PALI RESEARCH

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National CineMedia

Advertising That Avoids Disruption; Initiate with BUY & $31 Target

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Our NCMI IPO Preview on 2/6 highlighted a fair value of $27 compared to the initial IPO range of $18-$20. The IPO ended up pricing at $21; shares opened for trading at $25.50, and within seven trading days the shares closed at $27.00.

Why then initiate at a BUY rating and a substantially higher $31 price target (15% upside)?

- **Ability to Reach the Hard to Reach**. Advertisers are finding it increasing difficult to reach consumers, particularly younger consumers who are becoming the focal point of media (and device) convergence.
    - As teen media consumption continues to shift toward the Internet, mobile devices and video games with television advertising increasingly compromised by concurrent media exposure (doing two things at once), cinema advertising is a unique way to reach younger consumers at a time when you have their full attention.
- **Cinema advertising is largely unavoidable**, with few, if any distractions; particularly compared to other forms of advertising (on television, radio, Internet and/or mobile devices). We also believe that as digital cinema advertising becomes more widespread US consumers are increasingly accepting of it as a form of advertising (esp. the "advertainment" portions of the pre-show programming).
    - We see only two key forms of advertising that are hard to avoid with minimal disruptions, cinema and outdoor (billboards). However, only digital cinema advertising has the potential to establish an emotional connection with a viewer through a highly creative (sometimes original/exclusive) 30-60 second commercial (in HD quality).
- **Blue-Sky Opportunities**. Out-of-home digital video advertising and entertainment ("advertainment") is in its infancy with digital cinema advertising representing nearly half the $1.2 billion industry in 2006 (see Exhibit A).

NCMI: BUY
Price: $27.00
Target Price: $31.00

52 Week Range: NCMI	**$21.00 - $27.38**
Market Cap. (mm):	**$2,563**
Avg. Daily Volume (7 day):	**5,485**
4-Yr. Est. EBITDA CAGR:	**13.5%**
Dividend Yield:	**2.9%**

Fiscal Dec.	2006E	2007E	2008E
Q1	N/A	$0.14E	N/A
Q2	N/A	$0.20E	N/A
Q3	$0.15A	$0.19E	N/A
Q4	$0.18E	$0.21E	N/A
FY	$0.41E	$0.73E	$0.93E
P/E	65.5x	36.9X	28.9x
Revenues ($mm)	$271.1	$324.8	$367.2
Adj. EBITDA	$148.6	$183.9	$210.6
EV/EBITDA	22.2x	17.4x	15.3x
FCF ($mm)	NM	$28.3	$38.4
FCF/Share	NM	$0.67	$0.90

Adjusted EBITDA includes Lowes payment but excludes severance
FCF represents FCF at NCM Inc. level
Source: Pali Research Estimates and Company Documents

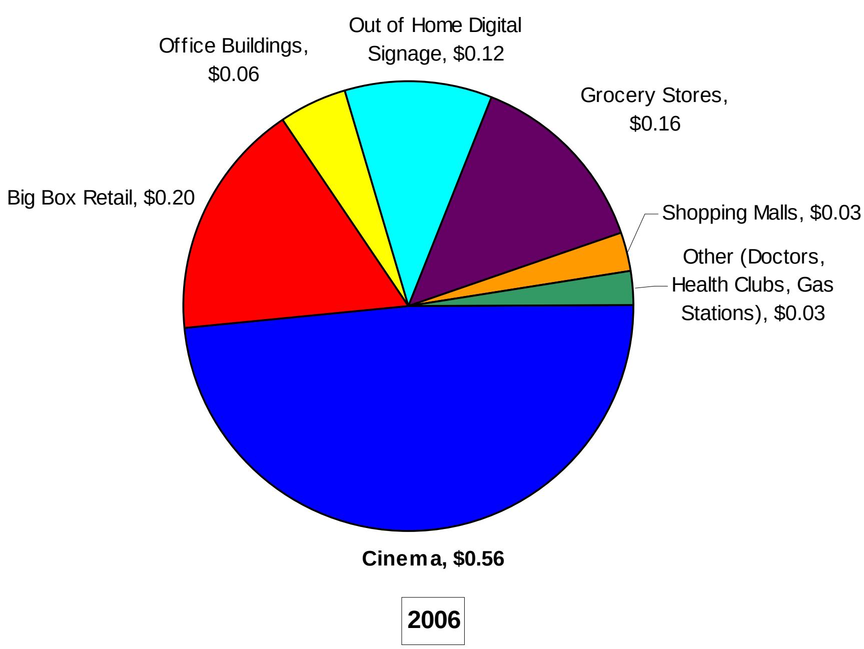
Please Read: Important disclosures and analyst's certification appear in Appendix

While we believe there is strong growth ahead for digital advertising on theater screens and in theater lobbies, we believe there is a meaningful opportunity for NCMI (and its chief competitor Screenvision), to leverage their infrastructure into non-theater-based venues such as: gas stations, health clubs, casual restaurants, retail locations, bowling alleys, etc…

- Video of a start-up company focused on digital advertising at gas stations: http://www.gasstationtv.com/video2.php?vid=1&fmt=wmv (Note: Screenvision has also begun a rollout of gas station LCD screens that show a four minute loop of advertising and entertainment in California).

- Out-of-Home Video Association formed on January 29, 2007 (http://www.ovab.org). Illustrating how new this form of advertising is, the industry has just created a trade association in the past several weeks. While digital cinema advertising is not currently part of the organization (they are part of the Cinema Advertising Council – http://www.cinemaadcouncil.org/), the trade group highlights the potential opportunities that NCMI has to leverage its infrastructure and digital advertising best practices.

Exhibit A: Digital Cinema Advertising is Half of the Out-of-Home Digital Advertising Industry **(in $bns)**



Source: Veronis Suhler Stevenson, TNS Media Intelligence Report, Universal McCann, Outdoor Advertising Association of America.

Primary Research Shows Highly Engaged Audience. Before initiating post-IPO, we went back to a Regal cinema (part of the NCMI digital ad network) to observe consumer behavior during the 20 minutes before showtime. Between 5-10 minutes prior to the previews starting (lights-down), the vast majority of the audience was in their seats (having finished bathroom trips, popcorn runs, etc…), and were intently watching the second half of NCMI's "First Look" (advertainment) programming. While some people were talking and a couple were on cellphones, over 75% of the theater attendees were watching the big screen in silence.

- **Unique, Unavoidable and Minimal-to-No Distractions = Great Advertising.**

- The more advertisers learn about digital cinema advertising, the more we believe they will shift dollars to it, as there is simply no other way to reach consumers (especially younger consumers) as well as thru digital cinema advertising.

$31 Price Target – Premium Valuation Warranted

Cinema advertising is a truly unique form of advertising and NCMI offers investors the only way to participate in this industry's growth. While the outdoor advertising industry public equities (Lamar Advertising and Clear Channel Outdoor) offer some similarities to NCMI, consider the following differences:

- The outdoor companies are enduring significant capital expenditures to upgrade to digital, while NCMI's founders have paid for the cost of upgrading their advertising systems to digital.

- Outdoor companies do not pay dividends, while the strong growth of NCMI and lack of meaningful capital expenditures should enable significant dividend payouts (2.9% 2007 dividend yield at current levels) at NCMI.

    - We also believe NCMI has the ability to pay incremental special dividends to increase leverage to appropriate levels (NCMI management stated target leverage is 3x-5x during their roadshow presentations), above and beyond its annual dividend payouts.

- Outdoor digital billboards' ability to make an emotional connection with a viewer who is driving by a billboard at a good distance from the screen is far more limited than a highly creative 30-60 second digital advertisement that appears on a large screen just feet from a movie attendee.

Since our pre-IPO report, we have made modest adjustments to our NCMI model, principally in the outer–years, where we are assuming modestly faster revenue growth and slightly higher margin leverage (based on our increased comfort with the industry's growth potential).

Given the growth prospects within NCMI's current businesses and the potential to expand into new forms of out-of-home digital video advertainment, **we believe shares could reach $31 in twelve months based on a 35x '08E FCF multiple, 33x '08E EPS multiple and a 17x '08E EBITDA multiple.** In addition, our DCF value equates to nearly $31, based on a 9% WACC, 3.5% perpetual growth rate and an 18x terminal multiple.

- The $4.00 increase between our pre-IPO report fair value and today's initiation target price is the result of modestly higher estimates combined with a view that NCMI should command a premium free cash flow multiple to the outdoor industry (albeit the EPS multiple would still be at a discount to outdoor). Exhibit B illustrates our valuation at $27 (both the current price and our IPO fair value) and our new target price of $31 compared to LAMR and CCO. We believe this is warranted given the growth trajectory of the digital cinema advertising industry, modest capital expenditure requirements, as well as digital advertising opportunities outside cinema-based screens.

Exhibit B: National CineMedia Valuation Comp. Sheet (in $mm, expect per share data)

Pali Research		Out-of-Home Advertising Stocks			
		NCMI	NCMI	CCO	LAMR
	Rating	NR	NR	NR	NR
		Current	Target		
Price as of	2/19/2007	$27.00	$31.00	$28.07	$65.72
Current Market Cap		$2,563	$2,942	$9,973	$6,763
Upside to Target			15%		
2007 VALUATION ESTIMATES					
Diluted Shares Out		95	95	355	103
EBITDA Multiple		17.4x	19.5x	13.2x	15.6x
FCF Multiple		40.4x	46.4x	26.8x	39.5x
EPS Multiple		65.5x	42.3x	53.0x	101.1x
Dividend Yield		2.9%	2.5%	0.0%	0.0%
Capex as a % of Revenues		2.5%	2.5%	8.2%	19.9%
Valuation Metrics					
Valuation EBITDA		$184	$184	$925	$546
Val. EBITDA/Share		$1.94	$1.94	$2.60	$5.31
Valuation Net Debt		($644)	($644)	($2,239)	($1,772)
Net Debt/Share		($6.78)	($6.78)	($6.30)	($17.22)
Leverage		3.5x	3.5x	2.4x	3.2x
Valuation Non-EBITDA		$0	$0	$0	$0
Non-EBITDA/share		$0.00	$0.00	$0.00	$0.00
Free Cash Flow		$28	$28	$373	$171
FCF Share Count		42	42	355	103
FCF/Share		$0.67	$0.67	$1.05	$1.66
FCF Yield		2.5%	2.2%	3.7%	2.5%
EPS		$0.41	$0.73	$0.53	$0.65
Dividend		$73.4	$73.4	$0.0	$0.0
Dividend/Share		$0.77	$0.77	$0.00	$0.00
Fiscal Estimates					
Revenue		$325	$325	$3,044	$1,209
Growth		19.8%	19.8%	6.3%	8.1%
Reported EBITDA		$174	$174	$925	$546
Growth		30%	30%	12%	11%
Reported EPS		$0.41	$0.73	$0.53	$0.65
Capex		$8.0	$8.0	$250.0	$241.0
2008 VALUATION ESTIMATES					
Diluted Shares Out		96	96	357	103
EBITDA Multiple		15.3x	17.1x	11.5x	13.9x
FCF Multiple		30.1x	34.6x	22.9x	32.5x
EPS Multiple		28.9x	33.2x	39.5x	61.4x
Dividend Yield		3.7%	3.2%	0.0%	0.0%
Capex as a % of Revenues		1.7%	1.7%	8.1%	18.9%
Valuation Metrics					
Valuation EBITDA		$211	$211	$1,038	$609
Val. EBITDA/Share		$2.20	$2.20	$2.91	$5.92
Valuation Net Debt		($639)	($639)	($1,903)	($1,679)
Net Debt/Share		($6.66)	($6.66)	($5.33)	($16.32)
Leverage		3.0x	3.0x	1.8x	2.8x
Valuation Non-EBITDA		$0	$0	$0	$0
Non-EBITDA/share		$0.00	$0.00	$0.00	$0.00
Free Cash Flow		$38.4	$38	$437	$208
FCF Share Count		43	43	357	103
FCF/Share		$0.90	$0.90	$1.22	$2.02
FCF Yield		3.3%	2.9%	4.4%	3.1%
EPS		$0.93	$0.93	$0.71	$1.07
Dividend		$94.8	$94.8	$0.0	$0.0
Dividend/Share		$0.99	$0.99	$0.00	$0.00
Fiscal Estimates					
Revenue		$367	$367	$3,273	$1,302
Growth		13.0%	13.0%	7.5%	7.7%
Reported EBITDA		$205	$205	$1,038	$609
Growth		18%	18%	12%	12%
Reported EPS		$0.93	$0.93	$0.71	$1.07
Capex		$6.2	$6.2	$265.0	$246.0

Source: Company reports, Thomson and Pali Research.

Strong Growth: Double-Digit Revenue, EBITDA and FCF Growth 2007E-2011E CAGR

- We believe NCMI can grow revenues at an estimated 11% CAGR between 2007-2011, driven by moderate growth in CPMs, inventory sold and digital screen growth.

- Adjusted EBITDA at an estimated 13.5% CAGR between 2007-2011 (adjusted EBITDA used to smooth the impact of Loews in 2008), with adjusted EBITDA margins expanding from 56.6% in 2007E to 62.1% in 2011E.

- FCF at an estimated 22.3% CAGR between 2007-2011 (with free cash flow growth taking into account a 95% dividend payout ratio beginning in 2007, meaning our 22.3% does not benefit meaningfully from reduced net debt levels).

    - *Our detailed models (Exhibits C – I) are shown at the back of this report beginning on page 10.*

The concept and key drivers of our earnings model are as follows:

- Theaters by movie exhibitor chain times average screens per theater, adjusted for when screens were created/closed during a given time period.

- Attendance per screen by movie exhibitor chain, which allows us to calculate total NCMI attendance.

- Percentage of screens by movie exhibitor chain enabled for (pre-show) digital advertising, which allows us to calculate digital screen attendance.

- Assumed 70% of advertising inventory is being sold in 2007, with a CPM of over $29, with 44 spots available in each pre-show segment (22 minutes with :30 second spots), multiplied by 70% to account for how far an advertisement runs before the movie starts (essentially reducing the attendance at the time that ad is run), with an average commission of 22% (to account for national ad personnel on salaries and local/regional ad sales personnel on commission).

- Theater Access fees based on a fixed payments per total attendee ($0.07 in 2007) and fixed payments per digital screen ($800 in 2007).

Cinema Advertising Growth Should Significantly Outpace Overall Ad Industry Growth

While cinema advertising has been around a long time (think of those “boring” slideshows you have seen for years before a movie starts), digital advertising is relatively new, particularly on a nationwide basis. In fact, of the 38,000-plus theater screens in the US today, only 38% can show digital pre-show ads with 80% of those screens utilizing NCMI (even with Screenvision’s digital push in 2007, NCMI should continue to control more than 60% of the industry screens capable of digital advertising).

The relatively early stage of development of digital cinema pre-show advertising with national scale combined with the relatively poor quality and limited reach of the legacy non-digital cinema advertising business has resulted in cinema advertising representing a tiny portion of advertising expenditures in the US (less than 0.3% of total US advertising spending and 1% of television advertising spending)

With two companies (National Cinemedia and Screenvision) firmly in control of the cinema advertising industry and both operators focused on rapidly increasing digital screens as a percentage of total screens, we believe cinema advertising growth should remain strong for many years to come.

- We see no reason why the domestic cinema advertising industry cannot grow at healthy double digit rates over the next several years, compared to overall advertising industry growth of low-mid single digits.

- While the rapid increase in digital screen advertising availability may limit CPM growth (advertising cost per thousand eyeballs) in the next couple of years, growth will come from increased digital screen counts and increased utilization (sell-out of inventory available). In time, as the industry digests the new digital screen inventory, we believe there is substantial upside to CPMs given the inability to skip advertisements, as well as the lack of concurrent media exposure offered by cinema advertising.

- Skeptics may question the growth prospects of cinema advertising due to the recent declines in exhibition industry admissions (lower admissions mean fewer eyeballs to sell ads against), with three of the last four years experiencing year-over-year admissions' declines. However, over the past 12 years, the US exhibition industry has seen attendance increase in half the years and decrease in the other half, with admissions essentially flat between 1997 and 2006.

    - We believe the studios have a vested interest in maintaining the sequential release pattern that puts several months between a movie's theatrical release and its home video (DVD) release. While media industry fragmentation may continue to pressure admissions, as long as a substantial theatrical window persists, admissions should be more than sufficient to fuel cinema advertising industry growth (as the industry is still converting screens to digital, improving digital screen utilization and attaining proper CPMs for the quality and number of eyeballs delivered).

    - We believe 2007 is likely to be the second straight year of admissions increases across the exhibition industry, fueled by a strong summer releases slate (franchise sequel after franchise sequel from May-July 2007) Interestingly, the slate is packed so heavily with major releases, movie exhibitors may not capture the full-benefit of the attendance increases as they will suffer lower film splits with studios (exhibitors want movies to have "legs" and play for several weeks), while cinema advertising will capture the full benefit as they simply want higher attendance levels (more eyeballs).

NCMI's Complex Corporate Structure – Sounds More Complicated than it Really Is

NCM Inc. is the actual entity that public shareholders are buying shares in; however, the actual entity operating the digital cinema advertising business is NCM LLC. NCM Inc. will own nearly 44.7% of NCM LLC (assuming the green shoe was exercised) and the founding theater chains will own the remaining 55.3% (Regal 22.6%, AMC 18.6% and Cinemark 14%).

Due to accounting rules the financial statements of NCM Inc. and NCM LLC will be consolidated. The only major adjustments that need to be made to account for this complex corporate structure are the following:

- Diluted EPS: add back minority interest expense (related to the founders' share), if the diluted share count is used, which converts the founders' LLC shares into public company shares (at a 1:1 ratio).

- Free Cash Flow: the payments made by NCM LLC at the time of the IPO to the founders (for adjusting their share of cinema advertising revenues as well as redeeming their preferred interest in NCM LLC) created a $1.4 bn tax shield (with the preferred interest of $699 million amortized over 15 years and the adjustment to circuit share agreement of $686 million amortized over 30 years). The annual cash tax benefit from this tax shield is about $28 million (reduces cash taxable income by about $69 million per year), however, public shareholders are only able to retain 10% of their share of this annual tax benefit, with the rest remitted to the founding shareholders. While it might seem unfair to pay the tax benefit to founding shareholders, if the tax shield had not been created by the founding shareholders, public NCMI shareholders would simply be paying the same amount to the IRS (at least this way, public shareholders retain 10% of the benefit, thereby reducing their effective cash tax rate).

    - To calculate free cash flow, FCF must be looked at prior to the founding member tax benefit payment (about $10 million annually paid by NCM Inc.), with public shareholders then "taxed" for 100% of this payment to the founders (vs. their 44.7% ownership of NCM LLC, with the green shoe).

Note: *Historical financials are also not particularly meaningful* as the corporate structure discussed above did not exist until the IPO of National Cinemedia occurs. The only fully-pro forma quarter available is Q3 '06, in turn our quarterly model for 2007 does not have year-over-year comps for Q1 and Q2 2006.

<u>Key Questions for NCMI Management (We Hope to Learn More After the IPO Quiet Period)?</u>

- Why is NCMI public? With growth prospects as strong as NCMI's appear, we wonder why the entity is going public in the first place? Which factors influenced the decision:

    - Highlight the undervaluation of the founding members (to benefit Regal's public market valuation and to assist in the valuation of AMC and Cinemark, which have both recently filed for IPOs) and to harvest cash from the NCM joint venture immediately.

  - Tax-benefits for the founding members related to the tax-shield created at the time of the IPO that directly benefits the founding members (does not hurt public shareholders, but is clearly a benefit to Regal, AMC and Cinemark).

  - Create a currency to buy/merge with Screenvision (National CineMedia's chief competitor). Given how insignificant cinema advertising is within the context of the overall advertising industry, we find it hard to believe that anti-trust authorities would prevent a merger of the two entities (in the UK, a subsidiary of Carlton controls over 70% of the cinema advertising industry).

- Why does NCMI utilize the most valuable 90 seconds of advertising time (just before the trailers start) for their beverage concessionaires? Screenvision puts advertisements related to long-term beverage concession agreements 4-5 minutes prior to the start of trailers.

  - While NCMI has locked in a substantial portion of advertising through these beverage deals, it has also somewhat limited its CPM upside within its most valuable ad inventory.

- Impact of a stronger competitor? While Screenvision failed to reach its digital screen goals for in 2006, Screenvision is rapidly deploying digital technology now and expects to have 7,000 digital screens by summer 2007. We presume a stronger competitor will only help the cinema advertising industry capture advertising industry market share, but we would be curious to hear how NCMI reacts to the question.

- Ability to capture more network affiliates? Will the strengthening of NCMI through AMC's purchase of Loews (increasing its power in the top 10 DMAs beginning in mid-2008), enable NCMI to win over current Screenvision affiliates such as National Amusements or Carmike Cinemas?

  - With the loss of Loews in 2008, Screenvision will have a more suburban/rural focus than NCMI. Will that enable Screenvision to capture a disproportionate share of the smaller chains and "mom and pop" movie theaters that are not currently owned by the large exhibitors?

- Is there any way to truly understand how the current theater access fee was determined by an independent auditor to reflect the shift from circuit share fees (% of advertising revenues) to theater access fees (per attendee and per digital screen fees that increase over time). While the net theater access fees decrease over time as a percentage of advertising revenues, understanding the underlying assumptions, which will also result in $686 mm of fees being paid to the founders at the time of the IPO, would be useful.

- How much time and resources are being spent on exploiting non-cinema based advertising opportunities? While outdoor billboard companies are primarily focused on display advertising, cinema advertising companies have the ability to exploit their experience in selling true :30 second commercial advertising spots interspersed with HD-quality entertainment segments. We believe creating additional out-of-home networks for digital advertising is an exciting growth opportunity for NCMI that is not reflected in our model or valuation.

National CineMedia's Management Team

Kurt C. Hall was appointed President, Chief Executive Officer and Chairman of NCM LLC in March. Prior to his current position, he served as Co-Chairman and Co-Chief Executive Officer of Regal Entertainment Group and President and Chief Executive Officer of its media subsidiary Regal CineMedia Corporation from May 2002 to May 2005. Prior to that, Mr. Hall served as President and Chief Executive Officer of United Artists Theatre Company from March 1998 to August 2002.

Gary Ferrera joined NCM LLC in May 2006 as Executive Vice President and Chief Financial. He served as the interim Chief Financial Officer of the German cable company iesy Hessen, GmbH (now known as Unity Media) from March to October 2005. From February 2000 to February 2005, Mr. Ferrera held positions in both the United States and Europe with Citigroup's Global Corporate and Investment Bank where he spent the majority of that time advising and financing European media companies.

Clifford Marks was appointed NCM LLC's President of Sales and Chief Marketing Officer in March. He has been an advertising, marketing and sales professional for 23 years. Prior to his current position, Mr.Marks served as president of sales and marketing with Regal Entertainment Group's media subsidiary, Regal CineMedia Corporation from May 2002 to May 2005. Before joining Regal CineMedia, he was a senior vice president at ESPN/ABC Sports where he oversaw its advertising sales organization from 1998 to May 2002.

Thomas Galley joined NCM LLC in March 2005 as Executive Vice President and Chief Technology and Operations Officer. He led the original development of National CineMedia's Digital Content Network, a high definition digital and satellite distribution system linking AMC, Cinemark and Regal theatres nationwide. Prior to his current position, he served as Chief Technology Officer with Regal Entertainment Group's media subsidiary, Regal CineMedia Corporation, from January 2002 to May 2005.

Ralph Hardy joined NCM LLC in March 2005 as Executive Vice President and General Counsel. Prior to his current position, from May 2002 to May 2005, he served as Executive Vice President and General Counsel for Regal CineMedia Corporation. Previously, from September 1994 to May 2002, Mr. Hardy was Executive Vice President, General Counsel and Secretary of United Artists Theatre Circuit, Inc., and was Senior Vice President, General Counsel and Secretary of United Artists Theatre Circuit, Inc. from May 1992 to September 1994.

Exhibit C: National CineMedia Annual Screen/Attendance Model

	2006E	2007E	2008E	2009E	2010E	2011E	CAGR 07-'10E	CAGR 07-'11E
Operating Data								
Founding Member Theaters								
Regal	539	539	539	539	539	539	0.0%	0.0%
Net Change	-16	0	0	0	0	0		
% Change	-2.9%	0.0%	0.0%	0.0%	0.0%	0.0%		
AMC (ex-LCP until 2008)	230	230	337	337	337	337	13.6%	10.0%
Net Change	16	0	107	0	0	0		
% Change	7.5%	0.0%	46.5%	0.0%	0.0%	0.0%		
Cinemark	304	304	304	304	304	304	0.0%	0.0%
Net Change	82	0	0	0	0	0		
% Change	36.7%	0.0%	0.0%	0.0%	0.0%	0.0%		
Total Founding Member Theaters	**1,073**	**1,073**	**1,180**	**1,180**	**1,180**	**1,180**	3.2%	2.4%
Net Change	**82**	**0**	**107**	**0**	**0**	**0**		
% Change	**8.2%**	**0.0%**	**10.0%**	**0.0%**	**0.0%**	**0.0%**		
Loews (Will Go Into AMC)	107	107						
Net Change								
% Change								
Founding Ex-LCP and Century	996							
Network Affiliate Theaters	**87**	**87**	**87**	**87**	**87**	**87**	0.0%	0.0%
Net Change	**87**	**0**	**0**	**0**	**0**	**0**		
% Change		**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**		
TOTAL THEATERS	**1,160**	**1,160**	**1,267**	**1,267**	**1,267**	**1,267**	3.0%	2.2%
Net Change		**0**	**107**	**0**	**0**	**0**		
% Change		**0.0%**	**9.2%**	**0.0%**	**0.0%**	**0.0%**		
Founding Member Screens								
Regal	6,403	6,403	6,403	6,403	6,403	6,403	0.0%	0.0%
Net Change	-60	0	0	0	0	0		
% Change	-0.9%	0.0%	0.0%	0.0%	0.0%	0.0%		
Weighted Avg. Screens	6,452	6,403	6,403	6,403	6,403	6,403	0.0%	0.0%
AMC (ex-LCP until 2008)	3,197	3,197	4,505	4,505	4,505	4,505	12.1%	9.0%
Net Change	-36	0	1,308	0	0	0		
% Change	-1.1%	0.0%	40.9%	0.0%	0.0%	0.0%		
Weighted Avg. Screens	3,215	3,197	3,960	4,505	4,505	4,505	12.1%	9.0%
Cinemark	3,473	3,473	3,473	3,473	3,473	3,473	0.0%	0.0%
Net Change		0	0	0	0	0		
% Change		0.0%	0.0%	0.0%	0.0%	0.0%		
Weighted Avg. Screens	2,687	3,473	3,473	3,473	3,473	3,473	0.0%	0.0%
Total Founding Member Screens	**13,073**	**13,073**	**14,381**	**14,381**	**14,381**	**14,381**	3.2%	2.4%
Net Change	**972**	**0**	**1,308**	**0**	**0**	**0**		
% Change	**8.0%**	**0.0%**	**10.0%**	**0.0%**	**0.0%**	**0.0%**		
Weighted Avg. Screens	**12,587**	**13,073**	**13,727**	**14,381**	**14,381**	**14,381**	3.2%	2.4%
Loews (Will Go Into AMC)	1,275	1,308						
Net Change	-33	33						
% Change	-2.5%	2.6%						
Weighted Avg. Screens	1,292	1,292						
Founding Ex-LCP and Century	12,056 ^	12,056						
Network Affiliate Screens	**934**	**934**	**934**	**934**	**934**	**934**	0.0%	0.0%
Net Change	**0**	**0**	**0**	**0**	**0**	**0**		
% Change		**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**		
Weighted Avg. Screens	**934**	**934**	**934**	**934**	**934**	**934**	0.0%	0.0%
TOTAL SCREENS	**14,007**	**14,007**	**15,315**	**15,315**	**15,315**	**15,315**	3.0%	2.3%
Net Change		**0**	**1308**	**0**	**0**	**0**		
% Change		**0.0%**	**9.3%**	**0.0%**	**0.0%**	**0.0%**		
Weighted Avg. Screens	**13,521**	**14,007**	**14,661**	**15,315**	**15,315**	**15,315**	3.0%	2.3%

Source: Pali Research and Company data.

Exhibit C cont'd: National CineMedia Annual Screen/Attendance Model

	2006E	2007E	2008E	2009E	2010E	2011E	CAGR 07-'10E	CAGR 07-'11E
Screens per Theater								
- Regal	11.9x	11.9x	11.9x	11.9x	11.9x	11.9x	0.0%	0.0%
- AMC	13.9x	13.9x	13.4x	13.4x	13.4x	13.4x	-1.3%	-1.0%
- Cinemark	11.4x	11.4x	11.4x	11.4x	11.4x	11.4x	0.0%	0.0%
Founding Members	12.2x	12.2x	12.2x	12.2x	12.2x	12.2x	0.0%	0.0%
- Loews	11.9x	12.2x						
Network Affiliates	10.7x	10.7x	10.7x	10.7x	10.7x	10.7x	0.0%	0.0%
% Digitally Enabled								
Regal	90%	92%	94%	95%	96%	96%	1.3%	1.1%
AMC	90%	92%	94%	95%	96%	96%	1.3%	1.1%
Cinemark	70%	90%	92%	93%	94%	94%	1.3%	1.1%
Founding Members	**85%**	**91%**	**94%**	**95%**	**95%**	**96%**	1.3%	1.1%
Loews	??							
Network Affiliates	75%	77%	79%	80%	81%	82%	1.7%	1.6%
Period End Digital Screens								
- Regal	5,763	5,891	6,019	6,083	6,115	6,147	1.3%	1.1%
- AMC	2,877	2,941	4,234	4,279	4,302	4,325	13.5%	10.1%
- Cinemark	2,431	3,126	3,195	3,230	3,247	3,265	1.3%	1.1%
Founding Members	**11,071**	**11,957**	**13,448**	**13,592**	**13,664**	**13,736**	4.5%	3.5%
- Loews	??							
Founding Ex-LCP and Century	10,867							
Network Affiliates	701	719	738	747	757	766	1.7%	1.6%
TOTAL DIGITAL SCREENS	**11,771**	**12,677**	**14,186**	**14,339**	**14,421**	**14,502**	4.4%	3.4%
Weighted Avg. Digital Screen								
- Regal	5,628	5,827	5,955	6,051	6,099	6,131	1.5%	1.3%
- AMC	2,813	2,919	3,588	4,257	4,291	4,313	13.7%	10.3%
- Cinemark	2,298	2,994	3,160	3,213	3,239	3,256	2.7%	2.1%
Founding Members	**10,738**	**11,739**	**12,703**	**13,520**	**13,628**	**13,700**	5.1%	3.9%
- Loews	??	??				??		
Founding Ex-LCP and Century	10,535	10,867						
Network Affiliates	701	713	729	743	752	761	1.8%	1.7%
TOTAL DIGITAL SCREENS	**11,439**	**12,452**	**13,431**	**14,263**	**14,380**	**14,461**	4.9%	3.8%
Attendence (in mm)								
- Regal	247.4	254.8	249.7	244.7	239.8	235.0	-2.0%	-2.0%
- AMC	154.2	157.9	191.7	213.7	209.5	205.3	9.9%	6.8%
- Cinemark	122.5	163.0	159.8	156.6	153.5	150.4	-2.0%	-2.0%
Founding Members	**524.1**	**575.8**	**601.2**	**615.0**	**602.7**	**590.7**	1.5%	0.6%
- Loews	68.3	70.3	0.0	0.0	0.0	0.0		
Network Affiliates	33.9	34.9	34.2	33.5	32.8	32.2	-2.0%	-2.0%
Attendence Per Weight Avg. Screen (mm)								
- Regal	0.039	0.040	0.039	0.038	0.037	0.037	-2.0%	-2.0%
- AMC	0.048	0.049	0.048	0.047	0.046	0.046	-2.0%	-2.0%
- Cinemark	0.046	0.047	0.046	0.045	0.044	0.043	-2.0%	-2.0%
Founding Members	0.042	0.044	0.043	0.042	0.041	0.040	-2.0%	-2.0%
- Loews	0.053	0.054	0.053	0.052	0.051	0.050	-2.0%	-2.0%
Network Affiliates	0.036	0.037	0.037	0.036	0.035	0.034	-2.0%	-2.0%
Digital Screen Attendence (Using Circuit Avg in mm)								
- Regal	222.7	232.5	234.7	232.5	229.0	225.6	-0.5%	-0.7%
- AMC	138.8	144.7	180.2	203.0	200.0	197.1	11.4%	8.0%
- Cinemark	85.7	144.7	147.0	145.6	143.5	141.4	-0.3%	-0.6%
Founding Members Digital Attendees	**443.8**	**521.9**	**562.0**	**581.2**	**572.6**	**564.1**	3.1%	2.0%
- Loews	??							
Network Affiliates	25.4	26.7	27.0	26.8	26.6	26.4	-0.2%	-0.3%

Source: Pali Research and Company data.

Exhibit D: National CineMedia Annual Advertising Model (revenue figures in $mms)

	2006E	2007E	2008E	2009E	2010E	2011E	CAGR 07-'10E	CAGR 07-'11E
Digital Screen Attendence (mm)								
- Founding Members Digital Attendees	443.8	521.9	562.0	581.2	572.6	564.1	3.1%	2.0%
- Network Affiliates	25.4	26.7	27.0	26.8	26.6	26.4	-0.2%	-0.3%
Non-Digital Screen Attendence (mm)								
- Founding Members Attendees	80.3	53.9	39.3	33.9	30.2	26.6	-17.5%	-16.1%
- Network Affiliates	8.5	8.2	7.2	6.7	6.2	5.8	-8.5%	-8.2%
Digital Revenues								
Inventory Sold	68.0%	70.0%	72.0%	74.5%	77.0%	79.5%	3.2%	3.2%
CPM	$28.50	$29.36	$30.53	$32.51	$34.95	$37.75	6.0%	6.5%
% Change		3.0%	4.0%	6.5%	7.5%	8.0%		
Ad Spots Available (First Look) (22 mins, 0:30 per spot)	44	44	44	44	44	44	0.0%	0.0%
CPM adjustment for time before show starts	70%	70%	70%	70%	70%	70%	0.0%	0.0%
Ad Sale Commission	22%	22%	22%	22%	22%	22%	0.0%	0.0%
Digital Screen Revenues								
Founding Member Revs	$206.6	$257.7	$296.8	$338.2	$370.2	$406.7	12.8%	12.1%
% Change		25%	15%	14%	9%	10%		
Network Affiliate Revs	11.8	13.2	14.3	15.6	17.2	19.0	9.2%	9.6%
% Change		-94%	8%	9%	10%	11%		
Digital Screen Revenues	**$218.5**	**$270.8**	**$311.0**	**$353.8**	**$387.4**	**$425.7**	12.7%	12.0%
% Change		**24%**	**15%**	**14%**	**9%**	**10%**		
Non-Digital Screen Revenue								
Founding Member Revs	$11.6	$7.8	$5.7	$4.9	$4.4	$3.8	-17.5%	-16.1%
% Change		-33%	-27%	-14%	-11%	-12%		
Network Affiliate Revs	1.2	1.2	1.0	1.0	0.9	0.8	-8.5%	-8.2%
% Change		-90%	-12%	-7%	-7%	-7%		
Non-Digital Screen Revenues	**$12.8**	**$8.9**	**$6.7**	**$5.8**	**$5.3**	**$4.7**	-16.3%	-15.0%
% Change		**-30%**	**-25%**	**-13%**	**-10%**	**-11%**		
Total Screen Ad Revenues	**$231.2**	**$279.8**	**$317.7**	**$359.6**	**$392.6**	**$430.3**	12.0%	11.4%
% Change		**21.0%**	**13.6%**	**13.2%**	**9.2%**	**9.6%**		
Lobby Network & Fathom (Events)								
Total Theaters Founding/Affiliates	1,160	1,160	1,267	1,267	1,267	1,267	3.0%	2.2%
% of Theaters with Lobby Network	57.8%	59.8%	57.5%	57.0%	57.5%	58.0%	-1.3%	-0.7%
Theaters with Lobby Networks	670	693	729	722	729	735	1.7%	1.5%
Net Change		23	35	-6	6	6		
% Change		3.5%	5.1%	-0.9%	0.9%	0.9%		
Lobby Screens per Theater	2.6	2.6	2.6	2.6	2.7	2.7	1.0%	1.0%
Lobby Screens	1,722	1,799	1,910	1,912	1,948	1,985	2.7%	2.5%
Net Change		77	111	2	36	37		
% Change		4.5%	6.1%	0.1%	1.9%	1.9%		
Annual Lobby Screen Revs Per Screen (000's)	$4.007	$4.207	$4.502	$4.862	$5.202	$5.514	7.3%	7.0%
% Change		5.0%	7.0%	8.0%	7.0%	6.0%		
Lobby Screen Revenues (mm)	**$6.9**	**$7.6**	**$8.6**	**$9.3**	**$10.1**	**$10.9**	10.2%	9.7%
% Change		**9.7%**	**13.6%**	**8.1%**	**9.0%**	**8.0%**		
Total Theaters (Founders/Affiliates)	1160	1267	1267	1267	1267	1267	0.0%	0.0%
% Change		9.2%	0.0%	0.0%	0.0%	0.0%		
Annual Lobby Promotion Revs Per Theater (0C	$11.638	$11.871	$12.286	$12.655	$13.034	$13.425	3.2%	3.1%
% Change		2.0%	3.5%	3.0%	3.0%	3.0%		
Lobby Promotion Revenues (mm)	**$13.5**	**$15.0**	**$15.6**	**$16.0**	**$16.5**	**$17.0**	3.2%	3.1%
% Change		**11.4%**	**3.5%**	**3.0%**	**3.0%**	**3.0%**		
Ad Revenue Breakdown								
- Theater Screen Advertising	92%	93%	93%	93%	94%	94%		
- Lobby Screen Advertising	3%	3%	3%	2%	2%	2%		
- Lobby Promotion Advertising	5%	5%	5%	4%	4%	4%		
Total Advertising Revenues	**$251.6**	**$302.4**	**$341.9**	**$385.0**	**$419.3**	**$458.3**	11.5%	11.0%
% Change		**20.2%**	**13.1%**	**12.6%**	**8.9%**	**9.3%**		
Ad Revs/Founding Member Attendee	$0.50	$0.58	$0.59	$0.64	$0.68	$0.76		
% Change		14.4%	2.9%	7.8%	6.5%	11.5%		

Source: Pali Research and Company data.

Exhibit E: National CineMedia Annual Theater Access Fee Model

	2006E	2007E	2008E	2009E	2010E	2011E	CAGR 07-'10E	CAGR 07-'11E
Total Attendence								
- Founding Members Attendees	524.1	575.8	601.2	615.0	602.7	590.7	1.5%	0.6%
- Network Affiliates	33.9	34.9	34.2	33.5	32.8	32.2	-2.0%	-2.0%
Digital Screens								
- Founding Members	10,738.5	11,739.0	12,702.9	13,520.3	13,628.2	13,700.1	5.1%	3.9%
- Network Affiliates	700.5	712.6	728.5	742.5	751.9	761.2	1.8%	1.7%
Circuit Fee (Theater Access)								
Fee Per Attendee	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	0.0%	0.0%
% Increase		0.0%	0.0%	0.0%	0.0%	0.0%		
Fees Based on Attendence Levels (mm)	$36.7	$40.3	$42.1	$43.1	$42.2	$41.3	1.5%	0.6%
% Change		9.9%	4.4%	2.3%	-2.0%	-2.0%		
Fee Per Digtial Screen	$800.0	$800.0	$840.0	$882.0	$926.1	$972.4	5.0%	5.0%
% Increase		0.0%	5.0%	5.0%	5.0%	5.0%		
Fees Based on Digital Screens (mm)	$8.6	$9.4	$10.7	$11.9	$12.6	$13.3	10.4%	9.1%
% Change		9.3%	13.6%	11.8%	5.8%	5.6%		
Total Circuit Fees	**$45.3**	**$49.7**	**$52.8**	**$55.0**	**$54.8**	**$55.0**	3.3%	2.6%
% Change		**9.8%**	**6.2%**	**4.2%**	**-0.3%**	**0.3%**		
% of Advertising Revenues	**18.0%**	**16.4%**	**15.4%**	**14.3%**	**13.1%**	**12.0%**		

Source: Pali Research and Company data.

Exhibit F: National CineMedia Annual Earnings Model (in $mm, except per share data)

	2006PF/E	2007E	2008E	2009E	2010E	2011E	CAGR 07-'10E	CAGR 07-'11E
INCOME STATEMENT								
Advertising	251.6	302.4	341.9	385.0	419.3	458.3	11.5%	11.0%
% Change	21%	20%	13%	13%	9%	9%		
% of Total Revenues	93%	93%	93%	93%	93%	93%		
Cinemeetings	15.5	17.0	18.5	20.0	21.4	22.7	8.0%	7.5%
% Change	12%	10%	9%	8%	7%	6%		
% of Total Revenues	6%	5%	5%	5%	5%	5%		
Fathom (Live Events)	4.0	5.4	6.8	8.1	9.3	10.4	19.9%	17.9%
% Change	900%	35%	25%	20%	15%	12%		
% of Total Revenues	1%	2%	2%	2%	2%	2%		
TOTAL REVENUES	**271.1**	**324.8**	**367.2**	**413.1**	**450.0**	**491.4**	11.5%	10.9%
% Change	**22%**	**20%**	**13%**	**13%**	**9%**	**9%**		
Revenue Per Founding Attendee	**0.517**	**0.564**	**0.611**	**0.672**	**0.747**	**0.832**	9.8%	10.2%
% Change	**-8.2%**	**9.0%**	**8.3%**	**10.0%**	**11.2%**	**11.4%**		
Founding Member Attendees	524.1	575.8	601.2	615.0	602.7	590.7	1.5%	0.6%
% Change	33%	10%	4%	2%	-2%	-2%		
Expenses								
Theatre Access Fee	45.3	49.7	52.8	55.0	54.8	55.0	3.3%	2.6%
% of Advertising Revenue	17.99%	16.43%	15.43%	14.28%	13.07%	12.00%		
Cost per Founding Attendee	0.086	0.086	0.088	0.089	0.091	0.093	1.8%	1.9%
% Change	24.0%	9.8%	6.2%	4.2%	-0.3%	0.3%		
Operating Costs								
Advertising Costs	9.2	10.4	11.3	12.0	12.2	12.4	5.6%	4.4%
% of Advertising Revenue	3.65%	3.44%	3.32%	3.12%	2.92%	2.70%		
Cost per Founding Attendee	0.018	0.018	0.019	0.020	0.020	0.021	4.0%	3.7%
% Change	-12.5%	13.2%	9.1%	5.9%	1.9%	0.9%		
Meetings/Events Costs	7.2	8.0	8.6	9.1	9.5	9.9	6.2%	5.7%
% of Cinemeeting/Fathom Revenues	37.0%	35.5%	34.0%	32.5%	31.0%	30.0%		
Cost per Founding Attendee	0.014	0.014	0.014	0.015	0.016	0.017	4.6%	5.1%
% Change	16.1%	10.5%	8.1%	6.3%	4.3%	4.3%		
Network Costs	14.9	17.7	19.8	21.2	21.4	21.6	6.6%	5.2%
% of Total Revenue	5.50%	5.45%	5.38%	5.14%	4.76%	4.40%		
Network Cost per Founding Attendee	0.028	0.031	0.033	0.035	0.036	0.037	5.0%	4.5%
% Change	18.3%	18.7%	11.7%	7.4%	0.9%	0.9%		
Gross Profit	**194.5**	**239.1**	**274.7**	**315.7**	**352.0**	**392.5**	13.8%	13.2%
Margin	71.8%	73.6%	74.8%	76.4%	78.2%	79.9%		
% Change	25%	23%	15%	15%	11%	12%		
Selling and Marketing	40.1	44.8	48.1	52.5	56.7	60.7	8.2%	7.9%
% of Total Revenue	14.8%	13.8%	13.1%	12.7%	12.6%	12.4%		
Cost per Founding Attendee	0.077	0.078	0.080	0.085	0.094	0.103	6.5%	7.2%
% Change	24.6%	11.7%	7.3%	9.1%	8.1%	7.0%		
Administrative	17.1	20.3	21.8	23.3	25.0	26.8	7.2%	7.2%
% of Total Revenue	6.3%	6.3%	6.0%	5.7%	5.6%	5.5%		
Cost per Founding Attendee	0.033	0.035	0.036	0.038	0.041	0.045		
% Change	15.4%	18.9%	7.6%	6.8%	7.0%	7.2%		
Total Operating Costs	**88.5**	**101.2**	**109.7**	**118.2**	**124.9**	**131.4**	7.3%	6.8%
% of Total Revenues	32.6%	31.1%	29.9%	28.6%	27.7%	26.7%		
Operating Cost Per Founding Attendee	0.169	0.176	0.182	0.192	0.207	0.222	5.6%	6.1%
% Change	15.5%	14.3%	8.4%	7.8%	5.7%	5.2%		
Severance Plan	3.4	0.0	0.0	0.0	0.0	0.0		
% Change	-60.0%	-100.0%	0.0%	0.0%	0.0%	0.0%		
Restructuring /Other	0.4	0.0	0.0	0.0	0.0	0.0		
% Change	NM	-100.0%	0.0%	0.0%	0.0%	0.0%		
EBITDA	**133.5**	**173.9**	**204.8**	**239.9**	**270.3**	**305.0**	15.8%	15.1%
Margin	49.3%	53.6%	55.8%	58.1%	60.1%	62.1%		
EBITDA per Founding Attendee	0.255	0.302	0.341	0.390	0.448	0.516	14.1%	14.3%
% Change	33.5%	30.3%	17.7%	17.2%	12.7%	12.8%		
Loews Synthetic Payment	10.0	10.0	5.8					
% Change	0.0%	0.0%						
Adjusted EBITDA (+ Loews, ex-Severence)	**148.6**	**183.9**	**210.6**	**239.9**	**270.3**	**305.0**	13.7%	13.5%
Margin	54.8%	56.6%	57.4%	58.1%	60.1%	62.1%		
Adjusted EBITDA per Founding Attendee	0.284	0.319	0.350	0.390	0.448	0.516	12.0%	12.8%
% Change	36.6%	23.8%	14.5%	13.9%	12.7%	12.8%		

Source: Pali Research and Company data.

Exhibit F cont'd: National CineMedia Annual Earnings Model (in $mm, except per share data)

	2006PF/E	2007E	2008E	2009E	2010E	2011E	CAGR 07-'10E	CAGR 07-'11E
Depreciation & Amortization	4.5	5.8	6.4	6.7	6.9	7.2	6.0%	5.5%
% Change	4.0%	30.0%	10.0%	4.0%	4.0%	4.0%		
Operating Income	**129.1**	**168.1**	**198.4**	**233.3**	**263.4**	**297.8**	16.1%	15.4%
Margin	47.6%	51.8%	54.0%	56.5%	58.5%	60.6%		
Operating Income Per Founding Attendee	0.246	0.292	0.330	0.379	0.437	0.504	14.4%	14.6%
% Change	34.9%	30.3%	18.0%	17.6%	12.9%	13.1%		
Interest Expense	(64.5)	(52.2)	(49.0)	(48.9)	(48.7)	(48.5)	-2.3%	-1.9%
% Change	0%	-19%	-6%	0%	0%	0%		
Pre-Tax Income	**64.6**	**115.9**	**149.3**	**184.4**	**214.7**	**249.4**	22.8%	21.1%
Margin	23.8%	35.7%	40.7%	44.6%	47.7%	50.7%		
% Change	106.9%	79.5%	28.8%	23.5%	16.4%	16.1%		
Income Taxes	(25.8)	(46.4)	(59.7)	(73.8)	(85.9)	(99.8)	22.8%	21.1%
Tax Rate	40%	40%	40%	40%	40%	40%		
% Change	106.6%	79.5%	28.8%	23.5%	16.4%	16.1%		
Minority Interest	(21.4)	(38.5)	(49.5)	(61.2)	(71.3)	(82.8)	22.8%	21.1%
% Ownership by Founding Members	55.3%	55.3%	55.3%	55.3%	55.3%	55.3%		
% Change	91.3%	79.5%	28.8%	23.5%	16.4%	16.1%		
Net Income	**17.3**	**31.1**	**40.0**	**49.4**	**57.6**	**66.9**	22.8%	21.1%
Margin	6.4%	9.6%	10.9%	12.0%	12.8%	13.6%		
% Change	130.8%	79.5%	28.8%	23.5%	16.4%	16.1%		
Basic EPS	**$0.41**	**$0.73**	**$0.93**	**$1.14**	**$1.32**	**$1.51**	21.6%	19.9%
% Change	131%	78%	28%	22%	15%	15%		
Diluted EPS	**$0.41**	**$0.73**	**$0.93**	**$1.14**	**$1.32**	**$1.51**	21.6%	19.9%
% Change	107%	78%	28%	22%	15%	15%		
Shares Outstanding-Basic	42.0	42.4	42.8	43.3	43.7	44.1	1.0%	1.0%
% Change	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%		
Shares Outstanding-Diluted	94.0	94.9	95.9	96.8	97.8	98.8	1.0%	1.0%
% Change	0.1%	1.0%	1.0%	1.0%	1.0%	1.0%		

Source: Pali Research and Company data.

Exhibit G: National CineMedia Quarterly Earnings Model (in $mm, except per share data)

	PF3Q06	PF4Q06E	2006E/PF	1Q07E	2Q07E	3Q07E	4Q07E	2007E	Y/Y % Chg.
Revenue Summary									
Advertising	68.9	76.2	251.6	65.4	81.8	77.6	77.6	302.4	20.2%
% of Total Revenues	93%	92%	93%	94%	93%	94%	92%	93%	
% of Full Yr Revenues (Seasonality)	27%	30%		22%	27%	26%	26%		
Cinemeetings	4.8	3.0	15.5	3.0	4.5	4.0	5.5	17.0	10.0%
% of Total Revenues	6%	4%	6%	4%	5%	5%	7%	5%	
Fathom (Live Events)	0.2	3.8	4.0	1.3	1.3	1.3	1.5	5.4	35.0%
% of Total Revenues	0%	5%	1%	2%	1%	2%	2%	2%	
TOTAL REVENUES	**73.9**	**83.0**	**271.1**	**69.7**	**87.6**	**82.9**	**84.6**	**324.8**	**19.8%**
Revenue/Founding Attendee	**0.56**	**0.60**	**0.52**	**0.55**	**0.56**	**0.56**	**0.58**	**0.56**	**9.0%**
Founding Member Attendees	131.8	138.2	524.1	126.7	155.5	146.8	146.8	575.8	9.9%
Expenses									
Theatre Access Fee	11.6	10.2	45.3	10.7	13.4	12.8	12.8	49.7	9.8%
% of Advertising Revenue	16.8%	13.3%	18.0%	16.4%	16.4%	16.4%	16.4%	16.4%	
Ad Cost per Founding Attendee	0.088	0.074	0.086	0.085	0.087	0.087	0.087	0.086	-0.1%
Operating Costs									
Advertising Costs	2.2	3.2	9.2	2.2	2.7	2.6	2.9	10.4	13.2%
% of Advertising Revenue	3.2%	4.2%	3.7%	3.3%	3.3%	3.4%	3.7%	3.4%	
Cost per Founding Attendee	0.017	0.023	0.018	0.017	0.018	0.018	0.020	0.018	3.0%
Meetings/Events Costs	1.5	2.7	7.2	1.6	2.1	1.9	2.4	8.0	10.5%
% of Cinemeeting/Fathom Revenues	30.0%	39.9%	37.0%	37.0%	36.0%	35.0%	34.5%	35.5%	
Cost per Founding Attendee	0.011	0.020	0.014					0.014	0.6%
Network Costs	3.5	4.4	14.9	3.7	4.7	4.6	4.8	17.7	18.7%
% of Total Revenue	4.7%	5.3%	5.5%	5.3%	5.3%	5.5%	5.7%	5.4%	
Network Cost per Founding Attendee	0.027	0.032	0.028	0.029	0.030	0.031	0.033	0.031	8.0%
Gross Profit	**55.1**	**62.5**	**194.5**	**51.5**	**64.7**	**61.1**	**61.7**	**239.1**	**22.9%**
Margin	**74.6%**	**75.3%**	**71.8%**	**73.9%**	**73.8%**	**73.7%**	**73.0%**	**73.6%**	
Selling and Marketing	9.6	12.2	40.1	9.9	12.3	11.2	11.4	44.8	11.7%
% of Total Revenue	13.0%	14.7%	14.8%	14.3%	14.0%	13.5%	13.5%	13.8%	
Cost per Founding Attendee	0.073	0.088	0.077	0.078	0.079	0.076	0.078	0.078	1.7%
Administrative	4.4	5.1	17.1	4.4	5.5	5.2	5.3	20.3	18.9%
% of Total Revenue	6.0%	6.1%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	
Cost per Founding Attendee	0.03	0.04	0.03	0.034	0.035	0.035	0.036	0.04	8.2%
Total Operating Costs	21.2	27.6	88.5	21.7	27.2	25.4	26.8	101.2	14.3%
% of Total Revenue	28.7%	33.2%	32.6%	31.1%	31.1%	30.7%	31.7%	31.1%	
Cost per Founding Attendee	0.16	0.20	0.17	0.17	0.18	0.17	0.18	0.18	4.0%
Severance Plan	0.7	0.0	3.4	0.0	0.0	0.0	0.0	0.0	NM
Restructuring /Other	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	NM
EBITDA	**40.0**	**45.2**	**133.5**	**37.2**	**47.0**	**44.7**	**45.0**	**173.9**	**30.3%**
Margin	54.1%	54.5%	49.3%	53.4%	53.6%	53.9%	53.2%	53.6%	
EBITDA per Founding Attendee	0.30	0.33	0.25	0.29	0.30	0.30	0.31	0.30	18.6%
Lowes Synthetic Payment	2.5	2.5	10.0	2.5	2.5	2.5	2.5	10.0	0.0%
Adjusted EBITDA (+ Lowes, -Severance)	**41.8**	**47.7**	**148.6**	**39.7**	**49.5**	**47.2**	**47.5**	**183.9**	**23.8%**
Margin	56.6%	57.5%	54.8%	57.0%	56.4%	57.0%	56.2%	56.6%	
Adjusted EBITDA per Founding Attendee	0.32	0.35	0.28	0.31	0.32	0.32	0.32	0.32	12.6%
Depreciation & Amortization	1.1	1.1	4.5	1.5	1.5	1.5	1.5	5.8	30.0%
Operating Income	**38.9**	**44.2**	**129.1**	**35.8**	**45.5**	**43.3**	**43.6**	**168.1**	**30.3%**
Margin	52.6%	53.2%	47.6%	51.3%	51.9%	52.2%	51.5%	51.8%	
Operating Income per Founding Attendee	0.30	0.32	0.25	0.28	0.29	0.29	0.30	0.29	18.6%
Interest Expense	(16.1)	(16.1)	(64.5)	(14.3)	(13.8)	(13.6)	(10.6)	(52.2)	-19.0%
Pre-Tax Income	**22.8**	**28.1**	**64.6**	**21.5**	**31.8**	**29.7**	**32.9**	**115.9**	**79.5%**
Margin	30.9%	33.8%	23.8%	30.9%	36.2%	35.8%	38.9%	35.7%	
Income Taxes	(9.1)	(11.3)	(25.8)	(8.6)	(12.7)	(11.9)	(13.2)	(46.4)	79.5%
Tax Rate	40%	40%	40%	40%	40%	40%	40%	40%	
Minority Interest	(7.6)	(9.3)	(21.4)	(7.1)	(10.5)	(9.8)	(10.9)	(38.5)	79.5%
% Ownership by Founding Member	55.3%	55.3%	55.3%	55.3%	55.3%	55.3%	55.3%	55.3%	
Net Income	**6.1**	**7.5**	**17.3**	**5.8**	**8.5**	**8.0**	**8.8**	**31.1**	**79.5%**
Margin	8.3%	9.0%	6.4%	8.3%	9.7%	9.6%	10.4%	9.6%	
Basic EPS	**0.15**	**0.18**	**0.41**	**0.14**	**0.20**	**0.19**	**0.21**	**0.73**	77.7%
Diluted EPS	**0.15**	**0.18**	**0.41**	**0.14**	**0.20**	**0.19**	**0.21**	**0.73**	77.7%
Shares Outstanding-Basic	42.0	42.0	42.0	42.2	42.3	42.5	42.8	42.4	1.0%
Shares Outstanding-Diluted	94.0	94.0	94.0	94.5	94.8	95.1	95.4	94.9	1.0%

Source: Pali Research and Company data.

Exhibit H: National CineMedia Annual Cash Flow Model (in $mm, except per share data)

	2006PF/E	2007E	2008E	2009E	2010E	2011E	CAGR 07-'10E	CAGR 07-'11E
CASH FLOW MODEL								
OPERATIONS								
Net Income (Loss)	17.3	31.1	40.0	49.4	57.6	66.9	22.8%	21.1%
Minority Interest	21.4	38.5	49.5	61.2	71.3	82.8	22.8%	21.1%
D&A	4.5	5.8	6.4	6.7	6.9	7.2	6.0%	5.5%
Non-Cash Taxes (Due to Tax Shield from IPO)	25.8	27.8	27.8	27.8	27.8	27.8	0.0%	0.0%
(Payments) of Tax Benefit to Founding Members	(10.4)	(11.2)	(11.2)	(11.2)	(11.2)	(11.2)	0.0%	0.0%
Non-Cash Severance & Stock-Based Comp	3.4	0.0	0.0	0.0	0.0	0.0	NM	NM
Changes in Working Capital	(6.0)	(6.7)	(6.6)	(8.1)	(9.9)	(11.2)	13.9%	13.7%
Net Cash Provided (Used) by Operations	**56.1**	**85.2**	**106.0**	**125.8**	**142.4**	**162.2**	18.7%	17.4%
% Change		52.1%	24.3%	18.7%	13.2%	13.9%		
INVESTING								
Capex	(5.7)	(8.0)	(6.2)	(6.2)	(6.3)	(6.5)	-7.7%	-5.1%
Other	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM
Net Cash Provided (Used) by Investing	**(5.7)**	**(8.0)**	**(6.2)**	**(6.2)**	**(6.3)**	**(6.5)**	-7.7%	-5.1%
% Change		40.4%	-22.0%	-0.7%	1.7%	3.0%		
FINANCING								
Proceeds (Payment) of Term Loan	0.0	655.0	0.0	0.0	0.0	0.0	NM	NM
Proceeds (Purchases) to Founding Members	0.0	(686.3)	0.0	0.0	0.0	0.0	NM	NM
Proceeds from Equity Offering	0.0	746.1	0.0	0.0	0.0	0.0	NM	NM
Proceeds (Purchases) of Credit Facility	10.0	0.0	0.0	0.0	0.0	0.0	NM	NM
Proceeds (Payments) of Preferred Membership Units	0.0	(698.5)	0.0	0.0	0.0	0.0	NM	NM
Payment of Dividends (95% payout ratio)		(73.4)	(94.8)	(113.7)	(129.3)	(147.9)	20.8%	19.2%
Payment of Deferred Financing Costs	0.0	(14.0)	0.0	0.0	0.0	0.0	NM	NM
Net Cash Provided (Used) by Financing	**10.0**	**(71.1)**	**(94.8)**	**(113.7)**	**(129.3)**	**(147.9)**	22.1%	20.1%
% Change		-810.6%	33.3%	19.9%	13.8%	14.4%		
Net Increase (Decrease) in Cash	**60.4**	**6.2**	**5.0**	**6.0**	**6.8**	**7.8**	3.3%	6.0%
% Change		-89.8%	-19.2%	19.9%	13.8%	14.4%		
Cash & Equivalents-Beginning of Year		5.0	11.2	16.2	22.1	28.9	64.2%	55.1%
Cash & Equivalents-End of Year	5.0	11.2	16.2	22.1	28.9	36.7		
Net Debt	(730.0)	(643.8)	(638.8)	(632.9)	(626.1)	(618.3)	-0.9%	-1.0%
Adjusted EBITDA	148.6	183.9	210.6	239.9	270.3	305.0	13.7%	13.5%
Year-end Leverage	**4.9x**	**3.5x**	**3.0x**	**2.6x**	**2.3x**	**2.0x**		
Dividends Paid	**0.0**	**73.4**	**94.8**	**113.7**	**129.3**	**147.9**		
Annual Dividend Per Share	**$0.00**	**$0.77**	**$0.99**	**$1.17**	**$1.32**	**$1.50**		
Free Cash Flow Calculation								
Cash from Ops Prior to Founders Tax Benefit Payment		96.4	117.2	137.0	153.6	173.4	16.8%	15.8%
Capex		(8.0)	(6.2)	(6.2)	(6.3)	(6.5)	-7.7%	-5.1%
Cash From Operations less Cap/ex		88.4	110.9	130.8	147.3	166.9		
NCM Inc's Ownership of NCM LLC		44.7%	44.7%	44.7%	44.7%	44.7%		
NCM Inc's Cash From Operations		39.5	49.6	58.5	65.8	74.6		
90% of Tax Benefit Reimbursed to Founders		(11.2)	(11.2)	(11.2)	(11.2)	(11.2)		
Free Cash Flow to NCM Inc.		**28.3**	**38.4**	**47.3**	**54.7**	**63.4**	24.5%	22.3%
% Change		38.5%	45.6%	49.3%	50.5%	52.0%		
FCF/EBITDA Conversion		34%	41%	44%	45%	47%		
Free Cash Flow/Basic Share		**$0.67**	**$0.90**	**$1.09**	**$1.25**	**$1.44**	23.2%	21.1%
% Change		NM	34.2%	21.9%	14.4%	14.9%		
Net Debt Calculation	Pro Forma							
Gross Debt	(735.0)	(655.0)	(655.0)	(655.0)	(655.0)	(655.0)	0.0%	0.0%
Cash & Equivalents	5.0	11.2	16.2	22.1	28.9	36.7	37.3%	34.7%
Net Debt	**(730.0)**	**(643.8)**	**(638.8)**	**(632.9)**	**(626.1)**	**(618.3)**	-0.9%	-1.0%
Revenues	271.1	324.8	367.2	413.1	450.0	491.4	11.5%	10.9%
Capex	5.7	8.0	6.2	6.2	6.3	6.5	-7.7%	-5.1%
% of Revenues	2.1%	2.5%	1.7%	1.5%	1.4%	1.3%		

Source: Pali Research and Company data.

Exhibit I: National CineMedia Annual Balance Sheet (in $mm, except per share data)

	2006E	2007E	2008E
ASSETS			
Cash and equivalents	5.0	11.2	16.2
Receivables	47.6	56.5	64.4
Prepaid expenses & other	2.2	2.6	2.9
Total Current Assets	**54.7**	**70.3**	**83.5**
PP&E	11.6	14.2	14.0
Network affiliate agreements	0.4	0.4	0.4
Deferred offering costs	0.0	0.0	0.0
Debt issuance costs	0.0	0.0	0.0
Deposits & other	0.2	0.2	0.2
TOTAL ASSETS	**67.0**	**85.1**	**98.1**
LIABILITIES			
Accounts payable	5.7	6.4	6.9
Amounts due to Members	0.0	0.0	0.0
Debt from Members	0.0	0.0	0.0
Accrued payroll	6.1	6.8	7.3
Accrued expenses	5.9	6.6	7.1
Deferred revenues	2.2	2.6	2.9
Total Current Liabilities	**19.8**	**22.5**	**24.1**
Debt	735.0	655.0	655.0
TOTAL LIABILITIES	**754.8**	**677.5**	**679.1**
Shareholders' equity	(687.9)	(592.4)	(581.0)
TOTAL LIABILITIES & SE	**67.0**	**85.1**	**98.1**

Source: Pali Research and Company data.

APPENDIX

IMPORTANT DISCLOSURES AND ANALYSTS' CERTIFICATIONS

Analyst Certification

I, Richard S. Greenfield, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

I, Mark D. Smaldon, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

Analyst Stock Ratings

Pali Research's ratings are defined as follows:

BUY – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

SELL – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

NEUTRAL – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

Disclosure of Distribution of Ratings

Pali Research, the research arm of Pali Capital, Inc. must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "buy", "neutral" or "sell" rating. Below is the distribution of Pali Capital's research recommendations as of the end of the fourth quarter of 2006:

	Rating Distribution		
	Buy	**Neutral**	**Sell**
Pali Research	56%	32%	12%

As of the end of the most recent calendar quarter (December 31, 2006), Pali Capital, Inc. had investment ratings on 34 equity securities.

All required disclosures, including price charts, designating ratings and price targets on all Pali Research-rated stocks are available upon request by contacting msmaldon@palicapital.com.

Subject companies in each rating category for which Pali Capital has provided investment banking services within the last 12 months is 0%.

Unless otherwise noted, all prices are as of the close on February 16, 2007.

Valuation Methodology

Given the growth prospects within NCMI's current businesses and the potential to expand into new forms of out-of-home digital video advertainment, **we believe shares could reach $31 in twelve months based on a 35x '08E FCF multiple, 33x '08E EPS multiple and a 17x '08E EBITDA multiple.** In addition, our DCF value equates to nearly $31, based on a 9% WACC, 3.5% perpetual growth rate and an 18x terminal multiple.

Risk to Our Valuation and Price Target

- Industry CPMs fall as significant growth in screens enabled for digital advertising creates too much inventory for a period of time. We believe CPM growth will be modest (but positive) for the next couple of years, as the attractiveness of the cinema advertising industry to a broader array of advertisers more than makes up for increased inventory.

- Drop in exhibition industry admissions caused by weak movie studio film performance. While we do not expect this to be an issue in 2007, it could be an issue in 2008, especially if 2007 is significantly stronger than expected.

- Reduction in screen count from founder members. The revenues of NCMI are primarily driven by the digital advertisements that run within the founding members' theaters. While we expect reasonably stable screen counts (with newly constructed theaters/screens largely offsetting theater/screen closures), materially variances could impact NCMI results.

- Reduction in theatrical windows. To the extent that movie studios significantly shorten the window between a movies release in the theaters and home video (DVD), NCMI's growth prospects could suffer. However, we doubt there will be a notable reduction in windows in the next 2-3 years as studio economics are far too fragile, especially as the DVD business has matured (we expect consumer spending on DVDs to decline in 2007 for the first time).

General Risks of Equity Investing

Investors need to be aware that investments in equity securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that can affect the earnings, cash flow and overall valuation of a company. Any investment in equity securities should be facilitated only within the context of diversification by asset class, industry, company, as well as investment objectives and time horizon.

For additional information, please contact your Pali sales and trading representative at (212) 259-2000.

OTHER DISCLOSURES

Other Companies Mentioned:

- Clear Channel Outdoor (CCO, $28.07, NYSE, not rated)
- Lamar (LAMR, $65.72 NASDAQ, not rated)
- Regal (RGC, $21.60, NYSE, not rated)

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