Cinema Chains Seek Investors to Finance Digital Projectors

A venture of AMC, Cinemark and Regal hire JPMorgan to raise as much as $1 billion.

By Richard Verrier, Times Staff Writer
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Furthering a march toward digital cinema, three of the nation's biggest movie theater chains aim to raise as much as $1 billion to convert about one-third of all U.S. theater screens from film to electronic projection.

National CineMedia — a joint venture of AMC Entertainment Inc., Cinemark USA Inc. and Regal Entertainment Group — recently hired JPMorgan Chase & Co. to raise money from hedge funds, private equity firms and banks to finance the costs of digital conversion for 13,000 screens nationwide, people briefed on the plan said.

The funding effort is intended to address the biggest hurdle in digital cinema's growth: figuring out how to pay for the state-of-the-art projection systems.

Both theater chains and studios have strong financial incentives to make the venture work. Studios stand to save hundreds of millions of dollars by not having to print and deliver film reels to thousands of theaters. Cinema owners see the sharpness of pictures delivered digitally as a way to improve the quality of the moviegoing experience, giving consumers an incentive to continue visiting theaters.

"If this comes to fruition, it will be a huge breakthrough for the studios and theater owners," said Brian Mulligan, former co-chairman of Universal Pictures, who runs media investment firm Brookni Advisors. "Both sides have been motivated to move to digital delivery, but it's always been an issue of cost and who pays for putting in the new projectors."

The financing initiative is an outgrowth of a digital cinema venture formed last year by the theater chains. Although plans aren't final, theater owners are expected to form an entity that would borrow the money for the digital systems and repay the debt using funds from film to electronic projection.

Analysts said the initiative marked a significant milestone after years of frustration.

"It really says that they're serious and they're moving forward," said Michael Karagosian, a digital cinema consultant.

National CineMedia, based in Centennial, Colo., declined to discuss details, but has confirmed that it hired JPMorgan. A spokesman at JPMorgan declined to comment.

Movie studios have already signed deals with Cypress-based Christie Digital Systems Inc. and software company Access Integrated Technologies Inc. of Morristown, N.J., to help offset the cost of installing digital cinema systems. And Carmike Cinemas Inc., the nation's third-largest theater chain, has agreed to install 2,300 digital projection systems by October 2007.

However, the exhibitors have yet to negotiate "virtual print fees" from the studios to offset the cost of converting individual theaters from film to digital projection, Karagosian said.
Also, although JPMorgan has a strong track record when it comes to raising money, rising interest rates could make the effort more difficult, Mulligan said.

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Times staff writer Dawn C. Chmielewski contributed to this report.

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