

Stelton (A): Buyout Opportunity?

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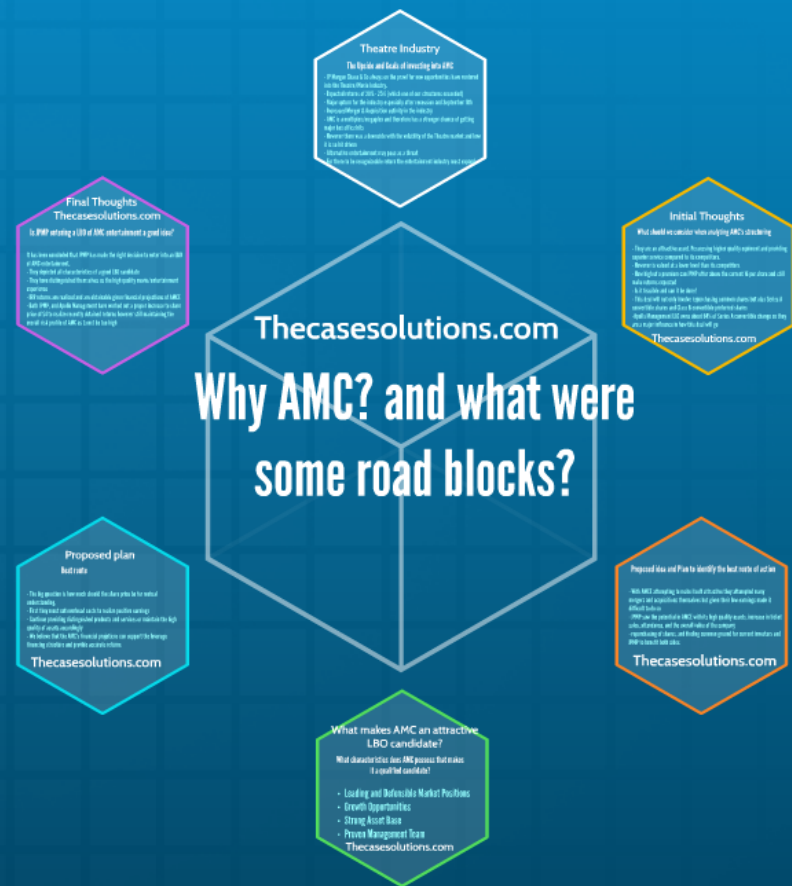
LBO buyout Method

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This case was centered around the leverage buyout of AMC Entertainment by JP Morgan Chase & Co. AMC traces back to the Durwood Theatre in Kansas City, Missouri. Named after Edward Durwood the theatre began to evolve to what we now know as megaplexes and multiplexes with numerous movie screens in one location. Through its aggressive expansion strategy, AMCE became the second-largest theater chain in the United States. During this period many theatre's and screens were being built but the buildings don't bring the customers the movies do. This indirectly brought a decline to attendance. Many companies filed for bankruptcy except AMC instead they allowed an investment of 250 million from Apollo Management LP to get them out the hole they were heading to. With this investment they made necessary changes and experienced growth from 1992 - 2004. Unfortunately with all this success AMC still calculated a net income of -16.2 million. How can this affect its attractiveness? Negative earnings may lead some to believe that there is no value in the company.

BRAINSTORM ELEMENTS

copy and paste as needed to add notes to your brainstorm



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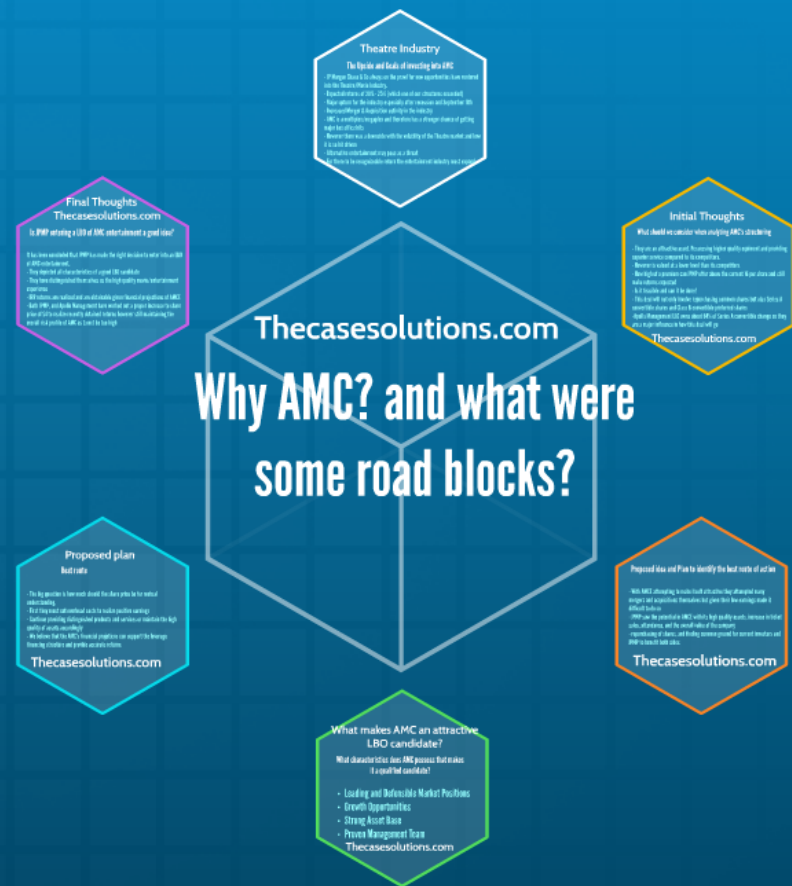
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AMC entertainment a good idea?

made the right decision to enter into an LBO

good LBO candidate
as the high quality movie/entertainment

inable given financial projections of AMCE
have worked out a proper increase to share
returns however still maintaining the
too high

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Why AMC? and what were some road blocks?

What should we consider when

- They are an attractive asset. Possess superior service compared to its competitors
- However is valued at a lower level than
- How high of a premium can JPMP offer to make returns expected
- Is it feasible and can it be done?
- This deal will not only involve repurchasing convertible shares and Class B convertible shares
- Apollo Management LLC owns about 10% are a major influence in how this deal

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ed plan

the share price be for mutual

to realize positive earnings
products and services or maintain the high

projections can support the leverage
rate returns

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Proposed idea and Plan to id

- With AMCE attempting to make itself a public company through mergers and acquisitions themselves is difficult to do so
- JPMP saw the potential in AMCE with its strong track record in sales, attendance, and the overall value of the company
- repurchasing of shares, and finding a way to structure the deal to benefit both sides

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Initial Thoughts

What should we consider when analyzing AMC's structuring

- They are an attractive asset. Possessing higher quality equipment and providing superior service compared to its competitors.
- However is valued at a lower level than its competitors
- How high of a premium can JPMP offer above the current 16 per share and still make returns expected
- Is it feasible and can it be done?
- This deal will not only involve repurchasing common shares but also Series A convertible shares and Class B convertible preferred shares
- Apollo Management LLC owns about 94% of Series A convertible change so they are a major influence in how this deal will go

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Proposed idea and Plan to identify the best route of action

- With AMCE attempting to make itself attractive they attempted many mergers and acquisitions themselves but given their low earnings made it difficult to do so
- JPMP saw the potential in AMCE with its high quality assets, increase in ticket sales, attendance, and the overall value of the company
- repurchasing of shares, and finding common ground for current investors and JPMP to benefit both sides

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What makes AMC an attractive LBO candidate?

What characteristics does AMC possess that makes it a qualified candidate?

- **Leading and Defensible Market Positions**
- **Growth Opportunities**
- **Strong Asset Base**
- **Proven Management Team**

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Proposed plan

Best route

- The big question is how much should the share price be for mutual understanding.
- First they must cut overhead costs to realize positive earnings
- Continue providing distinguished products and services or maintain the high quality of assets accordingly
- We believe that the AMC's financial projections can support the leverage financing structure and provide accurate returns

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Final Thoughts

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Is JPMP entering a LBO of AMC entertainment a good idea?

It has been concluded that JPMP has made the right decision to enter into an LBO of AMC entertainment.

- They depicted all characteristics of a good LBO candidate
- They have distinguished themselves as the high quality movie/entertainment experience
- IRR returns are realized and are obtainable given financial projections of AMCE
- Both JPMP, and Apollo Management have worked out a proper increase to share price of \$4 to realize recently obtained returns however still maintaining the overall risk profile of AMC as to not be too high