

Cirque du Soleil plans to survive the pandemic, thanks to a strong brand and an intricate reopening strategy

NICOLAS VAN PRAET

PUBLISHED 19 HOURS AGO UPDATED APRIL 3, 2020

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Cirque du Soleil Chief Executive Daniel Lamarre in their headquarters in Montreal, Quebec, March 31, 2020.

CHRISTINNE MUSCHI/THE GLOBE AND MAIL

Cirque du Soleil Chief Executive Daniel Lamarre says the strength of its brand will ensure it survives the coronavirus pandemic. In fact, he's counting on it.

Sitting a safe distance across a wide boardroom table at Cirque's Montreal headquarters – normally a hive of activity but today deserted – the slightly-built CEO is blunt about the crisis his company is in and the unique challenges it faces

as it tries to stave off bankruptcy. There is no sugar-coating the extent of the adversity.

Revenue at Cirque has plummeted to zero as all its 44 shows crashed to a sudden halt. Some 4,700 employees have been laid off. Cash is tight and about US\$1-billion of debt sits on the balance sheet.

Still, Cirque's existence is not in jeopardy, he says. He sees the firm as a global icon with nearly-unmatched ability to draw paying customers, a cultural cornerstone in Quebec that the province's institutional power brokers will not abandon. Besides, he says, it's profitable in normal times even if it faces a massive liquidity crunch now.

"We are one of the most amazing brands in the world," Mr. Lamarre says. "No investor with a straight mind will let it go."

Negotiations are now under way between shareholders, notably Texas-based private equity firm TPG Capital and pension fund giant Caisse de dépôt et placement du Québec, on a financial restructuring that will satisfy creditors and find a way out. The Quebec government is involved through its investment arm. A bankruptcy protection filing remains a possibility, Mr. Lamarre says. But the firm is also hoping it can soon reopen shows in carefully chosen markets as the pandemic wanes and get revenue flowing again.

The coronavirus outbreak has cut fast and deep across the world, hitting the consumer-sensitive entertainment sector particularly hard. Cirque operates 10 resident shows, 13 touring shows and 21 shows under affiliated brands, including the Blue Man Group. Because it has to make upfront investments for travelling shows and plans its performances well in advance, it has little wiggle room when things don't proceed as expected.

Cirque felt the pain first in China, where the virus is believed to have originated, shutting down its one show in the city of Hangzhou in January. A few weeks later, it was Europe. The company's first big casualty came in Italy, where two shows were set to open but never did.

"The promoter there kept calling us every day saying 'I'm not sure we're going to be able to present the show,'" Mr. Lamarre recalls. "We had quite a lot of tickets sold and it was going well. And then kaboom."

As the virus and the measures to fight it spread across the continent, Cirque struggled to keep up with the developments. Things were moving so quickly that executives held meetings and developed strategies that were obsolete by the time the meetings were done. Eventually, all Cirque shows in Europe were suspended.

The final major blow came in mid-March when Nevada ordered all non-essential businesses in the state to close to limit human contact. Cirque counts on a

partnership with Las Vegas casino operator MGM Resorts for about 35 per cent of its US\$950-million annual revenue, according to a Moody's Investors Service estimate. With Cirque's permanent shows in Sin City shut down, one-third of its sales vanished in one swoop.

With no revenue coming in, Cirque quickly decided it had no other option but to slash costs. On March 19, the company announced it would lay off 95 per cent of its roughly 4,700 employees, keeping only a core group of staffers to manage the crisis and plan for a resumption of the business. Mr. Lamarre calls this his "SWAT team."

The CEO broke the news to staff in a video message. Then he and his crisis team set back to work repatriating the last of some 2,000 employees in 30 different cities around the world back to their homes, racing as airlines were cancelling flights and countries closed their borders. Another team secured Cirque's pricey touring equipment in various locations across the globe, placing 483 trucks loaded with big-top materials into warehouse storage when all was said and done.

The key now, operationally, is getting the timing and resource-distribution right to make sure Cirque's logistically-complex live shows are up and running quickly when authorities permit. It's crucial that the company spend money where it counts to get maximum cash flow coming in the door, which means keeping daily tabs on which of the 450 cities where the company tours could back first and where to dispatch resources.

The planning will be tricky. Demand for Cirque's entertainment is already coming back in China, Korea, and Singapore, where local promoters want to start selling tickets again, the CEO says. But most borders are still closed, so Cirque cannot send back its international artists at the moment, forcing the company to develop backup plans.

For example, for its Land of Fantasy permanent show in China, Cirque is weighing whether it could recruit more locally-based artists. Half of its performers working there came from other countries while the other half were Chinese. Cirque says it is working with its local partner and authorities on plans for a safe resumption of performances.

The task will be easier for Cirque's permanent shows in Las Vegas because the cast and crew live in the city. Circus troupe staff are currently doing regular visits of theatres and venues to make sure that all the equipment is working properly to ensure there's no false-start.

It would take three weeks from the moment everyone is on-site to be able to restart performances, Mr. Lamarre says. The troupe will likely focus first on its 10 so-called super markets, cities like London and Los Angeles where demand has been historically strong and predictable, he said.

That's not to say things will magically return to normal for Cirque.

The company has invested \$500-million in new-format productions and acquisitions over the past several years, buying Blue Man Group and VStar Entertainment Group among other properties. It has also veered out of its comfort zone with some shows that have flopped, fuelling criticism that the company has overextended itself. R.U.N., a Vegas show featuring movie-style stunts instead of acrobatic circus acts, shut down in March after four months.

Mr. Lamarre says there is no doubt that the company will dial back its ambition going forward, which means reducing spending on new show development. Plans to take the company public are almost certainly on ice.

TPG controls Cirque after buying a roughly 55-per-cent interest in the company from founder Guy Laliberté in 2015, while Chinese fund manager Fosun Capital Group bought about 25 per cent and the Caisse took 10 per cent. In a deal announced in February, the Caisse bought out Mr. Laliberté and boosted its stake to 20 per cent.

TPG and Caisse said they are following the situation at Cirque closely but would not comment on their intentions.

Mr. Lamarre calls the Caisse's increased involvement in Cirque "a blessing." The pension fund last month earmarked \$4-billion to support Quebec companies hurt by the current crisis, saying it would provide liquidity to profitable companies in need regardless of whether or not they are among its current investment holdings.

Quebec also confirmed its intent to see the entertainment company through the current crisis. "We will help Cirque to make sure that its liquidity, after its layoffs, is sufficient so they can survive this period," Economy Minister Pierre Fitzgibbon told reporters last week.

But even if Cirque manages to engineer a deal with its investors and creditors that secures a tenable capital structure, there will be further pressure on the company's operating flexibility once shows resume, according to Moody's analyst Whitney Leavens. Among the reasons are its weak liquidity position, soft demand for its shows and challenging economic conditions. "The discretionary nature of the product and prolonged economic weakness will exacerbate the company's operating earnings and cash flow volatility," she says in a recent note.

Mr. Lamarre is optimistic that his live entertainment will draw people back once the public lockdowns lift, although he does not expect a rush on ticket sales. He says he will reopen shows gradually over several months, testing the demand and making adjustments in response.

Every ticket sold after a show reaches 50 per cent capacity is pure profit for the company, the CEO says. So even a performance that is 60 per cent full still makes money.

His confidence is bolstered by a test last week. Cirque posted a special 60-minute video highlight reel of three current shows on Youtube and Facebook to measure engagement. The video received 6.3 million views on the two platforms combined and generated another seven million visits to the Cirque website.

The current crisis is affecting how we interact as human beings, increasing the physical and emotional distance between us, says Patrick Leroux, a professor and associate dean of research at Concordia University who has written on the circus industry. But that won't last forever.

Humans are social and vicarious by nature, Mr. Leroux says. Once we feel safe again, we'll be back together in droves, enjoying the types of live, thrilling shows Cirque offers.

"Virtual reality, video, couch-lounging live streaming will never measure up to the real thing," he says. "Recorded live performances only remind us that we were not there, that we missed out. During the pandemic, there is a sense of unity, of a shared experience in mediated experience. Afterward, we will want to experience the real thing."

Mr. Lamarre is philosophical in talking about what motivates him to work through the current hardship, by far the hardest Cirque has ever faced.

"I cannot wait to call our people and say 'Hey you can come back home,'" he says. "And home for us is not this building. Home for us is the big tent ... A lot of us could be very depressed today and I could too. But that's not what feeds me today. What feeds me is saying 'My God, if we as a [crisis] group, are not fighting for these 4,700 people, who is going to do that?'"