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Q4 2021 Melco Resorts & Entertainment Ltd Earnings Call

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David Ross Sisk *Melco Resorts & Entertainment Limited - COO-Macau Resorts*
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CONFERENCE CALL PARTICIPANTS

Billy Ng *BofA Securities, Research Division - MD*
Joseph Richard Greff *JPMorgan Chase & Co, Research Division - MD*
Luis Ricardo Chinchilla *Deutsche Bank AG, Research Division - Research Analyst*
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 Fourth Quarter 2021 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 Vice President, Group Treasurer

Thank you. Thank you, everyone, for joining us today for our fourth quarter 2021 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 it over to Mr. Ho.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Thank you, Jeanny. Our results in the fourth quarter continue to reflect COVID-19-related disruptions and their impact on travel and customer visitation. That said, volumes across all segments in Macau increased in the fourth quarter of 2021 compared to the third quarter, despite structural changes in the VIP segment. Group property EBITDA also showed meaningful sequential improvement this quarter, which demonstrates our disciplined cost control.

Going into 2022, the COVID flare up in Zhuhai led to softer performance in the pre-CNY period. However, volumes across our segments increased year-over-year during the Chinese New Year holiday period and this carried over into the week following the holidays. Premium Direct business at City of Dreams Macau more than doubled compared to the Chinese New Year period in 2021 and continued to outperform into the following weeks. Mass table drop also demonstrated strength, increasing around 20% compared to CNY 2021.

In the Philippines, we recorded the strongest quarterly EBITDA performance since COVID-19, thanks to a full quarter of casino operations, albeit with capacity restrictions. Going into 2022, the authorities reopened the Philippines border to fully vaccinated international tourists effective on February 10, and Metro Manila is operating under Alert Level 1 from March 1. Consequently, our venues can now operate at 100% capacity, and it is the first time COD Manila can operate at full capacity since March 2020.

Turning to Cyprus, our casinos remained open throughout the fourth quarter of 2021, and we saw sequential growth in EBITDA along with an increase in gaming spend per patron. Gaming volumes in the fourth quarter reached 90% of pre-COVID levels and we are hopeful for further normalization going into 2022.

We remain committed to our global capex and development program. In Macau, we continue our efforts to complete construction of Studio City Phase 2 by the deadline set in the land concession of December 27, 2022. For Phase 2, we recently announced a partnership with Marriott International to bring the W Hotels brand to one of our 2 new hotel towers. The W Macau at Studio City will have 557 keys and further enhance Studio City's premium mass offering.

In Europe, the construction of City of Dreams Mediterranean is on track for opening in the second half of 2022.

Finally, I would like to thank the Macau government for the opportunity to contribute our views during the public consultation process and for providing a clear framework for the new gaming law. We are committed to participating in the upcoming public tender, and we remain fully confident that Melco can remain a key contributor to Macau's growth and diversification in the years to come. Our enthusiasm for Melco's medium and long-term growth prospects remains unchanged and we are ready to welcome our guests once travel restrictions normalize.

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

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

Thanks, Lawrence. In the fourth quarter of 2021, we reported Group-wide property EBITDA of approximately \$94 million. The increase in EBITDA was largely due to tight cost control measures, including bonus reversals.

Luck-adjusted property EBITDA came in at \$120 million and each of our geographies in Macau, Manila and Cyprus reported sequential improvements in EBITDA. An unfavorable VIP win rate negatively affected EBITDA at COD Macau, Studio City and COD Manila by approximately \$26 million in total. \$22 million of this was in relation to COD Macau. Details of these adjustments can be found in the supplementary earnings slides posted on our Investor Relations website.

At the end of December 2021, we had approximately \$1.7 billion of consolidated cash on hand. Our available liquidity, including cash and undrawn revolving credit facilities at the end of December was \$3.2 billion. To provide more clarity on our capital structure, Melco, excluding its operations at Studio City, the Philippines and Cyprus, had cash of around \$850 million and gross debt of \$4.5 billion at the end of December 2021.

In February, we announced equity and bond offerings at Studio City, raising a total of \$650 million - \$300 million via private placement of equity and \$350 million via senior secured notes. Based on our latest forecast, our capex plan for Studio City Phase 2 is now fully funded, with a meaningful buffer to support Studio City's liquidity requirements going forward.

As we normally do, we'll give you some guidance on non-operating line items for the upcoming first quarter of 2022.

Total depreciation and amortization expense is expected to be approximately \$145 million. Corporate expense is expected to come in at approximately \$20 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 \$10 million to \$12 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 coming from the line of Joe Greff from JPMorgan.

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

Lawrence, Geoff, the City of Dreams came in nicely ahead on margins in the fourth quarter in Macau, hold adjusted \$71 million. Is there anything onetime in there? I know you have referenced reversal of bonuses and debt provisions. To what extent has that added to that \$71 million?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Geoff, do you want to take that?

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

Yes. Thanks, Lawrence. So in total, we had \$34 million of bonus reversals in the quarter, and our bad debt provision was a credit to expense of \$11 million.

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

And how much of that hit at the property level at City of Dreams Macau?

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

So at City of Dreams Macau, the reversals were approximately \$12 million. And the credit against expense for City of Dreams on the bad debt provision was about \$3 million.

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

Got it. And so if we look at it then sort of outside of the benefit of those 2 things, it's \$56 million. Is that the run rate that you're seeing in the first 2 months of this year at that property?

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

Well, I'm not sure we want to comment on first quarter results. And obviously, we have some noise with Chinese New Year. And of course, the weakness that we saw in between New Year and Chinese New Year as a result of some COVID flare-ups. But other than the amounts that I described, that's a solid run rate.

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

Great. And this probably is a question or a topic you don't get much. But what is the future of Altira? It's probably never going to contribute a ton in terms of EBITDA in a normalized environment. And maybe that's not a fair comment on my part. But the asset value is certainly something that's not reflected in the equity. How do you think about utilizing that asset to drive incremental equity value? What's the future of that property?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Well, Joe, as you know, last year, we transitioned Altira from a -- and we did it early. I think before the entire VIP and junket industry imploded -- and so we moved Altira to a premium mass-focused property.

I think I agree with you with the current visitation into the entire Macau it really doesn't -- I think many properties, not just Altira doesn't really justify being there. But we do think that with COVID normalizing, hopefully, and within the calendar year 2022 and Macau gets closer to the traditional visitation that we will get, Altira has a niche positioning. David, do you want to share some details?

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

Sure. Thanks, Lawrence. Look, Altira has been transitioned away from being a VIP-centric property and being more mass and premium mass focused. It's taking some time, but we're starting to get more traction now with that.

Altira, although a small property, it certainly has a lot of unique features to it. I think one of the cool things we just had happen with Altira was during the fireworks display over Chinese New Year, we saw occupancy pickup over there in a big way. We saw a lot more covers. We saw a drop going up in a meaningful way as well.

So while Altira is small, it does have a unique place, I think, in the market. And I think with our strategy of kind of converting more and more to mass over there, I think we will see -- while it may not be as large as it once was, I think we will see a nice EBITDA pickup over there, over the -- as we head into the future here more, and we get out of COVID.

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

Great. And then Geoff, can you remind us CapEx for this year?

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

Sure, Joe. So CapEx for 2022 is about \$765 million. About \$650 million of that is related to project CapEx for COD Mediterranean and Studio City Phase 2.

Operator

We have our next question. This is coming from the line of George Choi from Citi.

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

Congrats on the great results. Just one question for me. In light of the revision of the gaming law, what is your plan for your satellite casino Grand Dragon. And I guess more importantly, for Studio City, I guess most of us would never call it a Satellite casino, but do you think the government would look at it any differently?

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

George, it's Lawrence. So I think we never -- we've never looked at Studio City as a satellite casino, considering Melco Resorts has the majority ownership of Studio City. And we believe that the gaming law revision also doesn't see Studio City as a Satellite casino.

Of course, the gaming law has been so far an expedited, fair and reasonable process, but we are still seeking a lot of clarifications from the government before the law gets approved in the legislative council some time in June. So we'll be working with the government on that front.

And Geoff, I know are there more details you want to share?

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

Well, other than the differentiation in equity ownership, Lawrence, just as a reminder, there is a 3-year runway on this issue from the time that the gaming law is implemented. And I think it's also very important to note that the Studio City structure has been explicitly approved by the Macau government.

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

And George, on your question, we -- unlike some of the other operators, we're only at the one satellite casino, which is Grand Dragon. And the reason we kept that was really for the Mocha venue there. So I guess we'll continue to work with the government to see what's the solution for all of these highlighted casinos.

Operator

We have the next question. This is coming 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 some color on your direct VIP strategy going forward? And if you have seen improved interest or incremental sign-ups given the whole situation with junkets?

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

Why don't I hand it off to David later on. But in terms of our direct VIP strategy, we're very proud of the fact that similar to the fact that we pioneered the premium mass segment, we were one of the early adopters of the direct premium VIP strategy. And I think to this day, we are still the market leader on that front.

So we were very early on in terms of predicting the future of the market with regards to premium mass and also premium direct and really owning our database. David, do you want to share more information?

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

Sure. So I think one of the great things that we've been able to do with our team is, as we've been over the last few years, we've really been working really hard on growing our premium direct business. But also, we started early on trying to attract more of our VIP players that were coming from the junkets into our premium direct program. So we saw a lot of that.

So this transition has actually worked out fairly well for us as we've gotten out of the VIP junket business, and really have more and more -- as we continue to see more and more growth in our premium direct business. It's worked very well for us.

And as Lawrence said, we've always been very premium mass focused, premium direct very bottom line driven on that. The junket business has always had a very kind of a very minimal amount of impact to our bottom line overall. So again, this transition is a very natural and fairly easy transition for us.

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

Great. Thank you so much for the color. One housekeeping item, pro forma to the equity contribution to Studio City, does all the cash come from the Macau Resource Finance restricted group? Or was it funded with contribution or cash from outside of the restricted group?

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

So for the Studio City financing, obviously, the \$350 million came from bond investors and then the \$300 million came pro rata from the existing shareholders that represent about 99.5% of the equity ownership in Studio City.

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

Yes. So your share of that pro rata contribution came from the cash that you guys discussed was on the restricted group from Melco, correct?

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

The contribution of the Melco equity into the Studio City private placement came from our revolving credit facility.

Operator

We have the next question coming from the line of Billy Yang from Bank of America.

Billy Ng BofA Securities, Research Division - MD

A couple of questions. One is would you guys provide a bit more color on what's happening in February, because like we saw a relatively strong Chinese New Year. And then after that, it seems like at least from the Macau government data point, visitation continued to improve. So what have you seen so far in terms of Studio City and in terms of COD. What kind of color can you share?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Billy, why don't I get the beginning of that and then David can supplement. I think in the first 2 months of the year, it really reinforced our hypothesis on the last call where we are in a range-bound environment. And I think the first 2 months have certainly proven that.

And as long as the Zero-COVID policy is in place and visitation into Macau is limited, I think this is what we're going to see. So after a good Chinese New Year period, the visitation naturally decreased. David, do you want to supplement?

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

Sure. And again, Billy, this is one of those things where, obviously, as you know, Chinese New Year got off to a great start for us. I thought what was great was week 1. Obviously, the first 7 days were very good. But the second week for us was very good as well, both in our volumes from both our premium direct, premium mass and mass and slot volumes, everything worked very well for us.

As you know, there's always a kind of a malaise that happens after Chinese New Year where things slow down. I think you've kind of seen that as you look at kind of the statistics from the government coming out over the last couple of weeks. Additionally, we've kind of seen some flare-ups now coming through for -- not only Hong Kong as Omicron has kind of taken hold over there, but we had seen some flare-ups across the border as well, into Zhuhai and around the certain other areas there.

So things have slowed down a little bit. I think this kind of goes back to what Lawrence said, our hypothesis for this year was we're going to be in a fairly range-bound thing. There's kind of other things that are going on with the Olympics that we saw happen and certainly with some of the party meetings that are going to be coming up here this next week.

So I think there's going to be other activities that are going to kind of continue to go up and down and kind of maintain that range-bounding a little bit. And unfortunately, I think we're going to still see some flare-ups, some start and stop type of activities that are going to take place here.

Billy Ng BofA Securities, Research Division - MD

And can I ask about the Philippines situation? And it seems like, at least in terms of policy, things are back to normal almost completely. So should we expect it will get back to the pre-COVID level very quickly?

Because like if you look at other jurisdictions or even in the U.S., there's always kind of demand and gaming revenue in some places already exceed pre-COVID levels. So what should we think about the Philippines market?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Geoff Andres, can you get that?

Geoffrey Philip Andres Melco Resorts & Entertainment Limited - Property President of City of Dreams Manila

Things are definitely getting better in the Philippines. We are now, effective today, allowed to operate at 100% capacity which is a fantastic feeling. Right now, just walking through the casino, and we are very busy. We are also open to foreign tourism. If you're fully vaccinated, you can enter the Philippines quite easily.

The challenge we have right now, though, is that our foreign tourists, with the exception of the United States, can't get back to their home country without going through quarantine. So we're still missing our customers from Japan and Korea and other -- some other Southeast Asian countries, for example.

So we're looking forward to future loosening of the quarantine restrictions for our customers to be able to return to their home country. But right now, it really is -- feels very good to operate on a very normal basis, and we're seeing our volumes bounce back quite nicely.

Billy Ng BofA Securities, Research Division - MD

And one last thing, Geoff mentioned about the bad debt \$11 million. I just want to make sure I get it correctly. That is a credit, that is a bad debt reversal, right? So it's positive.

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

That's correct.

Operator

We have the next question coming from the line of Praveen Chaudhry from Morgan Stanley.

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Lawrence, one question for you would be how -- in your view, do you expect China to ease or Mainland to ease the e-visa and group visa before Hong Kong opens up, or do we need to wait for Hong Kong to normalize and we see Hong Kong Mainland opening before China

further relaxes? And the reason for asking this will determine how long does it take to normalize. The second question I had was interesting observation that you said Studio City will have 557 keys. Many places you have earlier used 900 rooms. Is it new change? Are you making the rooms bigger at such a late stage? Or am I missing anything?

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

Praveen, why don't I take the second question first. So what I referred to in the prepared remarks was actually the W Tower. For the entire Studio City Phase 2, it is close to 900 keys between W and our own self-managed hotel, that we're indicatively calling Iconic Tower. So Iconic Tower would make up the difference of the 900. So it's still 900 keys at Studio City Phase II. So I think that's on the second question.

On the first one, about when will Macau resume group visas, I mean, group tours and also e-visas, I -- it's a very unique year in China. It's a very important year. Of course, we went through the Olympics. And then, of course, there's the 2 sessions meetings happening this week, which I will be going off tomorrow. And then after that, you have the Hong Kong CE election and the 25th anniversary of the Hong Kong handover.

And then by far, in a way, the most important event is going to happen in October, which is the Chinese Party National Congress meeting. So I -- again, I think the Chinese policy is going to be very conservative this year with regards to opening up its borders. And so -- and even recently, we've seen how certain provinces view Macau as being so close to Hong Kong and therefore, the COVID outbreak in Hong Kong somehow would affect Macau. So I -- honestly, I don't have a lot of hope that group tours or e-visas are going to be normalized before the Hong Kong, China corridor or meaning the Hong Kong Macau border will be open.

Operator

As we have no further questions, I would like to hand the conference back to Jeanny Kim, please take over.

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

Thank you for participating in our call today. We look forward to speaking with you next quarter. Thank you.

Operator

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

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