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MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

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JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

## CORPORATE PARTICIPANTS

**Lawrence Ho** *Melco Resorts & Entertainment Limited - Chairman & CEO*  
**Geoffrey Davis** *Melco Resorts & Entertainment Limited - Executive VP & CFO*  
**David Sisk** *Melco Resorts & Entertainment Limited - Property President of City of Dreams Macau*  
**Geoff Andres** *Melco Resorts & Entertainment Limited - Property President of Studio City*  
**Kevin Benning** *Melco Resorts & Entertainment Limited - Senior VP & COO at City of Dreams Manila*  
**Richard Huang** *Melco Resorts & Entertainment Limited - Director, Investor Relations*

## CONFERENCE CALL PARTICIPANTS

**Harry Croyle Curtis** *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst*  
**Hay Ling Ng** *BofA Merrill Lynch, Research Division - Research Analyst*  
**Jared H. Shojaian** *Wolfe Research, LLC - Director & Senior Analyst*  
**Joseph Richard Greff** *JP Morgan Chase & Co, Research Division - MD*  
**Karen Tang** *Deutsche Bank AG, Research Division - Head of Asian Gaming and Hotels Research*  
**Praveen Kumar Choudhary** *Morgan Stanley, Research Division - MD*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for participating in the Second Quarter 2018 Earnings Conference Call of Melco Resorts & Entertainment Limited. (Operator Instructions) Today's conference is being recorded. I would now like to turn the call over to Mr. Richard Huang, Director of Investor Relations of Melco Resorts & Entertainment Limited. You may go ahead.

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**Richard Huang** - *Melco Resorts & Entertainment Limited - Director, Investor Relations*

Thank for joining us today for our second quarter 2018 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.

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

Thank you, Richard, and hello, everyone. After almost 10 years of meticulous planning and the hard work of thousands of individuals, I'm delighted that we successfully opened Morpheus in June.

The hotel has already been coined an icon for Macau and viewed as one of the coolest and most luxurious integrated resorts in the world that reaches the highest international standards, offering truly unique experiences for all of our guests. This architectural masterpiece is the world's first free-form exoskeleton, high-rise, designed by the late Dame Zaha Hadid. With over 770 exquisitely designed and furnished guestrooms,



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

Morpheus will significantly expand City of Dreams' luxury hotel room count, giving it enhanced ability to acquire and retain premium gaming patrons.

The hotel offers world-class culinary delights from the likes of Alain Ducasse and Pierre Hermé; a sky pool that is 130 meters above ground with stunning surroundings; a unique retail experience showcasing the world's most fashion-forward brands; and a curated art installation space featuring internationally renowned artists. Beyond Morpheus, the relaunch of City of Dreams included extensive renovation on the mass gaming floor with newly designed gaming space that were unveiled to guests in June, along with the opening of Morpheus.

On top of that, renovation in the VIP area on the second floor of City of Dreams is ongoing. And we plan to open these upgraded VIP gaming spaces over the next 9 months. We will also commence the renovation of Nüwa after the Chinese New Year with the rolling refurbishment of the hotel anticipated to conclude before Chinese New Year 2020.

Lastly, we plan to start the redevelopment of The Countdown hotel in the second half of 2019. That involves a complete overhaul of the interior, which will take roughly 18 months to complete. The renovated hotel will be rebranded Libertine and will complement our City of Dreams portfolio with guestrooms that are luxurious yet ultra-cool.

Moving to Studio City. We have exciting plans ahead. This includes the launch of an original stunt show created with our new partner, Stufish, which has produced some of the most spectacular live shows over the past 20 years. After that, we will also be opening Asia's largest virtual reality zone and a new street with some fantastic food and beverage offerings.

Looking further out, we still have the Phase 2 expansion of Studio City in our growth pipeline, which offers a significant point of differentiation from our Macau competition. We're currently in the process of developing our detailed design while targeting to commence construction.

At City of Dreams, with Morpheus being virtually 100% occupied and 100% comped since opening, mass gaming performance has seen encouraging improvements with year-over-year mass drop growth accelerating from 10% in the second quarter to over 20% in month-to-date July.

Focusing more on the second quarter. We have experienced some meaningful mass hold rate issues at City of Dreams and Studio City, which Geoff will discuss in more detail. It is worth noting that our mass drop has remained robust with it being virtually flat sequentially despite the quarter's typical weak seasonality.

Altira continues to deliver strong year-over-year growth across all gaming segments with EBITDA more than tripling to reach USD 18 million in the second quarter of 2018.

Turning to the Philippines, benefiting from an exceptionally high VIP win rate, we had yet another solid quarter with EBITDA reaching an all-time high of USD 87 million.

Melco is a company that never stands still. In addition to our ambitious plans for Macau and Manila, we're also devoting a huge amount of resources on Japan, which we have always viewed as the most attractive, currently available integrated resort opportunity globally.

The license bidding process could start in 2019 or 2020. We believe we are well placed in Japan with a strong local team actively working on the ground, engaging with the relevant stakeholders.

We believe our focus on the Asian premium segment, high-quality assets, craftsmanship, dedication to world-class entertainment offerings, market-leading social safeguard system and commitment to being an ideal partner will put Melco in a strong position to help Japan realize the vision of developing world-leading IRs with an unique Japanese touch.

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



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

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

Thanks, Lawrence. We reported group-wide property EBITDA of approximately at \$355 million in the second quarter of 2018, increasing by 8% from the second quarter of 2017 while luck-adjusted property EBITDA increased by 10% on a year-over-year basis to approximately \$348 million. An unfavorable VIP win rate negatively affected EBITDA at Studio City and COD Macau by approximately \$14 million and \$8 million, respectively. At COD Manila and Altira, EBITDA was positively affected by a favorable VIP win rate of approximately \$20 million and \$9 million, respectively.

In the second quarter, the luck-adjusted property EBITDA margin in Macau was approximately 27%, down from 30% in the prior quarter and up from 26% in the second quarter of 2017. I would like to clarify that these are apples-to-apples comparisons as the aforementioned margins are all calculated based on the new accounting standards, including those for the prior periods.

As Lawrence mentioned, we have experienced a lower-than-usual mass hold percentage at City of Dreams and Studio City during the second quarter. While we do not adjust for this in our luck-adjusted EBITDA calculations, if we were to hold at rates similar to the preceding 12 months in mass, EBITDA would have been approximately \$20 million higher than reported at City of Dreams and approximately \$10 million higher than reported at Studio City. Despite the recent VIP resurgence, the EBITDA contribution from our non-VIP segment still represents more than 85% of luck-adjusted EBITDA on a Macau-wide basis, highlighting the mass gaming and non-gaming segments' importance in driving group-wide EBITDA and EBITDA margins.

In the Philippines, COD Manila delivered luck-adjusted EBITDA of approximately \$67 million, representing an increase of 20% year-over-year. The luck-adjusted EBITDA margin expanded by approximately 115 basis points quarter-over-quarter and increased by approximately 380 basis points year-over-year to 45%. Again, these are all apples-to-apples comparisons reflecting the new accounting standards.

Moving on to capital management, the board has decided to increase the quarterly cash dividend by 7% to \$0.145 per ADS. This is consistent with our strategy of returning excess capital to shareholders in the form of recurring dividends. To provide more clarity regarding our capital structure within our wholly owned group, we had cash of approximately \$680 million and gross debt of approximately \$1.4 billion at the end of the second quarter of 2018, 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 \$150 million to \$155 million, including approximately \$20 million for Morpheus. Corporate expense is expected to come in at approximately \$31 million to \$32 million and consolidated net interest expense is expected to be approximately \$73 million, which includes finance lease interest of \$10 million relating to City of Dreams Manila. For those that follow City of Dreams Manila more closely, our building lease payment for the second quarter of 2018 was approximately \$9 million.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Karen Tang from Deutsche Bank. Your line is open.

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

Hi guys, it's Karen Tang here. I have two questions. The first question is with regards to Morpheus. I understand that Morpheus, you have been gradually opening more hotel rooms and expect to see that mass GGR growth have picked up. We wonder how much more can the new opening help. Or do you have a sense of what percent of the final ramp-up has already been achieved by Morpheus to date? My second question is with regards to the margin pressure in the second quarter. Geoff seems to be saying that our first quarter margin is 30% luck-adjusted and our second quarter is 27%. So aside from the tension of VIP and mass mix, what else are impacting that? Thank you.

## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

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

Hi Karen, it's Lawrence here. So I think on the first question, let me just provide some high-level input and I'll hand it off to David. And on the second question, we will let Geoff Davis handle that. We're very happy with the opening of Morpheus. And as you know, Morpheus was really the anchor of the relaunch of City of Dreams 2.0. And during the second quarter, we really suffered through and we highlighted it on our Q1 call that we had significant construction disruption on the main mass gaming floor in order to make Morpheus connect with the rest of the property. But I think so far, it's still early days. With regards to the ramp-up, I think we have over 700 rooms open. The reaction from our guests to the room and the building has been phenomenal and we're very happy with that. So it's delivering on everything that we've always wanted Morpheus to be. But again, it's still early in that process. So maybe I'll let David give you some highlights.

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

Sure. Hi Karen. So I think there's a few things here. One being that obviously, when you open up a new property, you want to make sure you can provide the best possible guest and service experience. So we'd always plan to open it up in stages. We are now -- as Lawrence said, we're now at about 700 rooms and suites. We will be at our full complement, which is 772 approximately, at the end of July. As Lawrence said, we continue to see really good results from the experiences that we're getting from our guests. Primarily right now, the casino guests have shifted over to that hotel from both Hyatt plus we've actually brought in a lot of new customers from our database that we weren't really able to accommodate before. So we're pretty excited about the initial impact of Morpheus, the guest comments. And we're looking forward to seeing better business as we keep going forward here.

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

Karen, it's Geoff. So on the second question, thinking of total margin, keep in mind that we had the bonus reversal in the first quarter of last year. So that impacted the sequential performance. We had a few million of one-time items incorporated as well. I suppose the largest element of the margin differential between the first quarter and the second quarter though could be attributed to the difference in the mass hold rates between the first quarter and the second quarter that we addressed in our prepared comments.

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

All right. Because your luck-adjusted EBITDA does not adjust for the mass hold rate, I guess. Yes, that makes sense. Thank you.

### **Operator**

Your next question comes from the line of Billy Ng of Bank of America Merrill Lynch. Your line is open.

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

Hi. Good evening. Just have follow-up questions regarding Morpheus ramp-up. And I think in the opening remarks, Lawrence mentioned about 20% growth in the mass revenue of the overall COD. Would you mind to tell us a little bit more in terms of the win rate, whether the low win rates in the second quarter continue to be an issue in the third quarter? And also if there's any kind of like guidance on the ramp-up pace now having opened over 700 hotel rooms. And how many quarters do you think it will take to get to its full potential?



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

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

Hey Billy, it's Lawrence again. I think don't forget that for the first 2 weeks of July, the beginning of the third quarter, we also had the World Cup. And so every 4 years when the World Cup happens, it naturally slows down business. But I think the early data points that we've seen post World Cup has been very encouraging. I think, David, do you want to give more highlights on...

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

Sure. Yes, so Billy, I think the other thing, too, is when Lawrence addressed in his comments, he said that our drop, we've seen a 20% year-on-year increase in our drop so far during the month of July. As Lawrence said, that seems to have accelerated a little bit for us since the World Cup ended on the 15th of July. Again, typically -- we talked about this in some prior calls. But typically, probably 6 months to 9 months for kind of that ramp-up and to kind of get everything kind of fully cranked up in the property. So we think probably by the end of the year, we should be hitting our stride here pretty strongly.

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

Okay thanks. And a different topic regarding Japan, I think in the opening remarks, Lawrence mentioned, where we'd like to work with ideal partners in Japan. What kind of companies do you think will be a good partner? Could you elaborate a little bit more?

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

Well, Billy, we've been running around Japan for over 10 years. And last Friday was a very significant day because, as we all know, it passed the Upper House. And now it's really -- the process has really started. With Japanese companies, they're very cautious. And before the gaming sector was a legal enterprise, a lot of them were still deliberating. So I think a lot of the matchmaking happens now. But for us, we've -- Melco has always been a great partner. In any jurisdictions we're in, we have partnerships. We started off in Macau as a partnership. Philippines, we have a great current partnership. And even Cyprus, we have a great partnership. And I think for us, we're open-minded to work with any partners in any consortium as long as it's a winning consortium.

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

Thanks a lot. Thank you.

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

Thank you.

**Operator**

Your next question comes from the line of Harry Curtis of Nomura Instinet. Your line is open.

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

Hi. Good morning. I wanted to shift gears and talk a little bit about CapEx and capital allocation. Geoff, can you walk us through how much CapEx you expect for the balance of this year and next year? Why don't we start with that?



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

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

Sure, Harry. So for the third quarter, we've got about \$205 million of CapEx scheduled. And for the fourth quarter, approximately \$150 million. In 2019, approximately \$225 million. And then going forward, I would put approximately \$125 million of maintenance CapEx. Of course, all this excludes Studio City -- this excludes Studio City Phase 2.

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

Okay. And you said that Studio City Phase 2, you're still in the design phase. With respect to the timing of the concession renewals, is it likely that you will begin spending money anytime soon on, I mean, say, in '19 or '20 on Phase 2?

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

Hey Harry, it's Lawrence here. For Studio City Phase 2, we were -- the Macau government was very kind to grant us an extension on the development period. But even that extension ends in July 2021, so exactly 3 years from today. So we are against the clock to get started on the construction. Because at the end of the day, Studio City Phase 2 is a close to 2.5 million square feet development. And to do it in 3 years, including all the regulatory approvals from the various departments, is no easy feat. So in my prepared remarks, I talked about starting in the second half of this year, so pretty much pretty soon, that has to happen in order to meet the timeline.

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

I got it, okay. So -- and that leads me to the last part of my questions. The increase of the dividend is -- it seems to be more symbolic than actually impactful as far as consuming some of your free cash. And you've got a very low net leverage ratio. With your stock at 9x, I'm just curious about the thought process at the board level. Why not repurchase stock here? Because you are generating free cash flow. Your stock is ridiculously cheap. Your shareholders, I think, are -- view that as a terrific opportunity for you and your board to make a statement about where you think your stock price ought to be.

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

Geoff, do you want to...

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

Sure. Harry, as we talked about the last several quarters, our primary avenue for returning excess capital to shareholders will be through the recurring dividend. That being said, we haven't eliminated the opportunity or the option of buying back our shares. So that's on the table, something that is considered and again, part of our potential strategy going forward. But to date, we focused on the recurring quarterly dividend.

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

Okay. Just wanted to get that out there that a lot of folks believe your stock is ridiculously cheap. And we hope you do, too.

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

Well, thank you for that, Harry.



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

### Operator

Your next question comes from the line of Praveen Choudhary of Morgan Stanley. Your line is open.

### Praveen Kumar Choudhary - Morgan Stanley, Research Division - MD

Thank you very much. Hi Lawrence. Hi Geoff. Hi David. Couple of questions for me. One, could you talk a little bit about City of Dreams Manila and the exceptional quarter for them? But you were trying to do some restructuring in terms of the way its shareholding structure is designed. Any progress there? That's the first question. The second question is more housekeeping. On the bad debt provisions, did you have any reversal or bad debt provision in this particular quarter? I remember you had updated us last quarter. And maybe the last one is the Phase 2 construction, which needs to start soon, how should we think about funding of that Phase 2? Thank you very much.

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

Hey Praveen, it's Lawrence. So maybe I'll take the first question and I'll leave the second and third question to Geoff. And Kevin, who is also on the call, our property president in Manila, can add more highlights to my first question. In terms of restructuring, as you know, the Manila business is a joint venture between Melco and the SM Group and Belle. But it shows that we're super open-minded and we're the ideal partner for any jurisdiction. But at the same time, it's a synthetic JV. And it's very hard to understand for our investors and for most people for that matter. And so, we've been looking at Manila. We're very happy with the performance. And we wouldn't rule out looking at an expansion down the road. But at the same time, we also want to clean up that structure. So I think some of that is -- and there's no new news on the cleanup of that structure. It's not a major urgent matter for us. If that happens, that happens. If it doesn't, we're happy with the current structure. But in terms of the performance of Manila, Kevin and the team have done a great job. Kevin, you want to give more highlights to Praveen's question?

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

I mean, yes, as Lawrence mentioned, we had an amazing quarter with our premium direct business in particular really driving a lot of it. And then our mass business just continues to be our bread and butter with our mass tables growing quarter-over-quarter continuously and our slot business has continued to boom while maintaining really strong hotel occupancy. So we're seeing a lot of upside opportunities and very, very pleased with just both the local and international markets here.

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

It's Geoff. On the first question, I'd just add that it's an ongoing discussion in regard to the potential transformation of that structure. Moving on to the second question, we had a reversal in our doubtful debt of around \$7 million in the second quarter. Most of that would have been in City of Dreams. And on your third question, funding for Studio City Phase 2, we've made certain announcements about the capital structure there. It is a discussion that we're having with our minority shareholders on how to move forward. There is significant cash on the balance sheet at Studio City and incremental capacity for debt as well. So while we don't have a specific plan to announce today on the Studio City Phase 2 financing, we do have various options and we'll have some blended basket of those options as we move forward for the construction of Studio City.

### Praveen Kumar Choudhary - Morgan Stanley, Research Division - MD

Thanks very much Geoff and thanks Lawrence. And congratulations on the Manila performance.

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

Alright. Thanks Praveen.



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

### Operator

Your next question comes from the line of Omer Sander from JPMorgan. Your line is open.

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

Hey guys, this is Joe Greff from JPMorgan. Just with respect to City of Dreams, you provided what I thought was an encouraging data point about mass drop up 20% year-over-year at the City of Dreams Macau in July. I'm not sure if I heard you talk about the mass hold percentage. Can you talk about that? Are we approaching or at year-ago levels?

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

Joe, maybe I'll let David run through it. But I think we've had very bad luck in Q2. But at the end of the day, we don't think there's anything fundamentally wrong with how we're operating. It's purely luck. And I think all the key KPIs and trends are in the right direction. So maybe, David?

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

Yeah. Hi Joe. It's a couple of different things. So I think one of the things is we just got our butts kicked in June. It was a really great time to come to City of Dreams and play. And it seemed like every player we reactivated, every new player we brought in just had just fantastic luck. So it's kind of a bad news, good news story. The bad news is we've got our butts kicked. The good news is we think there's a lot of players that are going to be coming back to us and feel lucky when they come into City of Dreams, which we think it's going to bode well for us in future quarters. We generally don't talk about the revenue or what's happening with our hold percentage while we're in the quarter. But overall, we're pleased as to where we're headed here.

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

Great, that's good news. And when you look back at the 2Q, was there much that you can quantify or talk about in terms of construction disruption that may have negatively impacted results in the 2Q?

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

Yes, we certainly had some construction disruptions. And really, in terms of as we start looking at that main gaming floor, as we cleaned up around the ETG area and we took the escalator out, it was not the nicest place to play, particularly in the month of June as we were pushing hard to get everything opened by the 15th of June for the Morpheus opening. So that did have an impact on some of our bigger players maybe not sticking around as long or playing as long. But most of the construction disruption now in that main gaming floor is pretty much over. We will still have some future gaming disruption or construction disruption related to some of our VIP business as we continue to redo our junket spaces.

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

Got it. So on the mass side, the construction disruption should not happen going forward to be more on the VIP side of things that Lawrence alluded to earlier on the call?



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

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

That's correct. Yes, it will be more minimal. We've got smoking rooms we've got to add on the main gaming floor. And we've got some lighting and some other adjustments as we kind of fine-tune that gaming floor. But we will see nothing like we saw during the first and second quarter.

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

Great. And then my final question to Geoff is with respect to capital return, particularly with the buyback authorization, do you guys have a 10b5-1 program so that you can buy in periods that follow the quarter but before your earnings release?

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

Currently, we do not have one of those programs in place.

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

Got it. Okay. Thanks guys.

**Operator**

Your next question comes from the line of Jared Shojaian of Wolfe Research. Your line is open.

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

Hey everybody. Thanks for taking my question. So I know sometimes there can be noise in the mass hold rates. Can you just confirm that this is entirely luck or maybe there was some other factors at play, particularly in June with all the construction disruption? And then related, just at COD Macau and Studio City, the VIP rolling chip volume seemed a little light sequentially. So maybe you can address that as well.

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

So I think why don't we start over with Studio City on this one? Because I think in terms of hold rate, Q2 wasn't just a COD Macau phenomenon for us, it was also at Studio City. And in terms of the VIP being light, so why don't we hand it off to Geoff Andres?

**Geoff Andres** - *Melco Resorts & Entertainment Limited - Property President of Studio City*

Sure. Jared, this is Geoff Andres. At Studio City, we have a similar phenomenon to what David had, which is --- we had many more of our big players beat us than many of our big players lose. So similar to the comment David made, we had a lot of happy customers. And a lot of customers were feeling pretty lucky and who I hope are telling all their friends how easy it is to win at Studio City and City of Dreams in Macau. And we did our analysis, we did the research. There has been no structural changes in how we operate our games, nothing that slows our game pace down, no rules changes, nothing like that. It's really just a matter of luck, especially in our signature gaming area. On the VIP roll side, we were extraordinarily unlucky on the premium direct segment. So when you add that, less than 1% hold in premium direct, it's just an absolute margin killer when you lose money and also pay the commission. So it wasn't our luckiest quarter. But I feel very good about the volumes as we had very strong volume increases year-over-year. And I think we're well positioned as long as the gods of probability come back to our side.



## JULY 24, 2018 / 12:30PM, MLCO - Q2 2018 Melco Resorts & Entertainment Ltd Earnings Call

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

Okay. Thank you. And I know you're limited on what you can say with potential Studio City IPO. But it does sound like you're willing to move forward with Phase 2 without any clarity on any potential IPO. And maybe you could just help us understand what has to be done at this point. Now that we're about a year past the original announcement, is it more regulatory clearance you need? Or is it just still discussion with your minority partner? Anything specific you can point to?

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

I don't think there's much we can comment, given from a regulatory standpoint. Geoff, I don't know if you want to add anything.

**Geoff Andres** - *Melco Resorts & Entertainment Limited - Property President of Studio City*

No. As much as we'd like to, I think we really can't comment. But we are prepared to move forward with Phase 2.

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

Okay. Thank you very much.

**Richard Huang** - *Melco Resorts & Entertainment Limited - Director, Investor Relations*

So I think there's no more questions in the line. Thanks a lot for joining us today. We look forward to speaking with you again next quarter.

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