

Oct 12, 2018

Dear clients and colleagues,

In recent years, online video streaming services have changed the way we view our entertainment. Apart from the great flexibility, wide range of options and reasonable subscription fees, mega players are also winning subscribers with their original series, such as *House of Cards* by Netflix or *The Grand Tour* by Amazon Prime Video. It is no wonder investors get excited about video streaming platform companies given the rapid growth in the number of subscribers. In 2017, the number of subscriptions to online video services across the globe increased to 447 million, a 33 percent increase from 2016. On the other hand, the traditional film industry, and cinemas in particular, are receiving less attention from investors. However, it is not a zero-sum game between cinemas and video streaming platforms. Growth potential and investment opportunities still exist in the movie theatre market.

The global cinema market has been delivering stable long-term growth for decades in terms of global screen and box office revenue. According to the *Motion Picture Association of America (or MPAA)*, global box office revenue reached a record high of \$40.6 billion in 2017, and the number of screens increased globally by eight percent to reach over 170,000. The growth of screens is even higher in the Asia-Pacific region, increasing 16 percent since 2016. In the US/Canada, three out of four people went to the cinema at least once in 2017 — that’s about 263 million moviegoers in total. While home digital entertainment brings convenience and comfort, cinemas are differentiating themselves by utilizing advanced display technology, including 3D or IMAX 3D, and offering increasingly luxurious cinema experiences such as premium seating and dine-in services. Also, going to the cinema is a much more affordable entertainment option than attending a concert, a sports match or visiting a theme park. Overall, the global film industry is forecasted to continue its healthy growth in the coming years. A study by *statista* shows that global box office revenue will increase from about US\$38 billion in 2016 to US\$50 billion in 2020. That is a compound annual growth rate (CAGR) of approximately 7%.

One company we added to our portfolios during the third quarter is going to benefit from this growing film market — Vista Group International. It provides software solutions to the global film industry. The main product “Vista Cinema” has a global leading market share of 40%. The system enables cinemas to integrate the services they provide, from tickets sales to food and beverage services. The company’s new product “Movio” allows film distributors to access generic audience data and create targeted marketing campaigns. In the US and Canada, 12 percent of the population are frequent moviegoers (individuals who go to the cinema at least once a month) and account for 49 percent of tickets sold. Targeted advertising would make movie campaigns much more effective. Movio helps to address this demand from both cinemas and moviemakers, and is gaining clients at a rapid pace.

Vista Group International (VGL NZ – NZ\$ 3.67)

<http://www.vistagroup.co.nz/>

Business Overview

Based in New Zealand, Vista Group is a leading software solutions provider for the global film industry. Services include cinema management, film distribution, moviegoer data analytics, business intelligence solutions and box office reporting software.

Investment Theme

Innovation.

Target Market

According to *statista*, the size of the global movie production and distribution industry in 2017 was about US\$124 billion. The main growth driver was Asia-Pacific, especially China, box office revenue, which grew consistently with a 15-year CAGR of 10%. The industry is expected to continue this double-digit growth in the coming years. China's total screen count is forecasted to reach 80,000 by 2021.

Management

Chairman Kirk Senior has a strong international film industry background, acquired from 18 years with the Village Roadshow Limited Group. CEO Murray Holdaway is the co-founder of Vista Group. He has over 20 years' experience in building innovative software for the film industry. Management owns about 9% of shares and receives modest executive compensation.

ESG

Vista Foundation aims to support the local film industry. Three out of six directors are independent and one woman sits on the board of directors.

Market Data

Market Cap NZ\$607 million, Net Cash NZ\$14 million, Dividend Yield 1.26%, Ev/Sales (2018/12) 4.75x, Ev/EBITDA 19.9x, EBITDA Margin 22%, Profit Margin 9%, ROE 7.3%.

Competition

There is no strong second player in the Large Circuit Market ERP software space. The most common competitor for Vista is in-house solutions.

Competitive Advantages

- A leading 40% global market share in cinema management software
- Strong recurring revenue: 62% of revenue is recurring as of 1H/2018
- Integrated system
- Strong balance sheet with net cash

Growth Strategy

- Product: new software launches – Movio doubled revenue in 1H/2018 by signing contracts with STC, Sony, Lionsgate, FOX, etc. Most recently, it signed a multi-year contract with Walt Disney. Movio has approximately 57% market share in the US.
- Distribution: Vista has been expanding into new territories. China is the main growth driver where Vista Cinema has 13% market share.

Risks

Foreign currency exchange risk: 2% of the company's revenues but 50% of its costs are in NZ dollars.

Have a great weekend.

The Global Alpha team