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CNK.N - Q1 2024 Cinemark Holdings Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to Cinemark Holdings, Inc. first quarter 2024 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Ms. Chanda Brashears, Senior Vice President, Investor Relations. Thank them, especially you may begin.

Chanda Brashears - *Cinemark Holdings, Inc. - IR*

Good morning, everyone. I would like to welcome you to Cinemark Holdings Inc's first quarter 2024 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, and the company's actual results may materially differ from forward-looking projections due to a variety of factors. Information concerning 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 would now like to turn the call over to Sean Gamble.

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

Thank you, Chanda, and good morning, everyone. We appreciate you joining us today to discuss our first quarter 2024 results. Over the past three years, the theatrical exhibition industry has seen meaningful year-over-year increases in attendance and box office as film volume has been rebounding following the shutdown of movie making during the pandemic. And as we indicated last quarter, while this year will likely experience

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a dip in that recovery trajectory due to over six months of Hollywood strikes last year that again disrupted film production, 2024 kicked off to a better than expected start.

First quarter North American industry box office declined only modestly versus 2023 on account of a wide range of films that delivered outsized results. Examples include sci-fi sensation Dune Part 2 that outgrossed its first installment by more than 2.5 times with over $275 million of domestic box office. Animated hit Kung Fu Panda 4 which became the second biggest installment is franchise history with over $180 million domestically and more than $0.5 billion worldwide.

Biopic Bob Marley, One Love, which captivated audiences and generated nearly $100 million domestic box. Musical comedy Mean Girls and action thriller, The Beekeeper, which each delivered close to $70 million domestically and mega adventure Godzilla X Kong, The New Empire, that opened to a monstrous $80 million in North America at the end of the quarter and has since delivered over $500 million worldwide.

First quarter also benefited from strong continued play through of December's whimsical family spectacle Wonka which has now exceeded $215 million domestically and nearly $415 million globally. As well as Anyone But You that proved audiences are still craving romantic comedies in theaters having generated close to $90 million of domestic box office over its impressive run. Furthermore, we continued to witness strength of nontraditional content during the quarter such as the successful releases of Cabrini and the complete fourth season of faith-based series, The Chosen. The solid results of all these diversified titles once again provide strong further validation that consumer enthusiasm for experiencing compelling content in an elevated cinematic theatrical setting remains vibrant.

We certainly experienced that enthusiasm within our Cinemark theaters during the first quarter as we entertained nearly 40 million guests across our global circuit with results that once again outpaced the industry. Relative to 2019, our admissions recovery continued to sizably exceed that of our industry by 700 basis points domestically and 600 basis points internationally. To that end, we also continued to maintain the most significant market share gains compared to pre-pandemic results of all major exhibitors.

While Melissa will cover our financials in greater detail in a moment, during the first quarter, we generated nearly $580 million of total revenue, more than $70 million of adjusted EBITDA and a healthy 12% adjusted EBITDA margin. These results once again demonstrate our team's resilience and outstanding ability to skillfully navigate a dynamic operating environment pressured by strike induced headwinds. Yesterday, we also successfully retired another $150 million of our COVID-related debt. Given our sustained confidence in our team, financial position and positive long-term outlook for our company and industry.

That positive outlook was further reinforced a few weeks ago during CinemaCon, our industry's annual trade show event, as studios and filmmakers provided glimpses into their upcoming film lineups for the next year and a half. One key message that was emphasized again and again by studios during CinemaCon, as has been consistently conveyed to us during our one-on-one conversations is the significant enhanced value that a theatrical release provides their films and their companies.

As we highlighted on previous earnings calls, the clear consensus is that theatrical release delivers unparalleled levels of promotional impact and quality perception, which strengthens consumer interest to see films, bolsters long-term recall value and leads to elevated lifetime financial results throughout all distribution channels. It's also very important for consumers who want to experience these films on the big screen as well as for attracting top-tier talent. In light of this context as well as what has been further communicated by the studios with regard to their future film development plans, we continue to remain bullish about the resurgence of film volume over the coming years.

Production is now fully up and running again, following last year's strikes. New significant entrants like Amazon and Apple are meaningfully scaling into theatrical exhibition and nontraditional content like concerts, faith-based films, multicultural titles, and anime is also growing. Along these lines, the major studios took the opportunity during CinemaCon to showcase an increased number of titles relative to prior years and what they shared, both the quantity of films as well as the quality of materials presented, created a buzz of optimism that permeated the convention all week.

A diverse range of highly anticipated films slated for the rest of this year appear primed to fully deliver, including a resurgence of family films like IF, The Garfield Movie, Inside Out 2, Despicable Me 4, Moana 2, Mufasa:The Lion King. Action adventure sagas, such as Kingdom of the Planet of the Apes, Furiosa, Bad Boys:Ride or Die, Twisters, Venom:The Last Dance, and Gladiator 2. Comedic thrill rides like The Fall Guy, Deadpool and

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Wolverine, Borderlands, Beetle Juice Beetle Juice, Red 1, and Sonic the Hedgehog 3. Suspense thrillers, such as A Quiet Place Day 1, Alien: Romulus, Joker 2, Speak No Evil, and Smile 2, and the fantastic world of Wicked Part 1.

And next year's lineup is already coming together in a big way with a wide array of spectacle films that includes Wicked Part 2, another Jurassic World, Superman Legacy, the next installment of Mission Impossible, a reboot of the Fantastic Four, Ballerina from the John Wick universe, a live-action version of How to Train Your Dragon, Captain America:Brave New World, Snow White, Zootopia 2, Minecraft, M3gan 2, Tron: Ares and of course, Avatar 3, whose prior installments represent the number one and number three biggest global films of all times.

So again, based on strong sustained consumer interest in moviegoing, numerous indicators that point to a continued resurgence of film volume, and the highly encouraging slate of upcoming titles on the horizon we maintain a positive future outlook for the actual exhibition and our company. And we believe that Cinemark, in particular, is uniquely positioned to prosper as we move forward on account of several key differentiators.

To start, our consistent investment in maintaining and enhancing our theaters over time, which we've performed at sustained levels that significantly exceed our peers has positioned our company with the largest collection of high-quality assets in our markets.

In addition to a more favorable overall condition of our theaters, we have the highest penetration of luxury seat of the major operators with almost 70% of our domestic circuit reclined. We have the best sight and sound technology and overall film presentation in the business, including 99.97% screen uptime. We have the number one private label premium large-format in the world with our XD auditoriums as well as the largest footprint of D-BOX motion seats, and we now offer enhanced food and beverage menus in more than 80% of our US theaters.

We also have a distinctive global footprint across the US and Central and South America with a concentration in both suburban and Latin markets that have strong moviegoing cultures, which tend to over-index in theater visitation frequency. With one of the highest market shares in North America as well as the highest share across our Latin American region, our global footprint also provides valuable scale.

Furthermore, it provides attractive diversification across 42 states and 14 countries beneficial, best practice sharing and access to varied pockets of growth in underpenetrated markets. Beyond the quality of our assets and our favorable geographic profile, we also have a solid financial position with a healthy balance sheet, industry-leading adjusted EBITDA margins and cash flow generation and results that consistently outperform our industry.

Our disciplined and balanced approach toward capital allocation over the years has positioned our company with an outsized advantage to both effectively navigate periods of reduced film volume as well as actively capitalize on market opportunities as they materialize.

Our solid financial position is further supported by our advanced operating capabilities. These capabilities are the byproduct of deep experience, domain expertise, and skill of our sensational global team as well as years of deploying strategic initiatives. Examples include our heightened levels of customer service that consistently earn high satisfaction ratings from nearly 95% of our guests in our domestic surveys.

Sophisticated social and digital marketing platforms and tools that deliver billions of media impressions annually, driving increased film awareness and demand to visit Cinemark. And planning and execution rigor that has a consistent track record of optimizing showtimes and staffing fine tuning operating hours theater by theater based on fluctuating weekly demand, and driving efficiencies to help offset varied inflationary and supply chain oriented headwinds.

Our adept operating abilities and consumer minded actions have also helped us to develop a loyal and extensive consumer base. We have over 21 million members in our global loyalty programs. In the US alone Movie Club, our paid subscription tier now accounts for 25% of our domestic box office. These members are frequent and dedicated Cinemark moviegoers as well as our most satisfied guests. Moreover, our marketing reach extends to a total addressable customer base of nearly 30 million consumers, and continues to grow.

Finally, we are also well positioned to drive incremental value creation on account of the numerous levers we have that go above and beyond our industry's continued recovery and our singular competitive advantages. From continuing to extend premium amenities more broadly across our circuit, to enhancing our food, beverage, and merchandise offerings as well as distribution methods, even further taking our pricing sophistication,

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to the next level while executing a wide range of additional productivity initiatives to further optimizing our circuit, including adding attractive new assets while addressing lower-performing properties.

The opportunities before us to drive incremental growth and prosperity that are fully within our control are plentiful. Those opportunities, combined with the positive direction our industry is headed, as well as our advantaged market position, underpin our optimism about the future of Cinemark and our ability to create meaningful long-term value for our shareholders.

I'll now turn the call over to Melissa for a deeper look at our first quarter financials. Melissa?

Melissa Thomas - *Cinemark Holdings, Inc. - CFO*

Thank you, Sean. Good morning, everyone, and thank you for joining the call today. We were pleased that the first quarter box office surpassed our expectations. Our team once again demonstrated our agility in the fluid environment and achieved healthy operating and financial outcomes by capitalizing on the box office and diligently executing our strategic initiatives.

Globally, we welcomed 40 million guests to our theaters and generated $579.2 million of worldwide revenue in the first quarter. We delivered $70.7 million of adjusted EBITDA, yielding a solid adjusted EBITDA margin of 12.2% despite the pressure on operating leverage, given the attendance decline due to the impact of the Hollywood strikes. Domestically, we entertained 23.6 million moviegoers in the first quarter and maintained strong market share.

We generated $231.8 million in admissions revenue and we grew our average ticket price 1% year over year to $9.82. The growth in average ticket price was driven by our strategic pricing initiatives, partially offset by the ticket type mix with more family content in the first quarter of this year as well as format mix due to the lapping of strong 3D penetration on Avatar from the prior year period. We generated $178.6 million of domestic concession revenue, and our US concession per cap achieved a first quarter record of $7.57.

Our concession per cap grew 2% in the quarter, fueled primarily by strategic and inflationary pricing measures and a shift in product mix towards higher price concession items, partially offset by lower incidence rates due to film content. Other revenue was $46.6 million, down 2% year over year, primarily due to the decline in attendance. Collectively, our domestic segment generated $457 million of total revenue and $49.1 million of adjusted EBITDA, yielding an adjusted EBITDA margin of 10.7%, reflecting the relatively fixed nature of our domestic cost base.

Shifting to our international segment, we hosted 16.1 million guests during the quarter, a decline of 9% versus the first quarter of 2023 as the film slate did not resonate as well in the Latin American region year-over-year. But we did benefit from an increase in local content in Brazil. Similar to the US, we maintained strong market share across the region.

As reported, our Latin American operations delivered $58 million of admissions revenue, $45.6 million of concessions revenue, and $18.6 million of other revenue. Altogether, we generated $122.2 million of total international revenue and $21.6 million of adjusted EBITDA, yielding a 17.7% adjusted EBITDA margin.

Foreign currency devaluation, particularly with respect to the Argentinian peso, resulted in a year-over-year headwind to international adjusted EBITDA in the quarter. That was largely offset by inflationary dynamics. Our seasoned and knowledgeable local teams continue to skillfully maneuver through the fluid, economic and political environment in the region.

Turning to our Global expenses, film rental and advertising expense was 53.2% of admissions revenue, down 40 basis points year over year due to a lower concentration of box office and the mix of films during the quarter, partially offset by higher marketing spend. As I mentioned on our earnings call last year, industry box office in the first quarter of 2023 meaningfully exceeded our expectations resulting in marketing expense as a percentage of admissions revenue that was somewhat lower than we had planned, creating a tougher comparison.

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Concession costs as a percent of concession revenue were 19.6%, up 110 basis points compared with the first quarter of 2023, driven by ongoing inflationary pressures on certain core concession items as well as a shift in product mix towards lower margin products such as movie themed merchandise, strategic pricing measures partially offset these impacts.

Global salaries and wages were $86.9 million relatively in line with the first quarter of 2023. As a percent of total revenue, salaries and wages increased 90 basis points, primarily due to reduced operating leverage associated with the decline in attendance, wage rate pressure, and expanded operating hours. Benefits from our ongoing focus on labor management drove a partial offset. Facility lease expense was $77.3 million, a modest decline of 3% year over year, primarily due to theater closures. As a percent of total revenue facility lease expense increased 30 basis points.

Utilities and other expense was $100.4 million, down 3% from the first quarter of 2023, primarily driven by variable costs that declined with attendance and foreign currency impacts, partially offset by inflationary pressures. As a percent of total revenue, utilities and other increased 30 basis points. G&A was $48.9 million in the first quarter, an increase of 5% year over year, primarily due to wage and benefit inflation, onetime severance costs and higher share-based compensation, partially offset by lower professional fees and the impact of foreign currency fluctuations. We continue to exercise prudence in our discretionary spending and staffing decisions, maintaining headcount below 2019 levels. As a percent of total revenue, G&A increased 80 basis points.

Globally, we generated net income attributable to Cinemark Holdings, Inc., of $24.8 million in the first quarter, resulting in earnings per share of $0.19. Net income for the quarter included a $27.7 million tax benefit, primarily due to the release of valuation allowances in certain foreign jurisdictions.

Turning to the balance sheet, we ended the quarter with a strong cash position with $789 million of cash on hand. As expected, our free cash flow was negative $46 million for the quarter given the softer box office environment, the timing of our semi-annual interest payments, seasonal working capital headwinds and our ongoing investment in our circuit. In the near term, we remain focused on further strengthening our balance sheet while deploying capital towards strategic investments that position the company well over the long term.

To that end, yesterday, we used cash on hand to redeem the remaining $150 million of our 8.75% senior secured notes at par, reflecting our confidence in our companies and the industry's recovery. Furthermore, we invested $23 million in capital expenditures to further enhance our global circuit. Looking ahead, we continue to anticipate deploying $150 million this year towards capital expenditures, aligning with our commitment to prudent financial management. At the end of the quarter, our net leverage ratio stood at 2.8 times for the trailing 12 months, which is at the high end of our target range of 2 to 3 times.

While our objective is to sustain this leverage ratio within our target range, we may face some pressure this year due to the Hollywood strike impact. I would like to reiterate that at this juncture, our capital allocation decisions are prioritizing a dual focus. We are fortifying our balance sheet and strategically positioning ourselves for long-term success.

In closing, as we face complexities associated with Hollywood strikes, our commitment to sound operating and financial practices remains steadfast. At the same time, as Sean highlighted, we are laser-focused on maintaining our distinctive market position and further advancing our company, which gives us optimism regarding our future prospects and the value we can provide to our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Eric Handler, Roth MKM.

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Eric Handler - *Roth MKM - Analyst*

Good morning and thanks for the question. Sean, we've seen a number of companies this earnings season talk about the consumer being more collect -- conservative or -- selective with their spending decisions. I'm curious, are you seeing anything notable in terms of how they purchased tickets, or food and beverage decisions that maybe suggest there's some selectiveness going on here too?

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

Good morning and thanks for the question. It's a good question. I'd say interestingly, to date, very consistent with history, we have not seen a significant impact from the macro economy on our business. When the movies are in our theaters, we continue to see consumers coming out -- I mean, I think we mentioned that in the prepared remarks just in terms of the number of films that has delivered above expectations and that that plays through to choices to upgrade to premium formats. It plays through to concession purchases. As we mentioned, we had another record first quarter per cap this quarter.

So we haven't seen that bleed through. It's similar to, as I mentioned, recessionary environments of the past where our industry has grown in six of the past eight major recessions kind of in North America. Going to movies remains an affordable form of entertainment, while consumers may scale back and other things that they may otherwise go to. It's a localized affordable means of entertaining themselves, and they still tend to select -- to indulge when they come to theaters, and we just continued to see that in this current environment.

Eric Handler - *Roth MKM - Analyst*

Great. And then just a follow-up, from what I see in your press release, there really isn't much of a backlog at this point with new-build theaters. Are you seeing anything change in the market that maybe could allow you to expand it beyond what you're currently planning?

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

Sure. Well, I think there's probably twofold. One, I think much like the whole of the industry during the course of the pandemic, our development process was more or less put on hold. We have reactivated that development pipeline process. So we're out there kind of scouting looking at sites. So there's a bit of a delay on account of that. And then beyond that, as we've talked about, we're still in that mode of just refortifying our balance sheet and being tempered in the amount of CapEx we're deploying as our cash flow continues to recover.

So I think those two things are a bit of regulators over just the speed of newbuild activity. But there are still plenty of markets where we see opportunities. And I think some of that will start to ramp to a certain degree over the coming years. It's just going to take a little bit of time.

Eric Handler - *Roth MKM - Analyst*

Thank you.

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

Thanks, Eric.

Operator

David Karnovsky, JPMorgan.

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David Karnovsky - *JPMorgan - Analyst*

Thank you, Sean, wanted to see if you could expand a bit more on your conversations on CinemaCon, what are you hearing from legacy studios in terms of output? Is there anything incremental to share regarding some of the streamers? And then with Amazon, we've seen them achieve some success recently with exclusive streaming films. Does that create any concern from your end about their output ramping over time?

And for Melissa, just your staffing costs were nearly flat year over year. Wanted to see if you could just speak a bit more to the initiatives you're deploying to control expenses there? And how should we think about the rest of the year kind of just given natural labor inflation and likely improvement in film supply by Q4?

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

All right. Well, thanks for the questions. Starting with CinemaCon, I'd say the overall feeling coming out of CinemaCon was definitely a very positive one. I think it's interesting to get some exposure to the materials that are up and coming and by and large, I think everyone is really positive about what they saw. Things look extremely promising. As I mentioned too, just the number of titles that were showcased on were also to a greater degree -- how that all plays through to future volume and both what we heard during CinemaCon and also what we continue to hear as we speak directly with our studio partners, is one of a focus on continuing to replenish on their production. They're building their slates back in many respects towards where they were pre-pandemic. In certain cases looking to go beyond that.

But it's just going to take some time. Obviously, they were in the process of ramping that back post pandemic and then the strikes just put a little hiccup in that. So that's just prolong things a bit further on. But on the whole, we remain very optimistic that in the coming years, we could see volume return back to -- close to, if not exceed pre pandemic levels.

Specific to your question on Amazon, yeah. I mean, look, we're we have very direct conversations. I think they're really bullish about theatrical opportunities. They're continuing to build towards that. They've got a number of films already slated this year. I think they're looking at '25 as kind of their first big major film slate in theatrical. That doesn't mean that they're going to walk away from direct to platform films.

I mean, we've seen that forever in this industry where studios will make -- HBO would make direct for HBO movies in the past and that would be direct-to-video films. So we certainly expect there will continue to be direct to streaming films. It's those movies that have a certain degree of higher scale and potential that are the ones that we will see coming to theaters. And we know that Amazon at least what they're sharing with us remains very committed to continuing to build into the space.

Melissa Thomas - *Cinemark Holdings, Inc. - CFO*

And then David, on the labor front. So we do continue to scale our labor hours up and down based on projected attendance levels that we're seeing. And we are working on a range of initiatives to drive further labor productivity. So a couple of examples for that we'd be continuing to rightsize our staffing at the wing. So opening and closing.

Being even more nimble between slow and peak periods with a focus on our most profitable service hours, optimizing operating hours and scheduling for expanded food and beverage offerings. And those are just some of the ways that we're looking to drive efficiencies. With respect to salaries and wages, more broadly, it is reasonable to assume going forward that we'll continue to flex our labor hours based on anticipated attendance levels, albeit at a rate that is less than the change in attendance.

I will say on the wage rate side, we do continue to face some pressure there. Now fortunately, what we're seeing now is more in line with pre-pandemic increases and then, as I mentioned, we do expect to continue to see some productivity benefits as we lean in there. The one call it I would make though, in 2024 in particular, especially in the first half of the year, we do expect to be more impacted by minimum staffing levels, just given the reduction in content volume is more concentrated in that period this year.

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But overarchingly, we're leaning into data assessing our profitability on a per theater, per hour basis to determine operating hours and our corresponding staffing requirements. I mean, we'll continue to balance our revenue-generating opportunities with cost mitigating initiatives.

David Karnovsky - *JPMorgan - Analyst*

Thank you.

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

Thanks.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne - *Morgan Stanley - Analyst*

Good morning. Two questions, really around some debates. I think on your business and the stock, your market shares has gains have persisted now for a while coming out of the pandemic, which as you know. And I guess one question I'd be curious to hear about it just the role that your loyalty programs you think play in driving share. I mean, I thought the slide in the deck that you have is interesting. You've got a million-plus people in Movie Club -- the 20 million-plus in a rewards program. And I guess the question is, does these have a measurable tangible benefit to your share and returns that you could share with us?

And then secondly, is around kind of capital allocation. I know it's leverage ticked up as expected. I'm just wondering, Sean, if you could talk about how you guys look at M&A? How do you think about valuing assets out there relative to your own stock? How do you think about deploying capital and M&A relative to resuming the dividend? I think it be helpful to hear your view -- your approach to those trade-offs as you guys move through this year. Thank you.

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

Excellent. Well, thanks. Thanks for the question, Ben. To start with market share, we certainly believe that our loyalty programs play a part in supporting our market share. It's difficult to fully slice that up in terms of how much of that is attributable just to the loyalty programs versus to some of our showtime planning efforts as well as just the marketing actions we do in general to try to stimulate demand and coming to Cinemark. There's a whole series of things and just the overall service and experience that we tried to providing in terms of our elevated levels of maintenance and just the overall experience we create.

So it's tough to say that, but given that Movie Club now consistently represents about 25% of our box office and those moviegoers tend to be our most satisfied moviegoers -- I mean, they wind up having a strong affinity to coming to our theaters. And so it certainly is a component we believe of what we're seeing in the uptick in our share. And we continue to look at ways that we can continue to pack value in that and utilize the data in that communication channel we have to create value for those guests because we see them over-indexing in their degree of frequency, in their level of coming to Cinemark and again, their overall satisfaction with regard to the experience they're having.

Specific to M&A, look, M&A is certainly one of the prongs of potential growth, we think about as we consider optimizing our footprint and growing overall. We do continue to target high quality assets that we believe can deliver solid assured returns over time, and we evaluate everything through that lens. We're not just looking to grow for growth sake. We believe we've had a lot of success in being disciplined and balanced with regard to deploying capital and targeting those kinds of investments that really do have a high probability of success.

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So again, we've done well in that regard. I'd say in this marketplace right now, what we're seeing is there still is a little bit of distortion out there, and it's a little bit complicated just due to a range of things. Clearly where the debt markets are right now, interest rates and costs of borrowing. Expectations of sellers still are off in certain cases in terms of expectations of what their margins really are and what multiples should be.

There's also that added layer of any particular type of company we might look at what is the level of incremental investment that may need to go back into that business to get those assets in the right shape, depending on what levels of deferred maintenance there may have been over the past several years that also just plays into the calculus of all that. So it's something that we certainly look at all opportunities in the marketplace. We're optimistic that some of those opportunities could shake out over the next year or so based on the environment we're in. But we're going to continue to be very disciplined and balanced in our approach towards that.

Melissa Thomas - *Cinemark Holdings, Inc. - CFO*

And in terms of our near-term capital allocation priorities you mentioned, as we stated on the call that those do remain centered around strengthening balance sheet and making those right investments to position us well for the long term. And ultimately, our decisions, as Sean mentioned, are returns driven by returns.

In terms of the dividend, we do believe our approach is prudent right now maintaining conservatism around our cash given the box office headwinds this year, coupled with the back-end weighting of the box office, which we do believe may pressure our net leverage ratio in the near term. So all that said, though, dividend's significant aspect of our capital allocation strategy prior to the pandemic and will remain a key consideration for us going forward.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. Thank you both.

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

Thank you.

Operator

Robert Fishman, MoffettNathanson.

Robert Fishman - *MoffettNathanson - Analyst*

Hey, good morning and one for Sean and then one for Melissa. Sean, maybe taking a different angle on the CinemaCon takeaways. I'm wondering how you'd characterize Cinemark's relationship with your studio partners more as it relates to the recent or maybe even upcoming renewals around windowing strategies? And do you see an opportunity to improve film rental splits going forward? Maybe let's start there, and I'll come back with my other ones.

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

Sure. Look, I'd say overarchingly, our relationships are very positive with our studio partners. Specific to windows, there's clearly been quite a bit of evolution in the window throughout the pandemic and following up on that. And I think with a lot of experimentation, there was clearly quite a bit of learning that an exclusive window definitely is something that creates more value for these film assets, particularly for the studios.

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It's the best way to fully gain that revenue opportunity in the theatrical space. It helps to create that bigger cultural moment. It helps to create more lift in downstream impact on all those subsequent channels. So that has clearly been tested and learned again and is something we're seeing now and by and large in the practice of windows.

I would say though, one of the changes which we actually view as a net positive, while the window reduced a bit and coming out of the pandemic and has become more dynamic, what that has led to, in our view, is something that improves the risk equation for the studios. So a successful movie can run long and they can extract more value out of the window, whereas if a movie -- they go for it and the movie just doesn't work, they've got an opportunity to get into the home quicker and manage their downside, which net-net is a good thing, especially as we're looking for more volume to come back through.

So it's one of the things we look to as a positive that plays into that resurgence of volume. And the reality is when movies aren't working, generally, we're moving on to the other films that are working stronger to begin with. So it works collectively both ways and we think that we can lead to the studio staking more risks on films like the mid-tier films and the romantic comedies and the raunchy comedies -- kind of some of the stuff that we haven't seen as much of as of late because that was a tougher financial decision prior to the pandemic.

So we're very positive. And I would say over the course of discussions, there has been economic consideration that has been factored into the equation with regard to some of the evolution of windows. So I think more on the go forward, it's just back to kind of that typical back and forth from any supplier customer relationship in terms of the splits. I wouldn't say there's any heightened degree of pressure or ease relative to the norm. It's that traditional relationship where sometimes one party is a little bit stronger than others and -- others and things just kind of ebb and flow. And in the aggregate and the overall film rental rates tend to stay relatively stable.

Robert Fishman - *MoffettNathanson - Analyst*

Great thank you, Sean. And Melissa, if I can do a little bit more detailed follow-up on CapEx. Spending levels have hovered around $100 million, 150 million range. You mentioned guidance again for this year coming out of the pandemic. But back in '19, you were at an elevated $300 million level.

And I understand that included the core maintenance spend in that $80 million range, but there is more significant spending levels around the newbuilds you already touched on and these cash flow-generating projects. So just maybe a long way of asking, should we expect to see more investment in cash flow-generating projects or anything else in the pipeline to call out to get back to more of an elevated level in '25 and beyond even if it remains below '19 levels?

Melissa Thomas - *Cinemark Holdings, Inc. - CFO*

And so thanks for the question, Robert. So we do believe our history of proactively maintaining and investing in our theaters is a key differentiator for the company. As you think about CapEx beyond 2024, I would expect us to maintain, again, a balanced and disciplined approach to our capital expenditures but to ramp our CapEx levels up as the box office rebounds, while our peak CapEx years are behind us from where I sit today, what I would say is -- we expect to grow to around CapEx to grow to around $200 million to $250 million annualized on a normalized basis.

So that will be contingent upon obviously the ROI generating opportunities that are available to us. But that $200 million to $250 million annually is where we think the CapEx should shake out relative to that kind of $300 million plus range that you saw at our peak years in the pandemic. And remember that included kind of that heavy push for recliner penetration. That's behind us largely at this stage. We would still expect around $80 million to $100 million. That spend to be earmarked towards maintenance CapEx to maintain a high-quality circuit. The remainder are dedicated towards newbuilds and other theater enhancements, including laser projector conversion.

Robert Fishman - *MoffettNathanson - Analyst*

Okay. Thank you both.

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

Thanks, Robert.

Operator

Omar Mejias, Wells Fargo.

Omar Mejias - *Wells Fargo - Analyst*

Morning, guys. And thank you for taking the question. Sean, maybe on the market share performance was very impressive during the quarter, especially as this slate wasn't particularly favorable for your demographics. You (inaudible) parse out the impact from Dune 2 and PLF outperformance versus continued organic share gains? And maybe second for me, you recently extended your summer Movie Club -- clubhouse program in response to strong consumer demand. Can you talk about the benefits of programs like this and any of the opportunities that you have to maximize capacity utilization across your circuit during off-peak periods? Thank you.

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

Thanks for the questions. Are specific to share obviously, we were very pleased with our results in the first quarter and actually there were several -- we benefited in particular from a handful of outperforming titles. So films like Kung Fu Panda 4, Godzilla X Kong A NEW Empire, and Bob Marley One Love. Those films skewed very much in our favor during the course of the quarter.

And I think were some of the drivers of our share. They more than offset, I would say some of the headwinds. Dune 2 is, by the way, was our biggest film of the quarter. But given it's a heavy sci-fi film, which often doesn't skew as much in our circuit, our share was a bit lower on that specific title. But collectively, all these other films definitely help to drive that.

I'd say another benefit in that it was an overall reduced box office environment due to the strikes. We also weren't coming up against capacity issues. Sometimes in those higher box office periods, you can only sell as many seats as you have. So you that can also sometimes lead to a dampening of share, but we didn't have any of those issues over the course of the quarter, which allowed us to just to really fully maximize the upside potential on all of these titles.

On programs, it's interesting, you mentioned that the summer movie clubhouse and we think it's a great program. Really the goal of that program is to trying to get younger families and younger audiences into the habit of moviegoing by giving them a very accessible price point on some legacy films. It really is a program that runs for a number of weeks. It's one day a week in the morning. So it's an early morning on type of opportunity.

So it can help with to a certain degree filling out that kind of maybe slower period on an early Wednesday morning, but I'd say that program in particular is really more designed towards trying to stimulate moviegoers of the future versus fill in other periods of lower capacity. We do run a number of other types of programs of bringing back reperatory content, fan favorites, and things of that sort that we look to kind of sprinkle in to lower periods of volume and certain days of the week as a way to trying to get a lift in during the course of the week days in particular and slower periods of business. So there are efforts like that, that we do pursue to try to do that.

Omar Mejias - *Wells Fargo - Analyst*

Great. Thank you.

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

Thanks, Omar. Appreciate it.

Operator

Chad Beynon, Macquarie.

Aaron Lee - *Macquarie Research - Analyst*

Hey, good morning. This is Aaron on for Chad. Thanks for taking our question. One more for you on CinemaCon. Was there anything you saw from a tech standpoint that you believe could enhance or change the experience for your moviegoers or help you from a productivity standpoint?

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

There's all kinds of evolutions that are constantly happening in terms of new introductions of technology, both from a productivity standpoint as well as from presentation standpoint. Obviously, Barco recently announced their new HDR kind of light steering projection capabilities, something that we've been talking to them about and working with them on for actually a number of years. So that's kind of out there. And that's something that has the potential -- it's a new even heightened level of laser projection. I mean, laser projection in and of itself takes the quality of light on screen to a new level.

It actually has productivity elements baked into it as well because it doesn't consume as much energy. You don't have to change the bulbs as much. You don't have to maintain them as frequently. So those types of pieces of equipment lend themselves to productivity. And then the light steering component of that also is something that could be taking that to another level. So there are things like that, that work.

But yes, there's a range of things. I mean, even in food and beverage, new types of equipment, things like that, that could lead to productivity. I mean, not necessarily specific to CinemaCon, but obviously you see it in different places in the market with unattended retail and things of that sort, which could lead to some overall labor productivity depending on -- as well as just revenue growth in pockets of theaters where you may be able to insert some of those things and drive incremental sales.

So yes, I would say that's something that our teams are constantly evaluating and it goes well beyond Cinemark. Just looking at what's coming to market in various pockets of our business from presentation, from labor management, from food and beverage equipment, and things of that sort just to drive incremental productivity benefits and overall experiential opportunities.

Aaron Lee - *Macquarie Research - Analyst*

That's great. And then just regarding concession per cap. So you just hit a domestic record in the US for the first quarter. Are you seeing more engagement in terms of incidence of purchase, bigger basket size or price increases? How would you break that down? Thanks.

Melissa Thomas - *Cinemark Holdings, Inc. - CFO*

I'll take that one, Aaron. So on the domestic per cab side -- or per-cap was up 2% year over year, and that was driven by strategic pricing (technical difficulty) actions to offset some of the inflationary cost pressures that we've been seeing, as well as a shift in product mix towards higher-priced items and merchandise being one example of that. That was partially offset by lower incidence rates due to the content mix in the quarter. So that's really the breakdown of the drivers there.

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As you think though, about our per cap on a go-forward basis. We do continue to believe that we can moderately grow our concession per cap for full year 2024 domestically. We continue to lean into various initiatives to maximize our incidence rates. So mobile order, ordering adoption, and self-service capabilities, modifying the flow of concession traffic, as well as leaning into enhanced food offerings, merchandise sales and scaling third party delivery. And we also continue to look to find optimal pricing that will maximize our per-caps while maintaining high incidence rates. But as you saw in the first quarter, our per cap will fluctuate ultimately quarter to quarter with film mix.

Aaron Lee - *Macquarie Research - Analyst*

That's great. And thank you very much and congrats on the quarter.

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

Thanks, Aaron. Appreciate it.

Operator

Mike Hickey, Benchmark,

Mike Hickey - *Benchmark - Analyst*

Hey, Sean, Melissa, Chanda. Good morning, guys. Great job on the quarter. Just two questions from us. Obviously, you don't forecast the box office Sean for obvious reasons, but given what you know I guess about Q2 and the rest of the year maybe just in terms of wide releases, do you feel like -- obviously Q1 outperform, do you feel like you can sort of build on the strength of Q1 sequentially through the remainder of the year or any sort of -- I guess insight on phasing on the box office? It seems like Q2 would be higher than Q1, Q3, higher than Q2, Q4 higher than Q3. But curious what you are saying there and then any updates, I guess, on wide release product in '25, how that would compare '24 and pre pandemic?

And then Melissa, not sure if you touched on this or not, but your concession margin domestically was sort of sub 81%. I think it's had about three quarters of sequential pressure here. Just curious what's driving that? And if you think this is sort of a low point in the quarter and you can sort of build back margin through the remainder of the year and medium term? Thanks, guys.

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

Sure, thanks for the questions, Mike. I guess starting with this year, yes, we saw a little bit of lift in the first quarter. There's been some title shifts like -- just like Karate Kid just moved out this year. So when we look at the totality of 2024, we still at least from our vantage point, we still think it probably looks pretty consistent to what we are seeing at the onset of the year.

Overall on volume of wide releases, we're still counting at around 95 or so films, which is down a touch from last year's 110. Again, relative to about 130 from pre pandemic timeframes. And that's all a byproduct of the six plus months of Hollywood strikes last year. So as you mentioned, the year is definitely back end loaded. More of that impact is playing through in the first part of the year. And then as you get towards the fourth quarter, that's when things really start to ramp up, particularly this the scale of the releases because those larger films that have more complex productions, more complex visual effects, like those are the things in particular that were most impacted.

So I'd say at this stage -- at least, again from our vantage point things we're seeing -- we still think the year is kind of looking comparable to what we were anticipating three months ago. As we look out to '25 it's still a bit early for a normal practice to trying to get a full handle on that. We're optimistic that we're going to see overall volume -- our viewpoint was you saw nice progression from '21 to '22, '22 to '23. Prior to the strikes we were anticipating '24 would continue that trajectory and then we had this little hiccup from the strikes.

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And we think ;25 will likely spring back to that trajectory curve that we've been on of recovery. So to be somewhere likely in line or above the 2023 -- between 2023 and pre-pandemic levels. Prior to the strikes, we thought there could be the potential for '25 or '26 to get back to pre-pandemic levels with the strikes. We think that pushes out a little bit further. But again, we think that we'll see some nice lift in improvements next year once we're fully past the effects of the strikes of last year.

And I just say, I know there's been a lot of questions on CinemaCon, at least the materials that were shared during that convention for the films that are going to be releasing in '25 look incredibly promising. I mean, we're really, really optimistic about what we saw. I'm really pleased just with the quality of the presentation of those titles that are up and coming.

Melissa Thomas - *Cinemark Holdings, Inc. - CFO*

Mike, in terms of your question on domestic concession costs rate, the change that you saw year over year in Q1 was primarily driven by two key factors. One, a shift in product mix towards lower margin rate items such as merchandise as well as candy. And then in addition to that, we did some increases in the cost of some of our core concession items. So beverages, bottled drinks and candy and then partially offsetting that was benefits that we realized from the strategic pricing actions that we've been implementing. As you look forward, we do expect concession costs as a percentage of concession revenue to begin to moderate over the next few quarters.

Now that said, we do still anticipate that our COGS rate will reflect a modest step-up for -- or from full year 2023 levels due in part to product mix as we continue to look to grow merchandise sales, expand enhanced food offerings, as well as scale third party concession delivery, which have lower margins than our overall kind of core concession offerings.

Now what we do expect ongoing inflationary pressures to continue in 2024, particularly in transportation, packaging and certain commodities, namely cocoa, we expect these pressures to be somewhat offset by corn, canola, oil and buttery topping prices moderating. So we also continue to execute on strategies to offset inflationary impacts wherever possible, including through strategic sourcing efforts of pricing strategies and proactive category management to really drive incidence.

Mike Hickey - *Benchmark - Analyst*

Thanks.

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

Thanks, Mike.

Operator

Jim Goss, Barrington Research.

Jim Goss - *Barrington Research - Analyst*

Thank you. You discussed earlier a little about your caution about newbuilds. I was also interested in looking at the screen count reduction you've had over the past that five years I think since the pandemic. I imagine the screen count reduction has had less of a revenue impact because of the nature of the screens you have than cutting out and also less of a profit impact. But can you talk about the headwind or drag that might have posed on you over those years? And what it's doing right now? And are you mostly through the process of screen count rationalization or should we expect somewhat more?

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

Thanks, Jim, good question. And I'd say on the whole, the industry is probably seen slightly in excess of 10% screen rationalization on since the pandemic. On a total net basis of those that we close relative to those that we've opened were slightly below that. Certainly in the US, they were about 7% or so of our screens down versus pre-pandemic. But the majority of those screens that have closed for us are the ones that were lower performing screens. There were ones that were older theaters. More on the cost of just breakeven performance.

So from an overall impact on financials, net-net between what we closed -- what we opened, that's actually a net positive in terms of bottom line. So I'd say we've been very particular in that. So there have been many theaters. We've able to go back and make modifications to leases and things like that and improving it. In certain cases, it just made sense to rationalize a bit. So on the whole, that's just part of our overall optimization of our footprint as we're looking to really shore up our higher performing theaters, look to make modifications to those theaters where we have the opportunity to do so with certain leases where there's a bit of pressure and then exit ones that are a bit more strained in that whole calculus.

And then again, we're adding new theaters to those footprints where there's opportunity. As we look ahead, yes, I mean that's I'd say we're kind of in that normal phase now, where it was always part of our practice of as older theaters are coming to the end of their leases, we're looking at how they're performing? And does it make sense to continue with those? Or does it make sense to look to newer opportunities?

So there could certainly be some incremental closures that we see over the coming years. But I wouldn't say that's necessarily a byproduct of the pandemic. This point that's just more of our normal practice. And as I mentioned earlier, we have reinvigorated our development pipeline with regard to new builds and looking at new assets to bring into the fold. So that could also offset that.

Jim Goss - *Barrington Research - Analyst*

Okay. And one other one, in recent calls, you've talked about alternative content and seems like a lot of the chains are talking about this a little bit more. I'm wondering what type of content are you thinking might resonate best with your audiences? Would it be concert or sparks if you can get the rights or other smaller genres like the faith-based that you've brought up? Are there other things? And also IMAX [and its call] was talking about [using] other days, which seems to be the conventional wisdom as to when you might both the net-net ahead with alternative content. Can you talk about any plans along those lines?

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

Sure. Look, I definitely overall, we've been thrilled to see a burst of life with alternative content. Historically it just kind of hovered around 1% to 2% of box office. And we always felt there was a lot more potential in these types of titles. And we're finally seeing that. For our circuit, I wouldn't say there's any one particular category that is necessarily a driver. It's really across the board.

So you named a few of them, whether it be concerts, faith-based films, multicultural titles, anime, we're seeing great success across all of these different categories, and we're thrilled just to see more and more titles of significance coming into theaters in that area. Again, for the first quarter, nontraditional content represented about 14% of our box office. So is definitely inflated again similar to last year, which was a banner year for nontraditional films. So we're certainly leaning into that. I'd say the key is there's often work to be done in this space.

So finding those types of products that lend themselves to scale -- sports, as you mentioned, is, is an area of opportunity. It's a complicated one just due to the way the licenses work and then also the question becomes how can you get scale because those tend to be singular events on a singular showtime, versus something like a concert or something like a faith-based film that can run throughout the week or weeks really.

So there are some questions there. So it's all about finding those properties with scale. Looking for things that could be more unique opportunities to also fill in slower periods during the week. There's also the potential for that. I mean, we're talking about that earlier with some of the other kinds of event types of products that we bring into our theaters.

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So I will have to see, but I do think what's been wonderful to see is, yes, the potential of these types of titles has been realized. And what's also nice is that these types of films can also bring new types of audiences into theaters who then get exposed to the films, get exposed to the recliner seats, folks who may not have been in as frequently and then they start the moviegoing practice. So it can kind of expand beyond this type of content. So again, we remain really optimistic about our continued growth in this space and it really cuts across a range of categories.

Jim Goss - *Barrington Research - Analyst*

Right. Thank you very much.

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

Thank you.

Operator

Stephen Laszczyk, Goldman Sachs.

Stephen Laszczyk - *Goldman Sachs - Analyst*

Great. Thanks for taking the questions. Sean, you mentioned earlier the resilience you're seeing on the consumer front. Maybe just given that -- could you update us on your latest thoughts on taking ticket price, especially from some of the more in-demand stretches of the slate coming up here over the next few quarters?

And then one for Melissa, just on facility lease expense, Sean, I think you mentioned it in your prior response, but there might be some opportunity to negotiate on [rent]. I'm curious how much opportunity you think there is to move the needle there over the next few years?

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

And thanks for the question. Look, I mean, your question on pricing is important one. I mean, obviously, we are talking about the environment that we're in right now. So it's an area that we need to be careful about and we are very careful about using a lot of data to drive our decision making on what's the right price points.

So while consumer resilience has certainly been there, demand has been strong. We've got to be careful that we don't go too far and push things that could change that dynamic, right? Especially in a high inflationary type of environment where people may be starting to be a bit more discretion in what they select. And we've seen that over the years. And again, we use a lot of data. We have a team that focuses heavily on this to make sure that we're trying to capture as much opportunity as we can, which basically cuts both ways.

It is not unilaterally up. It can go both ways to really maximize attendance, maximize box office, maximize incidence with regard to food and beverage sales and overall food and beverage revenues. So again, it's something that -- we believe there's lots of ongoing opportunity with further analytics. It constantly is evolving, but it's a dynamic that will just continue to stay on top of and it isn't unilaterally one way.

Melissa Thomas - *Cinemark Holdings, Inc. - CFO*

And then with respect to facility lease expense, so it's important to note that leases are contractual obligations. So unless there is an event such as the end of a lease term, or a landlord needs our consent for their redevelopment, there isn't much of a catalyst to renegotiate a lease, particularly given the strength of our financial position.

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That said, we are actively working to renegotiate leases as our expiration and our renewal dates approach. And we have seen some successes in that regard, particularly as it relates to more challenged theaters. But keep in mind that only about -- call it 10% to 15% of our leases are up for renewal in any given year. So it's a fairly small percentage.

Stephen Laszczyk - *Goldman Sachs - Analyst*

Great. Thank you both.

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

Thank you.

Operator

Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to turn the floor over to Sean Gamble for closing remarks.

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

Thank you, operator, and thank you all for joining this morning. I'd just like to emphasize again that we remain highly encouraged as we look ahead based on the current dynamics related to consumer moviegoing behavior, the different forward looking indicators we see pertaining to film releases as we discuss now and also just the wealth of opportunities that we see before us to drive incremental value creation.

And we do think that Cinemark is particularly well positioned to prosper on account of our advantaged position and our exceptional team. And we look forward to speaking with you again following our second quarter results. So thanks again for the time this morning.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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