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Q1 2019 Melco Resorts & Entertainment Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the First Quarter 2019 Earnings Conference Call of Melco Resorts & Entertainment Limited. Today's conference call is being recorded.

I would now like to turn the call over to Mr. Richard Huang, Director of Investor Relations of Melco Resorts & Entertainment Limited. Thank you. Please go ahead, sir.

Richard Huang *Melco Resorts & Entertainment Limited - Director of IR*

All right. Thank you for joining us today for our first quarter 2019 earnings call. On the call today are Lawrence Ho; Geoff Davis; and our Property Presidents in Macau and Manila.

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.

I will now turn the call over to Lawrence.

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

Thank you, Richard, and hello, everybody.

During the first quarter of 2019, Melco had another quarter of solid EBITDA delivery despite volatility experienced by the Macau VIP market. That was the result of Melco's relentless focus on quality and excellence, with our portfolio of best in class, premium mass-focused integrated resorts attaining a record breaking total of 85 stars in the 2019 Forbes Travel Guide.

City of Dreams' Jade Dragon has once again been named among Asia's 50 Best Restaurants for the third consecutive year. Moreover, with less than a year since its grand opening, Morpheus won the 2019 Building of the Year award.

Melco's solid earnings delivery in the first quarter was also a reflection of the company's high quality earnings mix with less than 10% of Macau EBITDA contributed by the VIP segment. And whilst the Macau VIP market continued to experience volatility, the mass market [segment] (corrected by the company after the call) has remained robust with extended divergence of VIP and mass market growth. The market-wide mass gaming strength, combined with Melco's solid market share performance and strong focus on cost control, allowed for resilient margins and further de-emphasizing of the VIP segment, which better positions Melco to ride on Macau's anticipated mass-driven growth.



Going forward, with additional table grant from the government in January 2019 and with further ramp of the iconic award-winning Morpheus, we're confident in our ability to continue to drive revenue and market share improvements.

Our confidence is also supported by further property upgrades at City of Dreams, with improved VIP performance flowing through after opening up the new VIP area just ahead of the Chinese New Year. In the next 12 months, we have identified over \$50 million of targeted enhancement CapEx to upgrade the gaming areas and the nongaming attractions at COD, which is aimed at maintaining the longer-term competitiveness of the resort.

Moving over to Studio City, the property delivered record mass table revenues during the first quarter of 2019. Soon, we will open the 50,000 square feet 'Legend Heroes VR Park' and the 'Flip Out Trampoline Park'. We expect these new entertainment attractions to further elevate the mass gaming and non-gaming appeal of the property. We will also soon commence the further expansion of Studio City, which is expected to have 2 hotel towers, a water park, a Cineplex and additional gaming space.

Turning to the Philippines, City of Dreams Manila's luck-adjusted EBITDA declined 9% year-over-year. With rising competition in and around Entertainment City, we remain more cautious with our outlook for the rest of 2019.

An important development worth highlighting is our recently released Sustainability and CSR report for 2018 that outlined our 'Above & Beyond' strategy to further elevate Melco's commitment as a force for good across all of our integrated resorts globally.

The report outlines ambitious goals, actionable targets and disclosure around key ESG issues that are critical to our business. The strategy further exemplifies that being responsible and accountable to all of our guests, colleagues and stakeholders has always been central to Melco's business philosophy.

Our strategy focuses on 4 goals by 2030 including: first, to achieve carbon-neutral resorts; second, to achieve zero waste across our properties by eliminating single-use plastic waste; third, to create the best-in-class working environment for our employees and to be a responsible contributor to the community [both in] (corrected by the company after the call) and around the world; and fourth, to demonstrate to our guests that a sustainable future is a better future.

Notably, in our sustainability efforts, we became the first and only hospitality group and integrated resort operator globally to join as a signatory to The New Plastics Economy Global Commitment led by the Ellen MacArthur Foundation in collaboration with UN Environment program.

Finally, we're devoting significant resources on international expansion with a strong emphasis on Japan, which we have always viewed as the most attractive integrated resort opportunity globally outside of Macau. The license bidding process is on track to start in 2019 or 2020, and we're gearing up for this process. We believe we are well-placed in Japan with a strong local team actively working on the ground, engaging with the relevant stakeholders.

We also believe our focus on the Asian premium segment, a portfolio of high-quality assets, devotion to craftsmanship, dedication to world-class entertainment offerings, market-leading social safeguard system and an established track record of successful partnerships will put Melco in a strong position to help Japan realize the vision of developing world-leading IRs with a unique Japanese touch.

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

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

Thank you, Lawrence.

We reported group-wide property EBITDA of approximately \$407 million in the first quarter of 2019, increasing by 1% from the first quarter of 2018, while luck-adjusted property EBITDA declined 10% year-over-year to \$362 million. A favorable VIP win rate positively affected EBITDA at City of Dreams Macau, Altira and City of Dreams Manila by approximately \$36 million, \$8 million and \$2 million,

respectively.

In addition to the VIP win rate fluctuation, our performance was also affected by our bad debt provision. During the first quarter of 2019, we incurred a bad debt provision charge of \$11 million as compared to a bad debt reversal of \$3 million in the first quarter of 2018. On a year-over-year basis, the change in the bad debt provision negatively affected EBITDA by approximately \$14 million.

In the first quarter, the luck-adjusted property EBITDA margin in Macau was approximately 27%, flat quarter-over-quarter and down from 30% in the first quarter of 2018. With continued robust growth in mass gaming revenues, the EBITDA contribution from our non-VIP segment now represents more than 90% of luck-adjusted EBITDA on a Macau-wide basis, highlighting the mass gaming and nongaming segments' importance in driving group-wide EBITDA and EBITDA margins.

In the Philippines, COD Manila delivered luck-adjusted EBITDA of approximately \$59 million, representing a decline of 9% year-over-year. The luck-adjusted EBITDA margin at COD Manila increased by approximately 30 basis points quarter-over-quarter, but declined by approximately 150 basis points year-over-year to 42%.

Moving on to capital management. The Board has declared another quarterly cash dividend of \$0.155 per ADS. To provide more clarity regarding our capital structure within our core or wholly-owned group, we had cash of approximately \$630 million and gross debt of approximately \$2.5 billion at the end of the first quarter of 2019 excluding Studio City and the Philippines. 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 \$155 million to \$165 million. Corporate expense is expected to come in at approximately \$30 million to \$31 million. Consolidated net interest expense is expected to be approximately \$75 million, which includes finance lease interest of \$10 million relating to City of Dreams Manila. For those who follow City of Dreams Manila more closely, our building lease payment for the first quarter of 2019 was approximately \$10 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question from the line of Joe Greff from JPMorgan.

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

Two questions for you on City of Dreams and then one on Manila. So the first one on City of Dreams, can you talk about the relative growth of premium mass versus base mass in the 1Q? And what you're seeing so far in the 2Q? David, I believe, you intimated on the last earnings call that 2 segments were growing similarly. I think the word you actually used was growing side by side. So I guess how different has the relative growth rate been this year versus the second half of last year? And then I have a follow-up.

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

Okay. So Joe, it's a couple of things. And the first thing is the growth on our premium mass has slowed a little bit. We've kind of talked about that, that it slowed from what we've seen historically. Where we have really seen good growth for us is really more on that mid-mass and our, let's call it, our mass mass. And I think our mass mass, if you look at and think about it, given our table limits and what we do, is probably premium mass at the other concessionaire's properties.

In terms of what it's kind of doing on a quarter-on-quarter -- where it was from last year, again, it's been more challenging as we've looked at it this year. I think overall though, it's kind of flattened out somewhat for us here. So as we look into the second quarter and what we've seen, we have seen a pickup in that. We've also seen that we absorbed some pretty good results as we went through the first part of the May Golden Week as well. So we've been fairly pleased with it in the second quarter as opposed to the first quarter where it was somewhat flat.

Joseph Richard Greff JP Morgan Chase & Co, Research Division - MD

Okay. Great. And Geoff, can you give us the hold-adjusted property level margins for City of Dreams in the 1Q? I'm presuming it's down year-over-year because the majority -- I'm guessing the majority of that bad debt provision hit that property. And then along those lines of bad debt provisioning, do you think you're caught up at this point? Or is it really going to be collections-specific?

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

So at City of Dreams, for the first quarter, the hold-adjusted EBITDA margin was about 29.5%. And then we have about \$11 million of bad debt provision, which was [flat from] (corrected by the company after the call) the fourth quarter of last year. So that's back into a, what I'd call, a normal range.

Joseph Richard Greff JP Morgan Chase & Co, Research Division - MD

Got it. Okay. And then this is not the first time you were calling out competition and expressed caution on Manila. But when you look at the first quarter run rate levels of segment growth gaming revenues and EBITDA, do you think you can sustain them? Or do you think you can grow a little bit more slowly from those levels? How are you viewing current trends and forecasting that property?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Kevin?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Kevin, are you on the call?

Kevin Richard Benning Melco Resorts & Entertainment Limited - Senior VP & COO of City of Dreams Manila

Yes, I'm here.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Can you take that?

Kevin Richard Benning Melco Resorts & Entertainment Limited - Senior VP & COO of City of Dreams Manila

Sure. So here in Manila, there are a few things we're really focused on right now, and one is just growing our VIP segment. We are opening up new casual junket space over the next month, which will give us an additional 10 tables as well as renovating our overall VIP space. We've closed down our night club. We're going to have some very nice high-end space for our top junkets. So that's one big piece of it. And the other is just continuing to focus on the premium mass as we feel there's a lot of opportunities still, both, within the Philippines and surrounding Southeast Asia. So we've added additional sales hosts and increased the focus there.

Joseph Richard Greff JP Morgan Chase & Co, Research Division - MD

And in terms of my second question with sort of 1Q run rate levels and taking over the next few quarters?

Kevin Richard Benning Melco Resorts & Entertainment Limited - Senior VP & COO of City of Dreams Manila

I think we'll be pretty stable over the next couple of quarters based on the way we've been trending. And that \$60 million range has been pretty solid for us.

Operator

We have our next question from the line of Anil Daswani from Citi.

Anil Jeevan Daswani Citigroup Inc, Research Division - MD and Head of Global Gaming Research & Hong Kong Country Research

My first question, David, I guess is for you. Could you maybe comment a little bit about how the ramp is going on for the new VIP product at COD? And also how that's done in Golden Week? Are you guys actually picking up some share due to that? We certainly spoke with some of the junkets, and they say that you guys are picking up some pretty significant share. So I'd love to hear your comments on that first.

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

Sure, Anil. First off, the January was kind of a rough month for us in our VIP. Obviously, we have a lot of construction disruption as we are finishing up the 4 new areas for the junkets that we're transferring over. Since we've opened up and right around -- I'm going to say it's probably a couple of days before CNY, we've seen really good pickup on that. We've been very, very pleased. If you talked to a lot of the junket operators, they'll probably tell you it's some of the nicest and finest space if not in Macau, then probably in all the world. It's got great entry points.

We've also seen a great pickup as we saw through the April period. And we saw some super good play both on the premium direct and our VIP operators through the first 5 days of May. So again, very, very pleased. I think it's somewhat serendipity in terms of our timing with this. We've hit the market in a really good period of time with our product.

Anil Jeevan Daswani Citigroup Inc, Research Division - MD and Head of Global Gaming Research & Hong Kong Country Research

Okay. My second question, I guess maybe, Lawrence, you could help us with this. With Studio City, obviously, New Cotai on the first of May came out and filed Chapter 11. Now that, hopefully, 50% of the stake in the bond will be inherited by the bond shareholders, hopefully, they'll be more rational than some of the existing shareholders of New Cotai. How long do you think it takes before we can see a deal come through with Studio City? Or is this still too early to go through? If there is a time line of when you could rationalize Studio City?

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

Anil, it's Geoff. I'll take a stab at it. We understand, of course, that New Cotai has made their voluntary bankruptcy petition and are likely in conversations with its PIK note holders, but we don't have any information beyond that. And we really don't feel comfortable speculating about the outcome of any bankruptcy proceedings. But we don't anticipate these bankruptcy proceedings to have any material impact on Studio City's operations, its strategy or its ability to raise funds. So again, we're not a party to the bankruptcy and, really, nothing to add beyond that.

Anil Jeevan Daswani Citigroup Inc, Research Division - MD and Head of Global Gaming Research & Hong Kong Country Research

Okay. And my last question, you guys have been very active in buying back stock. What's the total to date? And how much of that has not been canceled and has been kept as treasury shares?

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

Okay. Anil, it's Geoff again. So we haven't canceled any of those shares. And we haven't repurchased any additional shares since our last update. And as you know, from a returning capital perspective, our focus is on the quarterly regular dividend rather than special. And of course, we'll do share repurchase on an opportunistic basis, but our primary method for returning capital to shareholders is through the quarterly dividend.

Operator

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

Hay Ling Ng BofA Merrill Lynch, Research Division - Research Analyst

I just have one more follow-up question on COD. Basically, from the comment that you guys mentioned, things are still picking up. And I guess previously, we asked that before as in terms of the return profile of the Morpheus, I think the management is targeting 20%. And I know it's very hard to break up between Morpheus and the existing property. But where are we exactly right now? Do you think -- are we in the -- still in the early stage? Or we are in the last inning of the ramp up? And how much further things you can do to improve the overall EBITDA for COD?

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

Billy, it's Geoff. I'll take the first part of that question, then maybe ask David to take the second part of the question. So our overall return expectations for that investment have not changed in the long run. As we talked about in our prior call, we are still looking for additional ramp up, and I'd characterize where we are currently in the early innings of that ramp-up process.

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

Yes. And just to kind of go through real quick, Billy. I think one of the things -- we're 9 months into the Morpheus [opening] (added by the company after the call) at this point. We're still in the process of, obviously, making sure our service levels, our guest experience is best-in-class and trying to make sure that it continues. We're in the beginnings of trying to optimize that cost structure as much as we can now, without creating any impact on our guest experience, our guest services. So again, we're still very, very early in the process. I think over the next few quarters, I think we'll start seeing our cost structure to come back more in line.

Hay Ling Ng BofA Merrill Lynch, Research Division - Research Analyst

And can I follow up with that? It's like, what do you think more upside to have sort of ramp up whether we have the regular mass or still the premium mass or VIP given that the market is terrible, but we had a good product. So like, which area do you think in the next couple of quarters have more upside?

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

I think our premium mass has tremendous upside still. I think as we convert more of, let's call those, mid mass players and continue to grow and develop them, as they get exposure and experiences in Morpheus, it seems to be building longer stays for us and a better relationship for us. So longer term, I feel pretty good about our premium mass. In terms of the VIP, our premium direct play is really, really taken to Morpheus, particularly the villas and the suites that we have there. So again, longer term, I feel very good about our premium direct play as well.

Operator

We have our next question from the line of Harry Curtis from Instinet.

Harry Croyle Curtis Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging

I wanted to ask you about the hold adjustment and the math behind that. When -- traditionally, what we've done is normalized the revenue and then assumed roughly a 12% margin on that differential, and the revenue differential between the 3.5% in Macau that you held at versus roughly a 2.9% is somewhere around \$100 million. And so I would have thought that the hold adjustment at least in Macau would have been somewhere around \$12 million, and it was significantly higher than that. I wonder if you could just walk me through your math and maybe I'm missing something on the mix of direct.

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

Sure. And I think that is the core of it. It's that we have the advantage of having all the granularity and the numbers. So our hold calculation, our luck-adjusted calculation, first of all, is at 2.85% rather than 2.9%. And we are examining and have always taken a look at how we are trending in terms of our life-to-date and long-term overall win rates within the VIP system and are comfortable with the range we're at currently, the 2.7% to 3%, but something that we are constantly monitoring and considering. But -- so we normalized down to 2.85%, but what you probably don't have the data to do is then look at how hold impacts the different segments within VIP with premium direct revenue share, et cetera. So my guess is that is the core of the difference, but that's a detailed discussion I'd be happy to take offline with you.

Harry Croyle Curtis Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging

Okay. Fair enough. And then my last question had to do with David's comment on mass. I think that he mentioned earlier that it had been sort of flattened out in the first quarter. And if you look at the revenues versus the -- the sequential revenues versus the market, the market grew 7% in mass and you guys grew 2%. What do you think is behind having performed a little bit less than the market, particularly given the opening of Morpheus? I guess I would have expected it to grow in line or even a little bit better than the market.

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

So Harry, I think what I was referring to was on the premium mass, it has flattened out a little bit. We have seen that reverse, obviously, in the second quarter and up through the beginning part of May here. In terms of the hold percentage, I think if you look at our sequential growth on drop and you look at our drop the prior year, I think we're probably ahead of the market in terms of our drop growth. We held a

little bit lower in some of our premium segments. Again, sometimes, that's just a function of luck and what happens. So unfortunately, we played a little bit unlucky, particularly towards the end in March. I don't think it's anything that's systemic or any other type of issue where it's going to continue. I think again, occasionally, we're going to be unlucky and we are just a little bit unlucky in the first quarter.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

And Harry, it's Lawrence here. I think for April and at least for May Golden Week, we have seen very, very strong growth and strong volumes. So it's probably been one of the best May Golden Week we have seen in the last 5 years. So I think we are finally starting to reach the potential that we have expected for Morpheus. It took a bit longer than we had expected. But it's been a journey, and we're getting there. So if anything, April and May, we have seen some very encouraging trends.

Operator

The next question comes from the line of Karen Tang from Deutsche Bank.

Karen Tang Deutsche Bank AG, Research Division - Head of Asian Gaming and Hotels Research

A lot of the questions have been asked. So I'll ask a question on the number of VIP tables at the end of first quarter at City of Dreams because you mentioned that -- yes, because of Studio City, I think there are potentials of moving back some of the tables. So I guess you mentioned that you opened 2 big junket rooms at City of Dreams around Chinese New Year. How many tables are opened? And then more importantly, for the rest of this year, how many more do you plan to add back at City of Dreams on the, both, VIP and mass side?

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

So Karen, we have 155 VIP tables through the end of the first quarter. We don't expect any tables back right now. I think we're looking to see if we can kind of optimize. We maintain a certain number tables in terms of the overall -- with, obviously, what's over at Studio City. I think when there's opportunities with junkets, we look to try to add tables where we can. We're also looking to see if we can maybe take some space that we have that, unfortunately, hasn't been used in the past and see if we can optimize on that space. But we're always kind of looking, again, to try to optimize within where we can use our tables, where we can generate the most amount of revenue with the best possible EBITDA.

Karen Tang Deutsche Bank AG, Research Division - Head of Asian Gaming and Hotels Research

Excellent. And then I guess a question on cost. Maybe -- second quarter is usually the time when companies raise salaries for the rest of the year. Can you remind us your announced pay hikes?

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

Karen, it's Geoff. So for the April 1st salary increase in Macau, on a quarterly basis, that's between \$3.5 million to \$4 million per quarter of incremental costs.

Operator

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

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Two questions from me. One is related to the bad debt provisions. I wanted to understand last 2 quarters, you had \$11 million each of bad debt provisions. But if you look at last 4, 5 quarters before that, you had a lot of reversals. I'm trying to understand what's driving it even though I hear you said it's normal, especially at a time when VIP is probably stabilizing at the bottom? And the second question probably for Lawrence is in terms of Osaka, they asked for RFC process, and one of your competitors announced their JV partner with Orix. I just want to understand how you are positioning yourself and what makes you confident to have a pole position in there.

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

Well, Praveen, it's Geoff. I'll take the first question. So on the bad debt provision, again, we do think that's in a normal range. And if you take your analysis back a little bit further, then the last couple of years, where with the return of the health of the business, the overall sort of collections and credit environment improved quite a bit in '17 and '18. And now we're past that and into more of a normal period.

But if you go back beyond that point of time a couple years, I think you'll see that, that \$8 million to \$12 million of bad debt provision has

been fairly normal. And I hope you're right about the VIP business stabilizing at current levels. But as far as the provision goes, again, it's a reflection of normal sort of formulaic provisioning based on days outstanding of the credit and then, of course, offset by any collections in the quarter, and that formula has remained unchanged.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

And Praveen, it's Lawrence here. On your question about Japan, it's our single most important initiative, and we spent significant resources and time there. We've always been interested in the market, be it Osaka or something in the Kanto region or even the regional markets. We have seen the MGM partnership with Orix. And I think of course, that puts them in a very good position. But at the same time, between the various regions, we have had a lot of dialogue with potential partners and stakeholders and associations, and I think we're making good headway in terms of where our discussions are at. And we will continue to monitor not only the Osaka bid, which is probably going to come first, but also more importantly the Kanto bid and also the regional bids.

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Thanks, Lawrence, and all the best for that. And may I ask one quick question on top of that? I saw that Studio City number for mass specifically improved, both quarter-over-quarter and year-over-year. Also, Altira at \$15 million is a good number as well. I just wanted to understand if those numbers are sustainable and there was nothing one-off in this quarter.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Geoff, are you on the phone? Can you take that?

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

I am, Mr. Ho. At Studio City, we had a great first quarter in the mass business. And it was not driven on the premium segment. It was driven more on the mass segment. We had a tremendous growth in player hours, so the revenue was a nice diversified mix. There wasn't a lot of volatility involving that number, so it does give you reason for optimism.

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

And Andy is also on the call. Andy, do you want to take Altira?

Andy Choy Melco Resorts & Entertainment Limited - Property President of Altira Macau & Mocha

Sure. And Praveen, the short answer is that we do think that the mass number at Altira is sustainable. It's something that we've been working on for quite some time now. And if you go back about the last 20-or-so months, we've seen a nice, healthy increase on the mass business at Altira. So it's definitely something that we're looking to continue in the future here.

Operator

The next question comes from the line of Jared Shojaian from Wolfe Research.

Jared H. Shojaian Wolfe Research, LLC - Director & Senior Analyst

Just first, I want to clarify your comments to Harry's prior question. Are you saying that you saw a meaningful uptick in direct play on the VIP side in the first quarter? Is that what you're messaging?

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

We did see a really good hold on our premium direct play in the first quarter.

Jared H. Shojaian Wolfe Research, LLC - Director & Senior Analyst

Okay. That's helpful. So I mean my understanding has always been that on the direct side, the hold rate is always going to be a little bit higher. I mean do you think the increase in direct play is sustainable? I would really just love to hear your thoughts on that.



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

I think we're pretty positive about our premium direct play given that we have Morpheus now. And the Morpheus has, again, proven to be incredibly popular with our villas and our suites, with that player, they also really liked the private gaming spaces that we've created as well as the main, let's call it, the main level 2 [gaming] (added by the company after the call) space that we have in Morpheus. So yes, I do think it's sustainable.

Jared H. Shojaian Wolfe Research, LLC - Director & Senior Analyst

And just to follow up on that, is any of that direct play previously premium mass that you've converted to direct VIP?

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

No. We typically see it going the other direction where premium direct play will sometimes go -- when they want to take a break, they're not doing well, they'll come down and they'll play in premium mass area.

Jared H. Shojaian Wolfe Research, LLC - Director & Senior Analyst

Great. And then just one last one from me. I know you seem pretty excited about the Morpheus ramp and referring to it as still early innings. So I guess my question is the property has been open now for almost a year, what do you still need to see before the property can really start to ramp? Is it construction disruption that's still having an impact? Or is there something else that you would specifically call out?

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

Yes. I know it's construction disruption. With most of our construction disruption are gone now. We're still doing stuff on the main gaming floor, but last of our construction disruption pretty much happened up on level 2 with the VIP space. As we continue to kind of work through our main gaming floor, we've got carpet to replace this year as we kind of freshen up and open up the main casino. I think we're getting them from the main casino and kind of converting them into players. I think that's where the opportunity is. And as we start kind of growing those, let's call them, tadpoles and grow them to bigger, bigger fish, that's also where opportunity is. We never were able to accommodate some of the smaller players before because we never had the rooms available for them. So essentially, a lot of those players' revenue go to other places to get their lodging, so we weren't getting our fair share of that play.

Operator

The next question comes from the line of Edward Engel from Macquarie.

Edward Lee Engel Macquarie Research - Analyst

At Studio City, you noted some better base mass mix, but the mass hold rate at the property is also a bit higher. Is there anything structural going on there that may be supporting a higher rate?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Geoff, do you want to take that?

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

Yes, this is Geoff. Well, look, there is nothing more -- nothing structural that would go on that would support a higher rate. What we did see though was a nice, a really nice increase in player hours. And I think that's probably related -- we also had a great increase in our non-gaming. Our food and beverages is really strong. We've added quite a few other amenities around property, gets people to stay in longer. So you put all that together, and you've got a pretty good story.

Edward Lee Engel Macquarie Research - Analyst

Great. And then on the increasing competition you noted in Manila, other than Okada, are there any specific regional properties or even just regions overall that you think are specifically cannibalizing that business?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Kevin?

Kevin Richard Benning *Melco Resorts & Entertainment Limited - Senior VP & COO of City of Dreams Manila*

Yes. I mean I think Okada is part of it. And then Resorts World has also opened up significant room inventory, and they've opened up new gaming space as well, which is why we're focused on enhancing our current facilities and our space within our VIP and mass floors. So outside of Manila, we really haven't noticed much of an impact.

Operator

I will now hand it back to Mr. Richard Huang for any closing remarks.

Richard Huang *Melco Resorts & Entertainment Limited - Director of IR*

All right. So thank you for dialing in tonight. We look forward to speaking with you again next quarter.

Operator

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

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