

Company Name: Cinemark  
Company Ticker: CNK US  
Date: 2018-05-09  
Event Description: Q1 2018 Earnings Call

Market Cap: 4,350.59  
Current PX: 37.255  
YTD Change(\$): +2.435  
YTD Change(%): +6.993

Bloomberg Estimates - EPS  
Current Quarter: 0.761  
Current Year: 2.343  
Bloomberg Estimates - Sales  
Current Quarter: 853.556  
Current Year: 3103.900

## Q1 2018 Earnings Call

### Company Participants

- Chanda Brashears
- Mark Zoradi
- Sean Gamble

### Other Participants

- Michael Ng
- Eric O. Handler
- Robert Fishman
- Eric Wold
- Julia Yue
- James Charles Goss
- Bill Baker

## MANAGEMENT DISCUSSION SECTION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the Cinemark's First 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]

Thank you. I will now turn the conference over to Chanda Brashears.

### Chanda Brashears

Thank you, Crystal, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holdings, Inc.'s first quarter 2018 earnings release conference call, hosted by Mark Zoradi, Chief Executive Officer; and Sean Gamble, Chief Financial Officer and Chief Operating Officer.

I would like to remind our listeners that certain matters that are discussed by members of management during this conference call may constitute forward-looking statements within the meaning of the Safe Harbor provision of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause Cinemark's actual results to differ materially from the expectations indicated or implied by such statements. Such risk factors are set forth and expressly qualified in their entirety in the Company's filing the SEC, including the most recently filed Annual Report on Form 10-K. The company undertakes no obligation to publicly update or revise any forward-looking statements.

Today's call and webcast may include certain 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, in the company's most recently filed Quarterly Report on Form 10-Q and the company's website, investors.cinemark.com.

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

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## Mark Zoradi

Thank you, Chanda, and good morning, everyone. We appreciate you joining us for our 2018 first quarter results call. I thought I'd kick things off with a brief commentary on the industry's first-quarter results. Considering the timing and profile of this quarter's film lineup in comparison to last year's sensational record-breaking performance, most industry insiders anticipated a sizable decline in the first quarter box office, somewhere in the mid to high teens. However, actual results for North America industry box office far exceeded those expectations and wound up declining by only 2% year-over-year, driven by the unprecedented success of Black Panther that became a cultural phenomenon and once again demonstrated the exciting and powerful potential of a breakout film.

In comparison, we're pleased to report that Cinemark's domestic operations outperformed the North America industry box office, driven by an over indexing in attendance by 150 basis points as a result of the benefits we continued to derive from our pricing strategies and the positive impact of our strategic initiatives. These strategies also helped maintain the consistency and strength of our global adjusted EBITDA margin at almost 25%. This is especially impressive given the pressures we faced with the high fixed cost nature of our business in contrast to this quarter's content driven attendance decline.

So let's dive a little deeper into the initiatives that helped us accomplish these results. As a reminder, our ongoing strategies include, continuing to enhance our guest amenities, growing our loyalty and membership programs and targeting organic and accretive M&A. All of these initiatives aim to create an extraordinary guest experience while growing and enhancing our AAA circuit.

So beginning with our focus on further enhancing our guest amenities, let's talk about Luxury Loungers. Customer feedback about our recliner seat initiative continues to be extremely positive and financial returns remain highly lucrative. During the first quarter we added 170 auditoriums to our recliner base, which now includes 144 theaters and 2,144 screens, spanning nearly half of our domestic circuit.

Luxury Loungers continue to produce outsized growth in attendance, ticket pricing, food and beverage per caps while generating returns well in excess of our 20% ROI threshold. As such, we remain opportunistic in the expansion of this amenity and are on track to end this year with approximately 55% of our U.S. screens featuring Luxury Loungers.

Turning next to food and beverage, expanded offerings are complementary to the overall movie going experience for our guests. Our ongoing efforts to roll out meaningful new offerings, while driving sustainable growth in our core product categories continues to pay dividends.

We completed first quarter of 2018 with our 45th consecutive quarter of per cap growth and set another first quarter record. We continue to believe we're in the middle innings in terms of our food and beverage per cap potential and remain focused on executing the strategic initiatives to generate continued growth. One example is our Pizza Hut partnership discussed last quarter. We're already selling fresh, high-quality Pizza Hut branded products at 34 theaters and have extensive plans for expansion over the next two years.

Now let's talk about premium technology formats, starting with our private label XD brand. 64% of our domestic XD auditoriums already feature Luxury Loungers, and the guest response to those seats, coupled with XD's immersive, large format screens and multipoint surround sound has been phenomenal.

In the first quarter, our 244 XD auditoriums comprised only 4% of our worldwide screens, yet generated approximately 8% of our global box office. We recently brought our superior XD brand to the next level through THX certification, which has been completed in all of our domestic XD auditoriums and is nearing completion in Latin America. The certification process orchestrates the highest levels of reproduction standards through the architecture, acoustics, equipment calibration, and speaker configuration. The THX certification validates we're providing the ultimate immersive experience for our guests.

And while we've been adding further depth to the XD premium experience we've also been expanding XD's brand awareness through a multifaceted marketing campaign. We kicked off the first phase of that campaign in early last year and we just launched phase two this past week to very favorable consumer reviews.

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Also in the realm of premium technology, we recently announced plans to test virtual reality and are currently installing THE VOID hyper-reality experience and are eager to offer our consumers, Star Wars: Secrets of the Empire Virtual Reality experience at our Dallas Theater just adjacent to our headquarters. Plans are moving along nicely with a target to open later this summer.

Cinemark consistently seeks the best technology and experiences for our consumers. In that vein, I'm also thrilled to report that we plan to implement a second virtual reality experience with Spaces at our San Jose, Oakridge Cinemark Theater this fall. Spaces is a unique multi-sensory virtual reality attraction founded by two former VR executives from DreamWorks Animation. Spaces is a theme park scale attraction combined with virtual reality and physical props, dynamic movement, and environmental effects such as heat, cold, wind, and water to fully immerse guests. Spaces was specifically designed as a social experience that can be enjoyed by four friends or family members in a communal environment and that is unlike anything you can experience at home. We're looking forward to getting both these new and emerging technologies fully up and running and are excited to explore how they extend the extraordinary guest experience that we provide.

Turning the page to our customer loyalty efforts. Let me give you an update on Movie Club, our recently launched proprietary movie membership program. I'm pleased to say that consumer enthusiasm for our program remains incredibly strong. We've maintained the sign-up cadence following the program's initial launch, and our Movie Club subscriptions now exceed 230,000 members. That is nearly double the members since we last reported 75 days ago. That far surpasses our original ramp up expectation and represents an average of nearly 700 memberships per theater location.

It's also noteworthy that all of the key metrics we provided during our last earnings call have held constant or have grown. We continue to see that one-third of the new sign-ups are coming from guests who were not previously part of our Connections loyalty program. Additionally, Movie Club program utilization remains very active, with over 60% of movie credits issued already redeemed. Meanwhile, the percentage of our overall box office that is derived by Movie Club tickets continues to grow and represents approximately 5% of our April admissions revenue.

While still early, we're also seeing that Movie Club members have 25% higher propensity to select premium format upgrades such as XD and 3D, and are also 20% more likely to purchase concessions than our non-Movie Club members. Furthermore, signups continue to align with the geographic footprint across our circuit, which validates our consumer research that the many diverse benefits of this program are widely attractive to the masses rather than just the most frequent value-seeking consumers. Along these lines, our guests have been raving about Movie Club's varied features, flexibility, ease of use and exceptional customer service.

We remain highly encouraged with Movie Club's very early progress and we're laser-focused on continuing to expand our membership base, while using the data we're starting to accumulate to provide members with a more tailored and personalized service, enhancing their overall Cinemark experience and drive increased movie going frequency.

And beyond Movie Club, our free loyalty programs continue to build. We now have approximately 8 million loyalty members worldwide, which grew approximately 7% since last quarter. Our domestic Connections members visit approximately 1.5 times to 2 times that of our traditional moviegoer. And for the first quarter, Connection members in the U.S. represented nearly 15% of our domestic box office. We're very pleased with the continued progress we're making in regards to all of our strategic initiatives and the benefits they're providing in terms of sustaining our consistent industry-leading results.

Before turning the call over to Sean, I'd like to also comment briefly on our international business, as well as forward-looking film content. During the first quarter of 2018, while Latin America box office benefited from a strong run of Black Panther, it did not become the runaway breakout hit that it became in the U.S. Furthermore, even though the quarter benefited from favorable release dates of films like Coco and Ferdinand compared to the U.S., they were not able to match the challenging comparison of last year's stronger volume of family, action and local films that included Beauty and the Beast and Brazil's highest grossing local film of all time, My Mother is a Character 2. As such, the industry and Cinemark's Latin America box office results for the first quarter were more in line with our original

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expectations of a year-over-year decline in the mid-teens.

As we've indicated many times in the past, attendance and box office results will ebb and flow based on the consumer appeal, volume, and release timing of film content as we evaluate the broader media and entertainment landscape and general economic dynamics across Latin America.

We continue to believe that consumer movie-going fundamentals remain healthy and long-term growth prospects remain intact as evidenced by the strong performance of Avengers to-date, particularly in Brazil. And within that landscape, we believe Cinemark is exceptionally well positioned considering our robust market share, sizable outperformance in attendance per screen relative to the industry, and overall financial strength of our global company.

On that note, we recently completed an opportunistic acquisition of three Brazilian theaters comprising 19 screens in mid-April. These screens will support our continued growth effort throughout the region and drive towards the 50 to 75 screen additions during 2018.

And along with our confidence about the future growth prospects across Latin America, I would be remiss if I didn't briefly mention our optimism about the film content following the gigantic record-breaking release of Avengers: Infinity War. The second quarter is off to a fantastic start with a stellar lineup still to come including Deadpool 2, Solo: A Star Wars Story, the Incredibles 2, and Jurassic World: Fallen Kingdom.

Additionally, recent studio meetings and early film footage that we viewed during CinemaCon further reassured us the pipeline of content coming ahead remains incredibly promising over the remainder of 2018. Such titles as Ant-Man and the Wasp, Mission: Impossible – Fallout, Venom, Wreck-It Ralph 2, Spider-Man: Into the Spider-Verse, Aquaman, all remain in the second half of this year.

Last quarter, we discussed our enthusiasm for the 2019 content, and that excitement continues to grow as we get more visibility into the films and their release dates. The diverse film lineup skews towards family friendly films which historically play incredibly well throughout our circuit. We'll continue to execute our strategic initiatives and position our company to reap the benefits of this content strength.

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

## Sean Gamble

Thank you, Mark, and good morning, everyone. Before diving into the details of our first quarter's financial results, I'd like to remind you that beginning January 1, 2018, we adopted accounting pronouncement ASC 606 which affects how we recognize revenue for certain items. In summary, other revenues will increase due to the inclusion of a significant financing component related to our NCM deferred revenue, as well as a change in the amortization method used for such deferred revenue. In addition, transaction fees will now be recorded on a gross versus net basis.

Finally, we expect a slight impact on admissions and concession revenues from deferring a portion of those revenues associated with the issuance of points to our Connections loyalty members. Further information about these changes can be found in footnotes of our 10-Q. And as we indicated last quarter, we do not believe the adoption of this new pronouncement will have a material effect on our overall financial results.

Now shifting to our financial results, during the first quarter, our global company generated total revenues of \$780 million and adjusted EBITDA of \$193.4 million, which resulted in an adjusted EBITDA margin of 24.8%.

In the U.S., going up against last year's highest-grossing first quarter of all time, attendance declined 4.1% to 44.6 million patrons. However, that result outpaced the North American industry by 150 basis points, as Mark mentioned earlier. Our outsized attendance results also drove a 10-basis-point outperformance in box office despite the challenging comparison we faced, having exceeded North American industry growth by 100 basis points in the first quarter of last year. We have now surpassed industry box office results for 33 out of the past 37 quarters.

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Total domestic admission revenues were \$349.3 million for the quarter and included an average ticket price increase of 2.2% to \$7.83. This increase resulted from opportunities generated through our recliner conversions and other strategic pricing actions.

Our varied food and beverage initiatives generated U.S. concessions per patron of \$4.57 which grew 4.6% to a first quarter record and yielded total concession revenues of \$203.8 million. These revenue results were in line with last year despite this quarter's decline in attendance. Domestic other revenues increased 140.6% driven primarily by the revenue recognition accounting changes I previously described. Overall, our U.S. operations delivered total revenues of \$596.4 million, adjusted EBITDA of \$155.8 million, and an adjusted EBITDA margin of 26.1%.

Internationally, attendance declined 14% to 23.9 million patrons as a result of a Hollywood film slate that did not translate as well to Latin American audiences as it did in the U.S. Additionally, we faced a challenging prior-year comparison with attendance results that were in line with our historic quarterly highs. International admissions revenues were \$103.3 million, which declined 14.1% versus last year as reported, and were down 10.5% in constant currency. Our reported average ticket price of \$4.32 translated to a constant currency increase of 4.2% that was primarily driven by inflationary price growth. International concessions per patron was \$2.43 as reported, and grew 7.7% in constant currency. However, as a result of lower attendance in the quarter, concession revenues decreased 10.5% to \$58 million as reported, and were down 7.3% in constant currency.

International other revenues were \$22.3 million, which increased 32% as reported and 40.8% in constant currency. This increase was predominately driven by the aforementioned revenue recognition accounting changes, and also benefited from incremental screen advertising and growth in promotional income. Overall, total international revenues were \$183.6 million as reported with an adjusted EBITDA of \$37.6 million and an adjusted EBITDA margin of 20.5%.

As expected, foreign currency translation returned to a headwind in the first quarter causing an approximate 3.5% drag on our reported financials. And while future currency fluctuations are difficult to predict, if current rates continue to hold, we would expect a sustained mid to high single-digit percentage headwind throughout the remainder of 2018. 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 exchange is predominantly translation-based and not transaction-oriented.

Shifting back to our worldwide consolidated results, first quarter film rental and advertising costs as a percentage of admissions revenues increased by 10 basis points year-over-year to 53.2%. This slight increase was driven by a marginally higher concentration of larger films as a percentage of total box office. Conversely, concession costs as a percentage of total concession revenues decreased by 10 basis points in comparison to the prior year as a result of product mix across our global circuit. Salaries and wages were 11.9% of total revenues and grew 110 basis points compared to the first quarter of 2017. This increase was driven by reduced leverage over our base level of fixed labor resulting from this quarter's decline in attendance as well as increases in wage rates, health insurance claims, and staffing at new and recently remodeled theaters.

Facility lease expenses as a percentage of total revenues declined by 30 basis points due to reduced percentage rent. Meanwhile, utilities and other costs as a percentage of total revenues increased by 270 basis points, driven predominantly by the recording of transaction fees on a gross versus net basis associated with the new revenue recognition accounting standards.

And G&A for the quarter increased by 50 basis points as a percentage of total revenues, driven by inflation, the timing of filling open positions and professional fees. G&A was also slightly impacted by an increase in 401(k) benefits that we enhanced following last year's U.S. tax reform changes. Collectively, first quarter pre-tax income was \$87.3 million. Our first quarter's effective tax rate was 28.8% and net income attributable to Cinemark Holdings, Inc. was \$62 million or \$0.53 per diluted share.

With respect to our balance sheet, we ended the quarter with a cash balance of \$474 million and a net debt position of \$1.6 billion. We remain dedicated to prudent capital planning and we successfully completed yet another amendment to our senior secured credit facility during the quarter which included an extension of its maturity by approximately three

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years as well as a 25-basis-point coupon reduction to LIBOR plus 1.75%. These changes improved our financial position by further extending and staggering our debt instruments as well as benefiting our annual cash interest by \$1.7 million. We are extremely pleased that the consistent strength of our balance sheet continues to provide us the ability to opportunistically take advantage of favorability in the debt markets and drive meaningful improvements in our debt structure.

Shifting attention to our U.S. footprint, we operated 339 theaters and 4,566 screens in 41 states and 102 DMAs at quarter end. During the quarter, we opened 1 theater and 12 screens and closed 1 theater with 7 screens that was at the end of its lease term. We have signed commitments to open 3 theaters and 30 screens during 2018, and 9 theaters representing 94 screens subsequent to 2018. We expect to spend approximately \$91 million in CapEx for these 124 screens. We also anticipate closing approximately one to two additional theaters during the remainder of the year.

Internationally, we operated 194 theaters and 1,398 screens in 15 countries across Latin America. As of quarter-end, we had signed commitments to open 9 new theaters and 49 screens during 2018, and 2 theaters representing 12 screens subsequent to 2018. We anticipate spending approximately \$37 million in CapEx for these 61 screens. Additionally, we recently added 3 theaters and 19 screens as a result of the Brazilian acquisition we completed in April that Mark previously referenced. Consistent with our prior comments, we continue to view Latin America as a long-term growth opportunity and we anticipate adding between 50 to 75 international screens per year in the near-term.

Regarding overall CapEx, we spent \$80.2 million in the first quarter, including \$17.9 million on new builds, and \$62.3 million on existing theaters that was predominately associated with recliner conversions. We continue to anticipate spending approximately \$350 million of CapEx during full-year 2018, of which \$120 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, approximately \$10 million is associated with the completion – completing the renovation of our headquarters building, and the residual \$140 million is for cash flow generating projects that include additional Luxury Lounger theater conversions and varied food and beverage initiatives. We continue to expect that our annual depreciation and amortization will increase to approximately \$260 million to \$270 million in 2018 as a result of these capital expenditures.

In closing, I would like to thank all of you for your time this morning. And I want to echo Mark's enthusiasm about the strong pipeline of film content that lies ahead as well as the progress we are making and benefits we are deriving with regard to our strategic initiatives as we work to maintain our ongoing financial strength and consistency of our results.

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

## Q&A

### Operator

[Operator Instructions] And our first question comes from the line of Michael Ng with Goldman Sachs.

<Q - Michael Ng>: Good morning. Thanks for the question. I just have a housekeeping question for Sean, one for Mark, and one for whomever would like to take it. Sean, thanks for all the details on the accounting change. I just wanted to follow up, was there any impact from ASC 606 on EBITDA in the quarter?

<A - Sean Gamble>: There was a slight impact on EBITDA. The biggest driver of that was the interest gross up of our deferred NCM revenue. As shown on our income statement, you'll see on the line that says interest expense – NCM, the magnitude of that adjustment was about \$5 million, which effectively is the EBITDA impact for the quarter. The amortization timing of our NCM deferred revenue also yielded a slight benefit; however, that was largely offset by our loyalty program deferrals.

Also just wanted to note that our EBITDA margin rate really didn't have much of an impact as a result of the change. The benefits that would have been derived from the NCM interest gross up were basically offset by the impact of shifting from net to gross accounting on transaction fees.

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<Q - Michael Ng>: Okay. Thanks. And just as a follow up to that. Should we see a similar EBITDA contribution for each of the quarters going forward? I guess, is that NCMi deferred revenue pretty consistent quarter-to-quarter?

<A - Sean Gamble>: Yeah. It's pretty consistent. So, I think that's a pretty safe assumption.

<Q - Michael Ng>: Okay. Great. Thanks. And then, Mark, thanks for all the color on your premium initiatives like XD and VR. How do initiatives like virtual reality fit into your strategy overall? Specifically, do these generate positive returns in isolation or is this something that helps convert more people to traditional movie going?

<A - Mark Zoradi>: Michael, as I indicated, we are just starting here. We have THE VOID, which we're incredibly excited about here in Dallas and Spaces in San Jose, both at premium theaters for us. And we're going to make a huge effort in terms of marketing each one of these. At this point, I think it's a little early to say what kind of effect they're going to have in terms of a rollout or how broadly we would go with them. But we're very, very optimistic about it. We have a good partnership with them, and we think from a return standpoint that we have a very good opportunity to create a positive return on it, but I think it's too early to make any predictions on that.

<Q - Michael Ng>: Okay. Great. And then, lastly, I was just wondering if you could comment on your outlook for the rest of the Latin America box office this year. Are there any U.S. films that you think will translate particularly well? Are there any other notable local language films that you see on the horizon? Thank you.

<A - Mark Zoradi>: Well, in regards to box office, we've been very pleased with how Avengers has done, particularly in Brazil because it's been so strong there. And then, as we look forward and we see things like The Incredibles and Jurassic World, these are the kind of movies that particularly index extremely well in Latin America. And then, even going into third and fourth quarter, you have things like Wreck-It Ralph and action adventure films like Venom. So – and I think that the Latin America box office for the remainder of this year, especially the second quarter, looks to recover somewhat off of first quarter, and we're pretty positive about what the remainder of the year looks like.

<Q - Michael Ng>: Okay. Thank you, Mark. Thank you, Sean.

<A - Sean Gamble>: Thanks, Michael.

## Operator

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

<Q - Eric O. Handler>: Yes. Good morning, and thanks for the question. A couple of questions for you guys. First, granted, it's a relatively small acquisition that you made in Brazil, but are you starting to see maybe that this is the tip of the iceberg and we're starting to see a thawing in some M&A activity, be it in the U.S. or Latin America?

<A - Mark Zoradi>: I would not put it as the tip of the iceberg. I don't think – I think what this was is was this was a opportunistic M&A acquisition for us. They were very good theaters in strong markets in Brazil, and we were able to pay a reasonable price for it. I think it would be overstating it to call this the tip of the iceberg. We're clearly very aggressive at looking for acquisitions like this, but I don't think this is indicative that all of a sudden we're going to see significantly more. It doesn't mean that we won't continue to look both in this country and throughout the 15 countries we operate in Latin America. But I wouldn't want to overstate that.

<Q - Eric O. Handler>: Got it. And then secondly, since, Mark, you brought up – you mentioned Pizza Hut as your new pizza choice in 34 of your theaters, I'm just curious since you're going to be rolling this out in a lot more theaters, when you switch to Pizza Hut, does that improve any of your metrics in terms of spending or purchase intentions?

<A - Mark Zoradi>: I'll tell you this, Eric, it increases a lot of pizza buying. Having a branded pizza like Pizza Hut there that is prepared fresh for the guests and having the branding of Pizza Hut behind it, I mean, this is Pizza Hut pizza. And so, it has improved our sales of pizza significantly, and that's why we will continue to roll this out across the circuit.

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<Q - **Eric O. Handler**>: Got it. And then just one last follow up for Sean going off of the last question with Michael Ng, the quarterly impact of ASC 606, if \$5 million is sort of the run rate for adjusted EBITDA, what – how should we be thinking about the revenue impact on the other line as well as the other operating expense line?

<A - **Sean Gamble**>: Oh, I think you're going to see consistency there as well. That one is – you can see, as what we disclosed, we've got on a total company basis about \$27.5 million of other revenue for this quarter, and it will be – of an adjustment. We anticipate it'll be somewhere around that on a quarterly basis going forward as a result of the impact of this. And a big chunk of that minus the amount that's recorded as interest expense is offset in the other expense line.

<Q - **Eric O. Handler**>: Got it. Thank you very much.

<A - **Mark Zoradi**>: Thanks, Eric.

## Operator

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

<Q - **Robert Fishman**>: Good morning. I have one for Mark and one for Sean. Mark, while I understand Cinemark has many years of experience dealing with many different issues in Latin America. I'm wondering just given the changes in the global political landscape, combined with the current macroeconomic issues going on there, how does the board and the executive team think about the longer term appetite for risk in the region? And related, aside from the current pause on new mall development, does this make you rethink further LatAm expansion, maybe especially in Argentina right now?

<A - **Mark Zoradi**>: Robert, thanks for the question. Relative to Latin America – and I'm glad you pointed it out – we've been operating there for 25 years. I'm very familiar personally with Latin America having developed many of Disney's distribution companies there 20 and 25 years ago. We have seen this over and over again in Latin America. You go through the ebbs and flows of political and business disruption, but what happens, and especially when you look back over history, even in times of high inflation or high unemployment or disruptions in the government, people continue to go to the movies. And we saw it – if you look – if you go back to maybe one of the worst times in Latin America, 2001 – excuse me for Argentina, much worse than the current environment. People continued to go to the movies. So movie-going is relatively inexpensive. You don't have to travel for it. It is the most economical way for people to get out of their homes and enjoy time with their families. So, this hasn't decreased our enthusiasm for Latin America simply because we're very used to operating there with extremely experienced teams and film content continues to improve and do well for Latin America, especially the family content, which we see coming forward in the latter half of 2018 and into 2019.

<Q - **Robert Fishman**>: Okay. No, that makes sense. And Sean, given Cinemark already operates efficiently with strong margins, can you just help us think about what levers you still have to keep driving margins higher in both U.S. and LatAm, especially on the expense side, with film rental, salaries, and other operational overhead?

<A - **Sean Gamble**>: Sure. I mean, I think one area of that is obviously just trying to continue to offer premium options that people will select to upgrade to, those tend to have richer margins that boost it, and ongoing productivity initiatives. Clearly, like any other retailer in any space there's going to be those cost pressures that we all face, but we're working on a whole range of projects, which serve to do more with less. So, things as simple as just using more kiosks in theater lobbies to defray some of that labor and be able to redeploy that to revenue generating activities, moving more of the transactions onto your phone, there's things of that nature that can help us to automate or simplify processes and just make them more efficient. So, I would say those are two of the big areas that we kind of look to as ways to sustain and hopefully, continue to improve margins.

<Q - **Robert Fishman**>: If I could, just one more related to that. So, is the investment in Movie Club right now, is that inflating expenses in the U.S., like, do we see any noticeable impact of that yet?



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Market Cap: 4,350.59  
 Current PX: 37.255  
 YTD Change(\$): +2.435  
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Bloomberg Estimates - EPS  
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<A - Sean Gamble>: That has had a small impact on our advertising and promotion line, as well as to a certain degree our theater payroll line as we've had ambassadors in our theaters to just basically drive awareness of the program. Those are things that, since it's a new program, are at a little bit of a heightened level now, but will come down over time.

<Q - Robert Fishman>: Okay. Thank you both.

<A - Mark Zoradi>: Thanks, Robert.

## Operator

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

<Q - Eric Wold>: Thank you. Good morning. Two questions. I guess, one, thinking about the Disney-Fox combination a little bit further, I guess it's pretty well anticipated that if Disney chooses to reduce the combined studio film output, there's a good opportunity for other studios to pick up those titles. But if that happens or if that does not happen, have you done the calculation that if all Fox titles are kind of moved up to the Disney rent scale, what impact that could have on your P&L, what potential offsets you could have to that?

<A - Mark Zoradi>: Eric, no, we haven't done that. At this stage of the game, I think that's a little premature. Clearly, we don't know for certain what's going to happen relative to Disney-Fox or any other company that might come in and try and complete that acquisition. So, at this time, we've not run any of those numbers.

<Q - Eric Wold>: Okay.

<A - Sean Gamble>: The other thing that I would just add to that comment is, obviously, our film rental deals are on scales. So, part of that is just also determinate of the level of performance of those titles. And so, it's a range. The higher the – the bigger the title, the increased film rental it'll carry and vice versa for smaller performing titles.

<Q - Eric Wold>: And then I guess, last question, what are your thoughts on some of the various pricing tests that are being done throughout the industry by other exhibitors, weekend surcharges, Tuesday discounts, different seat pricing within the auditorium, et cetera? What if any of those are you testing or thinking about rolling out this year and what are your thoughts in general?

<A - Mark Zoradi>: Eric, let's start with Tuesday discounts. Cinemark really brought that to light several years ago. So that's just been standard operating procedure for us across the majority of our circuit for several years. Discount Tuesday is synonymous in most of our markets with Cinemark.

In relation to highly variable pricing, again, we've been doing highly variable pricing for many years. There's been additional – usually, the highest price of the week is on a Friday or Saturday night. So we've had that kind of pricing in place for quite a while. And then, we do steep level of variable pricing down the line for seniors, children, military. So, relative to significant variable pricing, it's something that we have a lot of experience in doing. Relative to discount Tuesdays, it's been in place for several years.

<Q - Eric Wold>: Perfect. Thank you.

<A - Sean Gamble>: Thanks for the questions, Eric.

## Operator

Our next question comes from the line of Julia Yue with JPMorgan.

<Q - Julia Yue>: Hi. Thank you. Given how far along you guys are with the recliner conversions, I'm wondering for the portfolio of converted screens right now, how much pricing increase have you taken at this point? Are there still some centers that you haven't taken up in order to get more people to come visit and experience the theaters or is it kind

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of behind us now?

**<A - Sean Gamble>**: Yes. Thanks for the question, Julia. I would say, yes, there is still increased potential. If you look at our overall average ticket price for the quarter of 2.2% growth, that trailed the industry somewhat. Part of that is just tied to our overall pricing philosophy and how it plays to balancing price versus attendance to optimize box office. But part of that is also because a lot of those recliners that we completed during last year were towards the second half of last year. So, as they've been ramping up, we haven't taken as much price as we potentially can over time. So, short answer is yes, we think that there's incremental opportunity in those recliners as they kind of get to their full scale and are fully up and running.

**<Q - Julia Yue>**: Got it. And then, given the strong results you talked about with your XD screens, a small percentage of total screens but generating outsized box office and kind of what you're doing with the marketing initiatives, does this change your views, I guess, potentially on rolling out additional [ph] peel-off (00:41:33) screens or increasing your presence there?

**<A - Mark Zoradi>**: Julia, no, it doesn't change it at all. I mean, every opportunity we have, whether it's a new build or any existing theater, if we see an opportunity to put an XD screen in there, we absolutely want to do it. One of the things that we have done philosophically when we – well, we've done two things. One was operationally where we added certification of THX because that just adds to the brand awareness that this is really, really high-quality screens. But relative to new screens or converting any screen within an existing theater, we want to make sure that the size of that screen and the size of the auditorium is commensurate with how we're developing the XD brand. So, we won't go below a certain size depending on that particular theater. So, the only limitation for us within our existing circuit to adding more is size of existing screens. And in every new development, unless it's a very small footprint, we will always try and put in a new XD screen.

**<Q - Julia Yue>**: Got it. Thank you very much.

**<A - Sean Gamble>**: Thank you, Julia.

## Operator

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

**<Q - James Charles Goss>**: Thanks a lot. Regarding THX certification, is it a certification of existing systems or is it a software-based overlay or are there any physical modifications involved and at what costs?

**<A - Mark Zoradi>**: There's not significant cost associated with it, but we did go and have each one of our theaters reviewed in order to get the certification and THX has been known for this for many years. We love the collaboration with them. And relative to us having to do significant changes, no, but relative to us to make sure that everything is tweaked properly in our XD screens, yes, we went and did that. But is there a big capital look that we're going to be incurring because of it? It will be very insignificant.

**<Q - James Charles Goss>**: Okay. So, the branding comes with not that much outlay?

**<A - Mark Zoradi>**: That is absolutely [ph] right (00:44:02).

**<Q - James Charles Goss>**: Following up a little bit on what Eric Wold was asking about. I was wondering to the extent that Disney was talking last night about their stressing of quality over quantity even without Fox as an addition. Now, I'm wondering if you have quantified any impact on your film rent margins so far to the extent that you do have the scales and that they've taken a larger share of the box office. I'm sure you'd take that trade any day, but have you noticed any impact you'd attribute to their quality over quantity strategy?

**<A - Sean Gamble>**: I would answer it this way, Jim. If you kind of look over the course of our history, we haven't had a significant fluctuation in our film rental rate. It's probably at the higher end of the rate now, given that over the last few years, box office has been driven by a concentration of larger films or driven by a higher concentration of

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larger films than it has in the past. So, I don't – and a lot of that has come from Disney. So, I think if you just look at the relative movement of that over time, it would suggest that there isn't a significant effect of that to be expected.

<Q - James Charles Goss>: Okay. One last thing. You were discussing your success with your Movie Club so far, but I assume you're probably also getting some admissions from MoviePass. I wonder how you could compare the throughput in both of those areas?

<A - Mark Zoradi>: Nothing has changed for us relative to MoviePass. We continue to accept the MoviePass card as long as they abide by the existing agreements. So it's not overly significant to us. It's in the same kind of category in the 4% to 5% range in terms of attendance on MoviePass. So, we don't see it as overly significant, but relative to their go-forwardness, their future, and go-forward, it all just depends on whether or not they continue to abide by the existing rules and regulations that have been set up.

<Q - James Charles Goss>: All right. Thanks for the questions. Bye.

<A - Sean Gamble>: Thanks, Jim. Appreciate it.

## Operator

[Operator Instructions] And our next question comes from the line of Bill Baker with GARP Research.

<Q - Bill Baker>: Yes, hi. Can you just drill down a little more about the operating expenses, and salaries, and wages, and utilities please?

<A - Mark Zoradi>: I'm sorry. First of all, welcome to the call, Bill. Can you – Sorry -

<Q - Bill Baker>: Thank you. Thank you.

<A - Mark Zoradi>: Can you just elaborate on that, what aspect that you're looking for?

<Q - Bill Baker>: Yeah. I guess just there's been wage pressure out there generally, and I see that it's something like a 10%-ish increase in salaries and wages. [ph] And you buoy (00:47:26) kind of lower end wage portion of most employment out there. And the utilities numbers, I know those can vary and sometimes you guys provide a little color on that as to...

<A - Mark Zoradi>: Sure.

<Q - Bill Baker>: ...why [ph] it flips (00:47:42) up or down. So.

<A - Sean Gamble>: Sure. Okay. Thanks. Well, just starting with the utilities and other, really the increase you're seeing there this quarter, it's driven by the revenue recognition accounting changes with ASC 606. If you were to remove those in the aggregate, our utilities and other expenses would be essentially flat year-over-year. The salaries and wages that we're seeing on a global basis, a part of that is driven just by wage-rate pressures, either in the form of just general inflation. You have inflation both in the U.S. and certainly inflation internationally as well as minimum wage hikes.

There's clearly a certain level of fixed labor that we need to keep in the theater to run those theaters. So, in a depressed attendance environment, we lose some of our operating leverage over that base level of fixed labor. We see that particularly in our international business with some of the additional government restrictions that come into play on how much flexibility we have with that labor.

The other thing we're seeing this quarter in our – in that line item, we've got some health insurance claims that are a little bit higher than normal. We're a self-insured company, so we have some of those higher claims that comes through to our cost line, so that's playing in there. And then there's also a little bit of impact of some of the margin-generating investments, such as new builds, our recliner conversions and some of the food and beverage initiatives that we've been working on which tend to have a little bit lower efficiency in the early timeframe but then improve over time as we're

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generating more revenues. I mentioned earlier, too, one of those would also include the Movie Club ambassadors that Robert had asked about earlier on the call. So, that's really the drivers of the salaries and wages component of what's going on with that line and as well as the utilities and other.

<Q - **Bill Baker**>: Well, thank you very much for a very complete explanation. That's very good. Thank you.

<A - **Sean Gamble**>: Thanks, Bill. Appreciate it.

## Operator

At this time, there are no further questions in queue. I will now turn the call back to the presenters for additional or closing remarks.

## Mark Zoradi

Thank you, all, very much for joining us this morning, and we look forward to speaking with you again following our second quarter. Bye, now.

## Operator

This concludes today's conference call. You may now disconnect, and have a wonderful day.

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