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CNK - Q3 2014 Cinemark Holdings Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 06, 2014 / 1:30PM GMT



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PRESENTATION

Operator

Good morning my name is Marissa, and I will be your conference operator today. At this time, I would like to welcome everyone to Cinemark's Q3 2014 earnings call.

(Operator Instructions)

Thank you Ms. Brashears, you may begin the conference.

Chanda Brashears - Cinemark Holdings Inc - IR

Thank you, Marissa, and good morning everyone. At this time, I'd like to welcome you to Cinemark Holding Inc. third quarter 2014 earnings release conference call. Hosted by Tim Warner, Chief Executive Officer; and Sean Gamble, Chief Financial Officer.

In accordance with the state harbor provision of the Private Securities Litigation Reform Act of 1995, certain matters that are discussed by members of management during this call may constitute forward-looking statements. Such statements are subject to risks and uncertainties and other factors that may cause Cinemark's actual performance to be materially different from the performance indicated or implied by such statements. Such risk factors set forth in the company's SEC filings. The company undertakes no obligation to publicly update or revise any forward-looking statements.

Today's call and webcast may include non-GAAP financial measures. A reconciliation of these non-GAAP measures to the most directly comparable financial measure as calculated and presented in accordance with GAAP can be found in today's press release and on the company's website investors. Cinemark.com.



I would now like to turn the call over to Tim Warner.

Tim Warner - Cinemark Holdings Inc - CEO

Good morning, everyone. Thank you for joining us for our third quarter 2014 results call.

I would first like to formally welcome Sean Gamble, Cinemark's new CFO to his first official earnings call. Regarding Regal's announcement this morning [some strategic] alternatives for the company, we can appreciate there may be a lot of interest in Cinemark's reaction to the news. Cinemark has the utmost respect for Regal's management team and their contributions to our industry. As such, we will not be speculating on their motivation, nor the potential outcome of their review. Like any other acquisition opportunities, Cinemark will evaluate what the announcement means to our company as well as the industry, but have no position at this point in time.

We also understand that there may be numerous questions regarding the lawsuit filed by the Department of Justice to enjoin the transaction between NCM and screen vision. As a founding member of NCM, we are confident that the NCM management team will take all necessary and appropriate steps in this matter. We will not comment on this active litigation, and appreciate your patience and understanding in refraining from asking questions regarding this litigation.

The third quarter faced a challenging comp and was impacted by box office underperformance in July. The shift of Fast and Furious Seven into 2015, as well as the lack of family film products, resulted in an industry decline of approximately 13%. Despite Cinemark's Q3 2013 domestic per screen outperformance of the industry by 650 basis points, our domestic admission revenues declined 14% for Q3 of 2014. Which we are expressly proud of, and attribute to our focus on driving attendance above all else. Without our 650 basis point hurdle from the prior year, our per-screen average would've exceeded the industry performance by 320 basis points. Reiterating the strength and success of our market adaptive approach.

Cinemark's diverse worldwide platform is structured and designed to focus on theater productivity and bottom-line results. Our strategic market approach was expressly beneficial this quarter, given the challenging box office environment as we are a content driven business. Our total worldwide operations generated \$141.7 million in adjusted EBITDA, with a continued industry-leading adjusted EBITDA margin of 21.9%. We congratulate our entire team for their diligence in structuring the company and their consistent operational discipline, which delivered these outstanding margins.

Our international operations outperformed the North American industry and decreased 11.9% on a currency adjusted basis. Which is impressive, given the hurdles of the disposition of our Mexican assets and a 9% foreign exchange headwind and the impact of the World Cup with both Brazil and Argentina competing in the semifinals. Argentina celebrated a strong local film this quarter. *Relatos Salvajes*, which is the biggest local film in the last 30 years. However, the film's performance was not enough to overcome four strong local films in the third quarter of last year.

Turning back to the domestic industry, the recent success in October of *Gone Girl*, *Annabelle*, and *Fury* made up for some of the ground lost in July. Year-to-date, through the past weekend, the North American industry has declined approximately 3.9%.

The fourth quarter is off to a strong start with the aforementioned films driving a record October for the industry, and is currently up 14.1%. We are looking forward to the opening of *Big Hero Six* and *Interstellar* this coming weekend. Other films are optimistic about for the remainder of the quarter including: *Hunger Games*, *Mocking Jay Part One*, the *Penguins of Madagascar* in 3-D, *Horrible Bosses 2*, *Exodus* in 3-D, *Hobbit*, the *Battle of the Five Armies* in 3-D, *Night at the Museum 3*, *Into the Woods*, and *Unbroken*.

We continue to be enthusiastic about the diverse and Blockbuster driven film slate next year, as well as how many of these films should translate well in our Latin American markets, including *Cinderella* from Disney, *Fast and Furious 7*; which had its recently released trailer viewed more than 100 million times on Facebook in the first 48 hours. *50 Shades of Gray*, *Avengers* in 3-D, *Jurassic World* in 3-D, *Inside Out* from Pixar Disney in 3-D, *Minions* in 3-D, the 24th *James Bond* film, the final *Hunger Games* in the series, the *Good Dinosaur* from Pixar Disney in 3-D, *Star Wars*, episode 7 in 3-D, and *Mission Impossible 5*.

What is very encouraging about the 2015 lineup is our studio partners are scheduling films during the shoulder seasons, as well as providing adequate spacing in between films, which creates an opportunity for the films to play to their full theatrical potential. We're also thrilled with the studio's commitment to theatrical releases. Announcing their movie dates years in advance. Marvel most recently announced movies into 2019, that's five years into the future. Between Marvel and Warner Bros. There are 29 superhero films to be released in the next six years, including Black Panther and Captain Marvel, featuring a super heroine.

We continue to capitalize in our XD brand worldwide with a total of 169 screens, 111 domestically, and 58 internationally, with the intent of opening an additional 5 to 10 XD screens by the end of the year.

We maintain a consistent premium product percentage with the ability to show the biggest 2-D or 3-D film each week on our XD screens. We do not negotiate at the XD film selections months in advance, and utilize the top performance film expectations each week to book our XD screens. Our third quarter worldwide premium product percentage was 25.4% of our total admission revenues, versus 22.2% for the prior year quarter. Of that, our XD screens generated nearly 6% of our total admission revenues in the third quarter on 3% of our worldwide screen count.

Our optimism on the potential of alternative content continues. Especially given the recent success of one direction where we are. We delivered big numbers both in the US and in Latin American industries. The film was distributed to Fathom in the US, where it grossed nearly \$3 million. In our Latin American countries, it was both directly through Flix media, and grossed approximately \$2 million.

We also exclusively live streamed the 2014 Riot Game's League of Legends world championship from South Korea in three test markets, with multiple sold-out auditoriums. This is especially impressive considering the games, since they played live, played in the middle of the night into the wee hours of the morning in the US. This one-of-a-kind viewing party allowed fans to watch the gaming events on our big screens in a communal environment with premium snacks.

We are also thrilled that our film department was able to negotiate an exclusive Star Wars marathon in Latin America, distributed by Fox and Disney in anticipation of the seventh film's release next year. Based on the success of Star Wars marathons in Brazil and Argentina, we hope to rollout the content to other Latin American countries. Again, we do not view alternative content as replacing studio film product, but as accretive to the industry. Our investment approach to each market continues to be very adaptive, while staying concentrated on returning 20% EBITDA margins and 20% cash on cash pretax ROI.

Given the opportunity, we prefer to build new theaters in each market, however, there are certain locations and lease structures where it's more advantageous for us to remodel with premium offerings; offerings to maximize utilization of our entire circuit. We continue with our market adaptive approach and consistently evaluate both our North American and Latin American markets for building new theaters with premium offering opportunities in addition to our luxury loungers including reserve, VIP, movie bistro, NextGen concepts, in order to maximize shareholder value.

Before I conclude my remarks, I'd like to reiterate that both our management team and our board remain committed to reinvesting in the company. We continue to increase shareholder value through our Latin American markets significant growth opportunity, including correlating ancillary revenue potential. Combined with our domestic market strong cash flow, which funds our one dollar annual dividend, yielding approximately 3%. Cinemark's strategy to use technology to take cost out of the system and enhance the customer experience with market adaptive platforms increases utilization across our entire circuit, enabling us to leave the industry in both EBITDA and bottom line results.

Sean will now provide more details on the company's financial performance for the third quarter, as well as an overview of our capital structure and information on organic expansion plans.

Sean Gamble - *Cinemark Holdings Inc - CFO*

Thank you, Tim. Good morning, everyone. If I haven't had the opportunity to meet you already, I look forward to doing so in the coming months.

Tim already addressed our individual domestic and international box office performance relative to the North American industry in his prepared remarks. On a worldwide basis, our per-screen average marginally trailed the industry by half a percentage point, adjusted for currency fluctuations.

A commendable result, given the significant 650 basis point domestic industry outperformance we delivered in the third quarter of last year. And while we narrowly missed this quarter, we are proud to have delivered 21 out of 23 consecutive quarters of industry box office outperformance.

Diving into the details, our total worldwide revenues were \$646.9 million for the third quarter, of which worldwide admissions revenues were \$402.9 million. Worldwide adjusted EBITDA was \$141.7 million, resulting in an adjusted EBITDA margin of 21.9%. As Tim previously highlighted, our disciplined investment approach, combined with our operating teams focus on controlling costs, allowed us to sustain our industry-leading adjusted EBITDA margin in excess of 20% despite the attendance pressures this quarter.

In the US, total third-quarter attendance was 42.8 million patrons which generated admissions revenues of \$290.5 million, a 14% reduction versus last year. The attendance decline was partially offset by 1.6% increase in average ticket price, resulting in an ATP of \$6.79. Our domestic concession revenues were \$155.3 million with a concession per patron of \$3.63, a sizable 7.4% increase over last year.

We've now delivered an impressive 31 consecutive quarters of domestic concession per-cap growth through our combo deals, coupons via social media, and new product offerings that provide a more diverse appeal, such as upscale finger foods, adult beverages, and health-conscious options. Total US revenues for the quarter were \$468.5 million, with an adjusted EBITDA of \$99.5 million and an adjusted EBITDA margin of 21.6%.

Outside the US, our International segment faced a number of hurdles beyond film product, which Tim already described. Despite those hurdles, our international box office outperformed the North American industry on a currency adjusted basis and delivered \$112.4 million in admissions revenues in the third quarter. Attendance for the quarter was 23.4 million patrons, and our average ticket price was \$4.80. In constant currency, the average ticket price grew 15%.

International concessions also had a strong quarter, with revenues of \$55.8 million. Concessions per patron were \$2.38, a 14.5% percent year-over-year increase in constant currency. Overall, our international segment generated adjusted EBITDA of \$42.2 million dollars, representing a robust 22.7% adjusted EBITDA margin.

Shifting back to our combined global company financials, consolidated worldwide film rentals and advertising costs, as a percentage of admission revenues increased 40 basis points from third quarter 2013 to 53.5%. This increase is mostly driven by a concentration of box office revenues from higher grossing films this quarter. Conversely, concession expenses improved 20 basis points to 15.9% of concession revenues. Overall, our team effectively managed the variable components of our operating costs in response to the reduction in attendance this quarter.

Salaries and wages were down 7.2%, facility lease expenses declined 5.3%, and utilities and other cost decreased 6.3%. In a similar manner, or third-quarter G&A declined 15.5% to \$35.8 million, due to reduced incentive compensation expense, the impact of foreign exchange, the sale of our Mexican subsidiaries in November of last year, and decreased professional fees.

Collectively, total third-quarter income before income taxes was \$64.1 million, compared to pre-tax income of \$124.1 million in Q3 of 2013. Net income attributable to Cinemark holdings Inc. was \$38.1 million or \$0.33 per diluted share and our third-quarter's effective tax rate was 39.9%. With respect to the balance sheet, we ended the quarter with cash balance of \$546.7 million, and a net debt position of \$1.3 billion. Representing a net leverage ratio of 2.2 times adjusted EBITDA.

Turning attention to the growth of our overall circuit, our US footprint expanded to 333 theaters and 4473 screens in 40 states and 100 DMA's at quarter end. We built 3 theaters with 37 screens and closed two theaters with 20 screens during the quarter. We have signed commitments to open three theaters with 31 screens during the remainder of 2014, and 10 theaters with 112 screens subsequent to 2014. We expect to spend approximately \$92 million in CapEx associated with these additional 143 screens.

Our international circuit grew to 157 theaters and 1156 screens in 13 Latin American countries, with a presence in 13 of the top 15 largest metropolitan areas as of September 30. During the quarter, we opened one theater and four screens, and closed one screen. As of quarter end, we had signed commitments to open 2 new theaters and 20 screens during the remainder of 2014, and 12 theaters representing 75 screens subsequent to 2014.

Our estimated CapEx to develop these additional 95 international screens is approximately \$70 million. With regard to our overall CapEx spend for 2014, we are still targeting approximately \$275 million \$300 million, which includes the cost of the digital rollout in Latin America completed in April.

Marissa, that concludes our prepared remarks and we'd now like to open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

For our first question comes from the line of Eric Handler with MKM Partners.

Eric Handler - MKM Partners - Analyst

Thank you very much for taking my question. Wondered if you could break down the US per cap concession spending increase a little bit? That 7.4% growth was the highest you guys have achieved since your IPO in 2007. So, how much of that was let's say alcohol sales versus some other new initiatives?

Tim Warner - Cinemark Holdings Inc - CEO

We continue to expand our value couponing and the use of social media, and our app and our e-mail connection to the customer. If you go back through 2014, you'll see we had in the first quarter, 5.3%, second quarter, 4.9%, and third quarter, 7.4%. And so we've been making significant progress in the connection with the customer.

A lot of it is driven by just that connection and upselling the customer. There's some minor price increase in that.

And then, we also have expanded offerings. Alcohol isn't as significant portion of our sales. We have it in a small number of our theaters, but it's not a big part of our circuit.

Eric Handler - MKM Partners - Analyst

Do you think alcohol sales, I mean it looks like AMC's doing quite well there, Regal's doing quite well, is this something that could be a lot more prevalent in your circuit?

Tim Warner - Cinemark Holdings Inc - CEO

Well, we continue to evaluate and add alcohol sales where it makes sense. We're also very cognizant of that a lot of our markets and a lot of our theaters are very family-oriented, but we continue to evolve and evaluate that on a market by market basis.

Eric Handler - MKM Partners - Analyst

Okay. And then one last follow-up for you guys. In terms of your international screen growth, it seems like you're on pace to do 70 new screens this year, so probably won't get to that 100 screen level again. Is there anything going on there that we should be thinking about?

Tim Warner - *Cinemark Holdings Inc - CEO*

No, not really, Eric. There's -- like it does every year, where we're shooting for the 100 screens; however, mall development and construction delays can move some projects from the fourth quarter into the first quarter of next year.

Obviously, we're trying to make it 100 screens this year, but some of those projects might move into the first quarter of next year. But that's simply the usual type of construction delays due to mall development.

Eric Handler - *MKM Partners - Analyst*

Okay. Thank you.

Operator

Our next question comes from the line of David Miller with Topeka Capital Markets.

David Miller - *Topeka Capital Markets - Analyst*

Hello, guys, good morning. Just a couple questions. You guys sold your Mexican circuit about a year ago, if memory serves. What commitment do you have, if any, to get back in the region in a scaled manner, and would you acquire your way in or home grow it?

Any details on that or thoughts on that would be great, and then I have a follow-up. Thanks.

Tim Warner - *Cinemark Holdings Inc - CEO*

Sure. Obviously, we think very highly of the market in Mexico and seeing the opportunity to exit as simply opportunistic, but we continue to believe in the Mexican market. There's two strong local exhibitors that are now with Cinemex and Cinepolis. I don't know if there was an opportunity to reenter the market, either via acquisition or to come in with some market-adaptive approach that might be a little different than our approach that we've had in the past, but right now, we have no immediate plans to reenter Mexico.

David Miller - *Topeka Capital Markets - Analyst*

Okay. And then on the NCM screen vision situation, I know there's only so much you could say. You're sort of hamstrung by the process and hamstrung by your attorneys, I would assume, but in your view, is there anything that can be tweaked?

Can the deal pass muster with the DOJ if you tweak certain things, and what in your view can be tweaked, if anything? Appreciate it, thanks.

Tim Warner - *Cinemark Holdings Inc - CEO*

Well, and hopefully you also appreciate that I'm not an attorney or I don't represent either NCM or the DOJ, so we'll let them -- it's really a public company, NCM is, and the entire issue is between them and the DOJ.

David Miller - *Topeka Capital Markets - Analyst*

Fair enough. Thank you.

Operator

Next question comes from the line of Townsend Buckles with JPMorgan.

Townsend Buckles - JPMorgan - Analyst

Thanks. If you could give an update on how you're sizing the opportunity or need to maybe step up your luxury offerings like reseatings in the US? Regal commented on losing some share to others being more aggressive. Is that something you're seeing as well, and any plans you have at this point for reseatings next year?

Tim Warner - Cinemark Holdings Inc - CEO

We have a number of, what I'd call premium concepts, in the marketplace. And if -- so VIPs, reserve, NextGen, Cinemark Bistro. When you look at our circuit right now, that comprises about 6% of our circuit.

If you throw in the XD screens and IMAX screens that we operate, that would be about 9% of our circuit. We can see that growing over the next 2 to 3 years to be about 15% of our circuit, our premium concepts.

But yes, we are looking at our market, as we said in our call, that we're constantly evaluating each market on the individual basis to see where it might make sense. We really view the recliners as, or that model impacting, as -- somewhat as a new theater being built in the marketplace, and when we build a new theater or if AMC builds a new theater or our competition builds a new theater, it obviously -- if you're close to those theaters, it obviously impacts you. A big portion of Cinemark is -- roughly about 90% of it is in what you call noncompetitive zones, but you might still be somewhat impacted on the periphery.

Townsend Buckles - JPMorgan - Analyst

Do you feel like the added competition is impacting your market share at all in some of your markets?

Tim Warner - Cinemark Holdings Inc - CEO

We see impacts. I don't think it's a lot different than the historical impacts of people building in markets. When you go back even to say to 2006, and you just see whether it's a new theater being built or a recliner being reconverted, or to reposition the marketplace, it really gets into where these are located as to how much impact they have on you.

But then, on a historical basis, we're seeing a similar type of impact going on into the industry, whether it's recliner, new theaters, or food concepts coming into the marketplace. They have the same type of historical impact on the market.

Townsend Buckles - JPMorgan - Analyst

And just to follow up on the Latin America new build outlook. Do you think, Tim, that 100 or more screens is achievable next year? Do you feel any better about that target, given you've seen some projects shift out of this year or is mall development just pushing further out, and maybe 75 is a better assumption going forward?



Tim Warner - *Cinemark Holdings Inc - CEO*

No, in fact, Sean and I just got back from Brazil, and Argentina and Chile, this past week. We had a great visit. We visited a lot of with our local team, and went around and seen a lot of the market development. No, I mean I fully anticipate that we're -- our goal is for 100 screens again next year.

Townsend Buckles - *JPMorgan - Analyst*

All right. Thanks, Tim.

Operator

Our next question comes from the line of Barton Crockett with FBR Capital Markets.

Barton Crockett - *FBR Capital Markets & Co. - Analyst*

Okay. Great. Thanks for taking the question. I understand, and of course respect, your inability to talk very directly about what Regal's put out there.

But I wanted to ask some questions around the edges to help us kind of evaluate the situation. One of the things kind of around the edges is, if you tell us what you see as your maximum leverage capacity; if there was a tremendous acquisition out there, how comfortable would you be willing to go on a stretch scenario to lever up and do a deal?

And then, secondarily, is there any reason you think for more consolidation at the very largest change to combat potential studio consolidation? Fox, WB, isn't happening now, but it could've happened. It could come back. Is there any need to get bigger to fight that, you think, strategically?

Tim Warner - *Cinemark Holdings Inc - CEO*

Well, first off on your first question, Cinemark is the least levered, and also has probably the strongest cash balance sheet. And we've often told the market that we want to be in a strong market position, in case opportunities do present themselves.

And so, we think we put the Company in a position to take advantage of any opportunities that we would be deemed would increase our shareholder value. From that standpoint, we think we're, of the exhibition companies, we're in one of the strongest positions.

Regarding studio consolidation, we don't see that as a threat. One, I don't know if it happens, but also we think that they would still put out a similar number of films and yet, have a similar type of platform in the marketplace. But again, I mean, I don't see that happening on a wide or broad basis because you have very strong companies that own, on a much broader basis, the various studios that make films.

Sean Gamble - *Cinemark Holdings Inc - CFO*

And just to add one point on the leverage comment. We wouldn't be opposed to further leveraging up for the right strategic move. We have levered up in the past.

However, it's really been more growth in our EBITDA rather than any type of intentional delevering effort that's put us where we are. As Tim alluded to, we are comfortable with our current position and the flexibility it affords us.

Barton Crockett - *FBR Capital Markets & Co. - Analyst*

I mean, if you were to put a number on that leverage in a max scenario for a great deal, could you go up to four times, five times?

Tim Warner - *Cinemark Holdings Inc - CEO*

Obviously, you could. But whether, again, Cinemark would -- you can look at the kind of strategic acquisitions that we've done. I mean, I think when you look at our track record and acquisitions, we've done some of the best -- both from a strategic standpoint and an accretive standpoint, some of the best acquisitions of any of the circuits.

To us, it has to be a high-quality platform with very sustainable cash flow, and we think from -- our position would be in the long-term interest of our shareholders. The good thing about Cinemark, we're well-positioned to make those types of decisions and to move in the marketplace where we see the right opportunities.

Townsend Buckles - *JPMorgan - Analyst*

Okay. And then if could just switch gears a little bit? Now that the World Cup is over in Latin America, is theater attendance trends you think at a normal cadence at this point?

Tim Warner - *Cinemark Holdings Inc - CEO*

Well, we think we came actually through the World Cup, it even surprised us how well we came through the World Cup. And we tried to tell the market early on that we felt on a -- over the entire year, that the World Cup would be a non-event, just like the past World Cups. We actually came through the quarters that the World Cup had the potential to impact, we actually came through them fairly well.

We think that Latin America, we continue to be really strong believers. Because when we talk about the product next year coming into the marketplace, the advantage that Latin America has, one, we think the Hollywood product's going to be very adaptive. But there's also the potential for really strong local products to come along that can even more enhance the performance in Latin America.

Townsend Buckles - *JPMorgan - Analyst*

Okay, great. I'll leave it there. Thank you.

Operator

Your next question comes from the line of Tony Wible with Janney Capital Markets.

Tony Wible - *Janney Capital Markets - Analyst*

Thanks. You guys had such a great concession number inside the US, but when I look at the slate it looks like there was this dearth of family films, certainly animated films. Do you feel like that even held back the concession number? In other words, do you think it could've been higher if not for the slate the way it is?

And then secondly, you mentioned the pacing inside of the US, which we all track pretty closely, but could you give us what you think the Latin America pacing is quarter to date, year-over-year?



Tim Warner - *Cinemark Holdings Inc - CEO*

We think a lot of our concession product is driven more by our customer connection, and couponing and product mix. Film does vary a little bit to impact that. So obviously, when you look back, and I know we had a strong quarter this quarter, but when I cited those figures for the last two previous quarters, we also had a strong concession growth.

So we think our reaching out to the customer, and also being very conservative in our pricing and trying to upsell the customer, rather than just make it a price increase, is warranted. And it's working very well for us.

Regarding the -- as to how they're spreading them out in the US versus Latin America, a lot of these big pictures will break on a global basis, but sometimes they will adjust around in different markets if there's a big national holiday. So like a film that might be breaking around the Fourth of July here, might vary a little bit in Latin America because they're trying to adapt to their holidays. But some of these big films, they tend to just break on a global basis all at once.

Tony Wible - *Janney Capital Markets - Analyst*

Right. Do you have a year-over-year growth for the quarter to date in Latin America, offhand?

Tim Warner - *Cinemark Holdings Inc - CEO*

I'll let Sean take that one, since he's the numbers guy.

Sean Gamble - *Cinemark Holdings Inc - CFO*

Are you talking about growth in box office or are you talking about growth --

Tony Wible - *Janney Capital Markets - Analyst*

Yes, so either you pick Brazil, Argentina, which have the greater weighting, or if you just give us some sense? Because it's obviously the markets that are little bit more difficult to track, given the number of erroneous data sources out there?

Sean Gamble - *Cinemark Holdings Inc - CFO*

Yes, I think what we've seen overall, and I hear you on that, based on our local teams, is it varies country by country. In terms of the performance this past quarter, in the aggregate, I think we would say that we've seen our international circuit perform fairly in line with the local industries where they are.

Tony Wible - *Janney Capital Markets - Analyst*

Okay.

Tim Warner - *Cinemark Holdings Inc - CEO*

And one thing when you're down there that as we went around that sort of surprised me was, Annabelle really performed well in these markets.

Tony Wible - *Janney Capital Markets - Analyst*

Interesting. Well, thank you guys.

Tim Warner - *Cinemark Holdings Inc - CEO*

Okay. Thank you.

Operator

Your next question comes from the line of Ben Mogil with Stifel.

Ben Mogil - *Stifel Nicolaus - Analyst*

Good morning. Thanks for taking the question. So like Bart, I'm going to play it close to the edge but not over the edge. The last couple M&A deals that you guys have done, I've seen a lot of DOJ interest and scrutiny that actually, as you obviously know, for some re-jittering around the original deal.

And now we see the Screenvision, there's [two again], the Screenvision and CM merger. On a higher level, are you seeing the DOJ take a much greater interest in your industry than they have in the past?

Tim Warner - *Cinemark Holdings Inc - CEO*

No, I mean, historically, the DOJ has always paid close attention to our industry for some reason. And it really amazes me in today's environment, because you'll see some huge mergers and that, or potential mergers or buys taking place throughout various industries. But for some reason, and probably goes back to the Paramount consent decrees, they've always paid fairly close attention to our industry.

Ben Mogil - *Stifel Nicolaus - Analyst*

And maybe as a follow-up to that, when you -- are there certain geographic clusters at Regal that are attractive to you?

Tim Warner - *Cinemark Holdings Inc - CEO*

Oh, yes. I mean Regal is a very attractive company, and the management team at Regal has done a great job building their company. They've got really solid margins, to where it's a very attractive company, and we have some overlap with them, obviously.

But, to answer your question, do they have some markets that would be attractive to us? Yes, they do.

Ben Mogil - *Stifel Nicolaus - Analyst*

Okay. That's it for me. Thank you very much, guys.

Operator

Your next question comes from the line of Robert Fishman with MoffettNathanson.

Robert Fishman - *MoffettNathanson - Analyst*

Hello, good morning. I've one for Tim and one for Sean, if I can? One of the areas of differentiation for Cinemark, Tim, has been your focus on Latin America. But we've also seen you have tuck-in acquisitions in the US, like Rave, so can you just update us on your overall philosophy, focusing on US deals versus Latin America acquisitions going forward?

Tim Warner - *Cinemark Holdings Inc - CEO*

It's not a real different philosophy, we have the same philosophy. One, it has to meet our investment rules and criteria. Also, it has to be, especially in today's environment, high-quality assets, and we feel that the cash flow is very sustainable.

And so, it's the same philosophy whether we would be buying in the US or in Latin America. Just to give you some examples of that, with the Century or the [four movie co], or the Rave transaction we did, were really high-quality assets in the US. But if you looked at our type of assets we bought in Latin America, I don't know if you've ever been to Argentina, but if you went to the Hoyts acquisition in Argentina, you would see it's a really high-quality asset.

Robert Fishman - *MoffettNathanson - Analyst*

Okay. And just I have a quick follow-up there. Are there Latin American opportunities that we should start to think about over the next coming years?

Tim Warner - *Cinemark Holdings Inc - CEO*

Well, I don't know if there's any specific opportunities, but as we've been building in Latin America these last 20 years, other -- both on a small basis or more on a country basis, they've also been building up their assets. And so you do have some good modern platforms in Latin America that would be very attractive to us.

Now whether they come to market or not is another story, but we do think when we first entered Latin America, there wasn't a lot of opportunity for M&A activities because of the quality of the existing platforms. But over this past 20 years, there's some really high-quality assets in these countries that would make very attractive acquisitions.

Robert Fishman - *MoffettNathanson - Analyst*

Okay. Thanks. And for Sean, while I understand you've only had a limited amount of time to settle into the new role, can you just discuss generally your thoughts around capital returns and how that will play into your thinking as CFO? Whether you have any preference for dividends or buybacks, or if you could foresee a time where Cinemark could look to do both?

Sean Gamble - *Cinemark Holdings Inc - CFO*

Sure. Thanks for the question, Robert. I'd say one of the many things that attracted me to Cinemark is the Company's financial strength. In particular, the strong balance sheet that I think gives us the ability to act quickly on attractive opportunities when they come up.

I'd say I share the same general belief with the rest of the management team here that really the best way to position the Company for long-term success, and to build long-term shareholder value, is really to reinvest that capital in strategic opportunities that meet the 2020 hurdle that Tim described earlier. Really, any alternative use of capital, it's ultimately a Board decision. I can say it is something I know is routinely evaluated.



Robert Fishman - *MoffettNathanson - Analyst*

Okay. Thank you.

Operator

Your next question comes from Ryan Fiftal with Morgan Stanley.

Ryan Fiftal - *Morgan Stanley - Analyst*

Great. Good morning. Thank you. Just wanted to follow up on the non-film content initiative. So have you guys had or seen any progress on getting really high profile non-film content into your theaters?

I'm thinking things like sports or major TV premieres or something along those lines? What's the nature of the conversation you're having with those rights owners, and is there any pushback you're getting for bringing that into your distribution? Thanks.

Tim Warner - *Cinemark Holdings Inc - CEO*

Thanks for the question. And we do see, obviously, with Freedom, along with Regal and AMC, Fathom in the US, and hiring a new CEO, and a separate management team to really focus on growing the alternative content in the US, we see that as a lot of opportunity. And now in the US, we've -- not that we didn't have some technical ability in the past, but we have a great technology platform. And John Rubey, who's the CEO of Fathom, is out there engaging on a very broad basis all of the content that you're talking about.

And we have seen some progress. Like even [this here] test that we did on the Legal Legend game, to stream it live, to show what kind of results we could get on that type of activity. Also, we've done the test on the World Cup in Latin America. We've done the test on the British soccer premium league, live into the theaters with NBC Universal.

And so we continue to build the business model, now that we got the technology in place. We've got to continue to work on the business model.

We also, just even in tennis, we ran a live presentation of Wimbledon into our theaters. Our Dr. Who event with the BBC grossed over \$2 million, and then with pay-per-view boxing, we've had great success with that. So it continues to expand.

Probably one of the most encouraging things, as I'm going to -- Fathom is really doing very well in the US. But when you can see our the kind of numbers we did on the One Direction event in Latin America, which we do through our Flix Media platform, and Dr. Who, we also played in Latin America, we're achieving probably as good or better results on premium content, or alternative content, in Latin America as we are in our US screens. Another small example of this is our classic film series, which we developed in the US and it continues to do very well in the US.

But again, referring back to my visit with Sean to Brazil, and Argentina and Chile, where we've expanded the classic series, the classic series of classic films are actually doing better in Latin America that we do in the US on the classic series. So we see this as just a question of time as we build the business model, and it holds out a lot of promise for us to -- for access to our screens.

Ryan Fiftal - *Morgan Stanley - Analyst*

Great. Thanks for the insights. And then maybe one for Sean, as well. So congrats and welcome, Sean.



I believe you came over from the studio set of the house, so I was wondering maybe you could give some thoughts, insights into how you think the studios are thinking about the theatrical window, the sanctity of it, and whether there's any appetite over it that studios to try to revive things that could potentially encroach on the window? Like either early AST or premium VOD, or anything along those lines? Thanks.

Sean Gamble - *Cinemark Holdings Inc - CFO*

Sure, thanks. Thanks for the question. You know, the studios are constantly focused on maximizing their profitability, and I think some of their recent issues have been mostly with the clients in the home entertainment space, not necessarily with the theatrical space. And as I'm sure you know, globally, the exhibition industry is a \$36 billion business industry, so -- and it's been growing.

I think that the good news is -- for the studios, is that electronic sell through and subscription video-on-demand, even though they are maybe small relative to physical, they become significant enough that the total decline for the home entertainment space has really been slowing. I think one of the latest articles released by DG said that year-to-date, the home entertainment space is down less than 1% year-over-year. So I think if that trend continues, with what we've seen, you could actually potentially see growth in that space somewhere in the near future.

So, really, that has lessened, I think, some of the drive to experiment with the theatrical window, which I think the studios still view collectively as the best way to eventize the launch of their films, build recognizable brands, and ultimately maximize the revenues they can derive from their collective downstream windows. So at least for the moment, I think we've seen things perhaps lessening, and I could expect that might continue for a little while.

Ryan Fiftal - *Morgan Stanley - Analyst*

Okay. Great. Thank you.

Operator

Your next question comes from Jim Goss with Barrington Research.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

Thanks. I've got a couple also. First, as you've been talking about the Latin America markets, are there any added acquisition hurdles in dealing with any of your target countries as an outsider?

Tim Warner - *Cinemark Holdings Inc - CEO*

You know they have the same DOJ type of review in these markets. But since the markets are less developed than the US market, there's probably not as big a hurdles. But every country would have a similar process as our DOJ process.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

Okay. And, Tim, when you look at the brand you've established over two decades of dealing in most of these countries, is it a very narrowly defined brand or do you -- are you trying also to create a core brand and a premium brand? I know you've talked in the past about some of the markets being different dynamically in terms of whether they're in an urban core or suburbs, or that sort of thing, the difference in tenants per screen and ticket prices. But are you attacking it in a brand basis in the bigger countries like Brazil and Argentina, in particular?



Tim Warner - *Cinemark Holdings Inc - CEO*

I mean on a brand base, we -- I mean right from when we first entered Latin America we focus on the Cinemark brand, and the brand is by far the strongest theatrical brand in all our Latin American countries. In fact, in Brazil the brand is so strong that if it's a modern theater, it's referred to as a Cinemark, whether it's our theater or not.

So Cinemark is a very strong brand, but we are bringing in different concepts under Cinemark, and like we have 29 VIP platforms internationally, which would be what you're talking about. It's for a more upscale client and upscale markets, and it's throughout Latin America.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

Yes, I really meant what does the brand image convey? Is it a narrow focus or can you broaden that?

Tim Warner - *Cinemark Holdings Inc - CEO*

Yes, it's -- I think the VIP concept in Latin America is -- it's almost a requirement for certain markets in certain theaters, and so -- and that's the recliner lounges, adult beverages, upscale finger foods, a luxury lounge. That's what the VIP concept is.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

Okay. In another area, I was at the Time Warner meeting recently, where they were creating a lot of focus and stepping up their involvement with their DC Comics brand. And especially starting with the Batman versus Superman, and some other things that are coming on.

I'm wondering how you view that from the theatrical industry? Whether it -- obviously, they're influenced by Marvel's success, and is it really an exciting development to have another something on that scale?

Tim Warner - *Cinemark Holdings Inc - CEO*

Well, I think it's all good news. And especially these are announcements, they are starting to announce movies, they've set their platform five years out. That's great news for exhibition. Thank you.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

Last thing. Are there, just on a housekeeping basis, with the 650 basis point comp you had to deal with in this quarter, are there any upcoming quarters in which we should think about especially large positive or negative comps, either domestically or internationally?

Tim Warner - *Cinemark Holdings Inc - CEO*

No, in general, like we pointed out, we tend to outperform the industry, and have 21 out of the last 23 quarters. There's no really big hurdles like that, I don't think.

Jim Goss - *Barrington Research Associates, Inc. - Analyst*

All right. Thank you, very much.

Operator

Our next question comes from the line of Matthew Harrigan with Wunderlich Securities.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Thank you. This is a little conjectural, but you've always had -- always new competition in the home but your next year Christmas 2015, I think Oculus Rift is really talking about virtual reality capabilities for movies. Sony Project Morpheus, do you think that's something that chips away or do think that's very much just an enthusiast product on the home side?

And then you referred to legal legends. Do you think that there's more possibility of the theater becoming your local location-based entertainment destination, even beyond what you're doing right now on the digital distribution [in view of the recent] special events?

Tim Warner - *Cinemark Holdings Inc - CEO*

Well, thank you for the questions. Regarding the in-home market, anything -- I mean, my perspective has always been that anything that goes into the home competes with the in-home. And so, if you're not watching the CBS channel, you're watching HBO or you're watching something on Netflix, or -- so anything that goes in the home competes with the in-home platform, and doesn't necessarily compete with the theatrical platform.

Regarding the gaming industry, we think that's a big potential upside for alternative content, and we're very focused on trying to work with various aspects of this business to bring that gaming fan base into the theaters to where they can have a communal experience. And I think the results we've seen on Legal of Legends, which was just really watching the championships over in Korea, and the kind of turnouts we got, it was very encouraging.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Great. Thanks, Tim.

Tim Warner - *Cinemark Holdings Inc - CEO*

Thank you.

Operator

Your final question will come from Eric Wold with B. Riley.

Eric Wold - *B. Riley & Co. - Analyst*

Thank you. Good morning. Just kind of going back on M&A, back on the second quarter call, you took a little bit more of a positive tone and outlook on the potential for M&A, I'm assuming globally domestically and abroad.

Can I -- maybe give us your updated thoughts on a couple things. One, how has that process progressed as you've gone through the weak summer? Has that helped bring anyone to the table, or do you get a sense that a lot of the sellers are really optimistic on next year, and may wait until they get to the middle part or end of next year, to where they think they can get a better valuation?

Then secondly, on Regal but on the periphery as well, do you think that if they're in the sale process they may not be as involved in acquisitions themselves? If that is the case, would that help you to possibly get a little more aggressive out there with one less bidder in the market?

Tim Warner - *Cinemark Holdings Inc - CEO*

Yes, well, thank you. Regarding Regal, I mean I really can't comment on how they might view potential M&As as they go through the process. That's really their company's business.

Probably the reason that there's maybe optimism in the marketplace about potential M&A activity is because, as you look forward over the next two or three years in the exhibition business, everybody feels pretty good about it. And if you're a seller, you're probably thinking, hey, this is a good time to come to the market, because there's a lot of potential -- that a buyer would see potential upside to it. That's what I think might be driving the decisions.

Now, again, if you're a seller, you're probably thinking, well, do I try to get some of that upside before I come to the market, or do I go to the market and -- on the basis that there is an upside for the potential buyer? And various groups will have different motivations. But it's a great time for our industry on a broad basis, and I think that the future looks really bright.

Eric Wold - *B. Riley & Co. - Analyst*

Fair enough. Thanks, Tim.

Tim Warner - *Cinemark Holdings Inc - CEO*

Thank you.

Operator

There are no further questions at this time. I would now like to turn the conference back over to the presenters for any closing remarks.

Tim Warner - *Cinemark Holdings Inc - CEO*

Thank you for joining us on our call, and we look forward to our fourth-quarter call. Thank you.

Operator

This concludes today's conference. You may now disconnect.

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