

Company Name: Cinemark  
Company Ticker: CNK US  
Date: 2018-11-02  
Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
Current PX: 40.55  
YTD Change(\$): +5.73  
YTD Change(%): +16.456

Bloomberg Estimates - EPS  
Current Quarter: 0.418  
Current Year: 2.011  
Bloomberg Estimates - Sales  
Current Quarter: 737.727  
Current Year: 3141.917

## Q3 2018 Earnings Call

### Company Participants

- Chanda Brashears
- Mark Zoradi
- Sean Gamble

### Other Participants

- Eric O. Handler
- David Karnovsky
- Leo Kulp
- Robert Fishman
- David W. Miller
- Eric Wold
- Chad Beynon
- James Charles Goss
- Drew Borst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning. My name is Angela and I will be your conference operator. At this time, I would like to welcome everyone to the Cinemark Third Quarter Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the call over to Chanda Brashears, Vice President of Investor Relations.

### Chanda Brashears

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

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

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

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

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

## Mark Zoradi

Thank you, Chanda, and good morning, everyone. We appreciate you joining us to discuss our 2018 third quarter results. It was another remarkable quarter for Cinemark and the North American industry box office. Driven by the sustained execution of our strategic initiatives along with focused operating discipline, we capitalized on strong Hollywood film content during the quarter and generated meaningful global growth across all key metrics. This included growth in attendance of 3.7%, total revenue of 6.1%, net income increase of 31.7% and adjusted EBITDA of 9.6%. Furthermore, our worldwide adjusted EBITDA margin expanded 70 basis points to 22.3%.

We also extended our trend of surpassing the North America industry box office growth to 34 quarters out of 39 quarters, as we expected industry results – and we exceeded industry results by 80 basis points as reported and 130 basis points, excluding the impact of this year's revenue recognition changes that Sean will address in greater detail during his commentary.

As for the North America industry, the third quarter yet again significantly exceeded expectations with box office growth of 5.9% to \$2.7 billion. It's noteworthy that this success is attributable to a sizable increase in attendance during the quarter that was boosted by a broad variety of outstanding mid-tier films including Crazy Rich Asians, The Meg, The Nun, to name just a few.

Moreover, movie-going momentum at the North America box office through September has now delivered year-to-date admissions revenue growth of 8.7%, driven by an increase in attendance of 6%. We believe this uptick in both attendance and box office further reinforces the strength and stability of the theatrical exhibition industry which continues to be heightened as theaters evolve the movie-going experience through an environment that cannot be replicated at home. That experience coupled with compelling content, our studio partners are creating is culminating in this year's record box office results.

Shifting to our international results, as expected and communicated during our last earnings call, the third quarter lineup of Hollywood films did not translate as well to our Latin American markets as it did to U.S. And while several Hollywood films performed exceptionally well in the quarter such as Hotel Transylvania 3 and The Nun, which set a new record as the highest grossing horror film of all time in the region, several other films did not resonate such as Crazy Rich Asians and Mamma Mia!

Additionally, while Hotel T 3 and The Nun yielded very strong results, they simply could not measure up to the scale of last year's Despicable Me 3 performance as well as two massive horror films It and Annabelle: Creation. As a result, Latin America's quarter attendance dipped slightly year-over-year. Fortunately, while the international attendance did create some pressure in the third quarter, North America's robust box office, along with our strong operating performance and advancement of our strategic initiatives drove solid results in our global results as previously described.

So let's take a deeper look at several of these initiatives that helped propel our results. Each of our 2018 strategic initiatives are focused on growing and monetizing attendance and box office by providing extraordinary guest experience. Movie Club, our proprietary movie membership program, is our most recent initiative along those lines and has been incredibly successful to date. Since our last earnings call, our new sign-ups have held strong and steady and we have increased our net subscriber base by an additional 27% which puts us at 445,000 Movie Club members across the U.S. and equates to more than 1,300 members per theater location. Our subscriber acquisition run rate puts us on track to exceed our original one-year goal by two and a half times before year end.

The popularity of Movie Club continues to grow and our members repeatedly emphasized their enthusiasm regarding the overall value and convenience of the program. In particular, they highlight; first, the unused member credits rollover month-to-month, never expire and can be shared with family and friends. Second, the ability to bring a companion for the same member rate. Third, they can reserve their seats ahead of time with no online fees. And finally,

Company Name: Cinemark  
Company Ticker: CNK US  
Date: 2018-11-02  
Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
Current PX: 40.55  
YTD Change(\$): +5.73  
YTD Change(%): +16.456

Bloomberg Estimates - EPS  
Current Quarter: 0.418  
Current Year: 2.011  
Bloomberg Estimates - Sales  
Current Quarter: 737.727  
Current Year: 3141.917

the generous and very easy to redeem 20% concession discount. In fact, as we survey our members regarding their satisfaction with Movie Club, the results are an overwhelmingly 98% positive response with 75% reporting that they are extremely satisfied with the program. Furthermore, 70% stated they're coming to our theaters more often since joining Movie Club and this satisfaction is clearly playing through to our members' movie-going activity. We are seeing very high levels of engagement with 75% of the issued movie credits having already been redeemed. Additionally, Movie Club members visit our Cinemark theatres three times more often than the average moviegoer. Since we launched the program last December, we have sold over 8 million tickets through Movie Club and during the third quarter alone, it accounted for nearly 8% of our box office.

In addition to these strong results in movie-going frequency and box office generation, we're also seeing positive results in concession purchases. It's noteworthy that the basket size of Movie Club members is consistent with non-members. Thus, the 20% discount provided to members is driving increased consumption as planned.

All that said, we're thrilled with Movie Club's growth and the performance to-date. Its flexible design with the ability to carry forward and share unused movie credits is differentiated from other programs and makes it widely accessible to the masses and the best value for the largest segment of the movie-going population. And most importantly, it is a financially sustainable transactional model that is aligned with our studio partners and maintains the fundamental goals of enhancing our guest experience and driving incremental movie-going while building increased loyalty to Cinemark.

Along those same lines, Luxury Lounger recliner seats remain the most sought after in-theatre guest amenity giving their comfort and enhanced experience. As a result, they continue to generate returns in excess of our 20% ROI threshold driven by attendance growth, incremental pricing power and outsized concession per caps. As such, we remained opportunistic in terms of expanding this initiative across our domestic circuit. And we ended the third quarter having reclined 53% of our screens which equates to over 2,400 auditoriums. Likewise, we have kept particular focus on further strengthening our XD premium large format experience and 70% of those XD auditoriums now feature this luxury amenity.

We have been and will continue to remain disciplined in our recliner seat investments and expect that slightly more than 55% of our domestic circuit will be reclined by year end. And while we have further opportunities during 2019 and beyond, we expect future reseating conversions will progress at a slower pace as we penetrate deeper into our footprint.

Shifting gears, expanded food and beverage options have become a more meaningful component of the overall guest experience and a key contributor in our strategy to further monetize attendance. We have been consistent in executing a solid game plan to drive sustainable growth through diversified product offerings, innovative packaging and merchandise initiatives and evolving our theater lobbies to more resemble a modern retail environment. This strategic initiative continues to be successful resulting in another third quarter record in our domestic food and beverage per caps of \$4.76 that is now 47 consecutive quarters of per cap growth. We could not be more pleased with the successful collaboration of our food and beverage operations, marketing and film teams to deliver these outstanding results.

We maintain our emphasis on implementing our food and beverage initiatives including alcohol and expanded food offerings, while seeking incremental growth prospects. In the vein of growth prospects, as part of our R&D innovation initiative, we just opened The VOID in our flagship theater next to our corporate office in West Plano to further monetize the multitude of guests walking through our theater lobby. The VOID's hyper-reality technology is unrivaled in the virtual reality realm with an untethered walk-through adventure and guests have had rave reviews on the Star Wars: Secrets of the Empire experience.

Our initial results are exceeding our expectation with each weekend running near capacity since opening in late September. While we're obviously thrilled with these initial results, we're in the early stages of this endeavor. We will continue to work closely with The VOID as we analyze the site, establish best practices and prepare for upcoming content including Wreck-It Ralph later this month and a marvel experience in 2019. In summary, we're extremely pleased with the progress we're making in terms of all of our strategic initiatives to position Cinemark for future growth.

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

As I referenced in my opening commentary, 2018 has been a phenomenal year and surpassed all expectations. And while the fourth quarter may have a more challenging comparison without Star Wars in mid-December, the North America industry is on track for another record year. As for Latin America, we mentioned it on our previous earnings call, but it's worth calling out again the fourth quarter is typically our slowest quarter of the year as studio shifts some of their key family content slated for the end of the year into the following year to take full advantage of school holidays during South America's summer season. As such, Ralph Breaks the Internet and Spider-Man: Into the Spider-Verse will both move out of 2018 and into early 2019 in our two key international territories, Brazil and Argentina.

Shifting back Stateside, while 2018 box office environment is clearly tracking to a high watermark, we also remain bullish on the box office opportunity in 2019 as the content profile plays to both our domestic and international segments. We're especially enthusiastic on the content within the three genres that tend to translate best to our global circuit. One, superhero action films that include The Avengers, Captain Marvel; and Spider-Man: Far From Home. Two, horror films such as It 2 and Annabel; and three, family content which performs especially well in our circuit and 2019 is packed with titles in this genre. Just to name a few, Toy Story 4, Frozen 2, The Lion King, Secret Life of Pets 2, How to Train Your Dragon 3; and Aladdin.

All-in, 2019 appears ready to fire on all cylinders and Cinemark remains well-positioned to take full advantage of the strength of content by delivering an extraordinary guest experience from end to end. Beginning with the first guest contact either online or at our box office and throughout their in-theater experience, we are dedicated to personalized guest interaction and providing a premium out-of-home movie going experience generating highly satisfied, loyal customers and industry-leading financial results.

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

## Sean Gamble

Thank you, Mark, and good morning, everyone. Before delving into the details of our third quarter financial results, I'd like to remind you that beginning January 1 of this year, we adopted accounting pronouncement ASC 606, which affects how we recognize revenue for certain items. Additional information about this change can be found in the footnotes of our 10-Q and as mentioned on prior calls, we do not believe the adoption of this new pronouncement materially affects our overall financials.

Shifting now to those financials, during the third quarter, our global company generated total revenues of \$754.2 million with adjusted EBITDA of \$168.4 million and an adjusted EBITDA margin of 22.3%.

In the U.S., total domestic admissions revenues were \$333.3 million, which grew 6.7% versus prior year on an as reported basis and were up 7.2% excluding the impact of the new revenue recognition accounting adjustments. This growth was driven entirely by attendance gains in the quarter, which again outpaced the North American industry and grew 7.6% to 43.7 million patrons served. Our average ticket price declined 0.8% to \$7.63 as a result of ticket type mix and the effect of ASC 606.

Our varied food and beverage initiatives generated a U.S. concession per patron increase of 6.5% to a new third quarter high of \$4.76. This per cap increase combined with this quarter strong attendance growth drove total concession revenues up 14.5% to \$207.9 million. Domestic other revenues increased 143.2%, driven primarily by the revenue recognition accounting changes I previously described. Additionally, other revenues benefited from attendance related growth in screen advertising, transaction fees and promotional income during the quarter.

Overall, our U.S. operations delivered total revenues of \$582.3 million, adjusted EBITDA of \$132.7 million and an adjusted EBITDA margin of 22.8%, which expanded 150 basis points versus the prior year. Internationally, attendance declined 2.2% in the third quarter to 26.1 million patrons As Mark already addressed, this decline was largely driven by a weaker consumer appeal of Hollywood film content compared to 2017 and was in line with our internal expectations.

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

International admissions revenues were \$94.3 million which declined 16.4% versus last year as reported, but were up 3.1% in constant currency. Our reported average ticket price of \$3.61 translated to a constant currency increase of 5.7% that was predominantly driven by inflation. Concessions revenues were \$56.2 million across our Latin American circuit and declined 14.3% versus last year as reported, but increased 2.3% in constant currency.

Our as reported concessions per patron for the region was \$2.15 and translated to a constant currency increase of 4.5%. International other revenues were \$21.4 million which declined 1.4% as reported and increased 27.2% in constant currency. This constant currency increase was predominantly driven by the changes in revenue recognition accounting as well as growth in promotional income and transaction fees. Overall, total international revenues were \$171.9 million as reported with an adjusted EBITDA of \$35.7 million and an adjusted EBITDA margin of 20.8%.

During the third quarter, foreign currency headwinds intensified and caused an approximate 20% translation drag on our reported international results. Looking ahead, to the extent exchange rates continue to hold at current levels, we would expect a sustained headwind in the high-teens to low-20% range during the fourth quarter. As a reminder, the vast majority of our international operating expenses are transacted in local currency, including film rental and facility lease expenses. So the impact of currency exchange is predominantly translation based and not transaction oriented.

Shifting back to our worldwide consolidated results, third quarter film rental and advertising costs as a percentage of admissions revenues increased 60 basis points year-over-year to 53.8%. This increase was driven by the impact of ASC 606 as well as a reduced mix of low grossing film releases from independent studios. Conversely, concession costs as a percentage of total concession revenues declined 10 basis points in comparison to the prior year. This decrease was driven by favorable timing of inflationary price increases across our Latin American circuit that more than offset product mix from expanded food and beverage offerings.

Salaries and wages were 12.3% of total revenues which held flat compared to the third quarter of 2017. Increases in wage rates, benefit costs and staffing at new and recently remodeled theaters were offset by improved leverage over our base level of fixed labor that resulted from this quarter's growth in attendance. Facility lease expenses as a percentage of total revenues were 10.7% and declined by 80 basis points. Conversely, utilities and other costs increased by 200 basis points as a percentage of total revenues, driven by the impact of recording transaction fees on a gross versus net basis, associated with adopting the new revenue recognition standards.

And G&A for the quarter was relatively flat as a percentage of total revenues. Our G&A metrics also benefited from improved leverage over fixed costs even though aggregate G&A spend was up slightly year-over-year due to inflation, benefit costs and additional head count and professional fee investments to support our very strategic growth and productivity initiatives. Collectively, third quarter pre-tax income was \$66.8 million. Our third quarter's effective tax rate was 24.2% and net income attributable to Cinemark Holdings, Inc. was \$50.2 million or \$0.43 per diluted share.

With respect to our balance sheet, we ended the quarter with a cash balance of \$366.8 million and a net debt position of \$1.7 billion. During the quarter, we spent \$78 million to strategically acquire 10.7 million additional shares of NCM LLC, which increased our ownership from 18% to 25%. As a result of this incremental position, our share of NCM's excess cash distributions will increase on a pro rata basis going forward.

Shifting attention to our U.S. footprint, we operated 304 theaters and 4,579 screens in 41 states and 102 DMAs at quarter end. We have signed commitments to open two screens during the remainder of 2018 and 12 theaters representing 124 screens subsequent to 2018. We expect to spend approximately \$95 million in CapEx for these 126 screens. Internationally, we operated 201 theaters and 1,435 screens in 15 countries across Latin America. During the third quarter, we built one theater with five screens and closed two screens. As of quarter end, we had signed commitments to open five new theaters with 33 screens during the remainder of 2018, and eight theaters representing 67 screens subsequent to 2018. We anticipate spending approximately \$50 million in CapEx for these 100 screens.

Regarding overall CapEx, we spent \$83.4 million in the third quarter, including \$21 million on new builds and \$62.4 million on existing theaters that were predominantly associated with recliner conversions. For the full year, we continue to anticipate spending approximately \$350 million of CapEx, however, the geography of that spend has changed a bit. Our new build expenditures are tracking approximately \$30 million lower than previously communicated, as a result of

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

timing shifts across various projects. Conversely, investments in cash flow generating projects are comparably higher as a result of faster completion of several recliner conversions in addition to incremental food and beverage and energy efficiency opportunities. As such, we now anticipate spending \$90 million on new builds both domestically and internationally, \$80 million on core maintenance of existing screens, which is in line with our historic run rate, approximately \$10 million on the completion of our headquarters building renovation and \$170 million on cash flow generating projects that include Luxury Lounger theater conversions and varied food and beverage initiatives. We expect that our annual depreciation and amortization will increase to approximately \$260 million to \$270 million in 2018 as a result of these capital expenditures.

As we look forward, we continue to anticipate a step-down in CapEx in 2019 as our capital intensive recliner initiative slows, following peak years in 2017 and 2018. We will provide further specifics with regard to that spend during our fourth quarter earnings call.

In closing, I'd like to reinforce Mark's commentary regarding the strength and performance of the North American box office this year, as well as Cinemark's global results. We remain enthusiastic about the prospects for upcoming film content and we believe the investments we're making and initiatives we're pursuing will continue to position us to fully capitalize on what lies ahead.

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

## Q&A

### Operator

[Operator Instructions] Your first question comes from the line of Eric Handler with MKM Partners.

**<Q - Eric O. Handler>**: Thank you very much for the question and good morning. I wondered if there's any way possible to sort of parse out the impact from Movie Club in the quarter. I know it's still early stages, but it seems like it had a very significant impact on your ability to outpace the industry. I'm just curious if that was one of the key drivers of that.

**<A - Mark Zoradi>**: Eric, Movie Club, as I noted in my remarks, is increasingly important to us. Third quarter, it was 8% of our box office. We're seeing very positive results at the concession stand as well where we said the basket size is about equal with non-Movie Club members even with the discount. And we're seeing more visits to the concession stand. So it's very, very positive relative to breaking it out at this early stage specifically to say it's causing this much incremental. I think it's a little early to do that.

**<Q - Eric O. Handler>**: Okay. And then as a follow-up, I'm just curious geographically with Movie Club, is it how diverse is the geography and – or is it – are you seeing a high concentration in your more expensive markets?

**<A - Sean Gamble>**: Eric, I'm glad you asked that question because actually what we're seeing is a really good spread among all of our markets. San Francisco, Dallas, Los Angeles throughout all of Texas into Ohio, so – and what it is, is some moviegoers really appreciate the ability to go for \$9 plus the add-on for XD, but others are very interested in the concession discount and the ability to buy tickets online. So because of all the various features and benefits we have associated with it, we've seen it really spread out relatively evenly across our footprint.

**<Q - Eric O. Handler>**: Great. And then just one last question. Netflix, now that they're looking to put out a couple of their movies in theater albeit with a shortened window, do you have any view or does it – anything changing with Netflix?

**<A - Mark Zoradi>**: Eric, you've got three questions for the price of one here that's really good. Netflix, look, we would very much welcome to show Netflix movies in our theaters as we do Amazon movies. The issue comes down to the exclusive window. And at such time that they'd be willing to abide by the windows that all of our major studios currently do, we would welcome them. As it currently stands with a one or two-week window, I don't anticipate that we

Company Name: Cinemark  
Company Ticker: CNK US  
Date: 2018-11-02  
Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
Current PX: 40.55  
YTD Change(\$): +5.73  
YTD Change(%): +16.456

Bloomberg Estimates - EPS  
Current Quarter: 0.418  
Current Year: 2.011  
Bloomberg Estimates - Sales  
Current Quarter: 737.727  
Current Year: 3141.917

would be playing the Netflix films.

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

## Operator

Your next question is from Alexia Quadrani with JPMorgan.

<Q - David Karnovsky>: Thank you. This is David Karnovsky on for Alexia. Yeah, with Movie Club, can you talk about subscriber acquisition and how that's potentially changing as you move to early adopters? Are you finding at all that you need to adjust your marketing, your sales approach at all?

<A - Mark Zoradi>: David, we've been very pleased with the relative consistency of our subscriber growth. I mean, we – as we pointed out since the last earnings call, we've had a subscriber increase of 27% and so we've – it's been relatively consistent. One of the key elements in this, because this is a pay-as-you-go kind of model and every person that goes is paying that \$9 click plus the up-charge. We've been very successful in – like a lot of other membership or subscription programs and offering a free month and then once somebody buys it, they stay on for a long time. We've clearly used all of our – all of the access to our digital data, all of our connection members. We've done a big push with our theaters in regards to selling this in theaters significantly.

And now we're moving to promotional partners as well where we've had significant tie-ins with Coca-Cola as well as other major packaged goods company. So the marketing effort of this is – has been very substantial and will continue to be so.

<Q - David Karnovsky>: Okay. And then, I know it's potentially early to ask this question, but post-election in Brazil, are you hearing anything from your team down there regarding any potential changes ahead in the pace of mall construction? Thanks.

<A - Mark Zoradi>: I would say – David, thanks for the question, it's still very early. Obviously, the results just came in. So as far as anticipation from our team regarding mall development, there hasn't been any change. I think there is still a lot to be determined. I think the positive thing that we have seen is when you just look at how the markets have reacted to the news, for especially with foreign exchange it's been fairly positive. So at least there's a one good sign there, hopefully of what's to come.

<Q - David Karnovsky>: All right. Thank you.

<A - Mark Zoradi>: Thanks, David.

## Operator

Your next question is from Leo Kulp with RBC Capital.

<Q - Leo Kulp>: All right. Good morning, guys. Thanks for taking the questions. I just had two quick ones. One is on Movie Club, thanks for the color and I understand that's easy, it's pretty early. But are you seeing any evidence that members are bringing incremental guest with themselves, it's not just their increase of tenant, but that they're bringing other people with them. And the second question is any comments on how the upcoming lease accounting change will impact your balance sheet?

<A - Mark Zoradi>: Leo, this is Mark. I'll take your first one, and Sean will take your second. And regarding to Movie Club, it's one of the [ph] benefits (31:57) of it. Is it – one of the key aspects of the Club is that if you're a member you are allowed to bring a single companion with you and pay the membership price. Now you can only bring one. But yes, the average person is coming with at least one other person and sometimes more. And so, that's one of the things that's been particularly attractive to people is it, say, you're a married couple and only one of you remember, you can bring your spouse, or say, you come with friends who's not a member, you can bring that person and they can pay the \$8.99

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

price and obviously up charge if they go to XD.

<Q - Leo Kulp>: Thanks, Mark.

<A - Sean Gamble>: And then on your question regarding lease accounting, Leo, the biggest impact is operating leases are going to get grossed up on the balance sheet similar to capital leases and that's going to include a right-of-use asset as well as a lease liability for our theaters, equipment and other contracts that are deemed to be leases under the guidance. We're going to provide greater detail about that in this year's 10-K as well as on future earnings call. As a note, I will say that we have disclosed in our prior 10-K that we currently have minimum rent obligations of \$1.7 billion for operating leases. The only other thing I would add which wasn't necessarily a question but just the impact on our debt agreements that we anticipate is we don't expect that to have a material effect on those – the instruments is the language in the agreements references GAAP standards at the time, what was in place at the time the agreements were executed, so we'll continue to evaluate our financial positions relative to covariance, et cetera, based on old GAAP.

<Q - Leo Kulp>: Got it. And, Sean, would you ... okay. , okay, thank you.

<A - Mark Zoradi>: Okay. Thanks, Leo.

## Operator

Your next question is from Robert Fishman with MoffettNathanson.

<Q - Robert Fishman>: Good morning. I have one for Mark, and one for Sean. Mark, as a follow-up to Netflix, well, I understand the need to have a firm stance today with regard to Netflix. How would you deal with the possibility of any major Hollywood studio deciding to have a shorter exclusive theatrical run for some of their maybe non tent-pole movies, and then start streaming the movie on their own direct-to-consumer platform only a few weeks later? Do you think you deal with that on a film by film basis or would that impact your overall relationship with the studio?

<A - Mark Zoradi>: Robert, we've been really clear with our key partners. We have a 74-day exclusive window to EFT and then an 88-day to DVD and VOD. And so, whether that is Netflix or a major studio partner the policy is going to be the same. We need to have a level of consistency here.

<Q - Robert Fishman>: Okay. And for Sean just following up on the early success of Movie Club or for Mark as well, can you just help us further think about how much of the Movie Club's attendance is due to the strong content slate maybe would have come anyway to your theaters without a subscription offering? Just how do we kind of think about slicing and dicing that?

<A - Sean Gamble>: Well, I think you're seeing just in the industry at large a big uptick in attendance as a result of the strong film slate this year. So I think Movie Club is benefiting from that much like the overall industry is benefiting from that. I would say when you just look at the profile of the attendance of Movie Club movie-goers. That pretty is pretty diverse across all types of movies. So, I think it's what we hear frequently. It's the overall – as Mark mentioned, it's the overall value and convenience that is attracting people into that program. And that's, I'd say, just an added supplement to the strength of content this year in the marketplace.

<A - Mark Zoradi>: Robert, I would just might add to that too is one of the things that was great about the third quarter is we saw those mid-tier non-blockbuster films just do very well whether I think I called out The Meg and I think out called out Crazy Rich Asians, I mean, these titles way over performed what we expected. And so I think part of it is clearly just content related. Usually, that's what it comes down to. What we're trying to do with Movie Club is just make that whole ticketing portion of the consumer experience frictionless. And so, that's why we've taken the best parts of subscription programs from varied industries and applied it to the exhibition industry.

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

<A - Mark Zoradi>: Thanks, Robert.

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

## Operator

Your next question is from David Miller with Imperial Capital.

**<Q - David W. Miller>**: Yeah. Hey, guys. Outstanding print. Congratulations. Couple questions. Sean, what was the free cash flow number in the quarter? I can sort of back into it based on the CapEx metrics that you provide in the press release, but it's not reconciled in the press release. So just appreciate a heads-up there.

And then, Mark, on Movie Club, not to beat a dead horse, clear success with this program. What would you say the rate is at which, I'm not sure what you would call it, but the rate at which folks take advantage of their rollover. So is it like six months in, they bring six friends – or sorry five other friends, four months in, they bring three other friends, is it 9 months, 12 months, what would you say that that apex is? Appreciate it. Thanks very much.

**<A - Sean Gamble>**: Thanks, David. I'll start with the free cash flow question. For the third quarter, free cash flow was negative \$13 million. 3Q is typically a smaller quarter for operating cash flow for us plus there are some large tax payments that get executed in the quarter.

**<Q - David W. Miller>**: Right.

**<A - Sean Gamble>**: Year-to-date, we're a positive \$104 million, which is up about \$55 million versus prior year.

**<A - Mark Zoradi>**: David, relative to your question on Movie Club, I think one of the key stats that helps uncover that is of all the movie credits that we have issued and of course every member gets one per month, 75% of those are already used. So people are not storing these up and we don't have members with a significantly large number of credits because they're coming to the movies more often.

**<Q - David W. Miller>**: Right.

**<A - Mark Zoradi>**: And then also the other part of Movie Club that people actually do do as well if they have used their Movie Club credit during that month, they're allowed to come again and just pay an incremental \$8.99. So it's not like they're stopped from going a second time. So you can actually – as a Movie Club member, you could come twice a month for effectively \$18 and enjoy all the other benefits as well.

**<Q - David W. Miller>**: Do you have enough critical mass in Movie Club yet that you're seeing any kind of advantage in cost of goods sold on concessions or is it just too early to tell as of yet?

**<A - Mark Zoradi>**: I think it's a little too early to tell, but the one thing that – again that we are seeing is that the basket size of Movie Club members even with the discount is consistent with general moviegoers, so that's very positive and then also, consumers are reporting to us in our quarterly surveys that they are going to the concession stand more often.

**<Q - David W. Miller>**: Okay. Wonderful. Thank you very much.

**<A - Sean Gamble>**: Thanks, David.

## Operator

Your next question is from Eric Wold with B. Riley.

**<Q - Eric Wold>**: Thank you. Good morning. I think, you kind of just answered my first question with the last comment in terms of frequency. You mentioned the basket size are comparable with a discount. So I was trying to get on purchase frequency as well versus non-members. And then again, it may be too early, but given that tickets can be used at various day-parts regions that have different listed price and different costs for you per se. Is there any way to kind of gauge so far what the average revenue per visit maybe margin for a Movie Club member is versus a nonmember? And then I have a follow-up on Latin America.

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

<A - Sean Gamble>: There's no way at this point to give you an average margin number but when you add in the upgrades and the upgrades are XD, 3D, IMAX, when you add all those in, the average ticket price is coming in more like \$9.75 because it's \$8.99 plus those that have chosen to upgrade and what we're finding is that Movie Club members are upgrading at a much higher percentage than non-Movie Club members because they walk in and they feel like they already have a credit on their phone and they feel like they're not paying, obviously, they had already paid for it and so they're more willing and do so more often to upgrade.

<Q - Eric Wold>: Perfect. And then the – on Latin America, I know that things may change with the elections in Brazil, but just kind of looking back, this has now been at least two years where attendance per quarter per screen kind of per average screen has been down every quarter for at least two years, I think it's almost two and a half. I guess – and then maybe in the fourth quarter, any sense this could be a different than downturns you experienced in the region in the past and kind of what would it take for you to adjust your strategy in the region versus kind of just waiting for something to improve there? And then does that make you – have you gotten any more or less cautious on signing new deals in the region over the past couple quarters or years, so given kind of what's going on in there or you still have a pretty positive long-term view?

<A - Sean Gamble>: It's a great question, Eric. Thanks for that. We've spent a lot of time looking at this. I think the short answer is, we still very much have a positive long-term view. And when you start to dissect what's been going on with attendance per screen, it really boils down to the content profile coupled with the screens that we've been adding which have tended to be in smaller markets as of late that carry a slightly lower attendance per screen, both those things have been putting pressure on the metric.

Just a little more color. If you shift back a few years to 2015 which was kind of the high watermark, that year just fired on all cylinders with huge action films, really strong family and animated content and a really healthy group of local films. 2016 declined a little bit, largely because of weaker live action content that was more sci-fi oriented and sci-fi doesn't tend to translate as well to the Latin audiences. 2017 then dropped across most categories where Hollywood content as I'm sure you recall was down in the U.S. about 2.5% and that played through. There was weaker local content which was down about 30% and overall family content was down about 30% year-over-year. And then this year, just to kind of wrap up, 2018, 2018 has been even pressured further by family content. I think we said on the last call that family content was down about 50% year-over-year in the second quarter and we also had some challenges with the impact of the World Cup this year and a Brazilian trucker strike and then some of the films that have driven the U.S. like Crazy Rich Asians, as Mark mentioned, and Mamma Mia! just haven't also resonated. Now, the good news is, again back to your question, I'm looking forward as we look to next year we think things are going to turn the corner again with a content profile that speaks much more to Latin audiences much more so than we've seen in the last few years.

And then, as far as development goes, it's something we're going to keep watching on as we've mentioned also at least in Brazil some of the development has been stalled. We'll see if that changes with the new government coming in. But long-term, we think that the fundamentals are still there with regard to that degree of screens per population that exists across the region and the ability to continue to expand.

<Q - Eric Wold>: That's helpful. Thank you.

<A - Sean Gamble>: Thanks, Eric.

<A - Mark Zoradi>: Thanks a lot.

## Operator

[Operator Instructions] Your next question is from Chad Beynon with Macquarie.

<Q - Chad Beynon>: Thanks for taking my question, and good morning. Sean, encouraged to hear about the CapEx reductions or at least the early indications of that as you kind of prep for the budget for 2019. And understanding that you haven't come up with the full budget, how are you thinking about capital allocation now with solid free cash flow

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

through the first nine months of the year or potentially declining CapEx, Luxury Loungers that are kind of almost at your target and very low leverage in this environment? Thanks.

**<A - Sean Gamble>**: Thanks for the question. I would say just at a high level the way we're looking at is, yes, we anticipate a step-down in CapEx, as mentioned, as we kind of wind down a recliner conversions, not to say that we won't continue to do that in 2019, we will continue to pursue recliners but at a lower pace, as mentioned. I'd say our overall priority remains the same when it comes to capital deployment. We continue to emphasize investing in the growth and security of our company with a focus on building long-term shareholder value and within that framework as we look forward – to the extent we don't see meaningful and accretive opportunities to put our capital to work, we're going to look to appropriate ways and evaluate appropriate ways to distribute excess capital to shareholders, much like the 10% dividend we executed earlier this year. So, we'll have more specifics on that. I'd say once we get through our budgeting cycle, but that's at least at a very high level how we're looking at it.

**<Q - Chad Beynon>**: Okay. Thank you. And then one last one from me also on Movie Club and you probably have to go general manager by general manager, but do you have a sense roughly of what percentage of your theaters at this point are facing competition from other subscription models that have been rolled out over the past couple of months?

**<A - Mark Zoradi>**: Chad, I don't have an exact number of that, but obviously, AMC has rolled out a subscription program and we compete with them in significant markets like Los Angeles, San Francisco, Dallas. So, again, I hesitate to give you an exact number because we've not done it, but it's at least the third because we compete with AMC across the board, movie pass is less and less important today, continues to decline. So, it's somewhere in that category.

**<Q - Chad Beynon>**: And then obviously has that affected you based on the numbers that you put up at least what you're seeing right now, is that fair?

**<A - Mark Zoradi>**: No. I think our growth has continued in the face of other programs and I think that the consumer has a good choice, I mean, this is not planned to be a unlimited plan, this is planned to be a plan that focuses around a rollover plan, so a consumer has complete flexibility of when to use their particular credit and that's been one of the key elements to it along with the other benefits of bringing a companion which some of the other programs you can't do. And so – and then a very generous and easy to understand concession offer but all those things, I think have worked in our favor to create a plan that really is going after the biggest, broadest audience of moviegoers because most moviegoers go somewhere between a high moviegoers once a month to maybe they're going six or seven times a year and a program that allows you to roll over and use those credits when they want to use them is very attractive to a significant group of moviegoers across the country.

**<Q - Chad Beynon>**: Got you. Appreciate it. Thanks very much.

**<A - Sean Gamble>**: Thanks, Chad.

## Operator

Your next question is from Jim Goss with Barrington Research.

**<Q - James Charles Goss>**: Thanks. One question relates to the capitalization of leases, to the extent that this will be mandatory, is there any thought on your part to own more properties than you have typically owned in the past and do you see any advantages of one form of ownership versus another?

**<A - Sean Gamble>**: Thanks, Jim. I don't think the accounting change will necessarily skew how we're looking at ownership versus non-ownership. I mean that really boils down to just an overall economic assessment of the deal and whether or not we think that makes sense over the long haul to own the real estate or lease. So, a short answer to that, I don't think the change in the provision is going to change the way we look at owning versus leasing.

**<Q - James Charles Goss>**: Okay. And with regard to the perhaps declining rate of recliner reseating, I know you're very ROI and theater specific in terms of how you go about that process. Will there be an increasing number of options you might have versus some standard – more standard version of reseating that might have been more broadly

Company Name: Cinemark  
 Company Ticker: CNK US  
 Date: 2018-11-02  
 Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
 Current PX: 40.55  
 YTD Change(\$): +5.73  
 YTD Change(%): +16.456

Bloomberg Estimates - EPS  
 Current Quarter: 0.418  
 Current Year: 2.011  
 Bloomberg Estimates - Sales  
 Current Quarter: 737.727  
 Current Year: 3141.917

applicable as you go through this property this pattern? And if so, do you have any thoughts that that might further extend the program beyond what you are anticipating right now?

**<A - Mark Zoradi>**: Jim, the – what we've done relative to reseating has really followed what we laid out over 18 months ago in terms of the strategic plan. We knew it was very important during 2016 and 2017 and even into this year to act quickly because there was some first mover advantage. So that's exactly what we did. And then, we also anticipated as you get further and further down the circuit that there was going to be case – there's going to be places where you're simply not going to recline because the market doesn't dictate it, you don't think you can generate the incremental attendance to help pay for it. And also in some places you just want to hold on to the seats and you want the capacity.

So I think the path we're going down is really consistent with what we thought was going to happen. We anticipate to continue to recline in – and basically the same kind of nature and also when we recline and I think I've mentioned this before in a call we tend to go in and look at the overall theater and do what we call reposition the theater. And many times then we'll go in and redo the snack bar and maybe we'll add in alcohol and we'll really give the whole theatre a upgrade and repositioning. So, none of that has changed and I see us continuing to move forward just at a smaller number only because when you're at 55%, you've taken all of the obvious ones off the table and now you get more and more disciplined as we do our financial analysis.

**<Q - James Charles Goss>**: Okay. Thank you. And one final one. As the box office has pretty much leveled off on a quarterly basis in the mix over the course of the year, are you finding that to be different in terms of your management of expenses? Has the variability of the various expense categories by quarter tended to even out more and has that changed the way you manage your properties?

**<A - Sean Gamble>**: I wish I could say that it eased things, but really what you see, Jim, is there still is a lot of week to week fluctuation. And the reality is that's basically how we operate our theaters in general. We were constantly looking at what the upcoming week expectations are and then we're doing our best to modify our level of payroll and staffing just based on those expectations. So, while it may be in the aggregate, you should kind of look at a quarter or a year, things are more leveled out, there still is quite a bit of week to week volatility. So that comes into the art and science of the staffing that we go through. But that's – it hasn't – I would say it hasn't – that has not changed.

**<Q - James Charles Goss>**: All right. Thanks very much.

**<A - Sean Gamble>**: Thanks, Jim.

## Operator

And your next question is from Drew Borst with Goldman Sachs.

**<Q - Drew Borst>**: Hi. Thanks. I wanted to ask about the U.S. ticket price in the quarter. For you guys it was down 80 bps but – which outperformed the industry, which I believe was down about 1.1%. It's fairly unusual to see, certainly at the industry-level decline in the average price. So I was just hoping you might be able to provide a little bit more explanation about what was going on. I know you mentioned it was partially mix, but I was also wondering if that had anything to do with the shift to reclining seats maybe slowing down a bit and sort of a tailwind from pricing on that having an impact?

**<A - Sean Gamble>**: Drew, first welcome back to...

**<Q - Drew Borst>**: Thank you.

**<A - Sean Gamble>**: I would say that there is really – for us, at least there is really two main things about half of our decline was the effect of revenue recognition. So it would have been down 0.4% without that. And then when you look at that, as we kind of dissected it while our core prices actually grew, the decline was really driven by the ticket type mix I was referring to in the opening remarks, really what happened in 3Q 2017 was there were a lot more adult tickets sold because it was such a huge proportion of the box office last year.

Company Name: Cinemark  
Company Ticker: CNK US  
Date: 2018-11-02  
Event Description: Q3 2018 Earnings Call

Market Cap: 4,737.19  
Current PX: 40.55  
YTD Change(\$): +5.73  
YTD Change(%): +16.456

Bloomberg Estimates - EPS  
Current Quarter: 0.418  
Current Year: 2.011  
Bloomberg Estimates - Sales  
Current Quarter: 737.727  
Current Year: 3141.917

Additionally, there was a – just the way the film content came out this year, there was a reduced mix of 3D. So that also kind of led to a slight reduction just in the premium formats and then the way the days just worked out for the quarter, they wound up being one fewer weekend in the quarter and that tends – that carry higher pricing than the weekday pricing. So all those factors combined created at least for us the drag of the prices beyond what revenue recognition impacted the metric by. So I don't think at least for us, it wasn't necessarily a factor of the recliner seats but really just more a byproduct of those other ticket type issues.

<Q - Drew Borst>: That's a really helpful explanation. Thank you and then if I could just one follow-up on kind of similar topic but – now that we're seeing sort of broad inflation in the U.S. economy which we haven't had for quite some time. I'm wondering how you guys are thinking about base price increases next year. Is that – do you think that that might give you a little bit more room to take up sort of base pricing or how you're thinking about it?

<A - Mark Zoradi>: Drew, we get very granular. We start strategic and then we get very granular on pricing and we go market by market to look at the competition in that marketplace. And obviously, we like to be careful and very calculating and deliberate in our pricing increases. We expect that we will have some ability to raise price, but Cinemark has never been one to want to be the price leader. Rather we think it's more important to focus on attendance which will overall in the long run generate more box office and more overall revenue for our company. So we think there will be some element and ability to raise prices but we're going to be careful and modest in it as well.

<Q - Drew Borst>: Great. Thank you. Appreciate it.

<A - Sean Gamble>: Thanks, Drew.

## Operator

We have no further questions. Do you have any closing remarks?

## Mark Zoradi

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

## Operator

This does conclude today's Cinemark's third quarter earnings call. You may now disconnect.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP.*

© COPYRIGHT 2018, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.