

WESTPEAK RESEARCH ASSOCIATION

IMAX Corporation (NYSE:IMAX)

Entertainment Technology Industry

IMAX and Chill

March 17th, 2019

IMAX Corporation ("IMAX") is an entertainment technology company, specializing in motion picture technologies and presentations worldwide. IMAX has 1,505 theatre systems operating in 80 countries across the world.

Thesis – Uncertainties in the Film Industry

With 2019's anticipated strong lineup of releases, IMAX is expected to experience stable revenue growth. IMAX is able to present content in a differentiated way with its premium, patented technology and continuous improvements in technological advances, such as IMAX with Laser and IMAX Enhanced. However, we also recognize growing competition in the space from online streaming services and in-home entertainment, which may pose a challenge in IMAX's box office sales.

Drivers – The Only One of its Kind

IMAX's growing theatre network and the increasing number of filmmakers approaching the Company to integrate their technology will further drive revenue growth. Despite the rise of online streaming services, moviegoers will continue to seek differentiated viewing options, with IMAX being the forefront and the only one of its kind. Additionally, with a strong lineup of films in 2019 and increasing disposable income, IMAX will see favor in such conditions.

Valuation

Given IMAX's current share price, we believe IMAX is currently undervalued in the market. Using a 20% Comparable Companies Valuation and an 80% DCF Valuation, we produced a price target of \$24.00, representing a 4% upside. We have decided to initiate a **hold** rating on IMAX Corporation.

Analyst: Evadne Sanussi, BCom. '20
contact@westpeakresearch.com

Equity Research U.S.

Price Target	USD\$ 24.00
Rating	Hold
Share Price (March 17 Close)	USD\$ 23.13
Total Return	4.00%

Key Statistics

52 Week H/L	\$17.55/\$26.10
Market Capitalization	\$1.21B
Average Daily Trading Volume	\$0.610M
Net Debt	\$17.6M
Enterprise Value	\$2.07B
Net Debt/EBITDA	3.5x
Diluted Shares Outstanding	62.59M
Free Float	84%
Dividend Yield	N/A

WestPeak's Forecast

	<u>2019E</u>	<u>2020E</u>	<u>2021E</u>
Revenue	\$395M	\$421M	\$446B
EBITDA	\$150M	\$160M	\$174M
Net Income	\$73M	\$83M	\$99M
EPS	\$1.15	\$1.32	\$1.57
P/E	20.4x	17.7x	14.9x
EV/EBITDA	9.6x	9.0x	8.3x

1-Year Price Performance



Business Overview

Company Overview

IMAX Corporation is a Canadian entertainment technology company, specializing in motion picture technologies and presentations worldwide. It was formed in March 1994, as a result of an amalgamation between WGIM Acquisition Corporation and the former IMAX Corporation (incorporated in 1967). As of December 31, 2018, the IMAX theatre network comprised of 1,505 theatres operating in over 80 countries across the world, of which 1,409 (93.4%) are the commercial multiplex segment, and the remainder are in the institutional or commercial destination segment. The Company's institutional customers include museums, zoos, aquaria, and other educational and cultural centres. IMAX also sells or leases its theatre systems to commercial destinations, such as theme parks, private home theatres, tourist destinations, fairs, and expositions. Approximately 70.1% of all IMAX theatres are in locations outside of North America.

Exhibition 1: 2018 Theater Network Base

	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	365	4	33	402
Canada	39	2	7	48
Greater China	624	-	15	639
Asia (Excluding Greater China)	112	2	3	117
Western Europe	101	4	10	115
Russia & the CIS	62	-	-	62
Latin America	47	1	12	60
Rest of World	59	1	2	62
Total	1,409	12	82	1,505

Source: [Company Filings](#)

Products and Services

IMAX segments its products and services into four core business categories: 1) Digital Re-Mastering (DMR), 2) IMAX theatre systems, 3) New Business, and 4) Other.

IMAX DMR (49.2% of total revenue) – IMAX DMR is the proprietary technology used to digitally re-master Hollywood films for exhibition in IMAX theatres. It enhances the image resolution, visual clarity, and sound quality of motion picture films. Some notable DMR titles in 2018 include Maze Runner, Black Panther, and Avengers: Infinity War. In 2016, 51 films were converted through the IMAX DMR process and released to theatres in the IMAX network. This increased to 60 film conversions in 2017 and 70 film conversions in 2018. In a typical IMAX DMR film arrangement, the Company receives a percentage (in recent years has averaged ~ 12.5%) of net box office receipts.

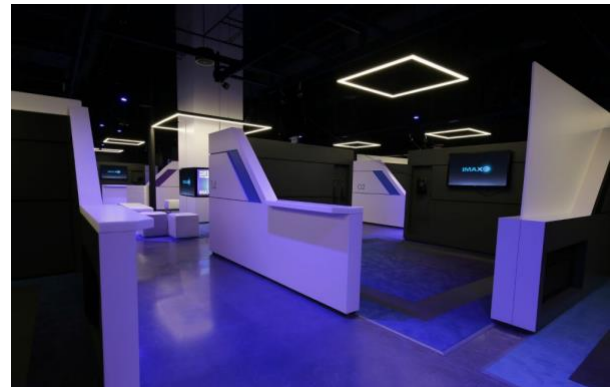
IMAX Theatre Systems (45.0% of total revenue) – IMAX theatre systems are the company's primary products— including a projector that offers superior image quality, a digital audio system with patented speakers, proprietary screen technology, and 3D glasses cleaning equipment. IMAX theatre systems are leased or sold with a license for the use of the IMAX brand,

and as part of the arrangement, the Company provides extensive advice on the planning, design, and installation of its systems. There are four types of theatre systems:

1. IMAX Digital: Xenon Theatre Systems – the vast majority of the Company's theatre system's signings, which delivers higher quality imagery than other digital systems.
2. IMAX Digital: Laser Theatre Systems – the laser-based digital projection system was introduced at the end of 2014, which offers greater colour presentation and clarity, consumes less power and lasts longer than existing digital technology.
3. IMAX Flat Screen and IMAX Dome Theatre Systems – primarily installed in institutions such as museums and science centres. There has been a decline in the number of such theatre systems after the introduction of IMAX digital theatre systems.
4. IMAX 3D GT and IMAX 3D SR Theatre Systems – Utilizes a flat screen 3D system, which produces realistic 3D images on an IMAX screen. There has also been a decline in 3D systems due to the conversion of such systems to IMAX digital theatre systems.

New Business (1.5% of total revenue) – The Company's new lines of business focuses on virtual reality initiatives, investments in original content, as well as premium IMAX home entertainment technologies and services.

1. Virtual Reality – The Company developed seven pilot IMAX VR Centres that offers entertainment content and games, with its flagship centre in Los Angeles, and others in New York City, Toronto, Manchester, Shanghai, and Bangkok. The Company also has a virtual reality fund among itself, IMAX China, and other investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including the IMAX VR Centres. However, IMAX announced that the Company has decided to conclude the IMAX VR centre pilot program and will have all the locations closed by Q1 2019. IMAX will be writing off its VR business, as it hasn't quite had the introduction that investors had hoped.



Source: [Upload VR](#)

2. Original Content – The Company co-produced the television series "Marvel's Inhumans" with Marvel Television Inc. and Disney ABC Television Group, which disappointed box office receipts and was canceled after one season, given negative reviews from critics. The Company expects future investments in original content will be less capital intensive than its investment in Marvel's Humans. The Company has also created two film funds to help finance the production of original content: IMAX China Film Fund and IMAX Original Film Fund. The China Film Fund, expected to be capitalized with over \$80.0 million, will co-finance approximately 15 Mandarin-language tent-pole films over three years, targeting contributions of between \$3.0 million and \$7.0 million per film. The IMAX Original Film Fund was formed in 2014 and has invested \$13.4 million toward the development of original films as of December 31, 2017. It was established to co-finance a continuous flow of original large format documentary films.
3. IMAX Home Entertainment Technologies and Services – IMAX has undertaken home theatre initiatives, including a joint venture with TCL Multimedia Technology Holding Limited to develop and sell a premium home theatre system.

The joint venture has signed agreements with end users and distributors for sale of more than 170 and 470 home theatre systems, respectively. IMAX has also developed a platform designed to permit customers to view content-on-demand in their home theatres. In September 2018, the Company introduced IMAX Enhanced, a licensing partnership with the audio expert Xperi, the parent company of DTS. IMAX Enhanced is a certification program that requires TV, projector, and speaker manufacturers to meet IMAX and DTS's standards. They will only allow equipment with the highest audio and video performance standards with top-of-the-line 4k HDR, A/V receivers, sound system. This is a strong offering as it leverages the IMAX brand and core technology through licensing while requiring no IMAX capital investment and virtually no ongoing OpEx as it utilizes existing technology capabilities.



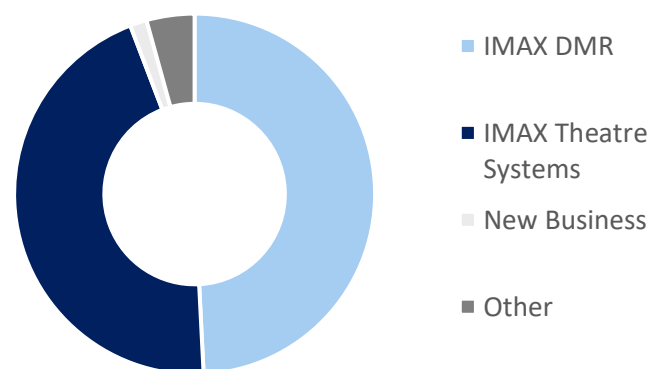
Source: [Company Website](#)



Source: [Cnet](#)

Other (4.3% of total revenue) – IMAX is also a distributor of large-format films, currently with distributions rights of 46 films covering subjects such as space, wildlife, music, history, and nature. Some notable films include A Beautiful Planet, Voyage of Time, and Island of Lemurs: Madagascar. IMAX also provides film post-production and quality control services for such films. Furthermore, the Company owns and operates two IMAX theatres, rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies, maintains cameras and other film equipment, and offers production advice and technical assistance to both documentary and Hollywood filmmakers.

Exhibition 2: Revenue Distribution



Source: [Company Filings](#)

Patents

IMAX's proprietary technology and many of its inventions are protected by Letters of Patent or applications filed throughout the world. As of December 31, 2018, IMAX holds 106 patents, has 13 pending in the United States, and has other patents and applications in other countries. The subject matter covered by these patents and applications encompasses theatre design and mechanism employed in its technology. Furthermore, IMAX also has the exclusive license rights from Kodak to a portfolio of more than 50 patent families covering laser projection technology, IMAX's recent development, and certain exclusive rights to a broad range of Kodak patents in the field of digital cinema. IMAX is able to prevent competition and increase the barriers to entry with such patents, thus, making their technology more unique.

Industry Analysis

Entertainment Technology Industry

The Entertainment Technology industry consists of companies that provide products and services used in the development of entertainment films and in electronic devices. Heavy investments are made in research and development to ensure best-in-class technology; therefore, the industry is highly competitive as it is subject to rapid change from emerging technologies — an entrant with an innovative product or an advancement in technology may benefit at the expense of struggling competitors. However, with product offerings ranging considerably from company to company, some industry participants may not compete directly with each other.

In recent years, exhibitors and entertainment technology companies have introduced their own branded, large-screen 3D auditoriums or other proprietary theatre systems. In many cases, these competitors have marketed those auditoriums or theatre systems as having the same quality or attributes as an IMAX theatre. Despite rising competition attempting to develop on-par entertainment technology, IMAX systems are superior in their proprietary patented technology and theatre architecture and are viewed as a trusted brand for Hollywood directors.

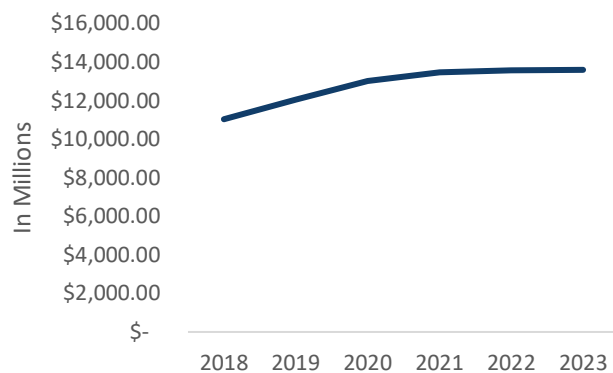
Film Industry

Although IMAX's products and services fall under the Entertainment Technology industry, its box office commission and theatre network revenues rely heavily on the demand in the Film Industry. A major threat to the Film Industry is the in-home competition from alternative picture distribution channels, such as home video, pay-per-view, DVD, Internet, syndicated and broadcast television, and most notably, the rise in demand for streaming services. More households are opting to watch movies in the comfort of their living rooms in comparison to rising ticket prices and cost of refreshments at theatres. Coupled with the increasing affordability of large-screen HDTV prices and online streaming services, such as Netflix, it may seem that box office sales will see a decline.

In 2017, admission to theatres experienced the lowest attendance since 1992 in North America. Many observers believed that it was diversions like Netflix and rising ticket prices causing the decline. However, numbers rebounded in 2018, with box office jumping back 11% from 2017. Movie releases like The Avengers, Mission: Impossible, Incredibles, Deadpool, and Jurassic World were the force behind strong ticket sales. While sales in North America were at a 25-year low, international

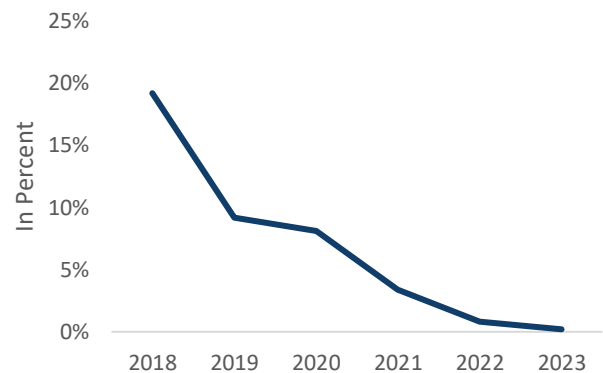
attendance was much less dire. Global box office revenue hit a record of \$40 billion in 2017— an increase of 3% worldwide. This supports the notion that the Film Industry can continue to perform consistently with strong movie releases, despite alternative viewing options, and that 2017's slump in North American is primarily attributable to a disappointment in movie turnout in the summer blockbuster season, with negatively rated movies such as Baywatch, The Mummy, and the fifth installment of the Pirates of the Caribbean franchise. Furthermore, the growth in online streaming services may not be as large as most people think. According to Statista, although revenue in video streaming is increasing, revenue growth is expected to decrease to almost 0% by 2023.

Exhibition 3: Video Streaming Revenue



Source: [Statista](#)

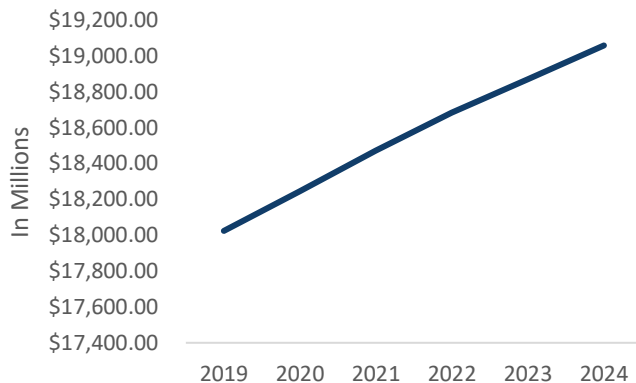
Exhibition 4: Video Streaming Revenue Growth



Source: [Statista](#)

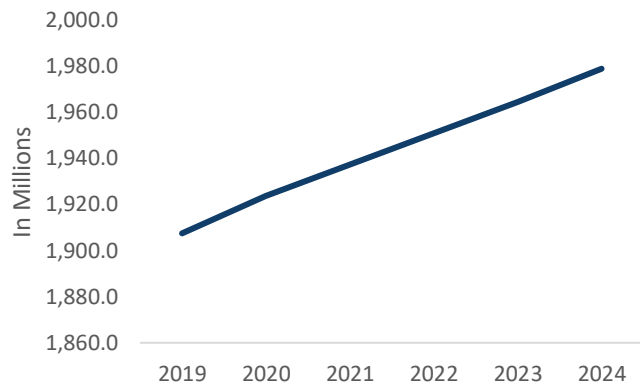
In alignment with the trend towards home theatres, IMAX has taken initiatives in developing home theatres in their New Business segment. The Company has a joint venture with TCL Multimedia Technology Holding Limited to develop and sell a premium home theatre system, with signed agreements with end users and distributors for sale of more than 170 and 470 home theatre systems, respectively. However, such home theatres are exclusively for higher-end customers who can afford the exorbitant price of \$400,000. The set-up box and film rentals costs extra, and an even bigger "Platinum" system costs about \$1,000,000.

Exhibition 5: Movie Theatre Industry Revenue U.S.



Source: [IBISWorld](#)

Exhibition 6: Movie Theatre Industry Revenue Canada



Source: [IBISWorld](#)

Despite the growing trend of in-home streaming services, IMAX is able to present content in a highly differentiated, premium way. Consumers will continue to seek out differentiated premium experiences, and top filmmakers will continue to create new films in large-screen format. They are not content launching new films exclusively in streaming format, as there is no event or buzz surrounding a film's launch. Movie Theatres Industry revenue is still expected to see growth in North America.

The Film Industry also experiences volatility due to seasonality in movie-goers. Generally, cinemas tend to see strength in summer blockbusters, winter and holiday releases — making up the bulk of any given year's total box office. This seasonality makes sales unpredictable and are subject to ranging consumer interests, affecting IMAX's revenue directly. Furthermore, IMAX also faces competition for the public's leisure time and disposable income with other forms of entertainment, such as gaming, sporting events, live theatre, social media, and restaurants.

Commercial Exhibition Industry

The Company's primary customers are commercial multiplex exhibitors (cinemas), in which the industry has undergone significant consolidation in recent years. Some consolidations include Dalian Wanda's acquisition of AMC and Hoyts Group in 2012 and 2015, respectively, and AMC's acquisition of Carmike Cinemas and Odeon & UCI Cinemas Group which includes Nordic Cinema Group in 2016. This has been beneficial to IMAX as it has helped facilitate the growth of the Company's theatre network. With this consolidation, the purchased chains by such commercial exhibitors have in turn become a part of the IMAX theatre network. For example, following AMC's acquisition of Odeon and Nordic, the Company and AMC entered into an agreement for 25 new IMAX theatre systems across the Odeon and Nordic theatre network in Europe. As smaller industry operators have a hard time competing with large chains, the industry will continue to consolidate.

Company Strategy

Theatre Network Expansion

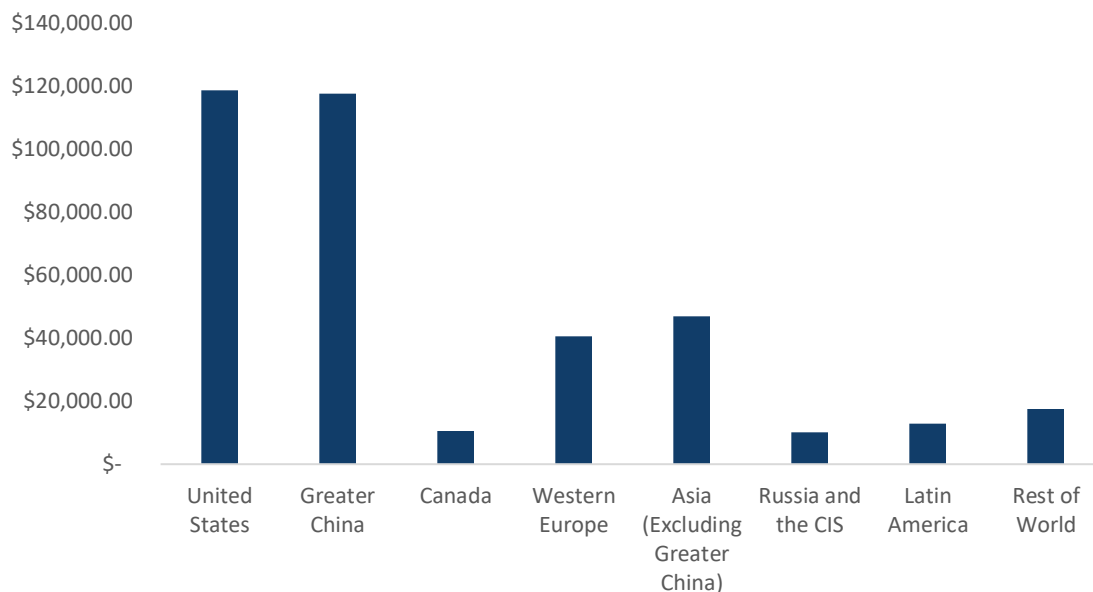
Exhibition 7: IMAX Theatre Backlog by Arrangement Type and Geographic Location as at December 31, 2018

	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale/Sales-Type Lease	Total
Domestic Total (United States & Canada)	145	3	1548	7	155
International					
Greater China	98	98	196	76	272
Asia (Excluding Greater China)	4	-	4	38	42
Western Europe	17	17	34	9	43
Russia & the CIS	-	-	-	17	17
Latin America	1	-	1	10	11
Rest of World	4	-	4	20	24
International Total	124	115	239	170	409
Worldwide Total	269	118	387	177	564

Source: [Company Filings](#)

As international markets are becoming more meaningful in contributions to the worldwide box office, IMAX is positioned to capture the growth with its global footprint. To sustain revenue growth, IMAX continuously makes effort to expand its theatre network in such international markets. A market in focus for IMAX is India — currently with 16 screens installed and 23 in backlog, IMAX strategizes to increase their penetration in this market as they remaster more Indian language films. Some notable film launches include a Bollywood film called Gold in August; and later in November, Thugs of Hindostan, hitting IMAX screens during the important Diwali holiday. IMAX has also been making efforts to program more Chinese titles to increase penetration. IMAX has taken the initiative to work more closely with key ticketing platforms in China to improve its positioning, sell more IMAX tickets, and expand their audience. Earlier in 2018, IMAX signed a 30-theatre deal with their long-standing partner, Jinyi, and continues to bring on new partners, such as China Resources, who signed an agreement for 14 new IMAX with Laser in 2018 Q2. However, IMAX's success in China relies on the control of the Chinese government, as the Chinese law regulates the Company's continued expansion and the business conducted within the country. IMAX will continue to work with local studios to broaden their content offering across their global network and increase penetration into local markets.

Exhibition 8: 2018 Geographic Revenue Breakdown



Source: [Company Filings](#)

Technological Advancements

IMAX continuously tries to improve its value proposition by undertaking strategic initiatives and introducing innovative technology, such as the launch of its IMAX with Laser Experience in April 2018. The Laser Experience aims to differentiate the presentation of content in various ways, in hopes to meet consumers' growing desire to experience the best viewing. It provides noticeably sharper images with more vivid colours. IMAX has already signed agreements for over 180 IMAX with

Laser systems, including an 87-theatre agreement with AMC, a 55-theatre agreement with Regal, and a 20-theatre agreement with Pathé in Europe.

In-Home-Initiatives

IMAX recognizes the rise in consumer preferences towards online streaming services. The Company is making efforts to introduce its core technology into the home, in line with the trend towards in-home entertainment. They have undertaken a joint venture with TCL Multimedia Technology Holding Limited to develop and sell a premium home theatre system and are launching IMAX Enhanced, a licensing partnership with the audio expert Xperi, the parent company of DTS. However, online streaming services such as Netflix, Amazon Prime, Hulu have already gained a large market share of the in-home entertainment services, which will be difficult for IMAX to catch up.

Catalysts

Growing Demand in Differentiated Movie Experiences

As per-capita disposable income is expected to increase in the next five years in North America, movie attendance, as a leisure activity and discretionary item, is expected to rise as well. Increasing disposable income means more people are willing to buy movie tickets, especially higher-value tickets such as 3D and IMAX movies. As technology has improved, more consumers are interested in seeing blockbuster releases in higher quality viewings. IMAX will benefit from improving consumer preferences for its technology. Additionally, as consumers increasingly demand differentiated viewing options, ticket prices will rise, enabling industry revenue gains.

IMAX DNA

Through previous performances, IMAX has been able to demonstrate more box office generated when IMAX cameras or their exclusive aspect ratio are part of the film's release. Filmmakers are increasingly approaching IMAX to integrate their technology into the film production process. Some films that have been announced with IMAX DNA include Lion King, the final Avengers film, Wonder Woman 2, and Chinatown Detective 3, the first Chinese title to be filmed with IMAX cameras. Furthermore, in 2018, 25 local language DMR films were released into the IMAX theatre network, including 18 in China, 3 in India, 1 in France, South Korea, Japan, and Russia, respectively. IMAX believes that there will be more films with IMAX DNA released over the next two years than in any such period before.

Movie Releases

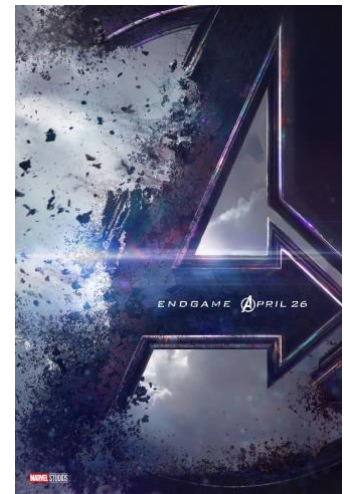
IMAX's revenue is largely driven by the quality of films released. When popular films are released, IMAX enjoys an increase in revenue share across its theatre network. Therefore, its performance is highly dependent on the lineup of films. As seen in 2017, box office declined to the lowest point in 25 years— mainly due to negatively reviewed film releases. 2018 saw a rebound in box office sales, and 2019 also appears to be a promising year for film releases. For instance, The Lion King, Avengers: Endgame, Wonder Woman 2, Toy Story 4, Spider-Man, It Chapter 2 and Star Wars Episode 9 are among the many films that have garnered buzz, and of some which were filmed in part or entirely with IMAX cameras. The strong lineup of films should act as a catalyst for the year 2019 going forward.



Source: [Wikipedia](#)



Source: [Amazon](#)



Source: [IMDb](#)

Strong Growth in China

Greater China is the Company's second largest market by revenue, and in recent years, has accounted for an increasingly significant portion of its overall revenues. Approximately 31% of overall revenue was generated from China's operations in 2018. IMAX has 639 theatres operating in the region and an additional 272 theatres in backlog, which represents 58.7% of the Company's current backlog. Despite concerns over slowing economic growth, during the recent 2019 Chinese New Year, IMAX significantly outperformed the industry by generating box office of \$32 million— a 40% increase compared to the 2018 holiday period and 75% increase compared to 2017. Box office for the first two months of 2019 is already up 61%, and the Company anticipates a blockbuster filled calendar for the remainder for the year, with key films including Captain Marvel in March and Avengers Endgame in April. The Chinese operations are an important counter-balance to the seasonality from the rest of the world.

IMAX is making substantial efforts to develop strong relationships with Chinese partners, including working more closely with key ticketing platforms, launching a new brand campaign, and introducing more local language films into the slate. The Company is currently in strategic discussions with Maoyan, the largest ticketing platform in China— accounting for roughly 60% of all movie tickets sold online in the country (85% of all tickets in China is sold online). IMAX will be launching a CRM platform with Maoyan and in the talks of other strategic alliances as well. Additionally, IMAX is building close relationships with filmmakers in China to continue this momentum and to further differentiate the IMAX format for local language content. The Company strategizes to remaster more Chinese content and program more Chinese language content to appeal to local audiences. IMAX's efforts in its expansion into China, the largest population in the world with significantly increasing disposable income, will prove beneficial to their sales.

Management Team

Richard Gelfond, CEO



Richard Lewis Gelfond has been the sole CEO of IMAX since 2009 and a director since March 1994. Gelfond had a varied career as an attorney and investor before teaming with Brad Wechsler (sole Chairman of the Company's Board of Directors since April 2009) to purchase the company in 1994, as they believed the technology was underutilized in the niche it was in — museums, science centres, and documentary films. Gelfond holds 212,479 common shares, equivalent to 2.8% ownership. His base salary was \$1,200,000, bonus of \$850,000, option awards of \$3,300,003, and others, totalling \$5,434,164 in 2017.

Source: [IMAX Proxy Statement](#)

Megan Colligan, Vice President



Megan Colligan, former Head of Global Marketing and Distribution at Paramount, will replace Greg Adam Foster as the Senior Executive Vice President of IMAX Corporation, effective February 19th, 2019. Foster leaves IMAX after 18 years, helping the company expand from documentaries for museums and science centres to Hollywood blockbusters by forging relationships with filmmakers. His departure is said to be a mutual decision and has been in the works for a while. (In 2017, Foster's total compensation was 3,800,722). Colligan has extensive experience in media and entertainment, notably spearheading the launch of major blockbusters such as Transformers and Mission Impossible franchises. She also has significant experience in China where Paramount was one of the most successful importers of content into the country. Megan will be responsible for overseeing IMAX's global Entertainment division, growing the company's worldwide box office, cultivating

strategic relationships in the entertainment industry, and more.

Source: [Hollywood Reporter](#)

Patrick McClymont, Executive Vice President and Chief Financial Officer



McClymont joined IMAX as Executive Vice President and Chief Financial Officer, leading the Company's global operations. Prior to IMAX, McClymont was the Executive Vice President and Chief Financial Officer at Sotheby's, one of the world's largest brokers of fine art, jewelry, real estate, and collectibles. He led select P&L activities, corporate strategy, regional Finance Directors across the globe, as well as other functions. Prior to Sotheby's, McClymont was Partner and Managing Director at Goldman, Sachs & Co., where he spent 15 years. McClymont is a member of the Board of Directors of Standard Motor Products, Inc., and is a member of the SMP Audit Committee, Compensation, and Management Development Committee, Nominating and Corporate Governance Committee and Strategic Planning Committee. His base salary was \$675,000, bonus of \$475,000, stock awards of 1,012,505, option awards of \$337,497, and others, totalling \$2,536,183 in 2017.

Source: [PR News Wire](#)

Management Conclusion

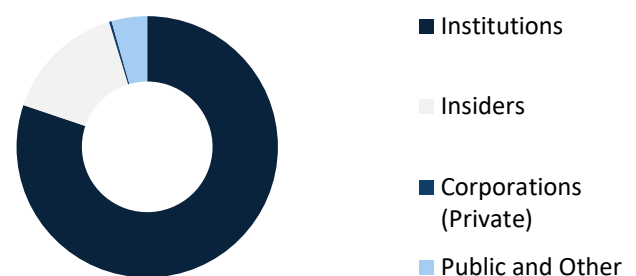
Overall, management appears to have extensive backgrounds in the entertainment industry and their respective fields, as well as longevity within the Company. We believe this team has the qualifications, relevant experience, and knowledge to lead IMAX Corporation towards its goals.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

As of December 31, 2018, there were 63,075,000 common shares outstanding. Only Douglas Group (13.8%), Franklin Resources Inc. (10.4%), PRIMECAP Management Company (9.8%), and Shapiro Capital Management LLC (6.4%) own more than 5% each of the Company's common shares. A substantial percentage of the shares are held by institutions, which is a good indication of institutional quality for IMAX. The large holding by insiders is also a strong indication of their confidence in the Company.

Exhibition 9: Shareholder Base

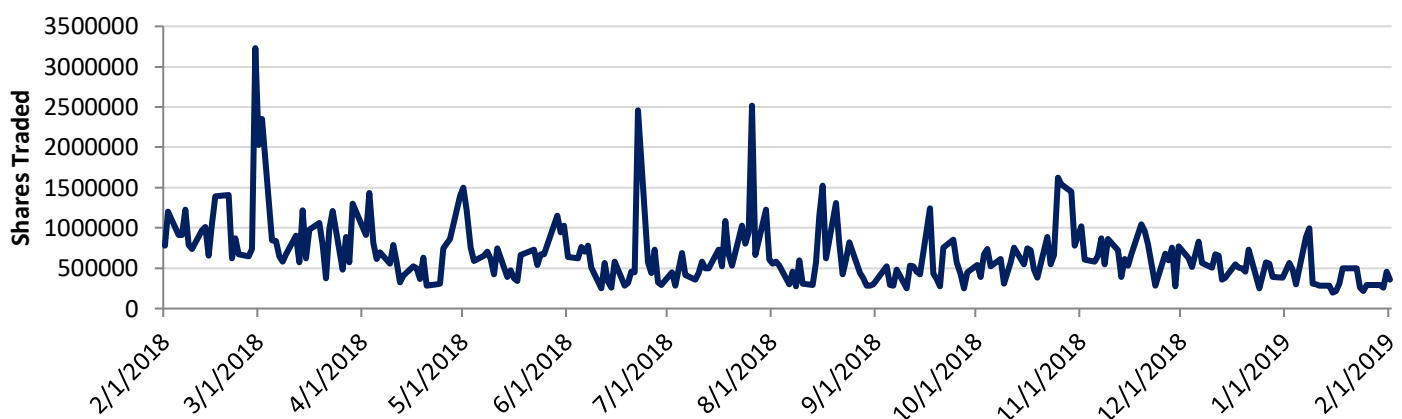


Source: [Capital IQ](#)

Liquidity

As of January 1, 2019, IMAX had a 90-day average daily trading volume of 609,705. With the current stock price of \$20.34, this is equivalent of \$12,401,400 worth of stock being traded on a daily basis, which is healthy for its market capitalization.

Exhibit 5: 1 Year Daily Trading Volume



Source: [Nasdaq](#)

Valuation

Discounted Cash Flows

Revenue – We decided to drive the theatre network revenue segment by estimated additional theatres and revenue per theater. We have estimated an average of 29 million per theatre based on previous figures. The company aims to install up to 2,855 theatres in roughly 10 years, so taking this into account, we assume IMAX will install 2,105 theatres by 2022—approximately the 60% mark towards the 10-year goal. We decided to drive the Network Business (DMR segment) by 3-4% for the next five years as we expect the number of digitally re-mastered films to rise. Filmmakers are increasingly approaching IMAX to integrate their technology into the film production process and management claims that there will be more films with IMAX DNA released over the next two years than in any such period before— so we believe a rate of 3-4% is fairly conservative. As for New Business, with the IMAX Enhanced initiative, we expect a growth rate of 3-5%. This is also fairly conservative and remains an insignificant segment compared to the others.

Terminal Growth Rate – We believe that IMAX will grow with GDP in perpetuity, so we used a terminal growth rate of 2%.

COGS Margin – COGS has appeared to stay consistent in the past 5 years at ~ 31%. With IMAX's cost reduction initiatives, we assume the margin will decrease in the coming years to 27-28%.

SG&A Margin – The SG&A margin is forecasted to be in line with the historical average at ~30%.

R&D Margin – R&D margin is expected to maintain at around 4% (versus 4-7% from 2017) as a result of the concluding development of the IMAX with Laser product.

Capital Expenditure as a percentage of beginning PP&E – Capital Expenditure ratio is forecasted to be in line with the historical average at ~6%. IMAX is expected to continue to grow its theatre network by similar quantities in the next 5 years; therefore, we expect similar capital expenditures as 2016 and 2017.

Income Tax Rate – We expect the tax rate to be 25% for the next 5 years.

WACC – We found IMAX's WACC to be 10.6%. We calculated our cost of equity based on the historical market return of 10.8% (S&P 500) and a risk-free rate of 2.5%. We used the company's 5-year beta of 1 taken from Bloomberg. We used a pre-tax cost of debt taken from Bloomberg, and an effective tax rate of 25%, to arrive at a 2% cost of debt.

Comparable Companies Analysis Set

IMAX's competitors are mostly Entertainment Technology companies or Entertainment Venues as its revenue is highly dependent on box office sales in such venues. The companies listed below have comparable business models.

Dolby Laboratories, Inc.

Dolby Entertainment creates audio, visual, and voice technologies for cinemas, home theatres, speakers, mobile devices, and other electronics. Dolby licenses its technologies to consumer electronics manufacturers. It has a certification program, similar to IMAX's new initiative, IMAX Enhanced.

AMC Entertainment Holdings Inc

AMC Entertainment is the world's largest theatrical exhibition company and owns, operates or has interests in theatres in 15 countries, primarily in the United States and Europe. AMC owns, operates, or has interests in more than 1000 theatres and over 11,100 screens. Its revenues are generated from box office admissions and theatre food and beverage sales.

Cineplex Inc.

Cineplex is a Canadian entertainment company, operating 162 theatres across Canada. The company offers food services, gaming, alternative programming, and online sale of home entertainment content through its digital platforms. Cineplex is also a joint venture partner in SCENE, Canada's largest entertainment loyalty program.

Cinemark Holdings Inc.

Cinemark operates in the motion picture exhibition industry, with more than 500 theatres and over 5900 screens in 41 states in the United States, Brazil, Argentina, Chile, Colombia, Peru, Ecuador, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Guatemala, Bolivia, Curacao, and Paraguay.

Lions Gate Entertainment Corp.

Lions Gate Entertainment engages in motion picture production and distribution, television programming, home entertainment, interactive ventures and games, and location-based entertainment in North America and internationally. Its revenues are generated from the Motion Pictures, Television Production, and Media Networks segments.

Recommendation

Given the strong lineup of films, growing theatre network, and IMAX's numerous initiatives in technological advancements, we believe IMAX may be able to counteract the rise in online streaming services. The Company essentially installs its theatres into its network at a relatively low cost, and waits for the revenue to flow in. It digitally re-masters' films with its existing technology, meaning that low expenditure is required. However, its revenues are highly dependent on the lineup of films— thus, if it were to see a weak year of films as that of 2017, the Company will suffer unfavorable revenues. It is difficult to guarantee the quality of films to be released. Furthermore, the rise of online streaming services may pose a threat to its sales as well. IMAX must act quickly with its in-home theatre initiatives to ride this shift.

Using our discounted cash flow assumptions, we determined a target share price of \$26.00. With comparable analysis, we determined a target share price of \$20.00 using EV/EBITDA multiple. With the discounted cash flow and comparable analysis weighted 80% and 20% respectively, our target share price for IMAX is \$25.00. We decided to weigh more heavily on the discounted cash flow model as there are few direct competitors to IMAX. It has a unique business model and is less comparable to companies in the same industry. We have decided to initiate a **hold** rating on IMAX Corporation.

Risks

Foreign Risks

As of December 31, 2018, 70.1% of the Company's theatre systems in operation were derived outside from North America, and the Company expects its international operations to continue to account for an increasingly significant portion of its revenues for the future as well. Furthermore, 72.5% of IMAX theatre system arrangements in backlog are scheduled to be installed in international markets. Therefore, there are many risks associated with operating in international markets.

IMAX experiences foreign exchange rate risk through its regular operating and financing activities as it generates box office in more than 75 countries. Therefore, unfavorable exchange rates between applicable local currencies and the U.S. dollar can have an impact on the Company's reported box office and revenues. The Company manages its exposure to foreign exchange rate risks through the use of derivative financial instruments, when appropriate. These financial instruments are utilized to hedge economic exposures as well as reduce earnings and cash flow volatility resulting from shifting market rates.

The Chinese market — the Company's second largest market by revenue — faces a number of risks, including changes in law and regulations, currency fluctuations, increased competition, changes in economic conditions, and others. Certain risks and uncertainties of doing business in China relies on the control of the Chinese government, as the Chinese law regulates the Company's continued expansion and the business conducted within China. For instance, the Chinese government regulates the number, timing, or terms of Hollywood films released to the market.

IMAX DMR Films

An important factor driving revenue is the growth and success of the IMAX theatre network and box office performance of films for IMAX theatres. The Company relies on films produced by third-party filmmakers and studios to convert with IMAX DMR technology. There is no guarantee the filmmakers and studios will continue to release films into the IMAX network or that the films will be commercially successful.

Intellectual Property

The Company's competitive advantage depends on its proprietary technology regarding IMAX theatre systems and digital and film technology. It relies on a combination of copyright, trademark, patent, and trade secret laws, restrictions on disclosures and contractual provisions to protect its intellectual property rights. However, if these laws and procedures are not adequate to prevent unauthorized parties from attempting to copy or obtain the Company's technology, particularly in foreign jurisdictions, IMAX may incur costs to secure enforcement and cause weakening of its competitive advantage.

Online Streaming Services

Online streaming services such as Netflix and Hulu pose a threat to the Company. IMAX relies heavily on the consistency and growth in movie-goers; therefore, if we are to see a significant shift in consumer preferences, it may impact IMAX's sales negatively.

Appendix 1: Model Summary

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
(Figures in mm USD)	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Income Statement											
Revenue	287.9	290.5	373.8	377.3	380.8	374.4	394.6	420.9	446.1	462.3	488.7
EBITDA	100.5	96.1	132.2	106.0	117.8	130.0	150.0	159.9	174.0	180.3	190.6
Net Income	44.1	42.2	64.6	39.3	12.5	33.6	72.5	83.4	99.1	108.2	119.7
Earnings Per Share	\$ 0.64	\$ 0.60	\$ 0.91	\$ 0.58	\$ 0.19	\$ 0.53	\$ 1.15	\$ 1.32	\$ 1.57	\$ 1.71	\$ 1.89
Cash Flow Statement											
Capital Expenditures	(13.0)	(40.1)	(43.3)	(15.3)	(24.1)	(13.4)	(16.0)	(14.6)	(12.6)	(10.8)	(9.3)
Acquisitions	(22.8)	(16.8)	(28.5)	(42.9)	(42.6)	(34.8)	-	-	-	-	-
Divestitures	(4.0)	(2.5)	(2.0)	(1.9)	(1.6)	-	-	-	-	-	-
Dividend Payment	12.0	4.7	25.3	-	-	65.0	-	-	-	-	-
Dividend Per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Dividend Payout to Earnings	-27.2%	-11.2%	-39.1%	-	-	-193.5%	-	-	-	-	-
Dividend Payout to Core FCF	-11.8%	-3.9%	-15.5%	-	-	-58.6%	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-	-	-	-
Balance Sheet											
Current Assets	230.2	325.4	592.5	488.5	462.1	433.6	534.8	664.1	799.6	938.1	1,087.8
Non-Current Assets	250.9	296.1	338.5	368.8	404.5	440.0	402.8	368.7	339.4	314.2	292.5
Assets	481.1	621.5	931.0	857.3	866.6	873.6	937.6	1,032.8	1,139.0	1,252.2	1,380.3
Current Liabilities	161.6	194.8	253.9	230.8	263.0	274.2	265.7	277.5	284.5	289.6	297.9
Non-Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
Liabilities	161.6	194.8	253.9	230.8	263.0	274.2	265.7	277.5	284.5	289.6	297.9
Shareholders' Equity	319.6	382.8	623.9	562.0	527.7	512.2	584.7	668.1	767.2	875.4	995.2
Cash	29.5	106.5	317.4	204.8	158.7	141.6	238.6	340.7	458.0	584.7	715.2
Debt	-	-	-	-	-	-	-	-	-	-	-
Net Debt	(29.5)	(106.5)	(317.4)	(204.8)	(158.7)	(141.6)	(238.6)	(340.7)	(458.0)	(584.7)	(715.2)
Minority Interests	-	43.9	53.3	64.5	75.9	87.2	87.2	87.2	87.2	87.2	87.2
Debt/EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Operating Metrics											
Return on Equity (ROE)	13.8%	11.0%	10.4%	7.0%	2.4%	6.6%	12.4%	12.5%	12.9%	12.4%	12.0%
Return on Assets (ROA)	9.2%	6.8%	6.9%	4.6%	1.4%	3.8%	7.7%	8.1%	8.7%	8.6%	8.7%
Return on Invested Capital (ROIC)	-	-	-	-	-	-	-	-	-	-	-
Valuation Metrics											
Stock Price (High)	\$ 30.83	\$ 31.38	\$ 43.22	\$ 34.80	\$ 34.25	\$ 25.90	\$ 23.40	\$ 23.40	\$ 23.40	\$ 23.40	\$ 23.40
Stock Price (Low)	\$ 22.67	\$ 24.29	\$ 29.18	\$ 28.55	\$ 17.70	\$ 17.78	\$ 23.40	\$ 23.40	\$ 23.40	\$ 23.40	\$ 23.40
Stock Price (Average)	\$ 26.75	\$ 27.84	\$ 36.20	\$ 31.68	\$ 25.98	\$ 21.84	\$ 23.40	\$ 23.40	\$ 23.40	\$ 23.40	\$ 23.40
Diluted Shares Outstanding (Average)	69.0	69.8	71.1	68.3	65.5	63.2	63.2	63.2	63.2	63.2	63.2
Market Capitalization (Average)	1,844.7	1,941.6	2,572.3	2,162.2	1,702.4	1,380.4	1,479.0	1,479.0	1,479.0	1,479.0	1,479.0
Enterprise Value (Average)	1,815.2	1,879.0	2,308.1	2,022.0	1,619.5	1,326.0	1,327.7	1,225.6	1,108.2	981.5	851.1
P/E	41.8 x	46.0 x	39.8 x	55.0 x	136.0 x	41.1 x	20.4 x	17.7 x	14.9 x	13.7 x	12.4 x
EV/EBITDA	18.1 x	19.6 x	17.5 x	19.1 x	13.8 x	10.2 x	8.9 x	7.7 x	6.4 x	5.4 x	4.5 x
FCF Yield to Market Capitalization	5.6%	1.7%	4.0%	4.8%	4.9%	5.9%	8.3%	9.0%	9.4%	9.5%	10.3%
FCF Yield to Enterprise Value	5.7%	1.8%	4.5%	5.1%	5.1%	6.2%	9.2%	10.8%	12.6%	14.3%	17.9%
Free Cash Flow											
EBIT	63.4	62.3	89.4	59.5	51.0	72.8	96.7	111.3	132.1	144.3	159.6
Tax Expense	(16.6)	(14.5)	(20.1)	(16.2)	(16.8)	(18.1)	(24.2)	(27.8)	(33.0)	(36.1)	(39.9)
D&A	35.6	32.0	40.9	44.4	63.8	53.3	53.3	48.7	41.9	36.0	31.0
Capital Expenditures	(13.0)	(40.1)	(43.3)	(15.3)	(24.1)	(13.4)	(16.0)	(14.6)	(12.6)	(10.8)	(9.3)
Changes in NWC	33.8	(6.1)	36.1	30.9	9.1	(12.4)	12.8	15.4	11.0	6.7	11.0
Unlevered Free Cash Flow	103.0	33.7	103.0	103.3	83.0	81.9	122.6	133.0	139.4	140.1	152.4

Appendix 2: Discounted Cash Flow Analysis

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
(Figures in mm USD)	FY2013	FY2014	FY2015	FY2016	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
WACC Calculations															
Cost of Equity															
Risk-free rate	2.5%														
Expected market return	10.8%														
Market Risk Premium	8.3%														
Beta	1.00														
Cost of Equity	10.6%														
Cost of Debt															
Pre-tax cost of debt	2.6%														
Effective tax rate	25.0%														
Cost of Debt	2.0%														
WACC															
Market value of equity	1,452.4														
Market value of debt	17.6														
Total Capitalization	1,470.0														
Cost of equity	10.8%														
Cost of debt	2.0%														
WACC	10.6%														
Free Cash Flow															
EBIT	63.4	62.3	89.4	59.5	51.0	18.1	22.9	10.3	21.2	72.6	96.7	111.3	132.1	144.3	159.6
Less: Tax expense	(16.6)	(14.5)	(20.1)	(16.2)	(16.8)	(4.5)	(3.6)	(1.5)	(5.3)	(18.1)	(24.2)	(27.8)	(33.0)	(36.1)	(39.9)
Add: Depreciation and amortization	35.6	32.0	40.9	44.4	63.8	12.6	13.5	12.9	14.2	53.3	53.3	48.7	41.9	36.0	31.0
Less: Capital expenditures	(13.0)	(40.1)	(43.3)	(15.3)	(24.1)	(6.6)	(2.0)	1.3	(6.0)	(13.4)	(16.0)	(14.6)	(12.6)	(10.8)	(9.3)
Less: Change in net working capital	33.8	(6.1)	36.1	30.9	9.1	9.8	(9.6)	0.1	(12.8)	(12.4)	12.8	15.4	11.0	6.7	11.0
Unlevered Free Cash Flow	103.0	33.7	103.0	103.3	83.0	29.5	21.2	23.2	11.3	81.9	122.6	133.0	139.4	140.1	152.4
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						-	-	-	11.0	11.0	113.3	105.9	100.3	91.2	89.6
Discounted Cash Flow Valuations															
Perpetuity Growth Method															
Perpetuity Growth Rate	2.0%														
PV sum of unlevered FCF	511.3														
Terminal value	1,057.3														
Enterprise Value	1,568.5														
Add: Cash	133.6														
Less: Debt	17.6														
Less: Other EV adjustments	84.7														
Equity Value	1,599.8														
Shares outstanding	62.8														
Implied Share Price	\$ 25.48														
Current Price	\$ 23.13														
Implied Price	\$ 25.48														
Total Return	10.1%														
Exit Multiple Method															
Terminal EV/EBITDA Multiple	8.5 x														
PV sum of unlevered FCF	511.3														
Terminal value	952.6														
Enterprise Value	1,463.9														
Add: Cash	133.6														
Less: Debt	17.6														
Less: Other EV adjustments	84.7														
Equity Value	1,495.1														
Shares outstanding	62.8														
Implied Share Price	\$ 23.81														
Current Price	\$ 23.13														
Implied Price	\$ 23.81														
Total Return	2.9%														
WACC															
Perpetuity Growth Rate		9.00%	8.50%	8.00%	7.50%	7.00%									
	1.00%	\$ 28.50	\$ 30.43	\$ 32.63	\$ 35.17	\$ 38.14									
	1.50%	\$ 29.90	\$ 32.06	\$ 34.55	\$ 37.46	\$ 40.90									
	2.00%	\$ 31.50	\$ 33.95	\$ 36.79	\$ 40.16	\$ 44.21									
	2.50%	\$ 33.35	\$ 36.14	\$ 39.45	\$ 43.41	\$ 48.25									
	3.00%	\$ 35.51	\$ 38.74	\$ 42.63	\$ 47.37	\$ 53.31									
Terminal EV/EBITDA Multiple		9.00%	8.50%	8.00%	7.50%	7.00%									
	8.0 x	\$ 24.46	\$ 24.95	\$ 25.46	\$ 25.99	\$ 26.52									
	9.0 x	\$ 26.39	\$ 26.93	\$ 27.49	\$ 28.06	\$ 28.65									
	10.0 x	\$ 28.32	\$ 28.91	\$ 29.52	\$ 30.14	\$ 30.78									
	11.0 x	\$ 30.25	\$ 30.89	\$ 31.54	\$ 32.22	\$ 32.91									
	12.0 x	\$ 32.18	\$ 32.87	\$ 33.57	\$ 34.29	\$ 35.04									

Appendix 3: Comparable Company Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				2018A EV/EBITDA	2019E EV/EBITDA	2020E EV/EBITDA	2018A P/E	2019E P/E	2020E P/E
Dolby Laboratories, Inc.	(NYSE: DLB)	6,893.3	5,803.7	12.8 x	12.7 x	11.5 x	22.2 x	22.7 x	19.5 x
AMC Entertainment Holding	(NYSE: AMC)	2,168.0	6,741.4	7.3 x	7.2 x	7.0 x	13.1 x	130.1 x	75.8 x
Cineplex Inc.	(TSX: CGX)	1,230.6	1,656.9	8.6 x	8.1 x	7.5 x	21.2 x	20.1 x	17.7 x
Cinemark Holdings Inc.	(NYSE: CNK)	4,480.2	6,106.5	7.8 x	7.6 x	7.4 x	16.5 x	16.5 x	15.8 x
Lions Gate Entertainment C	(NYSE: LGF)	3,435.6	6,063.3	10.0 x	11.0 x	9.4 x	20.5 x	27.8 x	12.3 x
IMAX Corporation	(NYSE: IMAX)	1,452.4	1,421.2	10.9 x	9.5 x	8.9 x	43.5 x	20.2 x	17.5 x
Median				8.1 x		7.5 x	22.7 x		17.7 x
Mean				9.3 x		8.6 x	21.8 x		28.2 x
High				12.7 x		11.5 x	130.1 x		75.8 x
Low				7.2 x		7.0 x	16.5 x		12.3 x
				EV/EBITDA Implied Price			P/E Implied Price		
Median				\$	19.93	\$	19.64	\$	26.09
Mean				\$	22.79	\$	22.33	\$	25.01
High				\$	30.72	\$	29.83	\$	149.27
Low				\$	17.81	\$	18.32	\$	18.91

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