Entertainment & Leisure
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COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

Key Metrics

RGC - NYSE (as of 7/27/17)		$19.25
Two Year Price Target		$24.00
52-Week Range		$18.64 - $24.79
Shares Outstanding, basic (mil)		156.9
Market Cap. ($mm)		$3,020
3-Mo. Average Daily Volume		1,940,000
Institutional Ownership		65%
Total Debt (6/17) (mil)		$2,484
ROE (TTM Ended 6/17)		N/A
Shareholders' Deficit (6/17) (mil)		($835)
Price/Book Value		N/A
Annual Dividend & Yield	$0.88	4.6%
EBITDA Margin (TTM Ended 6/17)		20%

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	$0.22	$0.16			
4Q	$0.33	$0.40	$0.41			
Year	$1.11	$1.12	$1.05		$1.30	$1.20
P/E	17.3x		18.3x			16.0x

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	$773	$750			
4Q	$813	$891	$895			
Year	$3,197	$3,242	$3,230		$3,370	$3,350

Company Description: *Regal Entertainment Group is the largest movie theatre operator in the world. Philip Anschutz and related entities recently held just under half of the common shares but had over 75% of the voting power. Regal recently operated 7,379 screens at 566 theatres in 43 states, the District of Columbia, and some U.S. territories. Regal holds an approximate 20% 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 — Long-term Buy-3

2Q Results Reflected Soft Industry Environment

Investment Highlights

- **The industry's box office environment was weak during most of the 2Q period.** In fact, only three of the 13 weekends posted higher year-over-year ticket sales (a relatively low figure based on historical performances). We attribute this to the sub-par quality of the period's film slate more than anything; we do not believe there was a fundamental shift in consumer sentiment regarding movie watching.
- **Given the soft industry environment, we were relatively pleased with Regal's 2Q results.** Total revenues decreased just under 3% from a year ago. Adjusted EBITDA—a closely watched metric—declined less than 2% but produced a 21 basis point margin improvement. Adjusted EPS of $0.16 was down from the year ago figure of $0.23. The street consensus estimate for 2Q EPS was $0.17.
- **We believe the post-summer film slate should improve, with the year likely ending on a strong note.** We expect the highly anticipated *Star Wars: The Last Jedi* (to be released in mid-December) from Disney/Lucasfilm to be the year's top grossing movie.
- **We feel good about industry prospects and Regal's operations over the next few years.** Amenities such as recliner seating and expanded food and beverage options (including alcohol, where allowed) are proving to be difference makers, in our view, and should have a more noticeable impact on attendance and margins in periods with stronger film product. While being added on a daily basis, recliner seating is currently present in less than 25% of Regal's 7,379 auditoriums.
- **We view RGC as a good total return stock.** Our two-year price target is reduced by $1 to $24 per share to reflect updates to our financial model and valuation assumptions. The dividend, currently yielding 4.6%, is adequately covered by cash flow, in our view.

Note Important Disclosures on Pages 7-8.
Note Analyst Certification on Page 7.

Exhibit 1
Consolidated Statements of Income (figures in millions except percentages and per share data)

	Quarter Ended			Six Months Ended		
	6/30/17	6/30/16	% chg.	6/30/17	6/30/16	% chg.
Admissions	$481.2	$505.8	(4.9%)	$1,014.4	$1,021.5	(0.7%)
Concessions	231.4	235.5	(1.7%)	470.9	465.6	1.1%
Other Revenues	51.6	44.6	15.7%	100.1	85.9	16.5%
Total Revenues	764.2	785.9	(2.8%)	1,585.4	1,573.0	0.8%
Film Rental & Advert. Costs	258.5	278.9	(7.3%)	541.6	556.4	(2.7%)
Cost of Concessions	30.6	30.0	2.0%	61.4	58.8	4.4%
Cost of Goods Sold	289.1	308.9	(6.4%)	603.0	615.2	(2.0%)
Gross Profit	475.1	477.0	(0.4%)	982.4	957.8	2.6%
Rent Expense	106.0	106.3	(0.3%)	212.2	213.8	(0.7%)
Other Operating Expenses	222.8	214.8	3.7%	438.5	426.3	2.9%
General & Admin. Exp.	23.2	20.9	11.0%	45.5	42.1	8.1%
Deprec. & Amort.	62.9	56.9	10.5%	123.8	112.6	9.9%
Loss on Disposal and Impairment of Operating Assets	1.2	1.5	(20.0%)	3.9	5.8	(32.8%)
Total Operating Expenses	416.1	400.4	3.9%	823.9	800.6	2.9%
Income From Operations	59.0	76.6	(23.0%)	158.5	157.2	0.8%
Interest Expense, Net	31.1	32.3	(3.7%)	61.8	64.8	(4.6%)
Loss on Debt Extinguishment	1.3	1.5	(13.3%)	1.3	1.5	(13.3%)
Earnings Recognized from NCM	(6.6)	(2.9)	127.6%	(8.6)	(15.2)	(43.4%)
Other, net	(8.4)	(10.4)	(19.2%)	(16.7)	(20.4)	(18.1%)
Income Before Taxes	41.6	56.1	(25.8%)	120.7	126.5	(4.6%)
Provision for Income Taxes	18.0	22.5	(20.0%)	48.7	52.2	(6.7%)
Net Income	23.6	33.6	(29.8%)	72.0	74.3	(3.1%)
Noncontrolling Int., net	0.0	(0.1)		0.0	(0.1)	
Net Income Avail. to Stockholders	$23.6	$33.5	(29.6%)	$72.0	$74.2	(3.0%)
Reconciliation to Adjusted Net Income:						
Net Loss on Asset Impairment, net	0.8	0.9		2.4	3.5	
Gain on Sale Other Secur., net	0.0	0.0		0.0	(0.6)	
Loss on Debt Extinguishment, net of tax	0.8	0.9		0.8	0.9	
Adjusted Net Income	$25.2	$35.3	(28.6%)	$75.2	$78.0	(3.6%)
Diluted EPS, As Reported	$0.15	$0.21	(29.6%)	$0.46	$0.47	(3.1%)
Diluted EPS, Adjusted	**$0.16**	**$0.23**	**(28.7%)**	**$0.48**	**$0.50**	**(3.7%)**
Diluted Shares Outstanding	156.9	156.7	0.1%	157.0	156.8	0.1%
Adjusted EBITDA	**$135.5**	**$137.7**	**(1.6%)**	**$323.2**	**$301.9**	**7.1%**
As a % of Revenues:			bp chg.			bp chg.
Film Rental & Advert. Costs*	53.72%	55.14%	(142)	53.39%	54.47%	(108)
Cost of Concessions*	13.22%	12.74%	49	13.04%	12.63%	41
Gross Profit	62.17%	60.69%	147	61.97%	60.89%	108
Rent Expense	13.87%	13.53%	34	13.38%	13.59%	(21)
Other Operating Expenses	29.15%	27.33%	182	27.66%	27.10%	56
General & Admin. Exp.	3.04%	2.66%	38	2.87%	2.68%	19
Deprec. & Amort.	8.23%	7.24%	99	7.81%	7.16%	65
Income From Operations	7.72%	9.75%	(203)	10.00%	9.99%	0
Adjusted EBITDA	17.73%	17.52%	21	20.39%	19.19%	119

* Film Rental & Advert. Costs and Cost of Concessions are expressed as percentages of Admissions and Concessions Revenues, respectively.

Source: Regal Entertainment Group

Further comments on 2Q. The box office environment was mostly weak during the 2Q period. The comparison to year ago results were average, in our view. We consider the biggest challenge to the quarter to be the film slate, which included high-profile films such as *The Fate of the Furious*, *Guardians of the Galaxy Vol. 2*, *Alien: Covenant*, *Pirates of the Caribbean: Dead Men Tell No Tales*, and *Cars 3*. However, the slate collectively failed to inspire movie-goers as much as some expected, including us. In fact, we lowered our 2Q financial forecast three times during the quarter due to lagging industry box office sales.

On the positive side, Regal did a good job in containing costs and implementing theatre amenities such as recliner seating and expanded food/beverage options, which have consistently produced enviable financial results following the improvements. For the 2Q period, the average ticket price and average concession purchase per patron both increased more than we anticipated. At quarter end, 23% of Regal's screen count featured recliner seating, 44% featured expanded food offerings, and 30% featured alcoholic beverages. We see these percentages rising each quarter for several years to come.

For Regal's 2Q, total revenues and adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, and excluding nonrecurring items) exceeded our recent expectations. Adjusted EBITDA (highly watched among RGC investors) of $135.5 million decreased just 1.6% from a year ago, and adjusted EBITDA margin improved 21 basis points. Our most recent adjusted EBITDA estimate was $130 million. Adjusted EPS of $0.16 was slightly below our estimate of $0.18 due mainly to interest expense and depreciation & amortization figures being higher than our forecasted figures, which relate to some acquisitions made during the quarter (see below).

Recent acquisitions. During 2Q, Regal completed two acquisitions we viewed favorably. In April, it acquired two Houston, TX theatres with 41 screens from privately held Santikos Theatres. We consider both theatres to be large and of high quality. In May, Regal acquired seven theatres with 93 screens from privately held Warren Theatres. With locations in Kansas and Oklahoma, Warren was generally viewed as a high quality operator with amenity-filled theatres, including one of the top 20 theatres in the country based on recent ticket sales. The properties are expected to be accretive to cash flow and earnings this year.

Dividends. The dividend outlook is solid, in our view. In addition to its 2Q earnings announcement, Regal declared a regular quarterly dividend of $0.22 per share, payable in mid-September. This would represent the 15th consecutive quarterly dividend at that rate. In 2016, free cash flow (after above-average capital spending) was nearly $200 million. This compares to $139 million spent on dividends. We believe a similar cushion could exist in 2017 and a larger one in 2018. Also, the recent cash balance of $235 million may add support to the dividend policy.

Competitive environment. As it has for years, discussions continue among film studios and the exhibition industry regarding the release window for movies. Recently, some studios have expressed interest in offering first-run, high-profile movies directly to consumers' homes at premium prices ("PVOD" or premium video-on-demand). Variables to this scenario include when a movie could become available to consumers (at the same time as the theatrical release or perhaps a certain number of weeks afterward), pricing to consumers (often cited figures are in the $30-50 range per movie), and how/if exhibitors could participate in the financial arrangements (such as receiving a compensatory fee for each home viewing of a film). There is also the possibility a new business model is not adopted at all.

Discussions have taken place this year, with the movie exhibition industry trade group and leading exhibitors acting in the best interest of the industry but also willing to explore business models that may add a revenue stream. At least one major studio is not interested in the proposal. We believe it is important to note a movie's theatrical run has by far been the most important determinant of a film's level of success and the major studios generally recognize this as fact. Also, we do not expect any major changes to the current distribution model in the near term. However, we believe general uncertainty regarding the situation has put pressure on shares of exhibitors, including Regal, and this could continue in the future.

Outlook. We consider the 2H industry outlook to generally be favorable. We have conceded that the summer film season will be viewed as an overall disappointment. In addition, comparisons to last year's strong results will be difficult through Labor Day weekend. We have lowered our 3Q projections due to this box office outlook. The post-summer film release slate looks solid to us and we believe consumers are embracing the added amenities being offered in many theatres. In 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.

We have fine-tuned our financial estimates to reflect industry box office figures, which have been soft for the year-to-date period. Our updated forecast for Regal includes a 1% rise in revenues in 2017 to $3.230 billion, a decrease of $12 million from our previous estimate. Our adjusted EBITDA estimate is $645 million, down $5 million from our previous estimate, yet we still expect margin expansion for the year. Our diluted EPS estimate is $1.05, down $0.07 from our previous figure.

Based on what we consider an above-average film pipeline and Regal having a greater representation of theatres offering popular amenities, we believe 2018 can produce an attendance gain along with routine price increases. Our updated 2018 financial outlook includes total revenues of $3.350 billion and adjusted EBITDA of $675 million, both down slightly from our previous figures in what we view as a conservative move. Our 2018 diluted EPS estimate, reflective of higher interest expense and depreciation & amortization, is reduced by $0.10 to $1.20.

Valuation. On a price/earnings basis, RGC is trading at 18.3x our 2017 EPS estimate and 16.0x our 2018 estimate, equivalent to an approximate 17x multiple on twelve-month forward earnings. RGC's median forward P/E multiple over the past ten years is 18.5x.

Given the company's capital structure and cash flow generation, we believe a cash flow valuation measure is more meaningful. Enterprise Value divided by EBITDA (EV/EBITDA) focuses on the implied total value of a company (market capitalization plus net debt) relative to its cash flow generating ability and is commonly used in analysis of media and entertainment companies, as well as many companies with significant depreciation or interest expense. On this measure, and based on our estimated year-end net debt assumption, RGC is currently trading at 8.1x our 2017 adjusted EBITDA estimate and 7.6x our 2018 estimate. We believe the historical valuation range for RGC over the past ten years is roughly 6x-10x twelve-month forward adjusted EBITDA.

Exhibit 2
Valuation Analysis (figures in millions except ratios and per share data)

		2018E	2017E	2016	2015	2014
Share Price (7/27/17)	$19.25					
Recent Diluted Share Count	156.9					
Market Capitalization	$3,020					
Net Debt, year end ~		$2,125	$2,225	$2,094	$2,123	$2,213
Enterprise Value (EV)		$5,145	$5,245	$5,114	$5,143	$5,233
Adj. EBITDA		$675	$645	$630	$608	$576
EV / Adj. EBITDA		**7.6x**	**8.1x**	**8.1x**		
Adjusted Diluted EPS		$1.20	$1.05	$1.11	$1.08	$0.95
P/E Multiple		**16.0x**	**18.3x**	**17.3x**		

Note: Valuation multiples are based on current market capitalization figures and projected year-end net debt levels.

Source: Regal Entertainment Group and Hilliard Lyons estimates

Opinion. We recommend purchase of RGC for total return or income-oriented investors. Recent share price declines are unrelated to company fundamentals, in our view, and are likely the result of a sub-par film slate. We believe the current valuation is attractive. Our two-year price target is $24 per share, $1 below our prior target based on our updated financial forecast. This represents roughly 18x our projection of 2019 EPS and 8.1x our adjusted EBITDA estimate. These valuations are in line with current levels but below historical averages and levels reached earlier this year.

We note the stock's current dividend yield of 4.6%, which may appeal to income investors, particularly those seeking representation from the Consumer Discretionary sector (recent sector yield of 2.1%). We consider Regal's dividends adequately covered by cash flow in a soft box office environment and widely covered in a strong environment. We believe a slight dividend raise or a special dividend could occur later in 2018, yet we are not assuming either will happen.

We believe industry fundamentals are generally favorable at this time, yet 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.

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), controlling interest from one stockholder/entity, and general economic conditions.

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.

Exhibit 3
Consolidated Statements of Income (figures in millions except percentages and per share data)

	2018E	% chg.	2017E	% chg.	2016	% chg.	2015	% chg.
Admissions	$2,142.0	3.7%	$2,065.0	0.2%	$2,061.7	1.2%	$2,038.2	2.0%
Concessions	982.0	3.4%	950.0	1.9%	932.6	3.4%	901.7	8.7%
Other Revenues	226.0	5.1%	215.0	6.0%	202.8	8.2%	187.4	16.0%
Total Revenues	3,350.0	3.7%	3,230.0	1.0%	3,197.1	2.2%	3,127.3	4.6%
Film Rental & Advert. Costs	1,151.0	4.1%	1,106.0	(0.1%)	1,107.3	1.3%	1,093.1	4.4%
Cost of Concessions	125.5	2.9%	122.0	2.1%	119.5	4.5%	114.4	3.0%
Cost of Goods Sold	1,276.5	3.9%	1,228.0	0.1%	1,226.8	1.6%	1,207.5	4.3%
Gross Profit	2,073.5	3.6%	2,002.0	1.6%	1,970.3	2.6%	1,919.8	4.8%
Rent Expense	440.0	1.6%	433.0	1.3%	427.6	1.4%	421.5	(0.4%)
Other Operating Expenses	923.0	2.9%	897.0	1.6%	883.2	2.3%	863.7	6.2%
General & Admin. Exp.	89.5	2.9%	87.0	2.8%	84.6	7.4%	78.8	5.9%
Deprec. & Amort.	256.0	0.8%	254.0	10.1%	230.7	6.4%	216.8	4.6%
Loss (Gain) on Disp. & Impair. of Operating Assets	4.0		3.9		4.8		19.7	
Total Operating Expenses	1,712.5	2.2%	1,674.9	2.7%	1,630.9	1.9%	1,600.5	4.9%
Income From Operations	361.0	10.4%	327.1	(3.6%)	339.4	6.3%	319.3	4.2%
Interest Expense, Net	127.0	0.8%	126.0	(1.6%)	128.1	(1.2%)	129.6	2.5%
Earnings Recognized from NCM	(29.0)	23.4%	(23.5)	(20.1%)	(29.4)	(5.2%)	(31.0)	(3.4%)
Other, net	(41.0)	1.2%	(40.5)	(7.7%)	(43.9)	14.6%	(38.3)	32.1%
Loss on Debt Extinguishment	2.0		1.3		2.9		5.7	
Income Before Taxes	302.0	14.5%	263.8	(6.4%)	281.7	11.2%	253.3	41.8%
Provision for Income Taxes	115.5	13.7%	101.6	(8.7%)	111.2	11.1%	100.1	36.4%
Total Net Income	186.5	14.9%	162.2	(4.8%)	170.5	11.3%	153.2	45.6%
Less: Noncontrolling Int., net	0.0		0.0		0.1		(0.2)	
N.I. Attrib. to Control. Interest	186.5	14.9%	162.2	(4.8%)	170.4	11.1%	153.4	45.3%
Adjusted Net Income*	$187.9	14.5%	$164.1	(5.9%)	$174.4	3.3%	$168.9	14.1%
Diluted EPS, Adjusted	**$1.20**	14.4%	**$1.05**	(6.0%)	**$1.11**	3.1%	**$1.08**	13.6%
Diluted Shares Outstanding	157.0	0.1%	156.9	0.1%	156.8	0.2%	156.5	0.1%
Adjusted EBITDA	**$675.0**	4.7%	**$645.0**	2.3%	**$630.4**	3.7%	**$607.7**	5.6%
As a % of Revenues:		bp chg.		bp chg.		bp chg.		bp chg.
Film Rental & Advert. Costs~	53.73%	18	53.56%	(15)	53.71%	8	53.63%	125
Cost of Concessions~	12.78%	(6)	12.84%	3	12.81%	13	12.69%	(70)
Gross Profit	61.90%	(9)	61.98%	35	61.63%	24	61.39%	12
Rent Expense	13.13%	(27)	13.41%	3	13.37%	(10)	13.48%	(68)
Other Operating Expenses	27.55%	(22)	27.77%	15	27.63%	1	27.62%	42
Deprec. & Amort.	7.64%	(22)	7.86%	65	7.22%	28	6.93%	0
Total Operating Expenses	51.12%	(74)	51.85%	84	51.01%	(17)	51.18%	16
Income From Operations	10.78%	65	10.13%	(49)	10.62%	41	10.21%	(4)
Adjusted EBITDA	20.15%	18	19.97%	25	19.72%	29	19.43%	18
Adjusted Net Income	5.61%	53	5.08%	(37)	5.45%	5	5.40%	45

* Excludes nonrecurring items such as gains on sale, impairment charges, and other items

Note: Film Rental & Advert. Costs and Cost of Concessions are expressed as percentages of Admissions and Concessions Revenue, respectively.

Source: Regal Entertainment Group and Hilliard Lyons estimates

Additional information is available upon request.

Prices of other stocks mentioned:
National CineMedia Inc. - NCMI-$7.47
The Walt Disney Co. (parent of Lucasfilm) - DIS - $110.00 - Long-term Buy

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

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

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.

Other Disclosures

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