

CINEMARK

Moderator: Robert Copple
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10:00 am CT

Operator: Good morning. My name is (Candace) and I will be your conference facilitator today. At this time I would like to welcome everyone to the Cinemark's third quarter 2005 results conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer session. If you would like to ask a question during this time simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question press the pound key.

Thank you. Mr. Copple, you may begin your conference.

Robert Copple: Thank you. Good morning and I want to thank everybody for participating in our 2005 third quarter earnings call. I apologize for having to change the time on it. We missed the fact that many people would be out tomorrow so we wanted to try to give you the opportunity to participate today.

Before we begin I would like to remind you that this call may contain forward-looking statements within the meaning of Section 27A of the

Securities Act of 1933 as amended and section 21E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical fact communicated during this conference call may constitute forward-looking statements.

Today I'm going to provide you with a brief overview of our third quarter results, after which our President, Alan Stock will join me to answer any questions you may have.

The operating data we will discuss today is attributable to Cinemark USA and its subsidiaries. The results reported in the 10-Q for the parent company, Cinemark Inc. are substantially the same other than the inclusion of our Holdco notes, minor holding company cost and the interest on the notes. Form 10-Q for both companies are now available on the EDGAR website.

For those of you who have not visited our website it is located at www.cinemark.com. On the website there is a corporate tab with an investor relations sub-tab. Under the sub-tab you will find GAAP reconciliations and other operating data which contains worldwide attendance data, theater and screen count summaries by quarter and the adjusted EBITDA reconciliation as well as the link to EDGAR.

The comparative operating data for the quarter we will be discussing excludes income from discontinued operations attributable to 11 theaters sold during 2004. For the year to date data it excludes operations for 13 theaters.

As presented in our 10-Q revenues associated with these theaters for the three and nine months ended September 30, 2004 were \$3.3 million and \$9.3 million, respectively. That also excludes the impact of \$32 million in

recapitalization cost incurred during the second quarter of 2004 as a result of Madison's acquisition of Cinemark.

Despite some (ten-pole) films in Q3 such as War of the Worlds and the surprising hit, Wedding Crashers, attendance for the industry was still down compared to 2004. The published information I've seen suggests a reduction of 4 to 5% in box office receipts for the quarter as a result of an 8 to 10% decrease in attendance.

Cinemark reported total revenues of 256.3 million for the three months ended September 30, 2005 compared to 260 million in Q3 of 2004, a decrease of 1.4%. The decrease was primarily the result of a reduction in attendance of approximately 9.4% which is partially offset by an increase in pricing.

Average ticket price was up \$3.00 - to \$3.75, up 8.7% and concession per cap was \$1.87, an increase of 8.3% for the quarter.

Our revenues per screen decreased approximately 4.3% quarter over quarter. Domestic revenues per screen were down approximately 7% while international revenues per screen were up approximately 4.1% primarily as a result of exchange rate benefits.

With the reduction in box office, film rental and advertising costs decreased to 53.4% of admission revenue for the third quarter of 2005 compared to 53.8% of admission revenues for the third quarter of 2004.

Our operations group worked hard managing our variable costs in light of the reduced attendance. Salaries and wages decreased from 26.7 million in Q3 of 2004 to 25.5 million in Q3 of 2005 including the addition of new theaters.

Our adjusted EBITDA for the quarter decreased to 51 million from 57.4 million in 2004. Included in our adjusted EBITDA calculation was an increase in G&A to 13.4 million for the third quarter of 2005 from 12.1 million for the third quarter of 2004.

The increase was primarily due to increases in legal accounting and consulting expenses related to the review of potential acquisitions. Without incurring these review costs the decrease in EBITDA would have been approximately 9.7%.

During the quarter we opened two new theaters with 25 screens in the U.S. The additions bring our domestic new build total for the nine months ended September 30, 2005 to seven new theaters with a total of 76 screens. As of September 30, 2005 the company had signed domestic commitments to open 4 new theaters with 52 screens by the end of 2005 and signed commitments to open 12 new theaters with 174 screens subsequent to 2005.

We opened three additional screens in existing theaters in our international markets bringing our total to five new theaters with 30 screens during the nine months ended September 30, 2005. At September 30, 2005 we had signed commitments to open two new theaters with 14 screens in international markets by the end of 2005 and open eight new theaters with 69 screens in international markets subsequent to 2005.

We estimate the remaining capital expenditures for the development of these 309 screens will be approximately \$101 million.

Looking briefly at our balance sheet our cash position increased to 133.7 million at the end of Q3 from 100.2 million at the year end. The majority of our cash resides in our restricted group.

Our gross face amount of our long-term debt at Cinemark USA, the operating decreased slightly to 610.4 million at quarter end. For Cinemark, Inc., the consolidated holding company, our gross face amount of debt after interest accretion on our Holdco bonds was approximately \$1.024 billion.

As mentioned in our last conference call, Cinemark acquired approximately a 21% interest in National CineMedia LLC, a joint venture between Cinemark, Regal Entertainment Group and AMC Entertainment Inc. during the quarter. Cinemark will account for this investment under the equity method of accounting.

Simultaneously Cinemark entered into an exhibitor service agreement with NCM to provide its services to Cinemark through its digital content network.

Revenues received by Cinemark pursuant to (DSA) will be reported in other income.

National CineMedia focuses on the marketing, sale and distribution of cinema advertising and promotion products, business communications and training services and alternative entertainment content across its digital content network to its theater owners and other network affiliates.

After the deployment of NCM's digital distribution technology in Cinemark's theaters, NCM will operate the world's largest digital distribution network with over 10,500 screens throughout the US in approximately 150 markets, including 49 of the top 50 markets.

We expect to spend approximately 25 million for the digital projectors and related systems necessary to deliver the services provided by NCM. We have

started the process of equipping our theaters with digital equipment. The rollout should be substantially complete by the second quarter of 2006 with the majority of our stadium theaters coming online by the end of Q1 in 2006.

In the third quarter we spent approximately 1.3 million in the rollout. This concludes our prepared comments and I'd like to open up questions for Alan and myself.

Operator: At this time if you would like to ask a question please press star then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Neal Jordan with Wachovia.

Neal Jordan: Yeah. Good morning. I wanted to see if you could tell me what the restricted payments basket on your Holdco note says and also if you have any plans to pay a one-time dividend to your equity sponsors.

Robert Copple: Neal, I appreciate you participating. I don't have the basket information in front of me, but with respect to your question I'll take a little broader approach. We actually don't have the ability to pay dividends up through the Holdco as a result of some covenants in our senior facility.

So we would have to change it to be able to do that. It has never been the intent of Cinemark to pay a dividend out. I can't say where the future will lead us, but our accumulation of cash so far is just more of a conservative approach that we're taking and looking at the best way to utilize it, it could be on repurchasing bonds, on looking at acquisitions or on new builds as we always have.

We're fortunate in that we've hit a point where the cash flow is substantial and we're able to build up cash accumulations.

With respect to the basket, I don't have the number in memory off the top of my head, but I think if you went back and looked at the covenants and did the addition that is necessary there is probably 70 million.

Neal Jordan: Okay. Thanks.

Operator: Your next question comes from the line of Andrew Finkelstein with Lehman Brothers.

(Sharif Hamid): Hi. This is actually (Sharif Hamid) for Andrew. Just wanted to ask a quick question with respect to the impact of currency translation on the results during the quarter, you know, given that 25% of revenues international, particularly, Mexico and Brazil and just wanted to get a sense for, just an order of magnitude on the impact. Thanks guys.

Robert Copple: Sure (Sharif). Glad you joined us and we're excited to have you as part of the team over there.

(Sharif Hamid): Thank you very much.

Robert Copple: With respect to what happened during the quarter on FX rates, clearly they're a great benefit. We have substantial operations in both Brazil and in Mexico. In both cases the peso as well as the real performed very well.

I don't have bottom line numbers with respect to EBITDA. I think on a top line basis they benefited us if I recall on revenues somewhere around 8

million dollars. So as I said in my prepared comments, when I went through and looked at international revenues per screen they were up about 4%.

That was obviously due to the benefit of FX rates and that our attendance was down. So I think when you take in around that number off of revenues if I recall you'll end up being down in revenues somewhere around \$2 or \$3 million on a quarter over quarter basis.

(Sharif Hamid): Okay, great. Thanks guys.

Operator: Your next question comes from Brian Krug with Waddell Reed.

Brian Krug: Hi guys.

Robert Copple: Good morning.

Brian Krug: Good morning. I was seeing if you could talk to me about one or two things actually. First I was wondering if you could talk to me about what you guys are thinking for the box office for Q4.

Alan Stock: We are hopeful at the moment and believe that the quarter will end up comparable to what the quarter was last year. If you translate that it is going to tell you that we believe November and December can end up a little better than last year. Everyone was obviously down a little bit for the month of October.

There is obviously some good films coming up with Harry Potter, King Kong and the Chronicles of Narnia. So that's where our film department and where everyone at the moment believes we'll end up.

Brian Krug: Okay, great. And then can you talk to me and - it looks like you guys purchased a small amount of bonds back in the quarter.

Robert Copple: We did. We purchased on a current value basis 1.3 million in bonds.

Brian Krug: Could you kind of talk to me about what restrictions you have to buy more back and I guess why if you're going to do it, you only bought back \$1.3 million of bonds back?

Robert Copple: With respect to restrictions we're limited by our restricted payment basket, probably even more so within our senior agreement. We're restricted on how many or how much in bonds we can buy back.

There's currently, and again it's public information if you went back through it, a carve-out that we added about a year ago of up to 100 million in bonds. The basket is a limiting factor, but it's not compared to 1.3.

The real factors we look at are what the prices of the bonds are. Does it make sense in today's environment to buy them back? Do we think other changes could make it more beneficial later? As far as the amount, if you go back and look at what our bonds traded at, how much in real dollar value they trade at from the various traders I've talked to it's very, very small. There's different times that you'll have a lot of activity.

In general, even accumulating 1.3 was a very difficult task, much more than I thought it would be. There had been times where we could have probably gone out and bought 10 to 20 million. Well, let's say maybe 10 million, but they're usually very unusual times.

I think there is some questions in the market about whether we were going to do an acquisition and that is what brought on more activity. Once that was kind of out of the way I think the activities moved back to historic amounts which are generally very small.

Brian Krug: Okay.

Robert Copple: As far as what I said earlier it's something we look at. We look at opportunity and the relative price. We have really no ongoing commitment to buy more bonds although we'll continuously look at the market.

Brian Krug: One thing, as rates are going up, short rates are going up, are you more inclined to pay down more of your senior credit facility?

Robert Copple: Yes, we looked at all three main pieces of debt. We looked at the Holdco bonds, the (Opco) bonds and we look at the senior facility to determine what the optimal answer is for us. Within that we looked at how it might affect covenants and everything else.

So there's really no great absolute answer at any time, but clearly as rates go up the senior becomes more inviting to us.

Brian Krug: Okay. Thanks so much.

Operator: If you would like to ask a question please press star then the number 1 on your telephone keypad. Your next question comes from Dennis O'Rourke with Regiment Capital.

Dennis O'Rourke: Hi Robert. Just quickly on the legal fees in the quarter, so could you kind of frame what's going on on the acquisition front as - or are any deals behind you and you've walked away? Or do you still see things on the horizon? Thanks.

Robert Copple: We had looked at some deals and costs were incurred in the second and third quarter and probably a little bit in the first quarter of 2005. The particular deals we had looked at appeared to be great opportunities, but we quit incurring costs with respect to those opportunities.

They are at least over with the respect to the primary costs we're incurring, there are always at this size of a company and being an international company opportunities that are available to us both domestically and internationally and we look at all of them.

Our decisions then comes down to the value that can add to the company. We tend to put it in very simple terms looking at the multiple of EBITDA that we can buy the company for and how that nets down after synergies.

In today's market I think people generally are still looking back to 2004 if I'm a seller and thinking that you had a great box office and maybe not wanting to sell your company based on current performance in 2005. You're also looking at very high multiples that have been out in the industry.

As a buyer I'm on the other end and I'm obviously looking at where we're at in 2005 now and arguing that multiples if I'm going to be a buyer need to be lower to make it valuable to me to take into account the risk I'm taking.

So I think there's a fairly decent spread at the moment between most buyers and sellers in the market. We try to play like everyone else does and look at them. We're very disciplined though on what we think the bottom line has to

be in order for us to execute a transaction and we haven't been able to do one at this point.

Dennis O'Rourke: Hey another theater operator this morning on their call said that they expect some of the smaller regional guys to look to sell as the box office has been softer. So they expect to see some sort of supply come on as far as assets for sale.

Are you guys in the same camp? Or do you see that spread continue to be wide?

Robert Copple: I would but it's hard to say at what point it narrows. If I'm a seller and I have the ability to sit on the sidelines, so I think I sit on the sidelines and see where things are going.

It's hard when you're off in EBITDA at the levels that some people are to turn around and say it's time to sell right now. So I think there's still a bit of a spread in the market, but how quickly that goes away I couldn't tell you.

We are clearly looking at deals when people come to us, but most of the ones at least I've talked to in the last six months, have decided to sit on the sidelines and wait to see where things are going.

If the market continues where it is and everybody gets comfortable that these are the right EBITDAs and prices then everyone has to make new decisions.

Dennis O'Rourke: All right. Then last question. Of your - of the cap ex I guess you said was, 101 million over the next year and a half, two years?

Robert Copple: Yes.

Dennis O'Rourke: Does that include any potential digital rollup? Does that include, first of all, the 25 million for NCM?

Robert Copple: No it does not.

Dennis O'Rourke: And what about retrofitting theaters for digital projection and a similar for what was required for the Chicken Little 3D?

Robert Copple: It would not include any costs that would be attributable to big digital rolling out. Obviously, it's our thought that the cost will not be substantial and will be primarily born through the VPF fees that people have talked about, virtual print fees.

Dennis O'Rourke: Yeah. When do you see that picking up, '07, '08 or...

Alan Stock: It's going to take some period of time. I think obviously that's getting a lot of push right now from the studios and different equipment manufacturers. They all agree that the way that thing rolls out is through a beta plan. So we don't think there's a lot of significant movement in the digital arena probably until '07.

Dennis O'Rourke: All right, great. Sorry, one last question. What about that the noise as far as studio's releasing film directly to bypassing theaters?

What do you guys think of that? Do you think that's a possibility or not given, you know, the investment that theaters - studios would probably be making on the digital roll off the next couple of years?

Alan Stock: Well, obviously we would believe and hope that it's not something that comes to fruition and our honest belief is because the box office has been a little soft we hear all kinds of things about everything, all kinds of reasons as to why the box office's soft and all kinds of conclusions made as to how we deal with it in the future.

We believe that the studios still have a good plan and their desire from the talks we've had with them is to continue the structure as it exists today, to keep the windows in place. It's a model that works for them and it works for us and it works for our industry.

So as a whole we don't believe that to be a major threat moving forward. Now granted people have talked about it and not really sure at the end of the day where they'll end up with that, but we cannot figure out how a model would work any other way than the way it works right now.

Dennis O'Rourke: Okay, great. Thanks guys.

Operator: Again ladies and gentlemen, that is star 1 to ask a question. At this time there are no further questions.

Robert Copple: We appreciate everybody participating today and over the last three months I've had a number of people call me. We've tried to get back with everybody we can and I appreciate that people have kept it on a pretty top level when they've asked me questions.

Again if you have other things you'd like to talk to us about we'll try to address them if you want to give us a call. Thanks again for your participation.

Operator: This concludes today's conference call. You may now disconnect.

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