Company Name: Cinemark
Company Ticker: CNK US
Date: 2019-08-02
Event Description: Q2 2019 Earnings Call

Market Cap: 4794.13565859
Current PX: 40.9399986267
YTD Change($): 5.13999862671
YTD Change(%): 14.358

Bloomberg Estimates - EPS
Current Quarter: 0.539
Current Year: 2.251
Bloomberg Estimates - Sales
Current Quarter: 819.182
Current Year: 3308.417

Q2 2019 Earnings Call

Company Participants

- Chanda Brashears, 'Vice President of Investor Relations'
- Mark Zoradi, 'Chief Executive Officer, Board Director'
- Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

Other Participants

- Eric Handler
- Alexia Quadrani
- Eric Wold
- Jim Goss
- Alan Gould
- Megan Durkin
- Robert Fishman
- Ben Swinburne
- Chad Beynon

Presentation

Operator

Good day. My name is Shelby, and I'll be your conference operator today. At this time, I would like to welcome everyone to Cinemark Second Quarter Earnings Conference 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). I would now like to turn the call over to Ms.Chanda Brashears, Vice President of Investor Relations. Please go ahead, ma'am.

Chanda Brashears, 'Vice President of Investor Relations'

Thank you, Shelby, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holding Inc's second quarter 2019 earnings release conference call hosted by Mark Zoradi, Chief Executive Officer; and Sean Gamble, Chief Financial Officer and Chief Operating Officer. In accordance with the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995, certain matters that are discussed by members of management team during this call may constitute forward-looking statements. Such statements are subject to risks and uncertainties and other factors that may cause Cinemark's actual performance to be materially different from the performance indicated or implied by such statement.

Such risk factors are set forth in the company's SEC filings. The company undertakes no obligation to publicly update or revise any forward-looking statements. Today's call and webcast may include non-GAAP financial measures. A reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures can be found in today's press release, within the company's annual filing on Form 10-Q or on the company's website, investors.

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

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thank you, Chanda, and good morning, everyone. Thank you for joining us to discuss our 2019 second quarter results.

We're thrilled to report that during the second quarter, we delivered all-time quarterly high global revenue, net income, adjusted EBITDA and earnings per share. These achievements were propelled by the strength across our global circuit. A few noteworthy highlights include; domestic year-over-year box office results that surpassed the North America industry by over 300 basis points and extended our outperformance trend to 37 of the past 42 quarters; double-digit domestic food and beverage per cap growth of 11%, which produced another new all-time high per cap; a 17% increase in international attendance, which surged over 30 million patrons, our highest quarterly international attendance since we sold our Mexico operation in 2013; and a 49% increase in international adjusted EBITDA We achieved all these results by capitalizing on the second quarter strong film lineup, as well as continuing to execute our customer-oriented strategic initiatives. These initiatives centered on the guest comprehensive entertainment experience, which include; providing top-notch customer service and amenities; enhancing the quality and variety of our food and beverage offerings; and strengthening our targeted and personalized interaction with guests, both within and beyond our physical theaters.

To provide a better picture, let's dig into the status of several of our key initiatives, starting with Cinemark Movie Rewards. During the second quarter, we completed the rollout of a modification to the structure of our domestic loyalty program. That modification involved enhancing and combining Movie Fan, our free loyalty tier along with Movie Club, our paid subscription tier under a singular movie rewards umbrella. Following this change, we've already seen a significant uptick in new enrollments to our free Movie Fan program with nearly 725,000 new signups during the second quarter, which extends our global loyalty outreach to over 10 million members for whom we are developing more personalized and unique guest experiences to support current and upcoming film content.

Meanwhile, growth and results of our paid Movie Club tier continue to exceed our expectation. Since our prior earnings call in May, Movie Club membership has grown in excess of 20% to accumulative 800,000 members. This figure equates to more than 2,300 members per theater location. Program satisfaction remains exceptionally high and members continue to cite Movie Club's benefits, value and convenience as key drivers, which include the ability to roll over unused movie credits, a 20% food and beverage discount, waived online fees, add-on tickets for companions, as well as the ability to share unused movie credits, and a straightforward monthly membership that doesn't require a long-term commitment.

Since we launched Movie Club about 1.5 year ago, we have sold over 24 million movie tickets through the program. And during the second quarter alone, Movie Club represented 14% of our domestic box office, spanning all genres and sizes of film. In fact, we saw an uptick in movie credit redemptions during the quarter from 75% to 80%, which is attributable to the strong appeal of the second quarter film slate, the seasonality of summer movie going and Movie Club's ease of use. A fundamental objective of Movie Club is to stimulate incremental theater visits for both frequent and occasional moviegoers, which we're witnessing in our ongoing industry box office and attendance outperformance, the high sustained utilization of the program observed through credit redemption and the fact that 75% of our members report that they are attending our theaters more frequently since joining Movie Club.

Importantly, this stat has held consistent since we launched the program. Similarly, in addition to incremental trips to the theater, over half of our members report that they are visiting our concession stand more often and are purchasing more products during each visit. We see this behavior validated in the transactional basket size for members that are comparable to non-members, even though Movie Club's 20% discount, as well as our ongoing domestic per cap growth that is up over 12% year-to-date. So we're thrilled with Movie Club's continued growth and overall results.

When we evaluate our domestic circuit's ongoing box office performance, sustained ticket price growth and all-time high food and beverage per caps, we see Movie Club along with other key strategic initiatives as a meaningful contributor to our success. Another key success factor in our expansion and enhancement -- is our expansion and enhancement of food and beverage offerings, which has led to 50 consecutive quarters year-over-year in domestic per cap growth. While this quarter's results were supercharged by a mix of film content that played right to the sweet spot of concession buyers, our team's many efforts to stimulate incremental consumption was the core driver of sustained growth. Examples of these efforts include; our continued focus on driving core popcorn, fountain drinks, and candy volume; our expanding Pizza Hut partnership; new alcohol activations; growth in multicultural fair; new and increased volumes of merchandise; and strategic concession stand designs, that encourage incremental impulse purchases and accelerate throughput to just name a few.

We are extremely pleased with the tremendous success our food and beverage and theater operation teams have delivered and we're continuously expanding with deploying new innovations to sustain this growth trend into the future. Two more initiatives that are enhancing our guest experience and also driving growth are the investments we've made in Luxury Lounger recliner seats and our XD premium large-format auditoriums. Luxury Loungers are now featured in 58% of our total domestic theaters, which is the highest penetration among the major exhibitors. Our theaters that have been repositioned with recliner seats continue to yield sizable benefits and customer satisfaction as evidenced by direct feedback from our guests, as well as a willingness to drive further to enjoy this amenity.

Furthermore, we continue to realize sustained lifts in attendance, ticket pricing and concession purchases at these locations. As we look forward to the rest of the year, we still anticipate approximately 60% of our domestic circuit will be reclined by year-end. Cinemark XD also continues to deliver outsize results as guest upgrade to the ultimate premium movie-going experience it provides with immersive sight and sound technology. In the second quarter, XD generated approximately 10% of our global box office on only 4% of the screens.

Moreover, XD achieved a new record generating more than $50 million in worldwide admission revenue during the second the second quarter. XD remains the number one exhibitor branded premium large format in the world with 263 XD auditoriums across our global platform. Overall, our ongoing efforts to enhance our guest's comprehensive entertainment experience were a key ingredient to this quarter's strong financial and operating performance. Before I turn the call over to Sean, I'd like to take just a moment to provide some additional context regarding the overall exhibition industry.

There has been quite a bit of negativity in the news regarding the North American industry's second quarter box office results on account of a slight decline from last year and some over inflated expectation. What seems to have been overlooked is the fact that Q2 delivered the second highest grossing quarter of all time with 3.2 billion in box office, and a big reason for the modest decline is because 2Q of last year generated the highest grossing quarter of all time with 3.3 billion in box office. Furthermore, while certain films may have disappointed relative to lofty expectations, others over performed and delivered stronger results than anticipated. And this time[ph] and again that film performance is predominately boiled down to the quality and timing of each individual film.

That phenomenon clearly played out this quarter in Latin America. After several quarters of challenging contact mix that didn't resonate well with Latin audiences as well as other places in the world, the second quarter experienced tremendous attendance growth across the region. In fact, Avengers: Endgame became the highest grossing film of all time in Latin America similar to the rest of the globe. And Toy Story 4 became the highest grossing animated film of all time.

Second quarter growth throughout Latin America underscores the notion that box office more closely correlates to film content and economic or political cycles. As for the remainder of 2019, we remain enthusiastic about the upcoming film lineup. The third quarter kicked off with a bang, as Spider-Man: Far From Home and The Lion King have both delivered over $1 billion in global box office. We've also had strong openings from last weekend's Once Upon a Time In Hollywood and Hobbs & Shaw last night, and we look forward to the much-anticipated sequel to IT still to come.

We expect third quarter Hollywood content will also perform well in Latin America, which will further benefit from part two of the Brazilian local title, Nada a Perder. In the second quarter last year, part 1 of Nada a Perder generated over 12 million in attendance with similar results anticipated for part 2. The fourth quarter slate also looks promising with Frozen 2, Star Wars: The Rise of Skywalker, Jumanji 2, Ford v Ferrari, A Beautiful Day in the Neighborhood, and Joker, just to highlight a few. I'd like to remind you that both Frozen 2 and Jumanji 2 will not be released this year in our key Latin American territories.

Instead they're scheduled for January of 2020 to take advantage of school holidays consistent with historical release patterns. So again, considering the exasperated media coverage regarding the box office this year, we thought it would be helpful to provide that slight drill down into the second, third and fourth quarters. That said, we continue to encourage you to take a longer-term view when analyzing box office and attendance trends as it can be easy to misinterpret the big picture, when only focusing on specific films, weekends, quarters or even individual years. North America industry attendance has held steady at approximately 1.3 billion patrons per year going all the way back to 2010, and that's during mass adoption of over-the-top streaming services in the home for the past 7.5 years, and excludes the full benefit that the industry is starting to realize from its many recent investments in recliner seats, new food and beverage concepts, subscription services and advanced data and marketing tools.

Cinemark operates and excels within this stable industry. And we believe some of our key distinguishing factors are; our overall financial strength; our operating and investment discipline; the consistency of our results; and an ongoing focus on creating long-term shareholder value. Our frontline theater teams around the world are dedicated to providing our guests a truly memorable movie-going experience in the highest quality out of home environment, which will generate loyal patrons and continue to deliver consistent results. That concludes my prepared remarks.

I'll now turn the call over to Sean to address a more detailed discussion of our second quarter financial performance. Sean?

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

Thank you, Mark, and good morning, everyone. Before diving into the details of our second quarter financial results, I'd like to remind you once again that as of January 1, 2019, we have fully lapped our transition to ASC 606's revenue recognition accounting standards that took place over the course of 2018. And as discussed last quarter, beginning this year, we implemented accounting pronouncement ASC 842, which impacts lease accounting.

Associated with the adoption of ASC 842, we recorded a new operating lease right-of-use asset and a corresponding operating lease putting lease liability of approximately $1.5 billion each. Additionally, a small subset of capital leases have now been converted to operating leases according to the new standards. The transition to ASC 842 has zero impact on net cash flow and minimal impact on net income. However, it does create a slight non-operational drag on our adjusted EBITDA and operating cash flow metrics.

Additional information about these changes can be found in the footnotes of our 10-Q or in the 8-K we filed on May 7, 2019 in tandem with our first quarter earnings release. It's important to emphasize that ASC 842 is purely an accounting presentation change, which is largely intended to reflect all these obligations on the balance sheet. It does not impact cash rent payments, obligations to landlords or any other underlying business or operating fundamentals. Shifting now to our second quarter financials, as Mark described, during the quarter, our global company generated all-time quarterly records in total revenues of $957.8 million and consolidated adjusted EBITDA of $244.7 million.

Furthermore, our adjusted EBITDA margin reached a second quarter high of 25.6%, even though it was reduced by 60 basis points as a result of the ASC 842 accounting presentation changes. In the US, admissions revenues of $407 million were relatively in line with last year's record setting result and declined by only 0.5%. As Mark already mentioned, this result surpassed the North American industry box office by over 300 basis points and was driven by outperformance in both attendance, which declined 1% to 50.1 million patrons, as well as ticket price, which increased 0.5% to $8.12. While a higher mix of child tickets and reduced 3D associated with this year's heighten volume of family films created a drag in our average ticket price, overall ATP growth came from strategic increases in core prices as well as incremental opportunities from recliner conversions.

Despite the modest attendance declined during the quarter, total domestic concession revenues grew 10.1% to $274.9 million. This growth can be attributed to our ongoing actions and promotions that are geared towards stimulating incremental consumption, as well as a slate of films that work particularly well with the most active concession consumers. Collectively, these factors drove concessions per patron up 11.4% versus 2Q '18 to another new all-time high of $5.49. Similarly, domestic other revenues also grew and were up 21% versus last year, predominantly as a result of increases in promotional and transactional related income.

Overall, our US circuit delivered all-time highs in both total revenues of $743 million and adjusted EBITDA of $195.3 million with an adjusted EBITDA margin of 26.3%. Internationally, admissions revenues were $114.1 million, which increased 14.1% versus last year as reported and 36.2% in constant currency. International attendance grew 16.7% the 30.1 million patrons, spurred by the favorable film content drivers that Mark addressed earlier. Our reported average ticket price of $3.79 translated to a constant currency increase of 16.5% that resulted primarily from inflationary price growth, as well as an anomaly that lowered last year's overall average pricing associated with the local title, Nada a Perder.

International concessions revenues were $70.4 million, which increased 26.4% as recorded and 48.1% in constant currency. Our as reported international concessions per patron was $2.34 and grew 26.9% in constant currency as a result of inflation, our strategic food and beverage initiatives and similar impact that Nada a Perder had on last year's per cap results. International other revenues were $30.3 million, which increased 24.7% as reported and 52.3% in constant currency. This increase was largely driven by favorable growth in screen advertising and promotional income.

Overall, total international revenues grew 19.3% to $214.8 million as reported, adjusted EBITDA increased 49% to $49.4 million; and our adjusted EBITDA margin was up 460 basis points to 23%. As expected, foreign currency translation remained headwind in the second quarter, leading to an approximate 17% drag on a reported financials. And, while future currency fluctuations are difficult to predict, if current rates continue to hold, we would expect a percentage headwind in the mid-single-digit range for the second half of the year. As a reminder, the vast majority of our international operating expenses are transacted in local currency, including film rental and facility lease payment expenses.

So the impact of currency exchange is predominately translation based and not transaction-oriented. Shifting back to our worldwide consolidated results, second quarter film rental and advertising costs as a percentage of admissions revenues increased slightly by 20 basis points to 56.6% in comparison to the prior year. Likewise, concession costs as a percentage of total concessions revenues increased by a 150 basis points, predominantly as a result of product mix associated with expanded food offerings, as well as merchandise opportunities that benefited from the second quarter's enhanced character driven lineup of films. As mentioned in prior calls, while these newer offerings tend to create a slight drag in our concessions margin rate, we continue to drive sizable growth in overall concessions revenues and income.

Salaries and wages were 11.4% of total revenues and increased slightly by 10 basis points compared to the second quarter of 2018, predominantly driven by wage inflation and incremental our support of varied concessions initiatives. Facility lease expenses as a percentage of total revenues increased by 20 basis points primarily due to new feeders and $5.7 million year-over-year presentation change associated with the adoption of ASC 842. Firstly[ph], utilities and other costs as a percentage of total revenues declined by 20 basis points as did G&A Collectively, second quarter pre-tax income was $114. Our second quarter's effective tax rate was 27.3% and net income attributable to Cinemark Holdings Inc was $101 million or $0.86 per diluted share.

With respect to our balance sheet, we ended the quarter with a cash balance of $511 million and net debt position of $1.4 billion. Our net debt improved by $107 million versus prior year, as a result of reclassifying certain capital lease obligations to operating lease obligations connected to the new lease accounting guidelines. Turning attention to our US footprint, we operated 344 theaters and 4,630 screens in 41 states and 104 DMAs quarter end. During the quarter, we opened two theaters and 24 screens, acquired two theaters and 30 screens, and close to two theaters with 20 screens.

We've signed commitment to open two theaters and 24 screens during the remainder of 2019, and nine theaters representing 102 screens subsequent to 2020[ph]. We expect spend approximately $90 million in CapEx associated with these 126 screens. Internationally, we operated 205 theaters and 1,456 screens in 15 countries across Latin America. As of quarter-end, we have commitments to open six new theater and 49 screens during the remainder of 2019, and eight theaters representing 60 screens subsequent to 2019.

We anticipate spending approximately $62 million in CapEx for these 109 screens. Consistent with our prior comments, we continue to view Latin America as a long-term growth opportunity, and we anticipate adding on average 50 to 75 international screens per year in the near-term. Regarding overall CapEx, we spent $57.6 million in second quarter including $14.2 million is our new builds, and $43.4 million on existing theaters that was predominantly associated with recliner conversions and other revenue generating investments. For the full-year, we continue to anticipate spending between $300 million to $325 million of CapEx, of which approximately one-third is designated for new builds both domestic or internationally, another one-third is for core maintenance, including certain expenditures to satisfy varied regulatory requirements, the remaining one-third is budgeted for cash flow generating projects that include additional Luxury Lounger theater conversions and varied food and beverage initiatives that meet our balanced and disciplined investment thresholds.

We continue to expect annual depreciation and amortization will remain roughly in line with 2018, at approximately $260 million to $270 million as incremental growth associated with new capital expenditures is largely offset by the impact of ASC 842. In closing, we're thrilled with the many all-time high record results we generated during the second quarter. Furthermore, we are highly encouraged by the continued progress of our strategic initiatives to help deliver this record performance along with the sustainable declined[ph] processing film content ahead. We remain focused on making prudent investments to position ourselves for ongoing success, and to deliver long-term shareholder value while maintaining the financial health of our company.

Shelby, I conclude our prepared remarks, and we would now like to open up the lines for questions. (Question And Answer)

Operator

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

Eric Handler

Thank you very much and good morning.

Two questions for you guys. First with alcohol sales. What percentage of your theaters now sell alcohol. And where can that go to over the next couple of years? And I'll have a follow-up after.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Hi, Eric. Thanks for the question. Eric, we're just under 50% now up 45% and by year end will be at about 50% of our theaters offerings helping alcohol some there wine and frozen others with a full bar. We'll continue to grow that, it's not going to they're not a real still -- addition to that, because there's certain parts of the country that we operate in where we won't will likely have to add alcohol.

For example in most of Utah parts of Idaho where we won't, other places have very restrictive alcohol policies like the state of Washington, some places alcohol licenses are just prohibitively expensive, for example, some of the East Coast states. So will be fifth of the end of the year and will continue to grow that in a modest way going forward.

Eric Handler

Great. And now that your increasing you're free Movie Fan tier of customers and you got good growth there, you're up to 800,000 subs for Movie Club, can you talk about some of your push marketing initiatives and how that's been changing over the last couple years and what you're capable of doing now with going through big data.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Well, let me start with a Movie Fan which you asked about first. Movie Fan, we think has got tremendous growth opportunities, since we just really re-launched this, with our new format. We think over the next two, three four quarters. That will see that number continue to grow significantly, domestically as well as we'll continue to add loyalty programs throughout Latin America, some countries have them some don't right now.

From a Movie Club standpoint we have been very aggressive in marketing, acquiring a lot of our subs from our existing members in our loyalty program, but also reaching beyond our walled garden with promotions with everyone from Coca-Cola company to AT&T to Amazon to Costco, so there is strong marketing group on our team dedicated to loyalty who will continue to market Movie Club that the way that we design Movie Club in the beginning was to appeal to a very, very broad audience of moviegoers. The most moviegoers in the United States go somewhere between 6 and 12 times a year. Obviously there's some people that don't go at all. But if you're a moviegoer, that's your general, that's the big audience.

And so, we design Movie Club to really be able to attract those people make it very economically viable for them and the best value and I think that's why we've seen this consistent growth and in movie we think we still have a quite a runway to go in that.

Eric Handler

Great, thank you very much.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thanks, Eric.

Operator

Your next question comes from comes from Alexia Quadrani of JP Morgan.

Alexia Quadrani

Thank you so much. Just two questions. First, just looking at the outperformance in the quarter. Any sense, how much was one of your vital strategic initiatives that you went through versus really just the type of film that may have played better given your where you're located at your theaters are located? And then the second question.

I just wanted to thank you for the contrary you gave up around the overall health of the box office and the concerns around the second quarter industry performance thatbroadcasting on that topic I was here if you think that there's some truth in what people are saying about maybe too many sequels and maybe calm these just so very, very hard to make work.

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

Thanks for the questions Alexia. This is Sean. I'll take the first question.

The Mark will do that second regarding our outperformance, I would say it's hard to precisely segregate how much came from each action we're doing. But I can tell you that, we certainly see benefit continuing to be derived from our recliner performance. We look at our recliner -- recline theaters and our recently reclined theaters, we definitely saw some sizable out performance relative to the industry for those theaters. Obviously, our ticket pricing also was higher than the industry on a whole.

So we got some lift there. The content makes definitely did also help us, there's a lot of favorable family content, which does well across our circuit and then we also had the benefits of Movie Club which as Mark mentioned in his prepared remarks, we continue to see similarly going. So, those are what we look at when we kind of drilling to it as some of the driving forces of what led to our a performance. I would say, the only other thing we derived take a benefit from as we had fewer closed screens for reclining declining this year relative to last year, when we were in a more active reclining mode.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Alexia, relative to your question on the box office and a sequel. I would say, no, I don't think there's too many sequels, I think it's a matter of what does the audience want and what are they willing to get out of their home and pay their, $10 to $13 to go see. And in the second quarter, there was really a mix of that clearly you had Avengers as dominate the second quarter and probably Toy Story 4, but those were highly satisfying movies and Avengers was not only the box-office success, but also a critical success and an audience pleaser and the same goes with Toy Story 4 and then there was yesterday, which is really a fresh new movie that performed very well. And as we look -- as we're looking at the quarter that we're in right now, you have to spent a time in Hollywood, which is come out and done and has had a really good start.

And then of course, The Lion King, which is a CGI sequel follow-up to the original hit from the 90's again extremely audience assess fines. So, I think what the studios are trying to do, is to try and look and say, what are people wanting to go see, and what are they willing to generate the desire to leave the home and go out, and that's what they're providing and whether that's a new movie or whether it's a sequel. I don't think that really matters, you looking into the fourth quarter where you got Ford versus Ferrari; A Beautiful Day in the Neighborhood; along with the sequel to Frozen. So a couple of new and a couple of sequels.

Alexia Quadrani

Thank you very much.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thank you, Alexia.

Operator

Our next question comes from Eric Wold of B Riley.

Eric Wold

Thank you, good morning.

All avoid asking the questions on domestic as we all have the industry's going nowhere, so might as well have elsewhere.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Appreciate your comments, Eric, and what you bring.

Eric Wold

So a couple questions Latin America. You've obviously had weakness their attendance for some time, last year had to it World Cup and the individual targets say I can the same quarters I don't want to dwell too much on one quarter doing extremely well, but you starting this -- are you starting to see anything and in attendance or spending pattern under that would indicate that it was more than just an easy comp in Q2 I've starting to see a pivot for stronger turns in the region?

Mark Zoradi, 'Chief Executive Officer, Board Director'

Eric, I think that it's both things as you said, I mean clearly, we had the trucker strike last year.

So that was good relative to comparison. But the more important thing is that the movies just lined up well, it was a strong -- of family based product. Toy Story did incredibly well in the United States where what it was the biggest animated movie of all time in Latin America. And in Argentina, not only the biggest animated movie, it was the biggest movie of all time, live action or animated.

So when you have movies at really line up well with the desires of the people that's the kind of thing you get and then of course Aladdin did very well there as well, and Avengers did very well. So you had action adventure and you had strong family content and that's what we're really seeing going into the third quarter as well. So, I think it's very much content driven that drove the box office in Latin America.

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

And, I would just add to it Mark's said, when we've kind of dug into some of the prior years we've just seen softness and some of those core categories that really plate and audiences and family and horror, those clearly came back this year.

The other thing too, in particular the last year a lot of the films that helped drive the US box office and created this disconnect with Latin audiences, they just didn't resonate with Latin audiences, they were just they were very kind of either US oriented or just non-oriented and that kind of propelled it, whereas we've seen more of the types of mix that really speaks to that audience. So just to reinforce what Mark said, it boils down heavily to the playability of the film content in that market. And then there's the ebbs and flows of local content to where we saw, Nada a Perder in the second quarter of last year, we got the benefit of that coming back in the third quarter of this year. So that's also going to be something that's going to really help prop up the region, as we turn into this quarter.

Eric Wold

Okay. And then I know it's difficult down there given, the variety of countries you operate in, but what are your thoughts on your Movie Club like offering down there or some kind of heightened loyalty program? Is that something you think would work in that region.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Eric, we actually have a version of a movie clip program, currently up and running in Argentina. It's doing very well and we are actively looking at doing other forms of a Movie Club subscription offer in our major territories down there.

One thing that I learned a long time ago in the international business, is there's a lot of right ways to do it. So we're going to take the concept of Movie Club and Argentina created their own version of it, which is right for Argentina, and Brazil will adapt it a little bit to make it right for Brazil as well. So, we're already active and up and running in

Argentina and Brazil is not far behind.

Eric Wold

Perfect, thank you guys.

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

Thanks.

Operator

Your next question comes from Jim Goss of Barrington Research.

Jim Goss

Good morning, first I try not to say this very often, but I thought those were impressive results, especially in the context of challenging concepts in the FX headwinds you're dealing with. But I would ask with that you addressed a little of one of my questions of the average attendance per year.

I think tends to be about three to four people, do you said and terms of moviegoers more like 6 to 12? And since you're stimulating incremental attendance? I'm wondering where you think that 6 to 12 can head from the expensive head and do you think you're fairly far along the capturing the audience should think you got for the Movie Club.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Jim, I'll take the second part of the question first. I think we're probably at the very most in the middle innings. I think we still have a long ways to go with Movie Club.

I mean, we've continued to see strength literally every week in each and every month to grow it, and we've got significant marketing and promotional opportunities to continue to do so. And we really have aimed at the big broad audience of American moviegoers with the concept of Movie Club. So I think we still have a way to go. And your first question was --

Jim Goss

The average moviegoer.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Yes, I think we can continue to grow it, I mean, we're seeing in the research that Movie Club members are telling us over and over again. We do regular research that they are going to the movies more often since beating a Movie Club member. And we're seeing also that Movie Club members are going to upwards of 3 times more than non-Movie Club members. So, every time we can get a Movie Club member and somebody has credits on their phone; that they have prepaid for; and they can get their tickets with no online fees; and they can bring a friend with them, if that friends not a member; and they get there and they can get a 20% discount.

We're just -- we've made it frictionless for the audience. So we think that the in mentality of additional ticket sales were seen specifically between members and non-members and members reporting that they are in fact going more since becoming Movie Club members.

Jim Goss

Okay, and I'm also wondering on the concession for patron gains are made, what are the key drivers US and international, and you were just talking about that a little bit, the impact of the Movie Club 20% discount on these metrics.

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

I'll take that, when you kind of break apart, at least this quarter's growth in per cap, I'll speak to domestic, I'll concentrate on that but it's basically the -- directionally the same, Jim.

We look at about half of the per cap growth came from volume this quarter about 35% we kind of look at came from new categories and distribution techniques and a lot of those new incidents driving initiatives that was that were pursuing and about 15% came from price. A lot of the volume, and I'd say, even some of the support from the initiatives based lift was helped by what we talked about earlier around just the mix of content that mix was really played well to concession buying, particularly with regard to merchandise. We were able to lead into that heavily. So those are the things that have been kind of driving that both domestically internationally.

We think this quarter is particularly boosted by just how well the content laid out. But as you've seen we've had a pretty long track record of growing that per cap growth, our CAGR has generally been in the 5% to 6% growth range. And that's something that while it's a tough hurdle, we like to think that that's probably a bit more of a sustainable range.

Jim Goss

Okay, and lastly, screen advertising in Latin America, you've talked about that in the past that you're developing your own program, I wonder where you stand in that judging by the comments you just made.

And what degree are you able to involve competitors in terms of numbers of relationships or number of screens.

Jim Goss

Jim, relative our screen advertising company, Latin America, is called Flicks. It actually has been very successful, we're continuing to add independent theaters, chains as affiliates. We are the number one screen advertising company from south of Mexico down, because we don't operate in Mexico obviously, we also have gained a Cinepolis as a -- as an affiliate in some of our Southern continent countries.

So, the fact that we have not only Cinemark where were the dominant exhibitor in Argentina and Brazil and very strong in Chile, we've also added quite a few affiliates, so that we are the number one screen advertising company in Latin America.

Jim Goss

I was just a big driver of that other revenue growth to about 52% in constant currency for international is the effect of Mark just talked about bringing those third parties into the Flicks Network where that gets reported in that line.

Jim Goss

Okay. Thanks very much.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thanks Jim.

Operator

Your next question comes from Alan Gould of Loop Capital.

Alan Gould

Thank you for taking the question, I've got a few. First on free cash flow and CapEx.

CapEx is down 29% the first half of the year, yet the -- is a CapEx guidance has not changed, which implies CapEx sort of close to what it was second half last year. Just want to confirm that is as back in the voted this year as that implies?

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

On the CapEx, we still think that is the case is some of our new builds, which is -- that's it -- those are heavy CapEx consumers. Some of those have kind of shifted it's something we continue to look at, there is the possibility for that to drift on the low end of that scale perhaps a bit lower. But, at the time -- for the time being, we're still optimistic that most of those are going to fall in year.

So, but yes, we just kind of look at thing it's definitely drifting towards the lower end of that range at the moment.

Alan Gould

Okay. And secondly, Regal has now open doors -- about to open a Movie Club in the in the US Do you think that has a big impact on you?

Mark Zoradi, 'Chief Executive Officer, Board Director'

I'm look any time there's Regal is a good competitor and we've had Movie Club in the marketplace for -- since December of 2017. It was the first exhibitor sponsored subscription program.

And in there are some markets in which we compete head-to-head with Regal, not as many as a AMC does. The Regal program is much more in line and similar to the AMC program than it is to Movie Club. So, anytime you have a competitor come out with a big marketing plan, of course, it's going to affect a little bit, but I don't think it's going to be dramatic for the two reasons. One, it's a different program, it's really centered on the mega heavy moviegoer, those that are going 3 and 4 times a month.

We're focused on the more general frequent moviegoers who go 6 to 12 times a year, so I don't think we'll have a big impact on us. But of course, it will have a slight impact and a couple of markets that we compete with.

Alan Gould

Okay. My last question Mark on, I appreciate your industry comments, I know the strong the 4Q looks like it has a strong line-up, but I'm just wondering, what do you think the impact of Disney launching its OTT service, and what looks like the releases some of the Netflix is larger films in the fourth quarter will have on you and the industry 4Q

Mark Zoradi, 'Chief Executive Officer, Board Director'

Alan, the one thing that we have seen over and over again, is it people who watch a lot of television at home? Whether it's streaming or network television, those people also are people who actually leave the house and enjoy out of home entertainment the most.

So we think that Disney doing there -- Disney plus can be complementary to us. It's clearly what we see in the research. And so and from a Netflix standpoint, really this is business as usual for Netflix. They've got a couple of more high-profile films this year, but Netflix bread and butter is serialized television.

And so we're not concerned about that, because at the end of the day, people want to get out of their house and enjoy a social environment in which to see movies. And we've seen it very consistently, as mentioned you bring all the streaming that's happened over the last five, six, seven years whether it was Hulu, Amazon, Netflix, we've had a relatively consistent amount of attendance overall in the business. So, with all the improvements that we've made and certainly our competitors have made in improving the movie-going experience we think that we've got that we're going to continue to operate or in a relatively stable business. And Disney is going to be, I think, actually a good partner in continuing to promote the theatrical movie going experience, they have been the most consistent supplier system supplier for us and they continue to tell us that that's going to continue into the future.

It certainly is as we look forward to years 2020, '21 they've announced that they're going to have a Star Wars or Avatar in each corresponding year, there's going to be a couple of Pixar, there's going to be Disney live-action. So I think Disney is very, very much committed to the theatrical business, and now they're getting into the director home business as well.

Alan Gould

Okay, thanks a lot Mark.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thanks, Alan.

Operator

Your next question comes from Megan Durkin of Credit Suisse.

Megan Durkin

Hi, good morning. I have two questions for Mark. I appreciate your comments on Regals new plan, can you just remind us maybe what you saw in the Movie Club subscriber trends when AMC launched in 2Q '18.

And then --

Mark Zoradi, 'Chief Executive Officer, Board Director'

That's a good question. Okay.

Megan Durkin

And then, I'll just give you my question now. Can you talk a little bit about the impact you can see on the business long term from Studios may be releasing fewer movies over time, I think investors seem to be worried that Disney is cutting Fox output and that others could reduce their output.

So, do you have any of the visibility on 2020, and how many films there will be in the market, and overtime where that will go?

Mark Zoradi, 'Chief Executive Officer, Board Director'

Okay Megan, let me take the first one relative to effect on Movie Club when A-List came out. Actually the data shows that we continue to grow right through the introduction of A-List and I think one of the reasons why goes back to that it really is designed for a different movie-going audience, A-List or Unlimited are designed specifically for that mega moviegoer who wants to go 2.5 to 4 times each and every month, and that's a relatively small segment of the audience. The majority of people, like I said, go 6 to 12 times a year. And so we did not see a downturn, in our growth pattern when A-List came out.

So that tells us that we -- I don't think we're going to see it with Regals planned as well. Relative to the number of movies that are made, this is not a numbers game. I had the good fortune of I was at Disney when we were making 20 and 24 movies a year, across all these multiple different labels and we cut that -- it was really Iger's strategy to cut down the numbers of movies, but concentrate on making really big high profile movies and we all seen what Disney and the Alan Horne and Iger team have been able to put forward. So this is not a numbers quantity game, this is a quality game and we continue to see that and as we look to 2020 we think it's a good strong line-up, it's hard to call and put a box-office to it at this point.

But, Pixar's announced two really strong movies Onward and Soul; Marvel is come out with Black Widow and Eternal; Disney's got three big live action movies plus a untitled Disney animation; and then you have Wonder Woman coming from Warner Brothers; and Fast and Furious from Universal; and Minions from Universal and the next Bond, and the next Top Gun, and Conjuring, and Birds of Prey. So we're sitting here relatively early in 2020 and are optimistic. The one thing that you just never know is you never know what that big breakout is going to be sitting in our chair none of us would have called Black Panther to do $700 million and nor would have anyone called it to be the breakout hit that it was, or even Wonder Woman to be the breakout hit that it was. So we have a pretty good insight into the ones that are coming, and we're optimistic about others, because there's always one or two surprises.

It just, is the movie business.

Megan Durkin

Okay. Got it. Thanks.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thanks, Megan. Welcome to the call, thank you.

Operator

Your next question comes from Robert Fishman of MoffettNathanson.

Robert Fishman

Good morning, I've one for Mark and one for Sean.

Mark, any updated thoughts on implementing dynamic or variable ticket pricing initiatives at your theaters, are you just solely focused on the Movie Club at the moment?

Mark Zoradi, 'Chief Executive Officer, Board Director'

Robert, we're looking at that, I can't tell you that -- I can't give you any plans for it. But, we're looking at it, and it's all depends on how you define dynamic pricing. Right now, we have a very steep variable pricing model, so that if you go on Friday and Saturday night, usually there's a little bump in the Friday and Saturday night price off of what it would have been on Sunday through Wednesday. So you could call that, some form of dynamic pricing, we currently do it.

And then obviously, during the week, we also price lower on Tuesday's, we give student discounts, we give senior citizen discounts. So there's a pretty steep variable pricing mode in order to get those who are price-conscious. The ability to get in and see the movie either on a Tuesday or earlier in the day. And if you want to come Friday or Saturday night, currently you're already paying a little bit of a premium.

And as we go forward, we will continue to look get more directly dynamic pricing, but I'm not in a position to talk about or to announce anything forthcoming.

Robert Fishman

Okay. Fair enough. And for Sean, can you talk about whether you're seeing any improvements on the new screen development in Brazil specifically?

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

Can you just clarify it, Rob, when you said new screen development.

Robert Fishman

Sorry, so just in terms of the development pipeline in Brazil and how the economic backdrop is potentially improvement.

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

Sure, I would say we still have a healthy backlog of projects. And again, as you know those are all tied to malls, so it's really what's the backlog of mall development in the region. So, that still exists.

I wouldn't say we've seen a meaningful change thus far driven by the economy in terms of those projects starting to ramp up significantly. So, I think there's a still a degree of developers in waiting mode, just to kind of see how the health of the economy ultimately plays out. So the projects are there, but I'd say it's still somewhat stall just in terms of the development particularly with in Brazil.

Robert Fishman

Okay.

Thank you both.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thanks Robert.

Operator

Your next question comes from Ben Swinburne of Morgan Stanley.

Ben Swinburne

Thanks, good morning.

Hi, Mark, I was wondering, if you guys have done -- I'm sure you have, but if you want to share any data on kind of cohort analysis of the Movie Club trend since you've launched it, in other words, when you look at some of these KPIs that you guys focus on like incremental visits or incremental attendance per member and basket size lift left, what are those trend lines look like over the 18 months, as you track people who come into the system. I'm just wondering, if there's some selection bias that the bet -- that sort of those with highest propensity go more, join first. Or anything maybe it's the opposite because you're getting better at it and better at marketing it, just any you can share their as we look at the sort of impact of this on your overall attendance continuing to grow would be interested in any insights that you could share.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Let me do two things, one and you didn't really ask about this, and I'm not going to give you a specific number, but I do want to say, I think one of the real stand outs for Movie Club and I think it's because of the rollover aspect where you never lose the benefit of it.

So, if you don't use it for a month or two months they build up so they're -- our sustainability has been very, very high with a very low churn rate lower than in what you would expect for this kind of program. We're not disclosing that exact amount, but you can just take it that it's significantly on the low side. Relative to a metric, that I think is also very important in the whole concept is, people join the Club for a variety of reasons. Some people because of the rollover, some people because they don't want to pay online ticket fees, but some people because they want the concession discount.

And when we researched Movie Club, we research 10%, 15%, 20%, 25% and at the 20% that's when it became a needle mover. And that's when people really became important to them. So that's what we did, we knew we were taking a risk, but what we is it the basket size of Movie Club member versus a non-Movie Club member is about the same. So, that means, by definition Movie Club members are spending 20% more because they're getting a 20% discount.

And then the thing that's really made it payoff is that the number of people that are going to the concession stand has increased. So, we have a higher incident rate with Movie Club members. So, net-net it has turned out to be a positive not only on attendance but net-net a 20% discount is turned out to be positive on food and beverage as well. So I think those kind of are a couple of the things you were looking for that are that are really critical in the success and why we're so enthusiastic about what can come in the future as well.

Ben Swinburne

That makes sense. Thank you. And just following up on some of your industry comments. Mark, I know you said it's not a numbers game and I appreciate that, but I couldn't help but notice an interview with John Stanky this week, where he talks about actually taking Warner Brothers' output up to 30 films potentially year.

I didn't know, if that sounded familiar to you, who know a lot more about their plans and we do just be curious if everyone's been talking about Disney potentially shrinking Fox, but there's also been a big change at Warner's with the new CEO I'm curious, if you have any insights you'd be willing to share their and then I have to ask at least if you have any plans to distribute the Irishman in the later this year since that's obviously as you mentioned a high-profile film that want some distribution.

Mark Zoradi, 'Chief Executive Officer, Board Director'

I really can't speak about Warner Brothers' strategy because I don't have any particular insight there, I think the only thing that they have said, is Warner Brothers has said that because they've got a lot of and outlets that focusing on content and additional content for their multiple outlets is important. And by the way, Disney is doing the same thing. They may only be making 10 or 12 or 13 or 15 titles for the theatrical, but they're going to increase their output for Disney Plus the same way that Disney used to do direct to videos and direct to DVDs and direct to the Disney Channel.

Disney is actually going to be going to be increasing their output, is just among various channels. So I think that in some ways that's consistent. It's just how you add it up. As it relates to Irishman, we would welcome to play the Irishman.

And we've stated that very congenial way multiple times to Netflix, the only issue comes down to that Netflix is one potential supplier of theatrical motion pictures. And so, the only thing we ask is that they play from a window standpoint consistent with our major suppliers, whether that be Disney or Warner Brothers, AT&T or Comcast Universal. So to the extent that they're willing to do that we welcome them and all of our theaters.

Ben Swinburne

Got it, thank you very much.

Operator

(Operator Instructions) Your next question comes from Chad Beynonv of Macquarie.

Chad Beynon

Good morning, thanks for taking my question. Mark, Sean, clearly your strategy is industry-leading, given the results that you continue to disclose her on a quarterly basis and your loyalty program, as you have touched on today appears to be working really well. So does this make you think differently about M&A in US.

, given your performance the potential uplift, you could have on other screens and in your current balance sheet, which might provide some capital to some theaters that haven't been able to roll out strategic initiatives like you have, or is that just harder given that the boxes won't have your original DNA Thanks.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Chad, we are literally every month open to M&A Historically, we have been disciplined buyers relative to M&A, and so to the extent that a family circuit came on the market or, obviously, we're in contact with these people before they ever come on the market. And it can be purchased at a price that we're willing to pay, we're more than willing to do it.

But we don't see the strategic value of just rolling up if we have to pay a price, that is at or above our current multiple.

So, we're very open to it not only in the United States but also in Latin America. And we've done some small acquisitions, but I don't think our strategy is going to change relative to being very disciplined buyers relative to the value of it. Sean, you may want to add something on that?

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

The only other thing I would add is, along the same lines as Mark has talked about, we also tend to prefer quality assets, we find that it's rather than taking like a distressed asset and trying to apply some of our stuff to it. You're the challenge you get there is you never know how deep those problems go, and they can become a huge distraction to the larger portion of the business.

So when we go after M&A it's got to be a strategic fit. It's got to be financially created then we generally are looking for things that are good assets. So we continue to look for that. But I wouldn't say we materially really are changing our view on M&A because of these types of programs of anything we to the extent we do-do some, we did a small tuck in this past quarter.

It will apply those to it and we just like to think that will add some added benefit to it.

Chad Beynon

Okay, great. Thanks. And then my follow-up more short-term.

Just wanted to drill into the potential impact from Nada a Perder for the third quarter, which I believe is coming out in two weeks here. Can you see any advanced ticket purchasing, I don't know, if that's readily available in that market. Just trying to understand the pressure on pricing for the third quarter, and in international and potentially the protect the pressure on margins because I believe in 2Q '18 there were a number of other things going on, but there was definitely massive pressure on pricing and that kind of went down into the margin line as well. Thanks.

Mark Zoradi, 'Chief Executive Officer, Board Director'

I'll pick this up and Sean may add some detail to it. This is a great opportunity for us. But along with that great opportunity, these tickets are many of them are actually purchased by the Church entity for their members. And in doing so, they're buying them in big bulk group purchases.

So there is some lowering of price, because they're being bought in such big quantities. And then also, when many of those people come we've seen that the per caps weren't quite as high as per caps of normal moviegoers. So although the previous one did 12 million admissions and we expect this one to be very successful as well. I don't know if it's going to do 12 million admissions, but we think it will be very successful especially in Brazil and also Argentina, there will be some lowering of the average ticket price on all those people.

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

And I would just to give some context. Obviously, last year, we saw in constant currency, we saw price be a year-over-year modest negative as was concession for patron largely driven by Nada. We think this current film could perform at similar levels to the prior film when we will see. I'd say, the other thing that though will help offset that as when you just look at the Hollywood content this year versus last year.

We believe it has stronger potential. So, while Nada will clearly create a bit of a drag on certain metrics like pricing and concessions rate, it may not be as steep as last year, because the overall performance we propped up by the Hollywood content. And keep in mind to from a margin standpoint, while creates a drag on those metrics. It adds a tremendous amount of tendons into the mix which is very beneficial to the overall margins of the company.

Mark Zoradi, 'Chief Executive Officer, Board Director'

The lineup for the third quarter for Latin America strong, the Spider-Man; Lion King; Hobbs & Shaw; IT 2. So we're optimistic about the third quarter in Latin America.

Chad Beynon

Okay. Thank you very much and congrats on a great quarter here.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thank you.

Sean Gamble, 'Chief Operating Officer and Chief Financial Officer'

Thanks.

Operator

We have no other questions in queue. I'd like to turn the call back over to the speaker for closing remarks.

Mark Zoradi, 'Chief Executive Officer, Board Director'

Thank you all very much for joining us this morning. And we look forward to speaking with you again during our third quarter earnings call. Thanks again, bye, now.

Operator

This concludes today's conference call.

You may now disconnect.