



Transcript of Regal Entertainment Group (RGC) Webcast and Conference Call January 21, 2009

Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com

Participants

Don De Laria, Vice President, Investor Relations
Michael L. Campbell, Chairman and Chief Executive Officer
Amy E. Miles, Chief Financial Officer

Presentation

Operator

Greetings ladies and gentlemen and welcome to the Regal Entertainment conference call. [Operator Instructions]

It is now my pleasure to introduce your host Mr. Donald De Laria, Vice President of Investor Relations. Thank you. You may begin.

Don De Laria - Regal Entertainment - VP Investor Relations

Hi and good morning. Before I begin today, I would like to remind our listeners that this conference call contains forward-looking statements within the meaning of Section 27 A of the Securities Act of 1933, as amended, and Sections 21 E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical facts communicated during this conference call may constitute forward-looking statements. These forward-looking statements involve risks and uncertainties. Important factors that can cause actual results to differ materially from the company's expectations are disclosed in the risk factors contained in the company's annual report on Form 10-K dated February 26th, 2008. All forward-looking statements are expressly qualified in their entirety by such factors.

Now I'll turn the call over to Mike Campbell.

Michael Campbell, Chairman and CEO

Thank you Don and good morning and thank all of you for dialing in. Today we will provide an overview of our modified capital allocation strategy including a brief update on our business, a summary of our recently completed senior credit facility amendment and dividend modification announcement and lastly a discussion of the rationale for these actions. Following our remarks, Amy Miles Regal's Chief Financial Officer and I will conclude the call with a question and answer session.

Now first for a brief update on our business, we were pleased with the 2008 industry box office revenues as the industry ended the year with reported box office results slightly below the record 2007 box office revenues. The 2009 industry box office is



also off to a very solid start. Through the most recent weekend and calendar January, the industry box office is up approximately 23% versus the same period last year. We remain encouraged with the overall success of the box office during these challenging economic times.

As we said in the past, the film exhibition industry revenues grew in five of the last seven recessions. We believe this supports our belief that the performance of the industry is significantly more correlated to the perceived quality of the film slate than to prevailing economic conditions.

We remain excited about the future opportunities for Regal over the next several years due to the enhanced theatergoing experiences, which of course includes 3D, but also includes an expanded base of IMAX theaters. We continue to believe that premium movie going opportunities will generate incremental growth and cash flows for the company.

Now turning briefly to our announcements today, we are pleased to announce that we've secured an amendment to our senior credit facility that provides us with greater flexibility both in terms of leverage covenant levels and our ability to take advantage of financing opportunities. At the conclusion of my remarks, Amy will provide additional details with respect to the bank amendments.

Separately our Board of Directors today declared a dividend of \$0.18 for Class A and Class B common shares payable on March 17, 2009 to stockholders of record on March 5, 2009, which represents a 40% reduction in the recurring quarterly dividends.

Next, I will spend just a few moments explaining our rationale for these decisions. I want to emphasize that we maintain a strong balance sheet with sufficient liquidity given our cash position and undrawn revolving credit facility. And we continue to be optimistic regarding the 2009 film slate and the future prospects for our business. However, given the difficult lending environment and uncertainty regarding the length of the recession, management and the Board of Directors believe the amended senior credit facility combined with a 40% reduction in the dividend gives us sufficient flexibility to meet our financing needs and to retain capital for opportunities that may be created by the difficult market environment. The turmoil in the financing markets has created opportunities for many healthy companies to retire their debt at historically low trading levels. Regal is now in a position to potentially benefit by deleveraging in an accretive manner. The dividend reduction was a difficult decision, but we continue to believe that in today's environment it is the right decision for the company and its shareholders for us to be prudent and conservative in our approach to the allocation of our capital.

I would like to emphasize that Regal's perspective on returning value to shareholders has not changed. Since our IPO in May of 2002, Regal has distributed \$18.46 in dividends to our shareholders through a combination of \$12.05 of special dividends and \$6.41 of regular dividends. Since 2003, the majority of our cash flow has been paid to shareholders and we have been willing to use our balance sheet to pay extraordinary dividends.

Vcall

601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399

Fax: 804-327-7554

info@vcall.com

www.vcall.com

www.investorcalendar.com



In today's environment both management and the Board of Directors believe these combined actions to be the most prudent allocation of our capital resources. And as always, we will continue to monitor the factors involved in these decisions and update our capital allocation strategy as necessary.

I would like to now turn over the presentation to Amy Miles our CFO to provide additional financial details.

Amy Miles, CFO

Thank you Mike and thank you guys for dialing in. First with respect to the bank amendment, the key aspect of our bank amendment are as follows. The amendment provides us with additional leverage ratio covenant cushion through the fiscal 2011 year. We have additional flexibility to raise subordinated debt and repay the senior facility with the proceeds from that debt.

Also over the next 270 days, we have the right to potentially retire up to \$300 million of the senior facility at levels below par. In exchange for these provisions we agreed to a 200 basis points increase in the interest spread we pay to lenders plus a one-time amendment fee of 50 basis points. It is important to note that the spread or the margin that we pay the lenders is in addition to LIBOR. As LIBOR is now at historic lows, we believe that a significant portion of the increase in the spread will be offset by declines in LIBOR. Additionally our interest rate swaps expire in 2009 so we have the opportunity to lock in LIBOR at a much lower rate than our existing interest rate swaps.

Now briefly with respect to the impact of the dividend reduction. The 40% dividend reduction will result in approximately \$75 million of annual incremental free cash flow.

Also, as we previously stated, we believe the current lending environment will have an impact on real estate development in the near term. As a result, we would expect a decline in our 2009 capital expenditures. If you combine the impact of the dividend reduction with the expected CapEx reduction, we would expect free cash flows to increase by approximately \$100 million for the '09 fiscal year.

In summary, the announcement today reflects a prudent and conservative approach to our capital allocation strategy. Again, while not based with near-term financing concerns and having access to ample liquidity we do believe that our strategy better positions the company for both future strategic and financial opportunities.

This concludes the company's remarks. And we would now like to take any questions.

Operator

Thank you. [Operator Instructions]. Our first question is coming from Tony Wible with Janney Montgomery Scott. Please proceed with your question.

Tony Wible, Janney Montgomery Scott

Morning. I was hoping Mike and Amy you could touch on the concession sales in conjunction with the early box office performance for '09 which I know was up pretty

Vcall
601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399
Fax: 804-327-7554

info@vcall.com
www.vcall.com
www.investorcalendar.com

nicely. Are you finding the -- there to be a pretty good tie ratio between concession sales and the box office?

Michael Campbell, Chairman and CEO

At this time we are not able to comment on anything in the first quarter. We clearly haven't released anything publicly on that yet. We will have our fourth quarter earnings call here in the next few weeks.

Tony Wible, Janney Montgomery Scott

Okay, and then on the debt and your ability to now pay down now that you have some free cash flow freed up, is there any particular schedule that you plan to commit to? In other words will all of the -- should we just assume the incremental \$75 million on the dividend and the extra \$25 million on the lower build will go toward paying down the debt every year?

Amy Miles, CFO

No. I think we will be opportunistic with respect to that. The debt we could obviously take out today would be both the converts and the senior credit facility. I think we will just watch the trading level and again we have 270 days and we will try to be opportunistic from that perspective. I would not assume necessarily that all that \$75 million goes to pay down debt. But we will look at deleveraging as part of our strategy.

Tony Wible, Janney Montgomery Scott

Okay. And the last question I had here was just are there any restrictions in the new bank facility on acquisitions or any kind of terminology on what you can and cannot do with acquisitions going forward?

Amy Miles, CFO

The best way you can think about it from acquisitions is the only restriction is when we do an acquisition we have to be within 25 basis points of the covenant.

Tony Wible, Janney Montgomery Scott

Okay.

Amy Miles, CFO

So other than a covenant in coming in 25 basis points, there are not restrictions around acquisitions outside of that.

Tony Wible, Janney Montgomery Scott

Okay, great. Thank you.

Amy Miles, CFO

Thank you.

Operator

Our next question is coming from Eric Wold with Merriman Curhan Ford. Please proceed with your question.

Vcall

601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399

Fax: 804-327-7554

info@vcall.com

www.vcall.com

www.investorcalendar.com



Eric Wold, Merriman Curhan Ford

Hi, good morning. Quick question on your thoughts on the potential for using any cost savings or cash savings on rolling out digital screens on your own away from DCIP? And if that were the case, does that hamper your ability to work through DCIP going forward if you do get the funding?

Michael Campbell, Chairman and CEO

I don't think we have any intention of working outside DCIP. We've stated earlier that clearly with the condition of the financial markets today we would look at other options, maybe plan B or plan C still working within the DCIP confines. But we are not going to go out and fund digital on our own.

Eric Wold, Merriman Curhan Ford

Okay. Perfect. Thank you guys.

Operator

Our next question is coming from David Miller with Caris & Company. Please proceed with your question.

David Miller, Caris & Company

Hi. Amy as I understood it, the debt covenant is currently 3.75 times plus what was set to step down to 3.5 times I believe at the end of this quarter, it could be June, correct me if I'm wrong. And then step down to 3.25 times at the end of Q1 2010. Can you just talk about where with the new facility we stand now translated on a net debt to EBITDA ratio as it applies to the new covenant? Thanks.

Amy Miles, CFO

If you look at the new covenant, we would be at -- you ended the '08 fiscal year with two covenants, 3.75 and 5.75. Both of those net. The difference between the two is the 5.75 includes the leases -- you capitalize the leases and put those on the balance sheet. That covenant level stays consistent through the second quarter of 2011 now. What would have happened pre-amendment is the covenants would have stepped down to 3.50 and 5.50 for '09, and 3.25 and 5.25 for fiscal '10 and stayed there for the remainder of the agreement. So today, what is in place at 2008 is there until the second quarter of 2011. That's the extension. The remaining two quarters of 2011 it steps down to 3.50 and after that it resets to the original covenant levels, which would be fiscal 2012.

David Miller, Caris & Company

Thank you.

Operator

Ladies and gentlemen, we have reached our allotted time for the question and answer session. I will now turn the conference back over to management for any closing comments.

Michael Campbell, Chairman and CEO

We appreciate everybody dialing in today. And we will have our fourth quarter earnings call in just a few weeks. Thank you.

Vcall

601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399

Fax: 804-327-7554

info@vcall.com

www.vcall.com

www.investorcalendar.com



**Transcript:
Regal Entertainment Group (RGC)
Webcast and Conference Call
January 21, 2009**

Operator

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

Vcall

601 Moorefield Park Dr.
Richmond, VA 23236

Phone: 888-301-5399

Fax: 804-327-7554

info@vcall.com

www.vcall.com

www.investorcalendar.com