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Deals, Luck Keep AMC Afloat, Barely

By Eric H. Horn and Heike M. Vogel

While other movie theater companies have closed, are in the process of closing, or filed for insolvency proceedings, AMC Theatres has thus far beat the odds and continues on. What makes AMC unique from the others? Is it the business model, effective management, or just good *ole* fashion luck? The answer is not at all clear cut — as it appears to be a combination of all factors.

In order to understand AMC's story of survival, it is important to explore its business, performance, debt load, and restructuring and equity capital raises of the past year.

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Fortress Snaps Up Bankrupt Cos.

By Carlo Fernandez

Fortress Investment Group is a global investment manager with $49.9 billion of assets under management as of Sept. 30, 2020. Founded in 1998, it manages assets on behalf of 1,800 institutional clients and private investors worldwide across a range of credit and real estate, private equity and permanent capital investment strategies.

Japanese conglomerate SoftBank Group in December 2017 completed its acquisition of Fortress for $3.3 billion in cash. As part of the deal, the firm was to continue to operate as an independent business with principals Pete Briger, Wes Edens and Randy Nardone continuing to lead the American private equity giant.

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Company Performance

AMC Entertainment Holdings, Inc., is the largest theater operator in the world, operating in 950 theaters and 10,543 screens in 14 countries, according to its Annual Report on Form 10-K filed with the Securities Exchange Commission on March 3, 2021. About 590 of those theaters and 7,668 of those screens are located in the United States. Of the 950 theater locations, only 55 are owned by AMC and the rest are leased locations. AMC's total rental cost for 2020 was approximately $884 million. Revenue for 2020 US operations was approximately $827 million — down from approximately $4 billion for 2019. AMC reported a net loss of approximately $3.1 billion for 2020 US operations.

As of May 7, 2021, AMC stock is trading in the $9.51 per share range with a market cap of approximately $4.28 billion.

Company Debt Obligations

As of December 31, 2020, AMC maintained a senior secured credit facility comprised of a $225.0 million revolver and $2 billion term due in 2026. As of December 31, there was approximately $212 million owing under the revolver and $1.965 billion owing on the term. AMC also has, among other debt obligations, approximately (i) $500 million in 10.5% first lien notes due in April 2025, (ii) $1.46 billion in second lien subordinated secured notes due in 2026, (iii) $600 million in convertible notes due in 2026, (iv) $200 million in first lien notes due 2026, and (v) $500 million in first lien notes due 2025.

Notable Debt Restructuring & Stock Issuances

- April 2020, AMC issued $500 million in 10.5% first lien notes due in April 2025.
- July 2020, AMC closed on certain exchange offers pursuant to which it was able to retire approximately $2.02 billion in senior subordinated notes in exchange for approximately $1.46 billion in aggregate

A Balance Sheet Restructuring for AMC is Inevitable

Troubled Company Reporter and *Troubled Company Prospector* editors monitor AMC Entertainment's situation carefully in anticipation of what they think is an inevitable balance sheet restructuring.

Carlo Fernandez, the *Reporter*'s editor-in-chief, finds the theater owner and operator's financial condition frightening. Specifically, Mr. Fernandez observes:

In a recent 8-K report, AMC reports a net loss of $567.2 million. That figure is devoid of asset impairment charges and extraordinary accounting charges. It represents AMC's dismal performance over the last quarter, as reported under standard GAAP accounting. Depreciation and amortization of $114 million — significantly reduced by an asset impairment charge in 2020 of $1.852 billion — reflects true economic deterioration of AMC's asset base. Interest expense for Q1 was about $152 million. Ignoring variable costs, AMC's quarterly financial hurdle starts with these two figures, which sum to around $270 million. For the next 12 months, depreciation and amortization and interest will likely cost AMC around $1.1 billion.

Here's the financial problem. In 2018 and 2019 — two excellent years for AMC and the movie exhibition business — AMC produced average adjusted EBITDA (reflecting management's favorite tweaks) of $800 million. If depreciation and amortization plus interest total $1.1 billion in 2021, it sounds like AMC will be short $300 million of necessary EBITDA.

It gets worse. In 2018 and 2019, AMC's

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principal amount of newly issued second lien subordinated secured notes due in 2026, thus reducing the principal amounts of AMC debt by approximately $555 million.

- July 2020, AMC issued $200 million of first lien notes due 2026.
- December 2020, AMC issued 21,978,022 shares of Class A common stock to Mudrick Capital Management, LP, in exchange for $104.5 million aggregate principal amount of the Second Lien Notes due 2026.
- In 2013, AMC was authorized to issue up to 500 million shares of its Class A common stock.
- For the year of 2020, AMC sold 91 million of its Class A common stock at market price generating approximately $272.8 million in gross proceeds.
- As of December 31, 2020, AMC was able to defer approximately $450 million in obligations owing to landlords.
- January 2021, AMC sold approximately 165 million shares of its Class A common stock at market price, generating approximately $305 million in gross proceeds.
- January 2021, AMC issued $100 million in first lien secured notes due in 2026 to Mudrick.
- January 2021, holders of all $600 million AMC convertible senior notes due in 2026 converted the notes in exchange for 44,422,860 shares of AMC's Class A common stock.
- January 2021, Odeon Cinemas Group Limited, a wholly owned subsidiary of AMC, obtained a $400 million term loan.

How AMC Survived Thus Far?

AMC's survival thus far has been against all odds. Only one year ago, due to the ongoing COVID-19 pandemic, AMC was forced to suspend operations at the majority of its US-based locations. As the country called for social distancing and the closures of nonessential average annual cap-ex was $550 million. During these years, AMC did not grow revenue, did not add lots of screens, and did not make sizable acquisitions. AMC had to spend $550 million per year just to maintain the installed asset base in 2018 and 2019.

Let's wrap up the financial facts with a forward view. In 2021, AMC will incur interest expense of about $625 million. Assuming AMC's asset base has been reduced (hence the impairment charge of 2020) and some capital costs can be delayed, minimum capital expenditures of $400 million in 2021 are predictable. Before a projector runs in any AMC theater, debt maintenance and asset maintenance will cost AMC at least $1 billion in 2021. If AMC earned average EBITDA of only $800 million in 2018 and 2019 — again, two excellent years for the theater industry — it sounds like EBITDA for AMC will be short by at least $200 million.

Danilo Muñoz, the *Prospector*'s editor-in-chief, suspects consumer behavior has permanently changed in ways adverse to the theater industry for two reasons:

First, during the pandemic months, home streaming of entertainment skyrocketed. **Leichtman Research** found that in August of 2020, 78% of US households subscribed to a streaming service, up from 52% in 2015. Now, in May 2021, this growth has continued. More streaming subscribers means more at-home entertainment, which means fewer trips to the theater.

Second, the studios are increasing the appeal of at-home entertainment, which is disintermediating theaters. Theaters are a glorified node in a distribution channel — a retailer of an entertainment product.

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businesses, AMC and others found themselves in dire straits. Indeed, as the pandemic worsened and with no end in sight, AMC had no customers and continued to carry a high debt load as well as obligations owing to landlords for its 590 US locations. For 2020, AMC reported US revenue of $827 million — significantly down from approximately $4 billion for 2019, as well as a net loss of approximately $3.1 billion.

So what made AMC's survival story a success thus far — where others have failed? A good part of the success has to do with company management and the willingness of creditors to accommodate AMC. Another big factor is just plain ole good luck.

Let's address management decisions and creditor concessions first. During the latter part of 2020 and early 2021 AMC was able to borrow over $400 million from the Odeon term loan, sell approximately 22 million shares of common stock to Mudrick, and ultimately sell approximately 165 million shares for at-market prices. Additionally, during 2020, AMC was able to eliminate $555 million in senior subordinated debt, satisfy $600 million in convertible debt obligations via a conversion of the notes to equity, and defer its vast lease payment obligations. These actions and transactions enabled AMC to stay afloat for the time being.

With regard to AMC's good luck, that part of the story began in 2013 when AMC authorized the issuance of 500 million shares of its common stock. As widely reported, in late January of this year, a group of investors coming together on the Reddit forum **WallStreetBets** turned their attention to AMC. In the span of 72 hours, AMC's stock skyrocketed 467%. From this mania, AMC was able to rid itself of its $600 million debt obligation when the holders of that debt converted the $600 million for AMC common stock. This reduction followed AMC's infusion of $305 million via the sale of 165 million of the 500 million shares issued by AMC in 2013. Granted, AMC could have made significantly more than $305 million had it sold at the height of the WallStreetBets mania — but no one could have predicted the madness

"Glorified" because the at-home experience is not a perfect substitute for the theater experience; the node between movie studio and consumer has not been completely commoditized. But consumers are voting with their wallet. As monthly attendance figures roll in, consumers are saying they value the differentiated theater experience less.

While most consumers don't expect to buy their Oreos from Mondelez or their corn from Archer Daniels Midland, entertainment is different because the product can be reduced to bits and bytes. Over the last year, all major movie production studios have announced a direct-to-home strategy that erodes the consumer appeal of physical theaters. Most studios have shortened the window between theater debut and at-home availability, among other degradations to theaters' appeal. To put this in Michael Porter terms, technology has given movie studios greater seller power and they are slowly but surely squeezing the middleman theaters.

There are five clear advantages to the at-home movie experience AMC will struggle to replace.

Price. Disney is offering certain new releases at $30, which is about the average price of 3 tickets, using 2019 prices. If you've got a family of four, you come out $10 ahead before the curtain lifts. Penny pinchers can invite the neighbors over and split the cost. **Falincia Fira Lasut and Ferdinand Tumewu** found that the most influential variable in theater consumer choice was price.

Control. At home, the movie can be rewound, forwarded, paused, watched

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of and market reaction to the mania. At the close of January 2021, this debt reduction and cash infusion gave AMC, at best, a glimmer of hope that perhaps it has a fighting chance. At worst, it prolonged the inevitable for a few months.

It appeared that luck was on the side of AMC, as the results of the WallStreetBets mania certainly could not have been foreseen.

While all of the cash infused through stock sales, issuance of debt, and elimination of debt certainly extended its liquidity runway, the question remains whether it is enough to save the company going forward. In a recent 8-K, management had this to say:

> If attendance levels increase, we currently estimate that our existing liquidity, together with a portion of the proceeds we anticipate receiving under our continuing at-the-market equity program and additional landlord concessions, would be sufficient to fund our operations during the remainder of 2021. This requires an assumption that our attendance levels achieve approximately 10% of pre-COVID 2019 attendance levels during Q1 2021, 15% of pre-COVID 2019 attendance levels during Q2 2021, 65% of pre-COVID 2019 attendance levels during Q3 2021 and 90% of pre-COVID 2019 attendance levels during Q4 2021.

Here's hoping that AMC meets those targets and continues on, allowing movie-goers to return to a favorite pastime of a night out at the movie theater. Only time will tell whether such comes to fruition. With vaccine rollout and increased safety confidence of consumers, AMC for now has a fighting chance. ¤

About the Authors

Eric H. Horn and **Heike M. Vogel** are partners at New Jersey-based law firm, A.Y. Strauss, LLC, specializing in corporate restructuring, distressed M&A transactions and general business transactions.

multiple times, etc.

Flexibility. Viewers can eat, cook, drink or have sex on their sofa. The flexibility of the at-home distribution model is only limited by the imagination of the viewers.

Timing. At home, viewers watch whenever they want, versus scheduled showings at theaters.

Efficiency. The theater experience involves lines, concession stands, seat selection, advertisements, germs and masks, some moviegoers talking on their phones at inopportune times, etc... Consumer spending indicates that viewers increasingly value the at-home entertainment experience more and more.

TCR and *TCP* editors rarely opine about the economic and operational viability of a company. In this rare case, Messrs. Fernandez and Muñoz see the proverbial handwriting on the wall and feel strongly they would be remiss not to make this long-term call about AMC. During the pandemic, AMC took on too much debt for the economics of the industry business model. AMC has no ability to raise prices and little room to cut costs. Elevated interest expenses combined with asset base maintenance costs will outrun operating profits. Absent another meme campaign from the likes of Roaring Kitty, the credits are rolling on AMC in its current form.

If you and your colleagues have an alternative view about AMC's future, *Turnarounds & Workouts* would be thrilled to hear from you and would be delighted to share your view with subscribers this summer.