MFIF

Minutemen Fixed Income Fund

AMC Entertainment Holdings (NYSE: AMC)

Analyst: Betame Douglas Maticha DeBono

We recommend an overweight position on AMC's 2026 3M L+300bps senior secured B1 Term Loans at the current price of $60.41. AMC Entertainment Holding is the largest global theatre chain which provides movie screenings, food distribution and other theatrical related services. The company has recently become distressed due to the sudden drop in global box office sales due to the COVID-19. The company is heavily sponsored by Silver Lake Partners who own a 31.2% equity stake in the company and ~20% of the outstanding debt. Due to a recent debt exchange and restructuring which alleviated $540 million of debt the company has increased liquidity but has been burdened by heavy cash burn expected to be ~100 million a month while in operation. Our recommendation is built on a high probability that AMC's PP&E is undervalued specifically a substantial portion of furniture, fixtures, and equipment. Our research indicates that AMC could recovery 75.8% of the first tranche's balance which combined with L +300 spread payments forecast an annualized IRR of 17.52% if note trade up to our conservative recovery estimates when EBITDA turns positive Q2 2022. If AMC is able to slow cash burn, and global box office revenue return to historical levels we foresee no need to liquidate and our B1 TL with spread payment and at par payment forecast an annualized IRR of 12.12%. This combined with price dislocation due to pari passu restructuring of the notes create an attractive an opportunity given a liquidation or hold to maturity scenarios.

Figure 1: Capitalization Table

AMC Entertainment Holdings						
LTM EBITDA	634					
Outstanding Debt and Leverage Metrics						
Type of Debt	Rate	Maturity	Debt Outstanding	Leverage	Rating	Price
USD Revolver	3ML + 225	4/22/2024	213.2		CCC	
GBP Revolver	3ML + 250	2/14/2022	113.28		CCC	
TLB1 USD	3ML + 300	4/22/2026	1980		CCC	61.41
Senior Secured 1st lien 2025 Notes	10.50%	4/15/2025	500		CCC	74.45
Senior Secured 1st lien 2026 Notes*	10.50%	4/24/2026	200		CCC	72.01
Senior Secured 1st lien 2026 Notes*	10.50%	4/24/2026	100		CCC	72.01
Total Loans, RCF, first liens (*Para Passu)				**4.74 x**		
Subordinated Secured 2nd lien 2026 Notes	12.00%	6/15/2026	1460		C	28.34
Total 2nd Lien Notes				**7.20 x**		
Suborinated Unsecured 2025 Notes	5.75%	11/15/2024	98.32		C	22.46
Suborinated Unsecured 2024 Notes	6.38%	6/15/2025	4.9		C	27.12
Suborinated Unsecured 2026 Notes	8.88%	11/15/2026	55.61		C	20.07
Suborinated Unsecured 2027 Notes	6.13%	5/15/2027	130.72		C	21.6
Total Debt			**4856.03**	**7.659 x**		
(-) Cash			**265**			
(+) Market capitalization			**451**			
Enterprise Value			**5,042**	**7.953 x**		

Source: Company Filings, Bloomberg

Security Data

Term Loan Maturity:4/ 22/2026

Rating: CCC

Rank: Sr. secured

Price: $60.4091

DM: 1329

Coupon: 3M L + 300

Covenant suspension until 3/31/2021

Contents

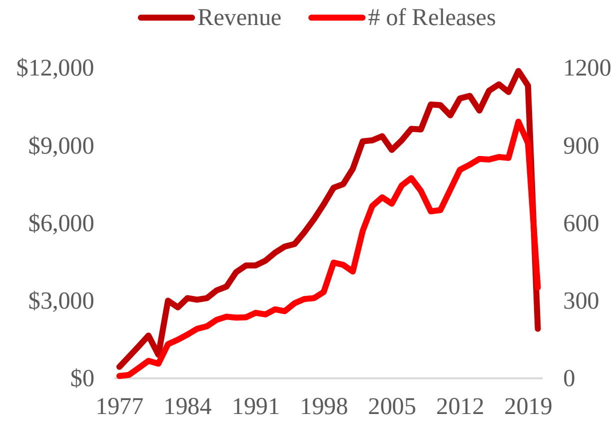
Industry Overview:

The cinema media industry has been taken savaged due to the implications of the global pandemic shutting down theatres, theme parks, live sports with full recovery unlikely to be swift or soon. The domestic box office remains murky as industry sales plummet more than 90% thus far YoY. A fast recovery is unlikely given lower film output and higher availability of content on streaming platforms exacerbating an already struggling industry in recent years. AMC recently struck an industry leading deal with Universal, diminishing the viewing window for Universals movies from 75 days to 17 days. This was due to box office sale drops and the increase of video streaming by movie goers. The viewing window has consistently been dropping over

Business Overview:

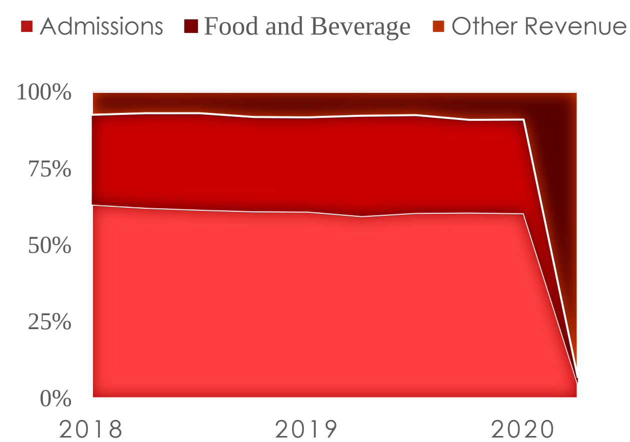
AMC Entertainment Holdings, Inc headquartered in Leawood, Kanas is the largest global theater chain and provides movie screenings, food distribution, and other theatrical related services. The company owns and operates over 1,000 theatres with over 11,000 screens worldwide most which are megaplexes with more than 12 screens and stadium seating. Although it has a world presence a 75% of their revenue is done within the United States with the remaining 25% spread across Europe and other international regions. AMC has #D enabled movies in over 3,000 theatres, a robust 55% market share within the IMAX screen segment and nearly 60 dine in theatres with seat side service. The company’s largest source of revenue comes from admissions which accounts for 65% of total revenue. The remaining is generated from food and beverage concessions and other revenue streams such as its premium video on demand (PVOD) streaming option. As a result of the pandemic, AMC closed its theaters between March and late summer. Starting in August, AMC has reopened a majority of theaters, albeit with limited seating. However, theaters in major U.S. markets, including New York and Los Angeles, remain closed. Even if those remaining theaters were to reopen, the lack of major film releases (with the recent postponement of the release of Walt Disney's "Black Widow" until 2021, and Warner Bros "Batman, Flash and Shazam 2"pushed to 2022) will likely result in even lower theater attendance for some time. We also believe that with low attendance, additional film releases might be moved out of 2020. As a result, we expect that operating conditions for cinema exhibitors will remain difficult.

Figure 2: Gross Domestic Box Office Revenue



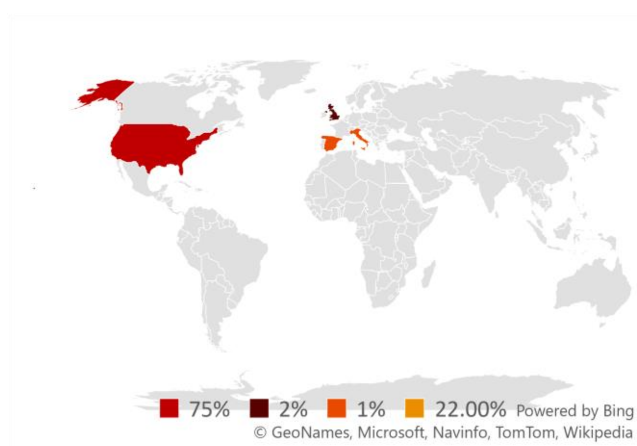
Source: IMDbPro

Figure 3: Revenue Breakdown per Segment



Source: Company Filings

Figure 4: Revenue by Region



Source: Company Filings

Scenario Analysis A:

We are expecting two scenario outcomes with the company in the near term. In scenario A, we forecast box office sales to return to pre-Covid levels, alleviating the financial strain of the company. Current 30% capacity restriction on most locations with state mandates capping other theatres to 25 people per theatre, capacity removal will allow for greater admissions revenue growth in line with box office growth. Also, the lift on limitations on food and beverage sales for some locations (currently accounts for 30% of total revenue) will create a tailwind for quarter on quarter growth in coming fiscal years. On a conservative basis the company can survive through the next quarter with levels of cash however an uplift driven by admissions revenue which we are in line with street estimates will drive further cash generation to propel the company once again into profitability. The inflow of net come, and steady cash growth will also help cut the current cash burn rate of $115 million a month. Current trends of cash burn driven by reopening of theatres in Q2 and Q3 has stiffened liquidity but a 4Q uplift will allow for the company to survive while also allowing for greater optionality in coupon payments with a 10% PIK option available on ~1.5 Billion outstanding on 2nd lien notes due in 2026 paying 12% saving 263 million. **Given greater financial security we forecast our Term Loan to maturity yielding 0.80 a quarter until par for 22 quarters with total spread payments of 18.57 at par with 58.16 price appreciation at current market prices we expect an annualized IRR of 12.44%.**

Scenario Analysis B:

In scenario B, we expect the financial health of the company to continue deteriorating forcing a liquidation in the current quarter. Given our conservative estimates we foresee an overall first tranche recovery rate of 76.8%. The main value is drawn from a PP&E undervaluation driven by the furniture, fixtures and equipment owned by the company. The three major segments of value within FF&E is provided by the companies 10,853 traditional projectors, 188 IMAX projectors and surround sound THX speakers. Given our research, traditional used cinema grade projectors range in value from $50,000 to $90,000 with IMAX capable projectors resale at $100,000 per projector with 2 necessaries for IMAX quality films. Given AMC's large market share, flooding the market with such a quantity will reduce the value which we conservatively deduced to 50%. With a recovery of 70% on the traditional projectors and 90% on IMAX due to more recent installation the given assets will provide ~280 Million contribution to recovery in a Chapter 11 liquidation. Also, given the value of the Klipsch THX speakers used in the majority of theatres valued at ~25,000 per set of 18 (most theatres used anywhere between 11-30 speakers) we foresee a recovery of 90% given the value hold of Klipsch products on the market. With speakers and projectors combined, in the event of a liquidation we see a ~48% recovery of FF&E providing ~643 million of recovery benefit. Even with conservative valuation of FF&E, **AMC's first tranche bondholders would likely recover 76.8% of the value of the bonds. Given a current price of 60.4 on the TL and given liquidation next quarter we anticipate an annualized return of 32.13%.**

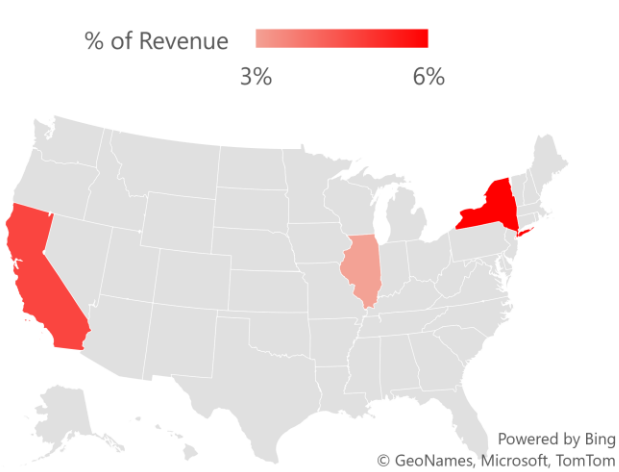
Risk to term loan maturity:

- Los Angles, New York and Chicago are the top three cities which make up a combined 14% of AMC's total revenue.
- Due to COVID-19, NYC and LA remain closed for movie theatre admissions and could act as a headwind in coming quarters.
- Liquidity risk could cause inability to complete spread payments and principal

Risk to first tranche recovery:

- Conservative estimates do not account for multiple liquidations within the industry deflating the value of AMC's FF&E assets

Figure 5: Revenue per major city



Recovery Analysis Model:

Recovery Analysis			
Asset	**Amount**	**% Recovery**	**Recovered**
Cash and Equivalents	508	100%	508
Accounts Recievable	82	100%	81.65
Land	104	100%	104.4154
Buildings and Improvements	218	100%	218.1629876
Leasehold improvements	1,056	10%	105.6215436
Furniture, fixtures and equiptment	1,328	48%	643.2179343
Other current Assets	101	100%	101
Goodwill and Intangibles	3,099	5%	168.88242
Other Long Term Assets	456	100%	456
Liquidation Recovery	6,952		**$ 2,386.95**
	Recovery of first traunche	76.8%	
Secured Claims	**Balance**	**% Recovery**	**Recovered**
USD Revolver	213	77%	163.6897652
GBP Revolver	113	77%	86.84011019
TLB1 USD	1980	77%	1521.62317
Senior Secured 1st lien 2025 Notes	500	77%	384.2482752
Senior Secured 1st lien 2026 Notes*	200	77%	153.6993101
Senior Secured 1st lien 2026 Notes*	100	77%	76.84965504
Total Loans, RCF, first liens (*Para Passu)	**$ 3,106.00**	76.8%	**$ 2,386.95**
Subordinated Secured 2nd lien 2026 Notes	**1460**	**0%**	**$ -**
Total 2nd Lien Notes	**$ 1,460.00**		
Suborinated Unsecured 2025 Notes	98.32	0%	0
Suborinated Unsecured 2024 Notes	4.9	0%	0
Suborinated Unsecured 2026 Notes	55.61	0%	0
Suborinated Unsecured 2027 Notes	130.72	0%	0
	$ 289.55		
Total Balance and Recovery	**$ 4,855.55**	49%	$ 2,386.95

Total outstanding Furniture, fixtures and equiptment Recovery Analysis					
	Item	**Cost**	**Quantity**	**% Recovery**	**Total**
	Barco R9004580B13 HDQ-4K35	$100,000.00	188.00	90%	$16,920,000.00
	Christie® D20HD-HS	$35,000.00	10,853.00	70%	$265,898,500.00
	Klipsch 9.1 THX Speakers	$25,000.00	11,040.00	90%	$248,400,000.00
				Total Recovery ($):	$531,218,500.00
	Total outstanding Furniture, fixtures and equiptment		$ 1,328.29	Total Recovery (%):	**48%**

Note Restructuring

On July 31, 2020, the Company closed its previously announced private offers to exchange most of its outstanding 6.375% Senior Subordinated Notes due 2024, 5.75% Senior Subordinated Notes due 2025, 5.875% Senior Subordinated Notes due 2026 and 6.125% Senior Subordinated Notes due 2027 for newly issued Second Lien Notes due 2026. The Exchange Offers reduced the majority of the Company's LT debt by approximately $555 million, which represented ~ 24.1% of the principal amount of the Existing Subordinated Notes. The Company raised $300 million (200 million 10.5% 2026 notes and 100 million 10.50% 2026 notes) in additional cash from the issuance of First Lien Notes due 2026, Furthermore, the newly issued first lien notes are *Pari Passu* with AMC's existing senior secured credit facilities and notes issued in April 2020. The closing of the Exchange Offers also allowed the Company to extend maturities on approximately $1.7 billion of debt to 2026, most of which was maturing in 2024 and 2025 previously. Interest due for the coming 12 to 18 months on the Second Lien Notes due 2026 is expected to be paid all or in part on an in-kind basis, thereby generating a further near-term cash savings for the Company of between approximately $120 million and $180 million.

Relative Value:

AMC's B1 TL's have been spread against HTZ ~ 30 since Hertz's bankruptcy filing in Q1 2020. On a discount margin basis, a metric similar to Z spread as when DM is added to the Tl's current Libor spread equates to the TL's cash flows at the given price. AMC's have significantly traded high against both comps with an average YTD Dm of 741 vs 89 for HTZ and 93 for CNK. CNK is within the same industry but has less debt, greater revenue, and cash with spread payments at 3-month Libor + 175. CNK has closed down all US theatres and has not commented on reopening plans after announcement earlier this week. HTZ has continued into chapter 11 bankruptcy and the TL have tightened significantly since the around ~35 on a DM bass. CNK has traded in line with historical pricing levels with little to no shift in DM since Q4 2019.

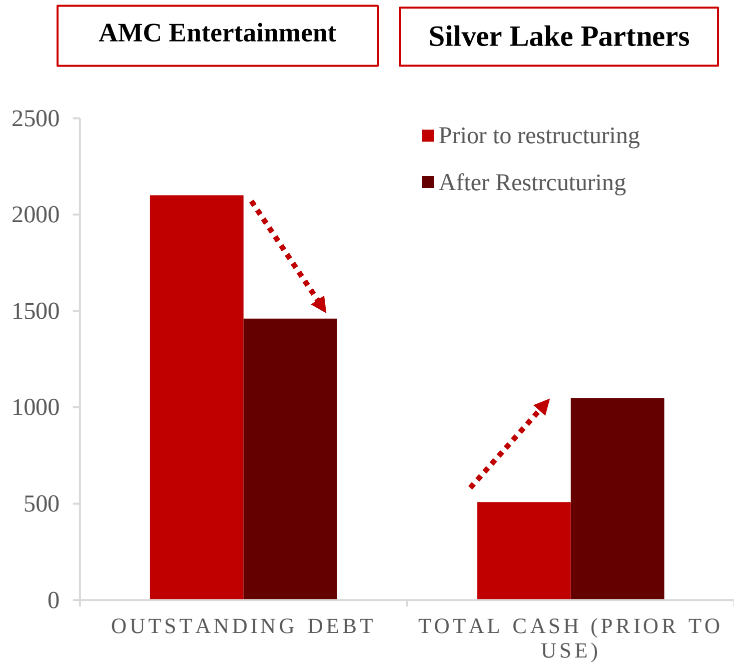


Figure 7: Comparable Company Metrics

Comps	AMC	HTZ*	CNK
Market Cap	451	450	1047
Net Debt	4856	7900	3082
EV	5,042	19500	2000
LTM Revenue	1950	2500	3283
Total Assets	7000	13000	6500
Total Cash	508	500	572
Price	60.4	95.75	89.44
TL Maturity	4/22/2026	6/30/2023	3/29/2025
DM	1283	477.5	432.96
Spread Payments	3M L +300	3M L + 275	3M L + 175

*Prior to bankruptcy

Source: Company Filings, Bloomberg

Figure 8: Comparable Company pricing

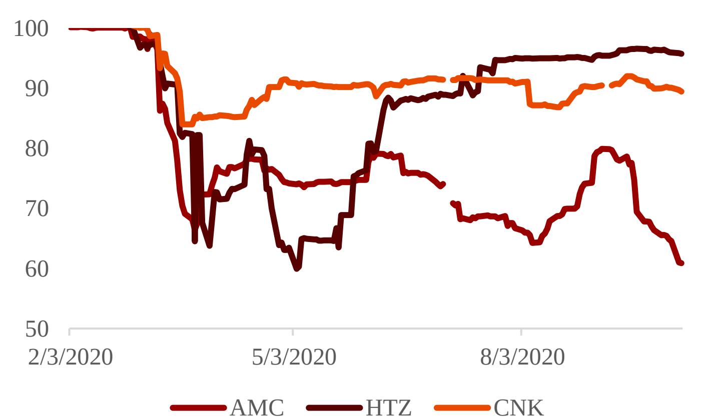


Figure 8: Summary Model

AMC Entertianment Holdings (NYSE: AMC)										
Fiscal Year	2018	2019	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21
EOP Date	12/31/2018	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021
Income Statement (USD in Millions)										
Operating Revenue										
Admissions	3,385	3,351	568	1	136	496	680	782	793	873
Food and Beverage	1,672	1,740	288	0	54	190	194	311	311	342
Other Revenue	404	459	85	18	28	71	64	83	79	95
Total Revenue	**5,461**	**5,550**	**941**	**19**	**218**	**757**	**938**	**1,175**	**1,183**	**1,309**
% Growth (Decline)	**8%**	**2%**		**-98%**	**1054%**	**247%**	**24%**	**25%**	**1%**	**11%**
Total Operating Cost and Expenses	(5,196)	(5,412)	(2,928)	(496)	(499)	(798)	(921)	(1,086)	(1,119)	(1,201)
Net income	**110.1**	**-145.2**	**(2,177)**	**(567)**	**(380)**	**(79)**	**(82)**	**52**	**(35)**	**71**
Depreciation & amortization	537.8	450	123	120	0	0	0	0	0	0
BALANCE SHEET										
Cash & equivalents	313.3	265	300	498	211	322	353	479	529	577
Property, Net	3039.6	2649	2,520	2,418	2,295	2,178	2,133	2,125	2,104	2,189
Total assets	**9498**	**13675**	**11,238**	**11,272**	**10,810**	**10,753**	**10,693**	**10,768**	**10,757**	**10,854**
Debt	**4722.9**	**4733**	**5,021**	**5,498**	**4,856**	**4,856**	**4,856**	**4,856**	**4,856**	**4,856**
Total liabilities	**8114**	**12462**	**12,312**	**12,847**	**12,225**	**12,247**	**12,269**	**12,293**	**12,317**	**12,343**
CASH FLOW										
Net income (Loss)	110.10	(149.10)	(2,176)	(561)	(380)	(79)	(82)	52	(35)	71
Depreciation and amortization	537.30	449.90	123	120	131	125	138	155	169	204
Deferred income taxes	(2.00)	(27.70)	71	(6)	0	0	0	0	0	0
Other current assets	133.40	137.80	3	47	0	0	0	0	0	0
ONCA		-	0	0	57	62	61	60	58	57
Deferred rent	(162.00)	62.30	1,937	0	0	0	0	0	0	0
Net periodic benefit cost	4.90	0.60	3	4	0	0	0	0	0	0
Change in assets and liabilities:			0	0	0	0	0	0	0	0
Receivables	105.70	(38.30)	129	48	(11)	(12)	(14)	(16)	(19)	(21)
Other current assets	(13.20)	206.00	(170)	(1)	0	0	0	0	0	0
Accounts payable	(271.30)	34.70	(106)	115	0	0	0	0	0	0
Accrued expenses and other liabili	57.90	(103.80)	1	(11)	0	0	0	0	0	0
Other, net	18.70	6.80	0	14	20	21	22	23	25	26
Cash from operating activities	**519.50**	**579.20**	**(184)**	**(232)**	**(183)**	**118**	**125**	**273**	**198**	**336**
Capital expenditures	(576.40)	(518.00)	(92)	(35)	(2)	(8)	(94)	(147)	(148)	(288)
Acquisition of theatre assets	258.40	11.50	0	(26)	0	0	0	0	0	0
Proceeds from disposition of long-te	(32.10)	(24.10)	0	1	0	0	0	0	0	0
Investments in non-consolidated en	33.30	14.00	0	(129)	0	0	0	0	0	0
Other, net	(0.50)	1.00	5	146	0	0	0	0	0	0
Cash from investing activities	**(317.30)**	**(515.60)**	**(87)**	**(44)**	**(2)**	**(8)**	**(94)**	**(147)**	**(148)**	**(288)**
Long term debt	(76.30)	(3.60)	318	(7)	0	0	0	0	0	0
Change in debt from schedule					(642)					
Other, net	140.30	(25.20)	(1)	481	0	0	0	0	0	0
Effects of RX	-	-	0	0	540	0	0	0	0	0
Common dividends	(257.70)	(84.10)	(4)	0	0	0	0	0	0	0
Cash from financing activities	**(193.70)**	**(112.90)**	**312**	**474**	**(102)**	**0**	**0**	**0**	**0**	**0**