

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2021 Melco Resorts & Entertainment Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2021 / 1:30PM GMT

CORPORATE PARTICIPANTS

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

Evan Andrew Winkler *Melco Resorts & Entertainment Limited - President*

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

David Ross Sisk *Melco Resorts & Entertainment Limited - COO, Macau Resorts & Property President of City of Dreams Macau*

Robin Yuen *Melco Resorts & Entertainment Limited - Director of IR*

CONFERENCE CALL PARTICIPANTS

Billy Ng *BofA Securities, Research Division - MD*

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

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Thank you for participating in the Third Quarter 2021 Earnings Conference Call of Melco Resorts and Entertainment Limited. (Operator Instructions) Today's conference is being recorded. I would now like to turn the call over to Mr. Robin Yuen, Director of Investor Relations of Melco Resorts and Entertainment Limited. Please proceed.

Robin Yuen *Melco Resorts & Entertainment Limited - Director of IR*

Thank you, operator. Thank you all for joining us today for our third quarter 2021 earnings call. On the call are Lawrence Ho, Geoffrey Davis, Evan Winkler and our property presidents in Macau, in 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 a 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 will now turn the call over to Mr. Ho.

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

Thank you, Robin. Our results in the third quarter reflect the pandemic's continued impact and the subsequent restrictions on our travel restrictions on our operations. Despite the challenges this quarter, we managed to remain EBITDA positive in each of our geographies. Once again, we would like to thank the Macau and Mainland Chinese government for their handling of the COVID-19 situation.

Currently, Macau citywide vaccination rate has reached over 60%, which represents remarkable progress versus the 30% cited on our second quarter results call. With a high level of immunity as a key focus in Macau, we believe that continued progress towards higher vaccination levels is an important step towards border reopening and a faster pace of recovery. Both Melco and the government are actively encouraging our citizens and employees to get jabbed as soon as possible.

Here at Melco, we have rolled out employee vaccination incentive programs to support the government's efforts to meet its community vaccination goal. Driven by our Get the Job incentive program, we're proud to be approaching a 95% overall employee vaccination rate in Macau, inclusive of those fully vaccinated and with first shot only. As endorsed by the Macau government, unvaccinated employees in Macau are required to undergo weekly NAT tests starting in October to protect our colleagues, our guests and the broader community.

In our Macau operations, we remain EBITDA positive this quarter despite a sequential decline in industry-wide GGR levels from the prior quarter. Our cost control measures were a primary factor of our EBITDA performance. We remain optimistic that our core business in Macau will recover back to prepandemic level once travel restrictions are eased.

In the Philippines, our gaming and hospitality operations at City of Dreams Manila experienced periods of closure when the government imposed stricter quarantine measures upon the new COVID cases. Our gaming operations were closed to the general public 42 days from August 6 to September 16. We subsequently reopened City of Dreams Manila with limited capacity as the authorities incrementally eased quarantine measures.

Turning to Cyprus. Our casinos were fully opened during the third quarter, which drove strong visitation presentation over the summer months. As a result, we quickly returned to positive EBITDA. We expect further relaxation of COVID-related restrictions that would permit us to operate at maximum capacity, which will provide further support to the business.

We've discontinued our pursuit of an integrated resort in Japan, and we'll close our offices there in the coming months. Meanwhile, Melco remains committed to its global CapEx development program. In Macau, construction on Studio City Phase 2 remains on schedule. We have recently topped up both tower structures, reaching an important milestone for the project. We expect Phase 2 construction to complete no later than December 2022. In Europe, the construction progress of City of Dreams Mediterranean is on track for opening in the second half of 2022.

Finally, I remain optimistic in Melco's medium- and long-term growth prospects. The pent-up demand from our customers is there, and we will be ready to enthusiastically receive them once travel restrictions are relaxed. From a Macau regulatory and policy perspective, we firmly believe that we are helping to build Macau into an even bigger, better and more diversified international tourism destination.

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

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

Thank you, Lawrence. In the third quarter of 2021, we reported group-wide property EBITDA of approximately \$32 million, while luck-adjusted property EBITDA also came in at \$32 million. By region, each of our geographies, Macau, Manila and Cyprus, all reported positive EBITDA this quarter.

At Studio City, EBITDA was negatively affected by an unfavorable VIP win rate by approximately \$4 million. A favorable VIP win rate positively affected EBITDA at COD Macau and COD Manila by approximately \$2 million and \$1 million, respectively. Overall results were not impacted as luck was neutral on a consolidated basis across our properties. Details of these adjustments can be found in the supplementary earnings slides posted on our Investor Relations website.

At the end of September, we had approximately \$1.5 billion of consolidated cash on hand. When combined with our undrawn revolver facilities in Macau and Manila of nearly \$2 billion, this implies available liquidity of approximately \$3.5 billion. To provide more clarity on our capital structure, Melco, excluding its operations at Studio City, the Philippines and Cyprus, had cash of approximately \$620 million and gross debt of approximately \$4.1 billion at the end of the third quarter of 2021.

The revolving credit facility in Macau contains requirements to comply with certain financial covenants. We currently have a waiver in place through the end of 2021 for these financial covenants. And on November 5, we received confirmation that the majority of our lenders agreed to extend this waiver to the end of December '22. As of yesterday, November 8, we had received unanimous support from all of our lenders consenting to this waiver through December of 2022.

Moving on to our shares. We recently repurchased approximately 3.1 million ADSs for \$31 million. 2.1 million shares were purchased in the third quarter and approximately 1 million shares purchased in the fourth quarter to date. Recent volatility led to what we believe to be compelling valuations, and these share repurchases demonstrate the confidence we have in our company and in our long-term prospects.

As we normally do, we'll give you some guidance on nonoperating line items for the upcoming quarter. Total depreciation and amortization expense is expected to be approximately \$145 million. Corporate expense is expected to come in at approximately \$18 million to \$20 million, and consolidated net interest expense is expected to be approximately \$85 million to \$90 million, which includes

finance lease interest of \$7 million relating to City of Dreams Manila and \$8 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) We have the first question, which is coming from the line of Joe Greff from JPMorgan.

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

Lawrence, I would love to get your view on this big picture topic on the Mainland's common prosperities set of goals and initiatives. How do you think that impacts, maybe negatively impacts, your higher-end players in the future? And if your answer is, "we don't think it does," why is that?

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

Well, I think common prosperity is a key theme for the party congress, which is going on right now. I don't think it impacts our higher-end players in a sense that premium mass. I don't mean VIP, I mean premium mass, because at the end of the day, they are still promoting, they want to reduce the gap between the highest-earning tiers and the middle tiers, but at the same time, they still want the middle class to grow and people to -- really, common prosperity refers more to getting people -- and one of the major achievements from the communist party over the past 100 years, is taking so many people out of poverty, especially in the last few years.

So it's really about taking the lowest income-earning people and then bringing them upstream. So I don't think it has any impact on the mass business, which is the future of Macau, and also it wouldn't have a major impact on premium mass. VIP would be a different story, but in any case, the VIP story in Macau is a structurally impaired story.

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

Great. Geoff, on the new consent that you got to have some waiver covenant relief, is there anything that restricts buybacks going forward?

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

No, there's nothing that restricts buybacks going forward.

Operator

We have the next question which is coming from the line of Ricardo Chinchilla from Deutsche Bank.

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

Just in terms of when the announcement of the consultation process was announced, could you please share with us what kind of things cause you some concern? And if those concerns have been clarified now that you have the chance to talk with the regulators and your reason is penned on Studio City Phase 2. Do you think that, that gives you a competitive advantage versus your peers that might need to further invest as part of this consultation process?

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

Ricardo, it's Lawrence. So I think the Macau government has conducted a very fair and transparent consultation process. And we have submitted our questions to -- our comments to them and also we really welcome how open they were in the conversations that we've had. So we're going to be supportive, and I think our concerns were really just trying to get a little bit more framework on some of the issues about dividends.

And honestly, I'm sure all of the other calls you've heard so far this earnings season, everybody has the same view. So I think as an industry, we are aligned on that front. And frankly, I think after our conversation with the government, we were assured and relieved. So we're -- I think we'll continue to work closely with the government as we progress.

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

Great. I know that it is hard given that the situation is fragile, but when you think about the progress as it pertains to Macau, what kind of -- what are you hearing with regards to the potential easing of the visa situation? And what you guys are currently expecting with regards to the reopening for later this year and into 2022?

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

Well, I think for us, it's really a function of the vaccination rate in Macau. And in today's newspaper, the Macau's Chief Executive is currently in Guangdong and he's talking about potentially hitting 80%. Macau citywide is at around 60%, 65%. So at 80%, he feels that he has much more ammunition to discuss easing of some of these restrictions from China. And so I think that will be key.

But as a company, we are prepared for the worst and as part of our budgeting. And they're all -- given COVID-zero, I think we're really going to be range-bound for the next 6 to 12 months. As long as China continues with the zero-COVID path, we're going to assume that there's going to be cases. I think as of right now, almost half of the Chinese provinces have cases or close contact and that has affected travel as well.

So we're going to be conservative. Next year is a very important year for China from the Olympics to the Hong Kong Chief Executive election to the 25th anniversary of the handover of Hong Kong to, of course, the Communist Party congress next year, where President Xi will -- can seek a third term. So there are really historic events happening next year. And so those are all reasons for being super conservative in terms of opening up.

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

Got it. If I might squeeze one in, given that we were talking about the future, do you still anticipate to the consultation -- the concession renewal process to be ended in June of next year? Or do you expect a short-term extension? And that's it for me.

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

Well, again, I think we're working closely with the government, but there is quite a process with -- they need to go to a legislative counsel and they need to change the law. I suspect a good outcome for us as operators would be we would have all of the details ironed out, but in terms of, I guess dotting the Is and crossing the Ts with the government, it might extend a little bit longer, perhaps a year or 2. But anyway, I would love to know the framework hopefully before June of next year.

Operator

The next question comes from Billy Ng from Bank of America.

Billy Ng *BofA Securities, Research Division - MD*

I also have 2 questions. The first one also related to the license renewal process. Just want to ask Lawrence your view. We understand that there are not a lot of detail, but if you need to look into some potential areas, are there any potential change that will alter the long-term return and the margin outlook for the sector? And do you think there will be anything that will significantly change that outlook?

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

I don't think so, Billy. I think, as a company and all of the executives, we are mid-term to long term bullish and positive. And we have seen even -- it was really bad luck that Golden Week was wiped out and the whole month was wiped out because of cases. But we certainly saw -- I think David can go into it a bit later on. We saw a lot of pent-up demand even during Golden Week before everything got canceled.

So the long-term trajectory for this industry in Macau, I don't think it's affected. And in terms of the concession retendering process, none of the 9 points, when we look at it, have, I believe -- wouldn't affect our margins. Of course, it continues to talk about -- I think the only area is more diversification and more investment in nongaming.

But at the same time, I do believe that, that is going to be the future because with the VIP sectors being impaired the way that it is going forward, it is going to be -- it's going to be focused on that and mass is going to need more amenities and more nongaming attractions.

Billy Ng BofA Securities, Research Division - MD

And for shorter term, you just mentioned there should be pent-up demand. So first of all, just wonder, would you guys be able to provide some color on what happened after October 19 when the quarantine requirement being removed? What kind of ramp up do you see recently?

And then secondly, in the last few days, you probably hear about like the Hong Kong-China potential border reopening and normalization. So what's your view on that? And how would that impact Macau?

David Ross Sisk Melco Resorts & Entertainment Limited - COO, Macau Resorts & Property President of City of Dreams Macau

Billy, it's David. So quickly, maybe, we were set up for a really nice Golden Week. And unfortunately, the week before the Golden Week, we had obviously very high occupancies. We had a lot of people that were scheduled to come. It was kind of, as Lawrence said, it was kind of a kick to the gut here a little bit when this -- unfortunately, the cases came back into Macau.

That being said, as we came out of this and we were able to open up more fully after the 19th of October, we experienced a nice rebound so the last week of October was very good for us and very strong. I think you saw that with the numbers for Macau in general. I think the last week has been somewhat a bit more muted. I think one of the challenges that we had is when we have the hangover a little bit from people that had visas to come during the October Golden Week.

So we've seen in the last, let's say, the last 7 days or so, yet we still haven't seen the dropping of the test. Right now, you still have to get tested every 48 hours, which we'd love to see it go back to the 7-day test. Additionally, as you look at it, we've also seen many of our customers now in these northern provinces. As Lawrence said, probably half the provinces in China have had some sort of impact or some sort of cases.

So right now, to get into Macau, you have a 2-week quarantine coming from most of these northern provinces now, of which I think we were just counting just a little bit ago in the room, probably over 40 cities or districts that are prevented from coming into Macau without doing a 2-week quarantine first. So there is somewhat of a hangover relative to just the quarantine and just other cases out there with the zero tolerance.

So I think the month of November is probably going to be a bit more muted for us. Hopefully, as these things start clearing, we'll start seeing us get back to more of that normal pattern like we've seen in the past. We saw it in the first quarter of this year. We saw it in the second quarter. Once we come out of these things, things seems to go pretty fast. But again, it is somewhat choppy as we go along here.

Billy Ng BofA Securities, Research Division - MD

I see. And sorry, in terms of the Hong Kong border reopening, how would that impact Macau?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Billy, Hong Kong has always been 15% to 20% of the business, and for my friends in Hong Kong, people haven't gone anywhere for over 18 months. So I bet if the border was opened between Hong Kong-Macau, people would be rushing to Macau. So I think we'll get a nice bump, at least a 15%, 20% bump.

But I think even the Hong Kong thing, there was news out in Hong Kong today where -- and I assume that once Hong Kong and China opens up, it means that Hong Kong and Macau will also open up. But the thing is they're talking about a trial in Hong Kong in December. And if the trial is successful, maybe they will expand the trial in February with -- and assuming everything goes right, they might have the full opening in June.

And that's why we have come to the view that the next 12 months will continue to be difficult and range-bound because with travel

restrictions and with zero tolerance to COVID, there's always going to be these open and shut, open and shut cases. But once everything opens up again, I'm sure we're going to follow the path that we've seen in other jurisdictions around the world where people are just dying to be entertained.

Operator

The next question comes from the line of Praveen Choudhary from Morgan Stanley.

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

I have 2 questions, if I may. The first one is about buybacks. So very pleased to see the buyback. Clearly, the stock -- the whole industry is very cheap. I wanted to understand if the share buyback will continue, considering you're saying for the next 12 months it could be range-bound.

So there should not be any rush to buy the stock at this level. Or I'm getting a little bit of disconnect here, if I may? Or maybe it's a long-term basis, it doesn't matter because it's so cheap you want to use some cash, especially because net debt is rising, and so using the share buyback, I wanted to understand a little bit more.

The second question I have is on online gaming business. Again, a pleasing result where, in Manila, that has started. I wanted to understand if you can disclose how big was it in Q3? And what's the outlook? It seems like it's only for local patrons. And so currently, maybe smaller, but just want to see, next couple of years, how does it evolve and the competitive landscape.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

All right. Thanks for the question, Praveen. I guess, Evan and Geoff, do you guys want to take those 2 questions?

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

Sure. Thanks, Lawrence.

Evan Andrew Winkler Melco Resorts & Entertainment Limited - President

Sure. This is Evan.

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

Go ahead, Evan.

Evan Andrew Winkler Melco Resorts & Entertainment Limited - President

So within the Philippines, obviously, there is a version of online, which we are currently engaged in that's allowed. I would characterize it more as a hybrid versus sort of what you think of with online gaming in that it integrates obviously into the existing player system and into the existing sort of off-line brick-and-mortar infrastructure.

That is going to continue. It is nice to have add-on to our business there during the COVID period. I think in terms of what it means going forward, we anticipate for the near term it will continue to be allowed. We are working with the government in the hopes that it will continue to be an opportunity for us potentially longer term, but it is a little bit early for us to comment on what it will mean longer term for us coming out of COVID given that the permission was given sort of under a set of special circumstances.

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

So on the share repurchase. So we -- historically, we've always been very opportunistic when it comes to share repurchases and over time, we have done about \$1.8 billion of share repurchases. We've got, out of our \$500 million authorization, obviously, we have around \$469 million of that remaining. We will continue to be judicious and opportunistic as we consider additional share repurchase this quarter and into next year. But we're not in any rush. We'll continue to be selective on when and how much will be back into the market.

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Geoff, would you be able to disclose the average cost for the buyback in Q3 and Q4 separately?

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

Pretty similar, just under \$10 in both periods.

Operator

Thank you. The next question comes from Simon Cheung from Goldman Sachs.

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

I have 2 questions. One, in relation to Altira, I remember last quarter you guys talked about re-ramping the property and we have seen a nice turnaround EBITDA. Perhaps can you share with us what's going on over there and some sort of guidance in terms of the medium-term EBITDA generations on that property? That's the first question.

And then second question is on Japan and obviously, Yokohama now dropped the idea of having IR in the near future. What is your latest thought about Japan or even other overseas expenses, Lawrence?

David Ross Sisk Melco Resorts & Entertainment Limited - COO, Macau Resorts & Property President of City of Dreams Macau

So why don't -- Simon, why don't I take the first one and we'll go from there. For Altira, we implemented our plans at the end of the second quarter, where we reduced our cost dramatically and we transferred most of our VIP business over to City Dreams or Studio City. That process has gone very well.

We also transferred a lot of the personnel to get our cost structure more in line. As we go forward here, we're looking to probably do the final set of transfers, which should coincide with the opening of Studio City Phase 2. We'll try to bring more people over there to get our cost structure down to where we really want it to be on a go-forward basis.

Our breakeven now has gotten to be a much lower level now. We think as the market continues to recover and we see a sustained recovery, we think our ability to generate a profit over there in the mass business is very good going forward here.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Simon, it's Lawrence. On your second question, clearly, the Japan opportunity didn't work out for us. And given the impact of COVID, and the crisis isn't over yet and by the end of it, it probably would have affected 2, 3 years of business. So I think for the next 2, 3 years, our primary focus is really on rebuilding our balance sheet.

And then, of course, we still have City of Dreams Mediterranean in Europe to open at the end of next year, second half of next year and then Studio City Phase 2. So that's our -- I think we have our plates full for the next 2, 3 years.

Operator

Thank you. We have no further questions at this moment. I would like to turn the conference to Mr. Robin Yuen for any ending remarks. Please take over.

Robin Yuen Melco Resorts & Entertainment Limited - Director of IR

Thank you, operator. Thank you all for participating in our conference call today. We look forward to speaking with you again for next quarter. Bye.

Operator

Thank you. Ladies and gentlemen, that concludes our conference call for today. Thank you all for your participation. You may disconnect now.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021 Refinitiv. All Rights Reserved.