

Q1 2023 Earnings Call

Company Participants

- Chanda Brashears, Senior Vice President, Investor Relations
- Melissa Thomas, Chief Financial Officer
- Sean Gamble, President and Chief Executive Officer

Other Participants

- David Karnovsky, Analyst
- Eric Handler, Analyst
- Jim Goss, Analyst
- Omar Mejias, Analyst
- Unidentified Participant

Presentation

Operator

Greetings and welcome to Cinemark Holdings First Quarter 2023 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) As a reminder, this conference is being recorded.

I would now like to turn the call over to Chanda Brashears, Senior Vice President, Investor Relations. Thank you. You may begin.

Chanda Brashears {BIO 20411094 <GO>}

Good morning, everyone. I would like to welcome you to Cinemark Holding Inc's First Quarter 2023 earnings release conference call, hosted by Sean Gamble, President and Chief Executive Officer; and Melissa Thomas, Chief Financial Officer. Before we begin, I would like to remind everyone that statements or comments made on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to financial projections or other statements of the company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties. The company's actual results may materially differ from forward-looking projections due to a variety of factors. Information concerning the factors that could cause results to differ materially is contained in the company's most recently filed 10-K. Also, today's call may include non-GAAP financial measures, a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in the company's most recently filed earnings release, 10-Q, and on the company's website at ir.cinemark.com.

With that, I'd like to turn the call over to Sean.

Sean Gamble {BIO 16328936 <GO>}

Thank you, Chanda. Good morning, everyone. We appreciate you joining us today to discuss our first quarter 2023 results. Over the past year, we had expressed our optimism about the future of theatrical exhibition based on positive sustained trends in consumer movie-going behavior and improving volume of wide releases and forward-looking commentary by our existing and emerging studio partners regarding the value a theatrical release provides their film assets. We've also highlighted the advantaged position Cinemark maintains within our industry on account of our stable financial health, resilient operating capabilities, and plentiful opportunities ahead. As we're now four months into 2023, we could not be more encouraged by the ongoing strength of these trends as well as our company's and industry's continued recovery.

During the first quarter, North American box office grew by almost 30% versus 2022, propelled by strong carryover from the global sensation Avatar: The Way of Water and animated success Puss in Boots: The Last Wish, as well as a diverse range of crowd-pleasing hits. Top performing films included Scream III to Scream VI, and John Wick 4, which each broke records delivering all-time high results for their franchises. Horror film M3GAN, which far exceeded expectations, generating over \$95 million of domestic box office. Action-adventure saga, Dungeons & Dragons: Honour Among Thieves. The highly successful faith-based film, Jesus Revolution, the well-received adult drama A Man Called Otto, comedy thrillers, Cocaine Bear, and Ant-Man and the Wasp: Quantumania, which drove over \$200 million of domestic box office with close to \$0.5 billion worldwide.

There truly was something for everyone in the first quarter and better-than-anticipated box office performance during 1Q continued right into April, which yielded the third-largest result in history for that month. April box office was up almost 55% year-over-year and within approximately 5% of 2017 to 2019's pre-pandemic average, which included two of the highest-grossing movies of all time with Avengers: Endgame and Avengers: Infinity War. Along with positive flow-through from the first quarter titles, new releases that helped drive April success included the critically acclaimed, Air, which was Amazon's first full-scale wide release under their Amazon Studios label since they began making a larger push into theatrical exhibition this year.

Horror film, Evil Dead Rise, a title originally produced for streaming that is now on pace to deliver over \$60 million in domestic box office. A wide range of small to mid-tier titles such as Rentfield, The Pope's Exorcist, and The Covenant, which helped drive April's overall content volume to a level consistent with pre-pandemic output, and of course, the record-setting, Super Mario Brothers, Universal's and Illumination's biggest animated title ever, which has already become the second-largest domestic animated film of all time. Year-to-date results continue to validate that consumer enthusiasm to experience movies and varied forms of content in a shared larger-than-life theatrical setting is as strong as ever. There is simply no better way to amplify excitement in cultural relevance for films than with an exclusive theatrical release.

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A perfect illustration of the sentiment is the myriad of fans who dressed up like Mario, Luigi, and Princess Peach to come see Super Mario Brothers over the past four weeks. I happen to be touring a range of our theaters during the film's opening and loved not only seeing but feeling the shared energy of our guests enjoying that moment together which lifted the entire audience to a heightened level of engagement. A similar energy was present at Caesars Palace in Las Vegas last week during CinemaCon, our industry's annual trade show event when exhibitors, studios, vendors, and various members of the creative community congregate to view highlights of upcoming films, as well as discuss pertinent industry matters. The consistent message delivered by studio executives, filmmakers, and movie stars during that convention could not have been clear. It was one of overwhelming belief in and commitment to theatrical exhibition as the best way to present films, delight fans, and maximize promotional and financial value for movies.

Importantly, that belief is now backed by data, analysis, feedback, and financial results. Moreover, there was a collective recognition that a movie theater's immersive communal environment creates a magic and inspiration, and meaningful connection to stories that is unlike any other form of content distribution. Personally, I was overwhelmed by the adamant commentary from our studio partners, as well as the overall strength of material that was showcased which is some of the best collective content I've seen over the past decade at CinemaCon. Across every genre of film, every demographic, every studio, the movies on display for the next year and a half looks sensational.

In the family category, we were shown spectacular footage from The Little Mermaid and Wish, as well as a full 20 minutes of Pixar's upcoming release, Elemental, which looks fantastic. We also saw stunning scenes from Wonka, Barbie, and Haunted Mansion, as well as exciting early glimpses of Migration, Trolls Band Together, and Teenage Mutant Ninja Turtles, Mutant Mayhem, just to name a few. Superhero films were well represented with compelling first time reveals for Blue Beetle, Aquaman and the Lost Kingdom, The Marvel's, Kraven the Hunter, and Guardians of the Galaxy 3, which opens this weekend at a Cinemark near you. We also got an extended 15-minute preview of Spider-Man: Across the Spider-Verse, which looks absolutely tremendous, and we had the opportunity to screen, The Flash, in its entirety.

While we've been asked not to provide any specifics about that film, I can tell you that studio commentary suggesting The Flash is by far the best DC moving to date is very well justified. Action audiences are also sure to be thrilled based on the extended sequences we saw of Indiana Jones and the Dial of Destiny, and Mission Impossible - Dead Reckoning Part 1, which suggest these franchises have been taken to an entirely new level. Likewise, new trailers for Fast X, Transformers Rise of the Beast, Hunger Games: The Ballad of Songbirds and Snakes, Gran Turismo, and The Equalizer 3 appears set to fully captivate moviegoers. Along those lines, suspense and horror fans are bound to be clinging to their luxury lounges based on the terrifying reels we were shown for The Nun 2, The Exorcist, and A Hunting in Venice, as well as the full screening that was presented of the Boogeyman, which received rave reviews for the intensity of its scare factor.

And the list doesn't end there. We saw a diverse range of riveting footage from high-scale spectacle films including Christopher Nolan's, Oppenheimer, (inaudible), and two epic sagas from Apple films which include Martin Scorsese's, Killers of the Flower Moon,

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starting Leonardo DiCaprio, and Ridley Scott's, Napoleon, starring Joaquin Phoenix. R-rated comedies are back with Joy Ride, No Hard Feelings, and Strays, starring Will Ferrell and Jamie Foxx. There's a new sequel to My Big Fat Greek Wedding coming, ample specialty films, inspirational stories, and a phenomenal-looking musical adaptation of The Color Purple that was presented by Oprah Winfrey. And what's truly remarkable is all of the films I just described are releasing this year in 2023. I haven't even touched on the wealth of material that was shared for 2024, which was equally as promising. Our entire team walked away from CinemaCon as encouraged as we've ever been about the pipeline of films that lies ahead.

In addition to the positive news coming out of Las Vegas last week as well as this year's solid box office results that have been exceeding expectations, we're also pleased to report that 2023's total volume of film releases is tracking better than anticipated. Our previous estimate of 100 to 105 wide releases for the full year has already been surpassed with 110 titles now dated in second quarter volume resembling pre-pandemic levels. While film volume in the third and fourth quarter is still down approximately 15% to 20%, that gap has also narrowed, thanks to support from the recently dated Apple Films I mentioned a moment ago, as well as multiple new additions from various studios. Based on indications, we continue to receive from our traditional studio partners regarding -- regarding their targeted levels of production, as well as Amazon's expressed intention to ramp to 10 to 12 films per year and Apple is growing theatrical aspirations, we remain highly optimistic about film volume recovering close to or better than pre-pandemic levels over the next couple of years.

Our enthusiasm regarding our industry's ongoing rebound also holds true for Cinemark, and our first quarter results certainly reinforce that perspective. We entertained 43 million moviegoers worldwide in 1Q, which was up 30% year-over-year. We generated total revenue growth of 33% and a sizable increase in adjusted EBITDA of over 240% to \$86 million with an adjusted EBITDA margin of 14.1%. Furthermore, we continue to be the only major US exhibitor to have achieved and maintained a meaningful increase in market share since reopening, which remains up approximately 100 basis points compared to our pre-pandemic average. As a result of our improving financial strength, our strong first quarter results, and our positive outlook regarding the remainder of 2023 and beyond, we are pleased to report that on Monday, we paid down a further \$100 million of the incremental debt we secured during the pandemic.

Our solid first quarter results and subsequent retirement of debt this quarter is a direct byproduct of the continued improvement of our industry is making in its recovery combined with the positive impact we are deriving from our strategic actions to maximize attendance in box office, drive overall top-line growth and improve our productivity while delivering top-notch entertainment for our guests. These actions include a wide range of initiatives, beginning with enhancing various experiential aspects of our business, such as making further advances in our guest services practices, simplifying the transactional ease of ticket and food and beverage purchases, and expanding our premium offerings like luxury seating, large format auditoriums, and elevated sight and sound technologies.

Our strategic actions also include efforts to expand our audiences which range from utilizing sophisticated targeted marketing techniques to leveraging highly valued and

engaging loyalty strategies like our industry-leading Movie Club program to identifying and growing new sources of content to capture a broader base of consumer interests to further strengthening our utilization of data analytics as we optimize our pricing and showtime planning decisions. We also continue to place a significant emphasis on growing new and existing channels of revenue. Examples include further scaling up our online food and beverage ordering platform, optimizing the range and assortment of products we offer, growing merchandise sales in theater and online, developing new third-party distribution partnerships, and increasing monetization of unused physical spaces in our theaters.

And while we are pursuing all of these varied revenue-generating opportunities, we're also actively working on productivity measures to do more with less. Initiatives in this regard include further enhancing our workforce management tools and processes, simplifying and strengthening inventory management, expanding our continuous improvement in automation projects more extensively across our organization, and leveraging more advanced sourcing and procurement strategies. We are already realizing material benefits from these wide-ranging initiatives and we are highly enthusiastic about the positive incremental impact they will provide going forward. Furthermore, as a result of these enhancements and the disciplined way we've operated our company and managed invested capital over the years, Cinemark remains situated to capture an outsized portion of our industry's ongoing recovery. This advantage position would not be possible without the resourcefulness, skill, determination, and diligence of our remarkable global team that is second to none in this business.

With that, I'll turn the call over to Melissa, who will provide further information about our first quarter results.

Melissa Thomas {BIO 20879756 <GO>}

Thank you, Sean. Good morning, everyone, and thank you for joining the call today. We were pleased with the strength of the first quarter box office, which far exceeded our expectations, as well as our ability to fully capitalize on that strength through operational excellence and the ongoing execution of our strategic initiatives to grow revenue while mitigating costs. Across our global footprint, we welcomed approximately 43 million guests to our theaters, an increase of 30% from the first quarter of last year, and we grew total revenue nearly 33% to more than \$610 million. With the meaningful increase in revenue, we were able to gain operating leverage of our fixed cost and grow adjusted EBITDA 242% year-over-year to \$86 million, resulting in a healthy adjusted EBITDA margin of 14%. These results are a testament to the hard work and strong execution of our team.

Turning to our domestic segment. We served 25.2 million patrons, an increase of 22% year-over-year and we generated \$244.7 million in admissions revenue. Our average ticket price was \$9.71 in the quarter, up 5% relative to the first quarter of last year, driven by strategic pricing initiatives and the ongoing strength of premium formats, particularly 3D penetration, partially offset by ticket type mix. Domestic concession revenue continued to demonstrate strength in the quarter, growing 32% year-over-year to \$186.8 million. Our concession per cap increased 9% to \$7.41, in line with the all-time high we delivered in the fourth quarter of last year. Strategic and inflationary pricing initiatives coupled with our ability to maintain elevated incidence rates were key drivers of our per

caps strength. Other revenue was \$47.6 million, an increase of 22% which was in line with our growth in attendance. Overall, our domestic segment generated total revenue of \$479.1 million and adjusted EBITDA of \$63.4 million, yielding an adjusted EBITDA margin of 13.2%, an increase of 930 basis points compared with the first quarter of 2022.

Turning to our international segment. The first quarter film slate resonated well with Latin audiences and the recovery in the region continued to take hold with 17.7 million patrons visiting our theaters in Q1, an increase of 43% relative to Q1 of last year. Our International segment delivered \$66.3 million of admissions revenue, \$49 million of concession revenue, and \$16.3 million of other revenue. Altogether, total international revenue increased 49% to \$131.6 million. Adjusted EBITDA increased 112% to \$22.8 million, yielding a 17.3% adjusted EBITDA margin or 510 basis points of margin expansion from Q1 of 2022. Shifting to global expenses. Film rental and advertising expense was 53.6% of admissions revenue, down 50 basis points year-over-year due primarily to lower marketing spend as we flexed our investments to align with our expectations around box office and returns.

This benefit was somewhat offset by the content mix in the quarter. Regarding our marketing spend, with the first quarter box office meaningfully exceeding expectations, we spent somewhat less than we would have otherwise. We continue to see meaningful returns on our marketing investments as we seek to grow our customer base, increased visit frequency, and strengthen loyalty. Concession costs as a percent of concession revenue were 18.5%, up 120 basis points compared with the first quarter of 2022, driven primarily by inflationary pressures and mix impacts, partially offset by strategic pricing actions. It's worth noting that the year-over-year comparison is impacted by one-time benefits to the COGS rate in the first quarter of 2022. Global salaries and wages as a percent of total revenue declined 320 basis points due to operating leverage associated with the growth in attendance, the unexpected strength of the box office, and our ongoing focus on labor management. While we continue to face some wage rate pressure during the quarter, it was mostly government mandated rather than market-driven.

Facility lease expense as a percent of total revenue declined 300 basis points compared with the first quarter of 2022, as we gain more leverage over our lease costs, which are largely fixed in nature, particularly in our domestic segment. Utilities and other expense was \$103.8 million, up 19% from the first quarter of 2022, primarily driven by variable cost that grew with attendance and rising utility rates. G&A was \$46.5 million in the first quarter, reflecting incremental headcount to support business recovery and strategic initiatives, wage and benefit inflation, a shift towards cloud-based software, and higher stock-based compensation. We remain disciplined around discretionary spending in staffing with headcount below 2019 levels. Globally, we generated a net loss attributable to Cinemark Holdings Inc of \$3.1 million in the first quarter, resulting in a loss per share of \$0.03.

Moving to the balance sheet. We ended the quarter with \$650 million of cash and we generated positive operating cash flow and only modestly negative free cash flow in the quarter despite working capital headwinds. Our balance sheet remains a key differentiator, considering the strength of our cash position, earlier this week, we redeemed \$100 million of our 8.75% senior secured notes scheduled to mature in 2025, underscoring the health of our company and our optimism regarding the industry's

recovery potential. We also continue to invest in the long-term health of our fleet with approximately \$150 million of capital expenditures anticipated for this year.

Roughly half of this spend is allocated towards maintaining a high-quality circuit and the remainder to ROI-generating initiatives, including new build theaters and premium amenities such as recliner conversions, premium large format screens, and D-BOX motion seats. Our near-term capital allocation priorities remain centered around strengthening our balance sheet and making investments to position the company for long-term success. As the box office in our free cash flow continues to rebound, delevering is a priority for us, as is extending maturities of capital market conditions warrant. Of course, we intend to remain balanced and disciplined when it comes to our capital allocation with the target net leverage ratio of 2 to 3 times. In closing, we remain highly optimistic regarding the ongoing recovery of theatrical exhibition in our company. We expect to gain further operating leverage as the overall box office rebound and we continue to realize the benefits from the execution of our strategic priorities. We remain focused on maintaining our ongoing financial strength, delivering industry-leading results, and driving long-term shareholder value.

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

Questions And Answers

Operator

Thank you. We will now be conducting a question-and-answer session. (Operator Instructions) Our first question comes from the line of Eric Handler with ROTH MKM. Please proceed with your questions.

Q - Eric Handler {BIO 1522426 <GO>}

Good morning and thanks for the questions. Sean, forgive me if I missed this in the call, but what percentage of your box office revenue was premium and how does that compare to the prior year? And then, now that you're seeing some improved depths of moving product, I wonder if that's having any positive impact on Movie Club and wonder if you could talk about where the subscription numbers are and also a while back you guys used to talk about credit redemption and maybe you can give a little update there?

A - Sean Gamble {BIO 16328936 <GO>}

Sure. Thanks for the questions, Eric, and good morning. As far as our premium box office as a percent of total, for the quarter, we were about 12.5% or so in the US and about 12% overall, that's pretty consistent with where we were last year. We continue to see over-indexing and by the way that's just of our XD screens, that doesn't include other premium formats. When you include everything else, it probably takes it up a bit closer to 15%. What I'm saying is that that continues to over-index versus where we've been historically on pre-pandemic terms. We continue to see consumers electing to upgrade, not only for premium formats of viewing but also with regard to their food and beverage consumption. By the way, Movie Club too, I'd say the sustained trends that Movie Club are

very positive. We continue to add members in a consistent pattern to what we saw prior to the pandemic. Our membership levels are continuing to exceed 1.1 million members and our consumption has been consistent.

I'd say, if anything, consumption in terms of the utilization of credits is perhaps down a slight tick from where we were pre-pandemic, but based on our assessment it's largely just due to the content recovery cycle akin to what we're seeing with overall attendance trends. So we can continue to be very encouraged by the dynamics of Movie Club and even our newest members that we continue to add into that program are consuming at a level consistent with some of the earliest members who joined, which gives us ongoing optimism about trying to get people into that program. We see the value as we get people in the program, their consumption tends to be at a higher level with regard to the number of movies they go to, the amount of upgrading they do, and the amount of food and beverage they consume.

Q - Eric Handler {BIO 1522426 <GO>}

Thank you very much.

A - Sean Gamble {BIO 16328936 <GO>}

Thanks. Appreciate it.

Operator

Thank you. Our next questions come from the line of David Karnovsky with JP Morgan. Please proceed with your questions.

Q - David Karnovsky {BIO 18283446 <GO>}

Thank you. At spot market share, your numbers look pretty similar to Q1 last year despite the Canada market fully open, so it does seem like you're continuing to gain share on an underlying basis. I guess how sustainable should we think about your share at current levels, was there anything about film mix that maybe helped in the quarter or can you sustain or even grow your position here? And then my second question is on the film rent and advertising, it seems like that helped you deliver better margin relative to Q4, despite lower box, can you just discuss a bit, how you think about flexing that investment up and down? I would assume some of that spend does come back to you in the form of market share gains.

A - Sean Gamble {BIO 16328936 <GO>}

Sure. Thanks for the question, David. I'll take the first one and Melissa will take the second. As far as market share goes, we certainly benefited from content that resonated very well across our global business domestically and within Latin America. You had films like -- family films like a Puss in Boots, horror films like Megan and Scream VI, and faith-based like Jesus Revolution, which we all tend to over-index on. So that certainly helped us in market share. We will see ebbs and flows quarter-to-quarter in share. However, as we kind of indicated on some past calls, we tend to think that somewhere around 100 basis points of increase relative to our pre-pandemic levels is reasonable to expect going forward. Certainly, our aim will be to expand that, but we think that's a good target to hold.

A - Melissa Thomas {BIO 20879756 <GO>}

And in terms of film rental and advertising rates, as you think about it, those in the near-term similar with 2022. It's reasonable to assume that our film rental and advertising rates will continue to be impacted by a higher concentration of larger Tent-pole films with some offsets from the modifications to film rental terms, commensurate with the shortened theatrical window. But with respect to marketing, while our marketing spend will continue to vary based on our expected attendance and ROI. We are expecting a meaningful step up year-over-year in our marketing spend as a percentage of admissions revenue.

Q - David Karnovsky {BIO 18283446 <GO>}

Thanks.

A - Sean Gamble {BIO 16328936 <GO>}

Thanks, David.

Operator

Thank you. Our next question comes from the line of Omar Mejias with Wells Fargo. Please proceed with your questions.

Q - Omar Mejias {BIO 19958512 <GO>}

Good morning, guys, and thank you for taking my questions. Maybe first, can you just talk about the impact from the writers strike and the potential for the directors and actors to follow soon. We know that the immediate impact (inaudible) non-existent just given the lifecycle of the production for movie films, but at what point the length of the strike would be into impact future production, and just any color that you guys can provide us that would be helpful? Thanks.

A - Sean Gamble {BIO 16328936 <GO>}

Sure. Thanks for the question, Omar. It's certainly something we all be watching very closely and it's unfortunate just to come to this because it certainly has a meaningful impact on a lot of people. It's probably still a bit too soon to speculate and we can talk about the writers guild, hard to really say what ultimately comes with other guilds down the line. The ultimate impact, as you know, it really depends on how long the strike lasts. A lengthier one poses more risk than a shorter one. While television tends to feel more of an immediate impact from these types of strikes, at least the positive thing for our industry in the short run is, the majority of films scheduled for this year and next are unlikely to be materially affected based on the stage of production they're into to hit those dates. And we know from our studio partners that they've been planning for this, trying to accelerate where they can, and given the long lead time in making films are often able to recuperate some of that time down the line depending on how it goes. In the past, some of the longer strikes like what we saw in 2007 and 2008 with the 100-day, writers guild strike had perhaps some impact on the industry, but the overall disruption to the flow of films was fairly limited as the studios, they were able to pull forward and work around that because of the lead times of their productions to try to minimize the overall impact. So we're going to have to see how things progress and hard to say what point

there is a tipping point in terms of impact, but now it's something that we're watching and our studio partners are very focused on as they certainly don't want to have a major disruption in their flow of content.

Q - Omar Mejias {BIO 19958512 <GO>}

That's very helpful. And Melissa, maybe on the cost side, US concessions as a percentage of revenue were a little bit higher than expected, but on the other hand salaries and labor seems to be much improved, can you give us a little bit of color on just an update on what's the inflationary cost pressures and how should we think about -- how should we be thinking about it for the balance of the year? Thank you.

A - Melissa Thomas {BIO 20879756 <GO>}

Yeah. So a couple of things worth calling out here, Omar. So starting with the COGS side of things, it's important to note, when you're looking at the year-over-year comparison in our COGS rate that Q1 of 2022 benefited from some one-time cost savings, including purchase of generic popcorn bags and bankrupt [ph] cinemas and our ability to use inventory on hand in Q1 of 2022 that was purchased at lower prices in late 2021 in anticipation of future price increases as well as supply chain challenges. So if you look at our COGS rate for the last nine months of 2022, you can see that we're only slightly up from a COGS rate perspective in Q1 of 2023. As we think about balance of year on the COGS side, we still do see some inflationary pressure, particularly on commodities, while we've seen some easing in canola and corn prices that has been offset by rising sugar prices. So as we think about those full year 2023 COGS rate expectations, we are expecting to continue to see some modest pressure in our COGS rate relative to 2022. On the labor side, in particular, with Q1, our labor benefited from our outperformance on the box office versus our expectations. As you may know, the way that we staff our theaters is based on projected attendance, and with that outperformance, we weren't staffed at the levels that we typically would be staffed at to service that level of attendance. So that did benefit us on the salaries and wages side in the first quarter of this year.

As you think about going forward on labor, there -- what you can expect is, on the hour side or labor hours, we would expect to step up as attendance further recovers albeit that's not going to grow at the same rates per se as attendance and we will gain some operating leverage there. And then on the wage rate side, which is where we felt quite a bit of pressure over the past few years, we have started to see that pressure subside particularly on the market-driven pressures. So as we think about going forward for salaries and wages, what we expect to see there more so is going to be government-mandated increases, which we've seen in pre-pandemic times as well.

Q - Omar Mejias {BIO 19958512 <GO>}

Thank you.

A - Sean Gamble {BIO 16328936 <GO>}

Thanks for the questions, Omar.

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Operator

Thank you. Our next question comes from the line of Chad Beynon with Macquarie. Please proceed with your questions.

Q - Unidentified Participant

Hi, this is Aaron [ph] on for Chad. Thanks for taking our questions. Regarding pricing, where movie-going is still much more affordable than other entertainment options, can you talk about the further opportunities for just organic price increases? Thank you.

A - Sean Gamble {BIO 16328936 <GO>}

Certainly, look pricing is a very important factor in our industry as it is in many. Moviegoers on a whole tend to be relatively price sensitive, so it's something that we keep a close watch on. Our general strategy as we've been recovering from the pandemic is to be careful with the pricing. As we've certainly been trying to reignite movie-going and encourage increased frequency of our moviegoers, we use a tremendous amount of data in our decision-making process with regard to pricing and it really becomes a very discrete theater-by-theater based exercise in terms of what that each individual market can bear and what each individual theater can bear. As we look forward in terms of where opportunities lie, we believe there is actually quite a bit of opportunity. It's one of the upside areas of potential we have, not just necessarily from taking prices up but really finer tuning our pricing and optimizing that as we continue. I'd say some of the techniques we're doing are relatively new and we believe we're seeing great results. In Canada, we talked about market share earlier. It attributed some of our positive benefits and market share to the pricing strategies that we've been utilizing and we think there's quite a bit more opportunity as we look ahead.

A - Melissa Thomas {BIO 20879756 <GO>}

I think the one point that I would add on your important context is that if you look at our pricing and how that's changed since Q1 of 2019, right, we've seen big lift on the concession side, we've seen nice lift on ETPs, but our -- from a price standpoint, our prices have actually increased below inflation, so we do think there's room there.

Q - Unidentified Participant

Okay, awesome. That's very helpful. And can you also talk about any opportunities to expand beyond the current portfolio and what your appetite is or how this ranks among your priorities? Thank you.

A - Sean Gamble {BIO 16328936 <GO>}

Sure. Look, we're constantly looking at what is the right profile for our portfolio of theaters and circuits and where there may be opportunities to expand. One of the focal areas we've talked about optimizing our footprint, which is a combination of looking for new opportunities in existing markets or new markets, as well as trimming down in areas where perhaps we have underperforming theaters, we've been doing that. So I would say we kind of look at all the opportunities out there. Obviously, there's a lot of moving pieces in our industry right now with certain theaters coming back to market, different levels of

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health of different circuits, so it's something that we're just going to continue to look at. We do think there could be opportunities there. We are going to be careful as we are looking to re-strengthen our balance sheet as we go ahead and pursue a lot of organic opportunities that we have on hand that we think have rich ROIs against them, but yeah, I mean, look, we're optimistic about further opportunities coming to the table here over the next year or two.

Q - Unidentified Participant

Awesome. Thank you very much. Congrats on the quarter.

A - Sean Gamble {BIO 16328936 <GO>}

Thanks, Aaron. I appreciate it.

Operator

Thank you. (Operator Instructions) Our next questions come from the line of Jim Goss with Barrington Research. Please proceed with your questions.

Q - Jim Goss {BIO 1494353 <GO>}

Good morning. Speaking of optimizing the portfolio, if we turn to Latin America, in particular, I know the ability to grow organically depending on shopping center development has been problematic, but I wonder if you're seeing more M&A potential there versus the US as a way to increase your penetration in those markets.

A - Sean Gamble {BIO 16328936 <GO>}

Sure. It's a great question, Jim. I would say, particular to M&A, we would look at the US as likely having more potential there than perhaps LatAm, not to say that there couldn't be opportunities in Latin America, but the different dynamics you have as US tends to be far more fragmented market, while in LatAm generally the top two or three circuits drive 80% of the box office and they tend to be owned or our peers tend to be owned by well-financed organizations. These are very wealthy families and/or institutions that aren't at any type of financial risks. So because of that -- and many times they own malls themselves or the theaters are part of an enterprise that they have that fits in strategically. So we think it's unlikely that there are many opportunities to come to market in that area just because of that, again, not to say that there couldn't be some.

Q - Jim Goss {BIO 1494353 <GO>}

Okay. And coming out of CinemaCon, I'm wondering if any of the discussions involve the role of theaters in persuading the studios to fill the schedule in a way that would benefit all stage blockbusters, for example, our good windows usage and counter programming, as things are developing back towards normalization?

A - Sean Gamble {BIO 16328936 <GO>}

I think, as mentioned in prepared remarks, I think we all were really encouraged by the collective materials that we saw at CinemaCon and I would say it was a very wide-ranging

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and diverse set of films. So the good news is there certainly were plenty of large Tent-pole blockbusters on the horizon, but quite a range of romantic comedies and R-rated comedies, and as I mentioned faith-based, adult dramas, I mean, there was really a range of products for all types of audiences, which we think is very healthy for the industry. At CinemaCon, the studios tend to highlight some of their larger content that is more on the helm. We have been having plenty of conversations about other forms of alternative programming as well, like things like concerts and anime and things of that sort. Anime, I should say is part of some of the studios. Sony has a relationship with Crunchyroll, but we thought that concerts and multicultural and things like that, there's a lot of that has been starting to ramp up and increase that we're encouraged about. We have been talking to the studios about how do we also tap into some of the serialized content that they have been producing and look for opportunities with premier events and things of that sort, we've done a handful of those already with a lot of success and a lot of fan base -- fan based excitement. So I expect there to be more and more of that over time. I would say alternative content as a category has been an area that we've always felt had a lot of potential and unfortunately never really seem to scale materially. Over the past couple of years, we've finally seen that start to get a little bit of momentum. As an example, alternative content for us was a little over 8% of our box office in the first quarter, and historically that is typically around 2% or so. So we've definitely seen that start to scale up and we think somewhere around five plus percent is an area of opportunity for it to hold out into the future.

Q - Jim Goss {BIO 1494353 <GO>}

Okay. And then one last one, I know this -- I appreciate this would be tough to measure precisely. So I wonder if there's any perceived slippage streaming that you might have experienced absent the pandemic? It seems that there could have been some slippage in the past that it's possible that some of those potential customers may return less frequently if at all, do you have any sense of that?

A - Sean Gamble {BIO 16328936 <GO>}

We haven't seen any data to suggest that's happening. In fact, we tend to think that there's been a false narrative painted in the media that streaming and theatrical compete with each other. When in reality they tend to be very complementary. It's not to say that there might not be some really compelling piece of content on TV that causes somebody to elect to stay home versus not go out in a particular evening. But what we know from a lot of analytics, multiple analytics that have been performed is, the most active moviegoers are the most active streamers and conversely those who don't go to the movies are the people who consume the least amount of content on streaming services, it's just not their thing they do, they do other forms of entertainment. I think probably one of the biggest data points we tend to look to historically is, the biggest weekend of movie-going ever in the US, which was the opening weekend of Avengers: Endgame, was also the biggest night in television history with the climax episode of Game of Thrones on HBO and both of those two things coexisted on the same weekend.

So there certainly is the ability for these things to play together and if anything what we're seeing is the opportunity for things to build off of each other. I mean, you look at all the series on streaming platforms that have come out of movies, we think some of that is kind of going to play back into and playoff of each other. So we think these are just great opportunities for complementary programming that builds the pie in total and we're not

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seeing any data to suggest that we've lost consumers or there has been slippage. Obviously, the pandemic was a unique period where there was a health concern that could have affected that during that period, but now that we've gone beyond that and content has been coming back to theaters and there's a more sustained momentum of movie-going, we're not seeing any data to suggest that that's the case.

Q - Jim Goss {BIO 1494353 <GO>}

All right, thanks very much, Sean.

A - Sean Gamble {BIO 16328936 <GO>}

Thanks, Jim. Really appreciate it.

Operator

Our next question comes from Omar Mejias with Wells Fargo. Please proceed with your question.

Q - Omar Mejias {BIO 19958512 <GO>}

Yes, thanks for taking my follow-up, just a quick question as it relates to long-term margins. With the strength of ATPs and per caps and all the work that you guys have been doing on the cost side and working with the operational efficiencies, do you guys think that you can return to pre-pandemic margin levels without -- or without just the similar attendance levels at the box office, just your thoughts on the future -- future margins for the business? Thank you.

A - Melissa Thomas {BIO 20879756 <GO>}

Happy to take that one, Omar. So we generated in Q1 a healthy adjusted EBITDA margin of 14.1% globally and that was despite attendance only recovering to around 70% of 2019 levels. So clearly, our goal over the longer-term is to get back to pre-pandemic adjusted EBITDA margin levels in the low 20% range even without the dividend income we historically received from NCM and DCIP. But our ability to do so is going to be dependent upon a number of variables. Primary driver, as you know of go-forward margins is going to be the extent to which attendance in box office recover. However, there are a number of other variables, whether tailwinds from market share, elevated per caps, and average ticket prices continue, and then how inflationary pressures evolve from here. As it relates to 2023, we definitely believe that we can continue to expand our margins based on our expectations of further recovery and the box office as we gain more leverage over that fixed cost base. But clearly over the longer-term, we are striving to get back to those pre-pandemic adjusted EBITDA margins and we do have initiatives both on the top line as well as on the productivity side to try to do so.

Q - Omar Mejias {BIO 19958512 <GO>}

Perfect. Thank you.

A - Sean Gamble {BIO 16328936 <GO>}

Thanks, Omar.

Operator

Thank you. There are no further questions at this time, I would now like to hand the call back to Sean Gamble for any closing remarks.

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A - Sean Gamble {BIO 16328936 <GO>}

Thanks, Gerald. As we wrap, I'd just like to emphasize again that we could not be more encouraged by the positive momentum, progress, and performance our industry and company have realized year-to-date. As we look forward, we believe all of our key stakeholders, including investors, partners, and employees have much to be excited about. Consumers continue to demonstrate their strong enduring demand for the types of experiences we provide. Studios are definitively recognizing the enhanced promotional and financial value that an exclusive theatrical release delivers to their films. The pipeline of future content volume continues to recover towards pre-pandemic levels and the array of opportunities that remain well within our control to grow and strengthen Cinemark are significant. Thank you all again for joining us this morning and we look forward to speaking with you again following our second quarter results. Have a great day.

Operator

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

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