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RGC - Q3 2013 Regal Entertainment Group Earnings Conference Call

EVENT DATE/TIME: OCTOBER 24, 2013 / 8:30PM GMT

OVERVIEW:

RGC reported 3Q13 total revenues (including certain items) of $813.1m.

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good afternoon. My name is Rob, 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 2013 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 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 historical facts communicated during the 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 25, 2013. All forward 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*

Good afternoon, and thank you for dialing into our third quarter conference call. Those of you who listened to our last earnings call a few months ago will likely notice a similar message today.

The factors that drove our success in the second quarter -- a healthy box office environment, the impact of our recent acquisitions, and focus on managing the variable portion of our cost structure -- were again present in the third quarter and enabled us to generate adjusted EBITDA of almost $180 million for the second consecutive quarter and our highest quarterly adjusted earnings per share in almost ten years. And for the first time in our history we are reporting trailing 12-month total revenue of over $3 billion and trailing 12-month adjusted EBITDA in excess of $620 million.

Industry box office receipts for our third fiscal quarter increased approximately 8% versus the same fiscal period last year. In the past we've noticed that a well-balanced and well-spaced film slate can often be a powerful driver of box office results, and that was clearly the case this quarter with summer action movies, animated film titles and R-rated comedies all contributing to box office gross. In total, 19 films released during the quarter went on to gross over $50 million, as compared to only 16 in the same period last year, and helped generate record third quarter industry box office revenue of almost $3 billion.

As we look back at the summer box office season, it is also worth noting that industry box office revenue for the four and four-month period from May through August exceeded $4.7 billion, almost 10% ahead of last year's total and 5.5% better than the previous record, which was set in summer of 2011. And despite difficult comparisons in recent weeks, with last year's record October, year-to-date industry box office revenue of over $8.8 billion is approximately 1.5% ahead of last year's record-setting total.

In addition to the healthy box office environment, our recent acquisitions contributed -- continue to benefit our financial results in the third quarter. The combined impact of the industry box office increase and our acquisition of over 800 screens in the last 12 months led to $120 million increase in our total revenue, and as I mentioned earlier, pushed our total revenue over the $3 billion mark for the trailing 12 months for the first time in our history. As we consider potential uses of cash and financial flexibility, we continue to believe that strategic acquisitions at accretive multiples are a great way to deliver on-going 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. That's at both our existing locations and our newly acquired locations. Their attention to detail combined with the increase in industry box office revenue helped us achieve adjusted EBITDA of over $177 million -- that's just shy of the record that we set last quarter -- and adjusted EBITDA margin of about 22%.

David will provide more detail behind our operating results later in the call, but I think it goes without saying that we are extremely pleased with our operational execution and our third quarter financial results.

In previous quarters we've outlined our efforts to bring a premium experience to a larger portion of our customer base. We remain encouraged by the returns generated to date by our investments in the premium experience, and today we'll take a few moments to provide investors with a look ahead at our plan for the remainder of this year and into 2014.

First and foremost, we expect our premium large format screen base to continue to grow. By the end of this year, we expect to operate over 140 premium screens, with another 25 to 30 on the way in 2014. The product-driven success of our IMAX screens, combined with the operational flexibility of our RPX screens, allow us to offer a premium auditorium in almost all of our major markets every week of the year. And we are excited about the opportunity to add premium screens at key locations, including some of our newly built and newly acquired theaters in the near future.

Our expanded food menu continues to gain traction with customers and accounted for over $0.005 of the $0.09 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 third quarter concession per cap of $3.59, the second highest quarterly total in our history. In the coming year we expect to introduce the expanded menu at additional 30 locations, bringing the total count to approximately 175 theaters.

In combination with these on-going initiatives, our management team has also been busy evaluating new concepts, including VIP auditoriums at traditional theaters, smaller footprint theaters with luxury amenities, the installation of reclining seats in existing theaters, and alcoholic beverage offerings, all of which we plan to implement or experiment with in the next 12 to 18 months. We are obviously pleased with the incremental revenue and returns from our investment in the premium experience and expect these programs to benefit our results in the years ahead.

And lastly, for the box office environment, 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," surrounded by films for the family, comedy and adult drama audiences.

With these factors in mind, we are optimistic regarding the box office potential success for the remainder of 2013. In summary, we are again pleased that a healthy box office environment combined with our recent acquisitions and our operational execution enabled us to achieve record results in our third quarter.

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. Today I'll provide some additional 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 $813.1 million, including $548.4 million of box office revenue, $224.1 million of concession sales and $40.6 million of other operating revenue.

As was the case in the second quarter, our recent acquisitions had a significant positive impact on our market share in the third quarter, as our box office revenue grew by over 16% in the aggregate as compared to an 8% increase for the industry. The increase was largely driven by attendance growth at existing locations and as a result of our newly acquired screens, as 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 remained flat with the same period last year at $8.79.

Our concession revenue increased by 19.6% in the aggregate and by $0.09 or 2.6% on a per attendee basis. Strategic price increase, improvements in popcorn and beverage volume, a family-friendly film slate, and the continued success of our expanded food menu all contributed to the increase and helped drive per cap growth of over 2.5% for the ninth consecutive quarter.

Other operating revenues increased $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 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 third quarter.

Our film and advertising expense of $286.6 million represented 52.3% of admissions revenue, an improvement of 30 basis points as compared to the same period last year and slightly below our historical third quarter average. A film slate that relied on a breadth of films as opposed to a few high-grossing titles was the primary driver of our film and advertising costs.

Our 86.4% concession margin remained flat with the same period last year as minor increases in raw material costs were largely offset by an increase in the amount of vendor marketing revenue recorded as a reduction of cost of concessions.

Total rent expense of $105.7 million increased 10.2% 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 1.1% as compared with the same period last year due to slightly lower rent amounts associated with the acquired theaters.

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 $208.7 million increased by 12.7% in the aggregate due primarily to the costs associated with the newly acquired screens, but increased only slightly on a per screen basis as compared to the third 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 in our concession per caps was a key driver of our success in the third 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 third quarter financial results and enabled us to generate total revenue, adjusted EBITDA and adjusted earnings per share that were well 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 $18.9 million, and we continue to actively manage our asset base, opening one theater with 12 screens and closing three theaters with 21 screens to end the quarter with 575 theaters and 7,334 screens.

Based on our development schedule for the remainder of 2013, we now expect full year capital expenditures to be between $95 and $105 million. In the fourth quarter, we expect to open six new build theaters with 80 screens and close one to three theaters with 20 to 30 screens, which would result in ending counts of approximately 579 theaters and 7,389 screens for 2013.

We also want to remind investors that our recent acquisitions have had a significant impact on our stake in National CineMedia. Earlier this year we received an additional 2.2 million units of NCM related to our Great Escape acquisition, and by year end we expect to receive approximately 3.3 million units as a result of the Hollywood acquisition, both in accordance with the common unit provisions of our agreement with NCM.

In early September, we monetized 2.3 million NCM shares in a secondary offering valued at just under $41 million and recorded a gain on the transaction of just under $31 million. The proceeds from the sale will be used to fund the current taxes due on the shares received in 2013, and we expect to end the year with over 25 million shares of National CineMedia.

With respect to the balance sheet, we ended the quarter with $270 million in cash and a total debt balance of approximately $2.3 billion. The recent growth in our adjusted EBITDA has had a positive impact on our leverage calculations, and as of the end of the quarter our overall leverage ratio was 3.2 times, pro forma for the Great Escape and Hollywood acquisitions.

In closing, we are extremely pleased with our recent strategic and operational execution, and we remain optimistic regarding the potential for box office success in the upcoming holiday movie season. This concludes our prepared remarks, and we will now open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question is from the line of Townsend Buckles with JPMorgan. Please proceed with your question.

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

Thanks. David, looking at the box office performance on a per screen, still clearly a lag to the industry, which you've talked about before within these circuits. But also about 150 base points of growth stronger than last quarter. So wondering, was your organic performance better in Q3, or anything else that you saw moving the needle there?

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

Yes, on a -- if you take the acquisitions out and look at it more on a same store basis, Townsend, we were actually up, a little bit ahead of the industry. A couple of things may be at play there. I think if you look back at Q3 of last year, we were a little bit behind the industry, so some of that is just relative to last year we did a little bit better.

We continue to be pleased with how some of our RPX screens are doing as well, so I think that's helping that metric a little bit. But all in all I think we were, give or take, on a same-store basis about 50 or 60 basis points ahead of the industry.

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

Got it. And could you talk a bit about your premium and RPX performance for "Gravity"? Obviously the IMAX screens are doing very well, but if you could maybe give an overall figure of how much the movie has done for you in a premium format here.

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

We don't really talk about individual titles and the results of the individual titles in total or any particular format, Townsend, but I think it is safe to say, given that we continue to plan to roll those out into 2014, that we've been very pleased with the results of our RPX screens so far.

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

Anything different that you're seeing between the IMAX and the RPX performance for you?

Amy Miles - *Regal Entertainment Group - CEO*

"Gravity" [as] a film, you've seen the IMAX numbers. So that was strong from an IMAX perspective, so we were pleased. And a lot of our key locations, where we have the IMAX format, we had -- you would expect that we would have strong performance. So, again, we won't differentiate between the two formats, but I can tell you we were very pleased with those.

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

Great. I'll leave it there. Thanks.

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

Thanks, Townsend.

Operator

Our next question comes from the line of Eric Handler of MKM Partners. Please proceed with your question.

Eric Handler - *MKM Partners - Analyst*

Yes, thanks for taking my question. I saw in the press a couple of days ago that DCDC initiative has gotten off the ground. When you look at -- it looks like your deal with National CineMedia for the Fathom business I imagine should be closing soon. One, do you think about combining those two businesses and making it a larger type of business? And two, how should we start thinking about those businesses from an income statement perspective?

Amy Miles - *Regal Entertainment Group - CEO*

I think that the best way to think about DCDC is from a physical delivery perspective it is really going to improve the opportunity on the alternative content side. So I wouldn't really necessarily think of it as a combined business, but DCDC being the right delivery platform to help grow and expand Fathom. And so from that perspective it takes some of the constraints from a delivery perspective out of the model, so I think it does enhance the opportunities for growth in alternative content.

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

As for the income statement presentations, Eric, DCDC, we've made a very small equity contribution there, and we'll account for that on the equity method. I wouldn't expect that to be material to the P&L any time soon, or really in the future at all.

And as for Fathom, that deal actually hasn't closed yet, so I can't really speak yet to what the specific financial arrangement is there. But, again, in the near term, why expect it to have a big impact on the P&L.

Eric Handler - *MKM Partners - Analyst*

Okay. And just one other follow-up question. As you start planning for next year, any thoughts on planned openings of theaters versus how many you might shutter.

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

Yes, I would think, Eric, those numbers would look similar probably to this year. We'll give more specific guidance as we get toward the end of the year, maybe on the fourth quarter call. But in round numbers, I think next year probably looks a lot like this year.

Eric Handler - *MKM Partners - Analyst*

Great. Thank you very much.

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

Thank you.

Operator

Our next question is from the line of Ben Mogil of Stifel.

Ben Mogil - *Stifel Nicolaus - Analyst*

Hi, guys. Good morning -- sorry, good afternoon, and thanks for taking my question.

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

Hey, Ben.

Ben Mogil - *Stifel Nicolaus - Analyst*

Hey, David. The 50 basis point increase that you mentioned above the benchmark, was that for the legacy Regal screens only, or did you see a similar trajectory for the Great Escapes and Hollywood screens as well?

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

Yes, that -- I was speaking in that -- [there more] specifically, if you [just took] the kind of same store Regal number. I think if you looked at the Great escape and Hollywood screens together, they were more in line with the industry on a pro forma basis.

Ben Mogil - *Stifel Nicolaus - Analyst*

So in your net number, because the vast majority is legacy screens, would still be above the benchmark as you [selected].

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

That's right.

Ben Mogil - *Stifel Nicolaus - Analyst*

On the M&A front, when you look at the targets that are out there, is what is driving and what will continue to drive M&A the digital roll-up or [the availability of] capital? And how concerned are you -- [we've seen] DOJ be a little bit more active on files than I think previously. How concerned are you about that effectively?

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

Ben, it is always hard to know what motivates sellers, because each one is different. I think maybe more than anything, what you've seen here recently is that we just had a good box office tail wind. And so for that what we've seen historically over time is that has really motivated sellers maybe as much as anything, because we tend to do deals in our industry off of the trailing-12 type number.

And I think Amy is going to speak to the DOJ risk.

Amy Miles - *Regal Entertainment Group - CEO*

Yes, I think what we would say there is we've obviously worked with the DOJ on a -- let's call it, since we've been public -- a ten year period, and we don't anticipate or expect that the environment today is any different than it has been for us over that past ten year period, when we've been able to close, close to 12 or 15 transactions.

Ben Mogil - *Stifel Nicolaus - Analyst*

Okay. That's great. And then last question -- [on this one I'll take a side step]. On the cash balance side, is sort of 2X the dividend payments, the cash balance number that you're targeting, and above that, depending on M&A or not, you begin to think about some capital return, is 2X still the right number?

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

Well, I think we've always said before, Ben -- and again, this is not necessarily our policy, it has just been our practice to kind of keep a year's worth of dividends on the balance sheet. I think we've been pretty vocal about the fact that we believe the best use of our cash is to continue to do accretive acquisitions, and to the extent we can find those we'll certainly look to continue to do that. Obviously if our view about the acquisition landscape changes, then we have other options for that cash.

Ben Mogil - *Stifel Nicolaus - Analyst*

That's great. Thanks a lot, guys.

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

Thanks, Ben.

Amy Miles - *Regal Entertainment Group - CEO*

Thanks, Ben.

Operator

Thank you. Our next question comes from the line of James Marsh with Piper Jaffray. Please proceed with your question.

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

Great, thanks. Two quick questions here. First, I was hoping you could elaborate on the VIP beverage recliner initiative. I think you mentioned you were going to experiment over the next 12 to 18 months. How many locations would you envision kind of experimenting with, and what would be the kind of ballpark CapEx or incremental cost associated with that?

And then just a quick follow-up is, you were discussing formats for next year, and I think, Amy, you said maybe 25 to 30 in 2014. I was hoping to get a sense for which -- what number of those would be IMAX and what number would be RPX?

Amy Miles - *Regal Entertainment Group - CEO*

Okay, James --

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

I'll take --

Amy Miles - *Regal Entertainment Group - CEO*

We'll try to get the components of your question.

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

I'll take the numbers-oriented part there. I think from the 25 to 30, James, I think we expect to have 82 IMAXs by the end of the year, and so that would leave seven more on our agreement post-2013. So if you think about it probably somewhere between five and seven of those 25 to 30 would be IMAX, and the remainder would be RPX.

And then I'll let Amy talk about kind of the specific -- how we're thinking about some of these different formats, but in general I think we don't view it as being materially moving our CapEx number. It may be a decision, for example, to build one less new build theater and do some of the new concepts, and we'll make that decision solely based on where we think we can get the best return.

Amy Miles - *Regal Entertainment Group - CEO*

And we announced today we were opening one of our new VIP auditoriums in Atlanta. So that was our first announcement with respect to VIP auditoriums. And what we're doing is looking throughout our existing theater base, where we have some great theaters and great locations, to see where we could expand that concept.

And I won't put a number to that today, James, but as David said, it will not have a material impact on CapEx. From a recliner or seating perspective, you can expect us to open probably somewhere around 20 or 25 locations. When I say open, I mean retrofit or convert 25 -- 20 to 25 existing locations next year with respect to seating.

But I think the message here is, strategically, we want to make sure that we are offering our customers a premium movie-going experience, and tactically, we're going to look at a lot of different ways to do that in the future. And we're going to be smart about that CapEx, and we're going to be smart about the returns.

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

Okay. That's very helpful. Thanks, guys.

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

Thanks, James.

Operator

Thank you. Our next question is from the line of Ben Swinburne with Morgan Stanley. Please proceed with your question.

Ryan Fiftal - *Morgan Stanley - Analyst*

Hi, good afternoon. It's [Ryan Fiftal] on for Ben. I have one housekeeping question, and I apologize if I missed it in the prepared remarks. But did you give a number for the dilution to ticket pricing coming out of your M&A transaction?

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

I didn't. I'm happy to walk through that with you. We have several moving parts in our average ticket price this particular quarter.

Like we said, it is flat on an overall basis. If you kind of just start stripping things out of that, we've talked about before that the 800 or so screens that we acquired are in smaller markets and have slightly smaller ticket prices. We also had a little bit weaker quarter this quarter from a premium perspective, so that put some downward pressure on the ticket price.

And then -- and this is a smaller piece of it, but we also had -- we sold a few more kid and matinee tickets this quarter than we did in Q3 of last year, two of the top three films for the quarter were "Monsters University" and " Despicable Me 2," so that contributed to the downward pressure on the ticket price as well. If you put all of that together, on a same-store basis -- so if you strip out the acquisition and look at the legacy Regal theaters -- our average ticket price was up about 1% in total. And if you strip it further down and say just look at the same-store 2D price, it was up about 2.9%.

Ryan Fiftal - *Morgan Stanley - Analyst*

Great. Thanks for the very detailed answer.

Operator

Thank you. Our next question is from Tuna Amobi from S&P Capital. Please proceed with your question.

Tuna Amobi - *Standard & Poor's - Analyst*

Hi, thank you so much. Amy, I'm sorry I missed your -- the comment you made about the 175 locations for the expanded menu. Over what time frame did you mention on that?

Amy Miles - *Regal Entertainment Group - CEO*

We should be at that number somewhere by middle to end of 2014.

Tuna Amobi - *Standard & Poor's - Analyst*

Okay, that's helpful. And are you able to provide an update as to how that is impacting your concession traffic at this point? Is that something you're tracking?

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

Yes, we talked about it, Tuna, just in terms of the per cap. And if you go back, we've kind of slowly rolled that out over the last year, maybe a little more than that. And every quarter it has meant -- even though it has been in a small number of theaters, every quarter it has added about a -- between $0.005 and $0.01 to the per cap for the last four or five quarters.

Tuna Amobi - *Standard & Poor's - Analyst*

No, I got that, I was just trying to figure -- I know you talked about one-third of people actual stopping in the stands. I'm wondering if you are seeing that number being impacted over a period of time as a result.

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

Yes, it's difficult to exactly measure that, Tuna. I think what we can tell you is that as we've looked at our data, we're seeing that those customers that are coming for some of the products, those are incremental customers because it is not cannibalizing our traditional Coke and popcorn sales.

Tuna Amobi - *Standard & Poor's - Analyst*

Okay. On [film] rental I was a little surprised on improvement you alluded to on the -- versus the historical average as well as the quarter to quarter, especially given the box office performance of the titles. And I'm wondering if you can help me understand how that occurred, given the pay for performance dynamics you talked about.

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

Sure. You've heard us talk about before what matters, maybe even more than the total dollar value at the box office, is how that box office is divvied up among different films. And this is not a perfect indicator, Tuna, but we use a statistic of how much of the box office is garnered by the top three films of the quarter.

And if you look historically at Q3, the top three films have generated about 30% of the box office. And this quarter that number was much lower, so the box office relied a lot more on a breadth of films as opposed to two or three high-grossing films. And typically that leads to a lower film cost for us.

Tuna Amobi - *Standard & Poor's - Analyst*

That's helpful. And was wondering if you can talk, perhaps Amy, about "Gravity," the impact that it had on your RPX screens. I know you mentioned that was it very strong on the IMAX. I'm wondering if -- what feedback you got on how it performed, and if there are any lessons that perhaps you can learn as to any bifurcation in terms of consumer feedback? RPX versus IMAX for that particular film would be helpful.

Amy Miles - *Regal Entertainment Group - CEO*

No, I don't think that there would be any lessons learned, but I think when you're talking about differentiation in premium format. But I think what it does show when you have a great film that's delivered with great -- very, very high-quality 3D, that you see what happens from a consumer response. And I can think what we all can say is we are all pleasantly surprised with the very huge success that the industry is seeing with "Gravity." And clearly the consumers are preferring the premium formats, and that's good for the industry.

Tuna Amobi - *Standard & Poor's - Analyst*

Okay. I guess another way -- that's very helpful. Another way to rephrase that question. Can you provide maybe a quantification of what percent of the overall box office on that film was attributable to IMAX versus RPX versus 2D? That would be helpful.

Amy Miles - *Regal Entertainment Group - CEO*

No, we can talk about it from an industry perspective, and I can tell you our 2D -- our 3D percentage was very high, in excess of 80% for that film. So from that perspective, that's very high. But we wouldn't disclose the components on a film by film basis.

Tuna Amobi - *Standard & Poor's - Analyst*

Okay. Thanks a lot.

Operator

Our next question comes from the line of Robert Fishman of Moffett Nathanson. Please go ahead with your question.

Robert Fishman - *MoffettNathanson - Analyst*

Just one more on "Gravity." I'll take another crack at it. Can you discuss any strategies about improving 3D promotions and branding from both your perspective and the studio's perspective on future 3D releases, or is it something that will continue to be specific to individual films?

Amy Miles - *Regal Entertainment Group - CEO*

I think the -- if you think about just the 3D box office from a global perspective in 2011 and 2012 -- obviously we haven't finished -- that was $1.8 billion in the United States. And quite a bit higher when you consider the international box office. So from that perspective, I think exhibition and the studios will have aligned interest to make sure that we're maximizing show times, maximizing our marketing efforts. So, yes, I would expect that to continue in the future, just due to the accretive nature of this 3D business.

Robert Fishman - *MoffettNathanson - Analyst*

Okay. And then maybe two quick questions on Open Road if I can. Can you discuss the reason for switching from Netflix to Showtime for your pay one output deal? And also I believe you guys signed a new film distribution partner, IM Global. Is that similar economics to the old film [district] deal?

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

We don't really talk about those specific deals. I mean, we're pleased with Open Road's success so far. I think the switch you saw from Netflix to Showtime was a normal negotiation for -- the Netflix deal had an expiration date in the future, and I think the Open Road team felt it was important to go ahead and lock up a partner post the end of that deal.

And so really nothing unusual there. Just a normal business negotiation. And, again, we don't really necessarily comment on deals with specific distributors.

Robert Fishman - *MoffettNathanson - Analyst*

Okay. Thanks a lot, guys.

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

Thank you.

Operator

Our next question is from the line of Jim Goss with Barrington Research. Please proceed with your question.

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

Thanks a lot. Amy and David, I'm wondering if you would comment on the notion that I think Lionsgate helped push the better use of shoulder periods, and you've indicated you would like a better balance of films, because that certainly spreads your revenue base, helps keep film costs in check. Do you think there's a sentiment around the studios that are going to take better -- make better use of those shoulder periods in the future, as this has been developing?

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

I think as you heard us say before, Jim, we believe that over time the traditional -- I'll call them movie seasons have been expanding, and we certainly view that as a positive. We also note that as we talk to studios, they're very focused on release dates and what that means for their particular film. So again, I think we probably all have aligned interests there.

We want the box office to two well every week. Each studio wants their film to do well. So it's just another case where we have aligned interest with our studio partners. And hopefully what that means for the future is you continue to see those shoulder periods utilized by all of the different studios, not just Lionsgate.

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

You've also experimented a little bit about the super ticket concept, and combining it with maybe a participation in digital downloads. Is that something that will be expanded from what you've had so far?

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

Jim, I think we always want to make sure we stay on the forefront of testing those types of things. You're right. We did experiment a little bit with the film "World War Z" a few months ago. To be fair, that was a very small test and not one that was a lot of marketing dollars were spent on. But all types of things like that where we can -- we have, again, an aligned interest with the studios, we want to make sure that we are open to testing those types of things.

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

Okay. One last thing. One more thought on implications of "Gravity." Does the success of that film and the high 3D share tend to push the argument toward more targeting of films rather than a broader film slate? And corresponding with that, if you have something that is -- you think will really work in that particular environment, is there a notion of having sort of a variable pricing on 3D rather than having everything have the same up-charge if you think the demand will tolerate it for a certain films in particular?

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

I think, Jim, what you have in the case of "Gravity," it's just a piece of content that was extremely well done in 3D, and I think consumers responded to that. Hopefully, as we move forward, other filmmakers see that and are able to use the technology in a way that they can tell their stories and get a similar result of what happened with "Gravity."

But certainly from our perspective, we already offer a lot of different price points for our customers. Some of those are higher price points like IMAX and RPX. Customers who maybe don't want to spend that much money, we also have other lower-priced options available. So I think at this point we feel like while we don't necessarily variable price based on the individual film, we do offer lots of different price points to our customers, and we think that accomplishes much of the same thing.

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

All right. Thanks very much.

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

Thank you.

Operator

Our next question comes from the line of Murali Sankar with Janney Montgomery Scott. Please go ahead with your question.

Murali Sankar - *Janney Montgomery Scott - Analyst*

Sure. Thank you for taking the question. I was wondering whether you could share any perspectives you might have seen from seven, eight years ago when the last video game console cycle kicked off, whether you saw any impact on demand at all?

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

There are always lots of different things that we could look at and try to correlate the box office, and we've done many of those things over time, but no, nothing specifically that we could recall from seven or eight years ago when that life cycle came through that had a meaningful impact on box office.

Murali Sankar - *Janney Montgomery Scott - Analyst*

Thank you.

Operator

Thank you. Our next question is from the line of Matthew Harrigan of Wunderlich Securities. Please go ahead with your question.

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

Thank you. Firstly, when you look at the NCMI share value, I know in the past people have gotten caught in a loop and double counting, and it's a wonderful asset for you operationally. But there are a number of ways that you could look at internally that are flattering and less flattering to your valuation. I guess, you could make some argument that it is under-represented in your share valuation.

Then secondly, when you look at box office right now, "Thor" is tracking great, "Hunger Game" presales are great. But Sony just moved "The Monuments Men," and the Christmas product looks miserable compared to last year. Do you have a lot of concern about Q1? And I know you look at things at an LTM basis, and you've got pretty stable patterns there, but it looks like you could have a Q1 that's going to generate some nasty headlines on the Drudge Report at least.

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

I'm not -- just at a high level in terms of our NCM shares, obviously we view that as a huge asset for us. Like said, we'll have give or take 25 million shares by the end of the year. That value is in the probably somewhere in the $475 million, $485 million range today. So from our perspective, that's a -- it's a -- we view that partially as a strategic asset.

We have a long-term relationship with National CineMedia. We want to make sure we continue to have a say-so in how that business is operated. We also, obviously based on the transaction we did recently, viewed part of that as a source of liquidity, and that certainly is how we'll continue to view that going forward.

And then, Matthew, just as we think about the box office for Q4, I think the way we've looked at it is much like Amy described it in her prepared remarks, that last year you had three big films in the quarter;"Skyfall," the final Twilight movie, and the first chapter of "The Hobbit." This year you have again what appear to be three big titles very similarly spaced to those three last year. "Thor," "The Hunger Games, Catching Fire" and then the second chapter of "The Hobbit."

Last year obviously you also had a lot of good fill-in product around that. Some comedy, some adult drama, some animated titles. You have that same dynamic again this year. Now obviously, ultimately it will depend on how each one of the individual films performs as to how the box office stacks up year-over-year, but when we look at it on paper, like Amy said, we remain optimistic about the potential for success there.

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

And you're not particularly concerned -- Q4 is okay. You're not particularly focused on Q1 yet, I assume.

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

We always tend to get a lot of good carryover from the holiday product, and you have some good titles with maybe "Anchorman 2," and I think "American Hustle" opens that week before, "The Secret Life of Walter Mitty." So are there are some good titles that, again, we would expect to get -- in addition to "The Hobbit" that we would expect to get some good carryover.

Amy Miles - *Regal Entertainment Group - CEO*

And, Matthew, I think you made the point when you asked the question as well, that typically when we're thinking about film product, we're look at a much broader time frame than one quarter. So from that perspective, when one is sitting here today and looking out over the next 20 -- 12, 24 and 36 months, I think there is a lot to remain excited about with respect to the industry.

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

Thanks, David. Thanks, Amy.

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

Thank you.

Operator

Thank you. There are no further questions at this time. I will now turn the floor back to management for closing comments.

Amy Miles - *Regal Entertainment Group - CEO*

Thank you for joining us this afternoon, and we look forward to speak again at the close of our 2013 fiscal year. Thank you.

Operator

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

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