25-Feb-2022

Cinemark Holdings, Inc. (CNK)

Q4 2021 Earnings Call

CORPORATE PARTICIPANTS

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

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

OTHER PARTICIPANTS

Steven Cahall
Analyst, Wells Fargo Securities LLC

Eric Handler
Analyst, MKM Partners LLC

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

Robert Fishman
Analyst, MoffettNathanson LLC

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Mike Hickey
Analyst, The Benchmark Co. LLC

James Charles Goss
Analyst, Barrington Research Associates, Inc.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC

Daniel Duran
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Cinemark's Fourth Quarter and Full-Year 2021 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

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

Chanda Brashears

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

Good morning, everyone. At this time, I would like to welcome you to Cinemark Holdings, Inc.'s fourth quarter and full-year 2021 earnings release conference call hosted by Sean Gamble, President and Chief Executive Officer; and Melissa Thomas, Chief Financial Officer.

In accordance with the Safe Harbor provision of 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-K or on the company's website investors.cinemark.com.

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

Sean Gamble

President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

Thank you, Chanda, and good morning, everyone. We appreciate you joining us for our fourth quarter and full-year 2021 results. It has been a pleasure getting to know many of you during my time as CFO and COO, and I look forward to our ongoing relationships in my new role.

As we announced last quarter. Melissa Thomas joined Cinemark as our new CFO in November, and I would like to formally welcome her to her first Cinemark earnings call. I'd also like to publicly thank and acknowledge Mark Zoradi for his thoughtful collaboration in coordinating and supporting such an incredibly smooth leadership transition over the past several months.

The theatrical exhibition industry made huge strides in its recovery throughout 2021, culminating in an exceptional fourth quarter during which North American box office crossed the $2 billion mark for the first time since the onset of the pandemic. New film releases that led the charge included Venom: Let There Be Carnage, Eternals, Ghostbusters: Afterlife, No Time to Die and of course, the record setting Spider-Man: No Way Home that now represents the industry's third highest grossing film in history.

It's worth noting that all five of these films had an exclusive theatrical window. Cinemark contributed to these box office results in a big way. On the release of Venom, we set a record for the largest October opening weekend ever for a single film, pre and post-pandemic. And while number three for the industry, Spider-Man has now become our number one highest grossing film of all-time, driven by our sustained outperformance on this title. The fourth quarter's box office success underscores enduring consumer appetite and demand to experience great films in an immersive, shared cinematic environment. Over 48 million guests visited our global Cinemark theaters in the fourth quarter, and that consumer enthusiasm translated into strong results. On a worldwide basis, our fourth quarter attendance grew 57% compared to 3Q 2021. Once again, Cinemark surpassed North American industry box office recovery this past quarter over indexing by more than 700 basis points when comparing 4Q 2021 box office results against 4Q 2019. Our Latin American admissions also outperformed their corresponding industry results by a similar degree.

These significant global attendance and box office results flowed through to our bottom line. Adjusted EBITDA in the fourth quarter was positive $140 million, and that sizable 4Q result drove positive adjusted EBITDA of $80 million for the full year. Moreover, exclusive of one-time benefits, we generated positive cash flow during the fourth quarter in both the US and Latin America, another meaningful milestone in our company's recovery from COVID-19.

I'd like to commend our incredible global team for their outstanding planning, execution and dedication to deliver these tremendous results. Our Cinemark team has faced monumental challenges during the pandemic and what they have accomplished and what they continue to accomplish through their endless perseverance, resourcefulness, strategic thinking and optimism is nothing short of astounding.

While strong film content was certainly a key component of our fourth quarter success, exceptional operating performance and the ongoing execution of our strategic initiatives were also significant factors. As we look ahead, our overarching focus remains unchanged and that is to maximize attendance in box office while actively pursuing ancillary revenue opportunities. Over the course of 2021, the world made tremendous progress combating the ongoing effects of the pandemic, although for the time being the impact of its lingering presence, particularly on our industry and business, still remains. As a result, as we move forward in 2022 our priorities will continue to focus on first effectively navigating the ongoing pandemic; second, fully reigniting theatrical exhibition; and third, positioning our company for ongoing success in the evolving media landscape.

With regard to our first priority of effectively navigating the pandemic, I'm exceptionally proud of the accomplishments our Cinemark team has achieved over the past two years. These accomplishments include swift and appropriate actions that were taken to preserve cash, minimize expenses and improve our liquidity profile, as well as refine our operating practices, such as streamlining processes, driving new efficiencies and strengthening operating hours management. We defined, implemented and have consistently executed a wide range of new health and safety protocols to protect our guests, communities and employees. Additionally, we effectively reopened our entire global circuit and remained open while dealing with frequent fluctuations in content supply and government restrictions. Our team also continues to skillfully manage through the challenging labor and supply chain dynamics, just to name a few.

We have provided examples of the meaningful impact these actions have had throughout the pandemic during prior calls, and their benefits clearly continued in the fourth quarter, as demonstrated by our sustained market share advances compared to 2019, guest satisfaction scores averaging 90% and as I mentioned a moment ago, positive adjusted EBITDA and cash flow. That said, our work navigating the pandemic is not done yet.

At the end of 2021 and throughout most of the first quarter to-date our industry, alongside many others, was affected by another surge in COVID headwind brought upon by the Omicron variant. Fortunately, however, we are encouraged by the recent decline in new cases around the world, as well as commentary by a growing number of health experts who believe the virus may be transitioning from a pandemic to an endemic.

Signs that disruption from the virus on our day-to-day lives may finally be subsiding are evident in easing government restrictions, which are now fairly minimal across the US with regard to moviegoing, as well as consumer sentiment, which has improved to 75% of moviegoers, indicating they are comfortable returning to theaters today. And over 80% within the next month. Theatrical exhibitions ongoing recovery remains highly contingent on the state of the virus, government restrictions and consumer sentiment, and all of these factors are now moving in a favorable direction.

At the same time, we have been navigating through the challenges of the pandemic, we have also been actively working to reignite theatrical moviegoing. Our second key priority. First and foremost, this effort has included actively collaborating with our studio partners to bring new, compelling first-run film content back into our theaters on a steadier release cadence.

While health concerns and availability of content have clearly been two of the largest challenges during the pandemic, so too has been the inconsistent film calendar with large gaps between commercial releases. While Omicron caused another blip in the return to a more normalized release pattern, we are highly optimistic about the film slate for the rest of the year. New releases this past weekend, Uncharted and Dog both exceeded projections, and we expect industry box office will continue to ramp and accelerate with the release of The Batman next week followed by a long list of additional highly anticipated titles throughout the year, including Doctor Strange in the Multiverse of Madness. Top Gun: Maverick, Jurassic World Dominion, Lightyear, Minions: The Rise of Gru, Thor: Love and Thunder, Black Adam, Aquaman and the Lost Kingdom, Black Panther: Wakanda Forever, and the long awaited next installment of Avatar.

And these are just a handful of examples of the franchise films that are lined up for 2022. Not to mention the broad range of additional family, drama, comedy and other genre films that are interspersed throughout the year, providing varied offerings for all audiences. Furthermore, I'm pleased to report that the majority of films being released theatrically this year will include an exclusive window with most larger and commercial titles maintaining a 45 day window. Demonstrated yet again in the fourth quarter of 2021 and this past weekend, a theatrical window continues to produce bigger events, larger cultural moments and increased box office results with reduced piracy.

It also continues to provide a platform that establishes stronger emotional connections with content unlike any other distribution channel, and those connections lead to more sizable brands, franchises and promotional value for all other windows. Great films are an essential part of reigniting theatrical moviegoing. And so too is compelling marketing that increases consumer awareness, sentiment and ticket sales. To that end, we will continue to lean heavily into a myriad of digital, social, onscreen and loyalty strategies throughout 2022 to target a wider range of consumers, increase moviegoing frequency and grow our Cinemark audiences.

Over the past few years, we have significantly enhanced the scale of our digital marketing capabilities and reach. We are now directly connected to more than 20 million addressable guests across our global circuit. And by way of these connections and the comprehensive omni-channel network we have built, we are consistently delivering billions of impressions each month via social media engagement, personalized emails and earned media stories showcasing the benefits of the Cinemark moviegoing experience.

These marketing actions have not only been helping to revive moviegoing, but have also increased loyalty, which we've witnessed in the ongoing strength of our market share results and Movie Club program. After proactively pausing Movie Club memberships at the onset of the pandemic, we fully reactivated the program in the second-half of 2021, and we are thrilled to report that we have already returned to new monthly membership gains.

During the fourth quarter, we added 40,000 new Movie Club members, bringing our membership base to within 1% of its pre-pandemic level at approximately 940,000 members. We continue to receive tremendous feedback about our unique transaction based subscription program that allows members to roll over unused monthly credits, share credits with friends and family, and receive a meaningful 20% discount on concessions.

Customer feedback has also been resoundingly positive with regard to Movie Club Platinum, a new earned premium tier that we launched in September. By the end of the year, more than 100,000 members achieved this heightened status, which they will enjoy throughout the entirety of 2022.

And that brings us to our third key priority, which is positioning our company for ongoing success in the evolving media landscape. We are fortunate to already have a head start with regard to positioning ourselves for the future, thanks in part to the financial discipline we've consistently exercised for years and the sustained investments we have made in premium amenities, maintaining our circuit, marketing capabilities and operating excellence.

Examples include our Luxury Lounger recliner seats in over 65% of our US footprint, nearly 300 premium large format XD and IMAX auditoriums worldwide, immersive D-BOX motion seating across 250 of our theaters, the best sight and sound technology in the industry, and enhanced food and beverage offerings throughout 75% of our global circuit.

Furthermore, we continue to simplify and enhance our transactional processes for tickets and concessions, including our recently deployed Snacks in a Tap online ordering platform that allows guests to purchase food and beverage ahead of time and simply pick up their order upon arrival to our theaters or have it delivered directly to their seats. These amenities, innovations and capabilities provide us considerable tailwind as we sort through evolving opportunities and implications driven by the pandemic and near-term shifts in the distribution landscape.

As we concentrate on positioning Cinemark for ongoing success within this dynamic environment, we are focused on five primary strategies. First is providing our guests an extraordinary experience. Doing so is fundamental to our business, and Cinemark has a solid reputation and long history of delivering this objective. That said, we are investing time, energy and resources to take the experience we provide our guests to the next level. Our goal is to be top of mind when consumers think about world-class guest service, quality, value, ease and a premium entertainment destination.

Second is building audiences with an increased focus on attracting a wider range of consumers by expanding the variety of content we offer, as well as utilizing our industry leading marketing capabilities to drive consumer demand and conversion, as described a moment ago.

Third is growing sources of revenue by creating incremental sales opportunities, such as continuing to expand food and beverage offerings, honing recently implemented e-commerce and theater design initiatives, optimizing pricing, testing new experiential entertainment concepts and enhancing Cinemark partnerships and brand tie-ins.

Fourth is streamlining processes, which essentially means executing the aforementioned strategies as efficiently as possible and includes initiatives such as workforce management, continuous improvement and utilizing advanced tools, practices and platforms to free-up time spent on administrative tasks and increase focus on our guests, teams and productivity.

And fifth is optimizing our footprint. This strategy involves actively assessing our circuit, as well as domestic and international markets to determine where it is most advantageous to grow, recalibrate and strengthen our circuit to deliver sustained long-term returns. We believe these areas of focus are best-suited to steer us through expected ongoing fluctuations within the media landscape in the near-term and position us for continued success over the long-haul.

In summary, while our recovery from the pandemic is still ongoing, we are highly encouraged by recent improvements in the state of the virus and associated consumer sentiment. Fourth quarter attendance demonstrated that consumer enthusiasm for the shared, immersive theatrical moviegoing experience remains strong. And films maintain the ability to become larger than life and generate significant box office results even in the current environment. As we look ahead, we remain optimistic about the future of theatrical moviegoing and Cinemark. We are working diligently to position ourselves for ongoing success in the evolving media landscape and to deliver long-term value for our shareholders, guests, communities and employees.

With that, I will now pass the call to Melissa, who will provide further information about our fourth quarter financial results. Melissa?

Melissa Hayes Thomas

Chief Financial Officer, Cinemark Holdings, Inc.

Good morning, everyone, and thank you, Sean. I'm honored to be part of the Cinemark team and I'm greatly looking forward to meeting the investment community in the near future.

As Sean discussed, we made significant progress in terms of the overall recovery of our industry and our company throughout 2021 and especially in the fourth quarter, which is reflected in our financial results. Our worldwide attendance was 48.1 million patrons for the fourth quarter. We delivered $666.7 million of total revenue, $139.4 million of adjusted EBITDA and $208 million of operating cash flow. Notably, these worldwide results were driven by robust performance in both our domestic and international segments, with each segment generating positive adjusted EBITDA in the quarter and reporting adjusted EBITDA margins in excess of 20%.

Taking a closer look at our US operations in the fourth quarter, our attendance rebounded to 31.2 million patrons, representing a 45% increase over the third quarter and underscoring the recovery of theatrical moviegoing. We were able to service these guests with operating hours that were essentially flat to last quarter and approximately 20% below that of pre-COVID, which speaks volumes to the operational efficiencies and technological advances we have achieved since the onset of the pandemic. Our domestic admissions revenue rebounded to $287.3 million in the fourth quarter on an average ticket price of $9.21. Our average ticket price continues to be elevated due to three key factors. Reduced operating hours, resulting in fewer matinee and weekday showtimes, strategic pricing actions and a higher concentration of premium large format box office. It's worth mentioning that 15% of our US box office was generated by our premium large formats. This is 400 basis points higher compared with the fourth quarter of 2019. The growth in the average ticket price was partially offset by revenue deferrals related to our loyalty program ramping back up.

Our US concessions revenue was $207.8 million in the fourth quarter and reached 90% of fourth quarter 2019 levels with an all-time high per cap of $6.66. Our food and beverage per cap remained above $6 throughout 2021 due to a few factors, including heightened indulgence in food and beverage consumption, particularly within our core concession categories, a mix of moviegoers that tends to skew higher in purchase incidence and our operating hours, which while reduced, remain concentrated in time frames that are more conducive to concession purchases. Domestic other revenue also benefited from the uptick in attendance and increased more than 50% quarter-over-quarter to $56.6 million, driven by volume related increases in screen ads and transaction fees.

Altogether, fourth quarter total domestic revenue was $551.7 million, with positive adjusted EBITDA of $115.9 million and an adjusted EBITDA margin of 21%. Turning to international, our international segment also experienced a substantial recovery in the fourth quarter, exceeding our expectations. All of our theaters were operating throughout the fourth quarter, albeit with certain government imposed restrictions on operating hours and capacity. We were able to grow our attendance 84% quarter-over-quarter to 16.9 million patrons, given a lineup of films that resonated extremely well with a Latin demographic, including Encanto, which is a story based in Colombia; Venom: Let There Be Carnage, Eternals, and of course, the global phenomenon Spider-Man: No Way Home.

We delivered $115 million of total international revenue in the fourth quarter, including $57.6 million of admissions revenue, $44 million in concessions revenue and $17 million of other revenue. International adjusted EBITDA was $23.5 million for the fourth quarter, with an adjusted EBITDA margin of 20.4%. This was our first quarter of positive international adjusted EBITDA since the onset of the pandemic. Turning to global expenses. Film rental and advertising expense was 57.5% of admissions revenue, driven primarily by a higher concentration of larger, more successful new film releases with an exclusive theatrical window. We also increased our investment in marketing to help reignite moviegoing, strengthen loyalties and drive market share, which also flows through this line item.

Concession costs were 17.6% of concession revenue and were up 40 basis points from last quarter. Supply chain constraints were amplified in the fourth quarter as attendance rebounded. We experienced product shortages and price increases on certain concession inventory, and we took appropriate actions during the quarter to mitigate much of these impacts. Fourth quarter global salaries and wages were $83.7 million, and increased 24% quarter-over-quarter as we hired incremental employees to service the expected surge in attendance.

Like most industries, we faced a series of labor challenges, including wage rate inflation and staffing shortages, which we were able to partially offset by streamlining our workforce management processes. Facility lease expense was $79.2 million, and increased 15.1% quarter-over-quarter. While largely fixed, lease expense will fluctuate with percentage rent and common area maintenance increases as volume rebounds. Worldwide utilities and other expense was $90.8 million and increased 11% quarter-over-quarter, driven by variable costs such as credit card fees that grew in line with volumes and higher utility expenses due to expanded operating hours, particularly for our international segment.

Finally, G&A for the quarter was $49.3 million, and increased 27.7% quarter-over-quarter due to investments in crowd based software and higher consulting cost, legal fees and staff based compensation. Capital expenditures during the quarter were $38.3 million, including $13.9 million for new build projects that had been committed to prior to the pandemic and $24.4 million for investments to maintain or enhance our existing theaters, such as laser projectors. And rounding out our fourth quarter results, we generated net income attributable to Cinemark Holdings, Inc. of $5.7 million resulting in earnings per share of $0.05, another metric that was positive for the first time since the pandemic and represents another milestone in our recovery during the quarter. As we look forward, we expect 2022 to be a recovery year. We remain optimistic regarding the full year, particularly with a strong film slate. That said, our first quarter results will be impacted by the lighter film release calendar due to the Omicron variant, which may lead to negative cash flow during the first quarter. However, we expect to generate positive cash flow for the full year 2022. On the cost side, like most other companies in the service industry, we are experiencing inflationary increases due to supply chain constraints and the challenging labor market. We will continue to mitigate these impacts wherever possible in 2022. Some steps we are taking include implementing incremental labor productivity initiatives, negotiating with an expanded set of vendors, considering alternative concession products and evaluating strategic price increases.

Turning to our expectations around capital expenditures while still well below our pre-pandemic ranges, we are beginning to ramp up our investments in our theaters in 2022 and expect to spend approximately $125 million on capital expenditures. We expect to continue to reap the benefits of our consistent investments in proactively maintaining and enhancing our theaters over the years, which has enabled us to scale back capital expenditures in the near-term without hindering our asset quality or guest satisfaction.

In closing, while our recovery from the pandemic is ongoing, we remain highly optimistic regarding the future of theatrical moviegoing and the long-term prospects for our industry, particularly for Cinemark. We are innovating and evolving in this new operating environment. Pursuing what is in the best long-term interests of our key stakeholders to further secure Cinemark's position as an industry leader.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from the line of Steven Cahall with Wells Fargo.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Yeah, thank you. Maybe first, just wondering as you look at the 2022 slate, are you having any conversations with the studios around their expectations for exhibition windows? That's kind of been on an ongoing moving process as they've booked that they're windowing onto streaming.

So maybe you can just give the latest on what you're seeing from the studios on the window side.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Sure thing. Thanks for the question, Steven. It's certainly an ongoing conversation. I think, the positive news is the outlook is most releases will have some form of exclusive window, and it seems like the majority of the larger films are gravitating toward a 45 day window. Both Warner Brothers and Paramount have formally expressed intentions to have a 45 day window. Universal is likely to continue to release the majority of its films that way, with probably a bit of a variety, but they've also expressed the intent to have their films hit their streaming platform 45 days after theatrical release, and Sony has consistently been a big advocate of a window. Disney has been taking more of a wait and see how things progress with the course of the pandemic and just consumer appetite, but all signs are pointing to the majority of films having a window on a go-forward basis.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Thanks. And maybe kind of a follow up to that, it seems like that a lot of the box office revenue we're seeing is getting more concentrated to the larger films. When you think about that possibly being a trend where maybe smaller films are going to be more of an at-home experience, larger films are going to be more of an exhibition experience. And you think about things like ticket pricing and food and beverage. How does the mix that skews more to larger films impact your business, both at the top-line and with the rents kind of at the profit line?

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

It's an interesting thought, Steven. When we look at the mix of titles overall, even prior to the pandemic, we were starting to see a little bit of a higher concentration of blockbuster films, although interestingly, some of that was due to just the higher levels of risk that were starting to take place with regard to the smaller and mid-tier films.

Interestingly, as you look at the environment today with a more dynamic window, even though some of the smaller and mid-tier films have reduced in volume in the near-term, partly because of the pandemic and partly because of some of the near-term dynamics with the streaming platforms. The actual risk factor associated with that has improved in a certain way because of the more dynamic window. So, I actually think there's the potential that we may start to see over time more of these smaller and mid-tier films getting released theatrically than we've had in the past, which could balance out the mix. All that being said, obviously there continues to be a lot of evolution and things to sort out coming out of the pandemic with regard to just changing consumer behaviors, expectations and things of that sort. So, we're just going to continue to monitor how that plays through and think about what the best strategies are with regard to pricing and mix and things of that sort, both for ticket prices as well as concessions.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

And maybe just the last housekeeping one. Melissa, if I could sneak it in. You talked about the positive cash flow for 2022. Was that operating or free cash flow after the CapEx guidance?

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

A

Yeah. So, from a free cash flow perspective.

Steven Cahall
Analyst, Wells Fargo Securities LLC

Q

Great, thank you.

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

A

You're welcome.

Operator: Your next question is from the line of Eric Handler with MKM Partners.

Eric Handler
Analyst, MKM Partners LLC

Q

Good morning, and thanks for the question. Two questions. I'll start off first with outperforming the market – domestic market – actually in the international market too by 700 basis points. Very impressive. Well above your normal levels. Was there anything specific in the quarter that you were doing that allowed you to increase your market share like that and outperform the market? And then, I'll have a follow up.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Thanks for the question, Eric. I think, part of that is just a reflection of the gains that we've made in our market share over the course of the pandemic. So, that just continued to play through in the fourth quarter. Perhaps there was a little bit of a bump by the fact that Canada had been closed in certain markets. So, I think, everybody in the US gained a little bit of just overall share relative to the full North American industry because of that, but all the investments we had made prior to the pandemic in our amenities and just the upkeep of our circuits and just all the efforts we've continued to push on with regard to our marketing capabilities to entice moviegoers back to our theaters, I think that's really a culmination of all those things that played through in terms of our performance relative to the market.

Eric Handler
Analyst, MKM Partners LLC

Q

Great. And then, it's really nice to see your adjusted EBITDA margin get back above 20%, which has always been sort of a company benchmark. When you look at sort of like your revenue base sort of $667 million, give or take a little bit of revenue. If you can get close to that number, is it safe to say you can sustain a 20% plus adjusted EBITDA margin or do we need to think about any inflationary issues that may weigh on the margin a little bit?

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

A

Thanks for the question, Eric. So, we have a track record of delivering industry leading adjusted EBITDA margins, and we certainly are focused on achieving strong adjusted EBITDA margins as the industry recovers. The single biggest driver of our EBITDA margins is certainly going to be box office recovery and the degree that that returns to historical levels. But there's some – a few other key drivers that I would highlight as you think about adjusted EBITDA margins going forward. So, first, from a top-line perspective as it pertains to average ticket prices and concession per caps, those have been running at elevated levels in 2021 and have been a nice tailwind for us. As attendance starts to come back and as we see operating hours expand and different audience mix come back, we do expect that some of that may normalize as that audience comes back and operating hours expand. We are certainly trying to sustain those tailwinds and have strategies in place to do so, but that is certainly a variable.

And then on the expense side, as I mentioned in my prepared remarks, we are seeing, as are many other companies right now, labor wage inflation as well as some inflationary increases on the COGS side just due to supply chain constraints. It's difficult to fully predict how that's going to evolve in 2022 and what the full extent of that impact will look like. We are working to offset those impacts wherever possible with various initiatives both on the labor productivity side, as well as on the COGS side, expanding our vendor base, looking at different product alternatives, as well as strategic price increases, but those are the different factors that I would think about as we think about margin heading into 2022.

Eric Handler
Analyst, MKM Partners LLC

Q

Great. Thank you very much.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Thanks, Eric.

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

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

Q

Hi. Good morning. Thanks for taking my question. Wanted to start with international. Sean, I know you've talked about that market generally being kind of a three to six month laggard to the US. The fourth quarter results would suggest that that has accelerated. I think, you kind of noted some of the big hits that drove the outperformance there, but wondering if there's an update on that, if you can kind of paint the picture in terms of if those markets have come along a little bit faster in the past couple months ? Thanks.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Your observation is spot on, Chad. The LatAm markets, while they continue to trail the US a bit, they're definitely picking up ground. Most of the drag we're still seeing is because of varied government capacity restrictions that are still in place, although like most places in the world, those are starting to lift as well. While vaccines were slower to rollout throughout the region, actually now vaccination rates largely exceed the US with regard to double and single doses as well as boosters. So that's a big part of what is helping the markets to pick-up some – some pace in terms of their recovery and catch up to the US and like we said some of the box office gains in the fourth quarter were fairly comparable to what we saw in the US.

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

Q

Great, thanks. And then in terms of the other line that you report, Melissa, I think you said that that was due to screen advertisements and transaction fees. The advertising market has really picked up. Were there deferral revs that kind of fell into the quarter ? Or, could – is there may be a larger foundation or base of screen ads going forward? Just a little bit more color on that. Thanks.

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

A

I would say nothing notable on the screen ads side, outside of our attendance rebounds, screen advertising is going to rebound. And then on the transaction fee side, which is the other point that I mentioned that is, as a greater percentage of our business starts to shift online, we are seeing higher revenue from transaction fees as a result.

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

Q

Thank you very much. Congrats on the quarter.

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

A

Meaning we will take [indiscernible] (00:39:33) online. Thank you.

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

Q

Great. Thank you.

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

Robert Fishman
Analyst, MoffettNathanson LLC

Q

Good morning. I have one for Sean and then one for Melissa, if I can. Sean, can you expand on your opening remarks and share some more details around your own Movie Club survey work or elsewhere? About how the different age groups are returning to the movie theater and then thinking about if older demos and the younger families are still possibly below pre-pandemic levels. Is there something that you think we'll be able to bring them back or any signs that you have that the more flexible window is permanently changing moviegoing behavior there?

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Sure thing, Robert. Thanks. You know, I think, our Movie Club data is generally consistent with wider demographic data at this point. While we are seeing that certain categories of older audiences and family audiences have trailed younger adult moviegoers, part of that has been driven clearly by the pandemic. We see that in survey data around just comfort going back to theaters when you look at that demographic as well, it's been really a phenomenon of just health concerns in the current environment and that continues to improve as the pandemic improves. So, we anticipate that as the pandemic further recovers, that those categories will also recover, those groups of audiences. And then the other factor that has really affected those audiences has also just been the availability of content. So, more of the content has favored younger moviegoers, and I think, some of the programming decision making has aligned, so it's a little bit of a chicken and an egg factor. Likewise, we think as that content mix starts to fill in over the course of 2022 that speaks more to those audiences, that will also help further the recovery of those categories. So, it's difficult to say if there's really any longer term changes in either of those buckets. I think we tend to think that when the right content is available and the health environment is in an acceptable place, we're going to see those categories of audiences continue to come back.

Robert Fishman
Analyst, MoffettNathanson LLC

Q

Okay, thank you. And Melissa, just wondering if you can expand upon the comments made so far around the opportunities for using maybe more dynamic ticket pricing and other concession initiatives that can help drive monetization from the returning moviegoers and see growth from these elevated levels?

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Yeah. So, I can speak to the pricing side of things. So, we are looking at pricing and very strategically, we believe there's opportunity to leverage data and analytics to become more active and sophisticated with our pricing over time. And that is both on the admissions side as well as the concession side, not a one size fits all approach. It's about segmentation and de-averaging, and of course, we're testing and learning. But for example, we're in the midst of a series of tests to better understand how elasticities have evolved during the pandemic to further optimize our base pricing levels going forward. That could mean increases or decreases in pricing depending upon theater, market, time of day, weekend and various other factors. But the goal is for us to be more surgical with changes in our price versus instituting blanket price increases, across the circuit. But we believe that is certainly a lever that we have to offset some of the inflationary cost pressures that we're seeing in the current environment. But we will approach that cautiously and test and learn our way into it, particularly as we're trying to reignite moviegoing as the pandemic starts to subside.

Robert Fishman
Analyst, MoffettNathanson LLC

Q

Thank you, both.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Thanks, Robert.

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

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning. Thank you very much for the question. I just have two. First, following up on some of the earlier questions, I was just wondering if you could talk a little bit more about the outlook for average ticket prices and concession per caps as we move into 2022. You know, I can appreciate you talked about, you know, normalization over the long-term. But do you expect that normalization to happen during the year or is that more a little farther out? Thank you.

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

A

Hey, Mike. Thanks for the question. I'll take that one. As you think about ATPs and we talked about some of the drivers in the prepared remarks that we've benefited from reduced operating hours, which has led to a favorable ticket type mix. We've had strategic pricing actions and then a higher concentration of premium large format box office. And that's helped elevate our average ticket prices as you think about go forward and potential normalization there. You know, just to provide some context. Nearly a third of the increase that we saw in domestic average ticket prices in the fourth quarter of 2021 compared with the fourth quarter of 2019, can be attributed to favorable ticket type mix from reduced operating hours. So, such as fewer matinees, so just to give the kind of some context of how that – those reduced operating hours and ticket mix has been benefiting us. That said, as we mentioned, we are looking at opportunities on the strategic pricing side, as well as continuing to push and promote our premium large format screens. So, some puts and takes there, but hopefully, that helps provide some, some context.

And then on the per cap side there, as we mentioned in prepared remarks, we did also benefit from expanded operating hours. Expanded, I guess, we've been shrinking our – we've had reduced operating hours, but they've been more conducive to periods where customers consume concessions, which certainly has benefited us during the pandemic period. We've also just had heightened indulgence of consumers and a favorable audience mix there. As we think about sustaining the per cap piece going forward, there are initiatives that we're looking at. We do expect some could normalize as that audience mix starts to shift and come back in 2022. But we are promoting Snacks in a Tap that's a huge convenience factor. Frictionless experience for the customer also creates shorter lines for those who want to purchase in the more traditional way. On the category management side, we are looking to expand or reactivate categories that we haven't fully brought back yet and also introduce new products and flavors to help maintain those per caps. And then strategic pricing is another factor. So, lots of actions underway to really help us sustain those per caps, but, you know it could be some normalization that happens there.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thanks, Melissa, that's very helpful, and I was just wondering if you could provide an update on some of the programs – pre-pandemic and during the pandemic specifically – you know, how things like Discount Tuesdays are going and then is group viewing and, you know, screen rentals coming down as a percentage of mix as reopening occurs. Thank you.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Some of those – those programs, you know, they are fluctuating. Discount Tuesdays have come back really well. I mean, it's improving, as you might anticipate. I would say, if anything, it may still be not back to its full stride because of the audience demographic discussion that we had earlier. You know, that tends to favor some older audiences, which are the ones that have been more reluctant to come back. So again, as that recovers, we expect Discount Tuesdays will recover even further with regard to the auditorium rentals, particularly our private watch parties. Those have come down quite a bit simply because there's capacity inflection point there where the limits of the auditorium size you have, there's limits on the PWP size. And now that we've had a much higher level of occupancy and audiences coming back, we just need the seats for general admissions. We are still making PWPs available in our circuit. We've taken the price up a bit to balance out that dynamic of attendance and still make them competitive. But – but yes, they have come down a bit from where they were during the course of the pandemic. But it's a great option to have in periods particularly where there's a – you know, more limited content flow because it just can fill on those gaps really well.

Michael Ng
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks for all the thoughts, Sean. Much appreciate it.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Likewise, thanks for the questions.

Operator: Your next question is from the line of Mike Hickey with The Benchmark Company.

Mike Hickey
Analyst, The Benchmark Co. LLC

Q

Hey, Sean, Melissa and Chanda, congrats guys on a really strong finish to the year. Two questions from me. I guess just the first one, if you guys were surprised at sort of the growth, you're seeing out of your subscription plan with the Movie Club and sort of how you think that will progress this year, given the heavy slate of blockbusters, and I guess maybe remind us the strategic value here in terms of maybe share or concession gains in a more competitive open market? And I have a follow-up. Thanks, guys.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Sure. Thanks, Mike. We've been really pleased with the continued growth of Movie Club. We knew this is – we've gotten tremendous feedback about that program, obviously prior to the pandemic. I think our – the response from our members over the course of the pandemic with regard to the way we handled the program and the communication we had with them was really positive and that helped us to retain a wide majority of those members throughout the pandemic even when we were closed and had much reduced content flow.

So as we've reactivated, we've just been really proactive in our marketing, reminding them of all the benefits and value that come from the program. And that's helped to sustain that benefit or helped to sustain our existing members. And at the same time, we've been going back out in promoting Movie Club to new members, which is part of the reason why we've started to see a return to growth in that program. And as I said in the prepared remarks, we've recovered almost back to the point of where we were prior to the pandemic. And I would say one other data point, most of the members that we lost when we reactivated the program was really due to expired credit cards versus people proactively coming out, and part of the gains coming back have just been getting those customers to reactivate with updated information. But we also are adding brand new members as well. So just the sustained benefits or the sustained commentary we hear about the value of the program. It's very far reaching. It doesn't – while it's a great value and benefit for frequent moviegoers, it also works really well for families. If you have a family of four and you go to the movies only three or four times a year, it's a great program for those types of audiences as well, so it's quite fast and versatile.

Mike Hickey
Analyst, The Benchmark Co. LLC

Q

Thanks. Thanks, Sean. The second question I guess is sort of on Melissa's topic on inflation, obviously we hear the – and see the cost side. But curious – flip side of that equation on your impact on the consumer, the moviegoer, obviously economy I think will flow here. Inflation is tightening everyone's budget. Are you seeing sort of any impact here? I know the slate is light in 1Q. So are you seeing any impact on your moviegoer in terms of a shift in pricing, maybe a pullback in the concession spend? And broadly speaking, how is your theatrical medium worked when the economy is slowing? Thanks, guys.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Mike, I'll take that one. I think one of the positive things we've seen over time and we're continuing to see it now is going to the movies tends to buck the trends of recessions. In fact, considering that going to the movies is one of the more affordable forms of entertainment, in many cases we see an uptick in those types of situations. People may cut back on travel and cut back on more expensive forms of entertainment, but they're still looking to get out and do things. And when you compare the cost of going to the movies to other forms of entertainment, we're still a great value for that amount of time that people spend with us.

So, as I said that has been the type of result over time, and we're continuing to see that now. I mean, at least there certainly haven't been any signs as of yet with regard to people hesitating to go to the movies. I mean, if anything, we just saw this past weekend, as we indicated, both films this past weekend with Uncharted and Dog exceeded expectations. They outperformed projections. So that's a positive. And as Melissa indicated earlier, when we think about pricing in this environment, it's just something that we're going to be careful with. We think on some sense we'll be looking to try to cover some of the inflations we experienced with our cost, but at the same time, we've got to be really careful about not leading to people thinking twice about coming to the movies because they feel like it's getting too expensive. So it's just – it's a fine balance we have to work as we're trying to get people, more people coming back to our theaters more frequently in the midst of this inflationary environment.

Mike Hickey
Analyst, The Benchmark Co. LLC

Q

Thanks, guys. Good luck.

Sean Gamble

President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

All right. Thanks a lot, Mike.

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

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you. LatAm had a particularly successful rebound it seemed to me. I'm wondering how it compared with your expectations. And I'm also wondering if it's beginning to set the stage for a potential renewed growth thrust as you've historically outlined.

Sean Gamble

President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Yeah. Look, thanks for the question, Jim. The LatAm response was very positive. I think it perhaps did exceed our expectations. I think part of that – like the US, I think part of that was just how strong certain films like Spider-Man performed in the quarter and that converted really well with Latin audiences. So that, coupled just with the ongoing recovery from the pandemic, has played out really well.

As far as just the overall strategy and long-term potential of LatAm, we're still very positive on the Latin American market. Moviegoing, it's still a very strong moviegoing culture. It's a very social and family oriented activity which plays well to that community. Many of the markets across the region remain underpenetrated as far as theaters go. So the fundamentals – still the long-term fundamentals still remain positive, even considering some of the more near-term challenges we've experienced with the economic, political and foreign exchange dynamics in those marketplaces. So we're positive about the long-term potential in the region. And fortunately, we have really strong teams there with fantastic local knowledge, excellent market share and each country – in each country where we're cash self-sufficient. So we're in a great strategic position with regard to capitalizing on that long-term potential.

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Q

Okay. And with regard to property mix, I'm wondering if there are any further closings you have in mind. As you evaluate your platform are there any trends we should be looking at in terms of maybe pursuing concentration of theatres in certain areas or anything else that the M&A avenue might benefit from?

Sean Gamble

President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

I think that's going to be just – it's going to be an evolving landscape. I think it's going to – it'll depend ultimately on a range of things, what kinds of new opportunities unfold as we look ahead, both in terms of just new market opportunities and potential M&A.

The ongoing performance of our existing theatres, I mean, that'll factor into whether or not we retain or potentially close any of those theatres, ability to find solutions with landlords or find new concepts that could also help to recover performance if there is a downturn, so.

And just overall evolving market dynamics. So I think there's a range of considerations I would say. We're going to – we've always been very active in keeping a pulse on our existing theatres and evolving market opportunities, and it's something we're going to be even more diligent with as we analyze and look for creative solutions as the landscape continues to evolve.

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

Okay. And one last little one. Do you expect any further benefit from reduced or eliminated mask requirements or is that yesterday's news and you're at a stage where it hasn't mattered so much anymore?

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.
A

I would say it's probably less impactful at this point. People are more or less going about their business. I certainly think that as overall mask guidance and requirements and recommendations continue to wane that that will just be a positive on the whole in terms of people's comfort level with going out, especially those audiences that have been more hesitant. So I do think there is a positive there, but we haven't seen any of the – even current mask policies or practices really being a deterrent in a meaningful way at this point.

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

All right. Well, thank you very much.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.
A

Thanks, Jim.

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

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

Hi, good morning, guys. Sean, can you talk about where you are outperforming your peers, maybe some markets where you're taking share and what you think is driving it? And then, Melissa as a quick follow-up, I might have missed it earlier, but was there something unusual in the free cash flow in the quarter?

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.
A

I'll start with your first question, Meghan. I think that from a market share standpoint, it's been fairly consistent across both the US and Latin America. So I wouldn't say there's any particular areas or particular markets where it's tremendously different than others. It's really just a combination of the things that we've talked about, the value of having been open, one of the first circuits to open and stay open through the pandemic, and just more consumers coming into contact with the type of experience that we provide in contrast to our peers. So it's really that and then the sustained marketing efforts we've had to keep them coming back.

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.
A

And then Meghan with respect to your question on free cash flow. I would call out two key factors in the quarter on free cash flow. The first, our strong EBIDTA generation in the quarter benefited free cash flow. And then secondly, you saw the working capital dynamics of our model play out. We had acceleration in our business throughout the quarter and particularly toward – late in the quarter as Spider-Man: No Way Home generated so much success. We received the cash related to that admissions revenue in that period and didn't pay our film rentals until the first quarter. So it's really that timing and working capital [ph] float (01:01:15) playing out in the numbers.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Anyway to sort of normalize for that?

Melissa Hayes Thomas
Chief Financial Officer, Cinemark Holdings, Inc.

A

It was about $90 million to $100 million.

Meghan Durkin
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thanks.

Operator: The final question is from the line of Daniel Duran with Morgan Stanley.

Daniel Duran
Analyst, Morgan Stanley & Co. LLC

Q

Hi Sean, hi Melissa, asking a question for Ben here. Could you please give us an update on alternative content revenue initiatives, gaming or sports, for example? Thank you.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Absolutely. Thanks for the question, Daniel. Alternative content is certainly an area as we look to build audiences and find additional forms of entertainment that go beyond film to bringing guests into our theatres. So it's an area that we've been spending quite a bit of time on.

Specific to the areas you mentioned of games and sports. Both of those are, I would say, are still very much in R&D mode. We're testing a whole range of different types of content from both spectator – from the gaming spectator and participatory angles to try to determine which have the most potential going forward.

Really, a big factor is trying to discern what types of content can really grow in terms of scale. Things like the Metropolitan Opera have been an example through Fathom that have worked really well where there's a series of ongoing performances that work. So we're trying to hone in on what things can really lead to material impact and sustained impact over time.

I would say that some of the events that we have – we've done recently in terms of in the gaming realm and the Critical Role Campaign 3. And with regard to ESPN, some of the NCAA Football Playoffs and Championships that we recently [ph] ran (01:03:14), the response from consumers has been incredibly strong.

I mean, the feedback they just – it's another validation and example that just audiences love to congregate and come together to experience these types of events together. It's just a different level of emotion and excitement in terms of the type of experience it has. So the feedback has been tremendous and it's something that we're just going to continue to evaluate and test and see what sticks.

Daniel Duran
Analyst, Morgan Stanley & Co. LLC

Q

Great, thank you. And congrats on the strong quarter.

Sean Gamble
President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

A

Thanks, Daniel, appreciate it.

Operator: I will turn it back over for closing remarks.

Sean Gamble

President and Chief Executive Officer, Board Director, Cinemark Holdings, Inc.

Okay. Well, thank you all again for joining us this morning. We look forward to speaking with you all again in the second quarter.

Operator: Thank you, this concludes Cinemark's fourth quarter and full year 2021 earnings call. Thank you for your participation. You may now disconnect.