Entertainment & Leisure
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September 5, 2017

COMPANY UPDATE / ESTIMATE CHANGE

Regal Entertainment Group

RGC — NYSE — Long-term Buy-3

Updating Estimates Following Summer Season

Key Metrics			
RGC - NYSE	(as of 9/1/17)		$15.49
Two Year Price Target			$23.00
52-Week Range			$13.90 - $24.79
Shares Outstanding, basic (mil)			156.9
Market Cap. ($mm)			$2,430
3-Mo. Average Daily Volume			2,700,000
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	5.68%
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	$0.12	$0.04			
4Q	$0.33	$0.40	$0.38			
Year	$1.11	$1.00	$0.90		$1.17	$1.15
P/E	14.0x		17.2x			13.5x

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		$764	A		
3Q	$812	$700	$610			
4Q	$813	$890	$855			
Year	$3,197	$3,175	$3,050		$3,320	$3,290

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 18% 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

- **The summer box office season has ended, and results were generally weak throughout the season.** From Memorial Day to Labor Day, 13 of the 15 weekends produced lower year-over-year ticket sales, including large declines for the past six weeks.
- **We attribute lower ticket sales to the sub-par quality of the film slate.** Movie quality tends to be cyclical, and we are currently at a weak point, in our view. We do not believe there has been a fundamental shift in consumer sentiment regarding the willingness or desire to go to the movies.
- **4Q prospects look better to us.** Comparisons to year ago results are generally less onerous in 4Q. Additionally, we expect the highly anticipated *Star Wars: The Last Jedi* (December 15 release date) from Disney/Lucasfilm to be the year's top grossing movie.
- **Company officials have reacted to the recent share price decline.** There have been three insider purchases of RGC shares over the past few weeks, one by a senior executive and two by Board members. Also, on August 31, the company adopted a stock repurchase plan.
- **Regal continues to upgrade its theatre base.** Amenities such as recliner seating and expanded food/ beverage/alcohol options have proven to be difference makers, in our view, and should have a more favorable impact on business when movie quality normalizes.
- **We view total return prospects favorably.** We have updated our 2017 estimates to reflect the current business environment, and have fine-tuned our 2018 estimates in an attempt to be more conservative regarding our attendance assumption. Our two-year price target remains $23 per share and reflects little change to our 2019 profit outlook. We consider the dividend, currently yielding 5.7%, adequately covered by cash flow.

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

Business outlook. The disappointing summer film season ended on a sour note, as the industry just endured a rare Labor Day weekend without a major film debut. As a result, industry attendance for the weekend was down sharply. On a year-over-year basis, industry box office results were down in 13 of the 15 weekends that comprise the movie's "summer" season—Memorial Day through Labor Day. We simply believe this year's film slate has been considerably inferior to last year or an average year. In addition, last year's solid results have made year-over-year comparisons difficult.

The 4Q should bring easier year-over-year comparisons and an improved film slate, in our view. Also, we believe consumers are embracing 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.

In our view, the movie going experience has improved considerably in recent years due to several amenities (primarily recliner seating, but also expanded food/beverage/alcohol offerings) and greater technologies (sound and picture). While being added on a regular basis, recliner seating is currently present in about 25% of Regal's auditoriums. We believe better financial results will come with better movie quality.

Insider purchases and stock buyback authorization. Within the past several weeks, Regal has made several announcements that we feel should be viewed favorably by shareholders. First, there have been several SEC filings noting recent insider purchases, including one by the company's Chief Financial Officer and two by current Board members. Then, on August 31, the company announced a $50 million share repurchase authorization, something the company rarely considers. Said CEO Amy Miles, "We believe our growth prospects and long-term strategy are not reflected by the company's recent share performance. We are pleased that our significant free cash flow enables us to institute a share repurchase program while continuing to reinvest in our asset base."

Industry news. Recent developments in the movie delivery and exhibition industry have seemingly put pressure on shares of theatre operators, including RGC. On several occasions in August, there were published media articles discussing the stance from movie studios on the **distribution windows of movies.** Some studios want to explore new business models that would make their movies available for at-home viewing sooner after the initial theatrical window than what is currently in place. There is no consensus view among the major studios, just exploratory talks along with much media attention. We believe it is important to note the theatrical window is still the largest in terms of a typical film's revenue generation, and we doubt Hollywood would want to jeopardize that piece of the business. Also of note, some discussed business models have movie theatres participating in a revenue sharing model if they agree to continue showing a film as strongly as ever during the initial window, then cooperatively becoming less active in subsequent weeks while the film tests the at-home market. We do not expect a major change to the current business model in the near term. Further, if a change is agreed upon and implemented at some point in the future, we believe it could lead to a new revenue stream for exhibitors, the size of which is unknown.

On 8/15/17, a small movie ticketing company called **MoviePass** announced a $10 monthly fee for unlimited movie tickets (maximum of one per day) to certain theatres in the U.S. The upstart company's monthly price was recently $30 and before that was $50. We believe there was some initial confusion regarding the impact on movie theatre operators. When a subscriber wants to see a movie, MoviePass essentially buys the ticket—at full price—from the desired theatre and that purchase is loaded onto a debit card held by the customer. While theatres have thus far been willing to participate in the program (assisting in the conversion of a credit on a MoviePass debit card to the purchase of a specific ticket for a specific movie presentation), some operators are re-thinking their views, as they believe pricing integrity and appropriate price/value propositions could be compromised. We do not see MoviePass as a threat to the theatrical exhibition business at this time.

On 8/8/17, The Walt Disney Company announced it is developing **streaming services** for direct distribution of certain Disney and Pixar branded movies and other content into the home, beginning in 2019. Importantly, there is no planned change to the first (and largest) window of a movie's life, the theatrical window. Disney's plan only represents an adjustment to the subsequent "pay window" that currently includes Netflix as a partner. We believe Disney has been, and will continue to be, a strong supporter of the exhibition industry.

Dividends. The dividend outlook is solid, in our view. Regal recently 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.

Earnings outlook. Our updated forecast reflects the end of the summer movie season, which was generally weak throughout, and includes corresponding decreases for our 3Q and full year estimates, while our 4Q outlook has been modestly adjusted under the assumption of some carryover sluggishness in the business. The biggest change is with our 3Q outlook, which now includes projected EPS of $0.04 compared to our previous estimate of $0.12. This reflects lower business volume this summer, particularly the past several weeks.

For all of 2017, we now project an approximate 5% decline in total revenues to $3.050 billion, a decrease of $125 million from our previous estimate. Our adjusted EBITDA estimate is $615 million, down $20 million from our previous estimate, yet we still expect margin expansion for the year (1H EBITDA margin was up 119 basis point). Our diluted EPS estimate is $0.90, down $0.10 from our previous figure.

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 routine price increases. Still, we have slightly lowered our attendance assumption in an act of conservatism. Our updated 2018 financial outlook includes total revenues of $3.290 billion, adjusted EBITDA of $668 million, and diluted EPS estimate of $1.15. These figures are down slightly from our previous estimates.

Valuation. On a price/earnings basis, RGC is trading at 17.2x our 2017 EPS estimate and 13.5x our 2018 estimate, equivalent to an approximate 15.6x multiple on projected twelve-month forward earnings. RGC's median forward P/E multiple over the past ten years is 18.4x.

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 7.6x our 2017 adjusted EBITDA estimate and 6.8x 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 1
Valuation Analysis (figures in millions except ratios and per share data)

		2018E	2017E	2016	2015	2014
Share Price (9/1/17)	$15.49					
Recent Diluted Share Count	156.9					
Market Capitalization	$2,430					
Net Debt, year end ~		$2,135	$2,230	$2,094	$2,123	$2,213
Enterprise Value (EV)		$4,565	$4,660	$4,524	$4,553	$4,643
Adj. EBITDA		$668	$615	$630	$608	$576
EV / Adj. EBITDA		**6.8x**	**7.6x**	**7.2x**		
Adjusted Diluted EPS		$1.15	$0.90	$1.11	$1.08	$0.95
P/E Multiple		**13.5x**	**17.2x**	**14.0x**		

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 primarily the result of a sub-par film slate. We believe the current valuation is attractive. Our two-year price target of $23 per share, established on 8/17/17, represents 17.7x our projection of 2019 EPS and 8.0x our adjusted EBITDA estimate for that year. These valuations are above current depressed levels, but below historical averages.

We note the stock's current dividend yield of 5.7%, 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.

Despite the notably weak summer film season, 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.

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

	2018E	% chg.	2017E	% chg.	2016	% chg.	2015	% chg.
Admissions	$2,101.0	7.7%	$1,950.0	(5.4%)	$2,061.7	1.2%	$2,038.2	2.0%
Concessions	973.0	8.1%	900.0	(3.5%)	932.6	3.4%	901.7	8.7%
Other Revenues	216.0	8.0%	200.0	(1.4%)	202.8	8.2%	187.4	16.0%
Total Revenues	3,290.0	7.9%	3,050.0	(4.6%)	3,197.1	2.2%	3,127.3	4.6%
Film Rental & Advert. Costs	1,122.0	8.2%	1,037.0	(6.3%)	1,107.3	1.3%	1,093.1	4.4%
Cost of Concessions	123.0	7.0%	115.0	(3.8%)	119.5	4.5%	114.4	3.0%
Cost of Goods Sold	1,245.0	8.1%	1,152.0	(6.1%)	1,226.8	1.6%	1,207.5	4.3%
Gross Profit	2,045.0	7.7%	1,898.0	(3.7%)	1,970.3	2.6%	1,919.8	4.8%
Rent Expense	435.0	3.6%	420.0	(1.8%)	427.6	1.4%	421.5	(0.4%)
Other Operating Expenses	910.0	7.7%	845.0	(4.3%)	883.2	2.3%	863.7	6.2%
General & Admin. Exp.	89.0	3.5%	86.0	1.7%	84.6	7.4%	78.8	5.9%
Deprec. & Amort.	256.0	1.2%	253.0	9.7%	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	1,694.0	5.4%	1,607.9	(1.4%)	1,630.9	1.9%	1,600.5	4.9%
Income From Operations	351.0	21.0%	290.1	(14.5%)	339.4	6.3%	319.3	4.2%
Interest Expense, Net	127.5	1.2%	126.0	(1.6%)	128.1	(1.2%)	129.6	2.5%
Earnings Recognized from NCM	(25.0)	19.0%	(21.0)	(28.6%)	(29.4)	(5.2%)	(31.0)	(3.4%)
Other, net	(39.0)	(2.5%)	(40.0)	(8.9%)	(43.9)	14.6%	(38.3)	32.1%
Loss on Debt Extinguishment	2.0		1.3		2.9		5.7	
Income Before Taxes	285.5	27.6%	223.8	(20.6%)	281.7	11.2%	253.3	41.8%
Provision for Income Taxes	108.5	27.6%	85.0	(23.5%)	111.2	11.1%	100.1	36.4%
Total Net Income	177.0	27.6%	138.8	(18.6%)	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	177.0	27.6%	138.8	(18.6%)	170.4	11.1%	153.4	45.3%
Adjusted Net Income*	$177.8	27.3%	$139.7	(19.9%)	$174.4	3.3%	$168.9	14.1%
Diluted EPS, Adjusted	**$1.15**	28.2%	**$0.90**	(19.4%)	**$1.11**	3.1%	**$1.08**	13.6%
Diluted Shares Outstanding	154.8	(0.7%)	155.9	(0.6%)	156.8	0.2%	156.5	0.1%
Adjusted EBITDA	**$668.0**	8.6%	**$615.0**	(2.4%)	**$630.4**	3.7%	**$607.7**	5.6%
As a % of Revenues:		bp chg.		bp chg.		bp chg.		bp chg.
Film Rental & Advert. Costs~	53.40%	22	53.18%	(53)	53.71%	8	53.63%	125
Cost of Concessions~	12.64%	(14)	12.78%	(4)	12.81%	13	12.69%	(70)
Gross Profit	62.16%	(7)	62.23%	60	61.63%	24	61.39%	12
Rent Expense	13.22%	(55)	13.77%	40	13.37%	(10)	13.48%	(68)
Other Operating Expenses	27.66%	(5)	27.70%	8	27.63%	1	27.62%	42
Deprec. & Amort.	7.78%	(51)	8.30%	108	7.22%	28	6.93%	0
Total Operating Expenses	51.49%	(123)	52.72%	171	51.01%	(17)	51.18%	16
Income From Operations	10.67%	116	9.51%	(110)	10.62%	41	10.21%	(4)
Adjusted EBITDA	20.30%	14	20.16%	45	19.72%	29	19.43%	18
Adjusted Net Income	5.40%	82	4.58%	(87)	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:

The Walt Disney Co. (parent of Lucasfilm) - DIS - $101.50 - Long-term Buy
National CineMedia Inc. - NCMI - $5.59
Netflix Inc. - NFLX - $174.74

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

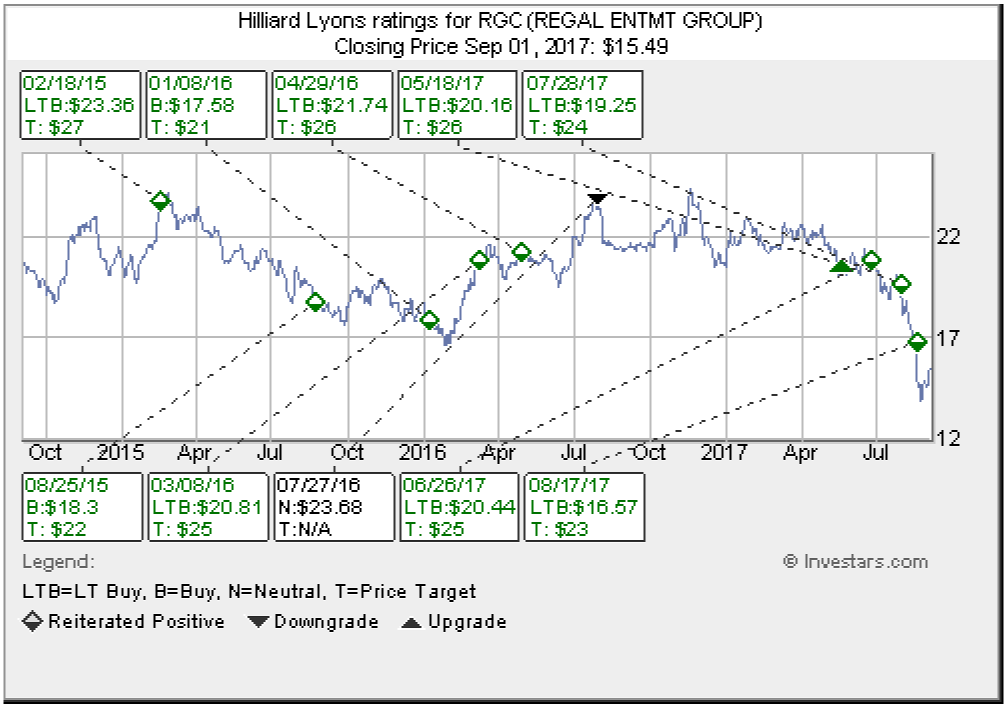
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2–3 years.
Neutral - We believe 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	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 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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