

Step 3

Company background, Initial thoughts, KCQ's and Discussions



I was excited by the first glance at my company, EVENT Hospitality and Entertainment, to my surprise, an Australian entity. Now I knew of them because of their cinemas, but that was about it. Little did I know that they had a long history behind them and their subsidiaries which date back to 1910, having had a few different names in the past but more recently changing from Amalgamated Holdings Limited. Now I certainly panicked when I noticed a 95pg annual report, and am finding it difficult to get my mind around all of the information, it's a lot to take in, and I feel like I will spend way too much time trying to organise my thoughts, and that will divert me from critically thinking, but let's give it a shot.

So first and foremost, Event is in my opinion the most well-known line of cinemas in Australia, but they also own and operate hotels in Australia, New Zealand and Germany. Some of their popular brands include Moonlight Cinemas and Birch Carol and Coyle (along with Event of course). As for their hospitality side they have Rydges and QT along with Thredbo Alpine Resort just to name a few. The company was established in 1910 as Union Theatres and began developing Australian cinema, they moved on to become the Greater Union, and by this point were the largest Australian film entity, onwards to Amalgamed holdings limited where they branched out into the hospitality sector and began developing and operating Hotels and Resorts throughout Australia and New Zealand. Event is currently lead by Alan Rydge, who inherited the company in 1980 after the death of his father and consequently became the youngest ever chairman of an Australian public company.

From the entertainment side, Event aims to provide a superior viewing experience to its audience. It promotes itself rather well especially through the use of Cinebuzz, its reward program to further entice customers and enhance its merchandise sales, and further digital advertising. They clearly outline within the annual report that they are directly affected by box office sales and the relationship between such fluctuations and revenue. For example, in the Australian market Event experienced a profit decrease of 13.1% which directly related to a fall in the box office sales, and appears to be their biggest challenge as it is uncontrollable. The company aims to offset as much of this as it can and appears to do it through targeted decreasing of admission price in order to increase admissions and merchandising spend, sourcing less costly products and increasing booking fees and

online transactions. Although this does not completely offset the box office their strategies seem to work well. Being such a large entity, that level of profit decrease did not by any means affect their overall profit for the group.

The hotels and resorts, including their Thredbo Alpine Resort, are another large source of income. They own and operate hotels across Australia and New Zealand and have appeared to successfully raise room prices, and significantly increase occupancy across the board which boasts good returns. They also note that their alpine resort received high snowfall in late 2017 which increased the skier visitation by 40%. That along with increased visitation overall and strong food and beverage sales saw an increase of 15% revenue from the prior year. Event also have various other investments in property which also reported growth over the past year.

This information I gained mostly from the directors' report, I enjoyed reading how the company performed well in areas, as well as where they didn't outperform the previous year, and the clear major reasons behind these figures. When transferring over to the financial statements, I found it particularly interesting in being able to relate the figures back to last year, and the years before. The layout my companies' statements have had very little changes which makes it exceptionally easy to compare each year without having to search for it. I can literally lay out the pieces of paper on the table, overlap them and compare each of the 4 years side by side without having to enter the data into excel. Not only that, but it appears the company has not had any changes in their accounting practices in the last 4 years and I haven't spotted any numbers between the documents that don't match up. Which again makes it easy.

One thing I have found harder to come across is some relevant news and advertising, nothing grabs me at potentially significant and what I have found is usually very little in quantity. I thought more about advertising and what Event does and in reality, I can't say I ever see the cinema brand advertised blatantly and recurringly on tv or in public, or on the internet for that matter. Then I suppose why would they? No doubt film trailers are advertisement enough to encourage people to visit the cinema, other than the posters plastered on walls and in frames throughout the city, where else would their advertising costs be? They advertise at the beginning of films, encouraging audiences to try their different brands and hotels, and no doubt make commissions on advertising for other brands. Then there are rewards members who would generally visit movies more than your average joe, for example; my girlfriend and I have been dating for coming up to 5 years and not once have we been to the movies. Those rewards members generally entice a few friends to tag along as well. Looking to the financial statement advertising comes it at a cool \$37 million. Which does sit at the lower end of their scale of expenses which doesn't surprise me. But in relation to their total expenses (\$1.126 billion) it's almost insignificant.

Event seems to have a range of challenges, I considered what some of these might be before reading the report, my list included audience occupancy, room occupancy, available movies, quality of movies, costs of resources (electricity, merchandise, food). I was relieved to read some of their strategies and was impressed by the layout in which they delivered them.

Event clearly outlines its strategies at the end of the Directors report. Focussing on key issues and highlighting the strengths they have used to keep atop of the game. Updating their assets and pursuing others, as well as ensuring they are providing top quality services and entertainment to their customers. Their property portfolio is with a fair value of \$1.96 Billion as at 30 June 2018 and they aim to continue acquiring, developing and maximising returns as you would expect. They also note that some of their property is located within zones of earthquake risk in New Zealand which as a potential investor, I would want to know. They state that this would have an effect on potential

profit and income, but of course would depend on the severity of the damage. Would this be classed as materiality as is included in chapter two of the study guide? It relates to something that could potentially adversely affect my decision to pursue investing in this company, so I guess so.

In the entertainment summary they state clearly that they have no control over audience appeal to available films but again reiterate that they aim to supply a superior viewing experience in comparison to what can be achieved at home and outline a strategic plan in which they are pursuing which includes but isn't limited to refurbishing premium locations, locating other sources of income and sourcing alternative movies to Hollywood titles.

After reading the directors report I find myself rather confident in Events ability to meet its' challenges. Their plans and strategies seem straightforward and simple without needing irrational and high risk moves to find more profit. Going back to 2010 the company has managed to lift its share price from \$5 to above \$13 per share and hold it in that vicinity since 2016. It also appears that they have continuously payed out strong dividends throughout the years. However, I know that although the share price is currently \$13.21, I want to know how to calculate what their actual value is, if I was to put it into a dollar figure, would it be less, or more than what they are currently selling for? And how do I work that out? I'm hoping that information will become more apparent down the line.

The report so far is straightforward and easy to read in terms of structure, each section contains sufficient information to feel like I have gained an understanding in what the company does, what it aims to achieve and how it will go about moving on in the coming years. There is however a lot of terminology I find I'm having to google to gain an understanding of, which then leaves me bailing out of the read earlier than I hope to, only to come back later and restart the process. For example, current and non-current loans, Is a non-current loan still a liability? How, it's not current? I was lost at first over the idea of a non-current loan, I could not understand how it would still be classed as a liability if it was not current, aren't all loans current? If my home loan was not current, I would own my house, wouldn't I? but then why would I refer to it as non-current? From what I now understand, a non-current loan refers to that of a long-term liability, one that is not require to be paid within one year essentially, borrowed money with a 30-year term for example. I should have gathered a bit more by looking at the rest of the non-current liabilities, such as deferred tax or deferred revenue, they clearly imply that they are put off to a later time.

I also noticed a significant increase in the company's current loans and borrowings between 2016 and 2017, and a subsequent major decrease from 2017 to 2018. Just to put figures to it, in 2016 the total was \$2.02 million and in 2017 it was \$325.4 million. Also, a reverse in their non-current loans and borrowing's which moved from \$202.6 million in 2016 to \$2.3 million in 2017, and then back around again. I am not sure at all how to relate the two, or if I have to? Could this be in relation to a new Debt facility, or a renegotiation? When a new debt is configured does the companies Non-current debt change to a current debt for that period? Below is a snap of my spreadsheet entry relating to the figures in question (in red).

Liabilities	2,018	2,017	2,016	2,015
Current Liabilities				
Trade and other payable	106,947	106,895	100,607	97,332
Loans and borrowings	1,127	325,441	2,025	990
Current tax liabilities	1,298	790	20,198	16,009
Provisions	20,665	20,613	19,961	18,841
Deferred revenue	90,170	88,235	88,575	82,874
Other current liabilities	5,852	3,841	3,808	4,264
Total current liabilities	226,059	545,815	235,174	220,310
Non-current liabilities				
Loans and borrowings	376,355	2,360	202,610	118,085
Deferred tax liabilities	11,731	12,192	15,558	11,952
Provisions	16,443	14,340	13,470	10,531
Deferred revenue	9,202	8,720	6,453	9,413
Other non-current liabilities	2,191	2,610	3,758	3,907
Total non-current liabilities	415,922	40,222	241,849	153,888
Total liabilities	641,981	586,037	477,023	374,198
Net assets	1,088,598	1,050,289	1,012,744	962,904

Going back into the report I found that the company's debt facilities were due to mature on the 12th of September 2017, and were amended and restated on the 15th of August 2017 and are now set to mature on that same date in 2020. Is this why the numbers shuffled around? I find myself a bit baffled with this at this point in time. But since our latest PASS session, I was pleasantly surprised when talking about this issue after we had been broken into smaller groups, Jenni Cole managed to confirm that this would most probably be the case. Thanks Jenni! I still have to look further into how that works, but it's a solid start.

There was a significant increase in the company's purchases in 2017 in regards to property, equipment and plant, totalling \$281 million. This I thought was a large increase compared to 2016 (\$195 million). Also, I noticed the company's overall debt has been steadily increasing from \$201 million in 2016 to \$376 million in 2018. It leaves me wondering about their ability to service that level of debt? Of course, I don't understand how to determine its serviceability and in terms of a large company with large sources of income, maybe it is not such a big deal? I would have to assume that there is a significant potential for these purchases to generate income in the future as the equity has continued to steadily grow. But as a potential investor how do I interpret those figures? What do I need to consider in terms of serviceability other than debt? From what I see at this point, the company has made a profit of nearly \$112 million in 2018, \$375 million in debt seems to be ok, considering a person making roughly \$100k a year should be able to service a \$400k dollar home loan, at a higher interest rate, no? (P.S. not my circumstance, I wouldn't give away any of my financials that easily.) But then what else does that profit have to service? Maintenance, wages, insurance, operating costs, redundancies? How do I configure all of that information and more? Not to mention, what do I compare those too? Where do their assets fall into that equation? At this point I feel myself drifting into the deep end rather than treading in the shallow until I learn how to swim, moving on.

I pondered to myself why in 2015 the company opted to change its name from Amalgamated Holdings Limited? Was it due to growing a bad name, or having a poor profit margin and hoping to regain the market by updating and upgrading, or was it simply a restructure or tactic? From what I have read it appears to simply be a part of updating the company, with further cinema branding moving towards the Event name the company name followed suit, there appears to be no negative impact with profit following the change continuing to grow and I couldn't see any major changes to the structure of the financial reviews. But there is a lot of information to peruse, have I missed some?

I personally find that reading the statements is much easier than reading the directors report, I wish I had begun with the statement, to me its far easier to see a movement in the figures and then refer back to the report or notes to see what has happened, I would assume that if there are no major changes, their shouldn't be need for investigation but again that is based on faithful representation, that being that I can trust that the figures I am being shown are a true representation of my companies financial position.

Overall my companies report appeared visually, how I expected it to. It was a plain document containing a lot of critical information, and possibly some non-critical but if it was there, I honestly glanced over it. I've begun looking at other people's companies not so much for what they do but how they lay out their report, and have begun with Sam Jones' company Leaf Resources Limited which to my luck, presents its report completely differently to mine. It appears to contain a lot of similar structure in regards to the report and the information it contains, and the statements itself but is littered with pictures and colours and a lot of other noise which I can't help but think to myself why? Why is this in a financial document. Is there a purpose? is it intended to suck me into the idea of the company or is this just a way some companies present themselves? It doesn't work for me, I find I have enough trouble systematically reading the report without adding the confusion of colour to the mix. Maybe there is more too it? I look forward to reading Sam's reflection on the company and perusing others companies also.

In our week 3 PASS session I noticed that a few of the group felt that their companies were portraying a sales pitch, rather than a report purely identifying the companies position. I didn't speak up at the time but I feel differently towards mine, but that might be due to how I grasped the company's position, by no means do I disagree with what the others had found, I do feel like certain companies aim to "sell" to investors. If my company was in fact aiming to do that, I wasn't picking up what they were putting down. I'm not set to go out and buy \$10k worth of shares in Event, but I don't particularly feel like they would be a bad investment. I don't feel that the company poised itself to make a sale, I feel like they have told me what is going on, what affects them and what their strengths are. An overall stance of "here is what we are, where we are, and where we are going. You decide." This brings me back to why I am here in the first place, I want to decipher what that information means, I want to be able to look past the sale's pitch, and see what is an opportunity, or a mistake waiting to happen. The PASS platform continues to prove to be an invaluable resource and I recommend anyone looking to further their understanding to give it a crack.

My biggest challenge at this point is knowing how to filter this information. I seem to just find more and more to try and understand, and honestly, I'm unsure whether half of it is even a big enough deal to factor into the overall question. What is this company worth to me? What is its value? Am I grasping all the key concepts I need to, Am I gaining a better understanding, Am I learning? At the beginning of this document I couldn't figure out where to start, now at the end, I have no idea where to stop?

I'll try here for now.