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Q1 2023 Melco Resorts & Entertainment Ltd Earnings Call

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K. Y. Cheung *Goldman Sachs Group, Inc., Research Division - MD*

Praveen Kumar Choudhary *Morgan Stanley, Research Division - MD*

Shui Lung Choi *Citigroup Inc., Research Division - Director & Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the First Quarter 2023 Earnings Conference Call of Melco Resorts & Entertainment Limited. (Operator Instructions) Today's conference is being recorded. I would now like to turn the call over to Ms. Jeanny Kim, Senior Vice President, Group Treasurer of Melco Resorts & Entertainment Limited. Please go ahead.

Jeanny Kim *Melco Resorts & Entertainment Limited - Senior VP & Group Treasurer*

Thank you, operator, and thank you, everybody, for joining us today for our First Quarter 2023 Earnings Call. On the call are Lawrence Ho, Geoff Davis, Evan Winkler and our Property Presidents in Macau, Manila and Cyprus.

Before we get started, please note that today's discussion may contain forward-looking statements made under the safe harbor provision of federal securities law. Our actual results could differ from our anticipated results. In addition, we may discuss non-GAAP measures. A definition and reconciliation of each of these measures to the most comparable GAAP financial measures are included in the earnings release. Finally, please note that our supplementary earnings slides are posted on our Investor Relations website.

With that, I'll now turn the call over to Mr. Lawrence Ho.

Lawrence Ho *Melco Resorts & Entertainment Limited - Founder, Chairman & CEO*

Thank you, Jeanny. We have seen a very encouraging start to the recovery in Macau during the first quarter of 2023 following the relaxation of border restrictions in early January, and the recovery has progressed faster than we had anticipated.

We continued to see improving momentum into April and solid performance during the May Golden Week. Mass drop and mass GGR during this Golden Week period exceeded the same period in 2019, and

the turnover in our premium direct segment more than doubled.

We launched some exciting new initiatives in April. We started Macau's first-ever series of residency concert at Studio City and opened Studio City Phase 2 starting with the opening of Epic hotel tower and the indoor water park. We also plan to open the W Hotel tower in September, which will round out our hotel portfolio in Macau.

These initiatives reinforce our long-standing commitment to bringing unique world-class entertainment and hotel offerings to Macau. We have a diverse range of events that are being planned for the future that, we believe, will continue to drive international tourism and position Macau as a leading destination for leisure and entertainment.

We've seen strength in the Philippines with a solid recovery underway. Adjusted property EBITDA at City of Dreams Manila for the first quarter of 2023 surpassed the first quarter of 2019. Performance in Cyprus has also been strong with both GGR and adjusted property EBITDA exceeding 2019 levels. The operational results of our temporary and satellite casinos have proven that there is strong demand in Cyprus. We're excited to open City of Dreams Mediterranean in mid-June and showcase our expertise with the first integrated resort of its kind in the region.

With that, I turn the call over to Geoff to go through some of the numbers.

Geoffrey Stuart Davis *Melco Resorts & Entertainment Limited - Executive VP & CFO*

Thank you, Lawrence. Our group-wide adjusted property EBITDA for the first quarter of 2023 was approximately \$191 million. Luck-adjusted group-wide property EBITDA for the first quarter of 2023 came in at \$197 million, a favorable win rate positively affected COD Manila by around \$14 million, while in Macau, COD and Studio City were negatively affected by close to \$20 million due to unfavorable win rates.

Property EBITDA at COD Macau and Studio City were also negatively affected by mass hold, which was lower than our historical average. If we normalize for both mass and VIP, Macau property EBITDA for 1Q 2023 would have been \$192 million compared to our reported results of \$121 million, and the hold-adjusted property EBITDA margin would have been approximately 28.5%.

We have been able to achieve significant cost savings over the last few years, and this continues to be a focus as we hire staff to support the recovery. We estimate that we will have approximately 2,000 fewer full-time employees compared to 2019 once we are fully ramped up, including the FTEs needed for the opening of Epic, the W and the water park at Studio City. We remain disciplined on cost management and expect to retain at least 20% to 25% on of the savings we achieved through the COVID period as permanent savings.

Turning to our cash and liquidity. As of March 31, 2023, we had close to \$1.5 billion of consolidated cash on hand. Melco, excluding its operations at Studio City, the Philippines and Cyprus accounted for around

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\$750 million. Of this, approximately \$125 million was restricted and includes cash collateral required for concession-related guarantees issued to the Macau government. Total debt declined by around \$550 million during the first quarter of 2023 with the repayment of our revolving credit facility.

As we normally do, we'll give you some guidance on nonoperating line items for the upcoming second quarter of 2023. Total depreciation and amortization expense is expected to be approximately \$140 million. The higher amount compared to previous guidance is due to the recognition of the new Macau gaming concession as an intangible asset on January 1 and the related amortization costs. Corporate expense is expected to come in at approximately \$20 million, and consolidated net interest expense is expected to be approximately \$120 million to \$125 million. This includes finance liability interest of around \$5 million related to fees payable in relation to the Macau gaming concession, finance lease interest of \$5 million to \$10 million relating to City of Dreams Manila and around \$5 million to \$10 million of capitalized interest.

That concludes our prepared remarks. Operator, back to you for the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And I'm showing we have a question coming from the line of George Choi with Citi.

Shui Lung Choi *Citigroup Inc., Research Division - Director & Analyst*

On Studio City Phase 2, any more color on how it has been doing since the opening would be very much appreciated. And also, would you please remind us of your target ROIC on Phase 2, please?

Lawrence Ho *Melco Resorts & Entertainment Limited - Founder, Chairman & CEO*

George, it's Lawrence. So I think we've been very pleased with the opening of Studio City's Phase 2. Maybe I'll give David and Kevin a chance to talk about the details. But since we opened in early April, which was around the same time as the start of the residency series, we have seen Studio City is much busier, and we see the gaming results correspondingly as well. On the ROI question, maybe I'll hand it over to Geoff. But maybe David, Kevin want to add some color to what you guys have seen with Phase 2 so far.

David Ross Sisk *Melco Resorts & Entertainment Limited - COO of Macau Resorts*

Sure. So look, a few things, George. I think one as we look at it, obviously, we opened up on April 6. We opened up kind of softly, up about 100 rooms when we opened it up, and then we've kind of gone out to -- at the end of the month before the Golden Week, we got it up to 338 rooms and suites. Again, we wanted to do it softly, trying to get again our processes and procedures and services so they're all aligned and being in a really good place.

As we've opened it, though, we've seen really good feedback from our customers. It's a nice product differentiation for Studio City. It strikes a really nice balance with the Epic tower between what we've dealt with Morpheus and what we have with Nüwa. So again, it's going to allow us to really grow our premium mass customers over at Studio City as well as taking advantage of all the attractions and things that we've developed over at Studio City over the last few years.

Additionally, we launched our residency series in April, which has proven to be very, very popular. What we've seen right now between what we've opened with Epic, the indoor water park and what the context is we've seen our volumes rise about 40% from a drop standpoint. So again, we're quite pleased with the early results of what we've seen so far. We're anticipating better results as we go forward.

Operator

(Operator Instructions) And our next question coming from the line of Praveen Choudhary.

Praveen Kumar Choudhary *Morgan Stanley, Research Division - MD*

Congratulations on a great set of results. May I ask about the mass market business that you're seeing in terms of premium versus base mass? Are you seeing the spending per capita to be better than 2019? Are you seeing more rated customers coming in? Any color on the kind of customers who are coming, that will be useful. And the second question is, since Golden Week is over, have you seen business tapering down as usual. Or it has been holding on very strong?

Lawrence Ho *Melco Resorts & Entertainment Limited - Founder, Chairman & CEO*

Praveen, thanks for the question. This is Lawrence. So again, maybe I'll let David add more color. In terms of -- I think so far, the recovery has exceeded all of our expectations. It's been much faster and better than we had hoped for. But it's very much a premium mass-led recovery because in terms of the visitation numbers, I think, across all of Macau, it's still down from 2019. But in terms of -- for Golden Week especially, all of our key volume metrics at mass, slots and premium direct are all exceeding 2019 levels. So I think naturally, the spend per customer is higher than previously. So we're quite pleased with that.

And I think as the infrastructure, and when it becomes easier for people to come to Macau because right now, the cost to travel here is still quite high, I think that's when the base mass will come in. And so we're encouraged by that. So I don't know, David, you want to...

David Ross Sisk *Melco Resorts & Entertainment Limited - COO of Macau Resorts*

Sure, Praveen. Look, I think it is a -- much as Lawrence said, it is a premium mass-led recovery at this point until that infrastructure for the transportation kind of gets straightened out. I don't think we'll see that base mass coming through. With that said, the level of play that we've seen from our premium mass customers is that, from a theoretical standpoint, per player is significantly higher than what we've seen in 2019. So again, we've been very pleased with the players that we've seen coming back, the level of play that they've exhibited. And we think that will continue as we go forward here. We don't see any slowdown in that at all at this point.

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In terms of the Golden Week, typically, obviously, you go through these big holiday periods, you see it taper down for a little bit and then kind of recover to normal.

We're kind of seeing that normal pattern. If you look at the last week here as we got out of the Golden Week, we are expecting things to pick up, and we're seeing that somewhat and obviously in our reservations and the demand and some of the things that we have going on for the rest of the month of May. So we don't anticipate that will be down for very long. Again, it's just following the normal pattern.

Praveen Kumar Choudhary *Morgan Stanley, Research Division - MD*

Very helpful. Can I just have a follow-up on what you just mentioned? In terms of the visitation running at 50%, 60%, even though mass is running at much higher level, what are the specific restrictions which are not allowing us to go back to 100% of visitation? Some of these, I understand, air is not fully recovered and so on.

But the key question is, do we expect back to 2019 kind of visitation to Macau. And if that's the case, would we expect mass revenue or EBITDA to go back to 120%, 130%, 140% of 2019 level, assuming that spending per capita continues to remain higher? Just I'm not trying to -- I'm not asking for the projection, just the thought that maybe we recover in terms of visitation fully in the next several quarters.

Lawrence Ho *Melco Resorts & Entertainment Limited - Founder, Chairman & CEO*

Well, Praveen, it's Lawrence. So I think the next key period is going to be summer, so around July, August. And if you look at the airlift into Macau right now, the Macau Airport is still only doing about 30%. And so right now, of course, the Guangdong province and the province that can visit Macau very easily are coming. But in terms of provinces that require more airplane and stuff like that, I think that's certainly a growth area.

And so far, the recovery, the first few months have been -- there has been a lot of Hong Kong. Hong Kong is a bigger portion than usual. So I certainly think that Macau will hopefully get back to close to the visitation levels of the past in the next few months within this calendar year, and I think in which case, just judging from where our mass and slots and premium direct numbers are, will exceed that of 2019 sooner rather than later.

Operator

And our next question coming from the line of Angus Chan with UBS.

Angus Chan *UBS Investment Bank, Research Division - Director and Research Analyst*

Lawrence, a couple of questions on the Q1 results. I guess very strong results that we've seen. I think it's above expectations. Can you talk about the phasing of that? I suppose March will be the strongest month, and then April further improved just based on, I guess, industry gaming revenue numbers. And I guess, secondly, were you restricted in terms of capacity in Q1? And therefore, in Q2, then, we look for growth in capacity on a Q-on-Q basis.

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Lawrence Ho Melco Resorts & Entertainment Limited - Founder, Chairman & CEO

Angus. So again, let me hand it off to David to add more color. But yes, you're right. I think every month starting -- after Chinese New Year, every subsequent month, we have seen increases. I think that's why we -- I think not just every month. Kind of every weekend, we're seeing kind of an uplift from the previous weekend. And so very encouraged by that. But maybe David can share more details on the ground.

David Ross Sisk Melco Resorts & Entertainment Limited - COO of Macau Resorts

Sure. So Angus, if you kind of look in terms of where we've been impacted the most is probably our availability with hotel rooms. When we started off in the first quarter, essentially, we were working to basically get back to 70%, 80% of our availability of the hotel rooms. Some of that was due to just -- we've lost so much staff during the pandemic that it took time to hire staff back, get them trained up again, just kind of working our way back through the systems. And it takes time, as you know, in Macau, because some of the labor kind of constraints that we have in the process in terms of how you go back and you bring the waiver into the market. So that's had a constraint on us, which impacted us too, somewhat.

I think you probably heard that on some of the other calls and obviously, through some of the other concession areas as well. The good news for us is we've got basically back to about 70%. We're about 80% in April and into May. For the Golden Week, we're up to 90%. We're looking to be about 100% back of our availability for our hotels, including obviously the Epic now with our new 338 rooms and suites by the end of June.

So we're moving through that pretty quickly. The government has been really helpful in terms of us getting staff, and they've been very cooperative with us. So we've been very fortunate in working to get our staff back. And the key part for us now is to get everybody trained up, get the service levels where they need to be and move forward here for us.

Angus Chan UBS Investment Bank, Research Division - Director and Research Analyst

Got it. Can I just clarify? So you mentioned that you started at 70% in January and then ramping up to expecting 100% by end of June. Is that correct?

David Ross Sisk Melco Resorts & Entertainment Limited - COO of Macau Resorts

Yes. 70 -- I'd say 70% through the first quarter, Angus, and then basically getting to 100% by -- basically back to 100% of availability by the time we get to the end of June.

Lawrence Ho Melco Resorts & Entertainment Limited - Founder, Chairman & CEO

And then, of course --, Angus, it's Lawrence. And then of course, W will open in September before Golden Week in October. So that's going to be another -- for us at least, that's another 550-plus rooms.

David Ross Sisk Melco Resorts & Entertainment Limited - COO of Macau Resorts

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158 rooms in suites, also against kind of like a change for us from a demographic standpoint to -- the people that, that will attract. So from a 25- to 35-year-old demographic, it's very high spending. So we're very excited as we're setting for the W open.

Operator

And our next question coming from the line of Simon Cheung with Goldman Sachs.

K. Y. Cheung *Goldman Sachs Group, Inc., Research Division - MD*

I have 2 questions. Remember in the Wynn call earlier this morning, there was some comment by management saying that if the industry GGR going to like \$26.5 billion, then they would see the EBITDA back to historical level. I understand there's a lot of presumptions on how the mix as well as the cost saving. But hearing that Geoff was saying that you'd be able to maintain like 20%, 25% of the cost saving, wondering if you can give us a sense, perhaps not to that extent, maybe what sort of mass market GGR would you need in order to get your EBITDA back to this level. And maybe also on that point, perhaps you can -- Geoff, maybe you can share with us what your daily OpEx in the quarter as well.

Geoffrey Stuart Davis *Melco Resorts & Entertainment Limited - Executive VP & CFO*

Sure. So for the first question, what sort of mass GGR as a percentage of 2019 do we need to get to, to have similar EBITDA to 2019, that's in the ballpark of 110% to 115%. And then from an OpEx perspective, for the first quarter of 2023, we were at about 2.0. That's up from 1.7 in the fourth quarter.

K. Y. Cheung *Goldman Sachs Group, Inc., Research Division - MD*

Okay. That's great. And then I have one more question. I think that's for Lawrence. We've been -- being asked by investors about your 2-layer structure, your ownership in the Melco International and then Melco International into MLCO. I also understand that the parent company, Melco International do need some cash and -- from time to time. And we have seen you've been doing a bit of share buyback to uplift some of the cash to the parent company.

How are you thinking about the structure for the time being? And how are you thinking of the 2-layer structure resulting in maybe some of the cash being retained at the MLCO level? Would you be considering dividend earlier than expectation or some other way to maybe get some cash out to support the parent company?

Lawrence Ho *Melco Resorts & Entertainment Limited - Founder, Chairman & CEO*

Simon, so I think with the transactions that were done earlier this year and also last year, I think Melco doesn't -- Melco International doesn't have any immediate cash needs. And given the strong recovery in the Macau business, our primary focus is really on paying down debt at Melco Resorts and also hoping to restart the dividend. So that's by far -- that's our #1 -- one and only motivation and objectives right now.

Of course, at the same time, if we have more breathing room, we would have -- when we look at how to simplify our structure, I think that's always a nice-to-have. But again, I think in the immediate near term, it's still paying down debt and hoping to restart dividends.

Operator

And I'm showing no further questions in the queue. I will now turn the call back over to Jeanny Kim.

Jeanny Kim *Melco Resorts & Entertainment Limited - Senior VP & Group Treasurer*

Thank you, operator, and thank you for joining us for the call today. We'll see you next quarter. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.

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