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CNK - Q2 2015 Cinemark Holdings Inc Earnings Call

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**Kevin Reen** *Stifel Nicolaus - Analyst*

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**Chase White** *FBR Capital Markets & Co. - Analyst*

**Jim Goss** *Barrington Research - Analyst*

**Mike Hickey** *Benchmark Capital - Analyst*

## PRESENTATION

### Operator

Good morning, my name is Felicia and I will be your conference operator today. At this time, I would like to welcome everyone to Cinemark's Q2 earnings conference call.

(Operator Instructions)

Thank you. I would now like to have a conference over to Chanda Brashears, ma'am you may begin.

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

Thanks Felicia, and good morning, everyone. At this time I would welcome you to Cinemark Holding Inc.'s second quarter 2015 earnings release conference call hosted by Tim Warner, Chief Executive Officer, and Sean Gambill, 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 and the Company's SEC filing. 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 Warner.

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

Good morning, everyone and thank you for joining us for 2015 second quarter results call. Before we begin, I would like to start by saying that our thoughts and prayers are with the entire community of Lafayette, and all those affected by senseless acts of violence wherever they may occur.

Now, I will transition to our results. The second-quarter achieved phenomenal results. It was the highest grossing quarter in the history of the North American industry, celebrating growth at 9.3% year-over-year. Our studio partners are doing a tremendous job of creating a wide variety of film



content, as well as spreading the product throughout the year. And the box office is indicative of the patrons' reaction to both concepts. Cinemark's second-quarter domestic admissions revenue growth at 12.2%, once again out paced the North American industry by a significant 290 basis points. Our domestic industry outperformance is driven by a 6.5% increase in our average ticket price that was propelled by the success of both our 3D and XD screens, as well as strategic price increases. Furthering our record setting trends, we are also proud to report that we now have 34 consecutive quarters of year-over-year US concession per patron growth, with a strong 8.4% increase.

Our global attendance increased 8.8% during the quarter, that is 6.2 million incremental patrons watching a movie in our theater versus last year which helped our worldwide admission revenues outperform the North American industry by 740 basis points on a currency adjusted basis. We have now achieved 24 out of 26 quarters of industry outperformance, a statistic that is unique to Cinemark and one that we are obviously quite proud of. A huge congratulations to our entire worldwide team for maintaining our industry-leading performance.

We are also pleased to report is 60 basis point expansion of our industry-leading worldwide adjusted EBITDA margin to a solid 24.2%. We consistently deliver adjusted EBITDA margins above 20%, demonstrating both the strength of our Company's underlying structure, and our diligence in cost control and operating effectiveness in favorable as well as challenging box office environments. All told, it was a record-setting quarter for the industry as well as Cinemark where we set a range of new all-time highs, as Sean will discuss in greater detail in his prepared remarks.

Similar to data, other public exhibition companies have reported on their calls, Cinemark's home rental increased due to an unprecedented concentration of second-quarter's box office in four very high-performing films. Jurassic World's domestic cumulative gross is more than \$625 million to date. Avengers generated more than \$450 million, Furious Seven exceeded \$350 million, and Inside Out delivered more than \$325 million. These four films alone generated nearly 50% of the industry's second-quarter box office. As film scales are designed to reward films that drive attendance, the significant concentration of these four films increased film cost for the quarter. We continue to urge you to look at the industry film rental on a 12 month basis, rather than a quarter-to-quarter as it is more reflective of the nature of our business.

Year-to-date through June, the North American industry has increased 6.6% over 2014, also setting an industry box office record. Furthermore, we are exceptionally pleased that even when comparing June, year-to-date to the record-setting 2013 year, the industry is up 5.1%. Through this past weekend, the third quarter has increased 16% year-over-year based on the success of Minions, Antman, and Mission Impossible. We continue to be optimistic about the remaining 2015 film slate and are on track for a record-setting year. We are eager for the upcoming mega-hits Star Wars and the Hunger Games final, as well as Pixar's the Good Dinosaur, the 24th Bond, Spectre. And Snoopy and the Gang and Peanuts.

We are also looking forward to a few new concept films including Joy, a family drama featuring Jennifer Lawrence and Bradley Cooper. Everest, a dramatic climbing exhibition that will leave you on the edge of your seat and The Martian, based on the best selling novel about a mission to Mars, starring Matt Damon. Our enthusiasm for 2016 also continues to grow as we get more insight into the film slate, especially coming out of Comic-Con last month.

Shifting attention to our XD strategy, we continue to experience great success and remain the number one private label premium large-format in the world with 193 screens globally. We consistently generate a strong premium percentage of box office, and the second quarter was no exception. Nearly 34% of our worldwide second-quarter box office was generated from premium formats including XD and 3D. For additional perspective on how well utilized our XD screens are, 8.2% of our worldwide box office was generated by our XD auditoriums, which comprised of 3.4% of our total screens. Best of all, we have complete control over the film content shown on our screens and do not have any additional revenue share beyond our standard studio agreements, which is accretive to our bottom line.

Elaborating further on our enhanced concepts, we continue our market adaptive approach to the expansion of the VIP and in-theater dining concepts, as well as a repositioning a select underutilized theaters with reclining seats. We are encouraged by the exceptional results generated by the enhanced concept, and remain opportunistic about further expansion on a global basis.

Regarding our Flixmedia on-screen advertising initiative in Latin America, we are pleased to have recently announced a partnership with Broadside, which provides content management system technology for on-screen advertising and is also a Cineplex technology provider. We anticipate the technology will be in place throughout Latin America by early 2016. Cinemark will then be capable of offering one point access to all 1,200 plus Cinemark screens throughout South and Central America, which translates to nearly 100 million viewers annually. Though the Flix initiative is taking



longer than initially expected due to technological constraints and the complexities of operating in 14 international countries, we continue to believe this will be a meaningful distribution network for advertisers and alternative content. We remain optimistic about the opportunity Flix represents.

Cinemark also continues to promote alternative entertainment and help drive the business model. While still very much in its infancy, we are optimistic about the early results to date, and the prospect alternative content represents for the industry and our business now that the platform is in place. At our newly opened Playa Vista theater in Los Angeles, we launched the Super League Mine Craft Summer tour and hosted CaptainSparklez, the YouTube sensation that has more than 8.7 million subscribers. For the first time, we were able to host participatory, in theater gaming and we look forward to expanding our Super League events with six weekend theater gaming sessions this fall.

Spectator in-theater gaming events also will continue to gain traction with Fathom facilitation. We are looking forward to Dota 2 tournament live broadcast from Seattle in more than 200 of our theaters this upcoming weekend, as well as both the ESL Gaming Counter-Strike finals, and the League of Legends North American championship in a couple of weeks. The patron appeal of these in-theater gaming events, both participatory as well as a spectator, is a communal enjoyment and social interaction with those who share E sports passion, coupled with the stunning visual and auditory capabilities that our big screens provide.

Of course, Cinemark is excited to provide patron's yet another option for premium out-of-home entertainment. Additionally, these gaming events further enhance screen utilization, as they typically occur during non-peak times. Lastly, we were pleased to receive notification from the Argentine Antitrust Authorities in May that they approved our voice acquisition in 95 screens, and we are able to move forward with integration. As a reminder, we've been operating Hoyts screens since August, 2011. There are a few limited synergies that we will be able to implement, such as the consolidation of corporate offices. However, the consolidation will not have a significant impact on our financials.

In summary, we are exceptionally pleased with our record-setting performance, which was driven by our global attendance results. Cinemark's focus on broad concepts we can adapt across our entire platform to increase screen utilization, while using technology to help us manage costs, enable us to deliver industry-leading results, both top and bottom line while delivering an outstanding movie going experience to our patrons. Sean will now provide more details of the Company's financial performance for the second quarter.

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

Thank you Tim, and good morning everyone. The diverse second-quarter film slate lived up to its promise. Appealing to broad audiences in both our domestic and Latin American markets. And it contributed to the achievement of multiple new highs for Cinemark. Our worldwide total revenues escalated 11.4%, setting at an all-time quarterly record of \$800 million. Likewise, our worldwide adjusted EBITDA grew 14.2% to \$193.5 million, marking another all-time quarterly record and resulting in adjusted EBITDA margin of 24.2%, up 60 basis points from last year, as Tim previously mentioned. Domestically, attendance grew 5.4%, setting a second-quarter record of 49 million patrons.

With the strength of premium film content during the quarter, our average ticket price increased 6.5% to \$7.67. This combined growth in attendance and price, resulted in historic high domestic admissions revenues of \$375.6 million, an increase of 12.2% versus last year. Our emphasis on sales incidents also delivered an all-time concessions revenue record of \$195 million, a 14.3% increase versus Q2 of last year. Our concessions per patron were again robust, growing 8.4%, and achieving a historic high of \$3.98. Our concessions group continues to excel in expanding and customizing our product offerings on a market-by-market basis while focusing on customer convenience to deliver a more expedited and satisfying concessionary experience.

Overall, our US operations delivered an all-time record, with total revenues of \$588.4 million. We also generated an all-time high domestic adjusted EBITDA of \$143.6 million, resulting in adjusted EBITDA margin of 24.4%. Internationally, our second-quarter attendance grew 15.4% to 27.7 million patrons. Setting yet another second-quarter record. International admissions revenues increased 5.2% to \$127.3 million this quarter, and our average ticket price was \$4.60 on a reported basis. In constant currency, our average international ticket price grew 11.9%, primarily driven by inflation and the strength of premium formats. International concessions also had another strong quarter, with revenues of \$64.6 million. Concessions per patron were \$2.33, which equates to a 21% year-over-year increase in constant currency. Despite an approximate 24% currency headwind that impacted our second-quarter results, we grew total international revenues 7.4% to \$211.5 million.

Regarding the FX headwind, I would like to reiterate that the vast majority of our international operating expenses are transacted in local currency. So the impact of currency headwinds are predominately translation based, and not transaction oriented. With regard to adjusted EBITDA margin, we faced a challenging year-over-year comp, having scaled back expenses during Q2 2014 in anticipation of an adverse impact on box office from the World Cup which to everyone's surprise, did not materialize until the third quarter. This dynamic led to a significant 24.6% adjusted EBITDA margin last year. That said, we are especially pleased that our international segment grew adjusted EBITDA to \$49.8 million, with a 23.6% adjusted EBITDA margin in the second quarter of 2015. This result exceeds the second quarter of 2013, which had a more normalized historic margin rate by 30 basis points.

Returning to our worldwide consolidated results, second-quarter film rental and advertising costs as a percentage of admissions revenues increased 200 basis points to 56.7%. This increase was primarily driven by the strength and size of top-grossing films relative to last year. This year, the top five films represented 55% of the domestic industry box office, while last year they represented 38%. Furthermore, as Tim previously mentioned, four out of the top five films this year grossed well in excess of \$300 million. While the top grossing film last year was approximately \$260 million. Concession costs this quarter were roughly in line with 2014 at 15.8% of concession revenues. Similarly, our operating teams were able to hold salaries and wages as a percentage of overall revenues roughly flat to last year, despite global minimum wage pressures and the domestic impact of the Affordable Care Act.

Facility lease expenses as a percentage of total revenues improved by 90 basis points. Utilities and other costs also improve 30 basis points as a percentage of total revenues, despite constraints associated with severe drought conditions in Latin America, as well as modifications to certain international government pricing regulations. G&A for the second quarter was relatively flat to Q2 2014, improving 60 basis points as a percentage of revenues.

Collectively, total second-quarter pre-tax income was \$113.7 million in 2015, compared to \$96.2 million in Q2 of the prior year. Our second-quarter's effective tax rate was 37.6%, and net income attributable to Cinemark Holdings Inc. was \$70.3 million, or \$0.61 per diluted share. We wanted to highlight that year-over-year comparisons net income and EPS are impacted by last year second-quarter effective tax rate of 25% that benefited from certain discrete tax items related to the sale of our assets in Mexico. We continued to guide to a 38% effective tax rate as a more normalized percentage. With respect to our balance sheet, we ended the quarter with a cash balance of \$576.3 million, and a net debt position of \$1.5 billion.

Shifting attention to the status of our US footprint, we operated 334 theaters and 4,491 screens in 41 states and 101 DMAs at quarter end. We built one new theater with 13 screens, and closed two theaters with 20 screens during the quarter. We have signed commitments to open seven theaters with 77 screens during the remainder of 2015, and nine theaters with 98 screen subsequent to 2015. We expect to spend approximately \$93 million in CapEx associated with these additional 175 screens. As a reminder, the screen growth guidance we provide is a gross number. We also anticipate closing approximately 60 screens during 2015, which is a bit higher than our typical run rate of 25 to 50 screens, as we replace theaters and have a few leases expiring on a few lower performing properties.

Our international circuit grew to 169 theatres and 1,229 screens in 14 Latin American countries. During the quarter, we expanded by seven theaters and 40 screens. As of quarter-end, and we had signed commitments to open four new theaters and 34 screens during the remainder of 2015 and three theaters representing 25 screens subsequent to 2015. Our estimated CapEx to develop these additional 59 international screens is approximately \$43 million. We continue to internally target 100 screens of international growth this year, and we believe this target is feasible based on our current pipeline.

Regarding overall CapEx, we spent \$70 million in the second quarter, of which \$27.8 million was spent on new build CapEx, and \$42.2 million was spent on maintenance CapEx. We maintained our full-year operating CapEx guidance of \$275 million to \$300 million, excluding the \$26 million we incurred during the first quarter of this year to purchase our headquarters building. In closing, we are very pleased with our performance this quarter, both operationally as well as financially. Our diverse global footprint and strong operating discipline continue to yield results that consistently outperform, deliver industry-leading margins, and provide solid returns to our shareholders. Felicia, that concludes our prepared remarks and we would now like to open up the lines for questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

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

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### Robert Fishman - *MoffettNathanson - Analyst*

Thanks. I have one for Tim and one for Sean if I can? I'm curious, Tim, what would it take for Cinemark to be open for participating in the Paramount Experiment? And are you just looking for a higher economic split of post-theatrical window revenues? Then, on a related note are you concerned at all that Netflix's foray into movies, set to launch in the coming months. And now Paramount's experiment with some of your major competitors could cause a secular change to the theatrical business model?

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

We obviously had serious talks with Paramount and we did look at their model, we don't feel it was in either our best interest, or our shareholders' best interests. More importantly in the best interest of the industry, to participate. Reflecting Bob [Igers'] comments, we have heard this from a number of studios as they continue to support the theatrical window. Also, Cinemark has been one of the leaders in the industry in working with the studios, in establishing the EST window which, continues to expand and grow. For the in-home markets for the studios. Overall, probably the strongest window that the studios have both in the domestic and global marketplace, you are all aware of what's going on in the in-home window, is the theatrical window. It continues to receive really strong support from the studios across the board.

Regarding Netflix, to me, they have an entirely different business model. Their's to drive their subscriptions, and I think what is going on with Netflix is that they are being forced to get into content production in order to drive their network. As they deal with the studios moving in different directions. To me, it is a completely separate business. On both the domestic and global basis, the theatrical window is, when you look at the big picture of what's going on in the home, is one of the strongest windows out there for content providers.

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### Robert Fishman - *MoffettNathanson - Analyst*

Okay. Thank you that's helpful. For Sean, as you know, there's definitely been some focus on film costs this quarter. I'm curious if you expect to see film costs continue to rise across all studios in the next few years? Or does it come down to the success of the slate as you mentioned? And if I can ask an interesting follow-up on that? If you were to put yourself back in your previous role at Universal, how aggressive do you think you would be able to push on the film cost going forward? Given their extremely hot release slate. And I apologize to ask you to negotiate against yourself here. (Laughter)

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

I would say on the first part of the question, on film rentals, as you know the film rentals is really driven by mix. We operate on sliding scales, and when you look at this particular quarter, it really was unprecedented with just the concentration of films. That were over \$300 million, and accounted for a sizable portion of the box office. We look back and the closest quarter to this quarter in size of films over \$300 million was 2Q of 2012 were there were two that drove 28% of the box office, to this quarter we had 49%. That dynamic is really driven by the mix. So your question on going forward it really depends more so on mix than anything else, and that's hard to predict.

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

I would like to add that we would love to see all the films to over \$600 million at the box office. That really drives attendance.



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

You know as far as the question you know from Universal. That kind of dynamic has always been the way between supplier and customer. There's always going to be back and forth, negotiation. And each side looking to kind of get what's fair for their side. I don't necessarily see that changing dramatically. There's going to be ebbs and flows in studios that have you know stronger content one year, and lesser content another. There's really a balancing act between studios. I can't necessarily say that I would expect to see a dramatic change there. It's just the nature of the business.

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**Robert Fishman** - *MoffettNathanson - Analyst*

Okay. Thank you.

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**Operator**

Your next question comes from the line of Eric Handler with MKM Partners.

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**Eric Handler** - *MKM Partners - Analyst*

Yes. Thanks for taking my question. Looking at your market share gains in the quarter, very impressive considering you guys really don't have much -- or very little IMAX exposure. You said that 34% of your worldwide box office was from premium. How does that compare to last year? I don't know if you could do that on the same screen basis just to get a sense of the shift in premium contributions? Also wonder if you could talk about, is there anything else that helped get such a strong increase in the average ticket price? Because you had both Regal and AMC up around 4%, you guys were 6.5%, so a big difference there. Was there some other base increases there that we've not seen in a while? If you could discuss some of those items?

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

Yes, Sean will answer some of the more specific questions. But, regarding our XD screen performance, we think our XD premium large-format screens perform in line or as good as any premium large formats out there in the marketplace. There has been a lot of focus on Cinemark on delivering a very high quality 3D performance. In fact, we advertise we have the best and brightest. And so we have always had really high performing 3D performance. It is also the type of product that is in the marketplace, really played well both to the large-format and to 3D. So that combination.

We also have some strategic price increases. We have always been very up-front that we are the most conservative on pricing, and have been for several years. If you went back you would see that in previous years, our increase in pricing has not been as aggressive. Cinemark is in a great position, both from XD and 3D concept. But also we are in a great position on pricing.

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

To answer your question on last year. Last year, our premium products was about 30% of the box office. And just to expand on that, as Tim mentioned earlier, our XD screens generate about 8.2% of total admissions revenues this quarter year; last year, that was about 6.4%.

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**Eric Handler** - *MKM Partners - Analyst*

How many XD screens do you have as of right now, versus where you were last year? How many more are planned for the remainder of this year?



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

Well of 193 this year, and I think we have another roughly about 20 additional ones to roll out. That is up about 19% from last year.

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**Eric Handler** - *MKM Partners - Analyst*

Thank you very much.

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**Operator**

Your next question comes from the line of [Kevin Reen] with Stifel.

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**Kevin Reen** - *Stifel Nicolaus - Analyst*

Good morning, and thank you for taking my question. Just a quick one. The pace of your domestic new builds has accelerated year-over-year, and you're expecting new-build growth in [quote], the second half of the year of seven new theaters and 77 screens. At a time when your competitors seem to be more focused on retrofit and receipts, can you update us on your thoughts on new builds versus retrofits? Thank you

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

Yes, you know we are fortunate because of the strength of our balance sheet, that we can be opportunistic whether it is in repositioning theaters or in new builds. Obviously there are some great new-build projects that are coming into the marketplace. We want to make sure that we are participating in the markets where we think it is going to be accretive to us. And it is the same with repositioning. We examined it on a market-by-market basis, and repositioned theaters where it is appropriate. But Cinemark is -- and we've tried to tell our shareholders, that we think having a strong balance sheet is a strategic strategy. To allow us to move either way whether it is via repositioning theaters, new builds or M&A activity.

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**Kevin Reen** - *Stifel Nicolaus - Analyst*

Thank you.

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**Operator**

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

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**Matthew Harrigan** - *Wunderlich Securities - Analyst*

Thank you. I was curious on the Super League Gaming, I know that's bring your own device, a laptop. Is there anything you can do in concert with Xbox Live or PlayStation Network? I know you probably don't want to have devices in the theater that you own, because there is wastage and all that. But the demographics really overlap, into the extent that you can get them involved as partners, it seems like it might present an interesting opportunity.

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

Yes, obviously we think it does, and we are working with all of the different E gaming companies. We think that does evolve, and it becomes more of a participatory event in the theaters. And we are opening to working with any technology companies, or content providers in the gaming range.





You can see that Cinemark is, of all the companies, has been the most aggressive in this area. And, what sort of threw me off, because to be candid about it, I had never heard of CaptainSparklez. But when I mentioned that he was coming to one of our theaters to my grandchildren, they got extremely excited. Because they are at the age where they are really into Mine Craft. And it is, we think, one of the great opportunities to expand alternative content and bring a whole different segment into our theaters.

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**Matthew Harrigan** - *Wunderlich Securities - Analyst*

Thanks, Tim.

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**Operator**

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

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**Chase White** - *FBR Capital Markets & Co. - Analyst*

Hi, Chase White filling in for Barton Crockett. Just a couple of questions. You guys drove some pretty impressive box per screen outperformance. And also concession per [cap] growth domestically. What were the key drivers of that outperformance? And how sustainable is the concession per cap increase specifically?

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

Cinemark has always been focused and we like to bring it back to attendance, Our big focus has always been on driving attendance, because if you don't get the patron into the theater you don't have a chance to really sell them anything. Our concession department has been very creative in coming up with, and combining with our marketing department. Using social media, value packaging, introducing new products into the marketplace. And each quarter they set the bar higher and higher. And put a lot of pressure on themselves, that they you know continue to perform at a very high level. And we are very proud of them. It's a big focus of our Company, because obviously that drives a lot of our revenues. We think we have some of the best concession people in the business.

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**Chase White** - *FBR Capital Markets & Co. - Analyst*

Fantastic, thank you.

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**Operator**

Your next question comes from the line of Jim Goss with Barrington Research.

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**Jim Goss** - *Barrington Research - Analyst*

Thanks, I have a couple. Tim, you were mentioning some of the ways in which you are getting some strategic price increases. I was wondering if the trend to recliners that seems to be more pervasive all around you, than within your strategy, is creating a higher umbrella that is enabling you to make these changes without really having any competitive disadvantage?



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

No. We think that the entire exhibition sector, is very focused on delivering a great customer experience. We complement whether it be Regal AMC or the iPic Studio Movie Grill. I could name them all. There's a lot more focus on making sure we -- as to how we treat and expose the customer to a great out-of-home experience. Cinemark, I think has been a leader throughout the industry. And throughout the globe, in this area. We are doing our only -- we also are focused on recliners, and repositioning some of our underutilized theaters.

It is more market adaptive, we don't necessarily think that there is one solution that is going to work everywhere. It's the same with our Cinemark Bistro. We have some very successful bistros and you know food concepts. But again, we don't think it's a concept that works everywhere. That goes back to the core philosophy of Cinemark. It is what allowed us to achieve a lot of success internationally, is that we adapt ourself the market rather than expecting the market to adapt to us. Our industry-leading results and -- because the way I sort of look at all of the initiatives that [are announced], whether it's by us, or by our competitors. It's reflective in our results, and quarter after quarter, year after year Cinemark continues to lead the industry.

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**Jim Goss** - *Barrington Research - Analyst*

Okay. And a corollary, does your trend to recliners at all modify the types and numbers of seats you put in your new-build auditoriums? Like how many seats, are there any bigger, maybe not full recliners or something like that?

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

With recliners, you basically lose about 50% of your seating capacity. So whether you are building new, or whether you building -- are repositioning the theater, lose about 50% of the capacity. And the reason we use the term repositioning rather than recliner, we don't think you can just go in and put in reclined seats. We think you have to totally reposition the theater and basically think of it more as a new platform in the market. And remodel the lobby, change up everything. So that when the customer walks in, it's not just about the recliners, that they sort of see it as a whole new theater in the marketplace.

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**Jim Goss** - *Barrington Research - Analyst*

Okay. And separately, with the Paramount issue, is it more of the slippery slope issue that even though a couple of movies that were carved out probably wouldn't really damage anything in terms of impact on [cash grow] box office. You just don't want to introduce something that is going to then say how far do we go with this?

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

Again, every company has to look at their business from their perspective. Paramount, obviously felt on these two pictures, they felt it was the right thing to try on these two pictures. To see if it improves their overall performance. We did not think that it would work for Cinemark, and we don't think it works for our shareholders. But that being said, I think there's going to continue to be different approaches to the marketplace. Like everybody knows, there are huge number of films that are made every year, that go out on a very limited or, if any (technical difficulty) fiasco runs. And they go directly to iPic, or other video on demand or pay-per-view. It is -- not all pictures are [warmed] to theatrical run. In general, what we are hearing both privately and publicly, and Bob Igers stated it in his call yesterday, that the theatrical window -- and also the EST window for the studios, are probably two of the windows are working best for them. And that they see no reason -- we see no reason really to change it up at this time. But there is always an open dialogue with all the studios.



**Jim Goss** - Barrington Research - Analyst

Okay. Maybe I'll ask one last one. Do you have any early call on 2016? Whether you think the industry will hold its own in terms of domestic box office? Or do you think there's a big risk of decline? Just looking at the slate from your expertise at this stage.

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

I think coming out of Comic-Con there is tremendous buzz on 2016. The other thing, I think that is going to happen in 2016 is that a lot of Star Wars will flow into 2016, if it is you know the picture that we think it is. Right towards the end of the year, we mentioned one of them on our call called Joy. There is also a film out by Fox called, [Revenant], which is a Leonardo DiCaprio, is going to be released in late 2016 for Academy -- I mean 2015 for Academy but it will flow into 2016. And then you've got the reactions of Batman versus Superman, and Star Trek and the Dead Pool, Utopia, and Tarzan. Finding Dory, Ice Age, X-Men. There are a lot of big concepts, Captain America coming in 2016. Although it will be a tough comp, obviously because this year's so huge for the industry. But I think that 2016 will definitely give it a run.

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**Jim Goss** - Barrington Research - Analyst

Okay, thanks I appreciate your thoughts.

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**Operator**

(Operator Instructions)

Your next question comes a line of Mike Hickey with Benchmark.

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**Mike Hickey** - Benchmark Capital - Analyst

Hi guys, good morning. Thank you for taking my questions. I'm just curious if you could update us your view on what you're seeing in Latin America as a relates to economic conditions? [On the ground level there.] I'm curious, specifically about new-mall builds and the potential for M&A under the economic conditions you are seeing today. Then I have a follow-up, thanks.

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

Obviously we've been in Latin America for 20 years and we have seen these economies just boom -- we are really encouraged by -- as we look at Latin America because we think we've always been in a content-driven business and I think this last quarter reflects that. The other thing I think is important for people to note, even though these economies may be slowing. The unemployment rates in these markets are at historic lows. That's another good sign for the marketplace.

Regarding mall new builds at least as we look forward for the next year or two, because a lot of these projects are in development or started, it seems to be on track. To your point, could mall development in some of these markets slow down? That could be a possibility in maybe two or three years out. Or four years out. We really don't have that insight at this time.

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**Mike Hickey** - Benchmark Capital - Analyst

Okay. Thank you. Wondering on how your competitors, now that they are being more aggressive on recliner installations, may be impacting your attendance trend within that relevant competitive zones? Because they seem to be very open about taking share from competitors under this scenario.



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

Well we can let our numbers speak for themselves. Obviously, we've had a record-setting attendance increases in quarter. When you look at us, our global platform, I don't think there is any public theater in the marketplace that can say that their attendance increased 6.2 million patrons. And that was driven both in Latin America and also in the US. Although they are doing -- and have their strategies to the markets. Cinemark has its strategies, and we think it is reflective in our results. And we continue to perform very highly in every market that we compete. And we applaud again our competitors. And the kind of quality of experience that patrons have access in the -- throughout the theatrical experience.

Because we think it is good for the overall industry, because we have never seen them as direct competition to us. We've always seen that our competition is to get people to the out-of-home experience. So whether they are going to Cinemark or AMC or Regal, if they have a great experience, that's good for the entire industry. I didn't answer the M&A question you had, and are some really high quality potential acquisitions in Latin America. Whether they would be available or not is another question. There's some really high concepts down there.

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**Mike Hickey** - *Benchmark Capital - Analyst*

Fair enough, thanks for [all the answers].

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

Thank you.

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**Mike Hickey** - *Benchmark Capital - Analyst*

I appreciate it.

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**Operator**

At this time there are no further questions.

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

Okay. Well thank you very much for joining us this morning. We look forward to speaking with you again following our third quarter. Thank you.

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**Operator**

Thank you for participating in today's conference call. You may now disconnect.

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