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CNK - Q4 2015 Cinemark Holdings Inc Earnings Call

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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 fourth-quarter earnings call.

(Operator Instructions)

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

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

Thank you, Felicia, and good morning, everyone.

At this time, I would like to welcome you to Cinemark Holding Inc.'s fourth-quarter 2015 earnings release conference call, hosted by Mark Zoradi, 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 addressed 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 filing. The Company undertakes no obligation to publicly update or revise any forward-looking statement.



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

I would now like to turn the call over to Mark Zoradi.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Thank you Chanda, and good morning, everyone. We appreciate you joining us for our 2015 fourth-quarter and full-year results call.

It was a stellar year for the North American industry, and especially for Cinemark, driven by a diversified footprint throughout 15 countries. You will hear the terms record, quarterly high, all-time high achievement, many times throughout our prepared comments today, which we of course are obviously thrilled to share with you.

As you are aware, the rampant success of Star Wars surged the fourth-quarter North American industry box office, topped by approximately 11%, and set a new fourth-quarter record with more than \$2.9 billion. For the full year 2015, the North America industry celebrated an all-time high of over \$11 billion in box office, exceeding the previous record by 2%.

The industry box office success was not confined only to North America. The global box office achieved \$38 billion for the first time in history. In fact, each international country where Cinemark operates also celebrated new box office records, including Brazil, Argentina, Colombia, and Chile. Also important to note that in addition to the Hollywood content, we have the benefit of locally produced films that offer diversity and are accretive to the overall box office results, representing anywhere from 10% to 20% of the total box office.

Now let's discuss how this record industry box office environment translated to Cinemark's results. I'm going to focus on the full-year highlights, and Sean will address the quarterly results in his prepared remarks.

Our domestic operations set all-time records in nearly every key performance metric in 2015, including attendance, admissions revenue, concessions revenue, average ticket price, concessions per patron, and adjusted EBITDA. With our 9.6% domestic admissions revenue growth, we continued our long-running track record of surpassing the North American industry, with 200 basis points of out-performance for the full year.

Now turning to our Latin America operations, attendance is the engine that drives the growth of our international business. Even in the midst of political and economic headwinds, our international operations achieved record attendance, with more than 100 million patrons for the year, an increase of nearly 12%. This is the highest international attendance in the history of our Company, reinforcing the fact that the exhibition industry is more closely tied to film content rather than economic cycles.

In addition to attendance, even with a sizable foreign-exchange headwind of approximately 25% throughout 2015, our Latin America circuit was able to generate growth across multiple categories, including reported admissions revenue, concessions revenue and adjusted EBITDA. In constant dollars, our full-year international operations were especially impressive, with revenue growth of 28%.

These results are reflective of our tenured operating experience throughout South and Central America for more than 20 years, through many different economic cycles. Each country is well-versed and adept in managing their operations under various circumstances.

Now continuing on, our combined worldwide results yielded all-time records, with attendance of more than 280 million patrons, admissions revenue of nearly \$1.8 billion, and total revenues of \$2.9 billion. Most importantly, the revenues translated to the bottom line, to an adjusted EBITDA of \$664 million, with an industry-leading adjusted EBITDA margin of 23.3%, which is a 60-basis-point expansion from the prior year.

Now let's discuss some of Cinemark's key initiatives, and how our team achieved those outstanding results. First, we're focused on our core circuit, which represents approximately 85% of our asset base. Our operating excellence, diligent and consistent investment in our core circuit across the globe continues to drive our industry out-performance.

We are committed to our customer-focused approach, with our enhanced concept initiative, which provides extraordinary movie-going experience for our patrons. We now have 397 screens installed, with our luxury lounge reclining seats, through both our new build and repositioning campaigns, in addition to other market-adaptive platforms, including our high-end VIP brand, Cinemark Reserve, in-theater dining with Movie Bistro, art and independent film focus with our CineArts theaters, and D-Box seats, which features cinematic motion that is coordinated with the film's audio and video.

As discussed in our last earnings call, we intend to expand our luxury lounge presence, and anticipate an additional 500 screens will feature this premium amenity by the end of 2016, through both new builds and repositioning, bringing the cumulative total to approximately 900 screens. The results of our repositioned theaters to date are very strong, and exceed our stringent investment hurdles.

Further expanding on our enhanced concept, Cinemark's immersive XD experience leads the industry as the number one private label PLF circuit in the world, with 210 screens. Our ability to show the highest-grossing film each week generates very consistent and highly productive XD results. XD continues to help drive our premium segment of worldwide box office, which was a healthy 25% for the full year.

Led by XD, the collective private label PLF box office increased 126% over the last three years, through screen growth, customer preference, and studio demand for these high-performing screens. By the end of the year, roughly 25% of our worldwide circuit will feature an enhanced concept.

Next, the worldwide screen growth continues to be an initiative for the Company. We're extremely pleased to report that as anticipated, we met our target and grew our international circuit by 102 screens -- not an easy feat, given the complexities of building in such dense metropolitan areas. We also opened 99 new screens in the US, for a total of 201 worldwide screens during 2015. We now operate 513 screens and 5,796 screens in 15 countries around the world.

But that was all last year. Let's look forward to the year ahead. Year to date, the North American industry box office is up 2.6% compared to 2015. With the continued momentum of Star Wars, The Revenant, along with new releases Kung Fu Panda 3, and of course the most recent break-out hit, Deadpool. We're also looking forward to Zootopia, which has already released in some international markets to great results, as well as the much-anticipated debut of Batman versus Superman.

The rest of the year also has great potential, with well-spaced films and something to appeal to every audience. With Captain America: Civil War, X-Men Apocalypse, Finding Dory, The Secret Life of Pets, Star Trek Beyond, Ghostbusters, The Harry Potter spinoff Fantastic Beasts and Where to Find Them, and the Star Wars spinoff, Rogue One.

With the studios continuing to outlining their release dates for tent pole films far in advance, we have a much greater visibility into 2017 and 2018, and the lineups look tremendous. Our industry has a long-term historic trend of strength and stability during technological advances and various economic cycles. We as an industry, as well as a Company, are continuing to evolve and ensure that that trend continues.

As part of that evolution process, Cinemark is thrilled to announce our Cinemark Connections program, which began its initial launch last week in selected markets, and will continue to roll out to additional markets during the first and second quarters of this year. Connections is a free app-based benefits program that lives in our current app, and encourages brand loyalty from our customer base with both traditional and experiential rewards.

Customers earn points for movie tickets, concession purchases, successful use of CineMode, and social media sharing. Points can be redeemed for a wide variety of rewards, such as behind-the-scenes movie footage, promotional movie items, games, digital download, live hang-out chats with stars and directors, just to name a few. The carousel of awards changes regularly, and will be customized to the specific user based on their likes and preferences.

This is a remarkable opportunity to further understand our customers, enrich the guest experience, and ultimately help drive attendance and loyalty. The initial feedback since the launch has been very encouraging, and we look forward to providing further updates as this customer-focused initiative progresses.

Now regarding our capital allocation, as announced, our Board of Directors increased our annual dividend by 8% to \$1.08 per annum, effective with the fourth-quarter dividend. This brings our dividend yield to 3.5%, which significantly exceeds the S&P 500 yield by approximately 130 basis points. We're extremely pleased that our financial strength, consistent cash flow, enables us to return capital to shareholders while still maintaining a sufficient cash balance to invest in strategic growth opportunities that enhance long-term shareholder value. In closing, I'd like to thank the entire Cinemark family for all the planning, execution, diligence, and collaboration that generated our record-breaking 2015 results.

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

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

Thank you, Mark. Good morning, everyone.

We are very pleased with the strong operational performance and record-setting financial results we delivered in 2015 across our diverse global footprint. As Mark stated, I will focus primarily on fourth-quarter highlights, as he already touched on the full year.

In total, our worldwide revenues increased 7.2% to \$707.2 million in the quarter, driven by increases in attendance, concessions consumption, and pricing. Similarly, our worldwide adjusted EBITDA grew 7.3% to \$168.4 million, resulting in an adjusted EBITDA margin of 23.8%.

Domestically, attendance grew 3% to 45.3 million patrons, establishing a new fourth-quarter milestone. With the strength of premium formats and strategic price increases, our average ticket price increased 8% to \$7.68. The combined growth in attendance and price drove our domestic admissions revenues up 11.2% to a fourth-quarter record of \$348 million.

Benefiting from attendance growth in the quarter, as well as from our very ongoing initiatives that are focused on increasing sales incidents, concession revenues grew 13.6% to \$186.6 million, another fourth-quarter high. Likewise, our concessions per patron grew 10.5% to \$4.12, marking the first time we've exceeded the \$4 threshold.

We have now reported year-over-year concession per patron growth for an industry-leading 36 consecutive quarters. As noted on prior calls, we attribute this continued success to an expansion of product categories that align with consumer demographics, a robust and varied array of promotional actions, floor designs that enhance customer convenience while stimulating impulse purchase, and selective strategic price increases.

Overall, our US operations delivered total revenues of \$558.8 million and generated \$137.9 million in adjusted EBITDA, which resulted in an adjusted EBITDA margin of 24.7%. It is noteworthy that both revenues and adjusted EBITDA set fourth-quarter records for the Company.

Internationally, we faced a tougher year-over-year comp relative to the US, having grown attendance a robust 9.6% in the fourth quarter of 2014. While Star Wars was still a significant contributor to overall box office this year, it was not the phenomenon across Latin America that it was elsewhere around the world.

That being said, our international operations delivered attendance results for the quarter in line with last year, at 21.6 million patrons. International admissions revenues were \$81.7 million, and our average ticket price was \$3.78 on a reported basis. In constant currency, our average international ticket price grew 17.3%, primarily driven by inflation and premium product mix.

International concessions revenues were \$46.2 million in Q4. As in the US, our concessions initiatives continue to drive strong growth throughout Latin America, with concessions per patron of \$2.14 that were up 18% versus prior year in constant currency.

Total international revenues for the fourth quarter were \$148.4 million, with an adjusted EBITDA of \$30.5 million, and an adjusted EBITDA margin of 20.5%. Please note that our international results as reported were impacted by an approximate 27% foreign-currency head wind in the quarter. As a reminder, the vast majority of our international operating expenses are transacted in local currency, including film rental and facility lease expenses, so the impact of currency head winds are predominantly translation-based, and not transaction oriented.



Returning to our worldwide consolidated results, fourth-quarter film rental and advertising costs as a percentage of admissions revenues increased 190 basis points to 55.7%. This increase was primarily driven by the high concentration of Star Wars in the quarter, which represented approximately 22% of the domestic box office, and generated more than \$650 million in 14 days.

Salaries and wages as a percentage of overall revenue also increased marginally by 20 basis points, driven by global minimum wage pressures and the domestic impact of the Affordable Care Act. Conversely, concessions costs improved this quarter by 40 basis points to 15% of concession revenues, primarily due to sales price increases.

As a percentage of total revenues, facility lease expenses also improved by 80 basis points, while utilities and other costs were flat year over year, despite the impact of material modifications to government utility regulations in certain international markets. G&A for the fourth quarter declined by 20 basis points as a percentage of total revenue.

Collectively, fourth-quarter pre-tax income was \$87.9 million in 2015, compared to \$73.2 million in Q4 of the prior year. Our fourth quarter's effective tax rate was 33.8%, and net income attributable to Cinemark Holdings, Inc., grew 22% to \$57.8 million, or \$0.50 per diluted share. With respect to our balance sheet, we ended the year with a cash balance of \$588.5 million, and a net deposition of \$1.5 billion.

Shifting attention to the status of our US footprint, we operated 337 theaters and 4518 screens in 41 states and 100 DMAs at quarter end. We built five new theaters with 49 screens, and closed two theaters with 20 screens during the quarter. We have signed commitments to open seven theaters and 70 screens during 2016, and five theaters and 59 screens beyond 2016. We expect to spend approximately \$73 million in CapEx to develop these 129 screens. We also anticipate closing approximately 60 screens during 2016.

Internationally, our Latin American circuit grew to 176 theaters and 1,278 screens across 14 countries. During the quarter, we expanded by three theaters and 21 screens. As of quarter end, we had signed commitments to open six new theaters and 45 screens during 2016, and two theaters and 17 screens subsequent to 2016. We anticipate spending approximately \$39 million in CapEx to develop these 62 screens.

We continue to view Latin America as a long-term growth opportunity, but we are cognizant that the political and economic environments in certain countries, coupled with the complexities of building in these densely populated areas, may have an impact on our short-term organic growth efforts. Conservatively, we are targeting around 6% screen growth in Latin America in the near term.

Regarding overall CapEx, we spent \$99 million in the fourth quarter, including \$41 million on new builds and \$58 million on existing theaters, which includes core maintenance, theater repositioning with luxury loungers, and other cash-flow-generating opportunities.

As we have stated in the past, our first priority when it comes to capital allocation is to invest in growing our company and delivering a high quality experience for our customers, all while meeting our strict investment hurdles. Along these lines, for the full year of 2016 we anticipate spending between \$300 million to \$325 million in CapEx, primarily to pursue such growth opportunities.

\$100 million is associated with new builds, both domestically and internationally. Approximately \$80 million will be spent on core maintenance for existing screens, in line with our historic run rate. The residual \$120 million to \$145 million is driven by cash-flow-generating projects that include our luxury lounge efforts that Mark addressed in his prepared remarks.

In closing, we are extremely pleased with the progress we continue to make on our strategic initiatives, with the record fourth-quarter and full-year 2015 results we delivered worldwide; with the opportunistic flexibility we have been able to maintain through our strong balance sheet; and with our ability to consistently return cash to shareholders, including the 8% dividend increase we announced this morning.

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



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will pause for just a moment to compile the Q&A roster. Your first question comes from the line of Eric Handler with MKM Partners.

Eric Handler - MKM Partners - Analyst

Good morning, and thanks for taking my question. Two questions for you guys. First, it was nice to see the dividend increase. I'm just curious, the 8% increase, is there any way that you -- how did you arrive at that particular number? Is it pegged to some type of cash flow measure, is it a percentage of earnings, some type of pay-out ratio? I'm just wondering how you got to that particular number?

Second, Sean, with regards to your CapEx number, the \$120 million to \$145 million of cash-flow-generating projects, is there also some type of -- will you get some of that back from landlords in terms of rebates or landlord contributions?

Sean Gamble - Cinemark Holdings, Inc. - CFO

Sure, I'll take both questions. As far as the dividend increase goes, we believe that this increase aligns with our balanced capital allocation approach. Considering the heightened level of ROI-generating CapEx investment we've got planned for 2016, we thought this was a good way to balance investing in the Company while delivering additional cash to shareholders, and maintaining our flexibility to act on other opportunities as they come up.

I will say that it has not been our intention -- it has not been intentional in the past that the dividend increased only once every three years. It is a topic that we continue to discuss with our Board members on a regular basis.

Mark Zoradi - Cinemark Holdings, Inc. - CEO

Let me say one thing. Eric, also there, I think as you note this is going to take our yield to about 3.5%. We feel like that is a competitive yield. It continues to give us the flexibility that we're looking for strategic opportunities, as Sean noted, the significant continued capital expense, which is all EBITDA-generate -- excuse me, the majority of which is very positive in terms of our future EBITDA growth.

Sean Gamble - Cinemark Holdings, Inc. - CFO

With regard to your second question about landlord contributions on some of the re-positioning efforts we have going on, we -- for the most part, we tend not to have significant landlord contributions when we're building our theaters, as well as when we're repositioning our theaters.

A lot of times landlords are willing to do that for a pretty high return in the form of rent going forward. While it can -- it can help your ROI in the near term, it can create a lot of pressure on your EBITDA going forward. We aim to deliver our ROI and EBITDA thresholds. If we can get something without impacting future rent, we'll certainly go for that; but in general, we're not using that as a way of subsidizing our financing.

Eric Handler - MKM Partners - Analyst

Great, thank you very much.



Operator

Robert Fishman, MoffettNathanson.

Robert Fishman - *MoffettNathanson, LLC - Analyst*

Good morning. I have one for Mark and one for Sean on similar themes. Mark, respectfully I understand that you've now only been in the CEO position for about six months. But Cinemark's message on capital allocation seems to be unchanged to us outside the Company for the past three years or so. Is there anything you can share with us to help us better understand how your message or the conversations that you've had with the Board is different today than before? What gets you or the Board to change this position in the months ahead?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Thank you, Robert. First of all, there are active discussions with the Board each and every quarter, as you can imagine. That's why we chose to announce the dividend increase today. Truly, our focus is on finding the best way to build long-term shareholder value. To do that, we've prioritized investing in strategic opportunities that meet that 20% ROI and that 20% EBITDA hurdle that we've talked about several times; also, at the same time, by returning cash to our shareholders, which we've done in the way of dividends. Now this takes our yield to approximately 3.5%.

Then finally, we want to continue to maintain financial flexibility to act quickly when opportunities present themselves. We are continuing to look for those opportunities, both on an internal basis, as well as on an external basis. We hope that we're sending the right message to the investment community by increasing our dividend this time, and to continue to re-evaluate both dividend and other potential return of cash to shareholders, each and every quarter as we go forward.

Robert Fishman - *MoffettNathanson, LLC - Analyst*

Thank you. For Sean, can you also think about the CapEx in Latin America specifically? How should we think about it in local currency versus in US dollars, given that the currency moved in the region, and how that's offset by any savings there from further investments in new builds and premium upgrades in the region?

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

Let me just make sure I understand your question correctly. CapEx in terms of how do you think about it from use of local currency point of view?

Robert Fishman - *MoffettNathanson, LLC - Analyst*

Well, just given the fact that in Latin America, given the currency moves, I'm wondering are we going to see any savings in a US dollar perspective, versus how it compares to the local currency spending?

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

I see. I got you, okay. Well to start, as I think you know, we're generating cash locally in local currency. We are able to fund all our organic and any acquisition needs that we have, depending on size of course, with our local currency that we have on hand.

As far as the translation of cost of CapEx to US dollars, yes, when we translate that across, you will see a little bit of a benefit of that. Of course it depends -- the overall numbers that we quote will depend a bit on the locations, both by country as well as within country where we're building, because that can influence the mix of how much the cost is per screen.

On the whole, you will see a benefit from translation in the total cost; but on the flip side there is also inflation that's working to push costs up. In a lot of these countries in Latin America, you can have anywhere from low, 2% to 3%, to more like mid-digits, 10% or so in Brazil, to all the way over to 30% in a place like Argentina. While that hasn't fully offset the FX movements we've seen in the recent years, that is also serving to increase costs when you look on the whole.

The flip side of that is we're still able to meet our investment hurdles, because you also have inflation of revenues, as well. We get the benefit of that, helping our overall EBITDA.

Robert Fishman - *MoffettNathanson, LLC - Analyst*

Okay, thank you.

Operator

Alex Quadrani, JPMorgan.

Julie Yoo - *JPMorgan - Analyst*

Hi, thank you. This is [Julie Yoo] on for Alexia. A couple questions. First, with such strong domestic concession growth this quarter and looking forward to 2016, what are the most important initiatives that could still drive growth as you lap the gains from this past year? Second, could you give us an update on how much room you think you have to grow to get pricing as well this year, with the potentially difficult comp from the high share of premium-format box office last year, perhaps offset by core pricing gains and maybe higher pricing from the new repositioned theaters?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Julie, I'll take the first question. Regarding our food and beverage operating, we are very excited about the go-forward. In all of our theaters we are looking at them and doing quite a few various initiatives.

Let me start with product lineup. We're literally testing every month different and new food items that as they're successful we roll them out. We're very much looking at what is the product that we're offering, and we'll continued to innovate there, along a variety of lines. That could include alcohol, it could include ice cream, it could include customized coffee, it could include additional hot food, as well as other snack items.

Secondarily, the way that we lay out our concession areas continues to evolve and improve. Probably one of the most simple but very significant increases is lane dividers, where we've made both candy and bottled drinks very accessible to the consumer to reach and grab as they're checking out, and they're not behind the candy line, and that's made a significant difference.

Third is we continue to innovate with promotional ideas to create value for the consumers -- multiple items and the same promotional items tied to specific movies, products tied to specific movies. As we look at our concession areas, both domestically and internationally, we think there is continued room to grow that area, because we're continuing to innovate in all areas.

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

Then on the pricing question, we look at price very discreetly market by market, and based on what's happening within the market of each and every one of our theaters. There's a big factor that goes into that in terms of what we do from just a base pricing aspect.



I'd say if anything when we were looking at approaching 2015 and the strength of the content, we felt like there might be an opportunity based on how we had been a bit distanced behind our peers to take advantage of that a bit. We probably -- we increased our prices a little bit higher than we've had -- we've done in the past.

As we look to 2016, I think we're going to continue to be careful with what we do. Our aim will still be to be -- I would say slightly lag our peers, because we never want price to impact our attendance, which to date it has not. We'll obviously continue and hopefully continue to get the benefit of favorable pricing mix as it pertains to premium product, as we get -- we can get customers to select those types of viewings relative to standard 2-D format. Does that answer your question?

Julie Yoo - JPMorgan - Analyst

That's very helpful. Thank you very much.

Mark Zoradi - Cinemark Holdings, Inc. - CEO

Thanks.

Operator

David Miller, Topeka Capital.

David Miller - Topeka Capital - Analyst

Hi, guys. Congratulations on the stellar results once again. Just a question about Latin America. Conceptually, I've always thought of Latin America and particularly Brazil as a demand curve that keeps moving to the right. You guys keep chasing that supply demand equilibrium with new builds in the region.

Mark, what's the right number that -- what's the number in your head that you feel like you need to get to, whether it's three years out, five years out, seven years out, where you're not -- saturated is the wrong word -- but what is the right number the you feel like you need to get to so that you match supply-demand equilibrium, you've hit that dot right on the graph? Thanks a lot.

Mark Zoradi - Cinemark Holdings, Inc. - CEO

As you point out, Latin America is a very vibrant territory. We clearly look at it as individual countries as opposed to a whole. The right number in each country is going to be dependent upon how deep we've gone. Specifically in Brazil that you brought up, the majority are of our density to date had been in key larger cities.

But as we look to the future, we think that we can continue to expand into the smaller cities, as well, with specific theaters that fit that footprint. In the larger cities, Sao Paolo and Rio, we can have screens eight, 10, 12, maybe even as much as 14. In the smaller areas, we'll start to open theaters four, five and six-plexes, because it's going to meet the market demand there. We think there is a continued significant growth there.

We were very pleased to hit the 100-screen hurdle that we've been talking about. As we look forward to the new year, we think we'll be somewhere in the 70 to 75 screens for Latin America, a portion coming out of Brazil, and quite a bit of screens coming from other territories. We're moving into Central America more. This clearly is a growth area for us, and we're going to continue to get there.

The goal isn't just screen count. Really, the goal for us is return on investment, and what kind of profit do we actually gain from that. We are very disciplined. We're in a disciplined expansion mode for Latin America.



David Miller - *Topeka Capital - Analyst*

Okay. Thank you very much.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Thanks.

Operator

Barton Crockett, FBR Capital Markets.

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

Okay, great. Thanks for taking the question. I wanted to step back just for a minute, because I think one of the big overhangs for you guys is just people's questions about what is the environment really like in Latin America. I was wondering if you could just talk to that, generally.

We hear a lot of headlines about the Zika virus, see the foreign currency massive head winds, read about the macro slowing, know that places like Brazil, their economy is very tight into China, which has been slowing. You guys are saying that you could see slower screen growth this year than last year, which presumably is tied into maybe slower mall development.

What are you seeing there? Does it feel like a place that's slowing, that maybe there could be some head winds on the development longer term beyond this year that is more a head wind? How would you describe the environment?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

It's a very interesting question. I'm glad you asked it. 30 days ago, Sean and I made a trip down to Latin America and visited dozens and dozens of theaters. When you sit here in the United States and you just read about what's going on, in terms of the items that you listed out -- government, financial, inflation, you tend to think the situation is more dire than what truly the reality is. You go down there, and you go to the theaters, and there are thousands and thousands of people going to the movies. We had a 12% increase in admissions there.

Yes, the economy is an issue, but it's also one that has been somewhat adaptable to the people of Latin America. They've lived with various cycles for a long time. Movies continue to be a relatively affordable piece of entertainment, where maybe foreign travel or even travel outside -- travel within their country or travel outside of their country isn't. Going to the movies is still an item that families want to do.

The business is continuing to grow there. No question that there are some issues of being able to grow the market. We think that we're going to grow, like I said, 70 to 75 screens as opposed to 100. To me, I feel like that's continued to grow. We're going to make sure that those are all profitable, with positive return on investments.

As you look at the employment rate, Brazil is at a 6.9% unemployment rate. In 2003 it was at a 12% unemployment rate. Argentina's at about a 6% unemployment rate. It used to be at 25% during the really deep recession that they've had in the past. It is an environment that has its challenges, but continues to grow for us.



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

Okay. Thank you for that color. If I could switch gears a little bit, the movie slate is really skewing pretty strongly towards IMAX-type films. IMAX is a format where you guys are under-exposed. Obviously you look at things like Deadpool, you look at things like Star Wars, it feels like a very favorable environment for IMAX. How are you seeing your XD screens perform relative to IMAX? Are they keeping up, doing better, lagging? How would you describe it?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

The XD initiative for Cinemark is very strategic, and we are continuing to support that with new screen growth. The real advantage for us in terms of the XD screen is we can program those each and every week exactly with what our film team thinks is going to be the most commercial movie.

Our XD screens represent about 3.5% of our screens, and yet is generating close to 7.8% or 7.9% of our box office. They have been extremely important to us. We invested the capital, and we get to keep all the returns and share that amount only with our studio partner. They have been very profitable from a return on investment standpoint.

To answer your question specifically, yes, we think XD is very competitive in the market place, and does very well. The response that we've gotten from consumers has been at the highest levels relative to their acceptance of the quality level.

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

If I could just push that a little bit, I understand all the strategic rationale. I understand the return on investment. But as a top-line growth trend on a per-screen basis at XD, consistent with IMAX, better, or worse? Can you give us any sense of that?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

I really can't compare it necessarily to IMAX. I can only look at what we're doing. The growth of our XD screens has hit and exceeded our internal targets.

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

Okay. All right, great. Thanks a lot.

Operator

Ryan Fiftal, Morgan Stanley.

Ryan Fiftal - *Morgan Stanley - Analyst*

Great, thank you. Good morning. One follow-up on Barton's question on LatAm. The box office in Brazil, it was very strong at the industry level for the full year, but fourth-quarter attendance was basically flat, which I think implies attendance per screen was down. It sounds like if you're not seeing any change in consumer behavior that maybe that was more content-driven, but I'm wondering if you have any color there? Thanks.



Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Yes, I think your assessment is exactly correct. Last year there was -- it was a top tough comp last year. There was a lot of product that played really well to the market place. Again, Star Wars, while big in Latin America, the sci-fi type films don't translate as well across LatAm as do more action and family-oriented films, particularly animation.

In the fourth quarter, our attendance per screen was down, but really when you look on the whole of the year, attendance per screen was up a little over 4%. It was very content-driven.

When you look at what we're already seeing the beginning of this year in January and February in Brazil, the box office has been booming, and it's largely again been content-driven. They've had phenomenal success with DeadPool, and they had a local film called the 10 Commandments which has been I think the second-highest box office ever in Brazil, or second-highest attended film ever in the history of Brazil since tracking. It's a long-winded answer. The short answer is yes, it's what you said, it's been content-oriented.

Ryan Fiftal - *Morgan Stanley - Analyst*

That's helpful. Thanks for the color.

Operator

Tony Wible, Drexel Hamilton.

Tony Wible - *Drexel Hamilton - Analyst*

Hi, thanks. That was actually the question I wanted to zero in on, as it looks like there's a 9% decline in attendance per screen in LatAm. Historically, you guys have been growing that well ahead of the US rates. You mentioned in the quarter that we've already got into now that trend has reversed itself, and that international attendance per screen you're saying is now back above the US levels, where it's historically been?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

I'm not necessarily saying that. I was just saying that it is content-driven. For the full year last year, attendance per screen was up 4.4%. That's on top of 2014, when attendance per screen was up 4% year over year. First quarter to date has been terrific in Brazil from an industry standpoint, just with the strength of some of the content that's been out there. We'll see how the full quarter plays out international relative to domestic, but so far things look really good.

Tony Wible - *Drexel Hamilton - Analyst*

Got it. Great, thank you.

Operator

Ben Mogil, Stifel.

Ben Mogil - *Stifel Nicolaus - Analyst*

Hi, good morning. Thanks for taking my question. To fit in, I'll have to ask at least one on Latin America here. When you talk about the 6% screen growth you're looking for, and that's a little bit lower in terms of the number of screens we've seen in -- sorry, a little bit lower than the percentage

we've seen the last couple years, is that -- there's clearly some cautiousness, which I think is understandable. Is that also your cautiousness coupled with developers' cautiousness, or is it really more coming from your side than from what's realistically available to be done in the market, if you will?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

I would say it's not necessarily our cautiousness. We are very diligent in regards to how we evaluate each and every investment. But the developer, the development pipeline in Brazil specifically has slowed down a little bit. It doesn't mean it's not going to continue into the future. I think that's probably the single-most important factor as we look of why we're looking at 6% instead of 7%.

I think it's really important to note that doing 70 or 75 additional screens in 2016 in Latin America is a very positive move forward, considering the headwinds that have taken place in that market place. I would read this -- I would read the continued growth we're having there in a very positive light, considering the negative feedback that's been in the media back here in the US. It was one of the reasons that Sean and I wanted to go down there and see and meet with developers, as well as visiting all our theaters and our offices.

Ben Mogil - *Stifel Nicolaus - Analyst*

Is this -- thank you for that. Is it fair to say that in the past there's been some situations where you've had competitors ramp up supply a lot faster than you. Is it fair to say that the overall market -- that you are no different than the overall market, from the best that you can get a sense of where the competition -- what they're doing in terms of screen growth?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

I think that's fair. Obviously we don't know the exact pipeline of what our competitors are doing, but we do know what potential projects are out there. We're continuing to get our fair share, and in some cases more than our fair share of the products that we want. Sometimes there's projects out there that quite frankly we choose not to do, because we they don't meet our hurdle rate. We're happy to say no thank you in those cases.

Ben Mogil - *Stifel Nicolaus - Analyst*

Okay. That's great, thanks. One more on a larger content cycle. I think the last year and even certainly in 2015 and probably even 2014, as well, certainly there were lots of big blockbuster movies that did lots of business. But we've seen the share of box office coming from comedies and romantic comedies, in particular, and dramas -- that mid-tier product that used to do between say \$50 million and \$100 million of box office. That's really come down a lot.

When you guys look at what's going on, do you think that's because people are choosing to see them more and more in the whole market, because it's so much easier now to see stuff in the home than a couple years ago? Is that -- and then there's that cycle, if you will. The studios then produce less, et cetera. I'm curious if you're seeing certain genres be permanently smaller than they used to be on the content side?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

I appreciate the question, Ben. I would take hesitance with the word permanently. Really, truly it's product flow. It just depends on what kind of movies work as well today. Who would've called *DeadPool*, a movie which quite frankly I think the reported production costs on that from Universal was about \$58 million, was going to come out and likely do north of \$350 million in the domestic box office. It doesn't have to be a big, expensive movie, it just has to be a movie that works. You wouldn't have been calling that a big tent pole movie with a production cost of \$58 million.

The good thing about the 2016 lineup is we do think there will be a more equal related movies in the various buckets of performance. We're likely not to have the mega blockbusters of \$500-million and \$600-million performers, but we are going to have more movies in that \$150-million to

\$250-million range, which helps two things. One it spreads the audience out; it creates more successful movies for our suppliers; and three, it releases the pressure a little bit on film rental, because you're not hitting the highest tiers on the scales.

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

I would just add to that briefly. I think a lot of what the big studios have done, you've seen that. It's a dynamic of what they've been choosing to produce, because the larger-type films tend to feed well from a brand building into the rest of their ecosystem, whether it's theme parks or consumer products or elsewhere.

At the same time now, I think there's other studios out there that have recognized there's an opportunity in that mid-tier space. You have other companies like STX and some former heads of studios who are coming in and developing product in that area, which we're optimistic will help bring back a lot of the content that may have been in lesser volume over the last couple of years.

Ben Mogil - *Stifel Nicolaus - Analyst*

Okay, fair enough, thanks. Now that the year's over, any movement on M&A? I know usually the smaller guys wait until Jan. 1 to roll forward. Any sort of change, albeit early in the year?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

I would say nothing -- no change, because we very much are on the outlook for potential M&A, both domestically and internationally. The deals that are to be looked at, we absolutely usually get a very good early look at them. But we're, we're pretty disciplined in our approach. I think it has paid off well for our stockholders, and we're going to continue to. Nothing on the specific horizon, but very much on our radar.

Ben Mogil - *Stifel Nicolaus - Analyst*

Great. Thank you very much.

Operator

Eric Wold, B. Riley.

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

Thank you. A number of my questions on Latin America have been addressed. Focusing a little bit more on the content side and the slate side, any thoughts as you approach the Olympics in Brazil, and any opportunities to benefit from that similar to what we saw around the World Cup? Are you seeing studios move to take advantage of it, or avoid it with their programming choices?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

There wasn't a egg effect on the box office in Brazil before, with the World Cup. Relative to the Olympics, the studios and the distributors tend to want to line their product up in situations to where it's not going to be directly competitive. We don't think it's going to have either an adverse or a positive effect, necessarily, on the box office.



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

Okay, then a follow up on the last one, around M&A. I know you're always on the look-out, but given what you've seen in the past when there's been issues in Latin America economically, and currency-wise that's impacted development schedules, it looks like it's happening now somewhat. Has there been any change in sellers' mindsets when that has happened in the past, in terms of them looking to monetize, given that development opportunities may be a little more limited?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

We haven't seen any significant M&A increase in Latin America, based on the economic situation. It's because the business is still a very healthy growing business. Admissions are up in Latin America. We haven't seen any spikes in that area.

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

I would just say a lot of the top circuits down there tend to be owned -- that are family-owned -- tend to be owned by families that are in the billions of net worth, so they're less impacted by some of the short-term dynamics in the market place. It becomes other factors that will tend to drive their decisions to bring their circuit to market.

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

Perfect. Thank you, guys.

Operator

Jim Goss, Barrington Research.

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

Thanks, I've got a couple, also. First, I was wondering about the process of measuring the success of your rewards programs. You talked about modifying or adding on to the program you have. Have you been able to determine an impact on the sales and margins of concessions and attendance from the rewards programs? I know it's impossible to know for sure, but how have you been able to measure that?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Jim, I think we will be able to; but literally as I noted, we just began the roll-out of this. When I say just began, I mean on February 16 in two markets. We're at the very early stages of it. We will roll it out through all of our markets throughout the remainder of this quarter and into the second quarter. We're way too early to have the ability to determine anything, given that we've just started in two markets with the roll-out coming.

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

Well, you've had other programs in existence, I think, both e-mail and app related. I assume there's some sort of a (inaudible - multiple speakers) --



Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

There's no question about that. We send out 4 million to 5 million e-mails each and every week, and have over 4 million unique users on our Cinemark app. Significant amount of the promotional material that goes out is definitely tied to concession sales, concession offers. Yes, we do see a significant redemption in those various offerings, those very offerings. But relative to the new loyalty program, which we just announced today, it's too early to determine that.

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

Yes, well certainly. Do you do a similar sort of thing in any of the Latin American markets, or will it start here and then you'll try to determine whether you apply it there, as well?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

We have ongoing loyalty programs in a number of our Latin America markets.

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

Okay. Maybe in a different area, given that your geographies are different from say AMC and Regal, what type of locations have you determined are best suited to target your re-seatings, since I think theirs tend to be focused more on the urban markets?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

The re-seating analysis, we look at obviously very specifically to the specific DMA and the theaters in the market place. Also we look to do theaters that have a high occupancy, and -- excuse me, a high-capacity with not necessarily a high occupancy.

It's a very good way to reposition that theater because, you're going to lose 55% to 60% of the seats. You want to make sure you don't have a theater that is highly utilized, otherwise you might run out of seats. Then we look to say in the market place, what do the demographics look like there, and what do we think -- what's the competition look like there? Has anybody else reclined in that market place? To date, we've been very happy with the results, because they are exceeding our investment hurdle rates.

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

Okay, and one final one. Early in this call you made a comment that the -- clearly the business is driven more by film content rather than economic cycle. As you say that, and as we look at a new year where the chances of setting a new record are somewhat less than they appeared to be last year, do you -- does that give you any pause for your business?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

It really doesn't. I've been in the movie business one way or another for over 30 years. You just don't know what's going to take place. The best example of that is what just happened two weeks ago with Deadpool. No one in the industry was calling that movie to do what it did. There were three or four movies like that last year. We look at the lineup, and we think the lineup is very strong for the remainder of 2016. The one thing that I really do like about it is it's more balanced, both across studio providers, and more balanced relative to not just two or three mega-megahits.

Then when we look at the 2017 lineup and the 2018 lineup, really truly in my experience we've never had this level of look-forward transparency to what the studios and distributors have announced. We're optimistic for 2016, and also very optimistic for 2017 and 2018, with what's already

on the books. It's pretty positive. Then as I noted in the prepared comments, too, there's always that little added bonus with the international market place, because you get those local titles that you don't necessarily always see coming.

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

The only other quick thing I'll add is we think it's important to look at the business more on a longer-term cycle. It's hard to always look quarter to quarter, year to year because of the ebbs and flows of the product content.

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

Okay. Well, thanks very much.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Thank you.

Operator

(Operator Instructions)

Matthew Harrigan, Wunderlich Securities.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Thank you. As a tangent to Ben Mogil's question, I think even Deadpool himself even pointed out in the movie that the studio couldn't afford more than two X-Men. I thought that was pretty --

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

That was a good line, wasn't it?

Matthew Harrigan - *Wunderlich Securities - Analyst*

A little tongue-in-cheek. A couple things. One, you've got Crouching Tiger, Hidden Dragon: Sword of Destiny coming out this weekend on Netflix. I was curious if you had any comments on that? Secondly, 3-D has pretty much been subsumed in the premium category, but still some interesting things happening there with higher resolutions and even autostereoscopic 3-D without the glasses over a very long period of time?

I guess the last question, on a compounded basis when you look at your out-performance going back three to five years, you must be up high teens, low 20% on the share takeage from the rest of the industry. Are you seeing any specific locales where you really get a lot of amped-up competitive intensity off the recliners or anything? It's pretty remarkable. People think of this industry as being pretty generic. You're clearly the outlier. Man, to compound that sustainably over that long period of time seems pretty amazing. Not to be overly nice, but it's curious.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

What was the first question again?

Matthew Harrigan - *Wunderlich Securities - Analyst*

Crouching Tiger, Hidden Dragon, Netflix.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

We don't have any concern there. Netflix is a great service. It's a great in-home service. They've had other movies. Netflix is very much a television network. Not unlike what HBO and Showtime have done for years, they have some original product that goes out there. It's not playing in the theaters, it's playing on Netflix. We hope they have great success with it, but I don't see it as an issue relative to the theatrical business. It's not one really that we talk about. The second question was --

Matthew Harrigan - *Wunderlich Securities - Analyst*

3-D technology development over a period of time.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO*

Oh yes, 3-D. Okay, 3-D we feel like we really are the leaders here. We've put a big emphasis on putting more light in the screen than any other theater chain. We think 3-D has got a great 2016 coming. There are a lot of movies coming in 3-D. Our philosophy is to make sure that the consumer has the ability to choose a 3-D offering or a 2-D offering of that particular movie. But we continue to be bullish on 3-D, and support the effort very much with highlight levels and quality in our theaters. I think Sean will take the other --

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

I will just say with you last question just about our performance over the years, we attribute that highly to our intense focus on driving attendance, that philosophy that cuts through our pricing focus, our CapEx investment. We spend more than our peers on maintaining our core circuit, which we believe that's fundamental to keep people coming back.

We also are supplementing our circuit where it makes sense with a lot of these enhanced concepts, repositionings, as we've obviously talking about when it makes sense. All that becomes additive, but it all stems back to a philosophy on high-quality experience, attendance driven, and maintaining your core circuit, as well as the new builds and organic efforts that you're doing.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Thanks, Mark. Thanks, Shawn.

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

You bet.

Operator

Leo Kulp, RBC Capital Markets.



Leo Kulp - RBC Capital Markets - Analyst

Hi, good morning. Thanks for taking the question. Just a quick one. On the international side, can you talk about how the economics of the theaters in your newer markets like Central America compare to your more established markets like Brazil and Argentina.

Mark Zoradi - Cinemark Holdings, Inc. - CEO

Leo, the short answer to that is that they're very comparable as it relates to a return on investment on EBITDA margin. That's how we evaluate the investments go-forward.

Leo Kulp - RBC Capital Markets - Analyst

On a revenue per theater and EBITDA per theater, are they similar?

Mark Zoradi - Cinemark Holdings, Inc. - CEO

Yes, very similar.

Leo Kulp - RBC Capital Markets - Analyst

Okay, thank you.

Mark Zoradi - Cinemark Holdings, Inc. - CEO

Thanks.

Operator

At this time there are no further questions.

Mark Zoradi - Cinemark Holdings, Inc. - CEO

Thank you very much for joining us this morning. We look forward to speaking with you again following our first quarter. Thanks again.

Sean Gamble - Cinemark Holdings, Inc. - CFO

Thanks, everyone.

Chanda Brashears - Cinemark Holdings, Inc. - IR

Thank you.

Operator

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



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