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Cinemark Holdings, Inc. (CNK)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Cinemark's Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to Chanda Brashears, Vice President of Investor Relations. Please go ahead, ma'am.

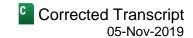
Chanda Brashears

Vice President-Investor Relations & Public Relations, Cinemark Holdings, Inc.

Thank you, Regina, and good morning, all. At this time, I would like to welcome you to Cinemark Holdings, Inc.'s third 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 during this call may constitute forward-looking statements. Such statements are subject to risks, uncertainties and other factors that may cause Cinemark's actual performance to be materially different from the performance indicated or implied by such statements. Such risk factors are set forth in the company's SEC filings.

Q3 2019 Earnings Call



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 quarterly 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 & Director, Cinemark Holdings, Inc.

Thank you, Chanda, and good morning, everyone. We're pleased to report record worldwide third quarter revenues on the back of a film lineup that resonated extremely well with audiences across the United States and the 15 countries in which we operate through South and Central America.

The North American industry box office increased by 3.5% this quarter with an uptick in both attendance and pricing. Meanwhile, Cinemark's domestic admission revenues performed yet again and outpaced the industry by growing 5.3% and exceeding industry results by a sizable 180 basis points. This result further extends our industry outperformance trend to 38 out of the past 43 quarters.

Industry box office was propelled by several mega hits in the third quarter as the top five films drove 53% of the gross results. And while this degree of blockbuster concentration put pressure on 3Q film rental rates, it clearly delivered meaningful US revenue growth.

The robust Hollywood film product also carried over to Latin America box office, which was further supplemented by a sizable result of the second installment of Nada a Perder, which is a locally produced title from Brazil. Collectively, Hollywood and local content drove attendance growth for the region of 11.9% during the quarter.

In addition to the benefits derived by strong film content, our third quarter performance was bolstered by the continued focus on and execution of our guest-oriented strategic priorities, which include, one, providing top notch customer service and amenities; two, delivering quality and variety of food and beverage offerings; and three, engaging guests through targeted and personalized interaction both within and beyond our physical theaters.

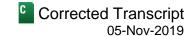
I'd like to expand upon each one of these three priorities, including several of their underlying initiatives. First off, top notch customer service has been a hallmark of Cinemark's culture dating back to our founding 35 years ago. We place great emphasis on training our employees to interact with guests in a manner that serves to enhance their overall experience when visiting our theaters. We fundamentally believe that our approach to customer service is a competitive advantage and a pillar of our ongoing success.

We also continue to prudently invest in amenities to further enhance the experience guests enjoy at Cinemark such as Luxury Lounger reclining seats. Consumers have demonstrated a strong preference for Luxury Loungers, which we see evidenced by the high utilization of our reclined theaters. This high utilization, combined with increased pricing flexibility and food and beverage consumption, has yielded investment return well in excess of our 20% threshold.

At the end of the third quarter, nearly 2,700 of our auditoriums featured Luxury Loungers, which represents 58% of our domestic circuit and it's the highest recliner penetration among major players.

At our current pace, we anticipate that approximately 60% of our US footprint will feature recliner seats by the end of this year. Going forward, while we expect our volume of recliner investments will continue to decline, the overall

Q3 2019 Earnings Call



percentage of our circuit that features recliners will continue to gradually increase as we pursue a handful of strategic theater remodels in the coming years and all of our new domestic builds include this amenity.

Cinemark's XD, our premium large format technology, is another amenity that further heightens the viewing experience we provide our guests. Our XD investment strategy includes incorporating at least one XD auditorium into each new theater we build and adding second XD auditorium where demand calls for it.

In addition to the enhanced sight, sound and immersive atmosphere that our XDs deliver, 75% of our domestic XDs are reclined.

Furthermore, our XDs provide us advantaged economics, flexibility and control. We're able to feature the biggest movie every week in these auditoriums, which has helped our XDs deliver consistently outsized results as they typically generate approximately 9% of our worldwide box office, while accounting for only 4% of our overall screens. In this regard, the third quarter was no exception.

Moving onto our second guest-oriented priority, we believe that food and beverage helps to further enhance the experience our guests have when they visit our theaters and we strive to provide concession options that appeal to every palate. As we've outlined in the past, there are range of initiatives we are actively pursuing to sustain growth in incident, consumption and overall food and beverage spend.

These initiatives include generating lift within our highest margin core categories that includes fountain drinks, popcorn and candy as well as simultaneously driving incremental sales in emerging categories like alcohol, expanded food, multicultural offerings and merchandise.

Together, these actions drove another third quarter per cap record of \$5.22 in the US, which was up 9.7% and marked the 51st consecutive quarter of year-over-year per cap growth. While we keep raising the bar for ourselves, we're continuously analyzing new and innovative food and beverage concepts to maintain this growth trend for many more quarters to come, albeit our historic CAGR of 5% to 6% growth seems more reasonable than the double-digit growth we have delivered year-to-date.

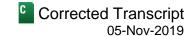
Our third guest-oriented strategic priority is engaging guests through targeted and personalized interaction both within and beyond our physical theaters. We've been investing in marketing, advanced data analytics and information technology expertise to strengthen our ability to not only identify customers, but also better understand their unique and individual preferences.

Preferences such as movie genres, day and show-time inclinations, favorite theater, seat selections, food and beverage purchases, et cetera. This knowledge is invaluable in creating tailored communication and offers for our guests that help drive loyalty and more frequent visits to our theaters.

Loyalty programs are an excellent channel for building customer relationships with personalized communication and as such, we recently re-launched our free loyalty program, which we now call Movie Fan. Inclusive in this relaunch was a simplification of the program's features, a transition to a dollar spent rather than a transactional model and an enhancement of reward options.

Though it's still early, we've seen fantastic consumer response to Movie Fan, including a healthy uptick in signups, which has boosted our worldwide loyalty member base to over 11 million. And while the near-term ramp-up of our loyalty program is generating a slight drag on our reported metrics and adjusted EBITDA results due to

Q3 2019 Earnings Call



required accounting deferrals as points get issued, we're already seeing the benefits of the revamp program through positive momentum in customer utilization and engagement.

Furthermore, we believe we'll be able to use this program to drive even deeper engagement, visits to our theaters, food and beverage consumption through unique Cinemark exclusive experiences and personalized digital offers.

Along these same lines, Movie Club, our paid subscription program that we launched nearly two years ago, continues to perform exceptionally well and we remain enthused with the strength and consistency of its metrics. Movie Club now has more than 850,000 members, which represents over 2,400 members per theater location and is by far the highest national subscription membership on a per-location basis.

Movie Club's success and high member satisfaction is directly related to the unique benefits, value and convenience it offers consumers, 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 making this effectively a household benefit for the whole family and friends and a user-friendly monthly membership with no sign-up or cancelation strings attached.

Considering all of these benefits, Cinemark's Movie Club provides the best overall value for moviegoers who attend theatres two times or less per month, which encompasses the vast majority of the movie-going population. Since inception, more than 29 million movie tickets have been sold through Movie Club. During the third quarter alone, Movie Club represented 15% of our domestic box office. We're most encouraged with the increase in movie-going frequency with members reporting they're attending the theater more often since joining, which is also supported by our internal analytics.

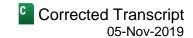
Furthermore, this uptick in theater visitation is helping to boost our food and beverage strength as Movie Club members have comparable food and beverage spends to those of non-members even with a 20% discount. We're thrilled with Movie Club's results and the impact it continues to have on our overall performance. We remain focused on seeking opportunities to further grow our membership base while leveraging the data and key learnings to enhance the Cinemark experience.

Rounding out my prepared comments, I'd like to briefly touch on the film slate. The fourth quarter kicked off stronger than expected with the huge success of Joker, now the highest rated R-rated film of all time. We're eagerly awaiting the release of Ford versus Ferrari, A Beautiful Day in the Neighborhood, sequels from Frozen and Jumanji and of course, Star Wars: The Rise of Skywalker among many others. And as outlined during our earnings call in August, we're enthusiastic for the 2020 film slate that's been announced to date with some fresh new content in addition to some beloved franchises and sequels.

We continue to reinforce taking a long-term view when evaluating exhibition industry rather than a weekend, monthly, quarterly or even annual results, as short-term ebbs and flow of box office can be misleading. Over the past 30-plus years, global theatrical movie-going has demonstrated stability and resilience again and again across numerous economic cycles and technological advances, including significant in-home innovations such as VHS, cable, Internet, DVD and streaming.

With that backdrop, I'd like to take a moment to discuss frequent questions we've been receiving with regards to streaming and the potential impact new platforms coming to the market may have on theatrical movie-going. First of all, streaming is not a new concept. Over the past decade, during mass adoption of Netflix, Amazon, Hulu, HBO GO, theatrical attendance has held relatively stable. Consumer viewership within the home, however, has changed dramatically.

Q3 2019 Earnings Call



Furthermore, a third-party study recently published by Ernst & Young, determined that the most active streamers are also the most active theatrical moviegoers, with 60% of those attending movies nine or more times a year also streamed eight or more hours per week.

From a studio standpoint, the worldwide theatrical proceeds have continued to grow and now represent more than 50% for most major releases. Moreover, the theatrical release window serves as a launching pad that helps eventize the movie and creates brand awareness, contributing to the overall value for the content owner in the axillary markets downstream.

Often, downstream revenues directly correlate to theatrical box office generated and the perceived consumer value for in-home monetization is, therefore, enhanced. In addition, a successful theatrical release creates opportunities for sequels, spin-offs and even television series that may be better suited direct to the consumers that can cross-pollinize between theatrical and DTC.

All that said, theatrical movie-going remains a social and truly immersive entertainment experience that cannot be replicated in the home. And it should not be overlooked that people still very much want to and need to get out of their home to be entertained.

With that, our industry, and specifically Cinemark, has recently been aggressively investing in premium technology, remodels, recliners, loyalty and subscription programs, food and beverage, all to further enhance the theatrical movie-going experience and make it the destination of choice for out-of-home entertainment.

In closing, Cinemark has long excelled amid changes in the industry, technological advancements, box office fluctuations and various economic cycles. We consistently focus on the long term as demonstrated by the structure of our company, the management of our operation and our prudent investments with an acute mindfulness towards shareholder value.

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

Sean Gamble

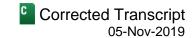
Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

Thank you, Mark, and good morning, everyone. Before diving into the details of our third quarter's financial results, I'd like to again comment on a couple of modifications to our financial statements that occurred as a result of two recent accounting pronouncements. While we have fully lapped our transition to ASC 606's revenue recognition accounting standards that took place over the course of 2018, the implementation of ASC 842's lease accounting standards continues to affect 2019 year-over-year comparisons.

As mentioned in prior quarters, 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. It's important to emphasize again that ASC 842 is purely an accounting presentation change, which is largely intended to reflect all lease obligations on the balance sheet. It does not impact cash rent payments, obligations to landlords or any other underlying business or operating fundamentals.

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.

Q3 2019 Earnings Call



Shifting now to our third quarter financials, during the quarter, our global company generated total revenues of \$821.8 million and consolidated adjusted EBITDA of \$169.8 million. Our adjusted EBITDA margin was 20.7% and was reduced by 70 basis points as a result of the ASC 842 accounting presentation changes just mentioned.

In the US, admissions revenues were \$351.1 million and increased 5.3% year-over-year. Attendance increased 0.9% during the quarter and our average ticket price grew 4.3% to \$7.96, driven by strategic increases in core pricing, incremental opportunities from recliner conversions and favorable ticket type mix.

Total domestic concession revenues grew 10.8% to \$230.4 million. In addition to a slate of films that appeal to higher consuming moviegoers, our concessions growth can be largely attributed to new concept activations in product expansions with strong execution of incidents driving initiatives and promotions that helped us to maximize revenue potential. Collectively, these factors drove concessions per patron up 9.7% versus 3Q 2018 to another third quarter high of \$5.22.

Similarly, domestic other revenues also grew and were up 25.3% versus last year, predominantly as a result of increases in promotional and transactional-related income. Overall, our US circuit delivered total revenues of \$633 million, adjusted EBITDA of \$132.3 million and an adjusted EBITDA margin of 20.9%.

In addition to pressure from an atypically high third quarter film rental rate that Mark previously referenced, our domestic circuits' adjusted EBITDA margin also included an 80-basis-point unfavorable drag from the combined impact of the new ASC 842 lease accounting standards as well as deferred revenue timing associated with the expansion of our Movie Fan loyalty program.

Internationally, admissions revenues were \$103.4 million, which increased 9.7% versus last year as reported and 21.6% in constant currency. International attendance grew 11.9% to 29.2 million patrons, propelled by the favorable film content drivers that Mark discussed earlier. Our reported average ticket price of \$3.54 translated to a constant currency increase of 8.9% and was driven primarily by inflationary price growth.

This growth was partially offset by the impact of the local title, Nada a Perder 2, which generated a meaningful lift in attendance, but carried a lower-than-normal ticket price and minimal concessions similar to its first installment in 2Q 2018. International concessions revenues were \$59.1 million, which increased 5.2% as reported and 16.4% in constant currency. Our as-reported international concessions per patron was \$2.02 and grew 4.2% in constant currency as a result of inflation and our varied food and beverage initiatives.

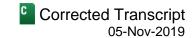
Similar to average ticket price, our constant currency concessions per patron metric was distorted by Nada a Perder 2 and would have up approximately 11.5% excluding this title.

International other revenues were \$26.3 million, which increased 22.9% as reported and 39.7% in constant currency. This increase was largely driven by favorable growth in screen advertising, promotional activity and transactional-related income.

Overall, total international revenues grew 9.8% to \$188.8 million as-reported and adjusted EBITDA increased 4.7% to \$37.4 million. Our adjusted EBITDA margin was 19.8% and was adversely impacted by the non-operational transition to ASC 842 lease accounting that lowered the rate by 140 basis points.

Foreign currency translation was more of a challenge than initially anticipated in the third quarter as a result of a sizable currency devaluation in Argentina that created an approximate 11% drag on our overall reported

Q3 2019 Earnings Call



international financials. And while future currency fluctuations are difficult to predict, if current rates continue to hold, we would expect a percentage headwind in the low teens for the fourth quarter and full year.

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 predominately translation-based and not transaction-oriented.

Shifting back to our worldwide consolidated results, film rental and advertising costs as a percentage of admissions revenues increased by 230 basis points to 56.1%. As has been previously discussed, this increase was driven by an unprecedented concentration of third quarter blockbuster titles and was also impacted by reduced offset from international virtual print fees that are winding down as costs associated with the conversion to digital projectors fully recoup.

Concession costs as a percentage of total concessions revenues also increased and were up 160 basis points, predominantly as a result of product mix associated with expanded food offerings and merchandise sales.

As mentioned on prior calls, while these newer offerings tend to create a slight drag on our concessions margin rate, they continue to drive sizable growth in overall concessions revenues and income.

Salaries and wages were 12.6% of total revenues and grew by 30 basis points compared to the third quarter of 2018 as a result of wage and benefits inflation, the ramp-up of new theater additions and incremental hours to support our varied concessions initiatives.

Utilities and other cost as a percentage of total revenues increased slightly by 10 basis points, while facility lease expenses as a percentage of total revenues declined by 10 basis points despite a \$5.6 million year-over-year presentation increase associated with the adoption of ASC 842.

And G&A for the quarter increased by 30 basis points as a percentage of total revenues. This increase resulted from incremental investments in head count and cloud software to support varied strategic initiatives as well as a tough comparison to G&A in the third quarter of last year that was somewhat reduced by onetime items.

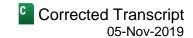
Collectively, third quarter pre-tax income was \$46 million. Our third quarter's effective tax rate was 30.5% and net income attributable to Cinemark Holdings, Inc. was \$31.4 million or \$0.27 per diluted share. This quarter's earnings were adversely impacted by elevated impairment expenses of \$27.3 million, predominantly associated with an underperforming theater that was a test of a high-end 21-and-over concept, which has struggled to gain traction.

With respect to our balance sheet, we ended the quarter with a cash balance of \$482.8 million and a net debt position of \$1.5 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.

Shifting attention to our US footprint, we operated 344 theaters and 4,630 screens in 41 states and 102 DMAs at quarter-end. We assigned commitments to open 1 theater and 12 screens during the remainder of 2019 and 13 theaters representing 154 screens subsequent to 2019. We expect to spend approximately \$107 million in CapEx associated with these 166 screens.

Internationally, we operated 204 theaters and 1,452 screens in 15 countries across Latin America. As of quarterend, we had signed commitments to open six new theaters and 51 screens during the remainder of 2019 and nine

Q3 2019 Earnings Call



theaters representing 60 screens subsequent to 2019. We anticipate spending approximately \$52 million in CapEx for these 111 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. That said, the majority of this year's screen openings have become heavily weighted toward the back-end of the fourth quarter and carry risk slipping into 2020, which could result in fewer than 50 new screens this year.

Regarding overall CapEx, we spent \$71.3 million in the third quarter, including \$25.3 million on new builds and \$46 million on existing theaters that was predominately associated with recliner conversions and other revenue-generating investments.

Based on some shifting recliner and new-build project timelines associated with varied construction complexities, we now anticipate spending at the lower-end of the \$300 million to \$325 million full-year CapEx range we previously guided with the possibility of coming in slightly below \$300 million. That said, we continue to expect the 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.

Before I conclude my prepared remarks, I would like to address a sizable uptick in cash distributions we expect to receive over the next several quarters from DCIP, the entity that was created to facilitate our US conversion to digital projectors. In accordance with DCIP's operating agreement, its distribution of excess cash to its founding members has started to increase in the third quarter as its debt servicing obligations have been fulfilled. This excess cash is a result of a negotiated profit pool that kicks in following the efficient deployment and recruitment of the digital projector rollout and income generated from third-party services that DCIP has provided such as VPF contract support and Trusted Device List management.

Annual cash distributions we have received from DCIP have been approximately \$6 million for the past few years. And as we look ahead, current projections suggest they will increase to approximately \$20 million this year, \$35 million in 2020 and then drop to \$5 million in 2021, after which point they will end. To maintain alignment with cash flows, we will continue to recognize these distributions in adjusted EBITDA, consistent with the treatment of other equity distributions over the past several years.

In closing, we are very pleased with the enriched entertainment experience and heightened customer engagement our strategic investments are producing that help drive our record third quarter worldwide revenues.

Looking forward, we will continue to prudently invest in the growth and security of our company to position it for ongoing success as we maintain our focus on creating long-term shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from the line of Eric Handler with MKM Partners.

Eric O. Handler

Analyst, MKM Partners LLC

Good morning and thank you for the question. I wanted to focus a little bit on the expense lines if possible. It's not too often we see attendance go up domestically, but yet adjusted EBITDA margins declined. I don't remember last time that happened. I was wondering how much of that decline was because of ASC and if there's anything else that we should be aware of that caused this aside from the fact that you did have higher film rents?

Secondly, when I look at your salaries and wages and utilities and other line, definitely continue to remain quite elevated on a year-over-year basis, wondered what are some of the causes of that, how long could this continue and are you looking at maybe addressing some of those costs for future quarters?

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Eric, this is Mark. I think I'll take the first part of that question and then I'll turn it over to Sean. As I noted in my prepared remarks, the third quarter was a little unusual. It actually played more like a typical second quarter in regards to the concentration of very big blockbuster films. For example, in the third quarter, the top five films in the third quarter represented 53% of the box office, where the top five films last year represented 35% of the box office.

And taking that even one step further, if you look and say what did the top two movies do? They were Lion King and Spider-Man and those were creating \$550 million and \$400 million in box office, where the top two movies of last year were Ant-Man and Mission Impossible, which were creating approximately \$200 million.

So you had a much higher concentration in the big mega blockbusters of the third quarter and that's going to cause film rental to go up. So that was a significant portion of the increased cost there. A second portion that I'll call out before handing it over to Sean is we have been investing in our marketing efforts, both the whole digital transformation as well as our re-launch of our loyalty program, Movie Fan, and as such, you get some level of deferral relative to when points are given out.

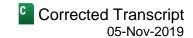
So, between those two things, that was a significant portion of the increase in cost beyond the accounting issue. And I'll let Sean pick it up from there.

Sean Gamble

Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

Yeah. And just to round that out and I'll put a couple specific numbers to it. I mean, the effect on the margin rate from film rental this quarter was about 90 basis points. And as we mentioned, it was kind of an atypical quarter for a third quarter, while lease accounting was about 70 basis points. So, if you were to normalize for those two items, margins would be flat year-over-year.

Q3 2019 Earnings Call



And just to talk to a few other elements of the question that you asked, Eric, on salaries and wages as well as utilities and other, in the category of salaries and wages, about half the growth that you're seeing in the quarter is a result of wage rate and benefit cost inflation increases. It's a combination of inflation and minimum wage hikes.

The remainder is pretty evenly spread across just the ramp-up of new theaters, support of different strategic initiatives. There was also perhaps a little bit of inefficiency in the number this quarter on account of certain films that didn't fully live up to the full potential that we had expected going into some of our opening weekends.

In terms of what to expect going forward for those costs, we think that things such as the minimum wage increases and benefits inflation, those are things that will likely continue. We've been seeing those go up about 5% to 7% per year. Some of the impact of the strategic initiatives in pursuing like food and beverage will just depend on the nature of the program, but at least recently, those have contributed about 2% to wages.

So, some of those things are going to be ongoing, whereas other things like attendance factors obviously will fluctuate in terms of the demand for more bodies when attendance goes up and fewer bodies when attendance goes down.

On the utilities and other fronts, a large part of the growth you're seeing there is kind of connected to other revenues where we've got increases in service fees paid to third-party ticket sellers going up. Internationally, we've also been seeing some nice success and growth with our Flix, screen advertising business, where they've been taking on additional third-party affiliates. And we book all of the revenue they bring in in other revenue, but then, the payments we make out to those affiliates goes out through that other utilities and other line.

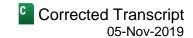
We've also seen just some ongoing growth of credit card fees as more and more people use credit cards to make their payments versus cash. So I would say a lot of that stuff is going to continue, but it's also being offset on the other revenues line.

Just to kind of close out, I would say with your question about actions planned, Cinemark has historically operated as you know as a pretty lean organization and cost and margins are very much a focus of ours and in our DNA. We do have a range of cost management initiatives that are underway to enhance efficiencies.

Just talking high level to two of them. Earlier this year, we implemented a whole new workforce management team whose primary goal is to streamline our theater payroll processes and generate incremental operating productivity within that theater payroll line that you see there. Another is the end of last year, we created a continuous improvement program and we launched that and it's essentially based on Lean Six Sigma principles and we expect that's going to yield material benefits for our collective company over the coming years.

Eric O. Handler Analyst, MKM Partners LLC	Q
Thank you very much.	
Mark Zoradi Chief Executive Officer & Director, Cinemark Holdings, Inc.	A
Thanks, Eric.	
Sean Gamble Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.	A

Q3 2019 Earnings Call



Thanks, Eric. Appreciate it.

Operator: Your next question comes from the line of Alexia Quadrani with JPMorgan.

Alexia S. Quadrani

Analyst, JPMorgan Securities LLC

Q

Hi. Thank you very much. Mark, thank you for the commentary at the beginning of the call about the frequent questions you get about streamers and how that changed behavior. I just want to circle back to that and to your comments about how it – it does sound like the frequent streamers, also the frequent moviegoers and therefore just make – they're not impacting the market. But what about the more kind of casual fans? Do you think they might be less inclined to go to the movies because of the streaming options? It sounds like given the growth of the box office, it probably doesn't sound that meaningful, but curious to hear your thoughts there. And then, I have a follow-up.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.



Alexia, I think the one thing that we look at a lot here is we say, like I start – I think I started that comment with streaming is not new, whether it's Netflix or Hulu or HBO GO – we've been living with this and consumers have been enjoying it.

The biggest effect that streaming has made has been the way that television viewership has shifted within the home. And what we've seen even over the huge ramp-up of Netflix, Hulu, Amazon, et cetera, has been relatively consistent attendance. And relative to the Ernst & Young study that I pointed out, it's not just the heavy moviegoers that actually watch more. It also works the other way. Those that don't go to the movies also don't tend to watch. Those are the ones that watch streaming the least amount.

So, what it really is, is it goes back to something that we've seen for 20, 30 years and that is high consumption of entertainment media are really the same people. So, we're actually encouraged with what's going on relative to the streaming platforms because we think it's going to continue to provide additional content. I think there's going to be some cross-pollenization, as I noted, back and forth.

Disney continues to be extremely supportive with their major theatrical releases that are going to go straight to theatrical. And as we look at the importance of the worldwide theatrical business, the worldwide theatrical business has gained in importance for content providers over the last few years, because you've seen the denigration of the DVD; you haven't seen the big increases in EST. So what's happened is the theatrical revenue has not only grown in and of itself on a worldwide basis, but on a percentage basis has become more and more popular.

Sean Gamble

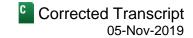
Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.



And, Alexia, I have one thing to add, which is for those casual moviegoers, we haven't seen an impact on that category of moviegoer to date. A lot of those moviegoers tend to fall into the category of people who are saying, hey, I'm going out this weekend, what do I want to do. I haven't been to the movies in a while, let's go see a movie.

And as Mark mentioned, a big part of what we're aiming to do is pack in more and more value into that movie-going experience, so that when they're trying to decide, okay, what do I want to do, I want to go see a movie in a

Q3 2019 Earnings Call



movie theater, because I just haven't done that and I know it's going to be a great value for my dollar. So, to date, not a huge impact on that category. We think that still can be sustained with a great product and offering that we can provide and get their attention when they're deciding to leave the home.

Mark Zoradi

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Chief Executive Officer & Director, Cinemark Holdings, Inc.

Alexia, I know you have a follow-up, but I just want to add one thing to it. Really, this was what motivated us to design and create Movie Club, which was more for your moderate to significant moviegoer, those that go six or eight times a year. And our goal was to get people to go 8, 10, 11, 12 times a year; and in fact, that's what we've been able to do. And with the shareability of it with other members of the family or even friends, it's made it a very simple \$9 or \$10 depending on where you live in the country affordable way to go to the movies with family friends. And the fact that the credits roll over and never – you always can get the benefit of it and they never expire allows our group to actually stay with the membership program for an extended period of time.

Alexia S. Quadrani

Analyst, JPMorgan Securities LLC

Thank you. That's very helpful. And then, just circling back to your comments also in our opening remarks about the XD investments, can you remind us how you balance those investments, sort of your financial considerations compared to your partnership with IMAX?

Mark Zoradi

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Chief Executive Officer & Director, Cinemark Holdings, Inc.

Well, we have 15 IMAXs, which we're very happy to have and we are pleased to have those. We put much greater investment in XD where we've invested 100% of the capital and we completely control those screens. We can program each and every week exactly as we think which will be most profitable for us.

It's very important to our content providers, because they know that they're dealing only with us. And when we share the revenue, we're sharing the revenue again only with our content providers opposed to third party.

So, XD on big movies and there's obviously more and more big movies, XDs are our first auditoriums to sell out. We're doing pre-sales right now for Star Wars. And the first auditoriums that go are the XD auditoriums. So unless the size of our real estate deal will not allow an XD auditorium, we're always putting in an XD auditorium. And as I mentioned, we're actually evaluating also where consumer demand is such and where we have a large enough auditorium and screen to actually put in second XD auditoriums.

And then, we're finding also that Movie Club members are twice as likely to upgrade to XD because they're walking in the door with their credit on their phone feeling like they don't have to pay any money to walk in. So that extra \$3 is a very easy up-charge and like I said, we're seeing two times the amount of people upgrading to XD who are Movie Club members.

Alexia S. Quadrani

Analyst, JPMorgan Securities LLC

All right. Thank you very much.

Mark Zoradi

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Chief Executive Officer & Director, Cinemark Holdings, Inc.

Thank you, Alexia.

Operator: Your next question comes from the line of Chad Beynon of Macquarie.

Chad Beynon

Analyst, Macquarie Capital (USA), Inc.

Hi. Good morning. Thanks for taking my question. Sean, Mark, in Brazil, it looks like, from an economic data standpoint, things are starting to move in the right direction I think what a lot of people expected, given everything that we went through in 2018. And I know you laid out the number of commitments that you have in Latin America, which obviously includes Brazil. But when you talk to your leaders in Brazil, does it sound like maybe the mall development could pick up, given some of the economic data points that we're seeing? Are they a little bit more bullish outside of what you've kind of announced and this could lead to maybe future new builds that we saw in years past? Thanks.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Chad, thanks for the question. I was actually down in Brazil not long ago and I'm going to use these words and I'm careful with them. We are cautiously optimistic about Brazil and we actually think that the country, from an economic standpoint, is starting to turn the corner.

As you know, nearly all of the new theater development there is within a mall. So it's not completely within our control to just go build a freestanding theater, but as such, we do think that in the coming 12 to 36 months that we will start to see some uptick in mall development there and therefore, the ability to continue to grow the business.

As you know, we have the number one market share in that country and it's absolutely our intention to continue to grow and develop that business and hold onto that number one market share.

Chad Beynon

Analyst, Macquarie Capital (USA), Inc.

Okay. Great. That's great to hear. And then, just around the 2020 expectations, not to kind of pin you down to a prediction, but this close to the following year, are you comfortable with the amount of output, just the number of films that we're expecting for 2020? I know there has been a lot of noise about how the back half will look. I'm just trying to gauge how this is looked in prior years. Could there still be some movies that kind of fall into 3Q and 4Q of the following year that we're really not talking about at this point? Thank you.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

That's a really good question and we have been looking at it as you could expect very, very carefully. We're excited about just the content. You've got two new movies coming from Pixar. You got two new movies coming from Marvel. You've got three Disney live actions. You've got Wonder Woman, Fast & Furious, Minions, Bond. It's a very significant lineup.

And then, when you just look at quantity in 2020, there's already 10 more movies that have been scheduled for release than were scheduled for 2019. So, we're looking at and saying, boy, there's a lot of very strong event titles coming and also it looks like there's going to be a slightly greater quantity of pictures. Now, saying that, I always want to go back, it's really not a quantity game, it's absolutely a quality game, but as we look forward to 2020, I think we're pretty optimistic about both.

Q3 2019 Earnings Call



Chad Beynon Analyst, Macquarie Capital (USA), Inc.							
Thank you very much. Best of luck.							
Mark Zoradi Chief Executive Officer & Director, Cinemark Holdings, Inc.	Δ						
Thank you.							
Sean Gamble Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.	A						
Thanks, Chad.							

Operator: Your next question comes from the line of Eric Wold with B. Riley.

Eric Wold

Analyst, B. Riley & Company, LLC

Thank you and good morning, guys. I guess, kind of going back to some of the cost pressures you've seen, I know that wage pressure is something that's continuous going forward, the best, I guess, offset of that is price increases. You're going to push ticket pricing concessions. I'm assuming you'd rather push up concessions and spending on concessions versus ticket prices given the margin and the lack of sharing with studios. I guess if I look at the 5% to 6% CAGR you're looking at going forward, how much of that is actual price increases your expectation versus frequency or basket size and kind of what's been the kind of baseline price increase for concessions kind of over the last 12 months?

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Sure. When you look at kind of the 5% to 6%, we've generally had probably around a 2% price growth in concessions a year, generally around there. So, more of that increase has been generated from new product introductions and just efforts to stimulate incidence of our existing categories. I'd say we anticipate that, that same profile will continue as we look forward as well.

You made the comment that certainly price is one of the tactics both and I would say it's not just concession sales, it certainly is ticket price too and we're very careful about both, because we want to make sure we don't overprice either ticket prices or food and beverage to the point where somebody may not – they may choose not to buy.

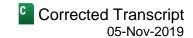
So, we're careful about that, but we'll go after opportunities strategically to increase prices like you kind of saw this quarter with our ticket prices, which were up over 4%. So, we'll pursue that. We'll pursue more efforts to increase volume in our food and beverage as well as our general movie-going attendance as well as look for, as I mentioned, productivity opportunities to combat those just inherent pressures that are in really all retail operations when it comes to minimum wages and benefits increases.

Eric Wold

Analyst, B. Riley & Company, LLC

That's helpful. And then, kind of circling back on the film rent, I appreciate kind of all the detail around the film concentration in the quarter and kind of a big uptick year-over-year. Just to kind of maybe address some concerns

Q3 2019 Earnings Call



that have been out there, I guess, has there been any change in film scale agreements over the past year? And I guess I know you don't want to talk about studios specifically, but when is the next round scheduled for those and kind of what would you expect?

Mark Zoradi

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Chief Executive Officer & Director, Cinemark Holdings, Inc.

There's not a specific round and each studio is negotiated uniquely and the length of term can be at a different length of term as well. So we don't anticipate any large changes in scales. It really comes down to, like I'd mentioned, the size of the films and the biggest issue when you think about is if you look at third quarter this year, it really performed more like second quarter of this year in regards to the concentration. And so, the film rental was really pretty consistent with what the second quarter was.

So there's not a big increase on the horizon and you're going to see it fluctuate up and down slightly depending on the concentration of those big mega blockbuster pictures and that's really what drove the third quarter.

Eric Wold

Analyst, B. Riley & Company, LLC

Right. And then just real quick number one, if I can throw it in for Sean. Of the – I haven't had a chance to go through the entire 10-Q, but on the comments around the DCIP cash flow, how much of the \$20 million has benefited EBITDA through Q3 and then of the \$35 million expected for next year, how should that flow quarter-to-quarter?

Sean Gamble



Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

Well, for this year, if memory serves, we booked about \$5 million in the first quarter and there was about \$2.7 million this quarter in 3Q. I'm just getting the numbers here, so about \$7.9 million to date. So, the remaining, for the rest of the year, you can kind of do the math on the rest of the year – \$7.9 million – for rest of the year, we would expect somewhere between \$20 million for the total year.

As far as it breaks down next year, it will be fairly level set quarter-to-quarter is what we anticipate in terms of how the spread of next year's distributions will play out.

Eric Wold

Analyst, B. Riley & Company, LLC

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Perfect. Thanks, guys.

Sean Gamble

Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

Thanks a lot.

Operator: Your next question comes from the line of Robert Fishman with MoffettNathanson.

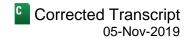
Robert Fishman

Q

Analyst, MoffettNathanson LLC

Hi. Good morning. I have one for Mark and one for Sean. Mark, another one for you on streaming and I appreciate your prepared remarks there. With all the new streaming services launching this month and early next

Q3 2019 Earnings Call



year, could you just update us on your thinking for holding to the traditional exclusive theatrical window or would you be open to being a little bit more flexible for certain movies or genres to help keep them – the first window for those types of movies in the theater instead of having them go exclusively to the streaming platforms like we just saw with some of the Warner Bros. movies shifting exclusively to HBO Max?

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Robert, I think that we will continue with what our current policy has been. I mean we have been extremely well-supported from our studio partners, Disney, Fox, Sony, Warner Bros., Universal, Lionsgate, Paramount. And so, basically, we have an agreement where it plays exclusively theatrical for 74 days and then typically the studio takes it into an electronic sell through for two or three weeks and then they choose to go VOD or pay television or streaming or whatever they might choose to do.

And I can't anticipate us making an exception for one or two movies coming from streaming- that would, in effect, change our policy for all of our tried-and-trued significant studio partners. So, I don't anticipate any significant change to that in the near future.

Robert Fishman

Analyst, MoffettNathanson LLC



Okay. Thank you. And for Sean, just the follow-up, can you help us think about the margin expectations for both the US and international going forward, given all that cost discussion that we've had today and some of the initiatives that you mentioned earlier?

Sean Gamble



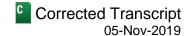
Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

Sure. I think a big part – there's lots of puts and takes obviously to that, but I'll do my best to kind of address some of the pieces. Obviously, as you know, Robert, our business has a highly fixed cost basis. So a big part of our margin is going to just fluctuate with attendance fluctuations. I mean that will be clearly the biggest driver and that's variable quarter-to-quarter.

But that aside, certain things will be ongoing impacts to the margin. Lease accounting, as we've obviously talked a lot about, is going to be an ongoing item as well as the reduction of DPFs for international business over time. Film rental, obviously that's going to fluctuate just based on – we've seen how that can kind of go up and down based on the concentration of blockbusters like this quarter. The ramp-up of some of our loyalty and marketing efforts, Mark mentioned in his opening remarks, that will have a bit of a near-term effect, we think, over the next few quarters. But then, that should catch up as those things kind of reach more of a steady state.

On the flipside, we expect to continue to drive benefits from those DCIP distributions that are coming forward, headway in our strategic initiatives that we think will continue to sustain per cap growth and incremental attendance and viewership and then some of the productivity actions. I'd say a large part of the productivity actions that we're working on that I mentioned with regard to kind of workforce management and continuous improvement, I'd say some of our early focus on that is deriving improvements to streamlining processes and redeploying that time to higher value-added activity. That said, over time, we expect a good portion of that will then gravitate to more hard dollar benefits of savings. However, we're not ready to communicate a firm number on that quite yet.

Q3 2019 Earnings Call



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Analyst, MoffettNathanson LLC

Okay. Thank you both.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

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Thanks, Robert.

Sean Gamble

Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

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Thanks, Robert.

Operator: Your next question comes from the line of Jim Goss with Barrington Research.

James Charles Goss

Analyst, Barrington Research Associates, Inc.



Good morning. One more question related to the streaming issue and the notion that there could be some cross-pollenization. I recall that Disney, I think, in the late 1990s had – would have some theatrical hits and they would create direct-to DVD-or direct to whatever form of the physical media was at the time and they would be able to do something that would satisfy additional content. This strikes me as something that could be similar in terms of addressing the windows issue. And I wonder if there are any studios there creating strategies around that concept where a proven hit that conforms to the existing windows might beget some additional content that they can use in television – sort of streaming content?

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.



Jim, I can't speak specifically to what the studio strategies are, but I would like to just confirm what you said relative to direct-to-DVD and even before that, it was direct-to-VHS. If you go back to the original Lion King or the original Aladdin, there were direct to DVDs that followed that.

Or even going back to the Disney Channel, which is – that was a total cross-pollenization. There was a giant hit on the Disney Channel called High School Musical. And after a couple of great Disney Channel movies, actually the studio turned around and made a theatrical movie of High School Musical, because it was so popular and generated such a buzz on television, it turned into a theatrical.

So I don't think there's any reason or anything stopping multiple studios, whether it be what Universal has in Peacock or Warner Bros. has with HBO Max or Disney with Disney+ that you can't have products that literally go both ways. Probably there's going to be more of big theatrical movies that then get spin-offs or television series; I think that's the more natural way. But there could also be examples of what happened with High School Musical. So, this wouldn't surprise us. It's just – it's taking the same idea, the same concept and transferring that concept to streaming instead of physical media of DVD.

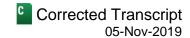
James Charles Goss

Analyst, Barrington Research Associates, Inc.



Okay. And one other question, your theatrical advertising partner, NCM, is creating a shift in the timing of some of its ads and adding this platinum spot and you're a party to that. I'm wondering what your thoughts are as to

Q3 2019 Earnings Call



whether or not that works and whether that has any meaningful impact and what you get from your NCM relationship; and maybe also whether you'd consider something similar with your own venture in Latin America.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Well, in Latin America, right now, we do something similar to that as we now do as does the rest of the world, whether it's Canada, Asia, Latin America does very something similar. What NCM really did was to help themselves remain competitive and really match what their major competitor within the United States was doing in regards to timing of advertising. So, we wanted to support them in doing so. It's brand new. Literally, it has just started. So I think it's way too early to make any predictions on what their success is, but we felt like it was the right thing to do and it helps them remain competitive in a very, very competitive marketplace. And so, that's really the long and short of it.

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Okay. Thanks very much.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Thanks, Jim.

Operator: [Operator Instructions] And your next question comes from the line of Alan Gould with Loop Capital.

Alan Gould

Analyst, Loop Capital Markets LLC

Thank you. I've got a few questions. First, a question on capital allocation, with your debt under two times EBITDA, and it sounds like your CapEx should be declining as your recliners seem to have hit – will hit 60% by the end of this year – any thoughts on how you'll allocate the capital going forward?

Mark Zoradi

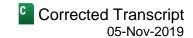
Chief Executive Officer & Director, Cinemark Holdings, Inc.

Alan, I'll take this one, maybe Sean will take one of your others. I mean, capital allocation, the first thing we always look at is where can we put this money to the best use to further drive Cinemark business. So, I mentioned, or Sean mentioned in his comments, that we have a significant amount of new builds both in the US and in Latin America coming. We will have – we'll continue to do some remodels strategically as needed. So, that's going to continue to be an important use of capital.

Secondarily, we continue to invest in our food and beverage initiatives because they've paid such great dividends to us along the way. And third, we take great pride in keeping our theaters in absolute tip-top shape. So, about a-third of our capital allocation goes to that, about a-third of it goes to new builds and about a third of it goes to other EBITDA-generating items.

As you know, we have increased the dividend in each of the last four years. We'll certainly consider doing that again next year with the advisement of our board. And also, we're interested in M&A opportunities as they might come up, both within the United States and outside of the United States. We have historically been very disciplined buyers and we're going to – we have every intention to continue to do that.

Q3 2019 Earnings Call



Alan Gould

Analyst, Loop Capital Markets LLC

Okay. Thank you. And then, second, in terms of streaming, thank you for what you mentioned earlier, I'm assuming in Latin America, you're seeing the same impact as you're seeing in the – you would have the same thoughts as you have in the United States?

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Yeah. And also the streaming – obviously, the streaming timing is behind the United States. It's not near as quickly. There's not near as much high speed Internet installations in the home, but we've continued to see strong admission growth in – or stability and some growth in Latin America even in the midst of Netflix rollout over the past several years.

So I don't think that Latin America would perform any differently. And again, it's particularly important, in Latin America, you want to get out of the house and going to the malls and going to the theater is still one of the great affordable means of family entertainment. So we would anticipate stability and growth in Latin America in terms of admissions.

Alan Gould

Analyst, Loop Capital Markets LLC

And lastly, Sean, can you just tell us in dollars how much the impact was for each of the ASC 842 and the incremental deferred revenue?

Sean Gamble

Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

Hold on a second. The ASC 842 impact was about \$6 million in the quarter, roughly split kind of half and half between our domestic business and our international business. And just looking, I believe the deferral was probably about – it was about \$3 million of impact.

Alan Gould

Analyst, Loop Capital Markets LLC

Okay. Thanks for taking the questions.

Sean Gamble

Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

Thanks, Alan.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Thanks, Alan.

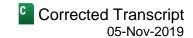
Operator: Your final question will come from the line of Meghan Durkin with Credit Suisse.

Meghan Durkin

Analyst, Credit Suisse Securities (USA) LLC



Q3 2019 Earnings Call



Hi, guys. I wanted to dig a little bit into the merchandise sales that you're doing. How big of a business is this now and where can it ultimately go? I'm wondering if there are ways to further enhance your relationship with the studios by partnering on consumer product sales. I think I saw that there is an exclusive Frozen Funko Pop that will be available in your theaters.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Meghan, it's a moderate part of our business. I mean we have small merchandising displays in every one of our theaters, but just the nature of the business and the size of our lobbies will never allow us to become full-on retail stores. And you are absolutely right. We try and deal with each studio when a release comes out. The things that tend to work the best are things that are children oriented, because parents will walk out with their kids. And if it's something for Frozen or something from Minions, those tend to sell very well. And then, there's some bread and butter stuff like people love to buy blankets and they love to buy T-shirts on big movies like Star Wars or Avengers: Endgame.

So it's a good business, but it's a moderate business at this point. And we don't see it becoming one of the big cores of our in-theater sales like the food and beverage.

Meghan Durkin

Analyst, Credit Suisse Securities (USA) LLC

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Okay. Understood. And then, I just wanted to know, have you ever looked at the impact from the studios marketing strategies on your movie attendance? I'm wondering if there's been any impact as the studios shift more of their marketing dollars away from TV and into digital in an effort to be more efficient.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.



Well, that's interesting. We clearly have seen that and the studios continue to improve and refine their marketing mix. We see them spending more money on digital. We see them wanting to participate and cooperate with us as it relates to the data that we've accumulated in both Movie Club and Movie Fan.

And because we've got such good data on millions of these customers now, we know what they've seen, we know what they like, we know a lot about them. So we've done and continue to do and I'm sure we'll expand more and more joint marketing efforts with the studios that are digitally related, utilizing some of the information that we've accumulated. So, they see us as a very important partner and we've really enjoyed the increase of joint marketing efforts with them.

Meghan Durkin

Analyst, Credit Suisse Securities (USA) LLC

Right. I'm just wondering if you're missing some of the breadths that comes from the TV spend and the reach that comes along with that.

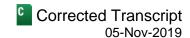
Mark Zoradi

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Chief Executive Officer & Director, Cinemark Holdings, Inc.

Well, you know what, on big movies, they're still doing that. And I think the studios have had to work harder and become better marketers. They've clearly done that. And I don't think that we've missed creating and eventizing movies because they've shifted some of their media into digital and social. I think they've just become much more efficient in the expenditures of their dollars.

Q3 2019 Earnings Call



Sean Gamble

Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.

And I would also say a lot more sophisticated too in being able to leverage multiple mediums and try to drive maximum box office. They don't have any incentive to undermine the performance of the top line by shifting away from TV. Net-net, that would work against them. So I think if anything, they've just been able to use that and become a lot more sophisticated in multiple channels of marketing.

Meghan Durkin

Analyst, Credit Suisse Securities (USA) LLC

Okay. Thanks, guys.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Thanks, Meghan.

Operator: I will now turn the conference back over to management for any closing remarks.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Thank you all 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 call. Thank you all for joining and you may now disconnect.

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