Analyst: Xia Chang

INVESTMENT MANAGEMENT CERTIFICATE PROGRAM December 30, 2017

Hotels, Restaurants & Leisure

The Marcus Corporation

Recommendation	Hold
Target (today's value)	$26
Current Price	$28
52 week range	$23.9-34.9

Share Data	
Ticker:	MCS
Market Cap. (Billion):	$0.76
Inside Ownership	31.8%
Inst. Ownership	60.2%
Beta	1.02
Dividend Yield	1.77%
Payout Ratio	33.5%
Cons. Long-Term Growth Rate	15.0%

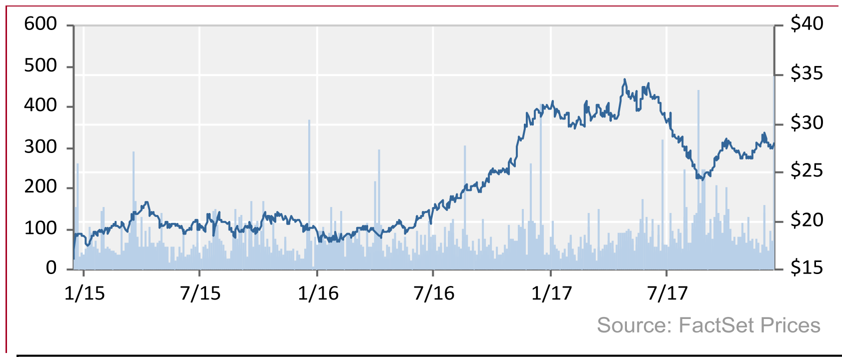
	'15	'16	'17E	'18E	'19E
Sales (billions)					
Sales	$0.5	$0.5	$0.6	$0.7	$0.7
Gr %		11.4%	15.1%	5.7%	5.8%
Cons	-	-	-	$0.6	$0.7
EPS					
EPS	$0.86	$1.36	$1.41	$1.46	$1.54
Gr %	-	5.7%	4.0%	3.7%	5.4%
Cons	-	-	$1.49	$1.58	$1.75

Ratio	'15	'16	'17E	'18E	'19E
ROE (%)	11.4%	10.1%	10.1%	10.3%	10.0%
R Industry	12.6%	26.6%	26.6%	9.6%	17.4%
NPM (%)	7.3%	7.0%	7.0%	6.7%	6.8%
R Industry	15.1%	8.1%	8.1%	8.3%	8.4%
A. T/O	0.69	0.63	0.63	0.62	0.63
ROA (%)	5.0%	4.4%	4.4%	4.2%	4.3%
R Industry	11.5%	5.5%	5.5%	5.8%	5.9%
D/E	30.5%	34.7%	36.3%	-	-

Valuation	'16	'17E	'18E	'19E
P/E	20.8	20.4	28.9	17.9
R Industry	19.1	23.6	21.8	25.0
P/S	1.10	1.33	1.21	1.16
P/B	1.5	1.8	1.9	1.7
P/CF	10.7	9.0	-	-
EV/EBITDA	10.2	16.5	-	-

Performance	Stock	Industry
1 Month	4.4%	13.3%
3 Month	6.2%	-0.2%
YTD	-10.5%	-17.6%
52-week	-9.3%	-24.7%
3-year	74.4%	-29.5%

Contact: Xia Chang
Email: xiachang@uwm.edu
Phone:414-551-5511



Summary: I recommend a hold rating with a target of $26. Although it has opportunities from its renovations and loyalty programs, MCS is exposed to risks including lower sales growth, increasing debt, decreasing ROE and a difficult industry environment. While my target price of $26 is slightly below the current price, I recommend a hold. I would recommend a sell at $30.

Key Drivers:

- Acquisition and expansion: MCS's recent growth is mainly coming from acquisitions. The hotel and resort division is actively seeking opportunities to increase the number of rooms under management.

- Promotion and membership: Different promotion strategies like"$5 Tuesday" increased sales. MCS's loyalty program is very successful. More than 40% of the all transactions have been completed by registered members of the program.

- Renovation: MCS continues to enhance its food and beverage offerings and is transitioning more traditional seats to recliners. This may benefit theatre division revenue, but will not help MCS beat its peers.

- Struggling motion picture industry: Slow growth of the U.S. movie industry and a narrowing of the release window may hurt MCS's revenue.

- Competition: MCS is under pressure from online streaming companies like Netflix. MCS has less brand power and consumer loyalty than bigger hotels.

- Economy: A late cycle economy threatens the cyclical hotel business. A slow-down revPAR and sluggish ADR raises concern.

Valuation: Using a relative valuation approach, MCS appears to be undervalued in comparison to the industry (a target price of $34.7). DCF analysis provides a target price of $25.5 which shows that MCS is currently fairly valued. A combination of the approaches suggests that MCS is also fairly valued, as the stock's value is about $25.6 and the shares trade at $28.

Risks: Threats to the business include relative supply of available rooms, increasing sales made through third-party internet travel intermediaries, intense competition, high depreciation expenses and impairment charges, and adverse weather conditions:

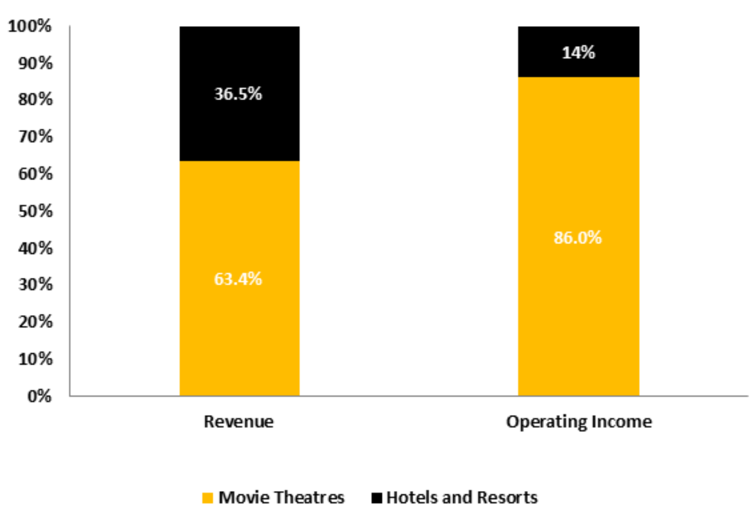
Company Overview

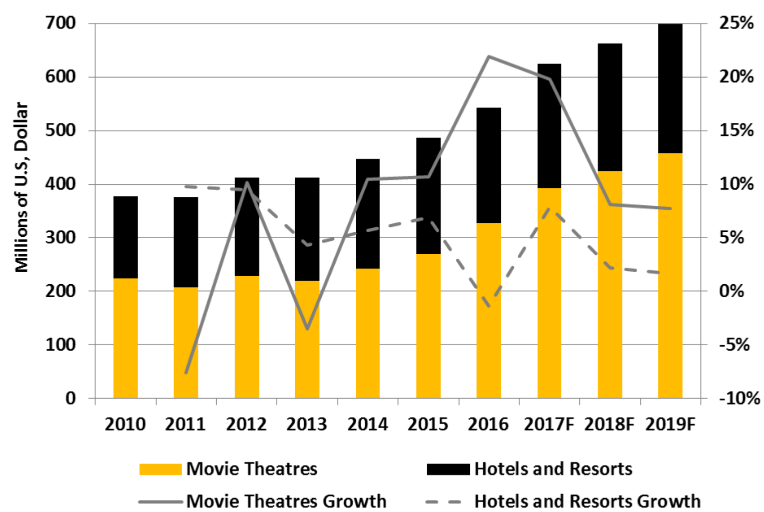
The Marcus Corporation was founded by Ben Marcus in 1935 and is headquartered in Milwaukee, Wisconsin. It operates business through two segments: movie theatres and hotels and resorts. As of the end of the 2016 fiscal year, the theatre segment operated 68 movie theatres with 885 screens all over Wisconsin, Illinois, Iowa, Minnesota, Missouri, Nebraska, North Dakota and Ohio. The hotels and resorts segment include eight wholly-owned or majority-owned and operated hotels and resorts and another 10 managed for third parties.

In 2016, The Marcus Corporation generated revenue in two segments: 63.4% from theatres, and 36.5% from hotels and resorts (figure 1).

- Movie theatre includes mainly three franchises: (1) theatre admissions, which refer to box office revenues, are dependent on theatre attendance, (2) concession sales are impacted by pricing, concession/food and beverage product mix and film product mix, and (3) other revenues include management fees, pre-show advertising income, family entertainment center revenues, surcharge revenues and gift card breakage income. In 2016, the growth rate of theatres revenue was 8.2% partially due to the increase of the U.S. box office Sales.
- Hotels and resorts revenue is seasonality. The second and third fiscal quarters produce the strongest operating results as the lodging business has higher demand during summer months. In 2016, hotel and resorts revenue decreased 4.1% due to the sale of Hotel Philips in 2015 (this was partially offset by increased room revenues at its remaining eight company-owned hotels).

Figures 1 and 2: Revenue and Operating Income by Business Segment 2016 (left) and Revenue and Growth Rate History by Business Segment Since 2010 (right)





Source: Company Reports and Presentations

Business/Industry Drivers

Though several factors may contribute to Marcus's future performance, the following are the most important business drivers:

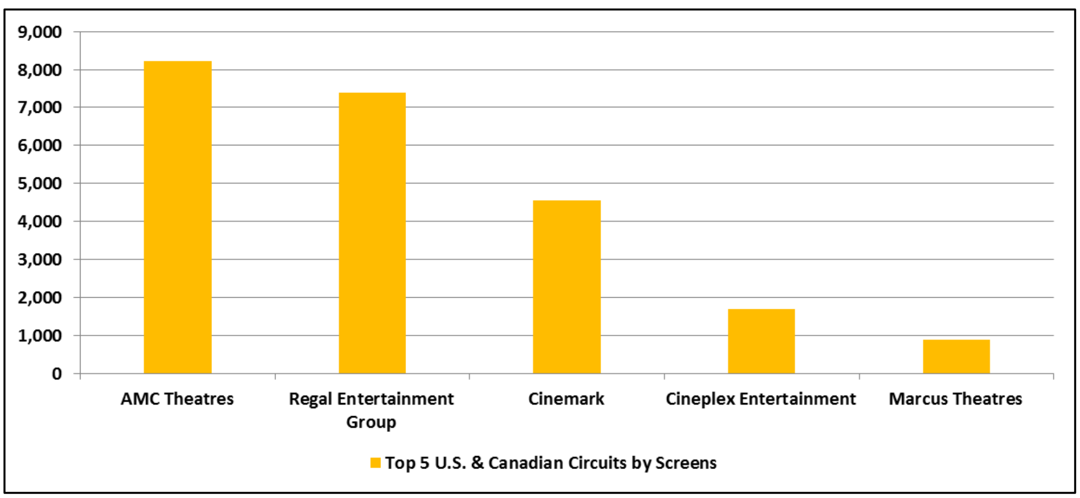
1) Acquisition and expansion
2) Promotion and membership
3) Renovation
4) Struggling motion picture industry
5) Competition
6) Hotel business driver by economy

Acquisition and expansion

The movie theatre industry is fragmented with approximately 50% of U.S. screens owned by the three largest theatre circuits and the other 50% owned by approximately 800 smaller operators. MCS is the fifth largest circuits by both numbers of screens and sites. Over 50% of existing circuits came from acquisitions. In 2016, MCS acquired 213 screens at 15 locations. For example, MCS purchased a closed 16-screen theatre in Country Club Hills, Illinois and acquired the assets of Wehrenberg Theatre, a family-owned and operated theatre circuits with 197 screens at 14 locations in Missouri, Iowa, Illinois and Minnesota. The acquisition increased total number of screens by 29%, and increased revenues $5.1 million. Compared with fiscal 2015 (consists of the unaudited 53-week period beginning December 26, 2014 and ended December 31 ,2015), theatre division revenue increased 7%. The acquisition contributed to 1.7% increase of the theatre revenue. I believe the Wehrenberg Theatre will contribute 2% of revenue in the following years.

Although MCS is much smaller than the other four movie theatres companies, it is enough to compete locally since it is dominated in area.

Figure 3: Top 5 U.S. & Canadian Circuits by Screens 2016



Source: National association of theatre owners

Furthermore, MCS is pursuing additional acquisitions and building new theatres in multiple locations. For instance, a new 10-screen theatre in Shakopee, Minnesota was opened in April 2017 and a standalone location with all in-theatre dining is opening in Greendale, Wisconsin. In seeking future acquisition, MCS has engaged third-party assistance.

In addition, the hotel and resort division is actively seeking opportunities to increase the number of rooms under management by adding additional management contracts. Although hotel management contracts generate higher operating margins than if the hotel was owned due to the lack of direct operating costs which is the responsibility of the property owner, there are higher risks because MCS could be fired. New hotels under management include Omaha Marriott Downtown at The Capital District in Omaha, The Lincoln Marriott Cornhusker in Lincoln, Nebraska, Heidel House Resort & Spa in Green Lake, Wisconsin and the Westin Atlanta Perimeter North Hotel in Suburban Atlanta, Georgia.

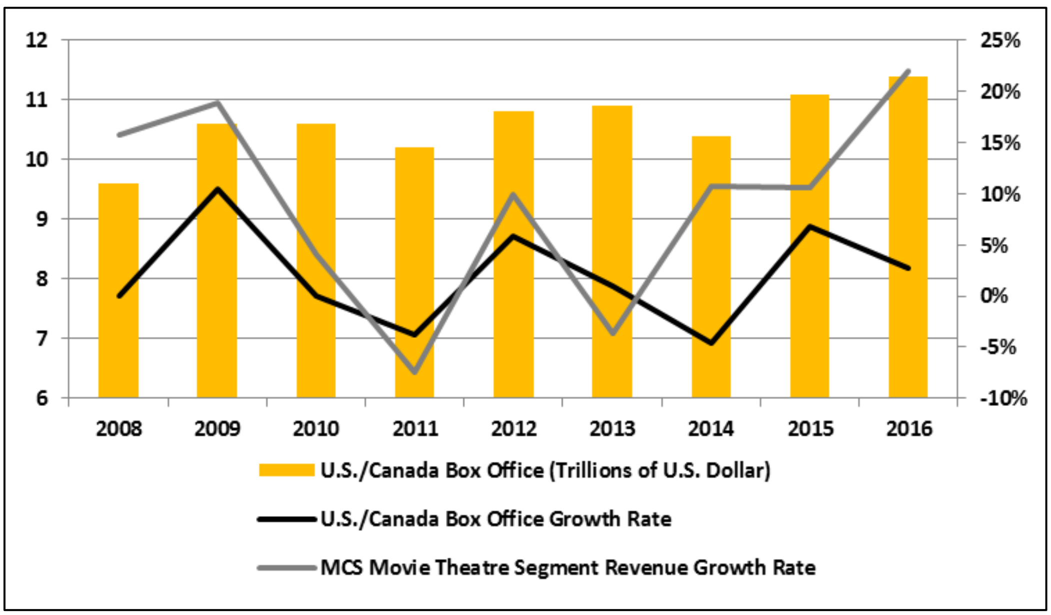
MCS has also reinvested in existing assets including renovating guest rooms and restaurants in several hotels, which enabled MCS to provide better living experiences for guests. Although operating results at some hotels were negatively impacted by disruption during the renovations, their operating performance increase in the flowing years. Total cash capital expenditures (including normal continuing capital maintenance and renovation projects for both the movie theatres and hotels businesses) totaled $83.6 million during fiscal 2016, which is about 70% of the investing cash flow, compared to $84.6 million during fiscal 2015, a decrease of $1.0 million, or 1.1%. Partially because of the renovation, occupancy for hotels increased 1.3% in 2015 and 1.1% in 2016. Rent per room increased 1.8% in 2016 and 3.9% in 2015.

Promotion and membership

MCS's movie theatre revenue growth rates used to be highly correlated with the U.S./Canada box office growth rate before 2013. However, after 2013 MCS's movie theatre segment revenue rallied with strong growth rate each year. In 2014 and 2015, it grew 11% both years, and in 2016 it grew 22& when the national box office growth rate fluctuated around zero. MCS's success is the result of its "$5 Tuesday" promotion and the new loyalty program.

MCS's promotion plan helped it achieve strong growth even when the national box office sales slowed down.

Figure 4: U.S./Canada Box Office Growth VS. MCS Movie Theatre Segment Revenue Growth



Source: Company Presentations

MCS introduced a "$5 Tuesday" promotion at every theatre in November 2013 and a $5 student promotion on Thursdays at 36 locations (69 locations in total) which has created another "weekend" day without adversely impacting the movie going habits of its regular weekend customers. The goal was to increase overall attendance by reaching mid-week value customers who may have reduced their movie-going frequency or stopped going to the movies because of the price. Further, in March 2014, MCS launched a customer loyalty program called "Magical Movie Reward" and a mobile app to enhance the movie-going experience for customers, which have increased customer retention. MCS has approximately 2.3 million members of the loyalty program. Under the loyalty program, members can earn points and redeem them for movie tickets, concessions or food and beverages at Zaffiro's Express, Take Five Lounges and Big Screen Bistros, Marcus' in-theater dining options.

More than 40% of the all transactions have been completed by registered members of the program. By compiling data from its members, MCS can use the information to target specific customers. For instance, if a family frequently goes to children's movies, they would not receive emails about violent films. Membership can increase the movie–going frequency and loyalty to Marcus Theatres and further improve revenues. Meanwhile, MCS plans was converting customers of Wehrenberg's loyalty program, about 200,000 members, to MCS's "Magical Movie Rewards" program in 2017.

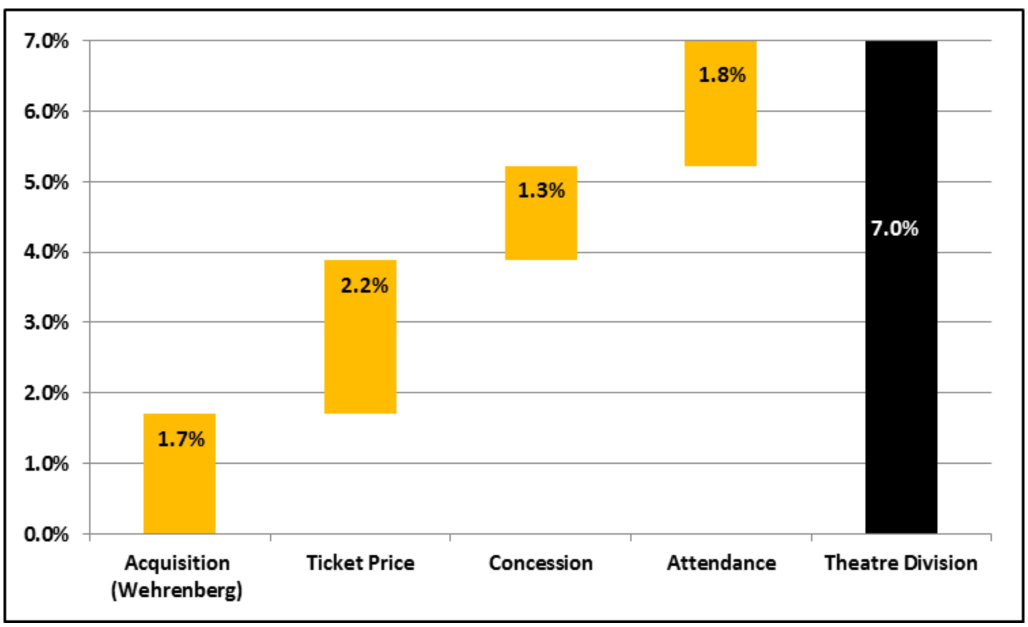
MCS's loyalty program is very successful in connecting movie theatres and restaurants, which not only increases number of tickets sold but also encourages people to spend more on food and beverage.

Renovation

In 2016, MCS incurred $68.8 million of capital expenditures in the theatre division, including new theatre construction, the addition of DreamLounger^{sm} recliner seating, food and beverage marketing, and adding large format screens like UltraScreen DLX and SuperScreen DLX. The renovation cost 27% of the total cash flow. Those renovations further enhance the movie-going experience. DreamLounger^{sm} premium recliner seating was added to 31 theatres which covered about 53% of its locations, more than 50% of its company-owned, first-run screens. MCS claimed that the addition of DreamLoungers^{sm} has significantly increased occupancy rate at each of its theatres. Even though number of seats fall revenue rises because of seats are full.

In 2016, 7% theatre business revenue growth consists of 1.7% from acquisition, 2.2% from ticket price increase, 1.3% from food and beverage sales and 1.8% from higher attendance.

Figure 5: MCS Theatre Division Growth Rate Drivers



Source: Company Reports

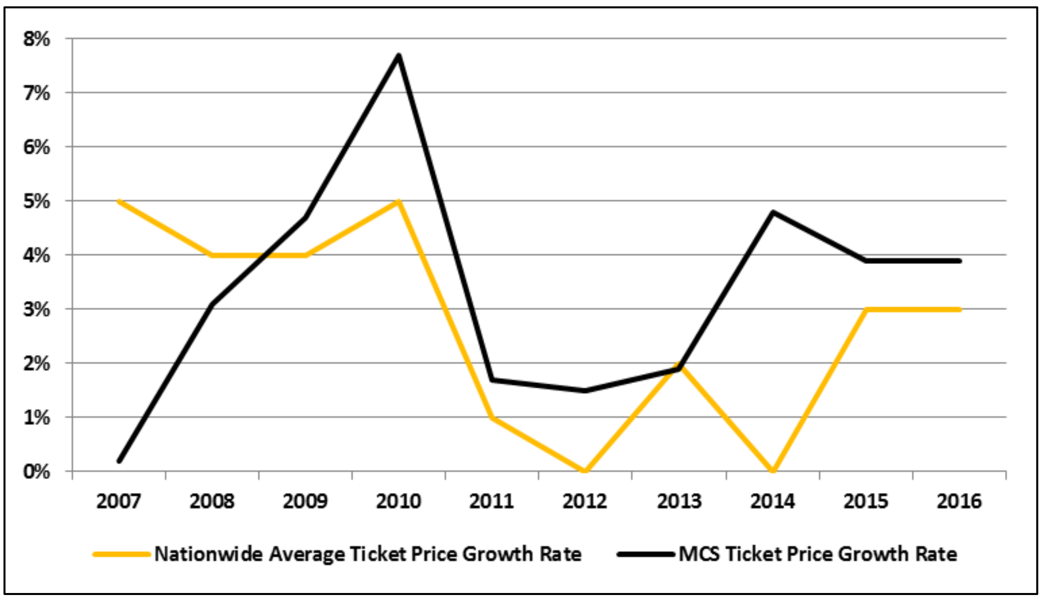
MCS converted additional locations to its special recliner seating and larger screens in 2017. Theatres providing both stadium seats and recliners only charge a little premium ranging from 0 to $2.5 (25% higher) for recliners (movie ticket price from $12 to $15). As listed on MCS's website, MCS prices tickets based on show time (matinee/evening), customer's identity (adult/ child/ military/senior), and screen type (general/ UltraScreen/ 3D/ UltraScreen 3D) rather than type of seats. As a result, I believe MCS's decision of transitioning more traditional seats to recliner has a very limited direct positive effect on ticket price but will obviously improve attendance, increase number of tickets sold, and finally benefit theatre division revenue.

However, MCS's competitors like AMC, Cinemark and Regal, all provide recliners in their theatres. Although MCS's transition can help it attract more customers from local smaller movie theatres, recliner seating will not help MCS to outperform its major competitors in total sales. However, it seems like MCS has more room to grow. MCS only has theatres in several adjacent states and could acquire small operators to expand.

MCS continues to enhance its food and beverage offerings in existing theatres. MCS's new food and beverage concepts include Take Five Lounge, Take Five Express, Zaffiro's Express, Reel Sizzle and Big Screen Bistro. These different restaurants give customers the choice to enjoy take-out, in-theatre dining or lobby dining. Benefiting from these developments, MCS's food and beverage sales increased 22% in 2016 and 17% in 2015. At the end of the third quarter of 2017, food and beverage sales account for 11.2% of total sales and 39% of hotel business revenue.

MCS's average ticket price has a higher growth rate than the industry average, benefiting from the firm's transition to premium large screens which usually charge more.

Figure 6: MCS Ticket Price Growth Rate VS. Industrial Average



Source: Company Reports and MPAA Report

MCS's average ticket price increased 3.9% compared with 3.0% nationwide average cinema ticket price increase according to the Motion Picture Association of America (MPAA). This could be attributed to the newly added larger screens including Ultrascreens and SuperSceen DLX. Although numbers of large screen formats increased to 55, this is only 6% of its total screens, so MCS can still benefit from shifting movies from traditional screens to larger screens.

<u>Struggling motion picture industry</u>

The box office of U.S./Canada has grown slowly over the five years to 2017, with an anualized growth rate of 1.3%. According to the MPAA, 71% of the U.S./Canada population (236 million people) went to a cinema at least once in 2016, a 2% increase from 2015. The average cinema ticket price rose 3%. However, the percentage of tickets bought by frequent moviegoers (once a month or more) decreased from 51% in 2014 to 49% in 2016. As a result, the number of tickets sold remained the same compared with 2015 and ticket sold per capita decreased 1%. The negative trend continued in 2017. Through October 2017, total 2017 top ten movies' box office is only $2.6 billion which is less than 2016's $3.8 billion. Most of high box offfice movies were played in the summer. So I expect 2017 box office growth rate to be negative.

Before 2016 and since 2013, MCS's movie theatre revenue was strong regardless of the performance of the motion picture industry. The firm's renovation and promotion programs offset the negative effect of sluggish motion picture industry and boosted MCS's theatres revenue.

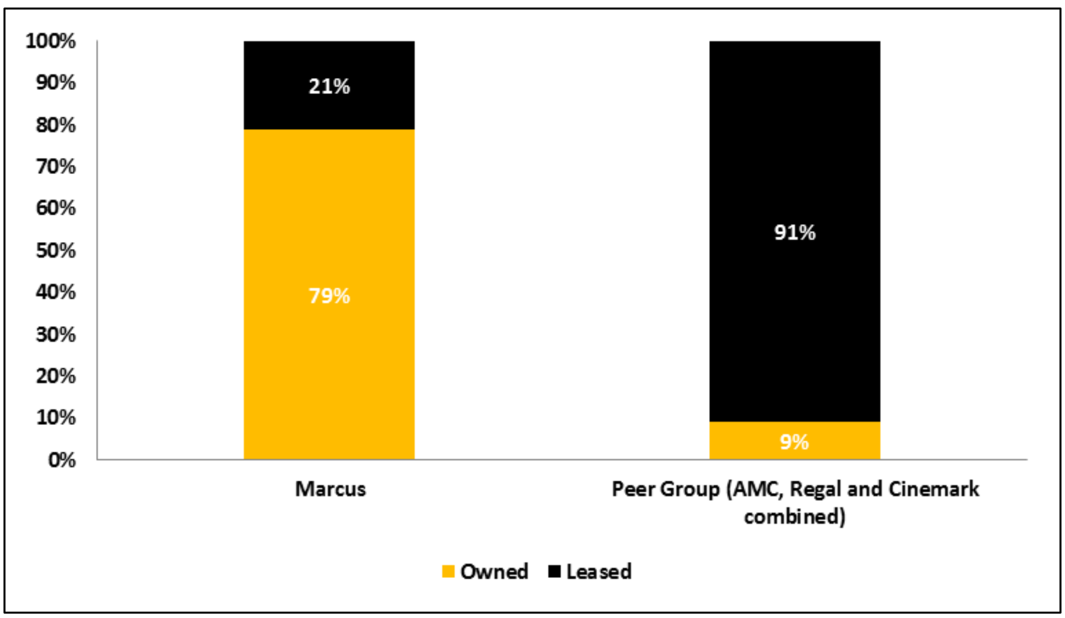
Revenues for the theatre business and the motion picture industry are heavily dependent on the general audience appeal of available films which MCS has no control. In 2016, blockbusters like *Finding Dory, Rogue One: A Star Wars Story, The Secret Life of Pets, Deadpool* and *Captain America: Civil War* accounted for nearly 20% of the MCS's total box office. In addition, the average video release window, which represents the time interval from films played to theatres to films released to other channels include DVD and internet, has decreased from six months to less than four months, even to 75-90 days. The narrowing of the release window could adversely impact movie business and hurt MCS's revenue.

Competition

Marcus does business in both the movie industry and the lodging industry. Netflix is one of the competitors of MCS. Online streaming giant Netflix is squeezing the traditional movie theatres. It is not only distributing its own original movies, it is also working on synchronizing film release dates on streaming with movie theatres, which can negatively affect MCS's movie theatre business because some of moviegoers will choose to watch movie online as the price is much cheaper than going to movie theatres. Netflix costs only $12 per month (maximum) and there is a 1 month free trial.

Rather than leasing theatres like its competitors, MCS owns 79% of its movie theatres. This drives down ROA

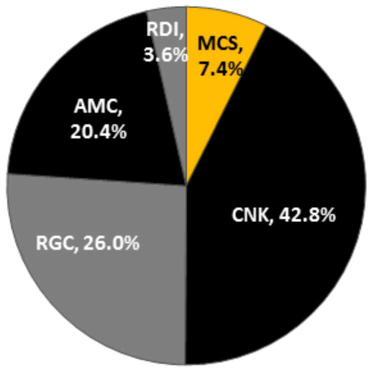
Figure 7: Theatre Ownership MCS vs Peer Group



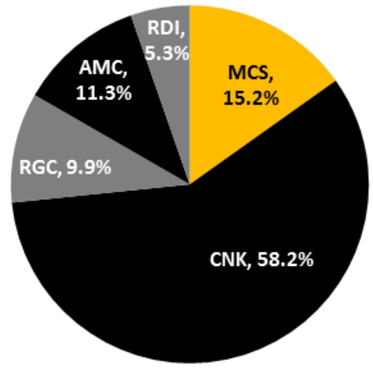
Source: 10K

Compared with the industry standard of leased theatres, MCS own 79% of theatres which lowers MCS's rental expenses and allow it to react fast when trends change although it drives down ROA. MCS accounts for 15.2% of industry sales but is only 7.4% of market cap compared with its movie theatre competitors. If we consider that 36.5% of sales in hotel, the 7.4% rises to 11.7% assuming the hotel and theatre businesses are equally valuable. The public may believe that MCS is less profitable or have lower growth compared with its competitors like AMC and RGC in the future.

Figures 8: Industry by Market Cap



Figures 9: Industry by Sales



Source: Factset and IMCP

Marriott is a typical competitor of MCS's hotels and resorts. Big companies like Marriott (MAR) are benefitting from the strong brand power and consumer loyalty. Shifting from hotel owner to manager, Marriott focuses on managing hotels and franchising its brand. It has 3,718 hotels under management and only owns 6 hotels. Franchisors earn a percentage of revenues without investing significant capital. This strategy helped Marriot reduce its balance sheet and improve its ROA. Similar to Marriott, InterContinental Hotel Group (IHG) also has a franchised structure. In order to complement its brands, IHG has several market groups to meet customer demand.

Comparatively, MCS owns eight of 18 majority-owned and operated hotels. Owning a property is a capital intensive business, requiring more investment than franchising or managing. Although it increases control of its business and provides the opportunity of gains from appreciating property values, it limits MCS's cash flow that can be invested to promote its brand and hurts shareholders driving in recessions when asset price fall sharply.

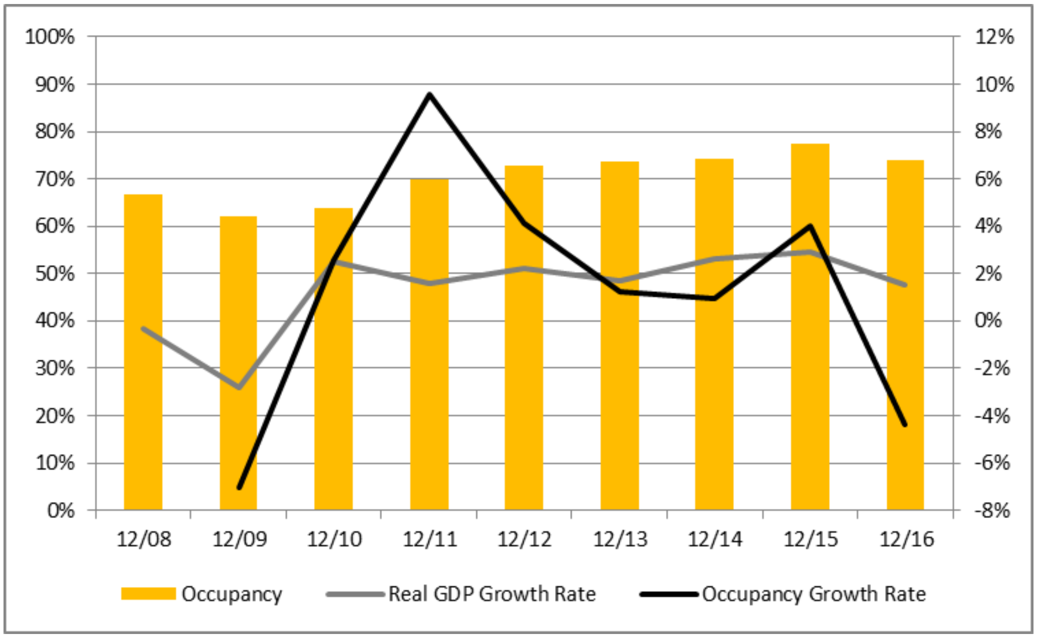
Economy

The hotel business is cyclical, and the economy is late in the cycle. Most of economic indicators are peaking and growth is slow. Higher living cost reduces entertainment activities. Unemployment rate was 4.1% in November, at the bottom over the last 20 years. The PMI is also above 58, a very high level.

For MCS's hotel and resort business, the hotel room occupancy rate is highly correlated with the real GDP growth rate. A hotter economy increased travel and hotel occupancy. In 2016, the GDP growth rate slowed down from 2.9% to 1.5%, which caused MCS's occupancy to decrease 4.4%.

Weakening of the economy will lead to lower hotel room occupancy and hurt revenue.

Figures 10: Hotel Room Occupancy has a Positive Correlation with GDP Growth Rate

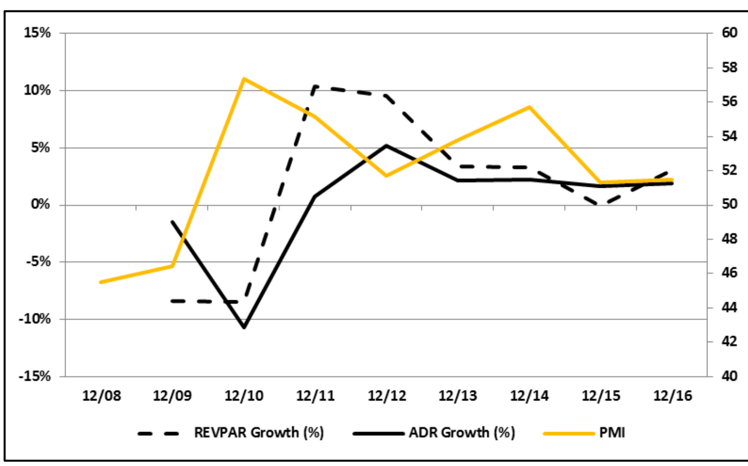


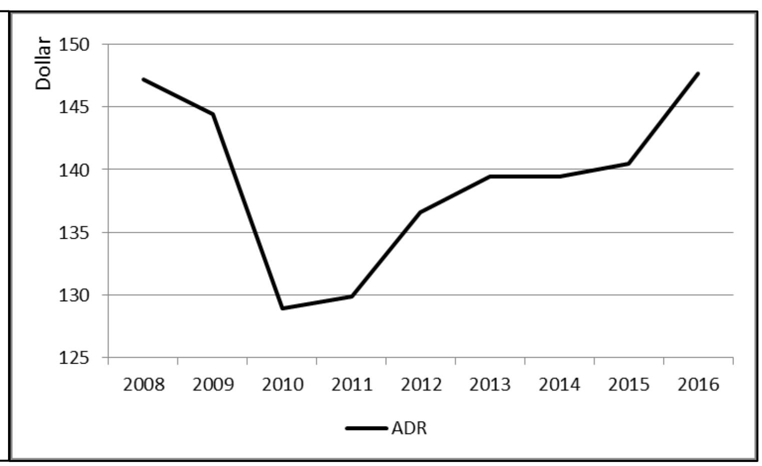
Source: Factset and IMCP

Improving PMI leads to better revenue per available room and average daily rate.

The average daily rate (ADR), which represents the average rental income per paid occupied room in a given time period, increased 2% from 2015 to 2016 at the expense of occupancy. This is because MCS increased rates for some available rooms and reduced the number of rooms occupied at discounted rates in order to improve its ADR. It took eight years for MCS to get its ADR back to 2008's level.

Figures 11 and 12: PMI Leads RevPAR Growth by One Year (left) and ADR Tooks Eight Year to Recover (right)

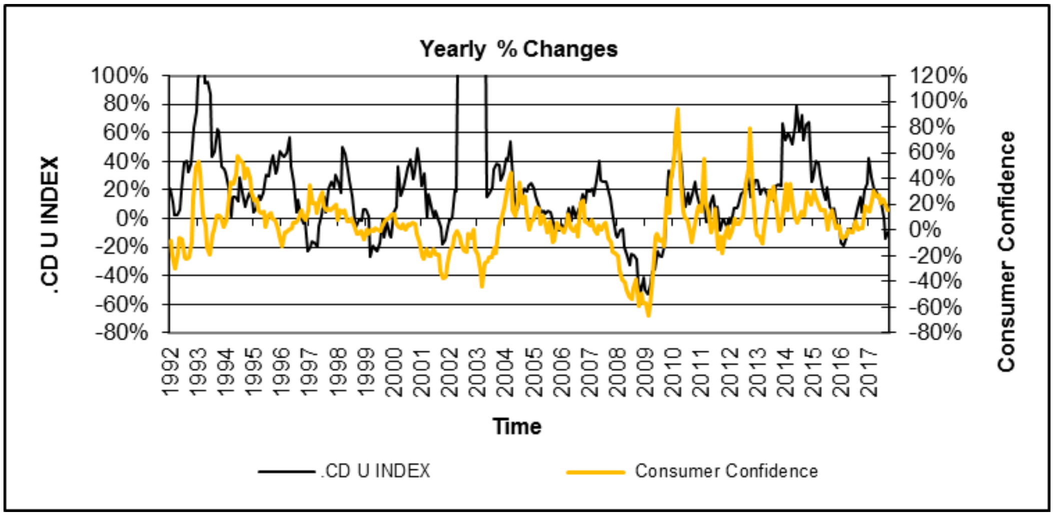




Source: Factset

Revenue per available room (revPAR) increased 3% in 2016, which is slightly slower than the 3.2% industry average. PMI leads MCS's revPAR growth rate and ADR growth rate by about one year. Considering the current strong PMI, I expect a moderate final revPAR growth rate in 2017 and a better growth rate in 2018. However, the current revPAR cycle could be an early warning for hotel business. 2017 represents the eighth year of positive rePAR growth in the U.S., and historically cycles have seven to nine years on average. The decelerating revPAR since 2014 is concerning. Meanwhile, MCS's rePAR growth rate slowed down from 4.3% in 2015 to 3.8% in 2016. Based on the above, I forecast MCS's rePAR growth rate to be 3% in 2017 and the annual growth rate for next 10 years to be 1% with high volatility.

Figures 13: Relative return of Equal Weight MCS Peer Group (.CD U Index) to SPX Index versus Consumer Confidence Index (No Lag)



Source: Bloomberg, IMCP

MCS and its peer group versus the S&P500 have a 0.08 correlation to consumer confidence. Based on the above, I believe that MCS can still benefit from the strong economy in 2017, but there is more downside risk in 2018 and 2019.

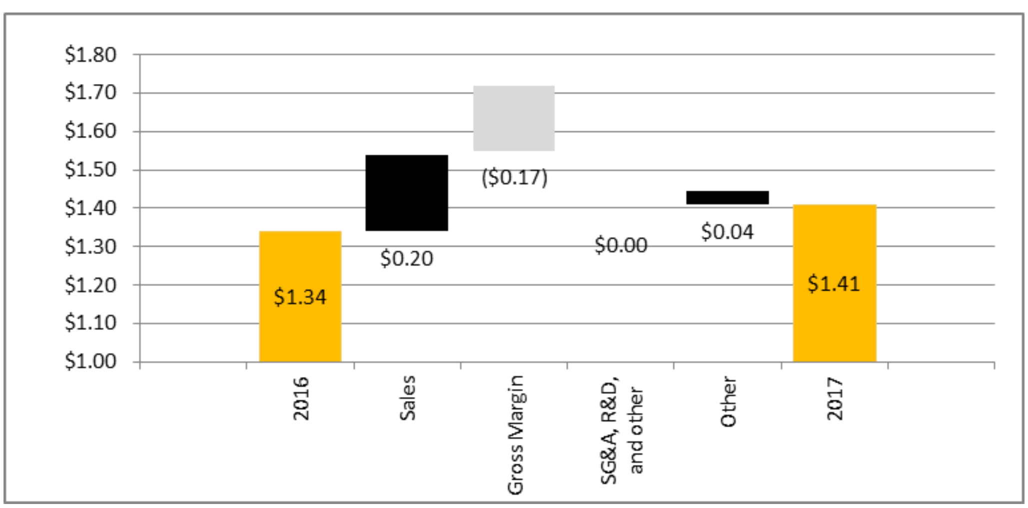
Financial Analysis

Earnings Per Share

I anticipate EPS for weighted average shares outstanding (both common shares and class B common shares) to grow to $1.41 in 2017 as showed in figure 14. Rising revenues should increase earnings by $0.20 per share, offset by a $0.17 per share because of higher direct cost as percent of sales.

In 2017, sales are expected to improve EPS by $0.20 per share but be offset by the increasing of direct cost.

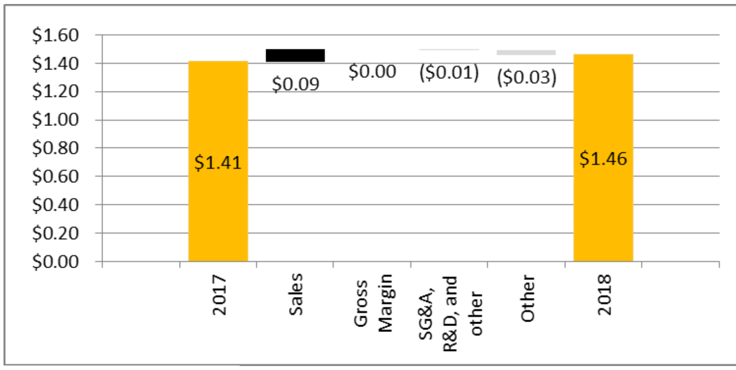
Figure 14: Quantification of 2017 EPS Drivers

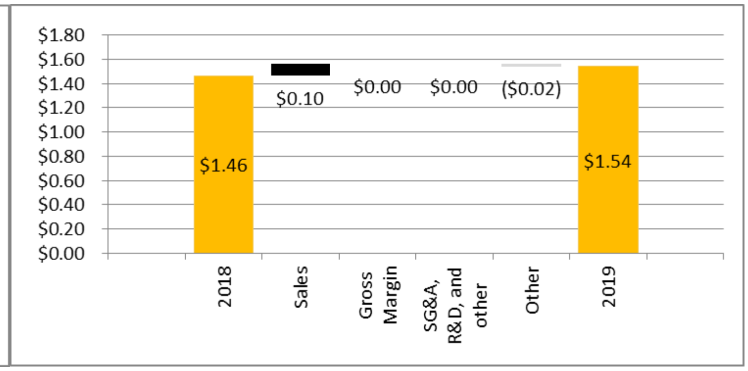


Source: IMCP

As for 2018 and 2019, I forecast that revenue growth to contribute $0.09 and $0.10 to EPS respectively. Margins will be unchanged. As a result, EPS should be $1.46 and $1.54 at the end of 2018 and 2019.

Figures 15 and 16: Quantification of 2018 EPS Drivers (left) and Quantification of 2019 EPS Drivers (right)





Source: IMCP

Since the above forecasted EPS are for all shares including both common shares and Class B common shares, I made some adjustments. When I just consider common shares, I anticipate EPS will be $1.52 versus consensus of $1.58 in 2018 and $1.62 versus consus of $1.75 in 2019. I am more pessimistic than consensus estimates because I anticipate a lower operating margin of 12% vs consensus of 14%. I believe MCS's EPS will be impacted by the fluctuation of its hotel business and decreasing revenue in existing movie theatres, and this is why my forecasts are lower than consensus estimate.

My estimated EPS growth is more conservative than consensus.

Figure 17: Common Shares Adjusted EPS (Except Class B) Estimate

	2017E	2018E	2019E
EPS Estimate	$1.47	$1.52	$1.62
YoY Growth	4.40%	3.20%	6.60%
EPS Consensus	$1.49	$1.58	$1.75
YoY Growth	5.70%	5.80%	10.70%

Source: IMCP and Factset

Revenue

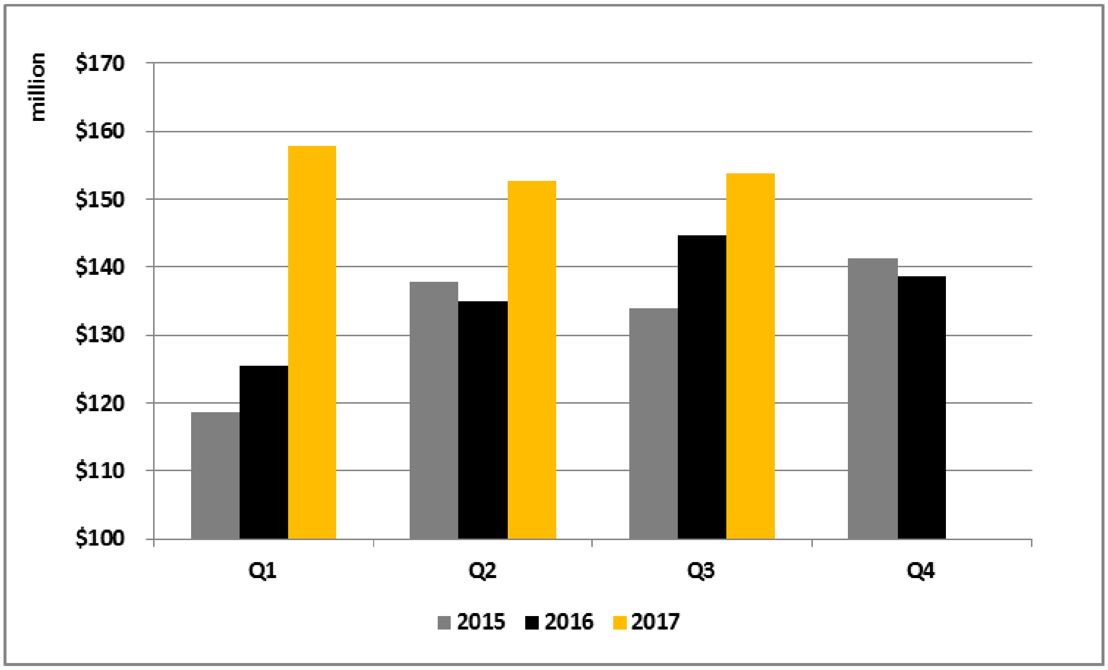
In 2016, MCS's total revenues increased 11% due to higher revenues from the theatre division that grew 22%. This was partially offset by decreased revenues in the hotels and resorts division. The hotel and resorts division revenue fell 1% because of the 4.1% decrease in its room segment, which is resulted from the sale of the Hotel Phillips in October 2015. Food and beverage revenues increased only 0.6% since fiscal 2016 ended on December 29 and did not include New Year's Eve that is historically a very strong food and beverage day.

In fiscal year 2017, the hotels and resorts division revenues had stable growth, but fell in proportion to total revenues. Hotel and resorts revenue increased 2.0% during the first three quarters of fiscal 2017 compared to the first three quarters of fiscal 2016. The strong total sales in the first three quarters primarily came from movie theatre business. As a result, I expect the fourth quarter total revenues to increase 15% by taking the average growth rate of the first three quarters. Compared with 19% consensus growth, I am more conservative than consensus because MCS's existing comparable theatres' performance is declining. While I agree with people who argue that *Star Wars: The Last Jedi* coming in December will boost the U.S. box office. I don't believe it can boost MCS's significantly (in order to reach a 19% annual growth rate, the fourth quarter revenue has to grow

30%). In 2016, *Rogue One: A Star Wars Story* played in December was the highest box office that year, but MCS's fourth quarter revenue decreased 2% compared to 2015 fourth quarter. As a result, I believe the consensus is too optimistic and it is more reasonable to expect a 15% growth in 2017.

Revenue is strong in 2017's first three quarters compared with previous years.

Figures 18: Quarterly Revenue Comparison



Source: Company Reports-10K

Excluding new theatres (124 theatres from Wehrenberg and theatre opened in Country Club Hill, Illinois during fiscal 2016), box office receipts decreased 3.6% during the first three quarters of fiscal 2017. This is because of the weakness in the third quarter when box office receipts decreased 15.6% and concession revenues decreased 13.1% for comparable theatres. According to data from Rentrak, United States box office receipts decreased 13.4% and 4.0%, respectively, during fiscal 2017's third quarter and the total first three quarters. This result indicated that MCS's box office receipts underperformed the industry during the third quarter by 2.2% and outperformed the industry during the first three quarters of fiscal 2017 by 0.4%.

MCS explained that the underperformance compared to the industry in the third quarter of fiscal 2017 was due to film mix, out of service screens resulting from renovations, and slightly unfavorable weather comparisons to last year. MCS has no control on film release and weather and renovation is unavoidable to provide a better movie going experience. No matter when renovations take place, it will negatively affect revenue in a short term because of fewer screens.

In 2018 and 2019, I anticipate that total revenues to increase 6%, but I am still concerned about the revenue in its existing theatres and the fluctuation of MCS's hotel business. Although MCS may make new acquisitions in the coming two years, I don't believe those acquisitions would be big enough to drive significant expansion in MCS's total revenue. My forecasted sales growth rate is 8% in the movie theatre division and 1.8% in the hotel division.

Operating Profit Margin

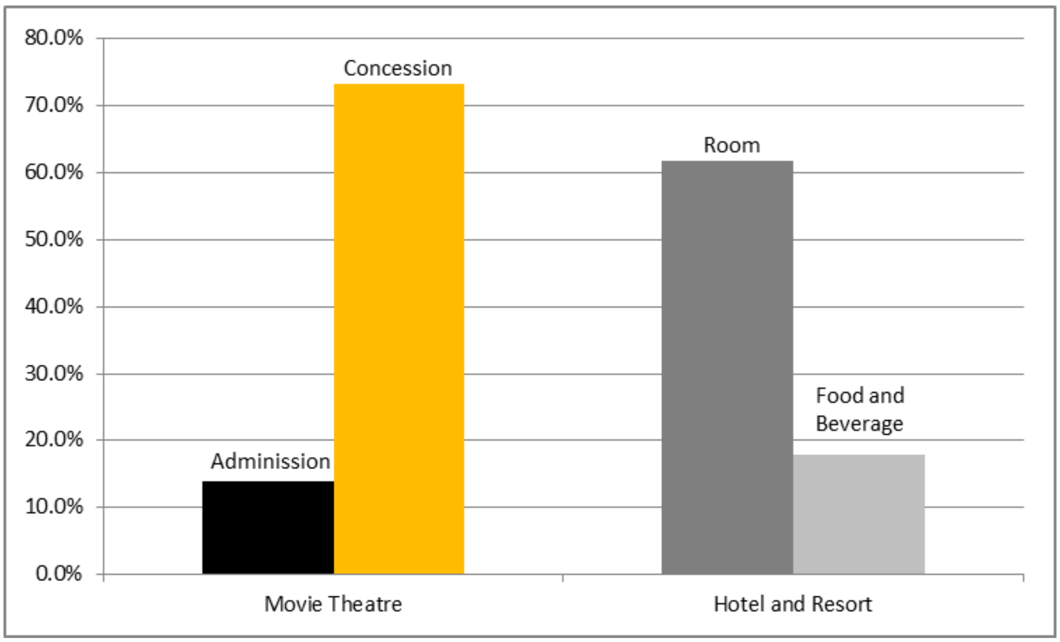
In 2016, the theatre division's operating profit margin increased to 21.9%, versus 20.5% in 2015, through cost savings of $2 million. Attendance increased 4.3% in 2016 that made fixed costs lower as a percentage of revenues. Concession segment revenue increased more than admissions revenue, which also helped operating margin because the concession segment has a higher margin than the theatre admission segment.

The hotels and resorts division revenues decreased 4.1% in 2016, but the operating profit margin increased from 5.8% to 6.8% due to strong cost controls and increased revenue per available room for comparable hotels.

For the overall corporation, direct cost accounted for 53.1% of total revenues at almost the same level as history. However, the percentage of SG&A to revenue decreased from historical 37% to 34%. As a result, operating profit margin increased from 10% of sales to 12.8% of sales.

Concession and room are the two high profitable segments in their own businesses.

Figures 19: Gross Profit Margin of Each Segment in Two Businesses



Source: Company Reports-10K

In 2017, for theatre division untill the end of the third quarter, operating profit margin was 19.8%, lower than 21.6% of the first three quarters of 2016. This is because of preopening expenses, a weaker film slate, higher fixed costs due in part to Wehrenberg acquisition, and decreased attendance. Although the total theatre attendance increased 19.7% during the first three quarters of 2017, comparable theatre attendance decreased 4.4% versus 2016 due to a weaker film slate. The hotel and resorts division's operating income decreased by 15.8% during the first three quarters of 2017 compared to the first three quarters of 2016 due to preopening expenses and operating losses related to the new restaurant in Chicago. As a result, hotel and resort division's operating margin was 7.5% compared with 9.1% the first three quarters of 2016.

Because of the weaker quarterly result, I expect MCS's annual operating profit margin to decrease to 11.6% in 2017. In 2018 and 2019, I anticipate a similar operating profit margin at 11.5% because I don't believe MCS plans to pay more attention to its two higher gross margin segments, which are theatre concession and hotel rooms. Meanwhile, MCS's SG&A only decreased in 2016 due to a strong cost control that year. So I believe MCS's cost control is unsustainable since it is primarily focusing on growing its revenue rather than improving margin.

Return on Equity

MCS's ROE increased from 6.9% to 10.0% in 2016 driven by higher ROA after a 1% drop in 2015. In 2016, ROA increased sharply from 3.0% to 4.4%, which is because of the rising operating profit margin and EBT/EBIT. EBT/EBIT kept increasing during 2013 and 2016 since MCS interest expense does not increase as quick as earnings and even decreased in 2015. Debt to capitalization ratio decreased in 2014 and 2015 because MCS used excess cash in those two years to reduce borrowings under revolving credit agreement. As mentioned above, operating profit margin increased from 10.0% to 12.8% because of lower cost. However, considering the increasing expenses related to renovation and acquisition in 2017, I do believe that high growth of operating profit margin will continue but might be slightly lower at 11.5% in the following years.

In 2017, MCS funded capital expenditure by issuing debt, thus contributed to higher interest expense. I expect it will lead to 1% falling of EBT/EBIT in 2017 and EBT margin to fall to 9.9% from 11.1% and ROA to fall to 4.1% form 4.4% to 4.1%. As claimed by MCS, its key strategic initiatives in its two businesses often require significant capital expenditures to implement. Capital expenditure almost tripled in 2016 from $50 million to $133 million in the theatre division. Total cash capital expenditures (including normal continuing capital maintenance and renovation projects) totaled $87.3 million during the first three quarters of fiscal 2017 compared to $58.1 million during the first three quarters of fiscal 2016. In 2017, approximately $23.5 million of capital expenditures were related to real estate purchases and new theatre development costs described above. This shows that MCS is still growing.

In order to grow in the future, I believe MCS will continue to borrow to implement further development, acquisition and renovation and the equity multiplier to increase to 2.35 and ROE to decline to 9.4% in 2019 from 9.7% in 2017.

Asset turnover is predicted to increase slightly since I believe MCS will manage its assets more effectively.

Figure 20: ROE Breakdown, 2014 – 2019E

5-Stage Dupond	2014	2015	2016	2017E	2018E	2019E
EBIT / sales	10.8%	10.1%	12.8%	11.6%	11.5%	11.5%
Sales / avg assets	0.59	0.62	0.63	0.66	0.65	0.65
EBT / EBIT	78.1%	79.8%	86.8%	85.7%	85.0%	84.9%
Net income /EBT	66.3%	61.0%	62.6%	63.2%	62.8%	62.7%
ROA	3.3%	3.0%	4.4%	4.1%	4.0%	4.0%
Avg assets / avg equity	2.34	2.26	2.27	2.35	2.36	2.35
ROE	7.7%	6.9%	10.0%	9.7%	9.5%	9.4%

Source: Company Reports-10K

Free Cash Flow

Except for 2015, FCFF has been negative in recent years (excluding additive of debt) as shown in figure 21. This is attributable to the firm's larget capital expenditures. 97% of MCS's total assets are fixed with current assets only accounting for about 3% of total assets. Meanwhile, MCS usually use short financing to finance fixed assets, causing NWC to be negative. A less negative NWC led to positive change in NWC in 2017 and increased FCFF. Also, for hotel and theatre businesses, MCS is able to purchase on credit but sell in cash, which enables MCS to pay off financing later on. Because of the quicker improvement of NOPAT and decreasing NWC, FCFF was positive in 2015. Net PPE accounts for about 90% of the NFA. 56% of the PPE was classified in the buildings and improvements segment that increased 13% in 2016. The second largest component of PPE is the furniture, fixtures and equipment segment, which accounts for 25% of the total and increased 9% in 2016. The rise of NFA was related to the

Figure 21: Free Cash Flows 2013 – 2019E

Free Cash Flow							
Without cash and debt	2013	2014	2015	2016	2017E	2018E	2019E
NOPAT	$29,593	$26,747	$29,610	$43,229	$44,994	$47,299	$50,023
Growth		*-9.6%*	*10.7%*	*46.0%*	*4.1%*	*5.1%*	*5.8%*
NWC*	(80,984)	(60,228)	(66,604)	(79,131)	(55,907)	(59,068)	(62,471)
Net fixed assets	710,559	732,258	759,603	875,123	921,402	973,506	1,029,585
Total net operating capital*	$629,575	$672,030	$692,999	$795,992	$865,495	$914,437	$967,114
Growth		*6.7%*	*3.1%*	*14.9%*	*8.7%*	*5.7%*	*5.8%*
- Change in NWC*		20,756	(6,376)	(12,527)	23,224	(3,161)	(3,403)
- Change in NFA		21,699	27,345	115,520	46,279	52,104	56,080
FCFF*		($15,708)	$8,641	($59,764)	(24,509)	($1,644)	($2,654)
Growth			*-155.0%*	*-791.6%*	*-59.0%*	*-93.3%*	*61.5%*
- After-tax interest expense	6,262	5,848	5,968	5,690	6,457	7,094	7,573
FCFE**		($21,556)	$2,673	($65,454)	($30,966)	($8,737)	($10,227)
Growth			*-112.4%*	*-2548.7%*	*-52.7%*	*-71.8%*	*17.0%*
+ Net new debt/other cap		(6,748)	(22,787)	70,046	41,465	25,000	25,000
Sources of cash		($28,304)	($20,114)	$4,592	$10,499	$16,263	$14,773

Source: Company Reports-10K

At the end of the third quarter of 2017, NFA grew 5.3% in which buildings and improvements segment increased 5% and furniture, fixtures and equipment segment increased 9%. Considering the decelerating of NFA growth and a stable growth of NOPAT, I forecast that FCFF (without cash and debt) in 2017 will still be negative but will increase from negative $60 million to negative $25 million.

Negative FCFF could signify growth, but I haven't seen any significant value generated in the recent years yet. It appears capex is needed just to maintin the firm's competitive position. I believe MCS will take more debt in the following years to fund growth.

Based on my forecast, MCS is likely to maintain negative FCFF in the following two years since managers are still seeking growth opportunities and reinvesting in existing properties. Excluding debt, I expect FCFE to be negative $31 million in 2017, a 53% improvement compared to 2016. In 2018 and 2019, FCFE is projected to improve, but remain negative. Including debt, MCS's FCFE has been postitive and increasing since 2016. While higher debt may appear at first to be a problem, the A/E ratio is somewhat stable. Assets have been growing which supports the debt.

Valuation

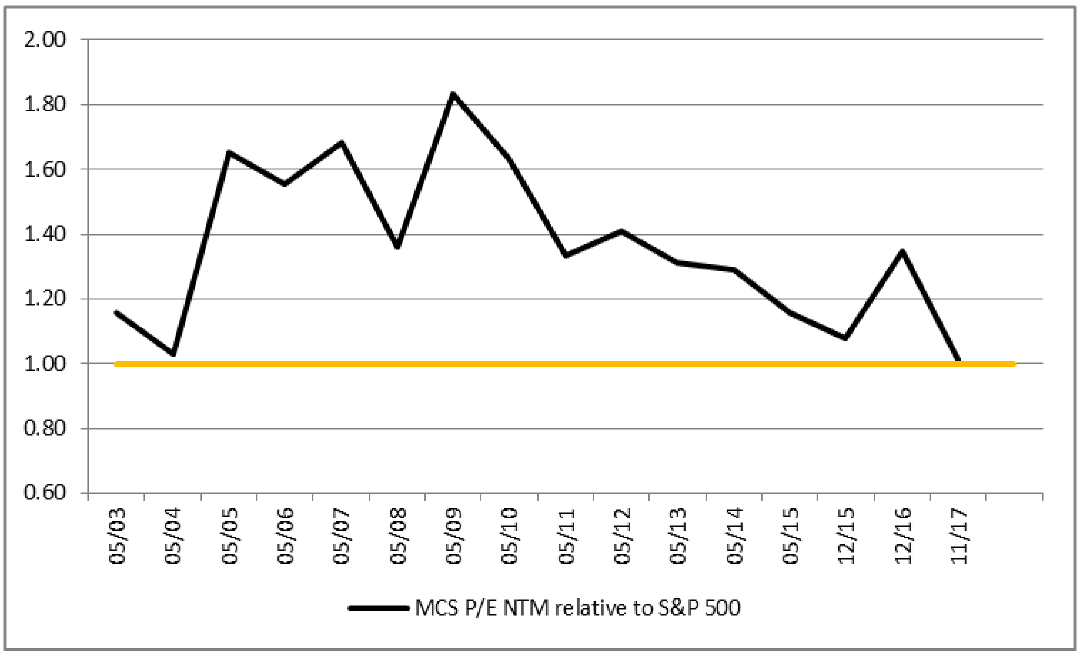
MCS was valued using multiples and a three-stage discounting cash flow model. Based on earnings multiples, the stock is cheap relative to comparables and is worth $26.3. Relative valuation also shows MCS to be undervalued based on its historical fundamentals versus those of its peers in the industry. Based on the estimated 2018 data, price to book valuation yielded a price of $34.7 after discounted it back to 2017 which shows MCS is undervalued. A detailed DCF analysis values MCS lower, at $25.5; I give this value a bit more weight because it incorporates assumptions that reflect MCS's ongoing structural changes. Finally, a probability-weighted scenario analysis yields a price of $25.6.

Trading History

MCS's NTM P/E is currently 18.4, a 10-year low relative to the S&P. I believe MCS deserves to trade at an 18 P/E in the long run and at a discount to hotel competitors which have a P/E of 21.6. MCS has been trading below the median of its peer groups for good reasons. First, MCS's hotel business is sluggish in recent years. Second, the strong growth of theatre business is only coming from acquisition rather than existing theatres. Third, MCS's debt to enterprise value is high compared to peer thus making the company riskier.

On a historical base, MCS is relatively cheap now, but it may cheap for reasons.

Figure 22: MCS NTM P/E relative to S&P 500



Source: Factset

As a result, I assume the firm maintains an 18 NTM P/E at the end of 2018, so it is worth $26.28 at year end 2017.

- Price = P/E x EPS = 18 x $1.46 2018 EPS estimate = $26.28

Compared with the current price of $28.10, MCS's stock is fairly valued.

Relative Valuation

Historically, MCS's P/E was the median of its peers. However, MCS's P/E is forecasted to be slightly lower than the median. As I believe MCS will have more risk or more uncertainty than it used to relative to its peers. MCS's P/B ratios are at the median of its peers, but higher than the average. This is a reflection of MCS's relatively good ROE that was about 8% higher than the median.

Figure 23: MCS comparable companies

Ticker	Name	Current Price	Market Value	Price Change 1 day	1 Mo	3 Mo	6 Mo	52 Wk	YTD	Earnings Growth LTG	NTM	2015	2016	2017	2018	Pst 5yr	Beta	LT Debt/ Equity	S&P Rating	LTM Dividend Yield	Payout
MCS	MARCUS CORP	$28.30	$764	1.4	6.6	16.5	(16.4)	(8.0)	(10.2)	15.0	16.6%	-5.3%	56.7%	7.8%	6.6%	19.2%	0.51	81.6%	B	1.80%	33.5%
CNK	CINEMARK HOLDINGS INC	$36.19	$4,215	3.7	(1.8)	9.1	(10.6)	(13.0)	(5.7)	15.0	9.2%	13.5%	18.7%	-11.4%	10.3%	13.8%	1.04	151.8%	A-	3.08%	
IHG	INTERCONTINENTAL HOTELS GRP	$58.49	$11,113	0.3	6.3	17.8	4.6	35.5	26.3	9.6		209.2%	-64.0%	51.6%	9.7%	-2.7%	1.63			1.81%	
RGC	REGAL ENTERTAINMENT GROUP	$19.63	$3,082	7.6	18.2	30.3	(4.8)	(16.1)	(4.7)		32.4%	8.2%	6.6%	-15.0%	11.5%	33.0%	0.98	-283.8%	B	5.38%	100.0%
MAR	MARRIOTT INTL INC	$126.90	$46,265	(0.0)	6.8	26.0	18.7	62.5	53.5	9.4	25.5%	22.3%	13.2%	16.9%	14.3%	38.9%	1.38	183.3%	B+	1.05%	34.4%
AMC	AMC ENTERTAINMENT HOLDINGS	$16.15	$2,114	8.4	9.5	23.8	(34.6)	(52.4)	(52.0)	10.0	-125.6%	75.4%	31.4%	-178.0%	-128.2%		1.41	200.9%		5.76%	
RDI	READING INTL INC -CL A	$15.61	$357	0.8	(2.4)	(0.3)	(3.2)	0.1	(6.0)		-44.7%	-11.5%	-53.3%	167.4%	-46.1%	1.9%	1.66	81.7%	B-	0.00%	
Average			$9,701	3.2	6.2	17.6	(6.6)	1.2	0.2	11.8	-14.4%	44.5%	1.3%	5.6%	-17.4%	17.4%	1.23	69.3%		2.70%	56.0%
Median			$3,082	1.4	6.6	17.8	(4.8)	(8.0)	(5.7)	10.0	12.9%	13.5%	13.2%	7.8%	9.7%	16.5%	1.38	116.8%		1.81%	34.4%
SPX	S&P 500 INDEX	$2,627		1.0	1.8	7.5	8.7	19.3	17.3			-4.8%	-4.0%	22.8%	10.9%						

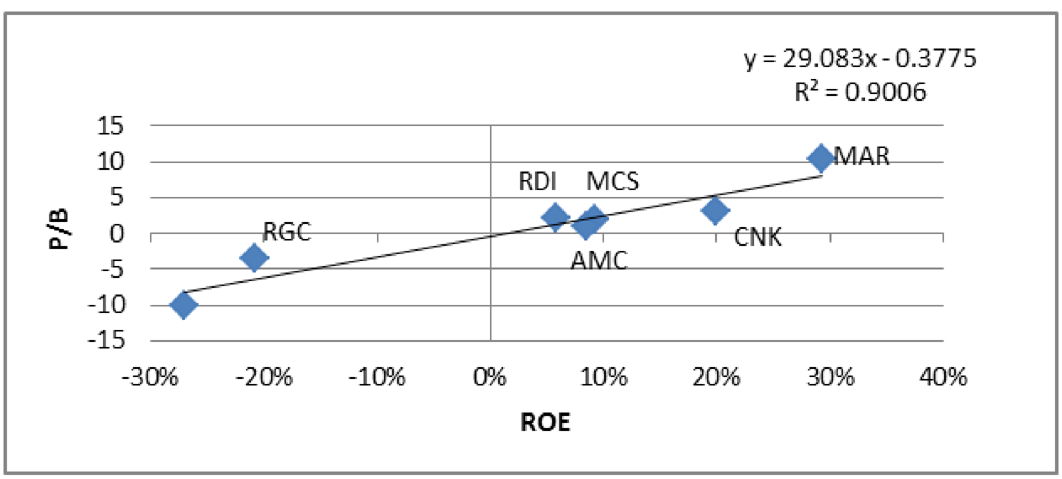
Ticker	Website	2016 ROE	P/B	P/E 2014	2015	2016	TTM	NTM	2017	2018	2016 NPM	2016 P/S	OM	ROIC	EV/ EBIT	P/CF Current	P/CF 5-yr	Sales Growth NTM	STM	Pst 5yr	Book Equity
MCS	http://www.marcuscorp.com	9.2%	1.84	19.5	21.1	22.3	20.5	17.6	18.6	17.5	7.0%	1.40	12.2%	6.0%	16.5	8.8		8.2%	4.3%	7.6%	$15.39
CNK	http://www.cinemark.com	19.9%	3.15	20.9	17.3	16.8	17.2	15.7	17.8	16.2	9.1%	1.44	14.2%	8.0%	13.3	8.1	9.8	7.9%	2.9%	5.1%	$11.50
IHG	http://www.ihgplc.com	-27.1%	-10.08	35.6	11.1	29.5			24.6	22.4	23.5%	8.74	33.0%	34.3%	15.8	14.9	15.5			-0.8%	-$5.80
RGC	http://www.regmovies.com	-20.7%	-3.60	21.8	17.8	18.2	22.3	16.8	20.4	18.3	5.5%	0.96	9.2%	11.8%	15.4	6.1		7.4%	2.1%	3.6%	-$5.45
MAR	http://www.marriott.com	29.2%	10.31	30.0	21.1	23.0	34.7	27.6	30.1	26.4	7.7%	2.71	11.0%	11.3%	18.3	18.7		-77.3%	4.0%	6.7%	$12.31
AMC	http://www.amctheatres.com	8.5%	0.86	37.9	19.8	21.2	-11.9	46.4	-13.0	46.1	6.4%	0.65	3.8%	2.3%	27.1	3.4		18.5%	2.4%	6.5%	$18.68
RDI	http://www.readingrdi.com	5.8%	2.09	12.8	14.3	38.6	15.2	27.4	13.6	25.2	3.6%	1.32	7.6%	3.5%	25.9			11.3%	11.7%	1.9%	$7.46
Average		3.5%	0.65	25.5	17.5	24.2	16.3	25.3	16.0	24.6	9.0%	2.46	13.0%	11.0%	18.9	10.0	12.6	-4.0%	4.6%	4.4%	
Median		8.5%	1.84	21.8	17.8	22.3	18.8	22.5	18.6	22.4	7.0%	1.40	11.0%	8.0%	16.5	8.4	12.6	8.1%	3.4%	5.1%	
spx	S&P 500 INDEX			17.5	18.3	20.9			19.9	18.0											

Source: IMCP

To smooth earnings, I regressed P/B against ROE and found 90% of a sampled firm's P/B is explained by its ROE. As mentioned in the financial analysis section, I believe that ROE in 2018 and 2019 will be lower than 2016, but still higher than historical numbers.

- Estimated P/B = ROE (9.5%) x 29.083-0.3775 = 2.39
- 2018E number of shares outstanding = 27,773 thousands shares
- 2018E BVPS = 2018E equity ($441,983) / 2018E number of shares outstanding (27,773) = $16
- 2018 Target Price = Estimated P/B (2.39) x 2018E BVPS($16) = $38.2
- Discounted Current Price 2017=38.2/(1+10%) = $34.7

Figure 24: P/B VS ROE



Source: IMCP

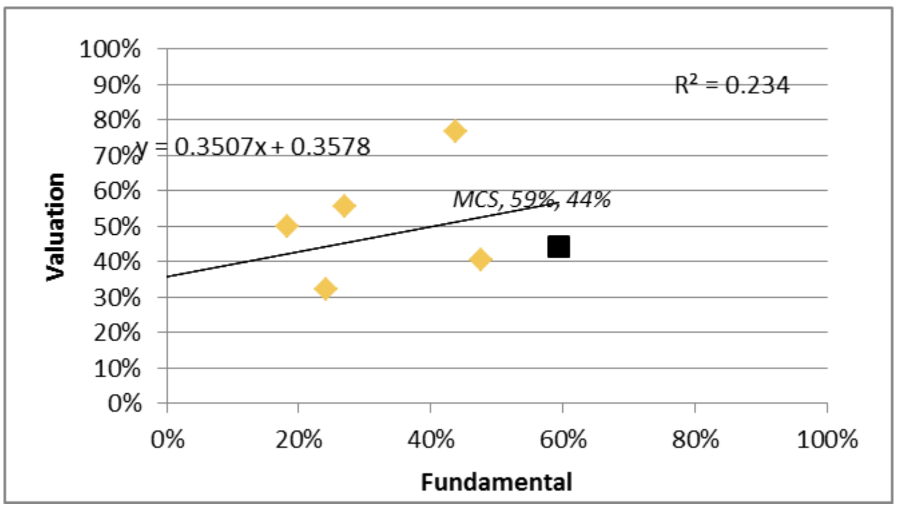
For a final comparison, I created a composite ranking of several valuation and fundamental metrics. Since the variables have different scales, each of which was converted to a percentile before calculating the composite score. My fundamental factors include 2017, 2018, past 5 years earnings growth, 1/beta, 1/payout, 2016 ROE and NPM, and STM and past 5 years sales growth. I compared the above to different weight composite of P/S, P/E, P/B, P/CF, EV/EBIT and 1/Yield. The regression had an R-squared of 0.23. One can see that MCS is below the line, so it is inexpensive based on fundamentals.

Figure 25: Composite valuation, % of range

				Fundamental Percent of Max											Valuation Percent of Max							
			Weight	10.0%	5.0%	10.0%	5.0%	5.0%	15.0%	10.0%	15.0%	5.0%	5.0%	15.0%	5.0%	5.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
		Weighted		Earnings Growth			1/	1/(LTD/	1/	2016	2016	Sales Growth			P/E							EV/
Ticker	Name	Fund	Value	2017	2018	Pst 5yr	Beta	Equity)	Payout	ROE	NPM	NTM	STM	Pst 5yr	TTM	NTM	2016	2017	P/B	P/S	P/CF	EBIT
MCS	MARCUS CORP	59%	44%	5%	46%	49%	100%	100%	100%	31%	30%	44%	36%	100%	59%	38%	58%	62%	18%	16%	47%	61%
CNK	CINEMARK HOLDINGS INC	48%	40%	-7%	73%	36%	49%	54%	67%	68%	39%	43%	24%	67%	49%	34%	43%	59%	31%	17%	43%	49%
IHG	INTERCONTINENTAL HOTELS GRP	18%	50%	31%	68%	-7%	31%	36%	67%	-93%	100%	-158%	59%	-11%	33%	67%	76%	82%	-98%	100%	80%	59%
RGC	REGAL ENTERTAINMENT GROUP	24%	32%	-9%	80%	85%	52%	-29%	33%	-71%	24%	40%	18%	47%	64%	36%	47%	68%	-35%	11%	33%	57%
MAR	MARRIOTT INTL INC	44%	77%	10%	100%	100%	37%	44%	97%	100%	33%	-417%	34%	89%	100%	60%	59%	100%	100%	31%	100%	68%
AMC	AMC ENTERTAINMENT HOLDINGS	-11%	25%	-106%	-900%	47%	36%	41%	67%	29%	27%	100%	20%	85%	-34%	100%	55%	-43%	8%	7%	18%	100%
RDI	READING INTL INC -CL A	27%	55%	100%	-323%	5%	31%	100%	67%	20%	15%	61%	100%	25%	44%	59%	100%	45%	20%	15%	59%	96%

Source: IMCP

Figure 26: Composite relative valuation



Source: IMCP

<u>Discounted Cash Flow Analysis</u>

A three stage discounted cash flow model was used to value MCS.

For the purpose of this analysis, the company's cost of equity was calculated to be 10% using the Capital Asset Pricing Model. The underlying assumptions used in calculating this rate are as follows:

- The risk free rate, as represented by the ten year Treasury bond yield, is 2.33%.
- A ten year beta of 1.0 was utilized since the company has a similar risk as the market.
- A long term market rate of return of 10% was assumed, since historically, the market has generated an annual return of about 10%.

Given the above assumptions, the cost of equity is 10.0% (2.33 + 1.0 (10.0 – 2.33)).

Stage One - The model's first stage simply discounts fiscal years 2018 and 2019 free cash flow to equity (FCFE). These per share cash flows are forecasted to be $0.61 and $0.56 with debt, respectively. Discounting these cash flows at 10.0% results in a value of $1.01 per share. Thus, stage one of this discounted cash flow analysis contributes $1.01 to value after discount those back to 2017.

Figure 27: 3stage DCF

	First Stage		Second Stage				
Cash flows	2018	2019	2020	2021	2022	2023	2024
Sales Growth	*5.7%*	*5.8%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
NOPAT / S	*7.2%*	*7.2%*	*7.1%*	*7.1%*	*7.1%*	*7.0%*	*7.0%*
S / NWC	*(11.19)*	*(11.19)*	*(11.00)*	*(11.00)*	*(11.00)*	*(11.00)*	*(11.00)*
S / NFA (EOY)	*0.68*	*0.68*	*0.70*	*0.70*	*0.75*	*0.75*	*0.75*

Source: IMCP

Stage Two - Stage two of the model focuses on fiscal years 2020 to 2024. During this period, FCFE is calculated based on revenue growth, NOPAT margin and capital growth assumptions. The resulting cash flows are then discounted using the company's 10.0% cost of equity. I assume that MCS maintains a 5.0% sales growth rate from 2020 to 2024. The ratio of sales to NWC is forecasted to increase from -11.19 to -11.00, and NFA turnover should rise from 0.70 in 2020 to 0.75 in 2024. A negative NWC indicates MCS has more current liabilities than current assets. MCS's current ratio has been negative for the past five years. As mentioned before, this is normal as MCS can purchase on credit but sell in cash. The NOPAT margin is relatively stable and expected to decrease slightly to 7.0% by 2024 from 7.1% in 2020. The discounted value of the cash flows I stage two is %5.25.

Figure 28: FCFE and discounted FCFE, 2018 – 2024

	2018	2019	2020	2021	2022	2023	2024
FCFE	$0.61	$0.56	$1.88	$0.71	$3.73	$0.93	$0.98
Discounted FCFE	$0.56	$0.46	$1.42	$0.49	$2.32	$0.53	$0.50

Source: IMCP

Stage three of the model requires an assumption regarding the company's terminal price-to-earnings ratio. Considering the threat from outside competitors like Netflix, I predict that people may only pay a discount to since the company will have grown and matured by 2024. As a result, I am using a discount multiple 18.

Figure 29: EPS, 2018 – 2024

	2018	2019	2020	2021	2022	2023	2024
EPS	$1.53	$1.61	$1.68	$1.78	$1.87	$1.98	$2.09

Source: IMCP

Given the assumed terminal earnings per share of $2.09 and a price to earnings ratio of 18.0, a terminal value of $37.57 per share is calculated. Using the 10% cost of equity, this number is discounted back to a present value of $19.28.

Total Present Value – given the above assumptions and utilizing a three stage discounted cash flow model, an intrinsic value of $26 is calculated (1.01 + 5.25 + 19.28). Given MCS's current price of $28, this model indicates that the stock is almost fairly valued.

Scenario Analysis

In order to give a more comprehensive perspective, I have conducted a scenario analysis to determine a range of values for the stock.

Sales Growth – Strong growth assumes that MCS's make new acquisitions in the future and box office increases nationwide in the following years. Hopefully, MCS's existing theatres' revenue stops falling. In the hotel business, MCS's food and beverage revenue could increase more to offset the loss from the room segment. Modest growth is the base assumption used in the prior DCF analysis, and is given a 60% probability. Poor growth assumes that the comparable theatres revenue keeps falling with a background of the depressed of movie industry. The hotel business deteriorates resulting from unsuccessful of new concept restaurants. I give this outcome a 20% probability.

Operating Efficiency –MCS's management team is working on reducing costs. Scenario one, improving EBIT margin, assumes that MCS's is able to recover and boost sales and reduce cost effectively. Scenario two, stable EBIT margin, is the base assumption used in prior DCF analysis. Scenario three, declining EBIT margin, assumes that MCS's sales doesn't achieve any significant improvement. In contrast, because of poor management in some hotels under management contract, MCS is fired by hotel owners. Meanwhile, direct cost and SG&A are not controlled effectively.

Figure 30: Scenario analysis

Sales	NOPAT Margin	DCF Value	Probability	Weighted Value
Strong Growth (p=0.20)	Strong (p=0.6)	$45.28	12.0%	$5.43
	Moderate (p=0.4)	$25.83	8.0%	$2.07
Moderate Growth (p=0.6)	Strong (p=0.3)	$39.45	18.0%	$7.10
	Moderate (p=0.4)	$24.54	24.0%	$5.89
	Weak (p=0.3)	$11.38	18.0%	$2.05
Weak Growth (p=0.20)	Moderate (p=0.4)	$21.02	8.0%	$1.68
	Weak (p=0.6)	$11.05	12.0%	$1.33
Total of Probability Weighted Value:				$25.55

MCS's stock was evaluated using the same discounted cash flow method outlined in the previous section. Each scenario's value was then multiplied by the scenario's probability to yield a probability-weighted value; the sum of these values is the likely price. This technique results in a target price of $25.55.

I recommend paying close attention to EBIT margin as time progresses. If EBIT margin continues to get worse and costs continue to increase as a percentage of sales, the stock would be overvalued.

Business Risks

My current rating for MCS is neutral, but I am slightly pessimistic about Marcus Corporation. The company is exposed to several risks.

Relative supply of available rooms:

A material increase in the supply of new hotel rooms in the market can cause existing hotels to experience decreasing occupancy, room rates, and profitability. If an over-supply occurs in MCS's major markets, it may experience an adverse effect on its hotels and resorts business.

Increasing sales made through third-party internet travel intermediaries:

People now use internet travel intermediaries regularly. Intermediaries are providing price and quality comparisons among different hotels, which attract users and make people develop brand loyalties to those intermediaries rather than hotels. As a result, it can adversely affect MCS's hotel business.

Intense competition:

MCS experiences intense competition from national, regional and local chain and franchise operations. The motion picture industry is fragmented and highly competitive with no significant barriers to entry. Theatres operated by national and regional circuits compete with MCS's theatres with respect to film licensing, attracting patrons, and developing new theatre sites. In hotels and resorts division, MCS has to differentiate it by quality, value, and efficiency of its services and products. If MCS is unable to compete successfully in either division, this could negatively affect its operating results.

High depreciation expenses and impairment charges:

Both of movie theatres and hotels and resorts businesses are heavily capital intensive. Purchasing properties, renovating buildings and investing in projects all require substantial investments before they can generate sufficient revenues to pay back. Preopening and start-up costs may affect earnings. Capitalizing expenditures can also increase depreciation expenses, and thereby affect earnings.

Adverse weather conditions:

Poor weather conditions, particulary during the winter in the Midwest, hurt business and leisure travel plans, which impacts the hotels and resorts division and also theatre attendance.

Appendix 1: Sales Forecast

Sales （in thousands)							
Items	**Dec-13**	**Dec-14**	**Dec-15**	**Dec-16**	**Dec-17**	**Dec-18**	**Dec-19**
Sales	$412,836	$447,993	$488,067	$543,864	$625,818	$661,207	$699,296
Growth		*8.5%*	*8.9%*	*11.4%*	*15.1%*	*5.7%*	*5.8%*
Theartre Admissions	134,523	146,093	157,254	186,768	225,989	241,809	258,735
Growth		*8.6%*	*7.6%*	*18.8%*	*21.0%*	*7.0%*	*7.0%*
% of sales	*32.6%*	*32.6%*	*32.2%*	*34.3%*	*36.1%*	*36.6%*	*37.0%*
Rooms	99,668	105,483	109,660	105,167	107,270	108,343	109,426
Growth		*5.8%*	*4.0%*	*-4.1%*	*2.0%*	*1.0%*	*1.0%*
% of sales	*24.1%*	*23.5%*	*22.5%*	*19.3%*	*17.1%*	*2.0%*	*15.6%*
Theartre Concessions	73,189	84,062	98,746	120,975	148,799	163,679	180,047
Growth		*14.9%*	*17.5%*	*22.5%*	*23.0%*	*10.0%*	*10.0%*
% of sales	*17.7%*	*18.8%*	*20.2%*	*22.2%*	*23.8%*	*24.8%*	*6.0%*
Food and Beverage	55,458	58,826	67,174	67,551	69,578	70,969	72,388
Growth		*6.1%*	*14.2%*	*0.6%*	*3.0%*	*2.0%*	*2.0%*
% of sales	*13.4%*	*13.1%*	*13.8%*	*12.4%*	*11.1%*	*10.7%*	*10.4%*
Other revenues	49,998	53,529	55,233	63,403	74,182	76,407	78,699
Growth		*7.1%*	*3.2%*	*14.8%*	*17.0%*	*3.0%*	*3.0%*
% of sales	*12.1%*	*11.9%*	*11.3%*	*11.7%*	*11.9%*	*11.6%*	*11.3%*
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Movie Theatre	220,212	243,537	269,808	328,032	393,334	424,589	458,457
Growth		*10.6%*	*10.8%*	*21.6%*	*19.9%*	*7.9%*	*8.0%*
% of sales	*53.3%*	*54.4%*	*55.3%*	*60.3%*	*62.9%*	*64.2%*	*65.6%*
Hotel and Resort	192,625	204,456	218,259	215,832	232,484	236,617	240,839
Growth		*6.1%*	*6.8%*	*-1.1%*	*7.7%*	*1.8%*	*1.8%*
% of sales	*46.7%*	*45.6%*	*44.7%*	*39.7%*	*37.1%*	*35.8%*	*34.4%*

Appendix 2: Income Statement

Income Statement (in thousands)							
Items	2013	2014	2015	2016	2017E	2018E	2019E
Sales	$412,836	$447,993	$488,067	$543,864	$625,818	$661,207	$699,296
Direct costs	216,216	238,004	259,772	288,875	332,309	351,101	371,326
Gross Margin	196,620	209,989	228,295	254,989	293,509	310,106	327,970
SG&A, R&D, and other	152,630	161,729	179,049	185,280	221,175	234,067	247,551
EBIT	43,990	48,260	49,246	69,709	72,333	76,039	80,419
Interest	9,309	10,551	9,926	9,176	10,380	11,404	12,174
EBT	34,681	37,709	39,320	60,533	61,954	64,635	68,245
Taxes	11,350	16,810	15,678	22,994	23,416	24,430	25,794
Income	23,331	20,899	23,642	37,539	38,537	40,205	42,451
Other	5,825	(4,102)	(353)	(363)	(637)	(400)	(350)
Net income	17,506	25,001	23,995	37,902	39,174	40,605	42,801
Basic Shares	27,865.0	27,150.0	27,917.0	27,957.0	27,773.0	27,773.0	27,779.7
EPS	$0.63	$0.92	$0.86	$1.36	$1.41	$1.46	$1.54
DPS	$1.28	$0.34	$0.37	$0.43	$0.49	$0.54	$0.59

Appendix 3: Balance Sheet

Balance Sheet（in thousands)							
Items	2013	2014	2015	2016	2017E	2018E	2019E
Cash	10,158	6,780	6,672	3,239	6,566	8,364	7,335
Operating assets ex cash	25,979	29,885	38,426	32,904	55,892	59,053	62,454
Operating assets	36,137	36,665	45,098	36,143	62,458	67,417	69,790
Operating liabilities	106,963	90,113	105,030	112,035	111,799	118,121	124,926
NOWC	(70,826)	(53,448)	(59,932)	(75,892)	(49,341)	(50,705)	(55,136)
NOWC ex cash (NWC)	(80,984)	(60,228)	(66,604)	(79,131)	(55,907)	(59,068)	(62,471)
NFA	710,559	732,258	759,603	875,123	921,402	973,506	1,029,585
Invested capital	*$639,733*	*$678,810*	*$699,671*	*$799,231*	*$872,061*	*$922,801*	*$974,450*
Total assets	*$746,696*	*$768,923*	*$804,701*	*$911,266*	*$983,860*	*$1,040,922*	*$1,099,375*
Short-term and long-term debt	$275,576	$268,828	$246,041	$316,087	$357,552	$382,552	$407,552
Other liabilities	47,461	80,003	87,932	91,470	98,266	98,266	98,266
Equity	316,696	329,979	365,698	391,674	416,243	441,983	468,632
Total supplied capital	*$639,733*	*$678,810*	*$699,671*	*$799,231*	*$872,061*	*$922,801*	*$974,450*
Total liabilities and equity	*$746,696*	*$768,923*	*$804,701*	*$911,266*	*$983,860*	*$1,040,922*	*$1,099,375*

Appendix 4: Ratios

Ratios	2013	2014	2015	2016	2017E	2018E	2019E
Profitability							
Gross margin	47.6%	46.9%	46.8%	46.9%	46.9%	46.9%	46.9%
Operating (EBIT) margin	10.7%	10.8%	10.1%	12.8%	11.6%	11.5%	11.5%
Net profit margin	4.2%	5.6%	4.9%	7.0%	6.3%	6.1%	6.1%
Activity							
NFA (gross) turnover		0.62	0.65	0.67	0.70	0.70	0.70
Total asset turnover		0.59	0.62	0.63	0.66	0.65	0.65
Liquidity							
Op asset / op liab	0.34	0.41	0.43	0.32	0.56	0.57	0.56
NOWC Percent of sales		-13.9%	-11.6%	-12.5%	-10.0%	-7.6%	-7.6%
Solvency							
Debt to assets	36.9%	35.0%	30.6%	34.7%	36.3%	36.8%	37.1%
Debt to equity	87.0%	81.5%	67.3%	80.7%	85.9%	86.6%	87.0%
Other liab to assets	6.4%	10.4%	10.9%	10.0%	10.0%	9.4%	8.9%
Total debt to assets	43.3%	45.4%	41.5%	44.7%	46.3%	46.2%	46.0%
Total liabilities to assets	57.6%	57.1%	54.6%	57.0%	57.7%	57.5%	57.4%
Debt to EBIT	6.26	5.57	5.00	4.53	4.94	5.03	5.07
EBIT/interest	4.73	4.57	4.96	7.60	6.97	6.67	6.61
Debt to total net op capital	43.1%	39.6%	35.2%	39.5%	41.0%	41.5%	41.8%
ROIC							
NOPAT to sales	7.2%	6.0%	6.1%	7.9%	7.2%	7.2%	7.2%
Sales to NWC		(6.34)	(7.70)	(7.46)	(9.27)	(11.50)	(11.51)
Sales to NFA		0.62	0.65	0.67	0.70	0.70	0.70
Sales to IC ex cash		0.69	0.72	0.73	0.75	0.74	0.74
Total ROIC ex cash		4.1%	4.3%	5.8%	5.4%	5.3%	5.3%
ROE							
5-stage							
EBIT / sales		10.8%	10.1%	12.8%	11.6%	11.5%	11.5%
Sales / avg assets		0.59	0.62	0.63	0.66	0.65	0.65
EBT / EBIT (EBT =EBIT-interest expense)		78.1%	79.8%	86.8%	85.7%	85.0%	84.9%
Net income /EBT (=1-tax rate)		66.3%	61.0%	62.6%	63.2%	62.8%	62.7%
ROA		3.3%	3.0%	4.4%	4.1%	4.0%	4.0%
Avg assets / avg equity		2.34	2.26	2.27	2.35	2.36	2.35
ROE		7.7%	6.9%	10.0%	9.7%	9.5%	9.4%
3-stage							
Net income / sales		5.6%	4.9%	7.0%	6.3%	6.1%	6.1%
Sales / avg assets		0.59	0.62	0.63	0.66	0.65	0.65
ROA		3.3%	3.0%	4.4%	4.1%	4.0%	4.0%
Avg assets / avg equity		2.34	2.26	2.27	2.35	2.36	2.35
ROE		7.7%	6.9%	10.0%	9.7%	9.5%	9.4%
Payout Ratio		36.8%	43.3%	31.8%	34.5%	36.6%	38.2%
Retention Ratio		63.2%	56.7%	68.2%	65.5%	63.4%	61.8%
Sustainable Growth Rate		4.9%	3.9%	6.8%	6.4%	6.0%	5.8%

Appendix 5: Comp Sheet

		Current	Market	Price Change						Earnings Growth								LT Debt/	S&P	LTM Dividend	
Ticker	Name	Price	Value	1 day	1 Mo	3 Mo	6 Mo	52 Wk	YTD	LTG	NTM	2015	2016	2017	2018	Pst 5yr	Beta	Equity	Rating	Yield	Payout
MCS	MARCUS CORP	$28.30	$764	1.4	6.6	16.5	(16.4)	(8.0)	(10.2)	15.0	16.6%	-5.3%	56.7%	7.8%	6.6%	19.2%	0.51	81.6%	B	1.80%	33.5%
CNK	CINEMARK HOLDINGS INC	$36.19	$4,215	3.7	(1.8)	9.1	(10.6)	(13.0)	(5.7)	15.0	9.2%	13.5%	18.7%	-11.4%	10.3%	13.8%	1.04	151.8%	A-	3.08%	
IHG	INTERCONTINENTAL HOTELS GRP	$58.49	$11,113	0.3	6.3	17.8	4.6	35.5	26.3	9.6		209.2%	-64.0%	51.6%	9.7%	-2.7%	1.63			1.81%	
RGC	REGAL ENTERTAINMENT GROUP	$19.63	$3,082	7.6	18.2	30.3	(4.8)	(16.1)	(4.7)		32.4%	8.2%	6.6%	-15.0%	11.5%	33.0%	0.98	-283.8%	B	5.38%	100.0%
MAR	MARRIOTT INTL INC	$126.90	$46,265	(0.0)	6.8	26.0	18.7	62.5	53.5	9.4	25.5%	22.3%	13.2%	16.9%	14.3%	38.9%	1.38	183.3%	B+	1.05%	34.4%
AMC	AMC ENTERTAINMENT HOLDINGS	$16.15	$2,114	8.4	9.5	23.8	(34.6)	(52.4)	(52.0)	10.0	-125.6%	75.4%	31.4%	-178.0%	-128.2%		1.41	200.9%		5.76%	
RDI	READING INTL INC -CL A	$15.61	$357	0.8	(2.4)	(0.3)	(3.2)	0.1	(6.0)		-44.7%	-11.5%	-53.3%	167.4%	-46.1%	1.9%	1.66	81.7%	B-	0.00%	
Average			$9,701	3.2	6.2	17.6	(6.6)	1.2	0.2	11.8	-14.4%	44.5%	1.3%	5.6%	-17.4%	17.4%	1.23	69.3%		2.70%	56.0%
Median			$3,082	1.4	6.6	17.8	(4.8)	(8.0)	(5.7)	10.0	12.9%	13.5%	13.2%	7.8%	9.7%	16.5%	1.38	116.8%		1.81%	34.4%
SPX	S&P 500 INDEX	$2,627		1.0	1.8	7.5	8.7	19.3	17.3			-4.8%	-4.0%	22.8%	10.9%						
MCS	http://www.marcuscorp.com	9.2%	1.84	19.5	21.1	22.3	20.5	17.6	18.6	17.5	7.0%	1.40	12.2%	6.0%	16.5	8.8		8.2%	4.3%	7.6%	$15.39
CNK	http://www.cinemark.com	19.9%	3.15	20.9	17.3	16.8	17.2	15.7	17.8	16.2	9.1%	1.44	14.2%	8.0%	13.3	8.1	9.8	7.9%	2.9%	5.1%	$11.50
IHG	http://www.ihgplc.com	-27.1%	-10.08	35.6	11.1	29.5			24.6	22.4	23.5%	8.74	33.0%	34.3%	15.8	14.9	15.5			-0.8%	-$5.80
RGC	http://www.regmovies.com	-20.7%	-3.60	21.8	17.8	18.2	22.3	16.8	20.4	18.3	5.5%	0.96	9.2%	11.8%	15.4	6.1		7.4%	2.1%	3.6%	-$5.45
MAR	http://www.marriott.com	29.2%	10.31	30.0	21.1	23.0	34.7	27.6	30.1	26.4	7.7%	2.71	11.0%	11.3%	18.3	18.7		-77.3%	4.0%	6.7%	$12.31
AMC	http://www.amctheatres.com	8.5%	0.86	37.9	19.8	21.2	-11.9	46.4	-13.0	46.1	6.4%	0.65	3.8%	2.3%	27.1	3.4		18.5%	2.4%	6.5%	$18.68
RDI	http://www.readingrdi.com	5.8%	2.09	12.8	14.3	38.6	15.2	27.4	13.6	25.2	3.6%	1.32	7.6%	3.5%	25.9			11.3%	11.7%	1.9%	$7.46
Average		3.5%	0.65	25.5	17.5	24.2	16.3	25.3	16.0	24.6	9.0%	2.46	13.0%	11.0%	18.9	10.0	12.6	-4.0%	4.6%	4.4%	
Median		8.5%	1.84	21.8	17.8	22.3	18.8	22.5	18.6	22.4	7.0%	1.40	11.0%	8.0%	16.5	8.4	12.6	8.1%	3.4%	5.1%	
spx	S&P 500 INDEX			17.5	18.3	20.9			19.9	18.0											

Appendix 6: 3-stage DCF Model

3 Stage Discounted Cash Flow							
	Year						
	1	2	3	4	5	6	7
First Stage			**Second Stage**				
Cash flows	2018	2019	2020	2021	2022	2023	2024
Sales Growth	*5.7%*	*5.8%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
NOPAT / S	*7.2%*	*7.2%*	*7.1%*	*7.1%*	*7.1%*	*7.0%*	*7.0%*
S / NWC	*(11.19)*	*(11.19)*	*(11.00)*	*(11.00)*	*(11.00)*	*(11.00)*	*(11.00)*
S / NFA (EOY)	*0.68*	*0.68*	*0.70*	*0.70*	*0.75*	*0.75*	*0.75*
S / IC (EOY)	*0.72*	*0.72*	*0.75*	*0.75*	*0.80*	*0.80*	*0.80*
ROIC (EOY)	*5.2%*	*5.2%*	*5.3%*	*5.3%*	*5.7%*	*5.7%*	*5.6%*
ROIC (BOY)		*5.5%*	*5.4%*	*5.6%*	*5.5%*	*5.9%*	*5.9%*
Share Growth		*0.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*
Sales	$661,207	$699,296	$734,261	$770,974	$809,523	$849,999	$892,499
NOPAT	$47,299	$50,023	$52,299	$54,678	$57,163	$59,761	$62,475
Growth		*5.8%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*	*4.5%*
- Change in NWC	-3161	-3403	-4280	-3338	-3504	-3680	-3864
NWC EOY	*-59068*	*-62471*	*-66751*	*-70089*	*-73593*	*-77273*	*-81136*
Growth NWC		*5.8%*	*6.9%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
- Chg NFA	52104	56080	19359	52447	-22028	53968	56667
NFA EOY	*973,506*	*1,029,585*	*1,048,944*	*1,101,392*	*1,079,364*	*1,133,332*	*1,189,999*
Growth NFA		*5.8%*	*1.9%*	*5.0%*	*-2.0%*	*5.0%*	*5.0%*
Total inv in op cap	48942	52677	15079	49110	-25532	50289	52803
Total net op cap	914437	967114	982193	1031303	1005771	1056059	1108862
FCFF	($1,644)	($2,654)	$37,220	$5,568	$82,696	$9,472	$9,672
% of sales	*-0.2%*	*-0.4%*	*5.1%*	*0.7%*	*10.2%*	*1.1%*	*1.1%*
Growth		*61.5%*	*-1502.5%*	*-85.0%*	*1385.2%*	*-88.5%*	*2.1%*
- Interest (1-tax rate)	7094	7573	7951	8349	8766	9205	9665
Growth		*6.8%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
+ Net new debt	25000	25000	20378	21396	22466	23590	24769
Debt	382552	407552	427930	449326	471792	495382	520151
Debt / tot net op capital	*41.8%*	*42.1%*	*43.6%*	*43.6%*	*46.9%*	*46.9%*	*46.9%*
FCFE w debt	$16,263	$14,773	$49,646	$18,615	$96,395	$23,857	$24,776
% of sales	*2.5%*	*2.1%*	*6.8%*	*2.4%*	*11.9%*	*2.8%*	*2.8%*
Growth		*-9.2%*	*236.1%*	*-62.5%*	*417.8%*	*-75.3%*	*3.9%*
/ No Shares	27773.0	27779.7	27,501.9	27,226.9	26,954.6	26,685.0	26,418.2
FCFE	$0.61	$0.56	$1.88	$0.71	$3.73	$0.93	$0.98
Growth		*-9.2%*	*239.4%*	*-62.1%*	*423.1%*	*-75.0%*	*4.9%*
* Discount factor	0.91	0.83	0.75	0.68	0.62	0.56	0.51
Discounted FCFE	$0.56	$0.46	$1.42	$0.49	$2.32	$0.53	$0.50
		Third Stage					
Terminal value P/E							
Net income	$40,605	$42,801	$44,348	$46,329	$48,397	$50,556	$52,810
% of sales	*6.1%*	*6.1%*	*6.0%*	*6.0%*	*6.0%*	*5.9%*	*5.9%*
EPS	$1.53	$1.61	$1.68	$1.78	$1.87	$1.98	$2.09
Growth		*5.4%*	*4.7%*	*5.5%*	*5.5%*	*5.5%*	*5.5%*
Terminal P/E							18.00
* Terminal EPS							$2.09
Terminal value							$37.57
* Discount factor							0.51
Discounted terminal value							$19.28
Terminal value constant growth							
FCFE	$0.61	$0.56	$1.88	$0.71	$3.73	$0.93	$0.98
Growth		*-9.2%*	*239.4%*	*-62.1%*	*423.1%*	*-75.0%*	*4.9%*
Long-term growth							5.0%
Cost of equity							10.0%
Cost of equity - growth rate							5.0%
Terminal value (FCFE (1+g) / (r-g))							$20.56
* Discount factor							0.51
Discounted terminal value							$10.55
Summary							
First stage	$1.01	Present value of first 2 year cash flow					
Second stage	$5.25	Present value of year 3-7 cash flow					
Third stage	$19.28	Present value of terminal value P/E					
Value (P/E)	**$25.54**	= value at beg of fiscal yr		2018			

Appendix 7: Scenario Analysis Assumptions

Revenue Growth

	2018	2019	2020	2021	2022	2023	2024
Strong Growth	11.7%	11.2%	11.0%	11.0%	11.0%	11.0%	11.0%
Moderate Growth	5.7%	5.8%	5.0%	5.0%	5.0%	5.0%	5.0%
Weak Growth	-2.0%	1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%

Revenue:

	2018	2019	2020	2021	2022	2023	2024
Strong Growth	699039	777331	862837	957749	1063102	1180043	1309848
Moderate Growth	661207	699296	734261	770974	809523	849999	892499
Weak Growth	613302	619435	613240	607108	601037	595026	589076

NOPAT/Sales:

	2018	2019	2020	2021	2022	2023	2024
Strong Growth	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Moderate Growth	7.2%	7.2%	7.1%	7.1%	7.1%	7.0%	7.0%
Weak Growth	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

Appendix 8: Porter's 5 Forces

Threat of New Entrants – Low

The hotel industry is characterized by high capital costs. The existing hotel chains have advantages over local companies because of brand image and customer loyalty. Hotels run on product differentiation. New entrants have to invest in the innovation of services to attract customers. The threat of new entrants for MCS theaters is low because it costs billions of dollars to open up one single location. There is variety of costs including, equipment, and projectors, operating expenses, Information Technology costs such as the information systems involved to keep the theater running day to day. It is costly to maintain the rights from the studios to play a film which involves a significant amount of starting capital to be able to enter the movie industry

Threat of Substitutes – Relatively High

The threat of substitutes in hotel industry is low. Companies like Airbnb that enable people to lease or rent lodgings may be a threat for hotels attracting individual travelers but not for business. However, since it is regulated now and the limitation of certain services. The threat is low. For movie theatres, the threat of substitutes for MCS theatres is high since people can watch movies over the internet. Netflix, Redbox and many online services that offer stay-home movie services are major threat. Further there are other forms of entertainment available such video games. As a result the overall threat is high.

Supplier Power – Moderate

There is low power from suppliers over hotel industry. The hotel industry is only subjected to power of the labor. For movie theatres, the power of suppliers is high because the studios hold the rights of films that are played as well as the details in the production of the movie. They have high power with making negotiations.

Buyer Power-High

For hotel industry, buyer power is high. Individuals have power to choose hotels, which hotels have almost no control. Certain group of buyers' power is high, like tour operators, domestic and international airlines and convention organizers and participants, who purchase hotel rooms in bulk. For movie theatre business, people can choose which theatres to go to depending on the budget available. Overall, buyer power for MCS is high.

Intensity of Competition- Very High

The rivalry in the hotel industry is intense because the cost of product differentiation and switching costs are low. Meanwhile, it is also high capital costs. Competitors in hotel industry are under pressure to cut prices in order to attract customers. For movie theatres, rivalry is due to the fact that all theaters receive the movie at the same time and cannot compete on speed, but instead have to focus on giving the customers the best movie experience by offering them the best deals and promotions and giving them incentives compared to the other competitors. MCS is working on improving movie experience now but so do its competitors.

Appendix 9: SWOT Analysis

Strengths	Weaknesses
Existing Geographical Distribution Membership	Future Probability Lack of Growth in Existing Theatres Relatively Small Business Nationwide
Opportunities	**Threats**
Cost Control New Acquisitions Impove High Margin Segments	Online Streaming Companies Increasing costs