

## Masters of Scale: Rapid Response Transcript – Shelli Taylor

“Can bankruptcy save movie theaters? with Alamo Drafthouse CEO Shelli Taylor”

[Click here to listen to the full Masters of Scale: Rapid Response episode with Shelli Taylor.](#)

**SHELLI TAYLOR:** You're optimistic and you think you're two to three months out, and then you wake up and you're 12 months out and you're like, "Holy shit. How did this happen?" And it is an emotional roller coaster. There's days where it's super bleak and dark, and you're like, "There's no way possible."

And then, there's days like this last weekend where literally the world came back to the movies. And of the people who returned 75% of them were returning for the first time. And so, there is pent up demand, and people do want to come back, and they're feeling safer because there are vaccines. And that feels like we have a plan as a nation of how we're going to move forward.

First of all let's make sure everyone understands bankruptcy. We're in Chapter 11, which is just restructuring. And while it's not a tool that we wanted to use, it actually is a very helpful tool for a company when you've had something like this happen.

There's no shame when you have acted with culture and values and ethics, and find yourself in a tough situation. If anything, we all need to talk more about it so that we all can learn and grow together versus living in shame or fear. There's no shame in what we've been through.

**BOB SAFIAN:** That's Shelli Taylor, CEO of Alamo Drafthouse.

The hip, culture-forward movie theater operation got hammered by the pandemic, as Shelli explained in an earlier appearance on the podcast. Then in March, Alamo filed for bankruptcy protection.

I'm Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response.

I wanted to talk to Shelli again because bankruptcy is such a fraught strategic decision. While Chapter 11 can be an effective tool that many enterprises turn to, it also carries a stigma.

Shelli explains how and why Alamo made the choice it did, the lessons she's learned about the process, and why she still sees great hope and opportunity ahead for the business.

**[THEME MUSIC]**

**SAFIAN:** I'm Bob Safian, and I'm here with Shelli Taylor, the CEO of Alamo Drafthouse. Shelli's joining us from her home in Austin, Texas, as I ask my questions from my home in Brooklyn, New York. Shelli, thanks for joining us.

**TAYLOR:** Oh, my pleasure. It's good to see you again, Bob.

**SAFIAN:** Yeah, you and I talked for this podcast six months ago in October. You said to me, "We're six months without any meaningful revenue." But you were hopeful. You were hopeful, things were opening up a bit, and then a new wave of infections rolled through, as we moved toward winter. So, how have the last six months been since the last time we got to talk?

**TAYLOR:** Well, the story hasn't changed much until recently. So, it's 12 months of no meaningful revenue. And then, last weekend was phenomenal. *Godzilla vs Kong* came out, we've seen infection rates go down significantly in the U.S., we've seen vaccinations go up, and we had a box office. People were excited to come back out, and they did, and we went from half-pregnant and hoping to ... we're back.

**SAFIAN:** There's an irony in this. Just as vaccines are rolling out and the prospect of reopening becomes more likely, you guys made the decision or the choice or had to file for bankruptcy. I'm curious about how that came about. Take us through how the idea first came up, and when and why it got momentum.

**TAYLOR:** First of all let's make sure everyone understands bankruptcy. Because a lot of times that means closure, and that's a Chapter 7 – we're in Chapter 11, which is just restructuring. And while it's not a tool that we wanted to use, it actually is a very helpful tool for a company when you've had something like this happen.

And so, what took place is just, as the months kept progressing, we had debt building with our landlords and some vendors, and we had no revenue coming in. And so, how do you write that equation?

And that we needed to kind of burden share across, meaning not just us, but we needed our bank to help, we needed our lenders to help, we needed the landlords, and we weren't getting a lot of traction. And so, going into a restructuring forces the traction, and all parties to come to the table and find a meaningful solution.

**SAFIAN:** We had talked last fall, about the relationship with landlords, the imperative to renegotiate leases and their limited options sometimes about finding other tenants for spaces like a theater. How much of this sort of bankruptcy tool use was because of the lease situation?

**TAYLOR:** I'd say most of it's the revenue, right? That's the number one driver. You cannot save your way to success, unfortunately, when there's no revenue coming in. But then the second driver really was that mounting debt from our landlords – and they're in

the same position that we are. If we're not paying them, they probably have debt and lenders, and it's difficult.

**SAFIAN:** You mentioned bankruptcy as a strategic tool, which financial and operational folks do from an entrepreneurial viewpoint. That's not normally the way folks tend to want to look at it. Did you resist the idea? Was the idea of something that had been swirling around or you guys had been talking about for a while?

**TAYLOR:** There was a moment last May or June where we brought in an external party to help us talk to our landlords and try to restructure. They brought up with us this notion of bankruptcy, and I lost my temper, quite frankly. I was like, "We're not using that. That's not who we are, and we're going to muscle through this." We truly thought, if vaccines had happened sooner, and the slate had come back, and we saw revenues pick up, we would not have gone here.

But somewhere around Christmas, it just became super obvious that we were spinning our wheels and this was a tool that was the last tool left basically to right size our balance sheet and get back in position to be strong again. We're grateful this tool exists and is helping us weather the storm.

**SAFIAN:** Yeah, I mean, a lot of businesses worry about the stigma of bankruptcy, and some of that being, as you point out, the sort of misunderstanding between Chapter 7 and Chapter 11, what reorganization is versus liquidation. But it sounds like you had a little bit of that yourself going in, that you resisted the idea when it was first brought up. Do you think that if you had not resisted it earlier, would it have been easier for you guys?

**TAYLOR:** You know, that's a great question. There's always things you could have done differently or better. I think the timing is right because we took the steps we needed to, to right size everything else, and ensure that we were as healthy as possible. So, I feel, proud is the right word, I feel like we've done this bankruptcy in a way that is as fair and equitable for all involved as possible.

**SAFIAN:** As you're weighing this step and what the implications are, are there resources you go to, sort of other business leaders that you bounce this idea off of? If you do that, does that tend to be people in the theater and entertainment business, businesses in the Austin area? Or is this something that's really just a discussion that happens within the Alamo Drafthouse team?

**TAYLOR:** Primarily, it happens internally. So, it's really, the advice has been from our equity partners, our board, and our advisors. I did go and speak to a couple of leaders who have been through this in the past, and they gave me some great advice. There are a few things that nobody mentioned that I wish someone had prepared us for. So, if anyone ever wants advice, I certainly have some ideas of how to approach this from a leader's perspective differently.

**SAFIAN:** There may be listeners here who may at some point have to deploy or consider this tool. What are the key pieces of advice that you got? And what's the key advice you wish you'd gotten?

**TAYLOR:** One is just communicate, communicate, communicate. Communicate internally, keep doors open, communicate with your partners, your vendors, your landlords as often, as frequently as possible. And that's really important.

What people don't talk about is how emotional this will be for everyone involved. You've got to have the space and the emotional bandwidth to deal with the anxiety internally, as well as the anxiety externally of what this means. Even if it's well thought out and planned and graceful, if you can be graceful through this, it's still stressful. This is like a life stressor. If you think of death and divorce and birth as being huge stressors in people's lives, bankruptcy is of that level in the business world.

**SAFIAN:** Yeah, I talked to restaurateur Danny Meyer a couple times about how the opening and closing nature of the pandemic for a restaurant business moved him from being what he called optimistic at the beginning to now what he calls hopeful, right? Which is his distinction about how much harder it keeps getting as time goes by, a sort of slight tarnish of his spirit. How is your spirit through this?

**TAYLOR:** I would agree with him. I mean, you're optimistic and you think you're two to three months out, and then you wake up and you're 12 months out and you're like, "Holy shit. How did this happen?" And it is an emotional roller coaster. There's days where it's super bleak and dark and you're like, "There's no way possible."

And then, there's days like this last weekend where literally the world came back to the movies. And of the movie going, I mean we were sold out last weekend. Of the people who returned, 75% of them were returning for the first time. And so, there is pent up demand and people do want to come back, and they're feeling safer because there are vaccines. And that feels like we have a plan as a nation of how we're going to move forward.

**SAFIAN:** We also talked last time about the disrupted flow of movies to theaters. I mean, you mentioned this weekend's blockbuster, but studios were holding back films or relying on streamings. I know, in December, *Wonder Woman* released right around the time that you were sort of realizing that maybe bankruptcy had to be a reality. But these releases are happening simultaneously in theaters, and on streaming networks sometimes. Do you think the cadence of movie releases is going to return? Or has something about the model shifted permanently as a result of the pandemic?

**TAYLOR:** I can't speak for the studios, but it feels like we're going to see a return to the cadence. We lined up and said, "How many movies were per month in 2019? How does that stack up for 2021?" And you're actually seeing, especially in the summer months,

there are more movies scheduled right now on the slate than in 2019, same period. And now, we're sure some of those will move, but the number of films is looking like it will be similar to ... And we just eliminate 2020, right? Like, doesn't exist.

**SAFIAN:** Mm-hmm (affirmative).

**TAYLOR:** But similar to 2019, and that feels great. And I think, for the studios, those movies had been sitting on their shelf. They're gathering dust and quite frankly, losing money, you need to get them out for them to be able to make money. So, I do believe that we're going to come back to a regular cadence.

**SAFIAN:** Yeah. There are so many headwinds facing the movie theater business. I mean, beyond the pandemic, right. They were already in place about streaming and tech adoption trends. Is the industry likely to be smaller, like fewer screens in the future, or is that not something you necessarily think about as long as your screens are being actively watched?

**TAYLOR:** I do think there'll be fewer screens, which is unfortunate, just because there's already a number of small independents or small chains that aren't making it through this. It's not how we think about the world. We think about: Where are we located? What do our guests need and want? And how do we best serve them, and if we're doing that well, we'll continue to have the business that we need. And now as we look forward, and we get back into a position of strength, what does it mean for growth? Because there may be an opportunity to add more screens.

**[AD BREAK]**

**SAFIAN:** You launched some new initiatives that we talked about last time, My Private Alamo, full theater rentals, Alamo on demand. So now, six months later, what of that is still working, what isn't, are there new things on the horizon? How are you thinking about the model in those areas?

**TAYLOR:** Oh, my gosh. Well, for sure the private theater is 50% of our business. It is a huge hit, and people are begging that it doesn't go away. We're not going to share where we're going with it, but it will be a critical part of our strategy moving forward, because people want the optionality of how they view movies. And that includes inside the theater.

**SAFIAN:** And the Alamo on demand, the streaming part of what you're doing, how is that going?

**TAYLOR:** That's going well. We never expected that to compete with another streamer. It's not our core business. It's not what we're trying to do.

But what we have seen is that it gives us interesting ways to connect with our community that we hadn't done before. And so, it won't go away, but it's never going to be like one of the big pillars of what we do.

**SAFIAN:** You've worked in other industries, is the movie theater business a good business? Why were you drawn to this? It seems so hard.

**TAYLOR:** Yeah, that's the question of the day, it is hard. I think that the product is so cool and so fun. I think for every movie theater out there, the margins are difficult for venues. And that's the challenge. And quite frankly I think that we're well positioned, especially once we get back up into business, to solve some of the margin issues and challenges, so that we're a bit healthier.

So, yeah, it's a pain in the ass, but the fun outweighs the pain, to be quite honest. And I think that's why most people are here. They love that experience of what cinema does that nothing else can do for storytelling.

**SAFIAN:** Alamo was, I mean, your arrival was only, less than a year ago right?

**TAYLOR:** Yep.

**SAFIAN:** It was a founder-led company. Tim League remains the chairman. How have you guys worked together through this time?

**TAYLOR:** Tim and I are great partners. We're so different in our skill sets that we're complimentary. But his brilliance to see the future and create, it's just unparalleled.

And then, I think that my experience in leading multi-unit businesses, and through tough times, not like this, has allowed me to help kind of stabilize the business and talk about the steps through. And so, he really is kind of, "What's the hope and future?" And I'm the, "How are we going to get through this?" And I think that partnership has been fabulous.

**SAFIAN:** You guys are based in Austin, and Austin had some other complications this year in the midst of all this, some weather issues that made things more difficult. How did that unfold for you guys?

**TAYLOR:** I mean, that was just a Texas issue. And unfortunately for many of the people, either our guests or people on our team who lost water for four or five, sometimes 10 days, electricity for three to five or plus days, it was pretty brutal. And a lot of people are still dealing with the aftermath to get a plumber to come back out and respond, you could be on a waiting list for six to eight weeks because there were just so many emergencies.

So, it was just really unfortunate.

**SAFIAN:** We talked about living in a constant threat state, even before this, and you talked about the need to just stay calm. Have you been able to do that in the six months since? Are there new things that you try to do to stay calm?

**TAYLOR:** Yeah I think my 17 year old would say there's days that I fail, and he gets the brunt of it. But you know, no, I've pretty much tried to stay on track of living as healthily as I possibly can because it's one of those things where if you don't take care of yourself, you can't be there for others. And in a threat state, even more so, you need to be taking care of yourself.

And so, I've just been focused on the basics of eating and sleeping and exercise. And then quite frankly, I talk to my friends more than I ever have. And they've been an incredible outlet of just support emotionally, intellectually. Now is the time more than ever to be connected to those who matter in your life.

**SAFIAN:** For sure. The other thing, I guess, we talked about last time was the social action environment, the political environment. I know that has been just as intense over the last six months as it was the period before. Is that something you've been able to engage with, or have the business urges sort of pushed some of that out of the to-do list for the time being?

**TAYLOR:** The business urgency continues to drive the priorities around bankruptcy and re-emergence, but we're still committed to making a difference when it comes to social justice, and we've been doing what we can, where we can. So for example, we recently worked with a leader in the film industry to do some things on Alamo On Demand, and give voice to an important hip hop community in New York, in Brooklyn.

So, we are taking the opportunity where we can. And then quite frankly, in our hiring practices, and even through bankruptcy, there are a few key roles that we've needed to hire, and we've been very intentional in ensuring we have a diverse candidate pool.

**SAFIAN:** So, what's the next phase for your business?

**TAYLOR:** Well, the good news is the stress is now: how do we reopen more quickly? We really thought we'd be slow rolling our theater openings over the summer, and finally 100 percent with every theater by October. And this last weekend, we're like, "Yikes, we need to move more quickly." And so, we now have a really new problem to deal with, and that is: How do you open half of your business in a very short period of time? It's an unnatural act for us.

We have a low base, so how do you double your base overnight? And that's what we're working on – working with our food vendors like, "When can you be prepared to have food and ready for us?" And turning on our internet and all those things. So, yes, we

have to deal with the bankruptcy, but we're finally dealing with, how do we get open again and running? And it's challenging, but it's a fun problem.

**SAFIAN:** It's interesting. It's sort of the inverse of what was happening a year ago, where you were going from moving to being still, and now you have to get from being still to moving.

**TAYLOR:** Yeah. And quickly. When a building sat empty for a year, unfortunately nothing works well. It's the refrigeration, the HVAC, you name it. Each piece of equipment has to be turned on and tested, and anything that sits that long, seems not to work. So, reopening a closed business is more difficult than opening a new business, is one of the key learnings of this process.

**SAFIAN:** Interesting. Well, is there anything that I haven't asked you about where things are today, and where we should be looking?

**TAYLOR:** Yeah. I guess what I would say is it's clear the movies are coming back, and the indicators are there. And so for everyone, the studios and theaters, it's not just keep hope up, it's now take the actions needed to move back in a smart way. So that come next year, we're not just open, but we're all thriving again. That's my focus and I hope everyone's.

**SAFIAN:** Well, thank you Shelli, I have to say, I really appreciate you coming on to talk about this. Bankruptcy does have a stigma in some quarters, as you note, and I appreciate you talking about it. If there's anything that we've learned in this year, it's that things that we never thought were possible to happen are things that we have to embrace as reality and necessary now, and that we can make our way through things that we didn't think we could before. But that's what it takes.

**TAYLOR:** Absolutely.

**SAFIAN:** Yeah.

**TAYLOR:** And I think there's no shame, right? There's only shame when you've intentionally acted poorly or badly as an individual or a business. And there's no shame when you have acted with culture and values and ethics, and find yourself in a tough situation. If anything, we all need to talk more about it so that we all can learn and grow together versus living in shame or fear. There's no shame in what we've been through.

**SAFIAN:** For sure, the reality of being an entrepreneur is you have to deal with whatever's in front of you with whatever tools you have, and keep moving. And that's the decision that you guys have continued to work towards. Anyway, I really appreciate you spending time with us and coming back again.

**TAYLOR:** My pleasure. Always an honor, Bob.