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RGC - Q2 2013 Regal Entertainment Group Earnings Conference Call

EVENT DATE/TIME: JULY 25, 2013 / 8:30PM GMT

## OVERVIEW:

Co. reported 2Q13 total revenues of \$842.3m.



## CORPORATE PARTICIPANTS

**Amy Miles** *Regal Entertainment Group - CEO*

**David Ownby** *Regal Entertainment Group - CFO*

## CONFERENCE CALL PARTICIPANTS

**Ben Mogil** *Stifel Nicolaus - Analyst*

**Eric Handler** *MKM Partners - Analyst*

**Townsend Buckles** *JPMorgan Chase & Co. - Analyst*

**Barton Crockett** *Lazard Capital Markets - Analyst*

**Stan Meyers** *Piper Jaffray - Analyst*

**Tony Wible** *Janney Montgomery Scott - Analyst*

**Matthew Harrigan** *Wunderlich Securities - Analyst*

**Jim Goss** *Barrington Research Associates - Analyst*

## PRESENTATION

### Operator

Good afternoon. My name is Christian, and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Regal Entertainment Group fiscal second quarter 2013 earnings release conference call with our host, 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 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 risk 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 25, 2013. All forward-looking statements are expressly qualified in their entirety by such factors.

Now I will turn the call over to Amy Miles.

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### **Amy Miles** - *Regal Entertainment Group - CEO*

Good afternoon, and thank you for joining in to our second quarter conference call. First and foremost, we are extremely pleased to report that the combination of a robust second quarter box office, the full integration of our recent acquisition, and our focus on managing the variable portion of our cost structure, enabled us to generate the highest quarterly revenue and adjusted EBITDA in our history. Industry box office receipts for our second fiscal quarter increased approximately 8% versus the same period last year. A string of big budget summer action movies headlined by Iron Man 3, Fast & Furious 6, and Man Of Steel helped push industry box office revenue to almost \$3 billion, a new record for the second quarter.

In total eleven films released during the quarter went on to gross over \$100 million, as compared to only six films in the same period last year. We will highlight some of the key components of the film slate for the back half of 2013 later in the call, but it is worth noting that the industry box office deficit of almost \$240 million created by the difficult comps in the first quarter has been completely erased by the increases we have experienced in the last four months. At just over \$6.5 billion year-to-date industry box office revenue is now slightly ahead of last year's total.



In addition to the healthy box office environment, we were also pleased that our recent acquisitions are already having a meaningful impact on our market share and financial results. The combined impact of the industry box office increase, and our acquisition of over 800 screens in the last 12 months led to a \$119 million increase in total revenue. The largest quarter-over-quarter increase for us in almost 10 years. As we consider potential uses of our cash and financial flexibility, we continue to believe that strategic acquisitions at accretive multiples are a great way to deliver ongoing shareholder value, and we remain optimistic regarding the potential for further industry consolidation.

From an operational standpoint our field personnel's ability to provide a great customer experience while keeping a close watch on our cost structure was again a key part of our success. Both at our existing as well as our newly acquired locations. Their attention to detail combined with the increase in industry box office revenue helped us achieve record adjusted EBITDA of over \$178 million, and our second highest adjusted EBITDA margin in the last five years. David will provide more financial detail behind our operating results later in the call, but I think it goes without saying that we are again extremely pleased with our operational execution.

In previous quarters we have outlined our efforts to bring a Premium Experience to a larger portion of our customer base, and today we would like to take a few moments to provide investors with an update regarding the impact of those efforts. Our 123 premium screens operating under the IMAX and RPX brands benefited from the success of big budget action films during the second quarter, generating box office per screen growth of approximately 19%. This is over twice the growth rate of our traditional screens. The product driven success of our IMAX screens and our growing portfolio of RPX screens allowed us to offer a premium auditorium in almost all major markets, and we are excited about the opportunity to add premium screens at key newly acquired theaters in the near future.

Our expanded food menu continued to gain attraction with customers, and has accounted for under a penny of the \$0.11 increase in our concession per cap this quarter. The success of the new menu combined with continued increases in the demand for our core concession products, helped us achieve a quarterly concession per cap of \$3.66. This is the highest quarterly total in our history. With these and other initiatives including the widespread availability of mobile ticketing, and experiments with luxury seating, it is easy to see that some form of Premium Experience is available to practically all of our customers. We are obviously pleased with the incremental revenue and returns from our investment in the Premium Experience, and we expect these programs to benefit our results for the remainder of 2013 and beyond.

As far as the box office environment, despite a difficult comparison with a record July in 2012, industry box office revenues for the first three and a half weeks of our fiscal third quarter grew by just over 2% as compared to the same period last year, on the strength of *Despicable Me 2*, and the carryover from a number of titles released late in our second quarter. While the July box office will ultimately account for a large part of the quarter's results, the titles scheduled for release in the coming weeks including *Wolverine*, *The Smurfs 2*, *Elysium*, *We're the Millers*, and *Kick Ass 2*, should contribute to box office success as the summer movie season comes to a close. Last year's holiday box office provided a great end to fiscal 2012, and the film slate for the upcoming fourth quarter has the potential to do the same for 2013.

As was the case last year, the slate is anchored by three high profile pictures, well spaced throughout the quarter, *Thor - The Dark World*, *The Hunger Games - Catching Fire*, and the second chapter of Peter Jackson's *The Hobbit*, complemented by a wide variety of films for many different audiences. With these factors in mind, we are optimistic regarding the potential for box office success for the remainder of this year.

In summary, we are again extremely pleased that a healthy box office environment, combined with our recent acquisitions, and our operational execution, enabled us to achieve record results this quarter. I would now like to turn the presentation over to David for a discussion of our financial performance.

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**David Ownby** - *Regal Entertainment Group - CFO*

Good afternoon everyone. Today I will provide some additional analysis of our second quarter results, and an update with respect to our balance sheet and asset base. For our fiscal second quarter, we generated total revenues of \$842.3 million, including \$571 million of box office revenue, \$227.7 million of concession sales, and \$43.6 million of other operating revenue.

Our recent acquisitions of Great Escape Theaters and Hollywood Theaters had a significant positive impact of our market share in the second quarter, as our box office revenue grew by over 15% in the aggregate, as compared to an 8% increase in the industry. The increase was largely

driven by attendance growth at both existing locations, and as a result of our newly-acquired screens, and a decline in the percentage of our revenue generated by premium ticket sales, and slightly lower ticket prices at the acquired locations put downward pressure on our average ticket price, which grew by only 0.7% to \$9.17.

On a pro forma basis the increase in our per screen box office revenue was in line with the industry growth rate. Our concession revenue increased by 18.2% in the aggregate, and by \$0.11 or 3.1% on a per attendee basis. Strategic price increases, improvements in popcorn and beverage volume, and the continued success of our expanded food menu all contributed to the increase, and helped drive the highest quarterly concession per cap in our history.

Other operating revenues increased \$7.6 million as compared to the same period last year, as revenues from National CineMedia, our vendor marketing programs, and our advanced ticket programs, all benefited from increased attendance during the quarter. While we are always pleased to see improvements in the top line, it is incumbent on our management team and field personnel to make sure increased revenue translates into increased adjusted EBITDA and free cash flow, particularly as we integrate acquired screens into our existing circuit.

Once again, we were extremely pleased with our operational execution during the second quarter. Our film and advertising expense of \$309.9 million represented 54.3% of admissions revenue, an increase of 70 basis points as compared to the same period last year, and slightly above our historical second quarter average. The overall increase in industry box office was the primary driver of the increase. Our 86.2% concession margin fell by 30 basis points as compared to the same period last year, due primarily to minor increases in raw material and packaged good costs, and a minor shift in the mix of products sold at the concession stand.

Total rent expense of \$104.6 million increased 9.8% in the aggregate due primarily to the additional rent associated with the newly-acquired Great Escape and Hollywood screens. On a per screen basis, our rent expense declined by approximately 2% as compared with the same period last year, due to slightly lower rent amounts associated with the acquired theaters and screens. And as Amy mentioned earlier, our field personnel's focus on cost control continued to have a positive impact on our operating results.

Total other operating expenses of \$205.4 million increased by 11.6% in the aggregate, due again to the cost associated with the newly acquired screens, but remained essentially flat on a per screen basis as compared to the second quarter of last year. Once again our field personnel's ability to control variable costs while still delivering a great customer experience, and a meaningful increase our concession per caps, was a key driver of our success in the second quarter. We are extremely pleased that a healthy box office environment, our recent acquisitions, and our operational execution all had a positive impact on our second quarter financial results, and enabled us to generate total revenue, adjusted EBITDA and adjusted earnings per share that were ahead of consensus Wall Street estimates.

As for our asset base and balance sheet, capital expenditures net of asset sales for the quarter totaled \$24.1 million. In addition to the Hollywood acquisition, we continued to actively manage our asset base closing three theaters with 26 screens, to end the quarter with 577 theaters and 7,343 screens. Based on our development schedule and outlook for the remainder of 2013, we still expect full year capital expenditures to be between \$100 million and \$115 million. And with the Hollywood locations as part of our asset base, we now expect depreciation expense to be between \$51 million and \$53 million in the third and fourth quarters. In the back half of the year, we expect to open six to eight new build theaters with 70 to 100 screens, and close three to five theaters with 20 to 40 screens, which would result in ending counts of approximately 580 theaters and 7,398 screens for 2013.

With respect to the balance sheet, we ended the quarter with \$291 million in cash, and a total debt balance of approximately \$2.3 billion. The growth in our adjusted EBITDA has had a positive impact on our leverage calculation, and as of the end of the quarter our overall leverage ratio was 3.3 times pro forma for the Great Escape and Hollywood acquisitions. In mid-April we took advantage of historically low rates in the leveraged loan market, and successfully amended our senior credit facility providing for a 50 basis point reduction in the LIBOR based interest rate applicable to our \$1 billion term loan. And later in the quarter, we accessed the high yield market to refinance a portion of our 9.125% Regal Entertainment Group senior notes, with a new issuance of 5.75% Regal Entertainment Group senior notes.

We were extremely pleased with the outcome of both transactions, and collectively we expect them to generate annual cash interest savings of approximately \$10 million. With our current capital structure and interest rate swap portfolio, and including the capital leases assumed in the



Hollywood acquisition, we now expect our interest expense to be approximately \$35 million in the third and fourth quarters. We are extremely pleased with our recent strategic and operational execution, and we remain optimistic regarding the potential for box office success for the remainder of 2013.

This concludes our prepared remarks, and we will now open the lines for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Our first question comes from the line of Ben Mogil with Stifel Nicolaus. Please proceed with your question, your line is live.

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### Ben Mogil - Stifel Nicolaus - Analyst

Good afternoon. Thank you for taking my question. On the average ticket price and thank you for the proformas for a whole bunch of the metrics. On the average ticket price, what would it be excluding the acquisition, what was the legacy Regal circuit looking like?

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### David Ownby - Regal Entertainment Group - CFO

Ben, a good question. If you exclude the acquisitions I think that our average ticket price was up about 1.9%, and again there is still some downward pressure on that, because we had a lower percentage of premium ticket sales. If you just look at our 2D ticket price for the core circuit, for the existing circuit kind of the same store number, our 2D price was actually up about 2.9%.

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### Ben Mogil - Stifel Nicolaus - Analyst

So it was really a mix shift actually brought it back down to the 1.9%?

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### David Ownby - Regal Entertainment Group - CFO

That is correct.

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### Ben Mogil - Stifel Nicolaus - Analyst

Okay. And can you give what the contribution in the quarter was from premium?

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### David Ownby - Regal Entertainment Group - CFO

In Q2 of last year I think about 23% of our box office was premium, and this quarter that number was 20.5%.

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### Ben Mogil - Stifel Nicolaus - Analyst

And then moving to a bit of a broader question, obviously this has been a year where there has been a lot of scheduling casualties from the studios scheduling. Are you getting any sense when you talk to them that there is, sort of everyone is finding this was not the optimal way to go, and that there is once again a search for more release dates, or are we not quite there yet?

**Amy Miles** - *Regal Entertainment Group - CEO*

Thank you. You have to think a lot of times these release dates are put in place many years before, or way in advance is a better way to say that. The quarter if you think about it from May until, let's think about the summer season in the aggregate starting that first week in May until today, the box office is up give or take double-digits. So I think that from our perspective, it has been a great summer season.

Now in fairness we have had weekends where you had a series of films opening up that were probably competing for the same audience on an opening weekend, so from our perspective the years that we think are the best are years where you have a lot of depth in the film slate, so something for everyone, and those are spaced out in a way that you are not always competing, films are not competing for the same audience, you probably got some of that this summer, but I think that when we step back from it we are still up that double-digit increase. Hard to say that has been a negative, but going forward for a lot of years, it is hard to forecast the scheduling. But as we look at the back half of fiscal 2013, it looks better.

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**David Ownby** - *Regal Entertainment Group - CFO*

And I do think Ben, you continue to see the studios try to stretch the schedule just a little bit, for example, this year Oblivion coming out in mid-April, which tried to stretch the beginning of the summer season, and the back half of the year, Elysium coming out in mid-August again, maybe just stretching the season a little bit longer than it normally is.

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**Ben Mogil** - *Stifel Nicolaus - Analyst*

That sounds great. And then last question and I will let someone else in from the queue. Without naming names from an M&A perspective, are you seeing the flood of deals that got done by you, and by Carmike, and by Cinemark in the first half of the year, are you seeing that bring more people to the table because there are sort of a whole bunch of benchmarks of assets that have been sold, or was that sort of a wave on to itself, and now we get to the middle of the traditional lull period?

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**David Ownby** - *Regal Entertainment Group - CFO*

Ben, there are still some things out there in the marketplace for sale, so I would continue to classify the market as somewhat active. We will see how long it takes some of those deals to materialize, and how that looks for the rest of this year. We would definitely still classify the M&A market as active, and that we still believe there are good factors there that should continue to drive that going forward.

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**Ben Mogil** - *Stifel Nicolaus - Analyst*

That is great. Thank you very much.

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**David Ownby** - *Regal Entertainment Group - CFO*

Thanks, Ben.

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**Operator**

Thank you. Our next question comes from the line of Eric Handler with MKM Partners.

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**Eric Handler** - MKM Partners - Analyst

Yes, thanks for taking my question. With regard to some of your premium business, can you update us on the number of RPX screens that you currently have open, where that might go, and also now that you have had a little time with some of the RPX screens, if you can describe how some of those theaters where you have done the upgrade, how they are performing on the RPX screen versus prior traditional screen?

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**David Ownby** - Regal Entertainment Group - CFO

Eric, I will take the screen counts. At the end of the quarter we had 77 IMAX screens, and we had 46 RPX screens, and I believe we are going to get to about 60 RPX screens give or take by the end of this year, so that roll-out continues, and our commitment with IMAX is for 89 screens, and that rollout will happen over the next couple of years. The best thing I can tell you about the performance particularly on the RPX screens, is that we continue to roll those out and be excited about the opportunities that are afforded by those screens, and so far we have been extremely pleased with the performance there.

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**Amy Miles** - Regal Entertainment Group - CEO

And I guess this maybe helps a little bit with, we always target a 20% return on these investments and we are seeing greater than that with the capital that we are investing on the RPX side, even though we hope to get to that number of 60 that David quoted for this year, we have identified give or take right at 100 auditoriums today, where we believe the RPX makes sense. That is at a minimum where we are targeting to go, I am just going to say here in the near term, I would define that as the next couple of years.

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**Eric Handler** - MKM Partners - Analyst

Is every new theater being built including an RPX or IMAX screen?

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**Amy Miles** - Regal Entertainment Group - CEO

It sure is.

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**Eric Handler** - MKM Partners - Analyst

Thank you very much.

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**David Ownby** - Regal Entertainment Group - CFO

Thanks Eric.

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**Operator**

Thank you. Our next question comes from the line of Townsend Buckles with JPMorgan Chase & Company. Your line is live.

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**Townsend Buckles** - JPMorgan Chase & Co. - Analyst

Can you give the like-for-like concession per cap growth in the quarter to adjust for the acquisitions, it sounds like it was pretty high, and did the acquisitions have any notable impact on margins?



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**David Ownby** - *Regal Entertainment Group - CFO*

Townsend, I am sorry, we missed the first part of that, I think that you got cut off. Could you just start again?

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**Townsend Buckles** - *JPMorgan Chase & Co. - Analyst*

Sure. The like-for-like growth on concessions per cap in the quarter, sounds like it was pretty high with 3% just on a reported basis?

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**David Ownby** - *Regal Entertainment Group - CFO*

Yes. The same store number is essentially that same number.

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**Townsend Buckles** - *JPMorgan Chase & Co. - Analyst*

Okay. And did the acquisitions have any notable impact on margins?

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**David Ownby** - *Regal Entertainment Group - CFO*

Are you talking concession margins or EBITDA margins?

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**Townsend Buckles** - *JPMorgan Chase & Co. - Analyst*

Total company margins.

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**David Ownby** - *Regal Entertainment Group - CFO*

What is good about that is particularly the Hollywood theaters. Some of those theatres have capital leases on them, so if you are looking purely at P&L from an EBITDA perspective, the Hollywood Theaters actually have a pretty high margin. They actually helped the margin a little bit, just given the relatively small number of screens in the overall base, but they have a very high margin, because a lot of those theatres, the rent goes to interest expense as opposed to rent expense.

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**Townsend Buckles** - *JPMorgan Chase & Co. - Analyst*

Can you quantify that at all, as we think about it going forward?

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**David Ownby** - *Regal Entertainment Group - CFO*

Think about in general the acquisitions improved the margin by just giving that rent dynamic by about 100 basis points.

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**Townsend Buckles** - *JPMorgan Chase & Co. - Analyst*

Got it. Thanks. And then you talked about or Amy, you mentioned bringing more IMAX and RPX screens to your Great Escape and Hollywood Theaters. Can you talk a little bit more about the timing and CapEx implications there?



**Amy Miles** - *Regal Entertainment Group - CEO*

Sure, when you can think about, when we talk about IMAX, remember most of that contribution there is made by our IMAX partners, and we will get to that contractual number of 89, and I would say that is over the next 18 months, 24 months. And some of that data, we hesitate just a little bit because it is based on a new build schedule. And then with respect to the RPX locations, David indicated we were operating just under 50 today, we have identified a target list that gets us close to 100 auditoriums, and we should also have that finished in the next give or take 24 months.

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**Townsend Buckles** - *JPMorgan Chase & Co. - Analyst*

Okay. Thank you.

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**Amy Miles** - *Regal Entertainment Group - CEO*

And I am sorry, David just reminded me I didn't answer the CapEx question. On the RPX side, the average CapEx has been right around \$300,000 or so an auditorium.

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**Operator**

Thank you. Our next question from the line of Barton Crockett with Lazard Capital Markets.

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**Barton Crockett** - *Lazard Capital Markets - Analyst*

Great. Thank you for taking the question. I was wondering about film margin relative to film concentration. David, you have said in the past a good way to think about this is the concentration of the top three films as a percentage of total box office. By our math, the top three films were actually a smaller percent of box office this quarter than they were a year ago, which would argue that film margins should have been up, but it was actually down, and I was wondering, one, if you could comment on what you saw at the concentration, and two, why the trends might not have moved together? And then with that, is there any impact from rental deals with studios? Obviously Iron Man 3 was an issue coming into the quarter, or the merger?

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**David Ownby** - *Regal Entertainment Group - CFO*

Yes. Barton, you are right, we have indicated previously that top three number is what you are referring to is a good indicator sometimes about what direction film costs should go. In this particular quarter I think particularly when you have a big box office increase, or conversely in quarters when you have a big box office decrease, you have to weigh that a little bit with the concentration. If you just think about the stat that Amy gave out earlier in her prepared marks, 11 films released this quarter went on to gross over \$100 million. That number was only six last year.

When you look at that type of math, you can see how a lot of those films would just move slightly up the scale, and impact our film rental a little bit. In that situation any time we can do the kind of box office we did this quarter, and the number of attendees we did this quarter, quite frankly we are certainly happy to pay that amount to get those people in the door, and get those folks to the concession stands. So from our perspective, that number wasn't unexpected, and it is still in line with the historical range for the second quarter. The primary driver there again is less about the concentration, and more about just the overall increase in the box office. We have talked before how studio mix can affect film rental quarter-to-quarter. Typically in a year, it tends to even itself out, but nothing really unusual from that perspective in the second quarter.

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**Barton Crockett** - *Lazard Capital Markets - Analyst*

Is this a merger? Were these acquired theaters running at lower film margins?



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**David Ownby** - *Regal Entertainment Group - CFO*

Before we bought them they were a little bit higher film margins, and then as we put them on our film buying program, we were able to bring them in line with our existing circuit.

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**Barton Crockett** - *Lazard Capital Markets - Analyst*

So that was a quick synergy then, so you would say that there was really no impact from a renegotiation with a big studio like Disney and Iron Man 3?

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**David Ownby** - *Regal Entertainment Group - CFO*

Just normal course, that happens all of the time.

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**Barton Crockett** - *Lazard Capital Markets - Analyst*

Okay. And then looking at the comparable trend in box office per screen, you guys acquired the Hollywood theaters I think at the beginning of the quarter. The average screen count would have been similar to the ending screen count just mathematically. If you look at it that way, the box office per screen would have been up only about 3% but assuming a lot of that is just that these screens came in at a lower yielding level? I am wondering if we do that mathematical averaging, the next couple of quarters as we factor through this merger should we see a similar delta of 5 percentage points or more, in terms of the mathematical average versus the comparable trend?

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**David Ownby** - *Regal Entertainment Group - CFO*

We talked about that some in the first quarter, just with Great Escape, and I think we said then, that the Hollywood theaters looked more like our existing screens, but not exactly the same as our existing screens, and there are more of the Hollywood screens, so just pure math gets you to that 3% number that you referenced. When you look at it on a proforma basis, or if you just strip out the acquisitions and look at it on a same-store basis, then we were right in line with the 8% reported by the industry.

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**Barton Crockett** - *Lazard Capital Markets - Analyst*

Okay. That is great. Thank you.

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**David Ownby** - *Regal Entertainment Group - CFO*

Thank you.

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**Operator**

Thank you. Our next question comes from the line of Stan Meyers with Piper Jaffray. Please proceed with your question, your line is live.

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**Stan Meyers** - *Piper Jaffray - Analyst*

Thanks guys. Can you talk a little bit about your experience with World War Z's super ticket, and what are the economics there, and how big that opportunity could be?



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**Amy Miles** - *Regal Entertainment Group - CEO*

At this point we would say that we were pleased with the experience. Remember we only tested World War Z at five locations, so I wouldn't want to give out any kind of specific information, because that was just a test at five key locations. But that is something that we are continuing to look at and evaluate where we would have additional opportunities as it relates to bundling products, but it is on the theatrical and the downstream revenue side, so I do think the industry and Regal has opportunity there, and I would just say that we were pleased with those results. But again, remember that was only five theaters for us.

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**Stan Meyers** - *Piper Jaffray - Analyst*

Okay. And also can you discuss the slate for Open Road for the remainder of the year?

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**David Ownby** - *Regal Entertainment Group - CFO*

Stan, they have got a couple of films coming up here over the next few months. They have got the Bio pick on Steve Jobs coming up in August, that is just a service deal for Open Road, and one that hopefully will be a good one for them. And early October they have got the Robert Rodriguez film, the sequel film called Machete Kills, sorry, I mispronounced that there. And they are still working on some films, some release dates for some films that may fall in the fourth quarter or early in January, an animated film, and a comedy, and also another drama film. We are pretty excited about what Open Road has got coming up, and hopefully it will be a good back half of the year for them.

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**Stan Meyers** - *Piper Jaffray - Analyst*

Alright. Great. Thank you.

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**Operator**

Thank you. (Operator Instructions). Our next question comes from the line of Tony Wible with Janney.

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**Tony Wible** - *Janney Montgomery Scott - Analyst*

Thanks. Question is around 3D. What was the 3D ticket price in the quarter? Where do you think pricing increases go longer term, and then with the acquisitions that you have now done, what is the 3D screen count up to?

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**David Ownby** - *Regal Entertainment Group - CFO*

Tony, let's go in reverse order there. At the end of the quarter, the 3D screen count was just over 3,000, it was 3,004 screens. This number a little bit confusing, but the 3D ticket price was \$11.98 in the second quarter, that is compared to \$12.11 last year, but remember we are averaging in the smaller market screens with Hollywood and Great Escape, and I don't have this number in front of me, but I believe that excluding the Great Escape and Hollywood acquisitions that number would have been up about 1%.

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**Tony Wible** - *Janney Montgomery Scott - Analyst*

And what do you think longer terms happens with 3D pricing, do you think it keeps price with 2D, or do you think that there is a convergence because of the delta and the prices?



**David Ownby** - *Regal Entertainment Group - CFO*

I think the way that we have talked about it before Tony, is that we believe the dollar value of the premium will stay pretty constant in the near term, and maybe the near to midterm and we will continue to take our normal price increases on the underlying base price, or the 2D price. That is how we feel about it like I said the near to midterm. There will be a point somewhere in the future, depending on the demand and those types of things for 3D, that we may be able to revisit the premium. But for now we believe that just the dollar value premium will stay the same, and for us that is an average of about \$3.50.

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**Tony Wible** - *Janney Montgomery Scott - Analyst*

Got it. And last question, is there anything you can do on your end to accommodate the crowded slate issue that you guys have already talked about, and has affected a good number of films? Anything you can do by extending windows for showing these films?

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**Amy Miles** - *Regal Entertainment Group - CEO*

No, I think it is harder. We are probably in a better position than others, because we have a high screen count per theater. When you are in that situation and you have a lot of films that have demand, and we have a lot of screens to serve that demand, so from that perspective I think we are creative with our show times, and particularly trying to match the show times to the demand, and the number of showings per the demand, so I think as Regal we are probably better suited than a lot of circuits to deal with that. From that perspective most of the things that we can do relate to scheduling inside of the theater.

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**Tony Wible** - *Janney Montgomery Scott - Analyst*

Great. Thank you.

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**David Ownby** - *Regal Entertainment Group - CFO*

Thanks Tony.

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**Operator**

Thank you. Our next question comes from the line of Matthew Harrigan with Wunderlich Securities.

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**Matthew Harrigan** - *Wunderlich Securities - Analyst*

Thank you. It is pretty obvious that you are getting great results from the premium screens, and you can see the momentum with the Wanda AMC IMAX announcement as well, but if anything you are looking at more on the specky side as everything continues to evolve in the home with 4K, and all of that, at theme parks and in some limited theaters, you have seen some things with 4D effects, and low frequency audio transducers, et cetera, and then the super high end sound systems like Atmos, so as the game kind of evolving almost to become more local location-based entertainment, even beyond IMAX and RPX. And then secondly, can you talk, some of your competitors are pretty effusive about the outlook for alternative content, concerts and sports and all of that, sometimes you have touched on that in the past, but I don't think you focused on it too much in this call?

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**Amy Miles** - *Regal Entertainment Group - CEO*

I am going to take the first part of your question there first. With respect to, we are spending a lot of time and we think we are going to be successful as an industry going forward. Not only investing inside our theater auditoriums, and to your point, we are doing a lot of things there. We are putting in place a lot of the RPX. We are looking at a lot of luxury amenities, and we are letting our customers drive how we change the inside of the auditorium, doing a lot more customer surveys with respect to what they would like to see happen when they come to the theater, so that is driving some of the investments in the sound system. You mentioned the Dolby Sound System, and again, having the premium auditoriums from the RPX side, and changing what we do in the concession stand to increase or enhance that offering. All driven under that kind of safe strategic umbrella of providing that premium movie going experience, and we will find a lot of different tactical ways to execute, but that is the strategic goal with respect to that. I am sorry, Matthew, you will have to help me with the second part of your question?

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**Matthew Harrigan** - *Wunderlich Securities - Analyst*

On the first part there, you are not looking so much to extend then to almost quasi theme park type effects where you feel the sound, and all of that. And then the second part of the question was just on events, concerts and sports, which you talked about that opportunity before, but I don't think you touched on it in your preamble this time?

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**Amy Miles** - *Regal Entertainment Group - CEO*

We like to talk about things more when we have the results versus our expectation of those results. We are doing a lot of things that I think will help the industry from an alternative content perspective. We just talked about now that the circuit is 100% digital, that has taken away some of the physical barriers that existed from an alternative content perspective, and we have also recently signed and announced our DCDC agreement, which provides for satellite delivery of alternative content. From an asset-based perspective and delivery perspective, so on the distribution side I think that we have made great strides in helping to grow that business, and then we are also spending a lot of time working with National CineMedia to find new and unique ways to grow alternative content, now that we have put in place a network that is going to support it.

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**Matthew Harrigan** - *Wunderlich Securities - Analyst*

By the way, I can't resist commenting, I think there are about 40 times as many comments in the press about the Lone Ranger write-off versus the Despicable Me to animated 5-day record, it was like the headlines come out about teams losing instead of winning the Super Bowl or the World Series, or something. It is amazing how negative the press is.

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**Amy Miles** - *Regal Entertainment Group - CEO*

We just step back and say at the end of the day from a box office perspective, remember that when we look at the summer season it is up double-digits, so I think that the numbers speak for themselves.

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**Matthew Harrigan** - *Wunderlich Securities - Analyst*

Thank you.

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**Operator**

Thank you. Our next question comes from the line of Jim Goss with Barrington Research.

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**Jim Goss** - *Barrington Research Associates - Analyst*

Great, thank you. Amy, just to comment on that. Somebody was observing that while the bunched up release slate is a challenge for the studios, it is actually a benefit to the theater operators, especially ones like yours where you have a lot of auditoriums to fill. I think that should have helped?

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**Amy Miles** - *Regal Entertainment Group - CEO*

We are a portfolio approach. We do play all of the films so that is good from our perspective. But again, a lot of times we like to see, we think about the movie business as a 12 month movie business not just a seasonal business, so the more spacing we can see in the films we like that, as much as we like variety in the film slate, but we are to your point better suited to a lot of circuits that can't service that demand.

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**Jim Goss** - *Barrington Research Associates - Analyst*

I was wondering with the lower premium prices on average, was that more related to the premium large formats or 3D?

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**David Ownby** - *Regal Entertainment Group - CFO*

Are you talking about the lower ticket prices for premium, or just the lower--?

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**Jim Goss** - *Barrington Research Associates - Analyst*

The lower ticket price that was driven by the premium format. What part of the premium format accounted for which?

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**David Ownby** - *Regal Entertainment Group - CFO*

We typically talk about it all in one bucket, Jim. If you kind of break it down, I think what you would see there, and part of the math here is simply that we have a lot more screens to spread those premium screens over, so the acquisitions were a little bit dilutive to that number. The actual math wasn't quite as bad as that 23% down to 20.5% that I referenced earlier. When you look inside there, I think we had maybe just a little more IMAX and RPX, and a little bit less 3D.

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**Jim Goss** - *Barrington Research Associates - Analyst*

Okay. One of the other chains was discussing the share of attendees that make concession purchases. I was wondering what, if you had a number for Regal in that regard? As an opportunity for perhaps increasing the concession volume?

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**David Ownby** - *Regal Entertainment Group - CFO*

Historically, Jim, for us, that number has hovered right around one-third of our attendees actually go and buy concessions at the concession stand. We have talked before about the goal of our expanded food menu is to try to capture some of those two-thirds of the people who might be walking by the stand, and certainly that is given the results that is working for us a little bit, but so far that number hasn't moved dramatically.

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**Jim Goss** - *Barrington Research Associates - Analyst*

And that is similar to the other number I had heard. And then finally, I wanted to ask about you have gotten into somewhat smaller markets with your acquisitions. If you have noticed any differences that may persist, even in the context of your owning them, that you don't have the advantage, say in film rentals where you may be able to get a little bit of a benefit as part of the bigger haul?

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**David Ownby** - *Regal Entertainment Group - CFO*

No, for the most part at least domestically a theater in a small town operates much like a theater in a big town. Nothing really there that I would call a surprise to us as we took over those 800 screens.

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**Amy Miles** - *Regal Entertainment Group - CEO*

And again, too, all of our deals are national deals. It is geography neutral and it is market size neutral.

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**Jim Goss** - *Barrington Research Associates - Analyst*

Alright. Thanks very much.

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**Amy Miles** - *Regal Entertainment Group - CEO*

Thank you.

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**Operator**

Thank you. There are no further questions at this time. I would like to turn the floor back over to management for any closing comments that you may have.

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**Amy Miles** - *Regal Entertainment Group - CEO*

Thank you guys for joining us this afternoon, and we look forward to speaking with you after our third quarter. Thanks again.

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**Operator**

Ladies and gentlemen, this does include today's conference. You may disconnect your lines at this time, and we thank you all for your participation. Good day.

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