



North American Cinema Exhibitor Report 2016

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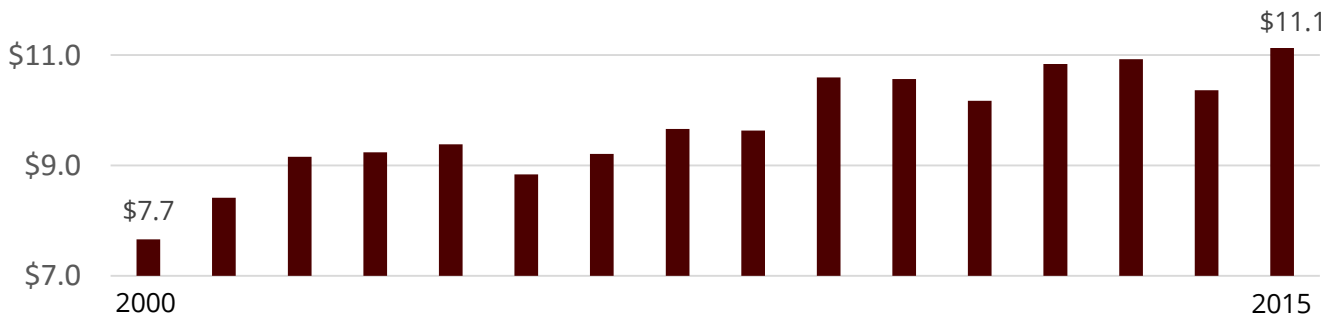
The cinema exhibitor industry was extremely active and achieved record numbers in 2015, and both strong performance and activity have continued through the first three months of 2016. 2015 was a record year for box office revenue, which increased concessions revenue and most importantly, improved margins. AMC Entertainment's agreed upon bid for Carmike Cinemas for \$1.1 billion on March 3, 2016 represents and highlights a number of trends in North American cinema exhibition including strong financial performance, robust cinema operations and active sector dynamics.

The entire industry, including large public, regional and smaller cinema exhibitors, was able to take advantage of 2015's exceptionally strong film slate realizing increased average admissions prices and concessions per capita.

However, operators are facing increasing pressure to continually improve their offerings to differentiate themselves from exhibitors that are spending considerable capital expenditures on improvement initiatives. Non-upgraded theatres are not able to capture as much of the benefits from the strength of the overall box office performance because they are not able to charge as much or they are not able to draw attendees from their competitors.

Operators are in need of ways to further increase revenues and scale, and the most efficient way of doing so has been through acquisition. Based on the demand for theatre assets, the relative value of smaller exhibitors has increased. The need for large exhibitors to continue to grow and the inability for smaller exhibitors to spend to compete has created an active M&A environment. The resulting industry consolidation along with strong box office performance is providing smaller exhibitors with the opportunity to consider strategic options.

North America Box Office Gross Revenue 2000 to 2015 (\$bn)



We believe that the timing to sell for smaller, regional and potentially family owned exhibitors is in their favor and expect to see significant M&A activity in the next few years.

North American box office achieved its highest grossing revenue year ever in 2015 with \$11.1 billion, an increase of 7.4% as compared to \$10.4 billion in 2014. This represented a 1.9% increase over the \$10.9 billion of gross revenue in 2013, the previous all-time high. The number of **tickets sold (attendees) increased 4.1%** with **average ticket prices also increasing 3.2% to \$8.34, an all-time high.**

Growth in box office revenues, attendees and average ticket price were driven by a strong slate of films including major blockbusters from both established franchises and new hits. 2015 had 2 films gross in excess of \$600 million, *Jurassic World* and *Star Wars VII*, and the top 10 grossing films accounted for \$3.9 billion (~35% of total box office) versus \$2.7 billion (~25% of total box office) in 2014.





Along with increased attendance and growth in box office revenues from increased ticket prices, concessions sales grew with higher concessions per capita for the public cinema operators. **The average concessions per capita** for the five major North American operators ("Top 5") in 2015 was \$4.28 versus \$3.93 in 2014, representing a **9.0% year over year growth rate.**

We estimate that on average, concessions per capita increased for the overall market given the relationship between the overall market and the Top 5 for average ticket prices has been similar to concessions per capita in previous years. *(Average ticket prices grew 3.3% for the Top 5 while the market average ticket price grew 2.1% in 2015 and 0.8% and 0.5% respectively in 2014. 2014 concessions per cap grew 6.5%).*

With increased attendance helping drive admissions and concessions growth, overall revenues increased significantly. With more patrons attending films, **other revenues, including advertising and alternative content, also increased in 2015 with an average increase of 17.3%** for the major public exhibitors *(excludes Carmike and Cineplex; Carmike does not breakout other revenue from concessions revenue and Cineplex has other business lines included in its other revenue).*

As exhibitors are able to extract more revenue per attendee, margins also improved in 2015. For the Top 5 in 2015, average EBITDA value increased 15.9% and **Adjusted EBITDA increased 17.7%** while the average EBITDA margin increased from 18.0% to 19.1% and **Adjusted EBITDA margin increased from 18.0% to 19.5%.**

2015 North America Cinema Exhibitor Performance: A Record Breaking Year

North America Exhibitors	YoY growth		Top 5 Exhibitors	YoY growth
\$11.1 billion box office gross revenues	7.4%		\$6.3 billion box office gross revenues	6.3%
\$8.34 all-time high average ticket price	2.1%		\$8.56 average ticket price	3.3%
N/A <i>(not tracked for entire market)</i>	N/A		\$4.28 concessions per cap (Top 5)	9.0%
1.3 billion attendance	5.2%		735 million attendance	3.0%

Sources: Box Office Mojo, "Top 5" information from individual company 2015 10-k filings

After experiencing record numbers in 2015, **2016 is trending towards another record setting year, up 12.4% YTD** over 2015 in box office revenues as of March 31st. Industry insiders and experts are bullish about the 2016 film slate and are expecting the trend of high grossing established franchises to continue with a significant number of well-known franchises slated for release. However, they expect 2016 to end relatively flat compared to 2015 box office revenues. With a number of the 2016 film slate being "tent-pole" films released in premium formats such as IMAX, 3D, RealD, average ticket price for admissions is expected to continue to rise in 2016 with YTD as of March 31st **average ticket price of \$8.70, a 4.3% increase** over 2015. Similarly, **YTD attendance as of March 31st is up 7.8% over 2015** (2015 YTD March 31st attendance estimated by dividing YTD box office revenue \$2.48bn, by full year average ticket price 2015, \$8.34).

Industry analysts covering the public cinema exhibitors have varying views on projected 2016 box office revenue and attendance. The majority of analysts are forecasting flat to a slight decrease in revenue and admissions versus 2015 while a few analysts hold a more cautious view, forecasting an approximately 3.5% decrease.

2016 North America Cinema Exhibitor YTD March 31 Performance

	YTD growth
\$2.8 billion box office gross revenues	12.4%
\$8.70 all-time high average ticket price	4.3%
318 million attendance	7.8%

However, due to the strong slate of sequels and the strong performance to start the year, analysts agree that **there is potential for 2016 to be a higher attendance growth year than current forecasts.**

Although the metrics for the entire North American theatrical exhibition market are projected to flatten versus the recent increase, projected performance can vary significantly by exhibitor. Acquisitions, new builds, divestments of underperforming cinemas, introductions of concessions concepts, 3D screen capacity, enhanced offerings such as luxury seating and other revenue generating services provide individual exhibitors with ways to increase total revenue, box office admissions, concessions revenue and attendance. **Consensus analyst estimates for the major public cinema exhibitors** (excludes Cinemark as there are no estimates for Cinemark US only, CapIQ March 31st) **project 2016 total revenue growth of 4.2% and EBITDA growth of 12.7%.**

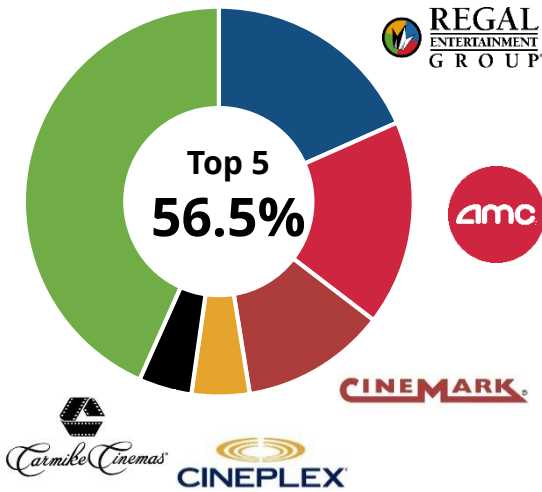


Industry Dynamics and Consolidation

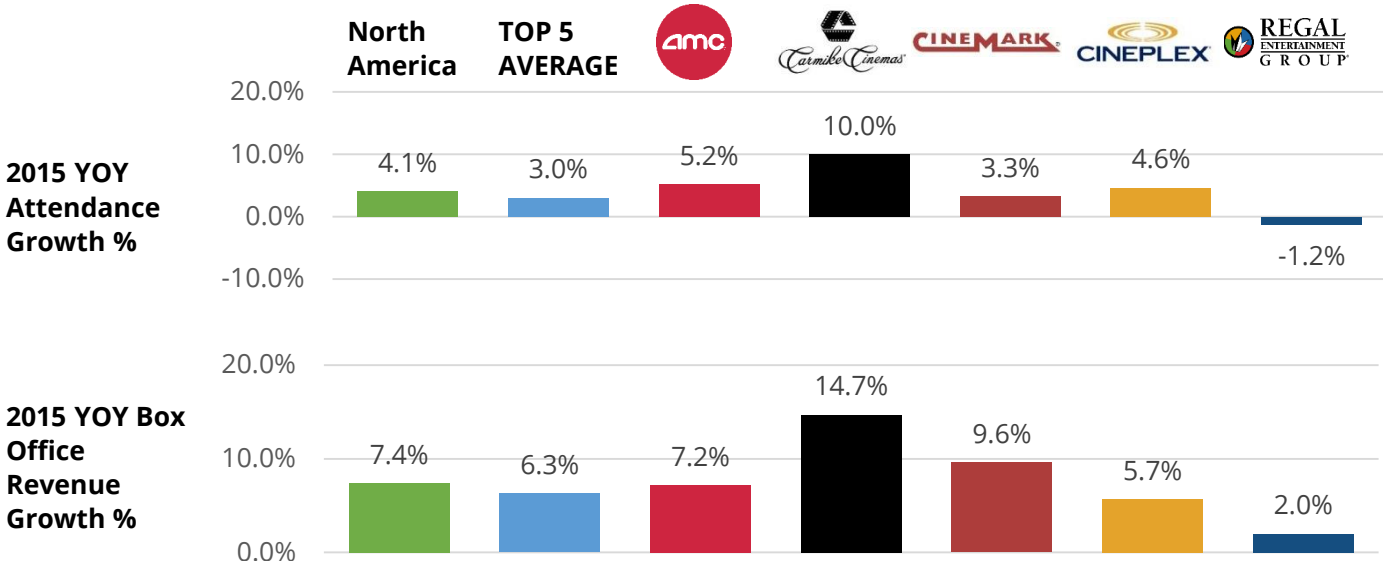
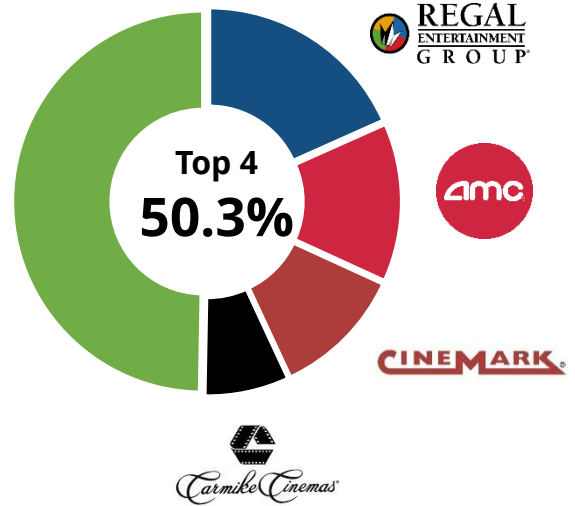
The North American cinema operator industry is highly concentrated with the **Top 5 accounting for 56.5% of total box office** revenues. The Top 4 exhibitors in the US account for **50.3% of total screens** in the US (40,174). Ability to spend on improvements, try new concepts, leverage scale and purchasing power along with vendor relationships, etc. allow the Top 5 to further differentiate and grow faster than smaller competitors.

Although market-wide box office revenues have the potential to be flat, **individual exhibitors can perform at a wide margin from the market** through acquisition and capital expenditures, i.e. Carmike. While attendance grew 4.1% for the industry, AMC grew 5.2%, Regal declined by 1.2%, Cinemark US increased by 3.3% and Carmike grew by 10%. Similarly, the overall box office revenue grew 7.4% while AMC, Regal, Cinemark US, Cineplex and Carmike grew revenues 7.2%, 2.0%, 9.6%, 5.7% and 14.7% respectively.

North American Exhibitors % of Box Office Revenue



US Exhibitors % of Screens



Sources: NATO "Number of US Movie Screens"; "Top 5" information from individual company 2015 10-k filings

Industry Dynamics and Consolidation

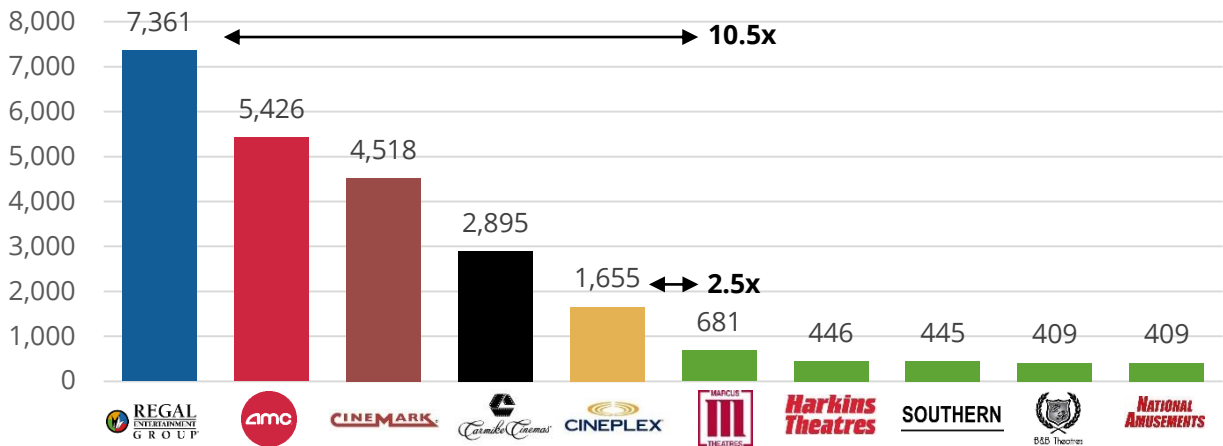
There are a few independent players that maintain regional presence and achieve market share, however, **below the Top 5, there is a steep decline in number of screens.** The number six exhibitor by number of screens is Marcus Theatres with 681 screens and 53 locations. The remainder of the Top 10 operators in North America operate between 400 and 450 screens, Harkins (446), Southern (445), B&B (409) and National Amusements (409). By comparison, Cineplex, **the number 5 operator by number of screens is approximately 2.5x the size of Marcus, and Regal, the largest operator in North America is approximately 10.5x the size of Marcus.**

Recently, Top 5 exhibitors have been acquiring other Top 25 exhibitors. Although, subject to shareholder approval and Department of Justice review, the agreed upon acquisition of Carmike Cinemas, the number 4 operator by number of screens in the US, by AMC Entertainment further enhances the idea that the industry will consolidate. In 2015, AMC acquired Starplex, the number 14 theatre group in North America by number of screens. The larger exhibitors have also acquired groups of theatres from other smaller exhibitors as well. Regal acquired five theatres from The Georgia Theatre Company and Carmike acquired Sundance Cinemas as well as 2 locations divested from the AMC-Starplex transaction.

Although it is difficult to compete with the larger players nationally, exhibitors that do maintain a strong regional presence have been able to acquire and/or merge, achieving scale and protecting their markets. B&B Theatres acquired Dickinson Theatres in late 2014 to become the 9th largest exhibitor in the US.

Another area where smaller exhibitors and/or new entrants have had success is with newer concepts where operators are providing truly differentiated offerings and experiences that are complementary to the traditional cinema offering. Studio Movie Grill and Alamo Drafthouse have been expanding over the last few years, where Studio Movie Grill has grown to 25 locations and ~240 screens and Alamo Drafthouse has grown to 24 locations and 168 screens with plans for 7 new locations and 43 additional screens in 2016. However, the larger exhibitors have started incorporating these concepts into their offerings. AMC has had real success with in theatre dining and is continuing to offer it as an option in more locations. Movie Tavern, one of the early entrants in the in theatre dining concept, was acquired by Southern Theatres in 2013.

Top 10 North American Cinema Exhibitors by Number of Screens



Industry Dynamics and Consolidation

Top 40 North American Cinema Exhibitors by Number of Screens

1. Regal	7,361	21. Cobb Theatres	235
2. AMC (Starplex)	5,426	22. Wehrenberg Theatres	210
3. Cinemark	4,518	23. Regency Theatres Inc.	196
4. Carmike (Digiplex, Muvico)	2,938	24. Larry Miller Megaplex Theatres	178
5. Cineplex	1,655	25. Marquee Cinemas	173
6. Marcus	681	26. Pacific Theatres/Arclight	171
7. Harkins	446	27. Phoenix Big Cinemas	169
8. Southern	445	28. Alamo Drafthouse Cinemas (estimate)	140
9. B&B Theatres (Dickinson)	409	29. Celebration! Cinema	155
10. National Amusements	409	30. MJR Theatres	153
11. Bow Tie Cinemas	388	31. Cinema Entertainment Corp.	151
12. Landmark Cinemas Canada	278	32. Coming Attractions Theatres	151
13. Malco Theatres	348	33. Neighborhood Cinemas Group	147
14. Georgia Theatre Company	326	34. United Entertainment Corp.	143
15. Frank Theatres	282	35. Cinema Guzzo	142
16. Landmark Theatres	278	36. Santikos	129
17. Goodrich Quality Theatres	277	37. Galaxy Theatres	126
18. Premiere Cinema Corp.	254	38. Your Neighborhood Theatres	125
19. Studio Movie Grill (estimate)	240	39. Flagship Cinemas	112
20. Reading Cinemas USA	236	40. Allen Theatres	107

() shows recently acquired circuits

List based on Box Office Pro Magazine List of Top Exhibitors by Screens, updated for 2015

Top 10 M&A Activity

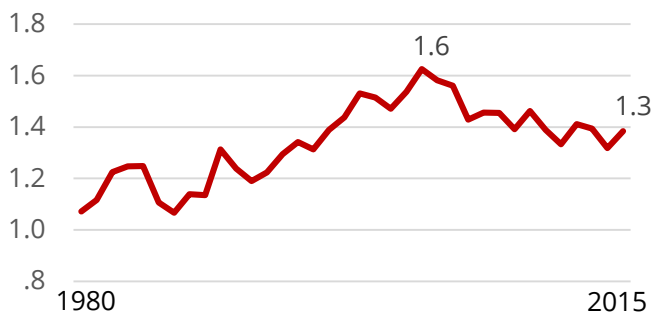
Significant activity in Top 10 changing sector dynamics											
	Acquired Hollywood Theatres, 513 screens [remove #7 operator]	Bid for Carmike Cinemas, 2,895 screens [remove #4 operator]	Acquired ~500 screens from Rave Cinemas [remove #6 operator]	Acquired ~25 screens from Rave Cinemas [remove #6 operator], Acquired Digiplex, 259 screens [remove #18 operator]					Acquired Movie Tavern, 130 screens to move from #17 operator to #8	Acquired Dickinson Theatres, 169 screens to move from #23 operator to #9	

Industry Trends and Growth Opportunities

ATTENDANCE

From the peak year of tickets sold in 2002, with 1.6 billion tickets, attendance has generally trended downwards at a decrease of approximately 1.3% per year to 1.3 billion tickets sold in 2015, after experiencing an annual growth rate of 2% per year from 1980 to 2002. The recent downward trend can be partially attributed to technology and alternative forms of delivery and content.

Attendance (1980 to 2015, billions)



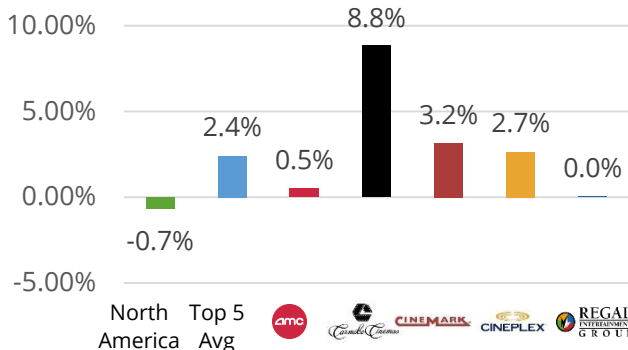
An exception to the downward trend has been in the years with mega-blockbuster films (films with revenues in excess of \$600 million) where attendance has increased. Over the last ten years, in years of attendance growth, 2015, 2012 and 2009, the number of tickets sold grew 5.2%, 6.1% and 5.3% respectively with *Jurassic World* grossing \$652 million and *Star Wars: The Force Awakens* grossing \$651 million in 2015, *The Avengers* grossing \$623 million in 2012 and *Avatar* grossing \$750 million in 2009. 2016 YTD attendance is up 7.8%. **2017 to 2019 are unprecedented where two or three of the highest grossing franchises of all time will be released in each year and consecutively for three straight years** (2017: *Avatar 2* and *Star Wars VIII*, 2018: *Avatar 3*, *Jurassic World 2* and *Avengers Infinity War 1*, 2019: *Avatar 4* and *Avengers Infinity War 2*)

Although organic attendance has been decreasing, **individual exhibitors have seen significant attendance growth** over the same time period through acquisition, building new theatres and increasing appeal of theatres as well as divesting underperforming theatres.

Over the last four years, overall attendance has declined 2.0% for total market box office while AMC, Regal, Cinemark US, Cineplex and Carmike have grown 1.6%, 0.1%, 9.8%, 8.2% and 28.9% during the same period. According to AMC's "AMC/Carmike Acquisition Conference Presentation 3.4.2016," AMC had increased attendance of 60+% in theatres with recliners that were converted prior to January 1, 2016. Additionally, dine-in theatres achieved +4% attendance growth in 2nd year compared to LTM pre-dine-in theatre.

Cinema continues to be the cheapest and represents the largest attendance for forms of out of home entertainment. Similarly, more options complementing the movie experience are increasing the traffic into theatres by offering more value to moviegoers. We expect the introduction of luxury seating into more theatres by exhibitors across the entire industry to continue as the concept has been successfully proven as one of the major drivers of growth in the exhibition space.

Top 5 Attendance CAGR 2012-2015



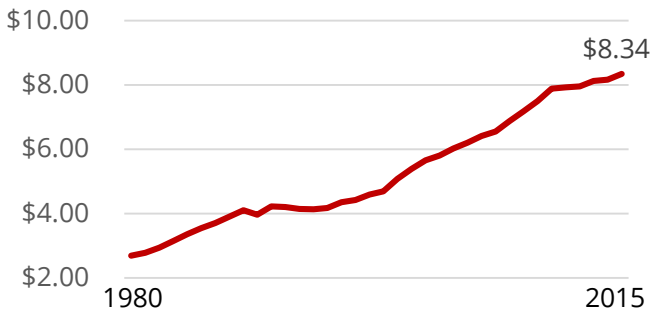
Industry Trends and Growth Opportunities

ADMISSIONS PRICING & PURCHASING

Movie ticket admission prices have increased overall with inflation over the last 25 years since 1980 with certain time periods experiencing higher growth than others for various reasons. **2015 averaged the highest admissions per ticket of all time at \$8.34, a 2.1% increase from 2014. 2016 YTD March 31st has seen a 4.3% increase in average ticket price, now reaching \$8.70.**

With the conversion to digital projection systems, stadium seating, and larger seats and introduction of 3D films, operators were able to increase ticket prices at a faster rate from 1999 to 2010. From 2010 to 2015, exhibitors have been able to increase ticket prices, albeit at a lower average rate of 1.1%, as more and more films are being released in premium formats including 3D, large format and in theatres equipped with recliner seats. **From 2012 to 2016 YTD, the average rate of increase was 3.0%.** With these improvements the large exhibitors have increased their ticket prices at a faster rate. **For the Top 5, ticket prices increased 3.3% in 2015 versus 2.1% for the entire North American box office.**

Average Ticket Price (1980 to 2015)



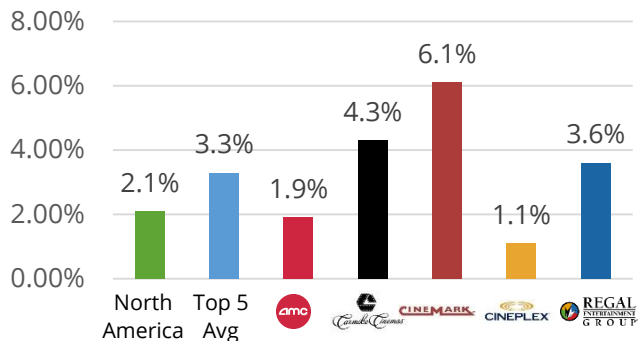
More theatre exhibitors are equipping their theatres with premium formats and recliner seats and have plans to continue the strategy and the trend is expected to continue. Not only are the theatres equipped, but the studios are producing films that are well-suited for premium formats. The trend continues toward more blockbuster films.

AMC has experienced 12-15% higher ticket prices in theatres with premium formats and amenities. In 2015, 3D films licensed by AMC in the US generated approximately 41% greater admissions revenue per person than the standard 2D versions of the same film, or approximately \$3.68 additional revenue per ticket. As these theatres generate more revenue, studios will produce more and more blockbuster content.

AMC achieved the highest admissions per ticket at \$9.61 of the large exhibitors in 2015. AMC does tend to be in larger markets, which affects its ability to charge more for a ticket. However, the growth trend is market-wide.

Tiered offerings such as AMC Prime include a premium experience with that combines spectacular image and sound technologies with design and comfort. AMC Prime includes Dolby Vision laser projection, Dolby Atmos sound, "moving audio" and power reclining seats that vibrate. This has generated 63% more revenue (\$5.58 per ticket) than its traditional offering for AMC. Additionally, there are companies such as DBOX, which provides motion seating seamlessly coded with the content for an enhanced movie going experience. Rows of DBOX seats are currently installed in 44 of Cineplex's auditoriums with an agreement to install into 23 additional ones as well as an agreement with Cinemark to install motion systems into 80 new screens.

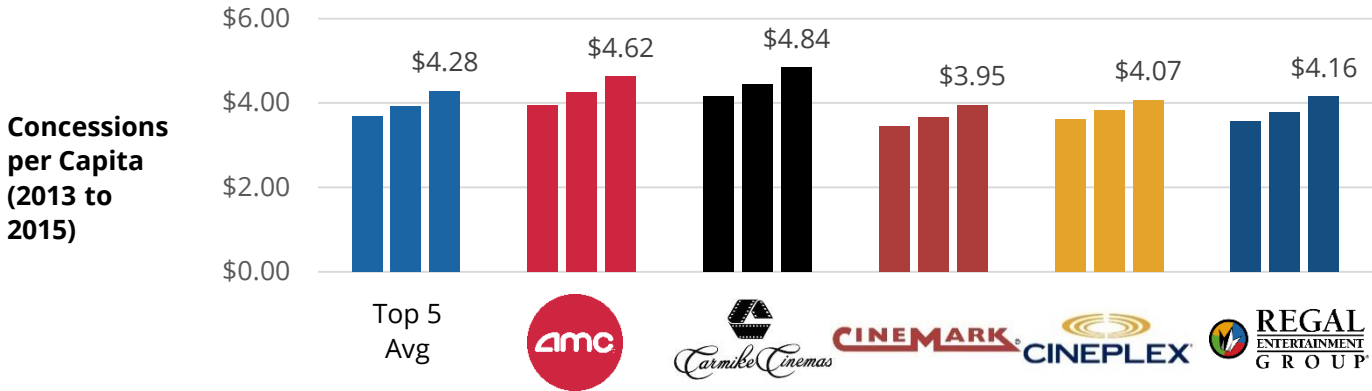
Top 5 Average Ticket Price Growth 2015



CONCESSIONS PRICING & PURCHASING

Concessions pricing continues to increase as operators introduce various food and beverage offerings including full meal options as well as beer and wine. The average for the **Top 5 grew 9.0%** to \$4.28 concessions per capita in 2015, in line with the trend of a 6.5% increase in 2014 and 3.7% in 2013.


All of the Top 5 have consistently shown increased concessions per patron with increases in 2013, 2014 and 2015 of 2.9%, 7.9%, 8.5% for AMC, 3.3%, 5.4% and 10.4% for Regal, 3.7%, 6.3% and 8.1% for Cinemark US, 4.2%, 5.7% and 6.7% for Cineplex and 7.9%, 6.9% and 8.8% for Carmike.



Newer concepts for food and beverage are also being introduced to the market further driving concessions upward. The rise of the theatres specifically catered to a crowd, including Alamo Drafthouse, Movie Studio Grill, Arlight Cinemas, iPac and Landmark are also increasing concessions per cap in the industry. The average revenue per screen in these theatres almost doubles the spend in more traditional theatres with Alamo Drafthouse generating ~\$917k per screen in revenue versus AMC which generated \$543k per screen.

AMC has 124 MacGuffins bar and lounge offerings deployed and plans on installing an additional 25 in 2016. Additionally, AMC operates 19 Dine-In Theatres that provide full restaurant operations. AMC achieves +174% F&B per patron and +4% attendance in its Dine-In Theatres. Similar to luxury seating, **exhibitors are seeing significant return on investment as new F&B concepts are generating significantly more revenue and we expect this trend to continue as well as see the potential for new F&B concepts to be developed.**

With higher gross margins, it is in the interest of the exhibitors to enable as much revenue generation from concessions as possible. There has been a trend towards creating expanded windows for concessions sales. By having a bar and / or restaurant in the theatre, moviegoers are not rushing to get into the theatre. Similarly, concessions sales during the movie through in-theatre dining serves to increase potential purchasing time, thereby increasing the number of transactions and ultimately the concessions per capita.



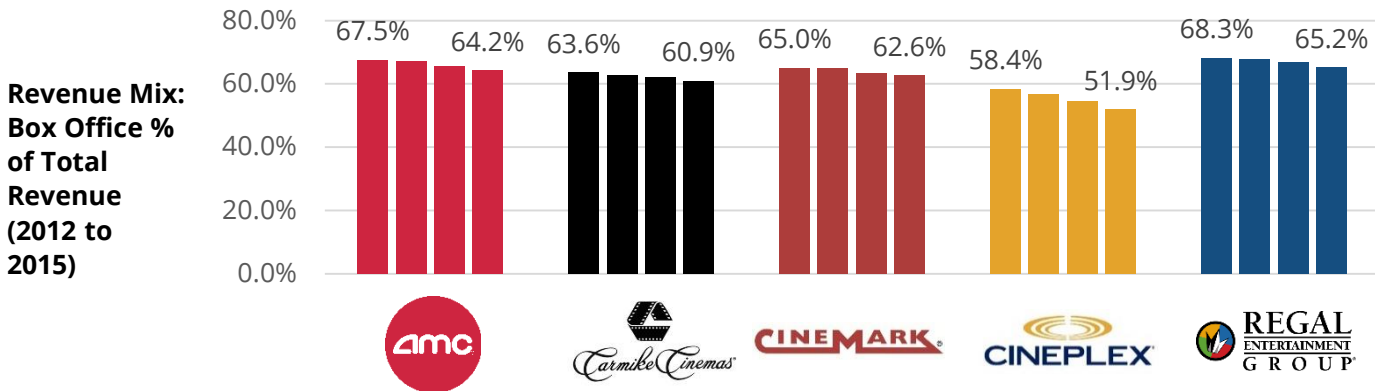
+174%
F&B per patron in Dine-In Theatres

Sources: "Top 5" information from individual company 2015 10-k filings, AMC 2015 10-k

REVENUE MIX

With the increasing value of concessions sales, **the revenue mix has generally trended to higher concessions as a percent of total revenue.** In addition, alternative content and advertising are also comprising a larger percentage of total revenue.

The Top 5 have all reduced box office revenue as a percentage of total revenue over the last few years from 2012 to 2015, decreasing from 67.5% to 64.2%, 68.3% to 65.2% for Regal, 65.0% to 62.6% for Cinemark US, 58.4% to 51.9% for Cineplex and 63.6% to 60.9% for Carmike.



Alternative content is in a nascent stage, however it is growing rapidly and becoming a larger percentage of revenues. Throughout the entire year, there are opportunities for theatres to maximize use of their space. Along with sports events, concerts, and traditional theatre, exhibitors are showing egaming sports. With the more comprehensive food and beverage, including alcoholic offerings, spaces can be used for corporate events as well.

Carmike, partnered with Fathom Events for approximately 150 locations in 2015, to provide the largest alternative programming deployment including Broadway shows, sporting events, live concerts, etc. AMC has partnered with The Metropolitan Opera to show various performances in a number of its locations. Fathom Events through its Digital Broadcast Network, allowed viewers at over 400 theatre locations the ability to watch a live video game tournament.

Similarly, Regal Entertainment, AMC Theatres, Cinemark Theatres and iPic Theatres offered Super League Gaming, the world's first in-theatre video game league in the Summer of 2015.

Cineplex with its dominant market share in Canada, has been able to extend its offerings with a number of complementary services including its Rec Room offering, similar to Dave and Buster's and its Digital Signage business. Like the US-based theatre exhibitors, Cineplex also sees the value of eSports and acquired WorldGaming, an online gaming platform that hosts leagues and tournaments.

The US based exhibitors are part owners of screen advertising businesses. AMC, Cinemark and Regal are owners of National Cinemedia and Carmike is an 18% owner of Screenvision. The two major screen advertising businesses in the US both grew revenues in 2015, National Cinemedia, by 13.3% and Screenvision by 4.6%.

FILMS

Film slates have been trending towards blockbuster films and leveraging established franchises for sequels and spinoff for the last few years. 2015 was the first year where two films grossed over \$600m at the domestic box office. Both *Jurassic World* and *Star Wars VII* were established blockbuster franchises.

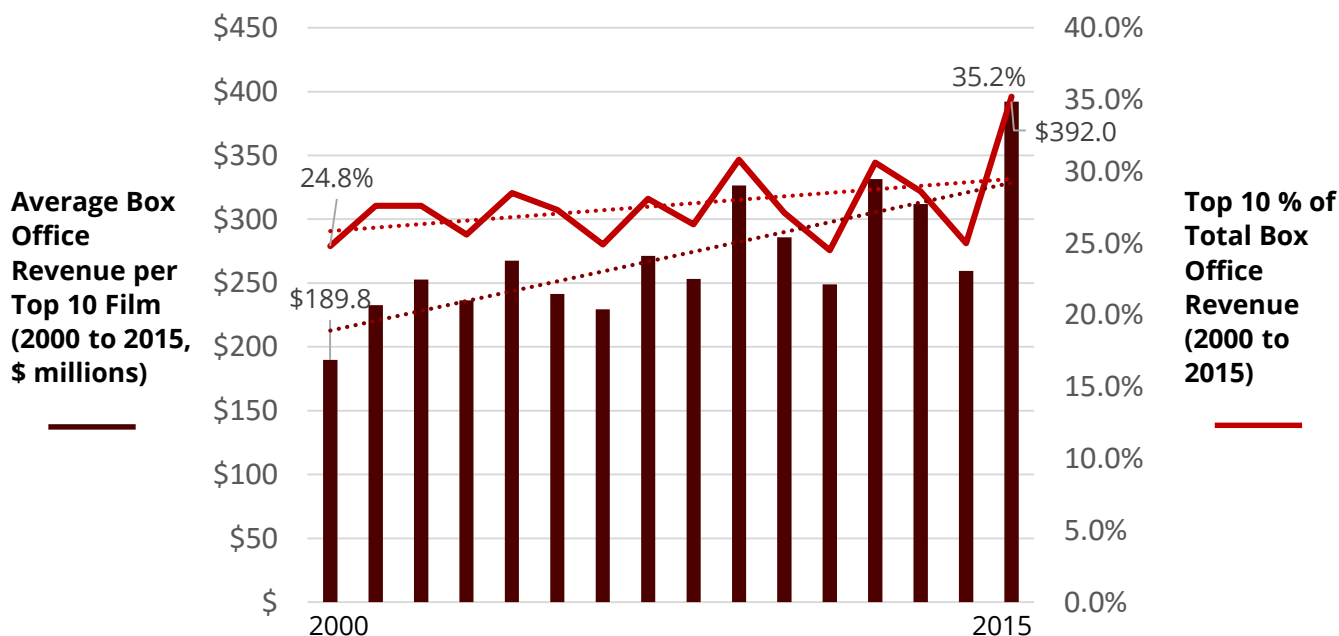
Similarly, studios are spending more on production and on more films. "Total production spend by large Hollywood studios has increased by roughly 50 percent since 2000, reaching almost \$9 billion in 2014." ¹ For studios, spending more on established franchises has the advantage of some "visibility" into film performance, which is also a benefit to exhibitors.

2016's performance year to date and release schedule reinforce the trend. The film slate for 2016 and beyond is projected to be very strong based on established franchise sequels and spinoffs. 2016 gross box office revenue has outperformed 2015 YTD by 12.4% with significant outperformance of initial projections by *Deadpool* and *Zootopia* and *Batman vs. Superman* delivering one of the highest grossing opening weekend's in history.

This trend can be seen when analyzing the percentage of top ten films of total gross revenue. In 2015, the top ten grossing films had ~35% of the total revenue while in the early 2000's, the top ten films accounted for ~27% of total box office revenue. While accounting for a larger percentage of total revenue, the average film size in the top 10 is also increasing, with \$392 average gross per top 10 in 2015 versus \$190 million in 2000 and \$312 million in 2013, the previous highest grossing year.

The film slate for 2016 has a number of films that are catered towards the 3D market and also have a broad appeal across various demographics and interest groups including kids movies, comic book movies, teen and nostalgic.

The film slate from 2017 to 2019 is unprecedented, with more than one of all time highest grossing franchises being released in individual years. The trend towards blockbuster films has a significant effect on cinema exhibitors as tent-pole films allow for premium formats and therefore increased revenues. Also, blockbuster films tend to draw in broader audiences, increasing attendance while also combatting in-home alternatives.



Sources: Box Office Mojo, ¹ thewrap.com/how-studios-use-blockbuster-budgets-boost-movie-attendance-a-look-at-production-spend-budgets/

Upcoming Film Slate

2016

Deadpool (\$356m)
Zootopia (\$280m)
Batman v. Superman: Dawn of Justice (\$270m)
Kung Fu Panda 3 (\$140m)
The Jungle Book
The Huntsman: Winter's War (\$155m)
Captain America: Civil War (\$259m)
The Angry Birds Movie
Alice In Wonderland 2 (\$334m)
X-Men: Apocalypse (\$233m)
Teenage Mutant Ninja Turtles II (\$191m)
Finding Dory (\$380m)
Independence Day: Resurgence (\$306m)
Ghostbusters
Ice Age Collision Course (\$161m)
Star Trek Beyond (\$228m)
Jason Bourne (\$227m)
Suicide Squad
Doctor Strange
Fantastic Beasts and Where to Find Them (\$381m)
Rogue One: A Star Wars Story (\$935m)

2017

Beauty and the Beast
Fast 8 (\$353m)
Guardians of the Galaxy 2 (\$333m)
Pirates of the Caribbean (\$309m)
Transformers 5
Despicable Me 3 (\$368m)
Justice League: Part 1
Star Wars Episode VIII (\$935m)
Avatar 2 (\$760m)

2018

Avengers: Infinity War 1 (\$459m, \$623m)
Toy Story 4 (\$415m)
Jurassic World 2 (\$652m)
Avatar 3 (\$760m)

2019

Avengers: Infinity War 2 (\$459, \$623m)
Fast & Furious 9 (\$353m)
Avatar 4 (\$760m)

Bold, films released, revenue as of Mar 31. (), previous film revenue



SCREENS

Chains are constantly refreshing their circuits with new builds, divestments and acquisitions. The total **number of screens in North America is increasing slowly, however the number of screens by the largest operators is increasing more rapidly due to acquisitions.**

According to NATO, the **number of screens increased 0.5% in 2015 and at a 0.3% CAGR since 2010. However, the number of screens accounted for by the Top 5 increased 2.3% in 2015** mainly due to AMC's acquisition of Starplex. Similarly in 2014, while the overall number of screens in the entire US market decreased 0.2%, the number of screens increased 1.2% for the Top 5 exhibitors due to Carmike's acquisition of Digiplex.

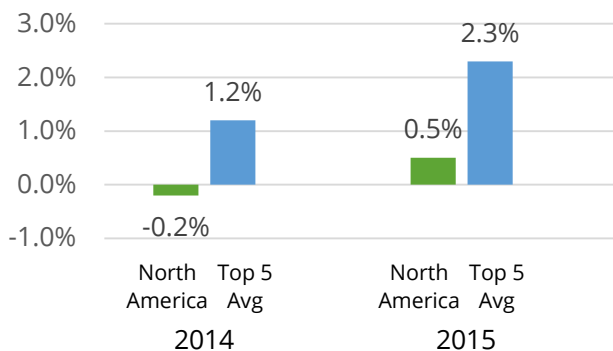
In addition to the number of screens, the number of 3D and digital screens is an important metric as exhibitors are able to charge moviegoers more for premium formats. Although the number of 3D screens is not growing as much as it did when 3D screens was a new concept, **specific exhibitors are continuing to optimize the number of 3D screens** available in order to maximize revenues when films such as *Star Wars* and *Jurassic World* are released. 48.7% of AMC's screens are 3D enabled while ~55% of Cinemark's US screens are 3D compatible and only 37% of Carmike's screens are equipped for 3D.

This must be balanced with the number of 3D films being released. Although the revenue generated from 3D screenings peaked in 2010 with \$2.2 billion, and this number has trended downwards to \$1.4 billion in 2014, *Jurassic World* and *Star Wars* might have reversed the trend. AMC generated 41% more revenue from 3D than 2D versions of the same film.

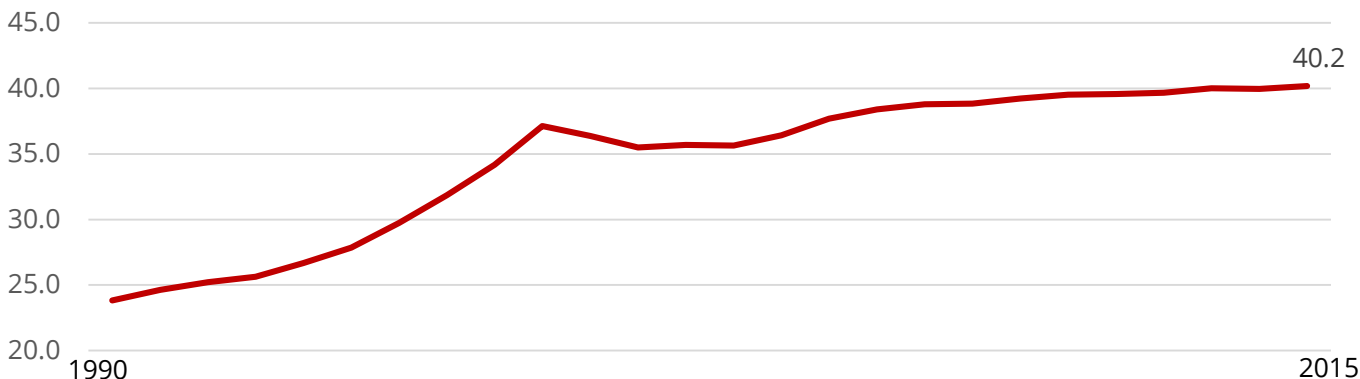
Operators are also incorporating premium large format offerings into their screens through partnerships with IMAX and RealD as well as developing proprietary formats such as Regal's RPX, Cinemark's private label XD, Carmike's BigD and MuvixL and AMC's PLF. IMAX increased revenues 28.6% in 2016 while RealD was acquired by a financial sponsor for ~17.9x EBITDA.

Because of the high value from premium screens generating additional revenue, **we expect the number of upgraded screens to increase** and for the industry to consolidate with the larger exhibitors increasing their screen counts while the market as a whole increases the number of screens slightly.

2014, 2015 Screen Growth



Screens (1990 to 2015) 000s



Sources: NATO "Number of US Movie Screens"; "Top 5" information from individual company 2015 10-k filings, MPAA Theatrical Market Statistics 2014

ENHANCED EXPERIENCE

Enhancing the customer experience starts before purchasing a ticket and continues at the theatre and after the moviegoer leaves the theatre which collectively provides revenue growth opportunities.

Additional mobile apps, seat reservations, dynamic seat pricing etc provide convenience features that improve customer experience and also the potential for increased transactions while building customer loyalty.

Second screen experiences with mobile devices have not broken into the mainstream movie going experience, however, there are a number of offerings currently being developed and tested. Barco Escape has partnered with studios to offer 3-screen panoramic cinema experiences and Timeplay offers an app where moviegoers can interact with content on the screen in realtime.

With the explosive growth of mobile and the potential for advertising / targeting, exhibitors are seeking ways to increase the number of tickets purchased online. Surprisingly, only 13% of movie tickets are purchased online whereas a majority of the tickets sold for other forms of entertainment such as concerts and live events are sold online. In addition to advertising value, tickets sold online or through mobile apps provide exhibitors with a wealth of data that can then be used to help enhance offerings by catering to targeted individuals. Companies such as Atom Tickets, a mobile ticketing platform, can enhance the experience for moviegoers while increasing revenues for exhibitors.

CAPITAL EXPENDITURES

The major exhibitors are spending a significant amount of capital expenditures as a percent of revenue in order to maximize their offering and in turn maximize revenues. With acquisitions and new builds this number spikes, however, on average, **the theatre exhibitors are spending a significant amount on capital expenditures for improvements.**

Of the major operators, AMC and Regal have increased their capital expenditures as a percent of total revenue ~2% from 2013 to 2015 from 9.5% to 11.3% and 3.7% to 5.9% respectively. Cinemark US significantly increased its capital expenditure as a percent of total revenue, from 6.2% to 10.4% from 2013 to 2015.

Reseating has been the major operational driver and exhibitors have focused their capital expenditures in this area. Although "reseating" decreases capacity in theatres, there is an optimal level of resealed theatres versus money spent where attendance increases and more absolute dollars are generated. AMC planned to spend \$600 million to reseat its theatres (2014) and currently has 20.6% of its screens with recliners versus approximately 14.1% at Q1 2015. Regal has a similar plan and had an initial rollout of 4.5% of its screens with luxury seats in 2014 and currently has approximately 10.9% of its circuit upgraded. **Other operators, both large public and smaller, are following suit in order to compete with other exhibitors as well as with alternative forms of entertainment,** however, reseating an auditorium (1 screen) can cost anywhere between \$350 thousand and \$500 thousand according to AMC. Cinemark has 8.8% of its domestic screens with luxury seating with a plan to be at 20% by the end of 2016.

These initiatives have been highly successful with AMC reporting +77% revenue growth and Regal reporting 40% outperformance of the industry. We expect exhibitors to continue investing in improvements specifically luxury seating.

Outlook

We expect the cinema exhibitor industry to increase in activity and continue to perform as there are opportunities for growth and expansion through acquisitions and enhanced offerings. The industry has the potential to reach new heights with the main operating metrics driving revenues for exhibitors, average ticket prices and concessions per capita continuing to increase, the market receiving headwinds from positive trends in the film slate and positive reception to improvements. Although attendance has declined overall from its peak, the strong upcoming film slate and positive year to date trends in box office revenues in addition to historical performance trends, the next few years expect to have solid attendance levels. The industry has proven to be resilient in recessions and generally stable over the last 25 years.

The views for larger exhibitors and or those exhibitors with regional or local market share / dominance are more positive than smaller exhibitors where they will capitalize and benefit more from the positive trends. Larger operators can leverage scale, capital resources and acquisition ability to outperform overall market statistics, ie increasing attendance in years where the market declines significantly. Additionally, Regal, AMC and Cinemark all have the additional benefit of their ownership stakes in National Cinemedia and corresponding additional shares that they are granted for adding screens to the platform. In the potential AMC acquisition of Carmike, AMC would receive approximately 18 million shares of NCMI, ~\$260 million.

These distinctions will likely further the consolidation trend as smaller theatre owners will be required to spend more on capital expenditures than they are financially capable of, in the face of increasing pressures from competing exhibitors that are either large or new concept. This effect has been seen with declining financial performance and operating metrics for some of the smaller exhibitors that have been for sale in the last few years. While smaller exhibitors do not have unique offerings, niche players focused on food and beverage or alternative content, may also have the ability to drive positive attendance growth giving rise to new or modified cinema exhibition concepts.

We expect the cinema exhibition space to be an active M&A market in the coming years.

Larger exhibitors will be faced with the pressure to grow and expand, especially if public, which creates an interesting supply and demand dynamic for theatre assets. With synergies, strategic parties can make accretive acquisitions, however, public companies have come down in value and this might put downward pressure on the prices that acquirers will pay going forward. With strong financial performance there will be a balance between the needs of the larger exhibitors and smaller exhibitors, and **we expect this to make the coming years a very active M&A market in the cinema exhibition space.**

POTENTIAL RISKS

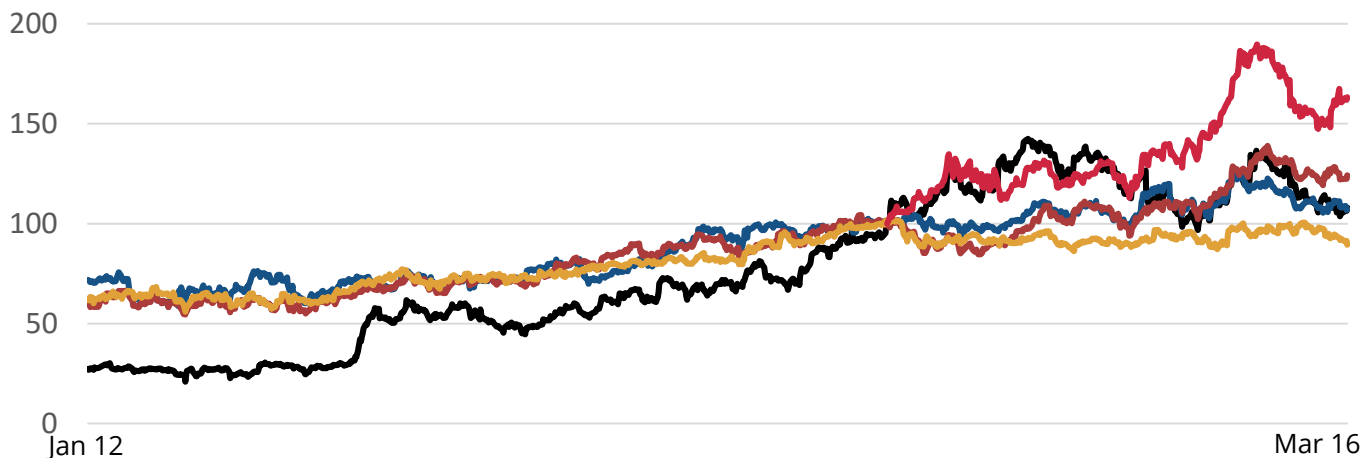
Other than potential DOJ issues, which can be addressed by divestments where needed, the trend is towards M&A activity. AMC acquired Starplex and divested two theatres. This is more of a risk with specific operators with specific targets rather than an industry wide issue. For operators below the Top 5, DOJ poses less of a risk as the likelihood that targets are in completely different markets or adjacent markets rather than being competitive is higher. Similarly, one or more of the Top 3 in the US are in almost all markets between them which provides less opportunity for local monopolies if transactions do not involve one of them.

Although unsuccessful to date, there have been a number of experiments with shorter release windows, utilization of other distribution platforms in addition to Netflix, Hulu, HBO GO, etc. The Interview was released on VOD due to unfortunate circumstances but provided a case study on the potential revenues from VOD versus theatrical release. Keeping in mind that The Interview is not an action movie that greatly benefits from being watched on a big screen, the revenue generated \$31m on VOD versus the projected \$100 million at the box office. Another experiment was Paramount's shortened releases window for "Scouts Guide to the Zombie Apocolypse" and "Paranormal Activity: The Ghost Dimension" which both failed to meet revenue targets. These "case studies" further show that the "biggest bang for the buck" for studios is theatrical release where 2x - 4x at home revenue can be generated simply by having to purchase multiple tickets versus one at home.

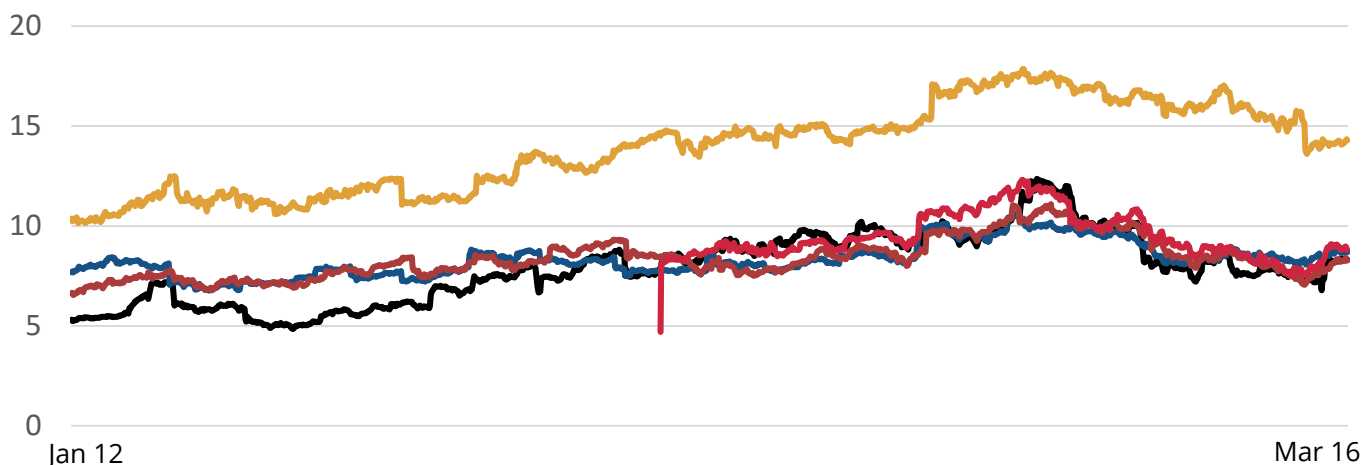
While Netflix, Amazon and others have successfully created platforms with their own content, a new platform, Screening Room is looking to compete directly with theatres with movies from major studios. It is offering content at the same time as release in theatres for \$50 through its set top box and is funded by the likes of Sean Parker. There are studios and filmmakers who are backing Screening Room, however, similar to Paramount's experiment, many in the industry are opposing the company, including the major exhibitors.



Relative Equity Performance Top 5 Exhibitors January 2012 to March 2016



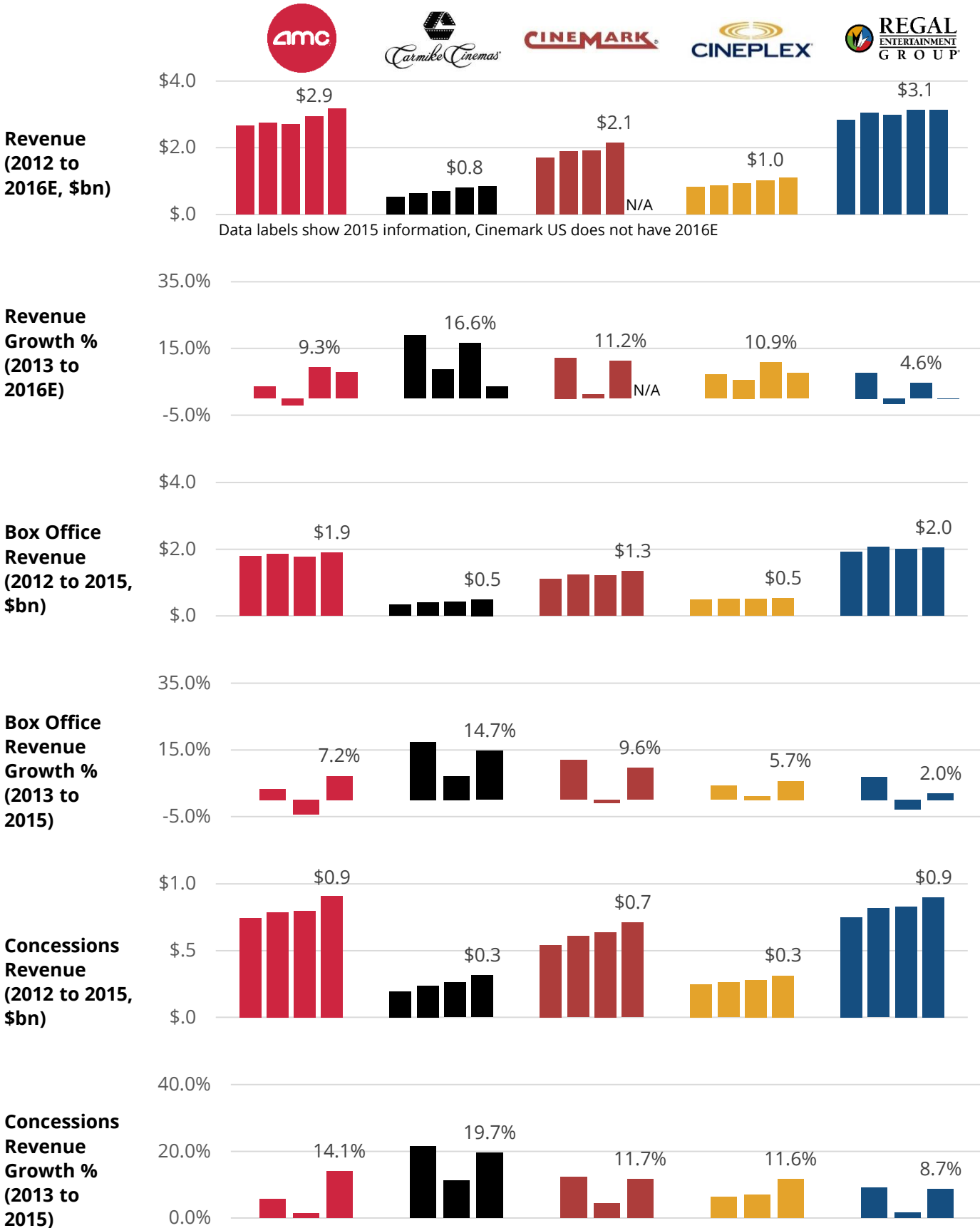
Relative TEV / EBITDA Performance Top 5 Exhibitors January 2012 to March 2016



TEV / EBITDA	8.7x	8.3x	N/A	14.4x	8.4x
2015 Rev Growth %	9.3%	16.6%	11.2%	11.0%	4.6%
2016 Est. Rev Growth %	7.9%	3.7%	N/A	8.13%	0.3%
EBITDA %	16.3%	15.7%	27.1%	17.7%	17.8%
Adjusted EBITDA %	18.2%	16.8%	23.3%	18.2%	19.2%
Total Debt / EBITDA	4.2x	3.6x	N/A	1.4x	4.2x
% of 52 week high	79.3%	89.8%	N/A	99.1%	88.5%

Sources: CapIQ April 7, 2016, Cinemark US does trade independently, 2016E from CapIQ consensus estimates

Public Company Analysis

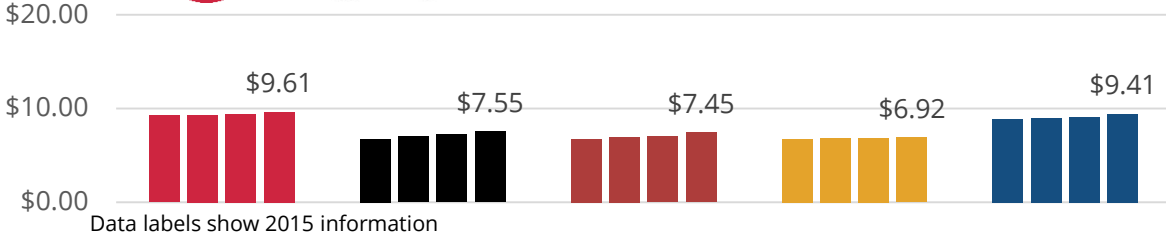


Sources: "Top 5" information from individual company 2015 10-k filings

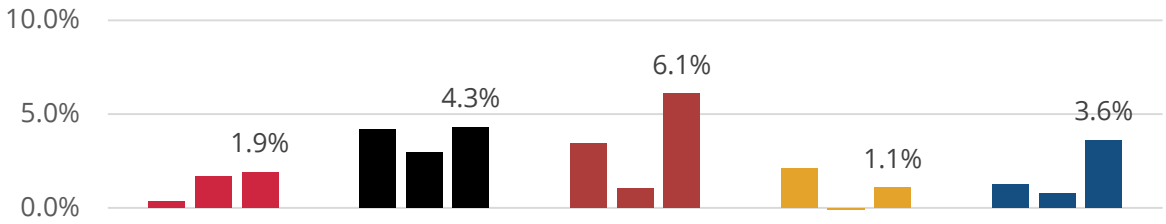
Public Company Analysis



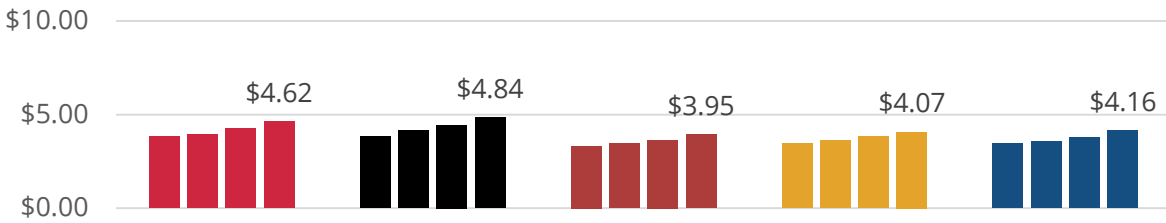
Average Ticket Price (2012 to 2015)



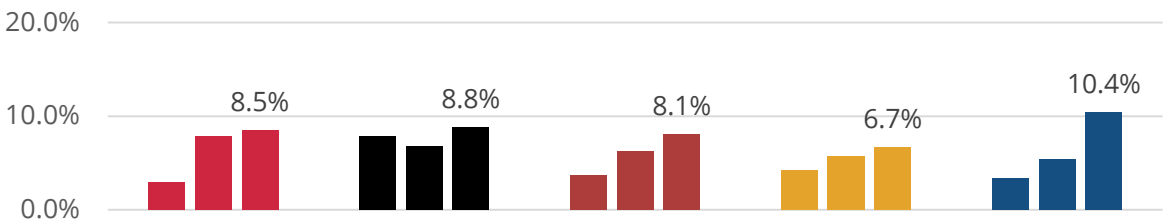
Average Ticket Price Growth % (2013 to 2015)



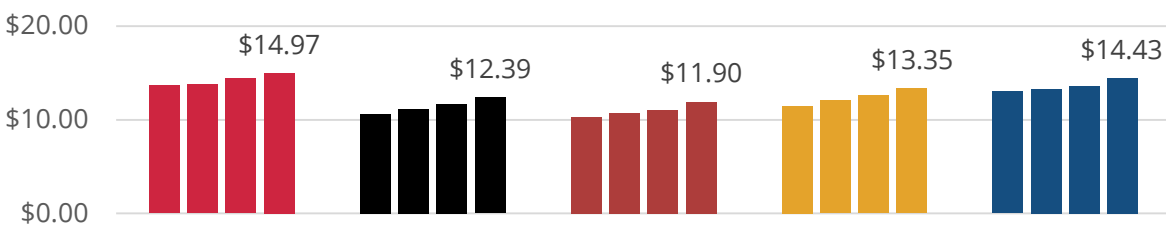
Concessions per Capita (2012 to 2015)



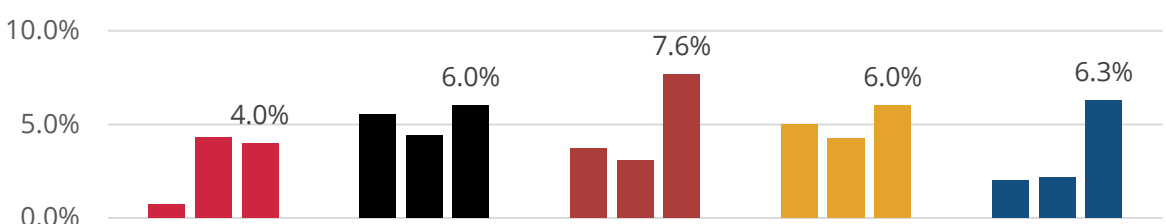
Concessions per Capita Growth % (2013 to 2015)



Total Revenue per Patron (2012 to 2015)

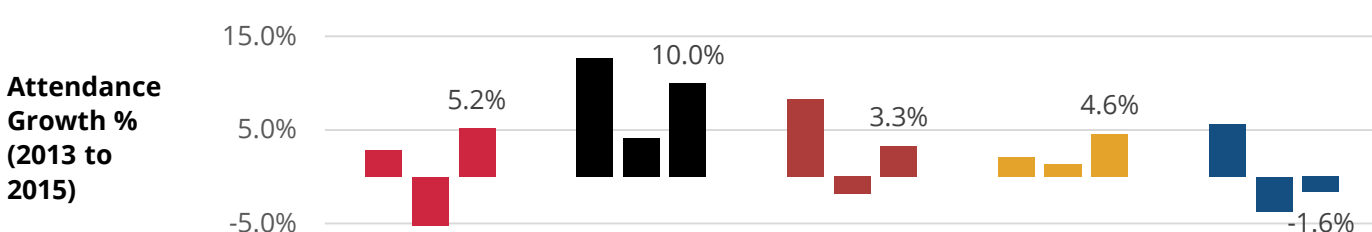
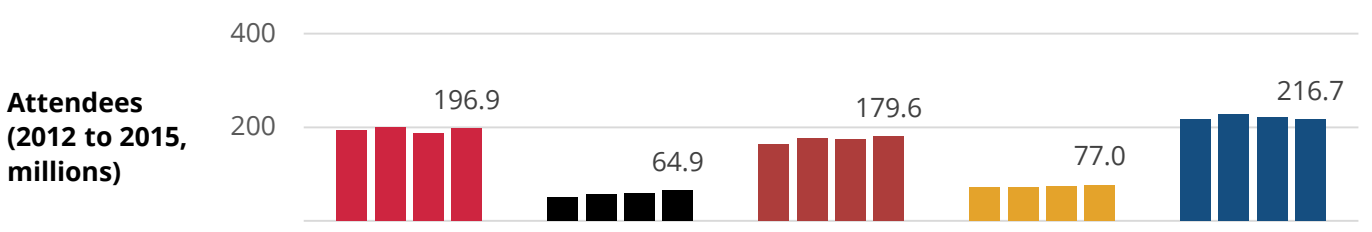
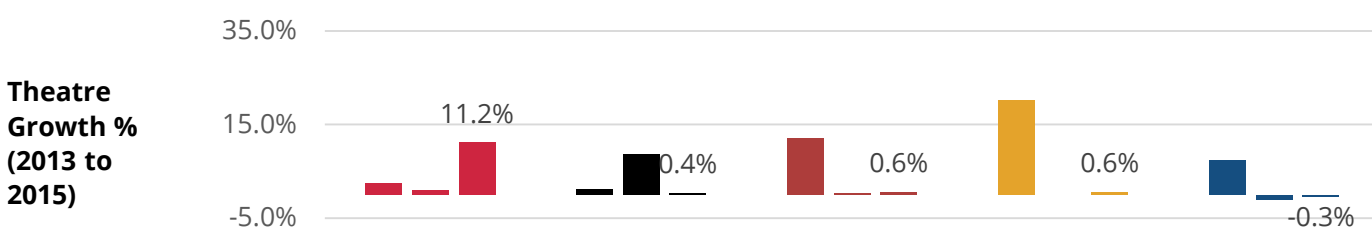
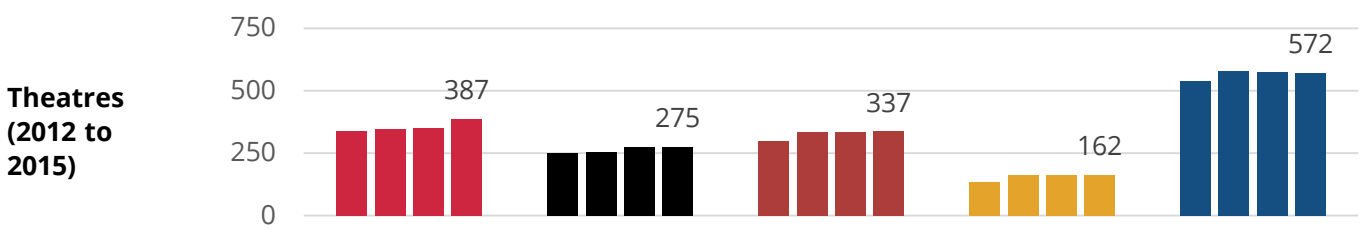
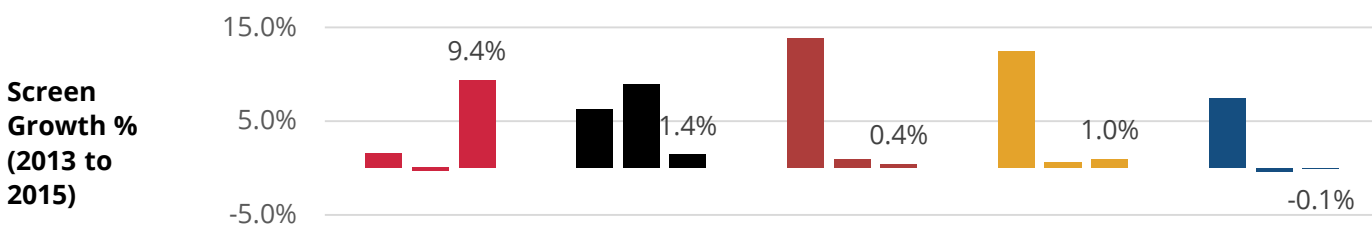
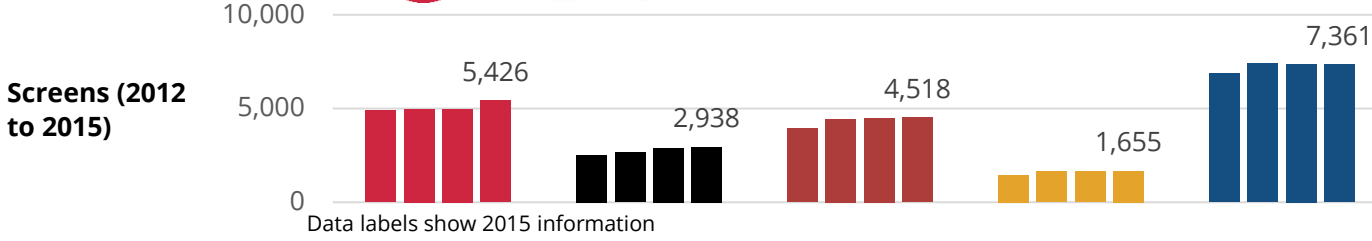


Total Revenue per Patron Growth % (2013 to 2015)



Sources: "Top 5" information from individual company 2015 10-k filings

Public Company Analysis

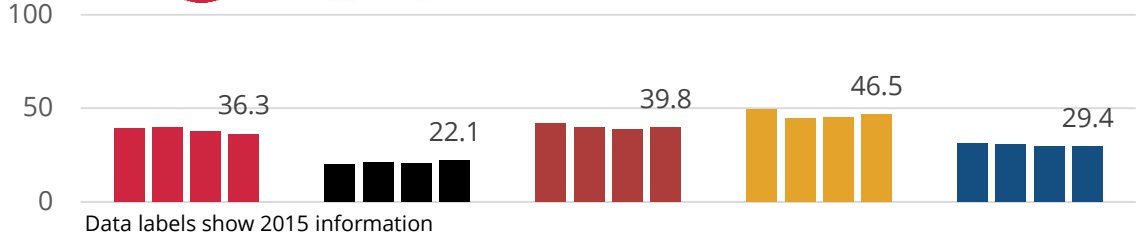


Sources: "Top 5" information from individual company 2015 10-k filings

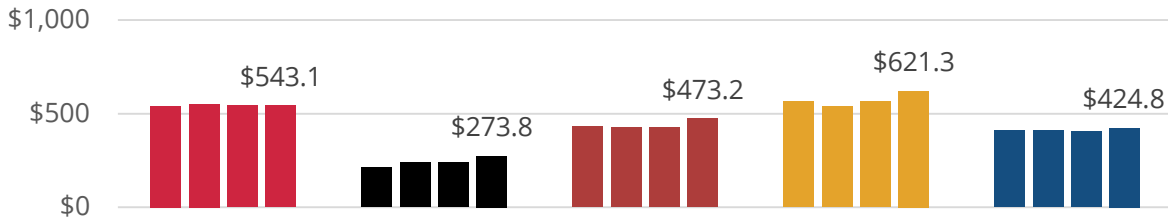
Public Company Analysis



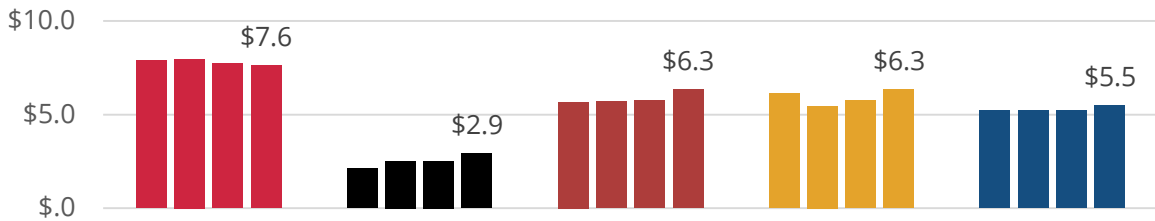
Attendees per Screen (2012 to 2015, 000s)



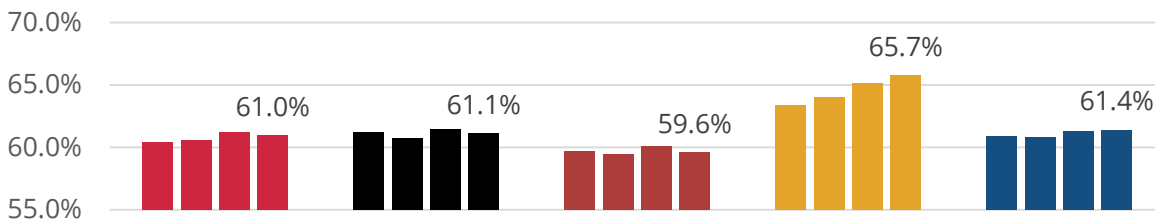
Revenue per Screen (2012 to 2015, \$000s)



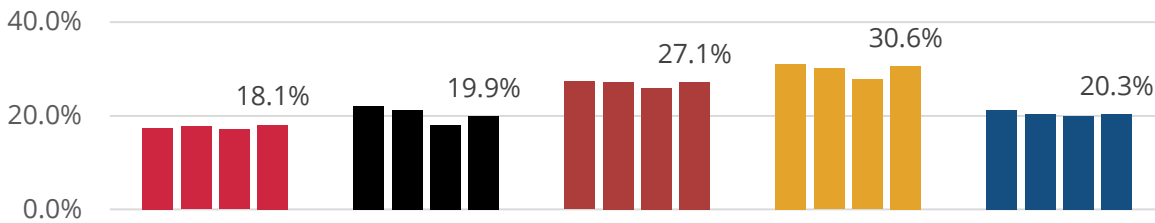
Revenue per Theatre (2012 to 2015, \$m)



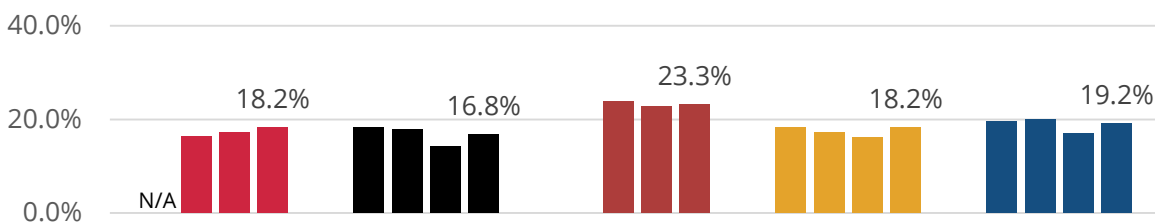
Gross Margin % (2012 to 2015)



TLCF Margin % (2012 to 2015)



Adj. EBITDA Margin % (2012 to 2015)

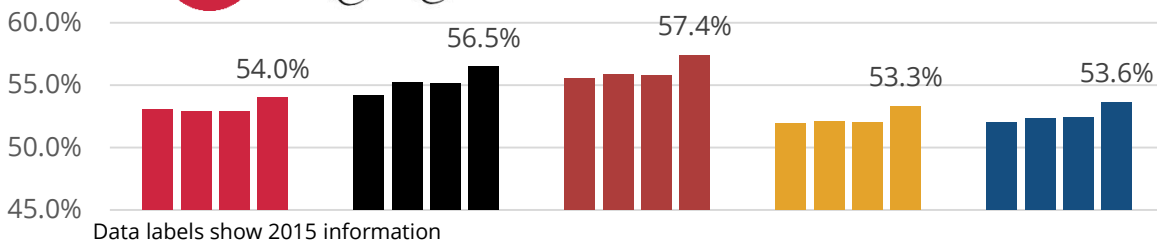


Sources: "Top 5" information from individual company 2015 10-k filings

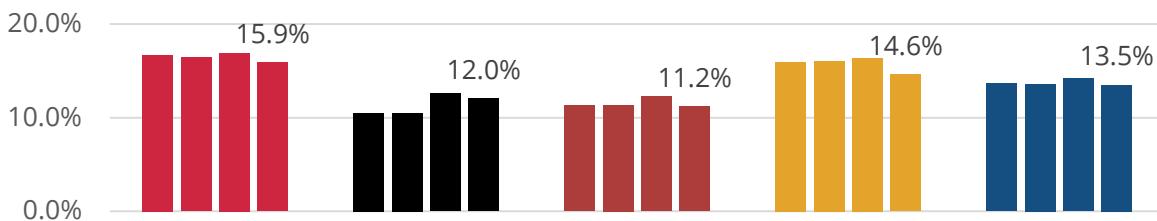
Public Company Analysis



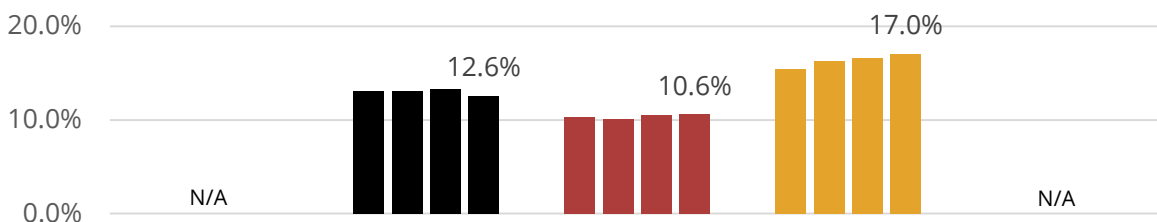
Film Licensing % (2012 to 2015)



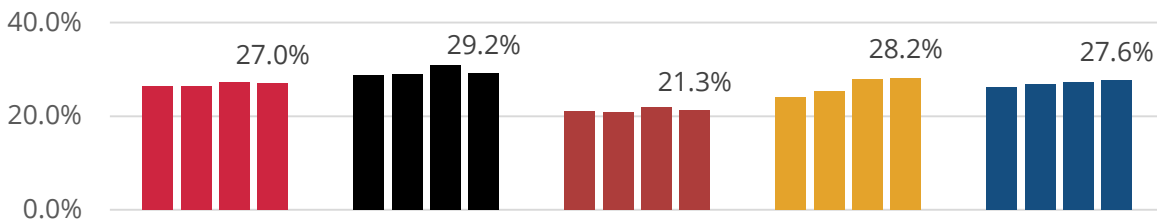
Rent % (2012 to 2015)



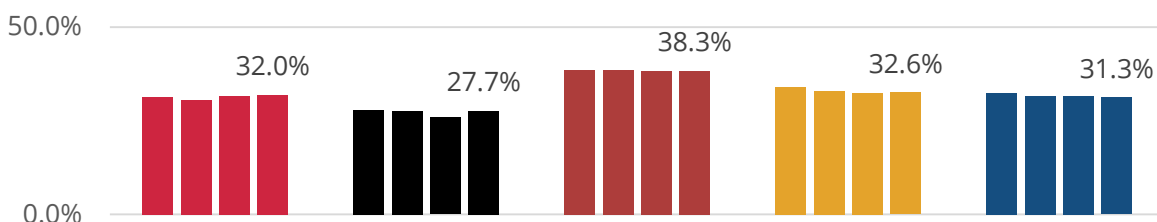
Salaries % (2012 to 2015)



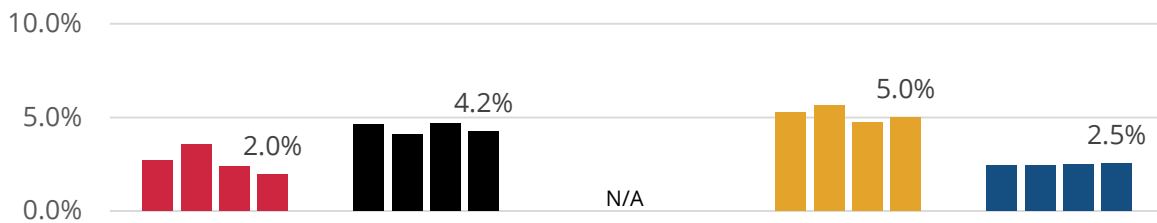
Other Operating + Salaries % (2012 to 2015)



EBITDAR Margin % (2012 to 2015)



Overhead % (2012 to 2015)



Sources: "Top 5" information from individual company 2015 10-k filings

With the cinema exhibition space further consolidating, there have been a number of transactions over the last few years. Since 2012, there have been 60+ M&A transactions, ranging from single location transactions to the sale of AMC's 346 cinemas at the time, to Dalian Wanda. This trend has continued into 2016 with AMC's bid for Carmike which encapsulates the market dynamics, and performance trends. **The interest of all players is driving M&A with larger exhibitors looking for growth, mid-size exhibitors looking to compete with larger exhibitors by merging with complementary chains, smaller exhibitors looking to exit or further defend their markets.**

Strong performance and the need for capital to enhance offerings is adding to the M&A activity.

Large exhibitors making significant acquisitions where not restricted by DOJ to grow in scale

Very difficult to add a large number of screens with DOJ scrutiny. Any large opportunities that are possible even with potential divestments are worth exploring for the larger exhibitors. There is significant pressure for public companies to continue to show growth. If the target has spent money on capital expenditures or has a newer concept offering, it is easier for larger exhibitors to acquire versus build out or retrofit / refurbish its own circuit. Synergies allow strategic players to pay higher prices.

- AMC acquires Starplex
- AMC bid for Carmike
- Regal acquires Hollywood Theatres

Mid-size exhibitors acquiring similar size exhibitors to grow in scale

Ability to maintain or slightly expand regional presence and hold off pressure from major exhibitors. Also, an opportunity for exhibitors to add differentiated offerings such as premium format screens, alternative content or dine-in options to compete with larger exhibitors.

- B&B Theatres acquires Dickinson
- Carmike acquires Digiplay, Muvico
- Southern acquires Movie Tavern

Large exhibitors acquiring single digit locations

Opportunity to continue to add quality assets and expand into adjacent areas.

- Regal acquires Georgia theatre, 5 locations
- Carmike acquires AMC/Starplex, 2 locations

Smaller exhibitors / financial players defending their markets and cashflow

Opportunity for operational expertise to improve smaller exhibitors that are potentially family owned. Opportunity to acquire at a relatively low valuation due to lack of scale. Many times, smaller exhibitors are also interested in the real estate of underlying properties which allows for acquisitions.

- Premiere acquires REI Cinemas



66

M&A transactions since 2012

15

M&A transactions in 2015, 2016
YTD March 31

Select M&A Transactions 2012 to March 2016

Date	Target	TEV (\$m)	Buyer
3/3/16	Carmike Cinemas (<i>announced bid</i>)	1,201.4	AMC
3/1/16	Frank Entertainment Companies	-	MiCamp Solutions
2/5/16	Regal Theatre, 9 Screens at Indian Mound	-	AMC
2/1/16	AMC Movie Theaters in CT and NJ	5.4	Carmike Cinemas
12/2/15	REI Cinemas	-	Premiere Cinema
11/20/15	Nickelodeon Theatres	-	Landmark Theatres
11/9/15	The Georgia Theatre Company, 5 Theatres in GA	9.2	Regal Cinemas
10/26/15	Spectrum 8 Theatres	-	Landmark Theatres
10/6/15	Sundance Cinemas	36.0	Carmike Cinemas
10/1/15	Cineplex Starburst	13.2	Cineplex
7/14/15	Starplex Operating	171.8	AMC
5/26/15	AMC Regency 24 Theater	26.2	30 West Pershing
5/21/15	Regional Properties, Mission Grove Theaters	-	Galaxy Theatres
4/29/15	A Theatre With 8 Screens	-	AMC
4/23/15	IMAX Theatre at Les Galeries de la Capitale in	-	Cineplex Entertainment
1/21/15	Emerging Cinemas	-	20 Year Media Corp.
10/9/14	Dickinson Theatres	-	B & B Theatres
8/15/14	Start Media/Digiplex	11.0	Carmike Cinemas
8/4/14	4 Theatres and 33 Screens	5.4	Digiplex
6/19/14	7 Screen Mission Valley Theater in San Diego	1.8	Movie Theater Entertainment
5/15/14	Digiplex	66.2	Carmike Cinemas
3/31/14	The Twin Drive-In in Independence and I-70	-	B & B Theatres
1/24/14	Landmark Cinemas of Canada	-	TriWest Capital Partners
12/11/13	MoviE-town Cinemas	1.3	Room One
12/6/13	Multiplex Cinemas	-	Starplex
11/4/13	Muvico Entertainment, 9	49.7	Carmike Cinemas
10/23/13	Flagship Premium Cinemas, and Churchville	4.0	Digiplex
9/11/13	Movie Tavern Partners	-	Southern Theatres
7/18/13	Cinemark Louisville, Voorhees and Hickory Creek	10.5	Carmike Cinemas
6/27/13	Empire Theatres Limited, 24 Theatres	187.0	Cineplex Entertainment
6/27/13	Empire Theatres L20 Theatres And 179 Screens	52.4	Landmark Cinemas of Canada
5/1/13	Storyteller Theatres, Desert Sky Cinema	1.4	High Sierra Theatres

Select M&A Transactions 2012 to March 2016

Date	Target	TEV (\$m)	Buyer
12/11/13	MoviE-town Cinemas	1.3	Room One
12/6/13	Multiplex Cinemas	-	Starplex
11/4/13	Muvico Entertainment, 9	49.7	Carmike Cinemas
10/23/13	Flagship Premium Cinemas, and Churchville	4.0	Digiplex
9/11/13	Movie Tavern Partners	-	Southern Theatres
7/18/13	Cinemark Louisville, Voorhees and Hickory Creek	10.5	Carmike Cinemas
6/27/13	Empire Theatres Limited, 24 Theatres	187.0	Cineplex Entertainment
6/27/13	Empire Theatres L20 Theatres And 179 Screens	52.4	Landmark Cinemas of Canada
5/1/13	Storyteller Theatres, Desert Sky Cinema	1.4	High Sierra Theatres
4/29/13	Clearview Cinemas	-	Bow Tie Cinemas
3/11/13	Rave Cinemas, Movie Theater in Grove City	-	AMC
3/5/13	Batavia Showtime	-	-
2/19/13	Hollywood Theaters	238.0	Regal
2/15/13	Festival Cinemas	3.8	Cineplex
1/3/13	Rave Digital Media, West Chester 18	-	AMC
12/26/12	ShowPlex Cinemas	-	Starplex
12/14/12	Big Cinemas Management 2 Theatres	0.6	Carmike Cinemas
12/12/12	Mission Market Cinemas	2.0	DC Mission Marketplace Cinema
12/12/12	San Diego Cinemas	2.4	Digital Cinema Destinations
12/12/12	Ultrastar Galaxy	0.5	DC River Village Cinema
12/12/12	Ultrastar Poway Creekside Plaza	1.6	DC Poway Cinema
11/29/12	Aliance Entertainment	91.0	Regal
11/26/12	Rave Reviews Cinemas, 4 Theatres	-	AMC
11/16/12	Rave Cinemas	240.0	Cinemark
10/5/12	Frank Theatres, Strand 5 Theatre and Moorlyn 4	-	-
10/1/12	Rave Reviews Cinemas, 16	119.4	Carmike Cinemas
10/1/12	Moorlyn Family Theatre	-	Ocean CityEndowment Arm

Select M&A Transactions 2012 to March 2016

Date	Target	TEV (\$m)	Buyer
9/24/12	Dickinson Theatres(bankruptcy)	-	-
8/20/12	Tannehill Theater in Colonial Promenade	6.6	-
7/31/12	Skyline Cinema 8	-	Mitchell Theaters
7/12/12	Storyteller Theatres, Starlight 8 and Storyteller 7	-	Mitchell Theaters
7/9/12	Lisbon Theaters	11.5	Digiplex
6/21/12	AMC Venture	-	Cineplex Inc
6/21/12	AMC, 2 Theatres in Ontario	-	Empire Theatres
6/14/12	Storyteller Theatres Gaslight and Durango 9	-	Allen Theatres
5/20/12	AMC	2,908.8	Dalian Wanda Group
5/18/12	MetroLux Theatres	-	Metropolitan Theatres
5/7/12	Rosebud Cinema Drafthouse (foreclosed)	0.3	(Individual)
5/7/12	The Times Cinema (foreclosed)	0.3	
5/3/12	Mega Movies	-	Starplex
4/16/12	Destinta Theatres, 7 Theatre	0.7	Carmike Cinemas
2/2/12	Duluth Omnimax Theatre	-	Marcus Theatres
1/27/12	Magic Lantern Theatres, Parkland 7 Cinemas	-	Empire Theatres



Redwood Capital Group is an investment banking firm serving the technology, communications, media, business services and other growth industries. The firm focuses on mergers & acquisitions, corporate finance, restructuring and valuation advisory services for its clients worldwide.

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