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Cinemark Holdings, Inc. (CNK)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to Cinemark's Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Chanda Brashears, Senior Vice President of Investor Relations. Please go ahead.

Chanda Brashears

Senior Vice President-Investor Relations, Cinemark Holdings, Inc.

Thank you, Stephanie, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holdings, Inc. second quarter 2021 earnings release conference call hosted by Mark Zoradi, Chief Executive Officer and Board Director, as well as Sean Gamble, President and Chief Financial 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. 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 on 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 remain healthy and well. We appreciate you joining us to discuss our 2021 second quarter results. I'm pleased to report that following the start of the ramp-up of our industry and business in the first quarter, the recovery has progressed at a faster rate than we expected during 2Q.

In fact, our recovery improved so significantly during the quarter that our domestic operations delivered positive adjusted EBITDA for the first time since our theaters were forced to temporary (sic) [temporarily] (00:02:11) shut down last year, well ahead of the pace we were anticipating even when we met last May.

Our domestic adjusted EBITDA recovery was propelled by a resurgence in our attendance that grew by almost 200% compared to the first quarter results as COVID cases became more contained, a wider array of commercial film content became available, and we were reopened and we reopened the entirety of our domestic circuit.

Furthermore, we continued to see our domestic average ticket price and food and beverage per cap, again, reach new all-time highs. Both of these results benefited from significant pent-up demand as our moviegoers eagerly indulged in concessions and premium formats upon returning to our theaters. They were also boosted by our ongoing innovation and strategic initiatives that aim to simplify the buying process as well as capitalize on upselling opportunities such as our recently rolled out Snacks in a Tap online ordering platform.

Additionally, we have resumed our pre-COVID outperformance trend and substantially over-indexed the North America industry box office. Despite representing only 12% of the total industry screens, Cinemark's second quarter North America industry box office market share was 17%, again, significantly surpassing our average of slightly less than 13%.

While we expect our market share will continue to become more normalized in the third quarter as Canada fully reopens, we will remain aggressive in our tactics to maintain a meaningful portion of our market share growth.

One of our strategies to maintain market share growth is our unique industry-leading transaction-based subscription program Movie Club. We have now reactivated billing with two-thirds of Movie Club accounts without a significant impact on our overall membership base, which remains at more than 950,000 members and is consistent with the figures we reported prior to the pandemic.

Turning attention to our international footprint for a moment, while Latin America continues to lag the US by two to three months, considering the status of the virus, we also started to see our international operations turn the corner during the second quarter as COVID cases started falling across the region with vaccinations becoming more widely available. By the end of the second quarter, over 75% of our international screens were open and operating. And that figure now exceeds 95% as of today.

Furthermore, all data points and financial metrics are trending in the right direction with all countries nearing positive adjusted EBITDA results even in the midst of reduced capacities and restricted operating hours. To that end, like the US, we actually generated positive adjusted EBITDA in selected countries during the quarter.

And on a global basis, we continue to more than cover our incremental variable costs associated with being open as we have consistently done since we began reopening more than a year ago. Importantly, we are approaching positive cash flow generation, which we expect to achieve before the end of the year based on the second quarter's trajectory.

That said, we've consistently stated the rebound of this theatrical exhibition is contingent upon four key global considerations: one, the status of the virus and vaccinations; two, government restrictions; three, consumer sentiment; and four, availability of new film content.

While we are closely monitoring the status of the Delta variant and rising COVID infection rates, we remain confident in the resurgence of the theatrical exhibition business as the virus is contained. We have witnessed that phenomenon in other parts of the world and have now experienced it firsthand in our second quarter results here in the United States.

Beyond these near-term recovery drivers, we believe numerous factors bode well for the long-term health and stability of theatrical exhibition. To start theatrical moviegoing provides a premium out-of-home entertainment experience that people simply love. We repeatedly received that feedback from our guests particularly as they returned to Cinemark theaters for the first or second time since the pandemic. It is simply the best way to view content. Watching a movie on our big screens fully immersed without distraction and with a heightened sight and sound technology creates a shared cinematic experience and emotional connection with content that cannot be matched anywhere. And the blockbuster content coming during the balance of this year and next is truly outstanding with something for everyone.

For families, we have Sing 2, Hotel Transylvania and Disney's Encanto. For superhero fans, we have Marvel's Eternals and Spider-Man: No Way Home. And for action seekers, we have James Bond in No Time to Die, Ghostbusters, Matrix 4, and the long-awaited return of Tom Cruise in Top Gun: Maverick. And the films I just named are all in this year's fourth quarter. The film slate in 2022 is full of blockbuster titles with broad consumer appeal.

I recently listened to a podcast in which renowned film producer and director, J.J. Abrams made a statement that really resonated with me, and I thought it worthwhile to share with you today. He said, and I quote, you can see a movie at home, but you can only experience it in a movie theater. He went on to add that there is power and a memory that has been made in a movie theater that you just don't get when you're sitting at home.

We cannot agree more. This statement embodies the premium out-of-home entertainment experience that is unique to the cinema and has not changed even as in-home delivery technologies have advanced over the years.

Beyond the premium consumer experience, theatrical releases also remain a key contributor in differentiating content, building brands and maximizing profitability for the studios over the long haul. Historically, theatrical exhibition has delivered approximately half of a film's worldwide revenue on major releases.

Furthermore, as a significant portion of customers, who view movies in theaters, subsequently consume them again at home, the content owners receive multiple bites of the apple with a windowed release pattern which maximizes their profitability. And because the theatrical release provides a stamp of quality and truly eventizes a movie, all additional distribution channels down the line are lifted.

These relationships and results have remained consistent again and again over time as new evolutions of technology and distribution have been introduced into the home. A successful theatrical release is complementary and additive to the overall content owners' revenue pie and elevates the perceived value of the movie in subsequent release channels.

I continue to firmly believe an exclusive theatrical window is critically important to the overall media landscape and remain confident regarding the long-term prospects for our company and the overall industry. I'm proud of the Cinemark team and all they've accomplished both during the second quarter and throughout the pandemic. Their agility, innovation and perseverance enabled us to be opportunistic in a most challenging environment and continues to position us for ongoing success.

Before I turn it over to Sean, I'd like to take a brief moment to comment on the executive transition announcement we made last week. After the most amazing six years of my career, I will be retiring from Cinemark's management team effective at the end of this year and will continue to serve on our board of directors. After committing more than four decades to this industry, I'm ready to shift gears a little. I'd like to devote more time to my personal interests and I'm looking forward to focusing my attention less on the daily operations and more at the strategic level, particularly through the six boards I serve on, two of which are public companies, one private, and three philanthropic.

My initial commitment was to serve as Cinemark's CEO for three years and I have more than doubled that and enjoyed every moment. Truth be told, I initially planned to retire during 2020, but when COVID hit, I couldn't possibly leave in the midst of a pandemic. Clearly, we had no idea of how long it would last or the lingering impact it would have on our industry and our company. As theatrical moviegoing has shown signs of resurging and Cinemark has consistently demonstrated its ability to flex and adapt in an ever-evolving environment, now felt like an appropriate time to formally begin this transition.

While I don't think retiring from day-to-day is ever easy, what makes this decision especially difficult is the passion I have for this industry and our company as well as my optimism regarding the resurgence and long-term prospects of theatrical moviegoing.

I will also greatly miss the frequency of interactions with industry relationships I forged across the globe. The Cinemark Board of Directors takes succession planning very seriously and we conducted a diligent and thorough process and ultimately determined that there was no one better to help guide and steer the company than our very own Sean Gamble, who you all know is our Chief Financial Officer and Chief Operating Officer.

Sean was promoted to President last week and will be named CEO and President effective January 1, 2022 following my retirement. Sean has been my right hand and an amazing partner throughout my six-plus years at Cinemark. His background as the CFO of Universal Studios has been a tremendous asset to our company. In addition, his significant tenure at the General Electric Company with his proven track record of strategic thinking, vision setting, leading change, improving processes and driving efficiencies has proven invaluable to Cinemark over the course of the past several years, but especially during COVID.

As part of the succession planning, I've been working with Sean and helping to prepare him for quite some time now in anticipation of this announcement. And to ensure a seamless transition, we'll continue to work side by side over the course of the next five months. Beyond that, I'll continue to serve as a member of Cinemark's Board of Directors.

I would now like to turn the call over to Sean and he will walk you through our liquidity position and 2Q results. Sean?

Sean Gamble

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

Thank you, Mark. Good morning, everyone. I would first like to say it has been an absolute pleasure working with Mark these past six years, and I'm grateful for all the partnership, mentoring and opportunities he has provided me personally as well as the exceedingly positive impact he has had on both our company and our industry.

One of the key reasons I joined Cinemark seven years ago is because I thought there was just tremendous opportunity to further enhance, differentiate and evolve the moviegoing experience which is something I still think today. And under Mark's leadership, we've done just that as Cinemark has continued to raise the bar, set the standard and take moviegoing and our industry to the next level.

It's an honor to be named Cinemark's next CEO and I look forward to continuing to work closely with our exceptional team and board of directors in a new capacity as well as having the opportunity to transition with Mark over the coming months. As I've been heavily involved in the development of our strategic plan, I do not anticipate any significant deviations to our near-term direction and initiatives, which will remain focused on continuing to effectively navigate the ongoing impacts of the pandemic and positioning Cinemark for ongoing success in the evolving media and entertainment landscape.

With that, let's shift to our second quarter financial results. As Mark already highlighted, with the complete reopening of our domestic theaters, growth in the volume of new commercial film releases and improvements in the status of COVID, Cinemark moviegoing experienced a strong rebound in the second quarter. This rebound drove a meaningful uptick in both our financial performance metrics as well as our liquidity position.

During the quarter, our cash burn reduced to approximately $25 million per month after normalizing for working capital timing benefits and $137 million tax refund we received in April which we discussed during our previous earnings call. This reduction in cash burn represents $25 million of improvement compared to the projection we provided in May which was based on the operating environment at that moment in time.

As of today, our average monthly cash burn has reduced even further to approximately $10 million to $15 million, including disbursements for CapEx, interest payments and deferred rent and we expect that rate will continue to improve as our industry further rebounds.

We ended the second quarter with a global cash balance of $596 million, and as of July 31, that balance had increased to approximately $610 million. This increase was driven by working capital benefits that were largely associated with the timing of July box office receipts relative to film rental payments. Based on our overall liquidity position and current cash burn rate, our cash runway now extends well beyond the end of 2022.

Again, that projection does not include any further improvements in operating results, nor does it include any additional financing options that remain available to us such as drawing on our $100 million revolving credit line, tapping incremental term loan borrowing capacity within our credit facility, executing sale leaseback arrangements on unencumbered properties we own or issuing equity.

During the quarter, we once again took advantage of favorable market conditions and refinanced our $755 million senior notes that were coming due in 2023. In June, we issued $765 million of new senior notes due in 2028 with a coupon of 5.25% a very modest increase compared to the 4.875% of our 2023 notes. In conjunction with this deal, we also added two years of maturity to our revolving credit line. Following these transactions, our revolver maturity now sits at November of 2024 and all other significant maturities extend through March of 2025 and beyond.

Moving on to our second 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, as we've indicated in previous quarters since the onset of the pandemic, our traditional metrics continue to be somewhat distorted in the current environment. As our theaters were essentially shut down in the second quarter of 2020, we will compare our most recent quarters' results to 1Q 2021 and 2Q 2019 in select instances.

Domestically, second quarter total revenues were $269.3 million, driven by attendance of 15.1 million patrons that grew 190% compared to last quarter. Admissions revenues were $140.6 million, bolstered by an all-time high average ticket price of $9.33. Our average ticket price was up 15% compared to 2Q 2019 primarily as a result of pricing increases and ticket type mix that included a higher rate of consumer upgrades to premium formats as well as fewer matinée and weekday show times.

Domestic concessions revenues were $99.4 million, with another all-time high food and beverage per cap of $6.59. Our per cap grew 5% versus last quarter and 20% compared to 2Q 2019 as pent-up moviegoing demand continues to drive a heightened indulgence in food and beverage consumption across our core concession categories. Our second quarter results also benefited from strategic pricing initiatives and the reintroduction of various enhanced food offerings.

As Mark described earlier, as a result of these improvements in attendance, average ticket price and concession sales, our domestic operations generated positive adjusted EBITDA for the first time since the pandemic escalated last year. This achievement is clearly a significant milestone in our company's recovery and we are so proud of our incredible team for their relentless perseverance, creativity, and top notch execution to make this happen.

Internationally, we also started to see an increase in recovery momentum during the second quarter as vaccines across Latin America became more accessible. By the end of the quarter, we had reopened approximately 75% of our international theaters and market conditions as well as availability of vaccines continue to improve. Second quarter attendance grew 60% versus 1Q 2021 to 4 million patrons which drove $25.3 million of total international revenues. International adjusted EBITDA was negative $12.3 million.

Globally, film rental and advertising expenses were 49.9% of admissions revenues, which increased 850 basis points compared to 1Q 2021. This increase was expected and resulted from a higher concentration of larger, more commercial new film releases combined with a phase-out of library content that tends to carry lower film rental rates. That said, compared to the second quarter of 2019, our film rental rate was still down 670 basis points predominately due to reduced film grosses that skew lower on our film rental scales.

Concession costs were 17.1% of concessions revenues in 2Q and were in line with our pre-COVID averages. Global salaries and wages were $50.4 million, an increase versus 1Q 2021 as we opened more theaters and extended operating hours to accommodate the growing volume of new film releases. While ramping up, we maintained our strict focus on efficient staffing levels and held quarter-over-quarter salaries and wages growth to just over 60% despite a global attendance increase of almost 150%. While largely fixed, facility lease expenses of $67.2 million experienced a modest uptick relative to 1Q 2021 due to a slight increase in percentage rent and common area maintenance as volumes increased.

Worldwide utilities and other expenses were $61.2 million, and increased 24.6% compared to 1Q 2021 driven by variable costs that grew in line with volume such as credit card fees, janitorial expenses and commissions paid to third-party ticket sellers. Other costs within this line item such as property taxes and property and liability insurance remains largely fixed.

Finally, G&A for the quarter was $37.3 million and remained considerably lower than pre-pandemic levels as a result of the restructuring actions we pursued in the second quarter of last year and our ongoing efforts to limit non-essential operating expenditures.

Collectively, our worldwide adjusted EBITDA for the second quarter was negative $11.8 million, which improved by $80.2 million compared to the first quarter of 2021. We posted a net loss in 2Q of $142.5 million, which also improved by $65.7 million quarter-over-quarter.

Capital expenditures during the quarter were $15.1 million, of which $8.1 million was associated with new-build projects that had been committed prior to the COVID-19 pandemic and $7 million was driven by investments in maintenance in our existing theaters. We continue to anticipate spending a highly reduced level of CapEx in 2021 relative to our historic ranges with approximately $100 million projected for the full year.

Approximately half of this projection is associated with previously committed new-build projects that were mostly delayed from 2020 and the remaining balance is driven by maintenance and compliance needs. Our consistent investment in proactively maintaining and enhancing our theaters over the years has enabled us to scale back our capital expenditures as we prioritize cash management without hindering our asset quality, operations or guest satisfaction.

In closing, as Mark touched on earlier, theatrical moviegoing remains an unparalleled entertainment experience that is both loved by consumers and highly important to the overall media landscape. We remain optimistic about the long-term prospects of theatrical moviegoing, our industry and Cinemark, and we are confident in our ability to flex and adapt as we continue navigating the COVID-19 pandemic, while positioning our company for ongoing success thereafter.

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

QUESTION AND ANSWER SECTION

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

Eric Handler
Analyst, MKM Partners LLC

Q

Good morning and thanks for the question. Wondering if you could just give a little perspective on your cash flow from operations. Your US business is essentially at break-even cash flow doing $269 million of revenue. Is that a good baseline to say things should ramp from here as revenue rises, or are there other added costs that could impact your cash flow generation? And then, similarly, what level of revenue do you need to reach internationally for that segment to be sort of break-even cash flow?

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

A

Thanks for the question, Eric. With regard to the US, I'd say, yeah, we think it's a good baseline based on what we're seeing in the current environment as kind of Mark indicated in his prepared remarks. And if that trajectory were to continue going forward, we'd expect to hit positive overall cash flow for the business, including all our fixed costs, sometime during the second half of this year. So we think that things continue to progress in the positive direction.

Internationally, it's hard to give a specific revenue figure. But as we mentioned, we had two countries that actually flipped to EBITDA positive in the second quarter and that our performance there also continues to improve. So, likewise, we think it's highly likely that if those trends were to continue internationally as well, we'd be both in a positive EBITDA territory in the second half as well as in a positive cash flow situation.

Eric Handler
Analyst, MKM Partners LLC

Q

Thanks. And just as a follow-up, in Latin America, are you seeing a lot of countries having curfews, and how is that when you think about normal times? How important are those late-night screenings in Latin America?

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

A

Yeah. Eric, this is Mark. I wouldn't say it is limiting us in any really significant way. Argentina, we have 100% of the theaters open with very little restrictions. Brazil, we have 95% of our theaters opened and, again, with only minimal restrictions. Sometimes it's the last late show that has to get out, but we don't see these restrictions as really limiting us.

What the key thing here will be, will be the continued vaccination, which we said is somewhere between 30 and 90 days behind the US and then continued positive cash flow along the way. The only country that's really not almost nearly opened up is Peru, where we only have about 60% of that country opened up, and there is still some restrictions relative to social distancing and the percent of auditoriums that can be filled up.

Eric Handler
Analyst, MKM Partners LLC

Q

Thank you very much.

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

A

Thanks, Eric.

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

Jordan Bender
Analyst, Macquarie Capital (USA), Inc.

Q

Good morning, guys. This is Jordan Bender on for Chad this morning. Thanks for taking my question. Can we start off by talking about pricing a little bit? It seems like the US pricing is running well above pre-COVID levels with international still lagging some of those levels. I was wondering, I guess, are you expecting to see kind of that catch up in the pricing from the international market or is there something, whether it's government stimulus or something else that's impacting better-than-expected pricing in the US?

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

A

Sure. We're going to have to see internationally. There's nothing that is government-related regarding pricing in terms of any kinds of restrictions or anything like that. Part of that is just more the competitive landscape and a piece of it was the amount of pricing actions we had pursued prior to the pandemic. Part of what's driving our domestic pricing lift were price increases that we had enacted in 2019 that are now being fully annualized this year.

We've also seen in the US a huge uptick in our premium format consumption, which is up about 300 basis points as a percent of total box office even without availability of 3D content compared to 2019. Premium content is also highly, highly consumed internationally. So we do expect that, as things get fully going, we're likely to see a similar kind of uptick there that could boost the pricing a bit.

So, more of that will be based on the competitive landscape. I think, also, what we're seeing internationally, now in the US we kind of back to our full pricing. Earlier on, as we were kind of getting things going, we had more promotional activity and more library content. You still have a little bit of that impact happening in international as its still trails the US by a few months as Mark mentioned.

Jordan Bender
Analyst, Macquarie Capital (USA), Inc.

Q

Awesome. And then, as you see your theaters opening up here, are you seeing any US labor pressure or trouble finding work?

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

A

We're certainly having pressures like, I'd say, the entire real estate segment is having with regard to what's going on with the workforce. Most of those pressures have been just on our recruiting effort which has become more cumbersome. Thus far, we've been able to continue to get largely the workforce that we've been seeking and we haven't seen a material impact on wage rates yet. It's something we're going to continue to monitor.

One of the things that we're fortunate about is, we tend to have a younger, more seasonal workforce that hasn't been as affected by stimulus money. These are students in high school and college who are generally looking to work during the course of the summer and the holidays to be able to have money to take back to school. They like the flexibility of hours that we offer and they like the perks, being able to get free movies. So that's an advantage we have as well as we're trying to source workforce particularly in the kind of peak periods.

Jordan Bender
Analyst, Macquarie Capital (USA), Inc.

Q

Awesome. Thanks. I'm going to pass it off.

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

A

Thanks, Jordan.

Operator: Your next question is from the line of Alan Gould with Loop Capital.

Alan Gould
Analyst, Loop Capital Markets LLC

Q

Thanks for taking the question. I've got two. First of all, with your studio experience, how do you – either Mark or Sean, how do you see the actual release schedules working out when we get past the pandemic? Do you think it all comes back down to more of the 45-day exclusive windows? And secondly, with the increasing Delta variant, are you seeing more government restrictions or any changes in consumer behavior coming to the theaters?

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

A

Alan, I would say this relative to the studios. It's actually very encouraging because, as we announced on our last call, we have redone our deals across the board. And so, as we look at all the studios, whether it's Paramount or Sony or Universal or Lionsgate or Warner Brothers, each of them have come forward and said that their release window will be somewhere – first of all, they'll be offering an exclusive release window and typically, for the larger movie, somewhere in the 30- to 45-day range. So, we feel pretty good about that.

Warner Brothers has come out very directly on that. So has Paramount and the other studios. Disney has come out, as we expressed last time, they had five pictures. We've released three of them. Those had an in-home premium access day and date, but the next two, Free Guy and Shang-Chi, have 45-day exclusive windows. So Disney has been very clear that they've been testing and learning. They're trying to figure it out during this pandemic, trying to offer optionality to consumers so that they can either see it in the home or in theaters, particularly during this pandemic time.

And I think the thing that gives me solace on this is that, Bob Chapek, their CEO, has been very direct, very clear that the theatrical business was a $13 billion worldwide business for them that helped set up franchises, that helped eventize movie and was very important in their ecosystem. Notwithstanding that Disney+ isn't very important, it clearly is, and it's been a company priority. But I think Bob and the other people there have also recognized that theatrical plays a really important part in it.

So, at this point, Disney is still in that test and learn phase. And I fully expect that they will come out of that with a very reasonable strategy going forward that's going to support both the theatrical business and, obviously, their in-home business as well.

And then your second was...

Chanda Brashears
Senior Vice President-Investor Relations, Cinemark Holdings, Inc.

A

The Delta variant.

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

A

Oh, the Delta variant. Okay. So, on that, we've had very little, at this time, government restrictions. There's been a couple. Los Angeles County is specifically one of them. We monitor it literally on a day by day basis, many times several times during the day. So, in Los Angeles County, there's been some additional requirements that we've, of course, adhere to right away and that was a mask policy.

What we've done on a go-forward basis like many other major retailers around the country, this week, we've reinstated a required mask requirement for all of our employees across the entire circuit that will go into effect on Monday. So that's the first thing that we've done. But we haven't seen any new significant requirements of social distancing coming back or capacity limits. But here's what I think is the key thing.

When the whole COVID crisis began, we responded very, very quickly, and I think led the industry with the Cinemark standard. And we came out with a whole set of protocols based on the data that was coming out of the CDC. And then when the CDC made their adaptation and said the most important thing is air quality, we pivoted literally almost immediately.

We converted all of our theaters to MERV 13 air filtration on the HVACs – on the HVAC system. We increased the fresh air coming from the outside as much as 100% to 300%. So we're very nimble at being able to adapt and change on this. And we've been doing it now for 16, 17 months. Our theater teams are very adept at this. So, we're ready to go if and when we have to make further adaptations.

Alan Gould
Analyst, Loop Capital Markets LLC

Q

Okay. Thanks. And Mark, congratulations on your upcoming retirement.

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

A

Thank you, Alan. Appreciate it.

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

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Thank you and good morning. The run rate for the second quarter domestic admissions and concessions was roughly 35% of 2019 level, to look at it that way if that's sort of a normalized year. I'm wondering even with the film slate you have for the third and fourth quarter, what do you think might be acceptable minimum targets for Q3 and Q4 in that regard?

Do you think there's a chance to get back to 100% or would it be more like 80% or 85% by the fourth quarter? And how would it flow into it, because it seems like there's been a little bit more of a lag getting into the bigger numbers even though, obviously, you did very well in the second quarter. And then I'll follow up.

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

A

Jim, I think what you're asking – please let me know if I'm not answering the questions you're asking. Look, we think that the box office is going to recover beginning – it actually obviously began in the second quarter. It's going to further in the third quarter. The fourth quarter, as I indicated, the lineup of films is outstanding and I didn't even go into the lineup for 2022. We've done that before. But it is really outstanding.

Now, the question is, is the box office going to recover to 100% or 90% or 85%? I think that that's very hard to predict and guess against. But I would put it this way. We are very, very well-positioned to be able to adapt to that to make sure that our profitability returns to a level that is acceptable to us and to our investors, and we're just going to have to see.

We don't know is the box office going to return to a 90% level or an 85% level. I am assured of this. When people have the availability, when COVID is less of a concern to them and, obviously, we've had a hiccup relative to the Delta variant that I think will obviously work its way out in the coming months, there is a big desire to return to the theaters. And so, as we look forward, we model our own projections on several different areas. Look, we look at a 100% on the upside, and then we project [ph] out (00:38:39) several different categories being ready and willing to adjust our business as necessary.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Couple of other things. If you didn't get back exactly to where you would like to be on a box office level, do you think the theatrical business becomes viewed as more of a premium experience? And what levers would you more likely pull? Would it be ticket pricing or are there other things in order to maybe make up for any box office steps that, if you will, you might have?

And then, on a separate issue, related to your comments about Mr. Chapek and what's going on with Disney, I'm wondering if you might comment on the piracy issue with regard to the early PVOD that might have actually [ph] added any costs (00:39:33) to them in terms of aftermarket?

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

A

All right. You know what? Maybe Sean will take the first question, I'll take the second.

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

A

Yeah. With regards to your question about could theatrical become more of a premium experience if theatricals lowered, that's certainly a possibility. I think we still believe that theatrical will continue to be very broad in its appeal to a wide audience and a wide array of different kinds of consumers. We're going to clearly live and learn through that. That will play into our ongoing pricing strategies where perhaps there are some more premium pricing for peak periods and more variation in terms of pricing that continues to kind of make it accessible.

I think one of the important things that that we think that has been a driver of the business is, number one, going to the movies is one of those great activities that you can choose from when you're looking to get out of the home. And number two, it's one of the most affordable opportunities you have in terms of spending a few hours of your time when you're doing that.

So we're going to be sensitive to that. But there certainly could be some potential risk. We're just going to have to see how things evolve with regard to how much of a premium experience it becomes in terms of more that premium versus broad with kind of premium up-sell opportunities.

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

A

Jim, in regards to Mr. Chapek, what I was referring to and I'm sure you know this. I was referring to comments that he's publicly made. He has been very, very clear that Disney's intention during this COVID time was to present some flexibility in consumer choice. So that the consumer had an ability to still enjoy their movies whether they were comfortable going out to the cinemas or whether they were not comfortable.

And then, also, I think he's been very clear about the importance of theatrical and the tremendous value it's presented to The Walt Disney Company and how he sees it continuing going forward into the future. So I'm pretty confident about that, and I don't think there's any – going to be any major change in strategy there.

Relative to piracy, as you know, Jim, I've been in this business a long time, and we've been fighting piracy both on the studio level and the exhibitor level for as long as I can remember. It used to be that piracy would come out of the Asia countries and then it started to come over to the US and people with camcorder. We put big efforts in place from an exhibition standpoint to reduce anyone that would come into our theater with a camcorder and record that.

And so the issue now is, if a movie has a potential to be in the home [ph] day and day (00:42:24), then a digital copy is going into that home and potentially increasing the level of piracy because now you're introducing a new place to be able to pirate it from. And I think all of the studios are obviously very concerned about this and doing everything they possibly can to reduce that.

And then also running their own numbers and considering what the negative impact is not only on their business, of the studios business, but it also clearly affects the partnership with us because we're doing everything we can to reduce piracy. And if it's introduced in the home, then that's starting to affect our business as well. We haven't been able to come up with a hard and fast number to put against that. It's clearly important and something that is an industry-wide issue for not only exhibition but also the content providers.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Okay. Yeah. And because it's a perfect copy basically available easily, they don't even need to sneak in to do anything like that. And it does come out of your aftermarket or your first run market as well.

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

A

Out of both our businesses.

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Q

Right. So thank you very much for your comments.

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

A

Yeah.

Sean Gamble

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

A

Thanks, Jim.

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Thank you, Jim.

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

Robert Fishman

Analyst, MoffettNathanson LLC

Q

Hi. Good morning. Mark, I'm curious as you start to look back over your tenure as CEO, what are the biggest accomplishments you're most proud of? And are there any priorities you'd still like to get done before the end of the year? And then, for Sean, as you take over the CEO helm, understanding that the near-term focus isn't really going to change on all the stuff you've already laid out, anything you'd like to share about your longer-term priorities and how that might evolve from current strategies at Cinemark?

Mark Zoradi

Chief Executive Officer & Director, Cinemark Holdings, Inc.

A

Robert, that's a very interesting question, one that I'll certainly reflect on more. But, as I sit here, off the top of my head, I look back on certain things and say I am so glad that we were as aggressive as we were on reclining our theaters across the circuit in 2016, 2017 and 2018. And that's paid a lot of dividends for us in doing so.

Secondarily, we doubled down on the whole XD effort, which preceded me in its beginning, but we've recognized the importance of PLFs and we've doubled down on that area as well. And maybe third, I would say, what we've done in the whole marketing area, and that's a big broad area and maybe I'll just call out what we've done in loyalty with a complete redo of our loyalty program and the launch of Movie Club, which was the first exhibitor sponsored subscription program, and we've been very successful with it.

We had a big success in un-pausing all of our members as we come off of COVID. And as you know, I think I said we still have 950,000-plus members, and we're back to billing more than two-thirds of our customers. And it won't be long until all of our customers are now back on a rebilling cycle. So I think all of those things kind of add up.

And then maybe the final thing and it kind of wraps up into this, is we've been very successful at growing our market share with only a minimal amount of tuck-in acquisitions. And of course, our new screens and our new-builds have been important in that mix. But we were slightly under 13% in market share, and last quarter we were 17%. I've been very careful to always say that we don't expect that 17% to hold necessarily as all theaters across the US and Canada open up. But I think we will hold on to a meaningful share of that market share growth. So, I think that kind of hits some of the highlights.

Sean Gamble

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

A

And Robert, for me, as we kind of look more long term like, obviously, there's the near-term just looking forward to getting past this pandemic and then refocusing on some of the key things we were refocusing on before. Number one is clearly just continuing to take that phenomenal moviegoing experience to the next level with new amenities, new visual enhancements. Just all kinds of different ways to attract people to our theaters and then, when they're there, just give them a fantastic, exciting experience, engaging with all different forms of content.

Secondly, it is deepening that guest engagement we have. I think we're very, very much still in the early days of all of our marketing enhancements that we kicked off over the last few years. I think that really has the ability to take our reach more broadly, connect deeper with our audiences and create an extension beyond our theater walls to them that we just haven't really fully even tapped into yet.

And then I think beyond that, too, looking for new ways just to continue to utilize the theaters that we have. Clearly, our core is in movies, but there are other opportunities to kind of fill in, use those spaces, whether it's alternative content, we're actively exploring kind of the gaming categories. So there's lots of different things there that are ways that we can find synergies and opportunities that connects to our theaters that represent growth opportunities.

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

A

You know, Robert, I would say just one last thing for me too. As I look back, I am really proud of the team that has been developed here. Many of those people were here when I came, many new people have also come. But the team that Sean's got, the leadership skills that he has, I think we're extremely well-positioned. So, as I look back and if I had one goal over the next five months, the goal is to just do everything in my power to help this transition and to help set-up Sean and the rest the company to have big success.

And I think we're really set. Sean is the absolute perfect guy to step in and the team around him is ready to go to some new height. So I'm pretty excited about the team that's built and what I get to just participate and look in more from a strategic level as my board involvement continues.

Robert Fishman
Analyst, MoffettNathanson LLC

Q

If I can sneak one more in, just on M&A, given your financial flexibility and strength, are there opportunities to benefit as some of these smaller private movie theater chains maybe start to explore other options?

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

A

You know, Robert, there always is, and this question comes up quite a bit. And we look at every deal that comes down the line, and we evaluate it very carefully. And I think we felt very good about the small acquisitions that we've done. And we feel very good on passing on some of the larger opportunities that have come our way and we passed on.

And so, right now, many of the smaller exhibitors who may have otherwise had financial trouble have been given a lifeline by save our screens government funding. So I think there's less amount of that than one might have expected six months ago. But as opportunities come, we will value each and every one of them, put them through the mill. And if we think this is going to be a good investment for our shareholders, we have the ability to act quickly and move fast. So, as I've said many, many times before, we're active in this space, but we're not anxious in this space.

Robert Fishman
Analyst, MoffettNathanson LLC

Q

Thank you both.

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

A

Thanks, Robert.

Operator: Your next question comes from the line of Ben Swinburne with Morgan Stanley.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Good morning, and congratulations, Mark, on your tremendous career and to Sean to the awesome opportunity. Congrats to both of you.

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

A

Thanks, Ben.

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

A

Thank you.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Absolutely. For either of you, Mark, as you mentioned, you have agreements with the studios and those include what we've seen over the past few weeks. And I know it's really hard to interpret what we're seeing in the market, these are a handful of films in a really bizarre period, but there's been just a ton of press on trying to interpret the fade of Black Widow and Space Jam, and sort of the Jungle Cruise result. What do you take from these numbers? And do we learn anything about the shortened window, about day and date, about PVOD, none of that, all of it? How do you interpret these results for us?

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

A

Well, first of all, I think given the circumstances of the industry and the COVID variant and all the publicity associated with that, I think that opening up movies like Black Widow to $80 million is very, very successful. The run for Fast and Furious, again, extremely successful. A Quiet Place Part II, I think that movie opened strong and continued to play and play and play. So we've got to take it in the context of the environment in which we're acting in.

And look, there's no secret that Cinemark feels very strongly that we would like an exclusive window and we're willing to adjust what would have been the traditional exclusive window because we think it's good for our business and, truly, we think it's good for the entire business because we think it allows studios to then window their revenue and allows consumers to actually purchase the same exact content in multiple formats which benefits the content owners.

So, look, we're in a very fluid environment. It's hard to say this movie was successful and that one wasn't. But when you look at these past films that we've had, I'm pretty darn encouraged on what's going to happen. I'm also excited to see the third and especially the fourth quarter because the fourth quarter with movies like Bond coming and Dune coming and, of course, Top Gun coming, and many of the others I mentioned, I think that we're in for a very significant recovery come the fourth quarter, which is going to lead in to that 2022.

So, I can't be put in a position of – nor can Sean of trying to predict, but I would say relative to the movies that I indicated, we're satisfied. We think that we can actually continue to do better as the COVID threat becomes less and less. And we think we can do better with an exclusive window than we're going to have with a day and date arrangement.

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. And maybe just one financial question, Sean. As you think about the fixed cost part of your business, going back to the earlier conversation about whether we're at $100 million or $90 million or $85 million long-term, which is totally unknowable, is there opportunity around your fixed cost base to either keep it where you've taken it like on G&A or make further reductions to try to protect the kind of margins we've seen in the business historically if the attendance is sort of structurally lower, which, again, who knows? But I thought I'd ask you that question since you've got a handle on the cost structure.

Sean Gamble

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

A

Certainly. We certainly think that there will be opportunities for ongoing cost efficiencies both in some of the areas we've already pursued. You mentioned in G&A and then we have a whole slew of initiatives that are focused on additional opportunities. That said there likely will also be some reintroduction of cost as the business fully ramps up.

Some of that G&A we took out will be more permanent, others will start to fill back in. There's been other, I think, near-term costs like all our health and safety protocols which have introduced new cost into the equation. However, over time, [ph] we'll aim (00:54:54) to work that down. So, definitely, there's opportunity. I think, probably, one of the biggest things which maybe consider it fixed costs, we tend to look at a little bit more variable is just our overall workforce management in the field.

We had already started down a path of some workforce management initiatives prior to the pandemic. Those have been incredibly impactful during the course of the pandemic with some of the new controls and techniques we had just in terms of managing our field labor. Those will continue to yield impact as we kind of ramp the business.

And you heard in our prepared remarks, globally, our salaries and wages were 60% and that's on attendance that grew 150%. So we've been able to scale at a pretty good rate without introducing costs at the same clip as we've got attendance growing and we think that'll continue. So can't put a precise number on it because there are a lot of moving pieces. But, directionally, yes, we expect that we'll have ongoing cost efficiencies and that's our focus, looking for both new revenue growth potential and cost efficiencies to cover whatever types of near-term impacts we might continue to be impacted by from the pandemic.

Benjamin Swinburne
Analyst, Morgan Stanley & Co. LLC

Q

Thank you both.

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

A

Thank you. Thank you, Ben.

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

A

Thanks, Ben.

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

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning, guys. So, Sean, on the Movie Club, I think you said that two-thirds of the subscribers are now being billed. I just wanted to clarify if that means that two-thirds of the subscribers have opted back in. And if that's the case, has that been improving as more films are opening?

And given that data that you have on the members, is there any analysis of which customers or demographics aren't yet back? And then, anything interesting that you can do with that data that will inform your strategy going forward or better serve your customer base. That's it for me.

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

A

Certainly. Yes, you are correct. We said about two-thirds of our member base has – we started rebilling. Some of those were proactive changes. What we've actually done now is, at the onset of a pandemic, we proactively paused everybody's membership. And we received a tremendously positive response for doing that. Now, as the business has gotten going again, we've carefully been communicating with our members about un-pausing. So the majority of that is actually us now going forward and proactively un-pausing.

In doing that, we've had some promotional incentives to retain people. We've been reminding everybody about all the value that comes along with Movie Club, and our churn has been fairly minimal. So, even though, we've proactively gone forward and reinitiated those accounts or reactivated those accounts, we have had minimal churn we like to think because of the value of the offer as well as just the way we've handled the communication.

Movie Club, as kind of Mark indicated in his prepared remarks, we look at this as a real strategic asset in terms of using the data and that direct communication we have with our most frequent moviegoers to just encourage them to see more films, showcase what's coming up, look at kind of their behaviors and figure out how we can simplify the process and take friction out.

So there's a whole range of things of tactics and ideas that we've been pursuing to both get people coming back and get people comfortable coming back. And that we'll continue to pursue going forward. We've also started to look towards more of back to our customer acquisition. Interestingly, we've continued to add customers throughout the pandemic as a result of just some light promotional efforts. And we're going to continue to – we're going to start ramping that up as things get going again as well.

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

Meghan, the only thing I'd add to that is just so that you understand, so that everyone understands. We've reactivated two-thirds and we've done this in very well planned and thoughtful phases. So, instead of just reactivating everybody on the same day, we've done it in phases to make sure that we could hold as many of those customers as possible. It's been highly effective.

And so, over the course of the next couple of months, we will un-pause the remaining one-third and begin rebilling those the same we've already done it with the two-thirds. And so, I think this plan has been extremely effective at holding on to the majority of those 950,000 members, so much so that we still have in excess of 950,000 members. It's just one-third of them will begin their billing process in the next couple of months. Two-thirds, it's already happened to. So that's what gives us so much confidence that we're in really good shape with Movie Club.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC Q

And just to follow-up, if you're rebilling these customers, are they all coming out to see movies if they're being billed?

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

Oh, yeah. Nearly 20% of our business during the second quarter was coming from Movie Club members. So that's, obviously, one of the reasons we want to do it. It's just further communication with them. They tend to be the most frequent goers and they also tend to be very high food and beverage purchasers.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC Q

Got it. Thanks.

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

Thanks, Meghan.

Operator: At this time, there are no additional questions. I would like to turn it back over to management for closing remarks.

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

I'd just like to say thank you very much, again, for joining us this morning. We always look forward to speaking with you. We appreciate the good questions. We look forward to talking to you again on our third quarter call. And we ask that you just – we hope that you stay safe and be well.

Thank you all very much. Thank you, Stephanie.

Operator: Thank you. This concludes today's conference call. You may now disconnect.