

Company Name: Cinemark  
Company Ticker: CNK US  
Date: 2019-05-07  
Event Description: Q1 2019 Earnings Call

Market Cap: 4,872.59  
Current PX: 41.61  
YTD Change(\$): +5.81  
YTD Change(%): +16.229

Bloomberg Estimates - EPS  
Current Quarter: 0.809  
Current Year: 2.311  
Bloomberg Estimates - Sales  
Current Quarter: 917.700  
Current Year: 3312.364

## Q1 2019 Earnings Call

### Company Participants

- Chanda Brashears, VP of Investor Relations
- Mark Zoradi, CEO
- Sean Gamble, Chief Financial Officer

### Other Participants

- Eric Handler, Analyst
- Chad Beynon, Analyst
- Robert Fishman, Analyst
- Alexia Quattarani, Analyst
- David Miller, Analyst
- James Charles Goss, Analyst
- Eric Christian Wold, Analyst
- Alan Gould, Analyst
- Andrew M. Borst, Analyst

### Presentation

#### Operator

Good day. My name is Shelby, and I'll be your conference operator today. At this time, I would like to welcome everyone to Cinemark's First Quarter Earnings Conference Call. (Operator Instructions) Thank you. Chanda Brashears, you may begin your conference.

#### Chanda Brashears, VP of Investor Relations

Thank you, Shelby, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holdings, Inc. First Quarter 2019 Earnings Release Conference Call hosted by Mark Zoradi, Chief Executive Officer; and Sean Gamble, Chief Financial Officer and Chief Operating 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 and uncertainties and other factors that may cause Cinemark's actual performance to be materially different from the performance indicated or implied by such statement.

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 GAAP financial measures can be found in today's press release; within the company's annual filing on Form 10-Q; or on the company's website, [investors.cinemark.com](http://investors.cinemark.com).

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

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## Mark Zoradi, CEO

Thank you, Chanda, and good morning, everyone. We appreciate you joining us to discuss our 2019 first quarter results. I thought I'd kick things off with a brief commentary on the industry box office.

Based on this year's film release pattern, we all expected 2019 would really get going with the launch of Avengers: Endgame. And clearly, that has been the case. Following its sensational record-breaking opening weekend, Avengers has continued to perform and is now running in a total domestic box office of \$620 million and a global box office of \$2.2 billion through this past weekend. Truly historic results. I would like to congratulate Disney and Marvel Studios on this spectacular movie as well as their worldwide marketing and distribution teams that brought the film to life.

And as we look forward to the remainder of 2019, we're extremely optimistic about the industry's potential to deliver another record box office result. In addition to an unprecedented volume of franchise tentpoles that are still to come, this year is also full of varied content that appeals to a wide range of audiences. Some examples include The Lion King; Toy Story 4; IT Chapter 2; Rocketman; Frozen 2; Secret Life of Pets; Ford v. Ferrari; Pokemon: Detective Pikachu; Spider-Man: Far From Home; Star Wars: The Rise of Skywalker; A Beautiful Day in the Neighborhood; Once Upon A Time in Hollywood; Fast & Furious Presents: Hobbs & Shaw; Joker; and a sequel to Jumanji, just to name a few.

From action to adventure to horror to drama, specialty and family fare, 2019 is full of films for all audiences. In my 30-plus years in this industry, I cannot recall such an outstanding, audience-pleasing, diverse and -- commercial lineup of films in 1 calendar year.

With regards to the first quarter, as expected, industry box office was down 16%, driven by 2019's timing of releases in comparison to the benefits 2018 received from more sizable carryover titles like Star Wars: The Last Jedi, Jumanji and The Greatest Showman, as well as the cultural phenomenon that was Black Panther. We believe it's important to take a longer view of the industry box office and attendance trends as weekend-to-weekend and quarter-to-quarter fluctuations in film content strength and release volume can be distorting.

That said, we're pleased to report that during the first quarter, Cinemark yet again delivered outsized results, exceeding year-over-year industry box office performance by a significant 450 basis points. These results were driven by the outperformance in both attendance and ticket pricing and can be attributed to our sustained focus on initiatives that maximize box office as well as a film slate that was more favorable to our theater footprint. We have now outperformed the industry box office in 36 of the past 41 quarters.

Regarding our international operations, Latin America's first quarter attendance results were also impacted by the same Hollywood content limitations that were experienced domestically. In addition, the local content attendance declined 20% during the quarter as the timing and consumer appeal of locally produced films fluctuate. Combined, these attendance factors put pressure on our company's inherent fixed cost infrastructure. Looking forward, we remain enthusiastic about the full year box office potential across our global circuit. We continue to expect international attendance to rebound, particularly in the second and third quarters due to the strength of content in family, action and horror genres, which tend to resonate best across the region.

To fully deliver on this year's stellar film lineup, we'll continue to actively advance our overarching goals of creating an extraordinary guest experience by, one, further enhancing our in-theater service, quality and amenities; two, expanding our food and beverage offerings; and three, increasing targeted and digital interactions and engagements with our guests. Last quarter, we laid out our key plans to do so and today I'd like to provide an update on several of those, including Movie Club, Movie Rewards, food and beverage, Luxury Loungers, and XD.

Starting with Movie Club, which was the first exhibitor-sponsored subscription program that launched just 18 months ago and continues to perform well beyond our expectation. Its growth meant -- its growth momentum has maintained a steady new sign up rate: now with over 660,000 members -- that equates to nearly 2,000 members per theater location -- and has an incremental 100,000 members since we last reported in late February. Cumulatively, we've sold more than 18 million tickets through Movie Club and in the first quarter alone, Movie Club purchases represented 12% of our domestic box office.

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Furthermore, our members continue to derive exceptional levels of satisfaction from the program, driven by Movie Club's movie credit rollover benefit, food and beverage discount of 20, waived online fees, the ability to add a companion ticket and its simple ease of use. We designed Movie Club with the intent of enhancing our guest experience, increasing moviegoing frequency and driving more loyalty to Cinemark, and we sought to do that in a financially sustainable manner that provides the most appealing offer to the widest array of moviegoers. To that end, we're thrilled with the sustained growth of the program and the phenomenal guest feedback we continue to receive from our members and the fact that 75% of our members are reporting that they're attending our theaters more frequently since joining Movie Club and 50% are indicating they're purchasing more concessions.

We see these results playing out in the strength and consistency of our Movie Club metrics, including high engagement with over 75% of all movie credits redeemed to date; increased moviegoing frequency, with Movie Club members attending our theaters 3x more often than that of our average moviegoers; wide appeal as more than half the signups were not from previously participated -- were not previously participating in our free loyalty program; a higher propensity to upgrade, with members paying to see films in our premium XD auditoriums twice as often as nonmembers. And incremental food and beverage consumption with higher purchase volume, coupled with an increased number of visits to our theaters and concession stands. We're extremely pleased with these results and still have a lot of runway to grow and expand this accretive program.

In a related area, last quarter we announced we are evolving the free tier of our loyalty program previously referred to as Connections, and now rebrand it as Movie Fan. We've aligned Movie Fan with Movie Club in an overarching structure called Movie Rewards. The rationale for this evolution is threefold. First, it's intended to improve the program's messaging. Second, it's meant to simplify how points are earned, now 1 point for each dollar spent. And third, it's focused on further increasing program utilization and loyalty through expanded rewards. Overall, this effort is part of a broad strategy to provide incremental value to our guests by creating a more personalized experience both while they're enjoying themselves within our theaters and when they're engaging with Cinemark outside our venues.

We've been rolling out Movie Rewards the last couple of months and expect to be active across our entire domestic circuit within the next few weeks. Though it's still early, the evolution of Movie Rewards has been well received by our guests and we've already observed an uptick in new member enrollment and program engagement. We greatly look forward to delivering increased personalized communication and benefits to our growing base of loyalty members -- nearing 10 million globally -- as we further pursue incremental moviegoing and food and beverage consumption.

Next up, our food and beverage initiatives continue to deliver exceptional results, evidenced by our domestic per cap results that grew 12.7% to \$5.15 in the first quarter and exceeded the \$5 milestone for the first time in our company's history. We've now delivered 49 consecutive quarters of year-over-year increases through our focus and execution of numerous per cap initiatives that culminate into big results.

For example, we concentrate on every category to determine growth opportunities and customize our offerings to discrete markets based on their demographics and taste preferences. This includes soda, popcorn, candy in addition to things like our multicultural offerings. We also take a retail approach when it comes to offerings and strive to find something to appeal to every patron. Examples include our strategic partner with Pizza Hut, which we will now expand to more than 100 theaters by the end of the year; enhanced food in 70% of our domestic circuit and alcohol available in 50% of our U.S. footprint. We consistently seek methods to reduce transaction time while increasing purchase incidence with a more sophisticated design and layout of our theater lobbies. We maintain our discipline in field execution, while striking the right balance between price and value to ensure we're maximizing this growth opportunity.

Moving on to Recliners and XD. Our Luxury Lounger seats remain a highly sought-after guest amenity and an attractive use of capital that exceeds our 20% ROI threshold. Currently, 57% of our domestic auditoriums have been reclined and we continue to track to a 60% level by year end. Like Recliners, Cinemark XD branded auditoriums are highly valued to our guests and have been extremely successful as we benefit from the increased flexibility and the economics they provide. As of the end of the first quarter, we operated 257 worldwide XD auditoriums and anticipate adding another 15 to 20 XD screens during the course of this year.

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IMAX is also a strong brand with great market recognition. We recently extended our current IMAX agreements through 2026 and also expanded our partnership with the upcoming installation of 2 IMAX laser systems.

In conclusion, we're very pleased with our progress in each of our strategic initiatives and remain well positioned to capitalize on the strength of content from our studio partners for the remainder of 2019 and beyond.

You can count on Cinemark to continue to invest prudently in growing our business, which has been a key driver in our consistent industry-leading results and profitability, all while delivering long-term shareholder value and maintaining the strength of our balance sheet. We appreciate your ongoing support.

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

### Sean Gamble, Chief Financial Officer

Thank you, Mark. Good morning, everyone. Before diving into the details of our first quarter's financial results, I'd like to provide a quick update on our adoption of 2 recent accounting pronouncements.

First, as of January 1, 2019, we have fully lapped our transition to the new revenue recognition standards that was driven by accounting pronouncement ASC 606.

Second, beginning this year, we implemented accounting pronouncement ASC 842, which impacts lease accounting and it is intended to provide financial statement users a better understanding of the amount, timing and the uncertainty of cash flows arising from leases. As this is a complex change with varied financial statement implications, we included an illustrative example within this morning's 8-K of the impact ASC 842 would have had on our quarterly and full year 2018 financials were it in place last year. We encourage you to reference this document for additional insights about how ASC 842 affects the various aspects of our financials and to assist year-over-year comparisons. Likewise, our 10-Q, which was also filed this morning, contains further related disclosures.

The biggest impact of the new standard is, similar to capital leases, operating leases are now grossed up on the balance sheet, including a right of use asset and a lease liability for theaters, equipment and other contracts deemed to be leases under the guidance. Associated with adoption of ASC 842, we recorded an operating lease right of use asset and a corresponding operating lease liability of approximately \$1.5 billion each. Additionally, a category of build-to-suit leases that didn't qualify for sale-leaseback accounting according to prior accounting guidance and were therefore deemed capital leases have now been converted to operating leases according to the new standards. While this change has 0 impact on net cash flow and minimal impact on net income, it does have the effect of reclassifying certain assets and liabilities on the balance sheet from capital to operating lease categorizations as well as shifting certain income statement expenses from depreciation and interest line items to facility lease expense. This latter presentation change causes a slight nonoperational drag on our adjusted EBITDA and operating cash flow metrics. It's important to emphasize that ASC 842 is purely an accounting presentation change, which is largely intended to reflect all lease obligations on the balance sheet. It does not impact cash rent payments, obligations to landlords or any other underlying business or operating fundamentals.

Shifting now to our first quarter financials. During the quarter, our global company generated total revenues of \$714.7 million and consolidated adjusted EBITDA of \$152.3 million. Our adjusted EBITDA margin was 21.3% and was reduced by 80 basis points as a result of the ASC 842 accounting presentation changes. In the U.S., attendance declined 13.2% to 38.7 million patrons driven by the timing of this year's film releases relative to the benefits that first quarter 2018 realized from a stronger year-end carryover as well as Black Panther, as Mark previously described.

Total domestic admissions revenues were \$308.8 million for the quarter and included an average ticket price increase of 1.9% to \$7.98. This increase was driven by strategic pricing actions, including opportunities derived from recliner conversations. Our varied food and beverage initiatives generated an all-time high U.S. concessions per cap of \$5.15, which grew 12.7% versus prior year, our most sizable year-over-year growth on record. This growth could be attributed largely to actions and promotions to stimulate incremental purchases as well as a favorable timing differential of varied

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price increases.

Total domestic concession revenues were \$199.4 million and were down only 2.2% in contrast to this quarter's larger attendance decline. Conversely, domestic other revenues grew 7.6%, predominantly as a result of increases in promotional income. Overall, our U.S. operations delivered total revenues of \$554.8 million and adjusted EBITDA of \$125.8 million. Our adjusted EBITDA margin was 22.7% and included a 50 basis point unfavorable impact from the ASC 842 lease accounting changes.

Internationally, attendance declined 1.3% to 23.6 million patrons due to the film content drivers Mark previously addressed and was in line with our projections for the quarter. International admissions revenues were \$86.7 million, which declined 16.1% versus last year as reported, but were up 3% in constant currency. Our reported average ticket price of \$3.67 translated to a constant currency increase of 4.4% that was primarily driven by inflationary price growth.

International concessions revenues decreased 10.5% to \$51.9 million as reported but were up 8.1% in constant currency. Our as-reported international concessions per patron was \$2.20 and grew 9.5% in constant currency as a result of inflation and our varied strategic food and beverage initiatives. International other revenues were \$21.3 million, which decreased 4.5% as reported, but were up 22.4% in constant currency. This increase was driven largely by favorable growth in screen advertising and promotional income. Overall, total international revenues were \$159.9 million as reported, with an adjusted EBITDA of \$26.5 million. Our adjusted EBITDA margin was 16.6% and was adversely impacted by the transition to ASC 842 lease accounting, which lowered the rate by 150 basis points, as well as an unusual 50 basis point headwind due to a negative mix effect of larger currency devaluations during the quarter.

Core operating results were also pressured by reduced leverage over our base level of fixed costs associated with this quarter's attendance decline. As expected, foreign currency translation remained a headwind in the first quarter, leading to an approximately 20% drag on our reported financials. And while future currency fluctuations are difficult to predict, if current rates continue to hold, we would expect a mid-teens percentage headwind for the full year 2019. 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, decreased by 10 basis points to 53.1% in comparison to the prior year. Conversely, concession cost, as a percentage of total concessions revenues, increased by 160 basis points, predominantly as a result of product mix associated with expanded food offerings across our global circuit. As mentioned on prior calls, while these newer offerings tend to create a slight drag on our concessions margin rate, they continue to drive sizable growth in overall concessions revenues and income.

Salaries and wages were 13.4% of total revenues and grew 150 basis points compared to the first quarter of 2018. This increase was driven by reduced leverage over our base level of fixed labor resulting from this quarter's decline in attendance and was further impacted by increases in minimum wage rates, the impact of certain government-mandated payroll restrictions and support of our varied strategic initiatives.

Facility lease expenses as a percentage of total revenues increased by 145 basis points, primarily due to new theaters and a \$5 million year-over-year presentation change associated with the adoption of ASC 842. These increases were partially offset by reduced percentage rent. Utilities and other cost as a percentage of total revenues also increased by 145 basis points, driven largely by reduced leverage over fixed cost, as well as international utility cost inflation, real estate taxes and the timing of certain projector preventive maintenance expenditures.

And G&A for the quarter decreased by 10 basis points as a percentage of total revenues. Our G&A metric benefited from foreign exchange fluctuations as well as reduced legal and professional fees, which more than offset increases driven by inflation and investments in varied growth and productivity initiatives. Collectively, first quarter pretax income was \$45.1 million. Our first quarter's effective tax rate was 26.4% and net income attributable to Cinemark Holdings Inc. was \$32.7 million or \$0.28 per diluted share.

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With respect to our balance sheet, we ended the quarter with a cash balance of \$425 million and a net debt position of \$1.5 billion. Our net debt improved by \$107 million as a result of reclassifying certain capital lease obligations to operating lease obligations associated with the new lease accounting guidelines.

Turning attention to our U.S. footprint. We operated 342 theaters and 4,596 screens in 41 states and 102 DMAs at quarter end. During the quarter, we opened 1 theater and 10 screens. We have signed commitments to open 4 theaters and 48 screens during 2019, and 7 theaters representing 80 screens subsequent to 2019. We expect to spend approximately \$80 million in CapEx for these 128 screens. We also anticipate closing approximately 1 to 2 theaters during the remainder of the year.

Internationally, we operated 205 theaters and 1,455 screens in 15 countries across Latin America. During the quarter, we opened 1 theater and 3 screens. We also closed 1 theater and 10 screens associated with a relocation and expansion at one of our facilities in Chile. As of quarter end, we have signed commitments to open 7 new theaters and 56 screens during 2019, and 6 theaters representing 46 screens subsequent to 2019. We anticipate spending approximately \$59 million in CapEx for these 102 screens. Consistent with our prior comments, we continue to view Latin America as a long-term growth opportunity, and we anticipate adding, on average, 50 to 75 international screens per year in the near term.

Regarding overall CapEx, we spent \$57.6 million in the first quarter, including \$15 million on newbuilds and \$42.6 million on existing theaters that was predominantly associated with recliner conversions and other revenue-generating investments. For the full year, we continue to anticipate spending between \$300 million to \$325 million of CapEx, of which approximately 1/3 is designated for new builds, both domestically and internationally; another 1/3 is for core maintenance, including certain expenditures to satisfy varied regulatory requirements; and the remaining 1/3 is budgeted for cash flow generating products that include additional Luxury Lounger theater conversions, and varied food and beverage initiatives that meet our balanced and disciplined investment thresholds.

We expect annual depreciation and amortization will remain roughly in line with 2018 at approximately \$260 million to \$270 million as incremental growth associated with new capital expenditures is largely offset by the impact of ASC 842.

In closing, we are thrilled with the results we continue to derive from our actions to enhance the moviegoing experience, drive incremental theater visits and create great engagement with our guests. Furthermore, we are enthusiastic about the tremendous pipeline of film content that lies ahead and how well it bodes for Cinemark, our studio partners and our industry. Thank you for your time this morning. Shelby, that concludes our prepared remarks, and we would now like to open up the lines for questions.

## Questions And Answers

### Operator

(Operator Instructions) Your first question comes from Eric Handler of MKM Partners.

### Eric Handler, Analyst

Yes, good morning and thanks for the question. Looking at your concessions revenue -- or the per caps rather, it looks like if you assume pricing for the per cap was up on a base case, let's say 6.5%, that would mean your price increases are probably somewhere in the \$0.25 range. Is that a fair estimate to use on a go-forward basis for the -- at least for the remainder of this year?

### Sean Gamble, Chief Financial Officer

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Thanks for the question, Eric. Actually, pricing was a lesser component. Pricing was a piece of that per cap growth for the quarter. We had the benefit of some timing differences in when we enacted certain price increases this year, as mentioned. But price was closer to about 15% of that overall growth.

A big chunk of that was more driven by overall volume and incidence driving initiatives. Things such as just core volume improvement in our core categories, as well as some initiatives. We kind of learned quite a bit from Black Panther last year where we benefited from different promotions and we fully leaned into that over the course of the rest of 2018, and we got some year-over-year lift in pushing a whole range of things with some of the content in the first quarter, including Captain Marvel.

So the bigger driver of the impact was more from volume and incidence driving, while price was a smaller piece. I would say, at least for this first quarter, price was closer to around \$0.10 versus the \$0.25 that you mentioned.

Eric Owen Handler, MKM Partners LLC, Research Division - MD, Sector Head & Senior Analyst 4

Okay. Great. As a follow-up. As I think about the accounting change, is that \$5 million or is it the 20-some-odd million that you have for 2018, is that a good number to use on a go-forward basis or does that increase at a certain percentage every year?

### **Eric Handler, Analyst**

Okay. Great. As a follow-up. As I think about the accounting change, is that \$5 million or is it the 20-some-odd million that you have for 2018, is that a good number to use on a go-forward basis or does that increase at a certain percentage every year?

### **Sean Gamble, Chief Financial Officer**

Yes. I think the number is reflected for 2018 in this morning's K. I think those are a good proxy to look at for 2019, both -- for first quarter, where overall EBITDA was impacted by a little over \$5 million. And it will be around that range -- we anticipate it will be around that range for the subsequent quarters this year and into the future.

### **Eric Handler, Analyst**

Thank you very much.

### **Sean Gamble, Chief Financial Officer**

Thanks

### **Operator**

Your next question comes from Chad Beynon of Macquarie Research.

### **Chad Beynon, Analyst**

Sean, I just want to dive back into the international margin. I think you called out a couple of reasons why it declined like it did. Some of it was lease accounting. You mentioned currency devaluation and then just the overall fixed cost basis. Can you elaborate a little bit more on that? And then, are there things that you can do to maybe reduce the cost basis? Or should we just think about margin swings really based on attendance, which should be up in the next couple

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of quarters?

### **Sean Gamble, Chief Financial Officer**

Sure thing. Well, yes, the 2 kind of nonoperating drivers of the lease accounting and foreign exchange this quarter, those had about 200 basis point drag. So without those, our margin would have been closer to about 18.6%.

The pressure on our core level of fixed cost, we need a certain volume of labor to just operate the theaters. And particularly this February, the content cycle was just abnormally low in terms of the volume of releases and that, as Mark mentioned, that just put a lot of strain on our infrastructure. So with that comes certain inefficiencies, which has put pressure on that. That component at least should improve, as you mentioned, as attendance grows over the course of the year, that will kind of fluctuate. And we expect that piece of it to swing back.

The accounting portion from lease accounting, that will be -- that will continue on a go-forward basis and the anomaly we see from FX, I mean it's possible that could happen again, but we haven't typically seen that type of unusual movement in the past.

### **Chad Beynon, Analyst**

Okay. And then, Mark, on the Movie Fan rollout, the free plan, I guess, should we expect to see some benefit from this in the near term? It's obviously better messaging to your customers, but could we see a benefit from this in 2019? And are there any extra cost that we should see in SG&A in 2019 as you roll this out in a more broad-based way?

### **Mark Zoradi, CEO**

Chad, I think I mentioned that we're right in the middle of rolling it out. I mean, we started about 6 weeks ago, we still have several weeks to go. So yes, there will be a benefit in '19, but I would call it a modest benefit, since we won't have it completely rolled out until somewhere towards the end of the second quarter. So we already are seeing our guests with additional sign-ups. We think that there will be some, again, moderate cost increase, but nothing extraordinary or something that needs to be called out in a big way. So I -- it's a little early for you to start building in big increases for 2019 since we're in the middle of rolling it out as we speak.

### **Chad Beynon, Analyst**

Okay, thank you very much. Nice quarter.

### **Mark Zoradi, CEO**

Thank you, Chad.

### **Operator**

Your next question comes from Robert Fishman of MoffettNathanson.

### **Robert Fishman, Analyst**

I have one for Mark and one for Sean. Mark, now that the Disney and Fox deal is complete, have you had any early conversations with their teams about how the number of film releases at the old Fox studio is going to change going



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forward? And on a related note, do you have any concern that Disney will start to push for even better economics for its future releases given the studio's overall importance to the box office?

## Mark Zoradi, CEO

We haven't had any discussions with Disney regarding the numbers. We have had discussions with Disney about how committed they are to the key franchises that Fox has, starting probably with Fox Searchlight. They've been very clear that, that is something that they're very interested in continuing with.

And then of course, the Avatar franchise, the X-Men franchise, the Deadpool franchise and they are -- they have been very, very vocal and clear with us that those are not going to change and they want to continue with those.

We haven't specifically talked number of movies, but I do believe that all of the key elements that Fox had in the works are going to continue. As it relates to any discussion about film rental, there has been no new discussion with Disney or the new Disney Fox related to that. We had a multiple year deal with Disney and they're continuing to operate under those conditions.

## Robert Fishman, Analyst

Okay. That's very helpful. For Sean, can you help further explain what pricing levers Cinemark has been pulling to help grow average U.S. ticket price by the 2% in first quarter compared to the industry that was down about 2%? I'm not sure if there's any way to quantify how much the difference was driven by the Black Panther comps for you guys versus the industry or what upside came from the recliner pricing initiatives. That would be helpful.

## Sean Gamble, Chief Financial Officer

Well, you hit on -- you just hit on 2 of the points. I mean, certainly, there was a small piece of that, which was an easier comp as a result of Black Panther, which we benefited from. The comment you made on recliners, that is another piece, which I mentioned, we have been taking advantage of strong demand for some of our recent recliners to go after price.

The other thing I would say is, just in general, we've been a little bit more aggressive on pricing earlier in the year this year. Similar to what I can mentioned for concessions, we also enacted a wider, just broad price increase earlier in this year. Where -- we've kind of talked about our pricing strategy in the past where we try to -- if anything, we slightly lagged the industry because we've seen how that benefits overall attendance and box office for us. But when there's strong content coming, which we believe this year definitely has that, we tend to be a little bit more aggressive. So we went out, and we implemented some of those price increases earlier in this year and I think that's another component of why you're seeing our price grow more significantly relative to the overall industry.

## Robert Fishman, Analyst

Great, thank you both.

## Sean Gamble, Chief Financial Officer

Thanks, Robert.

## Operator

Your next question comes from Alexia Quadrani of JPMorgan.

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Company Ticker: CNK US  
Date: 2019-05-07  
Event Description: Q1 2019 Earnings Call

Market Cap: 4,872.59  
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YTD Change(\$): +5.81  
YTD Change(%): +16.229

Bloomberg Estimates - EPS  
Current Quarter: 0.809  
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Current Quarter: 917.700  
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## Alexia Quattarani, Analyst

Understanding the overall slate skews very well for Latin America for the balance of the year, but can you also provide some color on your expectations for local content? I think at CinemaCon presentation you did mention that local, as a percentage of total attendance, should return to past levels.

## Sean Gamble, Chief Financial Officer

Sure. Thanks for the question, Alexia. Local content, I would say in general, is a bit harder to predict than Hollywood content simply because they tend to be small films that aren't necessarily big production films that just all of a sudden break out without a ton forewarning. So it's harder to know exactly when those hits are going to hit quarter-to-quarter.

Interestingly, local product was down quite a bit this year, but it was still fairly in line with the overall percentage of box office -- sorry, in the first quarter. It was just last quarter last year, first quarter last year was really on the high range. Probably the biggest thing that we can predict is the largest local film last year was Nada a Perder, in Brazil and Argentina, which was a follow on to The Ten Commandments and that has the Universal Church behind it. So it had this huge outreach program that is attached and tons of moviegoers go to it. That's a more predictable film. That film released in the second quarter of last year and there's a sequel to that film that's releasing this year, although it will be in the third quarter.

So we expect that, that's going to drive significant moviegoing. The last one, I forgot the exact number, I think it was over 12 million admissions in Brazil alone. So it was a huge film. So that one, we anticipate, is going to be large. Beyond that, we expect that things will typically ebb and flow in the 8% to 10% of box office range and every now and then, that will dip a little bit lower and every now and then it'll creep a little bit higher.

## Alexia Quattarani, Analyst

That's helpful. And then just a follow-up on your -- on the color you gave around Movie Club's strong performance in your opening comments. Any color on how it performed in markets where you're competing against a sort of competing subscription product?

## Mark Zoradi, CEO

Alexia, Movie Club has uniquely been working across our entire circuit and it's been very interesting. Even in markets where the ticket prices are a little bit higher or also where they're a little bit lower, because the benefits of the concession and no online fees and rollover, it has worked across-the-board.

Relative to where we have competitors, again, we have strong competitors in Dallas, we have strong competitors in San Francisco that both have -- that have competing subscription programs and both those markets have -- it has worked equally well as any other market. So whether it's a large market, small market or whether there's a competitor in the marketplace with another subscription program, it has worked equally well.

## Alexia Quattarani, Analyst

perfect, thank you.

## Mark Zoradi, CEO

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Thanks.

## Operator

Your next question comes from David Miller of Imperial Capital.

## David Miller, Analyst

Once again, congratulations on the stellar results. Sean, question about Latin America. Obviously, the cash-on-cash returns for reseating in the United States are no secret, just stellar numbers all the way around, and you guys were the pioneer there. And has AMC to a certain degree, and you're probably not getting enough credit in your stock price for that. That being said, what exactly is the reseating opportunity, if any, in Latin America en masse? I'm sure there's 1 or 2 or maybe single-digit opportunities, but is the opportunity for reseating in Latin America such that there's so many newbuilds that it's not necessary right now? Or are you just trying to build new theaters just to increase capacity so as to satisfy demand?

## Mark Zoradi, CEO

Thanks for the question. It's interesting. The market in Latin America, we've had recliners seats in Latin America for over a decade. They've been there longer than in the U.S. They just -- it tends to be structured differently. The theaters down there, they tend to have a -- the theaters in the more premium malls will tend to have a VIP section. So it's almost as if you enter the lobby, you turn to the left, and you'll have your VIP theaters, which have -- or auditoriums, which have the reclined seats, you turn to the right and it will be kind of the normal seats. So that format has existed for a while and there's a more higher price point for the VIP section relative to the general admissions.

As far as more of a broad-based initiative, the challenge you get in LatAm with moving to a reclined seat, renovating to reclined seat, is just capacity challenges. The auditoriums tend to be smaller auditoriums, just the nature of how the theaters are built which generally are all connected to malls. The auditoriums aren't as large, so you don't have as many seats per auditorium and they tend to be much more highly utilized.

So the challenge you get is to cut half your seats to put recliners in, you just can't service the demand. So there's a little bit of a govern on being able to move that initiative forward there just because you can't afford to lose the seats. So to date, there hasn't really been a big push or a big opportunity to move that, because recliners -- those are -- that's a great solution for a lower utilized theater where you're looking to kind of turbo boost the attendance. But when your attendance is already really strong, there's limitations to how far you can move on that. So we haven't really seen that go other than the VIPs and I think for the time being, I think, that kind of split format is going to continue to be the way things progress.

## David Miller, Analyst

Okay, very helpful, thank you very much.

## Operator

Your next question comes from Jim Goss of Barrington Research.

## James Charles Goss, Analyst

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The 450 basis points outperformance and your 36 of the past 41 quarters -- you sort of get used to this. And I was just wondering, if there's any structural advantages or disadvantages with this year's particular film slate of blockbusters that would sustain or work against continuing that performance.

## Mark Zoradi, CEO

Jim, thanks for the question. I don't think the lineup of films is going to major vary that. Whenever there's a big film like we just experienced with Avengers or what's coming up with the lineup that I had talked about, it's very important that we make sure we have enough showtimes and we are open long enough, and we can handle the capacity. So we're very focused on that. And in doing so -- and then, obviously, we're really focused on our marketing efforts and our ability to personalize our marketing efforts and the digital transformation that's taking place.

So it's our hope that we can continue along that line. Clearly, it's getting more and more competitive, but I don't think the lineup in particular is going to -- is going to put any major shift or difficulty in continuing our efforts to overperform.

## James Charles Goss, Analyst

Okay. Sort of in a related area, with the blockbuster focus -- that is even more so this year, I think -- is there any consideration of dynamic pricing actions anywhere to take advantage of that?

## Mark Zoradi, CEO

Put it this way. We are testing some various things and looking at -- is there room to be able to move price up on certain weekends. But at this stage, I would not say that we're in the process of any formal dynamic pricing.

Dynamic pricing in our business is significantly different than, say, what it might be in the airline business. One thing that we do, do and that I think is related is a very steep variable pricing curve so that on a Friday and a Saturday night, particularly on high demand title, those prices can be slightly higher and then, of course, they decline down all the way from senior citizen pricing, student pricing, down to our Discount Tuesday. So a steep variable pricing and a look at opening weekend Friday and Saturday night pricing to be tested, but nothing of specific to say we are moving towards dynamic pricing in a large way.

## James Charles Goss, Analyst

Okay. And Sean, with regard to the lease accounting presentation, I wanted to compliment you. It's very clear and well labeled. I thought that was great. And now that everything is sort of more clearly on the table, does that have any impact on your financing choices? Are you any more indifferent as to which options you choose since they will all be presented that way? Or -- and if not, what are the considerations that will drive you in one direction or another between lease and buying?

## Sean Gamble, Chief Financial Officer

I don't think -- I mean, the accounting structure wouldn't impact our decision-making in terms of financing structure. That's going to be more of a pure economic decision when all is said and done. So we tend to kind of work the most advantageous deal that we can and look at the best financial way to structure it. And then ultimately, we determine what is the appropriate accounting of that after the fact. So I don't see that changing the direction on how we approach any type of financing deal with regard to leases or any other type of debt instruments for that matter, as well.

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## Operator

(Operator Instructions) Your next question comes from Eric Wold of B. Riley.

## Eric Christian Wold, Analyst

Sean, I guess one quick question for you and then a broader question afterwards. On the FX headwind, assuming rates stay at these levels, when does that headwind actually disappear on a quarterly basis?

## Sean Gamble, Chief Financial Officer

God, I wish I knew that.

## Mark Zoradi, CEO

Crystal ball.

## Sean Gamble, Chief Financial Officer

I would be.

## Eric Christian Wold, Analyst

Assuming rates stay at these levels.

## Sean Gamble, Chief Financial Officer

Yes. No, I understand. When we kind of look at the course of year, you would think it will be kind of I would say -- if they held where they are today, we're probably looking at a mid-teens in the second quarter and it would kind of drop to mid-single digits in the third quarter and fourth quarter. Again, as you said, assuming rates hold where they are at present.

That's basically what we're looking at for the remainder of the year. And then if they just continue to hold, obviously, we'll get into kind of a more steady state scenario beyond that.

## Eric Christian Wold, Analyst

Okay. And then, thinking about Movie Club and the usage level you've seen both in terms of higher visitation and larger kind of concession basket purchase even with the 20% discount. So assuming the program is inherently accretive, profitable at these levels, is there a point where you would actually think about lowering the subscription price to drive even greater membership and visitation from those members that's still at a profitable level? Or is the more likely scenario that you take prices up? And then if it's the latter one, it is kind of a gradual kind of every-few-years kind of thought process on ticket prices, or is it more kind of annual along with your normal traditional ticket price hikes?

## Mark Zoradi, CEO

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Thanks for the question, Eric. I don't anticipate that we would lower the price. We think the price is a good value right now, especially as it relates to the other key benefits of no online fees and the 20% discount and the rollover effect. So I don't anticipate that we would lower the price. We have been very, very encouraged with the thousands of new subscribers we hit each and every week. I noted that since the last time we reported, we've added an incremental 100,000 subscribers.

Relative to price on an ongoing basis, you may be aware that we did increase the price in the 4 Western states, California, Oregon, Washington and Alaska. We increased that price during the months of March and April, \$1. So for any members in those states, the price is \$9.99. We had very little, almost none reaction to that. And so we will continue to evaluate price in other states as well. Obviously, the reason that we chose to do it in those 4 Western states is because the ticket prices in those states was a little bit higher than the rest of the country.

So we felt very good about doing that. We were very careful in how we did it. We communicated to the -- to our customers well in advance so they knew exactly what we were going to do. And because of all the other benefits, there was literally no negative reaction to it.

So as we go forward, we will be very careful with price increases. They will be long distances in between doing them. We started this program, I think, you remember in December of 2017, and we didn't increase the price until the first quarter of 2019. So it was -- we were not changing the terms and conditions in any kind of significant way on an often basis.

### **Eric Christian Wold, Analyst**

That's all, thank you.

### **Operator**

Your next question comes from Alan Gould of Loop Capital.

### **Alan Gould, Analyst**

A quick question going back on the concession per cap. It was up 13% year-over-year this quarter, had been running up 6% to 7%.

Was there anything that changed this quarter -- implementing more of a certain type of product? Or was it just an easier comp? Or -- just wondering why it jumped so much. It's an impressive number.

### **Mark Zoradi, CEO**

Alan, it's really the things I had mentioned in the prepared statements. It's a variety of things.

It's not one particular thing. We concentrate very clearly on the core, on obviously the fountain drinks, candy and on popcorn. But in addition to that, we've tried to add a real variety of additional items so that we can get additional people coming to the concession stand that there wasn't something for them before. So it's -- literally, it is a dozen different small things that we continue to add. Part of it is the variety. Part of it is the way we lay out the retail. Part of it is we've had increased concessions with our Movie Club members. So you add all of these things together, along with a modest price increase, and that's what continues to drive it. And we're adding expanded food and drinks in a lot of our theaters.

### **Sean Gamble, Chief Financial Officer**

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And Alan, the only other thing that I would add, one other thing that may have supercharged that number a little bit this year, as I mentioned earlier, with Black Panther last year, we all anticipated it was going to be a big film. It wound up being much, much larger than we expected. And if anything, we felt like there could have been maybe a little bit more opportunity for some of the promotional activity that we may have pursued on that film.

So ever since then, we've been really leaning heavy into blockbusters or what could potentially be a blockbuster. So for the first quarter of this year, films like How To Train Your Dragon and Captain Marvel, like we really went at those hard with Disney and Universal in terms of setting up big campaigns and they really paid off.

So in addition to everything Mark said, those are 2 things from a year-over-year point of view that may have even just -- boosts the number even a bit more than usual.

### **Alan Gould, Analyst**

I assume you also leaned into Avengers this year.

### **Sean Gamble, Chief Financial Officer**

Well, certainly Avengers for this quarter. And then I also mentioned, the pricing differential was another key item where we enacted more of our broad price increases in March this year relative to April last year, which also had a timing benefit for us.

### **Operator**

Your next question comes from Drew Borst of Goldman Sachs.

### **Andrew M. Borst, Analyst**

I wanted to ask about, in light of Avengers and the phenomenal opening weekend, I wanted to ask you guys, was there a noticeable change in your behavior in terms of how many auditoriums or screens that you dedicated to that film? And if so, does that change your forward look on how you might allocate screens for some of these other tentpoles that will come out over the balance of the year?

### **Mark Zoradi, CEO**

Drew, the answer is very simple. Absolutely, yes. We saw early on the tremendous presales, and so we were continuing to add auditoriums, seats, showtimes as the consumer demand. And we had dozens of theaters that were playing the movie in the middle of the night, because every time we added a show it got sold out.

Now that's not different than what we've done with previous blockbusters going back to Star Wars, going back to Avengers a year ago. So it's not like some brand new phenomenon. I don't want you to think that it is. But clearly, Endgame, Avengers: Endgame was supercharged, because there had never been an opening or tracking or presales that demanded the kind of attention this did to open up seats and open up auditoriums. The other thing that was good, it was right at the beginning of the season. So there wasn't a lot of other big competing movies in the marketplace that were fighting for those auditoriums and seats. And as you get deeper into the summer, and you have got a lot more competing titles, that won't always be as easy to do to just open up the quantities of seats. And it wasn't just the United States, we did the same thing throughout Latin America where we saw the pre-sale, we saw the demand, we saw the audience research, so we opened up screens, we stayed open longer and added a lot of seats to the picture.

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## Andrew M. Borst, Analyst

And there's nothing in your contracts with the exhibit -- or with the studios rather, that restricts your ability to sort of make that call on the fly, sort of reallocate screens?

## Mark Zoradi, CEO

Well, we have to be careful with what our commitments have been. So like I said, this particular movie was a little simpler because it was at the beginning of the season, but if you're in the middle of the season and you've committed a certain commitment to another movie or another studio, then you've got to be careful with that. So yes, all of those things have to be taken into consideration.

## Sean Gamble, Chief Financial Officer

Just adding one other dynamic. Typically, what happens in terms of the studio's programming behavior is when they see movie plop in like an Avengers, they know it's going to be huge. So they tend to kind of reduce the number of films that open kind of right that weekend and often the weekend after. So it simplifies to a little bit the amount of flexibility you have for programming.

## Andrew M. Borst, Analyst

And then if I could, just one more, this is probably more for Sean. On the salary expenses in the quarter, I don't know if you can help us think about the forward night as a percent of revenue it was up I think it was 150 basis points year-on-year. You mentioned a couple of things in your prepared remarks driving that, but are those things just sort of sustained? Like, does that year-on-year increase continue over the back 3 quarters?

## Sean Gamble, Chief Financial Officer

I think a portion of that is to be expected. I mean, the big, big piece that worked against us was just the decline in attendance in the quarter, which, hopefully, that will go away. And if anything, as attendance goes up, that will be a benefit on that metric. The portion that we expect will continue are things like the minimum wage hikes and just general wage and benefit inflation. Places like California, which is about 20% of our circuit, their minimum wage increases about 10% this year. So we think that we'll see in general about a 4% to 5% increase just from those wage and benefit inflationary factors over the course of the year. Again, the volume-related items like attendance, those are going to fluctuate and that should kind of play itself out.

So the only other thing that will impact that and that will fluctuate a bit is certain different initiatives that we are running. So for example, part of that 12.7% growth in per ca that we're seeing is because of new initiatives we're packing into the theater. As Mark mentioned, like we're rolling out Pizza Huts into our theaters, which have been really successful. Well in doing that, that adds incremental labor, so it puts pressure on that labor metric. But the overall net margin to the company is very healthy. So it is, net-net, positive. So we'll make that trade-off.

So just to kind of summarize that, 4% to 5% or so increase based on wage rates, attendance will fluctuate and then some of those initiatives may put a little bit additional pressure on that depending on what we're working on.

## Operator

There are no other questions in the queue.



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## Mark Zoradi, CEO

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

## Operator

This concludes today's conference call. You may now disconnect.

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