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Q4 2022 Melco Resorts & Entertainment Ltd Earnings Call

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## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

**Shui Lung Choi** *Citigroup Inc. Exchange Research - Research Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for participating in the Fourth Quarter 2022 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 Ms. Jeanny Kim, Senior Vice President, Group Treasurer of Melco Resorts & Entertainment Limited. Please go ahead.

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

Thank you, operator, and thank you for joining us today for our Fourth Quarter 2022 Earnings Call. On the call are Lawrence Ho; Geoff Davis; Evan Winkler; and our Property Presidents in Macau, Manila and Cyprus.

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

In addition, we may discuss non-GAAP measures. A definition and reconciliation of each of these measures to the most comparable GAAP financial measures are included in the earnings release.

Finally, please note that our supplementary earnings slides are posted on our Investor Relations website.

With that, I'll turn the call over to Mr. Lawrence Ho.

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

Thank you, Jeanny. The performance of our Macau properties in 2023 has been so far highly encouraging. During the peak days of Chinese New Year this year, we saw EBITDA reach \$6 million a day, and the GGR exceeded what we recorded during Chinese New Year in 2019.

Volume post Chinese New Year is holding up well, and our daily average mass volume in February has been in line with January. This recent performance supports our continued belief in the return of pent-up demand and our view that Macau will continue to develop as a leading international destination for entertainment and leisure.

I would like to express my appreciation to the Macau government for the award of a gaming concession to continue to operate in Macau for the next 10 years. We greatly appreciate the consideration given to our proposal and our investment propositions that we believe will continue to build on our existing strengths in entertainment and non-gaming attractions. We are excited to execute on our investment commitments to continue to bring best-in-class attractions and facilities to the Macau market.

Construction of Studio City Phase 2 is complete. The first stage opening is targeted for the second quarter, which will include one of the hotel towers along with the indoor water park, which is expected to be the largest of its kind in Asia. The remainder of Phase 2 is

currently expected to open in the third quarter.

In the Philippines, gaming volumes are very close to pre-pandemic levels, and we expect continued growth with more international travel into the Philippines and increased junket activity.

Cyprus has exceeded pre-pandemic volume and GGR, and we are excited for the future as we target opening City of Dreams Mediterranean in the second quarter of 2023.

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

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

Thanks, Lawrence. Our group-wide property EBITDA for the fourth quarter of 2022 was approximately negative \$7 million. Our group-wide property EBITDA for the full year of 2022 was just above breakeven despite all of the challenges that we faced throughout the year due to COVID-related restrictions. This reflects the benefit of our diversified portfolio of integrated resorts.

Luck-adjusted group-wide property EBITDA for the fourth quarter of 2022 came in at negative \$4 million. A favorable VIP win rate positively affected EBITDA at COD Macau and Cyprus by close to \$8 million, while an unfavorable win rate negatively impacted COD Manila by around \$10 million. COD Manila was also impacted by approximately \$6 million of one-off expenses.

Our OpEx from Macau for the fourth quarter of 2022 came in at approximately \$1.7 million per day, a slight increase from the per \$1.6 million per day in 3Q 2022, but in line with prior quarters. As you may recall, our OpEx per day in 3Q 2022 benefited from 2 weeks of casino closures. We continue to focus on cost control as visitation returns.

Turning to our cash and liquidity. As of December 31, 2022, we had close to \$2 billion of consolidated cash on hand. Melco, excluding its operations at Studio City, the Philippines and Cyprus, accounted for around \$1.2 billion. Of this, approximately \$176 million was restricted and includes cash collateral required for concession-related guarantees issued to the Macau government. Around \$50 million of this restricted cash was released in January.

We had fully drawn on the RCF by the end of the fourth quarter to fund the commitments under the gaming concession. In January, Melco International repaid the full \$200 million it had drawn under an intercompany loan with Melco Resorts in 2022. Since December 31, 2022, we have reduced our leverage by approximately \$500 million by repaying amounts drawn under our revolving credit facility.

As we normally do, we'll give you some guidance on non-operating line items for the upcoming first quarter of 2023. Total depreciation and amortization expense is expected to be approximately \$125 million. Corporate expense is expected to come in at approximately \$20 million. Consolidated net interest expense is expected to be approximately \$100 million to \$105 million, which includes finance lease interest of \$5 million to \$10 million relating to City of Dreams Manila and around \$15 million to \$20 million of capitalized interest.

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

Operator, we can commence the Q&A session whenever you're ready.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) The first question, from George Choi from Citi.

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**Shui Lung Choi Citigroup Inc. Exchange Research - Research Analyst**

First of all, congrats on the solid, stellar results. And my first question is on Studio City. And for Phase 2, would you please give us a sense on how many new staff you're going to hire for gaming and non-gaming operations there?

And my second question, and this is probably for Lawrence. During the COVID years, was there anything that you regret that you have done, that you wish you could undo? And did that lesson that you learned from COVID change anything in the operation strategy going forward? That's all I need.

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

George, it's Lawrence. First of all, thank you. Let me -- perhaps let me take the second question first, and then I'll hand it off to David and Evan for -- I mean, I'll take the last question first and I'll hand it off for the first question.

I guess my biggest regret during COVID was the fact that -- was COVID itself and how long it lasted. Because in our worst nightmares, we never could have imagined COVID lasting 3 long years. But at the same time, I think from a positive spin, it has fundamentally changed the mindset of Melco. So I think thanks to the good work of Geoff, David and the entire senior management team, we are very cost-conscious, and we eliminated all excesses during COVID.

And so I think with the recovery now, we hope to have meaningfully -- we hope to have meaningful flow-through to the bottom line. And that is the focus of this company, we care about EBITDA and cash flow more than we care about anything else.

So that culture, we were probably one of the earlier ones in terms of seeing COVID. Of course, we didn't expect it to be 3 years, but we certainly thought it was longer than the market had anticipated. So I'm proud of that. I'm proud of the team for doing that.

And I think in line with that thinking in terms of the -- your first question about the headcount of Studio City, so maybe I'll hand it off to David.

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

Great, George. So look, we're really proud of some of the work that we've done over the last few years in terms of our cost control and really kind of getting our operating leverage to a much better place here.

Looking at what we're going to do for Studio City Phase 2 for the Epic Tower, the indoor water park and for the W Tower, we're looking at basically bringing (corrected by company after the call) on about 1,000 people.

The kind of cool thing that Lawrence mentioned for us as well is that compared to (added by company after the call) where we were back at the end of the fourth quarter of 2019, we're going to have approximately 10% less FTEs at the end of 2023 when everything is opened for Phase 2 with all our properties in Macau.

So we've really done a good job of kind of really rethinking how we operate our business. We're much more efficient with what the things that we're doing now. And again, we're really happy with the leverage that we're going to get out of that and the flow-through that we'll get to the bottom line. So again, a good story for us going forward here, we think.

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**Operator**

The next question, from Joe Greff from JPMorgan.

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

Lawrence, some encouraging data points that you gave about the quarter-to-date. Just to drill down a little bit on that. Can you talk about EBITDA per day in February versus January? How much of a drop off? Presumably some drop off there. And then how are you thinking about OpEx per day going forward?

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

Joe, well, I think if you look at February, February had 10% less days than January. And the figures that DICJ and Macau government released today was effectively February and January were flat. And considering that Chinese New Year, the entire Chinese New Year period, was really in January this year. So when you take out -- when you look at all of that, January -- I mean, February was an amazing month.

And I literally just walked across our casino floor 5 minutes ago, and it's buzzing. And it's a Wednesday night on March 1. Usually 2, 3 days before the 2 sessions start, the place would be pretty quiet. And so this year is definitely the volume we're seeing are very encouraging, and it's defying seasonality.

So -- but I think in terms of the OpEx per day and additional color, maybe, David, do you want to share some? And then Geoff, if you want to share OpEx per day.

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

Yes, I think I'll let Geoff do the numbers. But in terms of the OpEx, look, we're very cost-conscious, as Lawrence said. We're very focused on that and trying to get as much down -- as much flow-through down to the bottom as we possibly can.

Like I said, we've had a cultural change within our company. And I think, again, it continues to pay dividends for us here. And we look -- like I said, is we look forward to the rest of the year and seeing that flow-through continue to come through.

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

This is Geoff. So really, as the business comes back, as the visitors return, we will continue to be highly focused on efficiency and cost containment, as we have been throughout COVID. the \$1.7 million per day that I referenced in my prepared remarks, that is a solid number pre the return of the business.

I think over time, while we will be focused on efficiency, we will see that number increase as volume-related expenses come back into the system. But the mandate for us and for everybody here is to retain as much of those cost savings as possible and bank those as permanent savings going forward.

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

That's helpful, Geoff. And just kind of 2 very quick follow-ups. When you look at February and just kind of isolate looking at your mass performance and then comparing it to what it was pre-pandemic, are we at 65%, 70% of pre-pandemic levels? Can you put some color now?

And then with respect to your last comment, Geoff, about OpEx and flow-through, how do you think about the incremental flow-through on revenues from here? Obviously, you have 40% gaming tax rate, and we're all trying to figure out how incremental expenses come back with volumes. But if you can give us some approximation of a flow-through percentage, that would be helpful. That's all for me.

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

Sure. I'll take the question directed to me first. That one, if we look at where we were pre-COVID per day to where we are right now and try to estimate what percentage of that is likely to be permanent, I'd put that at around 20%.

So when we think about the margin in addition to the inevitable mix shift that we'll have towards mass and away from VIP, we'll have the benefit of those cost savings as well. And I think that's in the ballpark of at least 150 basis points of margin improvement as a result of cost savings.

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

Joe, I'll take the first question with you a little bit, if that's okay. So if you go back and you look, we're about 70% of the volumes that we would have expected to see back in fourth quarter of 2019. It gets a little bit slower midweek, but on the weekends, it picks up.

But we've been very pleased with the recovery and how fast it's come back. We're very optimistic about as we go forward, it's about the future as we go forward here. But again, it's come back faster than we thought. So yes, we're very pleased.

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**Operator**

The next question is from Luis Ricardo Vargas from Deutsche Bank.

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

I was wondering if you guys could please comment on, based on what you saw during the Chinese New Year period, is there a migration from VIP business into direct and premium mass component of your business? And any experience that you guys have seen with whatever VIP junket there is in the market today, that color would be very helpful.

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

Thanks for the question. Maybe I'll hand it off to David. But I think for Melco, we have been the -- even during the pre-pandemic junket days, we were always the undisputed market leader in terms of premium direct VIP business. And we have continued that leadership during Chinese New Year and quarter to date.

What we have seen, and this is in line with what we have seen over the years, is the junket business, if anything, they kind of dovetail into the premium direct business. So what we have seen is some junket play that moved to our premium direct program. I think less so on junket to premium mass, but maybe David can add more color.

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

Well, we made a concerted effort a few years ago back in 2019 to really start trying to move some of that junket business, some of those bigger players, to our premium direct business. And the team has worked really hard on that. And I think that's kind of paid dividends for us as we've come into a recovery period now in 2023.

Additionally, we've seen a lot of our premium direct play now return not only from Hong Kong, but also Southeast Asia, and that continues even up to tonight. And as we've seen that not only do we see that Chinese New Year during the January period, but we saw that throughout February, and we're seeing that in March as well there already.

So again, that play coming through from the junkets doesn't seem to have impacted us quite as much because of the efforts that we had back a few years ago in terms of really trying to migrate more of that play over to premium direct.

So we think that, again, is a good story for us, and that will continue. And we'll be able to maintain our market leadership position in premium direct play.

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

Perfect. That's great color. I was wondering if you could comment on your capital expenditures in both the restricted group and outside of the restricted group for the remaining of the year and maybe into 2024, given the commitment that you might have realized with the Chinese authorities -- with the Macanese authorities for the concession renewal discussion.

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

Geoff, do you want to take that?

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

Sure. So the spend in Cyprus is expected to be, in 2023, approximately USD 60 million to USD 65 million. For the remainder of Studio City Phase 2, we estimate that to be \$75 million to \$80 million. And we've got maintenance on top of that of \$150 million to \$160 million.

**Operator**

The next question, from Praveen Choudhary from Morgan Stanley.

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

Lawrence, Geoff, quick question. I'm very focused on the mass business. Just wanted to understand, if I look in future, you are adding a lot of rooms in the Studio City Phase 2, but then you've lost a few tables with the new concession. For example, some of the other competitors have gained some tables. So just to this interplay of rooms versus tables, in your case, more rooms but less tables, how does it play in your new market share versus pre-COVID level?

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

Praveen, this is Lawrence. So we got exactly the number of tables that we requested according to our investment proposal. So we didn't -- in our minds, we didn't lose tables.

And at the end of the day, pre -- before the new concession, we had 900 tables, but 300 to 400 of those tables were given to junkets. And given that the junket market is no longer there, we didn't feel necessary to have all those tables. And at the end of the day, between City of Dreams, Studio City and Altira, it would be really hard to jam-pack like 900 mass tables on the floor.

So I think we have a good model right now. And I think with Studio City Phase 2 opening, if anything, it's going to completely relaunch that property. If anything, we've always felt that Studio City was underappreciated. So now with the new positioning, with the new indoor water park. And we've, over the last few years, even during COVID, we redid a lot of the retail to reposition the property to be even more mass-focused. I think we feel very good about the number of tables we have there and the number of rooms we have there.

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

Very helpful. The other question was related to the liquidity condition for the company. I know now we are running EBITDA-positive and soon will be free cash flow-positive. Is it fair to assume that there should not be any reason to believe any kind of equity offering or any such thing to delever in the near term?

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

Praveen, I think our #1 focus, of course, one of the first questions today was what was the biggest regret during COVID, the 3 years of COVID. And I think the regret was we had to -- in order to continue to support all of our staff, and we didn't let go of any locals, and we took on a lot of debt. So I think the #1 objective of the company for the next 2, 3 years is really to delever and pay down debt.

I think there's no -- I think given the trajectory of the business right now and the continuous growth that we expect to see, I don't see an equity offering on the way. But at the same time, as a company, we always keep all of our options open.

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

Yes. Yes. No, that's very helpful. If I could just end with a last question which I think some of other peers have also asked. The February, you said, mass business, was similar to January. Is it possible to suggest that we were running at 60%, 70% of 2019 level in February? I'm talking about mass business, obviously. Have you given that number? I may have missed it. And that's my last question.

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

Praveen, it's David. I had said that we're about 70% of where we were back in the fourth quarter of 2019. As I said, it gets a little softer on midweek, but it goes up nicely on the weekends here, and we continue to see it rise. So like I said, we're very optimistic as we head into the future here.

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

Excellent. Sorry, I may have missed that. David, thank you so much for clarifying. And again, congratulations. Things are improving. I hope the good times roll in for all of us.

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**Operator**

Thank you so much for your question. There are no further questions at the moment. I will hand back the conference to Ms. Jeanny Kim for closing remarks. Please go ahead, ma'am.

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

Thank you, operator, and thank you, everyone, for participating in our call today. We look forward to speaking to you next quarter. Thank you.

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**Operator**

That does conclude the conference for today. Thank you for participating. You may all disconnect.

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