



# QUALICUM BEACH CINEMA



# Feasibility Study for the Qualicum Beach Multi-Use Cinema

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Prepared by MNP LLP

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# Executive Summary

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## Background and Purpose

Qualicum Beach and the Oceanside area do not currently have a permanent indoor cinema or movie theatre. The last operating cinema in the area was the Village Theatre, which opened circa 1949 and closed as a movie theatre in the early 1970s. In nearby Parksville, the single screen Park Theatre opened in 1952, was closed in the early 1990s and the site was redeveloped. As such, the Qualicum Beach Multi-Use Cinema Society ("QBMUCS") was incorporated as a Society in 2018, with the goal of bringing a multi-use cinema to Qualicum Beach.

To inform decision-making with regards to next steps QBMUCS engaged MNP to conduct a feasibility study to assess the potential viability of a community cinema and how it might contribute to the community.

## Concept of the Multi-Use Cinema

The multi-use cinema is intended to provide an essential community hub for arts, culture, and education in Qualicum Beach and greater Oceanside region and function as a centre for dialogue, community building, and meaningful employment and volunteer opportunities. The facility is envisioned to engage youth, connect isolated seniors, support local businesses, and host a diversity of events, ultimately bringing the community together.<sup>1</sup>

Operating as a non-profit, the vision of the QBMUCS is to manage a cinema which screens new releases alongside independent and repertory films such as cult classics, documentaries, international selections, independent films, and local work. The vision is that the cinema could also host live music and sensory screenings and broadcast live-streamed performances of ballet, opera and other cultural events. The facility is not envisioned to be used for live theatre or drama productions.

## Feasibility Analysis

The financial model was developed based on information gathered through primary and secondary research and input from QBMUCS. Estimates of the capital costs for the cinema ranged from approximately \$7 million to \$10 million, excluding land acquisition costs. Through consultation with QBMUCS it was determined that the land, building and furnishings for the cinema are intended to be funded through grants and fundraising, and will not be funded through operations. Consequently, our assessment of the financial viability of the cinema was based on its ability to generate operating cash flows in a typical operating year.

As shown in Table A, operating cash flows in the base and optimistic scenarios are positive. This suggests that the day-to-day operational costs of the cinema could be covered by the various revenue streams.

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<sup>1</sup> Qualicum Beach Cinema, "Home". Available here: <https://qbcinema.org/home> (Accessed: August 12, 2022)

**Table A: Operating Cash Flow**

	Pessimistic	Base	Optimistic
Revenue	\$600,221	\$738,342	\$894,638
Direct costs	\$271,929	\$317,402	\$361,259
Operating expenses	\$544,072	\$583,121	\$616,537
<b>(Deficiency of) revenue over expenses</b>	<b>(\$215,780)</b>	<b>(\$162,181)</b>	<b>(\$83,158)</b>
Add back: Amortization	\$213,950	\$213,950	\$213,950
<b>Operating cash flow</b>	<b>(\$1,830)</b>	<b>\$51,769</b>	<b>\$130,792</b>

Notes:

Amortization is a non-cash expense that is generally recorded for financial reporting purposes. While it is not relevant in the context of feasibility, it may be a reasonable proxy for physical, economic, and functional obsolescence. Consequently, we felt it prudent to include in our analysis.

The feasibility of developing the community cinema depends largely on the following critical components:

- **Securing capital funds.** In order for the community cinema to be viable, QBMUCS would need to secure sufficient funds to cover all capital costs as the operating costs scenario do not include building, rent and associated professional costs.
- **Land procurement.** To proceed with development plans, the community cinema requires community support and/or partnerships in place for the provision of land either by donation or with a nominal lease rate.
- **Revenue streams.** A sensitivity analysis of food and beverage revenues indicated that lower concessions revenues could reduce total revenues by between 5 percent and 21 percent. Consequently, a key factor in viability will be the ability of the cinema to generate sufficient revenues from concessions and ancillary sources.

## Community Benefits

The experience of other community cinemas suggests that a community cinema could benefit local restaurants and contribute to the economic and cultural vitality of the downtown core. The annual economic impact of the community cinema were estimated to range between:

- \$1,116,000 and \$1,652,000 in total output.<sup>2</sup>
- \$537,000 and \$798,000 in total gross domestic product ("GDP").<sup>3</sup>

<sup>2</sup> Output is the total gross value of goods and services produced by a given company or industry measured by the price paid to the producer. This is the broadest measure of economic activity.

<sup>3</sup> GDP or value added, refers to the additional value of a good or service over the cost of inputs used to produce it from the previous stage of production. Thus, GDP is equal to the unduplicated value of the goods and services produced.

- \$138,000 and \$206,000 in total government revenues.<sup>4,5</sup>

In addition, there may also be opportunities for the QBMUCS to support local community groups, host community events, offer community scholarships, and provide space for non-profits. Partnerships to offer and promote local products could help market and boost revenue for local businesses.



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<sup>4</sup> Government Revenues are the total amount of revenues generated for different levels of government. Revenues arise from personal income taxes, indirect taxes less subsidies, corporate income taxes, taxes on products and royalties. Please note that because tax revenues can frequently change due to modifications in tax policy, the government revenues in this report are estimates only and subject to change. They should be viewed as approximate in nature.

<sup>5</sup> Note: Due to QBMUCS' charitable status, corporate income taxes have been excluded in the economic impact estimates.

# 1 Introduction

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## Background and Purpose

Qualicum Beach and the Oceanside area do not currently have a permanent indoor cinema or movie theatre. The last operating cinema in the area was the Village Theatre, which opened circa 1949 and closed as a movie theatre in the early 1970s. In nearby Parksville, the single screen Park Theatre opened in 1952, was closed in the early 1990s and the site was redeveloped. Additionally, a group of volunteers had partnered with the Toronto International Film Festival to showcase films at the Eaglecrest Golf Course. The event, known as *Beach Flicks*, ran for 10 seasons before being discontinued in 2019. At present, the closest cinema is the Landmark Cinemas in Nanaimo, at a one-way distance of 36km.

The Qualicum Beach Multi-Use Cinema Society (“QBMUCS”) was incorporated as a Society in 2018, with the goal of bringing a multi-use cinema to Qualicum Beach. Its vision for a community cinema in Qualicum Beach includes:

- Community enrichment – a venue that fulfills key cultural and economic objectives, giving locals entertainment close to home and attracting visitors to a unique cinematic experience.
- Non-profit structure – a community cinema owned and operated by a non-profit society with an Executive Director, paid staff and volunteers.
- Multi-use, multi-screen facility – a dedicated, modern facility that has three separate screens, the potential for use beyond the screening of films, and an attached café/wine bar to generate ancillary revenues.
- Central location – a cinema that is located within the core of Qualicum Beach and that is accessible for residents and visitors.

To inform decision-making with regards to next steps QBMUCS engaged MNP to conduct a feasibility study to assess the potential viability of a community cinema and how it might contribute to the community.

## Scope

The scope of this study encompassed:

- Primary research on local perspectives on a community cinema.
- Primary research on community cinemas in other jurisdictions.
- Secondary research on local area socio-economic context and competing facilities.
- High-level financial modelling for a non-profit community cinema.



## Approach

In preparing the report, MNP carried out the following activities:

- Met with the QBMUCS to understand and confirm the scope and desired outputs of the study, including the format of the final deliverable.
- Collected data from the QBMUCS and other publicly available sources.
- Assessed data gaps and created a research strategy for interviewing representatives and other community cinemas.
- Conducted 11 interviews with community members.
- Conducted five interviews with community cinemas in other communities within BC.
- Undertook an assessment of the costs of operating a community cinema within the parameters provided by the Society.
- Analyzed the data collected and developed descriptive considerations for operating a community cinema in Qualicum Beach.

## Structure of the Report

The remainder of this report is structured as follows:

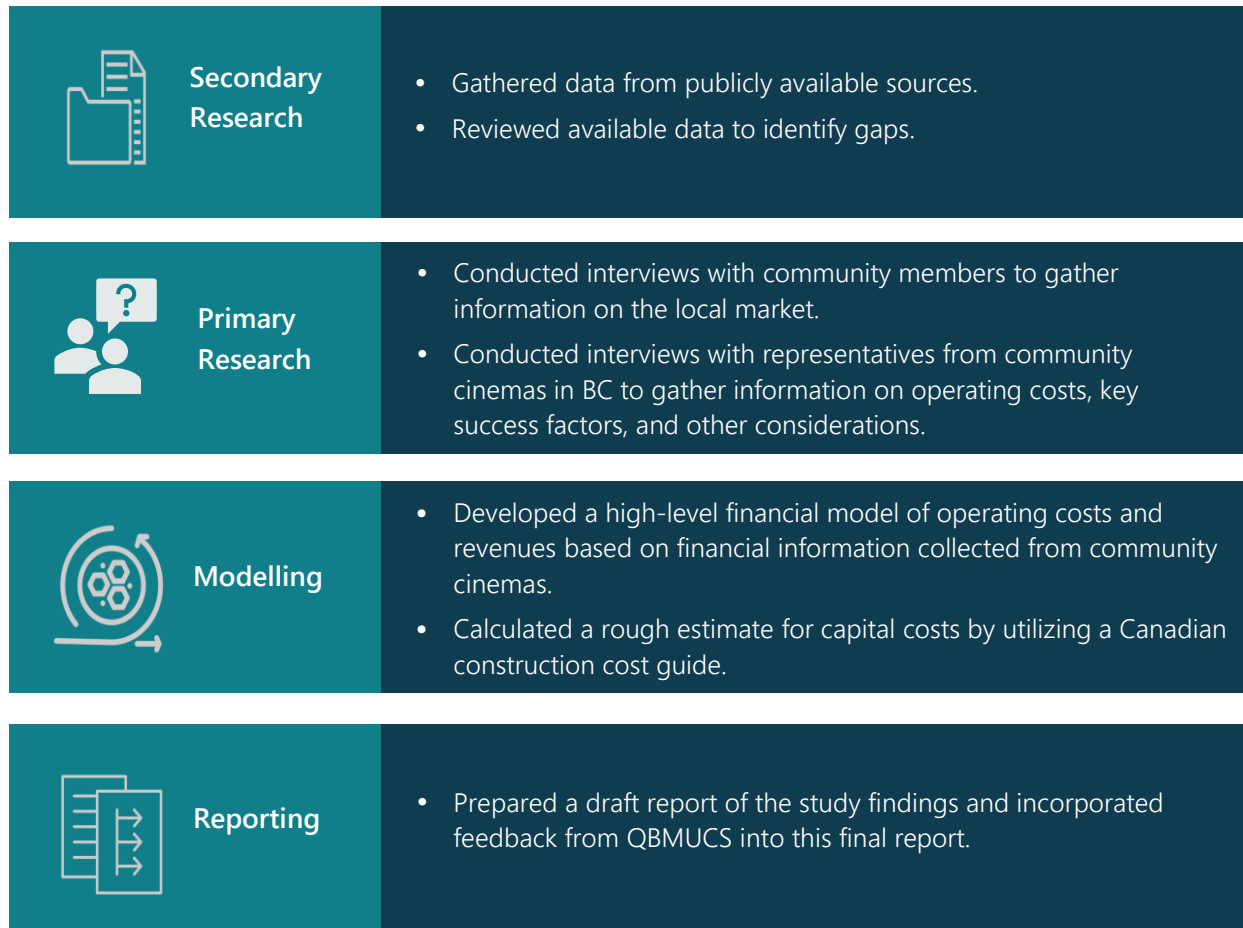
- Section 2 contains a description of the methodology used for the study.
- Section 3 contains an overview of the concept of a multi-use cinema.
- Section 4 contains an analysis of the local operating environment.
- Section 5 contains a market assessment.
- Section 6 contains considerations for business operations.
- Section 7 contains financial modelling of the operations of a community cinema.
- Section 8 contains an overview of potential community benefits.
- Section 9 provides a summary of the report.
- Appendix A provides a summary of primary research activities.
- Appendix B explains the limitations of the feasibility study.
- Appendix C provides estimated capital costs.
- Appendix D describes the Qualicum Beach Multi-Use Cinema Society.



## 2 Methodology

Figure 1 provides a high-level overview of the approach used to undertake the study.

**Figure 1: Approach**



### Data Sources

Data used in this study were collected through a combination of primary and secondary research. Primary research was used to gather information on the local market, cinema operating characteristics, challenges, and success factors. Secondary sources were used to gather information on capital costs for a similar type of facility, industry trends, changing business models, and the opportunities and threats facing cinema operators.

### Primary Research Methods

Primary data were collected through semi-structured virtual interviews, which varied in length from 20 to 60 minutes. A pre-developed and tested interview guide was employed, with probing questions to

explore specific areas. A list of community representatives, comparator community cinemas, and the interview guide was developed through a collaborative process between the QBMUCS and MNP. For additional information about the research activities employed for this study, please refer to Appendix A.

## Financial Modelling

The financial analysis undertaken as part of the study was based on a three-statement model: linking a hypothetical future income statement, balance sheet, and cash flow statement. The model utilizes assumptions and scenarios based on information provided by operators of comparator cinemas, members of the QBMUCS, and other publicly available data.

The general steps associated with producing the model were as follows:

- 1) Determining assumptions.
- 2) Forecasting the income statement.
- 3) Forecasting financing activity.
- 4) Forecasting the balance sheet.
- 5) Completing the cash flow statement.
- 6) Implementing relevant scenarios.
- 7) Conducting a sensitivity analysis on key assumptions.

In addition, high-level capital construction costs were estimated utilizing a Canadian construction cost guide, which provides a range of costs for different type of buildings and facilities on a square foot basis for different geographical regions.



Photo credit: Qualicum Beach Collective

## 3 Overview of the Multi-use Cinema Concept

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### Purpose of a Community Cinema

Qualicum Beach residents and government representatives have previously identified a purpose-built community cinema as a way to fulfill key economic and cultural objectives in the region. Potential roles for a multi-use cinema include providing:

- An essential community hub for arts, culture, and education.
- A place for dialogue, community building, meaningful employment and volunteer opportunities.

The facility is envisioned to value the contribution of youth, connect isolated seniors, support local businesses, and host a diversity of events, ultimately bringing the community together.<sup>6</sup>

*"I often have to host seminars for my business in Parksville because venues within (the Qualicum Beach) community are always aggressively booked."*

- Qualicum Beach Business Owner

### Types of Use

The vision for the multi-use cinema is to augment existing entertainment options in Qualicum Beach and provide additional space for community gatherings. The cinema would offer:

- Film – show a mix of new releases, independent and repertory (e.g., classic or notable) films.
- Live music and live-streamed performances – host comedians, touring bands and live stream ballet, opera and other events.
- Rental space – the screening rooms and lobby space would be available to rent for meetings, community gatherings, fundraising events and private screenings.

The facility would not be used for live theatre or drama productions.

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<sup>6</sup> Qualicum Beach Cinema, "Home". Available here: <https://qbcinema.org/home> (Accessed: August 12, 2022)



## Characteristics of a Community Cinema

To achieve its purpose of becoming an accessible community hub, the multi-use cinema would feature a spacious lobby, an attached wine bar/café, comfortable seating, and three screens in the core village of Qualicum Beach.

QBMUCS envisions a total of three separate screening rooms to help to fulfill the distribution requirements of major film studios while still allowing the cinema to showcase independent films and live-streamed performances. The vision includes a main viewing room with a retractable screen to better accommodate live performances and presentations and two secondary screening rooms that offer a more intimate environment as well as space for smaller community events and dialogue.

### A Local Champion

QBMUCS' vision foresees the cinema's lobby as a vibrant gathering space championing local businesses, products and artists. The cinema would have a front-of-house café and wine bar featuring locally produced coffee, wines, and other unique concession items.

There may also be an opportunity to host a film festival featuring content from Vancouver Island to support the development of the regional film industry.

## Role of Qualicum Beach Cinema Society

With a mission to foster an inclusive, prosperous, and connected community through a unique cinema experience and gathering space, the QBMUCS is comprised of volunteers working to bring a new, mixed-use community cinema to the downtown core. Since incorporating as a society, QBMUCS states it has undertaken the following activities:

- Researched community cinemas in Canada, the United States, Europe and Australia.
- Developed a website explaining QBMUCS' purpose and vision.
- Liaised with local government officials and staff to determine cinema location.
- Achieved charitable status through the Canada Revenue Agency.
- Raised \$30,000 to conduct a feasibility study.
- Had its first public meeting and attracted a membership of 100+ residents.
- Created and administered an online survey for residents to solicit feedback and ideas.
- Participated in community events including those hosted by the Qualicum Beach Farmer's Market and the Qualicum Beach Collective.



Future roles may include: developing partnerships with local organizations; launching fundraising campaigns; applying for and administering grants; establishing business and operational plans; and, with the assistance of an Executive Director, managing the day-to-day cinema operation.



## 4 Operating Environment

### Industry Trends, Opportunities, and Threats

Credible literature and data on trends, challenges and opportunities related to the cinema industry is relatively limited and, in most cases, the literature does not differentiate between large chain cinemas, urban arts cinemas, small community for-profit cinemas and non-profit cinemas. As a consequence, the ensuing discussion on trends, opportunity and threats provides a summary of findings that appear to be affecting all forms of cinemas. Where possible detailed statements are made specific to small community theatres that are similar in nature to the vision of QBMUSC. In addition, as the cinema industry was in a state of transition before COVID-19 and the industry was significantly impacted by COVID-19 related public health measures and related human behavioral change, there is uncertainty about the long-term outlook for the theatrical exhibition industry, including non-profit theatres located in small communities.

#### Trends

The mainstream cinematic industry has experienced major upheaval over the past five years. Before the impact of COVID-19, the entertainment content distribution business model was shifting due to external pressures. Key industry trends included the popularity of digital streaming platforms, worldwide growth in mobile technologies, major investment in content production and studio experimentation with different release models transforming how audiences' access and consume entertainment. These trends combined with COVID-19-induced changes to social behaviour, presented a serious threat to exhibitors. People chose home entertainment options and as a result theatrical attendance declined.<sup>7</sup>



While there has been some recovery in the broad cinema industry since COVID-19, revenue data indicate that the industry has not recovered to pre-pandemic levels.<sup>8</sup> Price Waterhouse Coopers Canada is forecasting that theatre revenues will not recover to pre-pandemic levels until 2025.<sup>9</sup>

According to Motion Picture Association's 2021 THEME report, approximately 3 percent of the US/Canada population are repeat or frequent moviegoers (individuals who go to the cinema once a month or more) and these individuals account for approximately 34 percent of tickets sold. There is also indication that movie attendance by people aged

<sup>7</sup> Canada Media Fund, "Annual Trends Report in the Audiovisual Industry". 2021. Available here: <https://cmf-fmc.ca/now-next/research-reports/pause-and-rethink/> (Accessed: August 24, 2022)

<sup>8</sup> Motion Picture Association, "THEME Report 2021". Available here: <https://www.motionpictures.org/wp-content/uploads/2022/03/MPA-2021-THEME-Report-FINAL.pdf> (Accessed: August 12, 2022)

<sup>9</sup> Price Water Copper Canada, "Global Entertainment & Media Outlook 2022 – 2026". Available here: <https://www.pwc.com/outlook> (Accessed: August 29, 2022)

50 years old or over declined in 2021.<sup>10</sup>

An important factor in attracting an audience to cinema is blockbuster feature films which provide the broadest appeal to a variety of demographics. In 2022, strong recovery in tickets sales at cinemas were attributed in part to the release of blockbuster films.<sup>11</sup> The importance of blockbuster films for attracting audiences to community cinemas was confirmed by interviewees from community cinemas

## Opportunities

Interviewees reported that the key factors in attracting an audience to community cinemas are variety in entertainment content and providing a specialized experience.<sup>12</sup> High quality sound and projection, comfortable seating and premium amenities all enhance the overall cinematic experience and help attract more people to leave the comforts of their home.

One impact of the pandemic related shutdowns was that many cinema operators had to reinvent themselves and pivot operations to survive. Several cinemas reported that this experimentation enabled them to build stronger and more resilient business operations and broaden their revenue streams. Recent advances in cinema management software have also offered cinema operators new technological solutions to increase efficiencies, reduce operating costs and optimize marketing and outreach to consumers.

A community cinema has the potential to generate economic benefits for the community. Collaboration with local businesses to showcase local products as part of enhanced food and beverage operations could help provide a boost to the local economy. During consultations with MNP, local businesses in Qualicum Beach noted when residents in Qualicum Beach go to a movie in Nanaimo, they often 'make a trip out of it' by shopping and dining in Nanaimo. Establishing a community cinema in Qualicum Beach could reduce the economic leakage associated with attending movies in Nanaimo. There may also be opportunities for the community cinema to support educational training in the arts such as development of skills through filmmaking, writing, and critical analysis workshops.<sup>13</sup>

## Threats

With the increased popularity in online streaming services, changes in social behavior caused by COVID and the continuously evolving competition from on demand in-home entertainment options, the theatrical ecosystem continues to face challenges. For example, online streaming companies such as Netflix had approximately 21.5 million subscribers in 2011. By the end of 2021, the number of subscribers had grown over 900 percent to 219.7 million subscribers.<sup>14</sup> Furthermore, since the inception of Netflix, the range of online streaming companies have increased, which have provided consumers with a wider range of options for entertainment content (e.g. Disney Plus, Amazon Prime Video, Hulu, HBO Max,

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<sup>10</sup> Motion Picture Association, "THEME Report 2021". Available here: <https://www.motionpictures.org/wp-content/uploads/2022/03/MPA-2021-THEME-Report-FINAL.pdf> (Accessed: August 12, 2022)

<sup>11</sup> The Hollywood Reporter, "Box Office Dispatch: How Real is the Boom and Will it Last?" July 2022. Available here: <https://www.hollywoodreporter.com/movies/movie-news/box-office-summer-2022-1235174300/> (Accessed: August 29, 2022)

<sup>12</sup> MNP interview findings.

<sup>13</sup> MNP interview findings.

<sup>14</sup> Stoll, Julia. "Netflix Subscribers Count Worldwide". Statista. July 2022. Available here: <https://www.statista.com/statistics/250934/quarterly-number-of-netflix-streaming-subscribers-worldwide/> (Accessed: August 24, 2022)

Apple TV). The online streaming landscape is expected to continuously evolve and adapt, and the impact on large- and small-scale cinema facility operators remains uncertain.

An additional threat is the shortening of theatrical windows. Historically, cinemas were granted an exclusive theatrical window for first-run movies which helped drive audiences to the theatre. Distributors have recently shortened the theatrical window to 35 days (from an average of 90 days) before moving content to on-demand platforms, further affecting attendance levels at theatres.<sup>15</sup>

Furthermore, interviews with community cinema operators indicated that some distributors have strict requirements for certain movie titles including the duration of run time, mandatory screen exclusivity, and high distribution fees making it difficult for community cinemas with single screens to profit from box office sales. As such, cinemas with multiple screens are better positioned to navigate distribution stipulations while still offering other, more flexible content simultaneously.

An additional consideration raised during consultations with community representatives was labour availability. Several interviewees reported concerns about the local labour market, particularly as it relates to filling entry level positions.

*"As a retirement community, Qualicum Beach is already facing severe labour challenges. There are so many entry level employment opportunities that nobody wants."*

- Qualicum Beach Community Representative

## Local Area Cinema Competition

At present there is no cinema within the Qualicum Beach and Parksville area. The closest cinemas, Galaxy Cinemas Nanaimo and Landmark Cinemas Nanaimo, are a minimum 36 kilometres away. Both cinemas in Nanaimo are multiplex cinemas that screen Hollywood new releases in addition to new independent releases.<sup>16,17</sup>

## Local Area Entertainment Options

Interviews with community stakeholders revealed that residents in Qualicum Beach have keen interest in arts and entertainment. The Village Theatre (Echo Players) showcases live theatre productions and is heavily booked during peak seasons. The Old School House hosts a series of regular music performances and art exhibitions. Additionally, there are several ad hoc music and live performances in the Qualicum Beach area without a permanent venue.

For outdoor events and screening of films, the Coastal Community Credit Union hosts the Sunset Cinema series annually,<sup>18</sup> and the Qualicum Beach Collective recently hosted an outdoor movie night. Additionally, the new Parksville Outdoor Theatre provides a formal entertainment space to host various

<sup>15</sup> Canada Media Fund, "Annual Trends Report in the Audiovisual Industry". 2021. Available here: <https://cmf-fmc.ca/now-next/research-reports/pause-and-rethink/> (Accessed: August 24, 2022)

<sup>16</sup> Cineplex, "Galaxy Cinemas Nanaimo". Available here: [https://www.cineplex.com/Theatre/galaxy-cinemas-nanaimo?utm\\_medium=gmb&utm\\_source=google](https://www.cineplex.com/Theatre/galaxy-cinemas-nanaimo?utm_medium=gmb&utm_source=google) (Accessed: August 17, 2022)

<sup>17</sup> Landmark Cinemas, "Nanaimo". Available here: <https://www.landmarkcinemas.com/showtimes/nanaimo> (Accessed: August 17, 2022)

<sup>18</sup> Coastal Community Credit Union Media Release. June 2022. Available here: <https://www.cccu.ca/assets/pdfs/MediaReleases/SunsetCinema2022.pdf>

events including festivals, art exhibits, concerts as well as other community activities and events.<sup>19</sup>

It is recognized within the community that Qualicum Beach has a long-standing entertainment gap, which could negatively impact the retention and attraction of residents. Several interview respondents indicated that they drive to Nanaimo multiple times a week to watch live broadcasts of various fine arts performances such as symphonies and operas.

## Summary of Key Findings

- Streaming services have disrupted the market and provided consumers with increased options for viewing movies.
- Providing a variety of entertainment options, including new releases and blockbuster films are important for attracting audiences to cinemas.
- High quality sound and projection, comfortable seating, and premium amenities are important for attracting audiences.
- Having multiple screens allows community cinemas flexibility and improves revenues.
- There is a gap in entertainment options in Qualicum Beach that could be filled by a cinema.

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<sup>19</sup> Let's Talk Parksville, "New Parksville Outdoor Theatre Celebrated on July 2022". July 2022. Available here: <https://letstalkparksville.ca/outdoor-theatre-and-gathering-plaza> (Accessed: August 24, 2022)

## 5 Market Assessment

The vision for a community cinema suggests that it will appeal to residents of all ages including families with young children as well as mature residents. In addition to residents, there is also a potential for a visitor market.

### Local Market

Since the closest cinemas are located in Nanaimo and Port Alberni, BC a community cinema in Qualicum Beach could also serve residents in the surrounding area including Parksville, Errington, Bowser/Deep Bay, Coombs, and Dashwood. This suggests the local market for the community cinema is approximately 29,500, as shown in Table 1. Figure 2 illustrates the distance from Qualicum Beach to the nearest cinemas. For comparison, other community cinemas in BC have local market sizes ranging from 7,000 to 42,500 residents.<sup>20</sup>

**Table 1: Local Market Population, by Population Centre**

Population Centre	Population 2016	Population 2021	Growth
Qualicum Beach	8,943	9,303	4%
Parksville	12,453	13,642	10%
Errington	2,677	2,907	9%
Bowser/Deep Bay	1,729	1,864	8%
Coombs	1,612	1,672	4%
Dashwood	982	1,055	7%
<b>Total Local Market</b>	<b>28,396</b>	<b>29,443</b>	<b>7%</b>

Source: Statistics Canada, 2016 and 2021 Census of Population.

**Figure 2: Map of Qualicum Beach and surrounding cinemas.**

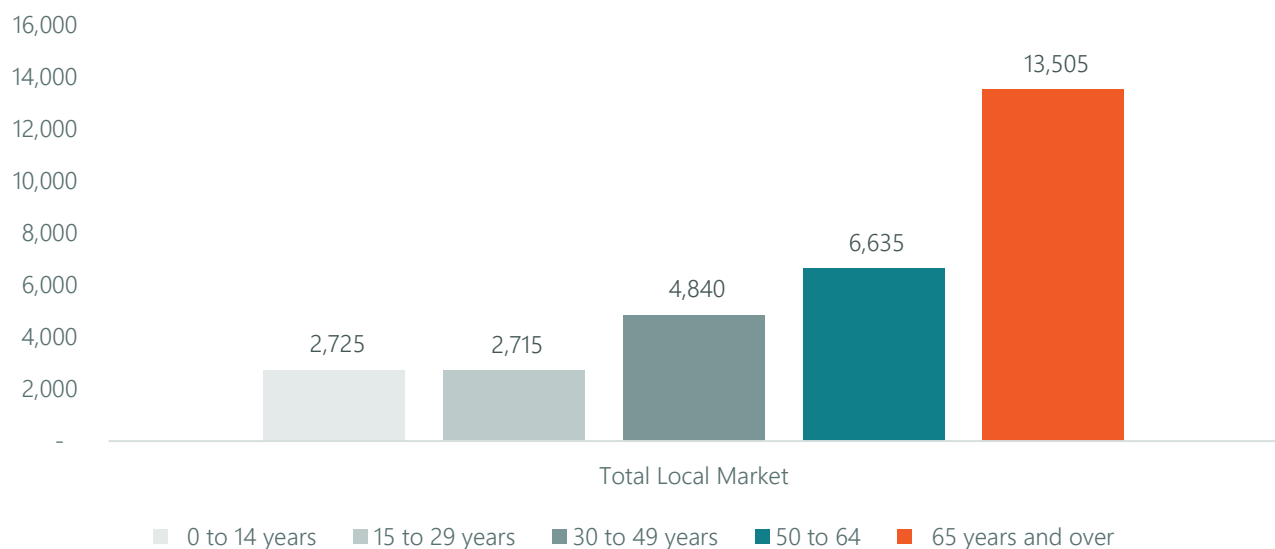
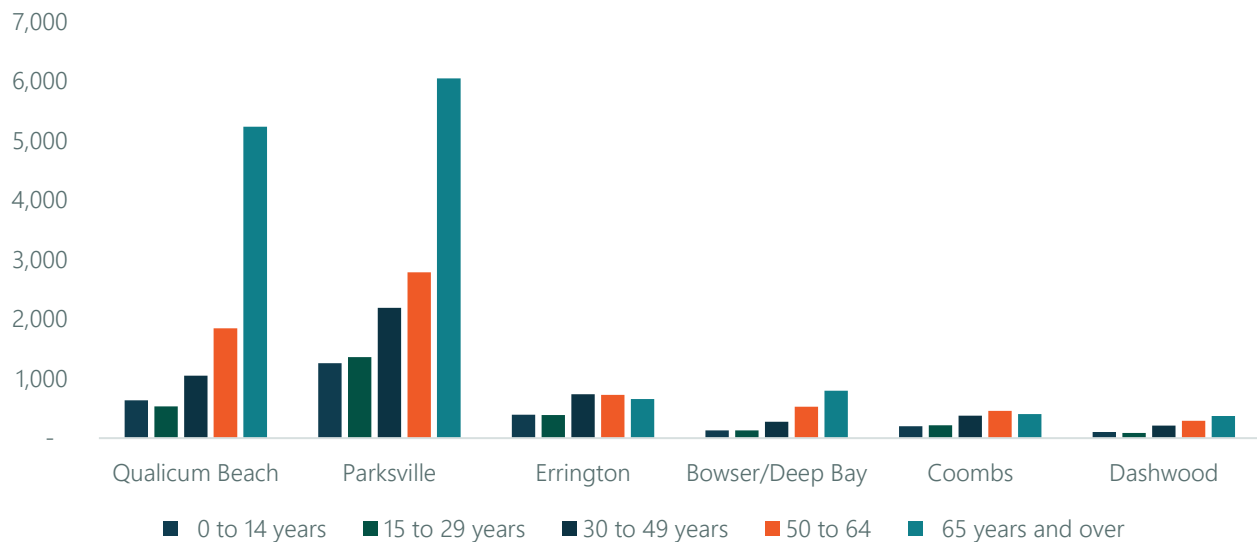


<sup>20</sup> Statistics Canada, 2021 Census of Population.



In addition to the population of local residents, it is equally important to consider the demographic makeup of the local market. This will help determine the type of programs that are offered at the community cinema, as well as the hours of operation. As shown in Figure 3, almost 70 percent of the population is over 50 years of age and nearly half the population in the local market is 65 years or older (roughly 56 percent within Qualicum Beach).

**Figure 3: Population by Population Centre and Age Group.**



Source: Census of Profiles, 2021 Census of Population

## Tourism Market

The oceanside region attracts large numbers of local and international tourists, and is considered a popular gateway destination, especially in the summer months. According to data provided by the Qualicum Beach Chamber of Commerce and Visitors Centre, Qualicum Beach and Parksville receive over 43,000 and 42,600 annual visitors respectively.<sup>21</sup> Based on this information, the Qualicum Beach community cinema may be able to capitalize on seasonal demand patterns. The community cinema may consider offering an additional matinee and/or evening showing and selecting titles that may appeal to the region's visitors – particularly during the peak tourism months between May and September.<sup>22</sup> Further, films about the region may attract visitors that pass-through Qualicum Beach on their way to other tourism destinations, such as Tofino and Ucluelet.

### Summary of Key Findings

- The size of the local market is larger than that of some community cinemas and smaller than others.
- The local market is relatively older. Approximately, 46 percent of the population is over 65 and 23 percent are between 50 and 64.
- Visitors to the Oceanside area represent a secondary market for the cinema.

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<sup>21</sup> Based on 2019 information provided by the Qualicum Beach Chamber of Commerce and Visitors Centre.

<sup>22</sup> Based on 2019 information provided by the Qualicum Beach Chamber of Commerce and Visitors Centre.

## 6 Business Model Considerations

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This section reviews the findings of our research with respect to commercial considerations and the business model.

### Commercial Considerations

#### Size and Number of Screens

The number of screens at each comparator cinema varied, from single screen to a four-screen multiplex. One cinema recently expanded from a single screen facility to a two-screen facility, and another is in the process of expanding from a two-screen to a three-screen facility.

According to interviewees, the number of screens at each cinema is an important driver of revenue. Multiple screens provide greater flexibility in programming content, better access to the big movies that people want to see and greater flexibility in extending the film's screening duration, which helps with marketing and ticket sales. A second screen adds significant incremental revenue, while third and fourth screens have less of an impact on revenues but do increase the diversity of the programming that can be offered.

The seating capacity at comparator cinemas ranged from less than 50 seats to over 300 seats. While some cinemas interviewed have explored the option of expanding their facility to increase capacity, they ultimately deemed it unfeasible due to factors such as community size, average attendance, and building requirements such as additional washroom facilities. Information provided by community cinema operators suggests that the average attendance on a weekend evening typically ranges from 60 to 70 people.<sup>23</sup>

#### Programming

All of the cinema operators interviewed screen first-run movies. Cinemas with multiple screens have more flexibility to offer second-run films and ancillary programming that supports the broader interests of the local community. The majority of cinema operators interviewed indicated they operate seven days a week, although several close on Mondays during the shoulder season. Cinemas in smaller communities have one evening screening that usually starts at 7:00 pm while other cinemas offer two evening shows. While all cinemas noted that it is of critical importance that program selection matches the preference of each unique community, most cinemas also offer matinees for children's movies on Saturday and Sundays starting at 3:30 pm. Additionally, people that attend first-run movies and children's programming have a tendency to spend more at the concession when compared with ancillary programs.<sup>24</sup>

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<sup>23</sup> MNP interview findings.

<sup>24</sup> MNP interview findings.

Most cinema interviewees hire a booking agent to help with choosing products, length of run, and negotiating terms with distributors. Booking agents offer community cinemas buying power, product and programming knowledge, access to distributor content, as well as access to alternative content bookings.

### Definitions

**First-run movies** are movies that have been recently released and are available for public viewing for the first time. Stipulations to screen first-run movies typically include higher distribution fees, longer run times, and a screen dedicated exclusively to this movie for the run time duration.

**Second-run or off-release** movies are movies that have passed the first-run showings and are available for screening at a lower distribution fee. Second-run movies typically offer more flexibility with run times as well as sharing of screen with other titles.

*Source: Forum-Theatre, "How do Theatres get Second Run Movies". 2022. Available here: <https://forum-theatre.com/how-do-theatres-get-second-run-movies/>*



## Staffing

Cinema staffing depends on the number of screens in operation and the business objectives of the organization. The non-profit cinemas interviewed reported higher staff counts than for-profit cinemas.<sup>25</sup> The cinema operators who manage multiple screens commented that staff would generally include one full-time manager, one to four part-time supervisors, and between 6 and 20 part-time students or young people under the age of 18. Several cinema operators also hire a part-time bookkeeper who is responsible for payroll and accounting.

The duties for part-time staff include guest services, ticket sales, concession sales, and cleaning the cinema and bathrooms. More senior staff are expected to supervise and operate the projection system in addition to cashing out at the end of the day. For many junior staff, working at the cinema is their first part-time job.

One of the cinemas interviewed operates under a non-profit model and utilizes an executive director and a programming director. Together they determine what type of content is appealing to their community as well as organizing various film festivals and community events.

Volunteer support was common in non-profit associations that offered diverse programming and in communities with active and engaged seniors. Services provided by volunteers included acting as theatre ushers, coordinating memberships drives and organizing special cinema focused community events.

## Revenues

Sources of revenue for the cinemas we interviewed include box office receipts, concession/food and beverage sales, special events, private rentals, film advertising, and membership sales. Cinemas that operate as non-profit entities also generate revenue from grant and fundraising activities. The split between the box office and concession revenue was estimated to be approximately 58 percent from box office and 35 percent from the concession. However, after distribution costs, the cinema would generally only keep 45 percent of box office receipts in comparison to approximately 75 percent of concession sales. Revenue from box office and concession represented roughly 92 percent of operating revenues, with the additional 8 percent coming from ancillary revenue sources including private rentals, advertising and special events.

All of the cinema operators interviewed commented on the high costs paid to distributors. Distributor fees depend on the individual film and the length of its run; however, costs were estimated to average more than 60 percent of tickets sales for first-run films. Distributors of independent films receive a significantly lower share of the box office compared with first-run films.

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<sup>25</sup> For profit cinemas are typically family run and family members may fill roles that are staffed in a non-profit environment.



The concession offerings at comparator cinemas were primarily fountain drinks, popcorn, candy and other pre-packaged snacks. According to cinema operators interviewed, concession sales are one of the largest contributors to cinema revenue.



### Ancillary Revenues and Services

Several of the cinemas we interviewed have developed innovative new services and revenue streams including ice cream sales, storage rental, and private theatre screenings to help generate ancillary revenues for their cinema. In addition to generating more revenue, these additional services are particularly useful for increasing community engagement and traffic at the cinemas – which helps with marketing upcoming shows and events.

One cinema operator estimated the average spending at the concession to be \$7.00 to \$8.00 a person, with children focused movies bringing in an average of \$10.00 a person. In comparison, a film society audience was reported to spend an average of \$3.00 to \$4.00 per person at the concession.<sup>26</sup> A common observation from cinema operators interviewed is that older movie goers spend significantly less money at the concession.

Film ads, which include digital pre-show, showtime and feature ads are an ancillary source of revenue. Rates depend on the number of screens and length of contract but revenue from film ads at cinemas with multiple screens can result in revenue of between \$1,000 and \$2,000 a month.

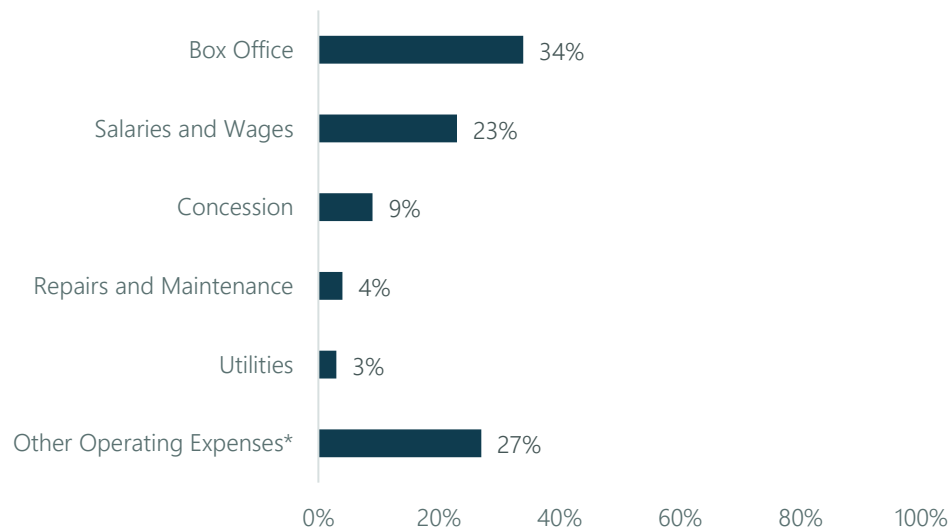
## Expenditures

Main expenditures according to cinema operators include staffing, film distribution fees, concession supplies, utilities, facility maintenance and mortgage or lease payments. Several cinema operators noted that because the cinema is a tenant in a building owned by a non-profit community association or municipality, they do not pay rent which lowers their operating costs significantly.

Based on the financial information received, expenses related to box office operations such as distribution and booker fees ranged from \$90,000 to \$115,000 per screen and represented the largest share of operational expenses at approximately 34 percent. The second highest expense is attributable to salaries and wages paid to employees at roughly 23 percent of total operational expenses. Figure 4 shows the estimated breakdown of average operational expenditures by category.

<sup>26</sup> MNP interview findings.

**Figure 4: Estimated Average Share of Operational Expenses by Category.**



\* Other operating expenses may include expenses such as property taxes, rent, professional fees, miscellaneous office supplies, interest, licenses and membership dues.

## Pricing

Ticket prices are based on a variety of factors including type of movie, local competition from other entertainment options, facility surcharges, and discounted pricing strategies. All of the cinema operators interviewed sell tickets at the box office before the show, with half offering tickets for sale online. Friday and Saturday evening shows generally attract larger audiences and Tuesday screenings are often discounted. While ticket prices at each of the cinemas interviewed differed, prices ranged from \$5.00 to \$8.00 for children and \$9.00 to \$12.00 for adults. All cinema operators expressed the need to keep ticket prices affordable, especially for families, but also the need to ensure the overall sustainability of the cinema. Many cinema operators would compare prices of tickets in other locations to ensure their prices were competitive. Non-profit cinemas have a greater ability to keep admission prices low which helps to increase affordability without sacrificing the overall movie experience.

**Table 2: Summary of Ticket Prices**

	Ticket Prices		
	Low	Mid-Range	High
<b>Adult</b>	\$9.00	\$11.00	\$12.00
<b>Senior/Youth</b>	\$7.00	\$9.00	\$11.00
<b>Child</b>	\$5.00	\$7.00	\$10.00
<b>Discount Tuesdays</b>	\$5.00	n/a	\$8.00

## **Marketing and Community Engagement**

Cinema operators rely on social media platforms including Facebook and Instagram to market upcoming films to the community and increase awareness of what's playing. Website optimization that provides fast access to cinema information for mobile users, local radio ads and marketing at resorts have also been effective strategies to increase community awareness and attendance.

Additionally, all of the cinema operators we interviewed engage and partner with a broad range of community representatives including local businesses, First Nations communities, schools, sports clubs and community groups. This engagement helps to diversify revenue streams, increase awareness of cinema programming and offerings, drive theatre attendance, and develop community loyalty and good will.

Several of the cinemas interviewed host birthday parties, local arts society functions, and partner with local and national film festivals. Several cinemas also offer high-definition performance transmissions to live events, such as operas.

## **Membership Programs**

Several of the cinema operators indicated they have a membership program. The benefits of membership vary but may include an opportunity to vote at the Society's Annual General Meeting, free movie tickets, concession discounts, and special deals with local business partners. Membership duration is either annual or lifetime with fees ranging from \$20 a year to \$50 for a lifetime membership. One cinema operator commented that the cinema will introduce a loyalty program in the fall of 2022 to encourage and reward repeat customers and boost cinema attendance during slow periods.

## **Management Software**

Most of the cinema operators interviewed use a front-of-house system<sup>27</sup> for ticket sales. These systems offer different benefits, including online tickets sales, gift card purchases, marketing, customer retention and detailed reporting and analytics. Several cinema operators interviewed do not sell tickets online. One cinema operator commented that locals do not typically buy tickets online, but tourists and out of town visitors are more likely to. Additionally, cinema operators reported that new management software solutions are leveraging smart technology to improve cinema operations, increase efficiencies and reduce operating costs. However, the current array of management software does not meet all the parameters that cinema operators would like. For instance, one cinema operator indicated that they would have to implement multiple management software solutions in order to maintain a database with some analytics for customer relationship management purposes.

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<sup>27</sup> Common systems include Omnitern, RTS, Clover, and Veezi

## Technical Considerations

To provide a quality cinematic experience, it is essential for the community cinema to install quality digital projectors and sound systems. Cost estimates to equip a 100-seat theatre with the required technical equipment (digital projector, 7.1 Dolby sound, lighting, and acoustic paneling) ranged from \$110,000 to \$120,000 depending on the supplier and year that the equipment was purchased.<sup>28</sup>

The cinema operators we interviewed all use digital cinema projectors in their facilities, with the Christie CP2200 digital cinema projectors and Barco Series 4 Smart Cinema projectors used most frequently. According to cinema operators these projectors offer 3D projection capability and provide the audience with the best visual experience and image quality combined with efficient and cost-effective operation. Dolby Surround 7.1 was seen to provide optimal sound, enhanced audio definition and improved sound placement. Cinematronix and Project Tech were mentioned by cinema operators as two well established cinema technical equipment suppliers in Canada and proven experts in Cinema and AV equipment installation and maintenance.

## Location

Location of and accessibility to the facility are important factors in the cinema's success. The facility should be in a highly visible location, within walking distance to core businesses, and have ample parking available. All of the cinema operators we interviewed indicated that their theatre is centrally located within the community and forms an important part of the community's entertainment district. Additionally, being centrally located provides cinemas with greater flexibility to offer seasonal services and products to generate additional revenue and increase foot traffic to the cinema.

### What We Heard...

During consultations with MNP, several interviewees noted that there are opportunities for QBMUCS to utilize existing facilities to 'pilot' movie screenings to help generate capital towards construction of a new cinema. Community stakeholders suggested that QBMUCS consider renting spaces such as the Berwick retirement home, Civic Centre, Village Theatre, various banquet halls, and the galleries at The Old School House. Further, interviewees suggested that QBMUCS could partner with the school district or public library to expand the existing facilities to include a theatre for shared use. We also heard from QBMUCS that they have found the existing facilities within Qualicum Beach to have little capacity, or suitable space, to accommodate regular film screenings.

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<sup>28</sup> MNP interview findings.

## Governance Structure

Cinema operations and the way business is conducted are defined by the organizational structure that the cinema has adopted. The cinema operators interviewed represented one of three main governance models including non-profit society, privately owned and operated businesses (often family-run), and developer led community/municipal business partnerships. A short summary of the perceived advantages and disadvantages of each governance model is provided below. High-level comments regarding the establishment, governance, and maintenance of a non-profit society have also been included to provide a more fulsome picture of this alternative, as this is congruent with the vision of the QBMUCS.

### Non-Profit Society Model

Non-profit cinemas offer first-run and off-release movies as well as live broadcasts, concerts, film festival screenings, art house and international cinema and other special events. Cinemas that operate under a non-profit society model generally have more flexibility in terms of programming offerings, community use of facilities, volunteer support, and access to funding sources including government grants, member charitable donations, and tax exemptions. A major advantage of this model is that it facilitates the ability to create a cinema that functions as a multi-use facility that supports the social needs of the community. The other major advantage is that any revenue generated by the cinema may not be subject to income tax and may instead be invested back into the community. Community benefits from non-profit cinema operations may include financial support for educational scholarships and grants to support local initiatives in healthcare, education, sports and the arts.

In order to operate as a non-profit cinema, a society must be incorporated under the BC Societies Act with the specific purpose, constitutions and bylaws to support the envisioned operations. Incorporation provides liability protection for the members/directors, while the non-profit aspect ensures that the motives of the society can be community-focused, rather than shareholder-focused and profit-driven. The Society would be responsible for managing and supervising the activities and internal affairs of the society. Directors may delegate some of the management tasks to senior managers or other employees. In that case, the senior manager(s) of the society would be responsible for managing those day-to-day activities of the society assigned to them by the directors. Senior managers are accountable to the directors and act under the supervision thereof.

In drafting or updating the purposes of the society, care should be taken to ensure that the society has the desired level of flexibility (including, for example, the ability to pivot to provide new/additional services and/or products to the community), but also that the purposes are set in a way that will allow the society to operate as a tax-exempt non-profit organization.

Non-profit incorporated societies can be exempt from tax as long as they satisfy the requirements under the Income Tax Act. At a high level, in order to be exempt from tax, a non-profit organization must (a) not have income be payable or made available for the benefit of its members; and (b) be organized and operated exclusively for a purpose other than profit. The annual requirements for the non-profit society include:



- an annual report to maintain incorporated legal status as a society;
- an annual income tax return; and
- depending on the asset level and income earned by the non-profit society, an information return for tax-exempt non-profit organizations may also be required.

There are no formal audit requirements (from a corporate/society or tax perspective). The society's bylaws can, however, be established to provide for financial accountability (either via audit, review, or otherwise), if desired. The non-profit society model provides the benefit of tax efficiency and community involvement and impact in the operation of the cinema.

### **For-Profit Model**

Independent cinemas that operate under a for-profit model rely on tickets sales and concession sales generated from screening first-run films. Many of the independent privately owned cinemas interviewed are family owned and operated. Their love of cinema and desire to bring a communal movie going experience is what keeps them rooted in the community and willing to work very long hours. Several for-profit cinemas interviewed report that it is increasingly difficult to be profitable with a single screen, particularly in the face of shrinking theatrical windows, higher distribution fees, social distancing requirements and the ongoing need to invest in new technology. Privately owned cinemas need to be innovative and nimble in their business operations and deliver an exceptional entertainment experience to remain financially viable. Critical to ongoing success is the support of the local community and the value local movie enthusiasts place in the local cinemas' continued sustainability. For profit cinemas also do not have access to public funding opportunities and other sources of community financial support that are available to not-for-profit facilities.

### **Public-Private Partnership**

Public-private partnerships involve collaboration between a government agency and a private sector company that can be used to finance, build and operate mixed-use residential and commercial projects. Often a developer will work with the community and local government to create a long-term strategy to support the sustainability of a cultural facility by offering below market lease rates in exchange for municipal support for development variance permits and zoning amendments. This model provides local government with the opportunity to support the economic and cultural vibrancy of a community without having to invest public funds in cultural infrastructure.

## Summary of Key Findings

- Offering a diverse set of programs including first-run movies, children's programming, and society films tailored to the local market will attract a broader audience base and help generate ancillary revenue through concession sales.
- Having multiple screens is essential to providing diverse programming content, flexibility in a film's screening duration, and increasing revenue opportunities.
- Average attendance on weekends at comparator cinemas suggests a seating capacity between approximately 75 and 125 seats per screen for a community cinema.
- There is limited labour supply in the local area and volunteer support is likely to be important to operate the cinema.
- It is important for the community cinema to collaborate with the community and support local groups and businesses. This can be achieved by establishing an inclusive environment and engaging with the community to develop community loyalty and good will.
- State of the art equipment and a comfortable environment including air conditioning and comfortable seating is crucial to the cinematic experience - which is essential to attracting audiences to the theatre instead of using streaming services available at home.
- Location of the facility is an important factor. Being centrally located and within walking distance to the community's entertainment district.

## 7 High Level Financial Analysis

The financial model was developed based on information gathered through primary and secondary research and input from QBMUCS. Estimates of the capital costs for the cinema ranged from approximately \$7 million to \$10 million, excluding land acquisition costs. Through consultation with QBMUCS it was determined that the land, building and furnishings for the cinema are intended to be funded through donations/fundraising and will not be funded through operations. Consequently, capital, land, and rent costs were excluded from the financial analysis. Estimates of the capital costs are provided in Appendix C.

The use of volunteers is envisioned to be a key component of the cinema's development and operation. QBMUCS also envisions a paid executive director position to be responsible for overseeing the operations of the cinema. We have not explicitly incorporated the use of volunteers into the modelling but have included the executive director position.

### Scenario Analysis

Due to the uncertainty surrounding material financial model inputs, we incorporated three operating scenarios into our financial analysis:

- Pessimistic scenario
- Base scenario
- Optimistic scenario

The three scenarios were selected and constructed to reflect varying external factors that could affect the viability of a community cinema. A multi-variate scenario approach was chosen to best reflect plausible operating outcomes. Model variables across scenarios include:

- Box office ticket prices
- Marginal revenue increase associated with a third screen
- Food and beverage revenue and margins
- Other operating costs (e.g. administrative costs)

The assumptions used in each scenario are outlined in Table 3.

**Table 3: Assumptions Used for each Scenario.**

	Pessimistic	Base	Optimistic
Ticket price (\$)	9	10	11
Marginal revenue increase with 3 screens	15.0%	20.0%	25.0%
Food and beverage revenue (as a % of box office revenue)	50.0%	60.0%	70.0%
Food and beverage direct cost (as a % of related revenue)	35.0%	30.0%	25.0%
Other operating expenses (as a % of revenue)	55.0%	50.0%	45.0%

## Revenue Model

As part of our revenue model, we considered revenue streams related to box office sales, food and beverage sales, advertising, theatre rentals, and membership dues. Of these streams, box office sales and food and beverage were the most significant components of total revenue.

Box office revenue assumptions including, number of seats, occupancy rates, showings per day, ticket prices, and incremental revenue from additional screens were derived from other community cinemas we deemed to be comparable to that of the project. Our estimates of box office revenue for each scenario and related assumptions are shown in Table 4.

**Table 4: Box Office Revenues**

	Pessimistic	Base	Optimistic
Single screen			
Seats	100	100	100
Occupancy rate	28.0%	28.0%	28.0%
Occupancy	28	28	28
Number of showings per day	2	2	2
Daily ticket sales	56	56	56
Number of days open	365	365	365
Annual ticket sales	20,440	20,440	20,440
Ticket price	9	10	11
Total revenue from single screen	\$183,960	\$204,400	\$224,840
Additional 2 <sup>nd</sup> screen revenue (73% increase)	\$134,291	\$149,212	\$164,133
Revenue from 2 screens	\$318,251	\$353,612	\$388,973
Additional 3 <sup>rd</sup> screen revenue	\$47,738	\$70,722	\$97,243
<b>Box office revenue</b>	<b>\$365,989</b>	<b>\$424,334</b>	<b>\$486,216</b>

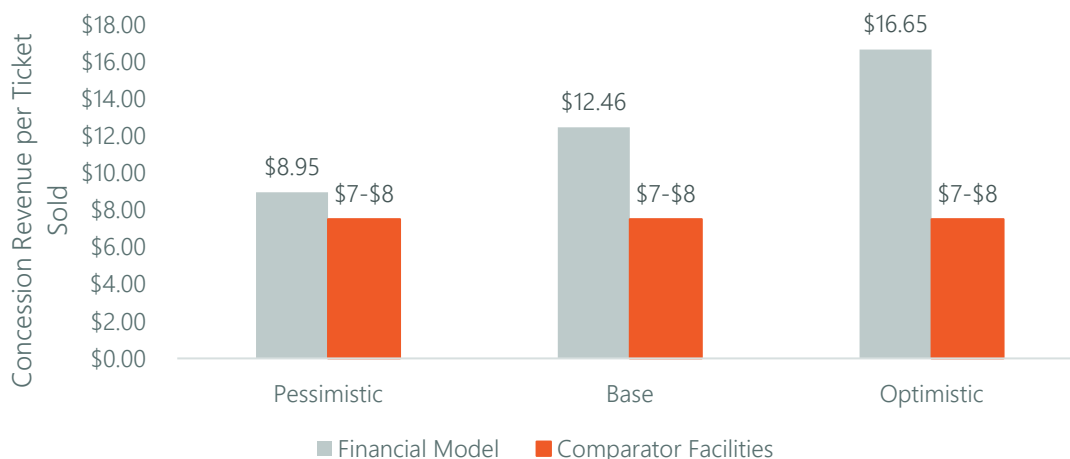
We assumed box office revenue to be a driver of, and correlated with, other streams of revenue. The degree of the correlation was determined with reference to other community cinemas we deemed comparable to that of the project. Estimates of other revenue streams for each scenario are provided in Table 5.

**Table 5: Other Revenue Streams**

	Percentage of Box Office Revenue	Pessimistic	Base	Optimistic
Box office revenue	100.0%	\$365,989	\$424,334	\$486,216
Food and beverage	50%/60%/70%	\$182,994	\$254,601	\$340,352
Advertising	5.0%	\$18,299	\$21,217	\$24,311
Rental	6.0%	\$21,959	\$25,460	\$29,173
Membership dues	3.0%	\$10,980	\$12,730	\$14,586
<b>Total revenue</b>		<b>\$600,221</b>	<b>\$738,342</b>	<b>\$894,638</b>

Between 30 percent and 40 percent of revenues were estimated to be attributable to food and beverage sales. As shown in Figure 5 food and beverage revenues in the Base and Optimistic scenarios are substantially above the food and beverage sales per person reported by comparator cinemas.

**Figure 5: Food and Beverage Revenue, Financial Model vs Comparator Cinemas**



To assess the impact on total revenues of lower food and beverage revenues we estimated the change in total revenue if the average food and beverage revenues per ticket sold were equivalent to that reported by comparator cinemas. As shown in Table 6 revenues were estimated to be between 5 percent and 21 percent lower.

**Table 6: Food and Beverage Revenue, Sensitivity Analysis**

	Pessimistic	Base	Optimistic
Change in food and beverage revenue	(\$29,694)	(\$101,301)	(\$187,052)
Total revenue	\$570,527	\$637,041	\$707,586
Percentage change in total revenue	-5%	-14%	-21%

## Operating Budget

### Direct Costs

We assumed direct costs associated with revenue streams would be incurred through operations. We estimated direct costs as a percentage of revenue due to their variable nature, and with reference to comparator cinemas. Table 7 shows the estimated direct costs for each scenario.

**Table 7: Direct Costs**

	Percentage of Associated Revenue	Pessimistic	Base	Optimistic
Box office	55.0%	\$201,294	\$233,384	\$267,419
Food and beverage	35%/30%/25%	\$64,048	\$76,380	\$85,088
Advertising	0.0%	-	-	-
Rentals	30.0%	\$6,588	\$7,638	\$8,752
Membership dues	0.0%	-	-	-
<b>Total direct costs</b>		<b>\$271,929</b>	<b>\$317,402</b>	<b>\$361,259</b>

Notes:

"Food and beverage" costs use scenario-driven assumptions based on margins observed in cafes, wine bars, and other restaurants and comparable cinemas.

"Advertising" and "membership dues" revenue are assumed to have nominal direct costs.



## Operating Expenses

In addition to the direct costs there would be expenses associated with an executive director's salary, banking, communication, repair and maintenance of the cinema, insurance and miscellaneous expenses. For the purposes of this analysis we have used \$75,000 as the executive director's salary. Other operating expenses were estimated as a percentage of total revenue.

For the purpose of this analysis, we also considered amortization as it is a business expense that would be recorded for financial reporting purposes. We calculated amortization on a straight-line basis by dividing the capital cost of the building by 40 years, which we assumed to be a reasonable useful life. General repairs and maintenance expenses would be included in other operating expenses, however, amortization may be a reasonable proxy for physical, economic, and functional obsolescence. We note that our conclusion of financial feasibility is based on operating cash flows and therefore does not consider non-cash expenses like amortization.

Our analysis does not consider income taxes due to the proposed not-for-profit nature of the business.

Table 8 shows the estimated operating expenses for each scenario.

**Table 8: Operating Expenses**

	Percentage of Revenue	Pessimistic	Base	Optimistic
Operating expenses				
Amortization	n/a	\$213,950	\$213,950	\$213,950
Executive director salary	n/a	\$75,000	\$75,000	\$75,000
Other operating expenses	55%/50%/45%	\$255,122	\$294,171	\$327,587
<b>Total operating expenses</b>		<b>\$544,072</b>	<b>\$583,121</b>	<b>\$616,537</b>

## Conclusion

Our assessment of the financial viability of the cinema is based on its ability to generate operating cash flows in a typical operating year. As shown in Table 9, operating cash flows in the base and optimistic scenarios are positive. This suggests that the day-to-day operational costs of the cinema could be covered by the various revenue streams. The sensitivity analysis of food and beverage revenues indicated that lower concessions revenues could reduce total revenues by between 5 percent and 21 percent. Consequently, a key factor in viability will be the ability of the cinema to generate sufficient revenues from concessions and ancillary sources.

**Table 9: Operating Cash Flow**

	Pessimistic	Base	Optimistic
Revenue	\$600,221	\$738,342	\$894,638
Direct costs	\$271,929	\$317,402	\$361,259
Excess revenue over direct costs	\$328,292	\$420,940	\$533,380
Operating expenses	\$544,072	\$583,121	\$616,537
(Deficiency of) revenue over expenses	(\$215,780)	(\$162,181)	(\$83,158)
Add back: Amortization	\$213,950	\$213,950	\$213,950
<b>Operating cash flow</b>	<b>(\$1,830)</b>	<b>\$51,769</b>	<b>\$130,792</b>

Notes:

Amortization is a non-cash expense that is generally recorded for financial reporting purposes. While it is not relevant in the context of feasibility, it may be a reasonable proxy for physical, economic, and functional obsolescence. Consequently, we felt it prudent to include in our analysis.

## 8 Community Benefits

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All cinema operators interviewed commented on the significant benefits the cinema brings to the local community with several operators also commenting that the cinema benefited local restaurants and contributed to the economic and cultural vitality of the downtown core.

The experience of other cinemas suggests that going to the cinema gives people the opportunity to see a film and escape, which can be especially important when recreational options are limited. The cinema also offers affordable entertainment that brings family, friends and the community together.

Additionally, the movie going audience spans a wide demographic, which according to one cinema operator attracts people from age 2 to 92.

There may also be opportunities for the QBMUCS to support local community groups, host community events, offer community scholarships, and provide space for non-profits. Partnerships to offer and promote local products could help market and boost revenue for local businesses.

In addition to the broader community benefits, day to day operations of the community cinema and enhanced food and beverage services, such as a wine bar/café, could generate economic impacts in the local area. To estimate the economic impacts generated by operations of the community cinema and café/wine bar, projected revenues from the high-level financial analysis were used in each of the three scenarios.<sup>29</sup>

As shown in Figure 6, the annual economic impacts generated by operations of the community cinema and café/wine bar were estimated to range between:

- \$1,116,000 and \$1,652,000 in total output.<sup>30</sup>
- \$537,000 and \$798,000 in total gross domestic product ("GDP").<sup>31</sup>
- \$138,000 and \$206,000 in total government revenues.<sup>32,33</sup>

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<sup>29</sup> MNP employed an input-output methodology using provincial economic multipliers for BC published by Statistics Canada. In general, economic impacts are viewed as being restrictive to quantitative, well-established measures of economic activity.

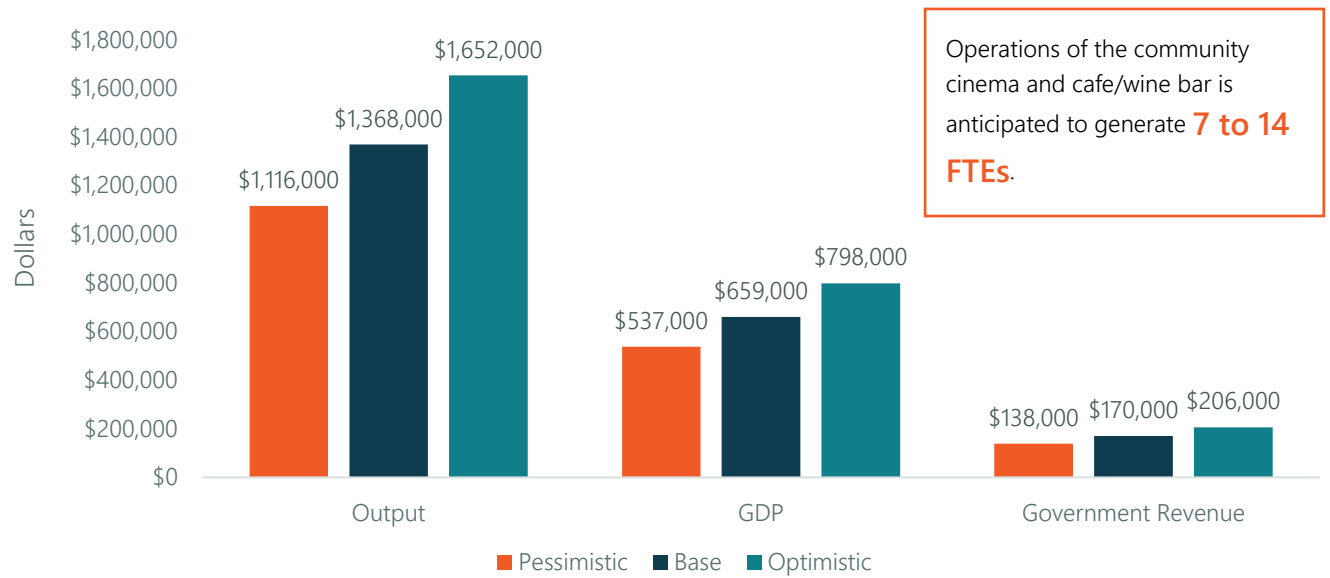
<sup>30</sup> Output is the total gross value of goods and services produced by a given company or industry measured by the price paid to the producer. This is the broadest measure of economic activity.

<sup>31</sup> GDP or value added, refers to the additional value of a good or service over the cost of inputs used to produce it from the previous stage of production. Thus, GDP is equal to the unduplicated value of the goods and services produced.

<sup>32</sup> Government Revenues are the total amount of revenues generated for different levels of government. Revenues arise from personal income taxes, indirect taxes less subsidies, corporate income taxes, taxes on products and royalties. Please note that because tax revenues can frequently change due to modifications in tax policy, the government revenues in this report are estimates only and subject to change. They should be viewed as approximate in nature.

<sup>33</sup> Note: Due to QBMUCS' charitable status, corporate income taxes have been excluded in the economic impact estimates.

**Figure 6: Estimated Economic Impacts of the Community Cinema and Café/Wine Bar, by Scenario**



## 9 Summary

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The vision for the Qualicum Beach multi-use community cinema is for the facility to serve as a unique arts and entertainment experience which will improve the quality of life for residents and visitors, as well as revitalize and support local businesses and other organizations. The community cinema is expected to appeal to a broad range of audiences by offering a variety of programs including major motion pictures, international and independent films, as well as broadcasts of live performances of ballet, opera, and other major cultural events. The facility could also serve the community as an additional option for a flexible social hub which can be used for live music performances, conferences, and seminars. The facility is not intended to be used for live theatre or drama productions.

Based on the financial modelling and scenario analysis, the base and optimistic scenarios suggest operational feasibility. These two scenarios reflect operation costs and revenues, including ancillary revenues, that are either equal to or favorable to those observed in similar community theatres. The pessimistic scenario suggests a nominal operating cash deficiency and marginal feasibility.

Based on our research, the feasibility of developing the community cinema depends largely on two critical components:

- **Securing capital funds.** In order for the community cinema to be viable, QBMUCS would need to secure sufficient funds to cover all capital costs as the operating costs scenario do not include building, rent and associated professional costs.
- **Land procurement.** To proceed with development plans, the community cinema requires community support and/or partnerships in place for the provision of land either by donation or with a nominal lease rate.

Operational challenges for community cinemas that were identified include high percentages of box-office fees being paid to studios, shortened theatrical windows, pandemic led behavioral changes, and the reality that cinema attendance and recovery is still in a period of uncertainty.

The interviews with comparator community cinemas suggest that some of the key factors contributing to the success of their operations include:

- **Providing a specialized movie experience.** To encourage people to leave the comforts of their own home and increase cinema attendance, the facility requires comfortable seating as well as top quality sound and projection. Additional amenities such as a café or wine/beer bar offers the potential for enhanced revenue while creating an opportunity for the audience to engage with one another, ultimately helping to develop a loyal audience base and increasing the overall cinematic experience.
- **Multiple screens.** Having multiple screens is essential to providing diverse programming content, flexibility in a film's screening duration, and increasing revenue opportunities.
- **Diverse programming.** All the community cinemas interviewed indicated that first-run films continue to be the main drivers for cinema attendance. However, the ability to provide diverse programming that includes children's movies, independent and/or international films, and other

cultural programs are critical components to ensure the cinemas' continued vitality.

- **Ancillary revenue sources.** Due to high distribution fees, ticket sales offer community cinemas smaller profit margins compared with food and beverage revenues. In addition to displaying ads and marketing material before showings, several community cinemas offer additional services and/or products to help generate revenue, attract customers to the cinema through different avenues, and help build community and consumer loyalty.

Through the provision of mainstream and/or specialized film, community cinemas provide opportunities for entertainment, social engagement, create a greater sense of belonging, and could contribute to the general vitality of town centres.<sup>34</sup> These benefits can significantly improve the quality of life for citizens of all ages.

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<sup>34</sup> British Film Institute, "The Impact of Local Cinema". November 2021. Available here: <https://www2.bfi.org.uk/sites/bfi.org.uk/files/downloads/uk-film-council-impact-of-local-cinema.pdf> (Accessed: August 29, 2022)



# Appendices

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## Appendix A – Summary of Primary Research Activities

This appendix summarizes activities undertaken in the primary research conducted for the study. Supplementary references used are included in the footnotes throughout the report.

### **Community Engagement**

In an effort to gather information related to the local market, MNP reached out to 26 individual community representatives to request a one-on-one interview. Of the 26, 11 people agreed to participate. The interviewees included government representatives, local arts directors, business owners, and members of the general public. These interviews focused on obtaining meaningful perspectives on the current arts community and entertainment offerings, entertainment gaps, and current assets in Qualicum Beach.

### **Comparator Cinema Engagement**

In addition to the interviews conducted with community representatives, MNP reached out to 12 community cinemas to gather information related to revenue, operational expenses, governance structure, and key considerations for management of community cinemas. Five cinemas agreed to complete the interview and four cinemas provided financial statements that were used in completing the financial analysis.

## Appendix B – Limitations

This report is provided for information purposes and is intended for general guidance only. It should not be regarded as comprehensive or as a substitute for personalized, professional investment advice.

We have relied upon the completeness, accuracy and fair presentation of all information and data provided to us by the QBMUCS, collected from public sources, and collected from interviewees, believed to be reliable. The accuracy and reliability of the findings and opinions expressed in this report are conditional upon the completeness, accuracy and fair presentation of the information underlying them. As a result, we caution readers not to rely upon any findings or opinions expressed and disclaim any liability to any party who relies upon them for business or investment purposes. The findings and opinions expressed in this report constitute judgments as of the date of the report and are subject to change without notice. MNP is under no obligation to advise of any change brought to its attention which would alter those findings or opinions.

The analysis contained in this report is based upon projections, founded on past events giving an expectation of certain future events. Future events are not guaranteed to follow past patterns and results may vary, even significantly. Accordingly, we express no assurance as to whether projections underlying the economic and financial analysis will be achieved.

## Appendix C - Capital Cost

We estimated the capital cost of the project using *2022 Canadian Cost Guide* produced by Altus Group. Specifically, we utilized public sector price per square foot for performing arts buildings, which we assumed to be of comparable cost to the proposed project. The range of prices in Vancouver was between \$810 and \$1,110 per square foot. Please note that the actual capital costs will depend on the specific characteristics and design of the cinema and may vary substantially from the estimates presented here.

We also assumed the building would require cinema-related furnishings and equipment. We estimated these costs based on a review of comparable companies' capital asset listings and determined that approximately \$350,000 of furnishings and equipment would be required for operation.

Three separate scenarios are provided for capital construction costs (low, medium and high). The capital construction costs scenarios are independent from the operating scenarios outlined in Section 7 of the report.

**Table 10: Capital Budget**

		High	Mid	Low
Square footage (theatre)		7,250	7,250	7,250
Square footage (café)		1,300	1,300	1,300
Estimated square footage		8,550	8,550	8,550
Price per square foot (\$)		1,110	960	810
Building cost		\$9,490,500	\$8,208,000	\$6,925,500
Furnishings and equipment		\$350,000	\$350,000	\$350,000
<b>Total cost</b>		<b>\$9,840,500</b>	<b>\$8,558,000</b>	<b>\$7,275,500</b>

*"To foster an inclusive, prosperous, and connected community by providing a unique cinema experience and gathering space."*

A group of people are gathered in a room for a presentation. A banner on the wall reads "QUALICUM BEACH CINEMA". A podium in the center has a sign that says "Town of Qualicum Beach". Several people are standing and talking, while others are seated in the foreground.

## Appendix E – About MNP

For over 60 years, MNP has proudly served and responded to the needs of clients in the public, private and not-for-profit sectors. Today, MNP is the fifth largest Chartered Professional Accountancy and business consulting firm in Canada and is the only major accounting and business consulting firm with its head office located in Western Canada. MNP has more than 117 locations and over 7,100 team members across the country.

### MNP Consulting Services

MNP Consulting provides a broad range of business and advisory services to clients including:

- Strategy Development and Planning
- Stakeholder Engagement
- Performance Measurement
- Economic Analysis
- Research
- Data and Analytics
- Business Plans and Feasibility Studies
- Performance Improvement
- Financial Analysis



### About MNP's Economics and Research Practice

Economic and industry studies are carried out by MNP's Economics and Research practice. Based in Vancouver, the Economics and Research practice consists of a team of professionals that has a successful track record of assisting clients with a wide variety of financial and economic impact studies. Our work has encompassed a wide range of programs, industries, company operations and policy initiatives, and has helped clients with decision-making, communication of economic and financial contributions, documentation of the value of initiatives and activities, and development of public policy.



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