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Cinemark Holdings, Inc. (CNK)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the Cinemark Holdings, Inc. Second Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Chanda Brashears. You may begin.

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 second quarter 2022 earnings release conference call hosted by Sean Gamble, President and CEO; and Melissa Thomas, CFO.

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

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

In today's prepared commentary regarding comparisons, we will be referring back to second quarter 2019, unless otherwise indicated, as the second quarter of 2021 was severely impacted by COVID closures, government restrictions, and limited new film releases.

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

Sean Gamble

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

Thank you, Chanda. Good morning, everyone. We appreciate you joining us to discuss our second quarter 2022 results. Following numerous examples of strong individual film performance in the first quarter that delivered results in line or better than pre-pandemic expectations. The second quarter marked another significant step forward in the resurgence of the theatrical exhibition industry's recovery from COVID-19. North American industry box office exceeded \$2.3 billion during the quarter, which was nearly triple that of 2Q 2021. Continued improvement in consumer sentiment regarding the pandemic and moviegoing, as well as a more consistent release cadence of compelling new films with broad consumer appeal and an exclusive theatrical window culminated in the highest quarterly box office yet since the onset of the pandemic.

According to ongoing weekly surveys conducted by NRG, between 85% to 90% of moviegoers continue to indicate they are now comfortable returning to movie theaters. We have certainly witnessed that improving sentiment over the past few months as June and July delivered gross domestic box office receipts that were approximately 90% of 2019's results. Furthermore, as we've indicated in the past, moviegoing begets moviegoing and a growing volume and diversity of new releases with a steadier week to week release pattern continues to bring a wider range of audiences back to theaters. Meaningful advances have been made in the return of older, female and family moviegoers, which are audience segments that have been slightly lagging and those advances have helped produce multiple performance records across numerous categories of films.

During the second quarter action and superhero fans were captivated by films like Doctor Strange in the Multiverse of Madness, which delivered 75% more domestic box office than the first Doctor Strange, and Jurassic World Dominion, which opened in line with its predecessor Fallen Kingdom from 2018. Families came out in droves for films like Sonic the Hedgehog 2, generating almost 30% more box office than its first installment; and more recently, Minions: The Rise of Gru, which became the 4th of July weekend's biggest opening film in history.

Horror and suspense audiences have been thrilled by titles like The Black Phone and Nope. Specialty film fans were enthralled by Everything Everywhere All at Once. So much so, it is now A24's highest grossing film of all time. Older audiences couldn't help falling in love with the release of Elvis, which continues to hold exceptionally well with minimal week to week drops and already has grossed more than \$130 million of domestic box office. And then, of course, there is the phenomenon, Top Gun: Maverick, which has already surpassed Titanic's original run to become Paramount's biggest movie ever, with more than \$650 million of domestic box office and it is still going.

These remarkable results across a wide range of films clearly demonstrate that consumer enthusiasm for theatrical moviegoing is as strong as ever across all categories of audiences. And not only are consumers clearly demonstrating their strong sustained interest in theatrical moviegoing, but we continue to see significant growth in upgrades to premium amenities and food and beverage, even in the midst of a high inflationary environment.

Almost 15% of our second quarter box office at Cinemark was derived from our premium large format auditoriums, XD and IMAX, even though they only account for 5% of our screens. That mix represents a 400 basis point increase relative to the second quarter of 2019. Similarly, our box office mix from D-BOX motion seats

is up 100 basis points over this same timeframe. And food and beverage consumption remained highly elevated with worldwide per caps up over 25% versus 2019. This over-indexing of premium offerings along with the box office results realized during the second quarter, provide further validation that our industry is most closely tied to the strength and volume of film content and not necessarily ebbs and flows in the economy.

As concerns are growing about a potential US recession, it's important to remember that theatrical moviegoing provides a reasonably priced premium out of home entertainment experience, and domestic box office actually grew in three of the past four recessions. The theatrical exhibition industry's continued recovery during the second quarter certainly played through to Cinemark in both our top line and bottom line results. Domestically, our box office performance surpassed North American industry results by over 300 basis points, comparing 2Q 2022 against 2Q 2019 and we had the largest share gain of all the major exhibitors over this period. Likewise, our second quarter Latin America attendance outpaced its corresponding industry benchmark by approximately 400 basis points compared to 2Q 2019. Our Latin American business continues to benefit from being one of the first modern circuits to open across the region more than 25 years ago and I'm thrilled to report that Cinemark was recently voted among the top 10 overall brands in Latin America.

The combination of improvements in the second quarter film slate and associated overall resurgence in moviegoing and our sustained focus on our strategic initiatives drove our second quarter global revenue to \$744 million, which was up more than 150% year-over-year. Adjusted EBITDA also grew to \$138 million with is a \$150 million improvement from 2Q 2021. I'd like to commend our studio partners for delivering such compelling films in the second quarter and our entire Cinemark team for their dedication and execution to deliver such strong results.

As I indicated last quarter, Cinemark continues to benefit from the investments we've made and continue to make in technology, premium amenities, food and beverage, marketing and loyalty programs, and guest service. These investments clearly had a positive impact on our second quarter results, and they remain focused on our five key strategic priorities of continuously enhancing the experience we provide our guests, building audiences, growing new sources of revenue, streamlining processes, and optimizing our footprint.

I already described how we're benefiting from a significant uptick in premium amenities, thanks to the investments we made in enhanced formats like our XD auditoriums, D-BOX seats and expanded food and beverage. Likewise, the investments we've made to recline over 65% of our domestic circuit continue to pay off as those theaters have experienced the fastest recovery coming out of the pandemic. Meanwhile, our recently rolled out Snacks In A Tap online food and beverage ordering platform continues to gain traction, and we're already seeing it produce basket sizes that are 3% larger than in-theater purchases, while helping to reduce lines and wait times for other patrons. And the workforce management program we initiated prior to the pandemic is delivering material productivity savings that are helping to offset inflationary wage pressures without adversely impacting our guest satisfaction scores that continue to exceed 90%.

We also continue to derive meaningful benefits from Movie Club, our industry-leading subscription program, which is still growing in popularity and reached a significant milestone in the second quarter, exceeding 1 million members. Our Movie Club membership now surpasses pre-pandemic levels by more than 10%, and during the quarter, movie club drove over 20% of our domestic box office, which is up over 600 basis points from 2019. The ongoing success of this program is not only a testament to the exceptional value Movie Club provides our guests, but it is also one more indicator of the sustained enthusiasm consumers have regarding moviegoing.

And finally, as we work on comprehensive advances in our overall guest experience, we felt it was the right moment to update the look and feel of our brand to provide a more modern, engaging and cohesive aesthetic. We recently began introducing our new brand concepts into our marketing materials, website, and app. For instance,

you may have noticed our new Cinemark logo at the top of this quarter's earnings release, and we're excited to continue rolling out these concepts in our concession vessels, theater uniforms and new theater designs over the coming months. As a result of our sustained investments over the years, the operating enhancements we've made throughout the pandemic and the further advancements we are achieving through our strategic initiatives, we believe Cinemark remains exceptionally well positioned to navigate our industry's ongoing recovery and fully capitalize on a continued resurgence in moviegoing.

The full timing and extent of that resurgence remain dependent on a further rebound in consumer sentiment regarding the pandemic, the sustained quality and diversity of new films and the volume of future releases. While we are optimistic about continued improvements in all of these areas over time, the next two months will be challenged by another temporary dip in new release volume that is predominantly due to seasonality, pandemic related production delays and film release date shifts. That said, we look forward to a strong close to 2022 and the many promising films that are lined up as we round out the year, including the action packed release of Bullet Train this weekend; Anime film, Dragon Ball Super: Super Hero; the thrilling conclusion of the Halloween franchise with Halloween Ends, DC Comics' Black Adam starring Dwayne Johnson; romantic comedy Ticket to Paradise with George Clooney and Julia Roberts; David O. Russell's Amsterdam; the highly anticipated Black Panther: Wakanda Forever, which just yielded one of Marvel's top trailer launches of all time with an astonishing 172 million views in its first 24 hours. Then there are family films Strange World and Puss in Boots: The Last Wish; The sequel to Shazam! Fury of the Gods; The Whitney Houston biopic I Wanna Dance With Somebody; and of course, Avatar: The Way of Water.

We also remain highly encouraged as we look beyond 2022 to next year's lineup of films. While it's still a bit early in the process to evaluate the entirety of 2023 slate, the volume and array of next year's tentpoles already looks compelling with releases in the first half of the year that include Ant-Man and the Wasp: Quantumania; Aquaman and the Lost Kingdom; John Wick: Chapter 4; Super Mario Bros.; Guardians of the Galaxy Vol. 3; Fast and Furious 10; The Little Mermaid; Spider-Man: Across the Spider-Verse; The Flash; and a new installment of Indiana Jones.

And the second half of the year is no less exciting with films such as Mission: Impossible – Dead Reckoning Part One; Barbie; Oppenheimer; The Marvels; Madame Web; a prequel to Hunger Games, Trolls 3, Dune: Part Two, Blade and a new Star Trek movie. And while we have less visibility into the smaller and mid-tier titles for 2023 at this point in time, which is typical this far out, we expect to see the volume of these films continue to improve as their individual film performance remains favorable and content production cycles return to normal.

So, in summary, we believe the second quarter's results and recent film performance clearly demonstrate that consumer interest in going to the cinema remains strong and vibrant. As the adverse impact of the pandemic has significantly improved and a growing number of diverse films have been released, theatrical attendance has materially rebounded across all categories of genres and audiences. Furthermore, the sustained progress we are making at Cinemark advancing our consumer growth and productivity initiatives continues to yield outsized performance results. We believe all of these factors are indicative of positive long-term prospects for our industry and Cinemark. Melissa will now provide further information about our second quarter financial results. Melissa?

Melissa Hayes Thomas

Chief Financial Officer, Cinemark Holdings, Inc.

Thank you, Sean. Good morning, everyone, and thank you for joining the call today. We are highly encouraged by the box office momentum we saw in the second quarter. The North American industry box office exceeded \$2.3 billion during the second quarter, representing a 73% recovery relative to 2019 levels. That momentum carried through to our results, with Cinemark achieving 76% box office recovery in the quarter.

Starting with our worldwide results. We welcomed 52 million guests during the second quarter. We were pleased to generate \$744.1 million of total revenue and \$138.3 million of adjusted EBITDA, resulting in an 18.6% adjusted EBITDA margin.

Our ability to deliver a strong adjusted EBITDA margin in the quarter is reflective of our team's ability to adapt quickly to a dynamic environment, effectively capitalizing on the box office recovery, managing through inflationary pressures and tightly controlling costs.

Turning to our domestic operations. Our second quarter attendance was 34 million, the most guests we've served since the onset of the pandemic. To accommodate the steady stream of films and strong consumer demand, we expanded our operating hours throughout the second quarter, though our operating hours still trailed 2019 levels. We delivered \$309.7 million of domestic admissions revenue in the second quarter with an average ticket price of \$9.11. Our average ticket price remained elevated compared with pre-pandemic levels and continues to benefit from strategic pricing actions, a favorable ticket type mix and a higher mix of premium large format box office.

Our domestic concession revenue was \$234.6 million, with our per cap reaching another all-time high of \$6.90 in the quarter. Our concession per cap was up 26% compared with the second quarter 2019, driven primarily by higher incidence rates for our core concession products and alcohol. Our per cap results also reflect strategic pricing actions instituted during the quarter to mitigate some of the inflationary cost pressures we are experiencing. Other revenue was \$56.5 million during the quarter. Altogether, our domestic operations generated total revenue of \$600.8 million and adjusted EBITDA of \$111.1 million in the quarter, resulting in an adjusted EBITDA margin of 18.5%.

Moving to international, we served 18 million patrons in the second quarter. Our Latin American operations generated \$72.2 million of admissions revenue, \$51.4 million of concession revenue and \$19.7 million in other revenue. International delivered its highest post-pandemic results in the second quarter, with total revenue of \$143.3 million adjusted EBITDA of \$27.2 million and a 19% adjusted EBITDA margin, underscoring our international segment's ongoing recovery.

Now shifting to global expenses, film rental and advertising expense was 58.3% of admissions revenue, up 170 basis points compared with the second quarter of 2019. This rate reflects a high concentration of blockbuster films during the quarter, which skew higher on our revenue share agreements with our studio partners, as well as our stepped up investment in marketing to reignite theatrical moviegoing, increase loyalty to Cinemark and build our audiences. Concession costs were 18.4% of concession revenue and increased 20 basis points compared with the second quarter 2019, driven by supply chain challenges and rising costs across several categories, including key commodities such as canola oil. We continue to work diligently to offset these impacts, whether it be by considering product alternatives, broadening our supplier base or otherwise. Our global salaries and wages were \$100.2 million in the second quarter and decreased 8% versus the second quarter of 2019, primarily driven by lower attendance and labor management efficiencies and partially offset by higher average hourly wage rates associated with the tighter labor market. We were really pleased with our ability to move quickly, to expand and contract our operating hours and labor hours throughout the quarter based on fluctuating attendance levels.

Facility lease expense during the quarter was \$80.3 million and declined 10.3%, driven by a reduction in percentage rent and common area maintenance expense due to lower attendance levels. Worldwide utilities and other expense was \$106.5 million and decreased 13.2% from the pre-pandemic period, driven by variable costs, such as credit card fees that declined with attendance. G&A for the second quarter was \$48.2 million, and increased 8.8% from the second quarter of 2019, due primarily to higher share-based compensation, legal fees

and cloud-based software expense. Globally, we generated net loss attributable to Cinemark Holdings, Inc. of \$73.4 million, resulting in loss per share of \$0.61.

Capital expenditures for the second quarter were \$21.9 million, including \$9.2 million for new builds and \$12.7 million to maintain or enhance our existing circuit. We continue to target \$125 million in capital expenditures for the full year 2022, albeit supply chain constraints may impact our ability to spend at this level. As a reminder, the company's peak CapEx years were in 2015 through 2019 as we utilized the strength of our balance sheet to recline a substantial portion of our circuit, pursue new builds and expand our food and beverage offerings, among other things.

All that said, while we expect our capital expenditures to step up from this year's levels, going forward, we do not anticipate returning to those peak CapEx cycles. Shifting to the balance sheet. We ended the quarter with \$695 million of cash. We generated \$143 million of free cash flow in the second quarter due to our adjusted EBITDA performance and working capital benefits partially offset by interest payments and capital expenditures.

Looking forward, our third quarter results will be impacted by a lighter film slate in August and September, as well as the timing of our semi-annual interest payments, which may lead to negative free cash flow during the quarter. Based on our current industry recovery expectations, we continue to anticipate positive free cash flow generation for the full year, even with the ongoing inflationary pressures around wage rates and concession costs. From a capital allocation standpoint, our priorities continue to be centered around strengthening our balance sheet, which includes delevering over time and making the right investments to position the company well for success over the long term.

In closing, we are highly encouraged by the box office recovery in the quarter, as well as the team's ability to capitalize on the industry's resurgence, while operating efficiently to deliver strong second quarter results. As we look forward, we remain optimistic regarding theatrical moviegoing and maintain our focus on delivering shareholder value over the long term.

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

QUESTION AND ANSWER SECTION

Operator: At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question is from Eric Handler with MKM Partners. Please proceed with your question.

Eric Handler

Analyst, MKM Partners LLC

Q

Yes. Good morning and thanks for the question. I'm just trying to get a handle on your expenses and margin potential. As far as I look at your expenses in 2Q, salaries and wages and utilities were up pretty meaningfully sequentially. How much of that was expanded hours versus inflation? And then maybe you can provide some perspective in terms of relative to 2Q 2019, those expenses were down high single, low double digits and how do we think that extrapolates into the third and fourth quarters?

Melissa Hayes Thomas

Chief Financial Officer, Cinemark Holdings, Inc.

A

Sure. Thanks for the question, Eric. So, I'll start with the salaries and wages side. So, there what we saw in Q2 was a couple of things. So first, when you think about the comparison relative to Q2 of 2019, effectively we have lower attendance and we have – we're benefiting from our labor efficiencies that we've put into place. But that said, as you know, similar to the service industry more broadly, we are seeing pressure on the wage rate side on – due to inflation. So, you are seeing that come through in those comparisons relative to Q2 of 2019. While we did expand our operating hours, we – our wage rate pressure is going to be the bigger factor there. We have started to see that ease as we think about we ramped up our staffing for the summer season and we didn't see the same staffing shortages or while we faced some small wage rate pressure, it wasn't nearly to the extent that we have been seeing. It was more in pockets. So, I'd say still unclear where that's going to settle out. We'll run into that hiring season again in Q4, when we ramp back up for the strong film slate. But certainly, there are puts and takes there with operating hours, labor efficiencies, as well as the wage rate dynamics. And then for – from a quarter-over-quarter perspective, there you're seeing an increase in attendance given Q1 having a pretty light film slate. We ramped up staffing in Q2 as you would expect to accommodate that.

On the utility side, a few things that I would highlight there. We have relative to Q2 of 2019, certainly volume attendance is going to be a factor there. There's variable components like credit card fees and commissions to third-party ticket sellers that are going to move in line with volume. But we do have some expenses within that category that have both a fixed and variable mix. So that's going to be utilities, maintenance, janitorial. And then, of course, core utility pricing is in there, that's only about 20% of that utilities and other bucket. We are seeing utilities costs rise. You see that in prices, also record hot summer. So that is certainly going to be reflected in the numbers. And even when you think quarter-over-quarter kind of that same dynamic we have more people running through our theaters and we're pumping air conditioning through there. So that certainly is going to impact our cost. So, those are really the key factors. Now, we're certainly both on the labor side as well as utility side, trying to push through offsets and efficiencies where we can. But there are certainly inflationary dynamics at play.

Eric Handler

Analyst, MKM Partners LLC

Q

That's very helpful. And then just as a follow-up and continuing on that question. So, when you have a month like July, which was essentially flat with 2019 levels. Can your profitability or your EBITDA be at a similar level?

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

A

Over – you're speaking to overall more EBIT – overall EBITDA?

Eric Handler*Analyst, MKM Partners LLC*

Q

Yeah. I'm just looking at your profitability or your margin. If you have...

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

A

Yes.

Eric Handler*Analyst, MKM Partners LLC*

Q

...a particular month that is similar, essentially flat with pre-pandemic levels. Are you capable of generating the same level of margin as you did pre-pandemic?

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

A

Yeah. So, Eric, the way that I would think about that is there's a couple, several puts and takes there, but key driver is going to be attendance in box office, that gives us – that's the leverage in the model and that's largely going to be a function of volume and quality of films release with broad consumer appeal. We've seen through Q2 that consumer enthusiasm for moviegoing remains strong. Beyond that, we have average ticket prices and concession per caps, those remain elevated relative to 2019. So that is a tailwind to our margins. Now on the flip side, we do have pressure that we've talked about on the labor and supply chain side. Now we are benefiting more on the concession per cap and average ticket prices from a margin perspective, more so than some of those inflationary impacts that we're seeing. That said, you know, we need to see how that plays out. And attendance in boxes is really the single biggest driver that comes into play. The other – the other stuff there's positives and some headwinds that are certainly offsetting, but it's [indiscernible] (30:03).

Eric Handler*Analyst, MKM Partners LLC*

Q

Thank you. Appreciate it.

Operator: Our next question is from Ben Swinburne with Morgan Stanley. Please proceed with your question.

Benjamin Swinburne*Analyst, Morgan Stanley & Co. LLC*

Q

Thank you. Good morning. I wanted to ask two questions, one on the concession per caps, which, are up really nicely from 2019 levels. How are you guys thinking about continuing to drive that as we head into 2023 and beyond? What are your sort of, strategic goals and operational strategies to keep that growing, and particularly if the consumer comes under a little more pressure, just given how much that's up from couple years ago? Are you feeling good about the ability to grow that going forward? And then on Movie Club, same kind of question, how are you thinking about innovating and evolving that product over time? I mean, it's a pretty meaningful part of your

overall box office as a differentiator for the company. What do you have planned that you're at least willing to talk about, to continue to drive that business and make it a bigger driver for the company? Thank you.

Melissa Hayes Thomas

Chief Financial Officer, Cinemark Holdings, Inc.

A

All right. I'll start with the – the per cap piece. So, on the per cap side, Ben, we continue to be encouraged by what we're seeing there with our per caps on the domestic side reaching \$6.90 in the quarter and up 26% versus Q2 of 2019. What we're really pleased about is the majority of the growth in our per caps is primarily coming from higher incidence. So, as I said in my prepared remarks, both on a core concession side as well as at alcohol, but we're really pleased with the volume side of things.

We have put in place some strategic pricing actions to mitigate some of the inflationary cost pressures that we are seeing on the per cap side and we do expect, despite once again hitting record level per caps, we do expect that we'll see some normalization there. Timing and extent, though, is certainly difficult to predict. From an initiative standpoint, we do certainly have an eye on how do we maintain those elevated per caps going forward. A couple things that we're focused on, so our Snacks In A Tap mobile ordering platform, really looking to promote further adoption of that, that's going to drive more frictionless experience. Not only does it result in the higher basket sizes that Sean talked about, but it also reduces the lines and keeps other customers going and purchasing concessions, also leveraging self-serve product displays.

A second point I would call out is on the proactive category management side. What we're really focused on is ensuring that we have the right product mix on a theater-by-theater basis and leveraging planograms to further optimize purchase incidence. And then the third item, strategic pricing actions. While we have taken actions to push through some inflationary impacts as part of our overall pricing strategy, we're on an ongoing basis leveraging data and analytics to really see where we have the opportunities on the price side and we do think we have opportunities there.

Sean Gamble

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

A

And I would add Ben on Movie Club. Look we're just thrilled with the continued success of the program as I mentioned in the prepared remarks, obviously we hit a major milestone with a million members in the second quarter and we continue to see our program grow at a weekly rate that is comparable to what we saw pre-pandemic. So, we still think there's quite a bit of growth just in acquiring consumers into the existing program. That said to your question on where do we go from here? We're constantly adding little tweaks here and there. One of the biggest things we did more recently was the introduction of a new elevated tier in Movie Club Platinum. We put that in place just at the end of last year. We have over 100,000 members that qualified for that level of program. It's still very early phase into that. It looks like it is working well and there are things we're doing for surprise and delights and looking at other iterations or slight tweaks to that. So, I think, we're just going to continue to work on our consumer acquisition strategies and there are a whole host of different things we're doing to continue to attract people into the program and then just figure out ways to provide meaningful value. But again, our guest satisfaction rates with Movie Club exceed 95% overall. So, we just consistently are receiving exceptional feedback about the program as is and a big part of that is these kind of special things that we bring up now and then, and just the overall value that exists with the core aspects of the program.

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

Q

Can I just follow-up, Melissa, on your comment about normalization of per caps, does that mean your growth slows from 26%, which doesn't sound like a surprise? Or do you think it comes down because it's just – it's sort of inflated by reopening and consumer enthusiasm?

Melissa Hayes Thomas

Chief Financial Officer, Cinemark Holdings, Inc.

A

Yeah. I mean, you certainly have the macro trend, right, of folks shifting into experiences and indulging as they go back out from the pandemic period. So, we certainly think there could be an element of that. But frankly, we just – we haven't seen it. And it's something we would have thought would have happened by now. So, for us, the thought is potentially some of that could come down. But again, we're trying to offset that with different strategies.

Sean Gamble

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

A

And I would just add to that, Ben, our historic growth rate was around 5% to 6% annually from a per cap standpoint. And we have a whole series of initiatives even Melissa spoke to several of them that we're working on, that we think we'll have the ability to sustain that. And what Melissa is saying to it is just you see it in just general experiential things, travel, where there seems to be a continued over-indexing of consumer behavior. You see it in restaurants of people going out. So, we're just watchful for is there ever just a step change back to a certain level? We don't think it's going to come all the way back to pre-pandemic, but a bit of a step change, so that throttle down as we get a little bit further distance from the pandemic and then you're building off of that new baseline on a 5% to 6% range. So, it's still a little bit unclear what that is broadly in terms of consumer behavior. But so far, we haven't had any hints of that.

Benjamin Swinburne

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much.

Operator: Our next question is from Steve Cahall with Wells Fargo. Please proceed with your question.

Omar J. Mejias

Analyst, Wells Fargo

Q

Good morning, guys. This is actually Omar on for Steve.

Sean Gamble

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

A

Hey, Omar.

Melissa Hayes Thomas

Chief Financial Officer, Cinemark Holdings, Inc.

A

Hi, Omar.

Omar J. Mejias

Analyst, Wells Fargo

Q

Hi. Maybe first, Sean, as you mentioned in your prepared remarks, the supply of films coming to market has been below pre-pandemic levels. Could you maybe unpack how much of that is due to production delays and scheduling shifts versus small and mid-sized films going directly to streaming? And also, do you expect

production delays to continue into 2023? And how do you see sort of the environment improving from here?
Thanks.

Sean Gamble

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

A

Sure. Well, I don't have a specific breakdown. It's going to be tough to break it down precisely, but definitely the majority of that volume impact is associated with the production-related delays through the pandemic. And we saw even several films that were originally slated for 2022, as we went through the first half of the year, got pushed into 2023 just by continued COVID incidents on set and things of that sort. So, the lion's share is clearly associated with that.

Yes, there is perhaps some impact still of some of the early phases of these new streaming platforms looking to some of the smaller films as marketing vehicles to try to gain new subs, but also an extension of production delays. When some of the serialized TV's content was not available, there was a need to fill gaps and we saw some of that take place looking to films as a way to service that. It seems like that is lessening as we go ahead. And certainly, when you hear public commentary by some of the different studios, it – they're publicly stating they're looking to lean more into theatrical with their key film products versus the other way around. So, I think directionally things are swinging back. Certainly, as our industry now is more heavily rebounding and theatrical is delivering a more significant revenue stream once again to the studio. So, my personal sense is as we look forward, yeah, in 2023, we could still see a little ongoing effect. Usually, I mean, just whenever there is a ramp down or delay in production, it can take two to three years to get that back up to full swing. So, a little bit of that could still affect 2023 and getting back to full tilt. But as we just look at the numerous examples again of films that are performing across all types of films, a theatrical release, as we said in the past, it contributes meaningful value to the overall asset value of those films.

It provides meaningful promotional value to those assets when they are released into the home. And we think because of that, it's just going to be an ongoing driver of more content being released back into theaters over time for the studios. And again, we're hearing more and more commentary about that and we're also optimistic that the traditional streaming players, as they're looking for new sources of revenue and they're looking to compete in an environment now that is got significantly growing competition that we think there's a lot of mutual benefit in partnering together more extensively on larger theatrical releases with that content, which also is another source of product to fill any type of gap in volume.

Omar J. Mejias

Analyst, Wells Fargo

Q

That's very helpful. And I have a follow-up, if I may. Maybe Sean and Melissa, with Canada reopening and the box office normalizing. How should we think about Cinemark's share of the North America box office going forward? I noticed there was a bit of a down take here in Q2. Would you be able to hold on some of the gains or will your market share revert back to pre-COVID levels of around 12%, 13%? Thanks.

Sean Gamble

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

A

Sure. It's a great question. Thanks, Omar. We definitely believe that we will be able to retain a meaningful portion of the market share that we gained by being one of the first circuits to reopen. We have said in the past and we do it, we have expected that as more and more theaters open across the industry, both in the US and Canada, as well as when there's a growing volume of films, we've expected that that share would ratchet back a bit. We certainly saw that in the case of 2Q and year-over-year, obviously, in the first half of last year, there were more

parts of Canada that were closed, so that does have an effect. But we've indicated, we expect that we should be able to retain approximately 100 or so basis points of improvement versus our pre-pandemic share, which remains the case. We're working aggressively to continue to secure that going forward. And I'd say we continue to be – continue to have one of the largest share gains relative to the other major exhibitors in the market.

Omar J. Mejias*Analyst, Wells Fargo*

Thank you much.

Q

Sean Gamble*President, Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Thanks a lot. I appreciate the questions.

A

Operator: Our next question is from Robert Fishman with MoffettNathanson. Please proceed with your question.

Robert Fishman*Analyst, MoffettNathanson LLC*

Hi. Good morning. I got one for Sean, one for Melissa, please. Sean, can you remind us the average length of deals, the term with your studio partners. And I'm asking because now that Hollywood's streaming pendulum has shifted back, as you just alluded to, how aligned are your mutual interests going forward compared to when you struck the deals in May last year, and then maybe what impact that could have for film splits or other parts of the agreement as the deals are set to be renewed in the years ahead.

Q

Sean Gamble*President, Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Sure. Historically, the length of our deals have generally ranged for about two to three years. That was usually the cadence of circling back and revisiting terms and things of that sort. Obviously, with some of the dynamics going through the pandemic, we were working on some shorter term arrangements, and I would say we're kind of still operating in that realm to a certain degree. So, we have if anything a bit of shorter terms in some of those deals and I would say still where there tend to be one-offs here or there, we're having individual discussions about those particular situations. So, I would say at least for this current period over the next couple years, let's say, even though we all are aspiring to get back to a situation, we're probably back in that two to three year timeframe. I think, it'll be a little bit more active just as things fully settle out.

A

Robert Fishman*Analyst, MoffettNathanson LLC*

And do you see any opportunity to realign the deals as some of the pendulum has shifted back?

Q

Sean Gamble*President, Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Sure. I mean, look, I'd say we've had healthy conversations and I think landed in a positive place holistically with all our studios in terms of finding appropriate economic consideration for some of the shifts that have happened at least over the last couple years with regard to windows and things of that sort. The playing field is a bit more varied just in terms of some of the releases, even though overall windows seem to be jelling around closer to around a 45-day window for the more significant films. It is still a little bit more varied. So, I think, just as we move forward, we'll continue to be in a position where any types of films that have a shorter duration, we're going to be

A

looking for greater economic consideration in that regard and films that have a longer window will probably be more reflective of pre-pandemic terms would be my sense.

Robert Fishman

Analyst, MoffettNathanson LLC

Q

Okay. Thank you. And so, then Melissa, on the related note, after US film rentals share hit 60% in the quarter, I'm just kind of curious how we should think about these costs with a more steady box office going forward especially looking forward to fourth quarter and next year? And maybe just call out if there's any meaningful differences that we should think about in LatAm versus the US? Thank you.

Melissa Hayes Thomas

Chief Financial Officer, Cinemark Holdings, Inc.

A

Yeah. So, as you think about film rental rates for the US, so as Sean mentioned, we have been successful in receiving economic consideration commensurate with the shortened theatrical window, but what we have been seeing is that, that has been offset by a higher concentration of these larger tentpole films, which, as you know, skew at the higher end of the sliding scale. So, it's really going to be a function of the timing in which that smaller to mid-tier content starts coming back at a more steadier clip, but until that point, I think, it's reasonable to assume that film rentals may be more in line with pre-pandemic levels, if we continue to have that heavy blockbuster mix.

The other piece to take into account is that marketing is also included in that film rental and advertising line item, and we have meaningfully stepped up our spend relative to pre-pandemic periods to capitalize on the recovery of the industry. So that's – that would be the other factor to consider and in terms of our marketing spend levels, that's guided by returns. So that's really going to be the – that's going to be the driver of how much marketing we end up deploying. When you talk about the difference between US and international, I mean, just structurally those terms are typically different. So, you can't really look at those side-by-side, the industry dynamics are different there, but I wouldn't – no major changes I'd call out.

Robert Fishman

Analyst, MoffettNathanson LLC

Q

Yeah. Thank you, both.

Sean Gamble

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

A

Thanks, Robert.

Operator: [Operator Instructions] Our next question is from Jim Goss with Barrington Research. Please proceed with your question.

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Q

Good morning. Melissa just touched on this a little bit. But I had a question about the prior concern over the viability of a return of mid-sized films. And I wonder if you could talk a little bit more about how you're seeing that develop and what you're expecting from your discussions with studios and think in terms of the aspects like the length of run and windows, and rooms on the screens for a number of those, when you're making room for the larger blockbusters. I think, it is important to have the mid-sized films represented to bring in the bigger audiences, but I'm wondering how you see that develop.

Sean Gamble

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

A

Sure. Thanks for the question, Jim. Good morning. Look, we agree. We tend to feel that we prefer a wide range of movies that just speak to a very broad audience. We like to have the diversity that that brings and it just brings in a wider reaches of moviegoers. We clearly saw some examples of that in the second quarter, right, as the films had more compelling diverse content. We saw a greater range of audiences coming back. So, we think as there's just ongoing evidence and more and more examples of these movies in the mid-tier that are working and performing, all that's going to do is show, hey, there's a great opportunity here to the studios to continue to re-release those films. So, some of that, like I said earlier was more a byproduct just of the pandemic and the production cycle. And there was, I guess, at least in a certain circumstances perhaps some near term strategy effect with regard to some of the early phases of the streaming platforms. But again, directionally, that seems to have shifted now with the intent to put more of those films out.

And when you look at the results of a film like Elvis or Lost City or Where The Crawdads Sing and Black Phone, I mean, you just go on and on and on, what we've seen in 2Q and since 2Q even in an environment where there are still 10% to 15% of moviegoers, who are a little apprehensive because of the health environment, it just points to, hey, there's great opportunity not only for tentpoles, but for all these films; and we continue to hear the data is showing that for those films alike, they perform better when they get into the home on both streaming platforms and all other channels, which I think just bodes well for more and more of that content coming out. So, I suspect my view is over the next one to two years, we're going to see that normalize back to prior levels, maybe even see a bit of an uptick. I've said this on prior calls. I do think that even though it's clear that a meaningful window is necessary to drive the full value that a theatrical release can provide to a film asset, knowing that there's a little bit more flexibility in those circumstances where a movie doesn't necessarily perform as expected out of the gates, I think all that does is create more confidence for the studios to take a chance on something that might be more of a question mark, because they'll have – they'll know that they have more optionality to deal with whatever may happen. If it was a big breakout, great. And if it doesn't work, great, there's other things I might be able to do.

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Q

Just following up on that a little bit, the – if you do have, say, a 10 or 12 screen auditorium and you have 1 or 2 or recently we've had a [ph] week or less, (51:16) I think, 5 blockbusters that were new or lingering. It leaves less room if you give multiple screens to the blockbusters for the smaller screens. Do you – is it a platform usage question, where you might have a couple on a given screen and do it different day parts or something like that? How do you make sure you leave room for that and get the greatest profitability for the overall circuit?

Sean Gamble

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

A

Yeah. That is the balancing act that we work with. Yeah. That's just the nature of our business and it has been the case. Certainly, pre-pandemic, we were constantly dealing with those types of choices, all right, how do we maintain diversity of films when there's a significant volume of films being released at the same time and several of those being big tentpoles? It's clearly easier to manage that balance when you've got a 20-screen complex, becomes more challenging when you get below 10 screens and not everything necessarily is able to get screen time. So that's just the balancing act that we have to do. I mean, there's a – we do our best to try to make sure that we maintain that good diversity, but typically the way you solve that also is we have multiple theatres in a particular market, and we'll try if there's one theater that may have a selection of certain films. We'll try to round that out with the films in another theater.

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Q

Okay. Thank you. And one other thing I'd like you to address [indiscernible] (52:53) would be physical attendance trends. The premium preference has created a widened gap between trends in box office revenues and physical attendance. And physical attendance is important for selling concessions, for example. How are you looking at that trending, are there any things you've noticed that might sort of adjust that potential return?

Sean Gamble

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

A

Well, just – you're just talking about anything that may adjust, getting more attendees into the theater for...

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Q

Yeah. More attendees, yes. More bodies in the theater to buy things.

Sean Gamble

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

A

Well, that is clearly our main focus is on attendance. Certainly not just from a food and beverage standpoint, but because it drives the – maximizes box office, which is a significant part of our revenue and bottom line. So, our main focus is exactly that. How do you attract a greater range of attendees to our theaters and then how do you give them a great experience to keep them coming back and coming back more frequently? Obviously, we're still – our whole industry is still working itself out of the pandemic. It's been a long recovery, part of that has just been concerns about the health environment, and part of that has been this commentary or discussion we've been having about volume. As those factors continue to improve, as more volume gets released and we distance ourselves from the pandemic. We think that that attendance folk – attendance is going to continue to recover and rebound. And that's certainly our focus is that's – our number one focus is how do you build audiences with a wider range of content, with more sophisticated marketing tactics, and make sure that when you've got them, you're just giving them an absolutely fantastic experience that keeps them wanting to comeback.

James Charles Goss

Analyst, Barrington Research Associates, Inc.

Q

All right. Thanks very much.

Sean Gamble

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

A

Thanks, Jim.

Operator: Our next question is from David Karnovsky with JPMorgan. Please proceed with your question.

Q

Hi. Good morning. This is actually [ph] John (55:06) on for David. I guess, I just wanted to refocus in on the LatAm for a second. Can you give us some color or highlights as to what content did well there during the quarter, or maybe what didn't do well relative to the US? And I guess just more broadly, what you're seeing from an attendance momentum or trends perspective in the market? And then I have a follow-up. Thanks.

Sean Gamble*President, Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

Sure. I would say similar to the US just broadly speaking, the majority of films performed a bit better than we were expecting across the board. However, there is some mix factor. Like you said, different types of films tend to over-index and under-index in LatAm relative to the US. Clearly, the biggest example of that was Top Gun: Maverick, which was the fourth largest film in Latin America and represented about 10% of the attendance compared to being clearly the biggest film in the US, with about 23% of the box office. So that's something that – it actually outperformed expectations, but just didn't have the same level of scale that it did in the US.

Doctor Strange was the biggest performing film in the quarter for Latin America, so that really did phenomenally well. Jurassic World and Sonic 2 also performed, delivered strong results and performed better than expectations. I would say, their level of performance was comparable to the US. If anything, Doctor Strange probably indexed a little bit higher in LatAm relative to the US, conversely to Top Gun: Maverick. I'm sorry, you were asking on a go forward basis.

I would say, just broadly speaking, Latin America as a region had been trailing the US a bit throughout the pandemic, that is more or less caught up at this point. However, as we do look ahead, similar to what we would have seen pre-pandemic we will continue to see some fluctuations quarter-to-quarter just based on the type of films that are being released. There's certain films like horror and family films that over-index in the region and there's other films like fantasy and Sci-Fi that tend to under-index. And then, of course, you have just other 1z, 2z types of things, like a Top Gun: Maverick, which may have a – it's a global phenomenon, but there's things like that that may still just have a little bit more of a US flair that really over-index in the US.

Q

Great. That's really helpful. And then switching gears a little bit to follow up on one of Eric's earlier questions. Understanding that there's some seasonal hiring built in there, but I guess more broadly, can you remind us kind of where we are in regards to staffing levels, and progress, I guess, towards what would be a new normal? Thank you.

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

A

Yeah. So, I can start on that one. So, from a staffing standpoint, as you may know, just given the seasonality of our business, we hire up for the summer season, then typically August, September is going to be slower and we'll ramp back up in Q4. When you think about staffing levels, I mean, we were able, as I mentioned, to hit the staffing levels that we needed for that summer season. But as we mentioned, August and September, not only are we seeing a light film slate due to seasonality, but also given film shifts that have occurred. So, we do expect that to be a lighter slate than normal. So, we'll essentially ramp down our operating hours and our labor hours and then ramp that back up in Q4. So, we're going to flex as needed and guided by the film slate.

Sean Gamble*President, Chief Executive Officer & Director, Cinemark Holdings, Inc.*

A

And I would just add to that that as Melissa said earlier, year-end was tough just in terms of being significantly understaffed, given people calling in sick because of coming down with COVID, as well as just what was happening in the marketplace with the demand on resources and not being able to hire as many people as you

like. That has improved significantly. I think, for the most part now we've been able to get back to the levels we need and it's just a matter of flexing based on demand.

Melissa also mentioned what happened as a result of some of that, and it goes beyond just our industry and retail, I mean, it's really across the board, we obviously have seen some wage rate pressures that have been somewhat significant over the last few quarters. That seems to be improving considerably as Melissa touched on. So, as we look forward, we think things are certainly stabilizing. They're in a much, much better position than they were. And our focus now is, all right, how do we continue to extract greater value out of the workforce management initiatives that we've been pursuing to find incremental productivity to help offset some of that and work it back, and then look for opportunities to try to perhaps recapture some of the distortion that took place over the last few quarters.

Q

Got it. That's really, really helpful. Thanks, guys.

Sean Gamble*President, Chief Executive Officer & Director, Cinemark Holdings, Inc.*

Thanks.

A

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

Thank you.

A

Operator: Our next question is from Eric Wold with B. Riley. Please proceed with your question.

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

Thanks. Good morning. Couple questions. I guess, one, given kind of following up on the wage question, given the wage pressure that you're seeing right now, would you say that you're being a little more cautious on taking price with ticket and concessions to offset that in kind of the inflationary environment we're in and potential pressures on households budgets and we're looking to catch-up later or you still feel you have the power to push up prices now as needed and consumers are balking as much as would be expected?

Q

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

Yeah. So, on the pricing side, so as I mentioned, we are leveraging pricing as an offset in part to the inflationary pressures that we've seen, but consistent with how we've approached pricing historically, we're approaching it cautiously and we obviously want to get the attendance as we talked about earlier in the door so that we can further monetize with ancillary opportunities. So, for us, we're really going to be cautious about how we move through with prices and pushing that through. We do believe that there is further opportunity and we're testing our way into that. But we're just approaching it cautiously.

A

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

Q

Got it. And then last question. What are your current views on new build opportunities in the US as cash flows improve? Obviously, you're past most of the remodel spending programs from the past. How much opportunities do you think there still is there for you? Do you want to be more or less tethered to kind of malls or shopping areas as you kind of were in the past or mostly kind of look towards standalone, and then kind of same thoughts on Latin America?

Sean Gamble

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

A

I would say, specific to new builds, there continue to be opportunities in various underserved markets for new builds. That said, I know, we and I think the industry as a whole will continue to be a bit tempered, more tempered, at least in the near term here, just as we fully pull out of the recovery cycle. I would say, we've actually had a couple of new builds open recently that we entered into before the pandemic, one here in Texas, another in Utah and they're performing exceptionally well. It's just, again, justification that if there's an underserved market, putting a really nice new theater in there, even in this market, I mean, they're doing better than expected. So, I think, we'll continue to see that.

For us, I think, for many in the industry, again, not only is it just continuing to work through the full recovery of the industry and balancing some of those investments with that, also it's a matter of just balancing some of those capital allocation decisions with the refortifying of our balance sheet and what do we think some of the biggest near-term returns can be generated from some of the investments we're making. New builds take a longer time. So, some of that's great for long-term sustained growth of the enterprise, but there may be some other near-term investments that have more immediate payback.

Eric Wold

Analyst, B. Riley Securities, Inc.

Q

Then in Latin America, same?

Sean Gamble

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

A

Oh, and yes. Sorry. Latin America, you know, Latin America, I would say, is – is definitely similar. In situation of our LatAm circuit, as you know, it's self-sustaining, where we're not having to push cash there. These countries generate their own cash and have their own cash balances and that's the position they are in at this point, too, in the stage of recovery. There continue to be – and we still remain optimistic about long-term prospects in the industry. There's more underserved markets across the region there than in the US, but the speed of mall development – there you asked about mall versus standalone. In the US, it really depends on the marketplace. It's much easier to build a standalone and more economically feasible in these countries and LatAm, that's much more difficult both from a just getting to those theaters logistically, as well as just the cost to do so. So, we continue to be tethered to mall development and mall development is still a bit slow at this point. So, I think that will probably take a little bit longer to start to rebound. So, we're – that's a governor also on some of the new build opportunities that we'll have as we look ahead in LatAm.

Eric Wold

Analyst, B. Riley Securities, Inc.

Q

Perfect. Thank you both.

Sean Gamble

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

A

All right. Thanks, Eric. Appreciate it.

Operator: We have reached the end of the question-and-answer session. And I'll now turn the call over to Sean Gamble for closing remarks.

Sean Gamble

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

All right. Thank you all for joining us this morning. We appreciate your time and we look forward to speaking with you again following our third quarter results. Have a great day.

Operator: This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.

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