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RGC - Q3 2015 Regal Entertainment Group Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2015 / 8:30PM GMT

OVERVIEW:

Co. reported 3Q15 total revenues of \$725m.



CORPORATE PARTICIPANTS

Amy Miles *Regal Entertainment Group - CEO*

David Ownby *Regal Entertainment Group - EVP, CFO, Treasurer*

CONFERENCE CALL PARTICIPANTS

Eric Handler *MKM Partners - Analyst*

Alexia Quadrani *JPMorgan - Analyst*

Ben Mogil *Stifel Nicolaus - Analyst*

Robert Fishman *MoffettNathanson LLC - Analyst*

David Miller *Topeka Capital Markets - Analyst*

Ryan Fiftal *Morgan Stanley - Analyst*

Barton Crockett *FBR Capital Markets & Co. - Analyst*

Matthew Harrigan *Wunderlich Securities, Inc. - Analyst*

Leo Kulp *RBC Capital Markets - Analyst*

Eric Wold *B. Riley & Co. - Analyst*

Jim Goss *Barrington Research Associates - Analyst*

Chad Beynon *Macquarie Research Equities - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Jessie and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Regal Entertainment Group fiscal third-quarter 2015 earnings release conference call with our hosts Amy Miles, Chief Executive Officer of Regal Entertainment Group, and David Ownby, Chief Financial Officer Regal Entertainment Group.

All lines have been placed on mute to prevent any background noise. After management's remarks, there will be a question-and-answer period. (Operator Instructions).

I would like to remind our listeners that this conference call contains forward-looking statements within the meaning of Section 27-A of the Securities Act of 1933 as amended and Section 21-E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical facts communicated during this conference call may constitute forward-looking statements. These forward-looking statements involve risks and uncertainties. Important factors that can cause actual results to differ materially from the Company's expectations are disclosed in the risk factors contained in the Company's 2014 annual report on Form 10-K dated March 2, 2015, and in the Company's quarterly report on Form 10-Q dated August 10, 2015. All forward-looking statements are expressly qualified in their entirety by such factors.

Today's call and webcast may include non-GAAP financial measures. A reconciliation of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP can be found in today's press release and on the Company's website, www.REGmovies.com.

Now I will turn the call over to Amy Miles.



Amy Miles - *Regal Entertainment Group - CEO*

Good afternoon, everyone, and thank you for joining us.

First and foremost, we are extremely pleased that a healthy box office environment, our continued rollout of premium customer amenities, and our focus on managing the variable portion of our cost structure enabled us to generate adjusted EBITDA growth, excluding the one-time impact of a tax refund in the third quarter of last year of over 17%.

When we spoke to you last in late July, we indicated that industry box office results were keeping up with the lofty expectations set by Wall Street and other industry pundits. And while box office performance for the third quarter didn't keep pace with the record totals in the first half of the year, I'm happy to report that today, almost 10 full months into 2015, that industry box office of over \$8.8 billion is still 5% ahead of last year, and almost 2% ahead of the previous record total experienced in 2013.

Also, many of the factors that drove our success in the first part of the year continued to have a meaningful impact upon our results in the third quarter. The 356 screens that were converted to reclining seats in the 12 months prior to the end of the quarter outperformed the industry box office by over 5,800 basis points, and contributed an incremental \$10 million of box office revenue.

The six newbuild theaters we opened in late 2015, all of which feature reclining seats, generated twice our overall average box office per screen. Our new offerings at the concession stand, combined with the strategic price increases, continue to drive revenue growth, enabling us to achieve a record concession per cap for the third time this year.

And in late September, we took advantage of a small acquisition opportunity and added five theaters with 61 screens to our market -- to our market leading position in Atlanta, Georgia.

David will go through the particulars of our quarterly numbers later in the call, but when you combine the revenue growth associated with our efforts to enhance the customer experience, our proven track record of controlling operating costs, and our ability to execute accretive acquisitions, it's easy to see why we are optimistic about the remainder of 2015 specifically and in the future in general. With that in mind, I'll spend just a few moments providing an update regarding our key initiatives.

Our installation of luxury reclining seats is continuing at a healthy pace with an additional 339 screens converted so far this year and another 149 currently under construction. We are still on schedule to convert approximately 40 buildings with 500 screens in 2015, and should end the year with a total of 850 screens fully equipped with recliners. And this is only the beginning. As we look ahead into 2016 and 2017, we have a long way of opportunity, and ultimately expect to outfit at least 2,000 screens with luxury seating.

Second, our low-cost, low-risk investment in the equipment that is necessary to provide an enhanced menu and alcoholic beverage to our customers continues to have a more meaningful impact on our concession revenue, adding \$0.09 to our concession per cap in the third quarter. We continue to add new locations to our list of theaters that feature these offerings, and expect to end 2015 with 185 theaters serving the enhanced menu, and 135 sites with some type of alcoholic beverage service.

And third, as demonstrated by our most recent transaction, we will continuously be on the lookout for industry acquisition opportunities at attractive multiples. While prudent opportunities have been slow to materialize recently, we believe that a healthy 2015 box environment and the necessary capital investment and luxury amenities will continue to provide a good backdrop for M&A activity in the relative near term. We believe that our focus on customer amenities and accretive acquisitions, combined with the studios' commitment to theatrical release dates throughout the calendar year and well into the future, will enable us to generate meaningful returns for our shareholders long after a hopefully record 2015 box office has come and gone. We are extremely excited about the potential for growth and financial returns associated with these initiatives and look forward to updating you as they progress.

In summary, we are extremely pleased that a healthy box office environment, the impact of our recent investments in the customer experience, and our continued focus on managing a variable portion of our cost structure enabled us to generate, on an apples-to-apples basis, adjusted EBITDA growth of over 9% and adjusted EBITDA margin expansion of 100 basis points for the first nine months of 2015.

I would now like to turn the presentation over to David for a discussion of our financial performance.

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

Thanks, Amy, and good afternoon everyone. For the next few minutes, I'll provide a brief analysis of our third-quarter results and an update with respect to our asset base. But before we get to the numbers, a few housekeeping items.

First, as a reminder, please note that we have updated our computation of adjusted EBITDA as it relates to our earnings from National CineMedia. Historically, we have included our GAAP equity method earnings from NCM in that computation. In an effort to more closely align our reported adjusted EBITDA with our operating cash flow, beginning in the first quarter of this year and on a go-forward basis, we instead include our quarterly cash distribution from NCM in adjusted EBITDA. This change is reflected for all periods presented in the reconciliation of EBITDA to adjusted EBITDA in our press release.

Second, the comparability of our quarterly results in 2015 to those in 2014 is impacted by the timing of our fiscal calendar. Our first three fiscal quarters last year totaled 273 days and included six days from the week between Christmas day and New Year's Day, a traditionally high attendance period for the Company and the industry. This year, our first three quarters totaled only 272 days and did not include any days during the Christmas/New Year's week. The shift in our calendar had a mildly negative impact on our results for the third quarter and a significant negative impact on our year-to-date results.

And third, as Amy mentioned earlier, we completed the acquisition of 61 screens from Georgia Theatre Company in early September. I will provide further details in a few minutes, but please note that our third-quarter results were not meaningfully impacted, given the late quarter timing of the transaction. With that in mind, our fiscal third-quarter -- in our fiscal third quarter, we generated total revenues of \$725 million, including \$469.9 million of box office revenue, \$214.7 million of concession sales, and \$40.4 million of other operating revenue.

Our admissions revenue for the quarter grew by approximately 2% in the aggregate and 2.2% on a per screen basis, roughly in line with the broader industry metric, and benefited from both a small increase in attendance and a 1.3% increase in our average ticket price. A decrease in the percentage of our box office revenue generated by premium format films somewhat limited the impact of strategic price increases and yielded an average ticket price of \$9.19, the fourth highest quarterly total in our history.

Our concession revenue increased by over 10% in the aggregate as concession sales per patron of \$4.20 grew by 9.7% and bested our previous record set just three months ago. As has been the case for all of 2015, strategic price increases, improvements in popcorn and beverage volume, and the continued success of our enhanced food menu and alcoholic beverage offerings all contributed to the increase and helped drive per cap growth of over 6% for the fifth consecutive quarter.

Other operating revenues grew by \$2.2 million as compared to the same period last year due primarily to increases in contractual revenues from National CineMedia and revenues from our advanced ticketing programs.

Our film and advertising expense of \$246.7 million represented 52.5% of admissions revenue, 60 basis points better than the same period last year, and below the long-term historical average for the third quarter.

Our concession margin of 88.4% was abnormally impacted by a significant increase in the amount of vendor marketing revenue recorded as a reduction of cost of concession. Excluding the impact of vendor marketing revenue in both periods, our concession margin improved by 30 basis points, due primarily to strategic price increases that outpaced raw material cost inflation on beverage and popcorn items.

Total rent expense of \$104.8 million increased \$0.3 million as both base and contingent rent remained relatively constant.

On the surface, total other operating expenses of \$216 million increased by \$27.8 million as compared to the same period last year. Please note that the year-over-year comparison was negatively impacted by a sales tax refund of \$16.8 million recorded as a reduction of other operating

expenses in the third quarter of last year. Excluding the impact of the tax refund, other operating expenses increased by approximately 5% due primarily to inflationary increases in theater level payroll and non-rent occupancy costs.

We are pleased that the healthy increase in our concession per cap combined with our operational execution enabled us to generate apples-to-apples adjusted EBITDA growth of almost 17%, adjusted EBITDA margin expansion of almost 200 basis points, and third-quarter total revenue adjusted EBITDA and adjusted earnings per share ahead of consensus Wall Street estimates.

And as for our asset base, as I mentioned -- as mentioned earlier, we acquired five theaters with 61 screens from Georgia Theatre Company in early September for \$9.2 million in cash. The theaters are located in the suburbs of the Atlanta market and generated pre-synergy theater level cash flow of just over \$2.1 million for the trailing 12 months ended July this year. This addition further enhances our position as the market share leader in Atlanta and provides a platform for future expansion of our luxury amenity footprint in the area.

Capital expenditures net of asset sales and landlord contributions for the quarter totaled \$33 million, and we continue to actively manage our asset base, closing three theaters with 28 screens to end the quarter with 571 theaters and 7,357 screens.

Based on our development schedule and outlook for the remainder of the year, we still expect full-year net capital expenditures to be between \$135 million and \$145 million. In the fourth quarter, we expect to open one newbuild theater with 12 screens and close three theaters with 32 screens, which would result in ending counts of 569 theaters and 7,337 screens for 2015.

In closing, again, we are very happy about our year-to-date results and we remain excited about the opportunity to further enhance the customer experience and the potential for box office success for the remainder of the year and into 2016.

Operator, this concludes our prepared remarks. We will now open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Eric Handler, MKM Partners.

Eric Handler - MKM Partners - Analyst

Thank you very much for taking my question. Just looking -- you expect to do about 2,000 screens for reseating, and so it looks like you're getting very good results from those screens. When you look at it, you got another 5,300 screens or so that as of right now aren't planned to be resealed. I wonder. Can you talk about the stability of those non-resealed screens and how they are holding up in a competitive environment where you're seeing a lot of other reseats being done? And what's going on with that base of screens?

And then secondly, with regards to Georgia Theatres, a nice little tuck-in acquisition there. It's unusual to see a circuit sell off a portion of their theaters. I just wondered if there was anything behind that from a Georgia Theatre perspective. Not often you see something like that. So -- and I'll stop there.

Amy Miles - Regal Entertainment Group - CEO

Sure, Eric. With respect to the first part of your question, but we said there with respect to the 2,000 screens, or call that about 25% of the circuit, that's our initial goal with respect to where we would like to see -- or where we believe we have opportunities with respect to the circuit. And so we are very excited about that opportunity. And I hope, at the end of the day, we have been conservative with respect to the number of screens where we can feature that amenity.



But as it relates to the stability of the base, what that 2,000 doesn't include is a lot of our high-performing theaters. And they are just too busy today for us to take out half the seats and generate the revenue hurdles that would be necessary. So, I would say the rest of that base is performing as we would expect, and it's more driven by the fact that those theaters are too busy than it is that I would have concerns they are underperforming for that amenity.

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

On Georgia Theatre, it's always a little bit hard to know all of the motivations of the seller, but in this particular case, I think they had a handful of theaters in a big market environment in Atlanta where there's lots of competition for patrons and a lot of their other theaters, quite frankly, are just in smaller markets in the Southeast. And I think they just viewed that as a different operating model and maybe a good chance to diversify their holdings a little bit with the sale of those five theaters in Atlanta.

Eric Handler - *MKM Partners - Analyst*

Great. Thank you very much.

Operator

Alexia Quadrani, JPMorgan.

Alexia Quadrani - *JPMorgan - Analyst*

Thank you. Just a couple of questions. First, just given the strength of the box office we've seen year-to-date and obviously the comp is probably going to be much harder when you take into account the fourth quarter with so many franchise films expected to be released, I guess how should we early days think about 2016? Do you think it's possible to have another growth year?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

Over the long-term, we think about the box office and manage the business in a way that we feel the box office is always very stable. I think if you look at the last five or six years' worth of data, I think it would point you in that same direction.

It's always hard when you come off of a record year to predict growth in the following year, although we've had that happen before following 2012 into 2013.

I think, from our perspective, the best message is that we are an industry that routinely sets a new record every few years. If this year in fact does turn out to be a record box office, it will be four out of the last six that were records. So regardless of whether 2016 is one of those years, we feel like we are in a very stable and healthy box office environment for the long term.

Amy Miles - *Regal Entertainment Group - CEO*

The only thing I would add to that is, remember, a lot of the optimism around the fourth quarter of 2015 is going to benefit the first quarter of 2016, because obviously that strength of Star Wars is going to kick off 2016 to a great start. I think that gets 2016 off to a good start.

And if we just simply look at the film slate in 2016, and I'll go forward and say 2017, a lot of those key tentpole pictures that you like to see are on the schedule for both those years. So we look forward and give ourselves 24 months, we feel very confident about the film slate.



Alexia Quadrani - *JPMorgan - Analyst*

I guess just staying on that point, with a very strong slate set up for the fourth quarter, the end of this year, should we assume that the rent expense is obviously going to be a bit elevated then in the December quarter?

And then just a quick question on the concession strength we saw in the quarter. Any more color in terms of how much came from pricing versus the rollout of the broader food offerings and alcohol?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

Sure, Alexia. On the film rent, I think we been pretty clear about what the drivers of that number are. And anytime you see a high concentration of a few films that drive a lot of the box office, then, yes, we would expect film rent to be up at the high end of the range for that given quarter. Having said that, ultimately, we have to see how those films perform, so we will see how each individual film performs as we get into the holiday season here and see exactly what happens with that.

And on the concession side, we were up \$0.37 in the concession per cap. About \$0.09 of that, as Amy mentioned in her prepared remarks, relate to the new menu and the alcoholic beverages. Another \$0.09 relates to volume increases on the core Coke and popcorn items, and then the remaining \$0.19 relates to pricing on the core Coke and popcorn items.

Alexia Quadrani - *JPMorgan - Analyst*

Thank you very much.

Operator

Ben Mogil, Stifel.

Ben Mogil - *Stifel Nicolaus - Analyst*

Good afternoon. Thanks for taking my call, or question. So, on the concession front, if you sort of strip out the vendor, marketing, sort of accelerated vendor marketing support, is kind 13% COGS the right number here roughly?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

For modeling purposes, I would always point you back to the trailing 12 number, or in this case I think the year-to-date number is pretty similar to the trailing 12 number. And that little anomaly that we had in this quarter really doesn't impact that year-to-date or trailing 12 number. So for modeling purposes going forward, you can certainly look to that.

Ben Mogil - *Stifel Nicolaus - Analyst*

It is sort of fair to say that 4Q will have a more normalized vendor support activity?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

Yes.



Ben Mogil - *Stifel Nicolaus - Analyst*

Okay. And then looking at the theaters that you've renovated, I think AMC has talked and generally when they've done renovations, they've seen a combination of share shift and market growth. And generally speaking, the growth was kind of half share shift and half market growth. What are you seeing?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

I would say our experience is similar, and obviously every location is different. So in a market where you have a high density of theaters, certainly you may get more from share shift, and in a market where maybe there aren't as many competitors, you get more from market growth. But I think, on average, that probably has been similar to our experience, about half market growth and about half share shift.

Ben Mogil - *Stifel Nicolaus - Analyst*

And are you seeing your competitors be relatively rational in terms of you renovated a venue, they're sort of not renovating theirs, or are you seeing a lot of sort of people going up against each other?

Amy Miles - *Regal Entertainment Group - CEO*

I'll answer that one. I think what we're seeing across the industry today is that theaters -- the investors in these amenities are making an investment decision where gives them the highest return. So as you are trying to decide where you get the highest return, cannibalization would not be high on your list to generate that return. So, I think the industry has kind of shown over time that it's a much more prudent industry with respect to investment in the asset base. I would expect the same here.

Ben Mogil - *Stifel Nicolaus - Analyst*

That's great, Amy and David. Thank you very much.

Operator

Robert Fishman, MoffettNathanson.

Robert Fishman - *MoffettNathanson LLC - Analyst*

I have one for Amy and one for David if I can. Amy, given the strong 4Q slate that I was expecting with Hunger Games and Inspector in IMAX and Star Wars in 3-D and IMAX, can you just speak about how you are thinking about the ticket price inflation for the upcoming quarter and how you balance maximizing revenue while not getting too far ahead of yourself, especially if any lessons learned about pushing too aggressively on 3-D from a few years ago? And just on a quick related note, would you ever consider adding a ticket price premium for opening weekends or highly anticipated movies like Star Wars?

Amy Miles - *Regal Entertainment Group - CEO*

I think, with where we sit today, the biggest driver of the increase in the fourth quarter is, you know, we are going to have a greater number of theaters that offer a premium amenity. So that in and of itself is going to drive incremental pricing opportunities, but, again, that is where we've upgraded the theater, and we would expect to charge accordingly.



Now, in the future where you could ever get to a situation where opening weekend their other films have different price points, I think we will see how that evolves. But I don't forecast that you're going to see that here in the near term. I'm not saying that won't happen long-term, but here in the near term, I wouldn't forecast that specifically as it relates to fourth quarter.

Robert Fishman - *MoffettNathanson LLC - Analyst*

Okay, great. David, please correct me if I'm wrong, but it seems as though you still did outperform the industry box office even after making adjustments for the calendar timing and acquisition. So I'm just wondering how we should think about how quickly you can capture back some of the lost market share you've had over the past year or so where you're underperforming, and if the underperformance is just coming from those 2,000 screens that you're targeting for the upgrade.

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

Yes, and as you know, there's lots of pieces to that calculation. And I think we gave -- the number I quoted on the call was for a weighted average screen count simple because that Georgia Theatre acquisition happened so late in the quarter. So the 2.2%, up 2.2% I used as a weighted average -- used a weighted average screen count.

And if you actually take the large-format screens out of that calculation for this quarter, because it was not a great quarter for that format, we were flat. We were up 2.6% per screen, excluding the large-format screens, so, again, dead on the industry number.

And just a broader comment, we told you earlier this year on one of our calls that we wouldn't really have a critical mass of recliner locations, enough to really impact market share until late this year or even early in 2016. And as the year has progressed, you've seen our performance relative to the overall market continue to improve. In Q2, I think we were about 80 basis points shy of the industry metric, aided a little bit by a strong performance from the large-format screens. In this quarter, I think we would call it close enough to call it even, and we are very pleased with that progress, and believe that you will continue to see the impact of the recliner initiative in our market share metrics going forward.

Robert Fishman - *MoffettNathanson LLC - Analyst*

Great, that's very helpful. Thank you.

Operator

David Miller, Topeka Capital.

David Miller - *Topeka Capital Markets - Analyst*

Hey guys. I have a few questions. Amy, I just want to make sure I heard you correctly, because this is important. You said that 339 screens have been converted on the re-seating side and you'll get to 850 by the end of the year, or did you say 550 by the end of the year?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

I'll answer that. 339 were converted as of the beginning of the third quarter --

David Miller - *Topeka Capital Markets - Analyst*

Yes.

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

-- and then we had another -- and that's this year. So add that to the roughly almost -- what was it, 300 we had last year, and so you can see that's how you get to 850 by the end of the year. So at the beginning of this quarter, the beginning of the third quarter, we were already at about 600 or 650.

David Miller - *Topeka Capital Markets - Analyst*

Okay, got it. And then David, have you seen, on the re-seating side for the assets that have been re-seated, the flow through that you've seen thus far in the operating income and the margin enhancement that you've talked about, would you say that's come mostly from the ticketing side or the concession side, or is it a combination of both?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

For most of the theaters that we have taken a slower approach to raising prices, and what I mean by that is that we have not raised the price initially. The ticket price after we convert to recliners, we wait a little bit of time, let the customers come in, experience the new environment, get used to the new environment and then we at some period later, three, six, nine months, we start to think about whether we have pricing opportunities or not. So, the real flow-through to EBITDA that you're seeing is from attendance growth and from getting those people to the concession stand.

David Miller - *Topeka Capital Markets - Analyst*

Okay. And then on that same line of questioning, for the re-seated assets where you're competing head-to-head with AMC, what do you feel like you're doing differently versus AMC, and do you feel like you're taking share from AMC with those re-seated assets?

Amy Miles - *Regal Entertainment Group - CEO*

I don't think, David, that we look at it as taking share from AMC. Obviously, we have our approach to the markets we select and they have their own approach.

I think what's good for the overall industry is the investment in the premium amenities is working and we are seeing a lot of positive response from our customers. And that's generating returns for us and others in the industry that are also participating in this program. I think it's good news for all as it relates to these amenities.

David Miller - *Topeka Capital Markets - Analyst*

Okay, fair enough. Thank you very much.

Operator

Ryan Fiftal, Morgan Stanley.

Ryan Fiftal - *Morgan Stanley - Analyst*

Great, thank you. Two if I may. One, following up on an earlier question on concessions revenues, so thanks for splitting that out. I guess my question is on the third component. I think you called out a \$0.09 tailwind from popcorn and beverage volume. I was wondering if you can provide any

more color on that. I think we saw that last quarter. Where do you think that's coming from? Have you changed the packaging or merchandising or something? And do you think that's potentially sustainable going forward?

David Ownby - Regal Entertainment Group - EVP, CFO, Treasurer

Typically, the number one driver of that is going to be the film slate. This particular quarter, you had two kids films in the top five. Minions was the runaway number one picture for the third quarter, and Inside Out, which actually was released in Q2, came in at number five for the quarter. That's a much higher percentage of box office for kids films than it was in the same quarter last year. And typically that's going to be good indicator that you have good volume increases on some of your concession items. And just to drill down to that a little bit, our beverage volume was up about 2.2%, our popcorn volume was up about 2.4%, and really this is not as big a piece of the overall pie, but in a kids quarter like this one, our candy volume was up about 3.8%.

Ryan Fiftal - Morgan Stanley - Analyst

Okay. Thank you. And one on the OpEx side. I think the other OpEx bucket grew 5% to 6% this quarter. I know there's some semi variable component to that with salaries. But I was wondering what you're seeing there. Are you seeing pressures from minimum wage initiatives, or what's going on there? And do you think you can return back to a more inflationary type growth in 2016 and beyond? Thanks.

David Ownby - Regal Entertainment Group - EVP, CFO, Treasurer

Yes, the two components that we called out there, one was theater level payroll. And as you know, we've been managing through minimum wage increases in lots of our markets over the last few years, and I feel like we've done that very successfully. Certainly, some of the inflation that you see here is a little bit of that. I don't think it's anything outsized compared to what you've seen in the past. That particular piece, a portion of that is non-rent occupancy costs. Some of that is always impacted by our utility costs in different markets around the country.

If you look historically, Q3 is always kind of the highest other OpEx on a per-screen basis. One of the reasons for that is because it's the hottest quarter of the year, so we're trying to keep our theaters nice and cool for our patrons. So, I think those are some of the flow-throughs there. I think, over the longer term and for modeling purposes, you can continue to assume kind of a normal inflationary increase in that line item, and I would call that more like 2% or 3%.

Ryan Fiftal - Morgan Stanley - Analyst

Thank you.

Operator

Barton Crockett, FBR Capital Markets.

Barton Crockett - FBR Capital Markets & Co. - Analyst

Thanks for taking the question. I wanted to first just drill down a little bit more on the sustainability of this very strong concession per cap trend. Are there any comparison issues that slow it down potentially in the fourth quarter or going to 2016, do you think this pricing and this premium initiative growth is sustainable?



David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

If you think about those pieces of the increase that we already called out, we are kind of in the middle, maybe toward the backside of the middle innings on the alcohol and the concession rollout. And so I think we'll continue to get that benefit for the remainder of this year and into next year. So that call it \$0.09 or \$0.10 of that \$0.37 relates to that.

The pricing component, we always look at our pricing and always try to layer in pricing when we can. That I think you'll continue to get the carryover benefit of some of those price increases that happened earlier this year into the fourth quarter and even into the first quarter of next year. At that point, we will again evaluate where we are from a pricing perspective, but over the long-term, after you get maybe past the first quarter of next year, I would say that pricing element is more of an inflationary type increase.

And then the third element was the volume. And as we just discussed with the previous caller, that number is more driven by the film slate quarter to quarter, so it's a little bit more difficult to predict.

Barton Crockett - *FBR Capital Markets & Co. - Analyst*

Okay.

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

I think, over the near term, we have a good backdrop in place to continue to outperform our average historical per cap increase. And then maybe as you get into the back half of next year and beyond, I would probably return to modeling that traditional, more traditional inflationary type increase.

Barton Crockett - *FBR Capital Markets & Co. - Analyst*

Okay. That's very helpful. And then switching gears a little bit, we're all excited about the fourth-quarter film slate. We've seen some presale numbers reported, Star Wars in particular, and with IMAX reporting a 6X kind of increase in first day sales for Star Wars versus other record-setters which included Hunger Games. Lots of movies that are -- were here before like Bond, like Hunger Games. Can you give us a sense of whether you seeing anything comparable in terms of your theater circuit for Star Wars presales and a little bit of color about what you're seeing for some of the others like Hunger Games and Bond?

Amy Miles - *Regal Entertainment Group - CEO*

I think, with respect to Star Wars, some of the things that you've seen reported in the press as it relates to IMAX and others obviously 20% of the industry, those trends are going to be very similar at Regal. So I don't think we have -- we wouldn't release any specific numbers today, but you can assume, if the industry is up that much, we are participating in that growth. It's an exciting quarter.

Barton Crockett - *FBR Capital Markets & Co. - Analyst*

Okay. And anything to say about Hunger Games or Bond? Is presale up there?

Amy Miles - *Regal Entertainment Group - CEO*

I don't think so. And it's also hard to tell too what presale means as it relates to overall -- what happens from an advanced ticket perspective versus opening weekend, because a lot of times some of your advanced ticketing numbers are going to be driven by your larger markets. And then you're



still going to -- so they are not always a perfect indicator of what's going to happen opening weekend. But I think it's safe to say Bond, Hunger Games and Star Wars are going to be very successful films and successful openings.

Barton Crockett - *FBR Capital Markets & Co. - Analyst*

Okay. That's great. Thank you very much.

Operator

Matthew Harrigan, Wunderlich Securities.

Matthew Harrigan - *Wunderlich Securities, Inc. - Analyst*

Thank you. Firstly, I'm just curious of how the feedback loop is going with the mall traffic, given some of the adverse mall trends. You've got some fairly heavy exposure, but nothing that you think impacts your business. Obviously, a desirable tenant in terms of fostering traffic since the trends were so bad that I would think it would impact certainly your locations. It would be interesting to see what the variance was from the large mall, destination mall and kind of the freestanding locations.

And then secondly, I was curious if Amy had any comment on the Paramount situation (technical difficulty) AMC Theaters performance last weekend. I hope we are not about to get (technical difficulty)

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

Matthew, on your mall question, certainly we do have some locations in malls around the country, but I think you said it right in that we typically are a driver of traffic for a mall or retail center and not necessarily a recipient of traffic. So I'm not sure our business is a very good indicator, or we would have any real insight into what's going on in the larger mall retail environment.

Amy Miles - *Regal Entertainment Group - CEO*

And Matt, broadly with respect to your question on the Paramount test, clearly the box office numbers for Paranormal, and I will assume the same for Scouts Guide to (technical difficulty) the Apocalypse are a lot lower -- well, with respect to Paranormal, are a lot lower than the previous release of Paranormal. And again, that's going to be due to the limited amount of theaters and market coverage that you had for exhibitors that were actually participating in the test.

As far as the test is concerned, I guess, because we had such a limited number of exhibitors participating, it's going to be hard to evaluate any meaningful results from the test, because if you think about it, in the downstream, if we see -- as you're trying to evaluate what's happening in the downstream market with respect to these two films, is the customer seeing a film in the downstream because they didn't have an option to see it in a theater. That's not necessarily due to any early release from a windowing perspective. You may need to meet your phone so you can hear me.

So again, as far as our thoughts on the test, we made it clear that we didn't want to participate because we didn't think the structure or the economics of the test made sense. Now, that being said, we also said that we would be open to any idea, discussion, or other experiment that we felt like had the potential to grow the overall pie, but we also had to make sure that the associated economic arrangement provided us a financial participation that was greater than the risk, and we just didn't see that in this test, so therefore we didn't participate.



Matthew Harrigan - *Wunderlich Securities, Inc. - Analyst*

Thanks Amy. Thanks David.

Operator

Leo Kulp, RBC Capital Markets.

Leo Kulp - *RBC Capital Markets - Analyst*

Hi. Thanks for taking the question. Two if you don't mind. One is can you provide an update on your deal pipeline? Are things still fairly slow ahead of the end of the year or are you starting to see some pickup in activity?

And then the second question, we've heard a little bit about Atom Tickets recently and I know you did a trial with them earlier this year. Can you provide an update on how that went and your partnership with them?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

I'll take the M&A question, and I don't think at this point there's any real update from what we said on our previous couple of calls. Amy said in her prepared remarks that we believe over the relative near-term that there will be opportunity, that there are some -- there's a good backdrop for activity in the relative near-term, but I would not say that anything has really changed from our comments on the last couple of quarters.

Amy Miles - *Regal Entertainment Group - CEO*

With respect to Atom Tickets, I'll just take the back part of that, we did do a test with Atom that started just -- it was just a few months ago. I believe Carmike participated as well. We were pleased with the results and we are looking to extend further testing opportunities, I would say, at this point in time.

Leo Kulp - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Eric Wold, B. Riley.

Eric Wold - *B. Riley & Co. - Analyst*

Thank you. A couple of questions back on the concessions. I think you mentioned either combined enhanced food and beverage and the alcohol adding \$0.09 per cap and plans to reach 185 and 135 locations respectively for each of those by year-end. I guess, one, you kind of talked about goals on the recliner. What are your ultimate goals for expanding those throughout the circuit, thinking about limitations on space and theaters' licenses, etc.? And then how should we think about the incremental gross profit on that \$0.09 given the margins on the food and alcohol, additional labor costs, etc.?



David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

On the rollout, I think we gave you a goal of 135 for alcohol for this year and 185 for food. On the food, we're probably getting into the middle-late innings there. And just remember, as you think about that theater count, that not all theaters are created equal. So we are probably servicing a much larger portion of our attendance than that 185 indicates in terms of percentage of our buildings.

And then on the alcohol, I would say we are maybe just now entering the middle innings, so we have a little bit more runway left ahead of us on that.

And then from a gross margin perspective, our real goal there is to make sure that those sales are incremental to our Coke and popcorn business. So, anything that we get from that perspective, even if the margin is not quite as good as the margin on popcorn, which nothing really is, to be fair, even if it's not quite as good, although it's still very good, as long as we can use that to drive more attendance at the concession stand and ultimately drive more EBITDA dollars, then that's really the goal there, is to make sure that we get more all the way to the bottom line and leverage our existing fixed costs.

Eric Wold - *B. Riley & Co. - Analyst*

Perfect. Thank you.

Operator

Jim Goss, Barrington Research.

Jim Goss - *Barrington Research Associates - Analyst*

Amy, I'm sort of intrigued by the change that seems to come over you whereas, several quarters ago, your attitude toward the recliners initiatives was sort of cautious, but now you seem to have warmed quite a lot. And I'm wondering if it's your own experience or that you've observed in the industry or what triggered sort of the change in your own thinking on it?

Amy Miles - *Regal Entertainment Group - CEO*

Any time that we approach an initiative that requires that much capital, we're going to be cautious and prudent with respect to how we would roll out those initiatives. So I think the good news there is that we continue to see improvement in the theaters that are featuring the recliners, and the growth has on, both box office and the concession side, exceeded our expectations. So when any kind of capital project exceeds our expectation, you would expect our optimism would grow accordingly.

Jim Goss - *Barrington Research Associates - Analyst*

Okay. And I think this had come up a little bit earlier, but in terms of AMC and IPic and some others that you might bump up against in your major markets, is that a situation where that is almost the expected norm, or how do you see that continuing to evolve? Because like the frame of competitive area that one controls is going to be smaller in a more condensed area. So, how do you look at that? (multiple speakers)

Amy Miles - *Regal Entertainment Group - CEO*

Maybe what -- yes, what we can do here is I'm just going to use this as an example and maybe just clarify certain other questions we have with respect to the competitive landscape on these amenities. One of the markets today, and remember we only have -- I'm going to guesstimate this -- but around 300 theaters today in the US that feature this amenity, because that's the overall market that we are talking about. But if you look at

Atlanta, Georgia today, and we have a limited amount of markets that we can refer to, but hopefully this gives you a better perspective -- which as far as the percentage of screens that feature luxury amenities is pretty high compared to the traditional theaters. And what we've seen in Atlanta, Georgia, where you have several individuals or several individual theater circuits offering this amenity, that Atlanta, Georgia has outperformed the industry for the last five or six quarters. So an example where you have a market that is well serviced with these amenities, we are still seeing above average growth in that market.

Jim Goss - *Barrington Research Associates - Analyst*

Okay. And my final question then would be, knowing that you have always incorporated M&A to a fair amount relative to your peers, does this broaden your strategy to consider more underperforming properties and that you now feel you can retrofit them in a way that can be productive by doing so?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

I'll take that. And the answer to your question is yes, I think anytime we are in a situation like we are today, as the theater box itself is evolving, we have to always take that into consideration when we look at assets that we might want to buy. So as we said earlier on the call, with the five Georgia theaters that we bought in Atlanta will provide a platform for growth in that area, I think we will always have to consider that going forward when we look at an acquisition target.

Jim Goss - *Barrington Research Associates - Analyst*

All right. Thanks to both of you.

Operator

Chad Beynon, Macquarie.

Chad Beynon - *Macquarie Research Equities - Analyst*

Thanks for taking my questions. David, I kind of wanted to ask one more on M&A, and I guess more particularly on Atlanta since we are kind of focusing on that. So given that you were able to grow share in that market through an acquisition, and that's a market where you've had significant presence in the past, and it's also a market that the DOJ was looking into I think earlier in the year with the whole clearance issue, does this kind of imply that the DOJ is I guess changing their view on some of these concentration issues, or were your acquisition -- were your theaters that you acquired just in markets that were technically in different markets? Thanks.

Amy Miles - *Regal Entertainment Group - CEO*

Chad, I'll just take it with respect to the DOJ. We didn't ever specifically state anything with respect to Atlanta and the DOJ, just for the record. But no, I would not say that the DOJ is changing how they look at our industry. We have been doing acquisitions in the industry for many years and have followed and abided by the DOJ guidelines for many years. And I would not say they are changing as we speak.

Chad Beynon - *Macquarie Research Equities - Analyst*

Okay, thanks. And then my follow up just around the number of re-seats and kind of the 2,000 screen goal, most of that, over 1,000, will be coming in 2016. Have these conversations with the landlords and kind the contribution amounts already been set, or is that something that is still kind of a work in progress?

David Ownby - *Regal Entertainment Group - EVP, CFO, Treasurer*

That number is constantly evolving. We are in conversations with a lot of landlords about participating in recliner projects, and we have been very successful, with the projects that we have done so far, at convincing landlords to participate. And I think that will only improve as landlords look around at other projects and see how successful they are.

Chad Beynon - *Macquarie Research Equities - Analyst*

Okay, thank you both very much.

Operator

This concludes our question-and-answer session. I would like to turn the floor back over to management for any closing remarks.

Amy Miles - *Regal Entertainment Group - CEO*

Thank you for joining us this afternoon, and we look forward to speaking to you again at the end of our 2015 fiscal year. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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