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# EDITED TRANSCRIPT

CNK - Q3 2016 Cinemark Holdings Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Chanda Bashears** *Cinemark Holdings Inc. - IR*

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

**Robert Fishman** *MoffetNathanson LLC - Analyst*

**Alexia Quadrani** *JPMorgan - Analyst*

**David Miller** *Loop Capital Markets LLC - Analyst*

**Zack Silver** *FBR Capital Markets - Analyst*

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

**Ryan Fiftal** *Morgan Stanley - Analyst*

**Tony Wible** *Drexel Hamilton - Analyst*

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

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

## PRESENTATION

### Operator

Good morning. My name is Felicia and I will be your conference operator today. At this time I would like to welcome everyone to Cinemark's third-quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). Ms. Chanda Bashears, you may begin your conference.

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### Chanda Bashears - 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 2016 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 discussed by members of management during this call may constitute forward-looking statements. Such statements are subject to risks, uncertainties and other factors that may cause Cinemark's actual performance to be materially different from the performance indicated or implied by such statements. Such risk factors are set forth in the Company's SEC filings. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

Today's call and webcast may include non-GAAP financial measures. A reconciliation of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP can be found in today's press release, within the Company's quarterly filing on form 10-Q, and on the Company's website, [investors.cinemark.com](http://investors.cinemark.com).

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



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

Thank you, Chanda. Good morning, everyone. Happy election day. We appreciate you all joining us for our 2016 third-quarter results call.

The robust film environment coupled with our focus and execution on our strategic initiatives that are aimed at enriching the guest experience yet again yielded strong results. Our adjusted EBITDA margin continue to significantly lead the industry at 24.1%, an expansion of 140 basis points year-over-year validating the consistent health of our margin during strong as well as challenging box office environment.

Accolades to our worldwide team for their accomplishments.

Furthermore, our third-quarter net income and earnings per share increased, each increased more than 40% year-over-year. While the strength and diversity of the third-quarter films translated across the globe, we were especially pleased with the momentum of the North American industry box office growth of 12%.

Cinemark's domestic operation accomplished both top and bottom line third-quarter records including admissions revenue of \$355 million, total revenues of \$569 million and adjusted EBITDA of \$138 million. While our admission revenue set a third-quarter record, our 11.4% year-over-year domestic box office growth slightly trailed the North American industry. This was driven by the way the film content mix translated in our key markets, a heightened level of screen closures associated with our recliner remodels and our significant 390 basis points over performance in the third quarter of last year that set a very high comp hurdle.

I would be remiss if I did not mention the fact that Cinemark outperformed the North America industry box office 27 out of the past 31 quarters.

Moving on to the Latin American market, our international segment's third-quarter admission revenue increased a solid 16.8% in constant currency demonstrating that the exhibition business continues to be most reliant upon film content rather than economic cycles.

In Brazil, our largest market, the industry box office increased approximately 20% in local currency from positive trends in movie-going attendance, ticket price inflation and the benefit of the release date shifts of *Finding Dory* and *Secret Life of Pets*. Outside of Brazil, the rest of Latin America also experienced industry box office growth in local currency. However, did not have Brazil's release date benefits and also faced tough hurdles with strong local title performance in the prior year.

As we've said in the past, local titles are a valuable supplement to Hollywood film content but are not as consistent in quantity or popularity.

Regarding the upcoming film content, we continue to be bullish in regards to the commercial potential of the Hollywood movie lineup. While the studios provide the contents, we provide the high-quality setting in which to enjoy such content. Again within that context, everything we do focuses on creating an outstanding guest experience. One amenity that is clearly resonating with our customers is recliner seats and we are actively delivering on this consumer demand with our luxury lounge initiative. As of September 30, Cinemark featured luxury lounge recliner seats in 764 auditoriums representing approximately 17% of our US circuit. We expect to end this year with more than 1000 auditoriums featuring the recliner seats representing around 22% of our domestic footprint.

The performance of our converted luxury lounge locations continues to pass both the expectations and our investment hurdles. For those auditoriums that have featured the loungers for more than six months, we are realizing average attendance increases of 40%.

We are also experiencing incremental benefits beyond attendance growth including ticket pricing power with the premium experience, online ticket fees associated with the convenience of reserve seating, and concession per cap growth that is nearly twice that of a traditional non-reclined theater. As we have discussed, we will continue to be aggressive but disciplined with our recliner conversions as long as the projects meet our balanced and consistent investment hurdles.

We also know that the quality and variety of our food and beverage offering are of significant importance to our guests. We continue to execute on our market adaptive approach as preferences can vary widely based on the geographies and demographics. With 39 consecutive quarters of

domestic concession per cap growth, we continue to prove successful in these efforts. Just over half of our domestic circuit features enhanced food and beverage offerings and we will continue to implement initiatives aligned with current food trends that cater to consumer demand and drive increased incidence.

Sales of alcohol beverages represent one of those trends and has helped drive our per cap growth adding an average of \$0.30 to the theaters that have activated these products. We are continuing to expand this product category and expect to end the year with 20% of our circuit offering some variety of alcohol from beer, wine and frozen cocktails to a full-service bar. It is important to note that our core concession products, popcorn, soft drinks and candy have not been meaningfully impacted by the addition of alcohol and other enhanced food offerings; rather we continue to grow purchase incidence of these most profitable core categories while expanding our base of concession buying customers through a broader variety of products.

Beyond our luxury loungers and enhanced concession offerings, our XD premium large-format screens enrich the guest experience as they fully immerse patrons in the on-screen action with our wall-to-wall screens, superior seating and sound systems that amplify the adventure. Our XD strategy enables us to play the biggest movie every week in our large format and the consumer preference for XD is consistently reflected in our reported results.

Of our 218 worldwide XD auditoriums, they represent 3.7% of the screens yet they generate an outsized 7.4% of our worldwide box office. We maintain our status as the number one private label premium large-format exhibitor in the world.

We also remain focused on our new loyalty program, Connections. We are thrilled to report that we will have reached our 1 million Connections member goal in just eight months, well ahead of our one-year target. Notably since launching Connections, we have experienced a 31% increase in our apps download, 111% uplift in our apps usage and an impressive 65% engagement rate among our Connections members. We see tremendous long-term value and opportunities associated with Connections as we grow our member base and expand our customer intelligence enabling us to identify preferences and heightened brand loyalty.

Last but certainly not least, Cinemark continues to invest in our core circuit to ensure a high-quality experience across our 522 theaters in 16 countries. The key takeaway for today and going forward is that our worldwide Cinemark team is dedicated to enhancing and enriching the overall guest experience in our theaters. This remains mission number one and we will maintain our commitment to our strategic initiatives including luxury loungers, expanded food and beverage offerings, leading the private label PLS with our XD auditoriums, investments in our core circuit and building brand loyalty with our customers. This is all done in the continued pursuit of industry-leading profitability and driving shareholder value.

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

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

Thank you, Mark, and good morning, everyone. As a quick reminder we made a few minor modifications to the presentation of our financials that became effective in the first quarter of 2016 and that will continue on a go forward basis. These modifications include a change to our adjusted EBITDA calculation to capture all cash distributions from equity investments, a reclassification of certain maintenance and monitoring expenditures associated with our projection and sound equipment from film rental and advertising to utilities and other costs and the addition of constant currency metrics to the MD&A section of our 10-Q.

These changes were made to provide a clearer presentation of our figures and to be more consistent with our peers. All periods presented in our earnings release and 10-Q have been updated accordingly.

Turning to our third-quarter performance, we are very pleased to report strong financial and operating results. Total worldwide revenues increased 9.8% to \$768.6 million driven by growth in attendance, concessions, incidence and price. Our adjusted EBITDA increased 16.2% to \$184.9 million and our adjusted EBITDA margin expanded 140 basis points to 24.1%.

Domestically, strong film content and our focus on the guest experience continued to prove advantageous yielding third quarter year-over-year attendance growth of 9.6% to 48 million patrons. Our average ticket price increased 1.7% to \$7.39 and combined attendance and price drove domestic admissions revenues up 11.4% to \$354.9 million. The benefits of our attendance growth also played through to concessions revenues which were up 17.2% versus the third quarter of last year.

Furthermore, our continued focus on core product sales married with pricing initiatives, new concepts and field execution drove domestic concessions per patron up 6.8% to \$4.11.

Other revenues for the quarter declined 9.7% largely as a result of certain promotional benefits we began realizing in the third quarter of 2015 that had a limited duration. These benefits impacted 3Q 2015 through 1Q 2016 and therefore will represent an ongoing hurdle for the next couple of quarters.

Overall, our US operations delivered total revenue growth of 12.6% to \$569.1 million and adjusted EBITDA growth of 21.7% to \$137.5 million. Our resulting adjusted EBITDA margin expanded 180 basis points to 24.2% and continues to lead the industry.

Internationally, our attendance increased 3.7% to 28.2 million patrons. Admissions revenues were \$118 million which were up 3.9% versus last year as reported and up 16.8% in constant currency. Our reported average ticket price was \$4.18 and translated to a constant currency increase of 12.7% primarily as a result of inflationary price increases.

International concessions revenues were \$63.9 million which increased 3.6% as reported and 15.6% in constant currency. Our reported concessions per patron was \$2.27 which translated to an 11.5% increase in constant currency.

Overall, we delivered total international revenues for the third quarter of \$199.5 million as reported with adjusted EBITDA of \$47.4 million and an adjusted EBITDA margin of 23.7%. Please note that our as reported international results were impacted by an approximate 11% foreign currency headwind in the quarter and while this headwind remains significant, we have now seen two straight quarters of foreign exchange improvement compared to the approximate 25% headwind we experienced over the last year.

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 headwinds is predominantly translation based and not transaction oriented. Furthermore, our operations throughout South and Central America are largely self-sustaining with regard to both operational cash requirements and organic growth needs.

Shifting back to our worldwide consolidated results, third-quarter film rental and advertising costs as a percentage of admissions revenues increased 20 basis points to 52.8% driven by a slight increase in the concentration of admissions that were generated from blockbuster titles.

Concession costs as a percentage of total concession revenues also increased by 40 basis points in comparison to the prior year. This increase was primarily due to the impact of expanded food and beverage offerings in our domestic circuit but helped drive sizable growth in overall concession revenues as previously noted.

Salaries and wages as a percentage of total revenue were in line with the third quarter of last year at 11%. Facility lease expenses and utilities and other costs as a percentage of total revenue improved by 70 basis points and 100 basis points respectively due largely to our revenue growth in the quarter and the predominantly fixed nature of these expenses. Similarly, G&A for the third quarter declined by 100 basis points as a percentage of total revenue.

Collectively, third-quarter pretax income was \$107.1 million compared to \$76.8 million in 3Q of the prior year representing a year-over-year increase of 39%. Our third-quarter's effective tax rate was 38.2% and net income attributable to Cinemark Holdings Inc. was \$65.7 million or \$0.56 per diluted share. Our earnings per share grew 40% compared to the third quarter of 2015.

With respect to our balance sheet, we ended the quarter with a cash balance of \$527.1 million and a net debt position of \$1.5 billion.

Shifting attention to our US footprint, we operated 339 theaters and 4542 screens in 41 states and 102 DMAs at quarter end. We closed 34 screens during the quarter that were either at or near the end of their lease term. We assigned commitments to open three theaters and 36 screens during the remainder of 2016 and 10 theaters representing 106 screens subsequent to 2016. We expect to spend approximately \$87 million in CapEx for these 142 screens. We also anticipate closing around 10 to 20 additional screens in the fourth quarter of this year.

Internationally, our Latin America circuit grew to 183 theaters and 1323 screens across the 15 countries. During the quarter, we expanded by two theaters and 11 screens. As of quarter end, we had signed commitments to open four new theaters and 24 screens during the remainder of 2016 and six theatres representing 41 screens subsequent to 2016. We anticipate spending approximately \$31 million in CapEx for these 65 screens.

Consistent with our prior comments, we continue to view Latin America as a long-term growth opportunity. Considering the turbulent political and economic environments within certain countries in which we operate as well as the complexities of building in these densely populated areas, we may experience a modest near-term impact on our organic growth efforts. In particular, based on the current conditions in Brazil which has historically represented approximately half of our organic growth, we are revising our 2017 forecast to an estimated 50 to 75 international screen additions.

That said, we are encouraged by screen growth we are seeing elsewhere across the region such as development currently taking place in Colombia and Peru. We believe that long-term growth prospects across Latin America remain intact even if they slow slightly in the short term.

Regarding overall CapEx, we spent \$98.8 million in the third quarter including \$26.2 million on new builds and \$72.6 million on existing theaters. We maintain our CapEx guidance for the full-year of 2016 at approximately \$325 million of which \$100 million is designated for new builds, both domestically and internationally, \$80 million is for core maintenance of existing screens and in line with our historic run rate, and the residual \$145 million is driven by cash flow generating projects that include our luxury lounge theater conversions and varied food and beverage initiatives.

In closing, we are very pleased with the worldwide financial results we have to share with you today as well as with the progress we continue to make advancing our strategic initiatives. We believe we are well-positioned to take advantage of the strong box office lineup in the fourth quarter and next year as well as to continue building long-term value for our shareholders.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Ben Mogil, Stifel.

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### Ben Mogil - Stifel Nicolaus - Analyst

Good morning and thank you for taking my question. In terms of the targeted venues that you are looking at for re-seating, are you targeting areas where there have not been upgrades or are you targeting areas where you think the market is -- where there has been an upgrade but you think the market is large enough to have both players make an upgrade? And kind of curious your thoughts on both Reel and AMC were talking about strong landlord contributions in terms of participating in this. Curious if you are seeing the same thing and any concerns if that is distorting the economics of those projects just given the landlords have a bit of a different agenda than you may?

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### Mark Zoradi - Cinemark Holdings Inc. - CEO

Thanks for the question. Good morning. Let me start with the first part of your question. In regards to the locations that we are targeting, we are really looking at both. There are places around the country where we are the first exhibitor into that marketplace and enjoying the benefits and



there are other places where we are not and we are the second or in some cases even the third. And what we are doing is we are running very diligent financial models to say whether or not we think that these upgrades and the associated CapEx can have a return that meets our investment criteria. Thus far we have been able to find many, many locations like that in both brand-new markets and also in existing markets.

As it relates to the second part of your question, generally there are places where we have taken some landlord contributions but generally we have chosen to finance these upgrades ourselves and not taken on any additional obligations to landlords relative to either increase rent or extended lease terms.

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

That is good to know. Any concern that while you are sort of operating under that path because your competitors are leaning more on landlords that there is going to be an oversupply of these kind of venues and as we both unfortunately know, oversupply has been sort of the Achilles' heel in the industry over the years?

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

Ben, I can't speak for the economics of our competitors but for us because our cost of capital is significantly less than what landlords would choose to extract to make contributions, it is proven to be a good investment for us. And like I said, I think the most important thing for us is we are very aggressive right now, we anticipate continuing to be aggressive in 2017 but along the way literally each and every month we are looking at the results of all of these to make sure that we know when to slow down so that we don't oversupply in terms of re-seating.

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

Have you given in the past -- and I forget if you have given in the past -- sort of what your IRR target is on these reseatings is? Have you publicly disclosed that?

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

No, we have not.

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

That is great on that topic. Thank you. The last one is for either for Mark or for Sean. So clearly slowing screen counts in Latin America tied to Brazil. I don't think that is a big surprise to a lot of people. On a corollary of that, are you seeing Brazilian operators now be a little bit more open to M&A given the challenges in that market?

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

I'm going to let Sean answer that second question. But let me just give you a little bit more detail on the end of your previous question. You said did we have an ROI? The only ROI that we have come out public with is that it would continue to meet our investment hurdles which was a minimum of 20% return on cash and 20% EBITDA margin.

Sean, do you want to take the Brazil question?

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

Sure, with regard to Brazil, I would say we are just putting out that comment as a caution based on some of the dynamics. While we are not seeing what is happening in the economy necessarily impact moviegoing at this point, we are concerned that it could play through to the screen additions. That said, we are still on track this year to be somewhere in the 75 to 80 new screen additions so we are just kind of putting that at a caution.

With regard to M&A, it is something that we are certainly looking at. We haven't seen a lot of movement on that yet but in this environment yes, that is something that we are keeping an eye out for to be able to be opportunistic should something attractive come to market.

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

Have you seen any kind of movement on that area or is it still -- because I think in the past you sort of talked about financially stressed times tend to be the most accelerant for M&A in that particular region?

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

Yes. We haven't seen a lot of movement yet but we feel like we are in a great position to the extent that something does come to market.

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

And in the US, any interest in any of the venues that AMC will have to divest from Carmike?

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

Ben, on that I think it is a little too early to say. They have not come out with any formal request at this point. As such point that they do, we will certainly evaluate it.

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

Okay, that is great. Thank you very much.

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**Operator**

Eric Handler, MKM Partners.

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

Yes, thanks for taking my question, good morning. Two questions for you guys. First, when you look at your loyalty rewards program, AMC last night talked about using a lot of the Big Data and using it to target their customers better with targeted pushing movies towards them when certain genres are coming out. Wondering what you are doing with that data?

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

Thank you, Eric. Two things I want to say on that. First, absolutely yes. That is the benefit of a loyalty program is you get more data on your customers. We started from ground zero. We anticipated 1 million Connections members within the first year. It looks like we are going to get there within





eight months so we are very pleased with that. But beyond just the Connections information, we have very honed and good email addresses for about 4 million of our customers that we regularly are in contact with and try and segment those as well.

Now we don't have as much information on those as we are going to have on our Connections and as much ability to segment as much as we want but we are doing a significant amount of communication with our existing customer base because of the pretty vast data source of customer emails that we have acquired over the years.

But the short answer to your question is the biggest upside to a loyalty program is the ability to segment and communicate to your audience as well as provide them with the necessary and the desired reasons to come back to our specific theater.

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

I would just add that getting direct to the customer on an individualized basis whether they are in our theaters or outside our theaters is a very essential element of this. We have hired a whole Big Data team that is focused exclusively on doing just that.

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

So as a follow-up to that, any goal what you have over the next 12 months by the end of 2017 of where you might be able to get that membership goal?

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

At this point because we blew away our initial goal of 1 million in the first year, we will be at least double that and potentially even more.

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

Great. Sean, one last thing for you. If you look at the FX now, the real is probably a double-digit tailwind relative to the US dollar on a year-over-year basis. So if all currencies stayed constant from where they are now, what type of FX impact would that mean for the fourth quarter?

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

We are looking at something in the mid-single digit favorable somewhere around perhaps 5% if everything were to hold where it sits today.

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

Great. Thank you so much, guys. Appreciate it.

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**Operator**

Chad Beynon, Macquarie.

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

Great, thank you for taking my questions, guys. First, just want to focus on pricing for the quarter. I believe you started some of the early inning initiatives on the tax on top. Could you talk about any benefit that you saw in the third quarter and could you help us think about your approach over the next 12 to 18 months regarding this? Thanks.

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

Tax on top we started last quarter and we are rolling that out across the nation. We specifically chose not to do it all at one time so that we could in fact make sure that we get it right from an operation standpoint and then also to just roll it out over the course of several quarters just made financial sense to us. So we will finish that up in the fourth quarter with all remaining potential tax on top markets will be completed by the end of the first quarter.

We had very little or no consumer resistance to it. We took a portion of that tax on top amount to lower the advertised price and we took a portion of that tax on top to be an actual price increase as well.

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

I would just add we have had a very slow ramp up since we started in August so the impact on third quarter is fairly negligible.

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

Got you. Okay, thank you very much. Then with respect to the ramp of your receipts and some of the other initiatives as you are doing these, we understand that you may have some auditoriums out of the circuit. Was this meaningful in the third quarter and was that part of the reason why you underperformed the market outside of some of the things that you mentioned? And could you give us any sense of potential impact in the fourth quarter as well? Thank you.

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

Yes, we did have a significant number of auditoriums which were out of service during the third quarter, close to 100 auditoriums during the third quarter which was significantly more than the number that were out during the third quarter of 2015. Looking at the fourth quarter, yes, we have a tremendous amount of theaters that are currently right now under construction being resealed and that number will exceed the number that we had under construction during the fourth quarter of 2015, probably about in the same line as the third quarter two third quarter 2015 to 2016.

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

Okay, thank you very much.

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**Operator**

Robert Fishman, MoffettNathanson.

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

Good morning. I have a two-parter for Mark and one for Sean. Mark, following up on the loyalty question, Regal announced a partnership with your old employer to link their Regal Crown Club with Disney's own loyalty program. And I was wondering if Cinemark has any plans to do similar deals

with Disney or other studios and how you determine the economic value of sharing your Connections data with partnerships with Hollywood studios?

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

As you know, we launched the Connections program just about almost eight months ago and to be very specific, yes, we definitely will have partners into the future with studio-based and other promotional partners relative to our Connections program. I think it will help create additional consumer benefits for the actual customers and also allow us to share certain portions of our data with partners as they would with us. So we anticipate that we will have a similar in nature kind of partnerships as we mature the Connections loyalty program.

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**Robert Fishman** - *MoffetNathanson LLC - Analyst*

Okay. Just more broadly, Mark, understanding that these conversations don't happen in a vacuum with the CDOs, is Cinemark also considering any partnerships on alternative or premium windowing strategies that could be a mutual win to both parties?

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

There is certainly discussions, I'd call them preliminary discussions going on with ourselves in various studios but at this point I would categorize them all as very preliminary so there is nothing to really discuss or announce at this point.

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**Robert Fishman** - *MoffetNathanson LLC - Analyst*

Okay, fair enough. Sean, given your comments on the lower or more conservative screen build for international next year, just wondering how does that impact your overall Company CapEx spending if you want to give any early sense of that?

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

Sure. Well, we are in the midst of planning that for 2017. I think we have obviously been spending a heightened amount on our domestic recliners. While we haven't fully nailed that down, I expect as we look to next year we are going to continue to see a healthy number of ongoing reclining activities. So I would say it may not have a significant reduction in CapEx but some of that is going to depend on where we end up with our plan on domestic recliners.

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**Robert Fishman** - *MoffetNathanson LLC - Analyst*

Okay, thank you both.

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

We will have more info on that next quarter. We will have our guidance for 2017.

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**Operator**

Alexia Quadrani, JPMorgan.

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**Alexia Quadrani** - *JPMorgan - Analyst*

Thank you. My question is really on the outlook for Q4. Thank you for laying out the reasons why we did see a slight up performance versus the industry this quarter. I guess I am trying to get a sense of how much those challenges will impact Q4. I think you did mention the same number of screens will be off-line in conversion in Q4 as in Q3 if I understood that correctly. Should we assume the same impact on that front? Any commentary you can give us in terms of how the mix of films might be impacting performance as well in Q4 from what you can see.

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

Sure, I'll take that one, Alexia. Thanks for the question. Just to clarify, I would say as far as 3Q goes, the screen closures, the heightened screen closures this year versus last was certainly one component that impacted our overall performance but another big factor was just our general over performance last year. We over performed the market by 390 basis points last year and the big driver of that was how well Straight Outta of Compton played in some of our key markets as well as just overall content mix this quarter.

When you look at our top 10 DMAs which represented about 50% of our circuit and about 25% of the overall industry, those markets were down about 200 basis points year-over-year so they had a disproportionate effect on us relative to the industry as a whole. That was another big factor that just played into 3Q.

When we look at 4Q yes, we are going to continue to have that same kind of year-over-year pressure on a heightened number of closed screens so that certainly will play into performance but we are going to just have to see. A lot of it will depend on how Star Wars kind of indexes year-over-year. Rogue One, relative to Force Awakens, that will be a factor. I would say the industry as a whole also has a little bit of a challenge in the 4Q with the timing of the way the holidays fall for Christmas and New Year's where they fall on weekends which historically tends to be not as advantageous as when they fall during the weekdays. So we will have to see how that plays out.

But for us I think we will continue to have a drag. It doesn't necessarily mean we will underperform the industry but it will be a hurdle that we will have to overcome.

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

I think the only thing, Alexia, that I would add to that is thus far into the fourth quarter the industry is actually looking pretty good. I mean we are clearly all very encouraged with what happened this past weekend of course with Doctor Strange and also Trolls. So as we look to the remainder of this year, I don't see the big Compton comp which was one of the three things that caused a little bit of that underperformance.

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**Alexia Quadrani** - *JPMorgan - Analyst*

And then just a follow-up. We've got some very big titles that are still kind of TBD in terms of how successful they will be coming out in the fourth quarter. Any sense like Fantastic Beasts and Rogue One for example, any sense on how those larger films may perform in Latin America in the quarter? Do you think that content will translate well? Anything timing wise we should be aware of?

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

Nothing on the timing wise standpoint. I mean we are generally going to be similar to what the release patterns have been. I think Fantastic Beasts is going to translate very well throughout the region both in the United States and throughout Latin America and we expect Star Wars to do very well. Star Wars isn't as mega popular, it is popular, but it is not as mega popular in Latin America as it is in North America but we experienced that last year and had very good results.

So we are actually pretty darn bullish on what we have remainder of this year both with those two big movies and also just a number of other very strong family product and the family product usually over delivers in most of our markets.

**Alexia Quadrani** - JPMorgan - Analyst

All right. Thank you very much.

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**Operator**

David Miller, Loop Capital.

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**David Miller** - Loop Capital Markets LLC - Analyst

Sean, I just want to make sure I understand. So these screen closures that occurred in the third quarter, do all of those states closed in the fourth quarter on top of the other screens that you announced your closing in the fourth quarter? Or do some reopen sometime kind out whatever mid-fourth quarter?

Mark, on the Latin American side, is there any kind of Portuguese film or homegrown Brazilian film that you think could drive the quarter in the fourth quarter on the Latin American side? Thank you very much.

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

Sure, I will start. Those screens will close and they will reopen but we are continuing to roll out new ones so there will be new screens closed. And just to put some specific numbers to it, we had 95, an average of 95 closed screens per day in the third quarter of this year versus 28 last year. So that type of over-indexing we expect will continue in the fourth quarter because we have had a heightened ramp up. But it is not that those exact same screens are closed, it is we are closing new ones to remodel new ones and the old ones that were closed are reopening.

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

In regards to local content, we have a look forward of the six or seven key local titles that are coming. It is much harder to predict the big mega success. There is tracking in the US and we lived and died by tracking in the US especially from the studio side. You don't have that as well refined at all in the Latin America markets. There are a couple of products coming in Brazil, one in particular right after Christmas. Is it going to be a mega success? I think it would be premature for me to call that. We are looking forward to the product and we have always said that local content is somewhere between 10% and 20% on an ongoing basis

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**David Miller** - Loop Capital Markets LLC - Analyst

Thank you very much.

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**Operator**

Barton Crockett, FBR Capital.

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**Zack Silver** - FBR Capital Markets - Analyst

This is Zack Silver on the line for Barton. I just had one question. On the reseats, I'm not sure how much you guys have done in the way of price increases for those. And given I think people feel pretty positively about the 2017 slate, are you guys thinking about doing any sort of price increases on the reseats next year? Thank you.

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

Zack, that is front and center in our mind. We look formally twice a year at all of our pricing from the bottom up and the reseats clearly give us a greater opportunity to increase price. We have not been overly aggressive in the price. In some cases, we've increased price at day one but in a larger majority, we have allowed consumers to experience, sample and truly enjoy the reseating and then we have taken price anywhere from as little as \$0.25 up to \$1.00. We tend to do that more in the high demand time periods, on the weekends, Friday, Saturday, Sunday because that is where we get or get very close to sell outs.

So we believe that we have an ability to continue to move price in the fourth quarter and into next year in our reseating and we will do so. But we really look at it from a local market bottoms up approach because we have to take into effect all of the local concerns relative to it as opposed to dictating something straight out of Dallas downward.

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**Zack Silver** - *FBR Capital Markets - Analyst*

Okay, great. That is very helpful. And then I guess just one more follow-up around the Connections. Do you have any sense of whether your Connections members are spending more money at the concession stands or are they more frequent moviegoers than nonmembers? I know that AMC had broken out some of those metrics and I was wondering if you guys could give us a little bit more color on that? Thank you.

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

I don't have specific numbers for you on that but the early indication is it looks like they are number one, coming more. They are clearly using our app more, they are also much more active relative to our website and utilization of that. And when we are looking at the utilization and what rewards they are choosing, it is both a combination of rewards at the concession stand as well as the many, many experiential rewards that we have been providing. So we will have more color and detail for you in the coming quarters.

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**Zack Silver** - *FBR Capital Markets - Analyst*

Great. Thank you very much.

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**Operator**

Eric Wold, B. Riley.

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

Thank you and good morning. Not to beat a dead horse on the screens being taken off-line, but as you think about moving into 2017, do you expect kind of a similar cadence per quarter? How much flexibility do you have when you take those off given the film slate?

And then the second question on Latin America and I apologize if I missed this in the early comments, but with the 50 to 75 screens now expected for next year, is that reduction a function of any projects being canceled or downsized or merely pushed into 2018 or later? And is there an opportunity for those to be made up in later years or should we consider them to be somewhat lost for now?

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

To your first question relative to screens coming off-line, we would expect probably a similar amount as we look at 2017 because we think we are going to do somewhere in the same neighborhood of number of conversions in 2017 as we did 2016, potentially slightly more. But yes, we do take

into account when those screens come off. We try and do it both -- what market in particular is it most strategic to get done quickly? But given that we have so many projects that we have lined up for 2017, there is going to be likely an equal number of screens each and every quarter next year on a go forward basis. They are not out all quarter, we are able to take a complex say it has 14 or 20 screens and we might break that up. We are never closing all the screens in a complex at one time. We will close half of them at a time or sometimes even only a third of them at a time so that we can continue to play movies as we go.

And then your second question was?

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

I will take the second question, the question on Brazil. It is more of a timing phenomenon. A lot of the developers, the projects are still there, they are just being a little hesitant in the speed that they go after them to kind of see how the policies and practices of the current government now start to play through. So it is more of just a timing phenomenon and then an ultimate elimination of projects.

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

Perfect, thank you.

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**Operator**

Ryan Fiftal, Morgan Stanley.

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**Ryan Fiftal** - *Morgan Stanley - Analyst*

Great, thanks. Good morning. I have two follow-ups on some earlier questions. So first on tax on top, have you quantified what portion of the footprint is expected? And then is either I guess the breadth of the impact or the percentage increase meaningfully different for admissions versus concessions?

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

First, the answer to your first question it's approximately 60% of our footprint because it is not every state has tax on top.

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

And as I think Mark said, the way we are approaching this is kind of as a joint opportunity to take a little bit of price as well as a marketing opportunity to be able to advertise lower prices to our consumers to try to stimulate greater consumption. We are on average taking about a 3% price increase and that would be consistent both in ticket price as well as concessions.

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**Ryan Fiftal** - *Morgan Stanley - Analyst*

Okay, that is helpful, thanks. My second one was on the luxury recliner upgrades; I think you gave the rough ROIs. Can you remind us on the CapEx per screen that you are investing in those, and has that changed much over time, either in the last year or for your 2017 outlook?



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

It hasn't changed dramatically. It has come down slightly, and it is somewhere in the \$150,000 to \$200,000 range. That depends both on the number of seats in the auditorium and also the additional amount of repositioning that we do in the theater. We tend to not go in and just do seats, but we tend to go in and like to reposition that theater and refresh the lobby area.

Maybe we will add beer, wine and frozen alcoholic drinks. Maybe we will refresh the overall concession stand. So it is somewhere in the \$150,000 to \$200,000.

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

I would just add, it can creep up to \$250,000 depending on the full extent of the theater conversions that we do.

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**Ryan Fiftal** - *Morgan Stanley - Analyst*

Okay, thank you.

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**Operator**

Tony Wible, Drexel Hamilton.

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**Tony Wible** - *Drexel Hamilton - Analyst*

I was just curious if there was a big local price increase in international in the third quarter. In the first half of the year, I believe local pricing was up about 7%. You said it was up about 13% in the third quarter.

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

Yes, our overall pricing was up about 13% in constant currency. So, yes, I don't know if that answers your question. But generally, our prices for the third quarter we are generally keeping -- our aim is to keep pace with inflation and we target to exceed slightly where possible. So for the third quarter, it was about 13%. I think on the total year we are somewhere around 9% year to date.

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**Tony Wible** - *Drexel Hamilton - Analyst*

Okay, so that kind of ties to the second part of the question which is as conditions improve in Latin America and I presume that is behind why the foreign exchange rates are inflecting, do you anticipate sustaining around a 13% price increase or do you see that leveling off with the local economies?

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

I think it is going to depend on what happens in the local economies. Like I know for instance there is a big push in Argentina to reduce inflation as an example. So if the government is successful in being able to do that, we will see some of that play through and reduce pricing. I mean it kind of cuts across the board. Costs will come down at the same clip and we will pull our prices down in line.

So I would suspect that if anything at least I would hope that may come down a bit as many of these governments have initiatives to reduce inflation. We will just have to see if they actually are effective in being able to do that.





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**Tony Wible** - *Drexel Hamilton - Analyst*

And then on the pricing increase, have you seen any kind of resistance to the pricing? I think the attendance per screen on international has been negative now for the last two quarters commensurate with the -- I guess higher local pricing. Is that just a function of film mix or is there any signs that there is a little bit more price sensitivity?

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

It is not pricing. In fact what is interesting when you look across these markets, we continue to see the premium tickets whether they be 3D, D-BOX or VIP offerings, way over indexed what we even see domestically. Really the biggest factor that has impacted attendance per screen this year is the strength of local content that was in the market last year as Mark alluded to.

Just for example in the third quarter alone, there was a huge title in Argentina, in Chile or huge titles in Argentina, Chile and Columbia. Third-quarter alone local content, local attendance associated with local content was down almost 40% year-over-year. So it is really that factor that has played through. The local titles while they are terrific, they will ebb and flow quarter to quarter and year to year more variably than what we see with the Hollywood content. So really the impact that you are seeing on attendance per screen is a phenomenon of the local content not anything related to pricing.

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

One addition I would just like to put to that is as Sean pointed out on that local content, it is down nearly 40% on quarter to quarter but to look at local content on a quarterly basis is really absolutely not the right way to look at it. You've got to look at it at least on an annualized basis and when we do such then we are in that category of somewhere between 10% and 20% of our overall revenue is going to come out of local titles as opposed to Hollywood provided titles. But looking quarter to quarter gives you an unrealistic look into the marketplace. Rather I would look at a year to year.

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**Tony Wible** - *Drexel Hamilton - Analyst*

Great. Thanks for clearing that up, guys.

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**Operator**

Jim Goss, Barrington Research.

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

This is probably a Sean question. With regard to expiring leases, your decision was traditionally renew the lease or maybe make some enhancements or close the theater and move on to the next place. With the reseating an option, has that changed that dynamic so that that is much more likely? It seems like that is how AMC has started with this in the first place, some of the poorer locations wound up becoming destination locations. Does that recliner option shift your thinking as to expansion via organic M&A versus just concentrating on the reseatings?

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

Just to start with the very end of your question, no, I mean one of the luxuries we have as a result of our strong balance sheet is we can be opportunistic and go after recliners as well as M&A as well as new builds. So if we believe that the right opportunity surfaces with the ability to deliver the returns we expect, we can go after each. One is not necessarily dependent on the other.

With regard to the kind of end of lease analytics, I wouldn't say necessarily it is a huge change of mindset. We really look at what the situation is with regard to that particular theater, what is happening, the demographics of that location, is it a healthy market, is it an unhealthy market? Recliners obviously present one more opportunity or one more option that we can contemplate to see do we want to head down that path do we think the right lift is there? But it really just boils down to all the factors in the marketplace and the health of the market, the health of competition in the market and the dynamics with our landlords. So there is many factors that come into play with that.

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

Okay. One other thing, your XD preference is well known and well demonstrated. But I'm curious if you have any interest in doing something similar to what AMC has been doing, maybe pairing an IMAX with an XD to take advantage of both sort of options since that has proven to be a valuable strategy?

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

We are certainly considering that and would look at it. As you noted, we are well documented relative to our commitment to XD. We currently have 15 IMAX locations that we are very happy with and if the marketplace dictated and was advantageous to us and IMAX to have one of each, we would certainly consider it.

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

Okay, thank you.

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**Operator**

(Operator Instructions). Matthew Harrigan, Wunderlich Securities.

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

There has been a lot of hype about e-sports because of the first digitally native sports genre and generally a lot of executives say it could be a big growth area. You have done things I think with World of Warcraft and all of that. But what potential do you see for that and some of the more out there AR and VR things that IMAX has talked about? I apologize if this is repetitive because I have been hopping across another call.

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

Matthew, it is not competitive. Relative to alternative content around e-sports, we have been testing this actively with both Super League Gaming, Minecraft and also League of legends and I would say we are probably leading the industry relative to testing this in our theaters. We have done it with Youth Sport Leagues, with Minecraft very successfully with Super League Gaming. And we are just starting a four city test rollout with League of Legends in which there would again be city playing city and top 60 players from one city will then be matched up in groups of five and teams of 60 to play another city. So Los Angeles with play Chicago and other cities as well.

So this is an area that we are really actively involved with, we were very close and collaborative with Super League Gaming and in success we hope that it can grow to scale and be significant. At this point, I would categorize it as the beginning steps with both the youth league and also with an older demographic with League of Legends.

Relative to VR and AR, we think that is a very interesting space for exhibition. We are looking at all kinds of potential alternatives whether that be the alternatives that IMAX is going to bring to exhibition or ones that we may generate ourselves. We envision an opportunity to potentially have



Pods of VR in our theater lobbies or potentially to test actual small auditoriums and have VR experiences in those auditoriums. It clearly takes a combination mix of both hardware and software to be able to provide the consumer with an outstanding experience but we are actively looking at both areas.

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

And this segues from an earlier question on your flexibility on the windows of some quid pro quos at the studios. But I actually asked this of another exhibitor call. But James Murdoch made that comment that if you just had day and date your revenues would actually go up because there would be even more product and people really value the social experience. And I think most people's reaction to that is that kind of crazy.

But when you look at that does that sound completely crazy or do you think that it is more realistic -- obviously it is very favorable for you if people value the in theater experience that much.

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

I wouldn't characterize it as crazy but I would say that at this point we don't have an interest in a day and date model. We will certainly talk with our studio partners about potential premium video-on-demand and determine what would be advantageous to both them and us. And as I indicated earlier, we are in what I would categorize as preliminary discussions.

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

Thanks.

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**Operator**

At this time, there are no further questions.

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

Thank you all very much for joining us this morning. We look forward to speaking with you again following our fourth-quarter. Thanks again. Bye now.

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**Operator**

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

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