

National CineMedia, Inc.
Form 10-Q
November 05, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 2018
Commission file number: 001-33296

NATIONAL CINEMEDIA, INC.
(Exact name of registrant as specified in its charter)

Delaware 20-5665602
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
6300 S. Syracuse Way, Suite 300 80111
Centennial, Colorado
(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number, including area code: (303) 792-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition method for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 1, 2018, 78,958,816 shares of the registrant's common stock (including unvested restricted shares), par value of \$0.01 per share, were outstanding.

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NATIONAL CINEMEDIA, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)
(UNAUDITED)

PART I

Item 1. Financial Statements

	September 27, 2018	December 28, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 27.3	\$ 30.2
Short-term marketable securities	29.2	13.1
Receivables, net of allowance of \$5.8 and \$6.0, respectively	114.1	160.6
Prepaid expenses	4.0	4.2
Income tax receivable	0.5	0.2
Amounts due from founding members, net	3.6	—
Current portion of notes receivable - founding members (including receivables from related parties of \$2.8 and \$4.2, respectively)	4.2	4.2
Other current assets	0.4	0.1
Total current assets	183.3	212.6
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of \$68.7 and \$70.4, respectively	32.8	30.7
Intangible assets, net of accumulated amortization of \$165.8 and \$145.4, respectively	699.5	717.2
Deferred tax assets, net of valuation allowance of \$77.9 and \$98.1, respectively	180.7	186.0
Long-term notes receivable, net of current portion - founding members (including receivables from related parties of \$2.7 and \$4.1, respectively)	4.1	4.1
Other investments	3.2	3.5
Long-term marketable securities	10.2	16.2
Debt issuance costs, net	5.3	1.3
Other assets	0.9	1.5
Total non-current assets	936.7	960.5
TOTAL ASSETS	\$ 1,120.0	\$ 1,173.1
LIABILITIES AND EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Amounts due to founding members, net	\$ 21.1	\$ 32.7
Payable to founding members under tax receivable agreement (including payables to related parties of \$10.1 and \$19.6, respectively)	13.7	19.6
Accrued expenses	19.8	19.9
Accrued payroll and related expenses	12.5	11.1
Accounts payable	17.6	19.3
Deferred revenue	6.5	7.1
Short-term debt	2.7	—
Total current liabilities	93.9	109.7
NON-CURRENT LIABILITIES:		
Long-term debt, net of debt issuance costs of \$8.2 and \$8.7, respectively	914.8	923.3
Income tax payable	—	0.3

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Payable to founding members under tax receivable agreement (including payables to related parties of \$143.6 and \$212.6, respectively)	197.6	212.6
Other liabilities	4.1	2.0
Total non-current liabilities	1,116.5	1,138.2
Total liabilities	1,210.4	1,247.9
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
EQUITY/(DEFICIT):		
NCM, Inc. Stockholders' Equity/(Deficit):		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding, respectively	—	—
Common stock, \$0.01 par value; 175,000,000 shares authorized, 76,932,494 and 76,242,222 issued and outstanding, respectively	0.8	0.8
Additional paid in capital/(deficit)	(216.2) (233.1)
Retained earnings (distributions in excess of earnings)	(156.8) (130.2)
Total NCM, Inc. stockholders' equity/(deficit)	(372.2) (362.5)
Noncontrolling interests	281.8	287.7
Total equity/(deficit)	(90.4) (74.8)
TOTAL LIABILITIES AND EQUITY/(DEFICIT)	\$ 1,120.0	\$ 1,173.1

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In millions, except share and per share data)
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 2018	September 2017	September 2018	September 2017
REVENUE (including revenue from related parties of \$5.8, \$6.7, \$21.8 and \$22.7, respectively)	\$ 110.1	\$ 116.4	\$ 304.0	\$ 285.4
OPERATING EXPENSES:				
Advertising operating costs	10.3	8.9	26.5	21.4
Network costs	3.2	3.7	10.0	11.9
Theater access fees—founding members (including fees to related parties of \$13.4, \$18.1, \$55.5 and \$57.4, respectively)	19.7	18.1	61.8	57.4
Selling and marketing costs	15.3	17.2	48.0	54.2
Administrative and other costs	9.3	8.8	34.7	28.6
Depreciation and amortization	10.0	9.4	29.5	28.2
Total	67.8	66.1	210.5	201.7
OPERATING INCOME	42.3	50.3	93.5	83.7
NON-OPERATING EXPENSES:				
Interest on borrowings	14.4	13.1	42.3	39.4
Interest income	(0.3)	(0.2)	(1.0)	(1.0)
Loss (gain) on re-measurement of the payable to founding members under the tax receivable agreement	3.2	—	(4.6)	(0.6)
Other non-operating (income) expense	(0.4)	—	0.8	(0.1)
Total	16.9	12.9	37.5	37.7
INCOME BEFORE INCOME TAXES	25.4	37.4	56.0	46.0
Income tax (benefit) expense	(0.3)	1.2	16.7	1.0
CONSOLIDATED NET INCOME	25.7	36.2	39.3	45.0
Less: Net income attributable to noncontrolling interests	14.5	22.5	25.8	27.4
NET INCOME ATTRIBUTABLE TO NCM, INC.	11.2	13.7	13.5	17.6
COMPREHENSIVE INCOME ATTRIBUTABLE TO NCM, INC.	\$ 11.2	\$ 13.7	\$ 13.5	\$ 17.6
NET INCOME PER NCM, INC. COMMON SHARE:				
Basic	\$ 0.15	\$ 0.21	\$ 0.18	\$ 0.29
Diluted	\$ 0.14	\$ 0.21	\$ 0.16	\$ 0.28
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	76,924,983	63,993,273	76,825,818	68,637,445
Diluted	77,485,564	64,281,581	156,987,736	72,074,577
Dividends declared per common share	\$ 0.17	\$ 0.22	\$ 0.51	\$ 0.66

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions) (UNAUDITED)

	Nine Months Ended	
	September 27, 2018	September 28, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$39.3	\$ 45.0
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Deferred income tax expense	16.6	2.5
Depreciation and amortization	29.5	28.2
Non-cash share-based compensation	6.2	8.3
Impairment on investment	0.4	3.1
Amortization of debt issuance costs	2.0	2.0
Non-cash gain on re-measurement of the payable to founding members under the tax receivable agreement	(4.6)	(0.6)
Write-off of debt issuance costs	0.9	—
Reversal of tax contingency reserve	(0.4)	(1.7)
Other	(0.5)	(0.2)
Changes in operating assets and liabilities:		
Receivables, net	46.5	42.1
Accounts payable and accrued expenses	(0.4)	(1.7)
Amounts due to/from founding members, net	(0.5)	(0.4)
Payment to the founding members under tax receivable agreement (including payments to related parties of \$17.6 and \$17.3, respectively)	(17.6)	(17.3)
Deferred revenue	(0.6)	(4.6)
Income taxes and other	2.0	(0.7)
Net cash provided by operating activities	118.8	104.0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(10.0)	(7.7)
Acquisition of a business	—	(0.2)
Purchases of marketable securities	(30.9)	(21.7)
Proceeds from sale and maturities of marketable securities	20.9	48.4
Purchases of intangible assets from network affiliates	—	(1.7)
Proceeds from notes receivable - founding members (including payments from related parties of \$0.0 and \$1.4, respectively)	—	1.4
Net cash (used in) provided by investing activities	(20.0)	18.5
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(41.2)	(42.1)
Proceeds from revolving credit facility	139.2	60.0
Repayments of revolving credit facility	(137.2)	(75.0)
Repayments of Notes due 2026	(7.2)	—
Proceeds from term loan facility	270.0	—
Repayment of term loan facility	(270.7)	—
Payment of debt issuance costs	(6.6)	—
Founding member integration and other encumbered theater payments (including payments from related parties of \$12.1 and \$6.1, respectively)	17.2	6.1
Distributions to founding members	(63.0)	(60.1)
Proceeds from stock option exercises	—	0.6

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Repurchase of stock for restricted stock tax withholding	(2.2)	(4.6)
Net cash used in financing activities	(101.7)	(115.1)
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH:	(2.9)	7.4
Cash, cash equivalents and restricted cash at beginning of period	30.2	23.0
Cash, cash equivalents and restricted cash at end of period	\$27.3	\$ 30.4

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

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NATIONAL CINEMEDIA, INC. AND SUBSIDIARY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 (In millions)
 (UNAUDITED)

	Nine Months Ended	
	September 27, 2018	September 28, 2017
Supplemental disclosure of non-cash financing and investing activity:		
Purchase of an intangible asset with NCM LLC equity	\$15.9	\$ 201.8
Accrued distributions to founding members	\$19.1	\$ 27.2
Purchase of subsidiary equity with NCM, Inc. equity	\$—	\$ 77.8
Accrued purchases of property and equipment	\$1.0	\$ —
Accrued integration and other encumbered theater payments due from founding members (including accrued payments due from related parties of \$0.3 and \$0.0, respectively)	\$5.1	\$ —
Decrease in dividend equivalent accrual not requiring cash in the period	\$(1.3)	\$(1.3)
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$38.2	\$ 34.9
Cash paid for income taxes, net of refunds	\$0.3	\$ 1.5
See accompanying notes to the unaudited Condensed Consolidated Financial Statements.		

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY/(DEFICIT)
(In millions, except share and per share data)
(UNAUDITED)

	NCM, Inc.		Additional Paid in Capital (Deficit)	Retained Earnings (Distribution in Excess of Earnings)	Noncontrolling Interest	
	Consolidated	Common Stock Shares				Amount
Balance-December 29, 2016	\$ (232.2)	59,874,412	\$ 0.6	\$ (343.6)	\$ (130.7)	\$ 241.5
Distributions to founding members	(47.4)	—	—	—	—	(47.4)
NCM LLC equity issued for purchase of intangible asset	201.8	—	—	78.8	—	123.0
Income tax and other impacts of NCM LLC ownership changes	(42.3)	—	—	6.1	—	(48.4)
Issuance of shares	77.8	14,600,000	0.2	77.6	—	—
NCM, Inc. investment in NCM LLC	(77.8)	—	—	(77.8)	—	—
Comprehensive income, net of tax	45.0	—	—	—	17.6	27.4
Share-based compensation issued	(4.0)	755,886	—	(4.0)	—	—
Share-based compensation expense/capitalized	8.6	—	—	5.3	—	3.3
Cash dividends declared \$0.66 per share	(40.8)	—	—	—	(40.8)	—
Balance-September 28, 2017	\$ (111.3)	75,230,298	\$ 0.8	\$ (257.6)	\$ (153.9)	\$ 299.4
Balance December 28, 2017	\$ (74.8)	76,242,222	\$ 0.8	(233.1)	\$ (130.2)	\$ 287.7
Cumulative-effect adjustment for adoption of ASU 2014-09	(0.2)	—	—	—	(0.2)	—
Distributions to founding members	(44.5)	—	—	—	—	(44.5)
NCM LLC equity issued for purchase of intangible asset	15.9	—	—	7.7	—	8.2
Income tax and other impacts of NCM LLC ownership changes	9.6	—	—	6.9	—	2.7
Comprehensive income, net of tax	39.3	—	—	—	13.5	25.8
Share-based compensation issued	(2.1)	690,272	—	(2.1)	—	—
Share-based compensation expense/capitalized	6.3	—	—	4.4	—	1.9
Cash dividends declared \$0.51 per share	(39.9)	—	—	—	(39.9)	—
Balance-September 27, 2018	\$ (90.4)	76,932,494	\$ 0.8	\$ (216.2)	\$ (156.8)	\$ 281.8

See accompanying notes to the unaudited Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. THE COMPANY

Description of Business

National CineMedia, Inc. (“NCM, Inc.”) was incorporated in Delaware as a holding company with the sole purpose of becoming a member and sole manager of National CineMedia, LLC (“NCM LLC”), a limited liability company owned by NCM, Inc., Regal Cinemas, Inc. and Regal CineMedia Holdings, LLC, wholly owned subsidiaries of Cineworld Group plc and Regal Entertainment Group (“Regal”) and Cinemark Media, Inc. and Cinemark USA, Inc., wholly owned subsidiaries of Cinemark Holdings, Inc. (“Cinemark”). The terms “NCM”, “the Company” or “we” shall, unless the context otherwise requires, be deemed to include the consolidated entity. On July 5, 2018, American Multi-Cinema, Inc. and AMC ShowPlace Theatres, Inc., wholly owned subsidiaries of AMC Entertainment, Inc. (“AMC”), closed on the sale of 100.0% of its remaining NCM LLC membership units to Regal and Cinemark. AMC, Regal, Cinemark and their affiliates are referred to in this document as “founding members”.

NCM LLC operates the largest cinema advertising network reaching movie audiences in North America, allowing NCM LLC to sell advertising under long-term exhibitor services agreements (“ESAs”) with the founding members (approximately 18 years remaining as of September 27, 2018) and certain third-party theater circuits, referred to in this document as “network affiliates” under long-term network affiliate agreements, which have terms from one to twenty years.

As of September 27, 2018, NCM LLC had 157,593,316 common membership units outstanding, of which 76,932,494 (48.8%) were owned by NCM, Inc., 41,142,178 (26.1%) were owned by Regal, 39,518,644 (25.1%) were owned by Cinemark and 0 (0.0%) were owned by AMC. The membership units held by the founding members are exchangeable into NCM, Inc. common stock on a one-for-one basis.

Basis of Presentation

The Company has prepared the unaudited Condensed Consolidated Financial Statements and related notes of NCM, Inc. in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. The balance sheet as of December 28, 2017 is derived from the audited financial statements of NCM, Inc. Therefore, the unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Company’s annual report on Form 10-K filed for the fiscal year ended December 28, 2017.

In the opinion of management, all adjustments necessary to present fairly in all material respects the financial position, results of operations and cash flows for all periods presented have been made. The Company’s business is seasonal and for this and other reasons operating results for interim periods may not be indicative of the Company’s full year results or future performance. As a result of the various related party agreements discussed in Note 5—Related Party Transactions, the operating results as presented are not necessarily indicative of the results that might have occurred if all agreements were with non-related third parties. The Company manages its business under one reportable segment of advertising.

Estimates—The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those related to the reserve for uncollectible accounts receivable, share-based compensation and income taxes. Actual results could differ from those estimates.

Significant Accounting Policies

The Company’s annual financial statements included in its Form 10-K filed for the fiscal year ended December 28, 2017 contain a complete discussion of the Company’s significant accounting policies. Following is additional information related to the Company’s accounting policies.

Revenue Recognition—The Company derives re