets a separate niche audience.
- 3.36 Harbour Lights Picturehouse's programming is almost entirely different to that of Cineworld Southampton and as such these two cinemas can not be considered to be close competitors. In 2012, Harbour Lights Picturehouse showed a total of [redacted] individual films/arts performances on its 2 screens while the Cineworld Southampton showed [redacted] films on 5 screens. Out of the [redacted] individual films and arts performances shown at the Harbour Lights Picturehouse in 2012, [redacted] per cent were shown at the Cineworld Southampton.
- 3.37 Over the past three years, over [redacted] per cent of films shown at the Harbour Lights Picturehouse have not been screened at another cinema in the area. On average [redacted] of the UK's annual top 20 films have been in the Harbour Lights Picturehouse's top 20 films over the past three years. This is in contrast with the Cineworld Southampton which has had an average of [redacted] of the UK's annual top 20 films within its top 20 films over the past three years.
- 3.38 The Harbour Lights Picturehouse's differentiated programming is valued highly by its customers: [redacted] per cent of respondents to the First Survey selected the ability to view a range of art-house/independent films and screen arts events as one of the top three factors influencing their decision to visit the Harbour Lights Picturehouse.

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PART VI: CONCLUSIONS

1. The rationale for the Merger will ensure no harm to competition

- 1.1 Cineworld's acquisition of City Screen was conceived as a means for the Cineworld group to target new customers, not to bolster its share of the customers it was already competing for. Cineworld has entered into contractual commitments with Picturehouse's co-founder and Managing Director to ensure that Picturehouse will continue to provide its differentiated art-house/independent cinema offering.
- 1.2 Concerns from customers and industry figures have focused entirely on the effect of a multiplex operator acquiring City Screen and whether this would dilute the nature and quality of Picturehouse cinemas, and not on competition issues. Any adverse change to how City Screen has historically operated would undermine both the business and Cineworld's strategy for growing it.
- 1.3 So, far from reducing the quality of City Screen's offering, the aim of Cineworld in acquiring City Screen is to enable its management team to ensure that their distinct business can thrive and indeed expand its reach to new areas.

2. Cineworld and Picturehouse are very different businesses...

- 2.1 Irrespective of how the CC ultimately determines market definition in this case, the evidence in this Submission and to be provided in response to the CC's Questionnaires make clear that Cineworld and Picturehouse offer products that are highly differentiated from each other and that target very different audiences. The customer experience at a Picturehouse and at a Cineworld cinema is – and is intended to be – totally different, with the nature of films exhibited only *one* element in the "product" that a customer is buying.
- 2.2 Customers choose Picturehouse for a specific type of evening out in a special environment. Customers choose Cineworld as an efficient way to see a specific film, usually a newly released blockbuster, at a convenient location.
- 2.3 The product is different; the audiences are different; and the competitors to the two businesses are different.

3. ...and the differences are clear at a local level

- 3.1 The differences we have described between Cineworld's multiplex business and Picturehouse's art-house/independent business are evident in every area where both businesses are present. We have indicated the specific differentiating factors in the five areas where the OFT had material concerns and consider that in each of them there can be no likelihood of an SLC.

4. In summary:

- 4.1 The Merger will not result in an SLC in any UK market.

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	Table of Annexes
No.	Description
1.	Cineworld and Picturehouse staff communications relating to the Merger
2.	A presentation dated 30 April 2012 developed for cinema advertising company, Digital Cinema Media in respect of City Screen's offering to potential advertisers
3.	List of distributors of specialist content used by Picturehouse
4.	[X] Report "Demographic Analysis for Picturehouse London Cinemas" dated [X]
5.	Map showing cinemas in Aberdeen
6.	Management Services Agreement between Aberdeen City Council and City Screen in respect of the Belmont Picturehouse
7.	Map showing cinemas in Brighton
8.	Map showing cinemas in Bury St Edmunds
9.	Map showing cinemas in Cambridge
10.	Map showing cinemas in Southampton