

Group 1

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AMC Entertainment Holdings Inc.

Group 1



BARCLAYS

Market and Economics

- **Competitors:** Regal Entertainment Group, Cinemark Holdings, Inc., Cineplex Entertainment LP, IPIC, Rave Cinemas, Showtime Cinemas, Marcus Theatres Corporation, Harkins Theatres, Imax Corp, Cinema3D, Flix Brewhouse and Cinepolis.
- **Sources of revenue:** theater admission and food and beverage sales.
- **General trends of movie theater industry:** revenue has declined 16.6% from 2015-2020, due to competition from substitute film viewing methods, such as online streaming platforms and other forms of entertainment.
- **Impact of Covid-19:** The COVID-19 has had a disastrous effect on the industry, however with the promise of recent covid vaccines, AMC's stock has risen from \$3.76 on Nov. 23 to \$4.98 on Nov. 24.

Financials Review

- Headquarters: Leawood, Kansas
- NYSE: AMC
- Majority owned by the Chinese conglomerate Wanda Group
- 5,408 full-time employees
- 1,004 movie theater-complexes
 - (636 in U.S. ; 355 in Europe; 2 in Saudi Arabia)

Financials Review

Operation Results (nine months ended September 30)

(in Millions \$)	2020	2019	% Change
Revenue	1,079.9	4,023.3	(73.2)%
Operating expenses	4,213.0*	3,930.7	7.2%
Operating income	(3,133.1)	92.6	(3383.4)%
Net Loss	(3,643.3)	(124.7)	(2921.7)%

*AMC incurred impairment of long-lived assets, definite and indefinite-lived intangible assets and goodwill of 2,047.8 million in 2020.

Financials Review - Liquidity management 2020

- Cash at Sept. 30, 2020 was \$417.9 million, excluding \$10.9 million of restricted cash.
- In April, issued \$500 million of 10.5% first-lien notes due 2025.
- Received \$7.1 million in cash tax returns
- Refiled tax returns under CARES act provisions with expected amount to receive being \$17.4 million.

Financials Review - Debt Exchange 2020

- Reduced principal amount of debt by \$555 million;
- Reduced cash interest expense by \$120 million in the first year following the exchange offer;
- Extended maturities on approximately \$1.7 billion of debt until 2026; and
- Included issuance of \$300 million of new 10.5% first-lien notes due 2026.

Financial Review - Competitors

AMC

Debt/Asset Ratio = 1.214

Current Ratio = 0.383

Debt/Equity Ratio = 5.657

Cineplex

Debt/Asset Ratio = 0.898

Current Ratio = 0.240

Debt/Equity Ratio = 8.840

Cinemark Theatres

Debt/Asset Ratio = 0.824

Current Ratio = 0.634

Debt/Equity Ratio = 4.698

Assessment of US market

- Since January 2020, stock value of US based cinema has fallen by \$2.7 billion





Assessment of US market

- In normal times, cinema ticket sales have seen a steady decrease since the 90s
 - This is due to the digitization of movies beginning with VHS
- Prior to the pandemic, AMC already had a deficit of \$4.7 billion
 - Due to luxury seating purchases, and acquisition of smaller competitors
- COVID-19 has exacerbated this decrease

SWOT Analysis - Strengths

1. Dominant presence in cinema/movie theater chain:

- AMC is the largest cinema chain in the world. They own or operate 1,000 theaters and 11,000 screens in 15 countries across the globe.
- AMC holds the #1 or #2 market share position in 21 of the 25 largest metropolitan areas of the United States.
- AMC holds the #1 or #2 market share position in 12 of the 15 countries they operate in.

2. Digital Exposure:

- Upgrades and makeovers in order to create a better in-theater experience, including premium format screens, luxury seating, expanded food options and the addition of wine and beer

SWOT Analysis - Weaknesses

1. **Changing Consumer Preferences:**

- On demand streaming services such as Netflix, Hulu, Amazon Prime Video, HBO, Showtime, and etc.
- Increasing dependence on concessions revenues and premium ticket upcharges.

2. **Relying on Hollywood:**

- Theater attendance is directly correlated to the population of the films on screen.
- There are only 7 movie distributors that account for 90% of the US box-office revenues, and they can drive up screening fees for AMC whenever or however they wish.

3. **No Plan for Recessions, Pandemics or Unexpected Events**

SWOT Analysis - Opportunities

1. International Expansion:

- Intention to purchase the largest theater chain in Europe, Odeon & UCI cinemas. This would add 242 cinemas.
- Wanda's ownership of 49.85% of AMC's stock allows for a opportunities and a smooth entrance into China's fast growing movie market.

2. On-Screen and In-Theater Innovation:

- Beneficial relationship with IMAX.
- Growing loyalty with rewards program.
- Improvements in convenience, comfort and variety for in-theater experience.

SWOT Analysis - Threats

1. Regional and Niche Competition:

- Regal and Cinemark are AMC's biggest competitors.
- Locally focused theaters inspire more loyalty than AMC.
- Modernized art house-style venues offer more intimate customer experiences, a difficult aesthetic to replicate on a national level .

2. Threat of Decrease in Theater Attendance:

- Presence of online streaming apps such as Netflix, Hulu, Amazon Prime Video, HBO, Showtime, and etc.; monthly subscriptions are cheaper than ticket prices.
- AMC would be hit hard if a major studio found success on a streaming app alone and decided to pull out the in person cinema business/experience.

What/If Scenarios

Worst Case Scenario (maintains status quo)

Date of valuation	Nov-20	Important: Before you run this spreadsheet, There should be a check against the iteration	
Company name	AMC		
Numbers from your base year below (in consistent units)			
	This year	Last year	
Country of incorporation	United States		
Industry (US)	Entertainment		
Industry (Global)	Entertainment	Last 10K	Years since last 10K
Revenues	\$ 3,301.30	\$ 3,358.00	1
Operating income or EBIT	\$ 13.40	\$ (108.00)	1
Interest expense	\$ 292.00	\$ 262.00	
Book value of equity	\$ (8,617.00)	\$ 339.00	
Book value of debt	\$ 11,000.00	\$ 5,400.00	
Do you have R&D expenses to capitalize?	No	If you want to capitalize R&D, you have to input	
Do you have operating lease commitments?	Yes	If you have operating leases, please enter your	
Cash and Marketable Securities	\$ 265.00	\$ 313.00	
Cross holdings and other non-operating assets	\$ 503.00	\$ 505.00	
Minority interests	\$ -	\$ -	
Number of shares outstanding =	57.55		
Current stock price =	\$ 4.45		
Effective tax rate =	25.00%		
Marginal tax rate =	25.00%		
The value drivers below:			
Revenue growth rate for next year	-20%		
Operating Margin for next year	-38.20%		
Compounded annual revenue growth rate - years 2-5 =	15.00%	Growth Lever	
Target pre-tax operating margin (EBIT as % of sales in year 5)	11.77%	Profitability Lever	
Year of convergence	3.00	Speed of convergence level	
Sales to capital ratio (for computing reinvestment) =	0.93	Efficiency of Growth Lever	
Market numbers			
Riskfree rate	0.85%		
Initial cost of capital =	7.14%		
Other inputs			
Do you have employee options outstanding?	No		
Number of options outstanding =	7.72		
Average strike price =	\$1.29		
Average maturity =	7.00		
Standard deviation on stock price =	45.00%		
Default assumptions.			

In stable growth, I will assume that your firm will have a cost of capital similar to that of typical mature companies (riskfree rate + 1.5%)

Terminal value	\$ 9,238			
PV(Terminal value)	\$ 4,774			
PV (CF over next 10 years)	\$ (1,299)			
Value of operating assets =	\$ 3,475			
Adjustment for distress	\$ 608		Probability of failure =	35.00%
- Debt & Minority Interests	\$ 12,434			
+ Cash & Other Non-operating assets	\$ 768			
ComValue of equity	\$ (8,799)			
If you - Value of equity options	\$ -			
Number of shares	57.55			
Revenue per share	\$ (152.89)		Stock was trading at =	\$4.45
Pre-t				
Sales				
Retu				
Stan				
Cost				
Valu				
Reve				
Pre-t				
Retu				
Chec				

Middle of the Road Scenario

	This year	Last year	
Country of incorporation	United States		
Industry (US)	Entertainment		
Industry (Global)	Entertainment	Last 10K	Years since last
Revenues	\$ 3,301.30	\$ 3,358.00	
Operating income or EBIT	\$ 13.40	\$ (108.00)	
Interest expense	\$ 292.00	\$ 262.00	
Book value of equity	\$ (8,617.00)	\$ 339.00	
Book value of debt	\$ 11,000.00	\$ 5,400.00	
Do you have R&D expenses to capitalize?	No	If you want to capitalize R&D, you must	
Do you have operating lease commitments?	Yes	If you have operating leases, please	
Cash and Marketable Securities	\$ 265.00	\$ 313.00	
Cross holdings and other non-operating assets	\$ 503.00	\$ 505.00	
Minority interests	\$ -	\$ -	
Number of shares outstanding =	57.55		
Current stock price =	\$ 4.45		
Effective tax rate =	25.00%		
Marginal tax rate =	25.00%		
The value drivers below:			
Revenue growth rate for next year	30%		
Operating Margin for next year	-2.00%		
Compounded annual revenue growth rate - years 2-5 =	15.00%	Growth Lever	
Target pre-tax operating margin (EBIT as % of sales in year 5) =	11.77%	Profitability Lever	
Year of convergence	3.00	Speed of convergence level	
Sales to capital ratio (for computing reinvestment) =	0.93	Efficiency of Growth Lever	
Market numbers			
Riskfree rate	0.85%		
Initial cost of capital =	7.14%		
Other inputs			
Do you have employee options outstanding?	No		
Number of options outstanding =	7.72		
Average strike price =	\$1.29		
Average maturity =	7.00		
Standard deviation on stock price =	45.00%		

The Value				
Terminal value	\$	15,012		
PV(Terminal value)	\$	7,758		
PV (CF over next 10 years)	\$	(1,555)		
Value of operating assets =	\$	6,203		
Adjustment for distress	\$	465	Probability of failure =	15.00%
- Debt & Minority Interests	\$	12,434		
+ Cash & Other Non-operating assets	\$	768		
Value of equity	\$	(5,928)		
- Value of equity options	\$	-		
Number of shares		57.55		
Value per share	\$	(103.01)	Stock was trading at =	\$4.45

Best Case Scenario (Dream)

Date of valuation	Nov-20	Important: Before you run this spreadsheet	
Company name	AMC	There should be a check against the iter	
Numbers from your base year below (in consistent			
	This year	Last year	
Country of incorporation	United States		
Industry (US)	Entertainment		
Industry (Global)	Entertainment	Last 10K	Years since last 10K
Revenues	\$ 3,301.30	\$ 3,358.00	1
Operating income or EBIT	\$ 13.40	\$ (108.00)	1
Interest expense	\$ 292.00	\$ 262.00	
Book value of equity	\$ (8,617.00)	\$ 339.00	
Book value of debt	\$ 11,000.00	\$ 5,400.00	
Do you have R&D expenses to capitalize?	No	If you want to capitalize R&D, you have	
Do you have operating lease commitments?	Yes	If you have operating leases, please ente	
Cash and Marketable Securities	\$ 265.00	\$ 313.00	
Cross holdings and other non-operating assets	\$ 503.00	\$ 505.00	
Minority interests	\$ -	\$ -	
Number of shares outstanding =	57.55		
Current stock price =	\$ 4.45		
Effective tax rate =	25.00%		
Marginal tax rate =	25.00%		
The value drivers below:			
Revenue growth rate for next year	150%		
Operating Margin for next year	5.00%		
Compounded annual revenue growth rate - years 2-5 =	15.00%	Growth Lever	
Target pre-tax operating margin (EBIT as % of sales in year	11.77%	Profitability Lever	
Year of convergence	3.00	Speed of convergence level	
Sales to capital ratio (for computing reinvestment) =	0.93	Efficiency of Growth Lever	
Market numbers			
Riskfree rate	0.85%		
Initial cost of capital =	7.14%		
Other inputs			
Do you have employee options outstanding?	No		
Number of options outstanding =	7.72		
Average strike price =	\$1.29		
Average maturity =	7.00		
Standard deviation on stock price =	45.00%		

The Value			
Terminal value	\$	28,869	
PV(Terminal value)	\$	14,919	
PV (CF over next 10 years)	\$	(5,498)	
Value of operating assets =	\$	9,420	
Adjustment for distress	\$	236	Probability of failure = 5.00%
- Debt & Mnority interests	\$	12,434	
+ Cash & Other Non-operating assets	\$	768	
Value of equity	\$	(2,481)	
- Value of equity options	\$	-	
Number of shares		57.55	
Value per share	\$	(43.11)	Stock was trading at = \$4.45

AMC Strategic Plan

AMC is at a unique crossroads in their business

COVID-19 has completely decimated their EBITDA, causing panic in both shareholders and fans of movies

The question when looking into the strategic plan is “How will AMC escape what seems like inevitable fate?”



AMC Strategic Plan

AMC plans to establish a line of credit with us both to help keep the company afloat and to maintain its position as the most popular movie chain in the United States

It is looking to save the company from having to close down theatres and/or entire operations



AMC Strategic Plan

According to the company's most recent 8-K,"given the reduced movie slate for the fourth quarter, in the absence of significant increases in attendance from current levels or incremental sources of liquidity, at the existing cash burn rate, the company anticipates that existing cash resources would be largely depleted by the end of 2020 or early 2021."



AMC Strategic Plan

AMC plans to use this line of credit to heal from the temporary but, heavily damaging cash burn caused by COVID.

Some possible remedies proposed by the company includes renting out whole theaters, discounting tickets, and highlighting safety measures taken up by the company



AMC Strategic Plan

If Barclays decides to issue the company a credit line, Barclays' the assumption that AMC will be able to bounce back into Pre-COVID level operations.

AMC's strategic plan is too vague and cannot, in any way provide a promise that the company will be able to recover from the cash burn of COVID.

AMC Entertainment Holdings EBITDA Margin Historical Data			
Date	TTM Revenue	TTM EBITDA	EBITDA Margin
2020-09-30	\$2.53B	\$-2.60B	-102.65%
2020-06-30	\$3.73B	\$-1.90B	-50.89%
2020-03-31	\$5.21B	\$-1.33B	-25.47%
2019-12-31	\$5.47B	\$0.61B	11.22%
2019-09-30	\$5.44B	\$0.68B	12.58%
2019-06-30	\$5.34B	\$0.66B	12.28%

Corporate Governance

AMC has a typical corporate structure with executive officers and a board of directors.

The most impactful executives regarding our decision are the CEO and the CFO

AMC has a 10 person board of directors, this includes one seat for their CEO Adam Aron.

Board of Directors



Lin Zhang

CHAIRMAN OF THE BOARD



Adam M. Aron



Howard W. "Hawk" Koch, Jr.



Philip Lader



Gary F. Locke



Kathleen M. Pawlus



Anthony J. Saich



Adam J. Sussman



Lee E. Wittlinger



Mao Jun (John) Zeng

Board of Directors

Members have various experiences and backgrounds in Accounting, Finance, Law, Consulting, Technology and Movie Production

This diversity of background amongst the board members creates a dynamic that enables the company to approach complex problems it may find when doing business from many different perspectives

Corporate Governance

CEO: Adam Aron

Strong consulting and tourism background
Former CEO of Starwood Suites

Former Senior Partner of Apollo Capital Management

Harvard MBA and College Grad



Corporate Governance

CFO: Sean D. Goodman



Strong Accounting Background

Held various financial strategy positions at different Fortune 500s
the largest being Home Depot

Former Deloitte auditor and former Morgan Stanley banker

Harvard MBA

Line of Businesses

Entertainment Industry

B2c Marketing and Sales

Leaders: Netflix, Viacom, Disney

At one point was considered a leader in the industry but is now a laggard, due to in person theaters becoming outdated. Recently filed for bankruptcy.

Laggards: Electronic Arts, AMC Theaters

Marketing Strategies

B2C Marketing Strategies

Targeting a younger demographic through technology

A social media audience of over 5 million +

Adjusts differing marketing strategies per region

Recommendation

Recommendation to **refuse** the request for \$1 billion line of credit:

- COVID is exacerbating their decreasing trends and threats from local and online competitors have heightened.
- AMC is at the risk of chapter 11 bankruptcy if cash depletes.
- AMC's strategic plan is vague and offers no promises of a recovering company, line of credit could possibly be only a temporary relief, as a best case scenario.