

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

CNK - Q3 2015 Cinemark Holdings Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 05, 2015 / 1:30PM GMT



## CORPORATE PARTICIPANTS

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

**Tim Warner** *Cinemark Holdings Inc - Executive Vice Chairman & Predecessor of CEO*

**Mark Zoradi** *Cinemark Holdings Inc - Successor CEO*

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

## CONFERENCE CALL PARTICIPANTS

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

**Julie Yoo** *JPMorgan - Analyst*

**Robert Fishman** *MoffettNathanson - Analyst*

**Barton Crockett** *FBR Capital Markets & Company - Analyst*

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

**Leo Kulp** *RBC Capital Markets - Analyst*

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

**Ben Mogil** *Stifel Nicolaus - Analyst*

**Chad Beynon** *Macquarie Research Equities - Analyst*

**Joe Hovorka** *Raymond James & Associates - Analyst*

**Eric Wold** *B. Riley & Company - 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 the Cinemark third-quarter earnings conference call.

(Operator Instructions)

Thank you. I would now like to hand the conference over to Chanda Brashears. Ma'am, you may begin. presentation

---

### Chanda Brashears - Cinemark Holdings Inc - IR

Thank you, Felicia, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holdings Inc's third-quarter 2015 earnings release conference call, hosted by Mark Zoradi, Successor Chief Executive Officer; Tim Warner, Executive Vice Chairman and Predecessor of Chief Executive Officer; and Sean Gamble, Chief Financial Officer.

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



Today's call and webcast may include non-GAAP financial measures. A reconciliation of these non-GAAP measures to the most directly comparable 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](http://investors.cinemark.com).

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

---

**Tim Warner** - *Cinemark Holdings Inc - Executive Vice Chairman & Predecessor of CEO*

Good morning, everyone, and thank you for joining us for our 2015 third-quarter results call. Before I turn the call over to Mark, I wanted to take a moment to thank you. It has been a pleasure working with you during my tenure as CEO. Although I will no longer be involved on a day-to-day basis, I will remain engaged as the Executive Vice Chairman of the Board, and available on a consulting basis into 2017.

One of the main responsibilities of a Board and CEO is to successfully transition the Company to the next generation of leadership. Our Board identified an incredible candidate for the Successor CEO. Mark has an extensive background in our industry, and has a tremendous skill set that complements and strengthens our existing management team. With Mark at the helm, and Robert and Valmir overseeing our strong and experienced management teams domestically and internationally, Cinemark is well-positioned for continued success.

I will now turn the call over to Mark.

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

Thank you, Tim, and good morning, everyone. We appreciate you joining us for today's call. I look forward to getting to know our investor community over the next few months. During my 30-year career with Disney, I worked with exhibitors all over the world, and recognized Cinemark as the best-in-class. I'm proud to be part of such a distinguished Company and leadership team.

With the support of Tim, the Board and the executive management, we've successfully transitioned the CEO role. As Tim mentioned a moment ago, he will no longer be part of our daily operations, but will be very involved at the strategic level for the next year and a half. I've known Tim for over 20 years, and fully intend to utilize his industry and Cinemark experience as I continue to absorb the more intricate details of the exhibition space. I look forward to contributing to Cinemark's operational excellence and the advancement of its key strategic initiatives.

Now turning to the quarter's results. The North American industry's third-quarter box office increased by 5.8%, with the success of *Minions*, *Mission Impossible*, *Ant-Man*, *Straight Outta Compton*, and many other great films. We're very pleased with our domestic admission revenue, which increased 9.7% and over-indexed the North American industry by 390 basis points. Our performance was driven by increases in both attendance and ticket pricing, which Sean will address in greater detail in his prepared remarks.

Our international segment surpassed the domestic market and generated attendance growth of 16.2% in the third quarter, substantiating that the exhibition industry is the most reliant upon film content, rather than economic cycles. Similar to the US market, attendance is not generally impacted by economic downturns, which has been apparent this year, as well as dating back to the Argentinian crisis in the early 2000s. Furthermore, the Latin American market often has strong local titles, in addition to the US film product, which can boost box office performance. In the third quarter, we observed several great examples of significant local films, including *[Me Hija Selveja]* in Columbia, and *[El Con]* in Argentina, which helped drive our robust international attendance results.

Worldwide, an incremental 4.8 million patrons enjoyed the Cinemark experience and propelled our third-quarter global revenue growth by 15.1% on a currency-adjusted basis. We exceeded the North America industry box office by an impressive 930 basis points, and continued our over-performance trend, surpassing the industry's results for 25 out of 27 quarters, a statistic we're quite proud of.



Our focus on concessions also continues to yield meaningful results. Our third-quarter concession per cap experienced significant growth, both domestically at 6.1%, and internationally at 20.6%, on a currency-adjusted basis. Our concentration on localized concession items and expanded menus have been integral in achieving 35 consecutive quarters of domestic per cap concession growth.

With 5,746 screens throughout North, Central and South America, our net income increased 21.5%, while our adjusted EBITDA increased 9.2%. And we maintained our industry-leading adjusted EBITDA margin, which was 22.1% for the third quarter. One of our investment objectives is to achieve a minimum of 20% adjusted EBITDA margin. And Cinemark's financial results have consistently exceeded that threshold each quarter since becoming a publicly traded Company in 2007, in favorable as well as challenging box office environments.

Year to date through September, the North America industry's box office has increased 6.3%. We continue to be optimistic for a record-breaking year, especially with the upcoming blockbusters, including Star Wars: The Force Awakens, which has set records with unprecedented advanced ticket sales. The final installment of Hunger Games. The next James Bond movie, Spectre, which is the longest-running successful franchise in the history of our industry. And the highly anticipated release from Disney-Pixar, The Good Dinosaur.

Not to mention other important films, such as Joy, from the same director as Silver Linings Playbook, which also features Jennifer Lawrence, Bradley Cooper and Robert De Niro. And Revenant, brought to you by the Academy Award-winning director of Birdman, and starring Leonardo DiCaprio. Of course, many of the movies released at the end of this year will continue to play well into next year, starting 2016 off very strong.

We're excited about the diversity and the (inaudible) in the films already announced for 2016. Blockbusters, such as Batman Versus Superman, spinoffs Fantastic Beasts from Harry Potter and Rogue One from Star Wars. Strong family content, including Finding Dory and the Secret Life of Pets. Sequels Captain America: Civil War and Star Trek and Beyond (sic - "Star Trek Beyond"). As well as original titles, including Dead Pool, Billy Lynn's Long Halftime Walk from Ang Lee, to name just a few. Additionally, there's always the possibility of films that outperform expectations and significantly impact the box office performance, such as American Sniper and Straight Outta Compton did this year.

Moving along, I would also like to provide an update on a few of our key initiatives. Our industry-leading, private-label, premium-format brand XD provides consistent financial performance and strong screen productivity. Our 196 XD screens comprise 3.4% of our global screens, yet generated 6.3% of our third-quarter worldwide admissions revenue -- that's nearly double. Our premium format percentage of box office also tends to outperform our peers, and the third quarter was no exception, with 22.3% of our worldwide admissions revenue being generated by premium, large format and 3D.

Since joining Cinemark a couple of months ago, one of the most common questions I've been asked by investors relates to capital allocation. I'd like to take a moment to address this topic up front. As a reminder, I was a member of Cinemark's Board of Directors prior to becoming CEO, and can assure you that capital allocation is discussed at each and every Board meeting.

We believe reinvesting capital back into the Company is the best way to create long-term shareholder value, and are exploring a variety of ways and means to achieve this goal. First, we are investing capital into enhanced concepts to further differentiate our theatrical experience from the in-home market. After all, more than anything, we're competing for patrons' time. We're extremely disciplined with this enhanced concept approach, adapting each theater's amenities to a specific region, whether it be high-end reserve, or VIP theaters, in-theatre dining with bistros, or the repositioning of a theater with reclined seats and full-theater renovation.

In particular, the repositioning of theaters has been very successful for the exhibition industry, and Cinemark is yielding similar results. Through the end of the third quarter, we had 220 screens featuring recliners, through both new-builds and repositioned theaters. By the end of this calendar year, we anticipate a cumulative total of nearly 400 screens with reclining seats, based on our new-build pipeline and repositioning strategy. These 400 cumulative screens will represent approximately 10% of our domestic circuit.

Also, through our organic growth pipeline and repositioning strategy, we are targeting an additional 450 screens with recliners by the end of next year, bringing our cumulative total to about 850 screens. Consistent with prior comments, this would bring our combined enhanced concepts to roughly 10% of our worldwide screens this year, and 20% next year. And it goes without saying, we'll not lose sight of our non-recliner theaters, which remain the core of our circuit in consistently providing industry performance and over-performance.

Second, we're constantly evaluating potential opportunities for accretive M&A, both domestically and internationally. Though we do not have anything to report at this time, we'll continue to explore these prospects. And lastly, we routinely consider a return of capital to our shareholders beyond what we are investing into our circuit. Overall, continuing to build long-term shareholder value is of utmost importance and concern to management and our Board. As such, capital allocation will continue to be diligently analyzed.

In closing, I'd like to thank the entire Cinemark team for generating the strong third-quarter results I had the privilege of reporting today. I would also like to reiterate my appreciation for our management team, for helping to make the transition of leadership seamless. And last but certainly not least, I would like to express my gratitude to Mr. Warner for his countless contributions to this Company and to our industry. I speak for all of us when I say: job well done, Tim.

That concludes my prepared remarks. I will now turn the call over to Sean to address a more detailed discussion of our financial performance. Sean?

---

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

Thank you, Mark, and good morning, everyone. As Mark already teed up, we are very pleased to report another quarter of solid financial and operating results across our diverse global footprint. Our worldwide total revenues increased 8.2% to \$700 million, driven by increases in attendance, concessions consumption and price. Likewise, our worldwide adjusted EBITDA grew 9.2% to \$154.8 million, resulting in an adjusted EBITDA margin of 22.1%, up 20 basis points versus last year.

Domestically, attendance grew 2.3% to 43.8 million patrons. Our third-quarter average ticket price grew 7.1% to \$7.27, driven by strategic price increases and favorable overall mix of ticket type, new-builds and strong 2D XD performance, offset slightly by a reduction in 3D. Although we maintain our overall philosophy of affordable and varied ticket pricing to drive attendance, we have taken the opportunity to selectively increase ticket prices over the course of this year, given the strength of the film content, as well as to offset certain inflationary cost pressures. The combined growth in attendance and price resulted in domestic admissions revenues of \$318.6 million, a 9.7% increase versus last year.

We also maintained our heavy focus on concession sales incidents in the third quarter, and delivered concession revenues of \$168.5 million, an 8.5% increase versus last year. Our concessions per patron were again strong, with a 6.1% increase to \$3.85. We continue to find success growing concessions through our four key initiatives of targeting the diversity and size of products that we offer, altering our theater floor designs to accelerate speed of purchase, modestly increasing prices, and offering strategic promotion.

Other revenues increased 25.9% this quarter, primarily as a result of incremental screen advertising, as well as promotional revenues. Overall, our US operations delivered total revenues of \$505.6 million. We also generated domestic adjusted EBITDA of \$108.7 million, resulting in an adjusted EBITDA margin of 21.5%.

In Latin America, the third-quarter film slate was also very well-received, and our international attendance grew 16.2% to 27.2 million patrons. International admissions revenues increased 1.1% to \$113.6 million this quarter, and our average ticket price was \$4.18 on a reported basis. In constant currency, our average international ticket price grew 11.3%, primarily driven by inflation. International concessions also had another strong quarter, with revenues of \$61.7 million. Concessions per patron were \$2.27, which equates to a 20.6% year-over-year increase in constant currency.

Despite an approximate 29% currency headwind that impacted our third-quarter international results, we grew total international revenues 4.3% to \$194.5 million. Our international adjusted EBITDA also grew 9.2% to \$46.1 million, with a 23.7% adjusted EBITDA margin. As a reminder, the vast majority of our international operating expenses are transacted in local currency, including film rentals and facility lease expenses. So the impact of currency headwinds are predominantly translation-based and not transaction-oriented. Furthermore, our theaters throughout Central and South America are self-sustaining with regard to operational cash requirements and organic growth plans. And they have been for some time, demonstrating the strength and stability of our international operations.

Returning to our worldwide consolidated results, third-quarter film rental and advertising costs as a percentage of admissions revenues increased 120 basis points to 54.7%. This increase was primarily driven by higher film presentation costs, as well as the fact that a significant portion of

Cinemark's box office and out-performance relative to the industry was derived from the quarter's top grossing films, which were higher on the film rental scale. Salaries and wages as a percentage of overall revenue also increased marginally by 40 basis points, driven by global minimum wage pressures and the domestic impact of the Affordable Care Act.

Conversely, concessions costs improved this quarter by 30 basis points to 15.6% of concession revenues, primarily due to sales price increases. As a percentage of total revenues, facility lease expenses also improved by 100 basis points. And utilities and other costs improved 20 basis points, despite the impact of severe drought conditions in Latin America, as well as modifications to government utility regulations in certain international markets. And G&A for the third quarter was relatively flat to 3Q 2014, increasing slightly by 10 basis points as a percentage of revenue.

Collectively, total third-quarter pretax income was \$76.8 million in 2015 compared to \$64.1 million in Q3 of the prior year. Our third quarter's effective tax rate was 39.2%, and net income attributable to Cinemark Holdings Inc grew 21.5% to \$46.3 million or \$0.40 per diluted share. With respect to our balance sheet, we ended the quarter with a cash balance of \$502.9 million, and a net deposition of \$1.3 billion.

Shifting attention to the status of our US footprint, we operated 334 theaters and 4,489 screens in 41 states and 101 DMAs at quarter end. We built two new theaters with 28 screens, enclosed two theaters with 30 screens, during the quarter. We have signed commitments to open 5 theaters with 49 screens during the remainder of 2015, and 10 theaters with 112 screens subsequent to 2015. We expect to spend approximately \$89 million in CapEx associated with these additional 161 screens.

As discussed last quarter, the domestic screen growth guidance we provide is a gross number. We anticipate closing approximately 80 screens during 2015, which is a bit higher than our typical run rate of 25 to 50 screens, as we replace theaters and have leases expiring on a few lower-performing properties. As a result, we are targeting net domestic screen growth of roughly 20 screens this year.

Our international circuit grew to 173 theaters and 1,257 screens in 14 Latin American countries. During the quarter, we expanded by four theaters and 28 screens. As of quarter end, we had signed commitments to open two new theaters and 17 screens during the remainder of 2015, and 6 theaters representing 51 screens subsequent to 2015.

Our estimated CapEx to develop these additional 68 international screens is approximately \$52 million. We continue to internally target around 100 screens of international growth this year, and we believe this target is feasible, based on our current pipeline. In fact, we have expanded by 101 screens internationally on a trailing 12-month basis.

Regarding overall CapEx, we spent \$76.7 million in the third quarter, of which \$34.8 million was spent on new-build CapEx, and \$41.9 million was spent on maintenance CapEx, including other cash flow-generating opportunities. For the full year, we anticipate spending approximately \$300 million in operating CapEx, which is at the higher end of our previous guidance. As a reminder, this figure excludes the \$26 million we incurred to purchase our headquarters building during the first quarter of this year.

In closing, we are extremely pleased with the financial results of our worldwide operations this quarter. The combination of our diverse global footprint, strong-tenured management team, commitment to operational excellence and demonstrated success with our key initiatives have enabled us to deliver consistent top-line results, along with industry leading margins, all while building long-term shareholder value.

Felicia, that concludes our prepared remarks, and we would now like to open up the line for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

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

**Eric Handler** - MKM Partners - Analyst

Yes, thanks a lot for taking my question. Just going off of the Q that was filed, this is the second quarter in a row that your non -- the theaters not in Brazil and Latin America, so everything but Brazil -- was up about 23% in terms of revenue, in the quarter. And obviously some of that is just screen growth. But can you talk about, are there any different dynamics going on in the other parts of Latin America versus Brazil?

---

**Mark Zoradi** - Cinemark Holdings Inc - Successor CEO

Hi, Eric, this is Mark. Thank you for the question. Relative to Latin America, we're continuing to look for growth opportunities, not only in Brazil, but certainly in Argentina, Chile, Colombia and throughout the entire region. As you know, we're operating in 14 countries there. We are committed to Latin America growth. We think even with the economic challenges and the currency headwinds that we experience, that we will continue to be able to grow there.

---

**Eric Handler** - MKM Partners - Analyst

And just as well. But is there anything specifically that you're seeing in terms of trends there? Because obviously those other markets have FX issues, but it looks like you're getting excellent revenue per screen growth that -- just outperforming Brazil. And secondly, as you look at your new screen developments in Latin America over the next year, what's the mix between Brazil and non-Brazil theater expansion?

---

**Mark Zoradi** - Cinemark Holdings Inc - Successor CEO

Well, two things. First, I think I should just mention that the product there has been extremely well-received. Not only export product of America, but also the local product. And we expect Latin America to generally follow the same trends that we've had, where about 50% of the business has been coming out of Brazil, or slightly less, and about 50% or slightly more coming from the remainder of Latin America.

---

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

And I would just tack on to that, that certain countries also, like in Argentina, would carry a high inflation rate relative to Brazil. But as Mark said, in addition to well-received Hollywood content -- Minions, as an example, was the second-highest film of the year so far, so it way over-indexed internationally versus domestically -- as well as the local content they've had there.

---

**Mark Zoradi** - Cinemark Holdings Inc - Successor CEO

Or Furious 7. Furious 7 way over-performed in Latin America. So we really do look at the content as being one not only on American product, but then, as I mentioned, too, local product as well.

---

**Eric Handler** - MKM Partners - Analyst

Great, thanks a lot.

---

**Operator**

Your next question comes from the line of Alexia Quadrani with JPMorgan.

---



**Julie Yoo** - JPMorgan - Analyst

Hi, thank you. This Julie Yoo on for Alexia. I have a few questions. First, you mentioned you've been increasing ticket prices this year. How much of a runway does that potentially have? Could we assume further base ticket price increases over the next few quarters as well? And then do you see any -- have you been seeing any impact on attendance with these ticket price increases? And then my second question is, it's encouraging to see the international screen-build trends. As we start looking to 2016, do you think the 100 new-screen target is achievable next year as well? And can you give any commentary on what trends you're seeing down there?

---

**Mark Zoradi** - Cinemark Holdings Inc - Successor CEO

Julia, I'll take the second question and then maybe have Sean do the first one. Relative to screen growth in Latin America, we have been paying a lot of attention to this, as you can well imagine. And we do anticipate that in 2016, that we will -- again, we are targeting 100 screens in Latin America. We think that we've lined up enough projects to make that a reality. You know, I think that the best way to look at that is, that's our target. So we'll end up somewhere in the 90 to 103, 104 screens for Latin America for 2016. I think that's a reasonable target, and we're on line for it.

---

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

And with regard to pricing, I would say, we've been -- as I mentioned, we've been taking up our prices selectively over the course of this year. I could see some continued strong pricing going into the fourth quarter. I would imagine -- we're constantly tweaking and updating our pricing strategy. I could see maybe a little of that bleeding forward, but I would expect next year could settle back to more of our normal run rate. To date, we have not seen the price increases we've been taking impact our attendance.

---

**Julie Yoo** - JPMorgan - Analyst

That's great. Thank you.

---

**Operator**

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

---

**Robert Fishman** - MoffettNathanson - Analyst

Good morning. I have one more Mark and one for Sean. Mark, I appreciate your comments in the prepared remarks about capital returns. But I'm wondering, can you share with us any further thoughts on target leverage for Cinemark? Are you willing to set any minimum or maximum thresholds to help us better-understand your comfort level in going higher for the right deal, while at the same time not dropping too low as your EBITDA continues to grow?

---

**Mark Zoradi** - Cinemark Holdings Inc - Successor CEO

Robert, I don't think that I would put any specific targets there. But speaking now as a CEO and previously as a Board member, as I mentioned, we look at this very carefully. And if there is a opportunity, an M&A opportunity, where we had to slightly increase our ratios, I think we would be willing to do it. I'm not going put a target on there. But I will tell you, and I want to be very forthright, that this is something that we're looking at in a very real way. There's nothing to announce, so I don't want to give any window that we're -- have something imminent. But it is something that we're looking at really clearly. And yes, we would increase slightly, but I'm not going to put any specific target range on that.



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

For Sean: given the higher G&A expenses in the quarter, can you discuss how can you better manage these costs going forward, if at all, to help margins continue to expand, especially looking at the US, with the cost pressures there?

---

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

Sure. Really, the biggest thing impacting our G&A this quarter was kind of an abnormally low G&A last year in the third quarter, when we had a reduced incentive comp accrual that we booked. So this quarter, we're back to a more normalized run rate. That being said, we're constantly looking for opportunities to improve productivity, inclusive of G&A, across the business, and we'll just continue to focus on that.

---

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

Thanks, guys.

---

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

Thanks.

---

**Operator**

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

---

**Barton Crockett** - *FBR Capital Markets & Company - Analyst*

Thanks for taking the question. I was curious if you could deconstruct what drove your out-performance domestically in box office per screen, which was substantial. How did you guys do it?

---

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

Well, I think a lot of that comes back to a couple of our overall tenets of our strategy. You know, one, even though we have been ticking up some of our prices this year, we still believe that on the whole, we maintain affordable pricing, which prevents our prices from impacting attendance. Secondly, we continue to invest in our circuit to keep even our core circuit looking and feeling new and of high quality, and that keeps our patrons coming out. I think also the products played well to us this quarter.

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

Sean, I think I'd add to that. We had some over-performance on some key titles there, whether it would be Minions, Outta Compton, Maze Runner. And our XD screens performed exceptionally well during the quarter. So I think that was part of what contributed to it as well.

---

**Barton Crockett** - *FBR Capital Markets & Company - Analyst*

Okay. And then switching gears a little bit, you're starting up the re-seat. How should we think about the CapEx profile for your re-seat initiative? How much do you have to spend to do this? And how does that impact how we should think about your CapEx trajectory into 2016 and beyond? I mean, \$300 million this year -- does that go up or down or sideways into 2016 and beyond, as you start these new initiatives?



---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

I'll let Sean take a portion of it, but let me just say, strategically, there's really no change in strategy relative to our re-seats. And the other thing that I think we have been -- the Company has been and I intend to continue in this -- very diligent in our financial analysis of re-seating. We absolutely run reposition at theaters and reclining theaters through a disciplined approach to where we're going make sure that we have our absolute minimums and exceed our minimums, in terms of our EBITDA margins and return on investment. So I don't think that this is going to be an excess or overly concerning, relative to our CapEx. And I think we're going to be able to stay within the parameters that we have given to you in the past.

---

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

Yes. Beyond that, I would just say we're right in the midst of our budgeting process. So we're not really prepared to give formal guidance on next year quite yet. But we should be able to provide some better clarity to that next quarter.

---

**Barton Crockett** - *FBR Capital Markets & Company - Analyst*

Okay, great. Thank you.

---

**Operator**

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

---

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

Thanks. I've got a couple of questions. First, as we look at the international markets -- and I know you always say that you're focused on operating within the markets, and the currency adjustments are a separate issue. But to the extent that inflationary variables are probably a key component of those currency adjustments, how do you look at your ticket pricing strategy when you do have prices fluctuating a lot within the markets because of inflationary elements?

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

We look at ticket pricing on an individual country and, actually, region basis. And obviously ticket prices are going up because of the inflationary dollars. And the thing that we've found in history -- and this has been true in Latin America, like I mentioned in the prepared remarks, back to the Argentinian crisis in the early part of the years -- is that people continue to go to the movies. And ticket prices go up, but so do wages go up. So to the extent that history is a good predictor of the future, we feel like we're going to continue to have good results there. And ticket prices will go up, and they will go up in accordance with inflation.

---

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

And our general strategy is to match inflation, perhaps exceed it slightly, is how we determine. And you have pretty good visibility to that, to be able to keep pace with what's happening.

---

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

So to the extent that you're able to do this, does it mitigate, to some extent, the currency issues in terms of both ticket pricing and the concessions per cap metrics?

---

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

I'm sorry, could you clarify that? Are you saying, does it --

---

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

Well, yes, I mean, if you are able to raise the prices to compensate for inflation, is that helpful in any way, in terms of matching up with the currency exposure that may help you, may hurt you?

---

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

Over time, it does help. But there are periods like we've even seen recently, where there's other factors that can play into FX, and FX can kind of skew more widely than what we see offsetting on an inflation basis. That certainly (multiple speakers) bill this year.

---

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

I'm sure you've noticed the Dolby Cinema at AMC prime initiative that they've embarked on as a complement to their IMAX strategy. Does partnering with a Dolby make any sense to you in terms of your XD strategy, either domestically, or possibly even in international markets, where AMC would not be present as a way to add some added luster to your [PLF] strategy?

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

We believe that both Dolby and IMAX have created a very good product. But equally, we believe that XD is an outstanding product. It is internally developed. It is our specific brand. We are very committed to it domestically and internationally, and will continue along that line.

---

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

Okay. And lastly, in terms of the re-seatings, where will -- where are you expecting to concentrate those re-seatings? Maybe in another way -- the implementation strategy, will it be by market, or by type of theaters within each of your markets, or what approach are you taking?

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

We look at every DMA that we're in. We look at the screening occupancy rate of these particular theaters. We look at the zone, we look at the competition, we look at the real estate environment. And we try and -- we prioritized our re-seating based on all of those things. I mean, obviously when you re-seat, you lose some capacity. So we want to make sure that the theaters that we're choosing will, after re-seating, have the necessary capacity to fulfill the demand in that marketplace. So we just have gone market by market to create our priority list, based on those items.

---

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

Okay. And will the XDs be re-seated at the same time, in those venues where you decide to do the re-seatings?

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

Yes. When we're re-seating an entire theater complex and it has an XD in it, all of the screens will be re-seated, including XD.

---

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

All right. Thanks very much.

---

**Operator**

Your next question comes from the line of Leo Kulp with RBC Capital Markets.

---

**Leo Kulp** - *RBC Capital Markets - Analyst*

Hi, good morning. Thanks for taking the question. First, congrats on the out-performance on the admissions revenue per screen. The ticket price growth was really strong. But when you look at attendance, it was only up about 1.5% per screen, which looks like it kind of under-performed the industry. So is there anything there? If it's not the increased ticket prices, are you seeing competitive pressures from re-seats maybe impacting your attendance per screen?

---

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

Not necessarily. Really the biggest factor for us on the attendance front this quarter was the timing and amount of closed-versus-new theaters we had. You know, the shutdowns that we talked about in my prepared remarks, and some of the temporary closures we have as we're remodeling ahead of the year-end content, coupled with a slightly back-end loaded plan for the year, is the predominant factor. Some of the variance is also just going to be quarter-to-quarter product mix. I would say, if you look at a year-to-date basis, our overall attendance is in line with the industry. So overall, it's really those factors.

---

**Leo Kulp** - *RBC Capital Markets - Analyst*

Got it. Thank you.

---

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

Thanks.

---

**Operator**

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

---

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

Thank you. When you look at the industry capacity of all of these re-seatings -- not the number of screens, but the number of seats, has to be coming down pretty materially, if you do the math. Everyone is pretty much drinking the Kool-Aid on the luxury seating at this point, even people who were reluctant. I mean, do you think that, that has a halo for pricing, a couple of percentage points, because you've taken so much capacity offline over a period of time? And are there any other implications there? And also, do the concession revenues on the recliners tend to be higher than on the ordinary seating? And then I guess the second question -- there is some fairly mainstream guys now outside the video gaming companies in sports entertainment who think that some of the new VR products like Oculus are going to be a pretty big deal, even for movies as well. I guess as more of an in-home consumer electronics product. But is that something that factors into your plans in terms of what you might have the theater as a local, location-based entertainment site, if you will?



---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

Thank you, Matthew. I think you had three questions there. I'll see if I can get to each one of them. Relative to seating capacity, we are not concerned about a lack of seating capacity, because we're very careful before we re-seat, to make sure that the market -- that we'll be able to meet demand. I don't think that's going to be an issue, because of the analysis that goes into it ahead of time. Relative to concessions, the answer to that is, yes. We are seeing an increase in concessions with re-seating. And so that's another positive element relative to doing that. And your third question was -- oh, virtual reality. Yes, absolutely, we're looking at that. Do I see it as a big strategic initiative for us in the near future? No, I don't. Are we looking at the technology? Absolutely, yes. That technology will certainly find its first growth engine in the gaming world. And we're staying on top of it, and we will start to experiment where we see it having potential.

---

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

But just as a point of curiosity though, wouldn't you think that the overall seats for the motion picture exhibition industry in the United States are coming down -- I don't know, 7% to 10% perhaps, in aggregate, as a result of all this re-seating? I don't know whether that has any practical affect. Because everyone knows that the capacity utilization has been notoriously low, in the teens or whatever. But it feels like the total number of seats for the whole industry must be coming down.

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

Well, obviously they are. I've not run the numbers on a projected basis for the entire industry, but I don't think they're coming down to a point at which it is going to be detrimental in any way. And in fact, just from a movie-going experience, I think the consumer actually has a better experience when a particular theater or screen is more highly utilized than underutilized. I mean, just think about seeing a comedy or an action adventure or a horror movie -- you want that theater to be more full. So I think it actually improves the experience for the patron.

---

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

And just to expand on that, while, yes, some of the seat count comes down, the utilization goes way up. So if you're in an underserved market, these tend to behave like putting a brand new theater in the marketplace. So if you've got lower-quality assets in a market and you do one of these initiatives, you can actually bring new patronage back out again.

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

And we have seen that in quite a few of our new-builds. North Hollywood is a great example of that. That was a theater that needed to be fully repositioned. And we didn't just go in and put seats, but we actually went in and re-did the theater from top to bottom. And it absolutely revitalized that theater, and almost created a new film zone right there in the center of North Hollywood.

---

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

Congratulations on your quarter, as always. Thanks for your answers.

---

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

Thank you.

**Operator**

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

---

**Ben Mogil - Stifel Nicolaus - Analyst**

Good morning, thank you for taking my question. I want to look at the industry from a larger perspective. We're seeing a lot of retrofits. I think a couple of questions here earlier were talking about the fact that some previously unconvinced operators are now moving in that direction as well. When you look at the industry over a long time -- which obviously you guys have the benefit of -- historically, the industry's Achilles' heel has always been supply, where they don't have as much demand, and where you saw the financial distress from simply over-building. Are you concerned that there's an arms race going on, and that inevitably, the returns will really grind down very quickly?

---

**Mark Zoradi - Cinemark Holdings Inc - Successor CEO**

No, I'm not. And the reason I'm not is, I know what we're doing, and I know how disciplined we are. And we simply are not going to do that as a Company. We are extremely disciplined in looking at the new CapEx expenses for repositioning and re-seating theaters. And I think also, it's likely that our competitors will do the same thing. I mean, I can't speak for them, but I can only speak for ourselves. And really there has been no change in our strategy here, and that is to look very carefully. The results that we've had to date on any repositioning have either met or exceeded our going-in pro forma, and we'll continue to be that diligent.

---

**Ben Mogil - Stifel Nicolaus - Analyst**

Thanks, Mark, and I don't doubt that you're diligent, but I'm presuming everyone thinks they're -- or views themselves as equally diligent. When you talk to other operators, even in an informal sense, do you get the sense that this issue of concern over excessive spending is forefront in people's minds?

---

**Mark Zoradi - Cinemark Holdings Inc - Successor CEO**

Well, obviously we've got to be really careful in how we talk to our competitors, and so we don't share --

---

**Ben Mogil - Stifel Nicolaus - Analyst**

Sorry -- that was not phrased particularly well on my part.

---

**Mark Zoradi - Cinemark Holdings Inc - Successor CEO**

Yes, we don't share competitive information with what we're doing. So all we can do is look at their actions and look at their publicly announced intentions. And what I'm hearing, and also what we're just hearing at our trade organization, is that all of the companies are being careful here. You know, they got burned before, and nobody anticipates or wants to see that happen again.

---

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

And I would just add to that point, to what Mark just said, I think the industry learned some invaluable lessons during the stadium seating conversions years ago. So everybody is very cautious with this. Even when you look at some of the most aggressive announcements of conversions, you're talking in the 30%-ish range. So the vast majority of all of our circuits will remain the core theaters. And I would just say, we look at this as just one of the types of platforms within our option as we contemplate what's best for our market -- this versus VIP, versus reserves, versus bistros. There's a lot of different tactics we can employ to best serve a market. It's just one of the strategies we have within our selection.

---

---

**Ben Mogil** - *Stifel Nicolaus - Analyst*

That sounds great. Sean and Mark, thanks again for the color.

---

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

Thank you.

---

**Operator**

Your next question comes from the line of Chad Beynon with Macquarie.

---

**Chad Beynon** - *Macquarie Research Equities - Analyst*

Hi. Thanks for taking my questions. First, just wanted to go back to your LatAm attendance success in the quarter. You mentioned at the outset that there were a few local movies in Colombia and Argentina that did really well. Are you seeing an increase in overall content or budgeting or marketing in those markets? Or was this just a quarter where there were a few movies that kind of hit the nail on the head with the consumer?

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

You know, I've been looking at local content for many years from a distribution standpoint, because we have distribution companies all over the world. And local content has always been -- this is not anything new -- has always been important. And it goes in cycles in local countries, just like it goes in cycles here. So I would anticipate in the coming year and the year after that, that the same is going to take place, because it has been. And Brazil is a country that is committed to local content, as is Argentina. And we expect that we'll see similar results in 2016 and 2017.

---

**Chad Beynon** - *Macquarie Research Equities - Analyst*

Great, thanks. And with respect to the international unit growth, for the past couple years, you've hit this 100-screen number that we've all targeted. And for next year, you're talking about a number roughly half that. Just trying to understand, is that number a confirmed number, or could that change as we get through the year? How much time do you have to move that number up by the end of 2016 to maybe stay on pace with what you've done over the past couple of years?

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

I really appreciate that question, because it allows us to give a clarification. We anticipate 2016 of being in the 100-screen growth aspect again for Latin America, so not half. So if that wasn't clear, I'm glad to clarify that.

---

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

Yes, our assigned and committed theaters right now, that was just typically the way -- it doesn't mean that we don't have a larger pipeline of projects we're working. It's just the current status of what's signed and committed. We're still going to target around 100 screens of growth next year, similar to this year.



**Chad Beynon** - *Macquarie Research Equities - Analyst*

Okay, very helpful. Thank you both very much, and congrats on the quarter.

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

Thank you.

---

**Operator**

Your next question comes from the line of Joe Hovorka with Raymond James.

---

**Joe Hovorka** - *Raymond James & Associates - Analyst*

Thanks, guys. Actually another question on the international screens. I think you said you had 68 screens committed for the international markets, at \$52 million in CapEx, which works out to be \$765,000 a screen. And then if you look at the third quarter of last year, you had 95 screens contracted for \$70 million, and that's \$737,000 a screen. With the currencies down as much as they are, why has your dollar CapEx per screen not fallen as well?

---

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

Well, there could be a lot that goes into that. You know, some of that could just be the mix of where they're being developed. Some of that is going to be -- we do see inflation again in these markets. So some of this is going to be a contrast of that. It's hard to say specifically. It's going to fluctuate a little bit up and down, just based on the mix of where those screens are being built, as well as just -- country by country -- as well as just some of the local dynamics of construction costs.

---

**Joe Hovorka** - *Raymond James & Associates - Analyst*

But with currencies down 20%-plus year over year, would we be looking at local currency CapEx up about 20%, on a per screen basis? Is that the right way to think about it?

---

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

Let me think about that. No, I wouldn't say that. I wouldn't look at it that way. I think I would just come back to, it's going to be more based on the particular project that we're working on, the type of mall that it's going into, and some of the local currency construction costs that we're dealing with. It's going to vary in the US, too.

---

**Joe Hovorka** - *Raymond James & Associates - Analyst*

All right, thanks.

---

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

Thanks.

---





**Operator**

Your next question comes from the line of Eric Wold with B. Riley.

---

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

Thank you, good morning. I apologize if you addressed this before, but you're obviously ramping up significantly on the re-seats -- 400 this year, a couple hundred more in the fourth quarter, and then going to another 450 next year. Can you talk about the differential in box office strength between those that have been re-seated versus those that have not, either if you have a large sample on a 12-month basis or even just a couple of quarters? And then two, what is the pricing strategy on those theaters versus normal inflationary increase? And what timeframe after opening to take a larger pop on that?

---

**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

I'll take the second half of that question, and let Sean talk to the first. Relative to pricing, typically, what our plan is, is to not change pricing right after the theater has been re-seated. And we like to do that because it encourages sampling. And what we have found is that once we get patrons to sample the new seats, they are absolutely willing to pay a premium. So yes, we will increase pricing after the theater has been re-established and doing well, but it will not be in a significant way. You know, it may go up \$0.50, it may go up \$1. But typically, we go in with the same price to encourage sampling.

---

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

And I apologize, Eric. Could you repeat your first question?

---

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

Sure. Just for the re-seated theaters versus non-re-seated theaters, whatever timeframe you can give, a couple of quarters, 12 months, if there's a large enough sample -- what's the box office growth difference between those two sets?

---

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

I see. You know, that performance is going to range market by market. I think some of the commentary you've probably heard in the marketplace regarding the types of performance and uplifts you see in those theaters, I would say on the whole, we're experiencing those same types of results. But it really will depend market by market in the dynamics.

---

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

Got it. Thank you, both.

---

**Operator**

(Operator Instructions)

---



**Mark Zoradi** - *Cinemark Holdings Inc - Successor CEO*

Okay. Seeing no additional questions, we want to thank you very much for joining us this morning. We look forward to speaking with you again following the fourth quarter. Thanks again.

---

**Operator**

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

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.