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CNK - Q1 2015 Cinemark Holdings Inc Earnings Call

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PRESENTATION

Operator

Good morning. My name is Bradley, and I will be your conference operator today.

At this time I would like to welcome everyone to the Cinemark's quarter-one 2015 earnings conference call.

(Operator Instructions)

Ms. Chanda Brashears, you may begin your conference.

Chanda Brashears - Cinemark Holdings, Inc. - Director of IR

Thanks so much Bradley, and good morning everyone. I would again like to welcome you to Cinemark Holding, Inc.'s first-quarter 2015 earnings release conference call hosted by Tim Warner, Chief Executive Officer, and Sean Gamble, Chief Financial Officer.

In accordance with the Safe 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, 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 are 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 measures calculated and presented in accordance with GAAP may 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 first-quarter 2015 results call. Our diverse global footprint and market adaptive approach continued to drive utilization across both our core circuit and enhanced platforms. Cinemark continues to over-index the North American industry, Now achieving 23 out of 25 quarters of industry out-performance on a currency adjusted basis. We commend our film bookers, operation teams and every theater level employee for their dedication day in and day out, allowing us to sustain this outperformance trend.

Our Q1 worldwide admissions revenues outperformed the North American industry by approximately 640 basis points with an increase of 9.5% on a currency adjusted basis. This was driven by attendance increase of 6.5% and an average ticket price growth of 2.9%, adjusted for FX.

I would be remiss if I did not congratulate our food and beverage teams for the remarkable statistics they continue to generate as well. For 33 consecutive quarters we've had year-over-year concession per cap increases. This quarter was no exception, with a worldwide increase of 8.3% on a currency adjusted basis. Their devotion to pursuing diverse concession offerings that appeal to all types of patrons, as well as targeted promotions and combinations, is pivotal to our success in this category.

The collaboration of our Cinemark team from real estate, construction, marketing operations and personnel throughout our entire Company is fundamental to the achievement of our industry-leading adjusted EBITDA margin, which was 22.8% for the first quarter, an increase of 150 basis points year over year. We structure our business to maintain a 20% margin, as well as 20% returns on investment, and consistently exceed these thresholds.

Our compliments to the studios on the success of the first-quarter film product, including American Sniper, 50 Shades of Gray, Cinderella, SpongeBob SquarePants. Cinemark's domestic admission revenues increased 4.6% in the first quarter compared to the North American industry box office growth of just over 3%. It certainly a great start to what looks like to be very promising film slate throughout 2015.

After the studio presentations at our international convention in Buenos Aires, and of course CinemaCon, we are incredibly enthusiastic on the diversity and [spation] of the film product of our studio partners are bringing to the market this year and beyond. We kicked off the second quarter with a bang with Furious 7, and of course the huge success of Avengers this past weekend, with the second-highest weekend gross of all time.

Through last weekend the industry is up approximately 12.5% quarter to date. We are looking forward to Mad Max Fury Road, Ttomorrowland, Inside Out and Jurassic World, among many other titles to close out the second quarter on a high note.

As another example of our market-adaptive approach, we are pleased to announce that we have opened our Cinemark Reserve theater concepts at Playa Vista, located in the greater Los Angeles area known as Silicon Beach. Our theater is positioned directly in the middle of this emerging high-tech area, which is considered one of the largest tech hubs in the world.

Companies such as Google, Yahoo, YouTube Electronic Arts and Facebook, among many others are already establishing footprints in the area. We have Incorporated many technological advancements in this flagship theater, including the ability to broadcast directly from the theater, enhanced sound system and a projection system that's capable of displaying live levels, similar to laser systems.

We are very pleased that this theater has received tremendous reviews and acceptance in the community. We encourage you to visit the theater and the surrounding development if you have the opportunity.

As part of our innovation and dedication to technology, we internally develop our technology for key systems and carefully assess and often customize any externally developed technology in order to maintain control and the integrity of our high technical standards. We also diligently monitor, test and continuously support the theater technology for each of our 5687 auditoriums worldwide to our Cinemark support center.

As an example of our innovative drive, we have been working with various content providers to make technological infrastructure advances that enable live streaming of content via satellite or the Internet in order to expand alternative content for Cinemark Fathom and the entire exhibition community. We tested this capability through Riot Games League of Legends World Championship late last year in three of our domestic theaters, selling out auditoriums.

We have continued this with Riot in Brazil, and played the League of Legends Brazilian Championship on 23 of our big screens a few weeks ago, which was a great success with high occupancy rates. In a few days we are hosting our next event with Riot Games League of Legends with a mid-season invitational viewing parties in 15 US locations. This will be the first-ever multi-theater multi-auditorium live broadcast through the DCDC network.

We also collaborated with Fathom and NBC Universal to test the LA Kings versus San Jose Sharks NHL Hockey playoffs in three theaters, which also generated very encouraging live program results. Most recently, Disney announced at CinemaCon that in conjunction with Fathom they will host a behind-the-scenes look and early premiere of Pixar's Inside Out, which will be live-fed into our theaters via the DCDC network. These are just a few examples of how Cinemark is helping save the future of our industry and facilitating the expansion of alternative content to further increase the utilization of our theatrical platform.

Along with the digital conversion beginning in 2009, we introduced the first private-label premium large format XD and continue to be leaders in this realm, both domestically and in Latin America. We prefer the business model and control our XD screens provide us, as we do not share revenues with any third parties beyond our standard film licensing agreements, as well as the fact that we select content projected on the screens.

Our XD brand continues to perform well, and we were especially pleased with the XD box office results generated from American Sniper and 50 Shades of Gray during the quarter. Our worldwide XD footprint generated approximately 7% of our first-quarter admission revenues on roughly 3% of our worldwide screens.

We are also consistently innovating our XD auditoriums to ensure they remain the highest quality experience for our patrons. As previously announced we are installing the immersive sound systems that will be adaptive to object-based industry standards in our XD auditoriums worldwide.

We also recently announced an exclusive partnership with RealD and the GS Cinema System, which is a new PLF projection technology that allows wide-throw ratio lens. The GS technology enables us to further customize and right-size the XD screen and auditorium for each specific market.

In summary, this was a tremendous quarter for both the industry and for Cinemark. We look forward to how the rest of the year will play out with such remarkable -- with such a remarkable film lineup combined with the execution of our screen utilization strategy and focused on innovation across our broad global platform. Sean will now provide more details of the Company's financial performance for the first quarter, as well as an overview of our capital structure and an update in our organic expansion plan.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Thank you Tim, and good morning, everyone. As Tim highlighted, we are very pleased with our first-quarter results. Bolstered by a film slate that translated exceptionally well throughout our entire global circuit, our worldwide revenue grew 7.2% to \$645.4 million. Furthermore, our worldwide adjusted EBITDA grew 14.1% to \$147.1 million, which set a new first-quarter record for Cinemark and resulted in an adjusted EBITDA margin of 22.8%, up 150 basis points from last year.

Domestically, attendance grew 2.2% to a record first-quarter high of 41.5 million patrons. Likewise, our average ticket price increased 2.4% to \$7.13, primarily due to film slate mix and modest price increases.

These increases in attendance and price yielded domestic admissions revenues of \$295.8 million, which were up 4.6% versus last year. Our strategy of focusing on attendance and screen utilization continues to prove successful, as we outperformed the North American industry by 150 basis points in Q1.



Similarly, our ongoing efforts to drive sales incidents also delivered concession revenue growth of 9.7% to \$159.6 million in the quarter. Concessions per patron grew to an all-time record of \$3.85, a sizable 7.5% increase over last year.

Offering a diverse array of products that provide appealing options for all of our patrons, while delivering them with high-quality service and in an expedited manner continued to be hallmarks of our concession strategy. Overall, US revenues and adjusted EBITDA both reached record first-quarter highs of \$471.1 million and \$107.1 million respectively, resulting in an adjusted EBITDA margin of 22.7%.

Internationally, our first-quarter attendance grew 14.8% to 24 million patrons, setting yet another first-quarter record. While the strength the US dollar continued to moderate the reported financial results of our international segment with an approximate 70% currency headwind, we still generated total international revenue growth of 8.8% to \$174.3 million.

We grew adjusted EBITDA 14.3% to \$40 million, and we delivered 110 basis points of adjusted between margin expansion to 23%. As a reminder, the vast majority of our international operating expenses are transacted in local currency. So the impact of currency headwinds are predominately translation and not transaction-oriented.

International admissions revenues increased 6.8% to \$104.9 million this past quarter, and our average ticket price was \$4.37 on a reported basis. In constant currency, our average international ticket price grew 7.4%.

International concessions also had a strong quarter, with revenues of \$54.8 million. Concessions per patron were \$2.28, a 15.9% year-over-year increase in constant currency.

Returning to our worldwide consolidated results, first-quarter film rentals and advertising costs as a percentage of admissions revenues increased 110 basis points to 53.8%. This increase was primarily driven by a concentration of box office from higher grossing films relative to last year.

Conversely, our cost of concessions improved 30 basis points to 15.2% of concession revenues, driven by operating efficiencies and some modest price increases. Facility lease expenses and utilities and other costs as a percentage of total revenues also improved 70 basis points and 90 basis points respectively.

And despite pressures of certain minimum wage increases and the Affordable Care Act, our operating teams held salaries and wages flat to last year as a percentage of overall revenue. G&A for the first quarter declined 3.7% to \$37.9 million, driven primarily by a reduction in professional fees and some slight rent favorability associated with the purchase of our headquarters building.

Collectively, total first-quarter pretax income was \$69.3 million in 2015 compared to \$56.6 million in Q1 of the prior year. Net income attributable to Cinemark Holdings, Inc. was \$42.5 million, or \$0.37 per diluted share. Our first quarter's effective tax rate was 38.1%.

With respect to the balance sheet, we ended the quarter with a cash balance of \$532.8 billion and a net debt position of \$1.3 billion. We remain opportunistic regarding our capital structure, and over the past two weeks we took advantage of favorability in the debt markets to extend the balance of our \$700 million senior secured credit facility by an additional 2.5 years, pushing its maturity from December of 2019 into 2022.

There were no significant changes to the terms of the loan beyond its maturity date, and there's no impact on our cash interest expense. We expect to close this transaction tomorrow, but wanted to make you aware of it on the call today.

Shifting attention to the status of our US footprint, we operated 335 theaters and 4498 screens in 41 states and 101 DMAs at quarter end. We built one theater with 9 screens and closed one theater with 10 screens during the quarter.

We have signed commitments to open eight theaters with 90 screens during the remainder of 2015 and four theaters with 48 screens subsequent to 2015. We expect to spend approximately \$85 million in CapEx associated with these additional 138 screens.

Our International circuit grew to 162 theaters and 1189 screens in 13 Latin American countries with a continued presence in 12 of the top 15 largest metropolitan areas. During the quarter we expanded by two theaters and 13 screens and closed one screen.

As of quarter end, we had signed commitments to open 10 new theaters and 72 screens during the remainder of 2015 and three theaters representing 24 screens subsequent to 2015. Our estimated CapEx to develop three additional 96 international screens is approximately \$63 million.

Regarding overall CapEx, we spent \$85.7 million in the first quarter, of which \$28.2 million was spent on new-build CapEx and \$57.5 million was spent on maintenance CapEx, which includes \$26 million associated with the purchase of our corporate headquarters building. We maintain our full-year operating CapEx guidance of \$275 million to \$300 million, excluding the aforementioned headquarters building costs.

In closing, I'd like to reinforce Tim's message that through our diverse global footprint, market-adaptive strategies and focus on driving utilization across our entire circuit, we continue to deliver strong results and margins that outperform the industry and generate robust returns for our shareholders. Bradley, that concludes our prepared remarks, and we would now like to open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Townsend Buckles, JPMorgan.

Townsend Buckles - JPMorgan - Analyst

Had very strong US concession per cap growth for the third quarter in a row. Could you break that growth down in terms of new offerings like alcohol versus just core pricing? And as we get into the back half of the year do you expect this growth to moderate, or can it stay elevated versus your more historical pace in the low to mid-single digits?

Tim Warner - Cinemark Holdings, Inc. - CEO

Yes, thanks Townsend. Our concession department has been very, very successful in reaching out to patrons and offering a wide variety of products. And although we do offer alcohol in some of our theaters, that isn't the primary driver to our success.

I think it is the combination of a wide variety of products that focus on letting the customer make a choice. And then the combination, and then also using our e-mails and social media to outreach the patron before they get to the theater.

It is more the diversity of the products. They have a great track record, and I think they will continue to perform in the coming quarters as they have in the past. Sean can expand upon that, if he has anything.

Sean Gamble - Cinemark Holdings, Inc. - CFO

No, I would just reiterate Tim's comment that alcohol is a very small piece at the moment. We really attribute our growth to the new and diverse product offerings and sizes, our strategic promotions and our creative floor designs that really help accelerate the speed of purchase as kind of the key tenets of that. And as Tim said, and I would echo the same thing, that we think these are sustainable as we look ahead.



Townsend Buckles - *JPMorgan - Analyst*

Got it. With sustainable, would you say it's at a higher growth rate that you have seen historically as we start lapping the bigger gains we saw at the end of last year?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

I would say that we will continue to modestly increase the prices and continue to focus on the diversity of the products. And I think a big focus of ours is allowing -- is having a wide enough variety [at] the customers that they make the choice of what they want to buy.

And to offer them all kinds of options. But I think that you can look back at our historical performance, and have an expectation that we will continue to perform on a similar basis.

Townsend Buckles - *JPMorgan - Analyst*

Tim, on Latin America, can you talk about how you see the summer setting up in the context of the World Cup last year, which it seems like kind of really surprised to the upside in Brazil at the start of the tournament but fell off in the latter part as the studios pared back their releases. Do you see the World Cup comps as difficult in June second quarter, but maybe easier in July third quarter? Or do you see the setup differently?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

No, I think a lot of the product that's coming into the market, and I'll use Fast and Furious as an example, it performed really, really strong in Brazil, obviously Avengers or -- throughout Latin America and throughout the world. Obviously Avengers is that type of product. I would have the same outlook for movies like Mad Max and San Andreas and Tomorrowland and Jurassic Park.

And so I think the studios are focused more and more on making pictures for the global marketplace. There will be some pictures that have more of an American focus, but then also this is usually overcome, that there might be strong local film's coming into the market.

And so I think we can expect our Latin American theaters to continue to perform with just a great slate we have coming. And of course as you are looking into the fall and you start to see movies like Star Wars, there's a similar anticipation in Latin America as there is in the US for that type of product.

Townsend Buckles - *JPMorgan - Analyst*

All right, great. Thanks, Tim.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Thank you.

Operator

David Miller, Topeka Capital Market.

David Miller - *Topeka Capital Markets - Analyst*

Questions. Sean, I didn't see a free cash flow number for the quarter. So could you call that out? And then I have a follow-up. Thanks.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Sure. We had actually negative free cash flow of about \$58 million in the quarter. And that was basically driven by -- 1Q for us typically tends to be a low free cash flow quarter based on a lot of the accruals that we build up at the year end, which tends to be the highest point. So it was really driven by some working capital timing plus the impact of our building purchase in the first quarter.

David Miller - *Topeka Capital Markets - Analyst*

Okay, great. And then I'm sure both of you are aware, there's just been a lot of noise in the marketplace about Disney going around and sort of bullying the theaters on rents just given the high-octane film slate that they have coming up over the next 1.5 years to 2 years. Just curious if you're engaged with them in any sort of confrontational way on rents?

How are you going to handle it? What's true, what's not true? And what should we model for Star Wars in terms of rents for you guys and the rest of the industry? Appreciate it. Thanks very much.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

We've always had an outstanding relationship with the Disney Company, both domestically and internationally. Obviously there's ongoing business relationships back and forth, but it's a very stable relationship here in the US and in Latin America.

The -- film rental is based on performance, and it is pretty much the same formula for all the studios, not just Disney. Is if they have a really high-performing film, it obviously earns more on the aggregate than a low-performing film.

If their slate performs as everybody's anticipating, of course you will pay a higher film rental. But it tends to balance out with all these studios, that they will have some that will perform really, really high and some will perform on a more modest basis.

So when you look at our film rental year on year, you went back to the last 10 years, you see it is fairly stable. Ideally, I would like to say that all these pictures are going to do \$500 million or \$600 million in the domestic market, but that's really not reality. But Disney does look to have a really strong slate and they are great company and they do a great job marketing their films and we have a great relationship with them.

David Miller - *Topeka Capital Markets - Analyst*

Wonderful, thank you very much.

Operator

Eric Handler, MKM Partners.

Eric Handler - *MKM Partners - Analyst*

For taken my question. Sean, just looking at your [cost] statement in the international screen growth, it looks like the screens that you gained in Latin America and Brazil was more M&A than organic growth. And now we are looking at this year, at least based on what your -- what's locked and loaded for this year, you are looking about 85 screens.

So looks like we are getting another year where we don't get to that 100-screen increase. Just curious if you are seeing any obstacles in getting to that 100-screen level, or anything unusual going on in Latin America with opening organic screens?



Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Sure. I know we said this in the past, we are still targeting approximately 100 screens. And I would say there isn't anything new in terms of the environment, just remains some of the local challenges that you encounter from time to time when it comes to permitting and landlord delays, which is really what we have seen so far the beginning of this year.

I will say, I can tell you that it is picked up a little bit. So far in 2Q we've opened 16 screens in 2Q to date. As I mentioned, we are still targeting approximately 100 screens. Even though the roll-up is 85, there's still a variety of deals that we are working on in our pipeline, they are just not fully signed and committed yet.

Eric Handler - *MKM Partners - Analyst*

Great. Just as a follow-up. With the FX currency just taking such a hit and the economy slowing, what are you seeing with mall development in terms of starts and the future landscape for mall development?

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

We see malls continually -- or continuing to expand in pretty much as how we anticipated it. At our CinemaCon we, at our breakfast meeting with many of you, we outlined some of the projects and the type of malls that we are going into.

We feel comfortable. And although I know we've sort of disappointed that we haven't been hitting that 100 screens approximately per year, but that continues to remain to be our target. And hopefully we will earn your trust in making those projections.

Eric Handler - *MKM Partners - Analyst*

Thank you very much.

Operator

Ryan Fiftal, Morgan Stanley.

Ryan Fiftal - *Morgan Stanley - Analyst*

Wanted to ask about non-film content, particularly the Kings and Sharks event. So obviously it is great demonstration of the technology, but I don't know, maybe more importantly do you think it represents any kind of breakthrough or progress on negotiating with sports right's holders? Or do you see it still as a very much a one-off event?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

No, I see that we have the technology in place. And what we are trying to do with all the different rights' holders is to demonstrate that the technology is now in place that they can think of theaters as the largest premium pay-per-view system in the world.

Theaters have always been a pay-per-view format. But now it is a network. Because of the technology that is in place, it gives you one-point access to thousands and thousands of screens.



What we are doing now is convincing the various content providers that the -- how the technology works, that it does work, and also working with them to develop the business model. And I think that's the next phase now that we have the technology in place.

I think it is encouraging to see companies like NBC and Disney and Riot Games and several others are stepping up to really test the technology and to expand the technology. And Cinemark has led that effort for the industry because of our expertise in this area.

And although we are doing a lot of it in the US, it is important that you realize, and I think that the Riot Games test also in Brazil shows that we see this as a global opportunity. And that it just continues to grow and expand, and it will become a meaningful part of our business in the future, although film always be the primary driver of our industry. We think this is a real upside to the industry.

Ryan Fiftal - *Morgan Stanley - Analyst*

Sure. And the collaboration with NBC that led to that event, do you think the negotiations there lead to some progress on starting to hammer out those economics medium term, or was it really very much (multiple speakers) toe in the waters?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

I'm not an expert in licensing obviously, but as you talk with the different content providers, they have to tie up these rights in advance. So as we go to them and say, here's this great platform that's now in place. As they acquire new content and that, they will tie up the rights to go over this network.

So it's in the -- we are in that phase where we are developing the business model and making the different content providers aware of the network. But then to the point that you are making, is that they also have to secure the rights when they tie up the content to go over network.

In some of these tests we are doing, it is just a test to test the business model to show there's a real business there. To date all of the test have been extremely successful. And I think that NBC and Disney, although we are doing the Pixar event, Fox did Fault in Our Stars last two year. It was very, very successful event for them. So I think you are you're going to see this model continue to develop and expand.

Ryan Fiftal - *Morgan Stanley - Analyst*

Okay, great. Thank you.

Operator

Robert Fishman, MoffettNathanson.

Robert Fishman - *MoeffettNathanson - Analyst*

First for both Tim and Sean, can you provide an updated thinking on how you plan on dealing with your elevated cash balance and the under-levered balance sheet? Just curious, are there more M&A options on the table that you are starting to see, both in the US and Latin America, now that it sounds like some theater owners want to be opportunistic and sell on what are high expectations for 2015?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Our primary focus, and we said this in the past, is to continue to invest and grow the Company. We think we demonstrated over the years that whether it is organic or M&A activity that we delivered great results to our shareholders.

If you're a seller, this is a great time to come to the market because there's a lot of optimism for the industry over the next few years. So if I'm a seller, I think this is a great time to come to the market.

As it relates to Latin America, when we first went to Latin America there wasn't a lot of modern theaters that you could acquire. But over these past 20 years a lot of good high-quality theaters and platforms have developed that would be very attractive.

Whether or not they'd come to the market is another story. But obviously we think that Cinemark would be in a prime position to take the lead in those types of negotiations.

Here domestically there's a lot of high-quality regional circuits that many of them are family-owned. So that brings in a different matrix, just why are they may or may not decide to sell. But there's some high-quality assets out there.

The thing that we like about our balance sheet is that we can enter into these transactions without financing being a condition of it because we have such a strong balance sheet. And so we are actively out there looking for opportunity, but then also in expanding our Company where it is appropriate on an organic basis.

Robert Fishman - *MoeffettNathanson - Analyst*

Okay. And for Sean or Tim, it seems like clearly the industry is turning to more luxury theater model, three-seating and all the concession initiatives. Cinemark on average has benefited from higher ticket price growth in the US over the past few years if you look at it versus the overall industry. Just curious, what gives you the confidence in continuing to increase pricing going forward without alienating some of your lower income moviegoers?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

We've probably have been the most conservative in raising our prices over the years because we feel that attendance is the main driver of the business. And also as you analyze Cinemark you will see that we focus a lot on screen utilization.

So as we look at the different platforms we bring to a marketplace, a lot of that focus is on if we think it is going to increase the utilization. Or even as we look at alternative content or a lot of the things we are doing in the marketplace is, how we can increase the overall utilization of the theater and expand our margins.

Like many other circuits, we are looking at our screens that are underutilized. And if they are underutilized, how we can reposition them in the market, whether it be recliners or different premium formats that we might bring to market.

Robert Fishman - *MoeffettNathanson - Analyst*

Thanks a lot, guys.

Operator

Barton Crockett, FBR Capital Markets.

Chase White - *FBR Capital Markets - Analyst*

Good morning, guys. Chase White subbing in for Barton Crockett. A couple of questions. The first question is, you guys obviously outperformed the industry on box-per-screen growth. So did you guys have any issues with American Sniper the way that AMC or Regal did?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Yes. We operate in 41 states. So obviously it performed in some states better than other states, just like Regal and AMC. I think they have similar footprints. They are probably in the 40 state-plus range, both those companies are, and we are in 41 states. Also, and it's spring now, but to refresh everybody's memory, we had some tough weather conditions in the Midwest and the Northeast of the country that caused some closures for us.

Then a like American Sniper, although it is a great, great movie and I wouldn't take anything away from it, but since it is more an American-related story it probably didn't perform as well in Latin America as some of the other films. So we face similar challenges from quarter to quarter and have a similar, or probably similar, impact as AMC or Regal because they have a broad footprint like our Company does.

Chase White - *FBR Capital Markets - Analyst*

Got it. And one more, if I may. There's been a lot of talk about clearances recently, and perhaps the DOJ getting involved. What is our guys' view on clearances? And if the DOJ did happen to get involved, how would you execute on a strategy there?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

We cannot comment on the DOJ. We have seen the public announcement, but we have no comment beyond them.

As far as clearances themselves, they've always been part of this industry. I've been in this industry obviously a long time, and clearance has always been part of the industry.

As a relates to Cinemark, only 8% of our theaters are in cleared zones and the vast majority of those clearances are with Regal or AMC or Carmike. So we don't have a lot of clearance zones. And so I cannot see it being a big factor either way in our Company.

Chase White - *FBR Capital Markets - Analyst*

Got it. Thanks, guys.

Operator

Tony Wible, Janney Capital Markets.

Tony Wible - *Janney Capital Markets - Analyst*

Thanks. I was wondering if you guys can talk about how we should think about salaries with some of the inflationary pressures that you guys mentioned? And obviously the attendance should probably pick up a little bit for the balance of the year.

So you guys have done a great job managing those costs, but there's a couple of those things. I was hoping you could provide a little bit a sense on how we should think those things would shake out. And then I don't know if you guys mentioned it, but in the concessions per cap, is there way of breaking out how much of that was just underlying price versus volume or new products?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

I will let -- I will take the first part on salaries. The focus of Cinemark as we schedule are employees has always been the amount of employees per customer. So we use a technology called Kronos, and have for several years, both in the US and we've all introduced it in several of our Latin countries.

The thing we like about Kronos is that you can establish the ratio between the customers and the employees, because if you're understaffed you are probably losing money and if you're overstaffed you're losing money. So it is a great technology that allows us to properly schedule.

Obviously a lot of the states have already passed minimum wage laws and that, and we've complied with all of those laws. Also like with the Affordable Health Care Act, that's also already baked into our numbers.

If there is increased prices, you tend to offset a lot of those prices with -- or costs with price increase as much is possible or operating efficiencies. But Cinemark has always been -- feel that our number one asset is our people, and so as to how we treat our employees and how we relate to them. So we don't see it as a major issue one way or the other going forward. On the concessions?

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

I was just going to say on concessions, without breaking out the specific percentage, price is a smaller part of our domestic per cap growth of 7.5%. The lion's share is more volume increases, our strategic promotion activities, and I would say some of our floor concepts with lane dividers and things to basically drive increased throughput of sales.

Tony Wible - *Janney Capital Markets - Analyst*

Great. Thank you very much.

Operator

Ben Mogil, Stifel.

Ben Mogil - *Stifel Nicolaus - Analyst*

Good morning. Thanks for taken my questions. Two questions, and both are related to Latin America.

When you look at the 7.4% ticket growth in constant currency in the quarter, can you give us a sense of how much of that is just standard 2D ticket or 3D ticket pricing going up, how much of that is mix shift? And curious, given the weakness in those economies, how much longer you think you can continue to move the kind of base at either of these price points up, if you will?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Ben, good morning. And Latin America, a lot like the US, is content-driven. That's what drives the attendance.

As far as the price increases in all these countries, they tend to follow inflation. And we try to do a little better than inflation in these countries, and all businesses operate in the same way.

I've always been focused more on the attendance as the driver down in Latin America, which is driven more by content. Not unlike the US back in 2008 when you had the recession here, our industry performed very well because of content. Then as far as, in Latin America, prices fluctuate more just with inflation, and then we try to capitalize a little beyond that.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

I was going to add, the bulk of our increase is really inflation-oriented. If anything, that could've been higher. We had some 3D mix working against us, just based on the total mix of 3D content, which that actually dragged down the price a bit, in particularly internationally.

Ben Mogil - *Stifel Nicolaus - Analyst*

Then on the concessions side, is the growth again, just focus on the international part, is that growth a combination of both the standard inflation and growth of sort of mix shift, if you will?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

It is inflation, but then also it's introducing new products just like we are in the US. And is also creating the expectation of what you do when you go to the movies, because in a lot of the markets that we just enter into when we open up a new theater, maybe concessions haven't been a big part of the theatrical experience.

So that's also part of it. But we continue to expand. And a lot of the same concepts that we use in the US, to have a variety of products that allows customers to make the choice. And in the case of these countries, it might be sugared popcorn or it might be -- in Brazil it might be cheese bread. So it's also adapting to those local taste.

Ben Mogil - *Stifel Nicolaus - Analyst*

That's great, Tim, thanks. Maybe just a broader question on Latin America. A lot of articles, at least in North American papers, about Brazil in particular, empty shopping malls, empty office buildings.

Maybe you could talk about what you are seeing? Are you concerned that that's going to slow down your new growth process? Do you see the ability to pick up some theaters in malls that are having trouble, or do you not want to go there because those malls are having trouble? Kind of curious on what's going on from a macro perspective there.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

No, absolutely. As you're aware, I'm very familiar with Brazil. We've been down there for over 20 years. And even when I was directly overseeing international there were some malls that were built -- I remember when the mall outside of Niteroi. They were building the mall, so obviously we went -- they want us to put a theater in it.

I went out and took a look at it. And I said to myself, why would anybody be building a mall here, let along putting a theater there? That's always been part of the process, that you have to do the market-by-market on the ground evaluation.

We are very fortunate that our management team is from Brazil and they have been with us over 20 years as site selection. And you have seen some of this where, in the past couple years sometimes we were being criticized that we weren't growing maybe as fast as the market when it was really exploding in Brazil, but that's because we are always very conscious about site selection, whether it is in Latin America or here in the US.

We don't have any of the situations where those malls are in trouble because of our local expertise and that local market knowledge, and also checking out to make sure it meets all the criteria as to why or why not we were going into a mall. And even another example of that, we announced this year small-market initiative, and it's with all the -- not only a great developer and Black Rock backing it, but they have all the primary tenants, or the top tenants that are already committed going into these malls with us. We would never face, with this here line up of tenants, that kind of a situation.

Ben Mogil - *Stifel Nicolaus - Analyst*

That's great, Tim. I appreciate the commentary on it. Good quarter, guys.

Operator

Chad Beynon, Macquarie.

Chad Beynon - *Macquarie Research Equities - Analyst*

This for taken my questions. Tim, you highlighted reasons for your success this quarter and mentioned that 2015 will continue to benefit from the diversification of product and also more importantly, good spacing. Could you offer some anecdotes that will give your investors comfort that this should, and maybe will, continue beyond 2015?

I know there's been some questions around that. Any conversations or takeaways that you had from CinemaCom just with respect to diversification and spacing? Thanks.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Thank you. A lot of the focus going into CinemaCom, and maybe even coming out of CinemaCom, was the Disney lineup and the strength of the Disney platform. I was really impressed by all the studios' platforms.

Sony I thought had an incredible -- because back to the interview, prices they went through, and I think the expectation, where's Sony going? I think they came to the market with just an incredible reel. Warner Bros. was another terrific reel. Also Fox was strong. And Universal, not only this year going to have a great year, but I think they got a great few years coming forward.

All of the companies, and I think have been overshadowed a little bit by the Disney -- the buzz on Disney. But the thing that I would encourage investors is to look at the slate of all the companies that they're bringing to the market, which is going to be extremely strong, diverse, a lot of really talent.

And I think that this year you're going to see some real surprises in the marketplace. Not that Disney isn't going to have a great year, and I'm not trying to undersell Disney, but you're going to see a lot of these companies are going to have a great year.

Chad Beynon - *Macquarie Research Equities - Analyst*

Okay, thanks. And you outlined your CapEx for 2015 and beyond. And also mentioned that you potentially would be a buyer, particularly in Latin America, if assets came up for sale. Sean, how do you think -- how do you and the Board think about the dividend policy at this point, maybe versus your peers versus the 10-year yield, and how you think about the payout ratio?



Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Sure. I mean we are pleased with our yield at 2.4% now. We think that's pretty good. When we think about dividends, we have been on a -- historically the dividend has been increased about every three years or so. We do have a conservative Board when it comes to that.

As Tim mentioned earlier, I think our priority would be on continuing to invest in growing the Company and delivering the types of ROIs that we've seen in the past. We think that's the best long-term way to reward our shareholders, with just Company growth. So that's our first focus, and then we evaluate the dividend in light of that and our overall forward-looking cash assumptions.

Chad Beynon - *Macquarie Research Equities - Analyst*

Okay. Thank you both, and congrats on the quarter.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Thank you.

Operator

Matthew Harrigan, Wunderlich Securities.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Thank you. I actually had two questions, and I'll break them up if you don't mind. At the cable show there's a grudging admission by the MSOs now that they're starting to do 4K, even though it's a little expensive. And you saw Hannah's Horse is starting to market it for DirecTV.

With DCDC I think you could even more things over time with HA, which nobody is talk about the US, at least in this decade. And I think with that you could start doing autostereoscopic 3D, 3D without the glasses.

It feels like if you're able to get people to produce in that format, whether it's sports, for concerts, World of Warcraft, whatever, you can really have a differentiated experience in the theater. Do you think you have prospects to getting that type of content, even better than 40 content if you go out a couple years and you get even more of a differentiated experience in the theater? My understanding is that DCDC could probably handle that.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

I think that George Lucas really said it best here about four or five years ago at CinemaCom, and I'm sort of paraphrasing. But he says, getting to digital is going to open up all kinds of dramatic changes from a technical standpoint in our industry and it is going to allow a lot of the expansions that are going to be really good for our industry.

In fact, our own premium large format is due to Disney, sustainable 3-D is due to Disney -- or, I mean, digital. And so as we -- and you're seeing a lot of announcements from various companies that all these advancements in technologies that are coming our way, and now with satellite delivery we do have the platform, to the point that you are making to -- and it is a very robust platform. And it was designed to be able to handle all this type of content throughout the industry.

And so I think that you are going to see big technical breakthroughs coming in our industry, which will be good for all of us. And Cinemark has a history of being very focused on technology and what it can do for us. That's why -- I've been in this industry for a while, like I said earlier, but I've



never seen a better time, because now technology is a real asset to us where before, when we when we were on the film-based technology, it was a real hindrance. But we have a very bright future ahead of us.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

I would add, I think all the examples you raised are exactly what excites us about the prospects of alternative content and the platform that's now in place to take advantage of it.

Matthew Harrigan - *Wunderlich Securities - Analyst*

The second question, harkening back to an earlier question on Disney, I think people sometimes tend to overplay the adversarial aspects versus the win/win. But you're in a unique situation because your market share of some of those Latin markets is -- you do almost as much to them as they could do to you. Do you feel like you have more leverage than some other domestic-only operators by virtue of being the gatekeeper in those markets, or do you think everybody puts their big-boy pants on and gets on with, and tries to structure everything as much of a win/win as they can?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

We have been -- throughout my career in this industry, I've always viewed the studios as our partners and have always had an excellent business relationship with each and every one of them. That doesn't mean from time to time that we don't have various business issues come up. But on a long-term basis, I think both the studios and the exhibitors realize that we're very dependent upon each other, and so it is up to us to focus on how we grow the pie rather than fight over pieces of the pie.

What I like about Cinemark's relationship, and I cannot speak to others, with the studios is the focus is always on how we grow the pie and expand the relationship and to bring more people into the theaters. And that's our focus, and it is a win/win for both of us.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Great. Thanks, Tim. Thanks, Sean.

Operator

Jim Goss, Barrington Research.

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

Thanks. I've got a couple of them. First, with regard to the big film slate this year, my assumptions would be it'd have two significant pressures. One, a favorable one on ticket prices, including 3D and XD impacts, but with the offset of the film-level margin pressure that I imagine you would experience as you described earlier. How are looking at the balance with those two? And what are the extent of those issues?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

The thing we like about 3D and also our XD is that -- and I think this first quarter was an example. We had great performance on our XD screens on American Sniper and on 50 Shades of Gray, and then also on Cinderella.



And also from a 3D standpoint, surprisingly SpongeBob SquarePants had very good 3D performance. So we focus on both those because we think it allows the customer a choice as to what format they want to see it in. And if the customer makes the choice for the higher ticket price, the entire industry benefits.

And as far as overall pressure on the film, I don't want to get blown out of the sights that yes, on really high performing films you are going to pay more rental but it tends to average out. And it will tend to shift from studio to studio as to film rental.

But if you look at film rental over a long period of time, it tends to be probably one of the more stable areas of our business. And we feel that we can easily manage it. And if it goes up, that's probably a good sign for our shareholders because that means that the films are performing really, really well in the marketplace, and of course we are making more money. So really high performing films would be good news, both for the studios and for us.

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

All right. And one last thing. I think you have experimented a little with some of the low price weekday tickets -- ticket prices and popcorn buckets and some [on] drink refills, some of those another initiatives. Have you have seen any impact of note that we should look at there?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Not of note, but we've always felt, and we've been very clear about it, that we feel the number one driver of our business is attendance. And we don't want price to be a barrier of why people go or don't go to the movies. Our pricing model takes that into consideration.

And if you want to pay a lower price, you might go at a different time of the day or a different day of the week. But we want to do whatever we can to increase people to enjoy Cinemark theaters.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

That same concept plays through to concessions in offering varied products and varied sizes to keep them within reach of all our patrons.

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

All right. Thanks, Tim.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Thank you, Jim. Does that include our call? I want to thank everybody for joining us this morning. And we will look forward to speaking to you again to report our second-quarter results. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.



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