

ARTICLE

# There's Something Wrong with This Picture

Everyday life in much of the country is starting to resemble the normal existence we once knew. So, did you rush out to your local cinema to see “Black Widow,” the latest superhero film from Marvel Studios, when it debuted in early July? Probably not. For all the hype heralding the return of normal life again in a post-pandemic world, there was little about the debut performance of Black Widow that resembled a pre-pandemic premiere of a blockbuster film. Its opening weekend North American box office gross was \$80 million, a post-pandemic high for a theatrical release but far short of other well-received blockbusters in the pre-COVID world. Moreover, Disney simultaneously streamed the movie on its Disney+ platform, where it grossed another \$60 million that bypassed theatres entirely.<sup>1</sup> If that sounds unusual, get used to it.

For years, studios have made it a mission to shorten the exclusivity window with theatres, and the prospect of achieving that goal has been hastened by the pandemic. “Space Jam 2,” which also streamed on HBO Max, grossed \$32 million domestically in its opening weekend on nearly 4,000 screens — hardly a runaway hit despite industry efforts to spin its better-than-expected debut as a smash. Its opening domestic box office gross was slightly better than the original Space Jam’s \$28 million debut way back in 1996.<sup>2</sup> There might be no industry sector that has more secular negative trends working against it than movie theatres, but that unpleasant reality hasn’t stopped investors from throwing billions of new capital at the

industry since the pandemic began — and we don’t just mean AMC Entertainment.<sup>3</sup> It’s a perplexing and extreme example of the Wild West environment that’s prevailed in capital markets for more than a year, and it’s happening on a scale that is having a notable impact on corporate decisions and business outcomes.

That the domestic movie theatre sector has been in slow but steady decline for nearly two decades is widely known, and COVID-19 has accelerated this decline. Movie ticket sales have been gradually slipping since the turn of this century, with box office admissions in 2019 coming in 20% below those of 2002 (**Figure 1**), or more than 300 million fewer tickets sold annually.

This wasn't just one bad year; the trend in movie attendance since 2002 is unmistakably one of decline. Hefty ticket price hikes in some years have offset some of this slippage in attendance (or perhaps caused it). Further compounding these woes, the number of movie screens in North America has been gradually increasing over the same period. There were nearly 41,000 screens in 2019 compared to 35,000 in 2002 (**Figure 1**). This supply-demand imbalance leads to an obvious conclusion that the country is over-screened, and the curtain will have to come down on several thousand screens if any semblance of equilibrium is to be restored.

The theatre sector went through a massive restructuring period starting in the late nineties following the advent of the megaplex theatre earlier that decade along with a building boom that ushered in an explosion of new theatres in 8-12 screen megaplexes and the demise of single-screen and two-screen theatres and small theatre circuits. Several major theatre chains filed for bankruptcy in the early 2000s, which led to a wave of consolidation in the industry.<sup>4</sup> Screen count contracted slightly between 1999 and 2001, the only time that ever happened. Megaplex theatres offered viewers a sight-and-sound experience unlike any other moviegoers had ever enjoyed. But the large chains all offered moviegoers the same awesome experience and films, so this gave no one a particular advantage. Nor did it encourage more frequent moviegoing. After a decade of stronger box office admissions during the nineties, ticket sales peaked in 2002 and have been declining ever since. Theatre chains found themselves competing for a stagnant customer base in these very expensive new theatres. That dynamic has mostly prevailed for much of this century.

Adding to these challenges, studios have tried relentlessly to shrink the exclusivity window with theatres before movies could be released to video or streamed, from 120 days to 90 days and moving lower.<sup>5</sup> Prior to the pandemic it was widely believed that the relationship between movie studios and theatre chains was a symbiotic one, but the thinking now is that theatres need studios more than studios need theatres. Bypassing theatres for direct-to-home releases potentially can be very lucrative for studios, who can avoid a costly revenue split with

theatre chains and reduce film marketing costs as well. Large theatre chains have threatened to not exhibit films of studios that impose exceptionally short windows or simultaneous streaming, but those threats have become more toothless in recent years. Americans got used to streaming first-run movies at home during the pandemic, and many have upgraded their home theatre systems to the point where even blockbuster action movies can be enjoyed with the family from the comfort and safety of home — and save a few bucks as well. Theatre chains won't be going the way of video stores, but it's likely that moviegoing is an activity that will continue to lose allure with consumers, and there is little sign that this trend is reversible. Much like in-store shopping, Americans will still go to the movies; they'll just do it less often. None of this is breaking news.

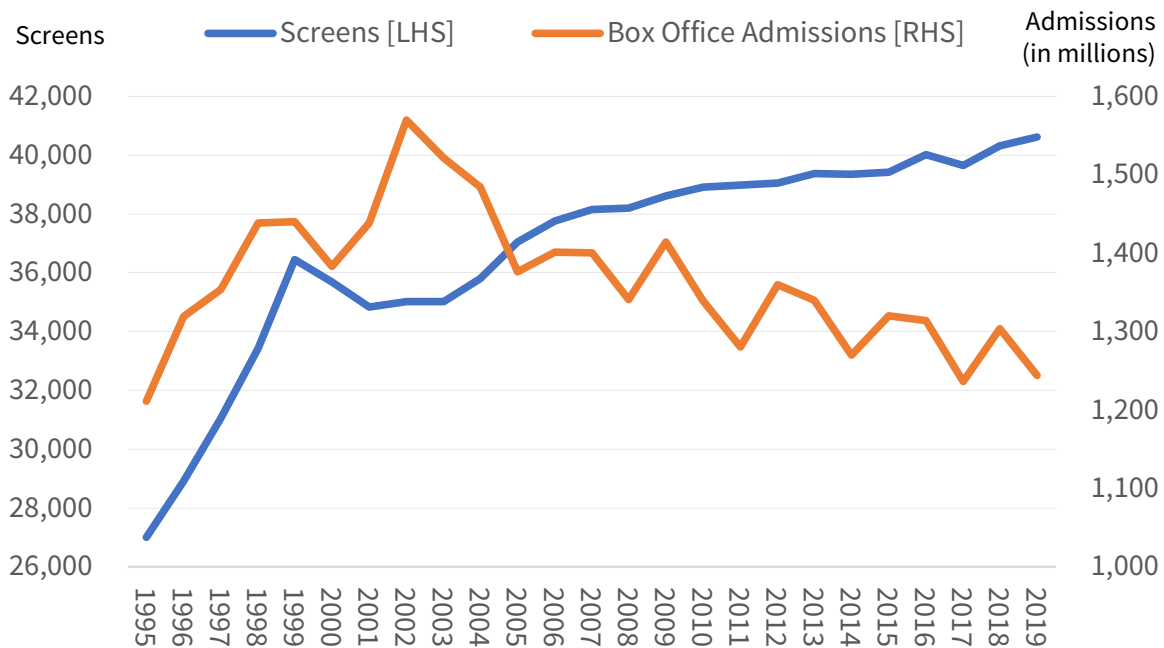
The COVID-19 pandemic shut down movie theatres for much of 2020. North American box office gross dropped to \$2 billion from \$11 billion in 2019<sup>6</sup>, a crippling blow to an industry already contending with threats on several fronts. Several smaller chains filed for bankruptcy as a direct result of COVID-related impacts<sup>7</sup>, while the largest theatre chains lost billions but were able to raise boatloads of capital to get them through the pandemic. Major chains and other theatre-dependent companies have considerably more liquidity today than before the pandemic. AMC Entertainment has raised \$1 billion in equity capital (and tapped debt markets as well) at prices far above its market value prior to the pandemic. At its peak valuation in June, AMC's equity market cap exceeded \$30 billion, or nearly three times the industry's North American box office gross.<sup>8</sup> Cinemark raised \$1.5 billion from unsecured note issuances in 2020 at yields of less than 6%. Cineworld and IMAX Corp. also raised substantial amounts of debt to get them through the lockdown periods.<sup>9</sup> AMC and Cineworld likely averted bankruptcy filings during the pandemic by their ability to raise capital at a most stressful time. But it's all low-risk money because Americans will be rushing back to theatres once the economy is reopened, right? Not so fast. Sure, there's pent-up demand to see movies again, as there has been for other activities that were off-limits during the COVID period.

So how long will it last and how long will it take to get back to 2019 performance levels? Sell-side analysts — the most optimistic bunch of corporate trackers out there — don't see theatre chains getting back to 2019 EBITDA levels until 2023, and with lower revenues, no less. It doesn't really compute given the trends in place.

The larger point here is that the willingness of capital providers and meme stock investors to support highly challenged companies in distressed industry sectors, however head-scratching it may seem, is buying time for troubled companies to plod along, perhaps for a few more years. In particular, the meme stock craze, rather than just creating gains or losses for day traders, is being exploited for capital raising.

GameStop, The GEO Group and Exela Technologies also have pulled off significant equity raises that provided financial runway to address their problems. All these capital market raises have implications for restructuring activity. It takes time to blow through large sums of money even for the most distressed companies. Recent capital raises for deeply speculative-grade issuers have come with few strings attached. Performance covenants and restrictive covenants in credit documentation continue to strongly favor borrowers in a liquidity-driven credit world. With capital markets showing little sign of a letup, restructuring professionals will have to put their eyes back in their heads and wait it out. In the meantime, get out and go see a few movies.

**Figure 1 - North American Movie Screens vs. Box Office Admissions**



Source: National Association of Theatre Owners

**Endnotes**

1. [Variety](#)
2. [Forbes.com](#)
3. [Forbes.com](#)
4. [The Motely Fool](#)
5. [Observer.com](#)
6. [CNBC.com](#)
7. [Cinemablend, Bloomberg.com](#)
8. [Yahoo Finance](#)
9. [Barron's](#)

  
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