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CNK - Q2 2014 Cinemark Holdings Inc Earnings Call

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PRESENTATION

Operator

Good morning, my name is Marissa and I'll be your conference operator today. At this time I would like to welcome everyone to Cinemark's Q2 2014 earnings conference call.

(Operator Instructions)

Thank you. Miss Brashears, you may begin the conference.

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

Thanks Marissa and good morning everyone.

At this time I would like to welcome you to Cinemark Holdings, Inc.'s second quarter 2014 earnings release conference call hosted by Tim Warner, our Chief Executive Officer and Robert Copple, President and Chief Operating Officer and Chief Financial Officer.

In accordance with the safe harbor provision of the Private Securities Litigation Reform Act of 1995, certain matters that are addressed by members of Management during this call may constitute forward-looking statements.

Such statements are subject to risks, uncertainties, and other factors that may cause Cinemark's actual performance to be materially different from the performance indicated or implied by such statements.

Such risk factors are set forth in the Company's SEC filings. The Company undertakes no obligation to publicly update or revise any forward-looking statements.



Today's call and webcast may include non-GAAP financial measures.

A reconciliation of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP can be found in today's press release and on our Company's website, investors.cinemark.com.

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

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Good morning everyone. Thank you for joining us on our second quarter 2014 results call.

I'd like to begin by welcoming Sean Gamble to our Cinemark family. Sean will be coming on board later this month, so this will be Robert's last earnings call as CFO. Robert has served us well over the past 14 years in the CFO role and we commend his performance and success. I'm both personally and professionally thrilled to be able to transition the President and COO role to Robert, once we have Sean in place as the CFO.

Despite the North American industry box office's second quarter decline of 6.5%, Cinemark's domestic operations were able to maintain essentially the same level of box office as Q2 of last year. Which is outstanding when considering we outperformed industry comps by 910 basis points last year.

Furthermore our second quarter worldwide admissions revenues increased 1.8% on a currency adjusted basis. Our total worldwide operations generated \$169.4 million in adjusted EBITDA -- with adjusted EBITDA margin of 23.6%. We applaud our field operations and their diligence in managing and executing cost control, in order to maintain our industry-leading adjusted EBITDA margin.

It is important to keep in mind the second quarter was up against an industry shattering all-time high of over \$3 billion in box office revenues. From another perspective, Q2 of 2014 was up nearly 1% against Q2 of 2012, which featured the mega-hit Avengers.

Although the second quarter was down for the North American industry, it is key to focus on the full-year results rather than the weekly or quarterly fluctuations of this industry. Year-to-date through June, the industry experienced a slight decline of just over 1% from the record-setting 2013. Cinemark's year to date domestic box office, through June, notably increased 8.2%.

Regarding the World Cup, Brazil as the hosting country exceeded expectations and presented one of the most exciting World Cups in memory, highlighting the depth and splendor of the country. Cinemark was able to display select World Cup games in 56 of our 10 theaters across 10 Latin American countries.

The exhibition of the World Cup was essential in developing awareness and demonstrating the opportunity of live theatrical alternative content to other content providers. The second quarter box office in Brazil performed stronger than anticipated against the World Cup with films such as Maleficent, How to Train Your Dragon 2, and The Fault in our Stars appealing to female and youth demographics.

Contributing to the box office success in Brazil, school and businesses were closed, tourists were visiting and the Brazil team initially played during the week rather than on weekends. However the semi finals, third place, and championship game and both Brazil and Argentina competing in the final rounds, there was more of a box office impact around Latin America in July.

We face another challenging comp in the third quarter as the North American industry box office was up 6.5% in 2013, while Cinemark doubled that performance on a per screen basis with an increase of 13%. We confront the second half of the year with a box office headwind of approximately 7% year-to-date through July.

We congratulate Disney on their superhero success with Guardians of the Galaxy, which celebrated \$94 million in domestic box office in its opening weekend, achieving the highest domestic August debut, with an impressive 3D take of 45%.

Some of the upcoming film products also have potential, including *Interstellar*, an adventure in human space travel written and directed by Christopher Nolan. *The Equalizer*, starring Denzel Washington. *The Giver*, based on a popular teenage novel, starring Meryl Streep and Jeff Bridges. *Gone Girl*, based on the best-selling novel, starring Ben Affleck.

Hunger Games Mockingjay Part One. The return of our animated friends, the *Penguins of Madagascar*. *Exodus*, directed by Ridley Scott, starring Christian Bale. *The Hobbit: The Battle of the Five Armies*. *Night at the Museum 3*. *Theory*, featuring Brad Pitt in a World War II portrayal. *Into the Woods*, a family film with characters from popular children's tales, including *Little Red Riding Hood*, *Cinderella* and *Rapunzel*.

And This Is Where I Leave You, a dramatic comedy, also known as a dramedy, about four siblings after the death of their father, starring Tina Fey, Jason Bateman, Rose Byrne, and Jane Fonda.

Of course, the 2015 and 2016 film space looks tremendous and are already generating substantial industry buzz, especially after the reviews coming out of Comic Con.

How could you not get excited with a lineup that includes mega-hit titles such as *Avengers*, *Minions* from *Despicable Me*, the 24th James Bond film, the final *Hunger Games* in the series, *Star Wars Episode 7*, the *Next Avatar*, *Superman versus Batman*, *Alice in Wonderland 2*, *Finding Dory*, *Independence Day* sequel, and the list goes on and on.

In addition to the upcoming film product, we're also excited about the alternative content available through Fathom utilizing the nationwide digital network that now exists. Box innovative red carpet meter for *The Fault in our Stars*, which streamed live interviews with the cast, filmmakers and author before the debut of the film for a premium ticket price, was a great success and initiated progressive thinking on the use of our screens.

The Weinstein Group has since announced the red carpet premiere for *The Giver* next week and we expect others to recognize the value and follow suit.

The true benefit of these red carpet premieres is the studios' ability to provide fans an intimate view into the lives of the actors, characters and the story line while also providing participation in a major Hollywood event. Using social media as part of the marketing effort enables direct communication with the targeted audience.

Alternative content in Latin America is continuing to expand. Cinemark recently partnered with the BBC to show the nature series, *Earth*, exclusively at Cinemark including many of our XD screens. We've also begun a popular classic film series in Brazil and it's been very well received especially films such as the *Godfather*, *Taxi Driver*, *Pulp Fiction*, *Breakfast at Tiffany's*, to name a few.

Our classic film series has resonated well with the press, film critics, university film programs, and of course our patrons, who've expressed delight in the ability to see these digitally remastered films on the big screen.

Based on the response in Brazil, we will begin rolling out the classic series to other Latin American countries this fall.

Of course, there's also the expansion opportunity with sports such as the World Cup that I discussed earlier. You may have also seen that Fathom and NBC Sports are bringing the Barclays Premier League soccer to the big screen.

To complement diverse film and alternative content offerings, Cinemark offers a wide variety of amenities to enjoy during the show with our market adaptive approach. Our premium theater concept, known as Cinemark Reserve, has officially opened in Towson, Maryland. Our Reserve concept offers a VIP balcony with luxury lounges, alcohol and expanded food offerings, with an upscale lounge area.

Our second premium Reserve concept will open in Playa Vista, California, later this year.

Our Cinemark Movie Bistro concept offering beer, wine and cocktails with an expanded menu continues to perform well and we're working to identify additional markets in which to introduce the concept.



Cinemark also operates a number of VIP auditoriums throughout the US and Latin America with luxury seats and expanded concession menus that offer adult beverages.

We constantly analyze our theaters to determine how to maximize the potential and utilization of our circuit. In addition to the concept discussed, we're also converting certain theaters to reclining seats where we feel we have -- we feel the opportunity is accretive.

We, along with the majority of the industry, have some older theaters that are no longer operating at their maximum capacity. A reresat has the potential to revamp the theater and drive attendance. We currently have up to 10 theaters with recliner conversions scheduled for the remainder of this year.

Our XD screens remember -- remain the industry leader amongst the private label premium large-format screens with 108 XD screens domestically and 54 internationally, for a total of 162 worldwide. We also have approximately 25 additional XD screens to be installed during the remainder of the year.

The strength and demand of our XD screens continues and the worldwide premium percentage of our box office was 30.4% during the second quarter. This represents an increase from the prior year, due to our continued XD screen expansion and the flexibility to show the biggest film of the week in either 2D or 3D. For additional color our worldwide XD screens generated 6.4% of our total box office on merely 2.9% of our screens.

Cinemark's food and beverage department continues to add products to our concession stand for healthy conscious patrons. And we are pleased to be the first partner with the Honest Company, to nationally launch organic all-natural beverages as part of our concession offerings.

I've been in this industry for over 40 years and have never been more enthusiastic about the business. The advancements we made in technology with the digitalization of projectors, our proprietary premium large-format XD screens, the DCDC satellite distribution network, along with the joint venture for Fathom alternative entertainment, have all been integral to the evolution of our industry.

Technology also enables us to directly connect with our patrons via 4.8 million app downloads to date and more than 3 million e-mails sent each week. The technology progression creates a dynamic environment and I'm eager to see these strategic moves come to fruition.

Robert will now provide more details on the Company's financial performance for the second quarter, as well as an overview of our capital structure and information on our organic expansion plans.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

Good morning everyone.

Up against last year's Q2 comp of a 7.9% increase, the North American industry box office declined approximately 6.5% in the second quarter of this year. Cinemark's worldwide operations exceeded the North American industry's performance by more than 450 basis points.

On a currency adjusted basis, Cinemark outperformed by more than 800 basis points, marking 21 out of 22 consecutive quarters of industry outperformance. Our worldwide admissions revenues were \$455.7 million and our total worldwide revenues were \$717.9 million for the second quarter. Worldwide adjusted EBITDA was \$169.4 million for the quarter, resulting in an adjusted EBITDA margin of 23.6%.

Our US segment generated admissions revenues of \$334.7 million, essentially flat to the year-ago period. Attendance for the second quarter was 46.5 million patrons, down less than 1% from the prior-year quarter.

Our domestic average ticket price was \$7.20, a slight increase over last year. Our domestic concession revenues increased 3.9% to \$170.6 million and translated to a concession per cap of \$3.67 an increase of 4.9%. We now have 30 consecutive quarters of domestic concession per cap growth.

Total US revenues for the quarter grew 1.4% to \$521 million. Our US segment generated adjusted EBITDA of \$120.9 million with an adjusted EBITDA margin of 23.2%.

As a reminder we closed on our Rave acquisition on May 29, 2013. We now have fully lapped the results.

As Tim mentioned our international segment performed extremely well, building on a solid performance in Q1. The quarter included a number of hurdles, including the World Cup, currency headwinds of approximately 13%, and our comp against 2013 that included our Mexican circuit, which we sold in Q4 of 2013.

Our international admission revenues for the second quarter were \$121 million. Despite all the hurdles, our international operations outpaced the North American industry box office by approximately 60 basis points. After adjusting for the FX impact, it overindexed by more than 1400 basis points.

Attendance for the quarter was 24 million patrons. Our Q2 average ticket price was \$5.04. In constant currency, the average ticket price improved 18.5%.

International concession revenues were \$55.9 million. Concession per patron was \$2.33 for the second quarter. In constant currency, the increase was 9%.

Our Latin American segment generated adjusted EBITDA of \$48.5 million, representing a 24.6% adjusted EBITDA margin, an improvement of 130 basis points. We commend our international operations on their diligence in utilizing the strength in attendance, while simultaneously managing their costs. A job well done.

Consolidated worldwide film rental and advertising costs declined 70 basis points from the prior-year quarter to 54.7% of admissions revenues, primarily due to the decrease in the number of blockbuster films released during the second quarter.

Concession supplies were 15.6% of concession revenues, an improvement of 60 basis points. Total income before income taxes was \$96.2 million compared to pretax income of \$29.6 million in Q2 of 2013. Last year's pretax income included an early retirement of debt charge.

Net income attributable to Cinemark Holdings, Inc., was approximately \$71.7 million or \$0.62 per diluted share. Our second quarter's effective tax rate was 25%. We ended the quarter with a cash balance of \$578.1 million. Our net debt position is approximately \$1.25 billion, representing a net leverage ratio of two times adjusted EBITDA.

At quarter end our US circuit consisted of 332 theaters and 4,456 screens, in 40 states and 100 DMAs. During the quarter we built one theater with 10 screens and closed two theaters with 13 screens.

We have signed commitments to open six theaters with 68 screens during the remainder of 2014 and seven theaters with 85 screens subsequent to 2014. We expect to spend approximately \$81 million in CapEx for these additional 153 screens.

Our Latin American circuit consisted of 156 theaters and 1,153 screens at June 30. During the quarter we opened three theaters and 18 screens and closed one screen.

As of quarter end we had signed commitments to open three new theaters and 28 screens during the remainder of 2014 and seven theaters representing 49 screens subsequent to 2014. Our estimated CapEx to develop these additional 77 international screens is approximately \$58 million.

We still expect our estimated total CapEx for 2014 to be approximately \$275 million to \$300 million, which includes the cost of the digital rollout in Latin America completed in April.



On a final note, I want to let you know how much I've enjoyed the opportunity to work with you during my tenure as CFO, and appreciate the business and personal relationships we've developed. I'm looking forward to the next chapter in my new role as Cinemark's President and COO.

I'm confident Sean will do an outstanding job as CFO and look forward to introducing him to all of you in the near-term. Hopefully I can still sneak into a conference every now and then as well.

Operator that concludes our prepared remarks. Please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Barton Crockett with FBR Capital Markets.

Barton Crockett - FBR Capital Markets - Analyst

Thanks for taking the question. One number question and one kind of bigger question. On the numbers, it's a little bit noisy trying to figure out really what the core trend was in Latin America with currency and Mexico closures.

I was wondering if you could give us some help there. What would you say on a per screen basis, adjusting for the divestiture of Mexico, was the box office trend in Latin America?

Robert Copple - Cinemark Holdings, Inc. - President, CFO & COO

Yes, Barton, it was -- as I mentioned with the ATP being up 18.5%, obviously a strong quarter. Some of that was Mexico, but ballpark even without Mexico it's probably about 12.5% as I recall. The number's somewhere in that range, a 12% to 13% increase.

And then obviously if we look at attendance, attendance per screen was up compared to last year. It probably has benefited slightly as a result of Mexico in that but was still a very positive trend. I don't know if that helps. Again overall we actually performed extremely well. Mexico did -- the closure of -- or the disposition of Mexico because it does have some slightly different metrics did influence it a little bit.

Barton Crockett - FBR Capital Markets - Analyst

Okay. And then you highlighted that things slowed in Latin America in July, but I think part of that was delay of Transformers, which I think is opening later in the quarter. Any sense that Latin America might be able to make up the shortfall in July later in the quarter?

Tim Warner - Cinemark Holdings, Inc. - CEO

No. We'll just have to see how the quarter plays out. Even here in the US, Avengers had a great opening in August. But at this time, and it's tough to predict how films are going to perform. And we always encourage you to look at it on a year-on-year basis and even we referred to the first six months of this year, the industry actually performed very well. And so we'll have to see how it plays out for the rest of the year.

But as we look forward, whether it's internationally or domestically, we think that 2014 will be a good year for the industry. It could be down a little. It could be even. But more than likely it's going to be down a little. But it's still going to be a great year. You got keep in mind that 2013 was a record year for the industry.



Barton Crockett - *FBR Capital Markets - Analyst*

All right and then just one final thing. The -- Carmike on their call last night was kind of extolling the virtues of consolidation opportunities saying there's a lot of things out there that could be bought I guess in theaters. What do you guys see? I mean do you see opportunity to do more acquiring in the US?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Well I think that if you're a seller and you're looking at 2015 and 2016 now might be a good time to come to the marketplace. And so there could be some additional opportunities out there that come forth, and whether it's in the US or Latin America. Obviously we keep track of the markets. But yes, you could see some opportunities arise.

Barton Crockett - *FBR Capital Markets - Analyst*

Okay great. Thank you.

Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

Thank you, Barton.

Operator

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

Eric Handler - *MKM Partners - Analyst*

Couple things first your per cap concession spending in the US up a strong 4.9%. Wondering if you could break that down a little bit to give us a little help of why or what helped that increase so much?

And then secondly, with your Latin American digital transition now coming to a close can you sort of update us on your view for 2015 CapEx or just directionally how that might trend?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

I'll take the first part and then Robert can talk about the CapEx on a go forward basis.

On our concessions, the big focus, and as Robert reported, for the last 30 quarters we've had improvement, has been on using social media and couponing and our apps and our e-mails and that to drive sales and combos. Our focus has always been on expanding the number of people that buy versus just raising prices. And we try to create value for the customer.

And so we've gotten great results out of it. And we continue to focus in that direction. And also we've brought some new products to the market like with the Honest Company. You serve a segment of the market that really wasn't being served before so we think that's also additive.

But where we've introduced alcoholic beverages, that's also additive. But then overall, our primary focus is on selling Coca-Cola and popcorn.



Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

With respect to CapEx, Eric, this year as we've said we're probably somewhere in that \$300 million range. We would expect a run rate to probably fall back down to somewhere in the \$250 million range post digital.

The only thing I would say that might change our thought process on that as we look at it would be how we address recliners and whether that ends up being an additional CapEx item or how we balance that out. But ballpark we'd say \$250 million. We'll get better guidance at the end of next quarter.

Eric Handler - *MKM Partners - Analyst*

Thanks, just one other quick question. Your tax rate tends to bounce around quarter to quarter. And when you think just on a full-year basis what's a good metric at least for a full year?

Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

And fortunately it had stabilized some with the sale of Mexico it bounced some last year and this year for certain quarters as we've had to realize certain items that are related primarily to Mexico. I would say overall, we're usually considered 38% to 38.5% to be the reasonable rate to apply.

Eric Handler - *MKM Partners - Analyst*

Thank you.

Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

Sure.

Operator

Your next question comes from David Miller with Topeka Capital Markets.

David Miller - *Topeka Capital Markets - Analyst*

Congratulations on the stellar results.

Just your thoughts upon learning about the Fox Time Warner merger in general? And of course you really can't call it a merger just because we don't have a deal yet obviously. But when you heard that, obviously the first thought that might have come into your head was just that a combined Fox Warner's would have tremendous supplier power in product over the exhibitor system here in the United States and of course in Latin America as well.

Do you guys feel like you need to do anything differently at all? Sort of what popped into your head? And then as a related matter, has there been any fluctuation in private multiples for let's call it market share player 50 through 100, those folks that may be sellers at this time? Just curious as to your thoughts there. Thanks a lot.



Tim Warner - *Cinemark Holdings, Inc. - CEO*

Well on the merger it's tough for us to speculate. Both Fox and Warner's are two great companies and we have a great relationship with them. And I think the combination is more driven by what's going on in the in-home market than the theatrical space. We think that they would continue to be, even on a combined basis, a major film supplier, based on their historic patterns.

And when you look at the industry on a historic basis it's different combinations have shifted and come together and gone away or new company comes in. The actual flow of films has -- that come to the marketplace has been very, very stable. And we think at least for the foreseeable future, we can't see any change in that.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

Yes as far as private multiples go, I don't know we've really seen transactions out there. I don't know that the multiples have really changed much because they'll be driven off. Both of them were trading and I think where players feel like we need to end up on a net basis to create great value to the shareholders.

Obviously, as Tim had mentioned earlier the benefit to a seller probably at this point is finding that balance between multiple and expectations for the coming years. And that will probably be the real negotiation.

David Miller - *Topeka Capital Markets - Analyst*

Wonderful. Thank you.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

You bet. Thanks, David.

Operator

Your next question comes from Robert Fishman with MoffettNathanson.

Robert Fishman - *MoffettNathanson - Analyst*

I have one for Tim and one for Robert. Tim, can you provide a little bit more color around what drove the robust core growth in Brazil even with the World Cup in the quarter? And then how we should think about the sustainability of the strong international ticket price growth that we just saw going forward?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Well I think what has happened in Brazil you've had hundreds of thousands of people coming there and staying in hotels and spreading a lot of money around. And then also rather -- I'm sure a little based around traffic and other combinations in the reasons of the marketplace. But they just sort of went on I guess their winter vacation or extended it to where schools were out and it was like a 30-day holiday.

And Brazil always they love to get outside their home and they're a very social people. And I think that the theaters really benefited from that. Also I think that Disney and Fox made some really smart moves by recognizing it. And then Fault in our Stars, which performed very well in the US, but it really caught fire in Brazil for some reason and so that was also very helpful.



So it was a combination of the product in the marketplace and a lot of people were available to go. And also there was a lot of money being put into the market place by tourists and that visiting the country. And so I think that combination really created the great environment for the performance we got.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

With respect to ticket price. As I mentioned the ticket price on a constant dollar basis was 18.5%, but that might be -- some of that is the adjustment for Mexico. It's probably more in the 12.5% range or so without looking at the Mexico impact.

That's primarily keeping up with inflation as well as trying to raise base ticket prices a little bit. So I think we'll be able to, as we have in the past, reasonably sustain increases ahead of inflation. This quarter was clearly a little higher than what we have been running.

And so I don't know this particular rate will be where we're at, but I think if you look back we've generally been in the high single digits, low double digits. And we'd probably continue to do that.

Robert Fishman - *MoffettNathanson - Analyst*

Thanks. And Robert if I could add one more. Can you discuss how you used the World Cup as an opportunity to further examine your cost structure in Latin America? And how we should think about international margins going forward with the expansion that we just saw in 2Q?

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

Sure. I think two things are actually happening. One is, as I think Tim had mentioned on earlier calls and even this little bit, we're really looking at expanding on first-hand revenue opportunities.

So introduction of the classic film series, expansion of the Flix Company, including alternative entertainment, I think is probably our real goal, so we increase the topline that will help margin.

But the other side that we've been doing for some time is focusing much more strongly on payroll cost and other costs to really create a more mature, let's say, cost structure, as we go forward. And that's showing up in these last two quarters where we've been improving our margins 100 basis points to 150 basis points.

We'll continue to work on those. I do think this was a great quarter on our margin internationally really as well as last quarter when you saw the improvement. So we'll continue to push both of those initiatives.

Robert Fishman - *MoffettNathanson - Analyst*

Thanks a lot.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

You bet.

Operator

Your next question comes from Townsend Buckles with JPMorgan.



Townsend Buckles - *JPMorgan - Analyst*

Thanks. Robert, can you talk about the development pipeline in Latin America? It sounds like some projects are maybe shifting into next year. Anything notable there?

And if you could update us on your new build expectations for the back half of the year, both US and Lat AM and beyond the committed screens you referenced if there are more than what you gave?

Robert Copple - *Cinemark Holdings, Inc. - President, CFO & COO*

Yes, Townsend, if you add up the numbers of what we've built to date and what the committed projects are, that gets up to 78 screens and as we've said we're shooting for 100.

We haven't given up on the 100. We have some uncommitted projects that we're still trying to get through this year. And obviously it's going to be a little tighter than we'd like it to be. But we still think there's the potential to get to 100 on the international side.

On the domestic side again close to 100. We have a pretty solid group that's still set for the rest of the year. I think I mentioned about 68 screens. I think we've opened 22 screens, if I recall. So we will be about 90 on the US side.

I think the US is very solid. Barring obviously rain and snow can throw things off a little bit but the US is -- feels pretty good. The international, like I said, is we're still shooting for that 100 screens.

Townsend Buckles - *JPMorgan - Analyst*

And Tim on your M&A comments, you sound a bit more positive to me at least on consolidation opportunities. Is that based on specific activity you're seeing out there or just your sense of how the industry outlook sets up?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

No, it's more a comment on the industry outlook. When you see -- if you're in a seller position and you sort of take a look at 2015 and 2016, you sort of say to yourself, if I am going to sell in the next couple of years, this is a good time to come to the marketplace.

And so just from my background in the industry, if I was a seller and I was thinking of selling, now is a good time to come into the marketplace. And it's more comment on the overall outlook for the industry.

Townsend Buckles - *JPMorgan - Analyst*

Got it. Thank you.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Thank you, Townsend.

Operator

Your next question is from Ryan Pistle with Morgan Stanley.

Ryan Pistle - *Morgan Stanley - Analyst*

Hi good morning, guys. Couple if I may.

First I guess, Robert, maybe this is the last time you have to answer this question, but I have a question on leverage and your outlook on use of capital. I mean it looks like on domestic EBITDA you're getting close to the three times leverage range. So thoughts on comfort there? As you get leverage down, do you start to feel any urgency to use the balance sheet? Or given the potential for consolidation is it better just to keep some capacity and wait for the right opportunities to come?

Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

Ryan somebody had to ask, right. I appreciate it. No, I think you ended it the way we look at it. And that's that we like having dry powder available.

But more so we've benefited from our capital expenditures and the growth in EBITDA. And that's really what's allowed us to delever the Company to the level it is. And as we did last year when we bought Rave we did add debt. If we happen to have acquisitions, we're very open to financing them with debt.

We'd like to be opportunistic like that, but just to borrow for borrowing's sake is not something we've really looked at. And obviously we have a very strong cash balance. We think the Company is well positioned if there are moves in the market that companies happen to go out and put themselves up for sale; we think we could easily take advantage of it.

But we like being in a position to really be able to chase whatever the opportunity is that might be out there.

Ryan Pistle - *Morgan Stanley - Analyst*

Okay. Thanks. And then one other on the smartphone app that you guys have. Have there been any changes to how you use that or how the customer uses it? And over the next year or so do you see any opportunities for revenue generation like cross-selling home entertainment or anything using that asset?

Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

You know what, we're -- it's a great question and we've invested a lot of time and effort in our mobile platform and we've actually been expanding it. Right now the driver -- there's the Cinemark app; within that there's something called CineMode that we encourage people to turn off their phone or it reduces the usage during the movie and you get a reward for it. But we also through that program get to know the patron better. So a lot of our focus that will show up over this coming year will be how to expand that connection to the consumer.

And from a revenue point of view, maybe there are some opportunities to play with revenue, but I think -- from an outside point of view. But I'd say primarily what we're really focusing on is finding ways to get to know our consumer better. Have that direct connection with the customer to help them be able to know when new movies are coming on, movies that might be of interest to them.

And provide probably a more nearly personalized service to them. And we think with the backbone that we now have with our mobile app, starting to add some of the other services that we're working on will be a great fit over this coming year.

Ryan Pistle - *Morgan Stanley - Analyst*

Okay. Thank you.



Operator

Your next question is from Ben Mogil with Stifel.

Ben Mogil - Stifel Nicolaus - Analyst

Hi guys. Good morning and thank you for taking the question.

So I wanted to talk a little bit more about the recliners. A couple quarters ago or sort of maybe say mid to late last year, neither you nor Regal were sort of talking them up very much and now you've started to talk them up a little bit more. I'm kind of curious, are you seeing, in markets where AMC has rolled these out, are you seeing them be relatively disruptive.

Are you look at them being proactive in markets where AMC has not yet done renovations to be proactive to protect your market share there? Kind of curious what sort of led to a pretty different sort of tone of thought, maybe in only six months to nine months or so from both yourself and Regal? You obviously can't speak for Regal, but a little bit different tone from yourself as well.

Tim Warner - Cinemark Holdings, Inc. - CEO

Well Ben, thanks for the question. I don't think our tone and thought has changed. In fact we've always said that our VIP or recliner program, which we've had in Latin America for years probably go back six years, seven years. And then in the US we've had the VIP concepts.

We've always felt that it's more market adaptive and it has been and it will continue to be or just like our Bistro programs or Cinemark Reserve, that it'll be part of our portfolio that we will introduce into the market. Just like it's part of AMC or part of Regal. But that the vast majority of our revenues will continue to be derived from what you would think is traditional theaters.

But like Regal or AMC, we also have some underperforming or underutilized theaters that are older theaters. And we're also taking the opportunity to convert them to recliners and try to reposition in the marketplace and increase their utilization.

But Cinemark's always been a big believer that there is a market for VIP or premium services. But it's more market adaptive. We just don't think we would want to mislead investors into thinking that they're a huge transition.

It'll be part of our revenues and part of our revenues brings all these different concepts that we bring to the market. But the vast majority of our revenues is going to come from what you would think of as the traditional theater just like it does for Regal or AMC or any of the other major circuits in the marketplace.

Ben Mogil - Stifel Nicolaus - Analyst

And so on that, do you see sort of the ability to -- are you still sort of, pitching's the wrong word, but sort of marketing them simply as VIP or are you sort of -- are you doing what -- or are you sort of tending to do what AMC does where you're sort of doing an entire complex at the same time or are you sort of doing one or two theaters per complex over time?

Tim Warner - Cinemark Holdings, Inc. - CEO

No. It varies and again it's market adaptive. Like if you went to our international, the way it sort of developed internationally is you might have three or four VIP auditoriums and they would be next to like four or five regular auditoriums. And that's sort of how the concept developed internationally. If you went to our theater in Boca, you would see that you go upstairs and I think it's four to six auditoriums that have sort of a balcony.



Our Reserve concept sort of expands on that platform. And again we've foreseen this platform, in fact the first place I've seen it was actually in Ecuador. And we're rolling that out in Towson and you'll also see it and hopefully you'll join us in Playa Vista, we're planning on having an event out there for our investors so they can see the concept.

And then there's older underutilized theaters where -- and sometimes these are older slope floor theaters that are in great locations and you can't really get in there with a new theater because of market conditions or the land just isn't available.

And I'll use the example in Mountain View, California. We have a great theater right next to the Google campus. But it was built 20 years ago. And we're converting that to recliners. So we can reposition the theater and we think really increase the utilization.

And so it's all those concepts but then if you went down to the Valley and you've seen our Cinemark Bistro it's more like a Chili's or that level of food with some alcohol beverages and that. It's more of a dine in/movie combination something like, whether it be Movie Taverns or Studio Grills.

So there's all these different concepts that we think work really well in the marketplace. And we're open to all of them, but we think it's market adaptive. But we don't want to mislead people into thinking that this is going to become Cinemark. Again the vast majority of our revenues are, for the foreseeable future, are going to come from our traditional theaters.

Ben Mogil - *Stifel Nicolaus - Analyst*

That's great, Tim, thanks for the color on it. And Robert congratulations on the new appointment.

Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

Thanks, Ben. Appreciate it.

Operator

Your next question is from Matthew Harrigan with Wunderlich.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Tangentially on the balance sheet I would ask why don't you buy Time Warner, but I know the government wouldn't let you.

Robert Cople - *Cinemark Holdings, Inc. - President, CFO & COO*

We'd do that, but we'd keep mixing up Tim Warner, Time Warner it's kind of rough on us here.

Matthew Harrigan - *Wunderlich Securities - Analyst*

My job is to start merger rumors. It's not very glamorous. (laughter)

On Latin America, it feels like a couple of those markets could hit a tipping point where it really could foster a lot more local production, which presumably would be additive rather than displacing some of the Hollywood big event content.

When you look and you're well traveled and you look a lot of other markets probably European markets are not even involved in. If you looked at France or Germany or Japan and the percentage of local content in those markets, I'm not saying Brazil could get to that level or Argentina. But where is the percentage of local films in those markets? I mean some of them have government controls.

I know you've given numbers in Brazil before. Where is it now? Or where do you think it could go, if the real growth and the number of theaters spiked a lot of production activity?

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Well I think that's a good question. One of the upsides of Cinemark is that we have access to all the Hollywood product, which also translates as well all over the world.

But we've seen it in Brazil fluctuate from 8% of our local product I'm talking about now from 8% or 9% of our revenues up to 22% of our revenues. And we've seen movies that came into the marketplace, whether it's been Brazil, Argentina, Chile, Peru, that had higher attendance than Avatar.

So your perception that the local product is continuing to expand and develop is right on. And in fact there's two real products, one coming up in Brazil and one coming up in Argentina, that we think have an excellent shot in the next six months.

Matthew Harrigan - *Wunderlich Securities - Analyst*

Thank you.

Operator

Your next question is from Tony Wible with Janney Capital Markets.

Tony Wible - *Janney Capital Markets - Analyst*

Thanks. I was hoping you guys could elaborate a little bit on the local currency growth rates between ticket and concessions, per cap? Is that differential a function of Mexico and some of the noise there? Is it a comp issue? Is it related to the film slate?

Robert Copple - *Cinemark Holdings, Inc. - President, CFO & COO*

Again on the local currency, it varies obviously by country. And as I mentioned while the 18.5% is compared to last year is probably more in the 12.5% range if you compared it without Mexico.

One of the drivers, to your point of helping push up ticket price this quarter was 3D. 3D did extremely well internationally, in nearly every country. And so that enhanced ticket price obviously helped also push up the average ticket price. And then the rest, as I mentioned, a lot of times is keeping up with inflation.

Tony Wible - *Janney Capital Markets - Analyst*

So would you expect that 3D benefit to carry over for the next I guess couple of quarters now that I guess you have a bigger digital footprint and presumably more 3D adoption?

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

I mean the benefit to your point is that with rolling out digital across Latin America that we completed this year, we also have a broader 3D footprint. In the end it's tied to the film product. And I think the film product this quarter played well.

Little harder to predict Q3 and Q4, where exactly it falls out. But obviously, to the extent there is 3D we have the ability to take full advantage of it.

I think especially as you get into 2015 and 2016 and you look at the quality of the 3D product that's coming out in those years and the big tent-pole films we're in a very -- we're very well positioned to really maximize that opportunity.

Tony Wible - *Janney Capital Markets - Analyst*

Great. Thanks for clearing that up.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

You bet Tony.

Operator

Your final question is from Jeff Logsdon with Hudson Square.

Jeff Logsdon - *Hudson Square Research - Analyst*

Thank you. Perhaps Robert as a parting shot, can you give us an overview of where your cash is, international versus domestic? What some of the dynamics might be of cash in or out, especially as your capital expenditures budgets grow internationally?

I know you got -- you're generating a lot of cash in Latin America. So perhaps it's not a variable. And then tangentially are you guys -- and I'll try to ask this diplomatically, but are you really handcuffed in certain countries from taking capital out and repatriating it if you chose to?

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

Sure. So in general our cash is fairly represents amounts that are similar to what you would see EBITDA or screens or anything else. If international represents about 25% of our circuit, then that's probably the best way to think of where the cash might be.

We do, as you said, utilize our cash probably even more so internationally than domestically in building. And so for instance at the moment, we probably have lower cash balances because we just reinvested in all the digital assets. That will probably start going back over time. We have repatriated money from the different countries. In the past years ago when there was a tax holiday, but we actually do that on an annual basis, primarily out of Brazil.

We have borrowed in the past as well internationally. If we happen to be in a position that the cash needs, primarily from building, I'd say from building exceed the cash in that country. If we can find low rates, I guess overall make sure that makes the best sense for that country. And if not then we'll look can we move it from another country or from the US. We don't really foresee any major changes in that philosophy.

As far as money being stuck we've generally been able to pull money -- if there is excess cash, as I've said, we've been able to pull it out from where it's available. The only country that's ever made it more difficult, I'd say, is probably Argentina.



Argentina doesn't keep you from pulling money out, but it clearly has rules in effect to make sure that you meet a number of requirements in order to access money. Fortunately, we've been reinvesting our money down there, so that really hasn't been an issue for us.

Jeff Logsdon - *Hudson Square Research - Analyst*

Great. Thank you.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

You bet.

Tim Warner - *Cinemark Holdings, Inc. - CEO*

Well, thank you very much for joining us this morning. We look forward to speaking with you again following our third quarter. Thank you.

Robert Cottle - *Cinemark Holdings, Inc. - President, CFO & COO*

Appreciate working with you guys. Take care.

Operator

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

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