

# Marginal Analysis for a Win-win Case in Cross-cultural Acquisition: Wanda and AMC

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**Abstract.** In the context of economic globalization, countries are both partners and competitors. In the early twenty-first century, China began to look at the influence of Chinese culture in other countries and issued policies to support the purchase of overseas assets by Chinese companies. Wanda Group seized the opportunity and made a fortune by acquiring AMC and selling it at a high price. The study found that this was a successful cross-border M&A case, however, a systematic analysis still exists on the explanation of why Wang did a specific thing at a specific time. Therefore, the topic of this paper is to use marginal analysis to explain Wanda's behavior in entering and exiting AMC. Ultimately, this paper concludes that marginal analysis can help firms make decisions about whether and when to do something, and the resulting marginal costs can be useful for subsequent negotiations.

**Keywords:** Marginal analysis; wanda group; case study.

## 1. Introduction

In recent years, the continuous development of globalization has led to rapid development of the global economy, and the invention and innovation of the Internet has shortened the distance between countries and connected them to each other in worldwide. Every county is interlocking and influencing each other. At the same time, each country also pays more and more attention to the influence of its own culture in the international platform and is willing to devote itself its cultural power. At the beginning of the 21st century, China's government also vigorously implemented policies to support the development of its cultural industry. Chinese companies have made overseas M&A the first choice in foreign cultural industry. It is known that when acquiring AMC, the actual cash invested by Wanda was \$700 million, however, after nine years, Wanda grabbed the opportunity to double its profit when it exited with amazing timing and technique in analyzing the situation. AMC also transformed into a listed company from its collapse plight in 2012.

In the global economic climate, cross-border M&A is still in full swing. In fact, many companies in China have tried to merge and acquire some more well-known and influential companies, but the results all ended in failure. Therefore, the success of Wanda Group's overseas M&A has some academic value, that is, through the study of Wanda's M&A of AMC in the U.S., which targets the analysis of Wanda's factors in deciding to join and exit the board of directors of AMC. Compared with Chinese scholars, foreign scholars have conducted early studies on overseas M&A of companies, all of which are multi-faceted and systematic. Although foreign countries have conducted in-depth studies on market environment, culture, financing, payment, and integration factors, previous literature has not yet pinpointed a systematic Marginal Analysis of the whole process of a successful cross-border M&A case.

## 2. Introduction of the two parties

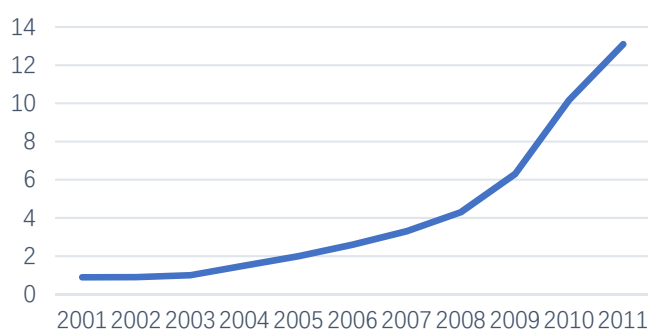
### 2.1 Chinese Media Industry & Wanda Group

In 2012, Wanda finished its acquisition toward AMC and moved its first step toward American media industry. This session is mainly synthesized with the situation of Chinese media industry around the year of 2011 with related theories and supported as well as what Wanda Group was like during that period.

Basically, media includes all kinds of platforms of communication. Additionally, Justin Stoltzfus definite it as: Media is the plural form of medium, which describes any channel of communication. This can include anything from printed paper to digital data, and encompasses art, news, educational content and numerous other forms of information. Anything that can reach or influence people, including phones, television, and the Internet can be considered a form of media.

The term of “media system” was first introduced in the book *Four Theories of The Press*, and it was produced based on a political system [1]. In the book, the writer proposed four foundational theories in the system, which are Authoritarian Theory, Libertarian Theory, Social Responsibility Theory, and Communist Soviet Theory [2]. As a Communist society, China’s media is controlled by the Chinese government while the publisher can create any news without taking permissions from the authority, which is similar with what is described as Communist Soviet Theory in the book, for instance, “The Domestic Film Protections” . From the point of view of promoting domestic films, the State Film Administration, in 2004, issued an oral notice to all theaters nationwide to support domestic films, and from June 10 to July 10 (or July to August) each year, no introduction of overseas blockbusters is encouraged during this period.

On the macro level, in the first ten years of the 20th century, China's box office showed a continuous growth trend, and the growth rate was increasing, especially, the box office rose by almost one billion each year since 2008 (Fig.1). For micro aspect, the box office was only 0.9 billion RMB in 2001 and many cinemas were facing risks of bankruptcy due to the low enthusiasm from customers. But, with the implement of some policies promoted by Chinese government, such as Closer Economic Partnership Arrangement (CPEA), which was to enhance the common prosperity and development of the mainland and Hong Kong economy and allowing Hong Kong-produced film and television worked to enter the mainland, Chinese Media Industry became to recover. In 2003, Chinese box first went through 1 billion and topping the box office was Chinese director Feng Xiaogang's *Cell Phone*, starring popular actors Ge You and Fan Bingbing, which was released on December 18th, 2003 [3]. The film is produced by two Chinese companies, Taihe Film and Television Investment Co. LTD and Huayi Brothers Advertising Company, and the Asian arm of an American company, Columbia Film Production (Asia) LTD. 2010 was the year China’s box office boost over 10 billion and the *Avatar* from the US was the best-selling movie of the year [4]. When *Avatar* first released on January 1st, 2010 in mainland China, it gained over 1.3 billion RMB, which was the first film, no matter Chinese films or foreign films, in Chinese film history to break 1 billion RMB, accounting for nearly 20% of the annual Chinese box office in that year. The box office of imported films grossed more than 4 billion RMB, which up 64.74% year on year, taking up 43.6% of the China’s total box office in 2010.



**Fig. 1** Box Office in China from 2001 to 2011(billion RMB)

With the improvement in Chin’s box office, more and more investor moved their eyes on constructing cinemas. According to China Film News, as of December 6th, 2010, there were more than 2,630 cinemas in China, with more than 8,800 screens, including 7,400 4K screens and 4,700

3D screens [5]. In the research, Tong Gang, director of the Film Bureau of the State Administration of Radio (SARFT), in 2011, the average daily increase of Chinese film screens was as high as 8, and the number of screens in China was approximately 9,000, closely to 10,000 [5].

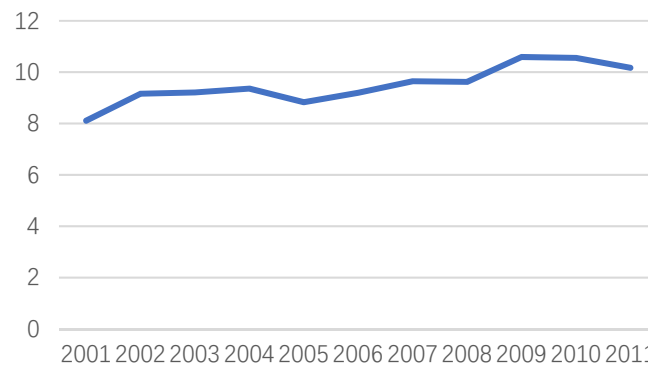
However, some pointed out that with the total population in China in 2011, over 1.3 billion, one screen was used by more than 150,000 Chinese, and with approximately 0.6 billion citizens in the cities, one cinema was shared by around 400,000 Chinese averagely. The cinema market was seriously unsaturated. Besides, in the opinion of Li Peng, a professor at the school of Literature and Journalism and Communication of Southweat University for Nationalist, the repeated mentioned of movie box office was undoubtedly an important indicator of the prosperity of the film industry, but it was not the only indicator of the prosperity of the film industry [5]. The increase of the box office or the number of screens only proved the improvement of the "communication capacity" of the film, while the number of audiences or the number of times per capital shown the level of the "influence" of the film [5]. Real "influence", he said, was originated from a real "concentration". Similarly, Shuguang Rao, deputy director of the China Film Archive, told reporter: "The box office and high growth of Chinese films in the past 10 years is actually, to some extent, a recovery growth after the decline of Chinese films." He believed this trend was unlikely to continue [5]. Rao suggested that Chinese media industry need more fine works with artistic quality and aesthetic quality [5].

After decades of development, Dalian Wanda Group became a powerful consortium. The company was first founded in 1988 in Dalian by Jianlin Wang, the chairman. Following the lead of Chinese government, Wang expanded his house-building business in Guangzhou, the biggest city in the southern China in 1993, becoming the first cross-regional real estate company in China [6]. It is successful in China, but also in international stage. By following the "go global" policy in 2008, Wanda's acquisition toward foreign building worth mentioning, such as Edificio España building in Spain, HG Holdco Pty Ltd in Australia, and Odeon & UCI Cinemas Group in the United Kingdom. Wang began his adventure in cultural and media industry in 2008 in China, and four years later, through the acquisition of AMC, he stepped into American media industry as well.

## 2.2 American Film Industry and American Multi-cinema

In this secession, the author means to summarize the literature about American Film Industry and to introduce a company called American Multi-cinema. Thanks to the Lumiere Brothers, who is thought to be the first filmmakers ever, American films have grown so fast and comes to dominate the field at a dizzying pace. When people talking about American Film Industry, they are referring the Hollywood, which is the birthplace of larger proportion of well-known films, including Godfathers, Jokers, and Life Is Beautiful. With the distribution from six main film-making studio, Time Warner (formerly Warner Bros.); 20th Century Fox (purchased by Rupert Murdoch's News Corporation; Viacom (formerly Paramount); Sony (formerly Columbia Pictures)Walt Disney (joined with Pixar); NBC Universal (owned by GE and merged with NBC, formerly Universal) ; in Hollywood, over 500 English-speaking films are released each year, making it the most prolific producer of single-language national cinema.

By looking at the U.S. box office graph in the period 2001-2011, the average ticket sales were over 9.5 billion dollars every year, which was approximately 3.8 times that in China (Fig. 2) [7]. Compares with China, the movie ticket sales in the United States are relatively stable, ranging from 8 billion to 10 billion, and finally broke the 10billion dollars in 2009 after two drops.



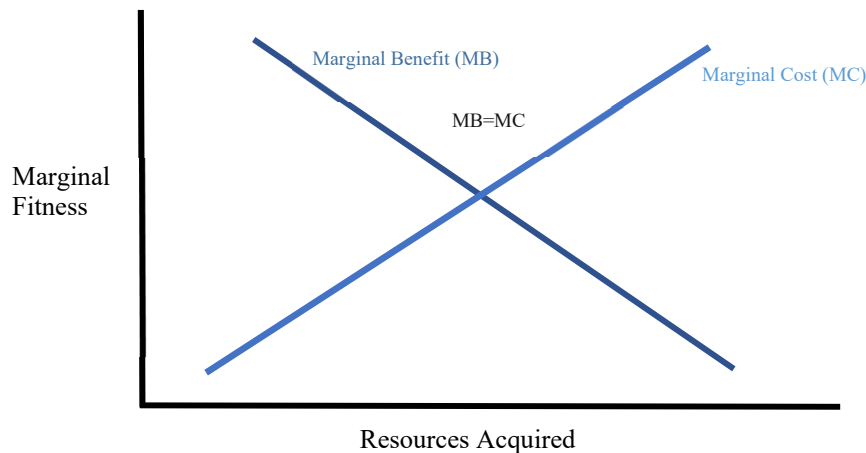
**Fig. 2** Box Office in United States from 2001 to 2011 (billion Dollars)

When doing research, two aspects catch author's eyes. To begin with, the film *Avatar*, the box office champion in the year of 2010. Just three weeks into its release, *Avatar* became the second-highest-grossing film of all time worldwide, just behind his sinking-boat flick that won all those Oscars in 1998. The movie inspired an army of fans that they posted the blog: "Oh, how I wish Pandora was real." *Avatar*'s success lied not only on its compelling story, the more, its novel and landmark 3D film-making technique, which became a hot topic of discussion among media industry worldwide and, as a result, attracted film investor's eyes on American media industry. Besides, there were requisition from big company merging small ones during the 2000s, to illustrate, Walt Disney purchased Pixar in 2006. With 7.2 billion dollars, Bob Iger gained not only the modernized 3D film-making technique, but also revive for Disney. Later on, Disney won success acquitting many other companies, like Marvel, 20 Century Fox, and Lucasfilm & Television.

AMC Theater (originally an abbreviation for American Multi-Cinema) is an American brand that holds plenty of theater chains since 1920. The company now has so much share of the U.S. theater market, ahead of Regal and Cinemark Theatres, that every household in the North America knows it. AMC became the largest theater chain in the world in 2016 with the acquisition of European Cinema Line, United Cinemas International, and Carmike Cinemas.

### 3. Marginal analysis

Marginal analysis is a tool for companies to make decisions by breaking down the situation and comparing the potential outcomes. More formally, it is a benefit-cost study to test if the additional benefits of an activity worth the costs incurred by that same action. In the Marginal Benefit Cost Graph (Fig. 1), the line represents marginal benefit line and that of marginal cost often show an inverse trend.



**Fig. 3** Marginal Benefit Cost Graph

Marginal benefit (MB) appertains the maximum willingness to pay for additional units of goods and services. In the he marginal benefit for a consumer tends to decrease as consumption of the good or service increases. Marginal cost (MC) refers to the incremental cost of producing additional units of goods and services. In the marginal cost for a consumer tends to increase as consumption of the good or service decreases. For example, bakery A has 10kg of flour this week, and producing a cake spending 500g flour. The decision whether to use another 500g of flour to make one more cake is an example of marginal analysis. Or the shopper can consume 200g four to cook an pie. In this case, the marginal benefit is an pie, and the marginal cost is 200g four, or we can say, 2/5 cake.

The negotiation between Wanda and AMC is one of the cases that both companies benefited from it through right decisions. Not only in the decision of Wanda tried to acquire AMC in 2012, but also when in 2021 Wanda liquidated AMC and gained interests. Thus, the researcher use the method of marginal analysis to evaluate the situations to make sure they make as right decisions as possible.

#### 4. The Wanda - AMC Acquisition in 2012

In 2010, Wanda established the strategy of "achieving multinational development and becoming a world-class multinational enterprise by 2020". On March 2012, Wanda decided to enter the US media industry with the acquisition of AMC as the first step of its ten-year strategy after detailed research and investigation of the European and American markets.

Wanda Group's purchase of AMC was nearly \$3.1 billion dollars, which was the hugest amount in China back then. By the end of 2011, Wanda Group's total assets had ballooned to 220 billion yuan, with annual revenue of 105.1 billion yuan. At the time of the planned acquisition of AMC, Wanda was in a phase of rapid expansion, and the acquisition money was a big burden for Wanda. At the same time, China had relevant regulations on the capital sources of overseas M&A business, namely, the funds raised by enterprises in the form of loans and M&A funds are only allowed to account for 50% of the total M&A funds, that is, half of the M&A funds of enterprises must be its own funds. Therefore, Wanda adopted the financing method of internal guarantee and external loan [8]. The national inspection was very strict about this practice because it would face consequences that could be as serious as capital outflow at the national level. Here are some pros and cons of the action to understand why Wanda bought AMC in 2012.

##### 4.1 Marginal Costs of the Acquisition

###### 4.1.1 AMC's Huge Debt Pile

AMC had been red for two or three years in 2011. It can be seen from the table of AMC's Income and Profit from 2010 to 2012 (Table 1) that in 2010, AMC achieved a revenue of 2.431 billion yuan, but a loss of 77 million yuan. Although the income continued to rise, the total income in 2011 was

2.437 billion yuan and 2.6 billion yuan respectively, but the profit was still in a loss state. In fact, before Wanda acquired AMC, AMC was already in a state of high debt, and its earnings over the years could not make up for the high debt. As of 2012, there was still \$2.2 billion outstanding. Due to the financial crisis of 2008, the overall movie theater market in the United States is also in a downturn. There's a lot of uncertainty about AMC's future. Taking AMC as the acquisition object has great strategic choice risk.

**Table 1.** AMC's Income and Profit from 2010 to 2012

|        | 2010               | 2011               | 2012             |
|--------|--------------------|--------------------|------------------|
| Income | 2.431 billion yuan | 2.437 billion yuan | 2.6 billion yuan |
| Profit | - 77 million yuan  | - 123 million yuan | 51 million yuan  |

#### 4.1.2 AMC was a company owned by five private equities

There was a trouble that cannot be ignored when Wanda negotiated with AMC, that was, the five shareholders of AMC had the same shareholding, they all had the right to vote for the future of AMC, however, none of them had the absolute right to make decisions, which means Wanda needed to understand the needs and wants of each shareholder and to balance the interests of each party with the actual situation.

LI Xiang introduced this risk as an opportunity: "AMC was owned by five private equity funds, and its fund shareholders were facing a crisis: 2012 was the fund exit period; Second, there was a huge amount of maturing debt that needs to be refinanced. At that time, AMC tried to go public twice and failed, was unable to raise funds from the secondary market, and private funds could not exit through IPO. Wanda, as a rare big seller, has a larger initiative." [9].

## 4.2 Marginal Benefits of the Acquisition

### 4.2.1 Better preparation for AMC IPO

First of all, AMC Private Equity's shareholders lacked background knowledge of the film industry, and the company's internal management disadvantage and structural instability prevented the company from going public. Wanda, as a well-established production company from China with the presence in the culture, media and film industry, which could make up for AMC's deficiencies in this area.

Second, Wanda was once one of the top four real estate developers in China and derives 90% of its revenue from the group's property industry. Since 2004, except for the fall in housing prices in 2008 due to the financial crisis, China's housing prices are generally on an upward trend and the market development potential is high and stable. Wanda's entry is conducive to solving AMC's gap in financing.

### 4.2.2 The acquisition of AMC could increase Wanda's international visibility

AMC was the second largest theater in North America, with a history of 92 years, and had theaters in the United Kingdom, France, and Hong Kong, China, in addition to the United States and Canada. Prior to the merger, AMC had high-quality and large physical operating assets, including the largest number of 3D screens and IMAX screens in the world, including 120 IMAX screens and 2,170 3D screens. This meant that AMC had nearly half of the screens available to show 3D movies and almost half of the IMAX screens in the U.S. [9].

As a developed country, entering the U.S. market with foreign trade was not an easy task. In the mature markets of developed countries, branding and awareness were more important than product sales. Not only in the U.S. market, but even in the European market, relying on the brand effect to influence consumers' decisions. Wanda's acquisition of AMC would not only gain AMC's original North American market and overseas market, but also used the experience originally accumulated in the media industry to expand the original market and open up new markets through AMC's original sales channels and sales methods. Although advertising and branding could effectively help Wanda

to increase corporate awareness, it would lead to a large amount of capital investment and high risk. The acquisition of AMC Cinemas was the optimal choice for Wanda to expand its overseas business.

#### **4.2.3 Wanda and AMC had matched positioning in their domestic market**

Prior to the M&A, Wanda's cinemas in China were concentrated in first-tier cities and AMC's cinema layout in the US was mostly in large and medium-sized cities. Wanda's positioning in China is consistent with that of AMC in the US, and the target users of both are focused on citizens in mainstream cities, striving to become local high-end mainstream cinemas. The consistency in concept helps both parties to reach agreement on M&A integration and reduce the difficulty of subsequent integration of AMC.

### **5. Wanda Group's leave from its controlling interest in AMC in 2021**

In the early twentieth decade, Wanda invested and developed in the cultural tourism industry, and in the research, the author found that the related projects under this industry had to wait five to ten years before capital revenue. Considering the larger capital needed in the future, in 2017 Wanda sold four Wanda Plazas, 13 Wanda Cities and 77 hotels [10]. Since 2018, Wanda had tried to gradually reduce its AMC holdings, in a somewhat reserved manner. In that year, Wanda sold some of its holdings for the first time in the form of a buyback of 24.1 million shares to the private equity fund Silver Lake Capital. For \$600 million, Silver Lake Capital became the second largest shareholder in the AMC. As of 2020, Wanda has reduced its control from 00% at the start of 1 to 37.7% of the equity and 64.5% of the voting rights. On May 23, 2021, Wanda Group issued an announcement on its official website that the company had liquidated its holdings in AMC and had all but withdrawn from the board of directors of AMC Entertainment with the cumulative repatriation of \$1.476 billion dollars.

#### **5.1 Marginal Cost of Leaving**

The leave of Wanda from AMC was a waste of effort Wanda put into AMC, which meant the failure of entering American media industry. After the acquisition of AMC, Wanda Group promoted the successful listing and merger of AMC, making AMC the world's largest movie chain, and jointly promoted the cooperation between Chinese and American film industries and the exchange of film culture with AMC. At the same time, owning a controlling stake in AMC Entertainment would give Wanda the right to distribute imported films nationwide, making it the second company to do so in China.

At the beginning of the cooperation, when the U.S. movie market was in the doldrums and AMC was losing money year after year, Wanda Group assisted AMC to restructure its debt and significantly reduce its debt ratio; in addition, it invested \$500 million in working capital to purchase international advanced equipment to upgrade its theater hardware facilities.

#### **5.2 Marginal Benefits of Leaving**

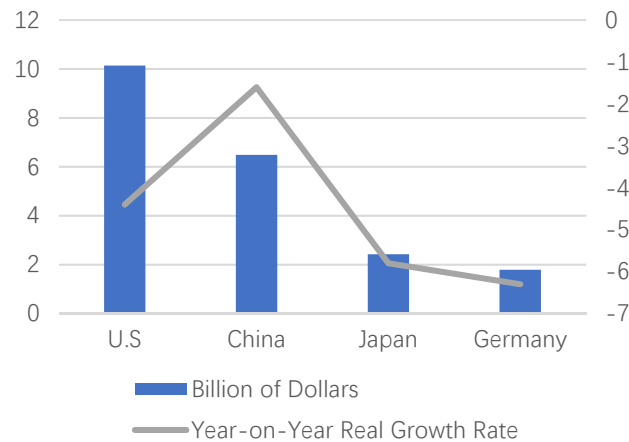
##### **5.2.1 Stop losses in time to avoid the possibility of being trapped in AMC**

According to AMC's financial report, the company reported a net profit loss of \$487 million in 2017, down 536.17% year-over-year, the first loss since the company went public. By 2019 the company's net profit again lost \$149 million, down 235.42% year-on-year. Affected by the 2020 epidemic, the theater audience was lost in large numbers, while AMC had to close its nearly 1,000 theaters worldwide, lay off thousands of employees and reduce the salaries of theater executives to keep the company's cash flow stable under epidemic prevention and control requirements. In the April of 2020, AMC's market value fell from \$5.4 billion to \$200 million.

##### **5.2.2 To support the Wanda's focus on domestic business**

After the global outbreak, Wanda issued a "domestic focus" strategy. From the table, the U.S. GDP lead while the U.S. economy cooled dramatically, the growth rate than Germany, France, Britain and

India and other countries. Our country ranks second only to the United States, and the rate of decline is low (Fig. 4). Compared to foreign countries, the strict domestic policy, although it may cause a reduction in theater traffic or even the suspension of stores in an area, it does ensure the recovery of China's national economy and so further protects the purchasing power of Chinese people to go to the movies. Thus, it seems to be a sensible choice to focus on the domestic movie market rather than other countries.



**Fig. 1** GDP Growth Rate and Total GDP of the top four countries in the first half of 2020

### 5.2.3 Catching the Global Buying Fever in 2021

In January 2021, a group of companies affected by the epidemic saw their stock prices rise thanks to a buying frenzy among investors driven by the well-known overseas forum Reddit. The frenzied wave of retail buying initially originated at game retailer GameStop, which had lost \$800 million in 2019, but GameStop stock surged 120% at the end of January, even gaining the attention of Musk. The buying wave that started with GameStop spread to other companies, and AMC was one of the stocks that benefited from it. Driven by retail trading, AMC shares have risen by 470 percent this year, and Wanda saw the stock's surge and liquidated AMC.

## 6. Conclusion

Through this study, we find that in the case of Wanda and AMC, both parties gained from the partnership even if it ended in a break-up. From beginning to end, Wang took the maximization of Wanda's interests as the yardstick, and whether Wanda decided to enter or exit the M&A, it considers the possible outcomes from a macro and circumstantial perspective. Moreover, most of the marginal costs listed in this article were resolved by Wanda in subsequent negotiations, such as the ignorance of AMC's five major shareholders about the film industry, which was later resolved by Wanda through M&A restructuring. Therefore, a scientific and systematic marginal analysis is essential to achieve a win-win cooperation. It fills the gap in the marginal analysis of successful cross-border M&A cases in China, which will help other researchers to improve their advantageous position in Sino-foreign cooperation and competition in culture, media, and especially film industry, and will help other researchers in the future to understand the situation of the film industry in China and the US in the 2000s and the application of marginal analysis in enterprises. The current study still falls short in terms of relevant case correlations and access to specific negotiations in the Wanda and AMC M&A, suggesting that future studies should try to find relevant videos to capture some details.

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