

CORPORATE

# A takeover and Jurassic World IP: How Ron Tan is changing Cityneon

BY TRINITY CHUA |

Ron Tan is somewhat bemused that his mother cannot understand what he does. The CEO and executive director of Cityneon Holdings recounts how he had explained to her that his company built the Marvel's Avengers S.T.A.T.I.O.N exhibition, which was shown in Singapore earlier this year. Her response was to look quizzically at him and ask: "What do you do again?"

Fortunately, he appears to have better luck explaining it to investors. Following some recent corporate action, the 46-year-old is now steering Cityneon firmly into the immersive exhibition business. Cityneon already has licences to produce and distribute exhibitions related to Walt Disney's Marvel's The Avengers and Hasbro's Transformers brands. The company recently bought JP Exhibitions for US\$25 million (\$33.8 million), which will give it intellectual property (IP) rights for Jurassic World: The Exhibition.

Tan thinks such blockbuster exhibitions will do very well in large, uniform markets such as China and parts of Latin America. "Especially Brazil, which has 300 million people, and a lot of them are fans [of Marvel characters]," he says. "Singapore will be a tough market because we are all in meeting rooms, but the ticket price will be higher. [In China and Latin America], ticket prices will be lower than [Singapore's] but the numbers will make up for it."

He has wooed the former executive creative director of creations at Cirque du Soleil to join him. Welby Altidor will oversee the creative direction of all Cityneon's blockbuster exhibitions. Tan is also trying to restructure Cityneon's other businesses, which include designing and building theme parks, pavilions and expos. He reckons the margins of these businesses will improve as he brings costs down and wins more contracts.

## From neon lights to dinosaurs

Cityneon started out 61 years ago as a supplier of electrical appliances and neon lights. It later expanded into doing installation works for retailers and exhibitors. The company was listed in 2005. Three years later, Malaysia-listed Star Media Group bought a controlling stake in Cityneon.

When Cityneon found Tan in 2014, the company was battling stagnating revenue growth. Tan, on the other hand, was running the very exciting business of building exhibition booths featuring Marvel characters. His company, Victory Hill Exhibitions, had designed an initiation ceremony for exhibition visitors to be inducted into the Avengers team. The whole set included interactive superheroes, quizzes and high-tech gadgetry, and had managed to earn rave reviews from fans of the comic series and the blessings of Disney and its subsidiary Marvel.

Aiming to lift its earnings and win over investors, Cityneon acquired Victory Hill for \$20 million in August 2015. Cityneon raised \$15.9 million through a one-for-one rights issue at 18 cents each to finance the acquisition. It also issued Tan 45 million Cityneon shares at 20 cents each.

The acquisition of Victory Hill has increased Cityneon's market value by more than six-fold — from \$40 million in 2014 to \$264 million today. Shares of Cityneon, after adjusting for splits, have returned just over 380% over the last three years. Last year, the company's earnings per share grew 290% to three cents.



The Jurassic World exhibition recorded a net profit of \$3.3 million for the period between April and December 2016

But Tan always felt that he could do more. And earlier this year, he got his chance. Hong Kong private equity firm ZHU Capital told Tan that a couple of Chinese investors were interested in working with him. ZHU had backed Starclouds Entertainment Development, which is Cityneon's partner for the operation of the Transformers Experience in China, Macau and Hong Kong.

After meeting these investors — Geng Zhihua, a Chinese investor with a focus on high-growth companies, and Hong Kong-listed packaging manufacturer Jin Bao Holdings (now known as Teamway International Group) — Tan decided to join hands with them. He had received offers from other investors with potentially better financial terms, but he wanted someone he could work with. "I needed a partner who would agree with what I want to do," he says, "a partner who would give me a certain amount of autonomy to do what I want to do to bring [Cityneon] to the next stage." He adds that these investors have contacts in China. "They put forth a couple of introductions for us there that could [lead to potential partners for our exhibitions]."

The three parties formed a special purpose



Tan expects more than one million visitors for Cityneon's Chicago Jurassic World set

vehicle called Lucrum 1 Investment to make a takeover offer to Star Media in May this year. Star Media disposed of its 52.5% stake or 128.5 million shares at 90 cents each, bagging a \$68.7 million disposal gain. Lucrum now owns 69% of Cityneon while Tan owns 15.5% of Lucrum.

Cityneon has since announced a new board of five members, consisting of Tan, the chief financial officer of Teamway International Group, and three independent directors. Shares in Cityneon have come up 18% since the announcement of the takeover offer, closing at \$1.065 on Sept 14.

## Profitable business

The movie-based exhibitions business, which Cityneon calls its intellectual property rights segment, is the company's most profitable segment. It made up 18.3% of revenue last year, but 60% of earnings. For 1HFY2017 ended June, revenue from the IP business increased 60.8% to \$16.5 million. It made up 33% of the group's revenue. Earnings for the period rose 62.4% to \$7.7 million.

Analysts expect Cityneon to book higher revenues and earnings following the acquisition of the IP for Jurassic World, which Cityneon will have the rights for till 2027. Cityneon paid an upfront fee of US\$20 million for these rights. An additional US\$5 million is due if the sets make US\$5 million in earnings for the 12 months to January 2018. "Given such a strong franchise and track record, its purchase price of five times forward earnings is attractive, versus the 7.5 times earnings that Cityneon paid for Victory Hill Exhibitions," says CIMB Research.

The Jurassic World exhibition saw 430,000 visitors in the six months it was on display in Melbourne, Australia, and 400,000 visitors over five months in Philadelphia, the US. Tan expects more than one million visitors for Cityneon's Chicago Jurassic World set, which has been on display since late May and will end its run in January 2018. "The Chicago exhibition is bigger than previous sets. We have more velociraptors running around," he says.

The exhibition will tour two other US cities after Chicago. Tan says Cityneon is build-



ing another set for Asia, a process that takes about five months. The company is likely to produce a one-off exhibition for Jurassic Park's 25th anniversary. UOB Kay Hian projects yearly visitors of 600,000 for Jurassic World.

Tan also has a pipeline of Transformers and Avengers exhibitions until 2019. Cityneon has one permanent Avengers exhibition in Las Vegas and three travelling Avengers sets. The first is in Taiwan until this month end. Analysts say this set is expected to tour three countries in Europe after, ending its run in 2Q2019. The second set is in Beijing, China. The third will tour Sydney, Australia, starting March 2018. A Transformers set will debut in China this coming November.

For travelling exhibitions, Cityneon typically partners other players that will take on operational risks. Cityneon takes an upfront fee and a 20% to 30% royalty fee on everything ranging from tickets to sponsorship. It also takes a cut from merchandise sales. According to CIMB, 10% of ticket sales is payable to Marvel.

For Cityneon, the biggest risk is the cost associated with building the display. The first exhibition of a new IP can be very costly. The first Jurassic World set cost US\$6 million, and subsequent installations cost US\$5 million. Nevertheless, the payback can be lucrative. The gross profit margin for a travelling set is around 85%, while that for a permanent exhibition is around 60%. The Jurassic World exhibition recorded a net profit of \$3.3 million for the period between April and December 2016.

"These exhibits are evergreen and remain successful long after the movie run in theatres," says Al Lieberman, executive director of the entertainment, media and technology programme at New York University's Stern School of Business. "In some ways, it is the reason for the continuing success of Madame Tussaud's wax collection of movie, music and television stars."

CIMB projects Cityneon's earnings to be \$15.5 million this year and \$22.8 million in 2018 — up substantially from \$6.7 million in FY2016. The new projections are based on higher revenue contributions from the Jurassic World IP, additional financing costs for bank borrowings, higher capital expenditure for new sets and a stronger order book from Cityneon's other businesses. The brokerage has a "buy" call and a price target of \$1.40.

UOB Kay Hian, too, has a "buy" call but a more bullish price target of \$1.50. "We raise our 2018 to 2019 net profit estimates by 12.2% and 7.5% respectively as we account for the new Jurassic World exhibit," the brokerage says. "We have removed our dividend forecast as the group focuses on expansion. The stock now trades at a bargain of 10.1 times FY2018 forward earnings versus its peers' average of 15.4 times FY2018 forward earnings, with a superior ROE."