



COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE

Key Metrics

RGC - NYSE	(as of 6/23/17)	\$20.44
Two Year Price Target		\$25.00
52-Week Range		\$19.61 - \$24.79
Shares Outstanding, basic (mil)		157.0
Market Cap. (\$mm)		\$3,209
3-Mo. Average Daily Volume		1,875,892
Institutional Ownership		99%
Total Debt (3/17) (mil)		\$2,334
ROE (TTM Ended 3/17)		N/A
Shareholders' Deficit (3/17) (mil)		(\$826)
Price/Book Value		N/A
Annual Dividend & Yield	\$0.88	4.3%
EBITDA Margin (TTM Ended 3/17)		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	\$0.29	\$0.18		
3Q	\$0.29	\$0.22	\$0.22		
4Q	\$0.33	\$0.39	\$0.40		
Year	\$1.11	\$1.22	\$1.12	\$1.36	\$1.30
P/E	18.4x		18.3x		15.7x

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	\$815	\$757		
3Q	\$812	\$775	\$773		
4Q	\$813	\$889	\$891		
Year	\$3,197	\$3,300	\$3,242	\$3,380	\$3,370

Company Description: *Regal Entertainment Group is the largest movie theatre operator in the world. Philip Anschutz and related entities recently held under half of the common shares but had over 70% of the voting power. Regal recently operated 7,262 screens at 559 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

Updating Estimates to Reflect Recent Industry Box Office Results

Investment Highlights

- **We are updating our financial estimates to reflect weak industry box office results.** Given Regal's size and geographic footprint, we believe its business closely correlates to industry results. Updates to our model include reductions to our estimates for metrics such as revenue, adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, excluding nonrecurring items) and diluted earnings per share.
- **The primary reason for our 2Q adjustments is a sluggish box office environment.** Industry box office figures were below year ago levels in nine of the past ten weekends. We attribute this to the sub-par quality of films released during the period. We have updated our 2H estimates with only minor changes.
- **We believe the film slate should improve as the year progresses, 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 continue to feel good about industry prospects and Regal's operations over the next few years.** Recent amenities such as recliner seating and expanded food and beverage options are proving to be positive difference makers, in our view, and should have a more noticeable impact on attendance and margins in periods with stronger film product.
- **We view RGC as a good total return stock.** We are lowering our two-year price target by \$1 to \$25 per share to reflect our latest financial projections and valuation assumptions, including an Enterprise Value/Adjusted EBITDA multiple similar to the current level. The dividend, currently yielding 4.3%, is adequately covered by cash flow, in our view.

Note Important Disclosures on Pages 5-6.

Note Analyst Certification on Page 5.

Dividends. The dividend outlook is solid, in our view. On June 15, Regal paid a regular quarterly dividend of \$0.22 per share. This represented the 14th 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 followed by a larger cushion in 2018. Also, the company's cash balance (over \$400 million as of March 31, 2017) may add further support to the dividend policy.

Outlook. A re-seating initiative (replacing traditional seats with comfortable recliners equipped with electronic footrests) and adding higher quality food and beverages (including alcohol, where allowed) have favorably and meaningfully impacted recent operating results. We believe these trends are in relatively early stages, with continued implementation planned over the next several years. Recently, about one-fourth of Regal's auditoriums featured recliners.

We have fine-tuned our 2Q estimates to reflect industry results, which have been soft in recent weeks. In fact, industry box office figures have declined on a year-over-year basis in nine of the past ten weeks, with the past two weeks each being down over 20% from prior year levels. Consequently, we have lowered our 2Q revenue estimate by \$58 million to \$757 million and our diluted EPS estimate by \$0.11 to \$0.18.

We have made minor adjustments to our 2H outlook. The toughest comparisons to year ago results come in the July/August period, in our view, then ease as the year progresses. Overall, the film release slate for 2H looks better than 1H, and we believe consumers will continue to embrace the added amenities being offered in many theatres. 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.

Our updated forecast for all of 2017 includes a 1.4% rise in revenues to \$3.242 billion, a decrease of \$58 million from our previous estimate. Our adjusted EBITDA estimate is \$650 million, a \$15 million reduction. Our diluted EPS estimate is \$1.12, down \$0.10 from our previous figure.

We have also fine-tuned our 2018 outlook. Our new estimates include total revenues of \$3.370 billion, adjusted EBITDA of \$685 million, and diluted EPS estimate of \$1.30. These represent slight declines from our previous figures due to a more conservative assumption on overall attendance. We still assume higher margins in 2018 compared to 2017, as a greater percentage of Regal's theatre base will feature the latest amenities.

Valuation. On a price/earnings basis, RGC is trading at 18.3x our 2017 EPS estimate and 15.7x our 2018 estimate. RGC's median forward P/E multiple over the past ten years is 18.6x. 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 7.5x 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, with a median of 7.8x.

Exhibit 1**Valuation Analysis** (figures in millions except ratios and per share data)

	<u>2018E</u>	<u>2017E</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Share Price (6/23/17)	\$20.44				
Recent Diluted Share Count	157.0				
Market Capitalization	\$3,209				
Net Debt, year end ~	\$1,960	\$2,060	\$2,094	\$2,123	\$2,213
Enterprise Value (EV)	\$5,169	\$5,269	\$5,303	\$5,332	\$5,422
Adj. EBITDA	\$685	\$650	\$630	\$608	\$576
EV / Adj. EBITDA	7.5x	8.1x	8.4x		
Adjusted Diluted EPS	\$1.30	\$1.12	\$1.11	\$1.08	\$0.95
P/E Multiple	15.7x	18.3x	18.4x		

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. We believe the current valuation is attractive. Based on updates to our financial model, we are reducing our two-year price target by \$1 to \$25 per share. This represents 18.0x our 2019 EPS estimate and 8.0x our adjusted EBITDA estimate. These valuations are similar to the current levels (as noted in Exhibit 1 above) and in line with historical averages.

We note the stock's current dividend yield of 4.3%, which may appeal to income investors, particularly those seeking representation from the Consumer Discretionary sector. We consider 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 in the coming twelve months, 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).

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 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 typical 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 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 to be relatively stable in the coming years.

Exhibit 2**Consolidated Statements of Income** (figures in millions except percentages and per share data)

	<u>2018E</u>	<u>% chg.</u>	<u>2017E</u>	<u>% chg.</u>	<u>2016</u>	<u>% chg.</u>	<u>2015</u>	<u>% chg.</u>
Admissions	\$2,155.0	3.6%	\$2,081.0	0.9%	\$2,061.7	1.2%	\$2,038.2	2.0%
Concessions	1,000.0	4.6%	956.0	2.5%	932.6	3.4%	901.7	8.7%
Other Revenues	215.0	4.9%	205.0	1.1%	202.8	8.2%	187.4	16.0%
Total Revenues	3,370.0	3.9%	3,242.0	1.4%	3,197.1	2.2%	3,127.3	4.6%
Film Rental & Advert. Costs	1,156.0	3.8%	1,114.0	0.6%	1,107.3	1.3%	1,093.1	4.4%
Cost of Concessions	126.2	4.3%	121.0	1.3%	119.5	4.5%	114.4	3.0%
Cost of Goods Sold	1,282.2	3.8%	1,235.0	0.7%	1,226.8	1.6%	1,207.5	4.3%
Gross Profit	2,087.8	4.0%	2,007.0	1.9%	1,970.3	2.6%	1,919.8	4.8%
Rent Expense	441.0	1.6%	434.0	1.5%	427.6	1.4%	421.5	(0.4%)
Other Operating Expenses	921.0	2.3%	900.0	1.9%	883.2	2.3%	863.7	6.2%
General & Admin. Exp.	90.0	2.9%	87.5	3.4%	84.6	7.4%	78.8	5.9%
Deprec. & Amort.	243.0	0.6%	241.5	4.7%	230.7	6.4%	216.8	4.6%
Loss (Gain) on Disp. & Impair. of Operating Assets	5.0		5.0		4.8		19.7	
Total Operating Expenses	1,700.0	1.9%	1,668.0	2.3%	1,630.9	1.9%	1,600.5	4.9%
Income From Operations	387.8	14.4%	339.0	(0.1%)	339.4	6.3%	319.3	4.2%
Interest Expense, Net	121.0	(1.2%)	122.5	(4.4%)	128.1	(1.2%)	129.6	2.5%
Earnings Recognized from NCM	(23.0)	4.5%	(22.0)	(25.2%)	(29.4)	(5.2%)	(31.0)	(3.4%)
Other, net	(41.0)	(5.7%)	(43.5)	(0.9%)	(43.9)	14.6%	(38.3)	32.1%
Loss on Debt Extinguishment	2.0		2.0		2.9		5.7	
Income Before Taxes	328.8	17.4%	280.0	(0.6%)	281.7	11.2%	253.3	41.8%
Provision for Income Taxes	125.8	16.7%	107.8	(3.1%)	111.2	11.1%	100.1	36.4%
Total Net Income	203.0	17.9%	172.2	1.0%	170.5	11.3%	153.2	45.6%
Less: Noncontrolling Int., net	(0.1)		(0.1)		0.1		(0.2)	
N.I. Attrib. to Control. Interest	203.1	17.9%	172.3	1.1%	170.4	11.1%	153.4	45.3%
Adjusted Net Income*	\$204.9	17.0%	\$175.2	0.4%	\$174.4	3.3%	\$168.9	14.1%
Diluted EPS, Adjusted	\$1.30	16.8%	\$1.12	0.4%	\$1.11	3.1%	\$1.08	13.6%
Diluted Shares Outstanding	157.1	0.1%	156.9	0.1%	156.8	0.2%	156.5	0.1%
Adjusted EBITDA	\$685.0	5.4%	\$650.0	3.1%	\$630.4	3.7%	\$607.7	5.6%
As a % of Revenues:		bp chg.		bp chg.		bp chg.		bp chg.
Film Rental & Advert. Costs~	53.64%	11	53.53%	(18)	53.71%	8	53.63%	125
Cost of Concessions~	12.62%	(4)	12.66%	(16)	12.81%	13	12.69%	(70)
Gross Profit	61.95%	5	61.91%	28	61.63%	24	61.39%	12
Rent Expense	13.09%	(30)	13.39%	1	13.37%	(10)	13.48%	(68)
Other Operating Expenses	27.33%	(43)	27.76%	14	27.63%	1	27.62%	42
Deprec. & Amort.	7.21%	(24)	7.45%	23	7.22%	28	6.93%	0
Total Operating Expenses	50.45%	(100)	51.45%	44	51.01%	(17)	51.18%	16
Income From Operations	11.51%	105	10.46%	(16)	10.62%	41	10.21%	(4)
Adjusted EBITDA	20.33%	28	20.05%	33	19.72%	29	19.43%	18
Adjusted Net Income	6.08%	68	5.40%	(5)	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. - DIS - \$104.36 - 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.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	34	27%	12%	88%
Hold/Neutral	80	65%	8%	93%
Sell	10	8%	0%	100%

As of 7 June 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 period.

Other Disclosures

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