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CNK - Q4 2013 Cinemark Holdings, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good afternoon. My name is Destiny and I will be your conference operator today. At this time, I would like to welcome everyone to the Cinemark Q4 and full year 2013 earnings call. All lines have been placed on mute to prevent any background noise.

At the after the speakers' remarks, there will be a question and answer session. (Operator Instructions). Chanda Brashears, you may begin.

Chanda Brashears - *Cinemark Holdings, Inc. - IR*

Thank you, Destiny, and good afternoon, everyone. At this time, I would like to welcome you to Cinemark Holding Inc.'s fourth quarter 2013 earnings release conference call, hosted by Tim Warner, our Chief Executive Officer, and Robert Copple, our recently promoted President and Chief Operating Officer and interim 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 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.



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

Good afternoon, everyone. Thank you for joining us for our fourth quarter 2013 results call.

First of all, I would like to congratulate Robert on his promotion to President and COO. Robert has been an integral part of our management team, contributing to our strong financial success and navigating us with numerous strategic initiatives, acquisitions, and joint ventures. I look forward to working with Robert to fully transition to President and COO duties once we hire a replacement CFO.

This afternoon, I will provide an overview of the fourth quarter and the full year box office for both the North American industry and Cinemark, highlight the upcoming film slate, and provide an update on a few of our strategic initiatives. After my remarks, Robert will provide additional commentary on our financial results and capital structure, and then we will conduct our customary question and answer session.

Annual 2013 North American industry celebrated another record year, achieving nearly \$11 billion in admission revenues, exceeding 2012's record box office and establishing a new all-time high for the industry. This year's box office success was driven by a diverse film slate, including blockbusters such as *The Hunger Games*, *Iron Man 3*, *Despicable Me 2*, and *Frozen*, as well as a strong slate of mid-tier films that outperformed expectations.

Films such as Lee Daniels' *The Butler*, *We Are the Millers*, *American Hustle*, and the limited release *12 Years a Slave* demonstrated that studios continue to invest in a diversity of films other than strictly tent poles. The success of the North American industry over the past several years reiterates the capability and demand for the premium out-of-home experience that theaters provide.

Cinemark's worldwide attendance set a new all-time high of 276.6 million patrons for the year, an increase of 4.9%. Operations were able to leverage the attendance increase while simultaneously managing costs, resulting in a record for adjusted EBITDA of over \$625 million. Our 2013 worldwide adjusted EBITDA margin continues to lead the industry at 23.3%.

The rise in attendance, along with the increase in ticket pricing, generated \$1.7 billion in admission revenues and established a new Company milestone. Our full-year box office growth of 8% over-indexed the North American industry by 700 basis points. Our total worldwide revenues for the year grew 8.5% for a record of \$2.7 billion.

The fourth quarter North American industry also accomplished a new high for admission revenues, surpassing the previous record set in 2009 by the release of *Avatar*. Although attendance declined by approximately 2.5% for the industry, Cinemark increased attendance 10.7% for the quarter.

Premium product propelled the fourth quarter box office with strong 3-D rates for *Gravity*, *Hobbit*, and *Frozen*. With the success of our XD screen and 3-D take rates, Cinemark's worldwide premium percentage of box office for the fourth quarter was 24.5%, approximately a 620 basis point increase over the prior year period.

Our expanded base of XD-branded premium large-format screen also set a new record, accounting for 5.5% of our fourth quarter domestic box office. Our XD screens led Cinemark's worldwide box office increase of 6.9% for the quarter. We commend our entire worldwide operation team for exceeding the North American industry box office for 18 of the last 19 consecutive quarters on a currency-adjusted basis.

The North American industry Q1 2014 box office is off to a strong start. The carryover of the fourth-quarter holiday box office, including *Lone Survivor* and the sing-along version of *Frozen*, combined with the success of films such as *Ride Along*, *The Lego Movie*, *The Nut Job*, has generated an estimated growth of approximately 10% from the prior year.

The summer season continues with *Amazing Spider-Man 2*, *X-Men: Days of Future Past*, *Maleficent* starring Angelina Jolie as an iconic Disney villain, *How to Train Your Dragon 2*, *Transformers: Age of Extinction*, and *The Dawn of the Planet of the Apes*. The fourth quarter film lineup includes *Hunger Games: Mockingjay Part 1*, *Hobbit: There and Back Again*, and *Interstellar*, the epic space adventure from the creative genius, Christopher Nolan.

We are looking forward to -- for the first time in the industry we have great visibility into the film slate for 2015 and even into 2016, and are excited about the film product already announced, including *The Avengers: Age of Ultron*, the *Despicable Me* Minion sequel, *Star Wars Episode 7*, [*Dawn*



24], Hunger Games: Mockingjay Part 2, Batman versus Superman, Avatar sequel, Amazing Spider-Man 3, How to Train Your Dragon 3, and Finding Dory, a Nemo spinoff, and many others.

2013 was a pivotal year for Cinemark, and we accomplished numerous key initiatives, including the accretive acquisition and seamless integration of 34 high-quality theaters with 513 screens, which would rank as the seventh-largest circuit in the US. The disposition of our Mexican -- Mexico assets in Q4, encompassing 31 theaters and 290 screens, allowing our management team to refocus both our strategic and financial resources throughout South and Central America, where we see considerable opportunity for organic growth and accretive returns for our shareholders.

The opening of 23 new state-of-the-art theaters with 196 screens worldwide; the refinancing of our debt, resulting in a significantly reduced interest rate, and an extension of the term by four years. The expansion of our worldwide capital XD screen footprint with an additional 47 screens worldwide, recognizing 46% growth in one year and further establishing our XD brand as the number-one privately-owned premium large-format brand.

The completion of the DPF agreements for our international circuit with most studios; we have digitized 86% of our international segment and we'll be 100% digital in early 2014. Laying the groundwork for alternative content expansion with the rollout of the technology platform of DCDC, and acquisition of Fathom in conjunction with AMC and Regal, we can now focus on developing the business model of bringing a wide variety of entertainment options into the theater.

Although we have had some success with alternative content with the Met and the Mayweather versus Canelo fight, and Dr. Who, we know from our testing of a wide variety of entertainment options that the public is very supportive of additional and broader alternative entertainment.

The continued development of our market adept and premium concepts that offer our patrons the highest quality amenities and experience through Cinemark Movie Bistro, VIP, and NextGen concepts. We are eagerly awaiting the opening of our Cinemark Premium concept in Playa Vista, California, and Towson, Maryland, later this year.

Last, but not least, our progress on the Flixmedia initiative in Latin America. Flix remains a long-term initiative with a three- to five-year rollout throughout our Latin American theaters. Flixmedia also provides us with an opportunity for additional revenue share with other exhibitors.

In line with our expansion strategy throughout South and Central America, we are pleased to announce the opening of our first Bolivian theater with 13 screens, including four VIP auditoriums and an XD auditorium.

As you can see, our Company accomplished a great deal in 2013, illustrating the depth, talent, and dedication of our team and the ability to seamlessly execute many complex initiatives. We look forward to continuing to push the Company and the industry forward in 2014.

I have been in this industry for many years now and have never been more excited about the business, due to the opportunities that technological advancements are providing. I am proud to say that Cinemark continues to be at the forefront of innovation in our industry. We continue to focus on technology to remove cost from the system, enhance the customer experience, increase utilization of our theatrical platform, and continue to grow our Company through accretive acquisitions and targeted organic new builds.

Robert will now discuss the Company's financial performance for the fourth quarter and provide an overview of the capital structure.

Robert Cottle - Cinemark Holdings, Inc. - Interim CFO, President and COO

Good afternoon, everyone. We surpassed our record for annual attendance, worldwide revenues, and adjusted EBITDA. We remain the number-one attended worldwide exhibitor with the highest adjusted EBITDA.

Our total worldwide revenues for the fourth quarter increased 6.6% to \$651.9 million. Worldwide admissions revenues were \$412.6 million, an increase of 6.9%. Our worldwide adjusted EBITDA was \$140.9 million, resulting in an adjusted EBITDA margin of 21.6%. Our US segments' total revenues for the quarter grew 14.8% to \$496.7 million, driven by the diverse film slate and successful premium product, as well as the addition of our acquired Rave assets.

Admissions revenues for the US segment increased 15.2% to \$323 million for the quarter. Our US attendance for the quarter was 45 million patrons, an increase of 10.8%. The average ticket price rose 3.9% to \$7.18, primarily due to price increases, pricing at acquired theaters, and premium product.

The US concession revenues were \$156 million, an increase of 13.5%, primarily due to incremental sales and price increases. Our domestic concessions per patron grew 2.4% to \$3.47, marking our 28th consecutive quarter of concession per capita increases.

We remain focused on growing our concessions with the introduction of new theater concepts such as Cinemark Movie Bistro, expanded offerings, and concession discount combos and promotions.

Our US segment generated adjusted EBITDA of \$113.9 million with an adjusted EBITDA margin of 22.9%. The impact of our acquired Rave theaters provides a slight headwind for adjusted EBITDA margins during lower attended months, such as October.

Our international total revenues this quarter were \$155.2 million. Admission revenues were at \$89.6 million. In constant currency, and eliminating Mexico's performance, admission revenues declined 0.9%.

Our international segment's average ticket price was \$4.53. In constant currency, the average ticket price improved 10.5%. Our international concession revenue was \$45.8 million. Concession per patron maintained its growth trend at \$2.31 for the fourth quarter, an increase of 12.3% in constant currency, primarily due to incremental sales, premium product, price mix, and price increases.

The Mexican Competition Commission approved the sale of our Mexican circuit in the fourth quarter. Because we cannot anticipate the closing timeframe, consensus estimates are not properly reflective of the impact of the sale. Due to the sale, we incurred a number of operating costs resulting in a \$6.2 million negative impact on comparable operating income for the quarter. This is in addition to the after-tax loss of \$17.9 million resulting from the sale, primarily due to the taxes associated with the sale.

As Tim said, the sale in Mexico was a major initiative accomplished in 2013. It provides us the opportunity to provide greater focus to our Central and South American assets which offer greater growth opportunities.

Our Latin American segment generated adjusted EBITDA of [\$27 million], impacted by the 9.5% FX headwind and the disposition of our Mexico assets.

Consolidated film rental and advertising costs increased 110 basis points compared to the same period last year at 55.1% of admissions revenues due to the overweighted performance of the top films at box office. Concession supplies were 15.7% of concession revenues, an improvement of 20 basis points, due to the mix of product and concession price increases.

Total income before income taxes were \$66.5 million, compared to pretax income of \$65.6 million in Q4 of 2012. Net income attributable to Cinemark Holdings, Inc. was approximately \$15.6 million, or \$0.13 per diluted share.

Our fourth quarter effective tax rate was 76.1%, which was a result of the tax impact of the sale of our Mexican subsidiaries.

Cinemark continues to have the strongest and least levered balance sheet in the industry, with a cash balance of \$600 million. Our net debt position is approximately \$1.23 billion and a net leverage ratio of 2.0 times adjusted EBITDA.

At quarter end, our US circuit consisted of 334 theaters and 4457 screens in 40 states and 99 DMAs. At the end of the quarter, we built six theaters with 68 screens, and closed three theaters with 24 screens. We have signed commitments to open eight theaters with 90 screens during 2014, and five theaters with 62 screens subsequent to 2014.

We expect to incur approximately \$90 million in CapEx for these additional 152 screens.



Our total Latin American circuit at December 31 consisted of 148 theaters with 1106 screens. During the quarter, we opened five theaters and 25 screens, and divested of 32 theaters and 300 screens. We presently have signed commitments to open 13 new theaters, representing 88 screens during 2014 and three theaters representing 23 screens subsequent to 2014.

Our estimated CapEx to develop these additional 111 international screens is approximately \$70 million.

We remain committed to reinvesting in the Company. During 2013, we invested \$259.7 million on capital expenditures, including \$134.7 million on new construction, and an additional \$125 million on maintenance CapEx, which includes the Latin American digital conversion cost and the expansion of our XD premium large-format screens. As a reminder, we will be reimbursed with the majority of the costs of the digital projectors through VPF fees collected from the studios.

We expect 2014 CapEx to be approximately \$275 million to \$300 million, slightly elevated from our run rate of \$250 million due to the completion of the digitization of Brazil and the new build projects that shifted from 2013 to 2014. We expect our new build CapEx to continue to be accretive to shareholders, given our investment thresholds of 20% returns and 20% EBITDA margin, and our commitment to expand [being] our diversified footprint.

Operator, that concludes our prepared remarks. Please open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robert Fishman, Moffett Nathanson.

Robert Fishman - *Moffett Nathanson Research - Analyst*

Tim, can you just share with us your early thoughts on how the potential Comcast Time Warner Cable deal might impact their attempt to push more aggressively into premium VOD, given their history, and with a larger subscriber base, and whether you would consider working with them as partners on that initiative?

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

We have a great relationship with NBC Universal, I guess, as an indirect relationship with Comcast. And they are one of our major film suppliers and from time to time we have a lot of different business discussions. In fact, they have a new Chairman of NBC Universal and I am going out to meet with him early March.

But, I don't know how that whole Comcast merger, whether -- I am sure it is going to get a governmental review and I am not sure where it ends up. But we would anticipate a continued good relationship with NBC Universal.

Robert Fishman - *Moffett Nathanson Research - Analyst*

And, Robert, are you able to give us a base on how international attendance, average ticket price, and concession spending would look like for the full year of 2013, if you backed out Mexico?



Robert Cottle - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

I actually -- if I backed out Mexico, I didn't run the full year. Actually, I might be able to grab that number real quick. But, for the quarter, it actually ran -- without Mexico, what attendance would have been off, it would have been off about 4%.

Now, if I remember overall for international attendance overall was, despite actually even selling Mexico, was only off less than 1%. And so I don't know for the year it changes a whole lot. I mean, Mexico did underperform slightly, but for the year, the attendance was pretty good.

Q4, to me, was the time period that is kind of difficult to look at our financials because of the fact that you had a partial period of Mexico. In actuality, while we did operate it for about 30 to 45 days, we're really transferring the theaters over, which meant we had just the issues that come up whenever people are leaving the Company and going to a new company, and trying to remain focused and really spending much more time on the sale than really operations.

But -- and that is why we had some of the losses from the termination costs. I did just [bolt on], if I do a pure comparative of attendance year-over-year, it would be up 1.4%. So, internationally -- so again, for the year, we are slightly down with it. We are up without it, which, as I recall, I think the numbers domestically for the industry were about, as I recall, around 1% or 2% down in attendance.

So international did, as a group, outperform. Does that help?

Robert Fishman - *Moffett Nathanson Research - Analyst*

Yes. No. Thank you.

Operator

Barton Crockett, FBR Market.

Barton Crockett - *FBR Capital Markets - Analyst*

I wanted to ask a little bit more about Latin America. And, really, one of the things is, can you give us any sense, since the performance relative to the US has historically been better per screen, in the fourth quarter, it really wasn't. Are you seeing things turn around and go back to the old norm of outperformance [for] the US so far this year?

And did the economy have any role in this? I mean there is so much about Brazil and the economy. Is that in any way slowing people's back to the movies?

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

Well, you know, the US is, as we discussed in the call, off to a very strong start. And for the remaining of the quarter, you have 300: Rise of an Empire; and Mr. Peabody and Sherman; Divergent, which is the first in the trilogy, and also Noah. So the US is -- has a strong look.

But we also think that Latin America, when you look at the economies, and I would compare it -- that their economy other than -- and I am going to sort of segment out Argentina, because Argentina, besides a currency issue, is also facing some political headwinds in Argentina. But, the overall emerging market is the -- and the rest of the country is just the typical ebb and flow of emerging markets.

And what we have found here in the US, and also in Latin America, because we have been down there for over 20 years now, is that our business is primarily product driven. And I can go back to the economic crisis we had here in the US, 2008 up until -- whether you want to call it a recession or -- and it continues to -- and it continued to perform very well. That same kind of thing works in Latin America.



However, you do run from time to time as a result of the film products, that some film product doesn't translate as well. And an example of that in last year, Hunger Games vastly underperformed Twilight. And so, for whatever reason from a translation basis, where in the US, Hunger Games performed on a similar basis as Twilight.

And so from time to time, we will hit these variances as to how a film translated. But we believe that the number one driver of our attendance will still be film and film product and how it translates.

Robert Cottle - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

And you might -- if you actually go back to Cinemark's -- our LatAm numbers, while domestically Q4 is always a big quarter and could easily be as big as some of the middle quarters we have, in Latin Am, it tends to be a slower quarter because their Christmastime is (inaudible) as their holidays are deferred until early in the start of the year.

And so they don't have the big Thanksgiving-Christmas push that we normally have. And so it tends to -- if you look at our history, it tends to be one of our lightest quarters every year. So the comparative wasn't that bad.

I mean, again, as I mentioned, if you compared -- if you take out Mexico, there was about a 4% decrease in attendance. If you look at that compared to the US, it is pretty applicable. I think US was down for the industry 2.5% or so.

Barton Crockett - *FBR Capital Markets - Analyst*

Okay. And then, if I could just ask one other question. AMC is out there, IPO and with a plan to spend like \$1 billion over five years, redoing their theaters, including \$600 million on re-seats. You guys are spending maybe similar [sort of] CapEx over a similar number of years, but foreign kind of new builds and digital projectors.

What do you think about -- is there any argument at Cinemark for refocusing on a lot of capital on re-seats and just redoing the interior of the theater? Do you think that makes sense for you or not really?

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

Well, first off, I would say that Cinemark invested a lot in renewing our basic platform. And, if you study our history of our Company, our maintenance CapEx tends to be higher than the rest of the industry because we are constantly reinvesting in our theaters.

And also, we probably do more new organic builds than the rest of the industry, and so we are constantly expanding the market. But the other philosophy at Cinemark is it probably sort of differentiates us from our competitors, is that we tend to go into each market with a specific market adaptive platform. That we don't say, hey, look, the answer for every place is a 30-plex or a 20-plex. Or we don't say the answer for everything is a VIP theater.

And so, as you look at the performance of our new builds, I mean, our next-gen theater has very, very been well received. It is more of a technological great movie experience with wall-to-wall, floor to ceiling screens in all auditoriums with enhanced sound, and because we believe that the number one reason people go to the movies is to see the movie. And we think that trend will continue.

But, however, we are going into specific markets with, as we talked about in our call, Playa Vista and Towson, Maryland are sort of really high-profile markets. And we are going in with our premium Cinemark concept, which does include some -- in Playa Vista, reclining seats are as a segment of it.

Or in Boca Raton, if you went to our Palace Theater, you would see that it has VIP sections. And we are also refitting some of our older sloped floors with reclining seats. And so it is all market by market to where we just don't have a broad program that we feel that one size fits all.

Operator

Eric Handler, MKM Partners.

Eric Handler - MKM Partners - Analyst

Just a couple things on Latin America. Robert, if I heard you correctly, you have got scheduled to open 88 screens. In the past, you have talked about 100 up to 125. Could we see more than that 88 or is that a number that we should be looking for?

And then, secondly, when you look at the distribution of your screens in Latin America, how is that going to be spread out in terms of how much of Brazil, how much Colombia, Peru, et cetera? And with the Brazilian currency and the Argentinean currency falling the way it has, relative to the US dollar, do you think possibly about focusing a little bit more on some of the other fast-growing markets to maybe diversify some of that FX exposure in Brazil?

Robert Cople - Cinemark Holdings, Inc. - Interim CFO, President and COO

First, on the 88 screens, those are the screens where we have signed commitments to. We generally will have signed up additional screens during the year, so our goal is still to be to open the 100 to 125 screens. We feel like we will find another theater or two that -- and when I say that, we always have a number of theaters that we are working on. But we only reflect those that actually have signed contracts right now.

So it is still the general goal we have had before. This year, we actually -- we came in just slightly light. We would have hit it if we would have opened our new theater in Bolivia on time. Unfortunately, we had a customs issue at the last second that held us up a little bit.

But it -- definitely that was our goal and we see it again this year hitting that number.

The allocation of product is pretty diverse, just like it has been in the past. We have some theaters in Chile, Brazil, Colombia, Argentina. And that is mostly screens, I guess, that we are adding some screens in some places such as Argentina. We have some things going on in Peru. So it's pretty -- across the total group of theaters in Central America we'll have something.

So I don't know -- people get concerned when you see things, read about currency and issues that could be coming up. And what we would say is, one, we have been in the countries a long time. Our experience is really just like the United States.

If you go back to 2008 and consider what everybody was feeling in the United States with the change in stock market and recession, and how well our industry did over those next years, which is also reflective, if you went back to Argentina in 2001 and looked at what we did for the next three years after that. People go to the movies as an escape. So, crisis or concerns with the economy really have never been something to scare us away from building.

We do everything in local currency and so we are really, from our perspective, we are generating excess cash flow. We are rolling that money back into the country. We are keeping it down there.

And, if anything, if things become concerning in some industries, occasionally that provides us opportunities to take advantage of it, where maybe we can reduce rents or get new product at better rates.



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

Well, you know, also, to the point you're making, though, about, would we be diversifying into other countries, Cinemark by design is very diversified. I think we are in every Central American country but Belize. And then in South America, the only countries that we are not in are Venezuela, which I am sure everybody agrees that is probably a good idea right now. And then we are not in Paraguay or Uruguay at this time.

But when you look at our platform, we do have a really broad-based approach and platform in Latin America.

Eric Handler - *MKM Partners - Analyst*

Great. And just one quick follow-up, if I may. With ticket pricing, you said in local currency terms it was up over 10% in the fourth quarter. Do you worry at all about inflationary pricing and people getting priced out of the market at all?

Robert Cople - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

You know, generally our pricing is going to follow, I would say local inflation. But then it's wage rates, things like that, in Latin America. Many of the countries are unionized, if not at all. And a lot of times the government sets ranges for wages.

And so you are usually adjusting the ticket prices in accordance with where you see those -- the wages being adjusted. So I don't see ourselves pricing out of the market. We are not trying to get above those amounts. We are staying in line with what general disposable incomes would be.

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

And, also, just like the US, with our price grids, if price is an issue for you, you might go on a different time of the day or different day of the week to take advantage of the lower pricing. And so we have incentive pricing if price is an issue.

Eric Handler - *MKM Partners - Analyst*

Great. Thank you very much.

Operator

David Miller, Topeka Capital Markets.

David Miller - *Topeka Capital Markets - Analyst*

Nice to reconnect with you guys again; a few questions, actually. Rob, what was sort of the same-theater topline sales in the quarter, excluding acquisitions? Just trying to get you to kind of fill that out if you could.

And then, could you just talk about the charge and just the losses on the Mexican subsidiary? Why did you have to pay taxes on that? If we could get just some of the mechanics around that, that would be helpful. Then I have a follow up. Thanks.

Robert Cople - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

Sure. We don't [say the] same theaters without the acquisitions. I mean, obviously, acquisitions are meaningful to us. But I would say if I looked at for the quarter how we performed without the acquisition, domestically, we -- again, where I think the industry was down 2.5% in attendance, we were down less than that, probably around 2%. Our box office was probably up around -- I would have to guess that estimate.



I mean, in theory our box office probably would have been up around 2% or 3% because you have premium pricing going into it.

As far as the Mexico sale, most of the impact of it on the income statement this quarter really comes through taxes, which we had mentioned before to people, when we sell Mexico we would expect to pay taxes of 30%, 35% on it. It is really more of an accounting issue that it's at any rate just a cash flow issue in that whenever you have had a country that you have been reinvesting in, all of the equity buildup from an accounting point of view stays in that country, because you are not really making normal distributions of the income.

When you sell it, then you have to recognize all that built up deferred revenue and everything, not from a deferred revenue income basis, but from a pure tax where you have deferred liabilities on that. And so all of those kind of things turn around on you whenever you have this type of sale. And that is what is really pushing through that income tax expense on the bottom line.

David Miller - *Topeka Capital Markets - Analyst*

Got it. And then, what was the aggregate free cash flow number for the quarter?

Robert Copple - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

For this quarter, I will have to see if I could grab that. It is probably going to be, ballpark, about \$35 million to \$40 million; somewhere in there.

David Miller - *Topeka Capital Markets - Analyst*

Okay wonderful. Thank you very much.

Operator

Calvin Buckles, JPMorgan.

Calvin Buckles - *JPMorgan - Analyst*

(inaudible) Argentina, any noticeable distraction you are seeing in attendance trends so far this quarter? And you have been down there for a long time, as you mentioned. So if you could maybe outline the biggest challenges to operating in this type of environment that you are seeing with inflation and the currency.

And, Robert, you alluded to some opportunities for positives that can come out of this. Do you expect to see these types of benefits to develop in the current environment?

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

Yes, well, like I said, we have a long history in Latin America. And the -- and even in Argentina we went through the currency and political crisis back in 2001, and so we also have the experience in operating in the kind of environment that we currently are in, in Argentina.

And to Robert's point, this does, since all our business is done in local currency, and we don't really need to pull any cash up, we are in a strong position to really take advantage of the marketplace if anything does open up or any opportunity present itself, because we have the cash down there and we don't have to push dollars down.



And so -- but I think that they continue to hold up more on the basis as product translates or local product emerges, and that we have a long -- from the time we went to Latin America, we have considered ourselves longtime players in Latin America. And we think it is still a great, great opportunity for us and a unique opportunity for Cinemark versus our other US companies. And because we have got this great US engine that sort of pulls the train and then just a great growth opportunity in Latin America that continues to perform. And we strongly believe it will be very year-end year in, year out in the future.

Robert Cottle - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

And, as far as timing of taking advantage of the opportunities, as Tim said, I think it is kind of early right now. But I think, what we have seen in the past is if some other industries are having any issues, that tends to put pressure on whether it is landlords or developers or somebody who wants to get a project done, because we do generate significant cash flow.

We are there to kind of step in and take advantage of it. And I don't think you're going to see that necessarily early this year, but maybe towards the end of this year or early next year, maybe there will be some opportunities.

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

And, also, there are opportunities that we know of. And we talked about developing Flix as the NCM version of Latin America. And so we know that is an opportunity.

We have obviously been involved in the execution of NCM and so we know how to execute it. We also know all the advantages that digital and DCDC or satellite delivery bring to the marketplace and the potential of alternative entertainment in Latin America. In fact, we played the Super Bowl down in Brazil on a test in five different cities and had very, very good results.

And so those are known opportunities. And they are just -- will require us to execute. And I think when you look at our history, the ones that we have been very good at is executing what we say we are going to do.

Calvin Buckles - *JPMorgan - Analyst*

And so, from an operating perspective, do things like ticket pricing and wages and leases tend to fluctuate together in the high inflation environment? Or does one tend to maybe outpace the other?

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

No. They tend to sort of fluctuate together.

Calvin Buckles - *JPMorgan - Analyst*

Got it. And then, just separately, on the M&A side in Latin America, a lot of has been made about the industry conversion to digital pushing smaller US exhibitors to sell. Is this maybe a bigger opportunity in Latin America where financing and VPF agreements are more difficult to obtain?

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

Well, it would be sort of -- the issue you face in Latin America is whether it is a modern platform or not. And it would go country to country. Like there are some really great potential targets, not that they are for sale, in like Peru and Chile. And then there is also some really good modern assets in Brazil.

And, again, whether they are for sale or not right now, we don't know. And so in addition to the digital issue, they would have to be sort of a modern base theatrical platform.

Calvin Buckles - *JPMorgan - Analyst*

Got it. So not much going on, on the LatAm side, in terms of acquisition activity?

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

Whether -- there is plenty of attractive opportunities that we are in a great position, because again, like I said, we have been down there a lot. We know all the people very well. They know we have the cash to execute.

And also, we demonstrated with the Hoyt acquisition and then also some smaller acquisitions in Brazil that we are very capable of acquiring and executing.

Robert Cople - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

I don't (multiple speakers) say there is anything around the market right now. But, as Tim said, we try to stay in touch with a number of exhibitors to see if opportunities will arise.

Operator

James Marsh, Piper Jaffray.

James Marsh - *Piper Jaffray - Analyst*

I just want to circle back on Latin America here. Hopefully, you guys could discuss how you evaluate the macroeconomic and political risks associated with the individual Latin America markets you choose to invest in.

And, then if I can ask you just a couple factors to consider when you are deploying this capital, but just obviously on the face of all the volatility they had, it would just be helpful how you guys think about that. And, then I guess relatedly, if you could just give us your updated view on how currency might impact your business in the first quarter.

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

On the -- I will let Robert address the currency issue. But keep in mind, when we entered Latin America, 17, 18 years ago, depending on the country, is that all these countries were coming out of very unstable political environments. And so -- and it was a great opportunity to enter them, because we had the opportunity to build the first modern theatrical platform or theater in every country we entered.

And so we sort of started the whole growth of Latin America from a theatrical basis. And so at the time, when we went there, we knew we were taking a risk because we were betting on the fact that these countries were going to emerge into -- from emerging democracies to sound democracies. And all these countries, when you look at them, whether Brazil or Colombia or Central American countries, they are all sort of stable from a political standpoint.

That -- there might be some currency fluctuations, but they have all demonstrated because they have had several elections since -- from the time we entered them. And the one exception -- but then, even in Argentina, you're going to see a successful, I think, transfer of power. It is going through a little political crisis. Now, they have the elections next year, but I think it will be a very peaceful transfer of power.

And so from the political standpoint, they are fairly stable democracies facing some challenges. But we are very comfortable in the regions. We have got great management teams that really -- that are all from these local countries.

They really know the countries. We really know the countries. And so we are not overly concerned about either the political or even the long-term economic viability of these countries.

Robert Cottle - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

We had -- when we entered most of these countries, we entered with fairly significant, I'd say, economic and financial partners that we stay in touch with. As a matter of fact, our partner in Colombia, part of that family is now -- a member of that family is now the President of Colombia.

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

Santos family was our -- one of our original partners in Colombia.

Robert Cottle - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

And so we maintain those relationships. They understand what is going on in government. We have -- obviously, we have people on the ground that are meeting with bankers and things like that. Tim and I do that as well.

So we are trying to also, to your point, stay in touch with and understand what the political arena -- where it is heading. The good part -- and I think this is what is hard, when we have learned, as Tim has said, over the last, really, 15 to 20 years, you go into these countries and you realize there is going to be some variance that people in the United States aren't as used to, but the people in those countries actually are.

And you adapt to it. And we have been fortunate that we have a very strong cash flow business -- the type of business this is. And you are able to take advantage of when there are downshifts.

And then when the economies come back, and you can go back and look at when that has happened before, we are in an even better shape than when we start. And so we proceed doing the same thing.

I think it is just hard when you read in the paper some of the changes, but I also tell people to keep it in perspective of where the US is. I mean, the US is coming from nearly zero to try to get to 1% to 2% growth and these countries are coming down from 8% growth to 2% or 3% growth.

And so they still offer, just from a pure economic point of view, generally a better outlook than where the US has been. And then, secondly, in our particular industry, it is heavily under-screened just where it exists today.

James Marsh - *Piper Jaffray - Analyst*

That's helpful. And then just your outlook on the first quarter currency moves.



Robert Cottle - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

It is a bit of a tough call right now. But clearly, with some of the devaluation that started at the end of last year, and things seem to be settling in a little bit better. But our guess is it could easily be in the 15% to 20% hit for this first quarter.

James Marsh - *Piper Jaffray - Analyst*

Okay. Excellent. All right. Thank you very much.

Operator

Matthew Harrigan, Wunderlich Securities.

Matthew Harrigan - *Wunderlich Securities - Analyst*

(inaudible) could affect your operations in terms of better MIS and planning. But when you look at physiology and [pre-act] and everything across the board that is aimed at better predict film performance, I think we have had a few -- certainly Q1 has been a lot better than people expected for a number of movies, like Ride Along.

But are you getting more confident in your ability to do that to the extent? And is it really just at the periphery? Or is that just something that enables you to be even more efficient on the operational side?

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

Well, I mean, I think the studios have been -- done a much better job in identifying their audience for a specific film through the social media aspect, besides their marketing campaigns. But, from time to time, a movie will either underperform or way overperform.

And I will use Frozen as an example. We thought it would be a very good film. Did we think it would still be running extremely strong in its 12th week and that it might be a billion-dollar global picture? No, we didn't. And I don't even think that Disney thought that.

But, it is a great story. And the studios have -- they seem to be doing a lot better to be able to predict their -- the type of movies and the type of marketing campaign.

And then the thing I think they have also done, to one of the points that you were going to, I think, is they have gotten better at bringing a diverse slate to the market, to where they are not all competing for that same customer. And I think that that is really helped expand the market, because of the diversity in the marketplace.

And this year, first quarter has been off to a good start. And the other thing they are doing is they are sort of broadening the year. An example of that is that summer starts early, and where traditionally summer sort of started in like the end of April or 1 May. And Marvel is going to release Captain America: Winter Soldier on April 4. And then Rio 2, which was a big animated picture, is on April 11.

And then Transcendence, which is a big budget sci-fi epic starring Johnny Depp, goes on April 18. And so that is all almost a month earlier than last year as to when they started. And so that is also encouraging that they are broadening the year.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Thanks, Tim. Congratulations, Robert.



Robert Cottle - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

Thank you. I appreciate it.

Operator

Jim Goss, Barrington Research.

Jim Goss - *Barrington Research - Analyst*

You made note of the number of theaters and screens you have acquired. Wondering if you had picked up any ideas from these acquired properties that have inspired action elsewhere in the film -- in your theater base?

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

Yes. No, I mean, my personal philosophy is that I always think that when you acquire a company or a theater, that it is the opportunity to learn something new. And so I tend to say, hey, for the first 3 to 6 months, let's just listen and learn and not go in and just immediately say, okay, here is how Cinemark does it.

And the Rave was an example of that. They were a well-operated company and I do think that we learned a lot. But I would say the same thing about the acquisition of Muvico.

Another idea that -- we purchased a company called Century, and they had a concept of a self-service concession stand. And we are seeing that that tends to perform better than our traditional stands. And so we sort of changed our model.

So we do try to look, listen and learn, and adapt, because we realize that not all the best ideas are residing here in Cinemark. And also, we were constantly looking at what our competitors do and are doing in the market, even though not only here but around the world, that we think it's a great idea and try to put the Cinemark adaptation on it.

Jim Goss - *Barrington Research - Analyst*

Okay. Is there any pace -- are there any ideas that you think might have a certain rollout that would be more quick than other ideas that you think of so far? (multiple speakers)

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

Yes. Like one thing we are -- and we have announced and we have opened up a couple of them and we are working on expanding, because the initial ones that we have opened up -- the Cinemark Bistro concept -- again, we think it is really market-specific, to my earlier remarks. And we are doing that.

And then, in Boca, when we acquired the movie theater in Boca, they had this concept where you build a VIP section in the back of the balcony and then -- or in the balcony section and then the front section is a regular theater. And you will see when we open up Playa and Towson, that we sort of expanded on that concept and are doing that.

And then, in Latin America, we were -- it was sort of required that you have a certain number of VIP auditoriums. And so here in the US we are expanding that concept. Again, it is really market specific here, just like it is in Latin America. But all these concepts, I think you have to look at each individual marketplace to decide which one you think will work.

Jim Goss - *Barrington Research - Analyst*

I noticed you had made a comment in a presentation you had made recently that AMC, with some of the Loews theaters, provided a good opportunity for the re-seating. Do you feel you need a challenged property in order to make that sort of investment a workable ROI?

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

No. I don't think you need a challenged property. I think it is more market-specific and volume of the theaters in the marketplace. But, I thought that AMC came up with a great solution for some of those properties, and I commend them for it.

Jim Goss - *Barrington Research - Analyst*

Okay. And the last one final follow-up on this South American situation. I think Argentina went through something like this 10 or 12 years ago as well. I believe you were operating in that country at that time. How did you react at that time? And is this a country that you might isolate from the rest of the properties as a special situation that you might have to take a different set of actions on, even though I believe Hoyt's was in Argentina, if I recall.

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

Yes. Hoyt's was, and as you pointed out, we were there, too. And we have seen it as a real market opportunity to either buy down rents or to reset them because we had a lot of capital, because -- and we keep trying to say to people that, you need to keep in mind that all our business is done in local currencies. And, of course, we generate a lot of cash and so we can be very adaptive to the market as these adjacent opportunities present themselves.

I don't think the crisis in Argentina this time around, because their currency is based on the peso, where it was a dollar [arise] economy at that time. And you had sort of the collapse of the dollar and the changeover to the peso. And so it was a much more dramatic downturn, where you aren't going to see that kind of economic upset at this point in time.

Jim Goss - *Barrington Research - Analyst*

That's good to know. Thanks Tim. Congratulations, Robert.

Robert Copple - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

Appreciate it. Thank you.

Operator

Ben Mogil, Stifel.



Ben Mogil - *Stifel Nicolaus - Analyst*

Honestly, all my questions have been answered, but thank you very much. I figured the least I could do is finish the question.

Operator

Ben Swinburne, Morgan Stanley.

Unidentified Participant

(inaudible) on for Ben. I was just wondering if you could give us a quick update on how you are thinking about the balance sheet. I think you ended the year at about two turns net. So we should we think about that as a trough as you look to redeploy cash from Mexico? Or could we see further delevering?

Robert Cople - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

I think, for the moment we will continue to look for opportunities to reinvest it. And, as some people have brought up, we don't know what will happen in Latin America with opportunities, so we want to be prepared for it if something were to come up down there.

I think in the US, I don't know the acquisition market is as robust as what it had been. We will continue to look for some deals here, and then mostly just plow it back into our theaters as well as new builds.

With our dividend raise at the end of last year, I think we have tried to address capital allocation for shareholders with our current plans of CapEx generation. So I think all in all we feel pretty good about where we are at.

Most all of our debt is long-term debt at this point -- I mean, all of it is. The only thing that I have that is high-priced anymore is a \$200 million bond. So we will have to look at that over time, but it is still a few years before I can do anything with it.

Unidentified Participant

Okay. And then, does the macro risk in LatAm at all influence your appetite for leverage?

Robert Cople - *Cinemark Holdings, Inc. - Interim CFO, President and COO*

No. Not really, because again, everything down there is set in local currency. We don't have debt in LatAm. We generate excess cash.

And we have designed the Company such that the US is really responsible for the debt payment, interest debt, dividends, is really all handled from the cash flow out of here. So it is not that we want to be independent, but the way we designed it as a growth engine down there not to be dependent upon the US, and the US realistically not to be dependent upon international for cash needs. So we are designed to continue to operate just as it is today.

Operator

Chad Beynon, Macquarie.



Chad Beynon - *Macquarie Research Equities - Analyst*

Two quick ones here. First on LatAm on the film side, can you talk about what you saw during the quarter from a local production standpoint and maybe how 2014 looks throughout the region from a local product standpoint as well?

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

On the local product, even though our buyers and our people go to the local film festivals and that, it is a lot more difficult to gauge as their ultimate success in the marketplace. And so it's -- and -- but we are constantly working with all the local film producers and directors and that on their products as to how they are going to bring them to the marketplace.

But in the US there seems to be -- you have a much better feel, based on the information you are getting as to how they are going to perform. In Latin America, it is not quite so advanced.

Chad Beynon - *Macquarie Research Equities - Analyst*

Okay. And then, with regards to the World Cup this summer, could you talk about anything you are doing in your theaters down there to drive business, and maybe how the film scheduling may differ if the World Cup wasn't at that time?

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

No, no. Absolutely. Now the studios themselves will tend to maybe shift some of their product that they think might be going after that same audience around and so that will happen. So it will just play at a different time of the year. It is not that it won't play in the market.

And so they tend to book more films that might compete for the family business or maybe more female-oriented, or not so much male -- young male or adult male. And so you will see some shifting of product during that period.

Now, also, obviously, we are trying to set up different promotions to also tie into the World Cup as much as we can throughout the region. And then, with the World Cup itself, a lot of it will depend really on how it plays out. I mean, going into it, I am sure every country thinks they are going to be in the finals. And so -- but if it turns out like it did last time around, where it is two European countries in the finals, I am sure Brazil and Argentina, especially, will be very, very disappointed. But that could also influence our business. So --.

Operator

At this time, there are no further questions.

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

Well, thank you for joining us on the call today. We really appreciate it. We look forward to talking to you after the first quarter with our results.

Operator

Ladies and gentlemen, this does conclude today's conference call. At this time, you may disconnect.



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