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MPEL - Q4 2015 Melco Crown Entertainment Limited Earnings Call

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PRESENTATION

Operator

Good morning and thank you for participating in the Q4 2015 earnings conference call of Melco Crown Entertainment Limited. (Operator Instructions). Today's conference is being recorded.

I would now like to turn the call over to Ross Dunwoody, Vice President of Investor Relations of Melco Crown Entertainment Limited. Over to you, sir.

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

Thank you for joining us today for our fourth-quarter 2015 earnings call. On the call today are Lawrence Ho, Ted Chan and Geoff Davis.

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

I will now turn the call over to Lawrence.

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

Thanks, Ross. Hello, everybody. In the fourth quarter of 2015, we delivered a strong operating performance in Macau, particularly in the mass market table games segment, where we meaningfully expanded our mass market share, aided by the opening of Studio City during the quarter.

On a luck-adjusted basis, we generated Macau property EBITDA of \$225 million, a 7% increase from the prior quarter. Excluding Studio City, we once again expanded our Macau property EBITDA margins in the fourth quarter of 2015, highlighting our market-leading gaming and non-gaming amenities, together with our ongoing cost saving initiative.

Despite the well-documented macro headwinds, market-wide revenue trends appear to be stabilizing in Macau, while at the same time, the competitive environment continues to remain disciplined. During this challenging period, we remain fully committed to optimizing our robust portfolio of assets to drive revenues while maintaining our strict cost control focus.



Several years ago, we embarked on a forward-thinking strategy to meaningfully increase our exposure to the more stable mass market segments in Macau, segments which we believe will be the long-term driver of profitability in Macau and will enable us to cater to the rise of the increasingly consumer-focused Asian middle to affluent class.

With City of Dreams, we pioneered and continually lead the market in the premium mass segment in Macau. Now with Studio City, we have delivered a truly unique entertainment focused, integrated resort which caters to a customer base that is complementary to City of Dreams and Altira, enabling us to broaden our target market and minimize cannibalization.

We're pleased with the successful opening of Studio City and the property's unparalleled entertainment offerings and high quality non-gaming and gaming facilities. In recognition, Studio City was recently awarded the Resort of the Year at the 9th International Gaming Awards for 2016. We look forward to keeping you updated on its progress throughout the year.

Macau's clear transition to a market more heavily dominated by the mass-market segments is supported by the central government's long-term infrastructure blueprint, which will help improve penetration into our core feeder markets, particularly China.

In Manila, our rolling chip business continues to expand, delivering a more diversified earnings stream. Despite challenges faced during the fourth quarter of 2015, including the impact of the APEC conference and associated infrastructure challenges, on a luck-adjusted basis, City of Dreams Manila delivered modest sequential growth in both EBITDA and EBITDA margins.

We anticipate that further improvements in infrastructure and the ongoing economic development in the Philippines should enable City of Dreams to continue to deliver robust revenue and earnings growth in the foreseeable future.

I'm also pleased to announce that our Board has approved a special dividend of \$350 million to Melco Crown Entertainment's shareholders. Our capacity to return surplus capital to shareholders while still investing in our business, including Studio City, is testament to the ability of our properties to generate strong cash flows in challenging periods.

We are committed to maximizing cash returns to shareholders, particularly as we continue to get greater clarity on the environment in which we operate and our capital expenditure requirements. As a result of this commitment, we are also reviewing our current dividend payout ratio of 30% of net income to MCE.

We look forward to updating you in the coming quarters regarding our future capital management plans.

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

Geoff Davis - *Melco Crown Entertainment Limited - CFO*

Thank you, Lawrence. We reported property EBITDA of \$236 million in the fourth quarter of 2015 compared to \$279 million in the fourth quarter of 2014. During the fourth quarter of 2015, we were impacted by an unfavorable win rate in our rolling chip programs in both Macau and Manila.

At City of Dreams Macau, we were negatively impacted by approximately \$5 million from an unfavorable win rate, while in the Manila, we were negative impacted by almost \$10 million.

On a luck-adjusted basis, our property EBITDA in Macau was approximately \$225 million, a sequential increase of approximately 7% from the previous quarter. Excluding Studio City, Macau property EBITDA margins expanded to approximately 26% from 25% in the prior quarter, building on the strong sequential margin improvements we achieved in the third quarter of 2015.

The EBITDA contribution from our non-VIP segments continues to represent over 90% of luck-adjusted EBITDA at City of Dreams and on a Macau-wide basis.



At City of Dreams Manila, our property EBITDA was negatively impacted by almost \$10 million from an unfavorable rolling chip win rate. Adjusted for this, EBITDA and EBITDA margins would have expanded sequentially.

I am pleased to report that we have met our previously stated objective of \$50 million of annualized savings, which has allowed us to deliver luck-adjusted margin improvements in a declining-revenue environment.

In the fourth quarter of 2015, we have taken a provision of approximately \$30 million against the value-added tax receivable for City of Dreams Manila, which negatively impacted net income for MCE during the quarter. As a result of this and other changes, we recorded a net loss under US GAAP during the fourth quarter of 2015, which meant that no dividend would be payable under our current ordinary dividend policy. However, as Lawrence mentioned, our Board has declared a special dividend of \$350 million, bringing total capital returns to shareholders, including share repurchases over the past two years to over \$1 billion.

As we normally do, we'll give you some guidance on non-operating line items for the upcoming quarter. Total depreciation and amortization expense is expected to be approximately \$135 million to \$140 million, including approximately \$43 million at Studio City.

Corporate expense is expected to come in at approximately \$30 million to \$32 million, and consolidated net interest expense is expected to be approximately \$68 million, which includes finance lease interest of \$10 million relating to City of Dreams Manila net of approximately \$9 million of total capitalized interest.

For those that follow City of Dreams Manila more closely, our building lease payment for the fourth quarter of 2015 was approximately \$7 million.

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

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen. We will now begin the question and answer session. (Operator Instructions).

David Bain, Sterne, Agee.

David Bain - Sterne, Agee & Leach - Analyst

Thank you. Guys, on Macau Studio, I was wondering. Now that you have the extra 50 tables and some operating time under your belt, do you have any new thoughts on rebalancing the table allocation maybe to some premium direct? Or will MSC continue as 100% mass?

And then if we could any kind of idea on an EBITDA margin cadence for MSC; second quarter, maybe how that may differ in respect to 1Q, and then maybe big picture thoughts on the year from a margin perspective.

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

Hi, David. It's Lawrence here. I'll hand it over to Ted to go through the details, but in terms of table configuration of Studio City, I think being a company that is very focused on systems and analytics, we're constantly evaluating the split between mass, premium mass, or even potentially VIP premium direct, like you said.



So we're looking at that right now. And I think we're very happy that the property opened successfully at the end of October last year, and we're pleased with the ramp-up. And I think we're pleased that it was EBITDA -- on a property level, EBITDA-positive in the first two months. There's still a lot of work to be done, especially in the challenging environment that we're in, but we are looking at that.

In terms of margins, maybe I'll hand it over to Ted to --

Ted Chan - *Melco Crown Entertainment Limited - COO, Gaming and Non-Gaming*

Hi, David. It's Ted. Yes, you're right. We have a -- we do have [discussions] (corrected by company after the call) in terms of changes, the mix of tables. I think in the early stage, on a sequential month-on-month basis, we see a good improvement in terms of drop on the mass tables currently on a monthly basis. So currently, the yield of Studio City is still below the market average at this stage, but we see a good improvement on a monthly basis.

We are still undergoing a study into -- a feasibility study and seeing some of the introduction of premium direct, or perhaps some VIP or junket business into Studio City, but I think it's early stage of feasibility study at this stage.

In terms of margin, I think it will be quite similar to CoD if we fully ramp up over the next few quarters. So I think that's our view.

David Bain - *Sterne, Agee & Leach - Analyst*

Okay. Great. And then just finally, after the new frontage retail and ultimately a new hotel tower, and I know that's a lot, but can we discuss any other changes that may occur at CoD as Wynn Palace opens or after it opens?

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

Yes, David. It's Lawrence here, as you know, City of Dreams, when we first built it, we were always drawn to the location. Effectively, it's in the heart of Cotai. It's between Wynn, MGM, and also Venetian. So if you need to go from one side of Cotai to the other side of Cotai, you really have to go through City of Dreams. That's really the only way.

Since opening in 2009, by the time that the second wave of Cotai properties open up starting this year with Wynn and MGM probably early next year, we also wanted a totally new experience for our customers as well. And so the -- what we call the fifth tower, Tower D, the Zaha Hadid designed tower which will be opened in 2018, and also the retail expansion which you referred to is opening this summer, so before Wynn or MGM opens up.

So it's really -- because our retail is designed -- it's not just a retail expansion but it's really integrated into the common areas and the core of our property, so it was time for a facelift anyway. And we're very proud of it and we're excited to see it come into play.

David Bain - *Sterne, Agee & Leach - Analyst*

Very good. Okay. Thank you.

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

All right. Thanks, David.



Operator

Chris Jones, Union Gaming.

Chris Jones - *Union Gaming - Analyst*

Just a couple of questions, first on Manila. Maybe you could just talk a little bit in reflection about that market, and since you've opened where the -- maybe some of the areas of challenges have been, certainly in the face of increased competition and how you view some of the competitor pressures coming down the pipe, also in Manila, but also even broader throughout the Philippines to start.

Thank you.

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

Sure. It's Lawrence. So maybe I can let Ted and Geoff jump in on the details, but we're happy with the product. I think we've been -- with regard to our -- we've always been very proud of what we've built there. And I think since the last call, we have also changed some of the management team, the senior management team. So I think over the last two or three months, we're very happy with how the property is progressing.

But I think some of the macro problems in Manila are not dissimilar to what we face Macau, which are infrastructure-led issues. I think the expressway that leads directly from the airport to the Manila Bay Entertainment City area, which was supposed to shorten the length of travel to less than five or seven minutes, that's overdue and we're still waiting for it. So again, not dissimilar to the situation in Macau with light rail and also the Hong Kong Zhuhai Bridge.

At the operational level, I think unlike some of our competitors, we've been much more cautious in terms of giving out credit and expanding in the VIP market, because over the course of Melco Crown's history, I think we've developed a very good independent credit committee system. And I think some of the decisions that are -- that were given to the credit committee we just couldn't pass it given what was involved and the credit history involved in Manila.

So we're still approaching the VIP part, which effectively supercharged that market, pretty cautiously. But I think on mass and on slots, and really on non-gaming, we're very happy with it. And I think even on the rolling chip side, I think we're doing more and more premium direct, customers that we know better.

So maybe on that, I hand it over to Ted.

Ted Chan - *Melco Crown Entertainment Limited - COO, Gaming and Non-Gaming*

Sure, Lawrence. Yes. If we look at the business into three segments, VIP, slots and mass tables, basically, the slot and mass tables are predominated by some of the local players that we put more efforts in the last few months after this change of management on the analysis. And we are looking at some of the good improvement on -- particularly on the slot side as well.

In terms of VIP, I think the incremental to the market is basically coming from South East Asia and Chinese. And we're continuing to send of our known customers to Manila to experience the great property that we have. The feedback on that, once they have been in the property they feel like this is a great product, so I think the philosophy of the Company is really about the total experience of customers.

So over the last two months, I think our VIP rolling chip volume in terms of premium [direct] (corrected by company after the call) and junket is actually improving substantially compared to the last two quarters.



Chris Jones - *Union Gaming - Analyst*

Excellent. Thank you. And then just back in Macau, obviously, in the face of a market that has a lot less VIP involved, I certainly understand how you've positioned City of Dreams and certainly Studio City. But maybe you could just talk a little bit about how you see Altira in the longer term fitting in into the whole structure.

Thank you. That's it from me.

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

Well, again, Altira is one of the -- was our very first property and we continue to right size Altira, right size the cost structure. But I think Altira's main benefit is also its main weakness, which is the isolation factor. It's in the middle of -- it's by itself. It's not together with other properties, whether it's on Cotai Strip or the Peninsula cluster either.

I think we've reduced the total amount of tables at Altira down to about 130. I think we're constantly evaluating where's the best position to put tables, whether it's City of Dreams or elsewhere.

I think Altira, as a property, again, if you break it down into mass and VIP, it does quite well. It's not a big hotel. It's only 220 rooms. And we're still -- improved, our ADR continues to improve sequentially. Occupancy level has been steady at effectively full occupancy for the last few years.

Of course, the EBITDA generation ability of Altira is not what it once used to be, but at the same time we're continually looking at it to see on some of the tables how we could optimize it elsewhere. But I don't know. Do you have anything further --?

Ted Chan - *Melco Crown Entertainment Limited - COO, Gaming and Non-Gaming*

Yes. In terms of Altira also, currently reduced the number of tables in VIP down to 92 from the good old days of closer to 200 tables. So with a number of hotel rooms in the region of 220, that is the -- we believe there's some sort of minimal level that we have reduced.

And also, the number of junkets also reduced to a level that we are focused more on the big junket operator. If you recall, we just introduced some big junket operator a year ago, so it looks like that's paying off well.

So with the market being stabilizing in mass and some of the VIP areas, particularly bigger junket operators, we believe that Altira is actually stabilizing, and I think that will be our focus on the optimization of the asset.

Chris Jones - *Union Gaming - Analyst*

Great. Thank you very much.

Operator

Praveen Choudhary, Morgan Stanley.

Praveen Choudhary - *Morgan Stanley - Analyst*

Great results, and thank you for the dividend as well. A couple of questions from me. First, can you talk a little bit about Chinese New Year? How did it go? And is there anything to learn from the trend that you're seeing recently?

The second question is more to do with if ever the smoking ban is implemented on VIP segment, would you be impacted a lot more negatively because you use in some of the premium mass areas as well, or what's your thought on that?

And the final question is about competition coming from Wynn Palace, especially because they're going to start in the higher-end segment where you are very strong?

Thank you so much.

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

Hello, Praveen. It's Lawrence here. So let me take the first and third questions, and hand it off to Ted again to -- in terms of the details.

I think going on the third question for Wynn Palace, I think there's always going to be plus and minuses. And I think focusing on the plus, which is you are seeing more and more of a Cotai cluster. And I think if you look at the trend in the last two years, more and more of the business is being pulled to Cotai with the integrated resorts where there are much more amenities. And like one of the previous questions, City of Dreams is ideally situated in between Wynn and Venetian.

So I think on one hand, yes, I'm sure Wynn will go after the VIP or the premium mass, the high end of the business. But on the other hand, I do think that once you pull some of the peninsula players over, City of Dreams will benefit from it as well.

So I think it's really about the system that we've put in place over the years with the hosting, the -- it's a combination of service, property and the system. And so I think we're quite confident on that front.

On the first question in terms of Chinese New Year, again, I think Chinese New Year was -- I think we felt better after this Chinese New Year, but still, it's a tough market. We continue to -- I think for our last two quarters we've been talking about stabilization in mass, and we continue to stick by that. But in terms of a real recovery, a V shape or a hockey stick recovery, we're not seeing that. So I think we still have to grind it out into the second half of the year where the comps are easier.

I think on -- maybe on more color on Chinese New Year and smoking and Wynn, maybe Ted has more to supplement.

Ted Chan - *Melco Crown Entertainment Limited - COO, Gaming and Non-Gaming*

All right. So let's talk about Chinese New Year. During the seven days of Chinese New Year, I think we experienced great, decent numbers in both mass and VIP, essentially, a similar level in mass revenue; I mean, drop in volume. In terms of VIP, we still see some decline year-on-year basis.

But if we adjust the number of the decline, the number of tables declined in CoD compared year on year Chinese New Year. In terms of new bases, rolling chip, new bases is similar to last year. So that's Chinese New Year.

In terms of smoking ban, we don't have a timeline at this stage, but given that if that is happening in all casinos in Macau, that will become the level [few]. And there will be some impact but if you look at our implementation over the course of the last four quarters, our hold percentage actually improves on a sequential basis in the last few quarters. That is that we put a lot of effort in restoring the length of stay, the table play times, etc. onto the system or the operations so that some of the negative impact of smoking issue is actually offset.

So in terms of Wynn Palace, again, we are focused more about total service, and also, there's also Wynn is by the last few quarters hold percentage improvement in CoD suggesting that it's not really about just pricing of the tables but also a lot of other issues resulting into a better length of stay, etc.

So we believe that with Wynn Palace we think there will be more synergy happening in the cluster of the Cotai, and we are trying to improve the property. As Lawrence mentioned earlier, we have a nicer product after the retail inspection being concluded by middle of the year.

So I think that's the basic of what the impact of Wynn Palace that you make.

Praveen Choudhary - *Morgan Stanley - Analyst*

Sure. Thank you, Ted, and thank you, Lawrence. Maybe one last follow-up question on the dividend side. You did mention that you're trying to come up with something new. Are you thinking in terms of having a fixed dollar amount dividend rather than a payout ratio? Because it has been fluctuating a lot and that will give your investors a lot more certainty around the dividend?

Geoff Davis - *Melco Crown Entertainment Limited - CFO*

Praveen, it's Geoff. At this point, we're in the early stages of reviewing the policy, and we're open-minded, but it would be too early to narrow it down to one methodology or another. But we understand the point you're trying to make.

Praveen Choudhary - *Morgan Stanley - Analyst*

Awesome. Thank you, Geoff. I appreciate it. And thanks again.

Operator

[Adam Kerson, Galleria & Company].

Adam Kerson - *Galleria & Company - Analyst*

In the past, you guys have spoken about a potential buyout of your partner's interest in Studio City. Could you update us on your thoughts there?

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

Hi. It's Lawrence here. I don't think we -- we've answered questions about it but we've never really stated our intentions. I think since October, we've been very busy trying to open the property and really ramping it up to its full potential. We're very proud of the property, and it's no secret that we would love to be 100% owners of it. But ultimately, it's a matter that depends on valuation, and we need to be fair to Melco Crown Entertainment shareholders as well.

So right now, there's really no intention to doing it, and we are committed to returning surplus capital to Melco Crown shareholders, as you can see with this special dividend.

So if in due course, if there is a conversation to be had with the minority shareholders at Studio City, we're always happy to have it, but bearing in mind that valuation is our number 1 concern.

Adam Kerson - *Galleria & Company - Analyst*

Okay. Great. Thank you.



Operator

Thank you. There are no further questions. I would now like to hand the call back to management for closing remarks.

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

Thank you, everyone, for joining us, and we'll be back to you with the first-quarter results.

Operator

Thank you for joining today's conference call. You may all disconnect today. Good day.

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