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Q1 2022 Melco Resorts & Entertainment Ltd Earnings Call

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CORPORATE PARTICIPANTS

Lawrence Ho *Melco Resorts & Entertainment Limited - Founder, Chairman & CEO*
Geoffrey Stuart Davis *Melco Resorts & Entertainment Limited - Executive VP & CFO*
David Ross Sisk *Melco Resorts & Entertainment Limited - COO of Macau Resorts*
Jeanny Kim *Melco Resorts & Entertainment Limited - Senior Vice President & Group Treasurer*

CONFERENCE CALL PARTICIPANTS

Joseph Richard Greff *JPMorgan Chase & Co, Research Division - MD*
Luis Ricardo Chinchilla *Deutsche Bank AG, Research Division - Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the First Quarter 2022 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.

Jeanny Kim Melco Resorts & Entertainment Limited - Senior Vice President & Group Treasurer

Thank you, operator. Thank you for joining us today for our first quarter 2022 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 laws. 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. Our results for the first quarter of 2022 continue to reflect the impact of the COVID pandemic. We saw relatively solid performance across all of our segments over the Chinese New Year holiday period. But an increase in COVID cases in China and tighter border controls, led to Macau GGR falling more than 50% from February to March 2022, and negatively impacted our results for the remainder of the first quarter.

Disciplined liquidity management remains a key area of focus. Total debt increased by \$1.3 billion year-on-year as we increased available liquidity to support our operations and ongoing development projects. We will be prudent in managing our balance sheet and liquidity profile as we manage the business through this challenging environment.

In the Philippines, we have been operating our casinos at 100% capacity since March 1, when the COVID alert level was reduced to alert level 1. We're starting to see international travelers return. And in April, we saw daily volumes reach close to 80% of pre-COVID levels.

Cyprus experienced a spike in COVID cases during the first quarter of 2022, which negatively impacted our operations. However, the situation has improved going into the second quarter with relaxation of COVID-related restrictions.

In terms of our development program, in Macau, the construction of Studio City Phase 2 is progressing and we continue our efforts to complete construction by the deadline set in the land concession of December 27, 2022.

In Cyprus, we're continuing construction with a target to open by year-end. However, we are encountering difficulties with our contractor who has struggled with meeting its labor resourcing plans and maintaining progress, leading to delays. We are actively dealing with these difficulties as we remain fully committed towards delivering Europe's first integrated resort in Cyprus.

And lastly, we look forward to the finalization of the new gaming law and fully support the Macau government's initiatives in relation to the new legislation. We appreciate the Macau government's efforts to maintain a streamlined and transparent process. We are committed to participating in the upcoming public tender and remain confident in the pent-up demand for Macau as an international tourism destination once travel restrictions are relaxed further.

With that, I'll turn the call over to Geoff.

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

Thanks, Lawrence. In the first quarter of 2022, we reported group-wide property EBITDA of approximately \$56 million. Despite the overall decline in volumes across Macau during the second half of the quarter, COD Macau fared relatively well and benefited from strong hold.

Luck-adjusted group-wide property EBITDA came in at \$48 million. A favorable VIP win rate positively affected EBITDA at COD Macau by approximately \$40 million, while an unfavorable VIP win rate negatively impacted EBITDA at Studio City and COD Manila by around \$5 million. Details of these adjustments can be found in the supplementary earnings slides posted on our Investor Relations website.

As of March 31, 2022, we had approximately \$1.9 billion of consolidated cash on hand. Our available liquidity, including cash and undrawn revolving credit facilities at the end of the first quarter was \$3.3 billion. To provide more clarity on our capital structure, Melco, excluding its operations at Studio City, the Philippines and Cyprus had cash of around \$715 million and gross debt of \$4.7 billion at the end of March 2022.

As we normally do, we'll give you some guidance on non-operating line items for the upcoming second quarter of 2022. Total depreciation and amortization expense is expected to be approximately \$145 million; corporate expense is expected to come in at approximately \$15 million; and consolidated net interest expense is expected to be approximately \$90 million to \$95 million, which includes finance lease interest of \$7 million relating to City of Dreams Manila and around \$15 million of capitalized interest.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Joe Greff from JPMorgan.

Joseph Richard Greff *JPMorgan Chase & Co, Research Division - MD*

I hope you're well. There's only so much to talk about Macau, we're all kind of monitoring and watching the same thing. So my only question is this, and it's both for Lawrence and Geoff. Can you just talk a bit about the steps you're taking, things you're addressing to reduce ADR delisting risk?

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

Joe, it's Lawrence. So we have been monitoring that for the last couple of years. And of course, we know that between the countries, U.S. and China, they are potentially working on a solution. But even if that doesn't come through, the delisting risk doesn't really happen until 2024. At the same time, we have been -- as we've been monitoring over the last 2 years, there are a few options that we can resort to. I don't know, Geoff, do you have any additional stuff to add?

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

No, nothing to add, Lawrence, other than just to reiterate, we do have some -- a variety of options that we are exploring and are available to us. And we will move forward as expeditiously as we can once we make that determination.

Operator

The next question comes from the line of Ricardo Chinchilla from Deutsche Bank.

Luis Ricardo Chinchilla Deutsche Bank AG, Research Division - Research Analyst

I was wondering if you could provide us with an update regarding CapEx. And potentially, if there's any further delays in -- with Studio City, what would be the implications of -- what would you have to engage in discussions with the government just to get an extension or if it's not even possible?

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

Ricardo, maybe I'll talk about Studio City first and then perhaps Geoff can cover the CapEx. So on Studio City, our land development grant, the land grant is due to expire at the end of December of this year. And for us, it's really about getting the proper licenses. The construction is on time, on schedule. And so I don't -- we're very confident that we're going to meet the timelines in terms of getting the necessary OPs, occupational permit and the various -- for the various government departments to do the inspections and give us the relevant licenses.

In terms of the actual opening date, that is up to us. And I think you've seen that also with, say, Galaxy Phase 3, which was completed last year and hasn't yet opened. So I think our goal right now is to finish up the construction, get the proper licenses and really monitor the market and see how it goes to determine what's the best time to open the property.

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

And so specifically on CapEx for 2022, for the full year of 2022, we anticipate having capital expenditures of approximately \$750 million, with roughly \$650 million for the development of COD Mediterranean and Studio City Phase 2. Now just as one point to highlight is that, that does anticipate an opening of Cyprus by year-end of this year. So really no change from our last update from last quarter.

Luis Ricardo Chinchilla Deutsche Bank AG, Research Division - Research Analyst

Perfect. And one additional question, if I may. Can you please comment on what are roughly the incremental expenses perhaps on a per day basis or per month basis with regards to the expansion of Studio City, noting that you can reopen whenever you -- you can basically open whenever the business volumes are right to kind of [upset] this. But any color on potential incremental expenses like how should we think about any potential carrier on costs would be very helpful.

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

Geoff, can you take that? I don't know if you caught off the question.

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

No, actually, I had a bit of trouble hearing that one.

Luis Ricardo Chinchilla Deutsche Bank AG, Research Division - Research Analyst

Just quickly, if I may repeat, is there any estimate or any -- or how should we think about the incremental costs related to the opening of Studio City Phase 2 acknowledging that you guys could decide to fully open the property when business volumes are right for you to actually make incremental profitability at Phase 2?

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

Actually, Lawrence, I think I'll defer to David on that one.

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

Sure, Geoff, I got that one. So the way we're looking at it, obviously, as Lawrence said, is, look, we want to try to open up the right possible time. Most of our costs as we look forward, are probably going to be more related to the W. We think we can stretch with our existing team, particularly with some of the programs that we've got working with some of our dealers and kind of converting some of our staff that we've got that are probably more excess staff now, converting those over into, let's say, some of the non-gaming roles, whether that be in the front desk, be in the restaurants. But the idea is to take a lot of our existing staff where we're overstaffed with some of our local talent and to convert them over and to try to operate as best we can go forward with the Epic hotel as well as with the water park, the indoor water park that would open.

With the W, there'd probably be some combination of the 2. Some of the W, obviously, we want to make sure we get the Marriott DNA engaged into the property. That's going to become very important, and we're certainly very excited about having the W come in. But we'd also try to supplement that with a lot of our existing talent in converting whether that be from our existing hotels, but also taking some of our gaming labor and converting them into non-gaming labor. So again, we're going to try to do this as efficiently as possible and continue to monitor. And again taking some of the great things that we've done during the pandemic here related to our cost structure and things we've been working on over the last few years and really ensuring that, that stays in place to try to achieve the best possible margins on a go-forward basis.

Operator

There are no further questions. I would now like to hand the conference over to your speaker, Jeanny Kim.

Jeanny Kim Melco Resorts & Entertainment Limited - Senior Vice President & Group Treasurer

Thank you, everybody, for participating in our conference call today, and we will see you next quarter. Thank you.

Operator

That does conclude our conference for today. Thank you for participating. You can all disconnect. Have a nice day.

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