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CNK.N - Q3 2023 Cinemark Holdings Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2023 / 12:30PM GMT

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PRESENTATION

Operator

Greetings, and welcome to the Cinemark Holdings Third Quarter 2023 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Chanda Brashears, Senior Vice President, 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 third 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'd like to remind everyone that statements or comments made by 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 and 10-Q. 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'd 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 third quarter 2023 earnings call. Consistent with our commentary over the past year, as we assess the fundamental drivers of our industries and companies long-term health and prosperity, namely consumer behavior, new release volume and the impact of our strategic initiatives, key trends and indicators across all 3 categories continue to provide a positive outlook for the future. First and foremost, we have now witnessed a steady stream of record-setting results quarter-after-quarter across all genres of films for more than 2 years that demonstrate consumer enthusiasm for shared larger-than-life cinematic experiences remain strong and vibrant.

That trend has certainly been evident in 2023 as a diverse range of films delivered first half box office results that vested expectations, and those results have remained strong throughout the summer and fall. The third quarter epitomized the positive appeal and impact of a diverse slate of films. During the quarter, Barbie, an adventure comedy based on an iconic toy and Oppenheimer, an R-rated adult drama about the invention of the atomic bomb collectively generated nearly $2.5 billion of global box office as Barbenheimer became a global cultural phenomenon. The faith-based sensation Sound of Freedom reached almost $185 million domestically as positive word of mouth propelled the film to broad audiences.

And new installments from action adventure franchise favorites like Mission: Impossible, Indiana Jones, Teenage Mutant Ninja Turtles and The Meg, as well as suspense horror sequels, including Insidious: The Red Door and The Nun 2, all accumulated significant results. For Cinemark, sustained consumer enthusiasm to experience these varied and compelling films in an elevated theatrical setting yielded our biggest month of gross box office in our company's history in July, as well as a domestic box office result in the third quarter that was in line with our biggest third quarter ever. And in the fourth quarter, we've already seen that trend continue as Gen Z came together in droves this past weekend, in many cases, dressed up as their favorite characters to experience Five Nights at Freddy's on the big screen, a horror film based on an indie video game franchise, which just delivered the fourth largest domestic October opening ever with almost $80 million of box office.

And that achievement happened only a few weeks after Taylor Swift produced the second largest October opening ever with her Eras Tour film, a record-breaking title in Events Cinema that has now eclipsed $150 million domestically and is by far the largest concert film of all time. And a steady stream of diverse films appealing to a wide range of audiences is slated to continue through year-end, including heroic blockbusters, The Marvels and Aquaman and the Lost Kingdom, Epic Sagas, Napoleon and Hunger Games: The Ballad of Songbirds & Snakes, animated family features, Trolls Band Together, Wish and Migration, and musical productions, Wonka and The Color Purple, just to name a few.

People continue to seek out theatrical experiences because the shared communal environment coupled with premium sight and sound technologies delivered height -- delivers heightened levels of fun, impact and engagement that just can't be replicated at home. Consider the difference in excitement and energy of watching Taylor Swift's extraordinary Eras Tour at home on the couch versus viewing it on a 50-foot to 80-foot screen with crystal-clear ultra-premium sound together with fellow fans singing and dancing as everybody felt like they had a front row seat at the concert. There is simply no comparison. So as we examine box office results and consumer moviegoing trends over the past 2-plus years, we remain highly encouraged about what they suggest for the future of theatrical exhibition.

Likewise, we also remain encouraged about prospects for the recovery of new film release volume based on progress made to date and input we continue to receive from our studio partners. Last year, new releases recovered to approximately 65% of prepandemic levels, and this year, they are tracking to approximately 80%. Growing film production momentum at the start of the year also had 2024 volume on pace to recover even further. However, the writers' and actors' strikes in Hollywood over the past 6 months have caused a temporary disruption to that recovery trajectory and updated expectations for 2024 are still evolving.

That said, the writers concluded negotiations with the studios and have been back at work for the past month, and we're hopeful the actors and studios will follow suit soon. Furthermore, it's important not to lose sight of longer-term indicators and what they imply with regard to a positive rebound of volume over time. First, our traditional studio partners continue to reinforce their intentions of rebuilding annual theatrical film output to prepandemic levels over the next 2 years to 3 years, and we have received no indication that those plans have been altered by the strikes. Movies are a core component of content mix, distribution strategies and financial results for these entertainment companies and the material benefits that a theatrical release provides a film's promotional impact and overall asset value has been clearly validated over the past few years.

Next, Amazon and Apple are also stepping up their theatrical ambitions and have expressed plans to develop theatrical slates that would approach levels comparable to our traditional studio partners by 2025. Doing so would effectively add 2 new major studios into the mix. Amazon has continued to maintain MGM's traditional level of theatrical output since acquiring the company in 2022 and also enjoyed the successful release of Air in April. In the fourth quarter, they are releasing the psychological thriller, Saltburn, the smart satirical comedy, American Fiction, and an uplifting true underdog story about the 1936 U.S. Olympic Rowing Team called The Boys in the Boat. Apple is in the midst of a meaningful increase in their theatrical scale as well with the launch of Martin Scorsese's critically acclaimed Killers of the Flower Moon a couple of weeks ago and upcoming releases of Ridley Scott's epic spectacle, Napoleon in November and Matthew Vaughn's star-studded spy thriller, Argylle in February.

Finally, nontraditional content and Events Cinema continue to grow in popularity and have been performing remarkably well at the box office. A wide range of multicultural titles, anime, faith-based films and concerts have delivered impressive results this year, which is a trend we expect will continue. In the third quarter, nontraditional content accounted for almost 14% of our domestic box office results at Cinemark, driven by the breakout hit, Sound of Freedom and a sustained series of multicultural titles. And the fourth quarter is already benefiting from Taylor Swift's highly successful Eras Tour, as well as After Death, which just delivered the second best opening ever for a documentary.

And still to come this year is Renaissance: A Film by Beyonce, faith-based title, The Shift, and an array of additional alternative programming. Altogether, these collective data points with regard to new release volume and consumer moviegoing behavior provide highly encouraging signs that bode well for the future prosperity of our industry and company even if product flow faces some near-term headwinds as a result of the Hollywood strikes. Moreover, specific to Cinemark, we remain well situated to capitalize on our industry's ongoing recovery and deliver long-term shareholder value on account of our solid financial position, outstanding team, industry-leading operating capabilities and the significant benefits we are deriving from our strategic initiatives.

Our team's skilled operating discipline and the meaningful advancements our initiatives are having in shaping Cinemark for the future were evident in our second quarter results and further exemplified in 3Q. Following last quarter's delivery of our company's second highest quarterly adjusted EBITDA of all time, this quarter, we achieved a third quarter record high adjusted EBITDA of $197 million on third quarter record high revenue of $875 million. Furthermore, on worldwide attendance that was 16% lower than the third quarter of 2019, we generated 6% more revenue and 16% higher adjusted EBITDA than our 3Q '19 results.

And beyond that, this quarter's adjusted EBITDA margin of 22.5% exceeded 3Q '19 by 180 basis points and was our highest third quarter margin rate since 2016. As we've highlighted on previous calls, our top priorities this year remain focused on effectively navigating the dynamic ups and downs of our industry's extended recovery while driving actions to set ourselves up for future growth and efficiency. As such, we continue to emphasize near-term revenue and margin generation, staying diligent on expense and cash management and nimbly flexing based on fluctuating demand forecasts, while at the same time, actively working to refortify our balance sheet and investing in opportunities to grow, drive incremental productivity and further strengthen our circuit.

While we are realizing material upside from the many actions we've already executed, as demonstrated by our results year-to-date, what really excites me is the wide array of additional opportunities that remain before us and that are fully within our control to further enhance the experience we provide our guests, build audiences, generate new and diversified revenue streams, streamline processes and opportunistically optimize our footprint. Some examples include continuing to expand premium offerings through new enhanced food, beverage and merchandise options as well as proven amenities like recliners, D-BOX motion seats and Cinionic laser projectors, leveraging our sophisticated showtime planning strategies, marketing capabilities, loyalty programs and global reach to over 30 million addressable consumers to stimulate incremental moviegoing frequency, further enhancing our concessions distribution practices to expedite in-theater purchases, grow e-commerce transactions and extend availability across varied third-party sales channels and driving additional workforce management refinements, forecasting improvements, operating our optimization and process automation to strengthen efficiencies.

So as we look ahead and as we consider pertinent developments in the fundamental drivers that impact our industry and company, we remain highly optimistic about our future health, growth and prosperity. Throughout unprecedented disruption in our industry, consumer enthusiasm for moviegoing and theatrical experiences has held strong. The financial and promotional value that a theatrical release provides content remains significant. A growing number of film studios and new content providers are leaning more actively into theatrical exhibition and the range of opportunities to further grow and strengthen Cinemark are plentiful.

With that, I'll turn the call over to Melissa, who will provide additional information on our third 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 exceptionally pleased with the third quarter's box office performance as well as our team's ability to deliver another quarter of strong results by further advancing our strategic growth initiatives, while maintaining discipline around cost management and driving productivity. Across our global circuit, we served nearly 62 million patrons during the third quarter, an increase of 28% year-over-year. And we grew revenues 35% to $874.8 million. With heightened attendance and revenue, we realized meaningful operating leverage over our fixed cost in the quarter. Growing our worldwide adjusted EBITDA 98% year-over-year to $196.8 million and delivering a healthy third quarter adjusted EBITDA margin of 22.5%, with margins expanding 720 basis points year-over-year.

Turning to our domestic segment. We entertained 37.5 million moviegoers during the third quarter, an increase of 27% year-over-year, and we grew our admissions revenue 36% to $350.4 million. Our average ticket price grew 7% year-over-year to $9.34, driven primarily by inflationary and strategic pricing initiatives and favorable ticket type mix as the third quarter film slate skewed more adult. As anticipated and as discussed on our last earnings call, the third quarter film mix wasn't as strong for our circuit as the content in the first half of the year. As a byproduct of the film mix, our market share declined slightly year-over-year, although it remained well above prepandemic levels. While our market share will fluctuate quarter-to-quarter based on the film mix, we continue to focus on driving initiatives to sustain if not grow our share.

U.S. concession revenue increased 34% year-over-year to $268 million and concession per cap grew 5% to $7.15 for the quarter, driven by inflationary and strategic pricing initiatives. As expected, our per cap growth rate moderated during the third quarter given the more adult skewing film slate. That said, our third quarter 2023 domestic per cap was up nearly 40% versus the third quarter 2019 and concession revenues surpassed that of Q3 2019 by 16%. Our ability to continue to improve the monetization of the attendance we drive to our theaters has been a key driver of our results. Other revenue was $64.1 million, an increase of 20% year-over-year, primarily due to our attendance growth in the quarter. In total, our domestic operations generated $682.5 million of revenue, up 33% year-over-year and delivered $151.2 million of adjusted EBITDA, a sizable 114% increase over the third quarter of last year. Our domestic adjusted EBITDA margin of 22.2% expanded 840 basis points year-over-year and 130 basis points relative to the third quarter of 2019.

Shifting to our international operations. We welcomed 24.4 million guests during the third quarter, an increase of 29% year-over-year. We delivered $93.4 million of admissions revenue, $71.8 million of concession revenue and $27.1 million of other revenue. Altogether, our international revenue increased 39% to $192.3 million. Through disciplined operational execution, our team grew adjusted EBITDA 58% year-over-year to $45.6 million, and we delivered a 23.7% adjusted EBITDA margin, which represents 290 basis points of margin expansion versus the third quarter 2022 and 390 basis points compared with the third quarter of 2019.

Turning to global expenses. Film rental and advertising expense was 55.9% of admissions revenue, 20 basis points higher than the third quarter of 2022 as we stepped up our marketing spend to capitalize on the box office strength in the quarter and the outsized returns we've been seeing on our investments. Lower film rental rates were driven by the content mix in the third quarter and partially offset the heightened level of marketing spend. Concession costs as a percent of concession revenue were 18.5% in the third quarter, up 20 basis points year-over-year, driven by ongoing inflationary pressures and an uptick in shrink, partially offset by inflationary and strategic pricing initiatives. Global salaries and wages were $107.9 million, an increase of 11% year-over-year.

As a percent of revenue, salaries and wages declined 260 basis points, driven by operating leverage due to the higher attendance levels and the benefits realized from our consistent focus on labor productivity, which was partially offset by wage rate pressure and expanded operating hours. Facility lease expense was $84.4 million, an increase of 9% year-over-year. As a percent of total revenue, facility lease expense decreased 230 basis points compared with the third quarter of 2022 as we gained leverage over our lease costs, namely in our domestic segment, where lease costs are largely fixed in nature. Utilities and other expense was $129.5 million, up 17% compared with the third quarter last year, primarily due to the growth in attendance, which increased our variable costs such as credit card fees, janitorial costs and repairs and maintenance.

Higher property and liability insurance costs also contributed to the increase year-over-year. G&A was $48.2 million in the third quarter, an increase of 7% year-over-year. Excluding stock-based compensation, G&A was up 5% in the quarter, driven by incremental headcount to support business recovery in our strategic initiatives, wage and benefit inflation and our ongoing shift to cloud-based software, which was partially offset by lower professional fees. As a percentage of revenue, G&A declined 140 basis points to 5.5%. Globally, we generated net income attributable to Cinemark Holdings, Inc. of $90.2 million in the third quarter, resulting in diluted earnings per share of $0.61.

Moving to the balance sheet. We continue to strengthen our financial position, generating $50 million of free cash flow in the third quarter and $246 million of free cash flow in the first 9 months of the year to end the quarter with $806 million of cash. We achieved a meaningful milestone in the third quarter with our net leverage ratio reaching our target range of 2x to 3x for the first time since the prepandemic period. Our capital allocation priorities remain focused on strengthening our balance sheet, including delevering and investing in the long-term success of our company. We consistently invest in our global circuit to maintain and enhance the theatrical moviegoing experience with $35 million of capital expenditures in the third quarter and a full year 2023 target of $150 million. We continue to expect roughly half of our capital investment this year will be allocated towards sustaining a high-quality circuit and the remainder to laser projector installations, ROI-generating opportunities, mainly premium amenities and newbuild theaters.

As we look forward, we will remain flexible regarding our capital expenditures, targeting investment opportunities that meet our disciplined return thresholds, while factoring in our box office recovery and free cash flow expectations. As a result of the strength of our balance sheet, coupled with our strong execution capabilities, we are well poised to withstand potential near-term impacts due to the Hollywood strikes. We expect to remain appropriately conservative with our cash and capital allocation in the interim as we await a better understanding of the strike implications on the box office, while at the same time, making prudent investments to ensure we continue to position the company for ongoing success. While our post-pandemic recovery may be a bit more prolonged than we had hoped, we remain encouraged that the long-term fundamentals of the industry remain intact.

In closing, I'm incredibly proud of the entire Cinemark team for the strong results they continue to deliver. Given our performance over the last few quarters and the ongoing execution of our strategic initiatives, we are optimistic about the future potential of our business once industry recovery stabilizes.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Today's first question is coming from David Karnovsky of JPMorgan.

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

Sean, I know the actors' strike is still ongoing, but assuming production didn't start until early next year, how do you kind of gauge at this point the impact to '24 or even '25 supply? And what -- what kind of strategies do you think the industry has to deal with shortfalls of supply?

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

Sure. Thanks for the question, David. Clearly, it's a big topic on everybody's mind. I think, unfortunately, at this point, there's still a lot to be clarified in terms of what '24 looks like, to a certain degree, '25, but I think more of the focus right now is on 2024. Assuming we get some near-term closure with the strikes, which hopefully some of the news over this past week has been optimistic -- cautiously optimistic in terms of where things may be headed, we'll see. It's -- I would say, in general, it's always a little bit challenging, even this close to 2024 to fully gauge the slate because a lot of the dating is still taking place. So our line of sight in just a normal year is limited. We're usually basing it on estimates and how much we think things are going to further fill in. So that's the norm.

And with the strikes, obviously, that -- that's created a little bit of a further challenge as we try to predict what's going on. We do know in our conversations with the studios, they're clearly focused on trying to minimize the disruption as much as they possibly can. I think for everybody's benefits, they're trying to do whatever they can to do that. And that's clearly going to be a big focal point as all the production schedules get sorted out once the strike is resolved. But at this point, I'd say we're still a bit in a waiting game here just to see when things ultimately conclude and then how those schedules play out and what it ultimately means for next year.

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

And maybe just one more. With your net leverage now in the target range, I wanted to see if you could update on capital allocation, thoughts on the dividend and I guess how the strikes maybe complicate that?

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

Sure. Thanks for the question, David. So in terms of capital allocation, so we did achieve, as you mentioned, our net target leverage ratio of 2x to 3x for the trailing 12 months ended 9/30. But I would expect for us to continue to be conservative regarding capital allocation in the near-term while we await better insight into the implications of the Hollywood strikes on the 2024 box office. Near-term, our priorities will continue to remain centered around strengthening our balance sheet, which includes delevering and then making the right investments to position the company well for the long-term.

Now that said, with respect to your question on the dividend, we do expect to remain conservative at this stage, but it is worth pointing out that those are active conversations that we have around capital allocation, around our balance sheet with our Board, those are ongoing conversations, including potential timing of reinstating the dividend. But ultimately, the dividend was a significant aspect of our capital allocation priorities prior to the pandemic and will remain a key consideration as our box office and cash flows continue to recover.

Operator

The next question is coming from Eric Handler of ROTH MKM.

Eric Owen Handler - *ROTH MKM Partners, LLC, Research Division - MD*

You talked about your sort of revenue-generating CapEx. Premium amenities remains at the forefront. Where do you still have opportunities with premium amenities? Are there new initiatives? Are there just still a lot of backfilling going on with theaters? Where are you there?

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

Sure. Thanks. Thanks for the question, Eric. We still see a range of opportunities in premium amenities. I mean some of it is continuing to pursue the types of initiatives that we've been pursuing for a while. So looking at further installation of D-BOX motion seats, screen formats, laser projectors, even recliner seats to a certain degree, although nowhere near where we were before, given that our circuit is almost 70% reclined at this point. So there's a range of those types of things. I would say also just investing in further enhanced food offerings and things of that sort, and we continue to test and have success with just new types of options in our theaters. So there's different even technologies in the sense of distributing that food to simplify purchase and things of that sort, which can help.

So there's a range of things like that. I would say beyond that, too, with regard to broader CapEx, we continue to look at what other opportunities there ultimately will be for expansion and things of that sort. So that does come into play. Clearly, that's a bit of a balancing act right now with just where things continue to progress with recovery in our cash flows and other objectives with refortifying our balance sheet, but it's clearly on the mind as we look to continue to strengthen our circuit going forward.

Eric Owen Handler - *ROTH MKM Partners, LLC, Research Division - MD*

Great. And just as a follow-up, when I look at your international recovery, particularly Brazil, it seems like it's been a while since we've seen a Brazilian movie, local language movie actually break out and do well. And we've seen that a number of times in the past. I'm curious sort of what's the state of the movie industry in Latin America right now?

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

It's a great question. I would say big picture on the state of the movie industry, it's been positive. I think in terms of -- I'll just talk specific to the theatrical space, exhibition has recovered to a level, I'd say comparable with the rest of the U.S. or the rest of the world. In terms of moviegoing, there's even pockets of LatAm like Argentina, where we're seeing moviegoing behavior match prepandemic levels and even exceed that in certain circumstances. So I'd say while the whole region lagged the rest of the world a bit in terms of its recovery during periods of the pandemic, it certainly has caught up. One area that still is definitely lagging has been local production.

To your question on Brazil content, we've seen that in some of the other countries as well. That has been slower to come back. We know that here in the U.S. in Hollywood, the studios have been working to replenish their backlog of films and get overall volume back to where it was prepandemic. It's been a slower slog internationally throughout LatAm. Now we're starting to see some signs of that picking up. We know that particular to Brazil, there's focus on trying to breathe some more life into an activity into local production activity. It's something that even the government is focused on down there. So that could lead to a resurgence of those types of films in the not-too-distant future. But local product in LatAm is still an area that I would say is lagging a bit with regard to recovery from the pandemic.

Operator

The next question is coming from Eric Wold of B. Riley Securities.

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

Just a quick numbers question. What was the impact in the quarter on ticket price per caps and concession per caps from National Cinema Day?

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

From a year-over-year standpoint on both per caps and average ticket prices, National Cinema Day was actually bit of an uptick because the offerings changed a bit. So on the average ticket price, the last year, National Cinema Day ticket price was $3. This year, it was $4. So we had about a $0.04 benefit year-over-year related to that on the average ticket price side. Excluding National Cinema Day, our average ticket prices would have been $9.50 in the U.S. As you look at per cap, again, slight benefit about 1-point benefit year-over-year attributed to National Cinema Day. And then excluding National Cinema Day, our per cap would have been $7.19.

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

And then just a follow-up on concessions. If you drill down into concessions a bit kind of during the quarter, maybe even so far into Q4, maybe excluding National Cinema Day just kind of normal times, I guess, are you seeing any indications at all that would give you an indication that the consumers are pulling back either during normal showtimes or during kind of discount showtimes to give you some pause there, some impact there or you're just not seeing it at all?

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

No. As you look more broadly, despite the current economic environment, we continue to see consumers trade up to premium amenities. We also see them spend more on food and beverage. So they are electing into that full theatrical experience when they are coming to the theaters. Now something we're certainly monitoring closely, but we have many initiatives in place to drive premium amenities, drive our F&B incidents forward. But the dynamic that you saw play out in the third quarter was really a function of the mix of films that resulted in a sequential dip in our per caps, particularly that July, August kind of slate. But then as you've seen more recently, September, October, we've seen that tick up again.

And we do believe despite having a tough comparison in Q4 of last year in our per caps that we have the opportunity to continue to grow per cap in the fourth quarter, particularly as we lean into a proactive category management initiatives, as well as merchandise opportunities associated with the slate, namely on the Taylor Swift side of things.

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

Yes. I would just add that it's an interesting -- it's a dynamic we've seen across our global company for years, even in Latin America, which has more ups and downs of economic cycles, even in tougher times, we find that consumers may cut back on other types of activities. But when they come to our theaters, I've always found this fast anything like you don't even see a tick-down generally in the premium amenity consumption. They continue to upgrade to the premium formats. They continue to purchase food and beverage at heightened levels. So we continue to see that today, both in LatAm and here in the U.S. with regard to merchandise purchases, food purchases, upgrading, it's just a dynamic in our industry that people will trade off on other things. But when they come to the cinema, that's like their moment to splurge.

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

Got it. If I can squeeze one in, maybe just a broader question. How do you think about kind of the health of the circuit, [the focus] domestically, health of the circuit versus kind of where you were prepandemic? I don't want to make a big deal out of 1 quarter, but first quarter domestically in 2 years, you didn't have any kind of closure impacts or screen closures and a net impact there. So I mean it's -- are we past most of the rebalancing of the circuit kind of post pandemic? And then how would you kind of think about the health in the circuit now versus where it was maybe in '19, so we get back to continuous upswing and box office upswing in attendance, how you're positioned to kind of outperform benefit kind of over index versus the industry versus maybe where you would have been a few years ago?

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

Well, I think the high level is we feel very good about the health and strength of the business. I just kind of pick that off in chunks. Obviously, we're still working on restrengthening our balance sheet. So that's one piece that we're still working on and reducing the COVID-related debt that we took on. So there's that piece. But operationally, I'd say we've made great strides in further efficiencies, in incremental revenue growth, so capturing more value with the attendance that we have. I mean I think the comment that we made in prepared remarks, the fact that on 6% less -- or excuse me, on 16% less attendance versus the third quarter of '19, we generated 6% more revenue and 16% higher adjusted EBITDA.

I think that speaks to all the great work the team has been doing to strengthen the business. And then as we just look out, we continue to see many, many opportunities for future growth, future efficiency to further strengthen the circuit even more. Particular to some of the -- just the footprint and evolution there, I would say that there could continue to be some movement there. I mean that's just -- to a certain degree, part of that is just our normal process. We maybe had a little bit more closure activity coming out of the pandemic simply because some of those theaters that had been on the cusp that were struggling a bit more, older theaters struggling a bit more coming out of the pandemic, it just made sense to move on, whereas at the same time, we've actually opened 16 theaters since 2020.

And those theaters have been performing exceptionally well on the whole. So there could continue to be a little bit more of that calibration, but I feel really good overall with where we are at this point with our ability to kind of handle some of the ongoing near-term recovery and where we're going to be coming out on the other side of that.

Operator

The next question is coming from Robert Fishman of MoffettNathanson.

Michael Brian Nathanson - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

Sean, this is Michael for Robert. I have a couple for you. One is, you mentioned the word diverse a few times in describing the box office success. I wonder, do you think your biggest studio partners understand this and maybe we'll pivot away from their playbook of franchises? And then with that said, do you see any genres that have not returned post pandemic and maybe more structurally challenged and how people are dealing with that? And then another one, just quickly on day-and-date, you mentioned Five Nights at Freddy's did very, very well for you and for Peacock. Is this the beginning of maybe a change? And are you rethinking perhaps can we coexist with day-and-date releases in certain genres?

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

Sure. Well, thanks for the question, Michael, and welcome, pleasure to have you on the call. The -- as far as the diversity of content goes, I do think that our studio partners recognize that. Clearly, there's a focus by those studios on some of the larger tentpole films and franchises, one, because of the significant financial value they can provide, but also just from the overall risk equation, once you get a hit, you can kind of ride that out for a while. So those are great brand drivers for many of these companies. They extend further into their company with other parts of the business that can contribute value. But at the same time, I mean, we've generally seen them sustain their diverse offerings.

And as we continue to see a lot of those types of films work, we think it's just going to continue to encourage them to put more of that out. I would also say the evolution of a more flexible window, I think has also improved the risk management of those types of titles. As the studios know now that, hey, in success, those films can run really long, and if it doesn't work and doesn't connect with audiences, there's a way to offset some of the downside and get into the home faster. That flexing actually can also lead to them being willing to take more chances in some areas where the risk model had become a bit more challenged prior to the pandemic.

As far as any genres or segments in terms of content that may be lagging, it's a tough one because tough one to say. I think in some cases, we've seen films that resonate better with audiences run a little bit longer post pandemic and some of the ones that haven't resonated as well fall a bit faster, but we've seen that dynamic across all categories of titles. So it's hard to necessarily pick out one area. If anything, there may be fewer, I'd say, specialty films in that category that have been released post pandemic.

And one thing we find, we've seen that recently, as you get more of that volume on a steady basis, then consumers tend to come out more because that momentum just sustains volume. When you have less of that content, it's just harder to kind of get that to reboot that excitement. So hopefully, we'll just see a greater amount of that content coming as we go forward. That's been one area of volume that has lagged a bit. As far as the question on day-and-date goes, look, I don't think we or the industry has really changed point of view on day-and-date. I mean it's not something that, that we favor by any stretch. It's not something that we look to. It's clearly something that has been tested and quite frankly, it didn't work.

I think our studio partners recognize that. They tried it. They've seen that the best way to drive value for -- drive and maximize value for their financial assets and maximize promotional impact is with a theatrical window. And there is no real indication of moving back in that direction. In fact, the 89 wide releases that have taken place this year, Five Nights at Freddy's was the only one thus far that has been day-and-date. So there's really no movement in that direction. It's somewhat of a unique circumstance, I'd say, probably on that title. Nobody thought this was going to be come the Gen Z phenomenon that it became and be as big as it was. And I believe it was kind of originally conceived as a streaming day-and-date type film.

So I'm not -- all that doesn't mean that we won't see an occasional day-and-date release. There could be some smaller niche films with limited audience breadth or content that was originally conceived for streaming that shows some promise which studios may elect to put out that way. But we don't see that becoming things shifting back in that direction again because all the indicators, all the data points to the best way to drive value of those assets is with a theatrical release, with an exclusive theatrical release.

Operator

The next question is coming from Ben Swinburne of Morgan Stanley.

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

Hope everyone's well. A couple of questions. Sean, normally, there's sort of a calendar and timing thing with the slate as the -- as we get closer to the next year, the date sort of fill in, and this is sort of a prediction within a prediction. But what do you think happens once the strikes are over and production resumes? Like do you think we see a slower cadence of the calendar being popular, maybe a faster cadence because there's movies that are like 90% finished but haven't been dated yet? I'm just wondering, since you have probably more conversations with all the studios and we do, if you had a view on that? And then I had a couple of follow-ups.

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

Just thinking about that question. I'm not sure it will necessarily be slower or faster. I do know, just based on conversations, there's going to be a period perhaps a month or so once things are resolved, where all the shuffling is going to take place of sorting out the production schedule. So everything needs to be refigured out how they're going to kind of put all those pieces together. I think once they get a better line of sight through that as to when things will get completed, then things will start getting dated. I mean there's generally a desire by the studios to plant their stakes in the ground on dates sooner versus later to kind of claim that spot. So there's clearly motivation to get that information out there, but they'll be in some regards hesitant to do that until they have a clear sense for where that's going to be. So I'm not sure it will be accelerated or slower than normal, it will just be a matter of having line of sight to how everything is shaking out once things get a little bit further along.

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

Got it. Okay. Yes, fair enough. And then alternative content something that you guys have talked about. I don't think investors focus that much on it, but it does seem just to keep the Taylor Swift momentum going, that is becoming a real part of your business. Do you think that grows in total dollars for you either next year or just generally over the next couple of years because it's becoming a not insignificant part of the business?

And then I'll just finish up, going back to capital allocation, push you guys a little bit. Understand the strike is -- the strikes create uncertainty, but you guys have done over, I think $2 a share of free cash flow year-to-date, you'll generate free cash flow in the fourth quarter. The conservatism around capital allocation, does that apply to everything? So will you be thinking about CapEx next year more conservatively? Is that specific to the dividend? And would you be willing to help us think about when the dividend decision might get revisited if we assume these labor strikes are done here in the next couple of weeks?

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

Sure. I'll start with the alternative content question. It's interesting. Alternative content, nontraditional content was -- always showed tremendous promise, and it was frustrating that it never seemed to really get going. It generally was a couple of percentage of 1% to 2% of the overall box office. And to your point, I'd say fortunately, we're starting to see some momentum now really build. We've seen some real scale start to kick in, in multicultural titles, in the anime films. Certainly, we've seen that now with Taylor Swift. I mean, up until this point, just to focus on the concert films for a moment, we've actually seen hints of promise with concert films for quite some time with BTS, in Coldplay, in Billie Eilish and Metallica, but those have largely been released on a very limited scale.

And I think Taylor just blew the door off the place with the huge success that she just had with her Eras Tour. And it was phenomenal for fans in terms of having access and being able to relive the moment of that tour in theaters, it was like having, again, a front row seat at the concert. If you're a music artist, I also wonder like you're a music artist and you saw that, I don't see how you could not want to do that going forward, both to give your fans that opportunity and also just to extend the value of these tours that they've poured so much time and effort into. So we're

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definitely optimistic about more of that. We've seen what they can do. I think others have seen what that can do and it's growing. So I certainly do think that we could continue to see more and more success here. Faith-based films, we've had some huge results there with Jesus Revolution and Sound of Freedom and The Chosen, we continue to see big results getting posted in that category.

I mentioned the multicultural content with the Indian films and South Asian titles. So yes, I think we're definitely seeing that. Part of the percentage of box office that we're seeing the uptick. I mean, year-to-date for us, it's been tracking about 10%. Part of that is just based on overall recovery of volumes. So we think as more traditional films recover, that may go down a bit, but we could certainly see this starting to get to a place where we're looking at 5%, maybe a little bit more of overall box office over the years and continued growth.

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

Yes. And then I'll take your question, Ben, around the conservatism on cash and kind of how we're thinking about capital allocation. So I'll start with the CapEx side. So as we look forward, this is an area where we will continue to be flexible with our capital expenditures. We're certainly going to factor in our expectations around box office recovery and cash flow generation. But at the same time, we're going to be targeting ROI-generating opportunities to make sure we're positioning the company well for the long-term. So it's really a balance that we're trying to strike there. And even as you think about both CapEx as well as dividends, we also need to keep in mind that we do have 2025 maturities that we also are looking to proactively address.

So really looking to balance those dynamics, but we feel really good about the cash we have on hand. We do want to see the implications on the box office, as we mentioned, and we will be flexible from a capital expenditure standpoint. And from a dividend standpoint, just too early really to say at what point that would be reinstated. But I think it's fair to say that we need to see more sustained achievement of that target leverage ratio before we would look to do so.

Operator

The next question is coming from Mike Hickey of Benchmark.

Michael Joseph Hickey - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Sean, Melissa, Chanda, congrats on another great quarter here. Just a basic 2 questions, pretty basic here. Definitely seeing not just your success, Sean, but the industry coming back here, and we'll see how 4Q shakes out. I'm curious the skinny on it from you, but maybe we get to [$2.6 billion] or so for the year, domestic box office. So you still have this sort of $3 billion, call it, recovery bridge to where we were pre-pandemic. This seems like a huge opportunity for you and the industry in terms of growth. Just curious, your confidence -- I know film product is a big piece of the equation.

But just broadly speaking, Sean, your confidence that you can kind of cross that recovery bridge to where we were, and sort of the -- you've really optimized the model here. Just again, curious your margin opportunity when you cross that recovery bridge to sort of where you were prepandemic because it looks like your margin profile could be higher?

Second question, great to see the streamers come in with some product. It sounds like that's going to increase. I'm just curious the feedback you're getting from Apple and maybe Amazon? And maybe Netflix, I know you've sort of experimented with those guys and they're hesitant for the moment, I think to put a lot of product in, maybe that will change over time. Just curious what Apple and your other streaming partners are saying in terms of the success or not they're getting from the box office. You look at some of the films, it's not like they're putting up massive numbers, but I think there's more than just that in terms of what's important for their ecosystem in terms of how they leverage the theater.

And curious over time, Sean, when you think about as those streamers scale up product and maybe we have alternative really taking shape for the first time of concert films, if you think you're in a position in the next couple of years to have more wide release product than what you had versus prepandemic?

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

Sure. Thanks, Mike. Appreciate the questions. I guess, starting off on kind of confidence in recovery, as we kind of talked about, 2 of the big macro items are just consumer behavior and overall volume of content. I think the question was probably more geared towards consumer behavior, which, as we've mentioned, like what's been incredibly encouraging to us is just the level of performance of so many films over the past 2-plus years across all different genres. We've seen large films, small films in all different categories, break records quarter-after-quarter. And we look at that and just we look at the potential of films, we just -- we see consumers across all demographics have come back when that compelling content is in the marketplace. So we haven't seen disruption in that which is obviously a key driver for our business.

If the consumer interest is there, it all starts with that, right? So I definitely think we've kind of crossed the bridge on that. I mean, clearly, there was a holdback for a period of time because of the fears of the health environment with COVID, but we're well past that at this point. And now it's just a matter of getting that content to fully recover, which, again, all signs point to that happening, it's just taking a little bit of time. Clearly, the whole production process was first disrupted by the pandemic. So we're still working through that or the studios are still working through that, and now the strikes have caused another blip.

But all indicators, all comments about plans are to the extent of getting content back to where it was. And then like you said, as we think about Apple and Amazon coming into the fold, and we think about more of these other types of nontraditional films, at least when we look at that, we clearly see a scenario where 2 years to 3 years out, we could be looking at more content than ever, more releases than we've ever seen in the marketplace just because of those dynamics.

Specific to your question on Apple and Amazon, I mean the conversations we've had with them, they've been very pleased with the results thus far. I mean Amazon, you saw with MGM earlier this year, Creed III was a big film. I mean that was the biggest in the whole Rocky franchise to date. They were very pleased with Air. They're working on building their slate. Again, it's taking a little bit of time just because of the dynamics we talked about, but they clearly have expressed intentions of at least 8 to 12 films per year. And Apple is really just getting going. They had been operating at a slightly smaller level and now they're in business with major filmmakers. They've got 3 huge releases over the next 5 months, including Killers of the Flower Moon, which is out now. So they're just getting into it, but same thing, there's real value they see in this space. And then you want to talk...

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

Yes. Mike, I'll hit the margin point. So our performance over the last couple of quarters, combined with the potential benefits we see of the strategic initiatives that we're pursuing. With that, we certainly have optimism about the potential of our business over the long-term once the industry recovery stabilizes. We do have many revenue-generating as well as cost-mitigating initiatives that we are pursuing to try to return to prepandemic margin levels on a full year basis, and we're certainly working diligently to try to do so.

As you know, the primary drivers certainly of go-forward margins are going to be attendance and box office, but there are other factors beyond that like market share per caps and average ticket prices that we'll need to see, whether those remain at elevated levels as well as our ability to offset further inflationary headwinds that we may see and the overall value that we're able to deliver from our strategic initiatives, but certainly optimistic based on what we've been able to deliver over the past few quarters.

Operator

The next question is coming from Jim Goss of Barrington Research.

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

Right. Sean, you mentioned earlier, showtime planning capabilities among some of the other operating efficiency efforts you might make. And I was wondering are you looking at, say, fewer screenings per day when attendance is late or more screen allocation when movies are hot? I know traditionally, you've done that quite a lot, but I wonder if you've been able to sort of condense the time, the platform is use -- in use if that's necessary? And then how are those decisions influenced by studio agreements and mandates? And what is the perceived value creation on either the revenue or cost side from such efforts?

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

Great question, Jim. I guess the short answer is, yes, we are doing all of those things. What we've continued to do is just enhance our capabilities with that. We were using a tremendous amount of data at a very low level, theater by theater by daypart to really hone in on what is the optimal overall window, showtime window throughout the day, as well as talk about short-term monetization, how do we pack more overall showtimes into that window. So conversations with the studios are even if we may wind up having some shorter windows based on demand in a particular weekday, we're able to get more shows within that time frame, which still can deliver real success. So that's, I think part of the -- it's one of the many things we're doing to help our overall efficiencies and margins as we're looking at profitability by really hour and daypart, so we can kind of hone in on forecast for demand, forecast for attendance and whether or not we should be open or whether we should be condensing the schedule in a given day.

So there's still plenty more things we're working on in that regard, but we've advanced it significantly over the last few years. And it's one of the initiatives that I think is helping our overall operating efficiencies. But as far as their conversation with the studios go, it's been really positive. I think they understand the rationale for that. They benefit from it. And when you look at also the overall results of our market share growth over the course of the last 3 years [too], it's something else we point to, we're tending to outperform the industry and provide a greater value to the studios because of not only showtime optimization, but many of these other initiatives that we've been working on, whether it's our marketing focus, in particular, the many different ways that we're working on driving incremental attendance and frequency.

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

Okay. And one other then. It seems like you probably have a little less carryover opportunity coming into January and February than you did last year with -- or earlier this year rather than with Avatar. Do you have any specific plans to provide something to comp against that? And also, is there a streaming content that did not have theatrical runs that might be candidates for that void created by the strikes?

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

I think we'll have to see. I mean, clearly, January got a huge lift this year from Avatar and Puss in Boots. I would say, at the start, well, we all had hopes that Avatar would be a huge carryover, didn't fully know. And Puss in Boots, I would say was a pleasant surprise in terms of just how that kept running. So I wouldn't discount the potential for the films at the end of this year and what they might be able to do. I think it really just depends on the quality of those films, how they resonate with audiences. We could see some of that play through. I mean our general practice when we look at the overall number of releases in the marketplace is to try to figure out, are there other types of campaigns or bring backs or ways to fill gaps if it looks like there could be a lighter period. So we've got a lot of those types of ideas in motion for the entirety of the year, and looking to kind of call on those, depending on how things are playing out.

I do think, too, there still is the potential for shifting around. We saw a lot of that recently in the fourth quarter even where some of these faith-based films and some of these smaller titles actually moved in to spaces when some of the larger films moved out into the fourth quarter because of the strike -- moved out into next year because of the strike impact. So we could also see some shuffling around like that in the schedule opportunistically from some of the other types of films based on just how overall carry-through is playing out.

Operator

The next question is coming from [Steve] Cahall of Wells Fargo.

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

This is Omar. Just a quick one on -- maybe, Sean, first on -- in the event that federal films move out of 2024 and this hypothetical scenario, but -- and box office is down year-on-year. What levers can you pull to lower your fixed cost structure? And how are you better positioned now to deal with production disruptions versus prepandemic? And Melissa, you alluded to market share in the U.S. being down sequentially. I know you talked about just the film slate didn't resonate with your audiences. How should we think about the slate in 4Q? And how does that sort of aligns with your demographics in your footprint? Any color there would be helpful.

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

Thanks for the questions, Omar. As far as next year goes, I mean the -- I guess you're kind of talking about a scenario where in the event box office is down, how would we react to that from a fixed structure in general. I would say we've certainly developed and enhanced our ability to flex and adapt to a more dynamic environment over the course of the pandemic. I mean we've just seen a lot of the ups and downs month-to-month, quarter-to-quarter, and that's necessitated a lot of flexing in order to maintain operating efficiencies and maximize cash flows and margins.

So I think we've definitely strengthened and honed our muscles in that regard, and we've continued to operate that way. It's another reason, I'd say, for the types of results that we've been able to deliver this year in terms of our financial performance. So I feel pretty confident in our ability to navigate through a scenario like that if it should play forward. I mean, to be candid, for our own internal planning purposes, like we always do, we're running a range of scenarios of how things could play out so that we're well ahead of that and ready to respond to next year. So in terms of varying degrees of volume, and then we'll hone those in as we have more definitive information on how that plays out. So I feel really good about our capability to navigate through, deal with those headwinds and prosper long-term.

Clearly, part of that, too, -- part of the effort in that also goes, we want to make sure that we're not just cutting way back only to add right back again as things ramp up. So another element to that is what are we looking at over the horizon? Is this just really a short-term blip or do we think it could be a little bit more extended? So that also will come into play in terms of some of the decision-making we go through in that process.

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

Yes. And then in terms of market share, Omar, we feel really good about the share we were able to deliver in the quarter. And as you know, our market share will fluctuate quarter-to-quarter based on film mix. And if you look on a trailing 12-month basis, as we said previously that we're looking to maintain 100 basis points of share gains relative to prepandemic, and we're still on track in that regard. So we feel really good about where we're at from a share perspective. As you look into Q4 and that film slate that we are already seeing through October share that our market share has ticked back up. So we do think that, that Q4 film slate lends itself a bit better to our circuit than what we saw in the third quarter.

Operator

The next question is coming from Stephen Laszczyk of Goldman Sachs.

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

Maybe just a follow-up on the earlier question on consumers continuing to trade up and what feels like some price elasticity amongst the consumer base. Could you perhaps update us on your thoughts on the opportunity to take increased ticket prices? I appreciate it's a little bit of a balance, but it seems like there might be some incremental opportunity there just as the success what we're seeing elsewhere in the business could potentially translate. And then on Cineworld and Regal, I'm curious if you talk about any change in the competitive environment you've seen since they've emerged from bankruptcy and perhaps how that's factored into any expectations for market share into next year?

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

Thanks, Stephen. I'll take the ticket price question. So as we think broadly looking forward, we are going to continue to leverage data and analytics to find the right ticket price that maximizes overall attendance and box office. But we do see further opportunity on the strategic pricing front. Now the extent of which that opportunity will be, that will be based on our analytics and how consumer elasticity has evolved over time. But we do feel good about the opportunity there. The one thing to keep in mind is that film mix will also always play a role in our reported average ticket prices going forward. So the extent of child tickets, premium formats, specialty content such as the multicultural films and concerts that have higher ticket prices associated with them. We'll have to keep that in mind as well.

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

And just real quick on [Cineworld], I mean I don't think there's too much to say there. Obviously, it's still pretty early since their emergence from bankruptcy. I imagine they're still getting their arms around everything. And tough to kind of predict how that will affect share next year. I mean, I think our focus is just continue to look at how do we continue to drive our business and drive growth of our circuit. Overall, really, that will lend itself to our overall performance on a go-forward basis. Obviously, there's varied dynamics that can affect overall share results, but it boils down to our attendance growth and our overall efficiencies in terms of our results and potential.

Operator

Thank you. At this time, I'd like to turn the floor back over to Mr. Gamble for closing comments.

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

All right. Well, thank you all again for joining us this morning. In closing, I'd just like to say that I am incredibly proud of our Cinemark team and the tremendous progress we've made over the past few years, navigating our industry's recovery and advancing our strategic initiatives as we've talked about, the significant impact of which is reflected in our financial results. We are well positioned at Cinemark to handle any near-term headwinds in product flow that have been caused by the Hollywood strikes. And we believe our performance year-to-date provides a window into our strong growth potential as film volume more fully recovers over the coming years. So with that, we look forward to speaking again following our fourth quarter results. Thank you.

Operator

Ladies and gentlemen, thank you for your participation and interest in Cinemark Holdings. You may disconnect your lines at this time or log off the webcast, and enjoy the rest of your day.

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