AMC Entertainment Holdings, Inc.

Fourth Quarter & Year-End 2017

Earnings Call Transcript

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**Eric Handler,** *MKM Partners*

**Chad Beynon,** *Macquarie Group Limited*

**James Goss,** *Barrington Research Associates, Inc.*

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## PRESENTATION

**Operator:**

Greetings and welcome to the AMC Entertainment Fourth Quarter and Year End 2017 Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, John Merriwether, Vice President, Investor Relations for AMC Entertainment. Thank you. Mr. Merriwether. You may begin.

**John Merriwether:**

Thanks Devin. Good morning. I'd like to welcome everyone to AMC's Fourth Quarter and Year End 2017 Earnings Conference Call. With me this morning is Adam Aron, our Chief Executive Officer and President, and Craig Ramsey, Executive Vice President and Chief Financial Officer.

Before I turn the call over to Adam, let me remind everyone that some of the comments made by Management during this conference call may contain forward-looking statements which are based on Management's current expectations. Numerous risks, uncertainties and other factors may cause actual results to differ materially from those that might be expressed today. Many of these risks and uncertainties are discussed in our public filings, including our most recently filed 10-K this morning. Several of the factors that will determine the Company's future results are beyond the ability of the Company to control or predict.

In light of the uncertainties inherent in any forward-looking statements, listeners are cautioned to not place undue reliance on these statements. The Company undertakes no obligation to revise or update any forward-looking statements whether as a result of new information or future events.

On this call we may reference measures such as Adjusted EBITDA, Adjusted EBITDA margin, and constant currency, which are non-GAAP financial measures. For a full reconciliation of our non-GAAP measures to GAAP results, please see our fourth quarter earnings release issued earlier this morning.

In conjunction with our fourth quarter and year end earnings release, we encourage you to review the CFO Commentary for the 2017 fourth quarter that we published on our website in tandem with the earnings release. After our prepared remarks, there will be a question-and-answer session.

This morning's call is being recorded and a webcast replay will be available in the Investor Relations section of our website at amctheatres.com later today.

With that, I'll turn the call over to Adam.

**Adam M. Aron:**

Thank you, John. Good morning everyone. Thank you for being with us this morning to discuss AMC's fourth quarter and year end 2017 results and our prospects for success in 2018 and the years to come.

From our perspective, this is a quarterly call laced with extremely good news. We posted strong results for Q4 of 2017; the early signs for 2018 are very encouraging, and significant progress has been made on a host of important topics that concerned you and us throughout much of the year that we just completed. All are harbingers for prosperity for AMC in 2018 and beyond.

Successfully serving guests in today's evolving entertainment landscape requires smarts and agility. It demands continuous reevaluation and the ability to pivot to meet changing conditions. In 2017 AMC did just that. We managed our business through the ups and downs of a volatile industry box office which was record-setting in some months but fraught with challenge in others. We stayed true to AMC's innovative culture and we continued to take actions and to make investments to assure even better results in the future.

From an industry perspective, the 2017 North American industry box office saw a year with book end quarters of growth, a record ever first quarter and a huge fourth quarter that was only but $29 million away from being the all-time best fourth quarter on record, admittedly, juxtaposed against two weak quarters sandwiched in between.

While you all have been trained to think of quarters, looking at 2017 it's better to think of the year in trimesters. The first four months of 2017, January to April, were up a healthy 4.5% over a strong 2016. The last four months, September to December, were up an even more healthy 5.4% over a strong 2016. But May to August was a slump and that was big enough to push the entire year modestly downwards, down as you know about 2.5% when compared to full year 2016.

For all the drama, 2017 was the third best year in cinema history. It very nearly was the second best year in cinema history, and if you think about it, 2017 was just one tentpole film away from being yet another record box office year following two record-setting years before, first in 2015 and then again in 2016.

Add in the better than expected start to 2018 with holdovers Jumanji and Greatest Showman, and 2018's 50 Shades Freed and especially Black Panther, which has shattered the record books this month, think about this. In the past 11 weeks, we have seen two movies with $200 million-plus opening weekends in the domestic North American box office, and look at February which looks to be up about 25% year-over-year, for example. Jumping ahead, the second quarter 2018 slate is stunning, especially in May and June. We expect our theaters will be humming with second quarter titles that are debuting in the franchises of Avengers, Deadpool, The Incredibles, Jurassic World and Star Wars. We have never been more confident that overall the movie theater industry is strong, stable and growing over the long term. We firmly believe that the future of our industry is bright, and we intend to prove that with the results that we deliver in 2018 and beyond.

Speaking of our results, switching from the industry to AMC, with three transformative acquisitions under our belt, AMC generated another year of new highs for revenue and Adjusted EBITDA. For the third consecutive year, we set records in each revenue category, crossing the $3 billion market admissions revenue, exceeding $1.5 billion in food and beverage revenue, and eclipsing $300 million in other revenue. In total, we generated more than $5.1 billion of revenue, the highest ever in the history of the Company. Likewise, Adjusted EBITDA also saw record levels for the sixth consecutive year, growing to more than $822 million; both metrics falling squarely within our guidance ranges for 2017. Save for the fourth quarter noncash accounting impacts of the new tax reform law and the valuation adjustments on our deferred tax assets, our net loss and diluted net loss per share metrics would also have fallen squarely within our guidance ranges.

Speaking of the $310 million in Q4 2017 changes relating to the new tax law and tax assets, we should reiterate that these are noncash impacts and that while GAAP may require that certain tax assets be reserved on our balance sheet, we still expect to fully utilize our NOLs themselves. So, if circumstances arise where cash tax is owed, AMC's NOLs are in place and will be applied to reduce cash tax payments.

Of course we are well aware that much of our growth in 2017 was caused by our acquisitions of the Carmike, Odeon and Nordic circuits. Had the industry box office not seen that aforementioned May to August slump, these year-long numbers for AMC in 2017 all would have been far higher.

Looking a little more closely at the fourth quarter, we clearly made progress compared to the second and third quarters. On a pro forma basis, total revenue grew 5.1% to approximately $1.42 billion. Adjusted EBITDA increased 14.7% to $288.2 million, and Adjusted EBITDA margin grew 70 basis points to 20.3%, exceeding all consensus estimates.

More importantly, again on a pro forma basis, for our domestic circuit, admissions revenue grew 3.3%, outperforming the industry by approximately 30 basis points. Adjusted EBITDA grew 16.7% and Adjusted EBITDA margin increased 230 basis points to 19.4%. That is a 670 basis point improvement from the third quarter and evidence that our 2017 investments in AMC initiatives, and the cost reduction revenue enhancement program we announced earlier in the year are working.

We're also pleased with the performance in our international circuit as both Odeon and Nordic outperformed their relative industry benchmarks for both the fourth quarter and for the full year. Odeon and Nordic comfortably beat their pro forma numbers for 2016. On a pro forma basis, international total revenues increased 2.8% for the fourth quarter and increased 6.1% for the year on a constant currency basis. International Adjusted EBITDA grew 4.4% for the fourth quarter to $92.8 million, and 7.8% to $244.8 million for the full year on a constant currency basis.

For those of you trying to determine industry demand in their markets, the countries served by Odeon had an industry box office up approximately 1% in the fourth quarter and up 1% for the full year. For the countries served by Nordic, the industry box office was up approximately 1.3% in the fourth quarter and up 0.3% for the year. Note that throughout Europe the industry box office grew faster for the full year than it did here in the United States, which further affirms our diversification of AMC into international markets.

More detailed financial information can be found in Craig's CFO Commentary which was posted to our website, www.amctheatres.com, this morning.

Let me shift gears here and update you on six issues that are important to us, and therefore by extension to you, and represent opportunity to materially grow our returns and strengthen the AMC balance sheet.

The first topic of six stems from thoughts related to capital allocation. Throughout 2017 we reiterated our position over and again of a balanced capital allocation approach centered on reinvestment in our business, on deleveraging and on the return of capital to shareholders both through dividend payments and the opportunistic repurchase of our shares. We are hereby reiterating the same balanced approach to capital allocation at AMC for 2018.

Reinvestment in our theaters is a crucial strategy for AMC to maintain and expand market share, help drive attendance and to generate increasing Adjusted EBITDA. In 2017, our net cap ex guidance—net meaning after landlord contributions which continue to be around 35% of total project costs—was to be between $500 million and $550 million. We exercised the necessary discipline in the year and finished 2017 at the low end of that range, having invested right around $500 million in 2017. We have also established a net cap ex range for 2018 of between $450 million and $500 million. The bulk of that cap ex will be spent on theater renovations, including the installation of our signature recliner seats. In 2018, we expect to renovate about 55 theaters worldwide, about the same number as were completed by AMC in 2016 and again by AMC in 2017. About a third of those renovations will take place in Europe, and about two-thirds will take place in the United States. As I mentioned in November, many of those U.S. renovations will take place at former Carmike theater locations.

You'll recall that one of the main reasons we acquired Odeon was to take recliner seating and other proven AMC amenities to Europe. As we sit here today, in the past few months we have fully renovated seven theaters in the U.K., rebranded them as Odeon Luxe; all include recliner seats having been installed. All serve alcohol and all offer premium large format screens. We are thrilled but not surprised by the initial results of being a first mover to introduce recliner seats in any quantity in Europe. It is very early days but for the first four of those seven renovated U.K. theaters that have been open for 90 days or more, returns have far, far, far outpaced our expectations, and similarly, they are considerably superior to what we are seeing currently on theater renovation returns in the United States. At the renovated European theaters, attendance is up, revenue is up and theater cash flow is through the roof. This validates our decision to implement this strategy in Europe and we are moving fast to keep it all going. By the end of this year, 2018, we should have more than 25 open theaters in Europe featuring recliner seating, including offering recliners at what we expect will be a widely acclaimed facelift for a grand old dame, the Odeon Leicester Square, unquestionably the most prestigious movie theater in all of Europe, and an enormous bellwether for the entire Odeon brand in the United Kingdom.

In addition, we expect to add approximately 22 new theaters globally in to our network through new builds or spot acquisitions, with a little more than half of that coming in Europe. You may also recall that an important consideration in our investment thesis in acquiring Nordic Cinemas was the number of new build theaters in Nordic's pipeline, many of which are coming onstream as planned this year.

Similarly, Carmike was a circuit that had mostly missed the recliner seat revolution, and where the introduction of recliner seats was a huge opportunity to get outsized returns and to drive increased EBITDA. By the end of 2018, we expect that about 30 of the legacy Carmike theaters will feature recliner seats, about triple the number of Carmike theaters recliner equipped at the end of 2017.

In total, we should be at well more than 200 fully reclinered theaters throughout the entire AMC circuits worldwide by the end of 2018 and growing.

Moving from investment to leverage, there are two ways to de-lever: through the growth of Adjusted EBITDA or through the direct paydown of debt. Given the greater than 25% returns we are achieving on the recliner renovations in the United States and recliner returns far superior to that in Europe, and in the former

Carmike theaters, we continue to believe that the reinvestment of free cash flow back into the business is a better deleveraging tool than paying down debt carrying roughly 6% fixed interest rates and with stretched out maturities. As such, for as long as we continue to generate attractive Adjusted EBITDA returns, we will continue to de-lever primarily through EBITDA generation. Having said that, our revolving credit line is completely undrawn at the moment, and we do have ample liquidity.

Moving from leverage to returning cash to shareholders, our dividend is extremely important to us and to our investors, and as such, we fully expect to continue to pay our quarterly dividend.

Then there's the opportunities to repurchase our stock. As you know, in August of this past summer we announced a Board authorization to repurchase AMC shares in an amount of up to $100 million, such authorization being in place until mid-August of 2019. As of December 31, 2017, just four and half months later than that announcement, we had already repurchased approximately 3.2 million shares, or $47.5 million worth of stock, at an average purchase price of approximately $14.86 per share. Repurchases may be made at Management's discretion from time to time through open market transactions, including block purchases, through privately negotiated transactions, or otherwise over the next year and a half in accordance with all applicable securities laws and regulations. The extent to which AMC repurchases its shares and the timing of such repurchases will depend on a variety of factors including liquidity, capital needs of the business, market conditions, regulatory requirements and other corporate considerations as determined by AMC's management team.

On the second topic of six, and in some ways this is also related to capital allocations, is our serious interest about exploring a variety of options to optimize the value of our European assets over the course of this year, including the possibility of an IPO. We are working closely with advisors about those options, as discussed on a preliminary basis in our third quarter conference call comments. We believe successful implementation of such strategies could generate cash and allow us to further invest and further de-lever.

Third of six, as we did a few months ago, we will continue in 2018 to move apace with monetizing non-strategic assets. I would be shocked if we do not generate between $100 million and $200 million from the sale of such assets in 2018.

Fourth of six, we made considerable progress with operational improvements within the world of AMC. During our August call, we announced a cost reduction and revenue enhancement initiative designed to improve Adjusted EBITDA by $30 million in the second half of the year. As I mentioned in November, only a small portion of those cost savings were realized in the third quarter due to the industry box office decline and the fixed nature of our costs. However, I am pleased to report that by the end of the fourth quarter, we had achieved more than the expected $30 million benefit to Adjusted EBITDA. Our people worked very hard to realize these efficiencies. Clearly, the sequential Adjusted U.S. EBITDA margin improvement of 670 basis points to 19.4% as compared to the 12.7% in the third quarter is evidence that we made real progress in a short period of time.

Meanwhile, we have improved our U.S. theater product. AMC Feature Fare, our much improved concession stand menus, have been rolled out to more than 300 AMC branded theaters. Sales are up and guest satisfaction has increased. Coca-Cola Freestyle machines with their 180-plus flavors have been introduced to all of the former Carmike theaters. AMC has more premium large format screens than anyone else, all of which command impressive price premiums from our guests. We have close to PLF screens in the U.S. and Europe, and that number will continue to grow considerably, expected to be up in double-digit percentages in 2018.

Going forward, we will continue to watch our costs closely, and balance those cost reductions and revenue enhancements with a commitment to provide levels of amenities and service that our guests have come to expect.

Fifth topic of six, our marketing prowess continues on its march forward. As but two examples of many, AMC Stubs membership in the United States is now over 12.5 million households. At 2.6 people per household—that's the U.S. average—more than 32 million Americans are in our database and on whom we have significant movie purchase histories. In turn, we market to those people approximately 75 times a year, one and a half times a week.

Our innovative pricing department has had one success after another, including as one example, we now have roughly a $1 weekend surcharge in place at approximately 200 of our U.S. theaters.

Sixth, here is an update on our probable expansion to our 16th country, Saudi Arabia. Discussions are underway and going extremely well with our likely partner and significant capital source, the Public Investment Fund, Saudi Arabia's sovereign wealth fund. We have every expectation that we will reach a definitive agreement with them shortly. With the PIF, as it's known, we are already jointly scouting multiple theater locations and working with potential landlords in the kingdom of Saudi Arabia. Our first theater there could open as soon as the second quarter of this year, just a few months from now. With PIF, AMC shares a joint goal: to be the largest movie theater company in the country in what we expect will be a handsomely profitable venture.

I now would like to turn to a few dragons and demons that we've been battling of late and give you a brief but important update as to our progress.

One, a recent analyst report was headlined PVOD is dead. PVOD, movies coming to the home day-in-day towards the 17-day mark, was a grave concern for many of you for much of 2017. We always said this could only happen through negotiation in which our shareholders' interests were fully compensated for the risk. While some of you instead feared that unilateral implementation of PVOD by studios would be the result with theaters being hurt badly in the process.

In our opinion, there is little chance, and if Disney acquires Fox there is no chance that PVOD will be implemented in the United States in 2018. We can confirm that in the United States there now appear to be no ongoing discussions between major studios and major exhibitors on this topic. That should be a relief to many of you. We do want our studio partners to be profitable, of course. Our interests there are very much aligned. We sincerely consider studios to be our partners in the making, marketing and showing of movies. We are literally in constant dialogue with them, and accordingly, our attention has turned to other possible ideas in lieu of PVOD that can grow the pie for all of us.

Two, fortunately, with a ton of AMC management focus and attention, we believe we have succeeded in turning around the declining performance of the former Carmike circuit. The Carmike theaters had seen market share that had been falling from early in 2016 through September in 2017. It flattened in October and since November of 2017 Carmike's market share instead has been rising.

In the fall of 2017, we informed you that we were then seeing like for like performance between the AMC and Carmike circuits, meaning that renovated Carmike theaters were performing equally with renovated AMC theaters, and that unrenovated Carmike theaters were performing equally with unrenovated AMC theaters. Now, so far in 2018, even with far fewer renovated theaters in the Carmike circuit, the growth of revenues year-over-year at the legacy Carmike theaters has increased at exactly the same rate as the revenue growth of the legacy AMC theaters. When you consider all the Carmike theaters that will be upgraded with recliner seats in 2018, we are pleased to report to you today that in our opinion this was a problem that is no longer an issue, and has firmly been shifted to the rearview mirror, meaning it was a problem in our past, not in our present or our future.

Three, you may have read about a securities lawsuit that has been filed against AMC related to certain of our disclosures and the fall of our share price in 2017. Our outside attorneys and AMC believe that the suit is without merit, that AMC has strong defenses and we will defend the case vigorously.

Four, given that we still own about 20 million shares in National CineMedia, we are encouraged that NCM share price has risen considerably over the past six months.

Lastly, five. I have already talked about the improving industry box office picture, but let me share with you one additional interesting fact that may be unknown to many of you. Over the past 15 years, since 2002, five times in a row the North American industry box office has repeatedly had a pattern of two good years followed by a down year. The industry box office in 2005 was down, so it also was down in 2008, 2011, 2014 and 2017. So, what happened immediately thereafter? The industry box office was up in 2016, it was up in 2009, it was up in 2012 and it was up in 2015. We are starting 2018 at a brisk pace and our internal forecasts are calling for 2018 to be as successfully and potentially even a record-setting year at the box office. In fact, the North American industry box office has been down two years in a row only once in the past 26 years.

In conclusion, the future remains very bright for AMC. Despite a host of articles in the press suggesting to the contrary, since September of 2017 the box office has been brisk, and in three of the past six months, record setting and blazing hot. We have been solving problems that needed to be solved, and AMC is aggressively pursuing a diverse array of strategies to grow our earnings and to strengthen our appeal to investors.

Thank you for participating on this call this morning. Operator, let's now turn to Q&A.

**Operator:**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it maybe necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Eric Handler with MKM Partners. Please proceed with your question.

**Eric Handler:**

A couple of things. Just first for modeling purposes, you say the U.S. box office you expect to be up in 2018. Just curious how you think Europe might perform for modeling purposes. Directionally, do you think that's up and do you think it's equivalent to what we might see in North America?

Then secondly, wonder if you could talk about what remains with your pricing initiatives as you head into 2018 and do we start seeing variability in pricing by section of the theater or what else you might be thinking of?

**Adam M. Aron:**

Thank you, Eric, and good morning. Industry demand is looking very positive at the moment. I would remind everybody that nobody could predict December industry demand for 2017 in November of 2017, so the fact that we are forecasting in February for the full year means that we'll see what actually happens, but we would not be surprised to see the industry box office be up 3% to 4% in North America for the year, which would push 2018 to record level.

We would point out that in the U.K., for example, which is 40% of our EBITDA generation in Europe, the industry box office demand was up 8% in the month of January, which was far faster growth than we saw in the United States and they are playing to huge numbers for Black Panther in February over in Europe. Industry demand looks quite bright in Europe as well.

As for pricing, I'm really very proud of the actions that our pricing department has taken, looking backwards. Given the breadth of our circuit, AMC is now quite a sophisticated pricer. Our average price is considerably higher than several other major competing circuits, as many of you know. I was carefully schooled in my young 20s that it's probably a very bad idea to talk about pricing prospectively given anti-trust concerns, so I'll refrain from making any specific comments about pricing, but let's just say that just as the Company introduced major pricing initiatives in 2017, we would expect to introduce major pricing initiatives and innovations in 2018, and for that matter again in 2019.

**Eric Handler:**

Okay. Thank you very much.

**Operator:**

Thank you. Our next question is with Chad Beynon with Macquarie Group. Please proceed with your question.

**Chad Beynon:**

Great, thanks. Good morning. First question just kind of on the back of your comments there, Adam, how should we think about margin goals for 2018? You talked about the $30 million of cost initiatives kind of coming through in the fourth quarter, so if you're able to hold costs where they are right now, how should we think about flow-through or maybe the goal post of margins for 2018 given the status of your outlook? Thanks.

**Craig R. Ramsey:**

It's Craig. I'll respond. I'd go back to the comments we've made before that business has operating leverage, and certainly when you can manage down even some of your variable costs, that has a positive impact on margins. But we've said before if we can grow our box office or our revenues in an industry that grows a couple of percent a year, if we can get another 2% to 3% growth in revenues on initiatives, we ought to see margin expansion. We ought to see EBITDA growth 8% to 9%, and that should lead to 50 to 75 basis points of margin improvement year-over-year, and you may even get 100 basis points in a really strong box office year, so we'd certainly expect that again in 2018, of course depending upon the overall backdrop of the industry and the continued success of our growth initiatives.

**Adam M. Aron:**

We've said over and over again that this is a high fixed cost, low variable cost business. In quarters where our revenues are growing, you should see somewhere between 50% and 70% of those incremental revenues flow through the bottom line, the bottom line being the EBITDA line.

By contrast, if revenues are contracting as they did in the summer quarter, July and August, if we're deprived of an incremental dollar coming to the system, if revenues are falling then we're going to be penalized 50% to 70% of that at the bottom line. That explains why we had a tough summer; that could explain why we'll have a very bright full year 2018, because as we look at the full year, we do believe that this is going to be a revenue grower kind of year.

**Chad Beynon:**

Okay, great. Thanks. My follow-up is with respect to the cap ex guidance, or more importantly, where the circuit will be from a re-seated standpoint at the end of 2018. As it stands now, what's the outlook beyond 2018 from a cap ex standpoint? If the returns actually increase or remain where they are right now, should we expect additional re-seating in 2019 later in the year? Thanks.

**Adam M. Aron:**

At some point we will have completed our big thrust to re-seat theaters. We're well down the road within the AMC circuit of having put in recliners at the theaters where they'll produce the highest returns. We bought two circuits, Odeon and Carmike, that had virtually no theaters where recliners were in place, so we do have about two more years ahead of us where, assuming the returns are robust, we will continue to invest in recliners and theater renovations. I do think you'll see actually increasing returns over current levels in those renovations in the Carmike and Odeon circuits because what we're seeing in the theaters that we've done recently, just in the past few months and at Odeon in the U.K. for example, is that the investment returns from recliners we're doing in Europe are producing returns far greater than what we're seeing as we're well down the road into the middle third of having renovated the AMC circuit. We're seeing the kind of investment returns that we saw in the first third of the recliner activity of the AMC circuit. Put another way, at AMC, we did the lowest hanging fruit first which had superior returns; we're now doing the lowest hanging fruit in the Odeon circuits and the Carmike circuits, and we're seeing outsized returns.

Having said all that, at some point we will be through this and the investment spending that we're making in our circuit can come considerably down, and I would expect that by 2020 or 2021 we'll be investing far less of our free cash flow back into the business and we'll be able to report to you that we're retaining a much significant percentage of our free cash flow for other purposes as we see fit at the time.

**Chad Beynon:**

Okay. Thank you both and nice result for the fourth quarter.

**Craig R. Ramsey:**

Thank you, Chad.

**Operator:**

Thank you. Our next question comes from the line of Jim Goss with Barrington Research. Please proceed with your question.

**James Goss:**

All right, I've got a couple. The first one would relate to the pricing issue you were just discussing. I'd like to get a little more granular in terms of there's a comment in Craig's commentary that the growth in average ticket prices resulted from the increase in PLF and IMAX premium formats offset by 3D attendance. I'm wondering on the PLF side, what share of your revenues are now accounted for PLF screens versus your footprint, and with the 3D side, wondering what the impact on average prices was from that and how much this trend seems—will need to go to run its course, in your opinion.

**Craig R. Ramsey:**

Jim, give me just a second.

**Adam M. Aron:**

While he's getting the exact numbers, in round numbers, PLFs are about 3% of our screens and about 10% of our revenues. The price premiums that we're seeing at IMAX and Dolby are almost always in the plus-70% or higher range. We now have 10 AMC Prime PLFs, our in-house private label brand that we told you about a year ago. They're seeing 30% to 40% price premiums, which is very encouraging to us because they really might be called premium almost large format screens; they're more of our medium size screens. Those numbers are going to continue to be robust. We're addling a lot of PLF screens; I said in my earlier remarks up double-digit percentages in 2018. 3D was down considerably in 2017 with the kind of $3 to $4 price premium that we were getting for 3D. What's interesting so far in 2018, 3D was considerably down in January and the first half of February, and then we opened Black Panther and our 3D revenues were very strong for the Black Panther title. I think you're going to find out that at PLF we're strong across the board and 3D is going to be a title by title issue.

**Craig R. Ramsey:**

On you concentration question, if you combine the IMAX and our Dolby premium format into a group, 2017 on the domestic side is about 10% of total revenue compared to about 8.5% last year. It's box office and we're growing the Dolby premium format circuit, and to a certain extent we continue to add IMAX locations as well, but Dolby is probably the bigger growth factor there. 3D, for the current year, right at about 10% in total of revenue. That's how it breaks out.

**Adam M. Aron:**

I just want to make a quick comment about Dolby and IMAX. We're the largest PLF theater circuit in North America. We're the largest PLF theater circuit in Europe. We will be growing both our IMAX locations and our Dolby locations. We are very closely aligned with Dolby Labs and with IMAX. We continue to be huge partners with IMAX, huge partner with Dolby Cinema. We couldn't be more excited about our partnership with each and we do intend to grow with each in the U.S. and Europe.

**James Goss:**

Okay. Thanks for that. One other question related to film rents. I can appreciate your ability to bring the Carmike screens into your platform should help on the film rent margins for those former Carmike screens, but I'm wondering if the increased scale also gives you enough bargaining power with the studios that your overall potential to have improved film rents is enhanced.

**Adam M. Aron:**

As you saw in our reported numbers for 2017, our film rent costs were coming down for the Company, which is good news for us. But I want to also remind you that that comes from two components. One is better terms because of our size and scope bringing Carmike into the system, as you described, but also I've said from the first day I got here we should not be focused on studios as rival and be arguing about the carving up of the pie. We should be focused on studios as partners and growing the pie for both of us.

We bring in a significant amount of monies from studios as they're deploying their P&A monies against AMC customers and AMC marketing assets. One of the ways that we could improve film terms is to convince studios to invest growing amounts of their P&A monies into our audience. That is exactly what's happening. It's a way to improve our net film terms without studios having to take worse film terms, and I think you'll see that as a primary strategy of AMC going forward.

**James Goss:**

All right. Thanks very much for both.

**Adam M. Aron:**

Thank you, Jim. Nice to talk to you.

**Operator:**

Thank you. Our next question comes from the line of Mike Hickey with The Benchmark Company. Please proceed with your question.

**Michael Hickey:**

Hey guys. Congrats on the quarter. Thanks for taking my questions. I guess, Adam, under the dragons and demons category, I didn't hear you mention MoviePass. It sounds like they're being a little bit more combative here in terms of how they migrate their subscribers potentially around some of your network, so just curious your thoughts there and any impact you might see in Q1 from those actions.

**Adam M. Aron:**

They weren't in my script for a reason. We're focused on running our business, not running their business. As you saw, we had a very good fourth quarter with MoviePass in existence. You saw our press release about our revenue performance at Black Panther where we shattered records all over the place. We had one AMC theater in Atlanta that showed Black Panther 83 times on the opening weekend. Incredible.

We're doing great with or without MoviePass. Our view of MoviePass has not changed from the very first day. We think it's a great concept. We think their price point is unsustainable. We've released data for prior months that will give you the January number. Our records indicate that several hundred thousand of their subscribers showed up at AMC theaters. They did so an average of 2.7 times each. They paid us approximately $11.90 per ticket, which means that MoviePass paid us in excess of $32 per subscriber that showed up at an AMC theater where they were charging $9.95 a month. We don't see how those numbers add up.

But as I said, we're focused on running our company and not running theirs.

**Michael Hickey:**

Fair enough, thanks. I think you said you were sort of positive, I guess maybe, on the concept—not the words you used, and obviously you probably don't want to talk about pricing too much as you noted before, but how do you think about the subscription plan? Obviously one of your peers created something similar perhaps at a pricing that's more sustainable, but just sort of your thoughts there on possible introduction of a subscription plan within your network. Thanks.

**Adam M. Aron:**

It's exactly what I said to Eric. I was schooled to talk about pricing actions after you've taken pricing actions, not before you take pricing actions because some people think that's signaling the competition. If and when we ever offer some competitive product to Cinemark or MoviePass we'll talk about it then, but not today.

**Michael Hickey:**

Fair enough. Last one from me. I guess could you remind us your scale objective for recliners in Europe, and also curious what you're seeing in terms of reserved seating within the European markets. Obviously we have scale here domestically but sort of wondering what you see in Europe, and perhaps any influence that's having on your concession business or otherwise. Thank you.

**Adam M. Aron:**

Sure. We've identified over 100 theaters throughout our European network where recliner seating should produce dramatic returns for us. Seven down, more than 93 to go. As I said in my remarks, we're moving 100 miles an hour to introduce these recliner upgrades and overall theater renovations in Europe because the initial returns are so encouraging. If you saw the data we were seeing, you'd be rushing to put out more of these theater renovation projects in Europe as well.

As for reserved seating, reserved seating is very common in Europe. It's not done at all of our theaters. It's done in a huge percentage of our theaters already. That's an area where Europe has been ahead of the United States in many respects, so I think you'll continue to see us move forward with reserved seating theaters in the United States and reserved seating theaters in Europe.

**Michael Hickey:**

Thanks, guys.

**Operator:**

Thank you. Our next question comes from the line of Michael Ng with Goldman Sachs. Please proceed with your question.

**Michael Ng:**

Great. Thank you very much for the question. Given that AMC expects to recline a similar amount of screens in 2018 as you did in years past and the net cap ex outlook is coming down, does that imply that the cost to recline in Odeon and Carmike is lower than the legacy circuit? If so, could you just remind us what the cost to recline in the legacy circuit is and how that might be different for Odeon and Carmike?

**Adam M. Aron:**

Yes, you're right, Mike. Costs are coming down to recline in the Odeon and Carmike circuits. Landlord contributions continue to be very high, which is helpful. Beyond that, as we go to some of the medium sized theaters, we're looking at putting in—focusing our energy in the theater with recliner seats only as opposed to full soup-to-nuts renovations. At many of the Carmike theaters, the public spaces were already in great shape and the public spaces did not need renovation, but they neglected to put in recliner seats so they didn't quite finish out the theater renovation project. We are seeing a lighter approach to cap ex.

I would say that our initial projects in Europe, the theater costs are either the same as they were in the States or less, with the sole exception of the Odeon Leicester Square, which is such an important theater in Europe. It currently has about 2,000 seats. It's I guess what you would call London's equivalent of Times Square. We believe profitability is going to soar at the Odeon Leicester Square as we turn it into the most beautiful theater in Europe.

Yes, on average I think our cost to implement these renovations are coming down.

**Michael Ng:**

Great, thank you. It was encouraging to see that AMC exceeded its original goal of $30 million of incremental EBITDA in the second half from cost savings and other initiatives. Can you talk a little bit about where those better than expected savings are coming from? Also, international SG&A was very low in the quarter. Is that sustainable and should we continue to see the incremental $30 million in first half of ’18? Thanks.

**Craig R. Ramsey:**

Let me go backwards and talk about the international. There was some re-class of costs between operating and G&A on the international front in the fourth quarter, so that’s kind of what drove the G&A down was some re-class. It was a little bit of a catch-up for the year. That’s probably not run rate, but net net, and I think the more important point is we did see the really strong EBITDA performance from international, so it was just shifting costs between the two categories.

As it relates to the total, your question about where did—we got to $30 million; where’d it come from? The big chunk of it, more than half was cost and that’s split between the theater level where we really focused on operating hours and our scheduling, and our G&A overhead, corporate office. We took some action there on headcount and deferred some filling of some positions and things of that sort, but I don’t want you to think it was all cost saving. There was an element in our $30 million target for revenue as well, and it wasn’t half, it was a little less than, but we did succeed in success on the revenue front in the fourth quarter that will feed the 2018 numbers as well. The point I’m trying to make is it wasn’t all cost savings; there was some, less than half of it, but there was some revenue generation as well.

**Adam M. Aron:**

I want to say one thing. I so vividly remember that second quarter conference call of 2017 where some of you beat us up on our costs in Q2, and we told you that we had gotten religion, and indeed we did get religion because look at the results first in Q3 and then increasingly in Q4, but even if the revenues improve in 2018 as we expect, we do think the work the Company we did to be mindful about its cost structure is extraordinarily important work. We intend to tightly manage our costs going forward. We also intend to rethink our cost structure. We think it would be in our interest to make some of our fixed costs more variable so that they can slide up and down as needed with levels of demand.

As an interesting observation, for example, in the United States, our so-called AMC Classic brand is about a third of our theater count but only 10% of our EBITDA, and we note with interest that about 40% of the theater leases within our AMC Classic brand come up for renewal over the next 36 months. We will be working quite diligently with our landlords to see if we can’t convert a lot of those fixed price leases into variable leases where the returns to the landlords are a percentage of revenue rather than a fixed price per square foot.

We are thinking very hard about our cost structure and taking actions to make sure that we’re well positioned for the future.

**Michael Ng:**

Great. Thank you, both. Just a quick housekeeping question. Could you just make a comment about what drove the Other revenue strength in the quarter? Was it just online ticketing fees or was there something else? Thank you.

**Adam M. Aron:**

A lot of it is online ticketing fees. We are so glad that we made the investment in 2016 to introduce the new website and new smartphone app. The numbers coming out of the new website and the new app have been great from the day, the week they were launched. Black Panther opening weekend, for example, our online ticketing fees tripled year-over-year. You can’t assume that will be the case all year long for all titles, but it was certainly encouraging two weeks ago.

Anything you want to add, Craig?

**Craig R. Ramsey:**

It's an important part of other initiatives that we're trying to drive as well. For example, on our food side of our business we want our guests to be able to buy their ticket and order their food ahead of time, so yeah, it drives more of the revenue but it also is critical part of a number of other initiatives that we're launching.

**Michael Ng:**

Great. Thank you, both.

**Operator:**

Thank you. We do have time for one final question. That question comes from the line of Aaron Watts, Deutsche Bank. Please proceed with your question.

**Aaron Watts:**

Thanks guys for squeezing me in here. Adam, appreciating your commentary around the returns you're seeing on you renovation and re-seating initiatives, and preference to direct free cash flow to that effort, I know one of the biggest concerns I hear from my seat is on the current leverage of the Company. To the extent you're able to sell non-core assets as you discussed, or move forward with a monetization event in Europe, what are the priorities for those particular funds? In the spirit of maybe speeding up the deleveraging process, would paying down debt maybe move up in the pecking order there?

**Craig R. Ramsey:**

Aaron, it's Craig. I'll start with it. If you look at the numbers, as you get into them between the end of September and the end of December, you'd see that we actually did pay down some debt, and our leverage—because of the increase of our EBITDA we actually had a positive impact on leverage as well.

Adam did say in his comments and I'd reiterate it that as long as we're driving the kind of returns out of the recliners that we're seeing, particularly now that we're moving to the early stage of Carmike and the early stage higher return opportunities for both Carmike and Odeon, that's the preference. But we are mindful of the need to bring our leverage down. We took a step forward with that in the quarter, the fourth quarter of 2017, and we'll look at the opportunity going forward as we monetize assets. We talked about the U.K. opportunity that we're studying, haven't concluded yet but we're looking at. All of that will look at opportunities to pay down some debt, but I'd have to say the preference as long as we're driving EBITDA growth as we are, the preference for free cash flow is to reinvest in the circuit, but to maintain a very moderate level of payout on our dividends, and so there's a balance there.

**Adam M. Aron:**

You're hearing Craig sort of try to walk the line of the balance of our capital allocation strategies, because as I said in the earlier remarks, we want to invest in our theaters, we want to deleverage and we want to return cash to shareholders. The decision that we made to buy almost $50 million worth of stock in the last four months of 2017, I suppose was money that we could have used to pay down debt; instead we chose to buy $47.5 million worth of stock which we think was a smart decision for our shareholders.

We continue to have three objectives with respect to capital allocation: invest in our business to drive growth; return capital to shareholders. Our dividend was very high as a percentage of our share price, and you saw we reaffirmed our dividend without change just at our most recent Board meeting. But I do want to state very clearly, deleveraging is a major and important goal for AMC. We do intend to return the leverage level of this company back down to about 4 times, which is a level where we're—we're not uncomfortable with our current leverage because we've got so much coverage above our interest expense, but still, we would be much more pleased if our leverage level was between 3.5 and 4 times, and that is our objective over the next couple of—to get it back there over the next couple of years.

**Aaron Watts:**

Very helpful. Thanks, guys.

**Operator:**

Thank you. I would now like to turn the floor back over to Mr. Aron for closing comment.

**Adam M. Aron:**

Thank you, Operator. Thanks for everybody being on the call. When I think back on 2017, it was a roller coaster year but I am reminded of AMC's steadfast confidence throughout the year in both the industry and in our company. We celebrated records, we weathered storms. Our confidence remains high; it's bolstered by a solid fourth quarter and a much better start to 2018 than anyone would ever have predicted. As we have said before, when Hollywood tells great stories well, movie-goers head to our theaters and they do so in huge numbers.

Thank you one and all. We look forward to seeing you sometime soon in person.

**Operator:**

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.