

February, 17, 2017

Regal Entertainment Group (RGC)

Analyst: Edward Stumm

Sector: Consumer Discretionary

Industry: Media

Company Description:

Regal Entertainment Group (RGC) is one of the leading and most geographically diverse movie theater companies in the United States. Regal Entertainment was founded in Knoxville, Tennessee in 2002. The main brands that make up Regal Entertainment Group are Regal Cinemas, United Artists, Edwards, Great Escape Theatres, and Hollywood Theaters. Regal Entertainment operates primarily in mid-sized metropolitan area and suburban growth areas of larger metropolitan markets. Regal Entertainment strides to provide each customer with a premium movie-going experience by continuously introducing new premium amenities.

BUY

Current Price: \$21.28
 Target Price: \$24.36
 Market Cap: 3.39B
 S&P Debt Rating: B+

Catalysts:

- Regal Crown Club App
- Geographic Expansion
- Premium Amenities Additions



Thesis:

- **Regal Entertainment is the domestic industry leader for operating multi-screen theaters and providing a premium movie-going experience.**
 - **In a mature industry, Regal has proven they are not done producing with an EBITDA compounded annual growth rate of 5% over several years**
 - **Gross margins are forecasted to increase with the investment of premium amenities alongside the slate of movies in 2017**
 - **Acquire more assets through the addition of 3-5 new theaters with the closure of 6-10 with an open mind to an acquisition**
-

Industry Outlook:

The movie production industry is primarily impacted by seasonal fluctuations in ticket revenue, with the summer and holidays being their high points. Revenue is directly affected by the amount of disposable income available per capita. As seen in the chart, disposable income per capita is forecasted to increase at a rate of 2.4% per year up until 2024. The industry is expected to remain in the mature phase with slow growth, and economic stability. With theaters like Regal Cinemas already offering the highest quality technology the most they can do is improve the movie-going experience in another category. There has been an increase in competition for the movie theater industry because of video on demand, and streaming sites. At this current stage in the industry, when a company isn't profitable anymore they will start to consolidate, which can open the door for new opportunities for Regal Entertainment Holdings.

Disposable personal income	5,244.2	9,002.3	12,985.8	19,874.5	-	-	-	-	5.6	3.7	4.3
Disposable personal income, chained 2009 dollars	7,010.6	10,035.6	11,939.5	15,108.2	-	-	-	-	3.7	1.8	2.4
Per capita disposable income	19,900.7	30,709.4	40,698.0	57,791.4	-	-	-	-	4.4	2.9	3.6
Per capita disposable income, chained 2009 dollars	26,603.3	34,233.8	37,418.4	43,931.3	-	-	-	-	2.6	0.9	1.6
Savings rate (percent)	6.3	4.5	4.8	4.7	-	-	-	-	-3.3	0.7	-0.4

Business Model:

The target market that Regal Entertainment Group is trying to reach out to is the mid-sized metropolitan area and large suburban growth areas. This is in part to the fact that Regal averages the highest ticket price at \$9.78. The company's strategy is to pull customers out of their living rooms and into the movie theater through digital cinema. Regal has added IMAX, 3D, and RPX throughout the years to make the movie-going experience exceptional. Another feature they use to pull customers away from the house is by offering the regal crown club loyalty card which allows the consumer to redeem points for items at the concession or souvenirs. Regal entertainment currently operates solely in the United States, which they have become the largest presence in. Regal currently has 565 theaters, and 7,267 screens spanning across the United States. The company generates significant free cash flow which is approximately \$250 million for the past five years meaning that Regal is excelling at generating cash after all capital expenditures.

Ownership:

Amy Miles currently serves as the Chief Executive Officer and Director of Regal Entertainment Group. Amy Miles has held this position since June 2009. Before becoming the Chief Executive Officer and Director of Regal, Amy held other positions such as Chief Financial Officer, Chief Executive Officer, Executive Vice President, and Treasurer of Regal Cinemas Inc., a subsidiary of the company.

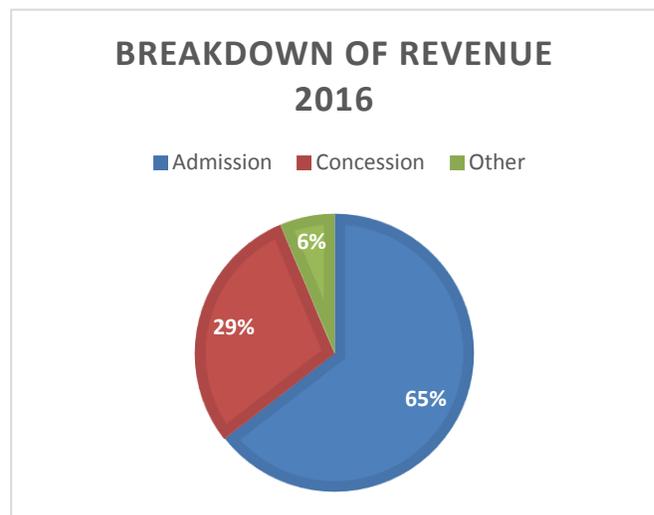
Gregory Dunn current serves as the President and Chief Operating Officer for the company. Gregory Dunn became President of the company in May of 2005 and became the Chief Operating Officer in March of 2002. Prior to holding these positions, Mr. Dunn served as Vice President of Marketing and Concessions of Regal Cinema Inc.

Peter Brandow is the Executive Vice President, General Counsel, and Secretary of Regal Entertainment Group. Mr. Brandow has held these positions since July of 2001. Prior to serving these positions, Mr. Brandow was an associate with the law firm Simpson Thatcher & Bartlett.

David Ownby is the Executive Vice President, Chief Financial Officer, and Treasurer. He has served these positions since June of 2009. Prior to joining the company, Mr. Ownby served with Ernst & Young from September of 1992 to October of 1999.

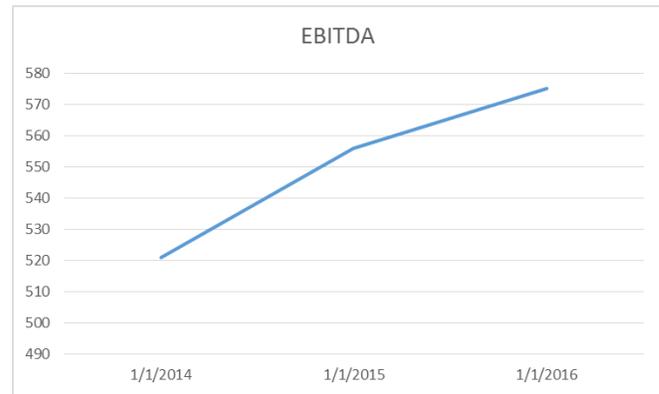
Financials:

Regal Entertainment Group generated \$3,197,100,000 in revenue for fiscal 2016 which grew 2.23 percent from the prior year's revenue. The breakdown of the revenue shows that Regal primarily depends on ticket sales at 65% to generate the revenue they do, they also make about 29% of their sales in the concession area, and 6% coming from other areas such as arcades, vending machines, etc. Despite the increased cost of concessions, rent expense, and general and administrative expenses, Regal entertainment group was still about to make a \$170,500,000 profit which is better than Fiscal year 2015 by 11.29%. In the fourth quarter, Regal had underperformed their last year's performance by \$36,000,000. Film rental and advertising costs were 34.63% of their total sales. There is a slight measure of seasonality in the movie theater industry which can be seen in the quarter 2 revenues compared to the quarter 4 revenues which were \$26,700,000 higher. This is partially due to the fact that it's the holiday season and families tend to spend more during this season. In the movie theater industry, advertising plays a key role in drawing in revenue. Regal has a significant amount of cash on hand which indicates they have the ability to take on the expansion they desire through acquisitions. As you can see in the chart, Regal Entertainment Group has a ROIC/WACC ratio that exceeds 1. This is a positive sign for the future of this company because they are creating value with the money they are investing, as opposed to their competitors who are destroying value in their company. Regal's EBITDA grew at a compounded annual growth rate of 5% since 2014 which is due to the investment of premium amenities allowing the company to strategically raise prices. The concessions also reported a 32% per cap growth with



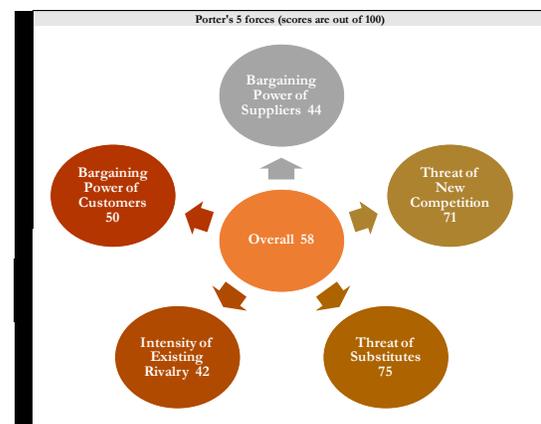
	ROIC /WACC	
	<i>History</i>	<i>LTM</i>
RGC	1.98	2.42
Competitors	1.30	0.77

the addition of alcohol and other menu items. In a mature industry, Regal has proven that there is still room for growth.



Porters Five Forces:

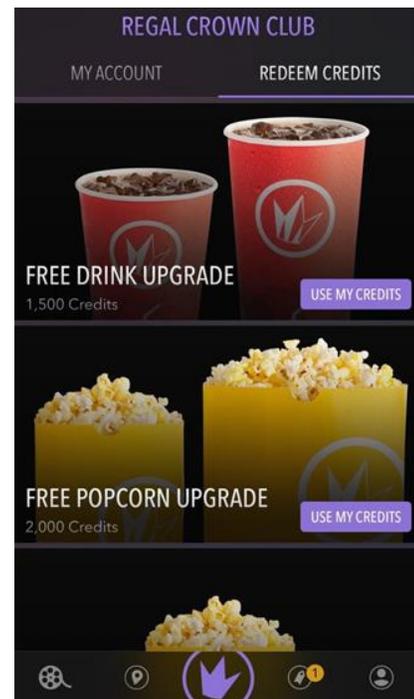
In the media industry, there is a high threat of new competition. This is because movie theaters are located all over the country, big and small. It doesn't require too much capital for a company to start up a movie theater. There is also a high threat of substitutes in the media industry because with the new technology, consumers can watch movies and shows from the comfort of their home. Some of these substitutes may be Netflix, Video on Demand, and other streaming sites. Consumers are likely to switch to these products because of the convenience and if ticket prices become too expensive. There is moderate intensity among existing rivals because most theaters already have their customer base made. These customers have most likely decided whether they are a loyal Regal Fan, or a loyal AMC fan. It's not likely that you will find an AMC theater located right by a regal theater because they tend to build using different strategies. There is moderate bargaining power of customers because theaters aren't placed every couple blocks like a McDonalds might be. Some customers don't have the ability to choice between theaters, and therefore have to settle for one company. There is moderate/weak bargaining power of suppliers as well because this is a mature industry, and companies like Regal have had



relations with their supplier for years. It is unlikely that the supplier will take control and upcharge the price because then Regal can find a new supplier.

Catalyst and Important Dates:

Regal Entertainment Group plans to further its expansion in the United States, and remain the leading theater company in the United States. Regal has already incorporated their Regal Crown Club app to further the experience for movie-goer by allowing them to purchase tickets ahead of time, rack up loyalty points, and redeem those points for items at the concession, or movie related souvenirs on the website. Regal Entertainment has also been strategically acquiring companies throughout their history with the most recent one being in 2015 when they acquired five theaters with 61 screens from entities affiliated with Georgia Theater Company. Over the next several years, Regal is slowly implementing premium amenities into their theaters such as robust options at the concession stand, alcoholic beverages, and recliners for the movie theater. These amenities will give their company the competitive advantage they have been looking for. An important date for Regal coming up is March 1st with the first ex-dividend date of the year.



Conclusion:

I believe that we should purchase stocks in Regal Entertainment Group because they have shown that they can create value, whereas their competitors were destroying value. The likelihood that the stock price will rise is fairly high because it's projected to be a good year for movie releases, and with their big quarters not yet here now would be a good time to buy. I expect the stock price to reach \$25.00 within the year, and continue to grow for the future.

Regal Entertainment Group (RGC)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Edward Stumm

Current Price:

\$21.30

Intrinsic Value

\$23.96

Target 1 year Return: 18.32%
Probability of Price Increase: 84%

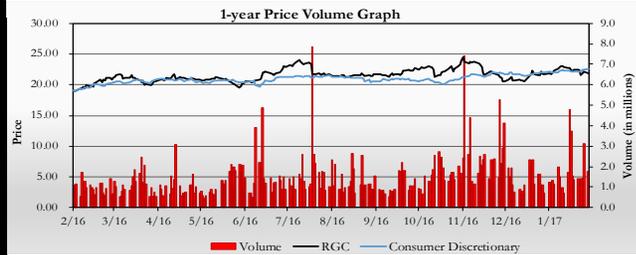
2/17/2017

Divident Yield:

3.9%

Target Price

\$24.36



Description	
Regal Entertainment Group, through its subsidiaries, operates as a motion picture exhibitor in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Media
Last Guidance	November 3, 2015
Next earnings date	NM
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	39%

Market Data	
Market Capitalization	\$3,338.89
Daily volume (mil)	0.37
Shares outstanding (mil)	156.02
Diluted shares outstanding (mil)	156.80
% shares held by institutions	78%
% shares held by investments Managers	64%
% shares held by hedge funds	7%
% shares held by insiders	1.67%
Short interest	10.75%
Days to cover short interest	8.68
52 week high	\$24.79
52-week low	\$18.72
Levered Beta	0.87
Volatility	22.05%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
12/31/2015	-0.84%	-9.49%
3/31/2016	-0.87%	-16.31%
6/30/2016	-9.01%	-26.17%
9/30/2016	-0.29%	-8.41%
12/31/2016	-2.39%	-6.46%
Mean	-2.68%	-13.37%
Standard error	1.6%	3.6%

Peers	
Cinemark Holdings, Inc.	5.71% per annum over 5y
AMC Entertainment Holdings, Inc.	4.88% per annum over 5y
Lions Gate Entertainment Corp.	9.1% per annum over 5y
Viacom, Inc.	6.79% per annum over 5y
IMAX Corporation	N/M
Reading International, Inc.	N/M
The Madison Square Garden Company	N/M



Management		
Miles, Amy	Chairperson and Chief Execut	
Dunn, Gregory	President and Chief Operatin	
Ownby, David	Chief Financial Officer, Pri	
Brandow, Peter	Executive Vice President, Ge	
Grover, Richard	Vice President of Marketing	
Thewes, Ken	Chief Marketing Officer	

Profitability		
ROIC	9.6%	8.12%
NOPAT Margin	10%	10.23%
Revenue/Invested Capital	1.00	0.79
ROE	-11.5%	-13.61%
Adjusted net margin	6%	5.07%
Revenue/Adjusted Book Value	-2.02	-2.68

Invested Funds		
Total Cash/Total Capital	4.1%	4.7%
Estimated Operating Cash/Total Capital	4.1%	4.7%
Non-cash working Capital/Total Capital	0.0%	-5.5%
Invested Capital/Total Capital	84.5%	84.2%

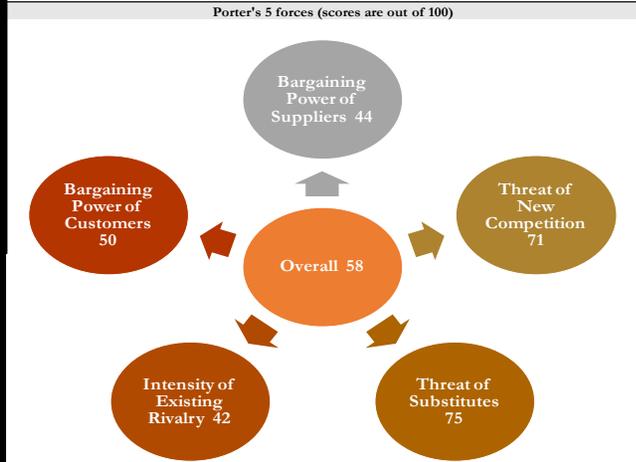
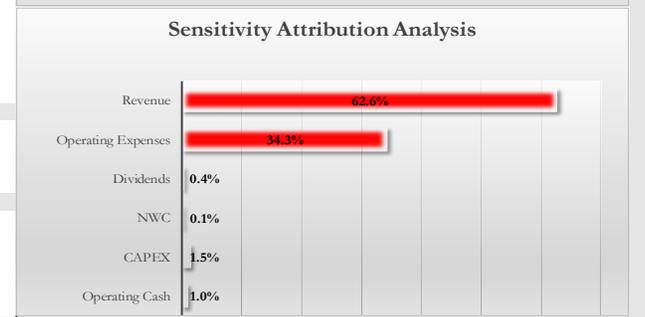
Capital Structure		
Total Debt/Common Equity (LTM)	1.76	1.72
Cost of Existing Debt	3.94%	6.03%
Estimated Cost of new Borrowing	2.84%	2.52%
CGFS Risk Rating	B	BB
Unlevered Beta (LTM)	0.43	0.47
WACC	4.94%	5.85%

Total compensations growth		Total return to shareholders	
5.71% per annum over 5y	3.54% per annum over 5y	5.71% per annum over 5y	3.54% per annum over 5y
4.88% per annum over 5y	3.54% per annum over 5y	4.88% per annum over 5y	3.54% per annum over 5y
9.1% per annum over 5y	3.54% per annum over 5y	9.1% per annum over 5y	3.54% per annum over 5y
6.79% per annum over 5y	3.54% per annum over 5y	6.79% per annum over 5y	3.54% per annum over 5y
N/M	N/M	N/M	N/M
N/M	N/M	N/M	N/M

Industry (LTM)	
ROIC	9.82%
NOPAT Margin	13.6%
Revenue/Invested Capital	0.72
ROE	12.46%
Adjusted net margin	12.4%
Revenue/Adjusted Book Value	1.01

Industry (LTM)	
Total Cash/Total Capital	9%
Estimated Operating Cash/Total Capital	N/A
Non-cash working Capital/Total Capital	1%
Invested Capital/Total Capital	88%

Industry (LTM)	
Total Debt/Common Equity (LTM)	0.37
Cost of Existing Debt	4.39%
Estimated Cost of new Borrowing	4.39%
CGFS Risk Rating	B
Unlevered Beta (LTM)	1.18
WACC	10.15%



Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	2.2%	9.6%	1.93
12/31/2017	-1.8%	10.0%	1.54
12/31/2018	2.6%	13.3%	2.11
12/31/2019	2.5%	14.6%	2.00
12/31/2020	2.6%	15.2%	1.99
12/31/2021	2.8%	15.7%	1.98
12/31/2022	3.0%	16.5%	2.05
12/31/2023	3.2%	17.2%	2.04
12/31/2024	3.4%	17.7%	1.99
12/31/2025	3.6%	18.4%	2.02
12/31/2026	3.8%	19.1%	1.96
Continuing Period	4.0%	19.8%	1.90

Period	Invested Capital	Net Claims	Price per share
Base Year	\$3,637.94	\$5,339.31	\$24.41
12/31/2017	\$3,204.09	\$5,348.18	\$23.70
12/31/2018	\$3,256.53	\$5,583.25	\$25.18
12/31/2019	\$3,384.84	\$5,377.92	\$27.15
12/31/2020	\$3,211.71	\$5,141.54	\$29.51
12/31/2021	\$3,868.43	\$4,764.73	\$32.22
12/31/2022	\$3,597.08	\$4,483.99	\$35.31
12/31/2023	\$3,980.26	\$4,174.18	\$38.88
12/31/2024	\$3,989.49	\$3,722.70	\$42.90
12/31/2025	\$4,014.15	\$3,364.14	\$47.44
12/31/2026	\$3,935.82	\$2,973.69	\$52.60

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	2.2%	9.6%	1.93
12/31/2017	-1.8%	10.0%	1.54
12/31/2018	2.6%	13.3%	2.11
12/31/2019	2.5%	14.6%	2.00
12/31/2020	2.6%	15.2%	1.99
12/31/2021	2.8%	15.7%	1.98
12/31/2022	3.0%	16.5%	2.05
12/31/2023	3.2%	17.2%	2.04
12/31/2024	3.4%	17.7%	1.99
12/31/2025	3.6%	18.4%	2.02
12/31/2026	3.8%	19.1%	1.96
Continuing Period	4.0%	19.8%	1.90

Period	Invested Capital	Net Claims	Price per share
Base Year	\$3,637.94	\$5,339.31	\$24.41
12/31/2017	\$3,204.09	\$5,348.18	\$23.70
12/31/2018	\$3,256.53	\$5,583.25	\$25.18
12/31/2019	\$3,384.84	\$5,377.92	\$27.15
12/31/2020	\$3,211.71	\$5,141.54	\$29.51
12/31/2021	\$3,868.43	\$4,764.73	\$32.22
12/31/2022	\$3,597.08	\$4,483.99	\$35.31
12/31/2023	\$3,980.26	\$4,174.18	\$38.88
12/31/2024	\$3,989.49	\$3,722.70	\$42.90
12/31/2025	\$4,014.15	\$3,364.14	\$47.44
12/31/2026	\$3,935.82	\$2,973.69	\$52.60