Entertainment & Leisure
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COMPANY UPDATE / RATING CHANGE

Key Metrics		
RGC - NYSE	(as of 12/5/17)	$22.68
Price Target		N/A
52-Week Range		$13.90 - $23.56
Shares Outstanding, basic (mil)		156.9
Market Cap. ($mm)		$3,558
3-Mo. Average Daily Volume		6,070,000
Institutional Ownership		99%
Total Debt (9/17) (mil)		$2,478
ROE (TTM Ended 9/17)		N/A
Shareholders' Deficit (9/17) (mil)		($855)
Price/Book Value		N/A
Annual Dividend & Yield	$0.88	3.9%
EBITDA Margin (TTM Ended 9/17)		19%

EPS FY 12/31 (excluding nonrecurring items)

	2016	**Prior 2017E**	**Curr. 2017E**		**Prior 2018E**	**Curr. 2018E**
1Q	$0.27		$0.32	A		
2Q	$0.23		$0.16	A		
3Q	$0.29		$0.07	A		
4Q	$0.33		$0.40			
Year	$1.11		$0.95			$1.13
P/E	20.4x		23.9x			20.1x

Note: Quarterly EPS figures may not add to annual figure due to rounding.

Revenue ($mil)

	2016	**Prior 2017E**	**Curr. 2017E**		**Prior 2018E**	**Curr. 2018E**
1Q	$787		$821	A		
2Q	$786		$764	A		
3Q	$812		$716	A		
4Q	$813		$884			
Year	$3,197		$3,185			$3,300

Company Description: *Regal Entertainment Group is the largest movie theatre operator in the world. Former Chairman Philip Anschutz and related entities recently held roughly one-fourth of the common shares but had two-thirds voting power through ownership of Class B shares. Regal recently operated 7,315 screens at 561 theatres in 43 states, the District of Columbia, and some U.S. territories. Regal holds an approximate 18% stake in National CineMedia (NCMI), which produces & distributes in-theatre pre-feature programming, and offers advertising opportunities, special event programming, and meeting services.*

Regal Entertainment Group

RGC — NYSE — Neutral-3

Lowering Rating to Neutral Following Definitive Merger Agreement

Investment Highlights

- **We are lowering our rating on RGC to Neutral from Long-term Buy due to share price gains related to an agreement to be acquired.** On 12/5/17, Regal entered into a definitive merger agreement with Cineworld Group plc for Cineworld to acquire Regal for $23 per share in cash. With the current RGC share price close to this offer price as well as our former $23 per share target price, we no longer recommend purchase.
- **The transaction, valued at $5.9 billion, could close in 1Q 2018.** The deal has been unanimously approved by Regal's and Cineworld's Boards of Directors and is subject to approval by shareholders of both companies and other customary closing conditions. Given the majority voting power of Regal co-founder and former Chairman Philip Anschutz, we do not expect obstacles to the deal from Regal's perspective.
- **We consider Cineworld's offer reasonable.** This view is based on the deal's valuation relative to Regal's expected cash flow, recent industry transactions, and the current business environment. We remind investors that the movie industry has endured a down year for box office receipts in 2017. There is a "go shop" provision in the deal under which Regal can solicit and evaluate competing proposals, if any. This provision expires 1/22/18.
- **Since becoming a public company in 2002, Regal Entertainment Group has consistently cited a goal of delivering superior shareholder value.** This has included an impressive history of paying quarterly and special dividends. The acquisition offer represents a premium of 43% over the 30-day average RGC share price prior to the announcement regarding initial discussions with Cineworld.

Note Important Disclosures on Pages 3-4.
Note Analyst Certification on Page 3.

Summary of acquisition plan. On 12/5/17, Regal entered into a definitive merger agreement with U.K.-based Cineworld Group plc for Cineworld to acquire Regal for $23 in cash for each RGC share. This includes Regal's Class A shares (commonly traded and held by the public; one vote per share) and Class B shares (100% owned by former RGC Chairman Philip Anschutz and related entities; ten votes per share). On Tuesday, 11/28/17, Regal announced it was engaged in discussions with Cineworld for a potential deal.

Headquartered in London, Cineworld is the largest movie theatre operator in the U.K. and the second-largest in Europe. It was founded in 1995 and became publicly traded in 2006. It is smaller than Regal in terms of theatre base and market capitalization.

The proposed transaction value of $5.9 billion includes the assumption of Regal's debt and represents an Enterprise Value/adjusted EBITDA multiple of just over 9x. We consider that valuation reasonable based on recent industry transactions and the current business environment. Although we believe a slightly higher offer could be justified based on the size and quality of Regal's theatre base, its operating acumen, and its growth plans, we do not necessarily believe such an offer is likely to surface.

The transaction has been unanimously approved by Regal's and Cineworld's Boards of Directors and is subject to regulatory review, approval by shareholders of both companies, and other customary closing conditions. The transaction is expected to close in 1Q 2018. Given the majority voting power of Mr. Anschutz (approximately 67%), we do not expect obstacles to the deal from Regal's perspective.

As a matter of information, we remind investors Regal went through an exploration of strategic alternatives in late 2014, including a potential sale of the company, and ultimately decided to take no action. We believe a transaction is likely to ultimately occur this time.

Business outlook. Despite a notably weak summer film season in 2017, we believe industry fundamentals are generally favorable. However, we are mindful of the unpredictability of movie slates and ongoing discussions among movie studios regarding the exclusive release window for a film's theatrical run (versus potential home viewing). Trends toward theatres offering more amenities such as recliner seating and expanded food & beverage offerings are producing encouraging results, and we believe these trends are in relatively early stages, with continued implementation planned over the next several years.

The 4Q should bring an easier year-over-year comparison and an improved film slate, in our view. In mid-December, we believe the industry is likely to benefit from the release of *Star Wars: The Last Jedi*, the highly anticipated production from Disney/Lucasfilm. We believe this film has the potential to break several industry box office records and demonstrate considerable staying power in its theatrical run into 2018.

We project year-over-year increases in RGC's key financial metrics for the final quarter of 2017. For all of 2017, we project a decline of less than 1% for total revenues and a decline of slightly more than 1% for adjusted EBITDA, both reflective of the challenging summer period.

Based on what we consider a solid film pipeline and Regal having a greater representation of theatres offering popular amenities, we believe 2018 can produce an attendance gain along with ticket and concession price increases. Our 2018 financial outlook includes an approximate 4% gain in total revenues and a 7% increase in adjusted EBITDA.

Opinion. We have lowered our rating on RGC to Neutral based on recent share price appreciation, with the current price close to our former $23 per share target and the $23 per share acquisition offer from Cineworld. Consistent with our Neutral rating, we believe the stock may be used as a source of cash if better investment opportunities exist and are suitably appropriate.

Suitability. Our Suitability rating on RGC is 3 on a 1-to-4 scale (1=most conservative, 4=most aggressive). This view is based on the company's dependence on the industry's box office environment, past earnings volatility (such as in times of weak box office sales), and a considerably leveraged balance sheet. We also consider positive factors such as the company's historical levels of free cash flow and its status as an industry leader.

Considerations and risks. We believe investors should consider several factors before investing in RGC. These include the company's leveraged balance sheet with currently negative shareholders' equity, the company's dividend policy, the state of credit markets, the impact of technology on out-of-home entertainment, dependence on quality motion pictures from the major studios, the release window for motion pictures (before becoming available in ancillary markets), ticket pricing trends, controlling interest from one stockholder/entity, and general economic conditions.

In addition, the recent definitive merger agreement with Cineworld represents additional risks, as the outcome is not certain. If that planned transaction is not consummated for any reason and other offers do not exist, RGC shares could decline in price and company/industry fundamentals would become driving factors, in our view.

Competitive factors include the threat of alternative methods of film delivery. This includes direct delivery of motion pictures through online means (more of a threat to DVD sales, in our view) and simultaneous release of some movies in theatres and on DVD or via in-home distribution (to date done only to a limited degree and with negligible results). We believe the theatrical run is and will continue to be the most important aspect of a film's product life cycle and expect overall industry attendance in the 1.2-1.4 billion range every year.

Additional information is available upon request.

Prices of other stocks mentioned:

Cineworld Group plc - CINE - London stock exchange - 543.50 GBX pence sterling
The Walt Disney Co. (parent of Lucasfilm) - DIS - $107.22 - Long-term Buy
National CineMedia Inc. - NCMI - $6.55

Analyst Certification

I, Jeffrey S. Thomison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

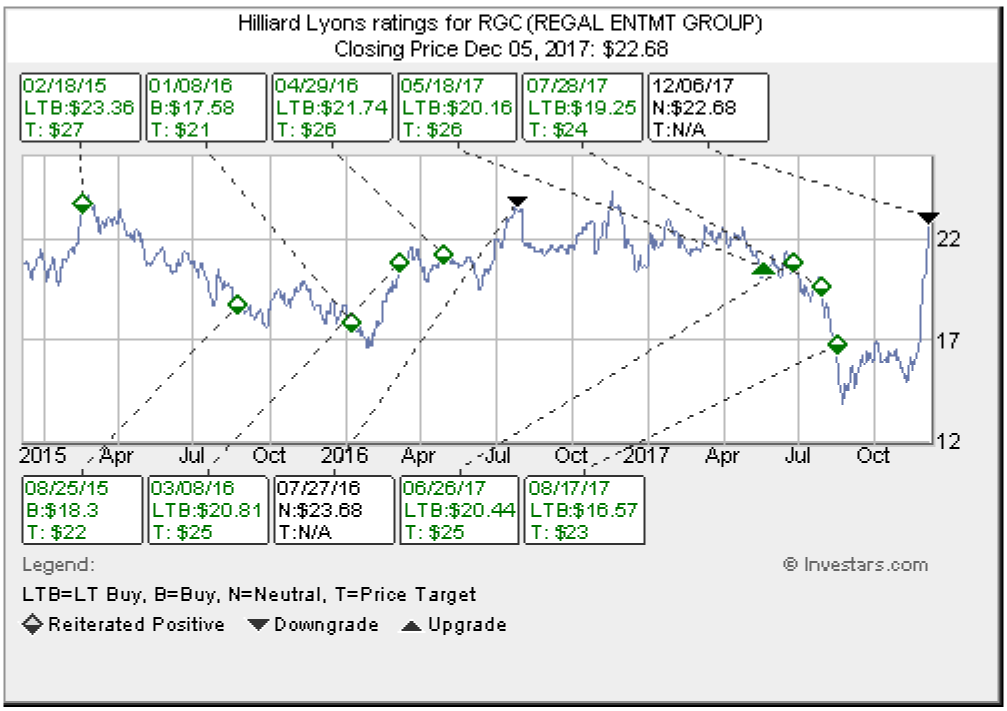
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2–3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings reflect a two to three year time period.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	32	29%	13%	88%
Hold/Neutral	73	65%	7%	93%
Sell	7	6%	0%	100%

As of 8 November 2017

Other Disclosures

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