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CNK - Q3 2017 Cinemark Holdings Inc Earnings Call

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PRESENTATION

Operator

Good morning. My name is Jamie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cinemark's Third Quarter Earnings Conference Call. (Operator Instructions)

Ms. Brashears, you may begin.

Chanda E. Brashears - *Cinemark Holdings, Inc. - VP of IR*

Thank you, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holding, Inc.'s Third Quarter 2017 Earnings Release Conference Call hosted by Mark Zoradi, Chief Executive Officer; and Sean Gamble, Chief Financial 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 provisions 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 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, investors.cinemark.com.

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

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Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Thank you, Chanda, and good morning, everyone. We appreciate you joining us for our 2017 third quarter results call.

Before I begin, I'd like to express our heartfelt condolences to all who have been directly or indirectly affected by the natural disasters over the past few months. Although the hurricanes and fires did not have a material effect on our financials, many of our employees and their families have been significantly impacted. We're inspired by their strength, determination and courage as they rebuild their lives as well as the acts of kindness, compassion and charity of those willing to assist. And we continue to keep them in our thoughts and prayers.

Now turning to our quarterly earnings. We frequently discuss how our consistent results are a differentiator for Cinemark, and the third quarter was no exception. In a quarter in which film content had weaker consumer appeal than the prior year, we maintained our adjusted EBITDA margins in excess of 20%, both domestically and internationally, delivering a consolidated 21.6% result.

We also continued our trend of over-indexing the North America box office yet again this quarter, leading industry results by approximately 200 basis points. This achievement marks 31 out of 35 quarters of market growth outperformance and was accomplished despite the temporary closure of 190 screens that were undergoing recliner conversions compared to only 95 screens in 3Q last year.

Before moving on, I'd like to take a moment to address some of the cyclical versus secular industry issues we continue to receive with regards to box office. As discussed on our last earning call, we encourage taking a longer-term approach when analyzing box office trends as the timing, consumer appeal and quantity of films can significantly skew monthly and quarterly results and comparisons. The fact of the matter is that North American industry has delivered record-breaking results for 4 of the past 5 years, and the first half of 2017 reached an all-time high. And while this summer was impacted by a stint of films that did not fully connect with audiences as well as a lower volume of releases than the year before, we do not believe that there's been a fundamental shift in consumer behavior over a few short months.

September's record-breaking results, which included the breakout success of It, the biggest horror-suspense film of all-time, further substantiates this summer's box office was a cyclical phenomenon rather than a secular change. And looking forward, we're optimistic about the rest of the year, particularly following the strength of Thor's domestic opening last night, its gigantic international opening last weekend of more than $100 million in only half of its overseas territories.

We're also looking forward to the strong consumer appeal for Daddy's Home 2, Murder on the Orient Express, Justice League, Coco, Ferdinand, Pitch Perfect 3, Jumanji, The Greatest Showman and, of course, Star Wars: The Last Jedi. We continue to believe the North America industry box office for the full year of 2017 will likely finish fairly in line with the past 2 record-breaking years of 2015 and '16. And we're also enthusiastic about the film lineups already announced for 2018 and 2019.

The same cyclical commentary applies to our international circuit. The consumer appeal of Hollywood films may ebb and flow along with the timing and popularity of locally produced content. That said, we've operated Latin America for more than 20 years in varied economic and political environments, and we believe that long-term growth opportunities in Latin America remain intact.

Year-to-date, we've been able to grow international box office 6.4% and total revenues by 9.2% through price increases and execution of our strategic initiatives. We're also pleased that we already have added 51 screens in Latin America during 2017, which is within the 50 to 75 range we initially guided.

Now shifting to an update on our strategic initiatives. As outlined on previous earning calls, our initiatives spin around 2 primary endpoints: first, delivering the highest-quality guest experience by providing a wide variety of amenities and outstanding customer service; and second, driving growth in attendance, box office and total revenues while continuing to consistently deliver industry-leading adjusted EBITDA margins.

One of our most important programs to enhance the experience we offer guests is our Luxury Lounger initiative. Reclining seats remain the top amenity sought out by our guests, and we're extremely pleased with the feedback and the financial results we continue to realize in our Luxury Lounger conversions. During the third quarter, we were able to increase our recliner footprint by 247 auditoriums, bringing our total reclined screens to 1,719 or 38% of our domestic circuit. As discussed in prior quarters, we are sustaining strong financial returns that are well in excess of

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our 20% threshold, driven by significant attendance uplift, ticket pricing power and food and beverage per cap growth that is well above a traditional theater.

Given the robust results that our recliners continue to generate, coupled with the flexibility our strong balance sheet affords us, we are advancing the number of conversions that we originally anticipated for 2018 into 2017 in order to take full advantage of the robust film lineup this holiday season. We now expect to end the year with recliner seats in more than 40% of our domestic circuit, approaching 2,000 screens. I'd like to reiterate that we remain aggressive but disciplined with our recliner conversions, and we will continue to pursue these opportunities only as long as they meet our balanced and consistent investment hurdles.

Enhancing our food and beverage offering is another key ingredient in upgrading the experience we provide our guests. In this regard, we remain focused on 4 key components to drive concession revenue: one, core product category growth; two, new concept innovation; three, operational execution; and four, strategic pricing.

During our prior 2 earning calls, we provided details on core product category growth and new concept innovation. However, the benefit of those efforts are only fully realized to the extent they are accomplished by top-notch operational execution from cross-departmental collaboration through our corporate office to our frontline team, who ultimately drive sales.

Together, these initiatives and the execution propelled by our domestic concession per cap to another third quarter record of $4.47, a stellar 8.8% year-over-year increase. We continue to lead the industry with 43 consecutive quarters of concession per cap growth, and I truly commend our entire team for their diligent effort required to consistently deliver these results.

Another theater attribute that highlights our guest experience is our XD premium large-format auditorium. Cinemark XD remains the #1 private-label PLF platform in the world with 236 XD auditoriums throughout our global circuit. And the XD initiatives we discussed with you last quarter that included a revitalized promotional brand campaign continue to yield strong results. Our domestic XD box office per screen outperformed the North American industry by more than 2,000 basis points. Furthermore, our global XD screens, which comprise only 4% of our circuit, generated 8.4% of our admission revenue during 3Q. As more and more of our customers continue to discover the fully immersive premium experience that is created by XD's advanced sight and sound technology, we believe we'll be able to expect further growth potential from this strategy.

Another area of advanced technology that we expect to make a big impact in the moviegoing consumer is virtual reality. For quite some time, we've been exploring VR options to engage guests beyond their theater seats. Today, we're thrilled to announce a collaboration with The Void for our first in-theater immersive entertainment location in our Dallas flagship theater next door to our corporate headquarters. We selected The Void based on several factors. Their hyperreality technology takes guests on a real-life, full body journey, where they will engage with characters and their environment through sight, sound, touch, smell and motion. And second, strong film-related experiences with global recognized IP, enabling -- enabled through their studio collaborations, particularly with The Walt Disney Company. And three, proven commercial success with premier locations in New York Times Square and Downtown Toronto. We're eager for our first site to be installed and operational likely in the first half of 2018. And we're looking forward to hearing guest feedback on their adventures. We'll continue to work closely with The Void as we explore opportunities for future sites.

Another initiative we're focused on to better serve our guests and enrich their experience is our Connections loyalty program. After only 1.5 years, we have more than 6.5 million members worldwide for whom we can monitor, track and segment transactional behavior at the box office and concession stand. In doing so, we're now starting to develop more personalized relationship with these individuals, with the ultimate goal of increasing moviegoing frequency and spend as well as supporting our studio and concession partners with targeted marketing actions. Early data suggests that dollar spend and visit frequency rates for our loyal customers are nearly 2x higher than our general moviegoing population. We're extremely pleased with our loyalty results, and we'll continue to aggressively pursue this initiative.

Along the lines of loyalty, we've received numerous questions over the past couple of months about various theater-level subscription plans being offered both internationally and domestically and whether we would consider a similar plan within our circuit. Well, today, I'm excited to announce that we'll be launching Cinemark Movie Club nationwide before the end of this calendar year. Cinemark Movie Club is a very unique take on their traditional subscription plan, with features and benefits that were designed based on consumer insights, stemming from extensive market research

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about what is most important to the widest array of moviegoers. Additionally, we developed Cinemark Movie Club with our content providers in mind and the primary objective to further stimulate theatrical moviegoing, increased box office and grow overall revenues.

For these reasons, we anticipate positive responses and full cooperation from our studio partners. We have been in the research, planning and development stages for this project during much of this calendar year and are currently beta testing the operational and technological aspects of the platform. We look forward to sharing the details of the plan with you, coinciding with our nationwide consumer launch before year-end. Stay tuned, lots to come on this front.

In closing, we're pleased with the consistency of our results that we continue to provide our shareholders. We're thrilled with the strides we continue to make with our strategic initiatives, and we're excited about the upcoming film lineup for the rest of this year and beyond.

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 - *Cinemark Holdings, Inc. - CFO*

Thank you, Mark, and good morning, everyone. During the third quarter, our global company generated $710.8 million in total revenues and $153.7 million in adjusted EBITDA, resulting in an adjusted EBITDA margin of 21.6%.

In the U.S., going up against last year's highest-grossing third quarter of all time, attendance declined 15.4% to 40.6 million patrons due to the film content drivers Mark discussed in his prepared remarks. That said, our attendance continue to outpace the North American industry. Our average ticket price increased 4.1% to $7.69 as a result of recliner conversion opportunities and other strategic pricing actions. The combined impact of price and attendance resulted in domestic admissions revenues of $312.3 million.

Our varied food and beverage initiatives generated U.S. concessions per patron growth of 8.8% to a third quarter record of $4.47 and yielded total concession revenues of $181.5 million.

Domestic other revenues increased slightly in the quarter and were up 1.2% versus the prior year.

Overall, our U.S. operations delivered total revenues of $510.7 million, with adjusted EBITDA of $108.9 million and an adjusted EBITDA margin of 21.3%.

Internationally, attendance declined 5.3% to 26.7 million patrons in 3Q, predominantly as a result of animated film content that couldn't quite match last year's high benchmark. This decline was partially offset by stronger horror films that tend to resonate well across Latin America as well as 24% year-over-year attendance growth in local film content, driven largely by 2 strong breakout hits in Argentina.

International admissions revenues were $112.8 million, which declined 4.4% versus last year as reported and were down 2.2% in constant currency. Our as reported average ticket price of $4.22 translated to a constant-currency increase of 3.3% that was primarily due to inflationary price increases and somewhat offset by premium ticket type mix.

Despite the reduction in attendance during the quarter, ongoing food and beverage initiatives drove international concession revenues up 2.7% to $65.6 million as reported and up 4.9% in constant currency. Our as reported concessions per patron was $2.46, which translated to a 10.6% increase in constant currency.

Overall, total international revenues were relatively flat with last year at $200.1 million as reported. Adjusted EBITDA was $44.8 million for the quarter, with an adjusted EBITDA margin of 22.4%.

While foreign currency movement provided a slight tailwind during the first half of 2017, an accelerated peso devaluation in Argentina, coupled with Argentina's higher-than-normal share of international box office due to its strong local content performance, led to an approximate 2%

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headwind in the third quarter. That said, while future currency fluctuations are difficult to predict, if current rates continue to hold, we would anticipate a return to a modest tailwind in 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. Furthermore, our operations throughout South and Central America are largely self-sustaining with regard to both operational cash requirements and organic growth needs.

Shifting back to our worldwide consolidated results. Third quarter film rental and advertising costs as a percentage of admissions revenues increased by 40 basis points year-over-year to 53.2%. This increase was driven by a higher concentration of blockbuster films this quarter as well as incremental spend on global advertising and promotional campaigns.

Similarly, concession costs as a percentage of total concession revenues increased by 30 basis points in comparison to the prior year. As has been noted in prior quarters, this increase was due to the impact of expanded food and beverage offerings across our global circuit that carry slightly higher cost. And while these expanded offerings can create a slight drag on our concessions margin rate, they continue to drive incremental purchase incidents and sizable growth in overall concessions income.

Salaries and wages were 12.3% of total revenue and increased 130 basis points compared to the third quarter of 2016. While we were able to achieve significant labor cost savings from a sizable reduction in global payroll hours, these savings were more than offset by reduced leverage over our base level of fixed labor resulting from this quarter's decline in attendance as well as increases in wage rates and the impact of margin-generating investments, such as new builds, recliner conversion ramp-ups and food and beverage initiatives.

Facility lease expenses and utilities and other costs as a percentage of total revenue increased by 70 basis points and 60 basis points, respectively. These increases were largely driven by 92 net screens that have been added to our global circuit over the past year.

Similarly, G&A also increased by 60 basis points as a percentage of total revenue, predominantly as a result of the fixed nature of these costs in contrast to the aforementioned attendance-driven revenue decline.

Collectively, third quarter pretax income was $63.2 million. Our effective tax rate for the quarter was 39%, and net income attributable to Cinemark Holdings Inc. was $38.1 million or $0.33 per diluted share.

With respect to our balance sheet, we ended the quarter with a cash balance of $469 million and a net debt position of $1.6 billion.

Shifting attention to our U.S. footprint. We operated 339 theaters and 4,562 screens in 41 states and 102 DMAs at quarter-end. During the quarter, we added 2 theaters with 18 screens. We have signed commitments to open 1 theater and 10 screens in the fourth quarter and 10 theaters representing 106 screens subsequent to 2017. We expect to spend approximately $85 million in CapEx for these 116 screens. We also expect to close 9 screens during the remainder of this year.

Internationally, our Latin America circuit grew to 194 theaters and 1,395 screens across 15 countries. During the quarter, we expanded by 2 theaters and 13 screens. As of quarter-end, we had signed commitments to open 1 theater and 6 screens in the fourth quarter and 7 theaters representing 34 screens subsequent to 2017. We anticipate spending approximately $20 million in CapEx for these 40 screens.

Consistent with comments on prior calls, we continue to view Latin America as a long-term growth opportunity. Considering the challenging political and economic environments within certain countries in which we operate, we are experiencing a modest near-term impact on our organic growth efforts. That said, we continue to anticipate adding between 50 to 75 international screens per year, and we believe that long-term growth prospects across Latin America remain intact, even if they slow slightly in the short run.

Regarding overall CapEx. We spent $79.9 million in the third quarter, including $11.4 million on new builds and $68.5 million on existing facilities with a concentration on recliner conversions. As Mark mentioned earlier, we are being opportunistic with regard to our recliner initiative, and we'll be advancing select projects from 2018 into 2017. As a result, we expect full year CapEx to come in near the high end of our previously guided

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range of $325 million to $350 million, with the potential to be somewhat north of that range. This spend is driven by $60 million on new builds; $80 million on core maintenance of existing screens, which is in line with our historical run rate; $10 million on the continued renovation of our headquarters building; and approximately $200 million on cash flow-generating projects that include our Luxury Lounger theater conversions and varied food and beverage initiatives. We continue to expect that our annual depreciation and amortization will grow to approximately $230 million to $240 million in 2017 as a result of this CapEx spend.

In closing, I would like to reinforce the highlights Mark emphasized earlier regarding the sustained consistency of Cinemark's financial results, the ongoing benefits we expect to derive from our strategic initiatives and the enthusiasm we maintain about the long-term prospects of our industry and forward-looking film lineup.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Eric Handler with MKM Partners.

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

Two questions for you guys. First, I know you don't want to give too much out about the loyalty program, but I wonder how you can maybe discuss how your program might be different from a movie pass because I'm assuming you probably don't want to price that low. Maybe you can give us few details about that. And then secondly, for Sean. So if CapEx is being pulled forward into 2017, does this represent the peak, most likely, for CapEx so we see either a leveling off or maybe a decline in 2018?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Eric, regarding movie club. You're right. We don't want to give out too many details on this. We did want to give all of you an idea that we've been working on this for quite a few months, in fact, the majority of this year. We had an opportunity to do extensive consumer testing about what are the most important elements of a movie club initiative -- membership that would be most important to them. We are very close to a national launch. As I mentioned, we are going to launch prior to the end of this calendar year. And we are going to describe all the features and benefits of what the club is at that time. At this point, we're not going to be disclosing all of the specifics of the club. We're going to wait till we go out at our national launch to the consumer.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

And Eric, regarding CapEx. I would say we're still in the midst of our budgeting process for CapEx. We haven't received -- we're going to be giving specifics on our next call. But I would anticipate a continued high level of CapEx next year, particularly driven by -- we have a resurgence of new builds coming. This year was artificially low, just based on some of the timing. So without getting into too much detail, I would just say, we don't -- we anticipate it to be another year of elevated CapEx.

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

Okay. And then just as a quick follow-up, since you brought it up. You're seeing a resurgence in new builds. Regal said the same thing. Are you seeing -- what are you seeing from retailers at this point for the reason for this resurgence?

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Sean Gamble - *Cinemark Holdings, Inc. - CFO*

I would -- perhaps, resurgence is the wrong word. I'd say it was just more a coincidence of timing. We tend to have a pretty steady level of new builds. We're growing, on average, about 1% a year in the U.S. Just some of the timing of the way the projects came together were a little bit deflated over the course of this year, and we're seeing that kind of over-index a little bit next year. So it's just the way some of the projects have played out.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

A perfect example, Eric, is we had a new build that was going to be done in 2017 down in the Houston area. And because of the hurricane and weather-related things, it got postponed from '17 into early '18.

Operator

Our next question is from Eric Wold with B. Riley FBR.

Eric Christian Wold - *B. Riley & Co., LLC, Research Division - Senior Equity Analyst*

A couple of questions. I guess, one, continue on the previous question around movie club. Just want to understand. I know you don't want to give a lot of details, but just -- how would you handle other competing subscription programs within your theaters? Is that something that you can avoid? Or is it something you kind of just have to deal with, have a better option that might be available to consumers?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Eric, let me just say this, regards to our movie club, I can't tell you how excited Cinemark is about this because this was so consumer-driven relative to what consumers really want in a -- in some form of a membership subscription. And we're trying to take the best of various memberships and subscription processes and apply it here. And so the elements are going to be, I think, very unique and very appealing to the consumer. As it relates to movie pass, which I think is what you're asking about, movie pass will continue to be available in our cinemas as long as they continue to operate under their current terms and conditions.

Eric Christian Wold - *B. Riley & Co., LLC, Research Division - Senior Equity Analyst*

Okay. And then on the acceleration of reseats into '17, I know you talked about some disruption in Q3 because of a large number of screens. Were those accelerated reseats completed in October? Or should we accept -- expect some level of disruption still in the remaining months of the quarter with that acceleration?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

You're going to -- we're hard at work right now, and it won't all be completed by the end of the third quarter. We will go into the fourth quarter, but we accelerated so that we could get to that north of 40% and close to 2,000 screens by the time the biggest movies of the fourth quarter are opened up.

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Eric Christian Wold - *B. Riley & Co., LLC, Research Division - Senior Equity Analyst*

Perfect. And just one final question. I know that you don't typically discuss individual film split deals or agreements in individual films, but maybe just provide some high-level clarity around how Cinemark is simply positioned with regard to film rents in general versus the industry average or higher rates that may be paid by smaller chains throughout the system.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Eric, you're exactly right. We don't go into the specifics of that. But I'll say this, we have multiyear agreements with the majority of our film content suppliers. We don't see any significant material change in our film rental numbers based on any of those deals. Really, where the changes take place is if there's a high concentration of $200 million and $300 million and $400 million pictures, then we pay on scale, as you know, and we're going to be hitting the top end of the scale. As it relates to what smaller exhibitors are paying, I really can't comment on that because I don't know what smaller exhibitors are paying.

Operator

Our next question is from Julia Yue with JPMorgan.

Yang Yue - *JP Morgan Chase & Co, Research Division - Analyst*

At Latin America, you mentioned you already have 51 new builds this year, which is near your target for the 50 to 75 guidance, and it sounds like there's no change in near term or at least the next couple of years. Have new builds and construction activity been trending as expected this year? Is there anything that you think could provide either upside or downside to that guidance?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

I would say they've been trending as we expected. As you know, Julia, Brazil has slowed down in regards to new builds, and we saw that this year. And we don't see a specific -- dramatic turnaround for that into 2018. But what we've been able to do is, because we operate in 15 Latin American countries, we've been able to make that up in other places, specifically in Colombia and in Peru, where we've been able to increase the amount of new builds to stay within that guided range of 50 to 75. So we really don't see any significant change in what we've said to you in previous quarters or when we've gotten together at some of the financial conferences.

Yang Yue - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. And then I think there's some shift in release dates for the next couple of quarters in Latin America. You mentioned local language films in Argentina this quarter are really strong. Could you remind us, I guess, what the main drivers for box office and films are for Q4 and maybe early next year?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

If there's going to be a -- there was a very strong Q4 in '16 last year. And we're looking at some very strong comparisons out of Brazil, out of Columbia, out of Peru. In Brazil, last year, there were 2 movies that did -- one did 2.5 million admissions, another did 1.7 million. Colombia and Peru each had local titles doing more than 1 million in attendance. So we see that this year is going to be a tough comparison for Latin America relative to local product. There is a significant film coming up in December in Brazil that we've got a lot of anticipation for, but we fully expect that Hollywood product in the fourth quarter will correspond very well into Latin America. Therefore, the Hollywood product will -- there'll be upside too. On the local side, there might be a little bit of a downward comparison as we go to the strong fourth quarter. But overall, we think it's going to be positive. As it relates to Hollywood, there's a couple of titles that are being shifted out of '17 and into '18. And that's because -- remember, in South America,

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it's summertime in the winter. And so Coco, for example, out of Disney, is going to be pushed into January of '18 in both Brazil and Argentina. Ferdinand is going to be pushed into January of '18 in Argentina, Brazil and Colombia. So it's a matter of just pushing from one month to the next in order to tie it to school holidays.

Operator

Our next question is from Leo Kulp with RBC Capital Markets.

Leo J. Kulp - *RBC Capital Markets, LLC, Research Division - Associate*

Just 2 quick questions. One is, Regal talked a little bit about experimenting with some dynamic pricing models. Do you have any interest in doing that? And what do you see as the pros and cons? And then just second, any update on discussions around PVOD?

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Leo, this is Sean. I'll take the first question. Dynamic pricing, it's certainly something that we're evaluating and have been looking at. It's complicated, obviously, due to studio content license agreements and the impact -- the implications that it can potentially have on the quality of a film preceding its opening. I would say that, already, we do regularly test and experiment with varied pricing models, including our varied pricing throughout the day and week, which we'll modify based on sensitivity analysis and elasticity analytics to try to optimize and maximize box office. In addition to our operations team, we have an advanced analytics group that supports these efforts. Also, at least twice a year, we do a full-blown bottoms-up review with all our local theater managers. So short answer is, it is something that we are kind of tinkering around with. It may not necessarily on a daily or hourly activity basis, but certainly, theater by theater and something we look to month to month to a certain degree.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Leo, in regards to your second question on PVOD, there's no meaningful update to give you. There's no -- there's been no advancement in our discussions that is significant to report to you.

Operator

Our next question is from David Miller with Loop Capital Markets.

David Walter Miller - *Loop Capital Markets LLC, Research Division - MD*

Guys, Sean, what was the free cash flow number for the quarter? And then Mark, just -- if you could just, I don't know, colorize the VR opportunity a little bit. Obviously, AMC is kind of initiating the same thing out here in Los Angeles. Would you say that the VR opportunity is more of an impulse purchase that people would do like before they see a film? Or do you look at it as a substitute to kind of drive volume into your assets? So appreciate any color.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

The quick answer on free cash flow is it's fairly flat. It was down $4 million year-over-year -- sorry, down $4 million, excuse me, it was up $17 million year-over-year.

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Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

David, in regards to virtual reality, we are really excited about this initiative and our collaboration with The Void. We've been thinking about this space, again, for quite a few months and had the opportunity to look at a lot of the opportunities here. The thing that really attracted us to The Void is that they are up and running in commercial with a great installation in Times Square and, as I also mentioned, Downtown Toronto. So what we're going to do in our flagship Dallas theater is we are going to allocate a very significant piece of our lobby space. So this happens to be a big theater with a really big lobby, and you're going to walk in, and The Void is going to be front and center right there. So everybody that walks in cannot miss it. And we would expect that there's going to be a lot of people that are going to do it as an impulse. But actually, I think, most people are probably going to do it in combination of both a movie and a VR experience. We're excited about this because also we have so many theaters in Dallas that we're going to be able to cross-promote and get people to come over and try a VR experience in combination with maybe our restaurant, with the bar that's also in the lobby and then VR and a movie. So it's going to be a great opportunity for us to see what we can do with a premier location, with a premier virtual reality provider and market it aggressively to consumers.

Operator

Our next question is from Michael Ng with Goldman Sachs.

Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

I just had a follow-up on the industry outperformance in the quarter. I was wondering, would you be able to parse that out between recliners and non-recliners? How much did the recliners outperform the industry? And how much did the non-recliner screens outperformed the industry -- or performed relative to the industry?

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

I'll -- we haven't broken that out, but I would say, what we've generally seen now, particularly as recliners are broader across the marketplace, we are clearly getting some over-indexing as a result of recliners. Our core circuit, however, has, I would say, operated fairly in line with the marketplace. So to a certain degree, I'd say, part of the over-performance we're seeing is a result of the recliner initiative that we're working. And I would say the core circuit kind of holding in line with our -- with the industry, that's a by-product of our consistent investment in maintaining the core over the years, which is something we've remarked on in the past.

Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. And Regal mentioned last quarter that they have some new accounting standards that would change revenue recognition for the accounting treatment for gift cards and certain NCMI revenue. I was just wondering if you could help us think about what that impact might be on Cinemark's 2018 revenue and EBITDA.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Sure. That's something that we'll be providing greater detail on during next quarter's call. It's obviously operating across 16 countries. It's a complex process, and there's a range of different topics from various customer marketing agreements, advertising agreements, loyalty programs, so on and so forth that have to be reviewed. We're working with our auditors to go through that. We did provide some high-level information in our 10-Q disclosures that were filed this morning, but we'll give a much more specific disclosure once the final analysis is complete and audited by the end of -- by next quarter.

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Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. And the U.S. concession per cap was very strong, up 9% year-on-year. I was just trying to understand whether or not there was something in the quarter, whether it was film mix or something else, that may have drove that a little bit higher. Should we consider high single digits as a good run rate?

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

That's -- the driver -- the biggest driver this quarter was just the culmination of a lot of the different initiatives that we've been working on. So I do think you'll see some ebbs and flows to that quarter-to-quarter, but I think what we've generally been seeing is somewhere in the mid-percent results. So you may see that skew up and down a little bit here and there, but I think kind of mid-single digits is a good place to anticipate.

Michael Ng - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. And the last one for me. I know you addressed this in some of your prior remarks, but just to put a finer point on it. Could you just make some comments about the Wall Street Journal article that came out this week? Are there any changes in terms on Star Wars?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Michael, as I mentioned, we have a multiyear deal with many of the content providers. Disney is one of them. So no, there's no change that we anticipate on that. So it's not going to deviate from our existing multiyear deal with Disney.

Operator

(Operator Instructions) Our next question is from the line of Stan Meyers with Piper Jaffray.

Stan Meyers - *Piper Jaffray Companies, Research Division - VP and Senior Research Analyst*

Mark and Sean, I just wanted to discuss in a bit more detail your food and beverage strategy and spending. Per cap spending tends to fluctuate with the film mix, ongoing price increases and, I guess, introduction of some new higher-priced items. But I just wanted to see if you guys have continued kind of growth in consumer spending, more participation on that like throughout the year. I was hoping you can kind of break down those various components and their contribution over per cap spending growth.

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Stan, the thing that -- we are very, very focused on our food and beverage initiatives, and that's why we've had so many consecutive quarters of per cap growth. We continue to add a lot of variety into our food and beverage offering. And that really has accomplished 2 things: one, it increases incidence of people actually going to the concession stand; and number two, it can also increase the overall basket size. And we're asked many times what inning do we think we're in because we've had so many consecutive quarters over 4 years and consecutive quarters of per cap growth. I would say we're still in the middle innings because we've got a -- we're actively still installing alcohol in a number of our installations. We're at about -- we'll be at about 33%, 34% of our circuit by the end of the year. And in terms of enhancing our food and beverage offerings, by the end of this year, we'll have close to 60% of our theaters that are providing more than a traditional concession stand. And that can be everything from a full-on dine-in reserved restaurant to what we'll call a hotspot. And it might be chicken wings and pizzas and hamburgers. But it's become very, very important to us. And we've put a lot of emphasis on it with both our home office team who have gone through a whole model of category management and thought about this from a more traditional retailing perspective to the execution of it with our operations team who have now focused on how can we increase that basket size by more -- by having a better layout within the theater, by staffing it appropriately so we don't have longer lines. And so all of this has added up to this consistent food and beverage growth.

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Sean Gamble - *Cinemark Holdings, Inc. - CFO*

And Stan, I would just add one quick thing. When you -- if you were to take our kind of growth for the quarter, about 60% of that is coming from incidence-driving initiatives, so volume-based items. About 25% is from price, and the rest is from new builds that tend to carry a slightly higher per cap. And I'd say that kind of breakdown is fairly consistent for the growth we've seen over the course of the year in terms of what's driving it.

Operator

Our next question is from Jim Goss with Barrington Research.

James Charles Goss - *Barrington Research Associates, Inc., Research Division - MD*

The first question I had is I was wondering if the charges related to seating and repositioning were the key part of the nonrecurring items that occur -- that were in the income statement that caused the variance at the bottom line. And I'm wondering what the move of acceleration of program into 2017 reseatings. Should we expect there to be another set of charges in the fourth quarter and probably on an ongoing basis but at varying amounts?

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Yes, I would say, in our kind of like gain and loss on asset sales line, Jim, the increase we're seeing there is largely as a result of some equipment write-downs associated with those recliner models. So that is the bulk of it. We also had about $600,000 worth of hurricane-related costs that impacted us this quarter, which hopefully would not be recurring in the future. But that -- I would say, as we kind of look forward, we'll continue to see things hover around this range, and then it would, in theory, go down as we kind of come through the initiative.

James Charles Goss - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And you had also talked about the XD program as you often do. I was wondering if there were marketing costs that you think you'd be incurring to promote the XD product or for promoting other initiatives, such as the reseatings or the aspects of your concessions programs. And is that a cost factor that will start to pop up a little bit?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Jim, yes, there's marketing opportunities in costs in both of those. We're happy to spend that money because it's proven to be a very good investment. And really, what we've done is we've moved our marketing mix around. There was a time where we were spending a significant amount of money in newspaper advertising listing of all of our showtimes. We virtually eliminated that, and we've moved that into brand marketing for XD. And we've moved it into theater relaunch openings and into our digital and social arena. So it's more of a shifting of the marketing budget than an increase of the marketing budget.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

And Jim, I would just add, while the concentration of large films was definitely the biggest driver of our film rental increase in the quarter, there is a little bit of incremental marketing spend for things like our XD campaign that's also influencing that line item on our income statement.

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James Charles Goss - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And then the dynamic pricing issue and the evaluations. I'm wondering if your Connections program has proven useful as you try to evaluate things.

Sean Gamble - *Cinemark Holdings, Inc. - CFO*

Certainly. That's an area where we continue to gather a tremendous amount of data on our consumers in their purchasing behavior. I would say, in terms of the pricing, per se, I'm not sure it's had a dramatic impact on what we're looking at there. We had run a range of other types of analytics that influenced our pricing category, but it's certainly an area that we can -- we'll be looking to as we continue to evaluate opportunities within the area of pricing in terms of how we can use that information to guide our thinking.

James Charles Goss - *Barrington Research Associates, Inc., Research Division - MD*

Okay. And last thought, do you think the -- there are several big-event films in the fourth quarter. I was wondering if you had looked at them as having any variances in your domestic versus international markets. I think you've talked about Star Wars being more of a U.S. event in the past. In general, do you think there's a big delta there?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

Well, there's also a couple of family films, specifically I'd call out Coco. Coco would is going to do -- I believe, Coco is going to be very strong in the U.S. And I think it will actually over-index throughout Latin America. I understand it -- in some of the territories, it's in the first quarter of 2018. Relative to Star Wars, Star Wars does over-index in the U.S., but it's also going to be a big hit in Latin America.

Operator

Our next question is from Benjamin Swinburne with Morgan Stanley.

Bronson Alcott Kussin - *Morgan Stanley, Research Division - Research Associate*

This is Bronson Kussin on for Ben. Mark, can you provide us with an update on reserved seating as a percentage of total attendance? And then as that continued to grow, have you seen any change to the positive benefits you've talked about in the past in concessions?

Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

When we recline, we always go to reserved seating. So by the end of this year, as I mentioned, we'll be over 40% of our domestic circuit reclined in nearly 2,000 screens. So those will all be in reserved seating. And we see the amount of reserve seating to be very positive for us because it does have a significantly positive effect on the per caps that people spend at the concession stand. And the reason is very simple. Because when they walk in, they don't have to be in such a hurry to go get their seat. They can be a little bit more relaxed, and it allows people to go to the concession stand more. So we're seeing upwards of about a 50% increase on the growth area of our per caps when we reserve seats. And as I mentioned as well, 2018, we're going to continue to be aggressive with our recliners. And so you're going to continue to see more and more reserved seats along that way as well, commensurate with the reclined seats.

Operator

(Operator Instructions) I'm showing there are no further questions at this time. Are there any closing remarks?

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Mark Zoradi - *Cinemark Holdings, Inc. - CEO and Director*

We'd like to thank you very much for joining us this morning. We look forward to speaking with you again following our fourth quarter. Thanks again.

Operator

Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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