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RGC - Q3 2014 Regal Entertainment Group Earnings Call

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OVERVIEW:

RGC reported 3Q14 total revenues of $693.8m.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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

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Ryan Fiftal *Morgan Stanley - Analyst*

Jim Goss *Barrington Research Associates, Inc. - Analyst*

Matthew Harrigan *Wunderlich Securities, Inc. - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Manny, 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 2014 earnings release conference call with our hosts, Amy Miles, Chief Executive Officer of Regal Entertainment Group; and David Ownby, Chief Financial Officer of 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 27A of the Securities Act of 1933 as amended and Section 21E 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 annual report on Form 10-K dated February 24, 2014. All forward-looking statements are expressly qualified in their entirety by such factors.

Now I will turn the call over to Amy Miles.

Amy Miles - *Regal Entertainment Group - CEO*

Hello, everyone, and thank you for joining us this afternoon. We will cover the usual topics related to our quarterly earnings in just a moment. But first and foremost, we want to make the investment community aware that our Board of Directors has authorized the exploration of strategic alternatives to enhance shareholder value, which may include a potential sale of the Company.

While our Board has expressed great confidence in the Company's management team and its strategic plan, the combination of Regal's continued strong performance and attractive industry dynamics has led them to conclude that this is an opportune time to conduct a thorough review of our options. Commitment to delivering shareholder value has been a cornerstone of our strategy for many years, and we believe today's announcement -- along with the decoration of the sixth special dividend in the Company's history -- clearly demonstrate that commitment.

We recognize that investors and analysts will have many questions regarding this process, but we hope you understand that we are not in a position to disclose additional information at this time. Please note that we have not set a definitive timetable for completing the review; that we do not intend to provide interim updates on developments with respect to the review; and that there can be no assurance that the process will result in any specific outcome.

And, most importantly, please be aware that throughout the process our management team and field personnel will continue to execute our strategic and operational initiatives with our usual focus on maximizing free cash flow and delivering shareholder value.

With that in mind, we will now turn our attention to our third-quarter earnings. At this point much has been written and reported about the weakness in this summer's box office results. From our perspective, a difficult comparison with last year's record summer and a largely one-dimensional film slate, particularly in the month of July, were the primary drivers of the lackluster box office results for most of this year's summer season.

What has been largely overlooked by the industry and financial press is the relatively strong box office results on either side of the disappointing summer. Industry box office increases of over 9% for the first four months of 2014 and over 4% from the period from the end of July through last weekend have offset a large portion of the summer deficit and resulted in year-to-date industry box office that trails last year's record total by only 4%. With many exciting titles scheduled for release in the upcoming holiday season, we are optimistic that 2014 will mark the industry's sixth consecutive $10 billion-plus box office year.

When looking at the third-quarter industry box office on a stand-alone basis, we noted several factors that contributed to an overall decline of approximately 13%. The quarter got off to a slow start, as there was very little carryover from films released in the second quarter; and the timing of the Independence Day holiday, which fell on Friday, was not conducive to box office gross. As the quarter progressed, the top grossing films -- Marvel's Guardians of the Galaxy, Transformers 4, and Rise of the Planet of the Apes -- fared extremely well, out grossing last year's top three films by roughly $100 million.

But unfortunately, the remainder of the film slate simply couldn't compete with the breadth of successful titles released in the same period last year. In a challenging box office environment, it is imperative that our management team find ways to mitigate the impact of attendance declines. Concession per cap gross and cost control have been key elements of our success in recent years and were critical factors in maintaining our adjusted EBITDA margin this quarter.

David will provide more financial detail behind our operating results later in the call. But I want to personally thank our management team and film personnel for their consistent efforts to deliver a great customer experience in a cost-efficient manner.

As I noted earlier, commitment to delivering shareholder value has been a cornerstone of our strategy for many years. We believe that our balanced approach to capital allocation, using a portion for shareholder return and investing a portion in the growth of our business, is one of the key drivers of our long-term success. To that end, we are extremely pleased that our Board today declared a $1 special dividend along with our normal $0.22 per share recurring quarterly dividend.

Furthermore, throughout this year you have heard us highlight the industry's recent focus on improved customer amenities. At a high level, we believe that the focus on improved customer amenities will help further differentiate the theater experience from in-home content viewing platforms and ultimately have a positive impact on the industry box office environment.

Furthermore, at a tactical level we believe that our sizable, geographically diverse asset base provides numerous opportunities for success with a variety of customer amenities. As always, we will approach and prioritize these opportunities based solely on our assessment of their return on investment potential, following our few brief updates regarding the premium initiatives which have outlined in our previous earnings calls.

Our IMAX and RPX screens continue to generate meaningful, low-risk returns. We added a total of eight large-format screens during the third quarter and should end 2014 with almost 175 large-format screens. This allows us to offer a premium experience to customers in practically all of our key markets.

At the concession stand our expanded food menu, available at 119 locations, added $0.03 to our overall concession per cap. And we introduced alcoholic average offerings at additional four locations during the third quarter. These initiatives require very little upfront capital investment, and we expect to expand both offerings to additional sites during the remainder of 2014 and into 2015.

And finally, the returns on our initial investment in luxury reclining seats are very promising, and we are on track to complete about 25 locations and approximately 300 screens by the end of this year. Based on the success of these auditoriums, we believe we will have further opportunities to invest in our existing asset base in the near future; and at a minimum, we expect to install luxury recliners in another 300 to 350 screens in 2015. We remain excited about the potential for growth and financial returns associated with these initiatives and look forward to updating you as they progress.

Finally, looking ahead to the upcoming film slate, the fourth quarter is off to a great start. Industry box office revenue is up almost 15% as compared to the same period last year, primarily due to the success of Gone Girl and a diverse offering of films for all audiences.

Prior-year comparisons should be more manageable for the upcoming holiday season, and we are optimistic that a film slate headlined by The Hunger Games and Hobbit franchises; Disney's first Marvel-inspired animated film, Big Hero 6; and Interstellar from director Christopher Nolan can help the industry end 2014 on a positive note. And like others in the industry and the investment community, we are extremely excited about the lineup of films currently scheduled for 2015 and 2016 as well as our studio's commitment to theatrical content, as evidenced by their announcements of release dates for the next several years.

With those factors in mind, we remain optimistic regarding the potential for box office success for the remainder of this year and well into the future. In summary, despite the challenging summer box office season, we are pleased that our strategic and operational execution again put us in a position to deliver meaningful value to our shareholders in the form of a special dividend.

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

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

Thanks, Amy, and good afternoon, everyone. For the next few minutes I will provide a brief analysis of our third-quarter results and an update with respect to our balance sheet and asset base.

For our fiscal third quarter we generated total revenues of $693.8 million, including $461.1 million of box office revenue, $194.5 million of concession sales, and $38.2 million of other operating revenue. Our admissions revenue for the quarter declined by just under 16% as a result of an 18.6% decline in attendance, partially offset by a 3.2% increase in our average ticket price.

Both routine price adjustments and the rebound in premium ticket sales contributed to the increase in our average ticket price. Our concession revenue decreased by just over 13% in the aggregate as a result of the previously mentioned decline in attendance, partially offset by a 6.7% increase in our concession per caps. Strategic pricing increases, improvements in popcorn and beverage volume, and the continued success of our expanded food menu all contributed to the increase and helped us achieve highest quarterly concession per cap in our history and the highest per cap growth rate in the last seven years.

Other operating revenues fell by $2.4 million as compared to the same period last year, as revenues from our vendor marketing programs, in-theater arcade games, and our advanced ticket programs were all impacted by the attendance decline during the quarter. Our film and advertising expense of $244.7 million represented 53.1% of admissions revenue, an increase of 80 basis points as compared to the same period last year.

A film slate that was dominated by three high-grossing films that accounted for almost a third of total industry box office revenue and a slight increase in advertising costs were the primary drivers of the increase. When viewed from a historical perspective, this quarter's film and advertising cost percentage is in line with the average for the last several years.

Our 86.8% concession margin improved by 40 basis points as compared to the same period last year, as minor increases in raw material costs were more than offset by strategic price increases and an increase in the amount of vendor marketing revenue recorded as a reduction of cost of concessions. Total rent expense of $104.5 million decreased 1.1% in the aggregate, due primarily to a decrease in contingent rent associated with the decline in our quarterly admissions and concessions revenue.

And as Amy mentioned earlier, our operational execution continued to have a positive impact on our operating results, as total other operating expenses of $188.2 million declined by almost 10% or $20.5 million in the aggregate. Please note that roughly three-fourths of the reduction relates specifically to the successful appeal and ultimate refund of $16.8 million in sales taxes previously paid in expense between 2008 and 2012. While analysts and investors should consider this refund a one-time event for modeling purposes, we believe it clearly demonstrates our entire organization's focus on efficient operations. Excluding this amount, other operating expenses declined by just under 2%, due primarily to decreases in attendance-driven theater-level costs.

While the quarter was disappointing from a revenue standpoint as compared to the same period last year, we are pleased that the healthy increase in our concession per cap and our operational executions helped mitigate the impact of lower attendance and enabled us to generate adjusted EBITDA and adjusted earnings per share ahead of consensus Wall Street estimates.

As for our asset base and our balance sheet, capital expenditures net of asset sales for the quarter totaled $39.3 million, and we continued to actively manage our asset base, opening two theaters with 23 screens and closing three theaters with 25 screens to end the quarter with 573 theaters and 7,347 screens.

With the end of the year in sight, we still expect full-year capital expenditures to be approximately $125 million. In the fourth quarter we expect to open five to six newbuild theaters with 55 to 65 screens and close four to five theaters with 30 to 40 screens, which would result in ending counts of approximately 574 theaters and 7,372 screens for 2014.

And with respect to the balance sheet, we ended the quarter with approximately $244 million in cash and just under $2.4 billion in debt. Finally, I'll take just a moment to put some numbers behind Amy's comments about our commitment to delivering shareholder value.

Including the dividend declared today, we have returned $26.70 per share in cash to shareholders since our public offering in 2002. With those dividends reinvested, the average annual total return on our shares in the last 12 years is 12.5%, well ahead of the S&P 500 for that same time period. We are obviously pleased with these results and believe they clearly demonstrate that our balanced approach to capital allocation produces meaningful returns for shareholders in the long-term.

In closing, given the box office environment we were again pleased with our strategic and operational execution during the quarter and remain excited about the opportunity to further enhance the customer experience and the potential for box office success with the remainder of 2014 and beyond. As a reminder, please understand that we are not in a position to disclose further information about our expiration of strategic alternatives discussed at the beginning of the call.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ben Mogil, Stifel.

Ben Mogil - *Stifel Nicolaus - Analyst*

Obviously, the elephant in the room is off the table, which I understand and respect.

In terms of the box office performance, it looks like it was a little bit below the industry benchmark. Am I right in saying that? Maybe you can talk a little bit about what you were seeing in the quarter vis-a-vis your particular assets.

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

Ben, yes, you are correct; we were a little bit behind the industry for the quarter. And you've heard us talk about a number of things that kind of impact that over time. Geography here was probably a little bit less of a factor than it has been the last couple times we've had this conversation over the last couple of years.

Still some box office weakness a little bit up in the Northeast. On the flipside, the Pacific Northwest was pretty strong. So net-net, geography was not a big factor for us.

You've heard us say before that the industry's recent focus on customer amenity -- with the industry's recent focus on customer amenities, we are seeing a level of reinvestment in both newbuilds and existing asset that we haven't seen in several years. It's not an unhealthy level of investment, mind you; but higher, maybe, than those years after the credit crisis.

And anytime we see that uptick in investment, we would expect there to be some short-term impacts on market share. And we definitely saw some of that this quarter. A lot of that, Ben, is simply timing. For example, most of our newbuild projects this year are going to open the fourth quarter. And so you really won't see the market share impact of those until early next year.

And, Ben, we pay attention to these short-term changes in market share and try to understand the drivers of them just like you do. But as we plan our strategy, we are always going to focus on maintaining and growing our market share and, more importantly, our cash flow over the long-term. We have done that historically. If you look at the last 12 quarters or so, we have over-indexed the industry an equal number of times as when we under-indexed the industry. And as Amy mentioned in the prepared remarks, we believe we have the best asset base and the best balance sheet to continue investing in our business and growing our market share and our cash flow over time.

Ben Mogil - *Stifel Nicolaus - Analyst*

Okay. And just sort of on the side -- am I right that the underperformance was about 200 bps? Is that similar to what you guys calculate?

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

Yes, it's in that neighborhood. That's right.

Ben Mogil - *Stifel Nicolaus - Analyst*

Okay. And flipping over to the go-forward, as you go through your strategic review, is M&A, even albeit small M&A, off the table? Or can you do both processes at the same time?

Amy Miles - *Regal Entertainment Group - CEO*

You know, I think at this point we are not going to comment on how that process will evolve. But I think if you think about it, business as usual, M&A will remain a key part of our strategy.

Ben Mogil - *Stifel Nicolaus - Analyst*

Okay, okay. I think that's it. Great. Thank you very much, guys.

Operator

Eric Handler of MKM Partners.

Eric Handler - *MKM Partners - Analyst*

So two things -- first, when you adjust for the special dividend, your leverage now is pretty much around 4 time, based on my calculations. So you've always talked about making acquisitions. So given you are in a strategic review, how do we think about what you are willing to do from a leverage perspective?

And, secondly, I know you want to be careful about what it is you say. But can you disclose whether or not you have been approached at this point, or is this something you want to explore?

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

I'll take the first one, Eric. I think from a leverage perspective, obviously, Amy said it will be business as usual; and we will still think about leverage the exact same way. We will be comfortable kind of in that 3 to 4 times net debt to EBITDA range.

I think you've heard us say before that if we see something out there that's very attractive, we might be willing to go outside that to get to it. But we want to have a path to get back inside that 3 to 4 times range pretty quickly.

Amy Miles - *Regal Entertainment Group - CEO*

And Eric, just with respect to the second half of your question, I think that starts to enter into a disclosure that wasn't in the press release. And we just wouldn't be prepared to discuss that today.

Eric Handler - *MKM Partners - Analyst*

Okay. Thank you very much.

Operator

James Marsh of Piper Jaffray.

James Marsh - *Piper Jaffray & Co. - Analyst*

I was just hoping you could provide a little bit more color on the news, I guess, a couple weeks back that IMAX and Weinstein and Netflix with thinking about doing a direct-to-Netflix release of Crouching Tiger and also wanted to show it on IMAX screens. And I guess it was clear that the industry largely reject the option to play it in theaters.

But I want to get a better idea just, really, who controls the programming on these screens? And how do you resolve a situation, when maybe IMAX wants to show something that you guys are less eager to air? And then, it was also just interesting -- what was IMAX's pitch to you guys when they proposed this? It's a little unclear to me.

Amy Miles - *Regal Entertainment Group - CEO*

Yes. I'll try to make sure I hit most of the highlights of your questions there, James. With respect to IMAX's pitch, as they are looking at certain strategies, if you approach Regal with a day-and-date strategy, I think our position on that type of programming is clear. And I think we have been consistent over the past three or four years, regardless of when we are approached by a third party as it relates to a day-and-date release.

We just think there's better programming from our screens, and we're going to continue down that path. So I wouldn't really say there was a big pitch, because our position is widely known, I would say.

And I'm sorry. Help me to make sure that I follow up. What was the rest of your question there?

James Marsh - *Piper Jaffray & Co. - Analyst*

The initial part of the question relates to who controls the programming of the IMAX screens in your circuit, and then how do you resolve it if there's a discrepancy between --

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Amy Miles - *Regal Entertainment Group - CEO*

Obviously, it's a partnership from that perspective. A lot of times, as you think about just the normal give-and-take with booking the IMAX screens, I would characterize that more mutual. We clearly felt comfortable in a situation where we felt like content kind of violated one of our policies to firmly state we wouldn't play it.

James Marsh - *Piper Jaffray & Co. - Analyst*

Okay. All right, understood. Thanks very much.

Operator

Townsend Buckles of JPMorgan.

Townsend Buckles - *JPMorgan - Analyst*

Amy, you emphasized a promising outlook for the box office in the coming years. I'm just wondering if you can elaborate at all about the timing and motivations to engage in the strategic review now.

I know you don't want to talk a lot about it, but I think you mentioned industry dynamics as a factor. If you can give any more color on that?

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Amy Miles - *Regal Entertainment Group - CEO*

Yes, I don't think so. I mean, I think if you just sit here today and look at the disclosures we've made, we talked about it in two buckets. One, we talked about strong performance from the Company's perspective. And we also talked about attractive industry dynamics.

So I think where we sit today, both of those factors exist. And that's really the basis of our timing. But to nuance that any further probably wouldn't be appropriate.

Townsend Buckles - *JPMorgan - Analyst*

So could we, I guess, assume at all that your primary shareholder would be the driver of this decision?

Amy Miles - *Regal Entertainment Group - CEO*

I think with respect to how you are thinking about this decision, we've announced in a lot of different calls, maybe more on the capital allocation side, how our Board constantly looks at strategic opportunities and strategic alternatives. That case exists here. This is not any different than the process that our Board has executed over the past several years.

Now, the answer may be a little bit different today, but the process hasn't changed. The only thing I could say with respect to the Anschutz Company is they are supportive of the process. But this is a Regal Board process.

Townsend Buckles - *JPMorgan - Analyst*

Got it. And then just -- on another note, on the box office performance lagging the industry a bit again this past quarter, it sounds like the competitive environment is a bit tougher. Would you consider accelerating your base of re-seatings, or expanded concessions, or other ways you feel like you can improve your performance versus the industry?

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

We will constantly review our capital allocation process and constantly look at what our opportunities are to invest in our business. And as Amy mentioned, and I think you heard her stress, that we felt like we would do a minimum of 350 recliner screens next year.

And as we think about the timing of those, as we go into next year, we will certainly be looking to frontload that as much as we possibly can and potentially do more than that.

Townsend Buckles - *JPMorgan - Analyst*

And should we think about your CapEx any differently next year, David?

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

We will give further guidance on that on the next call, Townsend. I wouldn't expect it to increase dramatically. We are getting good landlord participation in a lot of the recliner deals, so I wouldn't expect that to be off the charts anywhere. But like I said, we will give more guidance on that on the fourth-quarter call.

Townsend Buckles - *JPMorgan - Analyst*

Okay. Thanks.

Operator

Barton Crockett of FBR Capital.

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

I understand there's an elephant in the room, but -- and I don't want to violate your feeling that we can't discuss it too directly, but I want to see how close we can get to it. So to that end, without talking specifically about your process but asking your view of the industry, do you see room for consolidation among the top three theater chains? Or would that be pretty impractical from an antitrust and divestiture perspective, from your view?

Amy Miles - *Regal Entertainment Group - CEO*

We have always felt like consolidation and accretive acquisitions were a good way to grow our business. And we've also talked about -- if you exclude a combination of kind of the big four or five, where typically we have been able to execute accretive acquisitions at appropriate multiples, that that kind of opportunity was somewhere around 2,500 to 3,000 screens. I'm going to stick with that today. But again, we would view the world with that perspective, and that hasn't changed.

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

Okay, maybe to say it another way -- and what would you say is your overlap on a DMA or a competitive market perspective with Cinemark and with AMC?

Amy Miles - *Regal Entertainment Group - CEO*

That's not something where we would comment from that respective. That's a very nuanced discussion, and it wouldn't probably be appropriate to have that here.

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

Okay, all right. Then shifting gears just slightly, from a strategic perspective, do you think that there is potentially something interesting in the combination of a theater company with someone in a related business or from a different geography? We note that Wanda is an owner of AMC. Do you think there's scope for inter-industry or inter- kind of country combinations that could create incremental value?

Amy Miles - *Regal Entertainment Group - CEO*

Barton, I think these are all questions that are getting around the process. And again, that's just not something -- we've already stated what we are going to discuss with respect to the process. So I just don't have anything to further comment here.

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

Okay. I think I got as close as I can to the elephant.

Standing back just a little bit -- or completely just running away from that -- just talking about the fourth quarter: you guys have an extra week. Could you give us your sense of how we should think about the contribution of the extra week on an accounting basis for your fourth quarter?

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

I'll just give you some historical perspective. The last time we did this, we had a 53rd week, was in 2008. In that particular year that one week accounted for about 5% of our regular 52-week attendance.

So, obviously, we have a few more screens now than we did back then. I think back then it was kind of that 9 million to 10 million attendee range. So you can probably think about that week in a similar manner.

Again, that will be impacted by how the individual films perform. But assuming that is pretty consistent period over period, then I think you can think about it in that same range.

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

Okay, that's great. Thank you very much.

Operator

Robert Fishman of MoffettNathanson.

Robert Fishman - *MoffettNathanson LLC - Analyst*

The first question is: how do you think Hollywood, in all the different studios that you have strong relationships there -- how do you think they are going to respond to this announcement? Do you think there's going to be any potential impact on your future film rental cost negotiations during this period of uncertainty?

Amy Miles - *Regal Entertainment Group - CEO*

We are not going to speculate on the reactions of others with respect to the announcement. That doesn't seem appropriate.

Robert Fishman - *MoffettNathanson LLC - Analyst*

Okay, fair enough. So then maybe one on Netflix, if I can. If another theater chain ends up breaking rank and ends up playing Crouching Tiger or one of the Adam Sandler movies, do you think this is a potential negative sign for the US industry -- that windows can start to shorten? Or you would just see that as a one-off anomaly?

Amy Miles - *Regal Entertainment Group - CEO*

I guess it depends, but I think my answer there was probably that's more of a one-off anomaly. I think the industry to date has been pretty clear with respect to each company's position, and the only one that I can answer for is Regal. And I can tell you that our perspective will remain unchanged.

Robert Fishman - *MoffettNathanson LLC - Analyst*

Thank you very much.

Operator

Ryan Fiftal of Morgan Stanley.

Ryan Fiftal - *Morgan Stanley - Analyst*

I understand if you are limited on what you can say. But aside from the sale, is there anything else in the strategic landscape that you guys have thought about being attractive over the last couple of years? I know REIT conversions have been bounced around in a number of different industries. Is there anything else along those lines that you have been considering?

Amy Miles - *Regal Entertainment Group - CEO*

Well, clearly in the announcement today we indicated that a potential sale may be one of the strategic alternatives that are pursued. But we also indicated that the Board had approved the evaluation of strategic alternatives. Plural. So to speculate on what those may be -- I'm not going to do that today. But clearly, we have disclosed that the exploration includes items potentially other than a sale.

Ryan Fiftal - *Morgan Stanley - Analyst*

Okay, thanks. And then on the luxury seating initiative, the decision to accelerate that going into next year, can you talk about what was the basis for that? Is that -- you are seeing early returns on your initial investment, or maybe you are seeing the effect that other competitors are having and the returns they are earning?

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

I think we view that more just as an opportunity, Ryan. The early sites that we've done have performed extremely well. We'd had a lot of landlords step up and want to participate in the process with their dollars, which helps our return. And I think those dynamics are really what is -- that's what's driving us to look for more opportunities in our asset base.

Ryan Fiftal - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Jim Goss of Barrington Research.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

I've got a couple, also. One, sort of tying into the last item about the seating initiative, I was wondering if you could describe whether you think, to this point, you have determined that the seating initiative is more or less important than the food and beverage initiatives? Or can they not be really separated out? Which of the initiatives seems to have the greatest potential benefits from your experience to date?

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

Jim, I think they are complementary to each other. I don't mean that to say that a theater that has one has the other, but I do mean that to say that in some theaters, recliners are going to be the best answer. In some other theaters, the expanded food and perhaps alcohol may be the best answer.

And we will evaluate those strategies independently of each other. The food and beverage strategy is very low cost and easy to execute. We can do that relatively quickly. Obviously, the recliners take a little bit of time and a little bit more investment. But the returns on both have been very good for us, and we will look to continue to execute both.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

Is it safe to presume that all these initiatives are really concentrated in your larger markets -- that now that you've gotten into a greater share of smaller markets, that that's really not an effective way to negotiate in the smaller markets?

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

Not necessarily, Jim. We've seen customers in all different size and all different types of markets respond to these initiatives. So we're going to, as always, go where we think the best return is.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

All right, now, the last thing -- are you considering more IMAX-RPX combos, to the extent that IMAX can draw additional customers but maybe constrained in certain periods where they don't have the same type of content, and RPX has free reign that way? Is this a strategy you might pursue more frequently?

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

You know, Jim, that's a situation we have in a handful of locations now. And to the extent that we have buildings where that makes sense -- by that, I mean that they have two very nice, large presentation auditoriums, then that's something that we will consider. I wouldn't say it would be the norm for us going forward.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

All right, thanks.

Operator

Matthew Harrigan of Wunderlich.

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

I guess I'll refrain from asking you a Dumbo question, although I'm very tempted. When you look at alternative entertainment in Fathom, can you talk about -- are you getting relatively more optimistic on that? And given the operating leverage, even a little bursts of couple percentage points of attendance could make a difference? Or do you remain fairly guarded, relative to some other guys in the industry?

Amy Miles - *Regal Entertainment Group - CEO*

I think, Matthew, we are more optimistic today. And a lot of that is driven probably by some of the work that we have been executing over the past three or four months. Again, we have put a new CEO in place, an individual that has experience in the content area. And he is working on a business plan today that I think it gives a lot of us that are investors in Fathom higher hope for the future.

Again, we will have to see what those -- what the actual results are over time. But I would say at this point we're much more optimistic.

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

Thanks, Amy.

Operator

Thank you. I would now like to turn the floor back over to management for any additional or closing remarks.

Amy Miles - *Regal Entertainment Group - CEO*

Thank you again for dialing in today. And we will look forward to speaking with everyone at the close of our 2014 fiscal year. Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and thank you for your participation.