iPic Entertainment Inc.

Second Quarter 2018 Earnings Conference Call Transcript

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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

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Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the iPic Entertainment Second Quarter 2018 conference call. At this time all participants have been placed in a listen-only mode and the lines will be open for your questions following the presentation. Please note that this conference is being recorded today, August 8, 2018.

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

Paul Westra:

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 with the SEC on May 1, 2018 for a more detailed discussion of the risks that could impact our future operating results and financial condition.

During today's call, we will also discuss 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 would like to turn the call over to Hamid Hashemi, Founder and Chief Executive Officer.

Hamid Hashemi:

Thank you, Paul. Good afternoon, everyone, and thank you all for joining the call today. We appreciate your interest in iPic Entertainment. This is a very exciting time for our Company as we are at the very early stage of our growth story.

On today's call, I'd like to start with how we view iPic's strategic positioning and then provide an update on our growth plans. Paul will later review our second quarter results and reiterate our 2018 guidance. I will then conclude with a few additional comments before turning the call over for Q&A.

Every day, our teams are working hard to deliver a world-class hospitality experience in our innovative, restaurant-and-theater destinations, which we believe are among the finest in the world.

Our newest locations combine three distinct areas — a polished-casual restaurant, a farm-to-glass full-service bar, and our world-class luxury theater auditoriums with in-theater dining bringing the most common forms of entertainment under one roof to create a single destination for a night out. It is this unique positioning that has made iPic the destination of choice resulting in the highest revenue by seat, auditorium or per square foot of any theater destination. Our chefs and mixologists create crave able food and drink offerings that are outstanding on a standalone basis. However, it is the combination of our movie-entertainment, dining and full-service bar areas that is the defining feature of our concept.

As of the second quarter of 2018, approximately 54% of our trailing 12-month total revenue came from food and beverage and 30% came from traditional box office receipts. This compares to a traditional theatre that has only about 30% of revenue derived from food and beverage and 65% from theatrical box office.

Looking at our second quarter performance, we are pleased to report Comparable-Store Sales increased 6.9% with Store-Level EBITDA increasing by 66% to $5 million, compared to the prior year quarter.

While our box office comp performance may appear to have been below the theater industry on the top line, which was up roughly 23% driven by strong summer blockbusters, we believe our growth of 6.9% was in line based on the number of screens per location and number of seats per auditorium for our Theaters.

- With only 6 to 8 screens per location, iPic units have about half as many screens as a typical megaplex and thus we cannot devote as many screens to blockbusters as our traditional peers. For example, a typical megaplex can devote as many as 6, 8 or even 10 auditoriums to titles such as Avengers: Infinity War, Incredibles 2, or Deadpool 2 for multiple weeks, and still be able to play all other titles available in the market, whereas given the limited number of screens we rarely play a picture in more than one auditorium because of our commitment to the studios to play if not all, at least the majority of their pictures.

- At the individual auditorium level, with 40 to 80 seats per screen, iPic has significantly less seats compared to most other movie theater auditoriums that have over 200 seats. Additionally, iPic's premium-plus seats already run over 3-times higher utilization rates of about 40% versus the industry's near 12% and, as such, we simply have much fewer empty seats to sell when blockbuster movies sell-out auditoriums.

On the flip side, we tend to outperform the theater industry in periods of very weak film slates when industry comps significantly decline as we need fewer titles and fewer people to fill our theaters. More importantly, the majority of our revenue is derived from food and beverage. Over the years we have managed to further diversify our revenue base through offering higher-priced ticketed live-event shows and we also drive significant revenue from branded partnerships compared to traditional theaters.

The seamless integration of our restaurants, bars and design of our dine in theater affords us the special programming opportunities and partnerships that have made our Theaters the highest grossing faculties from a productivity perspective. On a trailing 12-month basis, our theater circuit generated revenue-per-screen of over $1.2 million, which is over twice the industry average of less than $500,000 dollars and more impressively, our four most recently opened locations, which are Generation III theaters, generated over $1.6 million of revenue per screen over the past 12 months, which is over three-times the industry average.

Moving on to our growth plans, in order to take advantage of the significant opportunity ahead we are focused on 4 Key Strategic Initiatives:

- One – Improving existing location profitability;
- Two – Opening new high-returning iPic locations domestically;
- Three – Pursuing international growth opportunities; and
- Four – Expanding our non-box-office revenue relating to branded partnerships, 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 remodeling program. As we updated for last quarter, we planned for five remodels this year compared to our original guidance of up to three remodeled locations. To-date, we have completed the remodeling of our Scottsdale, Arizona and Pasadena, California locations in April to full Premium-Plus seating and we expect to complete similar remodels at three more locations this year, including Austin and Fairview, Texas; and Redmond, Washington.

By year-end, and inclusive of all 5 remodels slated for 2018, we will have only two remaining locations with Generation I auditorium configurations targeted for remodeling in 2019. As a reminder, about 2/3rds of seats at Generation I auditoriums are Premium and only about 1/3rd Premium-Plus which our guests continue to prefer by a 4:1 ratio even with the typical seat upcharge of over $8.

We are happy to share with you that our sales lifts at the two completed locations, Pasadena and Scottsdale, have generated better-than-expected overall results than we forecasted where their comparative sales lifts have shown an increase of between +10% and +25% in their first three months following their remodels.

Our Second Key Strategic Initiative is to open new iPic locations domestically. Today, we operate 115 screens at 15 locations in 9 states. As previously announced, with lease signings for Atlanta, GA and Hicksville, NY, and most recently, Irvine, CA, we now have six signed leases at sites under development or construction, and an additional robust pipeline of another 12 sites where we have signed agreements that are in various stages of final lease negotiations.

We think there is tremendous whitespace opportunity to expand in both existing and new U.S. markets, and we have therefore invested in our infrastructure through new hires at our corporate office to enable us to continue growing with discipline. Our ultimate long-term goal is reaching 200 locations and some 1,600 screens across the United States. In 2019-through-2021, the majority of our dozen 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. Over the last year, I have made several trips to Saudi Arabia to meet with Saudi government officials as well as developers to discuss the new theater regulations and licensing process. As a result of these in-person meetings and related conversations, we continue to expect that we will be granted a license to operate cinemas in the Kingdom of Saudi Arabia.

We have no new updates to announce today on the KSA licensing process, but remain busy behind the scenes with our operating and funding partners so that we are ready once the licensing process is completed. We are very excited about the opportunity that lies ahead for us in Saudi Arabia because our goal is for iPic to become an integral part of the country's Saudi Vision 2030 plan to transform the overall economy towards more recreation and tourism spending.

In fact, it is the combination of our robust domestic pipeline as well as our opportunities abroad puts us on target to open up to four locations annually beginning in 2019.

Lastly, our Fourth Key Strategic Initiative is to increase our digital growth options, so that we can increase revenues associated with customer memberships and corporate sponsorships at a faster pace than our four-wall revenues. This was achieved in the second quarter of 2018 and through the first half of 2018 as well. Helping us to reach this goal was the creation of four classes of membership earlier this year, with three of the four representing paid membership classes.

A key part of our plan to grow membership revenues is by greatly expanding the value 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. By doing so, the financial value of their annual membership fee will continue to grow far above the current $29 per year membership fee.

The latest example of such an agreement is our recently-signed branded partnership with Danone. Beginning in October, we will be providing our paid members and newly signed members with a Custom collectible IPIC Access Box containing two collectable etched bottles of their Evian and Badoit waters.

Moving on to our efforts to grow our sponsorship revenues; our primary focus in 2018 has been on our iPic Life content – which is a 20-minute filmed segment that plays on the theater screen 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&Ms and many more.

This year and beyond, we believe there's a meaningful opportunity to grow this revenue stream by leveraging our large and growing membership base, which has very favorable demographics – including 60% female and average household income of about $120,000.

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

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

Paul Westra:

Thanks, Hamid.

Our second quarter performance demonstrated improvement in our top and bottom-line results. Financial highlights for the three month period, which ended on June 30th, 2018 are as follows:

Total revenue for the second quarter increased 11% to $37.5 million, primarily driven by the addition of one new location in May of 2017 in Dobbs Ferry, NY as well as an increase in Comparable-Store sales. Notably, our Other Revenue line, while small, more than doubled in the second quarter driven by higher membership revenue, which is part of our plan to grow digital-related revenues at a faster rate than base revenue, as Hamid stated.

Comparable-Store sales for the second quarter increased 6.9%, which included a negative 1% impact from lost capacity as a result of screen closures during our two remodels that were completed in April. Additionally, we continued to experience below average performance from our five remaining Generation 1 auditorium locations; offset by our Generation II and III locations that again outperformed our circuit wide comps during the second quarter.

Store-level EBITDA, a non-GAAP measure, increased $2.0 million, or 66% to $5.0 million in the second quarter of 2018 from $3.0mm in the second quarter of 2017. As a percentage of Total Revenue, Store-level EBITDA margin increased 440 basis points to 13.3% versus 8.9% last year. The increase was driven by leverage on our positive comparable-store sales, lower COGS, labor, and occupancy costs which was partially offset by higher Other Operating Expenses.

Digging into each of the cost line items a bit deeper:

- On total Cost of Goods Sold, we experienced a year-over-year decline of 140 basis points to 31.2% driven mainly by lower food-and-beverage costs which declined 160 basis points year over year to 25.8% as a percent of applicable revenue. This was due to menu-price increases and greater efficiency that was slightly more than offset by modest input cost inflation. We also experienced -40bps lower costs for theater-related revenue of 39.3% which was driven by an increasing revenue mix of non-traditional revenue and 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 labor line, we saw a 350 basis point decline year-over-year to 24.0%. This was largely due to the benefit of a bonus accrual reversal as well as from a combination of leverage on our positive comparable-store sales of 6.9% and from our new, more-efficient labor-scheduling module that more than offset labor-wage inflation of mid-single digits. For the full year of 2018, we continue to expect our labor cost percentage to improve versus 2017;
- Our occupancy costs for the second quarter were 12.3%, down 70 basis points compared to last year, driven by leverage from positive comparable store sales and lower occupancy costs at our newer locations. For the full year of 2018, we continue to expect our occupancy costs to be roughly comparable to 2017 as a percentage of revenue.
- On the Other operating expense line, excluding the impact of non-recurring items which were a $282,000 expense during the second quarter of 2018 compared to a $354,000 gain last year, Other operating expenses increased by +110 basis points in the second quarter of this year to 19.1% primarily due to investments in temporary stages for our live show initiative and to a lesser extent, from fixed operating cost deleverage that was incurred during screen closures for the two remodels. In the second quarter, we ran 33 live show events compared to zero events during the second quarter of 2017. In August, we will be adding a permanent stage to our Fulton Market location and will be targeting additional locations for permanent stages in the back half of the year, including all three models. Going forward, all new iPic locations will also have a permanent

live stage. For the full year of 2018, we now expect Other Operating costs to be higher than in 2017 as a percentage of revenue.

Moving now further down the income statement, G&A Expense was $4.8 million during the second quarter, a sequential increase of $0.3 million compared to the first quarter of 2018 that was driven primarily by higher Board Compensation expense. For the full year, we remain on track to achieve our guidance range for G&A Expense of $18 to $19 million dollars.

Total Adjusted EBITDA, another non-GAAP measure, decreased to a profit of $185,000 for the second quarter versus $275,000 in the second quarter of 2017. To note, we expensed $269,000 of stock-based compensation during the quarter that, as a reminder, is not included in our Adjusted EBITDA calculation.

Going forward, we continue to believe that we have the key strategic initiatives in place to drive meaningful top and bottom line year-over-year improvement as we look to leverage our unique and disruptive offering in pursuit of becoming America's premier entertainment destination. This, we believe, will lead to per-store sales and profit growth in 2018 and beyond.

Looking ahead, we are reiterating our full-year 2018 outlook but now project to be at the lower end of our guided ranges. This is a consequence of our performance through the first half of the year and slightly lowered expectations for the second half of the year, that is largely a result of the expected net negative impact of three remodels now scheduled for completion in October that will result in an estimated -500 basis point negative impact on screen capacity during the third quarter and an additional -100 basis points of negative impact on screen capacity in the fourth quarter.

In short, our original guidance contemplated three remodels completed by April that was expected to have a neutral impact on the year's guidance ranges for sales and profits; our updated view now acknowledges a drag on full-year revenues from the late-year timing of now three remodel locations of approximately 100bps to 150bps.

As such, we now expect to be at the lower end of the following guided ranges:

- Total revenue growth of +3% to +7%.
- Comparable-store sales growth in the range of 0% to plus +5%, with the third quarter to be negatively impacted by 500 basis points of lost screen capacity and the fourth quarter to be negatively impacted by 100 basis points of lost screen capacity due to three additional remodels under construction during these periods.
- Store-level EBITDA of $17.0 million to $18.0 million.
- General and Administrative expenses, excluding stock-based compensation, of $18.0 million to $19.0 million
- An Adjusted EBITDA loss of between $1.5 million and $0.5 million, reflecting a substantial improvement from full year 2017.
- And net capital expenditures of between $20mm and $25mm, including the remodel of five Generation I iPic locations.

Let me now provide some additional color on some of the important metrics that underpin our 2018 guidance and support our strategic initiatives.

With respect to our Strategic Pillar One: Growing Per-Store Profits: We have completed two remodels thus far this year and are in the process of completing three additional remodels for a total of five that will be fully ready for the holiday blockbuster season. As a reminder, these remodels involve converting the vast majority of seating into our latest generation Premium-Plus Pod seating that have four-times higher utilization rates; garner approximately +60% higher average ticket prices; and generate approximately +80% more in food-and-beverage sales per guest.

Importantly, we are pleased with the results so far from our first two remodels that are returning in access of our +20% ROIC goal with both showing double digit comparative sales lifts in the initial three month periods following their respective remodels.

In the third quarter of 2018, we will begin three remodel projects which will all be completed in October, or during the first month of the fourth quarter – as a result, for modeling purposes, we would expect our remodels to reduce our screen capacity in 3Q18 by 500 basis points without any material offsetting impact from the expected sales lift following the remodel. For 4Q18, screen closures are expected to reduce screen capacity by approximately 100 basis points, but where 4Q18 comps will likely show a neutral impact from the remodels since all three will be completed ahead of the busy Holiday blockbuster season. To note, historically, iPic units typically generated approximately 20% of their revenue and approximately 30% of their Store-Level EBITDA during the last two months of the year because of the holiday blockbuster season.

With respect to Strategic Pillar Two: Growing our US presence, As Hamid noted earlier, we now have six signed leases in projects now under development, and an additional 12 signed agreements for sites that are in various stages of final lease negotiations that give us confidence in achieving our total unit-growth goal of up to four new units per year starting in 2019.

With respect to Strategic Pillar Three: Growing our international opportunity: we believe the iPic concept has significant global growth potential. We plan to provide investor updates on our progress as we believe that there is a significant growth opportunity for iPic within the Premium retail market of Saudi Arabia with the potential for 25 to 30 iPic locations within the next ten years.

Finally, with respect to our Fourth Strategic Pillar: Expanding our Digital Growth Options: In 2Q18, 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 foodservice and/or theater industries. We believe there is the potential for significant network effect opportunities as we continue to grow in scale both locally, domestically, and internationally – as more units increase the number of iPic members, it would likely lead to more sponsorship interest from brand partners. That, in turn, would then increase the value of being an iPic member driving an increasing membership rate.

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

Hamid Hashemi, CEO

Thank you, Paul. Let me thank our team members for their hard work, hospitality, and dedication to our brand. They are the reason why we have such a loyal and growing membership base.

We think it is very clear that the iPic story is just getting started and that if we stay focused on executing our strategic initiatives, we can successfully grow the brand across the US and internationally, and generate long-term profitable growth and increased value to our stockholders over time. We greatly appreciate you taking the time today to follow our story and we looking forward to updating you on our future calls.

With that, operator, please open the lines for questions.

Operator:

Our first question comes from David Bain with ROTH Capital. Please proceed with your question.

David Bain:

Great, thank you. My first question, and I have three, but Saudi Arabia, when you model the longer-term target of 35 to 30 locations, do you envision those as $10 million revenue units on average, and maybe if you can speak to some of the initial locations, what you would expect there? Then I thought that you mentioned four by early 2019, Hamid, in your prepared remarks, but I'm not sure I got that correct, and if we're still looking for a late 2018 opening, or is it just too hard to call it with the licensing process?

Hamid Hashemi:

As far as the revenue per location in Saudi Arabia, frankly it's a little early to tell. We have models based on the typical U.S. model in terms of occupancy. However, the market right now—as you know, there are two theaters opened up. These theaters are running at 100% capacity. To assume that that trend's going to continue, and I think that is not a good way to look at it—that's short-term; I think once—we're looking at it as a mature market, we're assuming that there's going to be 3,000 screens eventually in the market. Our forecast for revenue, it falls in the range of $12 million to $15 million on the top line and similar performance on the bottom line, as we have in this country.

It is a conservative approach. I think, initially, we will potentially outperform those numbers, but we don't think that—some of the numbers that some of our peers are looking at on a continuous—continually operating in that market are realistic, achieving north of 60% occupancy rate. We're more in the range of 40% and below that, that's what we have here.

David Bain:

Okay, and then is there any—just to follow-up on that, anything that you can share with us from a royalty perspective with your partnership at this point?

Paul Westra:

Yes, we're not proposing any details out because we have not finalized any formal agreements with respect to royalty payments, but I think it would be expected to be largely in line from what you've seen elsewhere for those negotiating and have negotiated international contracts in the past. Yes, we're…

David Bain:

Okay.

Paul Westra:

(Inaudible) many different versions with partners, whether we would be an operating partner and own some of the equity, or straight licensing, royalty payments. I think they would largely fall in line with similar contracts.

David Bain:

Okay, great. Hamid, can you give some thoughts on how we can think about iPic and how it could potentially outperform when there are not multiple blockbusters out there at once, the traditional movie theaters. When you compare your performance, what benchmark do you use then? Do you use upscale casual restaurants, same-store sales? I mean, traditional theaters, a mix? There is no peer comp because you're unique, so what do you think the street should think about as a benchmark for your own performance, if anything?

Hamid Hashemi:

I think upscale casual restaurants are more in line with our performance. I think, as I mentioned during the call, we only have anywhere from 60 to 80—spread between 60 to 80 auditoriums. We don't have the ability to dedicate 500,000 seats for a blockbuster, but on the positive side of it, we continue to—it's a lot easier to sell 60 seats or 80 seats in September and October for a movie than selling in a 500 seat complex versus selling 200 seats in a 4,000 seat complex or a 3,000 seat complex.

Our business, our (inaudible) business remains fairly flat. I mean, we're still subject to the quality of the movies. When we have—when there are big blockbuster movies, obviously we drive more attendance towards the afternoons or slower times of the day. The prime times are pretty much sold out, regardless of the time of the year or the quality of the movie; Friday, Saturday nights are sold out. It's a matter of—for us, it's a matter of how many tickets are you going to sell in the afternoon, or how many tickets are you going to sell on a Monday or Tuesday night? That fluctuates with quality of movies.

But overall—and we're not as susceptible and vulnerable, frankly, on the downtime, and unfortunately we don't pick up the gain on the upside of it.

David Bain:

Right.

Paul Westra:

Yes, if you think about (inaudible) somewhat of a restaurant, somewhat of a theater, but we're really just sort of a local destination to try to quantify. In periods like the second quarter, where the theater industry performs so well, our theater portion of our business did not perform year-over-year to such heights. But the good blockbusters allow us to outperform the restaurant industry. (Inaudible) outperform the restaurant industry, which is over half our sales, which includes beverage sales.

I tend to look at it as an amalgamation of restaurant, theater and general retail. We think that's a great position to be in.

David Bain:

Great. Then just final one, I guess, Paul, for you. I know you outlined guidance, I was trying to write down some of the thoughts you had around it, but does your guidance contemplate similar returns as fast as we thought at Scottsdale and Pasadena, because it just seems like, if I were to take 2Q, and then if you get everything done ahead of that stronger seasonal 4Q, especially the last three months of the year like it was mentioned, I understand we're going to get more disruption than we probably saw than 3Q, but that sounded like it would have been in 2Q.

I guess this is a sloppy question, but can you review, just that—or how to think about it from a quarterly cadence standpoint from here, 3Q and 4Q?

Paul Westra:

Yes, I mean, on a per-screen basis rather than on a per-location basis, each screen during the remodel is down for us for four weeks, so it's almost 7% or 8% of the screen's full year capacity, so obviously if there's two remodels we just did, were only sort of modeled to work three quarters of the remainder of the year, you can do the math to what the cost needs to be to kind of…

David Bain:

Right.

Paul Westra:

Break even. Obviously, we have up to 24 screens up-market, and in three locations. They'll only have two months of the year to…

David Bain:

Right, that makes sense.

Paul Westra:

It's obviously not the (inaudible).

David Bain:

Okay, I got that now. Okay. You are contemplating—that wasn't a one-off to Pasadena and Scottsdale. We're thinking we're going to see similar returns from those next three remodels.

Paul Westra:

Yes, but you'll see that…

David Bain:

Just not…

Paul Westra:

I would say, 2019, but obviously we'll see it internally within the fourth quarter numbers starting November, December, offset by the October closure.

David Bain:

Got it. Okay, that's great.

Paul Westra:

(Inaudible). But we are seeing, just the headlines here, we are seeing better than expected sales from both those locations, and as Hamid mentioned, we have a 10% to 25% sales with ranges already in the first three months, and we think the remodel will build (inaudible).

David Bain:

Right.

Paul Westra:

I suppose we'll do the best we can once we have all the data available.

David Bain:

Very cool. Thank you both.

Hamid Hashemi:

Thank you.

Operator:

Our next question comes from Brian Kinstlinger with Alliance Global Partners. Please proceed with your question.

Brian Kinstlinger:

Yes, good evening, thanks. Yes, I'm curious if you think this serves in the use and subscription base of movie pass per your first half traffic numbers because iPic theaters didn't accept that. Then subsequently—obviously they're having some troubles, it's well-publicized. If they experience significant churn, do you think that would alternatively benefit your benefit as some of those three million subscribers who leave now aren't maybe tied to using the movie pass from a mental standpoint, and spending money? I get it's a different product to seeing a movie, but I'm curious of your perspective on that.

Hamid Hashemi:

Thank you, Brian. This is Hamid. I think movie pass, the movie pass customers are really, not in general, our customers. I think those who look for a subscription-based or a discounted operation are not the guys that are coming to our theaters. The people that are visiting our theaters, they're there for a quality experience, they're willing to pay and they're not looking for that discount. I'm not (inaudible) that we were hurt and I don't believe that we're going to gain anything from this movie pass (inaudible). I think it will be neutral either way.

Brian Kinstlinger:

Then my other question is, the slate of movies in the first half was superb. How do you think the second half slate compares—obviously there's seasonality given the holiday season, but I'm curious how you think about the second half slate impacting your per-store trends?

Paul Westra:

I think the second half product is actually more in line with our audience. I think the first half, as you noticed, there were a lot of big blockbusters. A lot of the attendance at the blockbusters is driven by the teenagers and the younger audience, I mean, the movies like *Avengers* and *The Incredibles*. It's a family audience, which is really not our core audience here.

I think typically in the second half of the year, you have the better quality product, the Academy Award nominees that start coming out, and that's more in line with what our audience desires. That's been the trend in the past; our second half of the year, given the products really shift to a more sophisticated product, we perform accordingly.

Brian Kinstlinger:

Great, thanks.

Hamid Hashemi:

Thank you.

Operator:

Our next question comes from Jim Goss with Barrington. Please proceed with your question.

Jim Goss:

Thanks. I was wondering if, during the week, you would tend to ever consider dynamic pricing to attract more of the attendance, or do you remain at full price? Then a related thing, do you get a lot of spillover into the restaurants during the weekday type attendance? I think you said they're sort of opposite trends of weekend and weekdays.

Paul Westra:

Hi, Jim, yes, that's correct. I think in terms of discounting, again, we're not big believers in discounting. We currently have discounts for our members. Our prices typically on the weekend is $25, as a member during midweek, that gets price-dropped down to $18, so we're already offering substantial discount to our members, and we don't believe that we can go any longer than that and still maintain the quality and the level of experience to the point that it exists today.

Your second question in terms of driving more traffic to our restaurants—we believe that the—people who go to the movies midweek, or go to restaurants, are typically—they're either on a date or the empty nester. The audience that goes to the movies or the restaurant in the midweek is very different than the weekend. The guys that are going out midweek, they're out for a night out. They have more leisurely time or they're on a date, they're not as pressed for going to work or they start earlier, so we do get more crossover in midweek than we do during the weekend.

During the weekends, we have more of our guests that frequent our restaurants or are just going to the restaurant and leaving. They're—that's just the dynamic of the business, the way it works out.

Jim Goss:

Okay. Related to Saudi Arabia, totally different subject; when is the soonest you think you'd be able to get a theater in operation, and what would be—you've talked about the numbers over a 10 year period, but how would that likely scale in an ideal way you envision it?

Hamid Hashemi:

I think the country as a whole, as you know, to-date, there's only three (inaudible) an issue. There's only two theaters opened up and those two theaters were already existing sites.

I think the government and the authorities that are dealing with this process, they're learning as they go along. This is an industry that didn't exist, things are taking a lot longer than everybody hoped for or anticipated, on all fronts, frankly. From the labor side of it, from the government side of it, the developers, the deals that are being cut. Everything is taking a lot longer, and right now, I can tell you first-hand that given the temperatures there, a lot of people are on vacation. People typically go away; everybody in the government or in private sector, for the most part, the month of July and August, they're not there. Things slow down.

In terms of when we anticipate the first one opening, we have our first location—we have a letter of intent, we have a lease that's going back and forth right now. Our goal was to open it by Q4 this year, but I don't think that's going to happen, it's going to slip into next year, only because of the—just, that's the way things work in that country right now. Things are moving slower than everybody hoped for because of the learning that's taking place.

Jim Goss:

Okay, and lastly, I know you had decided to focus on the refurbishments to get up to the current state-of-the-art in some of the existing locations. After that, you should be moving back into the newbuild space and try to get back to these four per year I think that you had intended to do. When do you think that will take place, and what is the lead time coming up with the entirely new facility?

Hamid Hashemi:

Well, we're opening our first new location in February of 2019, that's in Delray Beach, Florida. The one following it is in Irvine, California, that site is in development process right now, and then there—our goal is still to get to four sites per year. We've signed leases and we have projects in the pipeline that are—letter of intents have been signed and leases are in the final stages, and we're pursuing the approvals along the way. These sites, by the time we find leases, we usually make sure that we can get all of our approvals from the communities that we're going into. We're on track to build four; I mean, the four next year will include, hopefully, at least one if not two sites in Saudi Arabia.

Paul Westra:

Jim, to answer your question as far as timing, once we have the assignment of the facility, it takes about nine months total construction time, so we're already, obviously, well underway to Delray Beach. We're taking over the facility within two weeks in Irvine, California, you can count nine months after that for a potential opening in Irvine. We'll keep you up to date (inaudible) the next two by year-end.

Jim Goss:

Okay, maybe one final one. Do you ever consider having multiple restaurants at (inaudible) at the same location, even if it's maybe on an adjoining property and a strip mall that you might have your facility located in?

Hamid Hashemi:

We've had—many developers have asked us about doing multiple restaurants, but we've been really careful in executing at the highest level and when we feel comfortable that we go into the multiple restaurants, we will definitely go there. I will tell you today, we have a lot more work to do, the remodel of our existing site and the more fine-tuning of the Gen 3 (phon). I mean, I can tell you, the next step for us is frankly, our Delray Beach location has a rooftop bar and it's really great. We have two other locations right behind it that have upward spaces and rooftops that are—actually, they're more desirable today than having another restaurant. We have the infrastructure in place.

We try to create efficiencies wherever we can, by utilizing the same kitchen, and the rooftop bar is just something that is just right on top of it. We believe that the economics of it is potentially greater. At this space, we basically are not paying any additional rent, whereas if we add a second restaurant, you're going to be paying rent.

Jim Goss:

Yes, that makes sense. Thanks very much.

Hamid Hashemi:

Thank you.

Paul Westra:

Thanks, Jim.

Operator:

Our next question comes from Bob Derrington with Telsey Advisory. Please proceed with your question.

Paul Westra:

Bob, are you on mute?

Operator:

Bob, your line is live.

I think he's disconnected from the phone.

I would like to turn the call back over to Management for closing comments.

Paul Westra:

Great, well thank you, everyone, for your interest in iPic Entertainment. Give me a call—Paul Westra here, if you have any follow-up questions for one-on-one, and we look forward to seeing you and talking with you again shortly.

Hamid Hashemi:

Thank you, everyone.

Operator:

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