



Why Cineplex (TSX:CGX) Stock Fell Over 20% This Week

Description

Stock in Canada's largest movie theatre chain **Cineplex** ([TSX:CGX](#)) got hammered this week, falling as much as 23%. The stock tanked when U.K.-based movie theatre operator Cineworld announced it no longer intends to move forward with its planned acquisition.

Prior to the news, shares of the stock closed at \$13.82 on Friday, June 12. But the announcement of the broken deal sent Cineplex shares plummeting. As of this writing, the stock is trading at \$10.67.

Cracks were forming in the deal weeks ago

Late last year, [Cineworld agreed to acquire Cineplex](#) at \$34 per share. Although Cineplex negotiated an option to solicit higher bids, no other bids were received.

The deal seemed destined to go through until movie theatres around the globe shut their doors due to the COVID-19 pandemic. In March, Cineworld announced it would close all 787 cinemas across 10 countries due to the coronavirus. Likewise, Cineplex indefinitely closed its 165 theatres across Canada.

Even before the pandemic, there were concerns about the debt required to seal the deal. The acquisition had already led Cineworld to take on additional financing of about \$2.2 billion.

Soon after the pandemic began, cracks began to form in the deal. Cineworld reported that it was carefully monitoring the proposed buyout of Cineplex, as the company accessed emergency support programs to protect jobs and business.

The acquisition falls through

In announcing its plans to scrap the acquisition, [Cineworld said in a statement](#), "As a consequence of ... Cineplex's unwillingness to cure the breaches, Cineworld has notified Cineplex that it has terminated the Arrangement Agreement with immediate effect."

Cineworld did not specify what the breaches were, adding that a Material Adverse Effect occurred. A Material Adverse Effect is a common clause found in purchase agreements that could impact a deal's closing. In legal terms, a Material Adverse Effect means any event, occurrence, fact, condition, or change that could reasonably be expected to become materially adverse to the business, such as results of operations, financial condition, assets, liabilities, or prospects.

Cineplex issued a separate statement denying the claims of Cineworld, adding that Cineworld's allegations stem from the impact of the coronavirus outbreak. Cineworld argued that "The arrangement agreement explicitly excludes any "outbreaks of illness or other acts of God" from the definition of Material Adverse Effect."

As expected, Cineplex promptly reported that it would begin legal proceedings and seek damages against its one-time suitor.

Cineplex plans to reopen

The news of the failed acquisition comes at the same time as Cineplex detailed plans of its gradual reopening across Canada. The reopening will begin with six locations in Alberta later this month.

As the COVID-19 restrictions across Canada begin to loosen, the chain hopes to reopen in as many other markets across the country, as government and health authorities allow, on July 3. Cineplex will introduce a number of new policies, including reserved seating in all auditoriums and staggered showtimes to reduce congestion in theatre lobbies.

The bottom line

No one can predict, even when theatres reopen, if the general public will feel comfortable being packed tightly into theatres due to lasting fears about a second wave of the coronavirus.

With the volatility in the stock, the failed acquisition, and the uncertainty surrounding moviegoers' return to the theatres, I would hesitate to jump into this stock, even after its recent pullback.

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