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MLCO - Q3 2017 Melco Resorts & Entertainment Ltd Earnings Call

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Gabe Hunterton *Melco Resorts & Entertainment Limited - Property President of City of Dreams Macau*

David Sisk *Melco Resorts & Entertainment Limited - Property President of Studio City*

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

PRESENTATION**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the 2017 Q3 Earnings Conference Call for Melco Resorts & Entertainment. (Operator Instructions) I must advise this conference is being recorded today.

I would now like to hand the conference over to your first speaker for today, Mr. Ross Dunwoody. Please go ahead, sir.

Ross Dunwoody - *Melco Resorts & Entertainment Limited - VP of Development and IR*

All right. Thank you. Thank you for joining us today for our third quarter 2017 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 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 Resorts & Entertainment Limited - Chairman and CEO*

Thanks, Ross. Hi, everyone.

In the third quarter of 2017, our group-wide property EBITDA reached a record level of USD 400 million, underpinned by 40% year-over-year increase in Macau property EBITDA and a 27% year-on-year increase in property EBITDA at City of Dreams Manila. These results come despite new supply in both of Macau and in the Philippines, highlighting our strong competitive positioning and operational execution. We continue to pursue quality,



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sustainable earnings growth by remaining focused on our mass-market gaming segment while remaining committed to managing costs. At the same time, we have demonstrated our agility to react quickly to rapidly evolving market conditions by capturing significant VIP business and cash flow as that segment has expanded.

In the past few quarters, we have also been successful in containing costs. That, together with the bad debt reversal resulting from healthy collection from our junket operators and direct VIP players, has been instrumental in driving the improvement in EBITDA and EBITDA margins in the third quarter of 2017.

In addition to our disciplined approach in managing costs, we have also, in the third quarter, grown our Macau mass gaming revenues 6% quarter-on-quarter, highlighting the ongoing focus on our core mass-market business at City of Dreams and Studio City.

We plan on further solidifying our leadership position in the premium segment at City of Dreams with its third and final phase of development. Phase 3 encompasses a range of exciting enhancement to our flagship property, including Morpheus, which remains on budget and on track to open in the first half of 2018. The Morpheus Hotel, designed by the late Dame Zaha Hadid, is said to be a true landmark that all Macau can be proud of.

Morpheus will add almost 800 luxury hotel rooms and villas to City of Dreams. It will also feature some of the most amazing and inspired must-see non-gaming amenities in Macau, including incredible sky villas and infinity pool 130 meters above ground, dining concepts along sky bridges and a breathtaking atrium, not to mention the addition of pioneer gaming facility.

Once Morpheus opens, we will commence the rebranding and redevelopment of The Count:Down into a new hotel concept that is more consistent with City of Dreams' positioning as the leading premium-focused integrated resort in the region. The project is expected to take 15 to 18 months to complete. And the clock -- The Count:Down Clock, created by the world-renowned artist, Maarten Baas, is counting down the hours and minutes of the eagerly anticipated launch of City of Dreams Phase 3 in the first half of 2018. With the opening of Morpheus and the redevelopment of The Count:Down, City of Dreams 5-star and luxury hotel rooms will almost double to approximately 2,100. We believe such a meaningful increase in luxury hotel room inventory will bode well for the property's gaming operations and will serve as a key growth driver for City of Dreams over the long term.

At Studio City, we will continue to refine our product offerings with a range of extensive property upgrades planned over the next 12 months. We will also continue to explore Phase 2 expansion of Studio City, which will be an incremental earnings driver over the next several years at a time when significant transportation, infrastructure improvements come into effect in the Greater Bay Area.

In the Philippines, City of Dreams Manila continues to enjoy year-on-year growth across all gaming segments despite new supply within the Entertainment City.

Moving on to the future development opportunities, Japan continues to be a core focus of ours as we believe this represents one of the most exciting integrated resorts opportunities in the world. We believe that our high-quality asset, dedication to world-class entertainment offerings, market-leading social safeguards system, and commitment to being an ideal partner to local government and communities alike places us in a strong position to compete for a license in this exciting market.

Lastly, I would like to take this opportunity to express our sympathy to all those who were affected by Typhoon Hato in late August. I send my deepest sympathies to the families who lost loved ones during the typhoon. I would also like to express my sincere appreciation to our colleagues whom have risen to the challenge of rebuilding our community after Typhoon Hato.

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

Geoffrey Davis - Melco Resorts & Entertainment Limited - EVP and CFO

Thanks, Lawrence.



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We reported group-wide property EBITDA of approximately \$400 million in the third quarter of 2017, increasing by more than 38% from the third quarter of 2016, while luck-adjusted property EBITDA increased by over 30% on a year-over-year basis to approximately \$373 million.

At City of Dreams Macau and Studio City, EBITDA was positively impacted by a favorable VIP win rate by approximately \$27 million and \$10 million, respectively. At Altira, EBITDA was negatively impacted by an unfavorable VIP win rate by approximately \$13 million. We have observed an ongoing improvement in the credit environment in Macau with some meaningful success in collecting our outstanding receivables. During the quarter, the company had a \$9 million bad debt reversal as compared to an \$8 million bad debt provision in the second quarter of 2017. This had a positive net impact of \$17 million in our third quarter compared to prior -- to the prior quarter.

As Lawrence mentioned, the company has maintained its company-wide cost discipline by lowering the property-wide daily OpEx run rate over the past few quarters. The cost reduction was primarily a result of reduced payroll expenses, which was down by approximately 8% year-over-year in the third quarter of 2017.

The EBITDA contribution from our non-VIP segments represent more than 85% of luck-adjusted EBITDA on a Macau-wide basis. The luck-adjusted property EBITDA margin in Macau was approximately 29%, up from 24% in the prior quarter and up from 24% in the third quarter of 2016.

City of Dreams Manila delivered total property EBITDA of \$57 million, representing an increase of over 27% year-over-year. The property EBITDA margin was 39% in the third quarter of 2017 compared to 36% in the prior quarter and 34% in the same period last year. On a luck-adjusted basis, Manila's property EBITDA would have been approximately \$55 million, representing a 55% year-over-year increase, with luck-adjusted EBITDA margins expanding by almost 320 basis points on a year-over-year basis to 34%.

To provide more clarity regarding our capital structure within our core group, we had cash of approximately \$780 million and gross debt of just under \$1.5 billion, excluding Studio City in the Philippines, at the end of the third quarter of 2017 on a segment reporting basis. As we normally do, we'll give you some guidance on nonoperating line items for the upcoming quarter.

Total depreciation and amortization expense is expected to be approximately \$135 million to \$140 million, including approximately \$47 million at Studio City. Corporate expense is expected to come in at approximately \$33 million to \$36 million, and consolidated net interest expenses is expected to be approximately \$65 million, which includes financed lease interest of \$10 million relating to City of Dreams Manila and \$11 million of capitalized interest.

For those who had follow City of Dreams Manila more closely, our building lease payment for the third quarter of 2017 was approximately \$8 million.

Finally, to enhance our communication with existing and prospective investors from the third quarter of 2017 onwards, in addition to our usual earnings release, we have posted a quarterly earnings presentation to our Investor Relations website.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have the first question from the line of Kenneth Fong. Please ask your question.

K. C. Fong - *Crédit Suisse AG, Research Division - Regional Head of Gaming & Lodging Research and Director*

Hello guys. Congrats on a very strong set of results and thanks for taking my question. I have 2 questions, if I may. First one is on the mass hold on COD. I noticed that this is a two quarters in a row that we have a mass hold rate, which is slightly lower than the historical range. Is this something



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structural or we can do something to improve it? If you look at the mix, it is because of the bed-size decline, the time or the mix between the high-end and the base mass player that's driving the lower hold? And I have a follow-up question.

Gabe Hunterton - *Melco Resorts & Entertainment Limited - Property President of City of Dreams Macau*

Okay. Thanks, Kenneth. This is Gabe. Regarding the hold, you know, the expansion on the market creates a natural promiscuity amongst the customers, and there is a short-term reduction on the hold. But we believe this is coming to an end. And with Morpheus coming on and its large increase in COD's high-end room inventory, we believe that the COD mass hold is gonna continue to grow significantly in the future.

K. C. Fong - *Crédit Suisse AG, Research Division - Regional Head of Gaming & Lodging Research and Director*

Thanks. My second question is into next year with your competitors saying that there will be more -- their marketing campaigns and with the MGM also opening in the first quarter next year, so how do you see the trend in your player reinvestment, especially on the premium mass? And the margin outlook for your premium mass next year, please? Thanks.

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

Hey Kenneth, this is Lawrence here. Maybe I'll answer on behalf of all of our guys here because, I guess, this question also involves Studio City and, to a lesser extent, Altira. But, you know, I think what we have seen, so far, in the 2 years of growth in the market and with the new properties opening up is the fact that everybody has been, you know, well-behaved and have really kept the line on reinvestment. And as a company, we've always focused on delivering better experiences and better quality of service. And that will always be our motto, and so we don't anticipate any changes in that. And so if anything, the addition of MGM next year is probably 1/3 of the addition that we've seen with Wynn Palace and Parisian. So I think, so far, the market is growing nicely. Everybody is playing along very nicely. And it's a healthy competition amongst ourselves, which is let's compete on the product offering.

K. C. Fong - *Crédit Suisse AG, Research Division - Regional Head of Gaming & Lodging Research and Director*

Great. Thank you very much and congrats on a very strong quarterly result.

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

Thanks Kenneth.

Operator

We have the next question from the line of Anil Daswani. Please ask your question.

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

Congratulations on a great quarterly result. A couple of questions for me. First of all, could you possibly give us, you know, a view as to if you've changed your strategy a little bit toward the VIP market given the resurgence that we've seen in VIP? And you know some of the old junkets that we hadn't seen in Macau for a while have started coming back. Is there any plans afoot to move some tables back into that VIP arena? So that's the first question. The second question is around your branding. And obviously, the Count:Down Clock is going. Will the Crown brand be changed at the same time COD in Macau as well as in Manila? The third question, you know, Altira continues to be a little bit of a disappointment. Is there any views of looking of that business or restructuring that property in any way, shape, or form?



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

Hey Anil, let me -- it's Lawrence here. Let me try to take that. I think on your first question about VIP, of course, VIP has pleasantly surprised everyone. And I think as Geoff and I have spoken for, you know, many years now, we're agnostic to the business. And we've always been very proud to focus on the high-end business, so be it on the premium mass side or even on the, you know the premium VIP side. Given what we have invested in COD and also Studio City, we've also felt that we were ideal for that market. And so -- and therefore, I think so far this year, we've seen an outsized -- we've seen an outsized increase in VIP business. And so we're happy to take that. We're not gonna -- you know, it's a great opportunity, and we'll continue to capitalize on that. But, you know, I think the long-term development of the market will continue to be based on premium mass. And you know, I think we're really, really, really excited about the opening of Morpheus because that will really launch a new phase of COD, a reimagined COD. We've done a lot of work to improve City of Dreams over the last few years, and you know it's all gonna to be -- you know a big moment to make a big launch will really, you know, help us realize that dream. And in terms of branding, which is related to that, we have some significant -- as part of the Morpheus opening, we have some significant and, you know, very exciting plan to relaunch City of Dreams together with the hotel brands. Of course, we're shutting down The Count:Down and, you know, developing a brand-new luxury hotel tower. But, you know, the deal with Crown is that we get to use their --- their brand for 12 months from, I think, February of 2017. So right around the time, right before Morpheus launch, we're also going to have a new brand for Crown. So again, it all wraps up very nicely. And with all the hard work and investments over the years with Morpheus leading the way next year, we think there is a, you know, great chance for us to capture, again, an outsized growth in the market in both the premium mass and also the premium direct side of the business. And I think if I remember correctly, the last question is on Altira. To be honest, Altira was our first property. It's a 4- to 5-star property with a Michelin Star restaurant in there. Where I'm extremely proud of it, it's -- you know, I think of it as really my first child. And you know, I think, you know, with Andy and the new team who have put in some significant effort in terms of rejuvenating Altira, I'm happy with where it's heading. And I know that, somehow, there is always this, you know, notion in the market that Altira is on the selling block. There is absolutely no truth to it whatsoever. Altira is a phenomenal property that is critical to --- to our portfolio of assets.

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

Thank you Lawrence and congrats again on a great result.

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

Thanks Anil.

Operator

We have the next question from the line of David Bain. Please ask your question.

David Brian Bain - *Sterne Agee & Leach Inc., Research Division - Former MD & Senior Research Analyst*

Great. Thank you. Sorry, I had some issues getting on the call. If it's been asked and answered, just let me know and I'll move on. But great quarter, obviously. Maybe, Geoff, this one would be for you. COD margins, 34.4%. I know a hold was on the high side. But can you give us an adjusted margin or ballpark it?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Sure, Dave. So an adjusted margin for COD is in the 34% range.



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David Brian Bain - *Sterne Agee & Leach Inc., Research Division - Former MD & Senior Research Analyst*

Okay. Okay. Great. So like high hold, if you were to normalize the hold, that would still be margin around that range?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Correct.

David Brian Bain - *Sterne Agee & Leach Inc., Research Division - Former MD & Senior Research Analyst*

Okay. Fantastic. And then I also wanted to ask you about mass --- mass at COD. Maybe, Lawrence, for you, up solidly again year-over-year. I guess the question I had was on mass hold, if we're seeing a couple of basis points down from the historical results, sort of the new normal until Morpheus opens? Is there some patron movement between the Palace and COD that's re-working time on device? I mean I don't want to split hairs. I'm looking at the Palace mass win rate, it's far below yours. I'm just trying to understand that going forward.

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

Hey Dave, it's Lawrence here. I'm going to -- Gabe answered this question earlier, but maybe I'll [be able] to give you the short version. But I think for COD mass, we're happy with the volume. Volume is growing nicely, but on the hold, as you call that, Gabe will explain.

Gabe Hunterton - *Melco Resorts & Entertainment Limited - Property President of City of Dreams Macau*

Yes. Thanks, Dave. It was -- we covered it in the first question. But real simply, there is -- in the expanding market, there's a natural promiscuity amongst the customers, but we think that's coming to an end. And obviously, with Morpheus coming online and a significant increase in the high-end hotel inventory, we look forward to the COD hold percentage growing significantly in the future.

David Brian Bain - *Sterne Agee & Leach Inc., Research Division - Former MD & Senior Research Analyst*

Okay. Okay. And then just final one, I guess, is there any way we can discuss the potential for the Studio City IPO in broad terms? Maybe timing, thought process behind the idea? And along with that, maybe how the government extensions are doing on Phase 2 and some initial thoughts behind what you're looking to do there?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Dave, it's Geoff. Given the IPO, the potential IPO, we are under some regulatory restrictions, so we're not able to discuss that at this time.

David Brian Bain - *Sterne Agee & Leach Inc., Research Division - Former MD & Senior Research Analyst*

Ok, I appreciate. Thank you.

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

And Dave, on your Phase 2, I think the application is being considered, and a final government decision is pending.



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David Brian Bain - *Sterne Agee & Leach Inc., Research Division - Former MD & Senior Research Analyst*

Okay. Great. Thank you very much.

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

Thank you.

Operator

We have the next question from the line of Billy Ng. Please ask your question.

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

Hi. Congratulations. Just one quick question on Studio City. We saw that mass volume has grown pretty well in the third quarter. What --- what kind of things that you guys have done to change that? Or -- and how much more -- or what --- what kind of ramp-up growth we can expect for the next few quarters on the mass side of the Studio City?

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

Hi Billy, you know, I think let me let, you know, David go through the details, but we're you know, I think Studio City is finally, you know, starting to reach its potential, but it's still early innings in terms of the ramp-up. So...

David Sisk - *Melco Resorts & Entertainment Limited - Property President of Studio City*

Yes, I think, Billy, a couple of things. So I think one is that as we continue to grow organically with these players, and they -- as we identify the players, we start building relationships, our database continues to grow. And as we talked about in prior calls, the quality of those customers is kind of significant to us in terms of how we get them to play longer and with us longer. They become -- essentially, they're non-lodgers, they become lodgers. The more customers that stay with you, obviously, the more play you get, the more money we make. So it's a really simple kind of process. The other thing, too, is we've brought on some additional marketing people, and their focus as well is in developing new players and continue to build those relationships.

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

Thanks. That's all I want to ask, thanks.

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

Thanks Billy.

Operator

We have the next question from the line of Harry Curtis. Please ask your question.



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Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*

Hi. Good morning everybody. If I could just take a step back on the math in the quarter to make sure that we have it right. After you back out to the impact of luck and the reversal, we're getting to kind of a clean EBITDA number of around \$330 million. Is that a fair number?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

So net -- Harry, are you talking net of corporate?

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*

Net of corporate. I'm sorry. I did back out. Corporate, you're right.

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

It's about \$373 million property EBITDA, less corporate, less the \$17 million of the reversal.

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*

Okay. All right. I'm sorry. I misunderstood. I --- I thought the reversal was \$9 million. So okay. So it's probably closer to \$320 million. Okay. Then, Geoff, if you wouldn't mind giving us a sense of your CapEx budget this year and next year and what the [specifics] are there?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Sure. So for next quarter, we have roughly \$250 million of CapEx. That includes the build-out of Morpheus. And for next year, we've got about \$200 million. That does not include any CapEx for Studio City Phase 2 or the refurbishment and rebranding of The Count:Down. And then beyond that, our maintenance CapEx is somewhere in the ballpark of \$100 million to \$125 million. The \$200 million that I mentioned for -- sorry, for the \$200 million that I mentioned for 2018 includes maintenance.

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*

Okay. It -- once Morpheus opens, you will be generating a fairly significant amount of free cash. But it sounds like with the renovation of The Count:Down and the potential incremental investments at the Studio City that most of the free cash flow is going to go back into growth CapEx?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Well, you know, the known development pipeline really ends with the opening of Morpheus in the first half of next year. There are some potential projects. And of course, we have Phase 2 at Studio City, but that's -- we view that a little differently as a joint venture. And so, you know, once we've --- once we've built out Morpheus, you know, then we start, you know, generating some very significant cash flow. And at that point, the decision for the board, well, will be to, you know, assess our forward-looking needs, you know, existing cash and then make determinations about, use of capital, potential return of capital to shareholders. And as you know, we've been fairly aggressive very recently on share repurchase and special dividend and, of course, our normal quarterly dividend. So at the end of this year, as we have done for the last several years, we'll take a look, you know, at the state of the balance sheet, cash reserves, projects looking forward and make a determination around year-end/beginning of next year on what that policy looks like at that time.



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Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*

Okay. And just one last quick question. Can you give us a sense of, once Morpheus opens, the mix between customer segments between premium mass and junket? What I'm trying to get a sense of from a modeling perspective is its impact on your margins.

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Well, the focus -- maybe I'll answer it this way, Harry. The -- it's Geoff. The focus will be on premium mass. So from that perspective, you may see a mix shift more towards premium mass. And of course, you're well aware of the margin potential there.

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*

Right. I mean, incrementally, do you think that, that -- from overall Macau point of view, that your mix of premium mass business is likely to go up and that should have a positive lift on your margins? Is that how we should be modeling it?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Correct. As we layer in an additional 800-odd rooms focused on premium mass, the most likely impact of that will be a mix shift towards premium mass, blended at City of Dreams, but also blended across all properties in Macau.

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*

Ok very good. That's helpful. Thanks guys.

Operator

We have the next question from the line of Jared Shojaian. Please ask your question.

Jared H. Shojaian - *Wolfe Research, LLC - SVP*

Hi everybody. Thanks for taking my question. Lawrence, you had mentioned containing costs and some of the initiatives that you have going on right now, and the margins obviously came in pretty strong in the quarter. Can you just elaborate on that a little bit?

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

Well, I think, you know, Geoff is, you know, very focused on that. And I think unlike -- you know, of course, the market has rebounded for 15 straight months. But you know, unlike some of our competitors, you know, efficiency and continuous improvement is our #1 priority. So you know, I think Geoff and his team have been working with all the properties and all our internal departments to see where we can continue to achieve more efficiency, be it from Lean management and --- and you know, on other savings. I don't know, Geoff, if you want to elaborate a little bit more.

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Sure, it's definitely been a collaborative effort across all properties, all departments, you know, really just having people focus on cost savings but --- but primarily on efficiencies. And there's no silver bullet. There's no one, you know, one particular initiative that has, you know, yielded a bulk of the result. It's really across, you know, numerous, different smaller initiatives, but they add up into --- into meaningful savings. So it's really about



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looking at processes and trying to be efficient use of technology to automate some of these processes. So you know, a multiplicity of different initiatives that we've looked at that --- that, in aggregate, can be meaningful drivers.

Jared H. Shojaian - *Wolfe Research, LLC - SVP*

Got it. Okay. Thank you. And --- and then, Lawrence, as I look at the stock here, you know, MLCO continues to trade at a discount here to peers. I mean is there any desire to, I guess, increase the Melco International trades here and sort of capitalize on the valuation? Anything you can share there?

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

Well, not -- you know, again, not much I can share because, after all, this is a Melco Resorts call. But I think Melco, you know, for Melco International, Melco Resorts is our most important and, by far and away, you know, most core asset. And you know, we continue -- you know, as speaking as a shareholder of Melco Resorts, you know, I continue to be super supportive and very pleased with the development, and we'll --- we'll, you know, we'll see if the opportunity arises in the --- in the future.

Jared H. Shojaian - *Wolfe Research, LLC - SVP*

Ok great. Thanks very much.

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

Thank you.

Operator

We have the next question from the line of Angus Chan. Please ask your question.

Angus Chan - *UBS Investment Bank, Research Division - Director and Research Analyst*

Hi everyone. If --- if --- Could you quantify -- or is it possible to quantify the impact of the typhoon during 3Q? Thank you.

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Obviously, the typhoon was, you know, something where, you know, the company came together for the good of the community, and you know, Lawrence had our construction crews on Morpheus out in the community, helping with those --- those initiatives. Overall, I would say from a financial perspective, the impact was --- was fairly modest. Of course, there was the donation but -- that we had highlighted previously. But from, you know, a financial impact, it was --- it was manageable.

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

It was manageable, and you know, I think it was unfortunate that Altira closed for a couple of days. And -- but I think overall, I, you know, think subject to insurance claims that I think we're well-covered by --- by insurance. And you know, again, our properties were very well built. We're very proud -- we've always been very proud of how we've built the properties, and so you know, the damage was manageable. But I think, again, much more importantly, as I said in our prepared remarks, the -- you know, the really, the courage and the heart that was demonstrated by our colleagues



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was just phenomenal. And I hope that we'll continue to show the Macau community and also to show that, you know, the Melco caring culture is --- is really part of our -- a core part of our DNA.

Angus Chan - *UBS Investment Bank, Research Division - Director and Research Analyst*

Thanks a lot.

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

Thank you.

Operator

We have the next question from the line of Simon Cheung. Please ask you question.

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

Thanks for taking my question and congrats on a strong 3Q result. So I have 3 questions. The first one related to Studio City. I noticed that the EBITDA run rate, if you were to normalize the win rates, were actually quite steady quarter-on-quarter. I'm just wondering if you would be able to share some thought about to what extent do you think the property could achieve, for example, I think Parisian, they mentioned, you know, they're hoping to -- well, they already achieved up about 20% return on invested capital, hoping to reach about \$500 million. Is that some sort of target that you have? And then the, you know, timing of the [Studio] on Phase 2 as well?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

This is Geoff. Just one comment. On a CO basis at Studio City in the third quarter was \$86 million. In the second quarter, \$75 million. So there was -- it's actually a fairly meaningful sequential increase in CO EBITDA, just for clarification.

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

Alright.

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

But I think, you know, naturally -- it's Lawrence here -- so you know, we're obviously still not happy with that. And you know, as --- as we said earlier on, there are some significant property improvements. And I think over the longer term, when Hengqin Island and also the Lotus Bridge is more advanced, you know, I think we would be even more excited about it. But in the interim, there are you know -- David and his team has a lot of plans in terms of how to further activate their property and --- and speed up the continual ramp-up. I don't know. David, you want to elaborate on it a little bit more?

David Sisk - *Melco Resorts & Entertainment Limited - Property President of Studio City*

Yes, sure, Lawrence. I think it's -- again, there's a few things in here. I think as we continue to build relationships with customers, that's been one of our primary focuses. We've also -- what they're doing, too, is identifying where we've got new opportunities to perhaps not only from a gaming standpoint but from a non-gaming standpoint where we have opportunities to improve their overall result. And then lastly is we're kind of looking



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at the property and looking more longer term and seeing what we can maybe do to enhance certain elements of the property that maybe were not as well received when we opened the property.

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

Okay. Understand. And then the second question. I just wanted to make sure I understand correctly, Geoff. And so for COD, it will be --- the win rate adjusted EBITDA, and also if we were to adjust it for the bad debt recovery, should be \$246 million minus \$27 million and minus \$17 million, so that would be more or less like \$202 million or something. Is that the correct figure that we should be using?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Well, so CO at City of Dreams was \$219 million. For the quarter, the bad debt provision was a positive \$9 million. In the prior quarter, it was negative \$8 million. So the swing was \$17 million, so depending on how you want to look at it.

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

All right. Understand. And then my last question, just, you know, again, in relation to the cost that you have comment. Staff cost dropped by 8%. Do you have some sort of targets going forward? How much more costs you can extract?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

From my -- this is Geoff. From my perspective, I think there's still meaningful cost-saving opportunities across the organization. We have the opening of Morpheus in the second half of -- I'm sorry, in the first half of next year, which allows for some opportunities for promotions and advancement for our colleagues. We don't have a specific target in mind. But as you know, Lawrence said, despite the fact that the market has --- has returned to meaningful growth, we are still very focused on efficiency, and we've been able to be successful managing both the top line and the cost line. It is more of a continuous improvement campaign, so we'll be looking at it, you know, across all segments and all properties on an ongoing basis. So no specific target, but from my perspective, there's still significant opportunity for efficiencies going forward.

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

Okay. Great. Great. Thanks. Thanks again and congrats.

Operator

We have the next question from the line of Billy Ng. Please ask your question.

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

Sorry, just for a follow-up question. Geoff, would you mind to summarize all the one-off item? If I --- if I understand correctly, the bad debt reversal is only \$9 million for the quarter, right? And how about if we want to back out donation, how much impact -- or any other potential one-off items that we can back out?



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Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

So the donation, Billy, is below the line. But the, you know, bad debt reversal, again, it's --- it's depending on how you want to look at it. It was positive -- it was a positive number for the quarter. Last quarter, it had run at negative \$8 million. So if you want to take to 0, it's a \$9 million swing. If you want to look at it compared to the prior quarter, it's \$17 million.

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

Okay. Thanks. So, no other one-off items that affected the margin?

Geoffrey Davis - *Melco Resorts & Entertainment Limited - EVP and CFO*

Nothing else that we've highlighted.

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

Ok thanks. Thanks a lot.

Operator

At this time, there are no further questions. I'd like to hand the call back to speakers for any closing remarks.

Ross Dunwoody - *Melco Resorts & Entertainment Limited - VP of Development and IR*

Very good. Thanks, everyone, for joining. We look forward to speaking with you next quarter.

Operator

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

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