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Q3 2022 Melco Resorts & Entertainment Ltd Earnings Call

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the third quarter 2022 Earnings Conference Call of Melco Resorts & Entertainment Limited. (Operator Instructions) Today's conference is being recorded. I'll now turn the call over to Ms. Jeanny Kim, Senior Vice President, Group Treasurer of Melco Resorts & Entertainment Limited.

Jeanny Kim Melco Resorts & Entertainment Limited - Senior VP & Group Treasurer

Thank you, operator, and thank you, everyone, for joining us today for our third quarter 2022 earnings call. On the call are Lawrence Ho; Geoff Davis; Evan Winkler; and our Property Presidents in Macau, Manila and Cyprus. Before we get started, please note that today's discussion may contain forward-looking statements made under the safe harbor provision of federal securities laws. Our actual results could differ from our anticipated results. In addition, we may discuss non-GAAP measures. A definition and reconciliation of each of these measures to the most comparable GAAP financial measures are included in the earnings release. Finally, please note that our supplementary earnings slides are posted on our Investor Relations website. With that, I'll now turn the call over to Mr. Lawrence Ho.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Thank you, Jeanny. Our results for the third quarter of 2022 continued to be impacted by the challenging operating environment resulting from low levels of visitation due to COVID-related travel restrictions and the government-mandated closure of our casinos in Macau in July. We are, however, encouraged by the recent reopening of Macau to international tourists and the increase in visitation over October Golden Week. E-visas for individuals and tour groups are now being processed by the Chinese immigration authority, and we are cautiously optimistic that this will lead to a gradual increase in visitation.

We submitted our proposal to the public tender for the award of new gaming concessions on September 14, and it has been a smooth and transparent process. We are fully supportive of the Macau government's initiatives to further develop Macau as Asia's premier destination for international tourism. Our integrated resorts offer a wide range of unique non-gaming amenities, and we plan to leverage our experience to provide additional tourist attractions in Macau. Our proposal reinforces our commitment to Macau, and we look forward to playing a leadership role in partnering with the Macau government to execute on its vision.

In the Philippines, gaming volumes continue to track towards pre-pandemic levels. We expect to see further growth as travel restrictions around Asia continue to be lifted and travel returns to more normal levels. Gaming volumes in Cyprus exceeded pre-pandemic levels with further easing of COVID-19-related restrictions in the third quarter. In respect to our development projects, the construction of Studio City Phase 2 is progressing on schedule with construction completion expected within 2022. We will monitor the market closely to determine the appropriate time to open, and we are currently anticipating the opening to be in stages beginning in second quarter of 2023. In Cyprus, our current expectation is to complete construction of the City of Dreams Mediterranean and open in the second quarter of 2023. 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. Our group-wide property EBITDA for the third quarter of 2022 was approximately negative \$35 million. Luck-adjusted group-wide property EBITDA came in at negative \$38 million, a favorable VIP win rate positively affected EBITDA at COD Macau, Studio City and Cyprus by around \$3.6 million, while an unfavorable win rate negatively impacted COD Manila by around \$400,000. Furthermore, the quarter-to-quarter devaluation of the Philippine peso and the euro negatively impacted our reported property EBITDA by around \$3 million for COD Manila and about \$400,000 for Cyprus.

Our OpEx, in Macau, for 3Q 2022 came in at approximately \$1.6 million per day, a decline from \$1.7 million per day in 2Q 2022. Cost containment continues to be a priority, while the quarter-to-quarter decline was partially due to the 12-day casino closures in Macau in July. Turning to our cash and liquidity. As of September 30, 2022, we had approximately \$1.6 billion of consolidated cash on hand. Our available liquidity, including cash on hand and undrawn revolving credit facilities was \$2.3 billion at the end of the third quarter. To provide more clarity on our capital structure, Melco, excluding its operations at Studio City, the Philippines and Cyprus, had cash on hand of around \$700 million, available liquidity of around \$1.4 billion and gross debt of \$5.3 billion at the end of September 2022.

As we normally do, we'll give you some guidance on non-operating line items for the upcoming fourth quarter of 2022. Total depreciation and amortization expense is expected to be approximately \$125 million. Corporate expense is expected to come in at approximately \$16 million to \$18 million, and consolidated net interest expense is expected to be approximately \$105 million to \$110 million, which includes finance lease interest of \$5 million to \$10 million relating to City of Dreams Manila and around \$15 million to \$20 million of capitalized interest. That concludes our prepared remarks. Operator, back to you for the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of George Choi from Citi.

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

A couple from me, if that's okay. First of all, there are talks about -- out there saying that the Macau government is asking all 7 licensed builders to up the ante on non-gaming investments for the next 10 years. I believe all of you will welcome the opportunity to invest. But what puzzles me is where do you get land to build on. So would you please remind us what the current land bank situation is? And should we be surprised if we see any -- all of you making proposals to invest in Hengqin? So that's my first question. And my second one is regarding the minimum GGR target that's announced by the Chief Executive in late August this year. Are you worried that the Chief Executive will raise the minimum GGR target over the next 10-year at the point where you could be asked to surrender some tables and slot machines? So that's all I have. I'll jump back to the queue.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

George, it's Lawrence. I'll take that. Thanks for the question. Unfortunately, it's a very short answer because at the end of the day, we are in the middle of a public tender, and we can't comment, and we've been told that we should not comment. And so all I can say is that the Macau government has previously announced that there is no more land. There is no land bank in Macau for any casino development. So that's what they said previously. So in terms of our tender -- and both of your questions relate to the same issue, which is the tender, so we can't really comment. All I can say is what is in the prepared remarks, it's been a very smooth and transparent process. We are -- Melco as a company, we've always been the most supportive of the government's diversification and non-gaming investments over the years. And we are very optimistic for the long-term prospects, and we will continue to execute the government vision. And so we welcome all of that. But in terms of the detail of the tender, George, sorry, couldn't -- can't give any more detail.

Operator

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

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

I was wondering if you could please provide us with an update on the budget for Studio City, how much is left to spend? And what will be the new kind of maintenance CapEx for that asset?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Geoff, do you want to take that one?

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

Sure. For Studio City, through the third quarter and beyond the third quarter, the remaining spend is about USD 135 million. And we would expect the maintenance CapEx in the early days to be quite minimal on the new project.

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

Perfect. If I may ask another one, can you please provide us an update on OpEx for -- or your expectation of OpEx? Do you guys anticipate it to be around \$1.7 million per day that you experienced in the second quarter? Or are you guys seeing any cost increases that might drive this figure a little bit higher?

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

Well, I think as you've noted, the \$1.6 billion for the third quarter benefited from the casino closure. So looking back to the second quarter makes sense. Beyond that, it really will depend on the pace of any recovery in the market primarily. So it's a good starting point. And of course, we'll always endeavor to keep costs as low as possible.

Operator

Our next question comes from the line of Joe Greff from JPMorgan.

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

Everybody, can you hear me?

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

Yes, we can hear you.

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Yes, Joe, we can.

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

Great. Guys, hope you're well. I know it's extremely early days here, but I was wondering if you've seen any increase in forward bookings or hotel bookings as a result of the E-visas any uptake -- any anticipation in increased occupancies as a result of visitation tied to E-visas is now -- that's the key octopus of our lives?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Joe, it's Lawrence. So maybe I'll let David give a little bit more of the details later on. But generally, the announcement at the end of September about the E-visas and the group tours, that's the best news we've heard in the past 2.5, 3 years. And it's potentially probably the biggest news for the next year. But at the same time, China is a huge country, 1.4 billion people. When they decide things at the national level, to have it trickle down to the provincial and the city levels take time. And so with the official announcement coming out on October 31, I think it's going to take a little bit of time. And of course, recently, there have been some COVID outbreaks in various regions in China. Actually, there's a few -- there are a few cases in Macau as well. So it's very early days, but it's definitely very encouraging news for going forward. But -- so maybe I'll hand it over to David.

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

Sure. So I think one of the other things just to kind of consider too as well as the COVID outbreaks a little bit, Joe, is we're just getting ready to go underneath the T8 here about 9:30 in the night. So we've got a typhoon kind of bearing down on us in the Macau, Hong Kong area. So that also obviously has an impact on people's visitation and what they may want to do. As Lawrence said, looking towards the long term, we're incredibly optimistic. It's actually really good news. When we talk to our customers, our customers are very enthusiastic. They're anxious to come back and to spend time with us in Macau and to return as much as they can. So we are -- I guess, as I said, we're just very optimistic. Our customers are telling us all the right things. We're anxious to get them back. But as Lawrence said, the

machinery of China as it trickles on down to the visa process. It takes a little bit of time to get out to all the provinces and all the cities and kind of the second-tier cities and just kind of moving its way through. So it will come. It just takes time. So it will happen. It's just a timing thing.

Operator

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

Billy Ng BofA Securities, Research Division - MD

I just have one question. Regarding the MOP5 billion deposit that was the -- when the process complete, like I think the company are required to transfer the money to Macau. I'm just wondering is that like after the license issuance in general, the operators have full control of that MOP5 billion so you can use it for daily operations. Do you have access and control of that MOP5 billion after the license process complete?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

Geoff, do you want to take that one for Billy?

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

Sure. Thanks, Lawrence. Billy, that's correct. That is our view as well is that once we get past the process, then that money becomes available for our use.

Operator

Our next question comes from the line of Dennis Carson from Barclays.

Robert Dennis Carson Barclays Bank PLC, Research Division - Research Analyst

Hope all as well. My first question is on maybe from like a higher level, have you guys thought about the concession process? And if there have been any differences versus your expectations maybe 10 years ago?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

It's Lawrence. So no, as I mentioned earlier on, it's been a very smooth and transparent process. And again, I can't go into the details of the discussions with the government. But I guess I would have expected the same if it was 10 years ago. So overall, we're very pleased with it, and we hope that -- to complete that process as soon as possible.

Robert Dennis Carson Barclays Bank PLC, Research Division - Research Analyst

Okay. And maybe for my second question, just a follow-up on Studio City. I know you guys have always thought of it as sort of a core asset. Do you think that there is any likelihood for Melco to acquire 100% of Studio City at some point down the road?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

We've -- actually, this question hasn't come up for a while. Look, we love Studio City. We think when the market reopens, Studio City, given its location, where it's located right next to Hengqin and there the Macau government right now is building the light rail link to Hengqin right next to Studio City. So the thesis has always been there. It's the first stop to Macao in the future. And also the way that we have repositioned Studio City to be more mass focused, I think, also fits very well with the potential change in demographics going forward. So look, we -- at the right price, we would love to own all of that asset, but there must be a willing seller and a willing buyer for the right price. But honestly, given the -- what has happened in the last 3 years, our priority will, in the near term, continue to be on defense in terms of cost containment and really wait for the market to reopen before we do much. But going forward, from a medium, long term, for sure, absolutely.

Operator

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

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Can you hear me?

Lawrence Ho Melco Resorts & Entertainment Limited - Chairman & CEO

We can hear you.

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

Yes, Praveen.

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Great. Two questions for me, please. The first one is very simple. You had the share buyback of \$150 million from 200.HK. I'm just asking if those shares have been canceled or not? And I have one more follow-up.

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. A significant majority of those shares have been canceled.

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Great. And the second -- sorry, and the second question I had was either done. So before this license expiry, started this last 15 years, some of the casinos were making 40%, 50%, 60% return on invested capital. But towards the end of it, whether it's SJM's project or MGM project or Parisian, the returns started coming down. My question is with the new license regime with a different tax structure, different rent structure, different OpEx and CapEx requirements, some of which we don't know, do we expect the return for Studio City Phase 2 to be lower -- even lower? Or do you think that we can go back to good old days of returns? How should we think about it?

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

Sure. I mean, Praveen, with all the information we have today, we still believe that we can get a very good return for shareholders on Phase 2. Obviously, there'll be a level of ramp up for that to hit its run rate. But we're very confident that, that brings very high quality product to the market and that we'll be able to deliver good returns on that investment.

Operator

All right. Thank you all very much for your questions. We have reached the end of the question-and-answer session. I'd like to turn it back to Ms. Jeanny Kim for closing remarks.

Jeanny Kim Melco Resorts & Entertainment Limited - Senior VP & Group Treasurer

Thank you, operator, and thank you, everybody, for participating in the call today. We look forward to speaking with you again next quarter. Thank you.

Operator

Great. Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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