Entertainment & Leisure
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COMPANY UPDATE / ESTIMATE CHANGE

Regal Entertainment Group

RGC — NYSE — Long-term Buy-3

Updating Estimates to Reflect Recent Industry Box Office Results

Key Metrics		
RGC - NYSE (as of 5/26/17)		$20.62
Two Year Price Target		$26.00
52-Week Range		$19.35 - $24.79
Shares Outstanding, basic (mil)		157.0
Market Cap. ($mm)		$3,237
3-Mo. Average Daily Volume		1,721,240
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	$0.32	$0.29			
3Q	$0.29	$0.24	$0.22			
4Q	$0.33	$0.40	$0.39			
Year	$1.11	$1.28	$1.22		$1.39	$1.36
P/E	18.6x		16.9x			15.2x

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	$835	$815			
3Q	$812	$785	$775			
4Q	$813	$879	$889			
Year	$3,197	$3,320	$3,300		$3,400	$3,380

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.*

Investment Highlights

- **We have fine-tuned our financial estimates to reflect the industry's recent box office results.** Updates include reductions to our estimates for key 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.** The May 26-29 Memorial Day period represented the seventh consecutive weekend of lower year-over-year ticket sales, a relatively long streak by historical standards. We attribute this to the films released during the period. We have also slightly lowered our 3Q estimates in a conservative move and in recognition of some tough comparisons for the coming July/August months.
- **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 difference makers, in our view, and should have a more noticeable impact on attendance and margins in periods with stronger films slates.
- **On May 18, we upgraded our rating on RGC to Long-term Buy from Neutral.** A pullback in the stock price had produced an attraction valuation, in our view. This followed 1Q (March period end) results that we considered strong.
- **We view RGC as a good total return stock.** The dividend, currently yielding 4.3%, is adequately covered by cash flow, in our view. Our two-year price target remains $26 per share and assumes an Enterprise Value/Adjusted EBITDA valuation slightly above the current level and near the mid-point of the ten-year historical range.

Note Important Disclosures on Pages 6-7.
Note Analyst Certification on Page 6.

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 June 15. 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 over $400 million may add further support to the dividend policy.

Outlook. We consider the industry outlook for the entire 2017 year to generally be favorable. The toughest comparisons to year ago results come in the July/August period, in our view, then ease notably. The film release slate for 4Q, looks solid to us and we believe consumers will continue to embrace 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.

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 box office figures, which have been soft in recent weeks. Furthermore, we have slightly lowered our 3Q estimates to reflect more conservative assumptions regarding the film release slate and recognition of tough comparisons to year ago results during much of the quarter. Our updated forecast for all of 2017 includes a 3.2% rise in revenues to $3.300 billion, a decrease of $20 million from our previous estimate. Our adjusted EBITDA estimate is $665 million, a $10 million reduction. Our diluted EPS estimate is $1.22, down $0.06 from our previous figure.

We are making minor revisions to our 2018 outlook. Our new estimates include total revenues of $3.380 billion, adjusted EBITDA of $691 million, and diluted EPS estimate of $1.36. 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 features the latest amenities.

Valuation. On a price/earnings basis, RGC is trading at 16.9x our 2017 EPS estimate and 15.2x 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 8.0x 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 just above 8x.

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

		2018E	2017E	2016	2015	2014
Share Price (5/26/17)	$20.62					
Recent Diluted Share Count	157.0					
Market Capitalization	$3,237					
Net Debt, year end ~		$1,950	$2,050	$2,094	$2,123	$2,213
Enterprise Value (EV)		$5,187	$5,287	$5,331	$5,360	$5,450
Adj. EBITDA		$691	$665	$630	$608	$576
EV / Adj. EBITDA		**7.5x**	**8.0x**	**8.5x**		
Adjusted Diluted EPS		$1.36	$1.22	$1.11	$1.08	$0.95
P/E Multiple		**15.2x**	**16.9x**	**18.6x**		

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. Our two-year price target is $26 per share. This represents 17.9x our preliminary 2019 EPS estimate and 8.2x our adjusted EBITDA estimate. These valuations are above current levels, but in line or below 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 (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	$2,160.0	1.9%	$2,120.0	2.8%	$2,061.7	1.2%	$2,038.2	2.0%
Concessions	1,004.0	3.2%	973.0	4.3%	932.6	3.4%	901.7	8.7%
Other Revenues	216.0	4.3%	207.0	2.1%	202.8	8.2%	187.4	16.0%
Total Revenues	3,380.0	2.4%	3,300.0	3.2%	3,197.1	2.2%	3,127.3	4.6%
Film Rental & Advert. Costs	1,157.0	2.0%	1,134.0	2.4%	1,107.3	1.3%	1,093.1	4.4%
Cost of Concessions	127.0	2.8%	123.5	3.3%	119.5	4.5%	114.4	3.0%
Cost of Goods Sold	1,284.0	2.1%	1,257.5	2.5%	1,226.8	1.6%	1,207.5	4.3%
Gross Profit	2,096.0	2.6%	2,042.5	3.7%	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	915.0	1.0%	905.5	2.5%	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.	243.0	0.4%	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	1,694.0	1.1%	1,675.5	2.7%	1,630.9	1.9%	1,600.5	4.9%
Income From Operations	402.0	9.5%	367.0	8.1%	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	(22.0)	(4.3%)	(23.0)	(21.8%)	(29.4)	(5.2%)	(31.0)	(3.4%)
Other, net	(41.0)	(2.4%)	(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	342.0	11.4%	307.0	9.0%	281.7	11.2%	253.3	41.8%
Provision for Income Taxes	130.8	10.7%	118.2	6.3%	111.2	11.1%	100.1	36.4%
Total Net Income	211.2	11.9%	188.8	10.7%	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	211.3	11.8%	188.9	10.9%	170.4	11.1%	153.4	45.3%
Adjusted Net Income*	$213.0	10.8%	$192.3	10.2%	$174.4	3.3%	$168.9	14.1%
Diluted EPS, Adjusted	**$1.36**	10.7%	**$1.22**	10.1%	**$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	**$691.0**	3.9%	**$665.0**	5.5%	**$630.4**	3.7%	**$607.7**	5.6%
As a % of Revenues:		bp chg.		bp chg.		bp chg.		bp chg.
Film Rental & Advert. Costs~	53.56%	7	53.49%	(22)	53.71%	8	53.63%	125
Cost of Concessions~	12.65%	(4)	12.69%	(12)	12.81%	13	12.69%	(70)
Gross Profit	62.01%	12	61.89%	27	61.63%	24	61.39%	12
Rent Expense	13.05%	(10)	13.15%	(22)	13.37%	(10)	13.48%	(68)
Other Operating Expenses	27.07%	(37)	27.44%	(19)	27.63%	1	27.62%	42
Deprec. & Amort.	7.19%	(14)	7.33%	12	7.22%	28	6.93%	0
Total Operating Expenses	50.12%	(65)	50.77%	(24)	51.01%	(17)	51.18%	16
Income From Operations	11.89%	77	11.12%	51	10.62%	41	10.21%	(4)
Adjusted EBITDA	20.44%	29	20.15%	43	19.72%	29	19.43%	18
Adjusted Net Income	6.30%	48	5.83%	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 - $7.46
The Walt Disney Co. - DIS - $108.41 - 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

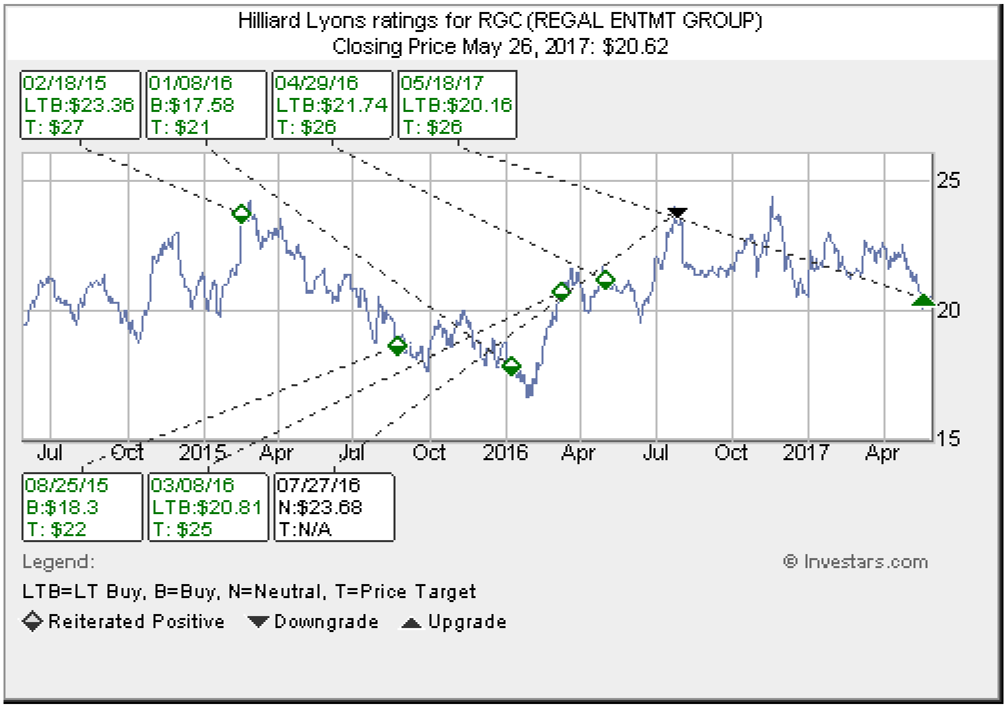
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2–3 years.
Neutral - We believe 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	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 time period.

Other Disclosures

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