

# Shaftesbury Avenue Cinema

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ICO consultancy report

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# Introduction

In October 2017, the Independent Cinema Office was commissioned by Iceni Projects on behalf of Capital Start Ltd to undertake an appraisal of the cinema business potential of The Saville Theatre at 135 Shaftesbury Avenue, London, which is currently used as a 4-screen commercial mainstream cinema operated by Odeon Cinemas.

In the context of Capital Start's proposal to redevelop the building to create a new hotel complex with a 4-screen cinema, this appraisal takes into account the following factors:

1. Whether the existing cinema building is in a suitable location for a cinema operator given the competing offer in the area – this will be a summary review of the suitability of the location for cinema in general as well as local competition;
2. The type of cinema operation(s) that would be likely to occupy the existing space (uses and mix of uses rather than named operators), either:
  - As an existing 'standard' cinema – e.g. a similar operation to the existing Odeon offer
  - As an alternative 'art house/specialist' offer along the lines of a Curzon, Picturehouse or Everyman offer, or
  - As part of a truly boutique offer per the Courthouse/Soho/Ham Yard Hotel.

A description of three possible types of cinema operation and how these three options differ operationally, economically and in terms of products, services and position in the market.

3. The facilities that the cinema operator would require for the three types of cinema operations – for:
  - Bar
  - Catering
  - Cinema sizing (number of seats as optimal/minimum) – including an assessment of seat raking to determine the auditorium heights required
  - Indicative revenue and profit account for the cinema operations (based on box office, retail and advertising)
4. Thoughts on cinema running costs in the preferred option
5. Potential rents that an operator might pay

The overall brief was subsequently revised following a meeting with the client and Iceni Projects in November 2017, to bring forward for consideration a fourth cinema type – a low-cost, high quality local 4-screen cinema which would operate within the building of a hotel.

# UK Cinema Industry Background

## Overview of UK cinema-going – the wider business context

The development of North American-style multiplex cinemas in the UK began in 1985 with The Point at Milton Keynes. In the ten years that followed, there were major edge-of-town multiplex developments in almost every city in the UK and notably, more than one new cinema complex in some locations.

Multiplexes were developed in the UK when cinema-going had declined to a post-war low of 54 million admissions in 1984. By this time many former cinemas, originally opened in the boom years of the 1930s and 1940s, had been converted into bingo halls or closed entirely.

Of those that remained in operation, many had been poorly converted from single screen to 3, 4 and 5-screen cinemas, offering greater choice but in most cases, a less distinctive big screen social experience (as is the case with the Odeon Covent Garden, previously the ABC Shaftesbury Avenue, which itself was a cinema conversion of the former Saville Theatre).

Against this backdrop, multiplexes arrived with a number of unique selling points that captured the imagination of the wider cinema-going public – they offered wide choice in content, state of the art sound and projection, and an authentic North American cultural experience at a time when US popular culture (TV, music, cinema, fast food) was a dominant attraction for the UK public; especially the age groups that have historically made up the main commercial cinema-going audience.

A quick assessment of annual cinema attendance – from the low point of 1985 to 1996, after the first wave of US style multiplex cinemas were established – indicates a 7-year period of growth in UK cinema admissions from 54 million to 123 million, or by 227%. At the same time, cinema screens in the UK increased from 1,311 in 1985 to 2,215 in 1996.

Since 2002, when annual admissions reached a recent peak, admissions have fluctuated between a high point of 172.5 million in 2012, to a low of 156.6 million in 2006. Broadly speaking, UK cinema admissions have levelled off between 160-170 million since 2002, roughly coinciding with the end of the first wave of multiplex development described above and the establishment of town centre midi-plexes (3-5 screen cinemas)

Small percentage fluctuations from year to year may be due to the individual films screening each year and to one-off major cinema developments; there is no notable prolonged or consistent pattern of decline or growth. From 2012, there was a modest downward trend with admissions of 165.5 million in 2013 and 157.5 million in 2014, decreases of 4 and 6% respectively. Admissions in 2015 showed a 7% increase, rising in total to 171.9 million; but the total declined again to 168.2 million in 2016.

The table opposite shows annual cinema admissions for each of the last 30 years. The pattern of admissions gives a broad indication of the movement of the cinema market over a period during which several key changes to the industry have stimulated audience growth.

## UK Annual Cinema Admissions (in millions) since 1986

YEAR	ADMISSIONS (000,000S)	YEAR	ADMISSIONS (000,000S)	YEAR	ADMISSIONS (000,000S)
1987	78.5	1997	139.3	2007	162.4
1988	84.0	1998	135.5	2008	154.2
1989	94.5	1999	139.75	2009	173.5
1990	97.37	2000	142.50	2010	169.2
1991	100.29	2001	155.90	2011	171.6
1992	103.63	2002	175.90	2012	172.5
1993	114.36	2003	167.30	2013	165.5
1994	123.53	2004	171.30	2014	157.5
1995	114.56	2005	164.70	2015	171.9
1996	123.8	2006	156.6	2016	168.2

The table above shows the total no. of UK cinema admissions over the past 30 years.

After steady increases through the '80s and '90s (produced chiefly by the rapid development of multiplex cinemas in the UK through that decade) it can be seen that admissions reached a plateau in the years towards the end of the '90s, before a further surge (resulting from a 2nd wave of capital investment in the development of multi-plexes) around the turn of the century.

It is notable that cinema admissions have largely reached a further plateau since 2002; with, in the most recent 15 year period, a high mark of 175.9 million and a low of 154.2 million admissions.

The smaller year-to-year fluctuations can be explained simply by the presence (or absence) in certain years of as few as one or two high-performing blockbuster titles.

However, admissions in the UK have broadly flattened out over the past 15 years in spite of the increase in the number of films released each year in the UK (from around 300 in 2002 to over 800 in 2016).

In 2016, 168.2 million cinema admissions produced a gross box office of £1,228 billion (down from £1,236 billion in 2015), with an average UK gross ticket price of £7.30.

## Trends in the UK cinema industry

The cinema industry has responded to this static market in a number of different ways, summarised below, in order to attain a level of sustainability.

Any single company/cinema may try to win a bigger share of the existing market by:

- Diversifying their core offer (choice of films and events) and engaging with a wider range of audiences than previous
- Increasing cinema ticket prices to build higher revenue levels from the same audience
- Developing new products to encourage higher spend from their existing audience (this might include a 're-booting' of the cinema experience itself, with enlarged seats, enhanced sound and image quality with the arrival of high definition digital cinema systems, and food and drink inside the cinema; or it might simply be the insertion of a cafe/bar operation in place of the cinema refreshments kiosk. The rise of the 'luxury' cinema is a good example of this)
- Driving higher sales through the non-film and higher profit margin aspects of their business
- Developing an enhanced environment to encourage audiences to linger and spend more
- Reducing operational costs and increasing profitability through the use of new technology in projection, ticketing etc
- Developing a more localised audience through the development of a local cinema with a community ethos. Many new independent cinemas have been developed in towns and cities where there were previously none, proving a local service for audiences who would otherwise have to travel.

A feature of these cinemas is that they are resourced at both capital and operational stages in a wide range of different ways – ranging from private development to local authority-supported social enterprise to individuals coming together to form a community cinema – but they share the same ethos: placing the cinema at the centre of their local communities alongside other entertainment, leisure and cultural facilities

Bearing in mind that most cinemas operate at below 30% occupancy rates (with owners accepting that they run with lots of spare capacity), many cinema operators have attempted to win a bigger share of the available audiences simply by changing their programmes. So, many traditional art-house cinemas started to show more commercial, mainstream films in an attempt to win the younger demographics which attend them; whilst many commercial cinemas started to show quality mainstream films (especially period/literary dramas) and high brow Event Cinema in order to engage with an older, more upmarket audience.

In addition, within the context of this static market, many cinema operators – both commercial 'circuits' and independents – have developed other parts of their businesses in order to build profitability and achieve sustainability.

During the past ten years, all UK cinemas have invested significant capital to transition their projection and sound technology from analogue to high-specification digital systems, enabling commercial cinema as a format to retain some audience benefits when compared with home entertainment or the growing number of film clubs and community cinemas.

The deployment of new technology, which is much more versatile than traditional cinema equipment and can be used as part of an integrated system across all cinema operations (including ticket and kiosk sales) has enabled cinemas to both develop new revenue streams (Event Cinema, private hires) and improve profitability in their core business areas (through increased automation and reduced staffing for cinema).

In addition to the opportunities created by the adoption of new technology across the industry, many (though not all) cinema operators have also looked to reinforce their business activities around primary and secondary income streams, given that the source of primary revenue – admissions – is largely at a standstill.

In the past five years, there has been a sharp (and much-reported in the cinema trade press) increase in ticket prices driven primarily by cinemas in London's West End, at a rate ahead of inflation, and lifted by similar increases in comparative forms of entertainment (theatre, music concerts, sports events). These cinemas have increased their ticket prices at the same time as investing further in what were previously their secondary business activities, thereby bringing their cafe/bar/restaurants to the fore alongside the cinema, which itself has been improved technologically.

So the increase in ticket price is supported by the all-round improvements offered to the customer; in the past five years the cinema 'offer' has become a much more rounded entertainment experience, and going to the cinema is no longer just about seeing a particular film.

Cinemas have been modified and designed to operate more efficiently, at higher rates of occupancy, partly enabled by digital technology and partly informed by wider consumer trends, with greater value added each cinema seat.

So, cinemas now tend to have more but smaller auditoria, bigger screens, more sound channels and bigger seats, a wider range of 'content' and a more integrated food and drink offer, which can be consumed within the auditorium.

Other technology-led improvements in cinema exhibition – such as the introduction of 3D, or Digital Cinema projection and sound – since around 2007 have improved cost efficiencies (and therefore profitability) in distribution and exhibition, but have not led to sustained increases in cinema attendance.

Where most London cinemas have used several of the above tactics in combination to form a new business strategy, it can be seen that very few of these, if any, apply to the Odeon Covent Garden.

## The scale of the UK market

In 2013, the UK cinema market consisted of 3,867 screens at 756 different cinemas. During the year, these cinemas generated 165.5 million admissions, producing a financial return of £1.1 billion at the box office.

These admissions were generated by 698 new releases in 2013 at an average of 14 per week

Total UK admissions were down by 4% on the previous year; there were 50 more operating screens and over 50 more releases than in 2011. Box office receipts were close to the previous year's figure.

These statistics present a picture of a market in which demand and capacity have been slowly increasing, whilst supply – the total number of films introduced into the market – has been increasing substantially year on year over the past decade with an 9% increase from 2011-2012.

This increase in the total number of films released in any given year is also supported by the change from 35mm print to digital print distribution and exhibition. The technological transition in this part of the industry has ameliorated the physical supply of films to cinemas in terms of both timing and volume. Smaller full-time cinemas now, both in theory and practice, do not need to wait as long after release date to secure a film.

The cinema exhibition market is dominated by Odeon, Cineworld and Vue, the three companies operating over 2,500 screens between them. And in line with this, the box office is dominated by the top 100 (out of a total of 698) grossing films, which account for 93% of the total gross. The other 7% of the box office gross (£93 million) is spread between 540 films.

## UK cinema revenues

- UK gross box office in 2016: £1,228,000,000
- UK gross secondary sales in 2016: £452,000,000
- Other cinema revenues: £202,000,000 (includes screen advertising, hires, sale of 3D glasses)
- Total UK admissions: 168,300,000
- Average admission paid: £7.30
- Average secondary spend: £2.69
- Average per screen other revenue: £48,674 (it is estimated that a region by region breakdown of this would indicate a higher skew in London and the South East, where private hire rates and screen advertising revenues will be higher)



# Description of the central London cinema scene

To follow: the type of cinema operation(s) that would be likely to occupy the existing space (uses and mix of uses rather than named operators).

## Option a)

### Description

An existing 'standard' cinema – e.g. a similar operation to the existing Odeon.

### Odeon Covent Garden

The UK has 4,150 cinema screens; of these Odeon Cinemas operates 887 screens in 111 separate sites. Based on the number of screens, Odeon is the second largest operator in the UK with 21.4% of total screens behind Cineworld with its 954 screens (+72 Picturehouse screens with Picturehouse now owned by Cineworld).

Odeon in the UK and Europe was acquired in 2016 for £921 million (including over £400 million of debt) by AMC, the US cinema chain owned by Dalian Wanda.

In terms of market share, Odeon achieved a total gross box office of £302,900,000 in 2016, which represents a 24.3% share of the market (the second biggest market share behind Cineworld, which has a 25.4% share/£316,600,000 gross box office).

### Location

In a cinema industry context, the Odeon Covent Garden is located inside the West End London cinema zone – this includes the main West End group of cinemas in Leicester Square and the other cinemas on Shaftesbury Avenue, plus cinemas on Haymarket, Pantion Street, lower Regent Street and Tottenham Court Road, many of which have in recent years been substantially upgraded.

This part of the West End is also the busiest part of London for theatre-goers and has a large number of independent restaurants, private members' clubs and city centre hotels. The cinema is therefore centrally located amongst this cluster of culture, entertainment, tourism and food and drink.

In this location, the cinema primarily competes for audience with the Curzon Soho (3-screen) and Picturehouse Central (7-screen), both of which are located on the western section of Shaftesbury Avenue, five and ten minutes' walk away respectively. All three cinemas will often show the same films on release date. A little further away is the Odeon Tottenham Court Road to the north, or the various cinemas in Leicester Square to the south, all of which are larger, commercial multiplexes.

So in terms of film choice, the cinemas on Shaftesbury Avenue largely compete with each other, showing quality mainstream and 'crossover' films for audiences whose choices extend beyond the latest blockbuster.

In the case of Picturehouse Central and Curzon Soho, this idea of attracting a more discerning audience extends to the higher quality offer in their bars and other facilities. The Odeon Covent Garden is a more standard commercial cinema in both its layout and facilities, and so competes with these other cinemas through lower prices.

However, the Odeon is currently not perceived by many audiences as part of the London West End cinema cluster, with its location on the east side of Charing Cross Road physically separating it from its nearest competitors, Curzon Soho and Picturehouse Central on the west side of Shaftesbury Avenue, and the main commercial cinemas of Leicester Square.

This separation, with Charing Cross Road as a boundary between West End and non-West End cinemas, locates the Odeon in a kind of no-man's land between Covent Garden and Soho/Leicester Square. The stretch of Shaftesbury Avenue on which it is located has a disparate range of shops and restaurants and is presently used more as a thoroughfare than a destination high street. This dislocation from other venues means that the cinema – unlike these nearest competitors – does not presently gain any commercial benefit from being part of a cluster of similar entertainment facilities.

The relatively long-standing nature of these issues becomes clearer when considering the history of the Odeon Covent Garden. When Odeon first set up the cinema in 2001, it was presented as the company's art house/boutique cinema in the style of the then newly refurbished Curzon Soho. From the new name of the cinema through to its programme, audience facilities and operation, it was intended to be a venue with a stronger offer for older and more upmarket audiences than Odeon's other cinemas. However, the cinema's lack of success with art house films and low box office compared to Curzon Soho soon led to a withdrawal from the programming of foreign language films.

More recently, significant further investment in the two other cinemas on Shaftesbury Avenue, Curzon Soho and Picturehouse Central, has led them to reposition themselves in the marketplace as luxury cinemas with developed food and drink offers, reflected by their high admission prices. Similarly, the vast majority of other commercial cinemas in the West End have either improved their technology, breadth of programming, food and drink offer or all three.

These changes in the local market help to create an impression that the Odeon Covent Garden has been left behind as other cinemas have developed their business models in the context of static annual admissions.

In contrast to these cinemas, the Odeon Covent Garden offers a more compromised, less distinct programme in an older style venue with a more traditional food and drink offer.

A 4-screen West End cinema showing a range of new releases and with secondary confectionery sales through a foyer kiosk; in the context of the current central London cinema market it lacks a clear and distinct proposition for customers, with this perception reinforced by nature of the cinema's location.

The Odeon has occupied the site since 2001, when it was launched as the Odeon Covent Garden and intended to carry a more high quality mixed mainstream and art house programme to attract the more discerning cinema audience that was cultivated by the 3-screen Curzon Soho quickly after that cinema opened in 1998.

The programming and overall offer of the Odeon Covent Garden is today much more akin to that of a standard contemporary multiplex cinema (at time of writing, the cinema featured the top four films in the UK box office chart), than that of the Curzon Soho, which suggests the Odeon's attempt to turn the venue into an independent style cinema with specialised audiences has not completely worked in the longer term for any number of reasons.

The Odeon Covent Garden continues to attract high levels of admission for well-reviewed, quality crossover films, and frequently features in the top 25 UK sites for opening weekend grosses of key films.

However, it also often achieves far lower grosses than its nearest competitors when showing the same film, and its additional offers are not sufficiently developed to attract much over the average secondary spend with London weighting.

## Odeon Covent Garden performance

Current capacity:

- Screen 1 153 seats,
- Screen 2 269 seats,
- Screen 3 167 seats,
- Screen 4 152 seats

Total capacity: 741 seats

- Annual gross box office (Sept 2016-Sept 2017): £1.66 million
- Estimated secondary sales: £610,000 – £640,000
- Estimated screen advertising and other revenue: max £98,000
- Ticket prices: for cinema £12, £8.75, £8.25 (w/c 13 Oct)
- OCG features lots of Event Cinema in its programme with higher minimum pricing.
- Average ticket gross yield £8.73 (£1.66 million / 190,000 admissions)
- Estimated annual admissions: 190,000 – 200,000
- Estimated annual performances: 5792
- Estimated total annual capacity: 1,078,896 seats
- Estimated occupancy rate: 18-19%

As a general rule, occupancy rates across the industry are in these ranges:

- Commercial multiplex 12-15%
- Commercial midiplex 15-18%
- 3-5 screen art-house cinema 20-26%
- 1-4 screen boutique cinema 30% + (higher if purpose built/newly reconfigured)

Opening times, no. of screenings per day/week: Most full time commercial and commercial independent cinemas will offer a standard 4 screenings per day in each screen, often with additional early matinees at the weekend or during school holiday periods. The cost of film hire from a distributor is calculated as a percentage of each week's box office rather than by screening; so it is in the cinema's interest to include as many screenings as possible, especially in the age of digitised film exhibition, when a cinema can be operated by a minimal number and non-specialised staff.

This explains the low occupancy rate for larger, commercial cinemas, which may achieve only a few admissions for midweek daytime shows but find they are nevertheless still worth doing as the cost per screening is minimal.

Ticket prices at this cinema are substantially lower than most West End cinema rates – tickets at the Curzon Soho and Picturehouse Central, both effectively on the same street as Odeon Covent Garden, range up to £15.00 and £16.50 respectively – a stark comparison which gives an indication of the very different business strategies at play across different cinemas here on the same street in central London. Also just off Shaftesbury Avenue, The Ham Yard Hotel's 190 seat cinema is open to the public with tickets costing £15.

Other nearby commercial cinemas include the Odeon Leicester Square (£14.25), Empire Leicester Square (£14.25-£18.70), Vue West End Leicester Square (£17.49) and Odeon Tottenham Court Road (up to £17.00, depending on the film and the split with the distributor).

The lowest ticket price at a commercial cinema in the West End is at the Odeon Pantons Street (£7.25), which programmatically has become Odeon's art house and 2nd run site, with cinema screens that do not meet the scale of standard of contemporary cinemas.

The Odeon Covent Garden and all of the cinemas referred to here are considered within the industry to be West End, first run cinemas, showing new releases 'day and date'.

In any given year, the bulk of the Odeon Covent Garden's programme is comprised of new release quality mainstream and crossover films (typically in autumn 2017, *Star Wars: The Last Jedi*, *Blade Runner 2049*, *The Death of Stalin*) alongside a small number of arthouse films, primarily English language ones.

Commercial multiplexes aim to achieve high volume sales through a constant and high through-put of customers, through staggered screenings and the transfer of customers from ticket purchase to kiosk to cinema, typically within a short timeframe. The food and drink offer is typically fast food, or food and drink to be consumed inside the cinema.

By contrast, new luxury cinemas improve the food and drink offer, with full cafe/restaurant facilities to encourage much greater 'dwell' times within the cinema building.

In October 2017, Odeon announced that it would refurbish the Odeon Panton Street, turning it into the re-equipped and rebranded Odeon Luxe Haymarket.

## **Gross revenues for Odeon Covent Garden**

In the case of the Odeon Covent Garden, there are no actual figures available for the breakdown of their different revenue streams; but it is possible to arrive at an estimate based on their actual annual gross box office and by using UK national figures for secondary sales (refreshments) and other generated income which would suggest that annually, the cinema generates:

- £1.66 million actual gross box office
- £540,000 estimated from secondary sales (based on UK national average)
- £610-640,000 estimated secondary sales (based on London uplift on UK national average)
- £98,000 estimated from other revenues
- Total estimated revenue: £2,338,000

## **Key costs for Odeon Covent Garden**

- Film hire – at 50%
- Tax – VAT @ 20% of gross ticket sales
- PRS – @ 1% gross receipts
- Stock – with sales at 70% gross profit
- Staff – open 10am-11pm daily, 13 hours per day = 4,732 hours per year
- Building overheads
- Rent (10% of net box office)
- Business rates (Camden Borough Council – total rates payable for the building £48,379.

## Option b]

### Description

A 4-screen independent/art house cinema (500 seats total) with integrated cafe, bar, licensed auditoria

An art house cinema with a more developed all round offer, comprising high specification cinema presentation facilities (including Dolby Atmos), enhanced levels of audience comfort, and a more 'curated' food and drink offer by comparison with the standard cinema refreshments, served in a cafe/bar environment.

This higher quality product and service is matched by higher ticket prices, longer dwell times, a much higher secondary spend and a higher occupancy rate (25%) than at standard commercial mainstream multiplex cinemas.

- Estimated admissions: 178,500 admits per year
- Average ticket price: £12
- Estimated total gross box office: £2.1-2.2 million

Key features of this type of cinema:

- Conspicuous signage as a cinema
- Cafe/bar at street level as a shop window for the cinema
- First run new release films/'curated' upmarket programme

- Membership schemes with rewards and exclusivity which encourage loyalty, frequency and create a club atmosphere for some cinema-goers
- Much higher than UK average secondary spend – in the wider context of UK standstill in admissions, cinemas of this type have focussed on the non-film aspects of their business which are also more profitable than exhibiting films. Many cinemas of this type in London and across the UK can generate as much in secondary sales as at the cinema box office
- Screen advertising and hires income (screen advertising income is based on annual admissions, audience types and desirability of the screen as advertising space. Central London cinemas with high admissions and an 'upmarket' audience profile can receive high revenues from screen advertising)
- A mix of state-of-the-art cinema spaces; big screens and in-depth technical capabilities; comfortable auditoria; and more refined bar/cafe areas make these cinemas more attractive and more versatile as private hire venues, either within the industry (for previews, film festivals) or in the wider venue hires market than a standard multiplex cinema.

Examples: Curzon Soho, Curzon Bloomsbury, Picturehouse Central

## Food and drink

- Large, visible cafe/bar areas at front end of the cinema
- Open all day
- Typically, high end food and drink offer including alternatives to the classic cinema snacks of popcorn and soft drinks including coffee, craft beers, selected wines and street food menu
- Two cafe/bars with capacity for 250 total
- One of which, a members-only bar with smaller capacity of 80
- Licensed auditoria

The food and drink spend per customer achieved by Curzon, Everyman and Picturehouse independent cinemas of this type is broadly equivalent to the box office. Cinemas with developed food and drink offers, capacity and facilities will use their annual box office as a baseline target for food and drink sales.

A cinema operating in this model at the Shaftesbury Avenue premises would most likely start at a slightly lower level in the first year if the reopening follows several years of closure. The first year's food and drink sales could be estimated at:

- Low target: £1.4 million
- Medium target: £1.6 million
- High target: £1.8 million

It should be noted that food and drink performance in this model would be critically compromised if it is not possible, due to the restrictions on the building, to re-design the building to create the layout and features that this type of cinema requires – especially with regard to the positioning of a cafe/bar near the entrance and at street level with a high level of visibility from the street into the building.

The cafes/bars/restaurants in cinemas of this type become destinations in their own right. It is worth noting, for example, that new Everyman Cinemas are marketed as 'cinema + restaurant'; that both Curzon Soho and Picturehouse Central have cafe/bars at street level, and that customers have to pass through at least one further cafe/bar area before reaching the cinemas. If this level of visibility for a cafe/bar cannot be achieved, this model of cinema will not be operable in the building.

Both the Curzon and Picturehouse independent chains operate membership models around which they build into their marketing ideas of exclusivity, communities of interest and the high quality of their offer – ideas around the careful selection (or 'curation') of every aspect of the cinema's offer, from the films in the programme, to the drinks at the bar, to the seating in the cafe.

In practice, a membership model is a simple way of positioning the cinema further up-market than a more standard competitor; a way of highlighting the different features of the cinema and adding value above and beyond an admission ticket for a film; and of operating a ticket discount system which encourages repeat visits and brand loyalty.

Curzon membership costs around £45-60 per year; Picturehouse membership £85 per year. Members' benefits in both chain's schemes include (four) free tickets, ticket discounts, priority booking, discounts to on-demand VoD film services, access to preview screenings and discounts on food and drink.

In Curzon's case, members also receive a free copy of the Curzon film magazine; with Picturehouse, members gain access to the Picturehouse Central Members' Bar (c.f. Tate Modern, Design Museum etc) and discounts on a range of products offered by partner companies.

## Case Study

Looking at the performance variances between Odeon Covent Garden (Option a) and the nearest competing art house cinemas (Option b) on the opening weekend of *The Death of Stalin*, 20-22 October 2017.

The film was released by Entertainment One into 'selected' cinemas (139 out of a possible 500+ that would normally constitute a 'saturation' release) across the UK on Friday 20 October 2017.

Of these 139 sites, 45 cinemas in Greater London opened the film including Odeon Covent Garden, Picturehouse Central and Curzon Soho. The first weekend results for the film at these sites were as follows:

ACTUAL BOX OFFICE	ESTIMATED ADMITS	TOP TICKET PRICE
Odeon Covent Garden	1,000-1,100	£12
Picturehouse Central	1,100-1,200	£16.50
Curzon Soho	1,300-1,400	£15

The three cinemas achieved similar admissions levels. This snapshot of a film's opening weekend performance at three cinemas located on the same London street suggests that:

- Higher ticket price is not a barrier for audiences visiting cinemas in these locations, and
- As such, higher admissions at the other two cinemas suggest that Odeon Covent Garden is not currently able to maximise revenues from ticket sales. It is in effect under-selling the same product

In addition, the other two cinemas offer audiences significantly more developed catering choices, from the cafe/bar at Curzon Soho to the cafe, bar and members' bar at Picturehouse Central. While the Odeon Covent Garden, with its traditional cinema kiosk, might be expected to generate the national average secondary spend of £2.69 per customer + 20% to reflect higher prices in central London (£3.22), the other cinemas have developed their catering offers to such an extent that the revenue generated through the bar and cafe is at least as much as that generated through the cinema box office.

From approximately 1,000 customers, the Odeon is estimated to have generated approximately £13,000 revenue; from approximately 1,100 and 1,300 customers, the other two cinemas are estimated to have generated £35- £40,000 revenues.

So this case demonstrates that of these three central London cinemas, the Odeon Covent Garden is the least well appointed to maximise revenues when presented with the same film as the other two cinemas.

## Option c)

### Description

- A local cinema in central London
- An accessible 4-screen cinema based inside a hotel with restaurants

A 4-screen professional cinema with DCI-compliant Digital Cinema projection and sound, a high level of audience comfort, and a high quality food and drink offer. The cinema will have substantially lower admission charges than other London West End cinemas, offering all audiences access to a contemporary, high standard cinema showing a wide range of theatrical film releases. There will be an additional concession for Camden residents to ensure that the cinema is as accessible as possible to local people.

Key features:

- A programme of just off-date\* titles at universally accessible admission prices (compared to current West End rates)
- A high quality cinema experience with comfortable modern cinema seats, great sightlines, big screens and digital projection and sound
- Low ticket prices, making the cinema completely accessible to a wider range of audiences; where elsewhere access is available only at much higher ticket prices and/or via cinemas that operate membership schemes
- Second run titles – providing audiences with only opportunity in central London to catch up on films released 5-8 weeks previously; and providing distributors with a chance to extend the central London presence of their films after the initial play period is complete

A cinema ensuring access for a wide range of local people at much lower ticket prices; and that will also be one of the few remaining cinemas in central London providing the opportunity for audiences to catch up on recent released films following their initial theatrical run.

The cinema programme will feature new release titles, showing from between 2-6 weeks after their national cinema release dates. In any given week it is envisaged there will be as many as eight different films showing across the four screens. In summary, the cinema will offer audiences the choice they would find in a multiplex, together with standards of presentation, food and drink of a boutique venue, with the admission prices of a local cinema.

There will be no other cinema in central London offering this combination of low ticket prices and accessibility, high quality facilities and breadth of programming. As implied in the narrative above looking at the new business models for cinema, this cinema will buck the many industry trends which have made the majority of central London cinemas expensive, upmarket and exclusive. This cinema will instead be programmed and priced to enable the widest possible range of audiences to experience a high quality contemporary cinema.

#### \*Notes on cinemas showing films 'off-date'

The combination of small auditoria and admission charges substantially lower than the West End standard will preclude the new cinema from securing day and date theatrical releases from most distributors, especially major US studios.

Most distributors will be reluctant to offer premium-rated product to a discount cinema as they will not be able to recoup their marketing costs from the site, even if charging a high rental. The new cinema will therefore screen films off-date and will be able to secure new release titles from between 2-6 weeks after national release, with variations from title to title.

Cinemas that offer to show films from the third week of release can generally secure the film for a reduced booking commitment of seven days (as opposed to 14 days to secure a film on release date), and on reduced film hire terms – for example, distributors that charge 60% for the first week of a blockbuster title will charge 50% in week three, and many distributors will charge 35% for non-blockbuster titles.



This plan assumes an average film hire charge of 38% across the year, which will be significantly less than the Odeon is currently paying for its mostly day and date programme.

The other side to this off-date form of operation (in contrast to first run cinemas) is that the cinema will receive less direct benefit from the distributors' national marketing campaigns, which are generally aimed at promoting and building the highest possible level of awareness of a film at the point of release, and will be entering the market for any specific film as its value is reduced. This is borne out by the fact that in general, films achieve their highest weekend grosses in the first weekend, with average reduction of 20-25% in the second weekend, and a further 40-50% over the third weekend. So in this case, by the time the new cinema is showing a new film, its overall theatrical box office value will already be substantially reduced.

The theatrical release period for commercial new releases is generally 16 weeks, before the film is made available in other formats for home entertainment. Some independently released films have shorter release windows, and cinemas can usually access these titles under less onerous terms and conditions in the opening theatrical period.

However, from week three of release onwards there remains between 20-45% of value (varying from film to film) in any title.

The new cinema will also be showing any given film in a less competitive marketplace, as at that point in the film's theatrical life there will be fewer cinemas in London's West End still showing the same film.

With the closure of the Odeon Panton Street, there is now less competition for the second run market in central London. It is perhaps only the Prince Charles Cinema in Leicester Square which offers second run screenings alongside its repertory programme. Therefore, the new cinema will have the potential to create a very distinctive offer in the context of cinema-going in central London.

In the wider operational context, the cinema will provide screen space enabling distributors to extend the central London theatrical life of their key titles. As the theatrical 'shelf life' of new films becomes shorter and shorter due to the increased volume of films being released each week in the UK, any new cinema dedicated to extending this shelf-life, without compromising the improved standards found in central London cinemas, should be welcomed by the industry, even with the reduced ticket price.

In a marketing context, the low admission price will encourage audiences to spend more on other facilities and products at the cinema, increasing the secondary spend to a level significantly above the UK national average.

### **A local cinema for Camden**

The new cinema will also have the profile of a *local* cinema for local audiences; in this case, those in Camden borough. As well as offering a ticket concession for Camden residents, the cinema will largely operate like a local, rather than a West End/central London cinema, with lower ticket prices, small and intimate auditoria, and a broader choice of films aimed at a wider range of audiences than might be found in a commercial cinema.

Examples: with regard to programme, building and audience access, comparable local cinemas are The Lexi Cinema (Kensal Rise), The Rex (Berkhamsted), The Odyssey (St. Albans), the Genesis Cinema (Mile End) and Peckhamplex (Peckham).

### **Option c) 4-screen cinema (220 seats total) with hotel, bar, cafe/restaurant licensed auditoria**

- Operating at an average of 40% occupancy by Year 3
- 2nd run and repertory programming
- Low ticket price cinema with high quality cinemas, projection and sound, food and drink offer and overall environment
- No membership/universal access
- High occupancy rate (40%), + higher than UK average secondary spend with developed food and drink offer, and enabled by low cinema admission prices
- 127,776 annual admissions, average gross ticket price £6.25
- Total gross box office: £798,600
- Total secondary spend: £638,880 (@ £5 per head)

Examples: The Rex (Berkhamsted), The Odyssey (St. Albans), The Lexi Cinema (Kensal Rise) with higher than UK average secondary spend; other revenue from screen advertising and hires income.

### **Operational numbers**

- Open seven days a week, 363 days per year.
- Full capacity of 220 seats (across four screens)
- Four shows per day in each screen in staggered pattern across the screens
- Approx show times: 1.00pm, 3.30pm, 6.15pm, 8.45pm
- Daily capacity 880 seats; annual capacity 319,440 seats.
- Staffing to cover 80 hours per week in four theatres/same floor level
- Requiring two full time Cinema Managers
- Eight additional full time cinema staff for ticket sales
- Target occupancy rate: 40%\* by end of Year 3

### **\*\*Notes on occupancy rates for cinemas**

Multiplex cinemas, offering 4-5 shows daily in each of their multiple screens, operate at between 15-20% occupancy rate across a full operating year.

Independent cinemas offering 3-4 screenings daily in each of their 3-5 screens will operate at 22-30% occupancy.

Single screen full and part time cinemas offering up to three shows daily can operate at between 22% and 45% occupancy across an operating year, and both commercial and independent cinemas purpose built during the Digital Cinema age – with multiple smaller screens, based on more flexible forms of programming – tend to attain an occupancy level towards the upper end of this range.

By these benchmarks, the estimated occupancy rate here is set relatively high. This is after considering other key factors about this cinema such as low ticket price, central London location, distinctive offer and lack of direct local competition for low cost cinema, all of which will contribute to bring audiences to the new venue.

Occupancy rates serve usefully as a general performance benchmark for cinema operators but should not be considered in isolation. There are numerous factors (programming, size of cinemas and whether purpose-designed, ticket pricing) which determine occupancy rate and in some cases, the average size of the audience in numbers is a better gauge of whether a cinema is successful.

We can use occupancy rate here as a performance metric as the cinemas are largely being designed to fit their purpose and anticipated usage – as a high standard, accessible professionally run local cinema.

- Target annual admissions: building to 127,776 by Year 3 of operation
- Ticket prices: £6.50 (£5.50 Camden residents)
- Estimated annual box office: £798,600
- 127,776 ticket sales at average gross ticket price £6.25

## **Programme**

The principle behind the programming would be to provide opportunities for the widest range of local audiences to see a wide range of films at an accessible price level.

The programme would offer second run films, showing from week three to week 15 of their theatrical release period, to a central London audience. The majority of films are released in DVD and BluRay formats into the home entertainment market at around 16 weeks after their theatrical release; an increasing number of films are released simultaneously in theatres and on digital platforms, and it may be possible for the cinema to access these titles earlier in their theatrical life.

There are currently around 850 films released in the UK each year, ranging from US studio blockbusters released in 'saturation' release patterns, to art house films and documentaries in more limited release patterns.

It is envisaged that the Shaftesbury Avenue Cinema will screen a wide range of titles aiming for a broad range of audiences.

In any given week, the cinema would feature a mix of second run blockbuster titles (from week five of release), quality mainstream and crossover films (from week 3-5 of release), and some art house titles and documentaries closer to the release date (from week three of release).

It is estimated that the new cinema would show around eight different films per week across its four screens.

Like many local cinemas, the programme could feature family films at weekends and through school holiday periods, daytime screenings for older audiences, and parent and baby and controlled environment screenings for different sections of the local community.

## Outline annual operating budgets - Option c)

### Year 1

<b>INCOME</b>	<b>£</b>
Cinema box office (gross)	499,125
Cinema secondary sales (kiosk sales)	shown in F&B sales
Screen advertising	40,000
Private hire	30,000
<b>Total income:</b>	<b>569,125</b>
<b>EXPENDITURE</b>	<b>£</b>
Film hire @ 38% of (net) box office	158,056
PRS @ 1% of box office	4,159
VAT on ticket sales	83,188
Projection servicing costs/new lamps	8,000
Box office operating system licence	5,000
Heating and Lighting	14,400
Rates (estimate, apportioned to cinema)*	18,000
Insurance	6,000
Cinema Managers X 2 (FTE)	66,000
Cinema staff (X 5 FTE including Employer's NI)	116,688
Marketing and advertising	120,000
IT	10,000
Kiosk stock	shown in F&B costs
Film transport	3,000
<b>Total expenditure</b>	<b>612,491</b>
<b>Total + / (-)</b>	<b>(43,366)</b>

### **Notes on Year 1 operating budget**

- Box office income in Year 1 is based on average occupancy rate of 25% – this is a relatively low level in relation to the size of the screens to reflect the challenges of reopening a cinema on this site after 3 years of inactivity
- Total Year 1 admissions – of 79,860 @ average gross ticket price of £6.25 – assumes 75% of tickets will be sold at £6.50; 25% of tickets sold at £5.50 concessionary rate for Camden residents
- Food and Beverage sales are incorporated into the central F&B operating budgets
- Screen advertising is reduced in Year 1 to reflect estimated lower admissions
- Film hire is calculated at an average of 38% of net box office. The cinema will be showing off date titles rather than on release date. Film hire rates for off date titles generally fall between 30-50%, with the majority of week 3-6 titles falling between 35-45%
- Food and Beverage stock costs are incorporated into the central F&B operating budgets
- Cinema Managers' responsibilities will include operating the projection systems
- Cinema staff calculates a roster of five full time equivalent staff at London Living Wage pay level, whose responsibilities will include front of house duties and ticket sales.
- Marketing – increased budget in Year 1 to indicate the resources required to launch and sustain the promotion of the new cinema after a period of three years' inactivity.

## Year 2

<b>INCOME</b>	<b>£</b>
Cinema box office (gross)	658,844
Cinema secondary sales (kiosk sales)	shown in F&B sales
Screen advertising	40,000
Private hire	30,000
<b>Total income:</b>	<b>728,844</b>
<b>EXPENDITURE</b>	<b>£</b>
Film hire @ 38% of (net) box office	208,633
PRS @ 1% of box office	5,490
VAT on ticket sales	109,808
Projection servicing costs/new lamps	8,000
Box office operating system licence	5,000
Heating and Lighting	14,400
Rates (estimate, apportioned to cinema)*	18,000
Insurance	6,000
Cinema Managers X 2 (FTE)	66,000
Cinema staff (X 5 FTE including Employer's NI)	116,688
Marketing and advertising	96,000
IT	10,000
Kiosk stock	shown in F&B costs
Film transport	3,000
<b>Total expenditure</b>	<b>667,019</b>
<b>Total + / (-)</b>	<b>61,825</b>

## Notes on Year 2 operating budget

- Box office income in Year 2 is based on an increasing average occupancy rate of 33% to reflect effective audience development after initial establishing year for the cinema on this site
- Total Year 2 admissions – of 105,415 @ average gross ticket price of £6.25 – assumes 75% of tickets will be sold at £6.50; 25% of tickets sold at £5.50 concessionary rate for Camden residents
- Food and Beverage sales are incorporated into the central F&B operating budgets
- Screen advertising is reduced in Year 1 to reflect lower admissions of Year 1 on which advertising royalties received are based
- Film hire is calculated at an average of 38% of net box office. The cinema will be showing off date titles rather than on release date. Film hire rates for off date titles generally fall between 30-50%, with the majority of week 3-6 titles falling between 35-45%
- Food and Beverage stock costs are incorporated into the central F&B operating budgets
- Cinema Managers' responsibilities will include operating the projection systems
- Cinema staff calculates a roster of five full time equivalent staff at London Living Wage pay level, whose responsibilities will include front of house duties and ticket sales.
- Marketing – the marketing budget in Year 2 is reduced following Year 1 launch costs. This still represents a healthy budget for a Central London cinema. With a programme of off date titles the cinema will receive less benefit from the distributors' national release campaigns for individual films; therefore the cinema itself will need to develop its own, specific marketing activities to attract audiences
- The restrictions on the use of the exterior of the building (for cinemas, typically cinema signage and illuminated poster sites) will also require more substantial resource to be allocated to off-site marketing

### Year 3

<b>INCOME</b>	<b>£</b>
Cinema box office (gross)	798,600
Cinema secondary sales (kiosk sales)	shown in F&B Sales
Screen advertising	44,000
Private hire	30,000
<b>Total income:</b>	<b>872,600</b>
<b>EXPENDITURE</b>	<b>£</b>
Film hire @ 38% of (net) box office	252,890
PRS @ 1% of box office	6,655
VAT on ticket sales	133,100
Projection servicing costs/new lamps	8,000
Box office operating system licence	5,000
Heating and Lighting	15,000
Rates (estimate, apportioned to cinema)*	20,000
Insurance	10,000
Cinema Managers X 2 (FTE)	68,000
Cinema staff (X 5 FTE including Employer's NI)	120,188
Marketing and advertising	96,000
IT	10,000
Kiosk stock	shown in F&B costs
Film transport	3,000
<b>Total expenditure</b>	<b>747,833</b>
<b>Total + / (-)</b>	<b>124,767</b>



## Notes on Year 3 operating budget

- Box office is calculated at an average occupancy rate of 40% across the cinemas producing 127,776 admissions with an average gross ticket yield of £6.25
- Assumes 75% of tickets will be sold at £6.50; 25% of tickets sold at £5.50 concessionary rate for Camden residents
- Screen advertising revenue reflect Year 2 increased admissions
- Private hire – this estimate is based on 120 hours hire at a daytime market rate of £250 per hour in any one of the 4 screens. The cinema could host industry previews as well as a range of individual and corporate private hire events
- Film hire is calculated at an annual average rate of 38%, assuming that the cinema will offer a programme mix of off-date of new releases, second runs and classics at rates ranging from 25-50% of net box office
  - Average hire rate for a premium blockbuster title in wk 4 of release – 50%
  - Average hire rate for a selected/saturation release title in wk 3 of release – 40%
  - Average rate for a standard/independent release in wk 3 – 35%
  - Average rate for a repertory/classic film booking – 35%
- The Performing Rights Society charges cinemas a standard 1% of net box office for use of music in the auditorium and public spaces
- Projection servicing costs – estimates are based on 2017 cinema engineer cost quotations for annual servicing of Digital Cinema projectors
- Staffing to cover 80 hours per week in 4 theatres/same floor level
- Requires two full time Cinema Managers, plus five additional full time equivalent cinema staff for ticket sales. It is envisaged that the majority of these staff will be contracted on a part time basis; this is calculated at 2017 London Living Wage rate + 3% with inflation increase
- Rates – a proportion of the total rates payable for the building £48,379

# Conclusions of Options analysis

## Option a)

The status quo option of use as a standard cinema is a known quantity and performs no more than adequately.

As currently configured, and in the wider context of the cinema market described above, it is unlikely that the cinema will function better, or serve more audiences, or generate higher revenues in the coming years.

Therefore this model clearly does not support any plans for the future sustainability of the building and will not generate sufficient additional revenues to contribute to any capital expenditure which may be required to maintain the building.

## Option b)

The development of a boutique cinema style operation, with a more prominent and higher quality set of bar, cafe and restaurant facilities would be in keeping with the direction of new cinema developments within the wider industry, both in central London and elsewhere in the UK.

These new cinemas achieve much higher levels of secondary spend, with their improved overall package of services and facilities (from programming to seat comfort, to food and drink) and a higher per ticket yield as shown through the case study provided. Cinemas of this type have been created in both new build and conversions of existing cinema buildings.

On the face of it, this is a desirable option. However, as with all models of cinema, the successful operation of these cinemas depends on the design of the building, most critically enabling the creation a cafe/bar/restaurant at the front of the building which is highly visible at street level; and highly visible cinema signage on the exterior of the building.

New cinemas of this type have typically glazed wall exteriors at street level, and house several cafe, bar or restaurant spaces. If similar features are not possible in the Saville Theatre building, then this model of cinema will not be achievable.

It is interesting to note that when the Odeon Covent Garden was originally set up in 2002, it was perceived in the industry as the chain's attempt to emulate the success of the Curzon Soho, which had opened in 2000. Amongst a few key factors, the absence of an appealing, visible cafe/bar facility at street level, close to the entrance, critically held back the cinema from this aim and in recent years it has reverted back to become a standard commercial venue.

## Option c)

Option c), a local, modern, high quality, low admission price cinema on this site, would appear to be the most desirable of the four options assessed.

This model offers some business growth potential in clearly filling a large gap in the current London cinema market – that there is no other accessible low ticket price cinema in Central London and the majority of cinema operators are currently moving in the opposite direction towards high ticket price cinemas.

This model would therefore provide range of benefits for audiences and have distinctiveness within the London cinema market.

Most importantly, it is possible to envisage how this model could operate as planned within the building, as it offers a contemporary cinema solution – perhaps the only cinema solution – that can work inside a building with such limitations that it cannot easily be transformed into any other form of contemporary cinema.

# Appendix

## Other models considered

### Description

A 2 to 3-screen luxury cinema (220 seats) within a hotel, with adjoining bar and cafe/restaurant facilities; for use by hotel guests and the wider public. A luxury boutique cinema with an improved all round offer and higher ticket price.

These cinemas usually feature luxurious, idiosyncratic seating (such as period armchairs at Soho House, leather loungers at the Electric and cowskin armchairs at Soho Hotel); food and drink and supporting facilities of the standard that would be found in a 5-star hotel.

Other features:

- First run new release films/occasional pre-release previews/industry screenings
- High daytime and some evening industry and private hires use
- Use by the public can range from 40% + occupancy rates for public screenings, where the cinema has high street level visibility as a cinema, to low levels of public use where the cinema is located within a hotel, and there is little street level signage (e.g. The Ham Yard Hotel Theatre). Many hotel cinemas have yet to achieve a high level of use by the wider cinema-going public as they often have limited external signage indicating that they a) house a cinema and that b) it is open to the public. So the well established examples of hotel and private members' club cinemas rely chiefly on private hire revenue (from both within and outside the film industry).

- The notable exceptions are the well established Electric Cinema on Portobello Road, part of the Soho House group and a redevelopment of the Electric Cinema, one of London's oldest cinema buildings; and the recently opened Curzon Mondrian, programmed and operated by Curzon for the Mondrian Hotel
- Occupancy rate for public screenings is a wide range, as described above (10-50%) hire use – minimum of 50% of weekday, daytime hours occupied
- In this model of cinema, private hires would account for more than 50% of the overall income generated by the cinema
- Average hire rates – £260-400 per hour
- Membership
- Higher than UK average secondary spend from both public screenings and private hire users.

Examples: Curzon Mondrian, The Ham Yard Hotel Theatre, Electric Cinema, Portobello; Soho House

## Conclusions

This model, with a luxury cinema inside a hotel or members' club is more difficult to assess due to the non-disclosure of financial figures relating specifically to the cinema operations in these larger businesses.

There are two markets in which these cinemas operate – the first is the primarily daytime industry preview and private hire market, and the second is the evening wider cinema market.

There is evidence to suggest that the daytime market for previews and private hires is extremely competitive, occupied by the Hollywood studios who run their own preview theatres, and the more established preview theatre operators like Dolby, Soho Screening Rooms, Soho House and The Hospital Club.

The larger hotel preview theatres, e.g the Soho Hotel, Charlotte Street Hotel, Mayfair Hotel – use their facilities for a combination of screenings for guests and external hires. It is estimated that external hires by the film industry are occasional, rather than a regular occurrence.

The market for industry hires is also extremely location sensitive. For many years, the vast majority of the regularly used preview theatres were found within Soho; if outside, they were housed at the London headquarters of one of the US film studios.

In recent years, The Hospital Club in Covent Garden has broken this geographic monopoly, on the strength of the wider use of The Hospital by film industry professionals. In spite of repeated attempts, it has proved extremely challenging for new preview theatres outside Soho to break into this market, and a Shaftesbury Avenue cinema would face the same challenge.

Furthermore, there are no hotel cinemas in London with more than 2 screens, so the cinema operations are in and of themselves relatively small businesses.

The deployment of cinemas inside hotels for public screenings is, to date, a largely undeveloped area of the cinema market. Curzon Cinemas currently operates public cinemas at the Ham Yard Hotel in Soho and Mondrian Hotel on the South Bank with mixed box office results.

All of this suggests that this option, with the cinema running as a discrete operation within a hotel, is not viable in this case.

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