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PRESENTATION

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

All right. Good to get started. Okay, I got the thumbs up. For important disclosures, please see the Morgan Stanley research disclosure website at morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative.

And I am very excited to welcome back to the conference, from Cinemark, Sean Gamble, CEO; and Melissa Thomas, CFO. Thanks for coming back. Good to see you guys.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Thanks for having us. It's good to be here.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Absolutely. So the debate never ends, I guess, on the box office. We're sitting here with a [$25] plus or minus stock price.

QUESTIONS AND ANSWERS

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

So let's go after that out of the gate here and talk first about supply because I think that's an important piece of the puzzle. Wide releases in '25 are still going to be below, I think, 2019 levels, most likely. But they'll be growing from the last couple of years as the studios ramp product back up. Sean, what's your perspective and visibility into the amount of films being produced up and down the budget scale? And what gives you confidence we get back to kind of the pre-COVID level of film supply in the business?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Well, the industry has been on a recovery trajectory ever since the pandemic. And obviously, that took a little bit of a detour last year because of the strikes in Hollywood the year prior. But as you mentioned, when we look to what we see this year in '25, to date, there's been about a little over 100 wide releases dated the way we count them.

This year, we expect that will grow likely to somewhere around 115, just historically based on the way additional films get added through the year and how some smaller releases grow to be full releases throughout their life cycle, which would be about 90% of pre-pandemic levels. And so, 115 versus roughly 130 on average prior to the pandemic.

So where does that further closure come from as we look to '26 and beyond? We see a few places.

Number one, our traditional studio partners continue to express the intent to sustain those levels, in some cases, grow those levels. A big place that we look to right now is Amazon MGM, which has been at around five theatrical releases the last couple of years. And they've publicly expressed intentions to grow to about 16 wide releases by 2027. So that would close a big chunk of that gap.

We continue to see growth from independent studios, like A24 and Angel. I mean, Neon's actually obviously had a great run this past weekend, and they've been doing well as of late. So there's opportunity from that space.

And then also like non-traditional films. That was always an area of great potential prior to pandemic, which never seem to quite get off the ground. And lately, we've been seeing that grow quite nicely. So we think that's another area.

So when we put all that together, closing the remainder of that gap, we feel pretty confident in seeing how that flows. And that right now, the larger films, the blockbusters have already pretty well recovered in terms of the number. It's the smaller and mid-tier films that are still filling out, and we think those varied areas would provide a nice opportunity for that to happen.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

I know awards aren't money, but for a studio like Neon, I mean, does this maybe bring more in your experience? Is this kind of success of an independent film, I think, cost $6 million to make. Bring more capital into film production and help the independents sort of grow faster or do more?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Sure. I mean, look, I think it will have a nice continued run. We always see a nice pop of films that have that kind of success in the award season.

I think for a lot of smaller start-up studios, and I'm not saying that's necessarily the case because Neon's been around for a little bit as has A24. But sometimes what's more challenging for a newer studio to get off the ground is just not having the benefit of a library that's spitting off positive cash flow. So if your first few releases don't work, you can blow up pretty quickly. So something like this is just a great windfall of upside financials that hopefully leads into further investments in more films and then with that, more success.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

You mentioned Amazon. Obviously, there was some news recently with the Bond films and then moving forward. I was wondering if you still felt confident in them ramping up the supply? And I also would love to hear thoughts on Apple, which is another one, with the F1 film coming up later this year.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Sure. Well, I mean, starting with Amazon, yeah, I mean based on what they had expressed publicly, based on the conversations we've had, everything seems like a -- I mean they -- seems like, but they've expressed intentions to continue ramping up.

I think good evidence of that is they just recently announced intentions to develop their own in-house international theatrical distribution team. So they had been using external third parties for that and now they're bringing that in-house. So they continue to invest in resources as well as in production of films.

And then obviously, getting some headway on the whole Bond progress is a good thing in terms of seeing some more of those kinds of films.

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And look, Apple, we continue to be optimistic about where that goes. I mean we have really positive conversations with them. Everyone is really excited for F1. I think the early indications are really positive based on some of the screenings of that film. So I think that's creating a lot of excitement.

And I think a theatrical release plays well for their model and their aspirations for quality programming and Apple TV Plus. I mean that's one of the big benefits that a theatrical release provides film assets is a stamp of quality. So it lends itself to that. So we're hopeful that we'll start to see them lean further into the space with additional resources and additional investments as well in time.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

So how about on the demand side? You guys obviously look at a lot of data. We can see films performing, not performing across genres, et cetera. What is it that gives you guys confidence that we can get attendance and demand back to pre-pandemic levels and ultimately box office over the next couple of years?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Well, I think the -- look, the major thing that we look at is just how are movies themselves performing and how does that compare to pre-pandemic levels of success. So I think one of the things we've seen is with compelling content in the marketplace.

We've seen a wide array of records over the last few years for large films, small films across varied genres of films. When those titles and those compelling tales are made available, consumers have been coming out to see them. So that gives us a lot of -- it's highly encouraging to us in terms of the sustained interest in seeing films in theaters. So I mean, that's probably the biggest thing.

One of the things I think that's still to be determined is the longer-term implications of the Windows evolution, right? And what does that ultimately lead to in terms of where things fully settle out? I mean, on one end, we haven't gotten to a point where there's been a steady cadence of consistent film releases back to the volume discussion.

So we've seen bursts of momentum when things -- we saw this summer, we saw it during the holiday period, but then it's been followed sometimes by a reduction in releases. So it's a lot of start and stop. So that's blurred kind of the view of where do things ultimately settle. And then longer term, on the Windows, we've seen Windows have come down considerably from where they were pre-pandemic. So what does that all mean over time?

On the plus side, we haven't seen a steeper decay of film's trajectory through its life cycle after it's released into theaters. That's held pretty consistent with pre-pandemic patterns. And even when it enters the home on like a PVOD service, we haven't seen a steeper decline at that point.

So that's encouraging. But as consumers become more aware of these short windows, does that ultimately lead to some form of reduction in attendance overall. I think that's something that's still to be determined over time.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Yeah, those are all good points. I mean, given how well you've done with ticket pricing and concessions, if you could get attendance back to 2019 level, I think it's like a $14 billion-plus box office number, which is even beyond our bull case, we would --

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Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

We like your numbers.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Right. We'll see what happens. You guys have also done a lot on the loyalty and consumer. I know we always talk about the box office, but obviously, you guys are working hard at Cinemark to differentiate the product. Can you talk a little bit about those initiatives and how they've helped drive the business over the last year?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Loyalty, specifically?

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Yes.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Look, our loyalty programs, we think have been very successful and are very important to us. Overall, box office from our loyalty members, both our paid loyalty members and our free loyalty members, now accounts for about 50%, so about half of our box office. So we've got a direct line of communication with those consumers, which is wonderful for spreading awareness of upcoming films.

Our paid loyalty tier, our Movie Club tier now represents about 25%. Those are some of our most highly satisfied consumers. We've continued to see people that grow -- that program grows roughly 950,000 people in 2019. That's grown to close to 1.4 million members at this stage.

And what's wonderful about that is it's highly versatile. We've seen it not only spread awareness, but we've also seen it lead to increased frequency of moviegoing and increased consumption of food and beverage purchase. So there's a real value in getting people into the program for us, and consumers find a tremendous value in the program in and of itself.

And I mentioned it's widely versatile because of the way the program is structured and you get a credit that rolls over if you don't use it. It's great if you're a moviegoer who goes to the movies 3 times a month. It's great if you're a family of four that goes to movies 3 times a year. It works for a wide range of different kinds of profiles of audience.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Yes. Is it a marketing channel? Does it help you in terms of bringing people back to understand their taste and movie history and all that stuff?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Absolutely. I mean, that's one of the -- we have now through our marketing capabilities, we have a very tailored, personalized messaging for all of our consumers, but particularly within Movie Club.

So we can tailor what's going on. We'll give them generic broad kind of awareness, what's out there, but knowing what they like, we can really hone in on that. And we can even encourage them knowing if you have a bunch of credits amassed that you haven't used, hey, here's a movie you like. So it's very much is very helpful.

And we can also do special events, like surprise and delight events where we invite people to screenings and things of that sort. So we give them access to those kinds of activities that add to the value in their eyes.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

We've talked over the years, Sean, a lot about alternative content becoming a bigger part of the business. So it was always sort of on the come. But certainly, last year, of course, I think of the Taylor Swift movie for obvious reasons. But is this now here to stay from your perspective? I think it's now, what, 10% of your business last year? Do you think this can grow still?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

I believe it will. I mean it is -- I think I mentioned this was like -- it drove me crazy before the pandemic because you could see the potential of alternative content. It just never seemed to get off the ground, be more than 1% or 2% of box office.

And as you said, like we've seen now for the last three years, non-traditional films have represented over 10% of our box office. So the scale of those titles has increased, the range and consumer receptivity to those films has increased. Everything from foreign films to faith-based films to repertory content. We're hopeful we'll start to see more concert films.

Again, there's definitely an audience for that. And what's great is it brings in other categories of audiences. They then get exposed to what other movies are in the marketplace and it feeds upon itself. So I think it's going to continue to grow just based on how it eventizes this kind of program and how you just see how excited people get when that -- those types of events are in our theaters.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Is this an area that's less, from a visibility point of view, harder to sort of predict. Like if you look at '25, are you able to tell what it's going to look like versus last year? Because I feel like some of these movies, even Taylor Swift's just popped up, kind of a --?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Yeah. Well, literally, I mean, that popped up midyear through the year. So there is less visibility today to what those are all going to be because they tend to turn around, certain things you know, but they tend to turn quicker. And like some of the foreign films, you don't always know which are going to catch on locally and then transcend borders.

So -- but the trend has been, it's been growing considerably. I mean, '20, you have to kind of normalize a little for 2023 with Taylor Swift and Sound of Freedom, which were huge outliers. But even if you take that out, 2024 was bigger than '23, '23 was bigger than '22. So it just continues to scale.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Got it. So one of the other topics that comes up a lot with investors is sort of market share. And you guys have picked up 100 to 200 basis points from pre-pandemic levels. I think there's maybe some concern out there that this is a function mostly of what's happening to your competitors versus what you guys have been doing. They've had some capital structure challenges, et cetera.

So maybe take the opportunity to sort of tell us the initiatives at Cinemark that you think have allowed you to take share and can sustain this new higher share level as these other companies sort of heal their balance sheets, et cetera.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Sure. Well, a few things on that. One, we've been thrilled with the gains we've seen in market share since the pandemic, which we attribute to a few things. One are the structural benefits through a range of initiatives that we pursued to gain share, and I'll speak to those in a moment. We've also seen some lift from favorable content mix, as well as a limited amount of capacity constraints that have allowed us to increase and spread the programming of the larger films throughout our auditoriums more widely than you can when it's a more congested landscape.

So we look at last year as an example, and we attribute about 100 basis points of our market share gains to those structural benefits, which we believe will be sustaining, and about 50 basis points to the film content mix and the reduced capacity constraints. So the things that we've been leaning into in order to achieve that, it's a range of things.

It all starts with the experience, right, that we offer our guests. And the fact that 70% of our domestic circuit is reclined that we've been able to sustain close to 95% positive guest satisfaction ratings that we've historically invested more in sustaining and maintaining our theaters over the years relative to our peers. All that plays into an environment and a quality of entertainment experience that we believe is at the top of the market.

We've worked on improving the sophistication of our scheduling and programming to put more of the right kind of product that has the highest demand in the right auditoriums at the right times. We talked briefly about marketing. We've ramped up our marketing efforts to supplement what the studios are marketing to consumers to drive more awareness and attract more of that volume to our Cinemark theaters. Our loyalty programs play into that, too, right? I mentioned some of those stats, right? So all those things are a range of examples of the stuff that we've done to capture more of that structural benefit.

And I guess I would say, specific to competitive landscape, when we look at our discrete markets and we look at some of the gains we've seen in markets where we both directly compete against different other exhibitors as well as where we don't, we've seen similar types of gains in that structural benefit. So that's part of the reason why we believe we'll continue to see that going forward. And we're obviously working on additional initiatives to be able to sustain that into the future.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

No, that's actually very helpful. Let's turn a little bit to the guidance for '25. We'll do some of the points you made on the earnings call. I'll let you decide whether we call them guidance or not. Chanda can keep me honest.

So you talked about an expectation, I think, for moderate per cap and modest ATP growth, which I think is -- you can tell me, but I think directionally similar to last year when those numbers were pretty good. So I guess, do I have that right? And then maybe you can explain why you feel like even as the box office, can you just broaden and expand, you can kind of keep these growth rates going?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

So I'll start with the average ticket price side of things. So from a domestic average ticket price standpoint, we do expect to be able to achieve modest growth year over year in 2025.

In terms of key drivers for that, we continue to believe that there is opportunity on the strategic pricing front, and that's driven by our ongoing analysis of data and analytics by our dedicated strategic pricing team. We continue to leverage data to look at how elasticities are changing over time and ultimately maximize attendance box office and overall revenue. So the data is really guiding those decisions.

But we do believe that there is room to grow that. We do approach it thoughtfully in light of the economic backdrop. And ultimately, we want guests to leave the theaters feeling like they've gotten great value for their experience. That's one point.

The other point I'd mention beyond that on the ticket price side is we are expecting, based on our view of the 2025 slate, that we will see growth in premium large format mix, so including XD, D-BOX seats, and 3D, which will be another catalyst for average ticket price growth. So we feel confident about our ability to grow that in 2025.

As we turn to the food and beverage side, from a per cap standpoint, we do expect to continue to moderately grow our concession per cap domestically year over year in 2025. And that's through initiatives that we have to drive incidence rates higher as well as to continue to optimize our concession pricing.

From an incidence rate standpoint, we have a variety of initiatives in place to drive those rates higher. To name a few, we continue to look to improve the throughput of our concession stand. So through mobile ordering, for example. We're leveraging queue lines and planograms to improve the monetization of our space. We continue to introduce new flavors and new offerings for our guests.

Hot foods is another area we look to expand. And then in addition to that, movie-themed merchandise is another opportunity, both in theater as well as online and continuing to grow our third-party concession delivery. So we have a lot of runway to continue to grow on the incidence rates.

And then on the price side, we do still believe we have opportunity to optimize, again, similar with attendance. It's leveraging the data to drive those decisions, ultimately trying to maximize our incidents in overall revenue.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

That's very helpful. A number of conversations at the conference have obviously -- not obviously -- have turned a little bit to the sort of concerns about the consumer and consumer strength, consumer weakness, some of the consumer confidence stuff. What's the data tell you and your experience managing Cinemark on all of these pricing decisions about kind of the economic sensitivity of the business or whether this changes your confidence level?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

So for our business specifically, what we've seen historically is that our performance is more tied to film content than it is to economic cycles. So even in more challenging economic backdrop, we continue to see consumers indulge at the movies, whether it be premium upgrades on XD or D-BOX seats or on the concession side. So we continue to see consumption patterns remain strong.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

That's great. Okay.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

I would just add too, as you said, too, I mean, within that, we are very careful about our pricing, right? We let the data really drive our decision-making there versus just knee-jerk, oh, it's an inflationary period. Let's just jack up our prices because it's inflationary. No, we really take a good hard look at what will the market bear and we want to make sure that we sustain a perception of value from our consumers because that's what keeps them coming back and they feel like they get a great experience and it's for a great value.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

You guys have done a really nice job on margins over the last few years kind of coming out of the pandemic and the strikes, but they are still behind where you were in 2019. I think even after adjusting for NCMI and DCIP. Can you get the business back to the same margin levels of the business in 2019? Is it just a function of box office in revenue? Because you've actually got -- your concession business has rebounded a lot already, which is a more profitable revenue stream.

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

So certainly, our aim over time as box office and attendance further recovers as we stand to benefit from higher operating leverage over our fixed costs and as we continue to execute upon our strategic initiatives. The pace and extent to which that happens, the biggest driver that will impact that will be attendance and box office just again, given that leverage we get as the top line scales.

Other key drivers will include our market share, which we talked about earlier, as well as our ability to grow our per caps and our average ticket prices continue to capture value from our strategic initiatives and then offset any cost pressures that may arise.

Now specific to 2025, we do expect our margins to benefit from a stronger box office anticipated as well as from our ongoing strategic initiatives and the growth we mentioned in per caps and ATPs. However, we do expect some offset from market share tempering as box office rebounds and we start to see more capacity constraints across the circuit. So that will potentially be a factor as well ongoing inflationary and expense pressure. But at the end of the day, we feel good about the margin potential of the business, and we remain highly focused on maximizing that.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

I know this is a focus area on the earnings call. Your expectation based on all those puts and takes that you guys can expand margins in '25?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

We do believe we can expand margins in '25.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Great. I just want to make sure we don't leave Latin America out of the conversation before we get into some of the capital allocation, cash flow stuff. That business is rebounding quite nicely. It's an area that you've also wanted to invest in, in the past, and I think you viewed it as a growth driver for the company. What's your perspective?

I mean, another area that's been volatile over the last few years, but what's your enthusiasm level for the Latin American circuit and growing from here?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

We continue to look quite favorably upon Lat Am. First, our team has done an amazing job throughout the region in moving the business forward there since the pandemic. When we look at the overall fundamentals of the region, they're still very positive. It's a very active moviegoing culture. In fact, in many cases, we've seen the overall region recover stronger than in the US.

I mean, Argentina is an example, too, where you talk about fluctuations. The extreme scenario that we've seen over the last few years of 200%-plus inflation yet it's one of the most recovered countries in terms of moviegoing attendance. So it just kind of powers through some of these macroeconomic cycles.

So we look at just the consumer dynamics are really strong. The level of penetration of theaters across marketplaces, there's still many underpenetrated markets that present opportunities for future growth. Our businesses there are self-sustaining. They're localized. We've got lots of local talent.

They're using local cash and reinvesting local cash into those markets. So there's positive. We think it's an overall benefit in terms of the -- how it complements our US footprint from a diversification standpoint as well as the added scale that provides us as well as best practice sharing. So we've kind of put all together, we still think there's a lot of potential.

If anything, I would say the -- we've talked about how we've reactivated our pipeline of new builds. That progress has perhaps been moving a little bit slower, still while, moviegoing attendance has recovered faster than the US, just the pace at which new activity is happening across LATAM is still moving at a slower pace as our theaters that are all tethered to mall development and mall development is still recovering a bit more.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Okay. Got it. A big topic coming out of earnings was the CapEx outlook. So you guys guided to about a 30% increase, I think, in capital spending in '25 versus '24. What's driving that increase?

And can you talk a little bit about some of the high ROI projects that you think will move the needle for the business over time?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

So based on our expectations for box office recovery and cash flow generation in 2025, coupled with the ROI-generating opportunities we had in front of us, we are expecting to step our CapEx up from $151 million in 2024 to $225 million in 2025.

As you think about the key drivers of that increase, there's three areas that I would highlight. First, being maintenance CapEx; second, being new builds and the third being other high-confidence ROI generating opportunities. So starting with the maintenance CapEx side.

In 2024, we spent about $80 million on maintenance CapEx. This is just to continue to have a high-quality circuit. As you think about where that falls, our normalized maintenance CapEx range is typically in the $80 million to $100 million range. In 2025, we expect to step our spend up to $100 million, so at the high end of that range.

The remainder of the increase is split between stepping up our investments in premium entities. So the premium amenity side would be reflective of those other high-confidence ROI-generating opportunities. If you think about a few areas that would be included within there, it would be premium large format screens, recliners, food and beverage upgrades, D-BOX motion seats.

Those would be the types of areas that, that investment would be going towards. And then the remainder for new builds, including screen expansions.

So all in, those are really the drivers. And you'd see the benefits of that manifest in market share, average ticket prices and per caps on the concession side.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Got it. Okay. No, that all makes sense.

You also reinstated the dividend. I'm sure that felt good after the last four years of pandemic-related stress. Certainly, the market, I think, was probably expecting a larger dividend, that's a fair statement. What was the sort of thought process behind arriving at a 1%? What is effectively, I think, 1%, it's a lower payout ratio than we saw from Cinemark pre-pandemic. What was the decision process behind this?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

First, to your point, we were thrilled to be able to reinstate the dividend. So an annual --

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Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Market always wants more (multiple speakers) news.

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

Yes, an annual cash dividend of $0.32 per share payable quarterly and approximate 1% yield. And we do think it represents a major milestone in our recovery from the pandemic.

In terms of thought process on sizing, our objective was ultimately to have a sustainable and growing dividend while preserving flexibility. So that was a key factor in our decision. In addition, it's important to note that we view this as a first step in returning excess capital to shareholders. Over time, our goal is to return a greater share of free cash flow to shareholders through dividends and/or share buybacks.

But keep in mind, in the near term, we do have our convertible notes coming due in August of 2025. So that is a key capital allocation priority for us as is mitigating dilution. All that said, our board and management team continuously evaluates our capital allocation strategy and framework, including the size of dividend and potential for buybacks.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Yes, you guys use the word flexibility a lot on the call and talking about it. And I don't think it's worth getting into the weeds on the convert terms in this conversation, but I do think it would be helpful for folks if you could just spend a minute on how that convertible note is impacting your share count because it's not insignificant right now, at least from an EPS perspective, and what your plans are in August to address it? Because you're sitting on a lot of cash right now, but you have this maturity coming up.

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

Yeah. So with respect to the convertible notes, we intend to repay the principal amount, which is $460 million, leveraging cash on hand on our balance sheet. We have a call spread that protects us from stock price movements up to $22.08.

But the exposure beyond that, we do take on. The extent of that will be dependent upon the stock price at the time that we ultimately settle the converts and associated call spread. We do have the flexibility to settle that in cash or shares, but that exposure above $22.08 to the extent we settle it in shares, would impact diluted EPS.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Right. The fully diluted share count, I think, is diluted for shares that would be issuing that you plan to probably largely redeem in cash?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

Yes. The way that GAAP accounting works, is that if you look at our diluted EPS, for example, for Q4, you will see 32 million shares underlying the $460 million note that we intend to settle in cash. That's reflected in our diluted share count.

The reality is, from an economic standpoint, that we don't expect to come to fruition given we're paying any cash. The warrant side though, which for Q4, that impact was 9 million shares based on the average stock price for the quarter, that would be associated with exposure above the $22.08. That will flex depending upon the share price.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

And the decision on whether to use cash or shares for that additional -- let's assume there's a premium to the $22, is that sort of depends on the size and kind of the business and how cash flow is trending? Is that how you think about it?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

Yeah. It will depend on the stock price at the time, our cash on hand, potential dilution, consideration, among other factors.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Yeah. So obviously, well, August will come, and this will be dealt with. And then looking beyond that, at least the way we've been thinking about this is you have a 2 to 3x leverage target and you'll be trending down towards that. Is the expectation that you'll stay within that range? Is there a scenario where you would go below it? Or should we be thinking that return of capital could ramp higher on the other side of the convert maturity?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

Our goal is to maintain our net leverage ratio within that 2 to 3x range.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Okay. Great. I think you mentioned share buybacks in the prepared remarks this quarter, and I can't remember, it may have happened, but I don't remember you ever doing that before. So I think it's worth at least asking you, if your appetite for buybacks is higher than it used to be or how you think about buybacks versus dividends looking again beyond the convertible note?

Melissa Thomas - *Cinemark Holdings Inc - Chief Financial Officer*

Yeah. But first, I think it's important to note that our view of dividends versus stock buybacks, it's not necessarily an either/or scenario. It's not mutually exclusive. As we talked about earlier on the dividend front, where our goal was to have a sustainable and growing dividend while preserving flexibility.

As we think about share buybacks in the context of share buybacks, some key considerations for us would be cash and liquidity, valuation considerations, dilution management, and total ongoing returns that we're paying to shareholders. But in terms of that mix, relative mix of dividends versus stock buybacks, that would be something that our Board would determine over time based on the facts and circumstances at any given point.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

The other way you could obviously remain levered would be through M&A. I'm just curious if you -- we talked a little bit about Latin America, but what kind of assets would be interesting to Cinemark? Are you interested in organic growth if you can find the right asset? Do you think anything might come to market in the US that's sizable?

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Well, look, we certainly have an appetite for M&A. When we think about setting ourselves up for future growth, one of the aspects we've talked about is further optimizing our footprint and M&A is a piece of that.

As far as M&A goes, we tend to favor high-quality assets that we believe have a high assurance of positive returns over time, and we tend to prefer going deeper into the markets that we operate within where we've got strong knowledge, infrastructure already. We also consider the margin profile. We consider strategic importance and other factors as well that go into that.

As far as what could come available. I mean I think it's been interesting. We're of the mindset that there may have been more opportunities than actually have come to market since the pandemic. Perhaps -- we think some of that was staved off just by the government stimulus money. If you've gotten through it, your -- would be circuit who's looking to sell your business, presumably if you come this far, you might wait a little bit longer until there's further recovery to try to command a higher premium for those assets.

So I think we'll have to see. But it's certainly something that we look at as something that is attractive to us. I'll just add, we're not in it to grow just for growth's sake though. It's really being prudent about what's going to deliver positive financial returns over time for the company.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Got it. All right. Well, in the time left, Sean, I got to ask you as I do every year. Give me a film this year that we need to go see that's going to surprise the market to the upside, obviously.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Surprise the market. Surprise the market. That's the key. I think we're probably both aligned .

We were talking about this earlier, like there are several films that could surprise the market. I think one of the ones that we think could have some of the biggest upside potential is How to Train Your Dragon. You've seen some of the material on that. It looks absolutely sensational. So not to take away from any other would be breakout hits, but that seems like one that's got a lot going for it.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Comcast is very happy to hear that as they open their new park with dragon land.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

So remember that Comcast, and we're negotiating some rental terms.

Benjamin Swinburne - *Morgan Stanley & Co LLC - Analyst*

Exactly. Donna Langley, are you listening? All right.

Well, thank you very much. Thanks, everybody.

Appreciate it. Good seeing you.

Sean Gamble - *Cinemark Holdings Inc - President, Chief Executive Officer*

Thanks, Ben. Appreciate it.
