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Q2 2022 Melco Resorts & Entertainment Ltd Earnings Call

EVENT DATE/TIME: AUGUST 18, 2022 / 12:30PM GMT

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David Ross Sisk *Melco Resorts & Entertainment Limited - COO of Macau Resorts*
Jeanny Kim *Melco Resorts & Entertainment Limited - Senior VP & Group Treasurer*

CONFERENCE CALL PARTICIPANTS

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Luis Ricardo Chinchilla *Deutsche Bank AG, Research Division - Research Analyst*
Praveen Kumar Choudhary *Morgan Stanley, Research Division - MD*
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PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the Second 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.

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

Thank you, operator, and thank you, everybody, for joining us today for our second 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 provisions 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 these measures to the most comparable GAAP financial measures are included in the earnings release. Finally, please note that our supplementary earnings slides are posted on our Investor Relations website.

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

Lawrence Ho Melco Resorts & Entertainment Limited - Founder, Chairman & CEO

Thank you, Jeanny. It goes without saying that our results for the second quarter of 2022 were heavily impacted by the COVID pandemic and the restrictions imposed across Mainland China and Macau.

Throughout the pandemic, ensuring the health and safety of our colleagues have been very important and it continued to be our highest priority through the recent outbreak. We very much appreciate the Macau government's quick handling and publication of the new gaming law in June and the publication of the requirements for the new casino tender. The new gaming law and the tender requirements provide clear direction for the remainder of the year and set a foundation for a smooth transition once the concession is awarded.

We are committed to Macau, and we are aligned with the Macau government's vision to further develop Macau and its economy. In contrast to the challenges, we have been facing in Macau, our businesses in the Philippines and Cyprus have been improving with volumes gradually recovering towards pre-COVID levels.

City of Dreams Manila has been operating at 100% capacity since March 1. Our domestic business recovered fairly quickly while international visitation continues to ramp up. We expect to see further growth as travel restrictions around Asia are lifted and travel returns to normal.

Cyprus also saw a pickup in volumes and profitability with a relaxation of COVID-related restrictions. In terms of the construction of City of Dreams Mediterranean, as I had mentioned in our first quarter earnings call, we have experienced delays due to some difficulties that

we've encountered with our contractor who has struggled to resource the project and was not able to achieve some of the pre-agreed completion dates for various aspects of the project.

At this point in time, based on recent progress, we expect to open in early 2Q 2023, subject to regulatory approvals. However, this remains a fluid situation, and we continue to look at ways to expedite the process.

The construction of Studio City Phase 2 is progressing well. We'll be monitoring the markets closely to determine the appropriate time to open and currently anticipate phasing the opening beginning in the second quarter of 2023.

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

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

Thanks, Lawrence. In the second quarter of 2022, we reported group-wide property EBITDA of approximately negative \$14 million. Luck-adjusted group-wide property EBITDA came in at negative \$16 million. An unfavorable VIP win rate negatively affected EBITDA at COD Macau by around \$2 million, while favorable VIP win rates positively impacted EBITDA at Studio City and COD Manila by around \$4 million. Details of these adjustments can be found in the supplementary earnings slides posted on our Investor Relations website.

Our OpEx in Macau for 2Q 2022 was \$1.7 million per day, which represents sequential declines from \$1.8 million per day in 1Q 2022 and \$1.9 million per day in 4Q 2021. To put this in perspective, pre-COVID, OpEx was approximately \$3 million per day. Our teams remain focused on cost containment in this challenging operating environment.

As of June 30, 2022, we had approximately \$1.6 billion of consolidated cash on hand. Our available liquidity, including cash and undrawn revolving credit facilities at the end of the second quarter was \$2.8 billion. Our revolving credit facilities contain customary financial covenant conditions, and we had previously secured a waiver on these financial covenants until the end of 2022.

We recently obtained an extension of these waivers until the end of March 2024.

To provide more clarity on our capital structure, Melco, excluding its operations at Studio City, the Philippines and Cyprus had cash of around \$563 million and gross debt of \$4.9 billion at the end of June 2022.

As we normally do, we'll give some guidance on nonoperating line items for the upcoming third quarter of 2022.

Total depreciation and amortization expense is expected to be approximately \$130 million. Corporate expense is expected to come in at approximately \$15 million to \$17 million, and consolidated net interest expense is expected to be approximately \$90 million to \$95 million, which includes finance lease interest of \$7 million relating to City of Dreams Manila and around \$15 million of capitalized interest.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Joe Greff with JPMorgan.

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

Just 2 quick questions for you. One, I guess, 20, 30 minutes ago, it hit that you hired EY Singapore replacing EY Hong Kong. Can you talk about -- and that was, I believe, the reference that was effective August 16? Have you heard from the SEC on that? And to what extent does that completely mitigate delisting risk? Or is hiring EY Singapore part of a multistep process? And if it is, what are the next steps? Or is this pretty much the finality in this process? And then I have one other operating question.

Lawrence Ho Melco Resorts & Entertainment Limited - Founder, Chairman & CEO

Sure. Geoff, do you want to go into details of that one?

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

Sure. So we have moved our audit office to Singapore as part of a broader effort to diversify our shared service locations in order to minimize business risk. We've had some employees based in Singapore, and we are building out that team and more recently, to be a more suitable base, especially for our finance operations. Singapore, as you know, offers good connectivity to the Philippines and Cyprus, while also having proximity to our Hong Kong office and our operations in Macau. And keeping in mind that there is still the possibility of a political solution between the United States and China, there is an ongoing discussion there which is still feasible.

So to your direct question, Joe, we have not heard from the SEC. But it's not part of a multistep process either. We just felt it was appropriate to locate the audit in Singapore, given some of the changes that we've made and how we're covering the finance function. And as you know, Singapore does not appear on the list in HFCAA.

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

Great. And can you talk about -- Geoff, you talked earlier about the OpEx in Macau, what that was per day and where it's been historically. Can you talk about the OpEx per day in July and maybe 3Q to date in Macau? What that EBITDA burn rate has been on a per day or obviously, July and August to date, I think everybody understands it's pretty challenging, but just to get that sort of sense of incremental operating exposure and leverage would be helpful.

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

Sure. Without getting into too much detail, we do think that 3Q is starting off below the level of daily OpEx versus what we posted in the second quarter. Some of that is temporary. But we do think that on balance, 3Q has the chance to be a bit lower than the \$1.7 million that we had in the second quarter.

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

And is that more revenue-dependent? Or is that sort of in isolation of revenue performance?

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

In isolation, but of course, as we've talked about before, and as you know, to the extent that revenue was to meaningfully ramp up, there would be some additional costs that would be associated with that.

Operator

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

Praveen Kumar Choudhary Morgan Stanley, Research Division - MD

Two questions for me. The first one is related to the ADR delisting situation. I understand the auditor change could solve the problem or U.S., China together, they can come up with some solution. But from your perspective, are you thinking about relisting, dual listing in Hong Kong? Is it part of the solution that you are proactively working on? Or it's not yet in the pipeline? Would you wait for some other things to solve itself?

And the second question I had was related to the progress in Macau in terms of -- are we seeing revenue and visitation coming back to Macau? And could we go back to 2Q '21 kind of number, like May was a very good month for us when revenue was -- mass revenue was 40%, 50% of normal. Do we think we can get back to that even if Hong Kong is closed sometime this year? And just your expectation, Lawrence, that would be great.

Lawrence Ho Melco Resorts & Entertainment Limited - Founder, Chairman & CEO

Sure. Praveen, why don't I take the first question and see if Geoff has anything to add to the first one. And then the second one, David can see if he has anything to add. So on potentially listing Melco Resorts elsewhere, we have looked into it for the last 2 years, and we have been in dialogue with the Hong Kong Stock Exchange. And as investors and analysts know, we were listed there over 10 years ago. We've

delisted because of cost saving in terms of the costs associated with the listing. And so we had assumed that it was a very simple process, but we're still working with the Hong Kong Stock Exchange on that. So that's certainly one of the potential solutions.

I think as Geoff mentioned, Singapore is technically not on the [HFCAA] (corrected by company after the call) list. So maybe that solves it. Maybe there is a political solution. But we're pretty comfortable where we are. And also, we still have time if we needed to do something else. So we're quite comfortable on that point. I don't know, Geoff, is there anything you want to add?

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

No, Lawrence. I think you covered it.

Lawrence Ho Melco Resorts & Entertainment Limited - Founder, Chairman & CEO

Okay. And then on the second one, of course, this summer has been just stressful in Macau, given the outbreak. I think it was exactly 2 months ago, it was June 18. And thankfully, we're slowly and gradually coming out of it. And I think even in the last 2 weeks, we have seen a progressive improvement, baby steps. We're going to get back to May 2021. May 2021 was a great month. And we're hopeful that Golden Week in October is going to be a good month. And of course, I think everybody is looking at the Communist Party Congress in October, throughout October to see other catalysts and other signs. But I think overall, we're moving in the right direction. I don't know maybe David can give a bit more color.

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

Sure, Praveen. So look, I think one of the things that happens when you go through these COVID outbreaks, obviously, it has a significant impact on visas. Unfortunately, when we close these things down, it doesn't bounce back quite as fast as we -- unfortunately, as the COVID happens. So as Lawrence said, it's a gradual, it's a slow (inaudible) out of this. But the key for us is visas and China feeling comfortable to let people come across to Macau.

As Lawrence said, I think we're expecting it to be fairly slow through September. As we get into, hopefully, that October Golden Week period, we'll start seeing it to hopefully start to improve, but it really depends, I think, at the end of the day on the National Party Congress meetings and coming out of that. And then hopefully, as we get into the fourth quarter, more deeper into that, we'll start seeing a bigger improvement. And hopefully, by the time we get to next year, we're actually maybe back on that pace to your point of where we were back in May 2021. But again, it's just going to be a very slow process, unfortunately, and we'll get through there, but it's just going to take some time.

Operator

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

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

Just a couple from me. Lawrence, longer term, do you have any plans to simplify your corporate structure? And I guess I'm asking this question with a specific focus on 200.HK and Studio City. And my second question is there seems to be still some confusions out there about the Studio City on whether or not it is a satellite casino, would you kindly clarify this for us, please?

Lawrence Ho Melco Resorts & Entertainment Limited - Founder, Chairman & CEO

Sure, George. I think we're continuously looking to improve our various corporate structures, and I think everything is on the table. But at the current point in time, I think the key focus is really digging ourselves together with the other 5 operators out of the hole that Macau has been for the last 3 years.

And it's -- on one hand, there are various debts at various entity levels is not the easiest thing to do. But I think we'll really consider that once we are in a better position because the last 2.5, 3 years have been awful.

And in terms of Studio City, George, it's very clear that Studio City is not a satellite casino considering the government asked us to revert the gaming area. And so we've been told specifically that Studio City is not. And since it's majority owned by Melco, Melco Resorts, and so I think if there was any confusion on that issue, it's actually pretty crystal clear to us.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Jeanny Kim for closing remarks.

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

Actually, operator, I think we've got one more question in the queue.

Operator

We do have one more question. This question comes from the line of Ricardo Chinchilla with Deutsche Bank.

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

I was wondering if you could provide an update on the CapEx needs at Studio City. And with current price inflation, have you seen an increase in the budget, and how much is remaining?

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

Ricardo, it's Lawrence. So maybe David and Geoff can supplement. But Studio City Phase 2 has progressed extremely well. It's probably, out of all of the construction projects we've ever had, probably the smoothest one even with all of these COVID restrictions.

In terms of budget, I think we have, over the past couple of years, reduced the budget rather than inflation or supply chain causing an increase in budget, we have reduced the budget. And I think that's really because of the good job that the project and construction team together with China State Construction have done. But I think in terms of the numbers, maybe I'll pass to David and Geoff to -- or Kevin.

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

Sure. This is Geoff. The remaining CapEx that's due on Studio City Phase 2 is about \$250 million. Significant majority of that will be in the second half of this year. And that's absolutely right. Our overall budget has declined over the course of the construction project. And we don't anticipate any inflation shock as virtually everything has been procured at this time for both the construction and the vast majority of the fit out.

Operator

We're seeing no further questions in queue at this time. I'd like to turn it back to Jeanny Kim for closing remarks.

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

Thank you, everybody, for participating in our conference call today, and we look forward to speaking with you again next quarter. Thank you.

Operator

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

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