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## Event Transcript

### RGC - Q2 2002 Regal Entertainment Group Earnings Conference Call

Event Date/Time: Jul. 31. 2002 9:30AM ET

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#### OVERVIEW

Regal Entertainment Group says acquisition strategy is working in that company has seen increased savings in advertising and other areas. Says outlook for film releases for the balance of year is positive. While it's too early to forecast, company says 2003 will be good year for product.

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RGC - Q2 2002 Regal Entertainment Group Earnings Conference Call

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**Michael Campbell**

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**Kurt Hall**

*Regal Entertainment Group - Co-Chief Executive Officer*

**Amy Miles**

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*Salomon Smith Barney*

**Ed Lowe (ph)**

*Credit Suisse First Boston*

**Lawrence Reynard (ph)**

*Morgan Stanley*

**Richard Simon**

*Goldman Sachs*

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*Lawndale Capital Management*

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*BlackRock*

**Curt Alexander (ph)**

*Media Group Investors*

**John Maxwell (ph)**

*B&P*

**Wayne Cooperman (ph)**

*Cobalt Capital*

**Dennis McAlpine (ph)**

*McAlpine Associates*

**Unidentified Participant**

## PRESENTATION

**Operator**

Good morning. My name is Brenda, and I will be your conference facilitator today. At this time, I would like to welcome everyone the Regal Entertainment Group second

quarter conference call, with our host Mike Campbell, Chief Executive Officer Theater Group and co-CEO Regal Entertainment Group. All lines have been placed on mute to prevent any background noise. After Mr. Campbell's remarks, there will be a question-and-answer period. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad, and questions will taken in the order they are received. If you would like to withdrawal your question, you may do so by pressing star, then the number two. As a reminder, if you are on a speaker phone, please pick up your handset before presenting your question. I would now like to turn the call over to Donald Delaria, Vice President of Investor Relations.

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**Donald Delaria** - *Regal Entertainment group - Vice President of Investor Relations*

Good morning. Before I get going this morning, I'll just read you a quick safe harbor. This conference call includes 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 fact included herein, may constitute forward-looking statements. Although the company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurances that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from the company's expectations are disclosed in the risk factors contained in the company's prospectus dated May 8, 2002. All forward-looking statements are expressly qualified in their entirety by such factors. I would now like to turn the call over to Mike Campbell.

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**Michael Campbell** - *Regal Entertainment Group - Vice Chairman, Co-CEO, and Director*

Thank you Don and welcome, and I would like to thank everyone for dialing in to our second quarter conference call. Today I'm going to provide you with an overview of, first of all, Regal's pro-forma, second quarter results, a brief discussion of the company and the industry, review our growth and acquisition strategy. I will then turn the call over to Kurt Hall, who will provide an update on the Regal cine-media business. Amy Miles, our CFO, will then provide a more detailed review of financial results. And finally we will end the conference call with a Q&A session.

First of all, looking at our second quarter '02 results, we are extremely pleased to announce another record quarter. While

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the national box office increased approximately 25 percent, Regal's pro-forma total revenues increased also by approximately 25 percent. And our pro-forma, adjusted EBIDTA increased by 87 percent. Our total revenue growth was driven by a number of factors, including a growth in our box office revenues of approximately 23 percent, strong year-over-year growth in our concession revenue of approximately 27 percent. And lastly, growth in our other revenues line item of approximately 44 percent. Our top line growth was primarily due to the strong box office results for the second quarter. But further, we're extremely pleased to be able to report results that demonstrate our ability to drive the strong revenue growth for the bottom line.

Our pro-forma, adjusted EBITDA margin increased 50 percent over the prior comparable quarter last year to 22.3 percent. The 50 percent margin improvement represents an approximate 750 basis point improvement, as second quarter margins increased from 14.8 percent in second quarter of '01 to 22.3 percent this year. Our second quarter margins also represent a slight improvement over the margins that we reported in the first quarter of this year. Our quarterly results include incremental cash-flow growth due to the synergies we're beginning to realize from the combination of Regal Cinemas, Edwards and United Artists. As we indicated to you last quarter, we completed the operational integration of Edwards in April of this year, and the operational integration of United Artists in May of this year. We expect to see further benefits from the consolidation in our third and fourth quarters this year, as well as our '03 fiscal year, as we continue to realize the benefits of consolidation on a full-year basis. We have a proven acquisition track record, which now includes the integration of Edwards and United Artists. We have successfully integrated 13 companies since 1995. Our acquisition experience combined with our focus on cost control contributed to our strong EBITDA growth during this second quarter '02 period. We believe our acquisition experience will continue to be beneficial in this industry, which is positioned to continue growing through consolidation.

Now turning to the company and a few remarks on the company. As the largest domestic motion picture exhibitor in the U.S., Regal Entertainment Group continues to differentiate itself in the industry by several measures. And although bigger is not always better, in our case we believe bigger has been better. We focus primarily on the following factors that we believe set our company apart from other competitors. First of all, the size and scope of our asset base, at almost two times larger than our nearest competitor, our size provide us leverage to benefit from economies of scale. Such economies of scale are best evidenced by our continued ability to negotiate national

deals or number services and supplies. Also, we have industry leading market share. When you combine the top two markets in the U.S., Los Angeles and New York, we have the number one market share. We have the number one market share in the top 10. We have the number one market share when you combine the top 25. And we have the number market share when you go down through the top 50. We also believe that this national footprint and key market coverage provides not only the best platform, but a necessary platform to generate incremental ancillary (ph) revenue streams.

The quality of our company and our circuit, our existing theater portfolio reflects our investment over the past several years in newer modern assets. We generate industry leading EBITDA margins. Our focus on the cash flow growth of our theaters is the best evidence of the quality of this circuit. We also have, by far, the best balance sheet in this industry. We have a conservative capital structure with substantial cash on hand and the lowest leverage ratio in the industry. These factors provide a competitive advantage, and in our pursuit of consolidation and other growth opportunities, this will be extremely important.

Lastly, we generate substantially more free cash flow and substantially more net income than any of our peers in this industry. Each of us in this industry factored is a competitive advantage, and we believe these factors will continue to position Regal Entertainment Group as the leader in the exhibition industry.

And now maybe returning briefly to the industry as a whole. The industry has definitely benefited during the first six months of the year from extraordinary box office results. We believe it's also important to focus on the solid fundamentals of our industry. Box office receipts have grown an average of roughly six percent per year over the past 10 fiscal years, with 2002 positioned to be the 11th consecutive year of box office growth. Going to the movies remains an affordable out-of-home entertainment option, and we believe we will continue to see opportunities to grow through pricing. We believe our industry's capital investment in new modern assets that provide a "better movie going experience," coupled with the studio's efforts to continue to increase marketing expenditures for film releases, has contributed and will continue to the steady growth of box office revenues.

The industry has also experienced a significant reduction in screen over the past couple of years, and we continue to believe that that trend will continue. The timing of old theater closures maybe somewhat impacted by the strong box office results that we've seen this year over the short term. But we believe that

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older, under-performing screens will continue to close. It's also important to note that Regal Entertainment Group benefits from the most conservative capital structure in the industry, and we also benefit from a rationalization of our own theater portfolios that occurred during the restructuring process. Based on these factors, while further industry screen closures would benefit the industry and possibly the company, our financial model for future growth is not dependent upon future industry screen closures.

As far as expectations for national box office for the balance of the '02 year, our outlook with respect to film releases remains very positive. The third quarter of '02 represents a tougher comparison than the fourth quarter of '02 this year, as box office year-over-year growth was approximately 13 percent in the third quarter of '01 versus approximately three percent in the fourth quarter of '01. Based on these facts, we would not expect the remainder of the '02 fiscal year to produce the outstanding 20 percent year-over-year box office growth that the industry enjoyed during the first six months of the '02 fiscal year. But we still remain very optimistic about the product for the balance of the year. It's still a little early to forecast, but we still believe that '03 will be a good year for film product. Certain of the temp-pole pictures are already known, and we remain optimistic with respect to '03 box office results. We're looking at such temp-pole pictures as the Matrix sequels, the Hulk, Terminator 3, Lord of the Rings, X-Men 2 and so forth.

And then turning briefly to a review of our business strategy. Our growth strategy continues to emphasize the following initiatives. We continue to grow the core business. With the momentum that we've generated at this point in time, we continue to realize synergies from integrations. We continue to focus on the continued improvement in our EBITDA margins, and we plan to capitalize on accretive consolidation opportunities. We are actively pursuing various acquisition targets, as we've stated previously, we're interested in companies with modern asset bases that complement our existing asset base. And most importantly, acquisitions would be at valuations that are accretive to earnings, and Kurt's going to talk to you a little bit more about the high margin revenue opportunities that we're pursuing at Regal CineMedia, so I'd like to turn the call over to Kurt.

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**Kurt Hall** - Regal Entertainment Group - Co-Chief Executive Officer

Thanks, Mike. Significant progress has continued to be made in building our digital network and the Regal CineMedia franchise and various products. As Mike mentioned, the scale

of our circuit has really given us an advantage in building some of these new businesses within Regal CineMedia. We're making significant progress in our efforts to brand Regal CineMedia and to build the businesses, as I said.

The focus of this effort is to position Regal CineMedia as an operator of a very powerful national network with over 400 local affiliates, much like the television networks of today. This national network strategy is aimed to position Regal CineMedia to compete for television advertising spending, national sponsorship deals, and as a national platform, for the distribution of all kinds of digital content, and it's critical that you have the national coverage to be able to do these things.

From the standpoint of building out the network, as I said, we've made significant progress. We are a bit ahead of schedule. Right now, we are -- we have the network installed in four markets, 28 theaters, 302 screens, theater screens, and 89 plasma screens. This puts us ahead of our budgeted runs a little bit. We still expect to have our top ten markets covered by the end of the year and start selling digital advertising into the market during the first quarter, and most importantly, try to position ourselves to participate in the up fronts next spring.

The spending on the network is running a little bit under what we had projected on a per screen basis, so very, very good progress has been made on developing the network, which is obviously the key to making the products that we talk about go. The advertising sales team has been put in place. As I mentioned during the last conference call, **Cliff Marks** (ph) has been hired from ESPN/ABC Sports to hire it. **Cliff** (ph) has put together a great sales team underneath him, using his various relationships and his long history in the business, and I think he's done a great job of building a very, very strong sales team, one that I think will be the best in the business at not only sales, but providing great marketing service and overall service to various customers that use our theaters and other networks that we have.

In the area of digital content, and our meetings business, we continue to make progress. We have brought in a few new executives to help us with the sales effort there. And we're continuing to see good progress as some of our forward calendar has started to fill up. The real strategy here is to create as many products as we can to fill non-peak times for the cinema business. Monday through Thursday, eight to five, mornings on the weekends, when our theaters currently aren't being utilized for the theatrical business.

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And we've created a metric -- matrix, rather, that we use internally, with various channels that we have called them, and products in various categories or channels. CineMeetings is one of the areas. Music, sports, and education are the major areas that we are focusing on, and we're starting to see good progress as people are starting to understand the power of our network and the capabilities that we have to get digital content out and to market and create sponsorship opportunities for various people. We got a lot of press a couple of weeks ago with an event we did for an album release for the band Korn.

It was a very, very successful event. We put over 5000 people in various of our theaters around the country on a Monday night. Some of the theaters were completely full. People paid up to \$10.00 in some cases and in other cases got free tickets from radio stations, but it proved the power of this network, as we were able to broadcast the album release party into the theaters and then have everyone in the theaters participate in that. It was very interactive, and I think enjoyed by everyone, and I think it proved, in some respects, a business model for releasing albums.

We're working on the same type of thing for film premiers, to try to take film premiers and extend them into theaters around the country and let people throughout the country experience the excitement of various film premiers. On the sports side, we are working on various concepts to bring sports programming into the theaters, and hopefully in the next quarter I'll be able to report some of the progress that we've made there. The other business that we are running within Regal CineMedia, the group sales business, which is gift certificates and all sorts of group sale tickets or bulk tickets that we sell to various corporations is doing very, very well. And I think you can start to see the benefit of having the larger platform to sell. We're about 24, 25 percent ahead of last year in the number of those type of tickets and gift certificates that we're selling. So I think on all accounts, the business is going very, very well.

So, with that, I'd like to turn the call over to Amy to talk about the financial results.

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**Amy Miles** - Regal Entertainment Group - Chief Financial Officer and EVP

Thanks, Kurt, and good morning everyone. Before we discuss the results for the quarter this morning, I wanted to remind you that the numbers we will discuss today are pro forma. Again, our historical prior year results for the second quarter of 2001 as well as the six month period ended in the second quarter of

2001 do not reflect the results of operations for Regal and/or Edwards. They only include the results of operations for United Artists. So, for comparative purposes, we present pro forma information.

Additionally, our capital structure was changed significantly during the April of 2002 period and the May of 2002 period with certain debt refinancing and our May initial public offering. So the pro forma numbers are discussed in more detail in our press release and in our S-1 dated May 8th of 2002. So we believe that the pro forma numbers we will discuss today, and the pro forma numbers provided in our press release, are more useful in understanding our current operations.

Looking out to the second quarter, on a pro forma combined basis, Regal Entertainment Group reported second quarter revenues of 607.3 million. That's an increase of 25 percent over the comparable period in 2001. Those increases consisted of -- that revenue consisted of 409.6 million from box office, 172.2 million from concession sales, and 25.5 million of other operating revenue. The 23 percent increase in box office revenues was driven this quarter by an 18.7 percent increase in attendance and box office growth in pricing of approximately 3.5 percent.

The 27 percent increase in concession revenue was driven by both the attendance increase, as well as growth in our concession per cap, which increased just under 7 percent from the same quarter in the 2001 period. From a synergy perspective, the growth in our per caps was enhanced by adopting a consistent pricing program throughout our combined circuit. We also focused a lot on generating incremental concession revenue by reviewing the product mix of the three individual chains and optimizing that product mix for Regal Entertainment Group.

And we were able to accomplish all of this growth on 105 fewer screens, as we ended this quarter with 5788 screens. Our other revenue for the quarter increased 44 percent, and that's due to both our vendor marketing, our concession rebate program, as well as the increased advertising revenue from Regal CineMedia. As we have indicated at the road show and in earlier conversations, the concessions rebates we received are shown as an increase in our other income, rather than as a reduction of our cost of concessions.

So as a result of the integration, all three circuits are now benefiting from the existing Regal Cinemas concession rebate programs. And looking briefly at our expense line items, with respect to film and advertising, as a percentage of box office this quarter, film and advertising expense produced a 46.7 percent margin. And that represents a 60 basis points decline in margin

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from the same period in the prior year. I think this is an important line item. We were able to control the costs here, in spite of a quarter driven by expensive film titles, such as Spiderman and Star Wars. And we believe that the 60 basis point increase in this line item will be less than the increase reported by our peers in the industry, and that's primarily due to the advertising synergies that we have been able to capture.

We have always been confident that we would be able to generate synergies in the integration of Regal, Edwards, and United Artists in both the concession and the G&A line items. Advertising expense, here, is a good example of where we've been able to achieve synergies outside of those two areas, and that's been in, you know, our consolidation of our newspaper and other advertising efforts.

Moving further down the P&L. With respect to concession cost, they produced a gross margin of 85.5 percent. Remember, that is before our rebate program, because those rebates are reflected in other revenues. So the concession margin represents a 40 basis point improvement over the prior year, and again, the margin improvement is due primarily to cost reductions that we received due to the integration of the circuits. As I mentioned previously, the majority of the savings on the concession side will be reflected in increases in other revenue.

With respect to other theater operating expenses, this line item totaled approximately 21.9 percent of total revenues in the second quarter of '02 for the 2002 period, as compared to 26.4 percent in the second quarter of '01. This 450 (ph) basis point improvement over the same period in the prior year is due primarily to, you know, our strong top line results, coupled with the fixed-cost nature of the majority of the expenses that are reflected in this line item. And with respect to this line item, the integration resulted in lower labor and payroll cost, and reduced the overall theater level cost on the theater side, and these were slightly offset by the expansion of the Regal CineMedia business, where we did incur an incremental cost.

However, the incremental cost on the RCM side were offset by the incremental revenues that we discussed in our increase in other revenues. With respect to general and administrative expenses, those increased approximately \$900,000 for the second quarter. Again, this represents a reduction in G&A, due to the integration of the theater circuit, and it is offset by a increase in G&A for the RCM (ph) period. And when we look forward, with respect to G&A, we would respect--expect further declines for both our third and fourth quarter periods, because those represent the first two quarters where we have a full run

rate of G&A savings. And you would also expect further reductions in the '03 fiscal year.

We talked a lot about on the road show, how we're a company that focuses on cash flow, and in our opinion the success of our quarter is best demonstrated in our adjusted EBITDA growth. We significantly outperformed expectations, and we're pleased to report adjusted EBITDA of north of 135 million. The 63 million dollar increase represents an 87 percent increase over the same period in the prior year, and we were also pleased to be able to convert the 25 percent increase in revenues to the 87 percent increase in EBITDA.

With respect to margins, the adjusted EBITDA margin for the quarter totaled 22.3 percent, and as Mike stated previously, this represents a 750 basis point improvement over the same quarter in 2001. We have a lot of experience here in the integration area, and we've always been a company that focuses on cash flow growth, so when you look at the success of the integration, and you couple that with the strong box office, that result is the strong EBITDA growth that we reported this quarter.

Just turning briefly to our balance sheet, we'll end this quarter with a total debt balance of approximately 727 million. We also end the quarter with just over 270 million in cash. So our net debt to EBITDA is one point, we're 1.0 times *l a b o r e d* (ph) on a net basis. Our balance sheet remains the strongest in the industry, and we continue to believe that will be a competitive advantage, because we have the financial flexibility to execute on our growth strategy, and we also generate substantially more free cash flow than any of our peers in the industry. And on a pro-forma *L T N* (ph) basis for this quarter, we would have generated an excess of 200 million of free cash flow.

So that concludes our remarks today, and so we would now like to open up the call for questions you may have.

## QUESTIONS AND ANSWERS

### Operator

I would like to remind everyone, in order to ask a question, please press star, then the number one on your telephone keypad, at this time. If your question has already been asked and answered, you may withdraw your question by pressing star, then the number two. As a reminder, if you are on a speakerphone, please pick up your handset before presenting your question. Please hold for your first question.

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Your first question comes from Jill Krudik (ph), with Salomon Smith Barney.

**Jill Krudik** - *Salomon Smith Barney*

Thank you very much. Good morning. Could you please give us a sense of how much market share, on a pro-forma combined basis, Regal has gained, perhaps over the year-to-date period, versus last year? It's certainly true that you guys are gaining share. And secondly, if you could provide a little bit more color in terms of acquisitions, perhaps timing issues, big city versus suburban focus? Clearly, you are looking at modern asset bases, domestic versus international? That would all be real helpful. Thank you.

**Unidentified Participant**

Good morning Jill. As far as market share, we currently are at about 20 percent of the domestic box office. Regal, stand-alone last year, was just north of 10 percent, it could vary from 10 to 12 percent, depending on the picture.

**Jill Krudik** - *Salomon Smith Barney*

Do you have a similar pro-forma number for last year?

**Unidentified Participant**

Jill, it would be up almost 2 percent today.

**Jill Krudik** - *Salomon Smith Barney*

Two points?

**Unidentified Participant**

Yes.

**Jill Krudik** - *Salomon Smith Barney*

Okay. And related to acquisitions, please?

**Unidentified Participant**

As far as acquisitions are concerned, I mean we are continuing to have a dialog with a number of parties. We are focusing on,

here again, quality assets, any transaction that we complete has to be accretive to earnings, and we do believe there are opportunities out there, and we're going to continue focusing on trying to be sure those opportunities bear fruit.

**Jill Krudik** - *Salomon Smith Barney*

Can you maybe amplify in terms of whether big city versus suburban focus, or domestic versus international?

**Unidentified Participant**

Well, I think first of all, certainly, it would be domestic, versus international. We are not having any significant discussions on the international front; we're quite content to be a domestic company at this point in time. As far as big city versus domestic, you know our company is a good mix of big city--or excuse me, big city versus mid markets, our company is a good mix already of big city, mid markets, and a few small markets, and we think that any or all of the above, you know if the asset bases are of a quality that meets the bar, would be attractive to us.

**Jill Krudik** - *Salomon Smith Barney*

Great. Thank you very much.

**Operator**

Your next question comes from Scott Berry (ph) with Credit Suisse First Boston.

**Ed Lowe** - *Credit Suisse First Boston*

Hi guys, it's Ed Lowe (ph) for Scott Berry (ph). Congratulations on the great quarter.

**Unidentified Participant**

Thank you.

**Unidentified Participant**

Good morning.

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## Unidentified Participant

Thanks.

## Ed Lowe - Credit Suisse First Boston

Mike, can you talk a little bit about your plans to prune your asset base, in the back half of the year, as well as '03, and how dependant that is on the performance of the box?

## Michael Campbell - Regal Entertainment Group - Vice Chairman, Co-CEO, and Director

Well I think, yeah, we closed, as you know, about 1800 screens collectively, during our respective restructuring. The balance of the closures would come through the normal course of business. We do have a disposal list for the remainder of the year, we expect to close 10 to 12 theaters that would approximate 65 to 75 screens. We're opening two theaters this year with 30 screens, so we still see a net reduction in screen count coming this year.

## Ed Lowe - Credit Suisse First Boston

Great. And then, just a couple of housekeeping items. Can you describe the new bank deal, and the terms on that, as well as the tax rate, on a going-forward basis for both the second half of this year, and '03, I noticed it was a little higher than the first quarter.

## Unidentified Participant

Yeah, certain of our out-performance in the second quarter is coming from theaters in states that have a higher tax rate, so I would expect, on a going-forward basis, our run-rate taxes will--should be in that 40 to 41 or so percent, going forward. And I'm sorry, what was the other part of your question?

## Ed Lowe - Credit Suisse First Boston

Oh, the terms on the new bank deal?

## Unidentified Participant

Again, please remember that that deal is still in process ...

## Ed Lowe - Credit Suisse First Boston

Gotcha.

## Unidentified Participant

We have not closed that to date, but we are in--working on a new 370 million dollar facility. It would be a 220 million dollar term loan.

## Ed Lowe - Credit Suisse First Boston

Right.

## Unidentified Participant

And that's in comparison to the 270 million dollar term loan that we have today, so it will be a reduction in debt, of 50 million dollars.

## Ed Lowe - Credit Suisse First Boston

Right.

## Unidentified Participant

And we also have, as part of that deal, 150 million dollar revolver, and we have a 100 million dollar revolver today. So it's a pay down in the debt number, and an increase in the capacity.

## Ed Lowe - Credit Suisse First Boston

And just a follow-up question for Curt; Curt, can you just give us an update on the response from advertisers under R C M (ph) ?

## Kurt Hall - Regal Entertainment Group - Co-Chief Executive Officer

Sure. The response has been very, very good. Cliff (ph) has had a number of meetings with very high-level people within various corporations, and within agencies, and in fact, we've got a big meeting next week with a very big agency in New York. So the word is getting out, and I think the response is best reflected in some of the numbers. If you look at some of our number--advertising revenue numbers on a comparative basis with the pro-forma for last year, and we're up about 85 percent

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through June, and about 87 percent for the second quarter. So we are starting to see momentum as we start to sell the circuit on a combined basis, which, as you know, really only started in May.

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**Ed Lowe** - *Credit Suisse First Boston*

Thank you very much. Congratulations again.

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**Operator**

Your next question comes from Lawrence Reynard (ph) with Morgan Stanley.

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**Lawrence Reynard** - *Morgan Stanley*

Yes, good morning, and congratulations on your results.

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**Kurt Hall** - *Regal Entertainment Group - Co-Chief Executive Officer*

Good morning.

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**Unidentified Participant**

Thank you.

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**Lawrence Reynard** - *Morgan Stanley*

I just had a couple of questions. One, on the concessions per person, it seems that during the quarter, it was quite shy at 250. I'm just wondering, what's the driver there? Is that a seasonal effect, or is that due to price increases?

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**Unidentified Participant**

I think it's really a combination of several things, but number one, in making the pricing consistent throughout the circuit, I think we generated some incremental per-cap (ph) benefit. Also, the product lineup this year has been favorable for concession; we've had more family-oriented movies, better food revenue-type movies.

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**Lawrence Reynard** - *Morgan Stanley*

Okay.

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**Kurt Hall** - *Regal Entertainment Group - Co-Chief Executive Officer*

I think there was also some, sort-of best-of-breed, reshuffling of the menus going on as well, where certain products and certain sizes would sell better in one circuit as opposed to another, and when you start to bring those benefits across the whole circuit, they are significant.

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**Lawrence Reynard** - *Morgan Stanley*

Okay. Great. And the second question, you mentioned getting better use of the screens for non-selling (ph) events, just sporting or concerts, during the non-peak hours. It seems like the interest for those events would be greatest at the peak hours, unless they would compete with your films. At that point, how much does screen per theater count become a concern to you, when those kind of events become a more important part of your revenue stream?

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**Kurt Hall** - *Regal Entertainment Group - Co-Chief Executive Officer*

Well clearly, having a 14 or a 16 plex, or even an 18 plex, gives us a lot more flexibility to utilize some capacity on say a Friday or Saturday night, but we are getting a lot of interest for various events during the mid week, as I mentioned before, all albums and CDs are released on Tuesdays. So, Monday night becomes a big deal, and most premiers for films are during the mid week. So we've really tried to focus a lot of our manpower, and a lot of our effort on first capitalizing on those opportunities that provide the most upside and increase in equity value for the company. Clearly, if we come across events where we know we can fill 100 percent of the seats, utilizing the 15th or 14th busiest auditorium in any theater on a Friday or Saturday night, still adds incremental value to us. Clearly, we have to work out the relationship with the studio, and make sure that we're not hurting the person who had their film in there. All of this is part of the ongoing relationship and discussions with the studios, but I think our primary focus is during these non-peak times.

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**Lawrence Reynard** - *Morgan Stanley*

Okay, great. Thank you very much.

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**Operator**

Your next question comes from Richard Simon, with Goldman Sachs.

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## Richard Simon - Goldman Sachs

Yes, Richard Simon, I just had a couple of questions on CineMedia pursuit a little other--few other things. First, what is the quality of the capabilities of the system to deliver a product? What can't you deliver right now as currently configured in the four markets, to deliver product in their ultimately acceptable quality? Second, can you give us a better sense of what type of sales organization you're setting up to sell this product to the marketplace, to the advertisers? And lastly, you had mentioned up front - what do you think you'll need to really start to sell an up-front because right now in four markets or even in 10 markets it's a relatively small exposure on the overall up-front radar screen? And it's taking a lot of the media products like cable networks has had quite a few years to build a presence in the up-front market. Do you - do you really believe that this is something you'll see within the next year or two?

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## Unidentified Participant

Now let me - let me address the last one first. Clearly, it is going to take some time to re-educate the market and to prove to the market that we have a product that will deliver the impressions and the type of quality impressions that we think we can deliver. That is going to take some better research.

We are currently in discussions with Nielsen and other research companies about providing us with a much better background of research and database of research that can be used to sell the various products. I think that's critical.

Clearly, this first year we will not have a national network in place. But I think introducing the various agencies and corporations to what we're doing will be the primary goals. But at the same time we'll still have the top 10 markets and, you know, clearly, huge exposure in New York and L.A., which are, you know, big, big important markets to the advertisers. So we think we'll make some progress. The following year we'll clearly have the whole network in place and we'll be able to sell.

The sales force we have - Cliff Marks (ph) is headquartered in New York to be closer to the major agencies. He has a sales staff there that will sell primarily on a national basis. Although as we go through a transition with our local slide business and transitioning that to a digital-delivered more of a rolling stock business, we will have some local sales effort and regional effort.

And we also have a network of video capabilities in McDonald stores and in 7-Eleven (ph) restaurants that we acquired through the NGN acquisition. And we'll be selling those primarily on a regional basis to begin with and then as we get our national network on a theater basis set up we'll be selling that on a national basis as well and, hopefully, expanding those networks.

And your first question was the quality issue. We have the ability to put any digital image on the screen that we need to except for major motion pictures. Clearly, we did not put this network in place with any intention of showing digital cinema on our screens. We knew the quality of the projects was not acceptable to the theater - to the studios nor to us.

The idea was, obviously, create a transition between where we are today with 35mm and when and if digital cinema ever comes along. We have designed the network, however - the infrastructure of the network and the backbone of the network, if you will - to be expandable to carry digital cinema. So that when digital cinema does come along we will have an existing network in place to be able to unplug our existing projectors and plug in new projectors - the new projectors, you know, when and if those come along.

So I think we will have a competitive advantage in rolling out digital cinema when it does come along. And as you know, the studios are working on that. I don't see that happening for several years, given the work that has to be done on standards and technology and then the roll-out itself.

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## Unidentified Participant

OK, thank you very much.

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## Operator

Your next question comes from Jeff Logden (ph) with Gerrard Clower (ph).

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## Jeff Logden - Gerard Clower

If you could go through what you expect total capital expenditures to be this year and next year for me?

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**Amy Miles** - Regal Entertainment Group - Chief Financial Officer and EVP

Sure. Year-to-date the total company has spent approximately 30 million. We would expect for the back half of the year to have capital expenditures somewhere around the \$65 million range. So that is a little bit lower than our previous guidance has been with respect to cap ex.

And again, when we talk about integration synergies one of the benefits of integration is having the ability to review your capital spend programs on a consolidated basis. And certain expenditures you may chose to do on a stand-alone basis you would re-evaluate when you're on a - you know, when you're evaluating the company from an integrated perspective.

With respect to fiscal '03, I would expect that we would spend somewhere around 100 to \$105 million range in cap ex.

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**Jeff Logden** - Gerard Clower

And of those numbers what do you consider maintenance cap ex and what do you consider project or growth cap ex?

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**Amy Miles** - Regal Entertainment Group - Chief Financial Officer and EVP

Sure. Our maintenance cap ex for the company is about 45 million a year. We also have expenditures for the Regal CineMedia Network, this should total somewhere around 65-67 million. So the additional cap ex would be new build cap ex.

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**Jeff Logden** - Gerard Clower

And then secondly, if you can talk a little bit - you've mentioned it two or three times and maybe I'm just missing something but, the whole issue of rebates on concessions and that that becomes a plus to revenues in the ...

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**Amy Miles** - Regal Entertainment Group - Chief Financial Officer and EVP

Sure.

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**Jeff Logden** - Gerard Clower

... in the other category. Why not just use it just as a reduction in cost?

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**Amy Miles** - Regal Entertainment Group - Chief Financial Officer and EVP

You know, this has been a question that's been answered by third parties as with respect to what the correct presentation of that rebate. There are certain rules regarding how you classify costs as a - a rebate as a reduction of cost. This is viewed as - even though it's associated with our beverage arrangement with our third-party supplier - would they also receive a lot of advertising in the theater associated with this contract? So since it's considered to be more advertising in nature, it's advertising or other income for the company.

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**Jeff Logden** - Gerard Clower

OK, well that explains it a little bit. And then finally, in your film rental costs, even if you just look at Regal from year-to-year excluding, you know, the acquisitions that were made, what changes are you really seeing in the film rental costs, if any? Are we getting higher highs for early weeks of frontline a title event films? You know, are middle market coming down? Is anything really changing or is it the same game it's always been?

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**Amy Miles** - Regal Entertainment Group - Chief Financial Officer and EVP

I think in summary, it's the same game it's always been. You'll see certain pressure on other films and that's offset by film costs associated with mid-range films.

If you look at - we'll use Regal Cinemas for an example on a stand-alone basis, and you go back over seven years time, there's not been more of a 40 basis point swing in that line item. So based on that data I would say that film cost has been relatively stable over that time period.

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**Jeff Logden** - Gerard Clower

Great. Looks like you guys had a terrific quarter.

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**Amy Miles** - Regal Entertainment Group - Chief Financial Officer and EVP

Yeah, thank you.

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## Operator

Your next question comes from Keith Stephenson (ph) with Jefferies.

## Keith Stephenson - Jefferies

Good morning. Congratulations, again, on the quarter. Just a few questions for you. I want to start off one, on the box office and then I have a follow-up question.

Given the past sort of two weeks we've had with a little bit of weakness in the box office year-over-year, I was just wondering going forward here for the last half - I know you touched on it briefly, but if you could give some guidance in terms of what your expectations are for the box office on a year-over-year basis in terms of an increase?

## Unidentified Participant

I think the final two quarters - I mean, we had good quarters last year. That's the first thing to remember. And, you know, indeed we did have a flattening of the box office over the last couple of weeks. We still remain bullish overall in the box office, but as we said earlier, we don't think people can realistically expect to see the type of increases in the 20% range that they saw early in the year. That's extremely unusual, but we would expect the box office *abound* (ph) for this year to be flattish to slightly up and I think that's consistent with the feeling that's on the street out there.

## Keith Stephenson - Jefferies

Great, good. Just a follow-up question to that then, and you discussed this a little bit, talking about some of the product going forward into 03, and there seems to be, out of Hollywood, sort of in focus now, even more than in the past on these franchise films, films, whatever you want to call them, and then there's been a couple articles in the press recently about the *plu s r e d* (ph) sequels that are coming. given those two trends, do you see that having any impact on your film costs going forward and if so, could you comment on that a little bit?

## Unidentified Participant

Well, I really think that that's consistent with what's already been happening in the marketplace the last few years, I mean, *T e m p o* (ph) pictures, sequels, we're always wanting to pay higher film terms for those than we do other pictures, but as

Amy said earlier, once we go through all the gyrations of determining our film rental costs for the studios, there seems to be very little change year-over-year, so we don't see that being that a significant factor going forward.

## Keith Stephenson - Jefferies

Great. Thank you very much.

## Operator

Your next question comes from Shapiro Andrews (ph) with Lawndale Capital Management (ph).

## Shapiro Andrews - Lawndale Capital Management

Good morning. This is Andrew Shapiro from Lawndale (ph) Capital Management.

## Unidentified Participant

Morning.

## Shapiro Andrews - Lawndale Capital Management

In the revenue and *E v a D o w* (ph) numbers you provided, in comparison to last year's numbers, question. Were the acquired chains included in those numbers?

## Unidentified Participant

When you look at the pro-forma presentation that we provided in the press release, which has been the numbers we focused on today, yes they are, for all periods presented. If you look at our historical statement of operation in our press release, all circuits are include for the second quarter and it only reflects the operations of United Artists for the second quarter of 2001.

## Shapiro Andrews - Lawndale Capital Management

Okay.

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## Unidentified Participant

But if you use the pro-forma, yes you have an apples-to-apples comparison.

## Shapiro Andrews - Lawndale Capital Management

So this would be - then this would be like a same screen - do you have same screen revenues in EBITDA number comparisons, or that's what these are.

## Unidentified Participant

Yeah, we entered the quarter last year with 5893 screens, we entered this quarter with 5788, so there has been a slight downturn in screens, but it's only 105 screens, so yes go (ph) pretty much same screen. There were no new theatre opening during that time period which would impact the numbers.

## Shapiro Andrews - Lawndale Capital Management

Very good. Thank you.

## Operator

Your next question comes from Wayne Archimbow (ph) with BlackRock (ph).

## Wayne Archimbow - BlackRock

Yes thank you. Could you give us a little more color on the acquisitions in terms of the Eva Dow (ph) multiples you're looking at here, as well as the sensitivity to accretions earnings and the timing of the accretion to earnings and so forth? Thank you.

## Unidentified Participant

Well, as far as the acquisition multiples, yeah, we continue to believe that there is a market out there in the historical range which, you know, has been typically been five to seven times, and you know, somewhat inflated by trailing twelve results, we have to take that into consideration when we have discussions with potential targets. As far as accretion to earning, I mean that's - we continue to say that, we will continue to say that, that we do do a sensitivity analysis on every potential transaction and if we don't get a acceptable accretion rate it is something that we're just not willing to do.

## Wayne Archimbow - BlackRock

In that accretion is immediate or within the first year, or second year, or six months, or - do you have any sensitivity to how quickly these acquisitions may be come accretive?

## Unidentified Participant

I think from the perspective, particularly if you look at our second quarter results and you see what is happened with respect to the cost savings on United Artists and Edwards, a lot of the synergies where we will focus is the reduction of GNA, in the integration of the target company into our existing beverage and other supply contracts. So most of those occur pretty quickly from an integration perspective. They are not difficult synergies to achieve.

## Wayne Archimbow - BlackRock

Great, thank you.

## Operator

Your next question comes from Curt Alexander (ph) with Media Group Investors.

## Curt Alexander - Media Group Investors

Hi, could you give us your pro-forma adjusted Eva Dow for Q3 and Q4 of last year?

## Unidentified Participant

Yeah, one second please. I think I have that on a report here. Yeah, let me have somebody call you back. I have a range here but I don't want to say the number without the exact range. It was approximately 110 for the third quarter and under that for the forth, but I'll get you those exact numbers.

## Curt Alexander - Media Group Investors

Okay, thank you very much.

## Unidentified Participant

Yes sir.

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**Operator**

Your next question comes from John Maxwell with B & P (ph) .

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**John Maxwell - B&P**

Good morning. Curt, Mike, I'm sorry. I know you talked about the film rental issue, but I was just wondering, given the size of the company now, are you seeing or do you expect to see better film rental terms from the studios?

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**Michael Campbell - Regal Entertainment Group - Vice Chairman, Co-CEO, and Director**

We haven't built that into any of our business models. We believed, you know as we've said early in the call that those numbers have been historically flattish and we have a business model to maintain, the studios have a business model to maintain, so we don't factor that into our model going forward, and certainly if you look at what's happening in the market place, I think that would bear out what I'm telling you.

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**John Maxwell - B&P**

Okay, and Kurt, I guess you started to talk about the digital projectors. I guess the big question is always been, who's financing it, whether it's the studios or the theatre guys. Is that still going to be the big issue going forward?

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**Kurt Hall - Regal Entertainment Group - Co-Chief Executive Officer**

Well I think it is, and as you probably know from the press. They have formed a consortium of theaters, I don't think they have come up with a name yet for it, but NewCo (ph) . They have selected a CEO and I've been told a CTO, so I think they are on they're on their way to trying to figure these issues out. It think they're first order of business is more along the standards and technologies , but I think one of the next steps has to be 'okay, how do you finance this thing and how do you roll it out'. And you know we still continue as does the rest of the industry, to contend that there are no benefits, or no significant benefits to our business model in that we can't charge more for the tickets and we're not seeing any evidence that more people will go to see digital as opposed to 35 so to the extent that there's no benefits in our business model, it really doesn't make sense for us to finance it. So I think until somebody can

show us compelling evidence to the contrary, I think we'll continue to hold that view.

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**John Maxwell - B&P**

Okay, all right thank you very much.

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**Unidentified Participant**

And I'm sorry. Whomever asked the question about the - a draft of Eva Dow. I found it on my sheet. Our third quarter of 01, the adjusted Eva Dow was 108, and for the fourth quarter it was 88 million.

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**Operator**

Your next question comes from Wayne Cooperman (ph) with Cobalt Capital.

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**Wayne Cooperman - Cobalt Capital**

Hi guys. How are you?

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**Unidentified Participant**

Morning

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**Unidentified Participant**

Good thanks.

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**Wayne Cooperman - Cobalt Capital**

I feel kind of stupid asking this question, given the history of the company and the fact that's it just came public, but given the results, devaluation of the stock, and the balance sheet, have you guys given any thought to share repurchase, and how do you compare buying back your own circuit versus acquisitions and what you might have to pay for an acquisition?

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**Unidentified Participant**

At this point and time, no we have not - I mean we will prudently use our cash and we have a lot of growth strategies that we've talked about previously. Some of those include some debt repayment that we talked about and also a strong focus on

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acquisitions, and using our cash today to for that acquisition effort. We're comfortable with our leverage and we do not want to put a lot of debt on our balance sheet with respect to those acquisitions. So at this point and time, having only been public a couple of months, we have not considered a share buy back.

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**Wayne Cooperman** - *Cobalt Capital*

I mean, what's sort of the acquisition multiples that are out there. If you could just give me a sense.

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**Unidentified Participant**

Yeah, as Mike stated previously they're kind of returning to the historical levels of that five to seven times.

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**Wayne Cooperman** - *Cobalt Capital*

Right, right. Okay great. Well, thanks and keep up the good work.

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**Unidentified Participant**

Thank you.

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**Operator**

Your next question comes from Dennis McAlpine with McAlpine Associates.

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**Dennis McAlpine** - *McAlpine Associates*

Thank you. Good morning.

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**Unidentified Participant**

Morning Dennis.

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**Dennis McAlpine** - *McAlpine Associates*

I think you commented earlier Michael, that there were no screen openings on either the first or second quarter?

**Michael Campbell** - *Regal Entertainment Group - Vice Chairman, Co-CEO, and Director*

That is correct. The screen openings this year will occur in the final quarter. Two locations.

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**Dennis McAlpine** - *McAlpine Associates*

And if you look at the absolute number of the rent, given that the screens are going down, is the increase in absolute rent from 62.4 (ph) in the first quarter to 63.9. Is that just normal increases or what's happened to drive that up.

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**Unidentified Participant**

There's been a slight increase in rent due to the box-office. There are certain percentage rent targets in certain of our leases. So in a period where box office is up 25%, you trade those percentage rent cases (ph) and certain of the theaters that we acquire are owned properties, so when you do it on a per-screen basis, it's not truly an increase in rent, it just the theater that we closed did not have any rent associated with that theater.

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**Dennis McAlpine** - *McAlpine Associates*

And so if the box office is say, up 5% instead of up 20%, those numbers would come down?

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**Unidentified Participant**

Yes they would.

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**Dennis McAlpine** - *McAlpine Associates*

And then the two fifty in concession cost, how much is sustainable in the sense of that you put in price increases that will stay as opposed to a mixed question.

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**Unidentified Participant**

You're talking about the two-fifty per cap.

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**Dennis McAlpine** - *McAlpine Associates*

Right.

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## Unidentified Participant

I think that's sustainable. I mean it's been a combination of price adjustments as well as a change in product mix, as was said earlier, once we've combined all three companies, we looked at all of the *bid views* (ph) and took the best of all worlds and put it together so, I believe that's a sustainable number, you know, subject to seasonal fluctuations, it runs higher certain times of the year than it does others, but over all that's very sustainable.

## Unidentified Participant

somebody made the point before that the studios are tending to focus on some of these event films, these event films generally are better concession films, so the extent that that trend continues, that will obviously bode well for our concessions.

## Dennis McAlpine - *McAlpine Associates*

And Kurt, can we assume that the couple of commercials which I think we're seeing on Cinemedia in the New York area, that's just the sort of a trial test, and that will be substantially larger?

## Kurt Hall - *Regal Entertainment Group - Co-Chief Executive Officer*

Yeah, the stuff that's on the screen in any digital stuff you've seen in Manhattan, that's probably what you've seen, will - is right now just test stuff that we've gotten from companies to just test the system, test response. Clearly one of our strategies, and I think it's an important part of our strategy, is to continue to get the advertisers and the agencies to improve the quality of the advertisements, and to use the theater platform as something new and different, not just big TV, it's something completely different and something that they should use in a different way to show their products and brands. So we're going to be pushing pretty hard for people to create higher quality ads, and we're going to be very selective, because we're mindful of any negative effect that it might have on our audience.

The other thing that we're going to be focusing on is making sure that advertisements do not flow in to the time that we would normally give to the studios for trailers or for the show time. So if we're going to -- in the future, when we advertise a 7:00 show time, it's meant that the ads will end at 7:00, and the trailers will start, and then the show. So we're very, very sensitive to the patron here, and a lot of that is going to be

getting the advertisers to create a much higher quality advertisement for us.

## Dennis McAlpine - *McAlpine Associates*

Thank you.

## Unidentified Participant

Well, we appreciate you joining us this morning for our call and we look forward to speaking to you again in the third quarter.

## Amy Miles - *Regal Entertainment Group - Chief Financial Officer and EVP*

And just in closing, we'd like to mention, if you'd like to hear more about Regal Entertainment Group today, we will be featured on CNBC Morning Call at approximately 11:40 Eastern, today. Thank you.

## Operator

Thank you for joining this morning's teleconference. You may now disconnect.

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