AMC Investment Thesis: After a Cyclically-Driven Downturn in 2017, the Box Office is Poised to Have a Strong 2018 that will Significantly Benefit AMC's Depressed Stock

Investment Thesis: A careful analysis of the box office performance in 2017 shows that the industry is not facing secular headwinds and that 2018 is poised to be a very strong year, which will significantly help AMC's rise from its all-time lows. AMC's stock begin to rapidly lose value in 2017 due to very similar issues that plagued the stock in 2015. Talks of an acceleration to DVD increased significantly in 2017. Additionally, the box office significantly underperformed expectations for 2017. To make matters worse, AMC went on an acquisition spree in late 2016 that proved to be poor timing given the higher operating leverage. This led to a material earnings miss in August 2017, which caused the stock to lose over -30% of its value in a single day.

Based on our assessment of industry trends, AMC's stock has been significantly oversold. The current sentiment and valuation levels do not reflect a near term state of growth in 2018. While AMC has faced headwinds related to the acquisitions (primarily U.S. based Carmike), the results are completely understandable given a negative year for the box office in 2017. Additionally, the negative headlines relating to Premium Video On-Demand and Netflix's growth has caused investors to overlook the high value proposition AMC's stock has at current price levels and unreasonably weak expectations.

The Market has Incorrectly Interpreted the Box Office's 2017 Results as a Secular Issue

While the market attributed the box office results in 2017 to negative secular trends (Netflix, shifting consumer preferences, etc.), a simple understanding of industry trends would likely have led to a more reasonable assessment. Box office revenues are primarily generated by the seven largest players and the performance of each player has an impact on the overall box office performance. Disney, Fox, and Paramount were the key drivers of the negative industry performance in 2017. With Disney down -20% in 2017, the other studios simply could not generate growth to compensate for the lost Disney revenues. Meaningful evidence shows that the box office is actually healthy and the results were driven by fewer titles being released (especially from Disney) rather than falling consumer demand.

Substantial Evidence Shows that he Box Office is Poised for a Strong Rebound in 2018

While 2017 was a disappointing year for the domestic box office, we have found overwhelming evidence that 2018 will be a year of strong recovery. Unsurprisingly, the key driver of 2018 success will be the balance of quality and quantity at the seven major studios. Given the weak 2017 results for the market leader Disney, it will not take much to favorably comp 2017 performance. An analysis of the 2018 release calendar, in conjunction with the insights gleaned from 2017 data, provides evidence of 2018's potential.

Based on an analysis of the 2018 release calendar compared to that of 2017, the outlook is very positive for Disney, Universal, Warner Brothers, Sony, Paramount, and Fox studios compared to their 2017 performance. Collectively, these studios accounted for ~80% of total box office sales in 2017. As a result, a positive year for these studios will be a significant driver of overall box office growth. Not only will Disney be releasing ~40% more films in 2018 than in 2017, they will also be releasing ~30% more proven franchises in 2018 than in 2017.

Market Share Gains and International Expansion Offer Additional Growth for AMC

In addition to favorable market conditions from the anticipated strong domestic box office performance in 2018, AMC has several positive factors that are likely to lead to growth above the industry rate. . The first driver of above average growth is market share gains from AMC's unique value proposition over majority of other players in the theatre industry. AMC also has significant potential for increased market share from their acquisition of Carmike theatres (above the immediate share gains from the acquisition) as they work through a turnaround of the chain.

Catalyst: Based on the information gathered, the next couple of earnings calls are the likely catalysts.

Investment Risks: The key risk is that the box office fails to outperform the weak 2017 performance.

AMC Entertainment (NYSE: AMC)

Price:	$12.85
Target Price (CY19):	$31.28
Target Return:	143%
Cons. Target Price:	$19.09
Cons. Target Increase:	49%

Company Statistics

Market Cap:	$1.7bln
Enterprise Value:	$6.3bln
Net Debt:	$4.6bln

Share Statistics

Shares Outstanding:	131mm
Free Float:	53mm
Short Interest:	40%
% Held by Insiders:	59%
52wk Range:	$10.80-$32.10
Strong Buys:	3
Buys:	6
Holds:	6
Underperforms:	1

Revenue Breakdown

Admissions:	64%
Food and Beverage:	31%
Other:	5%
Domestic:	75%
International:	25%

KPI's

Domestic Market Share:	21%
Domestic Attendance Share:	20%
Domestic Theatre Share:	12%
Average Ticket Price:	$9.59
Average Concessions:	$5.05

****As of 1/26/2018****

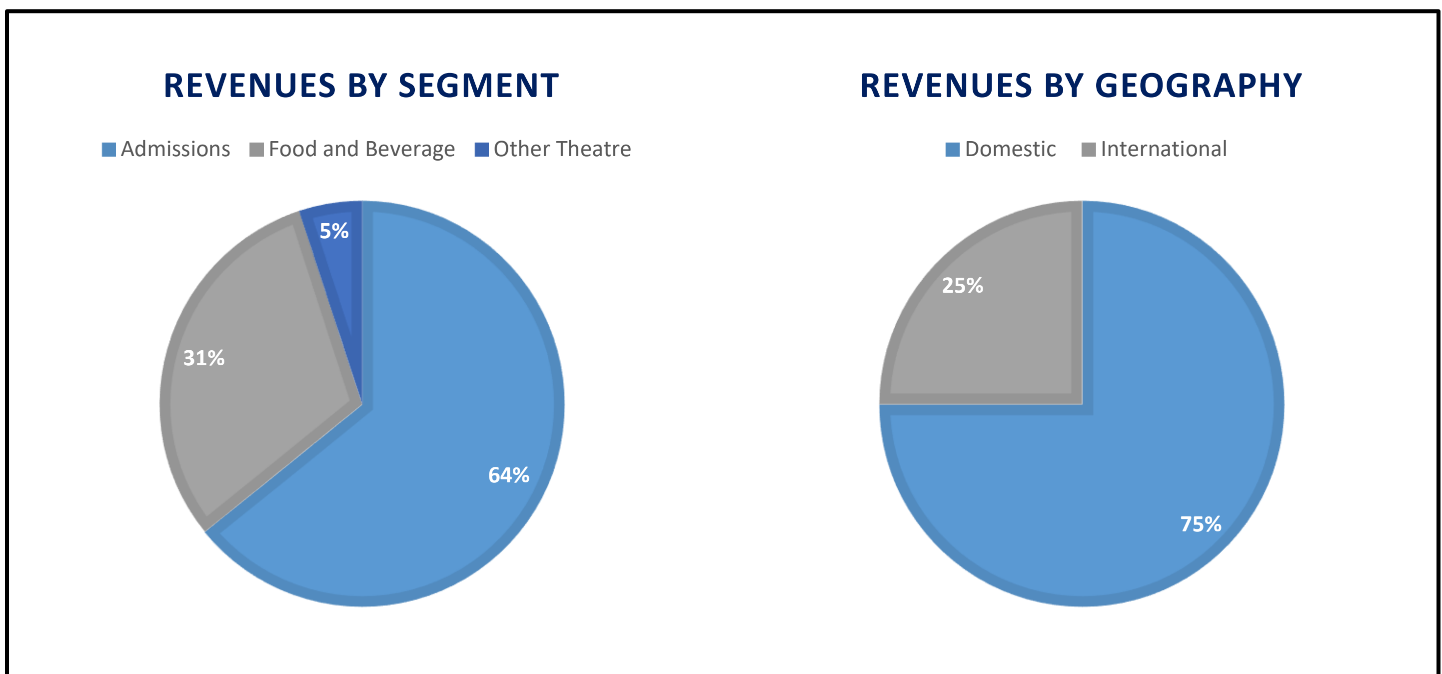
$'s in millions	2016A	Q1 2017A	Q2 2017A	Q3 2017A	Q4 2017E	2017E	2018E
Revenue	**$ 3,235.8**	**$ 1,283.4**	**$ 1,202.0**	**$ 1,179.0**	**$ 1,368.6**	**$ 5,033.0**	**$ 5,756.0**
Growth	*9.8%*	*67.5%*	*57.4%*	*51.0%*	*47.7%*	*55.5%*	*14.4%*
Gross Profit	**2,004.0**	**802.1**	**761.1**	**753**	**869.1**	**3,185.3**	**3,626.3**
Gross Margin	*61.9%*	*62.5%*	*63.3%*	*63.9%*	*63.5%*	*63.3%*	*63.0%*
Adj. EBITDA (Non-GAAP)	**609.0**	**251.3**	**135.8**	**147.4**	**295.5**	**830.0**	**1,036.1**
EBITDA Margin	*18.8%*	*19.6%*	*11.3%*	*12.5%*	*21.6%*	*16.5%*	*18.0%*
Net Income (Non-GAAP)	**115.4**	**34.6**	**26.1**	**-21.7**	**49.0**	**88.0**	**230.2**
Profit Margin	*5.9%*	*2.7%*	*2.2%*	*-1.8%*	*3.6%*	*1.7%*	*4.0%*
EPS (Non-GAAP)	**$ 1.17**	**$ 0.28**	**$ 0.20**	**$ (0.17)**	**$ 0.37**	**$ 0.68**	**$ 1.71**

Company Background

AMC Entertainment Holdings, Inc. ("AMC") is principally involved in the theatrical exhibition business and owns, operates or has interests in theatres primarily located in the United States and Europe. As of September 30, 2017, the company owned, operated, or held interests in 1,006 theatres and 11,046 screens. AMC's revenues are generated primarily from box office admissions and theatre food and beverage sales. AMC also generates revenues from ancillary sources, including on-screen advertising, fees earned their rewards program, rental of theatre auditoriums, income from gift card and exchange ticket sales, on-line ticketing fees and arcade games located in theatre lobbies.

AMC owns, operates or holds interests in 645 theatres with a total of 8,139 screens in the United States and 361 theatres and 2,907 screens in European markets. According to the company, approximately 52% of the U.S. population lives within 10 miles of one of AMC's theatres. AMC operates theaters in the top markets in the United States and has #1 or #2 market share in the top three markets: New York, Los Angeles and Chicago. AMC's top five markets, in each of which they hold the #1 or #2 share position, are New York (45% share), Los Angeles (26%), Chicago (42%), Philadelphia (29%) and Dallas (30%).

The company has three primary operating segments, which consist of admissions, food and beverage, and other theatre products/services. While AMC generates most of their revenues from the sale of movie tickets in the United States, they also generate a material portion of their revenues from the sale of food and beverage items and sales from their international operations. The charts below show the revenue breakdown by operating segment and geography.

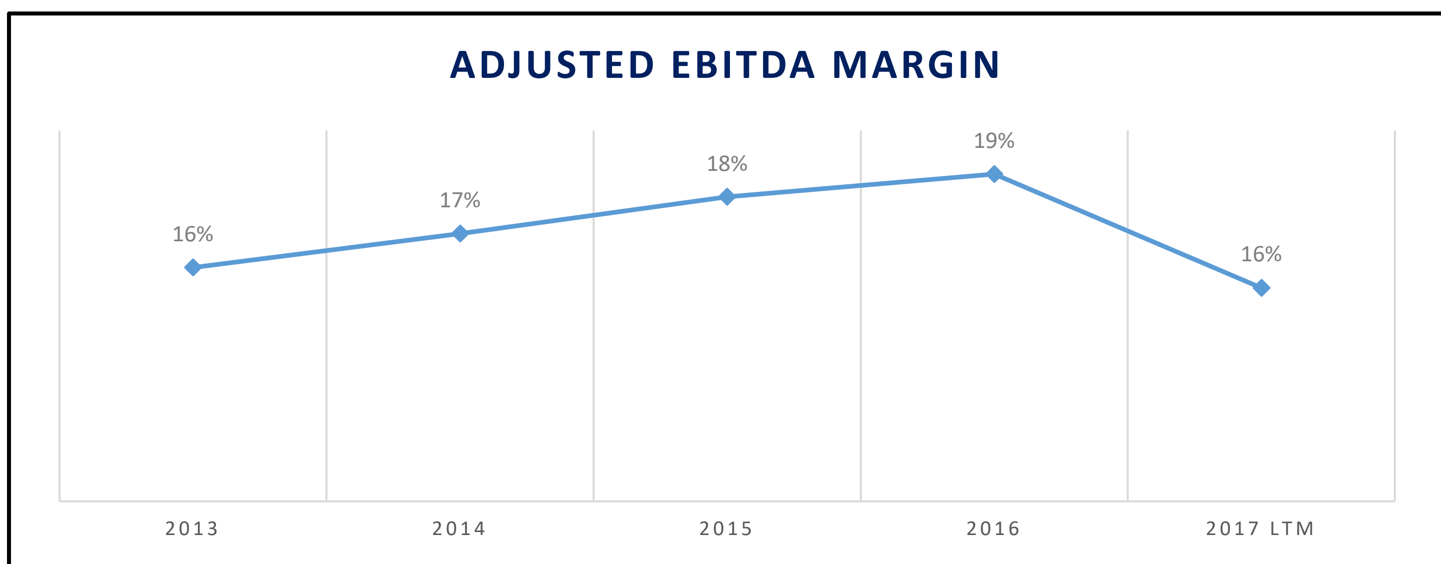


Source: Company Filings

The table below shows AMC's operating performance over the last several years. As can be observed, revenues and profits have reasonably increased for most of the reported periods, with the exception of a sharp increase in GAAP OpEx in 2017LTM. This will be further discussed later in the report. It is also important to note that AMC's revenues materially benefited from several meaningful acquisitions made in late 2016 and early 2017. The pro-forma results and key operating statistics will be shown in detail later in this report.

$'s in 000's	2013	2014	2015	2016	2017 LTM
Revenues	$ 2,749,428	$ 2,695,390	$ 2,946,900	$ 3,235,846	$ 4,588,496
Revenue Growth %	N/A	-2%	9%	10%	42%
COGS	1,084,237	1,046,237	1,150,026	1,231,668	1,692,091
COGS Growth %	N/A	-4%	10%	7%	37%
Gross Profit	**1,665,191**	**1,649,153**	**1,796,874**	**2,004,178**	**2,896,405**
Gross Margin %	**61%**	**61%**	**61%**	**62%**	**63%**
Total Op Ex	1,476,177	1,474,081	1,559,817	1,791,320	2,825,526
Op Ex Growth %	N/A	0%	6%	15%	58%
Operating Income	**189,014**	**175,072**	**237,057**	**212,858**	**70,879**
Operating Margin %	**6.9%**	**6.5%**	**8.0%**	**6.6%**	**1.5%**
Other Expense (Inc.)	89,293	77,835	73,526	63,219	399,828
Income before Taxes	**99,721**	**97,237**	**163,531**	**149,639**	**(328,949)**
Income Tax Expense	(263,383)	33,470	59,675	37,972	(150,258)
Net Income	**363,104**	**63,767**	**103,856**	**111,667**	**(178,691)**
Profit Margin %	**13.2%**	**2.4%**	**3.5%**	**3.5%**	**-3.9%**

Source: Company Filings



Source: Company Filings

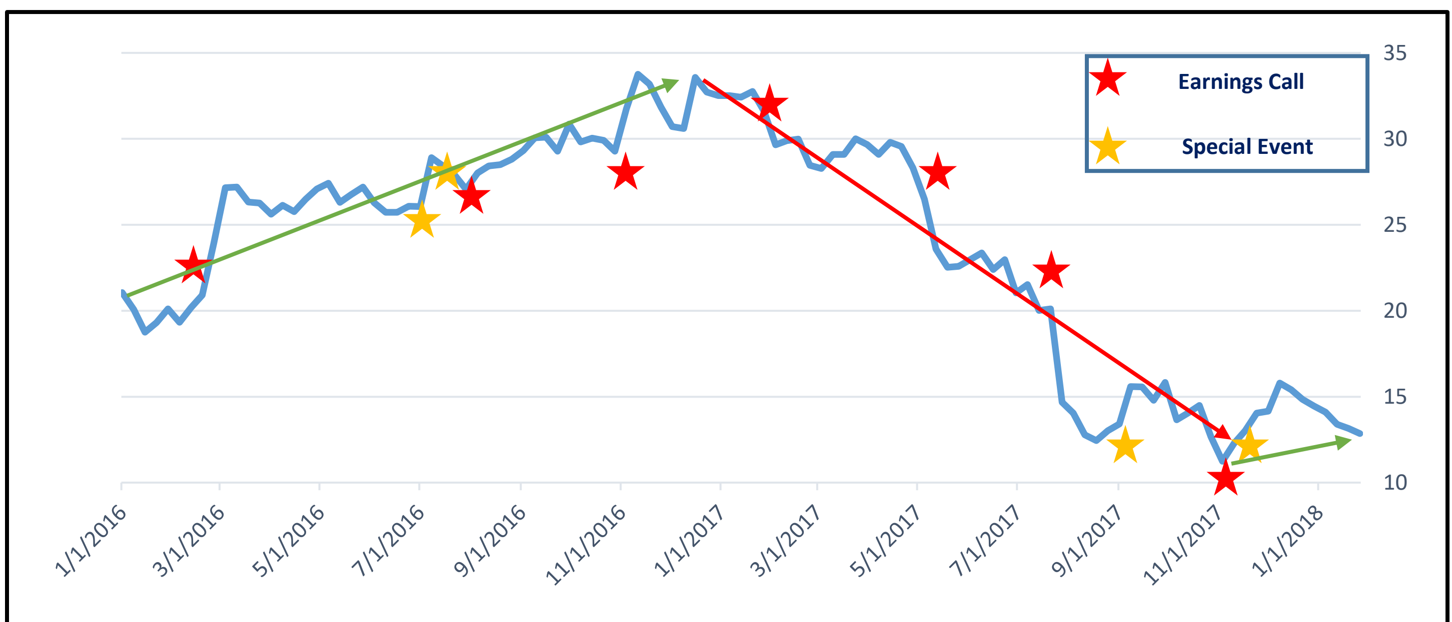
Stock Price Timeline

After AMC's IPO in December 2013, the stock's value was relatively flat for all of 2014 through January 2015. This changed when AMC reported Q4 2014 earnings and provided strong 2015 guidance, which led to the stock breaking the previous ceiling of $30. While 2015 was a strong year for the box office, AMC had several earnings misses due to highly bullish expectations, rising content costs, negative sentiment due to the rise of Netflix original content, and talk of studios deciding to reduce the time to DVD.

Despite a few revenue and/or profit estimate shortcomings, strong revenue and profit growth in 2016 was enough to change investor sentiment. This led to the stock recovering all of its losses from 2015, resulting in a 75% rise in value in 2016. However, AMC's stock begin to rapidly lose value in 2017 due to very similar issues that plagued the stock in 2015. Talks of an acceleration to DVD increased significantly in 2017. Additionally, the box office significantly underperformed expectations for 2017.

To make matters worse, AMC went on an acquisition spree in late 2016 that proved to be poor timing given the higher operating leverage. This led to a material earnings miss in August 2017, which caused the stock to lose over -30% of its value in a single day. Additionally, there was speculation that AMC's largest shareholder and parent company, Wanda Group, would be forced to sell AMC. This led to a sharp increase in short interest, which further suppressed the stock to record lows. While the stock has started to rise after an earnings beat in November 2017, AMC is still trading at depressed levels based on sentiment that is not reflective of AMC's bright 2018.

STOCK CHART



Source: Public Stock Data

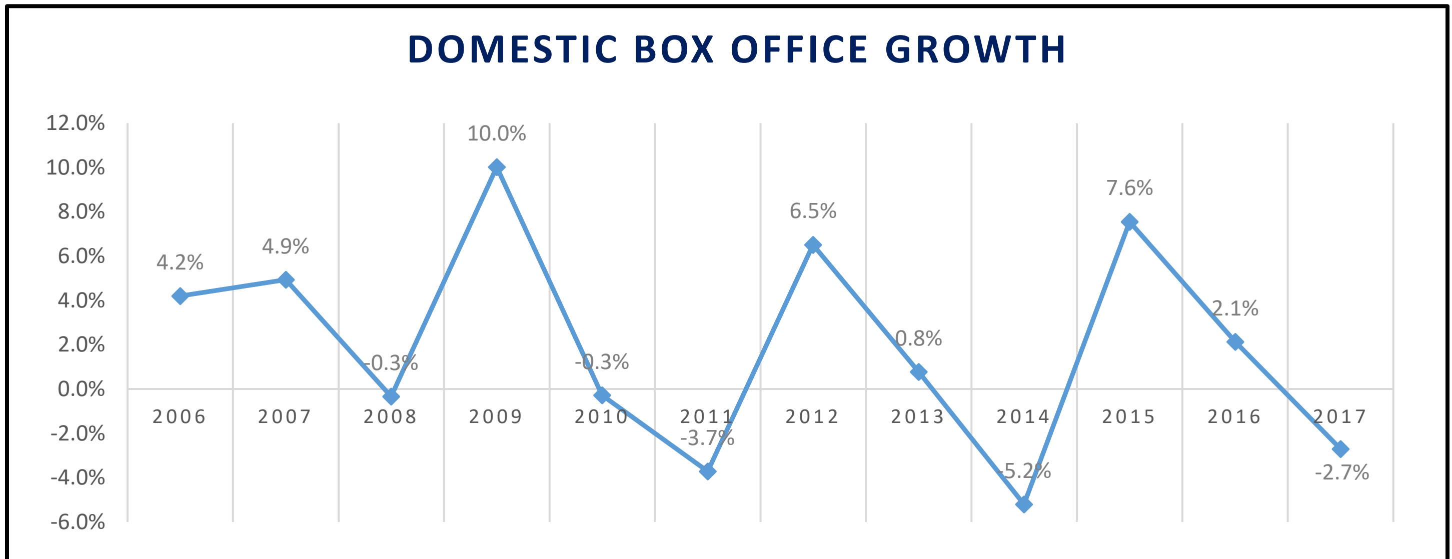
Date	Event
2/29/16	AMC reports revenue that **missed** by **-2.2%** and earnings that **beat** consensus estimates by **7.5%**.
4/29/16	AMC reports revenue and earnings that **beat** consensus estimates by **0.1%** and **28.6%,** respectively.
7/7/16	AMC announces bids to acquire Europe-based Oden and UCI theatres.
7/25/16	AMC announces bids to acquire U.S.-based Carmike theatres.
8/1/16	AMC reports revenue and earnings that **missed** consensus estimates by **1.1%** and **-11.1%,** respectively.
11/7/16	AMC reports revenue and earnings that **beat** consensus estimates by **0.2%** and **14.8%,** respectively.
2/28/17	AMC reports revenue that **beat** by **1.2%** and earnings that **missed** consensus estimates by **-2.9%**.
5/8/17	AMC reports revenue that **beat** by **2.4%** and earnings that **met** consensus estimates.
8/4/17	AMC reports revenue and earnings that **missed** consensus estimates by **-2.4%** and **-.7%**, respectively.
9/8/17	Reports of 21st Century Fox focusing on PVOD within 6-12 months; Strong box office for IT.
11/6/17	AMC reports revenue and earnings that **beat** consensus estimates by **2.6%** and **10%**, respectively.
12/5/17	Regal Entertainment is acquired by U.K.-based Cineworld theatres.

Sources: Public News and Stock Data

Based on our assessment of industry trends, AMC's stock has been significantly oversold. The current sentiment and valuation levels do not reflect a near term state of growth in 2018. While AMC has faced headwinds related to the acquisitions (primarily U.S. based Carmike), the results are completely understandable given a negative year for the box office in 2017. Additionally, the negative headlines relating to Premium Video On-Demand and Netflix's growth has caused investors to overlook the high value proposition AMC's stock has at current price levels and unreasonably weak expectations. With the stock to trade at all-time lows, AMC's stock is poised to surge in 2018 based on improving fundamentals driven by a strong box office and normalized valuation levels driven by a positive shift in investor sentiment.

Investment Thesis I: The Market has Incorrectly Interpreted the Box Office's 2017 Results

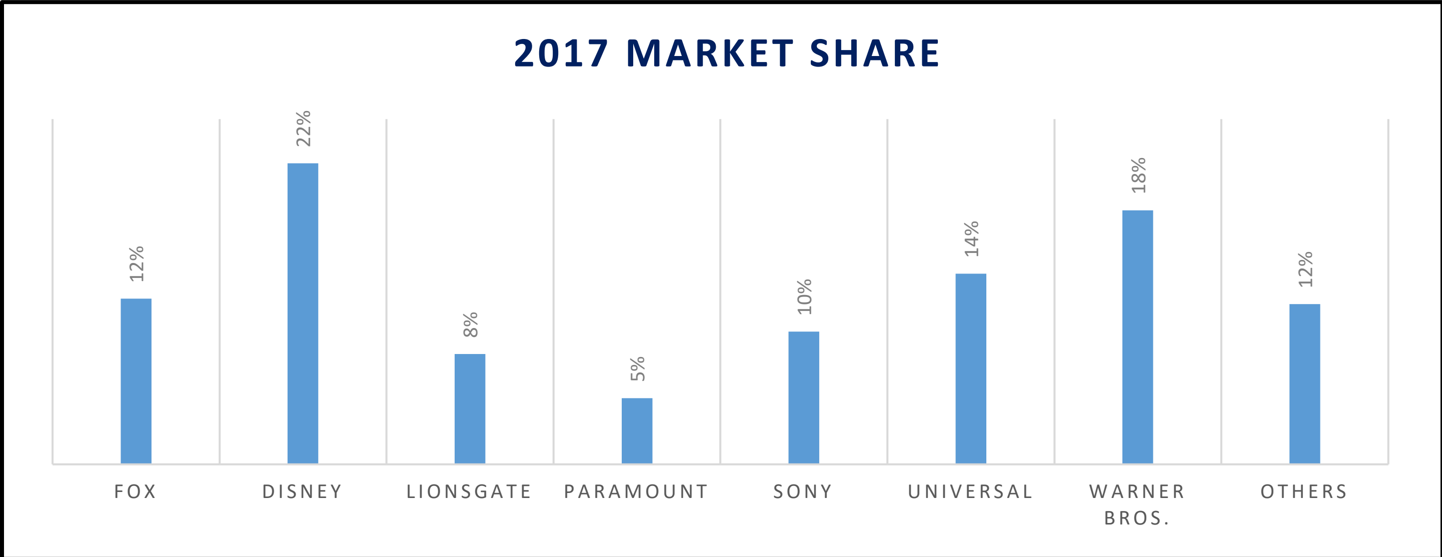
While the market attributed the box office results in 2017 to negative secular trends (Netflix, shifting consumer preferences, etc.), a simple understanding of industry trends would likely have led to a more reasonable assessment. We have identified and carefully studied the key drivers of industry performance to gain a thorough understanding of the drivers of 2017 results. After closer analysis we have found that the industry is actually cyclical with an observable pattern of two positive years followed by one negative year. The chart below shows the aggregate box office results over the last several years.



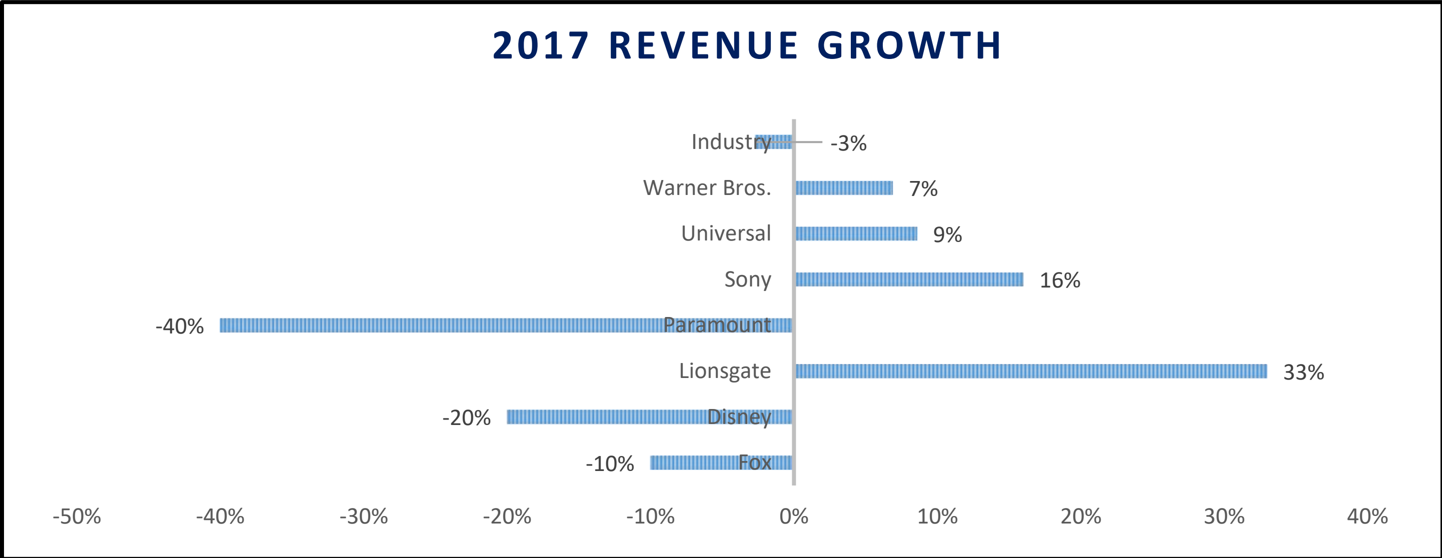
Source: Box Office Mojo (IMDb)

While there are many studios that produce movies, there are only seven studios that drive the majority of box office revenues. The production schedules of these studios and popularity of their movies are the key drivers of box office performance. In order to develop a deeper understanding of the drivers of box office performance, we conducted an analysis of the top seven studios. We have found that box office performance is highly influenced by the content supplied (quantity and quality) in any given year, on a studio-by-studio basis.

While 2017 was a down year for the box office, a closer look reveals that a greater number of top studios had a strong 2017 than those that did not. In fact, the weak 2017 can be directly attributed to three of the top seven studios. This provides significant support that aggregate box office performance is impacted by specific studio factors, not just secular trends, which the market is laser focused on. The charts below show the market shares of the top studios as well as their respective 2017 box office performance.



Source: Box Office Mojo (IMDb)



Source: Box Office Mojo (IMDb)

As can be seen, box office revenues are primarily generated by the seven largest players and the performance of each player has an impact on the overall box office performance. While the consensus has focused on overall industry performance in 2017, it is crucial to breakdown the aggregate performance into its component parts (individual studio revenues). Otherwise, it is impossible to develop a meaningful understanding of the overall health of the industry, much less be able to forecast future performance. In spite of negative headlines citing the recent declines of the box office, one can easily observe that several studios actually performed well. In fact, this is a trend that frequently occurs within the industry as it is driven by individual studio factors (production schedules, quality of movies, quantity of movies, marketing spend, etc.). The chart/tables below show the market share trends over the last several years, each studio's performance relative to the industry, and each studio's contribution to the overall industry results.

Market Share

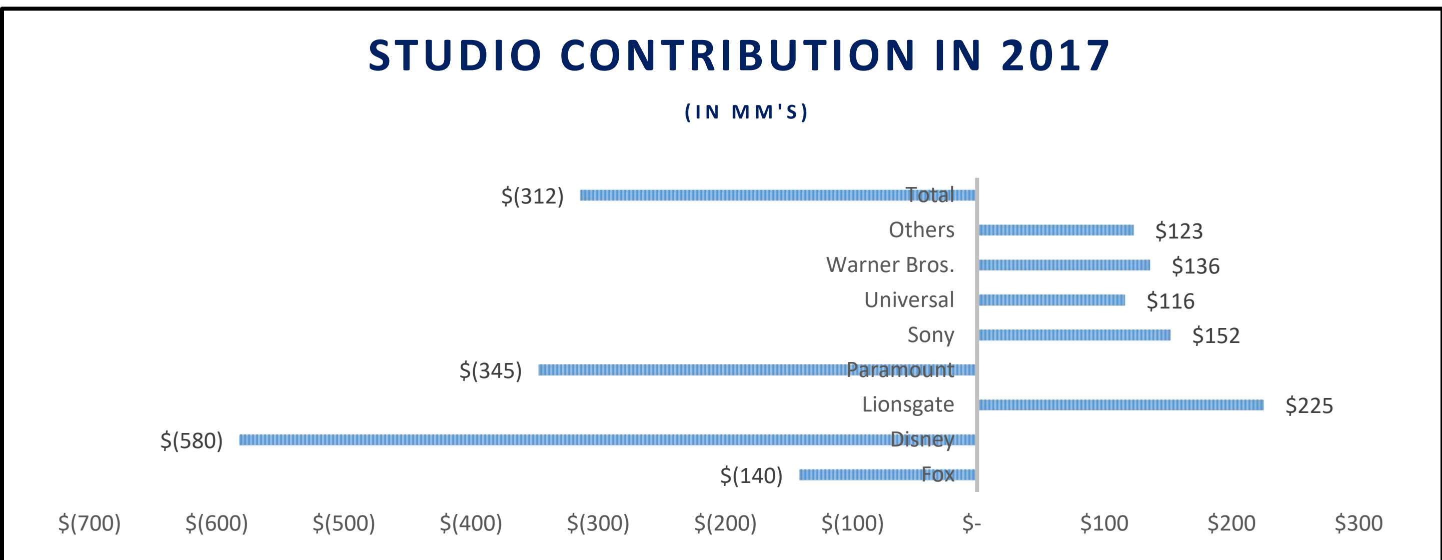
Studio	2012	2013	2014	2015	2016	2017
Fox	9%	16%	17%	11%	13%	12%
Disney	14%	15%	15%	20%	26%	22%
Lionsgate	11%	9%	7%	6%	6%	8%
Paramount	8%	9%	10%	6%	8%	5%
Sony	16%	10%	12%	8%	8%	10%
Universal	12%	12%	10%	21%	12%	14%
Warner Bros.	15%	16%	17%	14%	17%	18%
Others	15%	12%	14%	14%	10%	12%

Source: Box Office Mojo (IMDb)

Revenue Growth

Studio	2012	2013	2014	2015	2016	2017
Fox	**5%**	**4%**	**68%**	**-27%**	**13%**	**-10%**
Disney	**25%**	**10%**	**-5%**	**41%**	**32%**	**-20%**
Lionsgate	**573%**	**-14%**	**-31%**	**-10%**	**0%**	**33%**
Paramount	**-53%**	**6%**	**9%**	**-36%**	**30%**	**-40%**
Sony	**41%**	**-36%**	**10%**	**-23%**	**6%**	**16%**
Universal	**27%**	**8%**	**-22%**	**119%**	**-42%**	**9%**
Warner Bros.	**-9%**	**12%**	**-16%**	**3%**	**19%**	**7%**
Industry	**7%**	**1%**	**-5%**	**8%**	**2%**	**-3%**

Source: Box Office Mojo (IMDb)



Source: Box Office Mojo (IMDb)

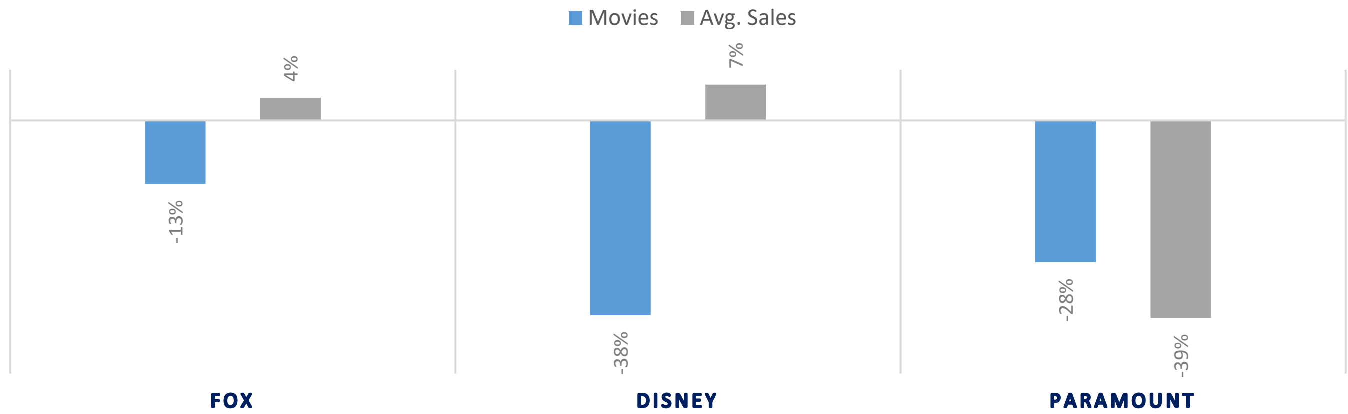
As can be observed, Disney, Fox, and Paramount were the key drivers of the negative industry performance in 2017. In fact, the last year the industry's return was not positively correlated with Disney's return was in 2007. In all other years, there was a positive relationship between Disney's performance and that of the industry. As a result, there should not have been much surprise that the box office was down given that 2017 was such a weak year for Disney. With Disney down -20% in 2017, the other studios simply could not generate growth to compensate for the lost Disney revenues. The added declines from Fox and Paramount further suppressed the strong performance exhibited by the other studios.

The key drivers of a studio's performance are the number of movies released in a given year and the average sales of these movies. The average number of movies released varies by studio based on the particular studio's strategy. For instance, Disney typically releases less than 15 movies in a year, whereas Warner Brothers typically releases greater than 20 movies in a year. Each studio has a unique approach to balancing quality with quantity to optimize their production capabilities.

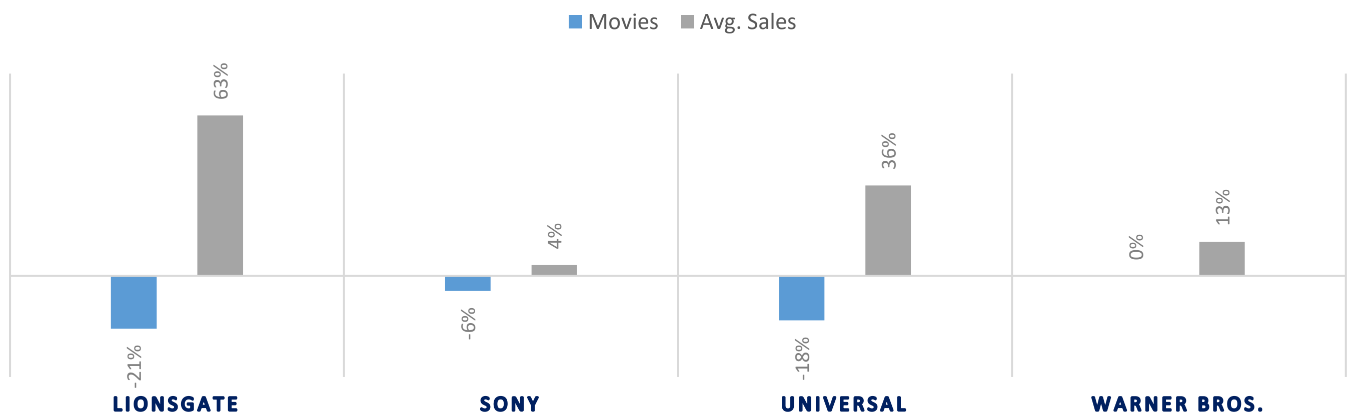
Regardless of the strategy employed, variability in a particular studio's annual releases typically has a material effect on revenues. Holding all other variables equal, releasing fewer movies reduces potential revenue drivers and releasing more movies increases potential revenue drivers. However, studios must optimize their release schedules to maximize production constraints while minimizing market saturation. As a result, studios do not simply release as many titles as humanly possible.

A closer look at 2017 results shows that the balance of quantity and quality was a key driver in the performance of each studio, especially the studios that had negative years. The data shows that six of the seven top studios released fewer movies in 2017 than in 2016. Interestingly, the studios that had negative growth in 2017 released far fewer movies (˜-26%) in 2017 than in 2016. Whereas, the studios that had positive growth in 2017 released slightly fewer movies (˜-11%) in 2017 than in 2016. This decline in movies released is a material determinant in overall box office results as it is essentially a reduction in potential revenues.

However, the revenues generated per movie (quality) was stronger in 2017 than in 2016 for all but one of the top studios. Importantly, the growth in average revenues per movie for these six studios (˜21%) was well above the growth in average ticket cost (˜4%). In other words, attendance per movie increased ˜17% in 2017 compared to 2016 levels. This provides meaningful evidence that the box office is actually healthy and the results were driven by fewer titles being released (especially from Disney) rather than falling consumer demand. The charts below show the year-over-year change in movies released and average revenue per movie for the studios that had negative growth in 2017 and the studios that had positive growth in 2017.



Source: Box Office Mojo (IMDb)



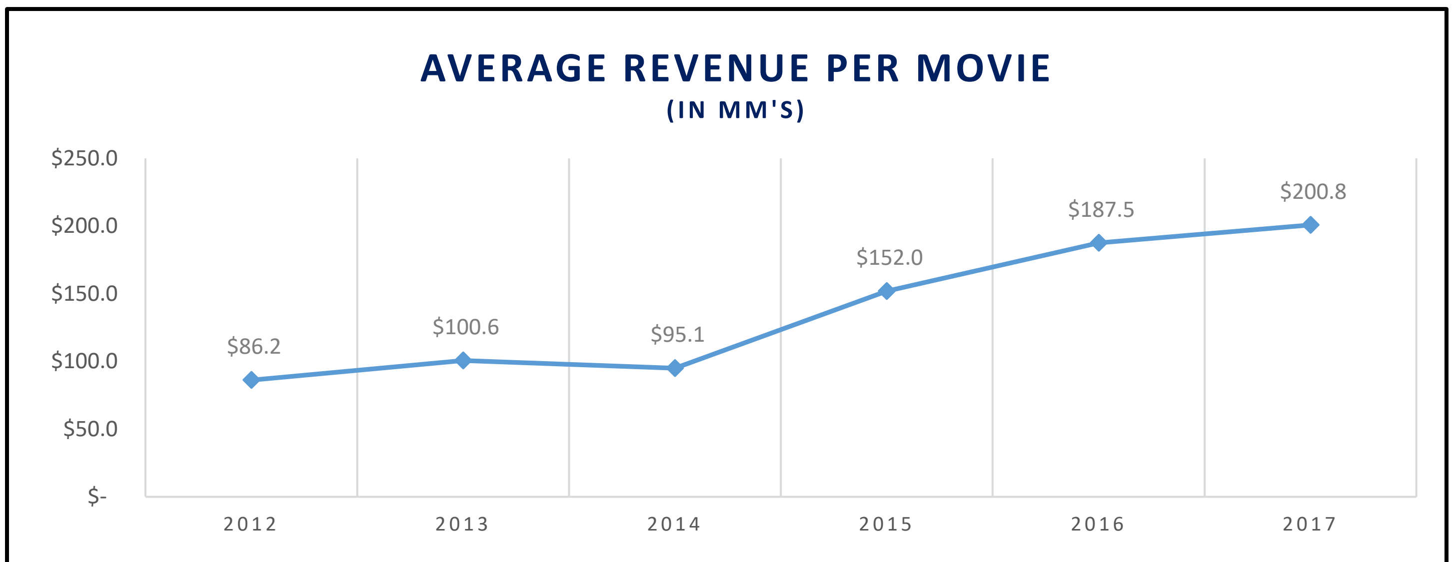
Source: Box Office Mojo (IMDb)

As can be observed, 2017 was a very light year for movie releases compared to 2016. However, most studios displayed strength in movie quality represented by the average revenues per movie. While this provides significant evidence that the box office decline was not due to secular headwinds in the cinema industry, it is very important to understand the drivers of certain studio's performance. The most glaring data points above are the decline in Disney's movie releases and the decline in average revenues per Paramount movie. These two data points represent the dynamics that brought the entire box office performance down to negative territory.

After a record-breaking 2015 and 2016 due to very strong performance of key franchise titles, Disney's management decided to release only 8 films in 2017 compared to 13 in 2016. While rationale for this decision was not explicitly given, one can infer that Disney structured their production/release schedules to allow for a "break" between major titles. The following statement from Disney CEO, Bob Iger, in the Q4 2016 earnings call shows that the company fully anticipated 2017 to be a "light" year for the studio business.

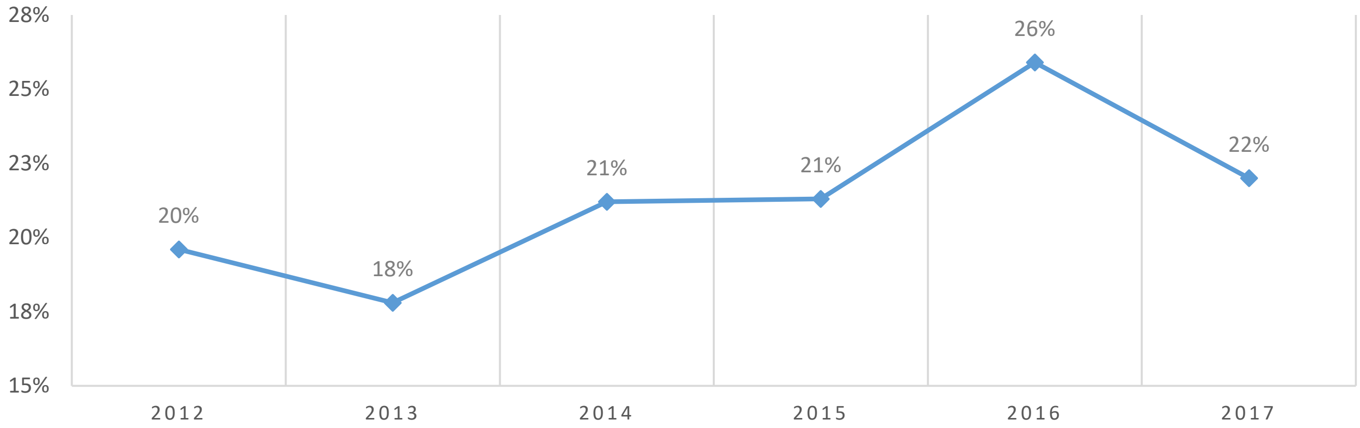
"Fiscal 2017 will be an anomaly in our growth trajectory. We fully expect a return to more robust growth in fiscal 2018 and beyond – particularly given the powerful upcoming slate from our Studio. In fiscal 2018 alone, we have four new Marvel movies, three animated films from Pixar and Disney Animation and two Star Wars releases, including Episode VIII."

The fact that Disney's average revenue per movie increased from $187.5mm in 2016 to $200.8mm in 2017 proves that the studio is having no trouble generating quality content year after year. Even after releasing record setting movies in 2015 and 2016, which carry high average revenues per movie, Disney has been able to push demand for the titles they release. Based on this data, Disney's choice to release fewer movies in 2017 is the sole driver of the studio's revenue decline in 2017. The chart below shows Disney's increasingly strong revenue per movie, which shows the increasing demand consumers have for Disney's movies.

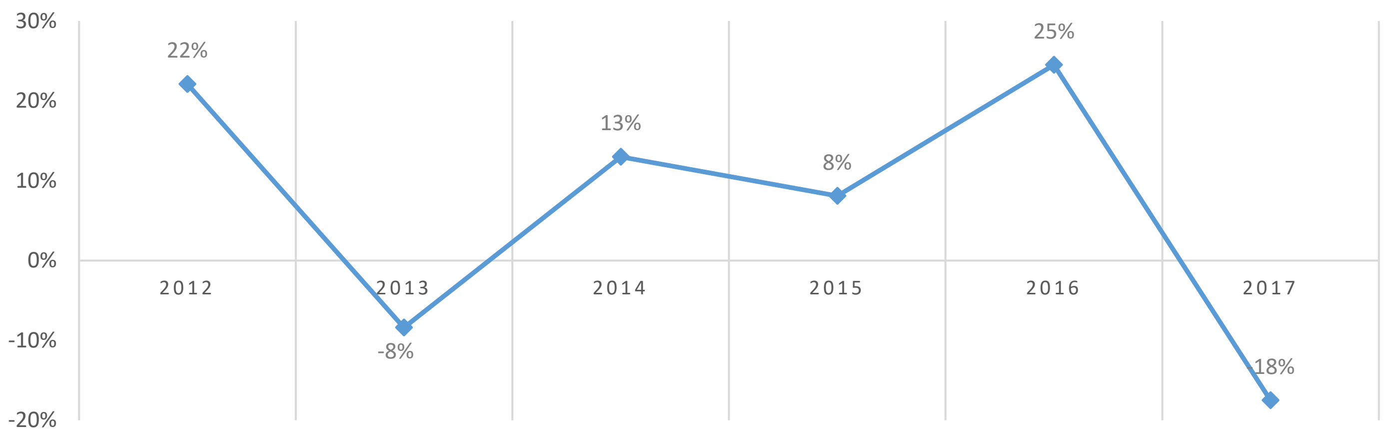


Source: Box Office Mojo (IMDb)

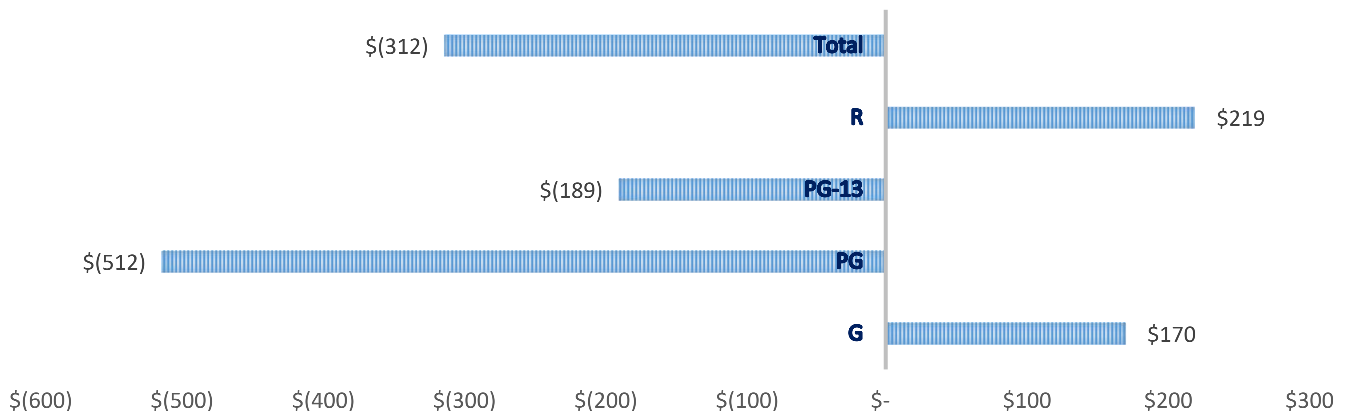
Another overlooked dimension to Disney's decision to release fewer movies in 2017 was the impact their lack of content would have on the important family-oriented movies (PG rated titles). These movies are integral to the health of the box office as they typically draw very large audiences given their positioning as a "shared activity". In 2016, Disney accounted for over 50% of PG rated revenues, which declined to 31% in 2017. The charts below show the market share of PG rated movies, their return history, and their impact on the box office results in 2017.



Source: Box Office Mojo (IMDb)

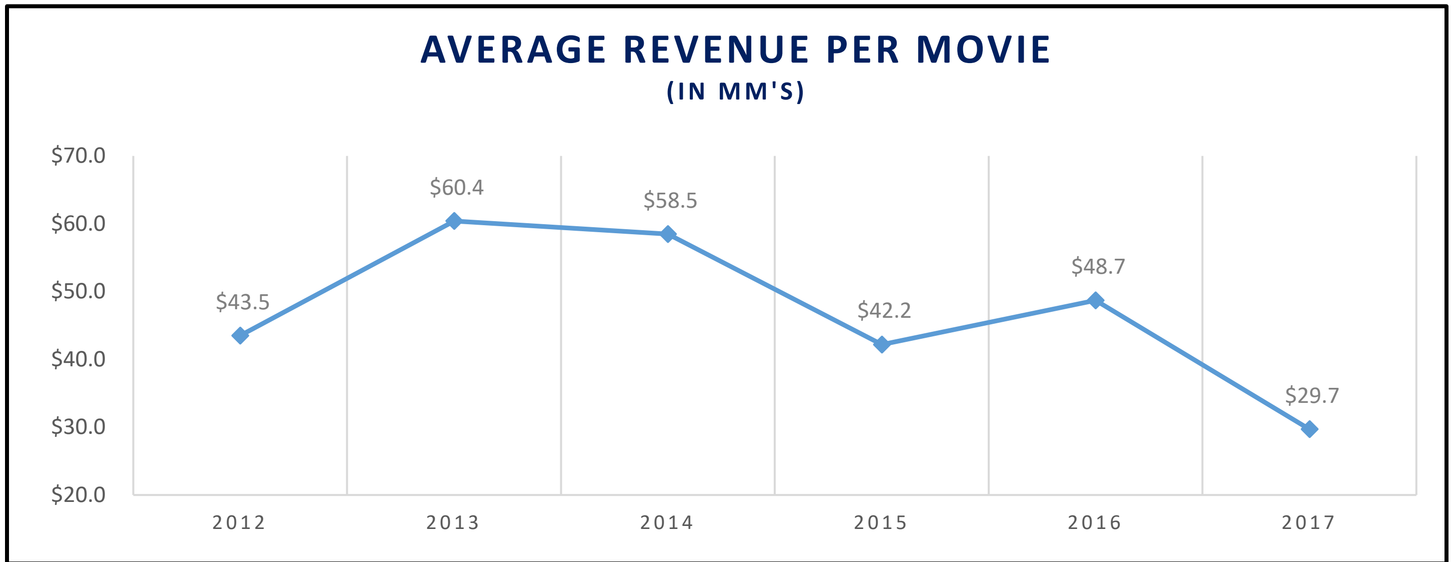


Source: Box Office Mojo (IMDb)



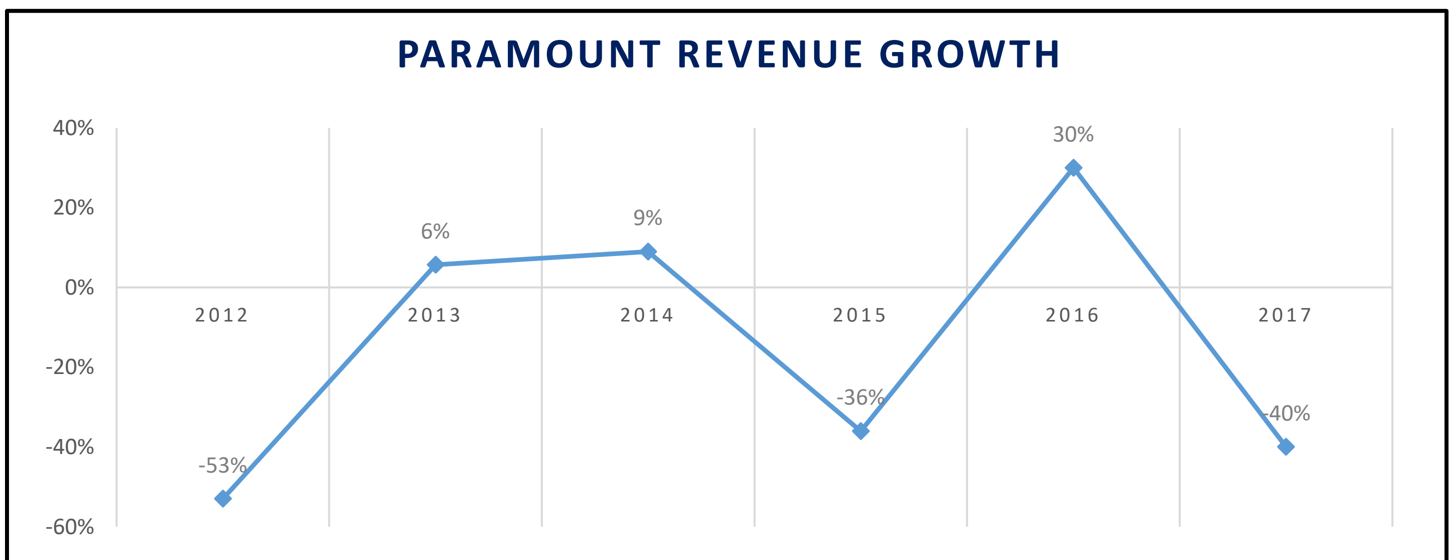
Source: Box Office Mojo (IMDb)

While Disney's negative performance in 2017 was a result of their decision to release fewer titles, Paramount's negative performance is not a simple result of reduced supply/content. Like most top studios in 2017, Paramount decided to release fewer films in 2017. Unlike most top studios in 2017, Paramount's average revenue per movie did not increase. In fact, Paramount was the only top studio that failed to generate growth in their average revenues per movie. Even with the ~4% increase in average ticket costs, Paramount generated ~-39% less revenue per movie in 2017 than in 2016. The chart below shows that 2017 average revenues deviated materially from prior years.



Source: Box Office Mojo (IMDb)

There is no other way to explain Paramount's abysmal 2017 than simply accepting that the studio released several low quality movies that failed to generate meaningful interest. Unlike Disney, Paramount relies on original content rather than proven franchises to generate revenues. Even without the fewer release of movies, Paramount's year would have still be negative given their sharp decline in average revenues per movie. This means that attendance was down ~-43% for the average Paramount movie when accounting for a 4% increase in ticket costs. The chart below shows that volatile growth is common for Paramount, they either "hit or miss".

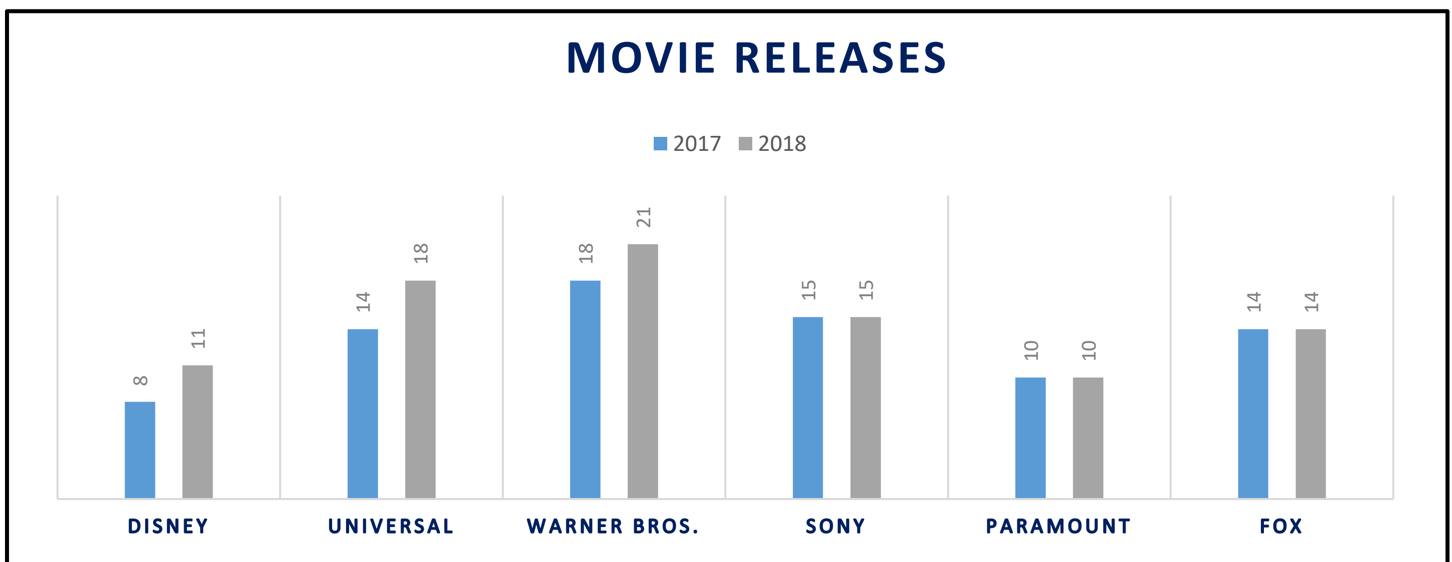


Source: Box Office Mojo (IMDb)

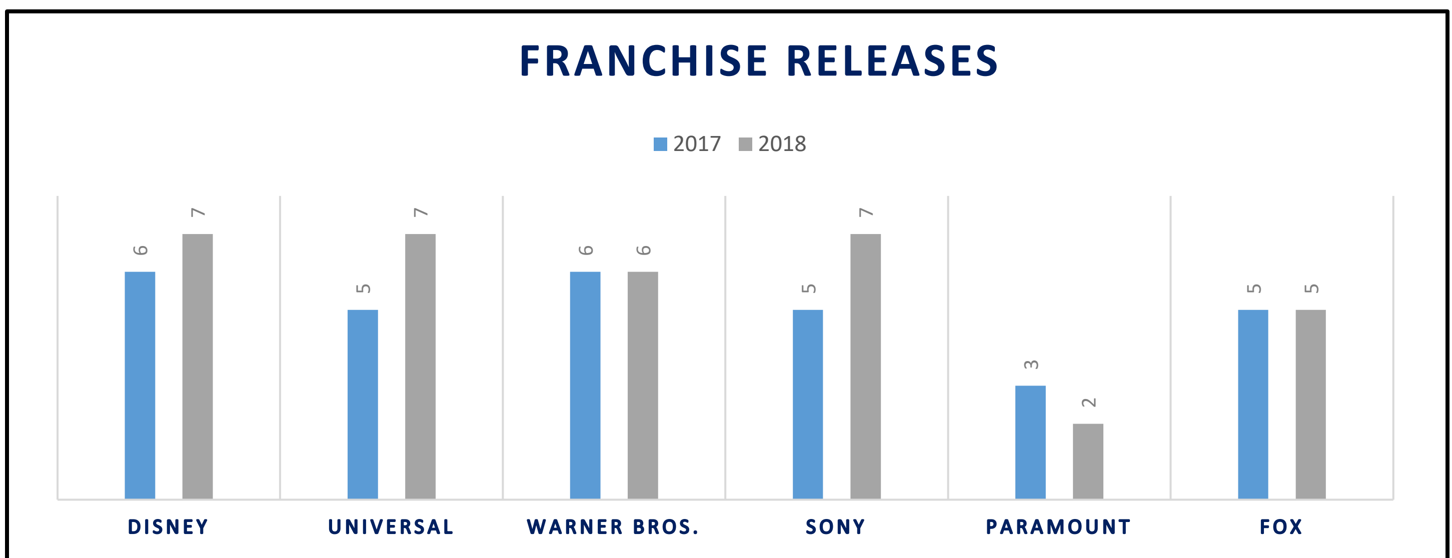
Investment Thesis II: The Box Office is Poised for a Strong Rebound in 2018 after a Weak 2017

While 2017 was a disappointing year for the domestic box office, we have found overwhelming evidence that 2018 will be a year of strong recovery. Unsurprisingly, the key driver of 2018 success will be the balance of quality and quantity at the seven major studios. Given the weak 2017 results for the market leader Disney, it will not take much to favorably comp 2017 performance. An analysis of the 2018 release calendar, in conjunction with the insights gleaned from our analysis of 2017 data, provides evidence of 2018's potential.

Based on an analysis of the 2018 release calendar compared to that of 2017, the outlook is very positive for Disney, Universal, Warner Brothers, Sony, Paramount, and Fox studios compared to their 2017 performance. Collectively, these studios accounted for ~80% of total box office sales in 2017. As a result, a positive year for these studios will be a significant driver of overall box office growth. The charts below show each of the above mentioned studio's 2018 lineup compared to 2017.



Source: Box Office Mojo (IMDb)



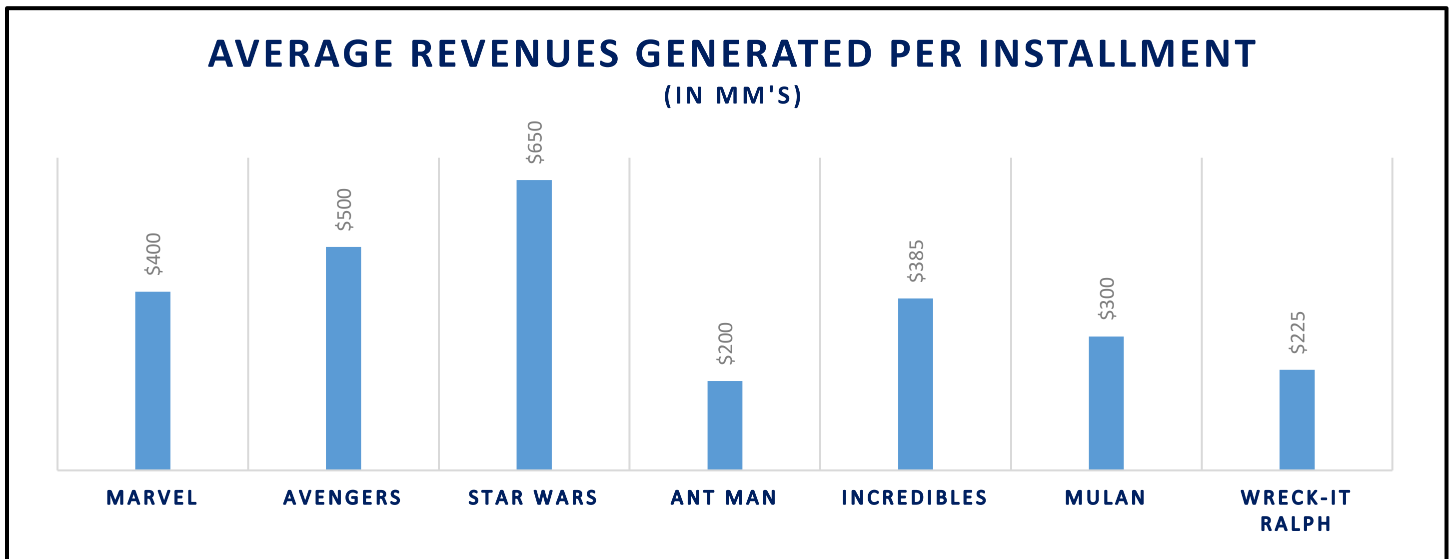
Source: Box Office Mojo (IMDb)

As previously stated, the box office has a strong relationship with Disney's performance, which provides additional confidence that the box office will have a positive year if Disney performs above 2017 results. More than any other studio, Disney has the greatest growth potential in 2018 as a result of their relatively weak 2017 as well as their strong 2018 lineup. Not only will Disney be releasing ~40% more films in 2018 than in 2017, they will also be releasing ~30% more proven franchises in 2018 than in 2017. In fact, Disney's CEO stated the following on the Q3 2017 earnings call:

"The Studio slate (in 2018) is the strongest we have ever had, reflecting the valuable intellectual property we acquired in the last decade, and the array of talent at our Studio business."

Specifically, Disney will be releasing two movies from their highly successful Marvel portfolio (Black Panther and Avengers: Infinity War), which has a proven track record of each installment (17 titles) opening as No. 1 at the box office. In fact, Fandango has reported that pre-sales for Black Panther are higher than any other Marvel film. Disney will also be releasing another installment from their highly successful Star Wars portfolio (Hans Solo) as well as sequels to Ant Man (Ant Man and the Wasp), the Incredibles (the Incredibles II), Mulan (Mulan: Live Action), and Wreck-It Ralph (Wreck-It Ralph 2).

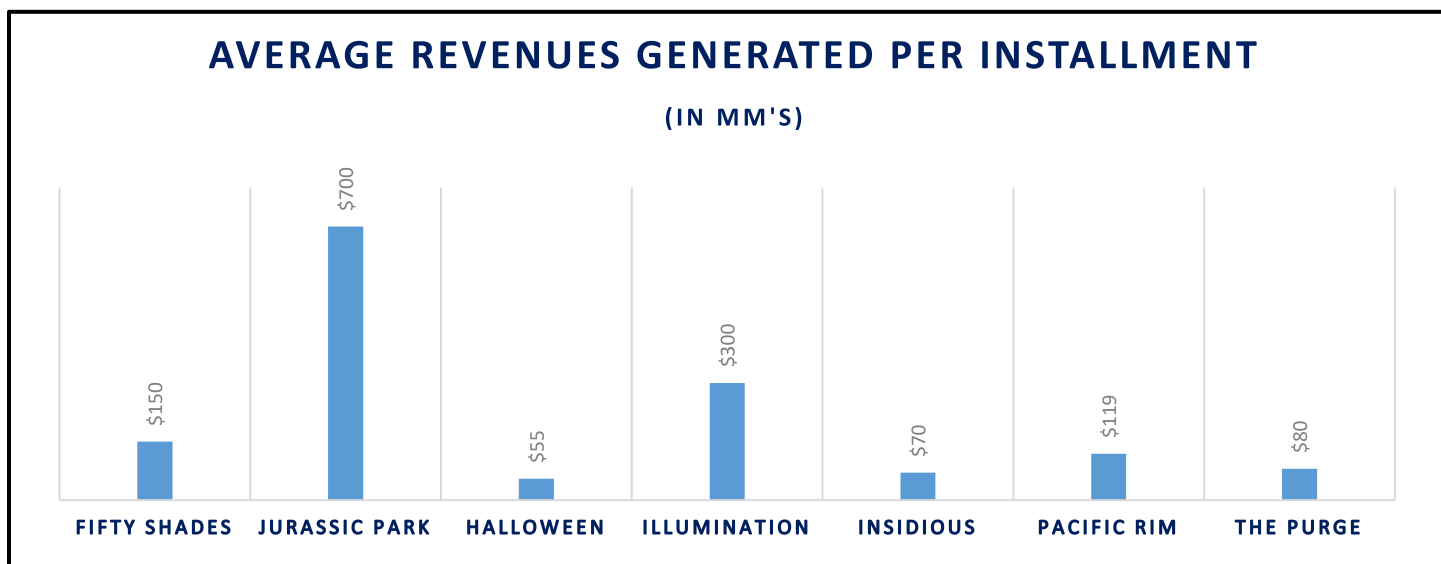
Based on the track record of these franchises, if the 2018 installments perform in-line with their respective franchise averages, Disney will generate about $2.6bln in sales from these franchises alone, which is 10% greater than Disney's 2017 sales. Importantly, Disney still has significant potential revenues from the four original films they will release in 2018. These dynamics provide overwhelming support that Disney will have a strong 2018 compared to 2017. As a result, we believe it is very reasonable to forecast strong growth in 2018 for Disney studios. The chart below shows the average sales of these franchises.



Source: Box Office Mojo (IMDb)

Universal studios also has a strong 2018 lineup that suggests a strong annual growth rate. While Universal does not have the depth of franchises to rely on like Disney, the studio does have a considerable amount of highly successful franchises being released in 2018. Specifically, they will be releasing installments for their Jurassic Park (Jurassic World: Fallen Kingdom), Fifty Shades (Fifty Shades Freed), Insidious (The Last Key), Pacific Rim (Pacific Rim Uprising), The Purge (The First Purge), Halloween (Halloween 2018), and Illumination Ent. (The Grinch) franchises.

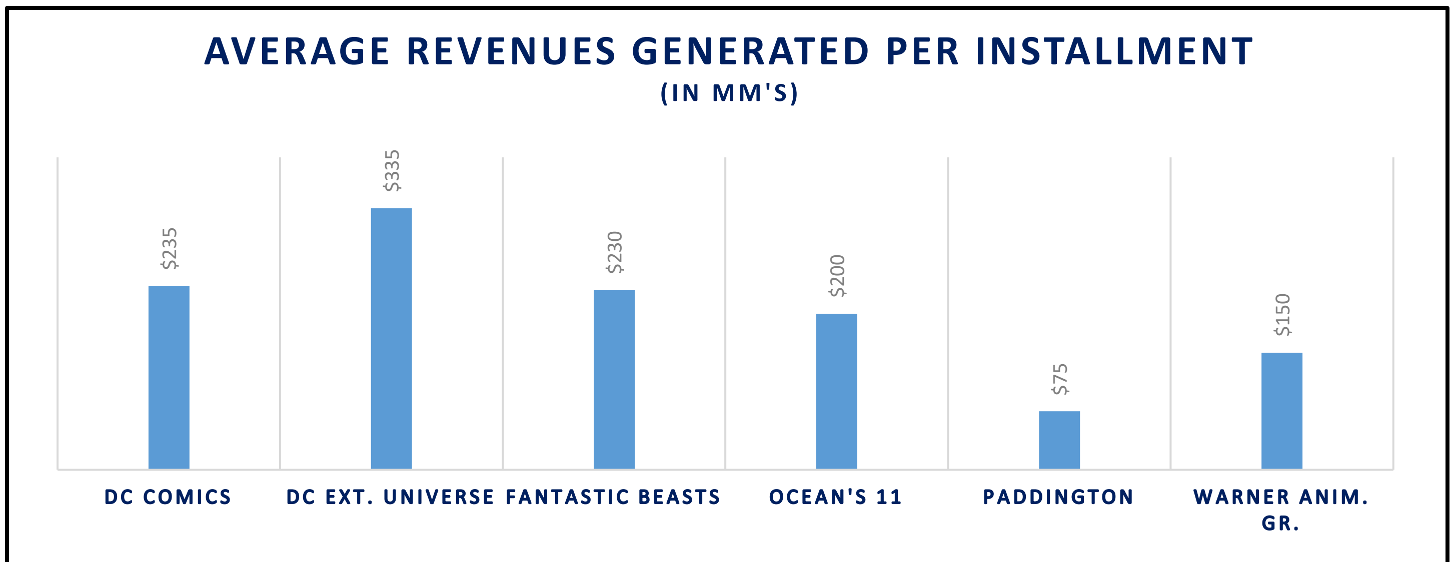
Based on the track record of these franchises, if the 2018 installments perform in-line with their respective franchise averages, Universal will generate about $1.5bln in sales in 2018 from these franchises alone. This would already place 2018 revenues at ~90% of 2017 revenues. Importantly, Universal still has significant potential revenues from the eleven original films they will release in 2018. These dynamics provide overwhelming support that Universal will have a strong 2018 compared to 2017. As a result, we believe it is very reasonable to forecast strong growth in 2018 for Universal studios. The chart below shows the average revenues for each of these franchises.



Source: Box Office Mojo (IMDb)

Warner Brothers studios also has a 2018 lineup that is likely going to lead to growth over 2017 results. While Warner Brothers will be releasing installments from several of their successful franchises, the studio relies on original content more than franchises. However, the average revenues for the franchise films to be released in 2018 supports the belief that these films will be major contributors in 2018. Specifically, Warner Brothers will be releasing installments from their Ocean's Eleven (Ocean's 8), DC Comics (Teen Titans Go! To The Movies), DC Extended Universe (Aquaman), Warner Animation Group (Smallfoot), Fantastic Beasts (The Crimes of Grindelwald), and Paddington (Paddington 2) franchises.

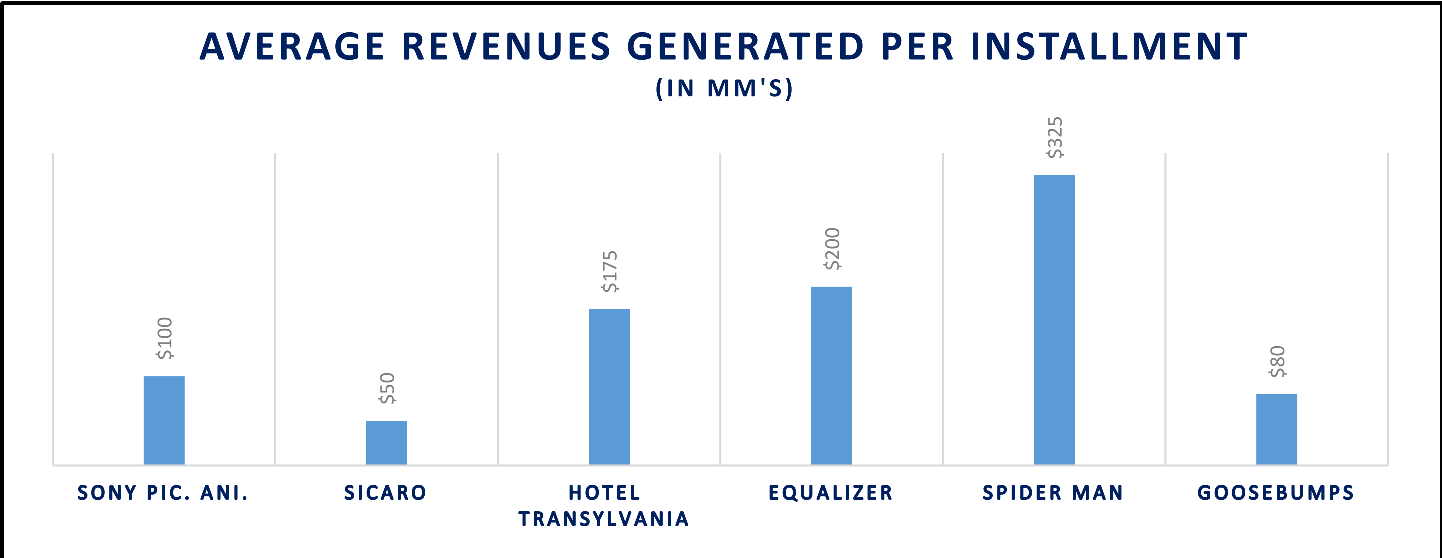
Based on the track record of these franchises, if the 2018 installments perform in-line with their respective franchise averages, Warner Brothers will generate about $1.2bln in sales in 2018 from these franchises alone. This would already place 2018 revenues at ˜60% of 2017 revenues. Importantly, Warner Brothers still has significant potential revenues from the fifteen original films they will release in 2018. These dynamics provide overwhelming support that Warner Brothers will have a strong 2018 compared to 2017. As a result, we believe it is very reasonable to forecast strong growth in 2018 for Warner Brothers studios. The chart below shows the average revenues for each of these franchises.



Source: Box Office Mojo (IMDb)

Sony studios also has a 2018 lineup that is likely going to lead to growth over 2017 results. While Sony will be releasing installments from several of their successful franchises, the studio relies on original content more than franchises. However, the average revenues for the franchise films to be released in 2018 supports the belief that these films will be major contributors in 2018. Specifically, Sony will be releasing installments from their Sony Pictures Animation (Peter Rabbit), Sicario (Sicario 2), Hotel Transylvania (Summer Vacation), the Equalizer (the Equalizer 2), Spider-Man (Venom and Into The Spider-Verse), and Goosebumps (Goosebumps 2) franchises.

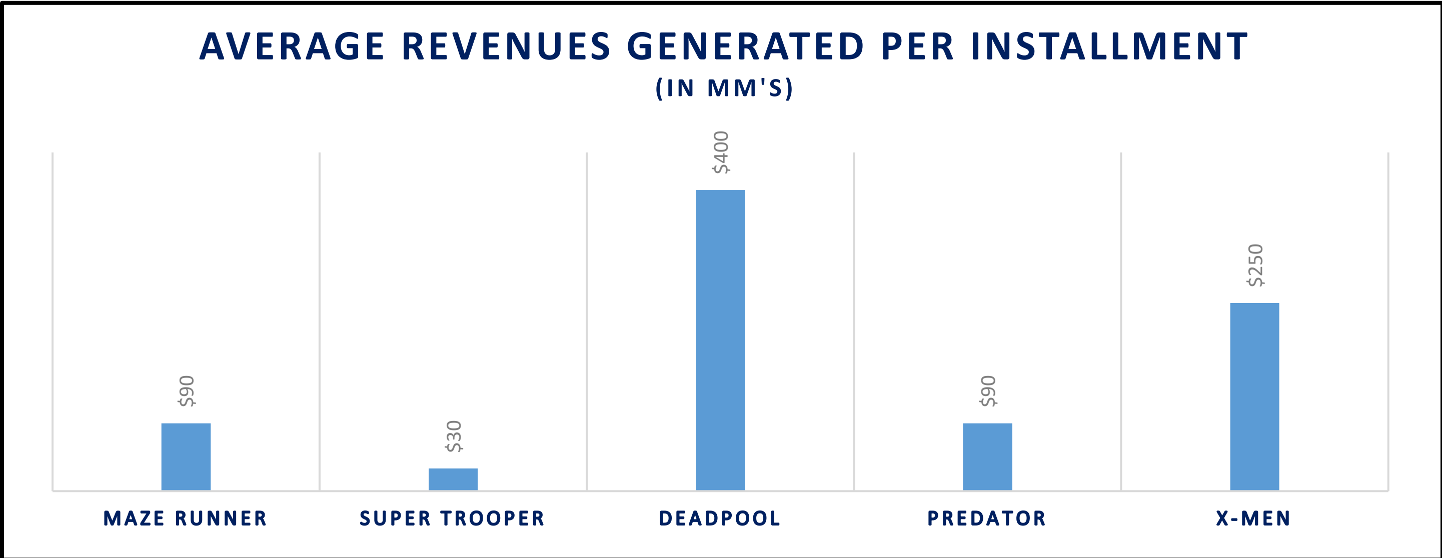
Based on the track record of these franchises, if the 2018 installments perform in-line with their respective franchise averages, Sony will generate about $1.3bln in sales in 2018 from these franchises alone. This would already place 2018 revenues at ˜10% above 2017 revenues. Importantly, Sony still has significant potential revenues from the eight original films they will release in 2018, including the highly successful film, Jumanji that has already made ~$200mm in 2018. These dynamics provide overwhelming support that Sony will have a strong 2018 compared to 2017. As a result, we believe it is very reasonable to forecast strong growth in 2018 for Sony studios. The chart below shows the average revenues for each of these franchises.



Source: Box Office Mojo (IMDb)

21st Century Fox studios also has a 2018 lineup that is likely going to lead to growth over 2017 results. While Fox will be releasing installments from several of their successful franchises, the studio relies on original content more than franchises. However, the average revenues for the franchise films to be released in 2018 supports the belief that these films will be major contributors in 2018. Specifically, Fox will be releasing installments from their Maze Runner (Maze Runner 2), Super Troopers (Super Trooper 2), Deadpool (Deadpool 2), Alien V. Predator (Predator 2018), and X-Men (Dark Phoenix) franchises.

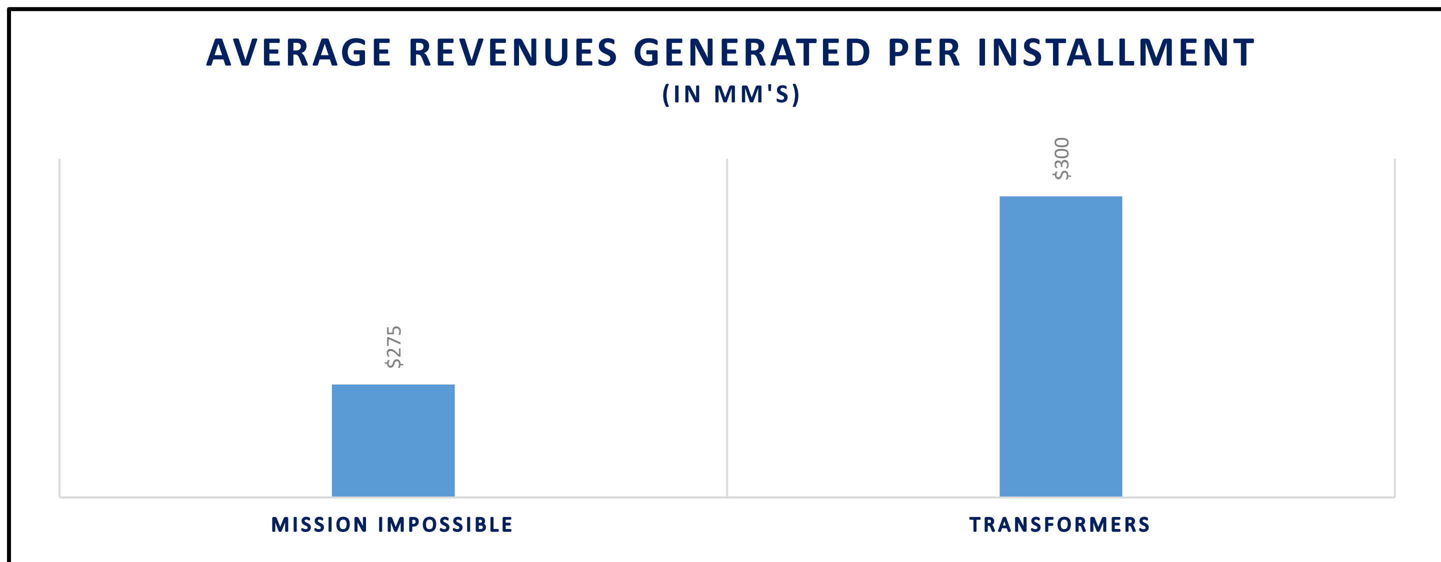
Based on the track record of these franchises, if the 2018 installments perform in-line with their respective franchise averages, Fox will generate about $860mm in sales in 2018 from these franchises alone. This would already place 2018 revenues at ~60% of 2017 revenues. Importantly, Fox still has significant potential revenues from the nine original films they will release in 2018. These dynamics provide overwhelming support that Fox will have a strong 2018 compared to 2017. As a result, we believe it is very reasonable to forecast strong growth in 2018 for Fox studios. The chart below shows the average revenues for each of these franchises.



Source: Box Office Mojo (IMDb)

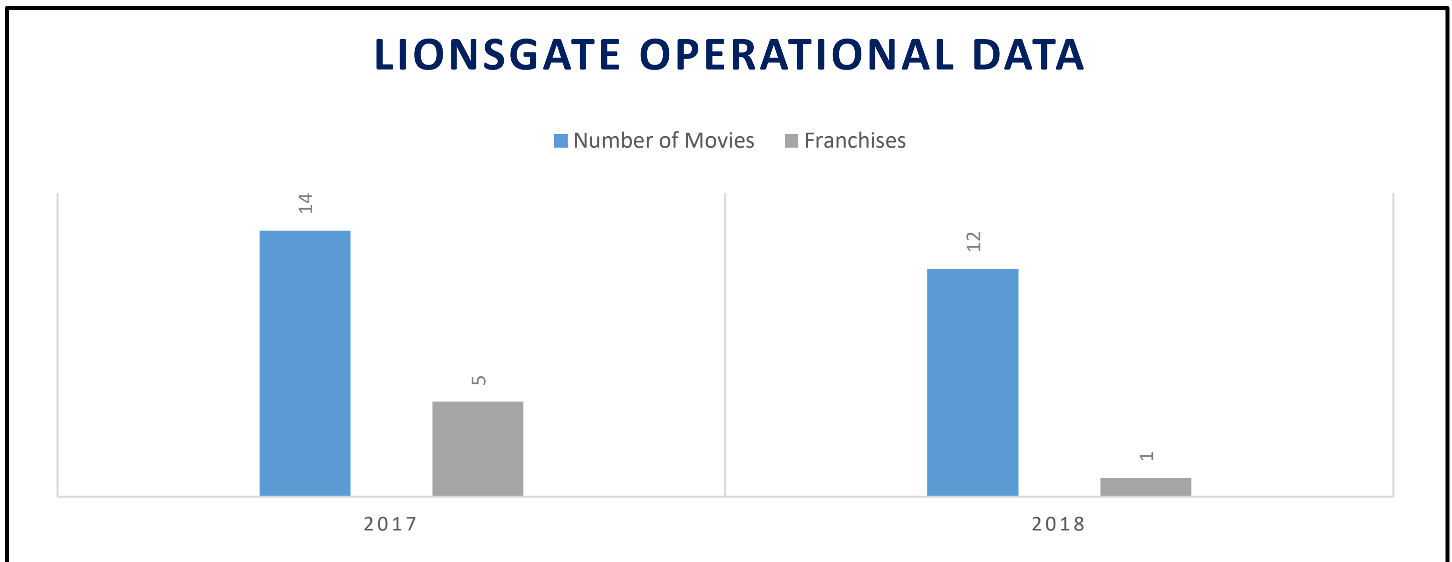
Lastly, Paramount studios has a 2018 lineup that is likely going to lead to growth over their abysmal 2017 results. While Paramount will be releasing installments from two of their successful franchises, the studio relies on original content more than franchises. However, the average revenues for the franchise films to be released in 2018 supports the belief that these films will be major contributors in 2018. Specifically, Paramount will be releasing installments from their Transformers (Bumblebee) and Mission Impossible (Fallout) franchises.

Based on the track record of these franchises, if the 2018 installments perform in-line with their respective franchise averages, Paramount will generate about $575mm in sales in 2018 from these franchises alone. This would already place 2018 revenues at ~7% above 2017 revenues. Importantly, Paramount still has significant potential revenues from the eight original films they will release in 2018. These dynamics provide overwhelming support that Paramount will have a strong 2018 compared to 2017. As a result, we believe it is very reasonable to forecast strong growth in 2018 for Paramount studios. The chart below shows the average revenues for each of these franchises.



Source: Box Office Mojo (IMDb)

While the six studios listed above have very positive outlooks, the last of the major studios (Lionsgate) has a weak outlook for 2018. This is based on the fact that the studio will be releasing fewer movies and franchises. Also, Lionsgate had a very strong 2017 that consisted of 30% revenue growth and 60% growth in average revenue per movie. There is not enough evidence to show that the one franchise Lionsgate will release in 2018 or original films will meaningfully help the studio surpass 2017 results. The chart comparing the 2017 and 2018 lineups is included below.

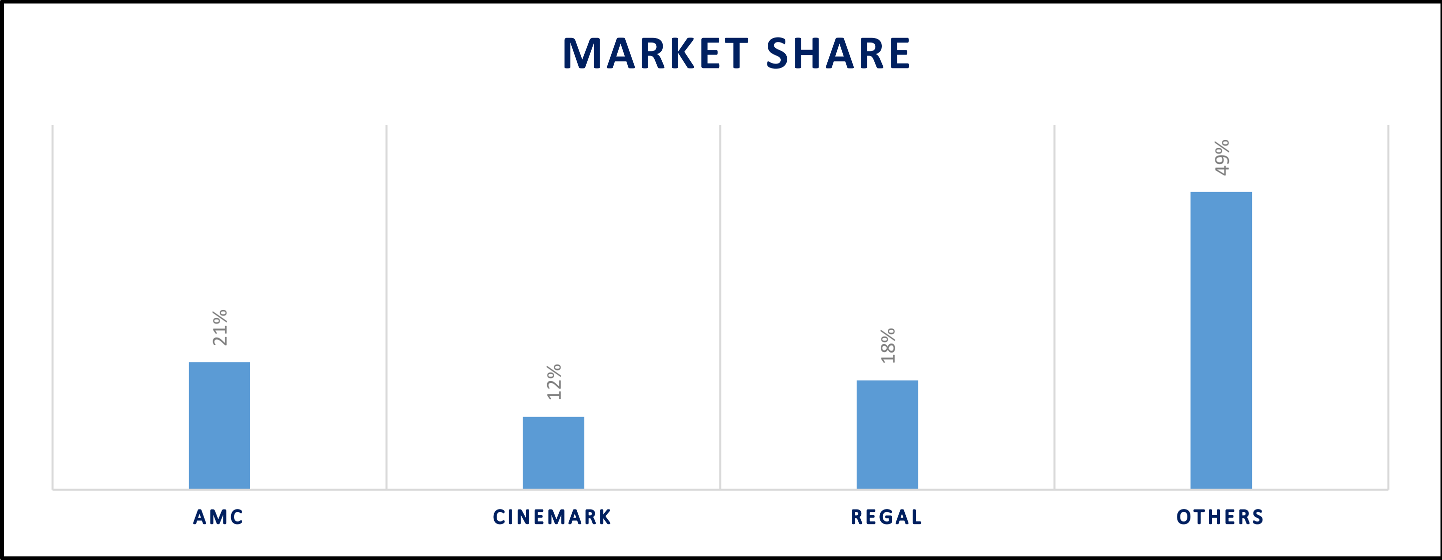


Source: Box Office Mojo (IMDb)

Investment Thesis III- Market Share Gains and International Expansion Offer Additional Growth

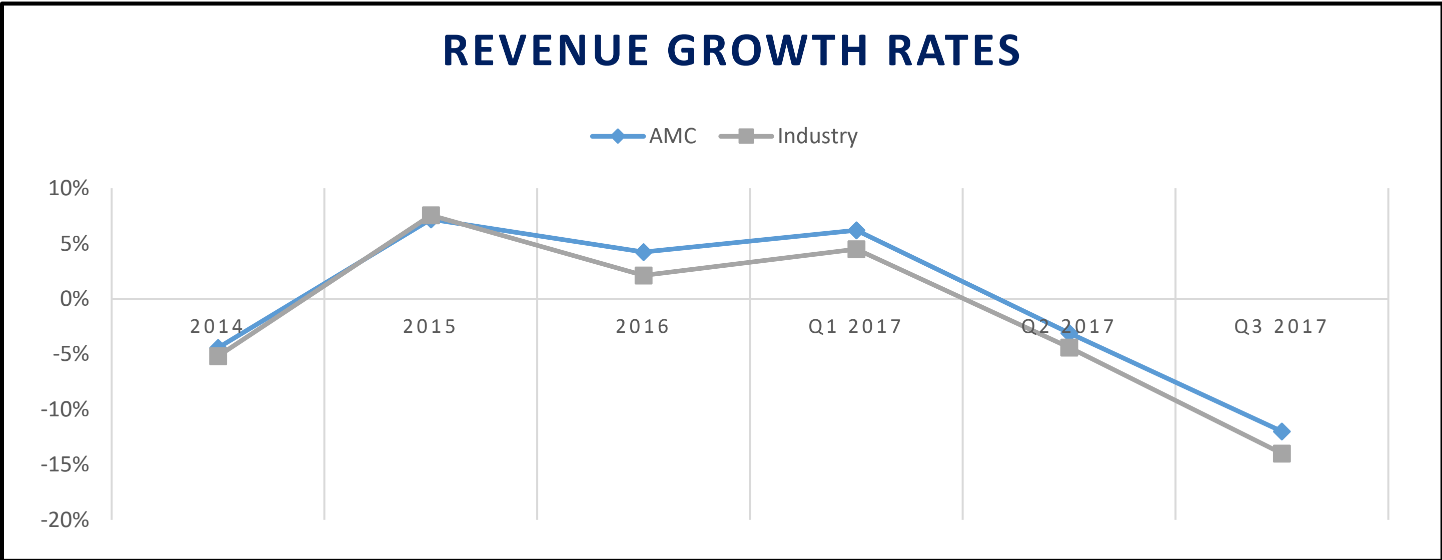
In addition to favorable market conditions from the anticipated strong domestic box office performance in 2018, AMC has several positive factors that are likely to lead to growth above the industry rate. The first driver of above average growth is market share gains from AMC's unique value proposition over majority of other players in the theatre industry. AMC also has significant potential for increased market share from their acquisition of Carmike theatres (above the immediate share gains from the acquisition) as they work through a turnaround of the chain. In addition to these factors, AMC's complementary concessions business will likely drive AMC's growth rate beyond the industry average. Lastly, AMC's entrance into the strong international market offers significant growth above the rate that domestic players will realize from the favorable domestic box office.

Significant evidence indicates that AMC will continue benefiting from a growing shift in consumer preferences that favor larger theatre chains over smaller ones. While the three largest theatre chains (AMC, Regal, and Cinemark) account for ~51% of domestic theatre revenues, they only account for ~29% of the theatres in the United States. This is driven by the higher value proposition that national chains offer, such as larger theatres with more screens and better movie lineups. While the average theatre (excluding AMC, Regal, and Cinemark) in the country has five screens, the three largest players have an average of thirteen in their theatres. This is a one of the reasons that the average theatre (excluding AMC, Regal, and Cinemark) had 161,000 patrons between Q3 2016 - Q3 2017, the three largest players had an average of 413,000 patrons over the same period. The chart below shows the market share of AMC and the other large players.



Source: Company Filings and National Organization of Theatre Owners (NATO)

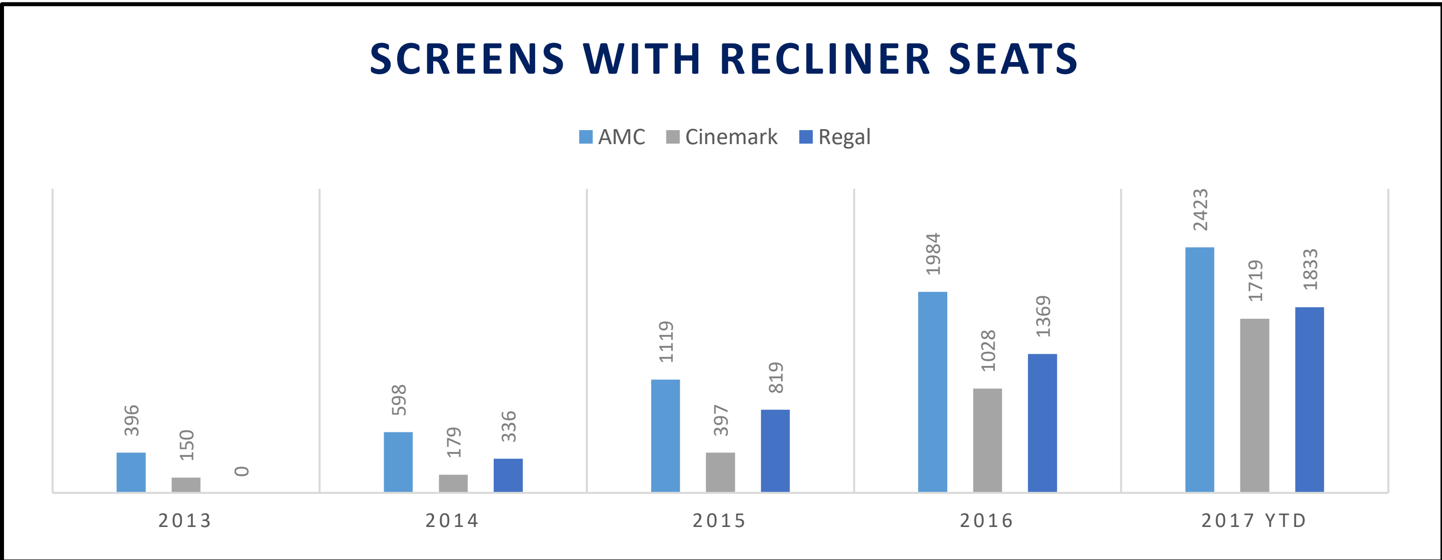
Even more than the other large players, AMC has advantages over the thousands of smaller theatres in key areas that drive consumer behavior. This includes enhanced food and beverage options (food and beverage kiosks, full menus, Dine-in theatres, and Coke Freestyle machines), more comfort and convenience (recliner seating, open-source internet ticketing, and reserved seating), engagement and loyalty (AMC Stubs rewards program and mobile apps), and higher technological capabilities (digital projectors, 3D, Dolby Cinema, and IMAX). As the industry has matured, the theatres that offer the greatest amount of comfort and convenience are gaining share from theatres that have not invested to remain competitive. The chart below shows AMC's performance (admissions revenues) relative to the industry. In order to show the performance of the AMC brand, the 2017 data excludes the performance of the acquired Carmike theatres.



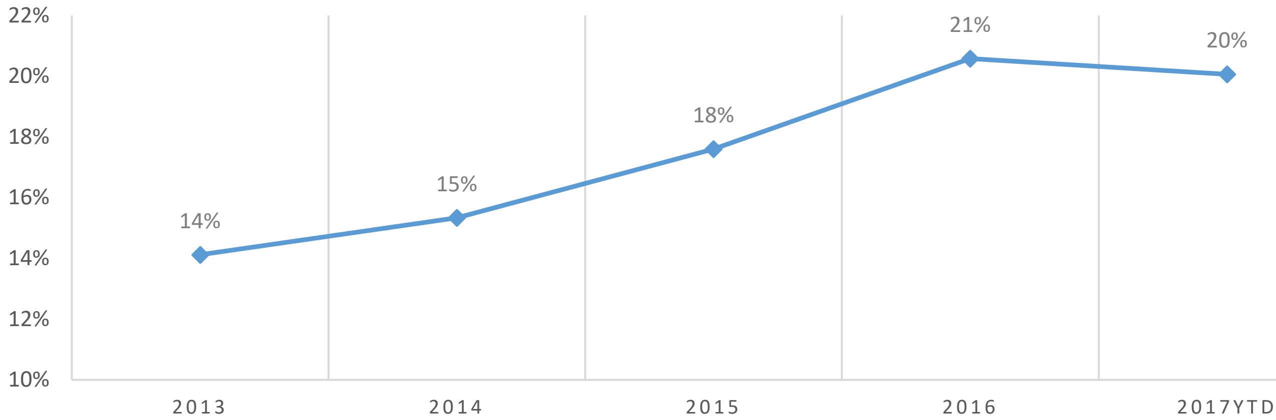
Source: Company Filings and National Organization of Theatre Owners (NATO)

As can be seen from the data above, AMC has outperformed the industry in each period with the exception of 2015 in which AMC lagged industry growth by one percentage point. In addition to their market leading size and large theatre structure, AMC has leveraged their investments in experiential components of their industry to drive growth. AMC has invested considerably to make sure their locations are modern and full of amenities that drive traffic. The single greatest investment that AMC has made in recent years is their investment in recliner seats. AMC has continuously cited strong data that shows customers respond very well to theatres with these luxurious and comfortable seats. These upgrades provide AMC with a sustainable competitive advantage.

Over the course of the last six years, AMC saw attendance growth rising by 57% on average after renovations were completed. According to AMC, recliner-equipped theaters saw admissions revenues up 5.1% in Q2 2017, while the national average for admissions revenue across the country was down 4.4%. Interestingly, AMC theaters not equipped with recliners saw admissions revenue down 8.3%. In Q3 2017, legacy AMC theatres equipped with recliner seats outperformed the industry by 350 basis points. By the end of 2017, AMC expects to convert an additional 229 screens to recliner seating. The chart below shows the growth in recliner seats and capex as a percentage of revenues over the last several years.

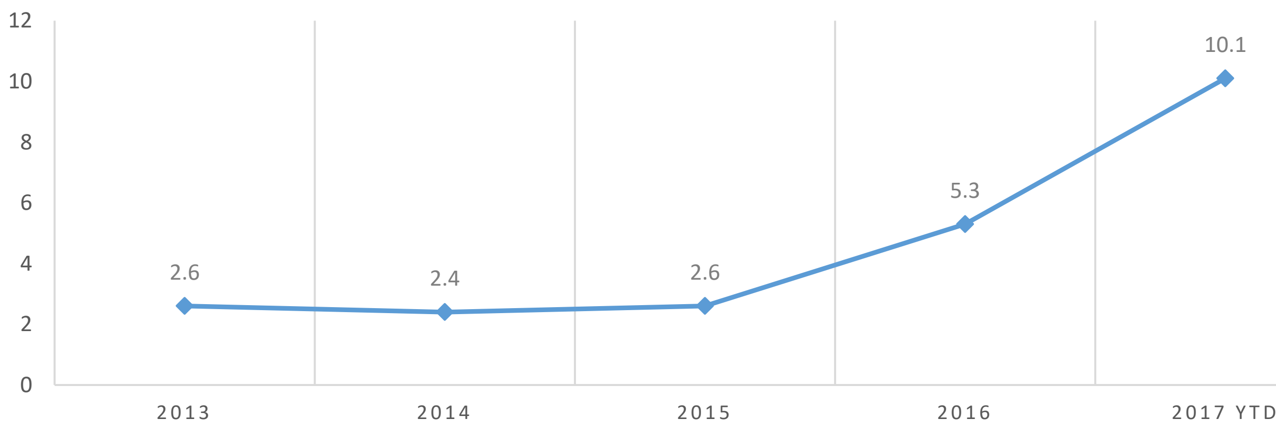


Source: Company Filings

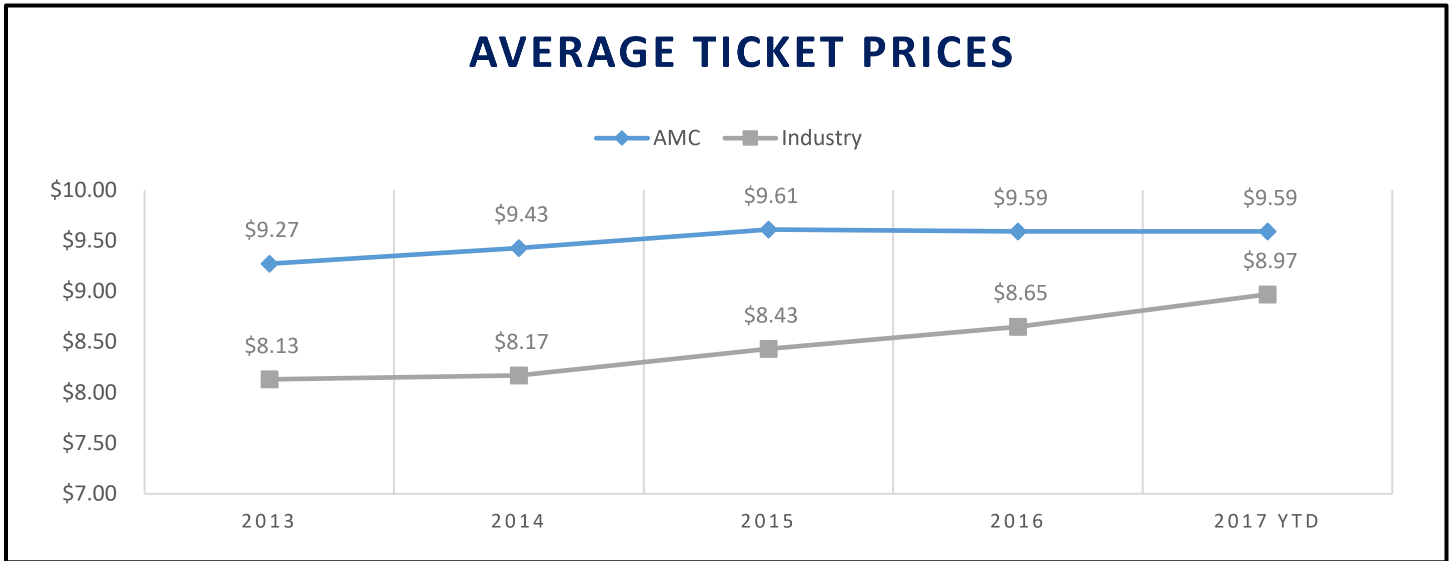


Source: Company Filings

In addition to AMC's premium interior design, the company also drives considerable traffic through their engagement and loyalty initiatives. Many of the smaller theatres lack the capability and resources to run full scale rewards programs and online ordering functionality. AMC has focused considerable efforts on building their rewards program and in-house technologic capabilities to drive traffic and retention. AMC has created a sustainable competitive advantage with these activities that will likely continue to drive growth above the industry average. Overall, AMC's value-add can be seen in the fact that customers are willing a premium to see a movie at AMC rather than the average theatre. This is a great proxy for AMC-specific demand as customers are paying considerably more to watch a movie that could easily be seen at another theatre. The charts below show the growth in AMC's rewards program and their average ticket prices compared to the industry.



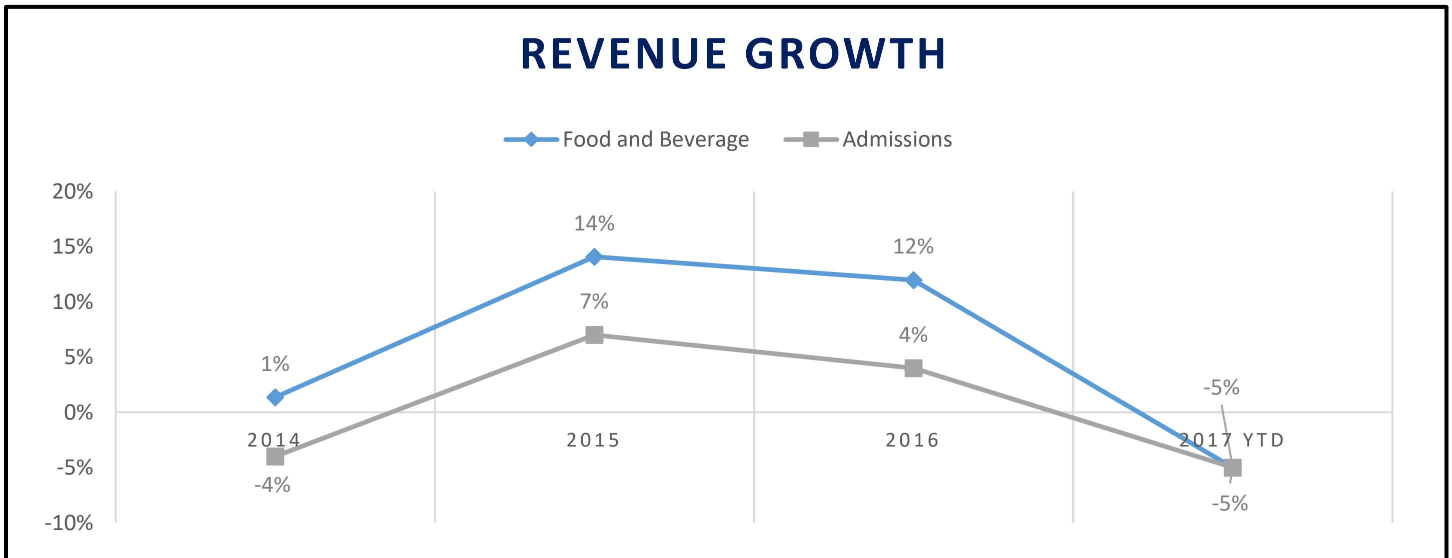
Source: Company Filings



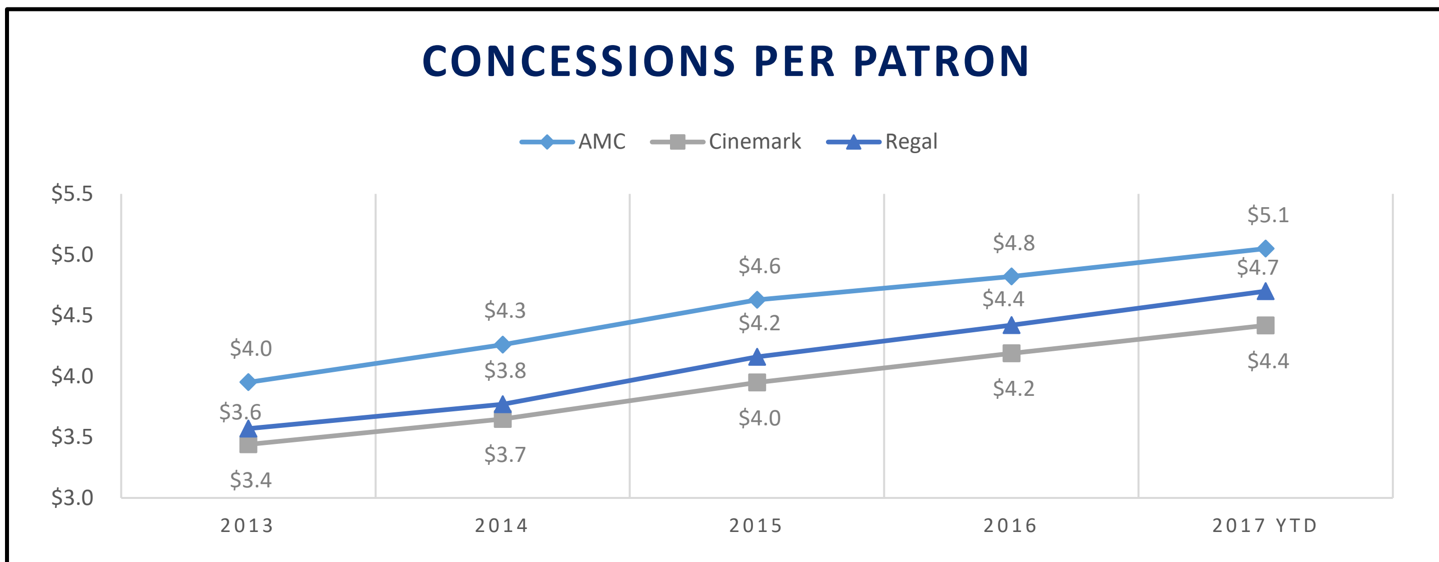
Source: Company Filings and National Organization of Theatres (NATO)

AMC also drives considerable traffic as well as additional revenues from their above average food and beverage options. Historically, AMC has been highly effective in cross-selling their food and beverage goods to movie goers. Additionally, AMC has been highly effective at growing food and beverage revenues more than admissions revenues. As a result, we expect that AMC's total revenues will grow ahead of the industry (box office) rate due to the addition of these complementary revenues.

Between June-October 2017, AMC aggressively expanded enhanced food and beverage options across the entire domestic system with the AMC brand getting the full menus (known as Feature Fare) and the AMC Classic (former Carmike) getting modified, because they do not have enough physical space for the full menus. As of Q3 2017, Feature Fare was available in 300 of the 400 AMC-brand theatres, while all of the AMC Classic theatres have been successfully updated. This has driven food and beverage revenue per patron in Q3 2017 up 8.7%. The charts below show the growth of food and beverage revenues as well as AMC's concession revenues per patron.



Source: Company Filings



Source: Company Filings

In addition to the strength in AMC's core business, the company is also very likely to realize significant benefits from their recent acquisitions in late 2016. The acquisition of Carmike theatres presents AMC with the ability to increase revenues from expanding their footprint into markets that legacy AMC locations were not located. Additionally, AMC will realize higher comparable growth from the Carmike locations as a result of AMC investing to get these locations up to the AMC standard of operation. AMC identified Carmike as an underperforming circuit that would greatly benefit from AMC's industry leading approach to theatre management.

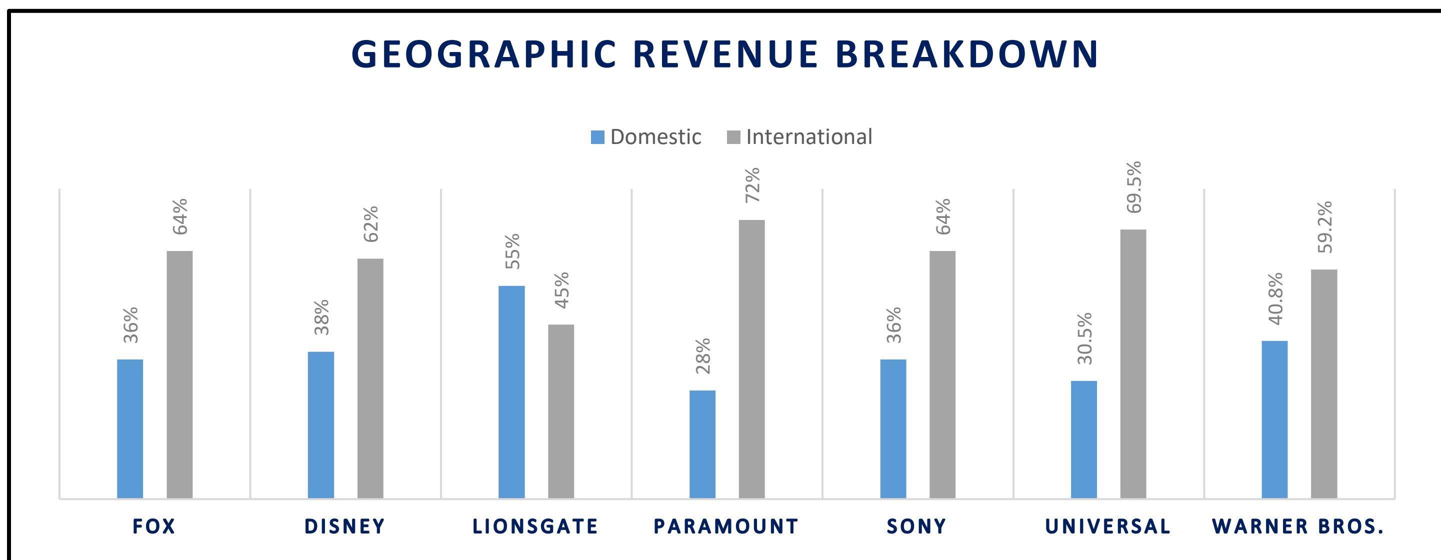
When AMC acquired Carmike (December 2016), the circuit was losing market share as a result of falling capex investments. According to AMC, Carmike had declining market share in eight of the twelve months in 2016, including three of the four months between September and December. AMC has found that about 40% of the attendance issues in the Carmike circuit were a result of another theatre building a more modern theatre equipped with recliner seating without a response from Carmike. Another issue with Carmike was their weak loyalty program and online ordering capabilities. When AMC took control of Carmike, they had only 200,000 individuals in their loyalty program.

Carmike was also significantly impacted by the lack of family oriented content (PG rated movies) in 2017, which is important for the chain given their market position in smaller geographic areas. As mentioned in the Thesis I section, PG rated movies were down ~-18% in 2017 while the aggregate box office was down ~-2.7%. As a result of all these factors, legacy Carmike theatres were down -11% and -18% in Q2 and Q3 2017, while legacy AMC theatres were down -3% and -12% in the same periods. While the Carmike theatres were revenue and opex headwinds in 2017, AMC is already seeing improving trends in the circuit as a result of AMC's management.

While Carmike had/has several challenges, these are relatively simple operational issues that AMC has the capability and resources to fix. After all, this is partially the reason for acquiring Carmike. Going into Q4 2017, AMC had already taken many actions on the Carmike circuit that directly address the underlying issues with the circuit. Specifically, AMC has started rebranding theatres, "re-concepting" many theatres, improving the food and beverage product across all theatres, addressing deferred maintenance issues, signing up significant numbers of loyalty program members, benefiting from a more functional attractive website and app, repricing many of the Carmike theatres, and training all the local theatre management teams.

To take advantage of the fact that legacy Carmike theatres have virtually no recliner seats, AMC is focusing the majority of their capex budget to renovating the Carmike circuit and the Odeon (international) circuit as the largest returns are generally found in the first batches of locations renovated within a theatre circuit. By the end of 2018, AMC is expecting for at least 25 of Carmike's largest theatres to be fully renovated with AMC style seating, which is about 10% of that circuit in theatre count. Importantly, AMC is targeting Carmike's top 25 theatres, which accounts for a greater portion of the circuit's revenues. Overall, AMC will realize above average growth from simply getting the Carmike locations up to par compared to where they were when AMC acquired them.

Lastly, AMC's acquisition of Oden and Nordic theatre chains serve as important penetration into the international box office industry. For the year ended December 31, 2016, Odeon had a 19.5% market share in the European countries it operates within (U.K., Germany, France, etc.), whereas Nordic is the largest theatre exhibitor in the group of seven countries in which it operates in the affluent northern region of Europe. Given that the majority of box office sales occur abroad, this is a tremendous incremental revenue opportunity for AMC considering they previously had no international presence at all (they now generate ~25% of their revenues from the international business). AMC is now investing considerable capex to introduce their premium recliner seat model in the international theatres. The chart below shows the percentage of sales generated abroad for the seven major studios.



Source: Box Office Mojo (IMDb)

Forecast and Valuation

Based on a strong box office in 2018 compared to 2017, we are forecasting growth in AMC's revenues and profitability. Specifically, we are expecting the box office to grow ~9% in 2018 based on our analysis of each major studio's lineup compared to 2017. For each major studio, we assumed that franchise installments would generate revenues in-line with their respective franchise averages. For conservatism, we applied a 20% discount to the franchise averages to provide significant margin of safety in the event that a franchise installment does not perform in-line with its respective franchise average. We estimated original movie revenues by taking a three year average of each studio's average revenues per movie. The table below shows our estimates for each studio.

Box Office Growth Model (in mm's)			
	Franchise Average (20% Discount)	Implied Rev. from Originals	2018 Revenues
Fox	688	576	1,264
Disney	2,080	720	2,800
Lionsgate	40	440	480
Paramount	460	320	780
Sony	1,040	320	1,360
Universal	1,200	990	2,190
Warner Bros.	960	780	1,740
Total	**6,468**	**4,146**	**10,614**
Others			1,447
Total Box Office			**12,061**

Source: Internal Estimates and Box Office Mojo (IMDb)

Our estimates for AMC are based on the aggregate of domestic core (admissions), Carmike, international, and food and beverage growth assumptions. Additionally, we are assuming that profitability rises in 2018 based on AMC's high operating leverage, which bodes well in periods of growth. Specifically, we are assuming that the core domestic business (admissions) will grow at a rate (11%) slightly higher than the box office (9%), which is consistent with historical trends based on AMC's traffic-driving value proposition (recliner seats, loyalty program, enhanced concessions, etc.) compared to the average theatre.

We are assuming that Carmike will grow (18%) faster than the core business given its weak 2017 performance and AMC's investments in getting Carmike up to par. These assumptions equate to a 2018 admissions revenue estimate that is 21% of the domestic market (box office), which is consistent with AMC's current market share. We are assuming that the core international business (admissions) will grow slightly faster (12.5%) than the core domestic business (admissions), which is consistent with the international box office outperforming the domestic box office. This equates to the core international business' revenues being 40% of the core domestic business' revenues, which is consistent with current proportions.

Lastly, our assumptions for food and beverage revenues are based on the attendance growth implied in the admissions revenue assumptions, which is calculated by dividing domestic admissions revenues by the reported average ticket price in Q3 2017. The same calculation is done for the international business. The food and beverage revenues for the domestic business are based on a 5% growth in concessions per patron, which is consistent with the historical growth rate and based on the positive impact of the enhanced food and beverage options. The concessions per patron are kept flat for the international business, which is consistent with trends.

$'s in millions	2016A	Q1 2017A	Q2 2017A	Q3 2017A	Q4 2017E	2017E	2018E
Revenue	**$ 3,235.8**	**$ 1,283.4**	**$ 1,202.0**	**$ 1,179.0**	**$ 1,368.6**	**$ 5,033.0**	**$ 5,756.0**
Growth	*9.8%*	*67.5%*	*57.4%*	*51.0%*	*47.7%*	*55.5%*	*14.4%*
Gross Profit	**2,004.0**	**802.1**	**761.1**	**753**	**869.1**	**3,185.3**	**3,626.3**
Gross Margin	*61.9%*	*62.5%*	*63.3%*	*63.9%*	*63.5%*	*63.3%*	*63.0%*
Adj. EBITDA (Non-GAAP)	**609.0**	**251.3**	**135.8**	**147.4**	**295.5**	**830.0**	**1,036.1**
EBITDA Margin	*18.8%*	*19.6%*	*11.3%*	*12.5%*	*21.6%*	*16.5%*	*18.0%*
Net Income (Non-GAAP)	**115.4**	**34.6**	**26.1**	**-21.7**	**49.0**	**88.0**	**230.2**
Profit Margin	*5.9%*	*2.7%*	*2.2%*	*-1.8%*	*3.6%*	*1.7%*	*4.0%*
EPS (Non-GAAP)	**$ 1.17**	**$ 0.28**	**$ 0.20**	**$ (0.17)**	**$ 0.37**	**$ 0.68**	**$ 1.71**

Sources: Internal Estimates and Company Filings

Based on AMC's consistent EV/EBITDA multiple of ~8.5x over a range of EBITDA, debt, and share price levels, we believe it is highly reasonable to assume that AMC will trade very close to their average EV/EBITDA multiple. This is clearly a metric that the market monitors very closely and is likely to drive the share price in the future. As a result, we are expecting AMC's share price to rise materially in 2018 as the market responds to the company's strong revenue and EBITDA growth in 2018. The table below shows the stock price under varying EBITDA and EV/EBITDA scenarios. As can be seen, the stock price is highly sensitive to changes in these metrics.

		EBITDA					
		$ 650	$ 850	$ 1,035	$ 1,250	$ 1,350	$ 1,450
EV/EBITDA	7.5	1.3	12.8	23.4	35.7	41.4	47.1
	8	3.8	16.0	27.3	40.5	46.6	52.7
	8.5	6.3	19.3	31.2	45.2	51.7	58.2
	9	8.8	22.5	35.2	50.0	56.9	63.7
	9.5	11.3	25.8	39.2	54.8	62.0	69.3
	10	13.7	29.0	43.1	59.5	67.2	74.8

Source: Internal Calculations

Catalysts and Risks

The main catalyst for AMC's stock in 2018 will be the performance of the domestic box office, which directly impacts AMC's financials. As the year progresses, box office data will make headlines, which will impact sentiment for theatre stocks. Given that AMC's stock was down over -60% 2017, a change in sentiment will have a strong impact on the stock. However, the company will need to show growth in EBITDA for the market to raise "fair price" estimates based on the market's clear reliance on EV/EBITDA.

Also, AMC's stock could see a catalyst from AMC selling some of their international business through a foreign IPO. This is something that management has said it plans to execute on in mid-2018 to early 2019. The purpose of this IPO is to generate cash to either repurchase shares or pay down debt. Either way, this transaction will impact key EV/EBITDA drivers in a positive way. Again, the market's reliance on EV/EBITDA to price AMC will lead to positive adjustments to "fair price" estimates. Additionally, AMC has been engaging in transactions such as several sale/leaseback transactions to generate cash flows to repurchase shares or pay down debt.

The key risks to AMC's stock in 2018 is that the box office will not grow in 2018. Based on the abundant evidence presented in this report, the likelihood that the box office will decline in 2018 is negligible. Given that most studios will be releasing installments from successful installments and more movies in general, there is too much evidence to doubt the box office's growth in 2018. Even with a 20% discount to franchise averages and a much lower average movie rate, the box office is still poised to grow materially in 2018.

Lastly, premium video on demand (PVOD) actually becoming a real conversation in 2018 is a risk for AMC's stock. Given the commentary made by AMC and major studios, the likelihood that PVOD becomes a substantiated effort is highly unlikely. According to AMC's CEO, if PVOD does happen in the medium/long term, it will happen only in a way that is agreed to by AMC and is profitable for AMC even after taking into account any potential cannibalization. According to AMC's CEO, there is not one studio that is close to even identifying an approach to PVOD.

The following statement was made Disney's CEO on their Q2 2017 call regarding a question about PVOD:
"I know that there's been a lot of conversation about it. In fact, I saw the head of AMC on CNBC just earlier talking about it. We're actually not in conversations right now for a premium VOD window because, frankly, the way we have structured our Studio business, with roughly 10 tentpoles a year and profitability that's continued to grow nicely, we don't really believe that there is a need for us to move that product off of the big screen any faster than we currently are or to do so in a concurrent manner to the big screen experience. t doesn't seem to be anything that we are considering anytime soon."