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PRESENTATION

Operator

Greetings. Welcome to the Cinemark Holdings Second Quarter 2023 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. At this time, I would like to hand the call over to Chanda Brashears, Senior Vice President of Investor Relations. Thank you. You may begin.

Chanda E. Brashears - *Cinemark Holdings, Inc. - SVP of IR, Public Relations & Corporate Communications*

Good morning, everyone. I would like to welcome you to Cinemark Holdings, Inc.'s Second Quarter 2023 Earnings Release Conference Call hosted by Sean Gamble, President and Chief Executive Officer; and Melissa Thomas, Chief Financial Officer.

Before we begin, I would like to remind everyone that statements or comments made on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the company's plans, objectives, expectations or intentions. These matters involve certain risks and uncertainties. The company's actual results may materially differ from forward-looking projections due to a variety of factors. Information concerning the factors that could cause results to differ materially is contained in the company's most recently filed 10-K.

Also, today's call may include non-GAAP financial measures. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in the company's most recently filed earnings release, 10-Q and on the company's website at ir.cinemark.com.

With that, I would now like to turn the call over to Sean Gamble.

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Thank you, Chanda, and good morning, everyone. We appreciate you joining us today for our second quarter 2023 earnings call.

We believe box office performance during the second quarter, combined with moviegoing results witnessed year-to-date and over the past 2 years, provide conclusive evidence that consumer enthusiasm to view compelling films in a shared larger-than-life cinematic environment is as strong as ever. Theatrical moviegoing enthusiasm has been largely undeterred by the impact of the pandemic and the evolution of in-home streaming offerings, and it continues to demonstrate resilience against macroeconomic inflationary and recessionary dynamics.

Year-to-date through July, North American industry box office results are up 20% over 2022 and have improved to within approximately 85% of 2019 and driven by further recovery in wide release volume and sustained consumer demand for an in-theater viewing experience. On par with box office results, wide release volume has also reached almost 85% of 2019, which represents a meaningful uptick from last year when volume had recovered to approximately 65% of pre-pandemic levels over the same timeframe.

An improved cadence of new, diverse content this year has helped accelerate moviegoing momentum across all categories of audiences, leading to a continued extension of impressive and, in many cases, record-breaking results throughout the year. In the first quarter, a series of strong releases exceeded expectations, including franchise-topping successes for Creed 3, Scream 6 and John Wick Chapter 4; the outperforming horror thriller, Megan; the long-running adult drama A Man Called Otto; and the highly successful faith-based film Jesus Revolution.

Then the second quarter kicked off with a bang as the Super Mario Brothers movie quickly became the industry's second biggest animated film of all time and our top-performing animated title ever at Cinemark. During the quarter, Amazon also expanded further into theatrical exhibition, with Air under its Amazon film label, which delivered solid results. Evil Dead Rise, a movie initially made for streaming, further reinforced the positive impact of a theatrical release, just as Smile did last year, grossing nearly \$70 million in domestic box office.

Marvel's Guardians of the Galaxy Volume 3 generated \$845 million worldwide, which was comparable to its second installment, and Spider-Man: Into the Spider-Verse doubled the domestic results of its widely-acclaimed first release, accumulating over \$680 million worldwide.

Franchise fans were further delighted by Fast X and Transformers: Rise of the Beast, while families enjoyed Elemental and The Little Mermaid, the latter of which reached nearly \$300 million in domestic box office and over \$560 million globally.

And if there was any question about the strength of theatrical viewing habits coming out of the second quarter, take a look at what just happened in July. The month got started with the faith-based sensation Sound of Freedom, which has already eclipsed \$150 million in domestic box office and is still growing. The highly successful launch of that film was followed by the action packed Mission Impossible: Dead Reckoning Part 1, which has now generated more than \$0.5 billion worldwide.

And then on July 21, the Barbenheimer phenomenon swept the world. The list of records for Barbie and Oppenheimer is already staggering and includes the first time ever 2 films open to over \$80 million of domestic box office simultaneously in addition to driving the fourth biggest box office weekend on record for our industry. For Cinemark, as a result of Barbie's and Oppenheimer's success, coupled with the impact of Mission Impossible and Sound of Freedom, as well as other significant titles during the month, including Indiana Jones and the Dial of Destiny and Insidious: The Red door, July delivered our biggest single month of admissions revenue in the history of our company.

These aggregate box office results to date and the many discrete and varied examples of titles just described, which cut across all genres of films, all types and ages of audiences, and all times of the year, demonstrate that consumer interest in theatrical moviegoing is strong and vibrant and remains a meaningful and preferential way of allocating discretionary time.

The strength of the second quarter's film lineup, supplemented with the ongoing benefits we are achieving from our strategic initiatives, translated into exceptional 2Q results for Cinemark across our entire global circuit. We sustained our market share advances in excess of 100 basis points compared to pre-pandemic levels. Our box office results meaningfully outpaced industry performance year-over-year. And while our worldwide attendance trailed 2019 by 20%, we delivered the second highest quarterly adjusted EBITDA in our company's history, vested only by the second quarter of 2019, which included Avengers: Endgame, Aladdin and Toy Story 4. Furthermore, our second quarter adjusted EBITDA margin of 24.6% was within 100 basis points of 2Q '19 and amongst our highest margin results of all time.

In addition to second quarter content mix that resonated especially well across our global circuit, our strong results are a direct byproduct of the focused efforts our sensational team has pursued to enhance the top-notch experience and service we provide our guests to drive increased moviegoing frequency while expanding our audience base through more sophisticated marketing techniques, loyalty programs and showtime planning, to grow concession consumption through expanded offerings, enhanced sales channels and category management optimization, and to gain incremental operating efficiencies through labor and cost management initiatives.

A few examples include our continued expansion of premium offerings, with recliners that now span almost 70% of our domestic circuit, premium large-format auditoriums, which represent approximately 5% of our worldwide screens and drove over 14% of our box office in the quarter, and D-Box motion seats, which delivered a 65% increase in revenue year-over-year.

We also continue to strengthen our ability to increase awareness of upcoming events, drive interest in seeing them and improve conversion into ticket sales. In the second quarter alone, we generated over 2 billion marketing impressions through our actions to further enhance and leverage our omnichannel digital communication platforms.

Likewise, the persevering appeal of our global loyalty programs, including our industry-leading subscription program, Movie Club, continued to drive meaningful box office upside. Movie Club now exceeds 1.2 million members and accounted for 24% of our domestic box office in the quarter. Importantly, customer satisfaction with Movie Club remains in excess of 95%, and we continue to find the program drives increased moviegoing frequency and food and beverage consumption.

We're also benefiting from a wide range of additional food and beverage initiatives that we've been pursuing to increase purchase incidents and overall concessions revenues. Such initiatives include strategic pricing actions, growing and optimizing the portfolio of products we offer, and simplifying the purchase process through streamlined lobby designs, self-service capabilities and our online mobile ordering platforms. Through the successful execution of these initiatives, we have grown our worldwide per cap 35% compared to the second quarter of 2019.

Finally, we continue to make significant advances in our operating hours and workforce management practices. These advancements have yielded meaningful labor efficiencies as a result of actions that include enhancing theater-level demand forecasting capabilities, introducing more sophisticated staffing tools and techniques, simplifying and/or automating varied administrative routines and improving our ability to actively scale operating hours and labor needs based on attendance dynamics.

I'd like to thank our entire global Cinemark team for all the tremendous impact they have made strengthening our company over the past few years, which enabled us to fully capitalize on the second quarter's rebound in film product. I'd also like to commend our studio and creative partners for continuing to produce such diverse and compelling content that provides something for everyone to enjoy in our theaters.

While the second quarter and this past month of July provide additional positive steps in moviegoing recovery; as we look ahead, we are cognizant that the potential impact on product flow from Hollywood's ongoing SAG-AFTRA and WGA strikes are top of mind for our investment community. The evolution of these strikes is something we are watching closely, and their degree of impact on near-term film volume and box office will ultimately depend on how long negotiations progress.

We certainly remain hopeful for a timely resolution, not only with regard to implications for the theatrical exhibition industry and our studio partners, but also for the sake of the many individuals within the extensive creative community who are directly affected by this work stoppage. While the strikes are currently delaying the production of new films and they have the potential to shift certain movie releases, which could extend the recovery trajectory of theatrical film volume a bit, it's important to recognize that there has been nothing to suggest that they will affect key fundamentals associated with consumer interest in moviegoing or studio intentions to rebuild overall theatrical film output over the coming years.

I've already commented on the strength and resilience of theatrical moviegoing based on box office results generated over the past 2 years as compelling content returned to the big screen. Considering this positive recovery to date has been achieved on the heels of a major global health crisis that was accompanied by a significant ramp-up of in-home streaming platforms, we have high confidence that consumer demand for theatrical experiences will remain strong even during periods of fluctuation in film product flow.

We've also received no indications from our traditional studio partners that they intend to alter their plans for scaling theatrical film volume back to pre-pandemic levels. Furthermore, as we mentioned on prior calls, Amazon and Apple are now expressing intentions to scale theatrical film production over the next few years to levels that are comparable with the major studios. Amazon already had tremendous success with the release of *Cree 3* and *Air* this year, and Apple will release 2 epic films in the fourth quarter, with Martin Scorsese's *Killers of the Flower Moon* and Ridley Scott's *Napoleon*. Apple also recently announced plans to release its third major theatrical title early next year with the spy thriller *Argyle*.

Emerging genres of content in the form of faith-based, multicultural and anime and concerts are also scaling up. These types of films contributed 7% of our box office in the first half of 2023, and we remain optimistic about their potential for further growth ahead.

The reason why our traditional studio partners, streamers and alternative content providers are fully leaning into theaters is their data and analysis continue to show that the best way to maximize value for these types of filmed entertainment assets is with an exclusive theatrical release. Furthermore, a theatrical release also drives material upside for subsequent distribution channels, including streaming platforms. Confirmation of these findings have been publicly communicated multiple times by the majority of the major media companies, and they continue to be reaffirmed in our direct discussions with our content partners.

In addition to providing a premium viewing experience that is important to consumers, filmmakers and talent, a theatrical release provides tremendous promotional and financial impact by [eventizing] movies and increasing their perceived quality. Doing so heightens awareness of and interest to see films and all forms of content, strengthening long-term recall value. Furthermore, experiencing content in a shared larger-than-life cinematic environment produces an elevated degree of energy and engagement that form stronger emotional connections with stories and characters. These connections help build larger brands, bigger franchises and more significant cultural moments. Again, just look at the cultural frenzy that is currently underway with *Barbie* and *Oppenheimer*.

For all of these reasons, as we consider prospects for the recovery of new film releases, as well as varied forms of content over the next 2 to 3 years, we continue to believe there is a high potential for overall volume to return to, if not exceed pre-pandemic levels.

In the meantime, Cinemark is well-situated to confront any ongoing fluctuations in content flow on account of our solid financial and operating foundation, the disciplined way we approach capital allocation, including the prudent steps we've already taken to re=fortify our balance sheet; the varied enhancements we've made to our operating practices that have improved our agility and ability to scale and flex in a dynamic landscape, and the many ongoing initiatives and opportunities we continue to pursue to drive further revenue and productivity benefits.

The actions we've taken to strengthen our company have enabled us to generate positive adjusted EBITDA every quarter throughout all of the ups and downs over the past 2 years, and they were a key driver of our robust 2Q '23 results. Furthermore, we believe the benefits of these actions, along with our ongoing strategic initiatives, will continue to enable us to effectively navigate periods of variability and while positioning Cinemark to capture an outsized portion of our industry's ongoing recovery and deliver long-term growth and shareholder value.

Melissa will now provide further information on our second quarter results. Melissa?

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

Thank you, Sean. Good morning, everyone, and thank you for joining the call today. We were pleased to deliver such solid results in the second quarter, which demonstrate the strength of Cinemark as well as the industry's ongoing recovery potential, bolstered by steadfast consumer enthusiasm for the in-theater experience and a compelling film slate that resonated across our global footprint.

Globally, we entertained 64.4 million guests during the second quarter, an increase of 24% year-over-year and the highest attendance level we've achieved post-pandemic. With our worldwide revenue increasing 27% to \$942.3 million, we drove significant operating leverage over our fixed costs, growing adjusted EBITDA 67% to \$231.5 million and achieving a robust adjusted EBITDA margin of 24.6%.

This quarter's margins were a function of the heightened attendance levels, coupled with ongoing operational and strategic execution by our team that is second to none. Domestically, we served 38.8 million moviegoers during the second quarter, an increase of 14% year-over-year. Admissions

revenue grew 21% to \$373.4 million on an average ticket price of \$9.62 for the quarter. Our average ticket price was up 6% versus the second quarter of last year, driven by strategic pricing initiatives and premium format penetration, somewhat offset by ticket type mix, given the increase in family content during the quarter.

The strength of the box office also flowed through to our concessions, with domestic concession revenue increasing 26% year-over-year to \$296.3 million. Our concession per cap reached a new all-time high of \$7.64 driven by strategic pricing initiatives and higher incidence rates fueled by the content mix in the quarter.

Notably, our domestic concession revenue in the second quarter exceeded that of Q2 of 2019 by 8% despite 23% lower attendance levels due predominantly to higher purchase incidents. Other revenue was \$65.2 million, an increase of 15% and relatively in line with our attendance growth in the quarter. Altogether, our domestic segment generated total revenue of \$734.9 million, an increase of 22% year-over-year; and adjusted EBITDA of \$180.8 million, up 63%. Our resulting domestic adjusted EBITDA margin was 24.6%, an expansion of over 600 basis points compared with the second quarter of last year.

Turning to our International segment. We serve 25.6 million patrons in the quarter, a sizable increase of 42% year-over-year. Our attendance recovery in international outpaced that of the U.S., reaching 85% of 2019 levels in the quarter, with a film slate that translated extraordinarily well across the Latin region, including Super Mario Brothers, Fast X and Spider-Man: Across the Spider-Verse, to name a few.

We delivered \$105 million of admissions revenue, \$77.1 million of concession revenue and \$25.3 million of other revenue. In total, our international revenue increased 45% to \$207.4 million. Adjusted EBITDA grew 86% to \$50.7 million, resulting in a 24.4% adjusted EBITDA margin, or 540 basis points of margin expansion year-over-year.

Shifting to global expenses. Film rental and advertising expense was 58.1% of admissions revenue, down 20 basis points compared with the second quarter of 2022, primarily due to marketing expense leverage and a higher mix of international box office, somewhat offset by the content mix in the quarter. Concession costs as a percent of concession revenue were 18.1% in the second quarter, down 30 basis points year-over-year as we successfully offset inflationary pressures with strategic pricing initiatives.

Global salaries and wages were \$112.1 million, up 12% year-over-year. As a percent of revenue, salaries and wages declined 160 basis points, driven by operating leverage due to the strength in attendance and benefits derived from our ongoing focus on labor efficiencies, which were partially offset by ongoing wage rate pressure.

Facility lease expense was \$87 million, up 8% year-over-year. As a percent of total revenue, facility lease expense decreased 160 basis points compared with Q2 of last year as we gained leverage over our lease costs, particularly in our domestic segment where lease costs are predominantly fixed in nature.

Utilities and other expense was \$120.2 million, an increase of 13% compared with the second quarter of 2022, primarily driven by variable costs such as credit card fees, utilities and repairs and maintenance that grow with attendance. G&A was \$50 million in the quarter, an increase of 4% from the second quarter of last year, driven by incremental headcount to support business recovery and our strategic initiatives, wage and benefit inflation and higher stock-based compensation.

That said, our headcount levels remain below 2019 levels, and we remain highly focused on controlling our discretionary spending. As a percent of revenue, G&A declined 120 basis points compared with Q2 of last year. Globally, we generated net income attributable to Cinemark Holdings, Inc. of \$119.1 million in the second quarter, resulting in diluted earnings per share of \$0.80.

Turning to the balance sheet. We generated \$215 million of free cash flow and increased our cash balance by \$108 million to end the quarter with \$758 million of cash. We remain balanced in our approach to capital allocation with a near-term focus on continuing to strengthen our balance sheet and invest in the long-term health of our company. We took steps to proactively address our 2025 debt maturities in the second quarter with the redemption of \$100 million of our 8.75% senior secured notes and the successful refinancing of our credit agreement, where we secured a \$650 million term loan maturing in 2030 and an upsized revolver of \$125 million maturing in 2028.

We maintain our 2x to 3x net leverage ratio target and expect to achieve that over time through adjusted EBITDA growth and free cash flow generation, both of which are contingent upon the timing and extent of overall box office recovery. We continue to make prudent investments in our global circuit, with \$28 million of capital expenditures in the second quarter and a full year target of \$150 million. We expect roughly half of our capital investment this year to be allocated to maintaining a high-quality circuit and the remainder to ROI-generating opportunities, mainly premium amenities, new build theaters and laser projector installations. As we look forward, we'll continue to align our capital expenditures with our box office recovery and free cash flow expectations.

In closing, I would like to echo Sean's commentary regarding the long-term prospects associated with the theatrical exhibition industry and our company. At Cinemark, every aspect of our operations, strategy and capital allocation is focused on setting the company up for long-term success, which benefits all of our key stakeholders, including employees, guests, creditors and shareholders. We believe this approach has boded well for the company over the years, and we will remain disciplined in this regard.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first questions come from the line of Ben Swinburne with Morgan Stanley.

Benjamin Daniel Swinburne - Morgan Stanley, Research Division - MD

Sean, I know it's impossible to predict how the labor strikes are going to impact everything, a lot of moving pieces. There seems to be at least some -- I don't really want to call it consensus, but some thought that maybe September is a realistic time for a ramp back up in production. So I would love to hear your insights based on what you're hearing and what you think, really 2 things, the impact on the production shutdown may have on '24 volumes if you still think (indiscernible) can get this wrapped up by September, that next year is higher than this year on supply?

And then talent availability is the other thing that is causing some uncertainty more near-term. And I'm wondering if you think that, at this point, you have any line of sight on kind of the fourth quarter holiday impact from movies being moved around. So I know it's tough, but wanted to hear from you because you know more than we do.

And then I just had a quick one for Melissa. I think CapEx year-to-date is about \$50 million, \$55 million. Do you guys still think you can spend \$150 million or so this year? Or are there sort of supply chain stuff maybe that makes the number come in lower? I wanted to get an update there.

Sean Gamble - Cinemark Holdings, Inc. - CEO, President & Director

Sure. Well, thanks for the question, Ben. I wish I had a better clarity of answers to provide you both on the effect on 2023 and 2024 film slates.

What we do know just from conversations with our studio partners is they're obviously doing everything they can to minimize the disruption of product flow, and their aim is certainly to avoid further shifts to the extent possible. A lot of that is going to really just depend on how long the ongoing negotiations take place. Obviously, there's been some reports that certain conversations with the WGA are going to be recommencing today. So hopefully, that can see some progress. I know sometimes these types of discussions have a way of coming together quickly when they appear far apart, and at other times they can take a little bit longer.

So at this stage, I'd say even year-end is a little tough to predict. Our typical cycle at this point even for next year when we consider that we've been optimistic about continued recovery in volume year after year like we saw this year versus last and last year versus the year before.

But typically, as is normal, we don't have full line of sight to what next year will be this far out. A lot of the slate is still coming together. And obviously, some of that may ultimately be affected by the duration of the strikes. But again, what we know is that our studio partners are working hard to formulate plans to try to minimize disruption, and we're just going to have to see how long these conversations continue.

Benjamin Daniel Swinburne - *Morgan Stanley, Research Division - MD*

Sorry, just a quick follow-up. Just to your comment on Amazon and Apple, is your comment about their ramping up of production and increase in enthusiasm or clarity from last quarter? I couldn't tell. I know you've been expecting them to ramp up, but it sounded like you were making maybe more of an emphatic point today.

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

No, I would say it's just more of a restatement of last quarter. I mean, we're highly enthused by what we're seeing. Even the line of sight we had last quarter in terms of public comments made by Amazon and Apple, I guess since then we've seen Apple date another significant film at the beginning of next year with Argyle. So nothing I'd say incremental to last quarter, just sustained enthusiasm about the direction that they're moving in.

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

And then with respect to CapEx, Ben, to your point, we did spend only about \$55 million of CapEx in the first half of the year. However, we do expect to still hit \$150 million of CapEx for full year 2023. So it's really timing of the spend is expected to be back-half-weighted.

Operator

Our next questions come from the line of Robert Fishman with MoffettNathanson.

Robert S. Fishman - *MoffettNathanson LLC - Analyst*

Two questions, please. Sean, maybe a big-picture question to start. It's clear that the momentum is back in your favor, given all the recent and record box office. So after a tough couple of years navigating through the pandemic, can you just share more about the entire company's confidence level in achieving record levels of success and the likelihood of profit surpassing pre-pandemic levels?

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Look, I'll tag team that one with Melissa. I'd say, as I mentioned in the prepared remarks, we've been very pleased with what we've seen now with regard to consumer behavior. Obviously, that was a question during the pandemic in terms of how consumers would operate coming out of it. And when we look at moviegoing activity since, it certainly points to a high level of sustained excitement about going to movies.

In terms of that translating to us, it gives us, I would say, confidence and optimism about where things progress longer-term. As I mentioned in the prepared remarks, we're continuing to hear the studios provide feedback of their intentions to increase levels of production back to where they were pre-pandemic. So we see all that as very positive.

And I would say, likewise, the work we're doing with our strategic initiatives to make sure that we drive the best results on that consumer enthusiasm and attendance ultimately should translate into positive ongoing margin results.

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

Yes. And just to follow onto that, to give a little bit of more context on our second quarter adjusted EBITDA margins, what you saw was our team's ability to really capitalize on the strength of the box office and a film slate that, as we stated, resonated particularly well with our circuit, and that led to especially strong market share, concession per cap as well as average ticket prices in the quarter.

As we think about our long-term margin potential, we certainly have many initiatives that we're pursuing, both on the revenue side as well as the cost side to try to get back to those pre-pandemic margins over the long-term. But there are, as you know, going to be a number of factors that that's dependent upon, not only attendance and box office recovery, which is the largest driver of our margins.

But beyond that, market share gains, elevated concession per caps and average ticket prices, the extent to which those persist as well as our ability to offset further inflationary pressures that may materialize and then the pull-through that we get on the strategic initiatives that we're executing on. But we're certainly pleased with our ability to deliver strong margins in the quarter and the momentum that we've seen.

Robert S. Fishman - *MoffettNathanson LLC - Analyst*

And just a question about the competitive landscape if I can. You've highlighted how Cinemark has had the sustainable market share. You just mentioned it. Can you talk about where that has come from and maybe the opportunity to grow market share further, and how Cineworld's emerging out of bankruptcy could impact any of that, if at all?

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Sure. I think we mentioned in the past, I mean, we obviously got a bump in share as we were exiting, or I should say as we were reopening during the course of the pandemic by being one of the first circuits to open. What we've seen is that that exposed a lot of audiences perhaps to our circuit who may not have been coming as frequently, and they got a taste for the type of experience we're providing, and they've stayed.

A large part of it is not really one single thing, but we had spent a large amount of time strengthening our marketing capabilities, which we think are industry-leading right now in terms of the type of awareness we build and reach we have to try to encourage consumers to come to more films and come to Cinemark when they see them. We've been working quite a bit on more sophisticated practices for planning showtimes and operating hours, which we think play into that.

And then, of course, there's just the overall experience that guests have when they come to us. So we spent a lot of time -- this is even predates me joining the company -- I'd say it's in the DNA of Cinemark really delivering a fantastic guest service to our customers when they're here.

As we look forward, our aim, obviously, is to continue to sustain that. We felt that 100 basis points of improvement versus our pre-pandemic level is a reasonable assumption now that most of the theaters and screens are operating again. Just to point out, that will fluctuate quarter-to-quarter somewhat based on the type of content mix that's in the marketplace and how different films resonate with different demographics.

For instance, what we saw in the second quarter was the film content played particularly well in our markets with the level of family and horror and the style of action, particularly with Hispanic markets. Even on the flip side in July, even though July was our biggest month of admissions revenue ever, the nature of the titles skewed a bit lower for our audiences compared to other markets around the company. So we expect we might see third quarter tick down a little bit for us overall. So it will ebb and flow a bit, but our focus certainly is on continuing to drive those initiatives to sustain our advances.

It's hard to comment, your other question on Cineworld and Regal. We certainly suspect them having a stronger financial position will put them in a better position to be competitive, going forward. And we always believe that delivering consumers widely across the industry a really positive experience lifts all boats and is a positive thing for all of us. So our hope coming out of that is that they will continue to deliver a heightened experience and a positive experience, and that will be a good thing for everybody.

Operator

Our next questions come from the line of Eric Handler with ROTH MKM.

Eric Owen Handler - MKM Partners LLC, Research Division - Former MD

Sean, granted, I know Cinemark has a long history of being conservative with its balance sheet, but you're at the point now, you're at 3.4x net leverage. You've got a pretty good war chest of cash available to you here. I mean, how are you thinking about maybe loosening the purse strings a little bit and increasing CapEx for some additional ROI projects, maybe buying back some debt in the open market, get some nice accretion off of that? Just your thoughts there.

Sean Gamble - Cinemark Holdings, Inc. - CEO, President & Director

Sure. Again, I'll tag-team with Melissa. I'll let her hit a chunk of that.

As we'll say, it's a topic we talk quite a bit about. We do have a focus in terms of the balance in terms of where we're aiming for re-strengthening our balance sheet as well as pursuing different kinds of initiatives. But Melissa, I'll let you dive deeper.

Melissa Thomas - Cinemark Holdings, Inc. - Executive VP & CFO

Sure. So in terms of capital allocation priorities, those remain centered around 2 main areas - strengthening our balance sheet, which includes delevering, and then making the right investments to position the company well for the long-term. As we think about the go-forward, certainly as I mentioned in my prepared remarks, we're targeting a net leverage ratio in the 2x to 3x range. As Sean mentioned, we are in regular conversations around our capital allocation priorities.

But one thing to keep in mind is we'll look to be opportunistic in paying down debt and delevering given our cash position. But at the same time, given some of the current industry dynamics that could cause some potential shifts in film slate, you can expect us in the near-term to be conservative with that cash on hand.

Sean Gamble - Cinemark Holdings, Inc. - CEO, President & Director

Yes. And the only other thing that I would kind of supplement that with, obviously we view that as a good position, kind of contending with any near-term uncertainty that may be out there, but also then being able to be really opportunistic as different types of things, different kinds of opportunities may shake out of this environment.

So we feel that, hence, we commented on being in an advantage position. We think we're not only in a position of strength to navigate ongoing fluctuations but also to capitalize on opportunities as they come our way during the course of the coming year.

Eric Owen Handler - MKM Partners LLC, Research Division - Former MD

And then just as a follow-up, with National CineMedia's bankruptcy and reemergence and restructuring, what's different, if anything at all, in your agreements?

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Well, for the time being, it is largely business as usual. They have a plan, a bankruptcy plan that's been approved and, as I understand it, are expecting to emerge sometime this month or next. They have accepted our pre-existing contracts, so we continue to operate according to that.

So for now, there haven't been modifications to that contract. Any future modifications will be something that would be mutually agreed upon, and that's to be determined.

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

Yes. The other thing that I would just mention there is based on the terms of their restructuring. So as you know, we have our ESA, which is where we earn ad revenue. But then in addition to that, we have our investment in NCMI. Based on the terms of their restructuring, we do expect their outstanding debt will be converted into equity, and our ownership interest will reduce from 25% today to less than 5%. So that would impact the value of our investment and any share of any potential future dividends that they may pay out.

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Right. And as you probably will see in our financials, that investment, we've reduced that considerably over the years. So I'd say the degree of exposure on that is minimal at this point.

Operator

Our next questions come from the line of Omar Mejias with Wells Fargo.

Omar J. Mejias Santiago - *Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst*

Sean, maybe first, we've seen a few films shipped away from the back half of the year to '24 as a result of the writers' and actors' strike. Do you expect any additional films to move out of the 2023 schedule? And Melissa, maybe on the strength of your ATPs and [per caps], you guys have previously talked about modest growth for the back half of the year, but that remains elevated with average ticket pricing and per caps running around mid-single digits, single, double-digit range. Can you discuss maybe what's driving that and how should we think about 3Q and 4Q?

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

It's still hard to say for the end of the year with regard to any further shifts. There's a lot of work and a lot of planning underway to try to limit the amount of impact there'll be on that. A lot of that is going to ultimately just depend on how long the conversations and negotiations continue and the availability of writers, different resources that may be required in the form of writing and/or just promotional support. So we're going to have to see.

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

And then with respect to average ticket prices and per cap, so I'll start with the average ticket prices. We do continue to believe we can modestly grow our ATPs for full year of 2023 relative to 2022 levels, but our average ticket prices will fluctuate quarter-to-quarter.

If you think about the back half of this year, we expect our average ticket price growth rate to moderate due to the film mix, and that's particularly given we'll be lapping the significant lift from the 3D penetration on Avatar from last year. So that's something to keep in mind.

And then in terms of per caps, we again continue to believe can grow our per caps year-over-year in the second half of 2023. However, per caps, similar to average ticket prices, those fluctuate quarter-to-quarter with film mix.

For context, if you think about our Q2 per cap, that benefited from the film mix in the quarter with a film slate that not only drove an audience mix that skewed younger and tends to purchase more on the concession side, but it also provided more opportunities for us to sell film-themed merchandise. Conversely, as we think about the second half of the year, we are expecting our year-over-year concession per cap growth to moderate. And that's, again, driven by upcoming film slate. And we've already seen that play out in our per cap in July with a more adult skewing film slate that drove an audience mix that's just typically less inclined to indulge on the concession side.

Operator

Our next questions come from the line of David Karnovsky with JPMorgan.

David Karnovsky - *JPMorgan Chase & Co, Research Division - Analyst*

Maybe to follow up on the pricing. Melissa, maybe in Q2, can you unpack a bit what strategic pricing versus PLF, what the offset was from the mix? And Sean, I don't know if there's any detail you could provide with the strategic pricing. You've noted it for a few quarters now. What's sort of resonating there? Any incremental color on that would be great.

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

Yes. So on the average ticket pricing, if we look at domestic ATPs were up about 6% in the quarter. About 5 points of that strategic pricing, a point of that is format mix, so premium format mix and then offset by ticket type mix.

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

And just in terms of reference to strategic pricing, I think it's one of the areas that we have viewed as an area of opportunity for a while in terms of strengthening our use of data and analytics around pricing. We've for a long, long while, had varied pricing throughout the day, throughout the week that's tailored to high-level demand patterns that we've seen over time. And we just continue to drive that down further to more discrete levels on a by-theater basis but with the use of data.

So it ranges in terms of just tailoring levels of price on a more active basis to varied levels of demand both for moviegoing in terms of our tickets as well as our food and beverage prices. So with that, we found success in capturing upside both from price and certain circumstances but, importantly, just in terms of frequency and consumption and really getting that equation right to maximize box office, maximize attendance and maximize overall concession revenues.

David Karnovsky - *JPMorgan Chase & Co, Research Division - Analyst*

And then, Sean, you noted the 3 films from Apple earlier. Just wondering, do you have a sense yet, for Apple or Amazon, what run rate slates might look like not in the next 6 months but in the next couple of years, right? What could this maybe contribute to overall box office in terms of volume or revenue?

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Sure. Well, Amazon, they've publicly expressed an intention to release up to about 8 to 12 films per year. So when you look at the volume of that, and clearly, what I haven't said is our expectation is those would probably range in size from small to mid-tier to more significant films, more blockbuster tent-pole type films. So that level of volume is commensurate with a major studio.

And Apple, they've kind of given indications of a similar amount, maybe not quite that number, but there have been indications out there of each spending somewhere around \$1 billion annually. So to the extent that flows through, again, those are sizable levels. So there's the potential for us to see almost 2 incremental major studios entering the marketplace, which would obviously provide a huge tailwind in terms of overall volume over time.

Operator

Our next questions come from the line of Stephen Laszczyk with Goldman Sachs.

Stephen Neild Laszczyk - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Maybe for Sean, with the actors and other influencers unable to promote movies like they typically would, given the strikes, I was curious if you see the need, or maybe the opportunity for studios and perhaps the theater operators in partnership to invest more in advertising in the back half of the year. Just curious if you think that there's added return opportunities on this type of spend.

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

Stephen, I'll take this one. Regarding our marketing spend, we do not expect any meaningful changes in our spend on account of the strikes. Our spend does vary quarter-to-quarter based on our expected attendance and ROI. But for the full year, we're still expecting marketing expense as a percent of revenue to remain largely in line with 2022 levels.

Stephen Neild Laszczyk - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. And then maybe just a higher-level question on merchandising. We saw a series of merchandising initiatives around the Barbie movie last month. I think Cinemark partook in that with some collectible items. I'm just curious how you think about the merchandising opportunity, going forward? Is this something you think you might want to get bigger into maybe as it seems the content becomes more linked to consumer [IP], if that's something to lean deeper into?

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Sure. Well, we do. I mean, we think there's incremental opportunity there. A lot of that often depends on the types of films that are in the marketplace, so in terms of getting boost here and there. So obviously, I think Melissa commented, the first half was particularly strong with regard to the types of films and the number of opportunities they provided for merch sales, while the second half might be a little bit lighter. But on the whole, we see there's opportunity, and when we look at just what consumers are doing, we see the level of consumption there has been really strong, if not growing.

We are actually, in addition to expanding what we offer within our theaters, it's something that we've started to ramp up to from an e-commerce standpoint. So now through our app, through our online website, you can purchase that merch as well, which is a great thing. [What] we've seen is, in circumstances where we sell out of merchandise in our theaters, now we have the opportunity to continue to offer that to consumers online. And we've seen a great uptick with high demand type items in people flowing through to online purchases.

And then I would just add, the online store also gives us more of a sustained venue. We have limited space in our theaters, but there's a wider array of things we can offer on a perpetual basis to drive incremental sales in that category. So we definitely view it as a positive opportunity as we look ahead, something that can continue to contribute to future per cap growth.

Operator

Our next questions come from the line of Jim Goss with Barrington Research.

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

I wanted to ask about the emerging genres you mentioned. I think you indicated there was about 7% of your revenue base that was coming from a combination of perhaps faith-based films or cultural may play a role, Indian, Japanese, Hispanic or maybe some other areas. And to some extent, you're identifying some new audiences that took advantage of the [hole] that was available. And how sustainable is that? And clearly, that's providing some of the increment that's helping you reclaim higher ground.

Sean Gamble - Cinemark Holdings, Inc. - CEO, President & Director

Well, look, so it's a great question, Jim, and you're right. We did comment that it was about 7% of our box office results in the first half.

We do think it is a sustainable category. If anything, for a long, long while, we had an anticipation that alternative content had a lot of promise, and it was frustrating that it only had taken off to a limited degree. So it's taken some time for this category in some of these different areas to catch on.

But I would say we're now finally starting to see a bit more momentum. The appetite for a wider audience base to go view these types of multicultural films is picking up. The scale of those films is also been to a higher degree, which we think certainly helps, the quality of those movies and the scale of those movies. So they are starting to translate more across cultures.

We're certainly slowly starting to see more in the -- like we've had the Met for a while, but in the concert space, in the gaming space, these different types of events. And then, clearly, we're seeing more scaled faith-based results on some of these films like we saw with Jesus Revolution and Sound of Freedom that are delivering some pretty solid box office figures.

So all in, we continue to think there's opportunity there. We've said, historically, we think probably 5% or so of box office might be a reasonable expectation. Certainly, as more of the Hollywood content comes in, that will just create a bigger overall number. But we think there's a lot of ongoing potential here. And if anything, we think there's a bit more growth than where we're currently at based on some of the trends we're seeing in these categories.

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

One other thing I'd like to ask about is film rent margin trends. I might have expected more favorable trends given that there have been blockbusters, but not perhaps as many films getting to the higher levels. And I thought you might also get some concession in terms of how you've played with Windows over the past several years, but they're not quite where I thought they'd be. And maybe they are where you think they should be, but if you have any comments on the film rent margin progression?

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

Sure. So in what we saw in the quarter, our film rental, the dynamic that's playing out in our film rental rate is that, as the overall box office grows, we're seeing more higher grossing titles, and those fall higher on the film rental scale. So that's the dynamic that we're seeing, or we saw in the quarter play out.

As you look forward, we do continue to expect our film rental rate to be impacted by a higher concentration of tentpole films. But our film rental rates are going to vary quarter by quarter based on the volume and content in any given quarter. We still are receiving economic consideration for the reductions in Windows. But again, that also varies quarter-to-quarter based on release patterns.

Yes. And I would just add, Jim, just a quick data point. When we look at the top 5 films in second quarter of this year, they were about 62% or so of our box office. When you consider what they were in 2019, it was about 53%. So we're still seeing more of the remaining gap of film volume in some of those smaller titles. So those have made a big advance this year versus last year, but that's an area that's still to fill in, and it just puts a little bit of a mix drag on that overall metric. That, coupled with some of the incremental spend that we're doing, which also hits that line item from an advertising and promotion standpoint, which we think has been net-net compared to 2019, valuable in sustaining our market share, another piece to one of the questions that was asked before.

Operator

(Operator Instructions) Our next questions come from the line of Eric Wold with B. Riley.

Eric Christian Wold - *B. Riley Securities, Inc., Research Division - Senior Equity Analyst*

A couple of questions. I guess, first, can you update us on kind of what you're seeing with labor wage rates domestically and in Latin America? And how would you characterize the staffing of the theaters relative to where you'd want to be at this point in terms of still looking to manage costs and margins but not impacting the guest experience?

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

I'll take that one. So in terms of wage rates, we are still seeing some wage rate pressure. Our wage rates are up about 5% year-over-year. That is, as you know, from the past couple of years, it's come down from where we were trending. While we see wage rate pressure in pockets, we are not seeing that market-driven pressure nearly to the extent that we were previously. What we're seeing now year-to-date continues to be more related to state government mandated increases versus that labor market dynamic.

And then, in terms of [pure], our ability to actually staff up the theaters, as we ramped up for the summer season, we were able to staff the theaters to the levels that we intended to staff them to. So that was definitely a positive as you think about the last 2 years and the staffing challenges that we had seen. So I would say better dynamics at play there.

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

And I would just add, for Latin America, similar dynamics to what Melissa said, albeit I think, in many of those markets, some of the increased inflationary challenges that we've seen here in the U.S. are more commonplace in those markets. So that's more of the norm, and our teams there are very adept at dealing with those types of dynamics.

So it's been more of a newer phenomenon in the U.S., but we've got a lot of experience in that market. And staffing levels are where we need them to be there, and we're continuing to do what we can to offset and manage the costs of normal market inflation.

Eric Christian Wold - *B. Riley Securities, Inc., Research Division - Senior Equity Analyst*

And then just a follow-up, maybe taking the EBITDA margin question from earlier on a different route. I guess I know there's a lot of uncertainty in terms of what inflation may do in the coming years, how the film slate may continue to ramp and box office recover. But given what you saw in the second quarter in terms of margins, do you feel that the current operating structure and cost structure and kind of per cap spend levels can allow margins to get back to pre-pandemic, or above pre-pandemic levels if the box office fully recovers in the coming years, but attendance continues to lag revenues at the same level it is now?

Melissa Thomas - *Cinemark Holdings, Inc. - Executive VP & CFO*

So I mean, there's a lot still in flux, so it's hard to say. But I think, maybe said another way, we don't necessarily believe that we need attendance to fully recover in order for margins to recover. So that's going to depend on the factors that we talked about, like market share per cap, all that that you highlighted. But as you saw in the quarter, attendance doesn't necessarily need to get back to those pre-pandemic levels.

Operator

Our next questions come from the line of Chad Beynon with Macquarie.

Aaron Lee - *Macquarie Research - Analyst*

This is Aaron on for Chad. With regard to your premium format screens, is there a level of penetration you'd like to get to over the medium term? And how does that rank among your priorities versus some of the other ROI-generating opportunities you mentioned?

Sean Gamble - *Cinemark Holdings, Inc. - CEO, President & Director*

Aaron, thanks for joining. Look, we've been very pleased with what we're seeing with premium consumption across the board, not just our screens but our D-BOX motion seats, our food and beverage, our responsiveness of audiences to our recliner seats. I mean, it really cuts across all the different premium offerings.

As far as priorities, it's an area that certainly is ranking high on our ROI priorities because the returns have been really strong. I'd say, target-wise, specific to the screens and auditoriums, one of the governors on that is just the size of the auditoriums across our existing fleet. So if we're adding new theaters, that provides a lot of flexibility. When we're talking about existing theaters, we want to make sure it's the right scale of experience, right? You need to have a large-enough auditorium for the overall experience to be appropriate so we don't undermine that product.

So we do see a sustained opportunity there to a certain degree for certain second XDs in marketplaces here and there. But I would say, in fact, it's a piece of the overall prioritization effort we're doing with regard to our CapEx, like there's a number of other things that are really positive.

So it's high on the list. The degree of which we're doing that really is balanced with a range of other things. And then like I mentioned, just the types of auditoriums and the size of auditoriums that we have available to us at this point.

Aaron Lee - *Macquarie Research - Analyst*

And then can you help us just understand the inflation picture in Latin America and how that's affecting the consumer? It's good to see the international recovery continuing, but just wondering how that's trending currently.

Sean Gamble - Cinemark Holdings, Inc. - CEO, President & Director

Sure. It's interesting. As I kind of was alluding to before, the high inflation is something that most of these markets are very accustomed to because it's not unique to retail. It's not unique to our industry. It really cuts across everything in these markets. And what they've become more accustomed to there than here is pricing growing at a comparable level to inflation.

So typically, what happens is wage rates goes up, cost of utilities goes up, cost of groceries go up, and people just take the pricing of goods and services up at a similar level, and that's how things go. And the consumers accept that. They expect it because, like I said, it's almost just the way many of these markets operate.

Here in the U.S., it's a little bit of a different dynamic because we're not accustomed to higher levels of inflation, so we got to be a little bit more careful on the aggressiveness of pricing just to try to match some of the cost escalation that's been there, because there can be a sticker shock that happens here that doesn't happen there. So I would say, again, LatAm, it's more of the norm, and it's something that really hasn't been a near-term or newer issue that they're contending with.

Operator

There are no further questions at this time. I would now like to hand the floor back over to Sean Gamble for any closing comments.

Sean Gamble - Cinemark Holdings, Inc. - CEO, President & Director

Thank you, and thanks, everyone, for joining us again this morning. In closing, I'd just like to reiterate our optimism about the future of the theatrical exhibition and our company. Long-term indicators regarding consumer interest in theatrical moviegoing and film volume remain positive, and Cinemark maintains a highly advantaged position to capitalize on our industry's continued recovery through our ongoing strategic initiatives and the many actions that we've already taken to enhance the experience as we provide our guests, advance our operating capabilities and strengthen our financial position.

So thank you, and we look forward to speaking with you again following our third quarter results.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy your weekend.

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