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# Cinemark Holdings, Inc. (CNK)

Q2 2020 Earnings Call

## CORPORATE PARTICIPANTS

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Cinemark Holdings, Inc.*

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

**Sean Gamble**

*Chief Operating Officer & Chief Financial Officer, Cinemark Holdings,  
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*Analyst, MKM Partners LLC*

**Michael Ng**

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*Analyst, Macquarie Capital (USA), Inc.*

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## MANAGEMENT DISCUSSION SECTION

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

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

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### Chanda Brashears

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

Thank you, Carmen, and good morning, everyone. At this time, I would like to welcome you to Cinemark Holdings, Inc.'s Second Quarter 2020 Earnings Release Conference Call hosted by Mark Zoradi, Chief Executive Officer; and Sean Gamble, Chief Financial Officer and Chief Operating Officer.

In accordance with the Safe Harbor provision and the Private Securities Litigation Reform Act of 1995, certain matters that are discussed by members of management during this call may constitute forward-looking statements. Such statements are subject to risks, uncertainties and other factors that may cause Cinemark's actual performance to be materially different from the performance indicated or implied by such statements. Such risk factors are set forth in the company's SEC filings. The company undertakes no obligation to publicly update or revise any forward-looking statements. Today's call and webcast may include non-GAAP financial measures. A reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures can be found in today's press release, within the company's quarterly filing on Form 10-Q or on the company's website [investors.cinemark.com](http://investors.cinemark.com).

I would now like to turn the call over to Mark Zoradi.

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### Mark Zoradi

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Thank you, Chanda, and good morning, everyone. We appreciate you joining us to discuss our 2020 second quarter results. We hope that you are all safe at this time and healthy. The format of our call this morning will be similar to that of the first quarter. I will kick off with high level comments on our second quarter. Sean will then provide commentary on our liquidity position and financial results before turning it back over to me to discuss strategy and reopening plans followed by our customary Q&A.

This has certainly been a second quarter unlike any our company, industry, nation or world has experienced in recent history. Our priorities over the past several months have been cash management and the heightened safety measures as we focus on liquidity, refortifying our balance sheet and safely operating in the current health environment. With this, we've restructured our teams, established new cleaning and safety protocols and enhanced our technology, just to name a few. Also ensure that when we once again welcome back moviegoers to our theaters, that we'll continue to provide them with extraordinary entertainment and experience that they expect from Cinemark with heightened peace of mind regarding their health and well-being. On our last earnings call, I shared with you a high level look at how we've been preparing to operate in this new health environment.

We have since announced The Cinemark Standard, our greatly enhanced cleanliness, sanitizing and safety measures which are embedded in every aspect of the movie going experience. These include: Following stringent disinfecting and sanitizing protocols which will be overseen by a designated chief clean and safety monitor each theater shift; implementing social distancing measures, including staggered show times, installation of Plexiglas and seat buffering technology that automatically blocks adjacent seats to a party once tickets are purchased to ensure social distancing within the auditorium; requiring facemask for all employees and guests; substantially raising fresh air rates of our building's HVAC systems by adding purge cycles and constantly using supply fans to increase the total volume of fresh outside air flowing into our theater; using vacuums equipped with new HEPA filters that trap at least 99.97% of microscopic particles, including COVID-19; and screening the health and well-being of our employees before every shift.

With these comprehensive health and safety protocols in place, we believe we can safely operate our theaters while prioritizing the health of our employees, guests and communities. We will continue to evolve these protocols based on current recommendations by the CDC and local government mandates as well as key learnings from our test and learn theaters that we started reopening at the end of second quarter. These test and learn theaters have been instrumental in defining the training, communication and implementation and execution of The Cinemark Standard. They offer us a first-hand customer and employee feedback to ensure that our protocols make practical sense for our teams and the experience we offer is one that provides confidence and peace of mind for moviegoers.

This feedback is critical in our more robust phased reopening plans. As such, this past weekend, we expanded our tests from 5 to 15 theaters to deepen the refinement of our new protocols and enhance our ability to translate them across different markets. A heartfelt thank you to the managers and the individual teams of these tests and learn locations for all they're doing to not only put these protocols into action, but for their insight and prompt key learnings which is shaping how we prepare to welcome back moviegoers to Cinemark.

As for the financial results of these 15 tests and learn theaters, we have been very pleased, particularly given that we're only open on weekends with limited operating hours and showing library content or what we refer to as comeback classics, with welcome back pricing, \$5 for adults and \$3 for children and seniors. Attendance at our initial five test and learn theaters has grown by over 20% over the past three weeks alone with essentially the same library content. And this past weekend, there were more than 500 theaters operating across the US, excluding drive-ins. Cinemark had 15 of these theaters open, representing 3% of the total theaters operating and we generated 20% of the total nationwide box office. Impressively, Cinemark represented the top five grossing theaters during the weekend across the country.

Moreover, we're also seeing impressive food and beverage trend in our test and learn theaters. Despite headwinds of welcome back discount pricing and limited offerings with essentially popcorn, soda and candy available, we are consistently generating food and beverage per cap in excess of \$5. Noteworthy, these test and learn theaters are more than covering our incremental variable costs relative to being shut down. These strong results are an outcome of meticulous planning and execution that includes defining and successfully conveying the various aspects of The Cinemark Standard to provide guests peace of mind in returning to our theaters. Maintaining close contact with our addressable customer base of more than 12 million guests, providing exclusive promotion for our Movie Club members, developing highly effective digital and social marketing campaigns, enhancing our website and app with new functionality, securing substantial national and local media coverage, scheduling library film content with strong appeal to moviegoers and creating food and beverage campaigns, to name just a few.

Additionally, we've been able to lean heavily on our highly successful Movie Club subscription program, which continues to provide a direct channel of communication and significant value to our most loyal moviegoers. This value is demonstrated by the fact that we have retained the vast majority of our Movie Club members while our theaters were closed for multiple months. Remarkably, our membership base of approximately 950,000 is in line with the figure we communicated in February prior to the pandemic and our Movie Club members are already contributing to our results, representing approximately 25% of our attendance with our test and learn theaters.

Before I turn it over to Sean, Cinemark's discipline and consistency have been integral to our performance and success over the years and that is especially true in today's environment. We have been thoughtful and thorough in defining our clean and safety protocols, pragmatic and nimble in determining the phased reopening of our theaters; and proactive and conservative financial strategy has provided us the wherewithal to sustain the prolonged closure of our global theaters associated with this pandemic. With that, I remain confident in Cinemark's ability to evolve and emerge stronger in this new post-COVID operating environment, particularly with the caliber of our field and service center teams who have worked relentlessly and persevered in the face of adversity. I am proud of the team's resilience and tenacity and I'm impressed by their ability to constantly adapt in this ever-changing environment.

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

---

## Sean Gamble

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

Thank you, Mark, and good morning, everyone. As we expressed during our first quarter earnings call, and as Mark just reinforced a moment ago, liquidity and cash management have been our top priorities during the past few months that our theaters have been closed. As a result of our consistent capital allocation strategy over the years which has emphasized maintaining a strong balance sheet with low leverage, we entered the COVID-19 crisis in an advantaged position to withstand its impact even if prolonged. We have taken significant measures to preserve cash and bolster liquidity throughout the crisis to-date and cash management along with refortifying our balance sheet to its pre-COVID standing will remain our central focus as we emerge from it.

As described during our liquidity call on April 15th as well as during our first quarter earnings discussion, some of the more significant steps we've taken to sustain and increase liquidity include: Halting all non-essential operating and capital expenditures as well as delaying numerous commitments made prior to the crisis; making significant reductions in our workforce and payroll through layoffs, furloughs, and temporary salary reductions; negotiating payment deferrals and modifications across a wide range of lease related and other contractual obligations; drawing down \$98.8 million of our revolving credit facility and securing \$250 million of new five-year senior secured notes; obtaining a temporary waiver on the net senior secured leverage ratio covenant associated with our credit facility; suspending our dividend and pursuing varied tax-related opportunities provided by the CARES Act.

As a result of these many actions, we limited our second quarter global cash burn to approximately \$50 million per month and ended June with a total cash balance of \$571.8 million. This pace continued during the month of July, and as of July 31st, our global cash balance was approximately \$525 million. Based on our current liquidity position, we continue to see a cash runway that extends well into 2021 should our theaters remain closed. That said, we do not expect such a scenario is likely based on how our industry is progressing toward a large-scale reopening, leading up to the domestic release of Tenet by Warner Bros. on September 3rd. Mark will provide more color on that in a moment.

Mark already touched on various aspects of The Cinemark Standard which we have been developing to meet and exceed new cleaning and safety requirements that are necessary within the current health environment. Additionally, as we've been preparing to reignite our theaters, we have also been actively reevaluating various aspects of our company and reengineering a wide range of business processes to be more streamlined and efficient. This includes accelerating certain productivity and innovation projects while postponing other initiatives that were already underway ahead of the pandemic. Related to these efforts, we undertook certain restructuring actions during the second quarter that included the permanent shutdown of 20 theaters, 13 in the US and 7 internationally, as well as a reduction in our corporate workforce. Going forward, we expect to derive approximately \$10 million of annual benefit to EBITDA and cash flow as a result of these combined actions. Furthermore, we have delayed seven new build projects representing approximately \$60 million in CapEx that were originally slated for this year to 2021 and beyond.

To that end, we now expect that our full year CapEx for 2020 will be slightly below \$100 million compared to the original guidance we've provided in February of approximately \$300 million. Of that figure, \$34 million was spent in the first quarter with another \$12 million in 2Q. Anticipated expenditures for the remainder of the year are largely driven by real estate commitments made prior to the onset of COVID-19 as well as certain regulatory compliance and maintenance requirements. Consistent with our prior comments regarding cash management, in the near term, we expect CapEx will be significantly reduced compared to our average expenditures in recent years as we focus on strengthening our balance sheet post pandemic. We do not expect that this near term reduction in spend will cause much strain on our business as we are fortunate to have pursued a steady history of investing in the ongoing upkeep of our theaters and we recently remodeled over 60% of our domestic circuit during its conversion to recliners.

Turning attention now to the second quarter, I'd like to remind you that our reported financials follow accrual-based accounting, and therefore, do not necessarily correlate directly to cash flow timing. With the exception of our five domestic test and learn theaters that we reopened across the last two weeks of June, our global circuit was closed for the duration of the second quarter due to the ongoing pandemic. As a result of this temporary closure, our second quarter revenue was materially impacted and we reported \$9 million in total global revenues which resulted primarily from the amortization of our deferred NCM screen advertising advances.

Film rental and advertising expenses are entirely variable and shrank to almost zero as a result of our limited admissions revenues. The \$400,000 of global film rental and advertising costs that we reported for the quarter was largely driven by true-ups to our first quarter accruals. Concession supplies are almost entirely variable as well and will generally fluctuate in line with concession revenues. That said, the \$2.4 million we incurred in worldwide concessions expenses during the second quarter was the result of spoilage and waste of perishable goods that occurred as a result of our theater closures.

Global salaries and wages of \$8.9 million were down 91.8% from the second quarter of 2019 and reflect the significant reductions we made in our theater staffing and compensation during the quarter. Facility lease expenses of \$65.2 million were driven by the fixed nature of our rent commitments. However, we're down 27.2% year-over-year predominantly as a result of reduced percentage rents associated with our drop in revenues. Again, these expenses are accrual-based and do not reflect the significant lease payment deferrals we negotiated for the second quarter, which exceeded \$40 million globally.

Utilities and other expenses were \$34.9 million and declined 71.6% from 2Q 2019. While several costs within this expense category fell to almost zero such as credit card fees and commissions paid to third-party ticket sellers, other expenses like property taxes and property and liability insurance remained fixed. Still, other expenses including utilities and repairs and maintenance declined by approximately 50% to 75% as a result of ongoing



activity at reduced levels of consumption and G&A for the quarter declined to \$28.1 million, driven by temporary salary reductions, furloughing a significant volume of our corporate workforce and making sizable cuts in discretionary spending. Collectively, our worldwide adjusted EBITDA for the second quarter was negative \$117.6 million and we posted a net loss of \$170.4 million. This loss included a restructuring charge of \$19.5 million related to the workforce reductions and theater closures I mentioned earlier. While the impact of COVID-19 on our company and on our industry has clearly been substantial, Cinemark remains well-positioned to see our way through the pandemic and return to our industry-leading performance. We have taken significant measures to secure this position and we intend to continue to do so to remain prepared for the road ahead.

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

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## Mark Zoradi

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Thank you, Sean. Consistent with our previous commentary, we are timing the reopening of our theaters with the availability of new film content in the status of COVID-19. While the shifts in film content have been disappointing, we are cognizant of the complexities associated with navigating the ever-changing environment due to the coronavirus and government mandates. That said, we're excited for the release of Tenet and commend both Warner Bros. and Christopher Nolan for their commitment to and support of global theaters with their staggered release pattern. With Tenet now releasing stateside on September 3, we're recalibrating our phased reopening of our domestic theaters and currently expect approximately one-third to open on August 21, another third on August 25, and the remaining third on August 28th. We will continue to expect the reopening of Latin America theaters will follow the United States in a relatively short sequence.

As we have seen in numerous research reports, consumers are consistently emphasizing the need to feel safe and secure in order to resume previous activities, including returning to movie theaters. As such we've taken great strides to educate our consumers on The Cinemark Standard and conducted proprietary research regarding our own moviegoers' willingness to return to theaters. Approximately half of our surveyed consumers report that they would feel safe returning to the theater within one month and the number grows to more than 75% within the first three months. For those guests that visited our test and learn locations, I'm extremely pleased to share that we have received overwhelmingly positive feedback on our clean and safety protocols. In fact, 97% of our guests surveyed expressed a high satisfaction with Cinemark protecting their health and safety. Along those lines, we're also working with our trade organization, NATO, to establish an overall industry campaign that shares a uniform set of standards with a broader scope of moviegoers to continue to increase consumer confidence in returning to the theater.

As I mentioned in my opening remarks, another key priority will be managing our operating cost as we prepare for the road ahead. We outlined several key initiatives in this regard last quarter including optimizing our operating hours, currently open only weekends in our test and learn locations, concentrating food and beverage offerings to our high margin core categories which are also less labor-intensive, revising our theater staff scheduling models to align with new procedures to simplify and streamline theater practices such as issuing and validating the tickets, inventory counts, audit processes, et cetera and restructuring our corporate office personnel, which Sean previously described. These initiatives further secure our ability to excel in this new operating environment.

Even with content release date shifts and production delays, we expect the back half of the year to continue to ramp up with significant titles that include Tenet, Wonder Woman 1984, James Bond: No Time To Die, Pixar's Soul, Black Widow, Dune and West Side Story from Steven Spielberg. While there may be certain elements of a transition that occur over the course of the year, we expect 2021 will be a strong box office year with several key

titles shifting from 2020 including Top Gun: Maverick, Fast & Furious 9, A Quiet Place II, The Eternals, Minions: The Rise of Gru, Raya and The Last Dragon and the Jungle Cruise.

Of course, these films are in addition to those previously announced in 2021 such as The Batman, Jurassic World: Dominion, Sing 2, Mission: Impossible 7 and Cruella. We expect 2022 to return to a more normalized release schedule and box office year with numerous high profile films already announced including the long anticipated sequel to Avatar, the next installment to the mega blockbuster hit Black Panther, Captain Marvel 2, Minecraft which is based on the popular videogame, Mission: Impossible 8, Babylon, a drama set in the golden age of Hollywood, The Matrix 4, Thor: Love and Thunder, The Next Adventure of Indiana Jones franchise, Doctor Strange 2, the fourth installment from John Wick and Spider-Man: Into the Spider-Verse sequel, just to name a few of the highlights.

Clearly, Cinemark is eager to welcome back guests to our theaters. And based on the initial results of our test and learn theaters as well as what we're seeing and hearing from our guests via social listening and survey data, there is a significant pent-up demand for the theatrical out-of-home experience with a gigantic screen, immersive site sound technology and, of course, that irresistible movie theater popcorn.

Before we open up the line for questions, I thought I would briefly address a question that many of you likely have on your mind. Consistent with our past practices, Cinemark does not comment on the actions of our competitors. That said, we believe an exclusive theatrical window is critically important. While we have publicly stated that we are willing to have conversations with our studio partners to evolve windows, we are mindful that an overly aggressive shortened theatrical window could have an adverse impact on the mid to tail end of a film's life. Our industry delivered \$11 billion domestically and \$42 billion globally in 2019 with consistent annual growth of approximately 2% per year since 2015. Furthermore, the global theatrical proceeds often represent 50% or more of a film's overall revenue. As such, we will be very careful and methodical about how we approach any change to the theatrical window. We continue to carefully analyze and research this matter and we will endeavor to ensure any modifications are in the best interest of the overall industry, our company and our shareholders.

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



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Your first question will come from the line of Alan Gould with Loop Capital. Please go ahead with your question.

**Alan Gould**

*Analyst, Loop Capital Markets LLC*

Q

Thank you. I've got three questions, please. First, Mark, on that last topic. I guess a question comes down to what if a major studio says to you take it or leave it, we're going to [indiscernible] (00:27:15) situation after 17 days or whatever it becomes? And second question would be for Sean. What's happening with your landlords? Are they willing to do lease adjustments or abatements in addition to just lease deferrals? And then the third question for either of you. You guys do seem to be the strongest position of any company in the industry. I would assume some landlords are coming to you and saying are you interested in taking over this lease? Are there certain opportunities that are coming to you given your financial strength in this difficult environment?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Thank you, Alan. I'm going to take the third one. I'll let Sean do the middle and then I'll do the first one as well. The third one, we are certainly open to any landlord or lending institution that would come to us with opportunities. As we sit today, we have not seen any significance of those so far, but we certainly would be open to it. Obviously, we would analyze it very, very carefully and consider any capital that that would require. So the answer is yes, we would consider that.

As it relates to your first question where you laid out hypothetical, I'm going respectfully just decline to answer a hypothetical situation. I think that's not really a prudent decision for me to make sitting on an earnings call without having a lot of details associated around it. So I'm going to pass on answering the questions regarding hypothetical situations.

**Sean Gamble**

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

A

Sure. And Alan, thanks for the questions. On your second question regarding abatements and adjustments to leases, clearly the majority of the negotiations have involved deferrals of rent which are deferred for varied lengths of time that span this year and well into next year. We have also received certain abatements to rent, some in the US particularly in international where the laws tend to favor the tenants and we're also in malls, that when the malls are closed, there really isn't much access oftentimes to our theaters. So that has led to both reductions in minimum rent. And then beyond that, of course, percentage rent has gone down. So, there has been some adjustments, some abatement. The majority has been in deferrals, as mentioned.

**Alan Gould**

*Analyst, Loop Capital Markets LLC*

Q

Okay. Thank you so much. Appreciate it.

**Operator:** Your next question comes from the line of Eric Handler with MKM Partners. Please go ahead with your question.

**Eric O. Handler**

*Analyst, MKM Partners LLC*



Good morning, and thank you, for the question. Two questions; first, Mark, when you look at your number of theaters that municipalities have allowed to reopen, if that number stays steady going into the September 3rd release of Tenet, what percentage of your screens would be able to open? And then, secondly, I believe Tenet was dated for Latin America by Warner Bros. either one or two weeks after the US opening. Just wondering how willing are you going to be to reopen theaters in Latin America?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*



Alan, I'll take both questions. I'll do the second one first. Latin America looks to be somewhere in the two to four weeks behind the US relative in their ability to open screens. But we do business in 15 unique and different countries there. So each one of them have their own requirements and specifics relative to when theaters can open, but we're along the same pathway with all the things we're doing domestically from The Cinemark Standard preparing all the health and safety standards, each one of our teams are along that exact same pathway that we're doing in the US. And the expectation right now is that with Tenet openings on September 3 in the US, the Tenet will likely open towards the end of September in the majority of our countries in Latin America.

Regarding how many theaters of a percentage of our overall that we'll be hoping, that changes, as you can imagine, weekly, and in some cases, daily. So it's probably as we sit today somewhere right around the 80% range. As we sit right now the big hole of course is California and Warner Bros. is aware of that. And they've expressed that they're willing to do this phased rollout, and we'll open up California as soon as available. California is a very important state for Cinemark as is Texas. So that's probably the biggest single hole we have relative to the gap as we sit today. However, September 3 is still full month away. And if we can't open on September 3 in California, perhaps that will be mid-September and we're prepared to do so at that time.

**Sean Gamble**

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



And Eric, Mark was right. I'll just say it's actually a touch even higher. It's about 85% as we sit now and it continues to grow. So appreciate the question.

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*



[indiscernible] (00:32:55).

**Operator:** Your next question is from the line of Mike with Goldman Sachs. Please go ahead.

**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*



Hey, good morning. Thank you very much for the question. I have two. The first is just about the test theaters. It was really encouraging to see the 20% attendance growth over the past three weeks and the strong F&B per patron spend. Could you talk about your plans to reintroduce some premium F&B items given the propensity for consumers to spend? And could you expand a little bit on the attendance growth that you've seen in the past three weeks? Is that simply frequent Movie Club members becoming more comfortable or are you seeing a broadening base of the population willing to come to the theaters? Thanks.

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Mike, relative to the F&B, what we've done is we brought welcome back pricing on F&B the same way we did it on the box office as well. And it's proved to be highly successful with per caps, as I noted, over \$5. So, we will hold that pricing at least through a week or two after we open up Tenet just to get people back in and comfortable. And then over the next 30 days to 45 days, we will gradually based on demand, start to add in the other parts of F&B. Where we have a bar and a liquor license in theaters, of course, we'll offer alcoholic beverages and then we'll continue down the line like I said in the next 30 days to start to offer the prepared food that takes more labor and is a little bit more preparation in preparing. So I would say if you give us somewhere in the 30 days to 45 days, we'll continue to be able to grow that per cap north of \$5 as we go forward.

And your second question was regarding attendance growth...

**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

Q

Of the – yeah, yeah. The attendance growth and whether it was...

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

These 15 theaters – let me explain. We've had the 5 theaters opened for several weeks but we opened 10 additional ones just last Friday. We were extremely pleased with the way the people were willing to come back and we had a big marketing effort through all the channels that I had described. And people were anxious to come back and they came back for library content. There was a strong contingent of Movie Club but also a strong contingent of non-Movie Club members. And what we saw is effectively with just refreshed library product that people were willing to come back into an environment where they felt comfortable. So everything that we did relative to The Cinemark Standard and the highly increased health and safety protocols, we knew from research going in how important that was. And it appears as if that is working and it's getting people more and more comfortable because once they come, then the word spreads, goes to their families, goes to their friends. So that's one of the reasons why we decided on this phased reopening plan so that we could start to build the word of mouth and also go along the line of training our people and taking learnings from the first theaters and applying those to all the new ones as we move forward.

**Sean Gamble**

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

A

And, Mike, I would just add. In addition to Mark's comment on clearly, as people come and experience going to the theaters in this current environment, that positive word of mouth is a big deal. I think we also believe a big chunk of it is just – it's a demonstration of people's eagerness to get out and be able to participate in a safe environment in these types of activities that they've been starved of for quite a while. And we've also continued to refine our marketing tactics to basically encourage people to come out and how we're communicating the message. So, all of these things combined have been a big factor of that. So I just wanted to kind of add that piece and also welcome you back to the call, Mike.

**Michael Ng**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thank you, Sean. Thank you, Mark.

[indiscernible] (00:37:15)

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

...I'm glad you're back.

A

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

Yes.

A

**Michael Ng***Analyst, Goldman Sachs & Co. LLC*

Yeah. Much appreciated. Happy to be back.

Q

**Operator:** Next question is from line of Chad Beynon with Macquarie. Please go ahead.

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

Good morning. It's Jordan Bender on for Chad. You guys went over your shutdowns that you are implementing, but do you think that there could be competitive closures and how this might affect your distribution zones or your overall business outlook? And then as an update here, you went over the new Cinemark Standards. I was wondering the extra annual costs behind this. Thanks.

Q

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

Sean, why don't you take the second one? And, Stuart (sic) [Jordan] (00:38:00), I'm sorry. I didn't hear. You broke up at the end of your first question. Could you state that again, please?

A

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

Yeah. You went over some of your shutdowns, some of your theaters in the US. I was wondering do you believe that you could see competitive closures and how that might affect your distribution zones or your overall business outlook.

Q

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

We don't have complete insight into competitive closures at this moment. But clearly, if we're in a competitive market and a competitive zone and sharing moviegoers with a local or a national competitor, if that particular competitor closes down, it's going to be positive for us. At this stage, there's just been a few, a very few number of [Technical Difficulty] (00:38:49) closures. So, as we sit today, we really don't have a good look at that, but without question, again, if we're in the zone where we're sharing, trying to get audiences in the zone with two or three other competitors and one closes, it's going to be helpful to us.

A

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

And Jordan, I apologize. I didn't catch that second part of your question. Could you repeat that?

A

**Jordan Bender**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Yeah. What's the annual cost behind the new sanitary measure that you guys are taking?

**Sean Gamble**

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

A

Oh, got you. We expect there'll be a startup cost for implementing this as we get going. That will range between \$10 million to \$12 million of a one-time cost. That's kind of getting all the fixtures and supplies and everything in place. Beyond that, we are anticipating somewhere between \$4 million to \$5 million of monthly operating costs for just the execution of that ongoing Cinemark Standard. A big chunk of that will be labor related and then part of that will just be the ongoing supplies. So you'll see that show up in our salaries and wages and utilities and other line items. That said, as kind of we've indicated their prepared remarks, we're working on a whole range of ongoing productivity projects to be able to offset the impact of that cost increase and more.

**Jordan Bender**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Okay. Thanks, guys. I'm going to pass it off.

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Thank you.

**Sean Gamble**

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

A

Great. Thanks. Appreciate it.

**Operator:** Your next question comes from the line of Alexia Quadrani with JPMorgan. Please go ahead.

**David Karnovsky**

*Analyst, JPMorgan Securities LLC*

Q

Hi. Thank you. This is David Karnovsky on for Alexia. Following the announcements from AMC and Universal, have you seen any shift from your studio partners regarding windowing? Is there renewed or accelerated interest for similar arrangements or any changes at all to windows? And then maybe just as a follow up, can you remind us of this footprint overlap with AMC? Thank you.

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Relative to, has there been any renewed interest; there's been ongoing interest from various studios about talking about some form of release schedule and windowing. So, I wouldn't say that there's been any aggressive new. There's no new aggressive discussions that we're in the middle of. So I would characterize it as ongoing and nothing tremendously different in the last weeks since that announcement came out, so really nothing else to say than that. It's ongoing and it has been ongoing for as long as I've been in this business. I mean, it's been ongoing for 30 years and it's going to continue to. So as I stated in the prepared remarks, we are open and active to discussions, but relative to negotiations. I think I would stop there.

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

A

And in terms of our overlap, it really varies based on the market and just what you consider overlap based on distance. In general, it's pretty small. I would say, estimate less than 20%. You just consider our market shares; that can kind of show that it's only a small portion and we generally tend to be more suburban while their circuit tends to be a bit more metro. So it's a limited overlap.

**David Karnovsky***Analyst, JPMorgan Securities LLC*

Q

Thank you.

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

A

Thanks. Appreciate it.

**Operator:** Question is from the line of with Jim Goss with Barrington Research. Please go ahead.

**James Charles Goss***Analyst, Barrington Research Associates, Inc.*

Q

All right. Thank you. I was wondering if you could talk a little more about your test and learn theaters and this whole process. Say, how many or what share of tenants was there in the theaters? How closely spaced? Were they traditional or recliner seating situations? And how challenging was it for your staff to monitor and maintain the protocols for masks during the process?

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

A

Jim, let's give you a little background. We initially did the test and learn theaters in the Dallas-Fort Worth area because we wanted to have a close view of them. And there were four in the Dallas-Fort Worth area. Primarily, they were in the Northern Dallas area with the exception of Webb Chapel, which is closer to the downtown area. So, we did that purposely so we could be right nearby and get that. And then we expanded to five additional states so that we could get more of a nationwide feel. So in addition to the Texas theaters, we opened up in North Canton, Ohio; we opened up in Salt Lake City, Utah; in Universal CityWalk in Orlando; we opened in Colorado Springs; and also in Manchester, Connecticut. And again, the reason for that was because since they've been focused in Texas before, we wanted to get a feel outside of just our home base and it's proved to be very, very insightful, because some of the things we learned in Texas we were able to apply to these other five states as well. The results this past weekend when they opened up were honestly very, very impressive. And we think that part of that was just the fact that we're able to apply that learning. And as I mentioned to you, we had the top-five theaters in the country and there were 500 hard tops opened last weekend and we had the top five, so it was very encouraging and it told us that we are absolutely ready for first-run product when it comes out on September 3rd, and actually prior to that with Unhinged.

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

A

And, Jim, I would just add. Our customers, they've been incredibly supportive of the processes and protocols in terms of assisting with our management team. And back to Mike's question. I think that's evidenced in just the growth of people coming. There's a different perception once they come and see. There's a high level of comfort



and satisfaction and desire to return and we're just seeing that in the results. So, so far, everybody has been working together really well on both sides, from our employee side and from a guest side in making sure that everybody stays safe.

**James Charles Goss**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. Unrelated; is there any sense of the library content or the genre that resonated? And any chance that you might allocate a screen or two to such content on the other side on somewhat of an ongoing basis? Have you discovered an opportunity?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Jim, [Technical Difficulty] (00:45:52) answer that. Without question we will go into the fall with some of the higher profile library content because it's placed so well. So Indiana Jones and Jurassic Park were our two top performers. So we're going to continue to do that. But then what's going to happen is as more and more first-run product comes, that will be harder and harder to allocate, but we have proved that there is a desire for it. So I think we're going to kind of wean ourself off of it as new product enters into the marketplace.

**James Charles Goss**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. And lastly, in terms of optimizing your operating hours, are you thinking that there may be shortened timeframes during earlier parts of the week? And are there any favorable cost implications to having somewhat of a different schedule than you've tended to do?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Well, Jim, as first-run content comes and more and more movies come, we are obviously going to expand to seven days a week. And then like we've always done, when a movie is appropriate for late night shows, we'll do late night shows, or when a big, high profile family content movie comes, we'll open up earlier on Saturday and Sunday mornings to increase demand. So it's going to be completely demand based and content based, but maybe your overall question is are you going to seven days a week with first-run product? The answer to that is yes. And it will be careful timing relative to when we're open. And to answer your question; yes, absolutely. If we are open less number of hours, we're able to manage our labor more effectively. So, the decision mode for us is demand based, content based. And as that demand presents itself, we will expand our operating hours.

**James Charles Goss**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. Actually, if I throw in on one more; in the early call, you talked about how you thought the phase-in might take place, and it was so early that it was really difficult to really frame that around any reality that you thought 2021 wouldn't quite get back to 2019 but 2022 might have a shot at that sort of thing. Is there any broader framework to those original thoughts that you might want to talk about?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Jim, I think it's probably a little early to be making box office predictions for calendar year 2021 and 2022 at this stage, but I think it is clearly fair to say that with the amount of movies that got delayed out of 2020 during all this



time that we were closed, the majority of those movies got pushed into 2021. So that clearly is going to make 2021 a good year. Now, on the other hand, there have been some production delays for movies that were scheduled for 2021 that have gotten pushed to 2022. So that's why the way that Sean and I frame it up is we think 2021 is more of a transition year with really strong product coming from both 2020 and 2021 and 2022 is going to be the year where it more normalizes, because at that point, the production schedule will be more in a normalized way. So we're optimistic about 2021. I think it's a little early to put a box office prediction on that and we think 2022 could even be better because there're a lot of pent-up movies and demands that are going to fall into both those years.

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**James Charles Goss**

*Analyst, Barrington Research Associates, Inc.*

All right. Thanks so much.

Q

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**Sean Gamble**

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

Thanks, Jim.

A

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**Operator:** Next question is from Eric Wold with B. Reilly. Please go ahead.

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**Eric Wold**

*Analyst, B. Riley FBR, Inc.*

Thank you. Good morning, guys. A few follow-up questions to some of the ones that have been asked already. I guess, as you look at the theater openings plan for late-August; a third, a third, the third, as you get to Labor Day weekend, do you know based on the various state restrictions what kind of the blended circuit-wide domestic capacity maximum will be when those [ph] thirds and third (00:50:28) open?

Q

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**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Eric, as we sit now, there are a couple of places where there's a 25% capacity, but they're the minority. Most states at this point are 50%. It's unclear how California will open up; whether they will start with 25% and then in short order get to 50%, but the majority of states are at the 50% capacity level. And we can operate very effectively and profitably at that area. And with the seating software that we've put in place, we think that we can get capacity levels, as I said, that will be ability for us to operate profitably.

A

Sean, you might want to add something to that as well.

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**Sean Gamble**

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

No. I mean, I think you hit the key point. The majority of our theaters are in jurisdictions already that have stated capacity limits of 50% or greater. So that gives us a lot of flexibility and we can operate very comfortably within that limitation.

A

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**Eric Wold**

*Analyst, B. Riley FBR, Inc.*

And how much visibility do you have as you get to the end of the year and enter 2021 in terms of how those limitations may change?

Q

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

A

I really think that's going to be – again, that's hard to predict, but without question every local government and state government wants to reduce the restrictions that have been put on the public, whether it be in other forms of out-of-home entertainment or whether it be restaurants. And of course, they're going to be cognizant and careful relative to not doing it too soon, but I think with all that we're doing and also I think all that the rest of the industry is doing relative to health and safety standards, we're going to show that movie theaters are a comfortable and safe environment to bring friends and family back to.

I'm going to add just one little thing that we've seen in the 15 test and learn theaters. We have seen a tremendous amount of families come back. And so, if we can do our job of convincing people that we have a safe and healthy environment, moms and dads are coming back with kids to enjoy, spend afternoon out. So we're seeing that across the board. We're seeing it in multiple states around the union which we're pleased about. So, we're pretty optimistic that as time moves, these restrictions will correspondingly be removed and we'll get an opportunity to get back to a more normalized theatergoing environment somewhere late this year early next.

**Eric Wold***Analyst, B. Riley FBR, Inc.*

Q

Perfect. And then, Sean, you talked about the deferrals and various kind of agreements you worked out with the landlords. What should we assume when theaters reopen? Do lease payments go in full upon reopening or there the deals worked out where there is some kind of ramp up in payments based on the assumed ramp up in attendance?

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

A

It's quite varied across. We have many landlords that we have. We don't really have a concentration in any particular one. So it's pretty varied. But generally speaking, we don't have like a big cliff payment that's due right when we open. The deals were negotiated with a payment structure where we pay those rents back over periods of time and the periods of time start at different points. Some begin in third quarter, many don't start until 2021. So it's pretty phased over the course of the next year and a half.

**Eric Wold***Analyst, B. Riley FBR, Inc.*

Q

Sorry, Sean. I misspoke. I meant your normal rent payment, do those start? Not the ones that have been deferred, the normal rent payments; do those restart in full when the theaters reopen?

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

A

Got you. The current – Mark, feel free to elaborate here, but I think that too is varied. The majority of those, I believe, are set to resume based on the timing that was originally negotiated. So...

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

A

Sean, you're hitting it on the head.

**Sean Gamble**

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

Yeah.

A

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Basically, if we negotiated a deal to defer rent payments, then whether we open the theater or not, we can still get the benefit of that deferral. And then when theaters open up, if we had negotiated as a four-month deferral of rent and we open the theaters, we're still going to get the four-month deferral of rent. And I think Sean has mentioned to you before that from an accrual standpoint, we are accruing. Regardless of cash, we're accruing all of these on as – on a monthly basis. So we'll get the benefit of the delays even when we start up and we'll just live by the contract that we presented to that particular landlord.

A

**Eric Wold**

*Analyst, B. Riley FBR, Inc.*

Perfect. And just last one, if I might, just sneak one in for Mark. I know it's been asked in multiple ways about the studio exhibitor that is out there. You know, I don't want to get hypothetical. You did mention you'd caution against "overly aggressive" shortened windows? Is there a number of days a week that you consider crossing that line as being overly aggressive?

Q

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

We're certainly not ready to talk about that at this point. And that's a discussion that we will have with individual studio partners as opposed to a public earnings call. And once we come to those conclusions, then we'll report back to you.

A

**Eric Wold**

*Analyst, B. Riley FBR, Inc.*

I figured, but I thought I'd give it a try. Thanks, guys.

Q

**Sean Gamble**

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

Thanks, Eric.

A

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Thanks, Eric.

A

**Operator:** Our next question is from the line of Robert Fishman with MoffettNathanson. Please go ahead.

**Robert Fishman**

*Analyst, MoffettNathanson LLC*

Hi. Good morning. I have one from Mark and one for Sean. Mark, can you help us think about the right number of screens for Cinemark and whether we should expect more closings in the months ahead or whether you still expect to grow screens over the longer term, both in the US and Latin America?

Q

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Robert, we think that the 20 theaters that we've chosen to close 13 in the US and 17 (sic) [7] (00:57:01) internationally, it's really part of the process. Every year we do with, what I call, kind of trimming the rosebush. And in a typical year we might close 6, 8, 10 theaters and then between domestic and international we might – theaters, we might add 6 or 10 theaters as well. So this year we closed a few more because we closed 6 of 13 domestically were discount houses and then missed several of the others that were closing, were at the end of their lease and the end of their lease gives us an opportunity to evaluate if that's still a property that we want to have and we've chosen in several cases not to do it. So, I don't expect dramatic changes in our footprint either domestically or internationally. I do expect that we will continue to do new builds; both in the US and internationally but probably at a little bit slower pace for the exact reasons that Sean laid out. We're at a point where we want to focus on rebuilding our balance sheet, rebuilding our cash position. And so we're going to be a little bit more careful on CapEx until we've done some of that because we've all gone – the industry has gone through a tremendously difficult time. So there's opportunities we're going to take but we're going to be a little bit more conservative with the cash as we build up the balance sheet.

**Robert Fishman**

*Analyst, MoffettNathanson LLC*

Q

Okay. That makes sense. And for Sean, clearly, some of your peers in a very different liquidity position compared to Cinemark today, and to the credit of you and the whole management team. Can you update us on your ongoing relationship and conversations with your lenders? That would be helpful to hear how those conversations have been going.

**Sean Gamble**

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

A

Sure. They've been very positive. I mean we're fortunate over the years to have established a strong relationship with our lenders and lots of credibility with those lenders based on our consistency. So I would say just as a result of the actions that we have taken; the liquidity we've secured and preserved and just the communication that we've been proactive about, that the relationship remains positive and strong. So we're pleased with where things are in that regard and we're going to aim to continue to maintain that.

**Robert Fishman**

*Analyst, MoffettNathanson LLC*

Q

Maybe if I could add one more if there's time?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Sure.

**Robert Fishman**

*Analyst, MoffettNathanson LLC*

Q

Just appreciate the color on the CapEx spend this year. Again, I understand that this might be difficult, but anything you can help us think about just CapEx spending on a new normalized basis. When we think about it going forward, is there like a minimum level of maintenance CapEx that we should think about and like when to even think about a return to growth CapEx?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

A big part of that, Robert, is going to really depend on just how quickly things ramp back up and how quickly we return to positive cash flow. I would say it will, without being able to put a specific number to it, because it will flex just based on those factors I just mentioned. But directionally we expect that it will continue to be more limited with the intent of just re-strengthening our balance sheet and rebuilding our cash balances and then ultimately de-levering the company. So, we will proactively go after opportunities and we will address maintenance appropriately, but it will certainly be at a reduced level. And I would say fairly significantly reduced level to certainly where we've been in excess of \$300 million over the past few years.

**Robert Fishman**

*Analyst, MoffettNathanson LLC*

Q

Okay. Thank you very much.

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Thanks, Robert.

**Sean Gamble**

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

A

Thanks, Robert.

**Operator:** Question is from the [Technical Difficulty] (01:00:56-00:01:02)

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Just lost the volume a little bit. Did anybody else lose that? I couldn't hear the operator.

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

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Thank you.

**Meghan Durkin**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good morning, guys. So you talked about the tremendous amount of families coming back. Can you just discuss whether the mix of attendees is consistent with historical attendance, i.e., are you seeing a similar mix of seniors and children coming? And of the 15 theaters that are only open on the weekends right now, I believe you were actually open during the week initially on the five theaters that you opened in June. So, on those five while you were open during the week; did you see any shift of attendance into the weekday that surprised you or anything like that? And then just one last one on Universal. Can you remind us whether you have a deal in place with Universal? If so, when that expires? And is there a guarantee on titles to be delivered in the deal?

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Meghan, I'll do the last one first. We have an ongoing deal with Universal relative to licensing of films. There's no contractual obligations for certain number of films or certain elements of film, but our deal with them is more of what our film-rental split would be. It would be similar to what we have with every other major studio where it's a sliding scale where we pay our film rental based on the box office success. So, that deal is in place and it's similar in nature to what we have with all the other major studios.

Relative to our test and learn theaters, yes when we first opened in Dallas, I think we're open for one week this week and then we decided that we could actually accomplish what we needed to with the Friday Saturday Sunday and be able to operate these theaters on a positive cash flow basis covering our variable costs. So we decided that we could accomplish what we needed; that we could not add to our cash burn, and in fact have a positive cash situation relative to variable costs. So that's why we went to weekend.

And in terms of people coming back, it really depended on the movies. Because we were playing 15 movies and in some places as many as 18 movies, we had some movies that were clearly very young male oriented and so for those movies, whether it be something like The Matrix, clearly, that was dominated by young males. And then we had some great romantic comedies, and for that, we got an overabundance of females and couples. And then we had a lot of family movies as well, and of course for that we got families. So it really was based on the content that we programmed and we did that with intention to try and bring back those people. And then we also were very forthright and out coming in all of our publicly and marketing about our safety and health standards that proved to be effective. And then it was incumbent upon us to deliver on that promise. And I think we effectively did it as evidenced by our research where we had such a high satisfaction rate with the health and safety standards that we had done. So we got across the board primarily because we programmed to bring people in to get them comfortable. So I hope that answers those questions.

**Meghan Durkin**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Yes. Thank you.

**Sean Gamble**

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

A

Thanks, Megan.

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Thank you, Megan.

**Operator:** And I will now turn the call back over to the presenters for closing remarks.

**Mark Zoradi**

*Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Okay. Thank you very much for getting up early this more morning premarket to join us on this call. We look forward to reopening our theaters in a big scale in late-August and early-September and we look forward to speaking to you again following the third quarter. Be safe, be healthy and thank you all very much.

**Operator:** Thank you. Thank you again for joining today's conference call. This concludes the conference. You may now disconnect.

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