



a compelling one for consumers, especially given increased competition for audience's attention and today's average ticket prices north of \$8.40.

After an active slate of M&A in 2016 compliments of AMC (it acquired the #4 US exhibitor Carmike Cinemas, UK-based Odeon & UCI Cinemas, and Stockholm-based Nordic Cinema Group), 2017 was a bit quiet until just recently. On December 5th, UK-based Cineworld announced plans to acquire Regal for ~\$3.6bn cash. We calculate that this represents a healthy ~9x seller multiple of 2018 EBITDA (~7.3x post-synergies). Looking to 2018, with Regal off the market and AMC digesting its 3 acquisitions, it may be up to Cinemark to drive further material consolidation.

Noise around the theatrical window quieted down for a while, but heated up at times during 2017. Some studios are reportedly pushing for a premium video-on-demand offering that could shrink the theatrical window in some cases to just 2 weeks (versus today's typical 90-day window). The offerings would be priced at a significant premium relative to current on-demand options. Based on recent commentary, it doesn't appear that any consensus has been reached amongst the studios, let alone between the studios and the theater groups, on the amount of time after theatrical release, pricing, and revenue shares/incentives, among others. We ultimately see any move to tighten windows being a mutually agreed upon decision between theater owners and studios, but it may take some time to get there.

So with 2017 almost in the books, we look ahead with an optimistic eye to what 2018 has in store. In our view, all roads for the sector lead back to the release slate. We have earmarked select upcoming movies in the following chart.

#### Highlights of the Upcoming Movie Release Slate

1Q18	2Q18
<i>Incelious: The Last Key</i> (writer Leigh Whannell, Universal)	<i>New Mutants</i> (Fox)
<i>The Commuter</i> (Liam Neeson, Vera Farmiga)	<i>Super Troopers 2</i> (Jay Chandrasekhar, Emmanuelle Chriqui)
<i>Paddington 2</i> (Hugh Grant, Lionsgate)	<i>Tully</i> (Charlize Theron, Mark Duplass)
<i>Maze Runner: The Death Cure</i> (Fox)	<i>Traffic</i> (Laz Alonso, Omar Epps, Paula Patton)
<i>Fifty Shades Freed</i> (Dakota Johnson, Jamie Dornan)	<i>Avengers: Infinity War</i> (Robert Downey Jr., Chris Hemsworth)
<i>Annihilation</i> (Tessa Thompson, Natalie Portman)	<i>Life of the Party</i> (Melissa McCarthy, Gillen Jacobs)
<i>Red Sparrow</i> (Fox)	<i>Deadpool 2</i> (Fox)
<i>Gringo</i> (David Oyelowo, Amanda Seyfried, Charlize Theron)	<i>Oceans 8</i> (Sandra Bullock, Cate Blanchett, Anne Hathaway, Rihanna)
<i>A Wrinkle in Time</i> (Disney)	<i>The Incredibles 2</i> (Craig Nelson, Holly Hunter, Samuel L Jackson)
<i>Tomb Raider</i> (Warner Bros.)	<i>Jurassic World: Fallen Kingdom</i> (Frank Marshall, Steven Spielberg)
3Q18	4Q18
<i>Hotel Transylvania 3: Summer Vacation</i> (Adam Sandler, Selena Gomez)	<i>First Man</i> (Ryan Reynolds)
<i>Mamma Mia: Here We Go Again!</i> (Musical)	<i>Jungle Book: Origins</i>
<i>Mission Impossible 6</i> (Tom Cruise)	<i>Mulan</i> (Disney live action)
<i>The Equalizer 2</i> (Denzel Washington, Anton Fuqua)	<i>X-Men: Dark Phoenix</i>
<i>Tyler Perry's A Madea Family Funeral</i> (Tyler Perry)	<i>Dr. Seuss' The Grinch</i> (Benedict Cumberbatch)
<i>Kin</i> (Myles Turtel, Jack Reynor, James Franco, Zoe Kravitz)	<i>Holmes &amp; Watson</i> (Will Ferrell, John C. Reilly)
<i>The Darkest Minds</i> (Madie Bobbe)	<i>Fantastic Beasts: The Crimes of Grindelwald</i> (Eddie Redmayne, Jude Law)
<i>Goosebumps</i> (Rob Letterman)	<i>Wreck-It Ralph 2: Ralph Break the Internet</i>
<i>Robin Hood</i> (Taron Egerton, Jamie Fox)	<i>Aquaman</i> (Jason Momoa)
<i>Small Foot</i> (Animation, Warner Bros)	<i>Mary Poppins Returns</i> (Emily Blunt, Lin-Manuel Miranda)

Source: Box Office Mojo

We think the 2018 slate looks loaded and has the potential to push the industry to a record-setting year. First quarter has a high bar to overcome versus a strong 1Q17, but after that the comps get easier.

Generally speaking, the theater exhibitors' securities are trading at levels that reflect the overall stability of the past few years, as well as, generally modest leverage, reasonable liquidity, and a healthy film slate. AMC bonds specifically hit some choppy waters as their acquisition spree pushed leverage higher just a soft box office stretch rolled through, but we think management now has a better handle on the business. The rising tide of the aforementioned robust film slate for 2018 should lift all ships regardless of ups & downs in the economy (the sector has historically been recession-resistant); all in, we're overweight the theater exhibitors to kick off 2017.