

National CineMedia, Inc.
Form 10-Q
May 05, 2016

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 March 31, 2016

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.)

9110 East Nichols Avenue, Suite 200

Centennial, Colorado 80112-3405
(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

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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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting 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 ☐

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 April 28, 2016, 62,392,303 shares of the registrant’s common stock (including unvested restricted shares), par value of \$0.01 per share, were outstanding.

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PART I

Item 1. Financial Statements

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(UNAUDITED)

| | March 31, 2016 | December 31, 2015 |
|---|-------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 14.2 | \$ 31.7 |
| Short-term marketable securities | 25.9 | 13.2 |
| Receivables, net of allowance of \$5.7 and \$5.6, respectively | 97.6 | 148.9 |
| Prepaid expenses | 4.4 | 2.8 |
| Income tax receivable | 15.0 | 2.5 |
| Current portion of notes receivable - founding members | 4.2 | 4.2 |
| Other current assets | 0.4 | 0.3 |
| Total current assets | 161.7 | 203.6 |
| NON-CURRENT ASSETS: | | |
| Property and equipment, net of accumulated depreciation of \$63.5 and \$64.1, respectively | 26.9 | 25.1 |
| Intangible assets, net of accumulated amortization of \$98.4 and \$91.9, respectively | 581.1 | 566.7 |
| Deferred tax assets | 212.0 | 217.1 |
| Long-term notes receivable, net of current portion - founding members | 12.5 | 12.5 |
| Other investments | 7.1 | 5.4 |
| Long-term marketable securities | 33.6 | 40.5 |
| Debt issuance costs, net | 2.1 | 2.3 |
| Other assets | 0.6 | 0.5 |
| Total non-current assets | 875.9 | 870.1 |
| TOTAL ASSETS | \$ 1,037.6 | \$ 1,073.7 |
| LIABILITIES AND EQUITY/(DEFICIT) | | |
| CURRENT LIABILITIES: | | |
| Amounts due to founding members | \$ 4.9 | \$ 35.5 |
| Payable to founding members under tax receivable agreement | 11.8 | 26.2 |
| Accrued expenses | 22.0 | 19.8 |
| Accrued payroll and related expenses | 6.3 | 18.1 |
| Accounts payable | 14.1 | 14.9 |
| Deferred revenue | 10.1 | 10.2 |
| Total current liabilities | 69.2 | 124.7 |
| NON-CURRENT LIABILITIES: | | |

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| | | |
|--|-----------|-----------|
| Long-term debt, net of debt issuance costs of \$10.2 and \$10.6, respectively | 944.8 | 925.4 |
| Deferred tax liability | 50.0 | 50.1 |
| Income tax payable | 5.0 | 4.9 |
| Payable to founding members under tax receivable agreement | 141.9 | 140.3 |
| Total non-current liabilities | 1,141.7 | 1,120.7 |
| Total liabilities | 1,210.9 | 1,245.4 |
| COMMITMENTS AND CONTINGENCIES (NOTE 7) | | |
| 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, 59,820,477 and | | |
| 59,239,154 issued and outstanding, respectively | 0.6 | 0.6 |
| Additional paid in capital/(deficit) | (214.2) | (221.5) |
| Retained earnings (distributions in excess of earnings) | (204.3) | (186.1) |
| Total NCM, Inc. stockholders' equity/(deficit) | (417.9) | (407.0) |
| Noncontrolling interests | 244.6 | 235.3 |
| Total equity/(deficit) | (173.3) | (171.7) |
| TOTAL LIABILITIES AND EQUITY/DEFICIT | \$1,037.6 | \$1,073.7 |

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(In millions, except share and per share data)

(UNAUDITED)

| | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2016 | April 2, 2015 |
| REVENUE (including revenue from founding members of \$7.3 and \$7.7, respectively) | \$76.2 | \$76.9 |
| OPERATING EXPENSES: | | |
| Advertising operating costs | 5.0 | 5.8 |
| Network costs | 4.5 | 4.5 |
| Theatre access fees—founding members | 18.7 | 17.2 |
| Selling and marketing costs | 18.6 | 16.0 |
| Merger termination fee and related merger costs | — | 33.4 |
| Administrative and other costs | 14.9 | 8.7 |
| Depreciation and amortization | 8.7 | 8.0 |
| Total | 70.4 | 93.6 |
| OPERATING INCOME (LOSS) | 5.8 | (16.7) |
| NON-OPERATING EXPENSES: | | |
| Interest on borrowings | 13.4 | 13.1 |
| Interest income | (0.6) | (0.6) |
| Accretion of interest on the discounted payable to founding members under tax receivable agreement | 3.6 | 3.6 |
| Amortization of terminated derivatives | — | 1.6 |
| Other non-operating expense | — | 0.1 |
| Total | 16.4 | 17.8 |
| LOSS BEFORE INCOME TAXES | (10.6) | (34.5) |
| Income tax benefit | (2.1) | (4.3) |
| CONSOLIDATED NET LOSS | (8.5) | (30.2) |
| Less: Net loss attributable to noncontrolling interests | (4.2) | (21.2) |
| NET LOSS ATTRIBUTABLE TO NCM, INC. | \$(4.3) | \$(9.0) |
| NET LOSS PER NCM, INC. COMMON SHARE: | | |
| Basic | \$(0.07) | \$(0.15) |
| Diluted | \$(0.07) | \$(0.15) |
| WEIGHTED AVERAGE SHARES OUTSTANDING: | | |
| Basic | 59,610,864 | 58,888,674 |
| Diluted | 59,610,864 | 58,888,674 |
| Dividends declared per common share | \$0.22 | \$0.22 |

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In millions)

(UNAUDITED)

| | Three Months Ended | |
|--|-----------------------|---------------------|
| | March 31, 2016 | April 2, 2015 |
| CONSOLIDATED NET LOSS, NET OF TAX OF \$2.1 AND \$4.3, RESPECTIVELY | \$(8.5) | \$(30.2) |
| OTHER COMPREHENSIVE LOSS, NET OF TAX: | | |
| Amortization of terminated derivatives, net of tax of \$0.0 and \$0.3, respectively | — | 1.3 |
| CONSOLIDATED COMPREHENSIVE LOSS | (8.5) | (28.9) |
| Less: Comprehensive loss attributable to noncontrolling interests | (4.2) | (20.3) |
| COMPREHENSIVE LOSS ATTRIBUTABLE TO NCM, INC. | \$(4.3) | \$(8.6) |

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(UNAUDITED)

| | Three Months Ended | |
|--|-----------------------|---------------------|
| | March 31, 2016 | April 2, 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Consolidated net loss | \$(8.5) | \$(30.2) |
| Adjustments to reconcile consolidated net loss to net cash provided by | | |
| operating activities: | | |
| Deferred income tax expense | 10.3 | (4.4) |
| Depreciation and amortization | 8.7 | 8.0 |
| Non-cash share-based compensation | 6.6 | 3.0 |
| Excess tax benefit from share-based compensation | — | (0.1) |
| Accretion of interest on the discounted payable to founding members | | |
| under tax receivable agreement | 3.6 | 3.6 |
| Amortization of terminated derivatives | — | 1.6 |
| Amortization of debt issuance costs | 0.7 | 0.6 |
| Other | (0.2) | (0.1) |
| Changes in operating assets and liabilities: | | |
| Receivables, net | 49.7 | 35.2 |
| Accounts payable and accrued expenses | (9.3) | (0.3) |
| Amounts due to founding members | (0.1) | 0.4 |
| Payment to founding members under tax receivable agreement | (23.5) | (17.2) |
| Deferred revenue | (0.2) | 1.0 |
| Income taxes and other | (14.1) | (0.8) |
| Net cash provided by operating activities | 23.7 | 0.3 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (3.9) | (2.0) |
| Purchases of marketable securities | (17.1) | (18.4) |
| Proceeds from sale and maturities of marketable securities | 11.6 | 20.6 |
| Purchases of intangible assets from network affiliates | — | (0.9) |
| Net cash used in investing activities | (9.4) | (0.7) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of dividends | (15.0) | (13.3) |
| Proceeds from borrowings | 71.0 | 96.0 |
| Repayments of borrowings | (52.0) | (50.0) |
| Founding member integration payments | 0.9 | 0.8 |

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| | | |
|--|--------|--------|
| Distributions to founding members | (32.4) | (32.9) |
| Excess tax benefit from share-based compensation | — | 0.1 |
| Proceeds from stock option exercises | 0.3 | |