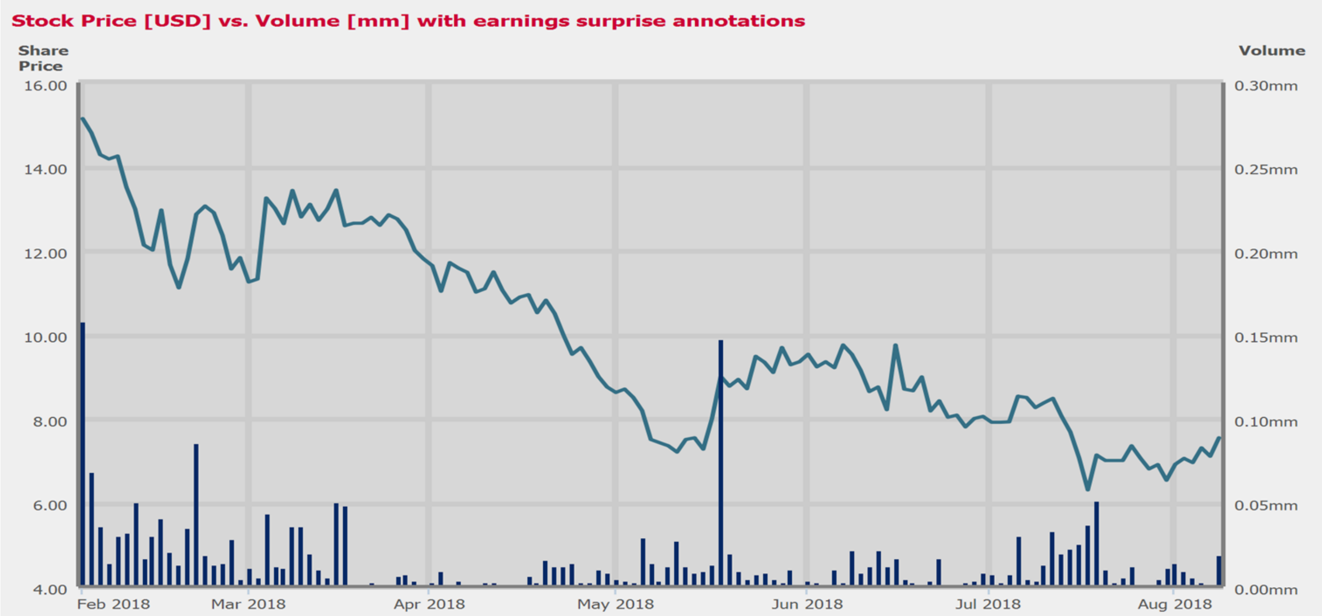
S&P Global
Market Intelligence

iPic Entertainment Inc. NasdaqCM:IPIC
FQ3 2018 Earnings Call Transcripts
Tuesday, November 06, 2018 9:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.72)	(1.03)	NM	(0.58)	(3.56)	(2.67)
Revenue (mm)	32.99	31.74	(3.79 %)	39.80	147.56	170.44

Currency: USD
Consensus as of Oct-19-2018 4:25 PM GMT



- EPS (GAAP) -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2017	0.00	(1.03)	NM
FQ4 2017	(0.80)	(0.94)	NM
FQ1 2018	(1.18)	(1.70)	NM
FQ2 2018	(0.76)	(0.59)	NM

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Call Participants

EXECUTIVES

Andre Loehrer

Hamid Hashemi
President, CEO & Chairman

ANALYSTS

Brian David Kinstlinger
Alliance Global Partners, Research Division

David Brian Bain
Roth Capital Partners, LLC, Research Division

James Charles Goss
Barrington Research Associates, Inc., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the iPic Entertainment Third Quarter 2018 Conference Call. [Operator Instructions] Please note that this conference is being recorded today, November 6, 2018.

On the call today we have Hamid Hashemi, Founder and Chief Executive Officer of iPic Entertainment; and Andre Loehrer, Interim Chief Financial Officer. And now, I would like to turn the call over to Andre to begin.

Andre Loehrer

Thank you, Operator, and good afternoon, everyone. By now, you should have access to our earnings press release, which can be found on our Investor Relations website at investors.ipictheaters.com in the News Release section.

Before we begin, I need to remind everyone that part of our discussion today will include forward-looking statements. These forward-looking statements are not guarantees of future performance and, therefore, undue reliance should not be placed upon them. These statements are also subject to numerous risks and uncertainties that could cause actual results to differ materially from what we expect. We refer all of you to our annual report on Form 10-K, which was filed back on May 1 with the SEC for more detailed discussion of the risks that could impact our future operating results and financial conditions.

Today's call will also include non-GAAP measures, which we believe can be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Reconciliations to comparable GAAP measures are available in today's earnings release, which is available on our website. With that, I'd like to turn the call over to Hamid Hashemi, Founder and Chief Executive Officer.

Hamid Hashemi
President, CEO & Chairman

Thank you, Andre. Good afternoon, everyone, and thank you all for joining the call today. We appreciate your interest in iPic Entertainment. I would like to start by addressing an announcement we made today in conjunction with our earnings release. Paul Westra is resigning as iPic's CFO to rejoin the financial services industry and move back to his hometown in Dallas. On behalf of myself, our Board, and all of our team members, we wish Paul success in his future endeavor, and we understand his interest in going back to the capital markets, where he's spent most of his career. Although we have already commenced a formal search for a new permanent CFO, in the meantime, we rare in good hands with Andre, who will serve as Interim CFO and Controller until this individual can be identified and brought on board.

Moving now to our third quarter performance, we reported a comparable store sales decrease of negative 0.6% with store-level EBITDA decreasing to $1.5 million compared to $2.7 million the prior year quarter. As of the third quarter of 2018, approximately 54% of our trailing 12-month total revenue came from food and beverage, and 29% came from traditional box office receipts. This compares to a traditional theater that has only about 30% of revenues derived from food and beverage and 65% from theatrical box office. While our box office comp performance may appear to have been below the theater industry on the top line, which was up roughly 5.9%, we believe our comp decrease was largely in line with the exhibitor industry, given an estimated 500 basis point of negative impact on screen capacity during the third quarter due to partial closure of auditoriums in the 3 remodeled theaters under construction during the period.

Moving on to our growth plan, in order to take advantage of the significant opportunity ahead, we're focused on 4 key strategic initiatives: one, improving existing location profitability; two, opening new high-rev returning iPic locations domestically; three, pursuing international growth opportunities; and four, expanding our non-box office revenue relating to branded partnership and membership and other digital growth options. We believe that executing on these strategic initiatives will meaningfully improve our top- and bottom-line results over time and create long-term value for our stockholders.

In terms of improving the profitability of our existing locations, our primary [tactic] for 2018 has been executing our remodel program, where in fact we completed 5 remodels this year to full premium plush seating, including our location in Scottsdale, Arizona and Pasadena, California that were completed in April, and at our Austin, Texas, Dallas, Texas and Redmond, Washington locations that were just completed in the last week of October ahead of the holiday blockbuster season. We now have only 2 remaining locations with Gen I auditoriums configuration that are targeted for remodel in 2019. We're pleased to report that we continue to see strong post-remodel performance from our 2 remodels completed in April, Pasadena and Scottsdale, with units experiencing a 15% relative sale lift during the third quarter compared to their pre-remodel performance. In addition, we expect that they will return in excess of 20% return in investment capital goal on an annual basis.

Our second key strategic initiative is to open a new iPic location domestically. Today, we operate 115 screens at 15 locations in 9 spaces. We currently have 6 signed leases at sites under development or construction, and a robust pipeline of another 12 sites where we have signed agreements that are in various stages of final lease negotiations. We think there's tremendous white space opportunity to expand in both existing and new U.S. markets. Our ultimate long-term goal remains reaching 200 locations and roughly 1,600 screens across the United States. Over the next 3 years, the majority of our planned openings are targeted to help achieve critical local market scale in our core markets in Florida, Texas, California, and the Tri-State area.

Our third key strategic initiative is to pursue international growth opportunities. In October, we came back from our latest trip to Saudi Arabia, where we met with Saudi government officials, as well as developers, to discuss a new theater regulation and licensing process. As a result of these in-person meetings and related conversation, we are pleased to announce that we have been cleared to receive a license to operate theaters in the Kingdom of Saudi Arabia and should receive it once required final documents are processed. We're excited to be bringing our first-class entertainment experience to the people of Saudi Arabia as part of our international expansion of the iPic brand while continuing to open new units domestically, as well. We plan to open our first location next year, with the potential for 25 to 30 iPic locations in Saudi Arabia within the next 10 years.

Lastly, our fourth key strategic initiative is to increase our digital revenue growth. We believe we can increase revenues associated with customer membership and corporate sponsorship at a faster pace than our four-wall revenues. This was achieved in the third quarter and year-to-date 2018, as well. Helping us to reach this goal was the creation of 4 classes of membership earlier this year, with 3 of the 4 representing paid membership classes. We are excited to announce that we will be re-enhancing our membership program on November 29. As part of this enhancement, the biggest change will be that we will now be offering all paying Gold members a 10% discount on all food and beverage purchases, which is on top of a package of ongoing and enhanced benefits that include discounted membership tickets pricing and early access to reserve seats.

We've also made it faster and easier for guests to earn Platinum and Platinum Elite status. Additionally, we'll be giving all nonpaying Silver members a free 3-month upgrade to Gold membership so they can experience all the perks and benefits. Once the 3 months period is over, current Silver members will have to pay the $29 membership fee to retain their Gold status for the forward-looking year. We believe by showing current nonpaying Silver members the benefit of the Gold level, they will see the strong value proposition of remaining a Gold member.

Another key part of our plan to grow membership revenue is by greatly expanding the value of the offering to paid members by providing them with more one-of-a-kind deals and free offerings from our branded partners. Over time, we expect to materially expand both the quantity and quality of special offers and giveaways to our members. As of the third quarter of 2018, 48% of our total revenue came from members on a trailing 12-month basis, which is the highest percentage of member sales that we are aware of within the food service and other theater industries.

Moving on to our effort to grow our sponsorship revenue, our primary focus in 2018 has been on our iPic Life content, which is a 20-minute film segment that plays on the theater screens before the previews start and where we showcase some of our partner brands and products, as well as our latest menu dishes. Our current sponsorship partners include luxury brands like Louis Vuitton, Lexus, and Burberry, as well as Google, M&M, and many more. We continue to believe there's a meaningful opportunity to grow this revenue stream, going forward, by leveraging our large and growing membership base, which has very favorable demographics.

So putting it all together, we're in the very early stages of our growth story and are laser-focused on executing on our 4 key strategic initiatives to capitalize on the significant opportunity ahead. We're committed to expanding our presence, both domestically and internationally, and leveraging our membership network and brand strength through revenue-driving sponsorship and partnerships.

With that, I'd like to now turn the call over to Andre to provide more detail on our financial results.

Andre Loehrer

Thank you, Hamid. Financial results for the 3-month period which ended September 30, 2018 are as follows. The total revenue for the third quarter decreased 2.6% to $31.7 million. This decline was driven by a decrease in comparable store sales of 0.6% compared to a 16% decrease in the prior year quarter. Our third quarter this year included a negative 5% impact from the large capacity as a result of screen closures that occurred during our 3 remodels that were completed in October. Additionally, we continue to experience below-average performance at our 2 remaining Gen I auditorium locations, offset by our Generation II and III locations that, again, outperformed our circuit-wide comps during the third quarter.

Please note that, starting in the third quarter of 2018, we've changed our methodology behind how we calculate our comparable store sales to now include 100% of our revenue. Our prior calculation method excluded most of the revenue that was not directly associated with the onsite theater box office sales and all student [day] sales, and thus excluded our growing net revenue streams associated with membership fees and sponsorship income. We believe including 100% of our revenues within our comparable store sales calculation provides better insight into the overall health of our business.

We provided a table in our earnings release that shows the comparable store sales calculation for 2017 and '18 year-to-date using both the prior and the new methods. Notably, our other revenue line, while small, rose 213% to $0.8 million during the third quarter and rose 122% to $2.5 million on a year-to-date basis, driven by higher membership revenue. As Hamid stated, our plan is to continue to grow digital-related revenues at a faster rate than our base revenue.

Store level EBITDA, a non-GAAP measure, decreased $1.3 million, or 46%, to $1.5 million in the third quarter of 2018. As a percentage of total revenue, store level EBITDA margin decreased 380 basis points to 4.6% versus 8.4% last year. The decrease was substantially driven by the de-leverage on our negative comparable store sales resulting from the impact of lost capacity due to our 3 remodels that were under construction.

Digging into each of the cost lines a little bit deeper, on the cost of goods sold, we experienced a year-over-year decline of 80 basis points to 30.1%, driven mainly by lower food and bev costs, which declined 50 basis points year-over-year to 27.1% of applicable revenue. This was due to the positive impact of menu price increases and greater efficiency being only slightly offset by modest input cost inflation. We also experienced a 20 basis point decline in cost of theater-related revenues to 35.3% after applicable revenue. That was driven by an increasing revenue mix of nontraditional revenue as well as from positive film slate changes. For the full year, we continue to expect year-over-year leverage on the overall cost of goods sold line.

On the label line, we saw 100 basis points increase year-over-year to 30.4%. This was largely due to the impact of our negative comparable store sales exacerbated by the rather significant deleverage experienced from remodel sites due to the loss of screen capacity during construction and from labor wage inflation of mid- to high single digits, which was only partially offset by more efficient labor scheduling. For the full year of 2018, we expect our labor cost percentage to improve slightly versus 2017. Our occupancy costs for the third quarter were 14.7%, up 30 basis points compared to last year, driven by the deleverage on our negative comparable store sales due to lost screen capacity because of our remodels. For the full year of 2018, we now expect our occupancy cost percentage to be slightly higher compared to 2017.

On the other operating expense line, excluding the impact of nonrecurring items, which were $202,000 expensed during the third quarter of 2018 compared to $696,000 expensed last year, other operating expenses increased by 320 basis points in the third quarter of this year to 20.2%. this increase was due primarily to fixed operating cost deleverage that was incurred during screen closures for the 3 remodels and, to a lesser extent, from a combination of higher repairs and maintenance expense. For the full year of 2018, we expect other operating costs to be higher than 2017 as a percentage of revenue.

Moving further down the income statement, G&A expense was $4.3 million during the third quarter, a decrease of $0.1 million compared to the third quarter of last year. For the full year, we remain on track to achieve our guidance range for G&A expense of $18 million to $19 million. Total adjusted EBITDA, another non-GAAP measure, decreased to a loss of $2.8 million for the third quarter versus a loss of $1.7 million in the third quarter of 2017. To note, we expensed $272,000 of stock-based compensation during that quarter. As a reminder, it is not included in our adjusted EBITDA calculation.

Looking forward, we're providing fourth quarter guidance and updating our full-year 2018 outlook. Our updated outlook reflects our performance through the third quarter of 2018 along with our expectations for the remainder of the year, including an estimated 150 basis points of negative impact on screen capacity for the full year of 2018 as a result of one later timed remodel and the addition of 2 additional remodels compared to our initial expectations.

For the fourth quarter, we're providing the following outlook: total revenues, $34.5 million to $36.5 million. Comparable store sales decline of negative 5% to 0%, including an approximate 100 basis points of negative impact on screen capacity due to the 3 remodels that we completed at the end of October. Store level EBITDA, a non-GAAP measure, of $4 million to $6 million. G&A expenses, excluding stock-based comp, of between $4.5 million and $5.5 million. Adjusted EBITDA, a non-GAAP measure, a loss of $1 million to approximately $500,000. And for the full year, we're providing the following guided ranges: total revenue of $141 million to $143 million. Comparable store sales growth in the range of 0% to 1%. Store level EBITDA of $13.5 million to $15.5 million. G&A expenses, excluding stock-based comp, of $18 million to $19 million. And adjusted EBITDA loss of between negative $5 million and negative $3 million. And net capital expenditures of between $20 million and $25 million, including the remodeling of the 5 Gen I [indiscernible] locations.

We also want to provide some initial perspective on our outlook for 2019. As Hamid noted earlier, the combination of our robust domestic pipeline, as well as our opportunities abroad, put us on target to open as many as 4 new global locations annually in 2020. For 2019, we now expect to open 2 domestic units, with one opening in Delray Beach at the end of the first quarter of 2019 and one located in Irvine, California, which is expected to open in the fourth quarter. Also, as noted earlier, we also expect to open one of our first Saudi Arabia locations in 2019 as well. We expect comparable store sales to grow between 0% and plus-5%. We plan to take a blended ticket and food-[embedded] pricing of approximately 3% for the full year of 2019, similar to our effective pricing in calendar 2018. And lastly, we plan to grow our digital-related revenues through membership fees and sponsorship income at a faster rate than our base revenue.

Going forward, we believe that we have the key strategic initiatives in place to drive meaningful top- and bottom-line year-on-year improvement as we look to leverage our unique and disruptive offering in pursuit of becoming America's premiere entertainment destination.

And with that, I'd now like to turn the call back over to Hamid for closing remarks.

Hamid Hashemi
President, CEO & Chairman

Thank you, Andre. Let me thank our team members for their hard work, hospitality and dedication to our brand. They're the reason why we have such loyal and growing membership base. We are in a unique position, given our membership model, and believe there is a potential for significant network effect opportunity as we continue to grow in scale both locally, domestically, and internationally, as more units increase the number of iPic numbers issued lead to more sponsorship interest from branded partners. That in turn will then increase the value of being an iPic member, driving an increasing membership rate. We believe, through the execution of our strategic initiative, we can successfully grow the brand across the United States and internationally and generate long-term profitability growth and increased value to our stockholders over time.

We greatly appreciate you taking the time today to follow our story, and we're looking forward to updating you on our future calls.

Question and Answer

Operator

[Operator Instructions] Our first question is coming from the line of David Bain with Roth Capital.

David Brian Bain
Roth Capital Partners, LLC, Research Division

My first question had been a sneak peek into 2019, so I appreciate those last statements that you made on '19. So I guess if I could start on Saudi Arabia maybe Hamid, if you could detail, or give us any color around what it means to be cleared to receive a license in Saudi Arabia. I guess what I'm looking for net is timing to go live there. Is it going to be 1Q, one-half, and then any other detail you can give around your partnership agreement there, if that's been finalized.

Hamid Hashemi
President, CEO & Chairman

As we mentioned in the report we just put out, I was in Saudi Arabia first week in October. We submitted our application back in March, and since then we've been going through all the processes, providing the information. In our meeting in October, we were told that we've cleared all the hurdles. What we need to do is -- over there it's a little different than here. Here we can open a corporation in a matter of minutes. Over there, you have to go to different government entities. Open a bank account itself takes a few days. So we were told to go get a certain piece of paperwork done and submit those, and they will issue our license.

So that work is in progress as we speak. We're optimistic to get our license, anywhere from as early as 30 days from now or certainly hopefully before end of the year.

In terms of opening that you questioned, we have a site that's already under letter of intent. That site is -- the lease is ready to be signed and subject to getting the license. And again, we've done a lot of the work, architectural work on it already. And that site should open I would say -- things move a little bit slower, just to be candid with you. It's probably going to be a third or fourth quarter of next year opening.

David Brian Bain
Roth Capital Partners, LLC, Research Division

So I guess my next one would be one that we get broader-base more often at our office, is kind of looks like some of the other competitors, or larger competitors in the box office industry, they look to be getting more aggressive in terms of a step-up with monthly rewards, the A-List by AMC or Cinemax Movie Club. And they've been relatively successful from the numbers I've seen. And with -- honestly, like expansion of alcohol and food options, can you speak to sort of the iPic next-gen -- from the next-gens that we're sort of putting out there now? What is the key to iPic in 2019 and beyond? I know it's a bigger picture question, but that would be helpful.

Hamid Hashemi
President, CEO & Chairman

Sure. As you know, our theaters, typically in a 6- or 8-screen theater, you have anywhere from [as limited as] 240 seats all the way up to, say, on the average we have about 460 seats in a complex. So we're not in the business of -- really we can't compete, and we don't intend to compete by filling up seats, because we already fill up our seats. I mean, we've talked about this before. When you have a big-picture opening, like a Star Wars or a Mary Poppins opening up, there's only so much business that we can do, because our seats -- we sell out the auditoriums. For us, it's a matter of how we can grow our revenue per person.

And that's what we put our energy and focus on, and I think we've done a very good job of growing the revenue per person. And that's been the driver for us all along. Coming up in 2019, the new membership program is really focusing to, while growing the spend per person, it's also increasing frequency at the slower times of the week and day. And that's why I just touched on, like, couple of the new benefits that are coming out, which is the 10% discount on all your food and beverage. There is -- now, when you buy -- a membership is good for 5 family members, and once you buy 25 tickets, you get 2 tickets at no charge dropped into your account online.

So again, there's other benefits. You have a ticket on your birthday, in the month of your birthday, with a membership. You get 1, you come in with a couple, or with your wife or your loved one or family, you're buying more tickets. So, it's really -- the membership is really being -- it's an ongoing evolution of how we can make the experience better, get you to come out to more movies, and at the same time increase the spend per person. I mean, like I said, membership is a big part of it, and as we grow our membership, it really grows the revenue that we can generate from our branded partnerships.

David Brian Bain
Roth Capital Partners, LLC, Research Division

And to that end, do you mind sharing quarter-over-quarter membership numbers relative, and put it in perspective with other quarters, and maybe some same-store sales metrics around sort of the newer generations relative to what you saw from those that I guess are now Gen II? That'd be helpful as well.

Hamid Hashemi
President, CEO & Chairman

I mean, we have not, and we don't share those numbers. I mean, the important thing I think what you can -- comfortably share with you is that 48% of our revenue's coming from member base.

David Brian Bain
Roth Capital Partners, LLC, Research Division

And that number as a whole has stayed pretty stagnant at the 48%, from what I recall?

Hamid Hashemi
President, CEO & Chairman

It's actually grown. I don't have it off the top of my head, but I remember from previous announcements we had, I think it's grown 1% or 2% just in the last quarter.

David Brian Bain
Roth Capital Partners, LLC, Research Division

Last one on 4Q, so I assume that, from a box office perspective again, so are you looking at some of the bigger movies that we've heard are slipping, like Spider-Man and Ralph Breaks the Internet, that kind of thing, are you looking at that as 2019? Is that a big factor in your 4Q outlook relative to 2019? Anything beyond what you gave us, any more detail around how you derived 4Q and 2019 thoughts would be helpful that you didn't already give.

Hamid Hashemi
President, CEO & Chairman

Right. I think the industry expectation for Q4 is right now negative 5%. We frankly don't think we're going to be impacted as much because, as we've shared with you in the past call, we don't -- when the industry is up 10% or 12% or 15%, we just cannot comp that much higher. At the same time, we don't comp down that much, either, because when you look at the Christmas period last year, or the year before, when you have a Star Wars or a sequel opening up, theaters that have 18 or 20 theaters and they can throw 500 or 1,000 seats to a picture and have a dramatic improvement over their previous year, we just don't have that luxury.

And the same is true on the other side of it. We have auditorium venue from 40 seats to 80 or 100 seats, and it's only 8 of them. So we are not so dependent on these mega-pictures to fill up our seats. So we believe that, as a whole, while we forecasted to remain flat, I think we're going to be in line with what we've forecasted all along for Q4.

Operator

Our next question is coming from the line of Jim Goss with Barrington Research.

James Charles Goss
Barrington Research Associates, Inc., Research Division

Hamid, what are the financial terms in the Saudi Arabian theater? I think it's a partnership, not a totally owned facility. So how is that financial structure being split?

Hamid Hashemi
President, CEO & Chairman

Our relationship [of it] is a light assets model. I mean, there's a royalty component. There's profit participation. And frankly, the plan is all the capital for the Saudi partnership is raised locally and contributed locally.

James Charles Goss
Barrington Research Associates, Inc., Research Division

So you would be more on a royalty basis, so your capital risk is low, and it would just be an incremental return, but not on the scale of what you think you could probably get out of a domestic facility?

Hamid Hashemi
President, CEO & Chairman

No. Actually, I think our profitability will be substantially greater than the domestic operations, because you are investing substantially less than what we're investing here, and you have a royal fee off the top and a profit participation. And margins over there, I can tell you certain film costs and some -- the margin at a unit level will be better than theaters domestically.

James Charles Goss
Barrington Research Associates, Inc., Research Division

And are the 2 remain Gen I locations that have yet to be renovated the 2 that are in Chicago?

Hamid Hashemi
President, CEO & Chairman

Yes.

James Charles Goss
Barrington Research Associates, Inc., Research Division

And to the extent that they don?t have at least room in the physical properties for a restaurant, are you able to get maybe an adjoining space where you can do a complete renovation into a restaurant plus theater?

Hamid Hashemi
President, CEO & Chairman

The short answer is no, and frankly, we don't think there -- one location, the theater's on the second floor, and ideally -- I mean, there's no space on the ground floor right next to us available, and we wouldn't want to do a restaurant on the second floor. And the other side is the same. It's a freestanding building, so there is no space adjacent to it for us to do a restaurant.

James Charles Goss
Barrington Research Associates, Inc., Research Division

So would it dissuade you from actually doing that renovation and just keeping it as-is?

Hamid Hashemi
President, CEO & Chairman

No, no, we're going to -- we will do the improvements, but it just -- there's only so much we can take on, frankly. I mean, we had 5 of them going on at the same time. Those are slated for next year. We're definitely going to attend to those next year.

James Charles Goss
Barrington Research Associates, Inc., Research Division

Maybe the last thing for now is, maybe as you were alluding to, you are heavily membership-oriented. And some of the renovation -- or some of the new programs in the theatrical sector have been subscription programs. Do you have any intent to do something like that, where you would have more of a -- a bigger upfront commitment but potentially maybe a direct link such that members would be -- or those who take on the subscription programs would be enticed to come more frequently and be a regular -- more regular partner? Does it look [indiscernible] we have membership to subscriptions?

Hamid Hashemi
President, CEO & Chairman

That's definitely a possibility. We're watching what everybody's doing and trying -- we're doing some analysis on our own circuit as to what the viability of that model is. And to the extent that we can come up with a subscription that doesn't really create a perception of discounting, we're going to stay away from that, because we do provide a lot of services that our peers don't, the pillows and blankets. There's cost associated with it, and frankly, we view the subscription models t hat are out there right now, they're all about discounting, frankly. They're deep discounts on admission. And you can't be a -- those are more of the commodity providers, in our opinion, and we're not a commodity provider. We're really more focused on enhancing the services.

There's an audience for both models, frankly. I mean, you look at the hospitality industry, there's an audience for the Ritz-Carlton, and there's an audience for Marriott and Holiday Inn. So today, the exhibition industries really should be viewed as the same way, that different levels of service for different expectation, and those who look for a really superior experience, they're willing to pay for it. That is what we provide. And we have not been able to figure out how to give any more discounts by providing a subscription service to our guests that would allow us to maintain the same level of service and quality experience.

Operator

Our next question is coming from the line of Brian Kinstlinger with Alliance Global Partners.

Brian David Kinstlinger
Alliance Global Partners, Research Division

The new facilities just updated, Pasadena and Scottsdale, how quickly does their performance, in terms of utilization and maybe dollars spent per person, hit the average of your more mature Generation II or III facilities?

Hamid Hashemi
President, CEO & Chairman

The remodeled facilities, well, those 2 are the ones that have, from a remodeled, they have a longer operating history, so they typically take about 60 days for them to ramp up because you're going back to people. Today, there's a difference between today and call it 5 or 6 years ago when we were opening these sites. There was a time when we were the only ones that offered the comfort and convenience of recliners. Today, that market is much broader. There's competition in the marketplace that are out there. So when we had some erosion of attendance because our non-reclining seats, those people that left and they went to other sites, now we've got to go bring them back. So it is a little bit of a longer stretch whereas, when you open a new one in a market that's a virgin market, they ramp up very, very quickly. So our experience right now with those 2 sites is anywhere from 45 to 60 days before we start getting a substantial part of the audience that we lost back into the theater.

Brian David Kinstlinger

Alliance Global Partners, Research Division

And then, how long until they kind of hit the average of the rest of your theaters? Does that take a quarter, 2 quarters?

Hamid Hashemi
President, CEO & Chairman

About a quarter. I'd say it's about a quarter after that before they kind of optimize.

Brian David Kinstlinger
Alliance Global Partners, Research Division

Maybe I missed it, but on the Generation II and Generation III facilities, have you talked about the trend in the average spend per person? Is it increasing? And if so, at what rate?

Hamid Hashemi
President, CEO & Chairman

It is increasing. Hold on one second. Let me look it up. It's about 5% for this year right now.

Brian David Kinstlinger
Alliance Global Partners, Research Division

5% year-over-year? 5% year-over-year in the first 9 months?

Hamid Hashemi
President, CEO & Chairman

Yes.

Brian David Kinstlinger
Alliance Global Partners, Research Division

And then finally, with the planned openings you've talked about over the next 12 months, you've also talked about the Chicago facilities eventually getting reconstructed, it sounds [like], in the next 12 to 15 months. Can you talk about the CapEx needs in the next 12 months?

Hamid Hashemi
President, CEO & Chairman

The 2 new openings are roughly about $12 million per location, and the remodels that are about -- somewhere between $2 million and $3 million per location.

Operator

Thank you. There are no further questions at this time, so I'd like to pass the floor back over to management for any additional concluding comments.

Hamid Hashemi
President, CEO & Chairman

Well, thank you again, everyone, for participating on this call, and we look forward to sharing our year-end results at the next call with you. Thank you.

Operator
Ladies and gentlemen, this does conclude today's teleconference. Again, we thank you for your participation, and you may disconnect your lines at this time.