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# IMAX Corp. (IMAX)

Q3 2019 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the IMAX Third Quarter 2019 Earnings Conference Call. All participants are currently in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Stephen Davidson, Head of Investor Relations. Sir, please go ahead.

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Stephen C. Davidson  
*Head-Investor Relations, IMAX Corp.*

Thank you, Katie. Good morning and thank you for joining us on today's third quarter 2019 earnings conference call. On the call today to review the financial results are Rich Gelfond, Chief Executive Officer; and Patrick McClymont, Chief Financial Officer. Megan Colligan, President, IMAX Entertainment; and Rob Lister, Chief Legal Officer, are also joining us today.

Today's conference call is being webcast in its entirety on our website. A replay of the webcast will be made available shortly after the call. In addition, the full text of our third quarter earnings press release and the slide presentation accompanying today's call, have been posted on the Investor Relations section of our website. At the conclusion of this call, our historical Excel model will be posted to the website as well.

I would like to remind you of the following information regarding forward-looking statements. Our comments and answers to the questions on this call, as well as the accompanying slide deck, may include statements that are forward-looking and that they pertain to future results or outcomes. Actual future results or occurrences may differ

materially from these forward-looking statements. Please refer to our SEC filings for a more detailed discussion of some of the factors that could affect our future results and outcomes.

During today's call, references may be made to certain non-GAAP financial measures, as defined by Regulation G of the Securities and Exchange Commission. Discussion of management's use of these measures and the definition of these measures, as well as reconciliations to non-GAAP financial measures including; adjusted net income, adjusted EPS and adjusted EBITDA, as defined by our credit facility, are contained in this morning's press release.

With that, let me now turn the call over to Mr. Rich Gelfond. Rich?

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## Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

Thank you, Steve, and good morning, everyone. Thanks to our continued focus on execution. IMAX again delivered a strong financial performance in the third quarter, with results that demonstrate the inherent operating leverage in our model.

On slide 4, we have the highlights for the quarter which include; 19% growth in global box office as we outpaced the industry with the dynamic portfolio of Hollywood blockbusters of the Spider-Man: Far From Home, Lion King, Hobbs & Shaw and local language hits like the Chinese animated smash, Ne Zha and Weathering with You in Japan; 9% growth in our commercial theater network as we continue to diversify our global footprint; 5% growth in revenue; 26% growth in adjusted EBITDA, reflecting our ongoing cost discipline and a 50% increase in adjusted earnings per share.

We are on track for a strong fourth quarter to cap off our record breaking year as we look ahead to a 2020 slate which features more blockbusters than ever filmed in IMAX. With a strong momentum in our core business, we continue to explore new opportunities for growth, including IMAX Enhanced, our strategic initiative to capitalize on demand for IMAX content in the home, [indiscernible] (03:55) experimentation with new content and experiences to drive increased utilization across our network.

On slide 5, the IMAX ecosystem, you'll see our continued ability to deliver impressive results of the unique privilege position we built in this ecosystem. Consumers seek out the IMAX Experience for immersive blockbuster entertainment with its audiences turning out in record numbers for Joker, Chinese moviegoers driving best ever box office over the national holiday, while music fans around the world seeking out our recent project with Kanye West. Studios value IMAX as the mark of a must see film and a powerful partner in marketing and driving box office for their biggest releases. The world's best filmmakers are increasingly using our end-to-end technology to bring their creativity to life, which I'll discuss in a moment.

Exhibitors rely on our theaters to provide a premium experience that drives ticket pricing and volume. We're seeing greater exhibitor demand for IMAX with Laser with approximately 350 systems installed or contracted and a significant number of installs projected for the fourth quarter.

And finally streaming services offered strong new opportunities for us. We see an opportunity to bring streaming content into IMAX theaters and IMAX content to streaming platforms as we'll do when we premiere Amazon Studios' Aeronauts at our UK theaters next week. As we begin to launch IMAX Enhanced, our new initiatives to bring IMAX digitally re-mastered content into the home on select screening platforms in the US, Europe and Asia.

IMAX is among the broadest out-of-home distribution platforms in the world. As you will see on slide 6, we continue to grow our footprint with overall commercial network growth of 9% on a year-over-year basis. Importantly, we are diversifying as well. Our signings for the quarter added new theaters in India, Japan and Malaysia, the United States, the UK and France and the Middle East, which continues to emerge as one of our fastest growing and highest grossing opportunities.

We recently completed a 12 theater deal with AMC and the [indiscernible] (06:32) Saudi Sovereign Wealth Fund in Saudi Arabia, where we now have two commercial theaters in operation and another 18 in backlog. We believe that this represents a significant box office opportunity. Our two existing theaters in Saudi Arabia are among our top five grossing theaters in the world in 2019. Just as we capitalized on the vast opportunity in China years ago, we see Saudi as a smaller but very promising market. And there continues to be increasing demand globally for IMAX theaters which we expect will only increase [ph] to watch our (07:16) blockbuster like Star Wars in December.

Before moving to the next slide, I want to comment on the 2020 film slate and the significant expansion of the use of IMAX cameras in 2020. The 2020 slate continues to take shape and we're building an offering that very much plays to our strengths. The year begins with the carryover from Star Wars: The Rise of Skywalker, features comic book franchise fare like Birds of Prey and the Kingsman; digital action films like Godzilla vs. Kong and the next installment of Fast and Furious. The two Marvel films; Black Widow and the Eternals and visually ambitious tent poles like Mulan, the live action version of Disney classic. 2020 will be full of the type of genre films that historically play on our network.

Most importantly, we anticipate setting a new record for the number of titles filmed in IMAX with some of the most eagerly awaited releases of the year; including, No Time to Die, the 25th installment of the Bond franchise as Daniel Craig last out as the famous spy. Wonder Woman, again to reiterate, these are filmed with IMAX cameras; Wonder Woman 1984, the sequel to the DC films smash hit; Chris Nolan's latest sci-fi epic, Tenet; and in China, Detective Chinatown 3, which headlines our Chinese New Year slate.

Additionally, we are working on a strategic initiative, [indiscernible] (09:01) IMAX DNA into our slate by certifying top of the line digital cameras to shoot in IMAX when paired with our proprietary post-production technology. Already 2020 tentpole releases including Paramount's Top Gun: Maverick will be certified as filmed in IMAX under the program with more to come. As a result, we will release at least five filmed in IMAX titles next year, a new record. Why is this important?

Historically when filmmakers use our cameras, we capture a greater share of the box office. Since Chris Nolan's watershed use of IMAX cameras for 2008 The Dark Knight through this year's record shattering Avengers: Endgame, 16 IMAX blockbusters have been filmed using our cameras from 2008 to 2019. Our domestic opening weekend indexing for Chris Nolan's last film released in IMAX, Dunkirk was an incredible 23% despite IMAX accounted for less than 5% of total screens. As I mentioned earlier, his next film hits IMAX theaters next year.

When releases filmed in IMAX it provides studios with a powerful marketing hook. Our filmmaking partners get behind our technology on social media and in the press and our fans turn out in a big way. That's a big part of the reason why we're excited about 2020 slate and the opportunity to bring more filmmakers to our end-to-end technology. Again putting it in perspective since 2008 we've had 16 films and next year we have at least five.

Furthermore to add historical perspective for the slate discussion, since 1980 domestic yearly box office has only declined 9 times and for an average of just 3%. More recently the domestic box office has set a new record in 9

years of the last 15 years. The long term trend of box office are favorable and when you consider the factor in our growing network, our global slate and the number of films using IMAX cameras, we are positive on the 2020 slate.

Moving on to China on slide 7, our strong momentum continues into the second half of the year with mainland China IMAX box up 27% in local currency terms year-to-date through October 7 after the national holiday, compared to 3% growth for China's overall box office. With only 1% of the screens, IMAX is far outpacing the industry and gaining market share.

Our box office was up over 160%, marking our best ever national day holiday performance in China with all three top grossing films; My Country, My People, The Captain and The Climbers being available in IMAX theaters. Our performance in local-language films moves from strength to strength, thanks to our flexible programming strategy. In the third quarter, Chinese animated hit, Ne Zha, now the second highest grossing in China's film history, reached more than \$35 million at our Greater China box office. We recently crossed more than \$101 million of total Chinese local language box office in 2019, marking our best annual performance ever of 11% over the same period in 2018 and accounting for an increasing mix of our total China box office to over 30%.

In summary, with our optimized local programming strategy and with blockbusters representing a higher share of the overall market, we believe that we are well positioned for sustainable market share gain in China. With strong execution and financial results in our core business, we're also looking at future growth drivers and exploring ways to further monetize demand for the IMAX Experience as illustrated in slide 8. Through our Enhanced licensing initiative, we are working to bring IMAX digitally re-mastered content into the home.

We believe that we can extract even greater value from our core business, capitalizing on our content portfolio and brand on home entertainment, devices and platforms. For example, this fall we launched IMAX Enhanced streaming content on FandangoNOW in the US and Rakuten TV in Europe. FandangoNOW recently became the first streaming service in the world to offer a Marvel title in the home. In this case, Spider-Man: Far From Home has an IMAX Enhanced title, which includes exclusive IMAX expanded aspect ratio, DMR and our proprietary audio mix. This creates an opportunity to expand our ecosystem and add new high quality revenue through licensing streams.

Furthermore, the strength of our brand, technology and creative relationships provides an opportunity to create new experiences and drive increased utilization across our network. Earlier this year, we conducted successful test with Radiohead's Thom Yorke and celebrated director, Paul Thomas Anderson on the short film Anima, and with the band Soundgarden on a concert film. Just last weekend we premiered a limited run piece from Kanye West in conjunction with his new album, Jesus is King. The 30-minute piece ran in select showings alongside our regularly scheduled blockbusters selling out shows in 24 cities worldwide and capturing more than \$1 million in global box office.

Furthermore, the project growth drove considerable buzz in the press, across social media and with pace making young fans, expanding our brand into new cultural territory and exposing new audiences to the IMAX Experience. It also demonstrated our ability to launch a global event beyond movies. In fact, since announcing the Kanye project, we've been approached with numerous opportunities from creators across the cultural spectrums who want to work on our platform.

In conclusion, IMAX delivered strong results in the third quarter and we believe that we are building on this momentum moving into the fourth quarter as we close out a record breaking year. As our 2020 slate takes shape, we'll have at least five releases filmed in IMAX, thanks to a strategic initiative to inject more IMAX DNA into our slate. We are driving greater demand for the IMAX Experience throughout the entertainment ecosystem with a

powerful brand and technology uniquely positioned to deliver value for creators and consumers, studios and distributors.

When you add to that the global scale of our network, we believe that we are well positioned to capitalize on the change at hand in the entertainment industry. And we are confident in our ability to continue to improve revenue generation, margin profile, return metrics and a strong overall financial performance.

With that, I would like to now pass the call to Patrick for a review of our financial results. Patrick?

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## Patrick S. McClymont

*Executive Vice President & Chief Financial Officer, IMAX Corp.*

Thank you, Rich. Good morning, everyone. I'm pleased to share our third quarter results with you today, which reflect our continued execution and the inherent operating leverage in our model, with a 5% growth in revenue and continued cost discipline driving a 26% increase in adjusted EBITDA and a 50% increase in adjusted EPS. For today's call, let's begin with a review of our box office performance, followed by an update on installations in the quarter as well as a review of signings and backlog. Then, we will discuss our financial results for the quarter and our balance sheet. Finally, we will close with guidance for the fourth quarter and full year 2019.

Let's start with our IMAX global box office detailed on slide 10 of the earnings presentation. In the quarter, we delivered \$246 million in IMAX global box office, representing a \$40 million or 19% increase and clearly illustrating the geographic diversification of our global network. A 40% increase in international box office, excluding China, led the year-over-year growth as well as a 23% increase in domestic box office. A slightly lower box office in Greater China, which was down 2% was driven by a slower September in advance of the national holiday. We had only two films one of which was a documentary. October box office rebounded driven by our strong performance during the national holiday in China.

Turning to slide 11, year-to-date through September IMAX global box office of \$867 million exceeds the prior year by 9% and we expect a strong fourth quarter. Strong performance throughout our global network contribute to the year-to-date box office growth, including Greater China up 27% in local currency or 17% in US dollars and other international growth, up 14%. Specifically, we delivered attractive growth in Asia-Pacific, where Japan was up 26%. Europe, we experienced accelerated growth in France and Germany which were up 31% and 40%, respectively. And in Finland, where a new theater recorded almost \$2 million in box office in just the first 10 months of operations.

Finally, as Rich alluded to, we saw exceptional performance in the Middle East principally due to Saudi Arabia, where we see attractive near-term growth opportunities. Our significant backlog in Saudi Arabia will bring us to 20 theatres there in the next couple of years.

We're pleased to report that our box office momentum has continued into the month of October. Through Tuesday we produced \$76 million in box office with Terminator, Ford v Ferrari, Frozen 2, Jumanji, and Star Wars, still yet to be released.

Next, let's turn to our network expansion detailed on slide 12. During the third quarter, our sales team delivered 30 signings including 8 upgrades. We installed 39 systems in the quarter, consisting of 30 new installations and 9 upgraded systems versus 37 installs in the prior year consisting of 36 new installs and 1 upgrade. As a result, we exited the third quarter 2019 with backlog of 607 systems, reflecting our ability to replenish our systems pipeline with new signings during a robust period of installs.



The new installs in the current quarter consisted of 14 sales type, 12 JVs, and 4 hybrids, compared to 15 sales type, 15 JVs and 6 hybrids in the prior year. It should be noted that one of the 14 sales type installs in the quarter was the Xenon system that we redeployed into a new location, which is a great use of the asset and appropriately came with a lower margin profile than a new system. The nine upgrades in the quarter were all JVs and the one upgrade installed in the prior year was also a JV.

Now let's turn to our financial results on slide 13. Total revenue in the third quarter increased by \$4 million or 5% to \$86.4 million, driven principally by strong top line growth of 18% in our Network business as well as higher other revenue, partially offset by lower Theater business revenue, which I will address in the segment discussion later.

We generated \$47 million of gross profit, an increase of \$5 million or 12% which resulted in a roughly 310 basis point improvement in gross margin to 55%. Important drivers of expanded margins included; higher network revenue on a 19% increase in box office, lower new business COGS driven by the absence of VR in the segment in 2019, as well as an increased contribution of IMAX Enhanced with minimal cost.

Operating expenses defined as SG&A excluding stock compensation plus R&D were \$26 million, in line with the prior year. Net income attributable to common shareholders for the quarter was \$9 million or \$0.15 per share, compared to \$5 million or \$0.08 per share, up 88%, while adjusted net income was \$13 million or \$0.21 per share, up 50% from the prior year. Adjusted EBITDA for the quarter came in at \$32 million, up 26% compared to the prior year, producing 570 basis points of adjusted EBITDA margin expansion to 41.4%, compared to 35.7% in the prior year.

Now drilling into our segment performance on slide 14. In our Network business, revenue growth of 18% resulted from a 19% increase in box office, which benefited from a 40% increase in international ex China. And a 9% increase in our theaters in the commercial network.

Revenue in our Theater business decreased by 7% as we installed one less sales type system as well as the previously mentioned installation of one refurbished system. Also we installed two fewer hybrid systems during the quarter. The average revenue per new sales type installed \$1.2 million compared to \$1.3 million in the prior year. The geographical mix of systems installed resulted in a lower average revenue per hybrid in the quarter. The decrease in the number of systems installed in the quarter also resulted in lower cost of revenues in the Theater business.

Now let's turn to capital and liquidity on slide 15. We ended the quarter with \$103 million in cash, of which \$83 million is in IMAX China. We only have \$20 million in debt outstanding from our revolver compared to \$40 million at the end of 2018. So we have total available liquidity of \$383 million, providing financial flexibility.

In the quarter, we repurchased approximately 47,000 shares at an average price of \$20.35 for a total of just less than \$1 million. We currently have \$126 million remaining on the outstanding repurchase authorization. IMAX China repurchased approximately 1 million in shares for the quarter for a total of approximately \$2 million, which increased our share of IMAX China's earnings.

Lastly on slide 16, we have our full year 2019 guidance elements of which we are refining. There is no change to our annual box office guidance. So we continue to expect low double digit growth versus full year 2018 and through October, we were up 11%. We now expect to be at the high end of the guidance range of 185 to 190 total systems, with a shift in the mix of new installs and upgrades. Although the mix is shifting, we expect this adjustment and guidance to be net neutral in terms of revenue impact to the fourth quarter 2019.

We are now expecting to be slightly below the low end of the guidance range of 140 to 145 new installs. However, we now expect to be slightly above the previous guidance of 45 upgrades. In terms of new theaters in Q4, we're expecting a total of 29 revenue generating STLs. Additionally, we're expecting to install 28 new JVs and 7 hybrids.

In terms of upgrades in Q4, we are expecting a total of 35, inclusive of the 35 upgrades are 10 IMAX with Laser system upgrades with sales-type structures with revenue and margin similar to a new STL. In summary, a little less new theaters, a little more upgrades but no change in our expected revenue in the quarter.

To wrap it up, our results for the quarter were strong with top line growth and margin expansion yielding the attractive operating leverage inherent in our model. We expect to deliver even stronger performance in Q4.

I would now like to open the call to Q&A.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you, sir. [Operator Instructions] Our first question will come from Eric Handler with MKM Partners.

Eric O. Handler  
*Analyst, MKM Partners LLC*

Q

Thank you very much and good morning. A couple quick things. I guess, Patrick, one, can you maybe talk about why you're sort of looking at the low end of your new system install range? Is this just a timing issue with new theaters being built or is there something other going on? And then I'll have a follow-up question after this.

Richard Lewis Gelfond  
*Chief Executive Officer & Director, IMAX Corp.*

A

So, Eric, I'm going to answer that. There's absolutely nothing going on. The bottom end of the range on that was related primarily to one client who has historically exceeded its annual rollout commitments but this year was in line with its commitments. So, at the beginning of the year when we give guidance we looked at what they did in prior years and they exceeded it, and this year they met it. But for next year they're online for more installs and it's really a one-off situation.

Eric O. Handler  
*Analyst, MKM Partners LLC*

Q

Great. That's very helpful. And then, Rich, I wonder if you could provide just a little color of some of the things going on in China with your ticketing partnership that you have with Maoyan and how your market share is looking now for the local films versus the Hollywood films?

Richard Lewis Gelfond  
*Chief Executive Officer & Director, IMAX Corp.*

A

Well, as you know, we're having an extremely good year in China. On a local currency basis, we're up almost 30% in box office. We've changed our programming strategy. Well, we program a multiple Chinese films around the holiday times of year. As we mentioned, in October for the national holiday, we were up 160% from where we were last year. Ticket prices are strong in China. The local-language films, as I mentioned in the call, were over



\$100 million this year for the first time and it's a record for us. So, China, I would say, it's a very good quarter in a lot of ways as you know. But the year-to-date China's probably the brightest spot. On a year-over-year basis in IMAX, overall, it's going very well.

Eric O. Handler

*Analyst, MKM Partners LLC*

Q

Great. And then one other thing, within that how you're seeing the differential between your market share for the local language films versus the market share for the Hollywood films?

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

Yeah. I mean I don't have the exact number, but it's [ph] off (29:49) significantly. The local language number, do you know it off hand Patrick?

Patrick S. McClymont

*Executive Vice President & Chief Financial Officer, IMAX Corp.*

A

Well, just, if you think about our business being up close to 30% in total box office and then the market right now in China is up about 4%, they had a very strong New Year, so the market has turned positive, but that just tells you that we took a lot of market share this year, right. We're growing at such an accelerated pace and that's both on the local side and the Hollywood side. And we attribute it to a number of different things. As Rich mentioned, some of it is better marketing and some of that's with our partner, Maoyan. And a lot of it is better film selection where we've got more optionality. Local language 2019 year-to-date, we are now just north of \$100 million and we're up 7%.

Eric O. Handler

*Analyst, MKM Partners LLC*

Q

Great. Thank you very much.

**Operator:** Thank you. Our next question comes from Eric Wold with B. Riley.

Eric Wold

*Analyst, B. Riley FBR, Inc.*

Q

Thank you. Good morning. Kind of a follow-up question to one of Eric's [indiscernible] (30:50) install timing. I know Rich you mentioned that nothing kind of was behind the kind of the shift in mix of install this year, but that one client kind of going from more in line to exceeding. But, I guess, looking out into 2020, not looking for kind of the exact guidance in terms of installs, but maybe just a sense of, you obviously have internal scheduling of when this is supposed to come. Has there been any shifts in terms of the original install thoughts for 2020 timing versus what you're seeing now especially kind of what's been going on within China?

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

Well, Eric, we haven't really looked at it – we are in the midst of looking at our 2020 budget. So on a preliminary basis, the answer is no. And in fact in preparation for this call, we kind of scrubbed through the backlog and I'd say going into 2020 that looks – not in terms of numbers because we haven't done that – but the risk profile looks the same. There's no systemic risk that we see at all.

Eric Wold

*Analyst, B. Riley FBR, Inc.*

Q

Okay. And just on that backlog on the 607 systems, I assume it's not evenly spread over the coming year, that's probably more front weighted. [indiscernible] (32:05) you can give us some broad idea of how much of that backlog is maybe within the next couple of years?

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

Well, we haven't scheduled it out that way, Eric, but it's consistent with how the backlog has run off in the past and what we've said is a fair amount runs off in three years, and again we haven't scheduled it. But it's the same as it's been, it's no longer-term and as a matter of fact I don't want to make too much of this but because Saudi Arabia is a new market that's coming online and there is an awful lot of building going on there some of that is more frontend loaded.

Eric Wold

*Analyst, B. Riley FBR, Inc.*

Q

Perfect. And then just finally, yeah, I know there is some spending timing around kind of installs and openings but I guess given your balance sheet flexibility and kind of the improving cash flow, somewhat surprised that there's only been less than \$3 million of buyback here on the corporate level this year. Any thoughts around why that hasn't been higher in kind of your capital allocation priorities?

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

I think we've said before, Eric, that we're going to be opportunistic about it and we have been opportunistic. We have approval to buyback a lot more as you know, and as you also know, over the last several years we bought in hundreds of millions of dollars worth of stock. So we have the firepower, we have the authorization. When we think it's the right time we'll do it.

Eric Wold

*Analyst, B. Riley FBR, Inc.*

Q

Fair enough. Thanks, Rich.

**Operator:** Thanks. Our next question comes from Alexia Quadrani with JPMorgan.

Zilu Pan

*Analyst, JPMorgan Securities LLC*

Q

Hi. This is Zilu Pan on for Alexia. Thanks for taking our question. I would just love to get more color on your slate and China seems to be a little more heavy, Hollywood heavy between now and year end and what's the outlook for Chinese New Year? Besides Detective Chinatown 3, I believe there's going to be a sequel to Ne Zha or at least that in the same universe. Would love your thoughts on how you might capitalize on the success of the last film? Thank you.

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

Well, I'll answer the New Year part of it and then I'll ask Patrick maybe to comment on the fourth quarter. But we have three films for Chinese New Year. The only one I remember by name is the one you mentioned, filmed with our cameras. But I think our team is feeling very good about Chinese New Year and we think – we kicked out – again, remember how we kind of pivoted in strategy, we used to choose one and now we try and pick three that are all considered to be contenders for this top place. And we think we've achieved that for New Year's 2020. In terms of the rest of the year, Patrick, I don't have that off hand, I don't know if you could add color to that.

Patrick S. McClymont

*Executive Vice President & Chief Financial Officer, IMAX Corp.*

A

Sure. For the balance of the year, we've got the Hollywood titles. In terms of local language, there's a question mark around the title 800 which was originally planned to come out over the summer and now the expectation it will come out sometime in the fall. But we don't have a date for that yet. So that could be a big swing factor that does more of the local language. And the next year it does, as Rich mentioned, kick off with the New Year holiday and we've got three titles; Detective Chinatown 3, Lost in Russia and the RESCUE. And right now the market is enthusiastic about all three. And similar to what we've done in other Hollywood periods, we'll have all three available and we'll ride the one that's doing the best in IMAX. So we're optimistic heading into 2020 for the local slate.

Zilu Pan

*Analyst, JPMorgan Securities LLC*

Q

Thank you very much.

**Operator:** Thank you. Our next question comes from Steve Frankel with Dougherty.

Steven Frankel

*Analyst, Dougherty & Co. LLC*

Q

Good morning and just a follow up on this local language theme in China. Given the success here, are you looking to show multiple films in more parts of the year other than the big holiday blockbuster periods?

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

If they're available, Steve, sure. And you also give me an opening a little bit to talk about it enough broader sense because the box office in China has been increasing over the years. So materially there's more money in China going in to production which is higher quality production. And also they've been exploring new genres such as - which is the one from Earth, the one that was highly successful...

Patrick S. McClymont

*Executive Vice President & Chief Financial Officer, IMAX Corp.*

A

Wandering Earth.

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

...Wandering Earth and Ne Zha, so Wandering Earth was sci-fi and Ne Zha is animation. And because they've been so successful, I think they're putting higher budgets and more into different genres specifically like sci-fi which does very well in IMAX. So I think if you look at it structurally from a little bit longer term, there'll be more high quality movies and more IMAX wheelhouse movies going into production. And I would expect that we would

continue to play more of those. And as to your specific question, I think if there are multiple movies the same time and they have IMAX potential, we'll play them.

Steven Frankel

*Analyst, Dougherty & Co. LLC*

Q

Okay, great. And then, Patrick, maybe some insight into how the mix is changing in China towards theaters that would be less capital intensive for you?

Patrick S. McClymont

*Executive Vice President & Chief Financial Officer, IMAX Corp.*

A

Sure. Yeah, as we've discussed, we're certainly headed in that direction. I think that's even reflected in our most recent large deal that we do with CGV where it's a mix of partnership deals and also hybrid deals. And what we're doing is we're looking at each opportunity, each market each theater and deciding what the right risk allocation approach is. And so, over time, you'll see that our backlog and therefore our mix of installs in China will start to skew more towards the hybrid structures and the sale structures. Previously when we were signing up these very large deals, it made sense to do those on a portfolio basis and do them with the partnership structures. Now as we continue to grow the network, we're looking at more on a theater by theater basis and figuring out what the right solution is for each instance. And so you will see it start to skew towards the sales and the hybrids.

Steven Frankel

*Analyst, Dougherty & Co. LLC*

Q

Okay. And then on this notion of certifying more cameras, are the cameras that you're certifying able to reproduce the full aspect ratio of IMAX?

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

Well, remember there are different aspect ratios on different theaters and there are different cameras. But, Megan, maybe you want to give some color on our camera program?

Megan Colligan

*Executive Vice President, and President-IMAX Entertainment, IMAX Corp.*

A

Yes. The concept is with [audio gap] (39:09) working with, we're identifying the best in class camera that they have, we're identifying a suite of lenses and an operating system that allows for the full scale and scope of IMAX to be utilized. And it's really to increase the flexibility for filmmakers so that they're capable of using the digital camera that they prefer and that we're working as a concierge service to be able to adapt any camera to our system so that you're capable of achieving that full aspect ratio. So the answer is yes.

Steven Frankel

*Analyst, Dougherty & Co. LLC*

Q

Okay, great. Thank you.

**Operator:** Thank you. Our next question comes from Mike Hickey with Benchmark Company. [Operator Instructions]

Mike Hickey

*Analyst, The Benchmark Co. LLC*

Q

Hey Rich, Patrick, congrats on the quarter. Thanks for taking my questions. Just a few, I guess, Rich I was hopeful you could update us on your view of some of the pricing schemes domestic that we're seeing in terms of subscription, discounting and sort of how impactful that's been, I guess, in the business in the quarter and maybe Q4 and beyond?

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**Richard Lewis Gelfond**

*Chief Executive Officer & Director, IMAX Corp.*

A

So, as you know, a lot of these programs are new. Regal's was only put in place a couple of months ago. But we obviously have done some detailed analysis of them, the AMC on subs program which has been around longer. We've taken a deeper dive into and we've concluded that it's helped us in terms of revenues and attendance and various metrics. So Regal, again, we don't have data on it but we've been working with Cineworld in Europe for years with a very similar program and we concluded that's been positive. But I think to the extent any of these plans kind of provide, it's not an exact word but it's similar to a subsidy or incentive to go to IMAX, they seem to be working and they seem to be moving people into the premium category. So early, but so far feeling pretty positive.

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**Mike Hickey**

*Analyst, The Benchmark Co. LLC*

Q

Thank you. Thanks, Rich. I guess the next question, it's good to hear your enthusiasm for the 2020 box office domestic. Obviously you pointed out a lot of potential blockbusters. But I guess when you look at sort of the size of the individual films or perhaps if they're not the usual fan boy suspects that you would think of driving the box office in prior years, how do you sort of strategize I guess your 2020 slate given that you may have as many blockbusters but maybe smaller in size? And I guess any initial view on what your growth view is for 2020, for your total box office would be helpful. Thank you.

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**Richard Lewis Gelfond**

*Chief Executive Officer & Director, IMAX Corp.*

A

So in terms of growth, as I said, we're still in our budget process so I can't do that. But as we said, I avoided saying it on this call I might as well do it now. We don't correlate to being a North American exhibitor. So we said our growth this year in box office globally it's going to be in the low double digits. And that's not where the North American box office is and I think a lot of people in the US tend to look at box office through a different lens than we do. And as I said, we have at least five films using our cameras. In Dunkirk, we did 23% of Chris Nolan's last film and he is filming the whole thing and I think that's going to be a very big movie for IMAX. Bond, virtually the whole movie was shot with IMAX cameras; the next, Wonder Woman, IMAX cameras; Top Gun, IMAX cameras; China, IMAX cameras.

As I said during my prepared comments, in the last more than 10 years we've had 16 films and this year we have at least five we said. I think it'll be more than that. So I think on the blockbusters that are clearly identified, you have a basis for IMAX significantly outperforming. We also have a network growing close to 10% around the world and that provides a very good basis. You have local language films doing significantly better for us. You have two key high ticket box office markets growing rapidly and coming online, Japan and Saudi Arabia. And when we look at it, we have a different view than people looking at North American exhibitors. And I didn't even mention the two Marvels that are coming out next year and the two Pixars and Disney has some big movies, including Mulan. So we just think the slate's pretty good next year.

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**Mike Hickey**

*Analyst, The Benchmark Co. LLC*

Q

Okay. Thanks guys. Best of luck.

**Operator:** Thank you. Our next question comes from Jim Goss with Barrington Research.

**James Charles Goss**

*Analyst, Barrington Research Associates, Inc.*

Q

Good morning. I was wondering, Richard just mentioned Disney, Pixar, Marvel. I'm wondering about the concentration of Hollywood power in Disney and now it's Disney-Fox and to the extent that you've always been very relationship-focused. Has that concentration worked to your benefit, as they have dominated in the blockbuster space and the movie space, in general, or has that hurt you in anyway?

**Richard Lewis Gelfond**

*Chief Executive Officer & Director, IMAX Corp.*

A

I'd have to say mostly positive, Jim, because we have such a good relationship with them. We're fully integrated into their releases and their marketing efforts, and I know you've seen some of the marketing that came out around the Avengers: Endgame and some of the other Disney and Marvel releases. I think the integration of our two organizations from a box office point of view has been a real positive. But again, that's kind of a headline. I think especially in 2020 you need to parse through that because of the films we mentioned that we're using our cameras on, those are all non-Disney films. So I think 2019 Disney really dominated the blockbuster business as you said. They're an important partner, we love working with them, but I think it to be a little bit more spread out in 2020 and that's fine, too. We have a wonderful relationship with Warner Brothers, with Sony, Paramount, with Universal. I think it's good when it works, but we're not tied to them.

**James Charles Goss**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. And I noticed there was a comment that upgrade to IMAX with Laser was sort of running a bit higher relative to new installs, and I wonder if you can talk about the value of laser, is it more in terms of cost, quality and therefore demand for seeing films on the IMAX screens are there other specific issues that are driving that continued roll-up?

**Richard Lewis Gelfond**

*Chief Executive Officer & Director, IMAX Corp.*

A

I think it's mostly differentiation, Jim. It provides more of a differentiation from their regular screens and the PLF. And we've done some early work on it and again I underline the word early, but from the research we've done there's an uptick in box office at the theaters versus the DMA in those theaters that have converted to laser. And I think there could be more there and one reason there could be more is we haven't really marketed heavily around the laser. We've kind of left word of mouth and the image speak for itself. But going forward starting in 2020, we'll be marketing a little bit more aggressively around laser. And so, I think like you would expect ultimately it comes down to that differentiation leading to butts in seats.

**James Charles Goss**

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. And finally over the years you have tinkered with optimizing the nature of your film schedule and you have seemed to converge to say no more than one or two weeks per title unless it's something unusual, perhaps Star Wars. I'm wondering and I think the DMR costs have gone down as it's been used more [indiscernible] (48:25) have a fast turnaround. So, I'm wondering are you happy with how things are working at this stage. And I've



asked probably over the years about the notion of split screen when you do have only one week, say, with that week's blockbuster, is there any more inclination or receptivity to doing something like that either in terms of the screens or to the screens during the week as time has gone on?

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

A

So, to your first question Jim about are we happy with the way kind of the slate has fallen, the answer is yes. We've used our position in the ecosystem and our relationships with filmmakers and studios to try and optimize the schedule for us. One asterisk on that would be people who film with our cameras where we over index, I think that's where we're going to try and carve out more screen time for them. So historically with Chris Nolan's films we've done that and I think as there are more films filmed with our cameras, you'll see us protect those filmmakers more both for relationship reasons and because we believe it will be in our economic interests.

In terms of split screens, we've done more of that internationally than we have in the past and it's worked out pretty well for us, especially a couple of film that are more likely play to PG kind of audience. You run that in the daytime and more than R movie later in the day. I think in the US there is still resistance to that by the studios. So we would certainly be open to doing more of that but that's not really the model they're following. I think another thing you might see is more carve-outs for us. So as our worldwide network continues to get bigger, we probably can carve out a certain number of screens to show something else and particularly on the second week and we think that fine tuning might help grow the box office.

James Charles Goss

*Analyst, Barrington Research Associates, Inc.*

Q

Okay. Thanks very much.

**Operator:** Thank you. [Operator Instructions] I am currently showing no further questions in the queue. I'd now like to turn it back over to IMAX for closing remarks.

Richard Lewis Gelfond

*Chief Executive Officer & Director, IMAX Corp.*

Thank you, operator, and thank you all for listening in on our call. As you know, we delivered a very solid quarter. We sort of promised that we would control costs over the last couple of years and I think we've done a very good job doing that. I think with the box office increase and the revenue increase you've seen more of that slow down to the bottom line. We think this year is going to turn out to be a record year for us with the fourth quarter coming up capped off by Star Wars. And 2020 particularly because of the IMAX Cameras and the IMAX DNA and the growth in the network, we feel very good about where we're going. We're experimenting with a few newer ideas in IMAX Enhanced and trying to emphasize different content. The early results there are quite positive. So we think the business is going very well and we thank all of you for your support.

**Operator:** Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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