



COMPANY UPDATE / ESTIMATE CHANGE / PRICE TARGET CHANGE / RATING CHANGE

Key Metrics

RGC - NYSE (as of 5/17/17)		\$20.16
Two Year Price Target		\$26.00
52-Week Range	\$19.35 -	\$24.79
Shares Outstanding, basic (mil)		157.0
Market Cap. (\$mm)		\$3,165
3-Mo. Average Daily Volume		1,671,169
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	4.4%
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	\$0.33	\$0.32		
3Q	\$0.29	\$0.25	\$0.24		
4Q	\$0.33	\$0.40	\$0.40		
Year	\$1.11	\$1.30	\$1.28	\$1.40	\$1.39
P/E	18.2x		15.8x		14.5x

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	\$841	\$835		
3Q	\$812	\$787	\$785		
4Q	\$813	\$881	\$879		
Year	\$3,197	\$3,330	\$3,320	\$3,400	\$3,400

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 7,262 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

Upgrading Rating to Long-term Buy

Investment Highlights

- **We are upgrading our rating on RGC to Long-term Buy from Neutral.** A recent pullback in the stock price has led to a more attractive valuation, in our view, despite recent results being particularly encouraging and year-over-year comparisons about to ease from more challenging figures in the year-to-date period.
- **We consider company fundamentals strong and view RGC as a good total return or income stock.** We believe the dividend, currently yielding 4.4%, is well covered by cash flow. Our two-year price target of \$26 per share assumes an Enterprise Value/Adjusted EBITDA valuation slightly above the current level and near the mid-point of the historical range.
- **We were impressed by Regal's 1Q results.** As with the past few quarters, business for the January-March quarter was above our expectation. Despite what we considered a tough comparison, total revenues increased 4% from a year ago. Adjusted EBITDA—a closely watched metric—rose 14% and produced an impressive 200 basis point margin improvement. Adjusted EPS of \$0.32 compared favorably to \$0.27 a year ago and street consensus of \$0.30.
- **Amenities are proving themselves.** For several consecutive quarters, 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 operating results. About one-fourth of Regal's auditoriums currently feature recliners.
- **We have fine-tuned our financial outlook.** Updates include negligible changes to our revenue and EPS estimates. We feel good about industry prospects and Regal's operations over the next few years.

Note Important Disclosures on Pages 6-7.

Note Analyst Certification on Page 6.

Further comments on 1Q. We were impressed with results for the quarter ended March 31, 2017. The box office environment was stronger than we expected. We had stated that we felt 1Q represented the most difficult comparison of the year due to an above-average industry box office performance in 1Q 2016. We were positively surprised by Regal's 1Q revenues and an increase in box office per screen that surpassed the overall industry's increase. The film slate had several highlights, none bigger than the live action version of *Beauty and the Beast* in late March. Expectations were high for the Disney film, but results have considerably exceeded those expectations, in our view. In addition, the benefits of recent theatre upgrades such as recliner seating and expanded food/beverage/alcohol offerings (in select markets) continued to have meaningfully positive effects.

For Regal's 1Q, total revenues, adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, and excluding nonrecurring items), and diluted earnings per share all exceeded our expectations. Adjusted EBITDA (highly watched among RGC investors) of \$187.7 million increased 14% from a year ago, and was about \$20 million more than we anticipated. Also of note, adjusted EBITDA margin improved a robust 200 basis points.

Dividends. The dividend outlook is solid, in our view. In addition to its 1Q earnings announcement, Regal declared a regular quarterly dividend of \$0.22 per share, payable in mid-June. This would represent 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 larger cushion could exist in 2017. Also, the recent cash balance of \$408 million may add further support to the dividend policy.

Outlook. We consider the industry outlook for 2017 to generally be favorable. The 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 in recent weeks. Our updated forecast for Regal includes a near 4% rise in revenues in 2017 to \$3.320 billion, a decrease of \$10 million from our previous estimate. Our adjusted EBITDA estimate remains \$675 million, reflective of an approximate 60 basis point increase in margin. Our diluted EPS estimate is \$1.28, down \$0.02 from our previous figure.

Our 2018 outlook includes total revenues of \$3.400 billion and adjusted EBITDA of \$700 million, both unchanged from our previous figures. Our diluted EPS estimate is reduced a penny to \$1.39. These all represent increases over our 2017 projections. We believe 2018 can produce an attendance gain for Regal and greater representation of theatres offering today's popular amenities.

Valuation. On a price/earnings basis, RGC is trading at 15.8x our 2017 EPS estimate and 14.5x our 2018 estimate. RGC's median forward P/E multiple over the past five and ten years is about 19x. 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 7.7x our 2017 adjusted EBITDA estimate and 7.3x 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.

For perspective on valuations earlier this year, we note that at the time of the company's 4Q 2016 earnings report (released in 2/9/17), RGC shares traded at 17.5x our 2017 EPS estimate and 8.3x our 2017 adjusted EBITDA estimate. We assigned the shares a Neutral rating at that time, with valuation being the main factor.

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 (5/17/17)	\$20.16					
Recent Diluted Share Count	157.0					
Market Capitalization	\$3,165					
Net Debt, year end ~		\$1,950	\$2,050	\$2,094	\$2,123	\$2,213
Enterprise Value (EV)		\$5,115	\$5,215	\$5,259	\$5,288	\$5,378
Adj. EBITDA		\$700	\$675	\$630	\$608	\$576
EV / Adj. EBITDA		7.3x	7.7x	8.3x		
Adjusted Diluted EPS		\$1.39	\$1.28	\$1.11	\$1.08	\$0.95
P/E Multiple		14.5x	15.8x	18.2x		

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 or the year's outlook, in our view. We believe the current valuation is attractive. Our two-year price target is \$26 per share. This represents 17.3x our preliminary 2019 EPS estimate and 8.1x our adjusted EBITDA estimate. These valuations are above current levels but below historical averages and levels reached earlier this year.

We note the stock's current dividend yield of 4.4%, which may appeal to income investors, particularly those seeking representation from the Consumer Discretionary sector (recent sector yield of 1.3%). 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 later in 2017, 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 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 (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.

During 2015, a lawsuit was filed by a small Texas operator against several national exhibitors, including Regal, on the basis of alleged anti-trust issues as it relates to the film allocation process among studios and exhibitors. The U.S. Department of Justice began an investigation during the year. We cannot predict the duration nor the outcome of the lawsuit. At this point, we do not believe it would be prudent to assume any major change in industry dynamics as it relates to our financial model.

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

	2018E	% chg.	2017E	% chg.	2016	% chg.	2015	% chg.
Admissions	\$2,175.0	1.9%	\$2,135.0	3.6%	\$2,061.7	1.2%	\$2,038.2	2.0%
Concessions	1007.0	3.1%	977.0	4.8%	932.6	3.4%	901.7	8.7%
Other Revenues	218.0	4.8%	208.0	2.6%	202.8	8.2%	187.4	16.0%
Total Revenues	3,400.0	2.4%	3,320.0	3.8%	3,197.1	2.2%	3,127.3	4.6%
Film Rental & Advert. Costs	1,166.0	2.1%	1,142.0	3.1%	1,107.3	1.3%	1,093.1	4.4%
Cost of Concessions	128.5	3.6%	124.0	3.8%	119.5	4.5%	114.4	3.0%
Cost of Goods Sold	1,294.5	2.3%	1,266.0	3.2%	1,226.8	1.6%	1,207.5	4.3%
Gross Profit	2,105.5	2.5%	2,054.0	4.2%	1,970.3	2.6%	1,919.8	4.8%
Rent Expense	442.0	1.8%	434.0	1.5%	427.6	1.4%	421.5	(0.4%)
Other Operating Expenses	915.0	1.2%	904.0	2.4%	883.2	2.3%	863.7	6.2%
General & Admin. Exp.	90.0	2.3%	88.0	4.0%	84.6	7.4%	78.8	5.9%
Deprec. & Amort.	243.5	0.6%	242.0	4.9%	230.7	6.4%	216.8	4.6%
Loss (Gain) on Disp. & Impair. of Operating Assets	5.0		6.0		4.8		19.7	
Total Operating Expenses	1,695.5	1.3%	1,674.0	2.6%	1,630.9	1.9%	1,600.5	4.9%
Income From Operations	410.0	7.9%	380.0	12.0%	339.4	6.3%	319.3	4.2%
Interest Expense, Net	121.0	(1.6%)	123.0	(4.0%)	128.1	(1.2%)	129.6	2.5%
Earnings Recognized from NCM	(21.0)	(8.7%)	(23.0)	(21.8%)	(29.4)	(5.2%)	(31.0)	(3.4%)
Other, net	(42.0)	0.0%	(42.0)	(4.3%)	(43.9)	14.6%	(38.3)	32.1%
Loss on Debt Extinguishment	2.0		2.0		2.9		5.7	
Income Before Taxes	350.0	9.4%	320.0	13.6%	281.7	11.2%	253.3	41.8%
Provision for Income Taxes	134.8	9.4%	123.2	10.8%	111.2	11.1%	100.1	36.4%
Total Net Income	215.3	9.4%	196.8	15.4%	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	215.4	9.4%	196.9	15.6%	170.4	11.1%	153.4	45.3%
Adjusted Net Income*	\$217.9	8.8%	\$200.2	14.8%	\$174.4	3.3%	\$168.9	14.1%
Diluted EPS, Adjusted	\$1.39	8.8%	\$1.28	14.6%	\$1.11	3.1%	\$1.08	13.6%
Diluted Shares Outstanding	157.1	0.1%	157.0	0.1%	156.8	0.2%	156.5	0.1%
Adjusted EBITDA	\$700.0	3.7%	\$675.0	7.1%	\$630.4	3.7%	\$607.7	5.6%
As a % of Revenues:		bp chg.		bp chg.		bp chg.		bp chg.
Film Rental & Advert. Costs~	53.61%	12	53.49%	(22)	53.71%	8	53.63%	125
Cost of Concessions~	12.76%	7	12.69%	(12)	12.81%	13	12.69%	(70)
Gross Profit	61.93%	6	61.87%	24	61.63%	24	61.39%	12
Rent Expense	13.00%	(7)	13.07%	(30)	13.37%	(10)	13.48%	(68)
Other Operating Expenses	26.91%	(32)	27.23%	(40)	27.63%	1	27.62%	42
Deprec. & Amort.	7.16%	(13)	7.29%	7	7.22%	28	6.93%	0
Total Operating Expenses	49.87%	(55)	50.42%	(59)	51.01%	(17)	51.18%	16
Income From Operations	12.06%	61	11.45%	83	10.62%	41	10.21%	(4)
Adjusted EBITDA	20.59%	26	20.33%	61	19.72%	29	19.43%	18
Adjusted Net Income	6.41%	38	6.03%	57	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 - \$106.31 - 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

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 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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