



GLOBAL STOCKS

Global Review

As Disney leads way in global entertainment content, Cityneon aims to ride on its coat-tails

By: Goola Warden
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SINGAPORE (Jun 3): Avengers: Endgame may have smashed box-office records, but it disappointed some fans. One moviegoer was reported to have needed counselling because she was grief-stricken: Could Iron Man really be gone?

“It is pretty impossible Avengers: Endgame will be the end [of The Avengers]. Disney spent US\$4.24 billion to buy Marvel Studios,” says Ron Tan, executive chairman and group CEO of Cityneon Holdings, which was privatised in January. Sequels, prequels and spin-offs are likely to continue, he indicates.

In fact, Black Panther, Doctor Strange and Guardians of the Galaxy sequels are underway, Tan says. A Black Widow movie is also believed to be in production but since Natasha Romanoff appears to have been killed off in Avengers: Endgame, movie buffs reckon the movie will be a prequel. Meanwhile, streaming service Disney+, which will be launched in the fourth quarter of this year, is likely to screen the Falcon and the Winter Soldier series in 2020. Tan keeps a close eye on Marvel movies, spinoffs and characters. Falcon and the Winter Soldier will provide Cityneon with the opportunity to create more immersive experiences in its exhibitions.

“More recently, Disney introduced Captain Marvel, Black Panther, Ant-Man and Doctor Strange,” Tan continues. “The Avengers has more than 100 characters. We are introducing Captain Marvel in Las Vegas and the travelling exhibitions, and are upgrading all our items.”

Originally, Tan owned an immersive experience exhibition company called Victory Hill Exhibitions. Victory Hill had initially signed a licence agreement with Marvel Characters in 2013, which led it to produce the Avengers S.T.A.T.I.O.N exhibition in Times Square New York in 2014. It signed an additional licence agreement with Marvel in August 2015 that gives Victory Hill intellectual property (IP) rights to produce immersive experience exhibitions using Marvel's characters until 2024. The licence fee depends on Victory Hill's own revenues. "We pay [Marvel] on a yearly royalties basis, which is around a couple of million US dollars," Tan says.

In August 2015, Cityneon, which was previously owned by Bursa Malaysia-listed **Star Media** Group, acquired Victory Hill for \$20 million. This was satisfied by the issue of 45 million Cityneon shares at 20 cents and \$11 million in cash. To finance the acquisition, Cityneon raised \$15.93 million through a one-for-one rights issue at 18 cents each. Eventually, Tan acquired control of Cityneon.

In January, Cityneon was taken private. Tan and Hong Kong billionaire entrepreneur Johnson Ko formed West Knighton, a special purpose vehicle, and launched an offer for Cityneon at \$1.30 per share, valuing the company at \$318 million.

On May 10, CITIC Capital, a unit of CITIC Group, acquired a 10% stake in Cityneon. Yichen Zhang, CITIC Capital's chairman and CEO, said, "We are impressed by the strong portfolio of leading global IPs that Cityneon has assembled, as well as its iconic exhibitions that mesmerise audiences in cities around the world."

Experience in exhibitions

Since acquiring Victory Hill, Cityneon has expanded its IP from Marvel's Avengers to include Hasbro and Transformers, Amblin and Jurassic World, and Lionsgate and The Hunger Games. The so-called experience exhibitions provide moviegoers with the experience of being in the Marvel universe traversing the galaxy, or walking with or running from dinosaurs.

To date, the Cityneon group has toured IPs in more than 30 cities, and will be making inroads to new cities through exhibitions such as Avengers S.T.A.T.I.O.N. in Cardiff, the UK and Santiago, Chile as well as Jurassic World: The Exhibition in Seoul, South Korea. The group also recently opened Hunger Games: The Exhibition in Las Vegas, in partnership with MGM Grand.

"We have the world's largest interactive screen in Las Vegas for The Hunger Games, with MGM casino in partnership," Tan says, adding that the experience includes shooting with bows and arrows.

In a statement on May 10, Tan hinted at new IPs. "Moving forward, we seek to partner with new studios and secure further new IPs in the second half of 2019 and 2020."

Cityneon's criteria for IPs is that the movies must have grossed US\$1 billion in sales, and have sequels and prequels. "The movie IPs have to [have] US\$1 billion and above in ticket sales because then, we know there is global demand. There must be sequels and prequels to provide sustainable demand. And the IP must allow us to scale from more than one set. That is why, with Avengers, we've scaled from one to four sets, and for Jurassic World, we've scaled from one to five sets," Tan says. Moreover, Jurassic World III will open in 2021. "We work with Amblin and [director of Jurassic World I] Colin Trevorrow to check on [sequels], so it's very exciting. Colin was at our Madrid [Jurassic World] exhibition," Tan says. "On June 28, we are opening a Jurassic World exhibition in Seoul with Lotte [World]."

Cityneon spends \$6 million to \$10 million on its travelling sets, after which it ties up with partners in the respective cities where it holds the exhibitions. It has three revenue sources for these experience exhibitions. First, it charges its partners an upfront licence fee. Second, it charges royalties based on visitorship and ticket sales. Finally, it gets a cut of merchandise sales. "Our target payback period of exhibition sets is under two years. We meet our targets because our business model does not require us to assume execution risk," Tan says.

The only location where Cityneon assumes execution risk is in Las Vegas where it holds its permanent Avengers S.T.A.T.I.O.N, Transformers and The Hunger Games experience exhibitions at Treasure Island Hotel & Casino on the Las Vegas Strip.

"We run and execute the operations ourselves in Las Vegas. We continue to expand in Las Vegas because it has 45 million visitors a year and 8% of spending money happens before the visitors get there, and 70% [of the spend] is on entertainment. When you go to Las Vegas, you spend," Tan says. "We want to be the largest in the experience entertainment exhibition space."

Billion dollar club

Tan wants to build Cityneon into a much larger company following its privatisation. "We are stuck in a conundrum, [as] our company is mid-sized in Singapore. Globally though, it is a very small company because we are dealing with Disney, Hasbro and Marvel. It makes it difficult to stay listed as a small company," Tan says. "To be relevant in the global entertainment space, this company has to be in the billion dollar league. The best is to take it private first and focus on the fundamentals."

Some ex-Cityneon investors have pointed out that the company is likely to report earnings before interest, taxes, depreciation and amortisation of \$60 million this year. "An Ebitda of \$100 million next year is within easy reach," the investors say. At that price, Cityneon's valuation could be in the 10-figure range.

Even at US\$1 billion in value, Cityneon would remain a minnow compared with Disney, whose market cap is US\$238.7 billion. Investors are expecting Cityneon to relist in Hong Kong in 2021, but Tan refuses to be hemmed in by expectations. "Whether we will list and where we list depends on the timing of the market. It could be Singapore, Hong Kong or Nasdaq."

How will Cityneon get into the billion dollar club? "In China, we have deals coming up. It's a strategic and important market for us. China will contribute around 30% to 35% of our profit."

Cityneon has also grown a second wing, a pavilion division where it works with governments. "We tell the stories of these countries in our pavilion division. We've worked with Bahrain, Qatar and Oman to tell their stories to the rest of the world," Tan explains. Next year, Cityneon will be opening a pavilion in Dubai.

In a further diversification away from IP experience exhibitions, gaming and e-sports is likely to feature in Cityneon's third wing. It aims to kick-start an e-sports section. Notably, e-sports is part of ESPN's offerings. A fourth wing will develop the group's own IP through R&D.

Disrupting the disruptors

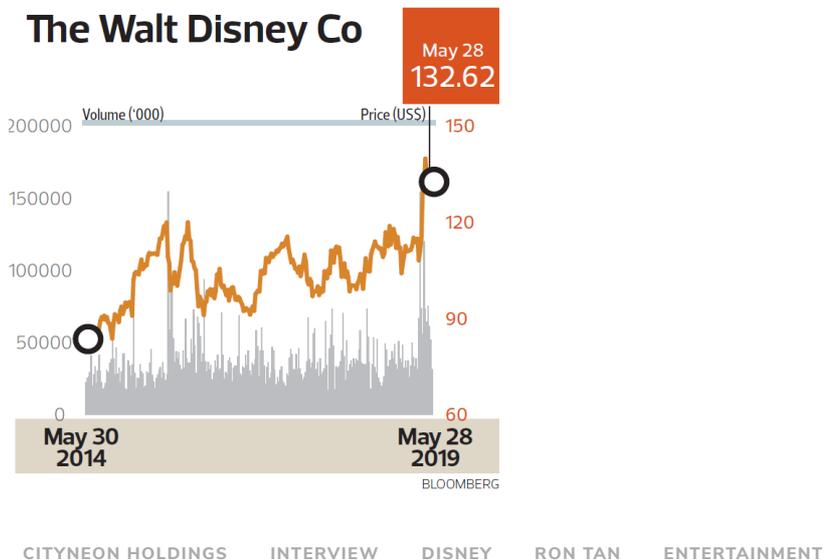
Front and centre is Cityneon's partnership with Disney. In 2012, Disney bought Lucasfilm for US\$4 billion. In March this year, Disney completed the acquisition of 21st Century Fox for around US\$71.3 billion. Fox owns the X-Men, Fantastic Four

and Avatar franchises. Avatar II is due out in 2020, with a further three movies planned. Despite spending huge amounts for acquisitions, Disney's share price is up around 21% this year.

"All the big entertainment players are capturing IP and content, and Netflix is behind the curve," says Cityneon's chief financial officer, Mark Kemper. "Netflix started as a disruptor, and traditional companies such as Disney get disrupted and have to work with distribution channels. But now, Disney is building its own distribution channel and disrupting Netflix back," Kemper says. With Fox, Disney has control of streaming platform Hulu.

Netflix will have to start focusing on content, Kemper adds. "If you ask a disruptor or platform what its biggest threat is, it is the traditional player. It is much easier to buy a platform than to create content." Now, Disney has staked out the entertainment content and streaming space with expanded movie franchises; the streaming of movies, spin-offs and TV series on Disney+; and e-sports on ESPN.

"It's all about content. We make use of content to be where we are today. When there is so much change in an industry, we've got to keep on growing. We want to be the disruptors," Tan says.



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