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MPEL - Q2 2016 Melco Crown Entertainment Ltd Earnings Call

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CONFERENCE CALL PARTICIPANTS

Billy Ng *Bank of America Merrill Lynch - Analyst*

Anil Daswani *Citigroup - Analyst*

Aaron Fischer *CLSA - Analyst*

Karen Tang *Deutsche Bank - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the second quarter 2016 Melco Crown Entertainment Limited earnings conference call.

At this time all participants are in a listen-only mode. Today's call will include a question and answer session (Operator Instructions). I must advise you that this conference is being recorded today, Thursday August 4, 2016.

I would now like to hand the conference over to your speaker today, Mr. Ross Dunwoody, Vice President, Investor Relations. Thank you, sir, please go ahead.

Ross Dunwoody - *Melco Crown Entertainment Limited - VP, IR*

Thank you for joining us today for our second quarter 2016 earnings call. On the call today are Lawrence Ho, Ted Chan and Geoff Davis.

Before we get started, please note that today's discussions may contain forward-looking statements made under the safe harbor provision of federal securities laws. Our actual results could differ from our anticipated results.

I will now turn the call over to Lawrence.

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

Thanks, Ross. Hello, everyone. In the second quarter of 2016 we delivered a 20% year-over-year increase in Group-wide property EBITDA, as a result of our commitment to managing OpEx, increased exposure to the higher margin mass market segment in Macau and a strong performance at City of Dreams Manila.

Despite market-wide gaming revenue still declining on a year-over-year basis in Macau, we delivered a year-over-year increase in Macau property EBITDA of approximately 9%, to \$209 million in the second quarter of 2016, with a Macau property EBITDA margin of 22%.

Following the implementation of a range of marketing and other initiatives, together with the impact of the Cotai Connection, we have seen some meaningful improvement in operating and financial metrics in July at Studio City.

In July, daily property visitation has increased over 40% and mass table yields have expanded almost 30%, when compared to the second quarter of 2016.

Whilst some of these initiatives which were implemented during the second quarter of 2016 came with some associated costs, we're now seeing the positive impact on profitability, as a result of -- as our customer base expands and yields improve.

Consistent with our approach of maximizing profitability through yield management, we are in the process of setting up rolling chip operations at Studio City, including both junket and premium direct VIP offerings. In addition to the benefits associated with having a broader product offering at Studio City, we believe that approximately 30 tables will result in improved EBITDA over time.

Even as the demand environment in Macau remains challenging, we believe that visitation and revenue trends will improve in the near future, as Macau continues to evolve into a multi-faceted mass market focused destination.

We believe that our company is uniquely positioned to cater to these evolving trends in Macau, with a differentiated and unique array of non-gaming mass market focused amenities across multiple properties providing an ideal platform to deliver our customers a compelling lodging, entertainment and retail offering.

In Manila, City of Dreams saw property EBITDA almost triple year-over-year, while property EBITDA margin also expanded. The property's strong quarterly performance was driven by higher gaming revenues across all segments and a focus on managing reinvestment costs and other operating expenses.

We're fortunate to have the opportunity to operate in Manila, which now provides us with a strong and diversified earnings stream that complements our operations in Macau. We believe that the Philippines gaming market will continue to show robust growth as the Company's economy expands and infrastructure improves, together with the Philippines Government's commitment to expanding the tourism industry.

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

Geoff Davis - *Melco Crown Entertainment Limited - EVP & CFO*

Thanks Lawrence. We reported Group-wide property EBITDA of approximately \$245 million in the second quarter of 2016, broadly in line with the prior period and up by almost 20% from the second quarter of 2015.

Luck-adjusted Macau property EBITDA would have been flat compared to the prior quarter and up approximately 5% on a year-over-year basis, with an EBITDA margin of approximately 22%, which compares to a margin of 23% in the comparable period of 2015.

On a luck-adjusted basis EBITDA at Altira Macau would have been higher by approximately \$7 million, while City of Dreams in Macau would have been lower by approximately \$12 million.

The EBITDA contribution from our non-VIP segment continues to represent approximately 95% of luck-adjusted EBITDA at City of Dreams and on a Macau-wide basis.

At City of Dreams Manila, a meaningful improvement in gaming volumes resulted in property EBITDA growing by 28% sequentially and by 189% year-on-year. EBITDA margins expanded to 30.4% in the second quarter of 2016 from 16.8% in the comparable period in 2015.

On a luck-adjusted basis, Manila's property EBITDA grew by approximately 20% sequentially, while EBITDA margins expanded by 130 basis points over the previous quarter to 32%.

As mentioned in the press release and in response to some recent inbound questions, we want to draw your attention to the differences in the calculation of adjusted EBITDA for Studio City, as per MCE's earnings press release and consolidated EBITDA for the Studio City senior secured facility agreement.

For illustrative purposes, the consolidated EBITDA definition for the Studio City senior secured facility was approximately \$18 million in the first quarter of the year, compared to Studio City adjusted EBITDA of \$22 million, as reported in MCE's quarterly press release. The differences between these two figures are primarily driven by shared services and corporate recharges, as well as operations that are not part of the Studio City borrowing group.

Precise figures for the second quarter are not available at this time, but the differential between these figures in 2Q 2016 is expected to be approximately \$7 million to \$9 million.

While the first test date of the financial covenants under Studio City's senior secured facility is not until the first quarter of 2017, the second quarter of 2016 is included in various LTM calculations, including consolidated EBITDA calculations under the Studio City senior secured facility as it relates to financial covenants.

While trends in July have been encouraging and we endeavor to enhance the property's profitability as aggressively as possible, Studio City will need to significantly improve its operating and financial performance to meet these financial covenants by the first test date at the end of the first quarter of 2017.

Now, as we normally do, we'll give you some guidance on non-operating line items for the upcoming quarter. Total depreciation and amortization expense is expected to be approximately \$135 million to \$140 million, including approximately \$44 million at Studio City.

Corporate expense is expected to come in at approximately \$28 million to \$30 million and consolidated net interest expense is expected to be approximately \$72 million, which includes financed lease interests of \$10 million relating to City of Dreams Manila, net of approximately \$6 million of total capitalized interest.

For those that follow City of Dreams Manila more closely, our building lease payment for the second quarter of 2016 was approximately \$8 million.

QUESTIONS AND ANSWERS

Geoff Davis - *Melco Crown Entertainment Limited - EVP & CFO*

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

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions).

Our first question comes from the line of Billy Ng from Merrill Lynch. Please go ahead.

Billy Ng - *Bank of America Merrill Lynch - Analyst*

Hi, good evening, I have a question on Studio City. I think Lawrence just mentioned that the number has significantly improved in July and I just wondered, what exactly have you guys done and how sustainable do you believe those performance -- let's say after the summer holiday season, how much is seasonality-related? What kind of more sustainable run rates we should expect from Studio City?



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

Hi Billy, it's Lawrence here. Let me -- I'll turn it over to Ted soon, but I think ultimately our number one focus in Q2 and so far this year has been ramping up Studio City. And as you know, in a flat visitation and declining revenue environment, it's been harder than anticipated.

But having said that, I think the good work that we put in through the first and second quarter is really finally working out. And so we think the ramp up is, of course, very sustainable and I think in terms of the details about some of the location issues, busing, marketing, I'll let Ted run through the details.

Ted Chan - *Melco Crown Entertainment Limited - COO*

Sure, Lawrence. Hi Billy. So in the second quarter we put together some of the marketing initiatives primarily --

Billy Ng - *Bank of America Merrill Lynch - Analyst*

Hi, Ted, we can't hear you very clearly.

Ted Chan - *Melco Crown Entertainment Limited - COO*

So the second quarter marketing initiatives, basically where quite a lot has happened to improve participation numbers -- sorry. Hi Billy. I think --

Billy Ng - *Bank of America Merrill Lynch - Analyst*

Hi.

Ted Chan - *Melco Crown Entertainment Limited - COO*

That should be better now. So in the second quarter, we focused a lot on the marketing initiatives, improving the visitations. As you know, the location is a big issue for the property, so a lot of effort is actually put in there to develop awareness, as well as the successful development of the busing, connecting all the Cotai property there.

So I think this translates into some of the improved volume in both visitation numbers, as well as casino patronage. So in a theoretical basis, I think in the last two months, particularly May and June, I think we're up to a certain good level. However, it not translated into GGR and particularly in July we see some meaningful improvement also because of summertime, but we see some good trend in the last few months as well in terms of visitation.

So compared to the June number in terms of visitation, it improved almost 40% in visitation numbers, but if you compare to the marketing program, which is sometimes in March and April, it's actually improved more than 50% in visitations.

So that's the visitation number and in terms of the patronage, casino patronage also improved in terms of patron hours per day. So I think that's quite sustainable in terms of that numbers that we just announced earlier.



Billy Ng - Bank of America Merrill Lynch - Analyst

Thank you and can I follow up with that, when we will see -- we saw from the press we will have the VIP operation in Q3, I believe. What kind of mix should we expect and what kind of maybe bottom line contribution after we have the junket VIP starting? That's as soon as this quarter at Studio City?

Ted Chan - Melco Crown Entertainment Limited - COO

Okay, I'll take this, Billy, it's Ted again. So currently the tabled allocation in VIP is still subject to the Government's approval and endorsement. At this point we're looking sometime in the later part of August or early September timing.

In terms of the 30 tables that were allocated, two-thirds will be allocated to junkets. We are targeting and confirmed that two major junkets operated will be interested in the operation and one-third of it will be allocated to premium direct.

So in terms of the performance, of course we're looking at roughly above average in terms of MCE's rolling volume per table productivity at this stage, but I don't think that we are giving any guideline on the performance in terms of the matrix. So I think we're still positive on that note.

Lawrence Ho - Melco Crown Entertainment Limited - Chairman & CEO

And Billy, it's Lawrence here, I think equally important is the positioning of the property. As most people know, whether it's the hotel, the food and beverage, or the retail or the attractions, it is a high quality property and we were finding that having some VIP presence will probably also help the rest of the non-gaming amenities and just an overall better experience and better positioning for the property.

Billy Ng - Bank of America Merrill Lynch - Analyst

Sorry, one last follow up is for the 30 tables, if approved, does that come from the existing mass tables from Studio City? Or will that come from our own portfolio, like COD or Altira?

Lawrence Ho - Melco Crown Entertainment Limited - Chairman & CEO

Billy, it's Lawrence here. I think that's the part that is really subject to -- we're having close dialogues with the Government and so subject to further discussion with the Government, in terms of whether it is from MCE's existing portfolio of tables, or from the mass of Studio City.

Billy Ng - Bank of America Merrill Lynch - Analyst

Okay, thank you, thanks.

Lawrence Ho - Melco Crown Entertainment Limited - Chairman & CEO

Thank you.

Operator

Thank you, our next question comes from the line of Anil Daswani from Citibank. Please go ahead.

Anil Daswani - Citigroup - Analyst

Okay, good evening, guys, two questions from me. First of all, could you comment on the mass business in the second quarter at COD? Did you guys, like Wynn announced on their call, see growth in any of the months, year-over-year?

Second thing that I wanted to focus on, obviously with Wynn opening later this month, have you seen a change in the promotional environment, especially since you guys are pretty much next door and competing in exactly the same segment as Wynn Palace is? How are you seeing bookings in August? Are you seeing any issues, or are you seeing any competitive issues that we should focus on?

Lawrence Ho - Melco Crown Entertainment Limited - Chairman & CEO

Hi Anil, again it's Lawrence here. So let me start off and I'll hand it over to Ted again. As we said in the prepared remarks, July has been very encouraging and so I think all in all we're quite positive for what's happening in Q3.

In terms of Wynn opening next to City of Dreams, I think that finally after almost 10 years it really completes the fact that City of Dreams is really in the center of the universe in terms of Cotai. And I think both properties are going to be focused on the premium sector, whether it's premium direct or premium mass.

So it will create a new epicenter for premium business, I think, in Macau. But of course, again in a declining revenue or flat environment, there is going to be competition and I think we're well prepared for that.

So maybe I'll hand it over to Ted to talk about some of the trends that he's seeing.

Ted Chan - Melco Crown Entertainment Limited - COO

Sure, Anil. So if we just look at the second quarter, we haven't seen a positive year-on-year growth on any month in the second quarter. However, if we look at the revenue year-on-year decline, I think for City of Dreams we have improved to a single digit decline over the last few months and trending up quite nicely.

And after we reclassified all the revenue into VIP and mass in the markets, we believe that COD still gained share in the second quarter, so that's what we see. And July's encouraging and we think -- but I don't think that is still -- we still need a little bit more data points to be confident in terms of the positive year-on-year growth at this point.

Anil Daswani - Citigroup - Analyst

Thanks.

Operator

Thank you. Our next question comes from the line of Aaron Fischer from CLSA. Please ask your question.

Aaron Fischer - CLSA - Analyst

Yes, thanks, hi Lawrence and Geoff and Ted. I actually have a pretty similar question to Anil. He was asking about the impact of Wynn Palace, but I was also wondering what the potential impact would be for the opening of the Parisian on Studio City and also the opening of, I think it's called Tiger or Okada Resort in Manila, and whether both of these new resorts represent a threat, or maybe an opportunity to take increased customer traffic which will be nearby. Thanks.

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

Hi Aaron, it's Lawrence here. I think for Parisian, without a doubt that we are hopeful and excited that it will help the traffic going to Studio City. As people who've visited Macau recently know, although Studio City is on the southern tip of the Cotai Strip, it's pretty hard to get there right now because of all the construction. We literally have construction on both sides. On one side is Parisian blocking off most of the road and then on the other side, the LRT substation that connects us to the Lotus Bridge Border.

So with the opening of the Parisian, I think that will help traffic and foot traffic significantly. And with their room inventory, I think, and the attractions that we have at Studio City, it would certainly be a big draw. So we are hopeful that it's going to be positive.

In terms of Okada Manila, again I think seeing the global clustering effect of having resorts close to each other and really benefiting one another, I think it will further solidify the business in the Entertainment City or Manila Bay area. Of course, we have to see what kind of opening Okada has, because it's a pretty big resort and we've heard that it's a phased opening.

But I think all in all, with better infrastructure with the NAIA Expressway hopefully opening soon in Manila, I think that will significantly cut down the commuting time between various parts of Manila to the Manila Bay area. And I think we have seen with -- I think one of the key things that we should mention is the fact that City of Dreams Manila was ramped up successfully during the second quarter and is contributing significantly to our earnings. So I think there's still a lot more potential there and we look forward to benefiting from it.

Aaron Fischer - *CLSA - Analyst*

Okay, thanks, Lawrence.

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

Thanks, Aaron.

Operator

Thank you. Our next question comes from the line of Karen Tang from Deutsche Bank. Please go ahead.

Karen Tang - *Deutsche Bank - Analyst*

Hi guys, two questions for you. The first question is I think we read on the press there, Lawrence, you once commented that the Studio City ramp up has been slower than management's original expectations. So my question is what more can you guys do and what the current timeframe -- ramp up phase, when do you think that ramp up will get to your steady state target?

And then the second question was with regards to comped rooms, roughly currently what percentage of your City of Dreams and Studio City rooms are comped? Thanks.

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

Karen, it's Lawrence. So let me hand it over to Ted to go through the details. But again, Macau has had 26 straight months of GGR declines and opening a mega integrated resort in this environment is never easy.



But at the same time, Studio City has been open for only eight months and I think even if you look back on previous calls, we've always said that generally properties ramp up between nine months to 18 months. And so we're still -- I think with how July is tracking and hopefully we carry that momentum over to August and then into September. And I think we've had a good track record of once we've increased visitation and we do a very good job in terms of data mining our customers, that the business will be very stable from this point onwards.

So I still think that assuming Studio City ramps up to a market average in terms of win per table, or win per machine, we're still within -- considering the difficult environment that we're in, we're still within a very early period. So in terms of hotel room comps, I think maybe, Ted, you can add more color to that.

Ted Chan - *Melco Crown Entertainment Limited - COO*

Sure, hi Karen. So in terms of the Studio City, in fact in the [nine months] which is July's operation, we already reached -- we believe that we already reached the Macau average in terms of win per table productivity.

And in terms of the comp room percentage, right now it's ranging from 50% to 60% comp rooms. As always as our strategy -- as always, optimization after we reach a certain level and it's going forward, we can optimize the room comp [ANT] level going forward with this range of 50% and 60%.

In terms of other comp rooms in our properties, the comp rooms in the range of 80% to 90% and the only one which is lower comp room percentage could be like Hard Rock, we're comping somewhere below 80% at this stage.

Karen Tang - *Deutsche Bank - Analyst*

Okay, lovely, thank you.

Operator

Thank you. That's all we have for questions, I would now like to hand the conference to today's presenters for closing remarks.

Geoff Davis - *Melco Crown Entertainment Limited - EVP & CFO*

Thanks, operator and thank you all for joining us today.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.



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