05-Nov-2020

Cinemark Holdings, Inc. (CNK)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by welcome to Cinemark's Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' 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 your speaker today, Chanda Brashears, Vice President of Investor Relations. Thank you. Please go ahead.

Chanda Brashears
Vice President-Investor Relations & Corporate Communications, Cinemark Holdings, Inc.

Thank you, Natalia, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holdings, Inc.'s third quarter 2020 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 addressed 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. The company undertakes no obligation to publicly update or revise any forward-looking statements.

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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 hope you and your families are healthy and well during this very challenging time. We appreciate you joining us to discuss our 2020 third quarter results. The format for our call this morning will be similar to what our first and second quarter calls were like. I'll kick things off with a high-level overview of the current state of our company and industry. And then, Sean will provide commentary on our liquidity position, third quarter financial results, before turning the call back over to me for further updates on our strategic focus and reopening plans. We'll then open up the lines for our customary Q&A.

It perhaps goes without saying that COVID-19 pandemic continues to have an unprecedented impact on the world and the movie exhibition industry. Delays of new film content, operating constraints imposed by varied government authorities, and ongoing health concerns associated with the pandemic continue to challenge a material resurgence in moviegoing. As such, resolving these pressure points along with stringent cash and liquidity management, and driving incremental productivity gains remain our top near-term priorities.

While the current operating environment remains difficult, we're very pleased to report that on account of tireless and focused efforts of our broad Cinemark team, we have been able to adapt our business to more than satisfy the current health and safety needs and reengineer a wide range of procedures within our field operations to derive meaningful new efficiencies. As a result of the majority of our theaters are presently open and operating and generating a modestly positive variable cash flow, which means our theaters are slightly improving our overall cash burn, remaining open versus being closed.

As discussed on our second quarter earning call, we developed and implemented a comprehensive series of new and enhanced cleaning and safety protocols to address current health requirements in light of COVID-19. We branded our program The Cinemark Standard, and it included various varied social distancing measures, required face masks, disinfecting auditoriums and frequently sanitizing hard surfaces, optimizing air quality and assigning a chief clean and safety monitor during each theater shift to ensure we're performing all these functions and more to the highest level of effectiveness. To further ensure the execution of The Cinemark Standard before going full scale, we designed a strategic phased reopening plan for our theaters that provided an opportunity to test the training, communication, implementation and feasibility of the program.

In mid-June, we reopened five theaters in a test and learn phase, which was followed by the launch of another 10 theaters in the month of July. This phased approach provided invaluable learnings with regard to the refinement of our safety protocols as well as theater reopening efficiencies. In August, we opened another 205 theaters, with 32 more in September, for a total of 252 theaters operated by the end of the third quarter or more than 75% of our domestic circuit.

One strong indicator that this phased approached served its purpose is the feedback we've been receiving from guests who for the past four months have consistently reported a 96% satisfaction with Cinemark's health and safety measures. Furthermore, an overwhelming majority of those moviegoers indicate they intend to return again and will recommend visiting Cinemark to a friend.

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While our abundance of new cleaning and safety protocols are more than satisfied the needs of many moviegoers in this current environment, we recognize that there is a segment of the audience who may still require an additional layer of comfort. As such, starting back in July, we introduced the innovative concept of Private Watch Party, which has been met with resounding positive results. Our Private Watch Parties offer consumers a simple and affordable way to reserve an entire auditorium for their trusted group, up to 20 guests, and select the contact of their choice from a list of new releases and favorite film classics with a few simple clicks on our website or mobile app.

Since we launched Private Watch Parties four months ago, we've already sold nearly 50,000 of these private events. Notably, more than 600,000 people have attended a Private Watch Party to date, with a significant portion reporting it was their first time back in the theater since the shutdown, underscoring the opportunity for guests to sample the cleanliness and safety of our theaters. While several of our competitors have since followed with their own version of Private Watch Parties, we've not seen them impact our sales to date, which continue to grow.

Two additional benefits of our phased reopening approach already enabled us to materially improve the speed and ability of the reopening process. It also provided us with the ability to test and hone our newly designed, more optimized operating procedures. As I previously indicated, as a result of these procedures and their focus on maximizing revenues while minimizing expenditures, we are burning less cash with our theaters opened than when they were shut down. Said another way, we are more than covering the incremental costs of operating our theaters, such as film rental, concession cost of goods sold, hourly payroll, utilities, security, janitorial, cleaning, and safety supplies. These results have been achieved by closely evaluating our business theater-by-theater and adjusting our operations as necessary. We developed sophisticated data analytics related to this current operating environment during our initial test and learn phase, which is now enabling us to optimally align operating hours based on current market demand and ability to produce positive cash flow. As a result, we've been expanding operating hours and showtimes in certain instances and reducing in others.

Furthermore, during this period of reduced demand, we've limited our food and beverage offerings to the highest value core offerings that require less labor to fulfill and have less risk of spoilage. Consumers can still enjoy moviegoing favorites like freshly-popped popcorn, candy and drinks. And this tactical approach has supported our ability to maximize our operating cash flow.

In addition to cash management, in our variable field operations, we continue to remain hyper-focused on fixed costs as well. As an example, we restructured our business during 2Q, which resulted in the permanent closure of 21 theaters as well as the reduction in our corporate workforce. We're continuing to seek various means to reduce or defer fixed costs such as ongoing landlord negotiations as we pursue incremental rent abatements and/or modifications to the underlying structure of our lease agreements.

One of the key things I'd like you to take away from my introductory comments is that we have already dramatically evolved our business and we continue to conform to the current operating environment. Doing so has involved reengineering varied operating procedures, developing and implementing new safety protocols like The Cinemark Standard, and tightening cash management routines, all while devising new innovations and promotional campaigns to reignite moviegoing and drive revenue.

I'm truly proud of the Cinemark team's dedication, focus and collaboration, as well as their flexibility and agility in this dynamic environment. I remain confident that we will emerge from this crisis a stronger company and look forward to the recovery of both our company and our industry, and focusing on what we do best, entertaining millions upon millions of moviegoers in the best possible environment that is safe, comfortable, and exciting.

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Sean will now walk you through our liquidity position and three key results, before turning it back over to me to cover our reopening plans. Sean?

Sean Gamble

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

Thank you, Mark. Good morning, everyone. As Mark indicated, cash management and liquidity remained two of our top priorities as we continue to navigate the ongoing impact of COVID-19. Consistent with our comments made last quarter, Cinemark remains well positioned to effectively see our way through the pandemic as a result of the balance sheet strength and the leverage we possessed heading into the crisis, as well as the many actions we have taken since to bolster and preserve our liquidity position.

As we've indicated on prior calls, some examples of these actions include significantly limiting all non-essential operating and capital expenditures, restructuring and streamlining our operations in headquarters, including the permanent closure of 21 lower performing theaters and significant reductions in workforce and payroll, negotiating substantial lease-related and other contractual payment deferrals and modifications, to spending our dividend and issuing $250 million of new five-year senior secured notes.

Additionally, during the third quarter, we secured $460 million of new five-year convertible senior notes that netted us approximately $390 million of incremental liquidity, inclusive of fees and call spread transactions we entered into related to the deal. We also received $116 million of tax refunds associated with benefits provided by the CARES Act which were derived from a combination of eligibility modifications related to qualified and proven property and estimated net operating loss deductions that we were able to carry back to prior periods. Looking forward, we expect another $100-plus-million of further tax refunds associated with net operating losses from additional tax filings.

In light of the incremental cash we generated from our convertible notes and tax refunds as well as our sufficient near-term liquidity position, during the third quarter, we elected to pay back the $98.8 million that we had previously drawn down on our revolver. Considering our revolving credit line remains available to us, should we see a need for it in the future, we felt it made economic sense to return this capital and avoid incurring unnecessary cash interest expenditures by leaving it drawn.

In total, as a result of these varied liquidity-related actions, we ended the third quarter with a global cash balance of $825.7 million. Normalizing for the effects of our convertible notes, tax proceeds and revolver repayment, our third quarter cash burn was consistent with the second quarter at approximately $50 million per month. This burn rate includes startup and operating costs associated with reopening 75% of our domestic circuit.

As we look ahead, we expect our cash burn will increase somewhat as a result of incremental interest payments associated with our recent debt raises and face settlements of rent deferrals that we achieved earlier this year. Under our current operating scenario, which includes a modest amount of positive variable cash flow generation from our open theaters, we estimate that our fourth quarter cash burn will grow to approximately $75 million per month due to the timing of our biannual bond interest payments. Over the course of 2021, however, we expect our cash burn will average closer to $65 million per month.

Based on these projections and our current cash position, which at the end of October was slightly over $750 million, we see a cash runway that extends into the fourth quarter of 2021. This runway further extends into 2022, including the incremental tax refunds we expect to receive between now and the first half of next year. It's worth noting that these estimates do not assume any further lift from incremental debt raises, improvements in operating

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results as new film content ramps up or from the additional rent adjustments we are pursuing that Mark referenced earlier.

Turning the attention now to our third quarter results, we'd like to remind you that our reported financials follow accrual-based accounting and, therefore, do not necessarily correlate directly to the timing of our cash flows. Furthermore, even though 75% of our domestic theaters were operating by the end of 3Q, most were only open for a portion of the quarter and were ramping up during that timeframe. As a result, our traditional metrics are somewhat distorted. Likewise, the 15 theaters that we relaunched in Latin America during 3Q opened toward the end of the quarter in a test and learn phase and, therefore, yielded negligible results.

Domestically, total revenues for the third quarter were $34.6 million driven by attendance of 1.9 million patrons. US admissions revenues were $14.9 million, of which 17% were generated by Private Watch Parties. Our average ticket price of $8.01 benefited from first-run film content, Private Watch Parties, and mix associated with reduced matinee availability. These benefits were partly offset by discounted pricing associated with library film content.

Domestic concession revenues were $8.9 million, with a food and beverage per cap of $4.79. We were highly encouraged by this result, which was aligned on a same-category basis with our pre-COVID performance despite our highly discounted welcome back pricing. Variance to pre-COVID per cap results was largely driven by fewer menu items being offered during the quarter.

Globally, film rental and advertising expenses were 54.7% of admissions revenues and were driven by first-run film content, which constituted the majority of our third quarter box office results, as well as reduced leverage over marketing and promotional expenses associated with relaunching our theaters.

Concession costs were 29.5% of concessions revenues, an increase from 17.8% in the third quarter of last year, predominately as a result of additional spoilage associated with our temporarily closed theaters. Promotional pricing, which has been very helpful in attracting consumers back to our theaters and stimulating incremental purchase incidence, also created a slight near-term drag on our COGS rate.

Global salaries and wages were $20.2 million and declined 80.2% year-over-year as many theaters remain closed for a large portion of the quarter. Furthermore, theaters that reopened did so with reduced operating hours and staffing.

Facility lease expenses of $67.1 million were driven by the fixed nature of our rent commitments, however, were down $20.3 million year-over-year predominantly as a result of permanently closed theaters, varied rent abatements and reduced percentage rent associated with our decline in revenues. Again, these expenses are accrual based and do not reflect approximately $21 million of cash payment deferrals that we negotiated for the third quarter, which were on top of $42 million deferred during the second quarter.

Worldwide utilities and other expenses were $43.3 million and declined 65.1% versus prior year. While several costs within this category, such as credit card fees and commissions paid to third-party ticket sellers are 100% variable, others like property taxes and property and liability insurance remain fixed. So, other expenditures, including utilities and repairs and maintenance, have a blend of fixed and variable attributes and have begun to increase as our theaters have started reopening.

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Finally, G&A for the quarter declined to $30.3 million driven by temporary salary reductions through August, the impact of our recent restructuring actions and reduced travel. Collectively, our worldwide adjusted EBITDA for the third quarter was negative $128 million and we posted a net loss of $147.6 million.

Capital expenditures during the quarter were $20.7 million, of which $7.1 million was associated with new build projects that had been committed prior to the COVID-19 pandemic and $13.6 million was driven by new cleaning and safety equipment, regulatory and compliance requirements, maintenance and other prior commitments. Through September, we have spent $67.6 million in CapEx and we continue to expect full year capital expenditures will be slightly under $100 million compared to the original guidance of $300 million we provided back in February.

We'd like to reinforce once again that cash management and liquidity are top priorities for Cinemark and will remain so as we look ahead and work to refortify our balance sheet to its pre-COVID standing. Our consistent and disciplined capital allocation strategy over the years along with ongoing proactive measures to bolster and preserve liquidity as well as further optimize and innovate the way we operate have secured us a lengthy cash runway to endure the impact of the pandemic, even if prolonged.

With that said, I will now turn the call back over to Mark who will provide additional information on our path forward. Mark?

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Thank you, Sean. Since 3Q, the relaunch of our global circuit has continued to advance. And we now have nearly 90% of our domestic theaters operating and roughly 40% of Latin America. Internationally, we're following a similar approach to the US in first deploying The Cinemark Standard health and safety protocols at the strategic test-and-learn theaters, followed by a phased reopening plan in each country as government restrictions allow. We recently launched 55 theaters in Brazil, 8 in Ecuador and 12 in Central America. And we're continuing to work towards getting our residual theaters open over the coming months.

As we approach the reopening of our theaters, there are five key factors that influence the process. These include: one, the status of the virus; two, government regulations; three, consumer sentiment; four, cleaning and safety protocols; and five, film content. These factors have many interdependencies and also critical to reigniting the overall exhibition industry. As such, I'd like to provide an update on the latest status and initiatives related to each area.

The state of the virus and government regulations go somewhat hand-in-hand. We're closely monitoring the evolution of both as we work on timelines and plans for future theater openings and modifications to capacity limitations. In jurisdictions that have allowed other indoor venues such as restaurants, churches and casinos to open but have not yet done the same for theaters, we are aggressively lobbying alongside our trade organization, NATO, at both the national and regional level to resolve this discrepancy.

As part of the lobbying campaign, we're collectively highlighting the many important beneficial distinctions that movie theaters possess relative to other businesses, such as the fact that moviegoers are socially distanced in the auditorium with everyone facing forward and very little interaction during the film, the height of theater ceilings and individual HVAC units per auditorium in addition to stringent air quality standards. And to-date, not one single case of COVID has been traced back to theaters across the US. Fortunately, these efforts appear to be making progress as we're starting to see movement within the regulators in various jurisdictions that have been more

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restrictive to-date. We're encouraged that more than 75% of US theaters are currently able to open. Of course, the two key markets in which closures persist are New York City and Los Angeles County.

Consumer sentiment is another significant area of focus. With regards to making advancement in consumer awareness and comfort about visiting theaters, we're collaborating with NATO and other exhibitor peers, studio partners and talent agencies to better inform the consumers that theaters are open and to educate consumers about all the extensive measures we're taking to provide a safe environment for guests, employees and the communities.

At Cinemark, we're actively communicating with our 12 million addressable customers and over 950,000 Movie Club members. We're also engaging consumers through varied social media channels and we've been aggressive with targeted PR campaigns. Based on our survey data so far, these efforts have been resonating as our consumers rank movie theaters above all other indoor recreational venues, such as restaurants, shopping malls and gyms. That said, we are cognizant that advancing consumer sentiment is a critical industry endeavor. And we intend to continue to execute strategies to reach the masses working alongside our NATO colleagues to drive awareness and reignite the industry.

The fourth consideration, cleaning and safety protocols, highly correlate with the first three. The status of the virus and recommendations by the CDC, the World Health Organization and various medical experts helped define our stringent protocols, both The Cinemark Standard and the industry protocols called CinemaSafe, which more than 3,100 theater locations have adopted to date.

We consistently monitor any revisions in the health authority recommendations and are assessing protocols outside our industry to glean new insights as well as frequently meeting with vendors to research the vast array of products and technology currently available to combat COVID-19 and keep our employees and guests and communities safe. We're also leveraging the clean and safety protocols and our lobbying efforts and walking health officials through our theaters to demonstrate the thoroughness and effectiveness of The Cinemark Standard.

Our fifth consideration is film content. In order to propel the industry forward, we will require a consistent flow of new film content with varying genres and appeals, which necessitates the collaboration of our entire ecosystem. A special thank you to our studio partners who have proceeded with their releases theatrically. Understandably, our studio partners like us, are assessing the first four considerations. Again, those are the status of the virus, government restrictions, consumer sentiment, and health protocols. In addition, of course, to the status of the theaters which are opened across the country to help determine their individual release strategy.

Our team has been creative in supplementing film content with campaigns around fan favorite classic films to draw attendance such as Fright Night for the month of October and big holiday campaigns planned for November and December. As we have seen over the past four months, there is an avid moviegoing audience that is eager to watch movies in the theater on the big screen with heightened sound and sight technology, and of course that one of a kind movie theater popcorn, and we want to continue to provide appealing content for those moviegoers.

We maintain our optimism in terms of film content. While the film slate may fluctuate given the considerations just outlined, the majority of films are shifting dates rather than bypassing theatrical. The fact remains theatrical has been the most consistent window for the studios, delivering approximately half of the film's worldwide revenue on a major release. Theatrical is the best launching platform for films and it eventizes the movies, which lifts all subsequent distribution channels. Furthermore, a significant portion of people that watch a film at home already

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saw it theatrically. So the content owners are able to get multiple bites of the same apple. And much of a studio's downstream revenue is directly correlated to the theatrical success.

All that said, in the current environment with numerous COVID implications, we now expect the ramp up of the industry to extend into the first half of next year. 2021 will be a transition year impacted by the content shifts and production delays, with the second half of 2021 stronger than the first. And it's not until 2022 that we expect to see a more normalized cadence of content and business for exhibitors. We're extremely excited for the great content to come and ready to welcome moviegoers back for the next big blockbuster.

We continue to believe an exclusive theatrical window is critically important to the overall media landscape. We're having active discussions with multiple content providers to evolve windows. We're advocating for more of a dynamic window that varies with the box office generated, which benefits all parties: studios, exhibitors, and most importantly, moviegoers.

In conclusion, Cinemark is working fervently to manage our liquidity while streamlining, innovating and evolving our business model. I'm confident in the future of this company and the underlying guidance and direction of our outstanding Board of Directors and exceptional management and field team. Our disciplined approach, consistency and execution have positioned us well leading into this crisis, and continue to be the most important distinguishing factors in the current challenging environment.

One final note before we open it up for Q&A. We are highly encouraged by the recent theatrical moviegoing results coming out of Japan and China. Demon Slayer, the local Japanese film that opened last month, generating nearly $50 million during the opening three-day weekend to become Japan's highest grossing opening of all time, domestic or foreign, the second weekend dropped only 8%, and the film is on target to become the most successful film ever in Japan. Local industry leaders I've spoken to are truly ecstatic with these results and are crediting the phenomenal success to the virus waning, built up demand to enjoy the theatrical experience, and of course, a highly commercial film.

China has experienced similar success with three local movies over the past 60 days highlighted by the film, The Eight Hundred, which has generated $464 million since opening in late August. For five consecutive weeks following the opening of The Eight Hundred and other films, China's national box office has matched 2019 levels. Both countries are achieving these results even with capacity restrictions.

These successes clearly demonstrate the pent-up demand consumers have to see high-quality commercial movies in a theatrical environment and return to a true cinematic experience. Make no mistake, there is light at the end of this tunnel. In a contained COVID environment with a consistent flow of Hollywood's best films, theatrical moviegoing will rebound strongly in the US and throughout the world and Cinemark will be well positioned to welcome those moviegoers back throughout the Americas.

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

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QUESTION AND ANSWER SECTION

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

Eric O. Handler
Analyst, MKM Partners LLC

Q

Yes. Good morning and thanks for the question. Two things for you. First, The Croods is still on the slate for Thanksgiving. Wondering if your plan is to, in fact, show the movie and do you have any agreement in place with Universal in the event it does intend to take The Croods or any of its other upcoming films to an early PVOD window.

And then secondly, wondered if you could just sort of talk a little bit more and give some insight into what's going on in Latin America beyond Brazil, specifically Colombia, Chile, Peru. And we've seen in Brazil some local language content work quite well before. Is that an opportunity for Brazil or is there even any new local content to distribute?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Good morning, Eric. Thank you for the questions. I'll take the first one and maybe Sean will pick up the second one. As it relates to our studio discussions, as I mentioned, we are in active discussions. Universal, obviously, is one of those content providers that we're in active discussions with. So, I can't make any comments about that because there is nothing concluded at this point. But I will answer your question specifically as it relates to Croods.

Since we don't have a specific agreement set on a go forward basis with any changes to our model, we are taking each movie on an individual film-by-film basis during this period of time. And we are pleased to tell you that we will be playing Croods both in the United States and throughout Latin America.

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

A

And then, Eric, with your question regarding Latin America, currently, just starting with Brazil, and I'll get to the other countries as you ask. Brazil, we've got over 60% of our theaters now open and operating in Brazil. So that country has been expanding and ramping up. And consistent with what Mark had indicated on the call, like we're seeing in the US, our theaters are operating with positive variable cash flow in country.

Beyond Brazil, we also have theaters now open in Central America and Ecuador. Beyond that, some of the transparency is a little more challenged. Colombia, we think we're going to start to see some theaters open before the end of the year. Places like Chile, Peru and Argentina have been less clear. So we're still waiting to see how things develop in those countries.

With regard to local content, certainly, local content does present opportunities. But the region has been impacted by many of the same production challenges as has Hollywood here in the US. So, we don't see any significant local product being released between now and year end. But certainly, there's the potential for that as we get into 2021 and beyond.

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Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Eric, also, I think I didn't completely answer your question. I want to be [ph] specific. Before you (00:35:16) asked about Croods and other pictures from Universal. We're doing the same thing on the other Universal Pictures on a film-by-film basis. So we will be opening Let Him Go this weekend and Freaky the weekend of November 13.

Eric O. Handler
Analyst, MKM Partners LLC

Q

Thank you very much.

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

A

You bet. Thanks, Eric.

Operator: Your next question is from the line of Meghan Durkin with Credit Suisse.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning, guys. I just wanted to clarify on the liquidity runway you talked about, Sean. I think you said that it was into 2022 including the tax refunds you're getting that did not include any drawdown of the revolver again. Is that right?

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

A

Yeah. That's correct. Based on our current projections for what we expect from additional tax refunds coming in over the next, I would say, three to nine months, that would carry us into 2022. So, yeah, I wouldn't include a revolver draw down, other capital raises, or as I mentioned, any further improving of just operating performance or successful rent negotiations with landlords.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. And then Mark, can you give us a little more color on the changes that you're making to preserve the cash flow? Are you closing certain days of the week like AMC is doing? I'm just wondering if you're going to be benefiting in the near term even if attendance is light from your peers either being closed or being closed part of the week?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Meghan, we really honed in our operating hours and days of the week over the past several months. So, approximately two-thirds of our theaters are opened all week long and approximately one third of our domestic theaters are only open on the weekend. And then we've also honed in the number of showtimes and we're constantly monitoring each and every week. And then, as I noted to you as well, Private Watch Parties has been very important to-date. During the third quarter, it represented 17% of our box office. And as we've moved in to this quarter, we're actually seeing that number increase and we're over 20% of our box office coming in on Private Watch Parties.

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So, it's been a combination of fine tuning demand or hours based on demand and then changing our theaters' opening and closing hours, and then finally, finding new ways to generate revenue. And we've been very aggressive with both promotional campaigns around Halloween and upcoming holidays as well as our Private Watch Parties. So you combine those all together, we've been able to cover our variable operating costs in the theaters that we have opened, which is approximately 90% of our circuit.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thanks, guys.

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

A

Thanks, Meghan.

Operator: Your next question is from the line of Mike Ng with Goldman Sachs.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning. Thank you very much for the question. I just had a quick one on the comments that you made about the dynamic theatrical window. I was just wondering if you might be able to expand on that a little bit and how that could compare to the 17-day PVOD window and I think roughly 75-day standard home video window. What are some of the key debates around that dynamic theatrical window?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Mike, I don't know if we were the first ones to coin the word dynamic window, but we've been using it for several months now as we talk to various content providers. And the concept is actually very simple. Historically, there was a 74-day window prior to some form of home entertainment and that's what we all lived by, and we think in the current environment and on a go-forward environment that that will probably be a dynamic window, meaning that it won't be one set of days for every single movie. Movies that are your big tempo blockbusters will likely have a longer window than maybe a small or mid-range movie which could have a shorter window. And what that does is it allows the studio or content provider to monetize that particular movie quicker because it's not in the theaters as long.

So a movie that's going to be in the theater for a long time, we're asking for and we think we'll be able to get a longer exclusive window. For movies that are going to be in and out of the theater on a shorter period of time, we're willing to create a dynamic window and let that particular movie go to home entertainment on a quicker window. So that's really the long and short of it. I really can't get any more specific at this time because there are active negotiations going on with various studios at this time.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. And just as a quick follow-up on a separate topic. I was just wondering if you could talk a little bit more about the ramp up in the industry extending into the first half of 2021. What are some of the key assumptions that will reopen or begin to reopen in a more meaningful way in first half 2021? Is it simply those

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factors that you mentioned and people getting more comfortable with virus? Have the film studios as a group really kind of rallied around a mid-2021 reopening to continuously make content available?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Mike, I think it's exactly what you had just said. Let's start with the virus. I think we all know that the virus is going to wane. What we don't know is exactly when. So, I think we have to make the assumption that sometime in 2021, there is going to be a vaccine and that vaccine will be effective. And as such, people will start to become more and more comfortable coming to the theaters. And then when we look at what happened in Japan and in China, these are really specific data points because it's not research, it's not people saying what they might do or want to do, it's people actually doing it with mass numbers.

So, there's no reason that the United States is going to be any different than those two markets. The US, China and Japan are the three top moviegoing markets in the world. So, as the virus is contained, which it will be somewhere in 2021, the lineup of movies is very substantial in 2021 and it gets stronger each quarter as it goes. Quarter one is good, quarter two is better and the second half of the year is even better than that and I think the studios obviously were very deliberate and smart in how they delayed their movies.

But you go into the first quarter and you've got a Disney animated Raya and then you've got a big Sony Marvel picture as well as a DreamWorks picture as a Tom Clancy picture, and then you get into the second quarter and you got Black Widow and Fast & Furious and Luca and Cruella and [ph] A Quiet Place 2 (00:42:39), and then it just gets better each quarter.

So, I put those comments in looking at the release schedule as it now stands and a reasonable anticipation of how the coronavirus will wane in the new year and also taking into consideration what exactly happened in to what I would call comparable size first run, first world markets with China and Japan.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you for the time, Mark. Really appreciate it.

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Thank you, Mike.

Operator: [Operator Instructions] Your next question is from the line of Jim Goss with Barrington Research.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thanks and good morning. I was wondering if you could add one additional thought on the dynamic windows issue, and that is whether it could involve something along the lines of what the AMC Universal deal did, where you get some piece of the downstream either through your own franchise or through a part of them, so that you're pulling in the same direction.

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

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Jim, as it relates to that, I think we've said about as much as I'm comfortable in saying relative to the progress of those discussions on dynamic windows. I really can't get into the specifics of what that might be at this point. But I tell you, when we're ready to talk about it and we have a deal or two in place, we'll certainly describe it to you in what we consider a reasonable amount of detail. But much of this is obviously confidential. It's discussions that are going on with various studio partners. So, it's just not appropriate to speak about when it's not concluded in a public format.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Separately, the Private Watch Party idea, is this an idea that will live on beyond COVID, say, Wednesday and Thursday evenings as an alternative to alternative content, so to speak?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Jim, there's several reasons why Private Watch Parties work so well. One of them clearly was it welcomed back people to the cinema who were a little hesitant and they could come with their trusted group. But what we found is that people really enjoy it and having the simplicity of being able to purchase it like a regular ticket on the app or the website with reasonable pricing has shown us that, yes, this can continue.

The key thing is when larger crowds come back, then we will have to run our numbers and decide what's the best way and where can we gross the most amount of money. And so, clearly the number of Private Watch Parties will be reduced in a post-COVID world. But I think to answer your question specifically, I don't think they will go away. I think the concept has proved itself to be very important. And the concept really was just an evolution from what we and others had done for years and years of offering private parties for businesses or birthday parties. What we did is we just made it very, very simple and clean for the consumer to be able to purchase.

So the answer is yes, they'll continue, but also they will reduce in importance as significant crowds come back with first-run movies.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. One last thing. You noted that you had closed 21 theaters in the quarter. I assume those were leases that came up for expiration and you decided to not continue with those. I'm wondering how that might look in the future and what it might imply for industry footprint issues and potentially even M&A implications for financially stronger company like yourself to the extent that some options become available?

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

A

Jim, just to clarify. The bulk of those theater closures actually happened last quarter as part of restructuring actions. And yes, kind of as you implied, those were lower performing theaters that were nearing the end of their lease term. So, those would have been the theaters that we would have been carefully considering even before the COVID crisis.

So, it's certainly possible we could have a few more of those as we look forward and we continue assess our theater performance like we do as just our normal process, but that was kind of the driving force of those theaters.

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Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Also Jim, about one-third of those theaters were discount houses. They were second run houses that in today's world, there's just not a market for those anymore. So, that was a lot of them.

Relative to your question about M&A, that is always a potential and we're very open and active to looking to potential opportunities in M&A. But as Sean and I have both emphasized multiple times, our first priority is to ensure the long-term liquidity of our company. So we're going to be careful about M&A but there's going to be opportunities that are going to come and we will evaluate them one by one in a very prudent and diligent way. So, it's clearly on the table but one that we're going to be careful about as well.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Thanks very much.

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

A

Thanks, Jim.

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Thank you.

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

Robert Fishman
Analyst, MoffettNathanson LLC

Q

Hi. Good morning. I have a couple of questions. First, with your dynamic window conversations and due to the uncertainty around the theatrical release schedule in the months ahead, would you be willing to have new conversations with Netflix and other SVOD services to help fill the content gap from their own original product?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Robert, thanks for the question. We're always open to that. We're open to having discussions with anyone that can come to us with a high-quality movie that we think is commercial. It will always come down to the terms. It will come down to both film rental terms and to number of days of exclusive release. As I mentioned to you, we've been extremely consistent that we believe that an exclusive theatrical window upfront is very important for both us, and also, we can demonstrate that an exclusive theatrical window eventizes a movie and actually creates additional value downstream.

So, to answer your question specifically, yes, we would be open to it, but it always comes down to what the terms and conditions would be.

Robert Fishman
Analyst, MoffettNathanson LLC

Q

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That makes sense. And then just bigger picture, can you discuss whether you're open to alternative strategic investments from outside investors? And maybe help us understand given where the stock price is, the benefits of remaining public during this time whereas going private is an option to take even greater advantage of your relative financial strengths within the industry right now?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Robert, we've had no serious discussions about going private at this point. We look forward to the recovery. We think that Cinemark is well positioned from a financial standpoint, from a balance sheet standpoint. We think that with the items that we've put in place to ensure our viability well into – well through 2021, that we're probably as best positioned as could be, and we don't have any plans at this point to be looking to go private.

Robert Fishman
Analyst, MoffettNathanson LLC

Q

Thank you very much.

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

A

Thanks, Robert.

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

David Karnovsky
Analyst, JPMorgan Securities LLC

Q

Hi. This is David Karnovsky on for Alexia. Mark, just recognizing you don't want to get too specific on the dynamic window price conversation, just at a higher level, are you negotiating for long-term changes here or are the conversations for some sort of maybe shorter agreement where there would be experimentation? And then, is there also some sort of or would you be willing to say is there a minimum period of exclusivity that you see necessary for a film in any scenario regardless of what [ph] must be agreed (00:51:26)?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

David, thanks for the question. The first question is, I would say, both. This has the ability to operate both on a short-term test phase, which we will continue to do in certain ones, and also potential to do some longer term deals as well that could be a year or multiple years.

And your second question was...

[indiscernible] (00:51:57)

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Yeah. Okay, exclusive – period of exclusivity, that's really the whole function of what dynamic windowing is. It's a shorter window for your smaller movies that don't play as long in the theater and it's a longer window for those that have a longer potential and are going to be in our theaters for a lot of weeks. So that's the whole concept. The concept is shorter on some and get them into home entertainment quicker because they're no longer in the

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theater and longer on the ones that are going to play longer. Relative to being specific about that length of time, no, we're not prepared to talk about that.

Sean Gamble
Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.
A

I would just add to that these are conversations that we had been having with studios in this concept of a dynamic window even preceding the whole COVID pandemic, so this isn't new. Clearly, our factoring in the current environment into the nature of how any direction might take place and just kind of putting it out there that maybe this isn't something that had been fully [ph] prompted by (00:52:58) but it certainly garnered a lot more attention in light of the current circumstances.

David Karnovsky
Analyst, JPMorgan Securities LLC
Q

Okay. Thank you.

Sean Gamble
Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.
A

Thank you.

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

Chad Beynon
Analyst, Macquarie Capital (USA), Inc.
Q

Hi. Good morning. Thanks for taking my question. Sean, as you've had some time to further refine the cost structure and get that OpEx to a more accurate projection and the cash burn as well for 2021 and beyond, what's your view on long-term margins? And is there a revenue percentage that you need to get back to, to get above 20% margins or back to peak levels? Have you kind of gone through that math given the updated structure? Thanks.

Sean Gamble
Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.
A

Thanks for the question, Chad. I'd say that, yes, we have been refining kind of our operating practices and we have been stripping out certain degrees of fixed costs. I'd say that those routines are still going on.

In terms of what levels to get to, I'd say it's still a little early to kind of fully go there. We certainly will have the near-term objective of returning to 20% margins. But so much of that is going to be heavily influenced by attendants and how quickly patrons ultimately return to theaters in light of the whole pandemic.

So, that's going to be really the biggest governing factor in kind of getting back to those levels. So it's something that we may be able to provide a better clear answer on a little bit down the line. But I'd say, things are still so dynamic and still moving, and attendance is such a big piece that it's just kind of hard to put a precise number to that right now.

Chad Beynon
Analyst, Macquarie Capital (USA), Inc.
Q

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Okay. Thanks. Appreciate it. And then we're pretty well versed in terms of what's going on in the US with your public and private competitors. But could you provide some context what you're seeing with some of these LATAM-owned circuits by families? They probably don't have the same financial opportunities like you guys do. Have there been more closings there? What's been the outlook? Has anything started to kind of shake loose or is it too early to have a conclusion in terms of how that changes long term?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.
A

Well, I think you're really talking about two circuits. Cinemax declared bankruptcy 30, 60 days ago, which you're certainly aware of. And so, they are operating in bankruptcy currently. And then Cinépolis is a good competitor. They're well financed, very strong – owned by a very strong Mexican family that we cooperate with in Latin America. They're actually part of us that we actually sell our ads together under FLIX in Latin America and they're competitors of ours throughout Latin America and the US and they remain strong competitors.

Sean Gamble
Chief Operating Officer & Chief Financial Officer, Cinemark Holdings, Inc.
A

And Chad, I will just add to that many of the other local businesses within the different countries that we compete against too, similar to the companies that Mark mentioned, they tend to be from fairly well-to-do families that have other lines of business and other sources of income beyond just their theatrical businesses.

So, in many respects, I'd say there's kind of perhaps been less movement that we've seen thus far in terms of localized bankruptcies in those countries and things shaking out as a result of the pandemic. Not saying that that couldn't still take place down the line, but to-date that's been pretty limited.

Chad Beynon
Analyst, Macquarie Capital (USA), Inc.
Q

Thank you, both. Appreciate it.

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.
A

Thanks.

Operator: Our final question is from the line of Mike Hickey with The Benchmark Company.

Mike Hickey
Analyst, The Benchmark Co. LLC
Q

Hey, guys. Good morning and thanks for taking my questions. Thank you for this call. Just curious on your – I know you're sensitive to how much you can talk about the windowing here. But when you think about the negotiation process, [indiscernible] (00:57:17) broadly aware of trying to get a coordinated deal with other theater operators [indiscernible] (00:57:23) something but that must follow through from you or your peers. So is that an important consideration, I guess, when you look to strike a deal something that Marcus and other operators would also sign off on?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.
A

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Mike, thank you. These negotiations, they have to be exclusive between us and the individual content providers. We're not in a position legally to be able to combine together in any kind of unified negotiation. So the discussions that we're having with the individual content providers are unique and specific with them and that's what has to stay.

Mike Hickey
Analyst, The Benchmark Co. LLC

Q

Fair enough. But do you think it's a deal that other operators would agree to, right? I mean, if you do it by yourself and you then have follow through with the rest of the industry, then it's probably not nearly as effective in terms of getting movies back to the box office. Would you agree?

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Yeah, Mike. Again, that's really hard to say because that would require me to speculate on what competitors are going to do on what is not even a completed deal that we've done. So it really requires two elements of speculation that I feel like I'm really not comfortable in talking about. Obviously, what we're going to try and negotiate is something that Cinemark is comfortable with and along the lines of the dynamic windowing as described.

So once that's done and out there, then our individual competitors will, I'm sure, get at least an idea of whatever we say publicly about it. And I would suspect that our competitors are also talking to the individual content owners uniquely and individually. So, we'll see what comes of that.

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

A

I will just add, Mike, I think a big part of that too is just ultimately what the studios decide to do, to the extent they feel comfortable if a certain number of exhibitors are inclined to show their product under a certain kind of conditions, that may be sufficient for them to give the go ahead. So, I think a large part of it will just become what do they need to be comfortable releasing it more so than kind of our situation. As Mark said, our situation will be really unique between us and the studio.

Mark Zoradi
Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Thank you, Mike.

Mike Hickey
Analyst, The Benchmark Co. LLC

Q

Yeah. Thanks, guys. Take care.

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

A

Thanks a lot.

Operator: There are no further questions. I would turn the call back over to Cinemark for any closing remarks.

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Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

Thank you all very much for joining us this morning. It was truly a good session. We look forward to speaking with you all again following our fourth quarter. Stay safe and be well. Good-bye now.

Operator: This concludes today's Cinemark's third quarter earnings. Thank you for your participation. You may now disconnect.

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