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Conference Call

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

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**Cameron McKnight** *Wells Fargo Securities - Analyst*

**Karen Tang** *Deutsche Bank - Analyst*

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## PRESENTATION

### Operator

Ladies and gentlemen thank you for standing by and welcome to the third quarter 2013 Melco Crown Entertainment Limited earnings conference call. (Operator Instructions).

I would now like to hand the conference over to your speaker today, Mr. Geoffrey Davis. Thank you, please go ahead.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

Thanks, operator. Good morning, everyone, thank you for joining us today for our third quarter 2013 earnings call. On the call with me today are Lawrence Ho; Ted Chan; Constance Hsu; and Ross Dunwoody.

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 Crown Entertainment Limited - Co-Chairman & CEO*

Thank you, Geoff. Hello, everyone. I'm pleased to report another very successful quarter for our Group with our Macau operating units performing strongly, particularly in the mass market segments where we continue to set new records. While, at the same time, significant progress has been made regarding the expansion of our local and regional footprint.

As a result of the strength in our fundamental operating performance, we have delivered yet another quarter of record luck-adjusted EBITDA and EBITDA margin.

The combination of an improved mix of business towards the highly profitable mass market segment and a disciplined approach to marketing and player reinvestment, as well as strict control over other operating expenses, has enabled us to drive luck-adjusted EBITDA over 50% higher on a year-on-year basis. While luck-adjusted EBITDA margins have expanded over 200 basis points sequentially.

Continuing the trend over the last couple of years, City of Dreams has led the way in the premium mass segment, as clearly evident in the property's mass market table yield, which remain well above those of our peers in Macau.

While we are pleased to be the leading premium mass operator in Macau we remain fully focused on extending our number one position in this key segment by fully capitalizing on our world-class products and amenities while maintaining a strict approach to player re-investment, enabling us to capture further market share, while focusing on driving margins and profitability.

We take a Group-wide approach as it relates to fully leveraging our wide array of unique assets, particularly our gaming tables. While table optimization is a key driver of our recent impressive results, we also use the same strict optimization approach as it relates to the allocation of hotel rooms, ensuring we target the most valuable long-term customer across the Group.

Turning to the market, Macau has built on the strong momentum in the first half of 2013 with gross gaming revenues expanding over 18% year to date. Following the trend developed in late 2011 the mass market table game segment continues to deliver stable growth rates well in excess of the overall market.

This once again highlights the importance of this highly profitable sector to the long-term success of Macau and further justifies our decision to focus on building and delivering a complementary mass market offering, particularly in the Cotai region.

Visitation numbers to Macau have also delivered robust growth rates over the past few months highlighting the importance of the rollout of regional infrastructure and development plan, which continue to open up Macau to a more diverse customer mix from a wider catchment area.

This development blueprint for the region demonstrates the strong policy commitment to developing Macau and Hengqin Island into the leading leisure and tourism destination in Asia.

We believe that the vast number of meaningful transportation infrastructure projects planned by both the Macau and Mainland Chinese Governments over the next five-year period will support the upcoming wave of new integrated resource development in Cotai, which in turn will drive incremental demand, particularly in the mass market segment.

Significant progress has been made in the development of Studio City with the super structure clearly moving ahead. The exciting project remains on budget and on track to open in mid-2015. Upon opening, this cinematically-themed mass market property will significantly expand our exposure to the mass markets in the fast growing Cotai region.

The property's mainstream mass market positioning is designed to appeal to a wider range of customers providing a property, which greatly complements our current portfolio of assets.

We have also begun preliminary works on Tower 5 at City of Dreams, which we expect to open sometime in late 2016, early 2017. This exciting and truly iconic building will provide us with yet another market-leading offer, ensuring we continue to consolidate our position as the market-leading premium mass market operator in Macau.

Our mission of becoming the leading Asian gaming and entertainment company also continues to take shape. We recently announced City of Dreams Manila as the brand for our integrated gaming resort located in the Philippines.



The decision to use the Group's flagship integrated resort brand in Manila, together with the desire to bring the Crown Tower's brand to the Philippines, highlights the importance of our first expansion outside of Macau and reaffirms our confidence in this exciting gaming and leisure market.

We anticipate announcing further brands and attractions as City of Dreams Manila, as we lead up to the opening, which is anticipated to be around the middle of next year.

We're also pleased that under PAGCOR's revised gaming guidelines, City of Dreams Manila can now operate up to 365 gaming tables from 242 previously and over 1,680 of each gaming machines and electronic table games.

The Company continues to investigate other potential markets, focusing on major gaming, Asian gaming jurisdictions, which meet our stringent approach to the deployment of capital.

Melco Crown Entertainment is well-positioned to capitalize on the proliferation of gaming across the region, particularly Japan, with the Company's current and planned properties in Macau and Manila, showcasing an ability to deliver unique Asian focused entertainment, tailor-made to cater to the fast growing Asian consumer, which demands the highest quality in leisure and tourism offering.

As it relates to our performance in the current quarter, I'm very pleased to report that we have maintained our impressive momentum, with records set in all mass market segments at City of Dreams, Altira and Mocha in October, while our rolling chip GGR performed strongly at City of Dreams delivering one of their best months on record as well.

So with that, I'll turn the call back to Geoff.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

Thanks, Lawrence. We reported EBITDA -- adjusted EBITDA of approximately \$315 million in the third quarter of 2013, compared to \$226 million in the comparable period of 2012.

Our EBITDA margin in the third quarter of 2013 was approximately 25.2% compared to 22.4% in the third quarter of 2012.

Our Group-wide EBITDA was negatively impacted by an unfavorable win rate mix in our VIP segment. In other words, while our blended VIP win rates were toward the high end of the expected range, we held relatively higher in our revenue share program, where we shared a positive impact of high hold than we did in our rolling chip program. We estimate this unfavorable impact will be around \$10 million to \$15 million.

On a luck-adjusted basis, assuming a VIP win rate of 2.85% across our entire rolling chip business, our third quarter 2013 EBITDA was a record of \$315 million, virtually identical to our reported EBITDA this quarter. This represents a 50% increase over the third quarter of 2012 and a sequential increase of approximately \$290 million in the second quarter of 2013.

Primarily as a result of the over 65% year-over-year increase in mass table games revenues and our strong cost control focus, Group-wide luck-adjusted EBITDA margin expanded over 200 basis points sequentially to approximately 25.9%.

The EBITDA contribution from our non-VIP segment continues to represent approximately 75% of luck-adjusted EBITDA at city of Dreams and over 70% of our luck-adjusted EBITDA on a Group-wide basis.

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 \$95 million to \$100 million. Corporate expense is expected to come in at \$22 million to \$24 million.

Consolidated net interest expense is expected to be approximately \$30 million to \$32 million, which includes finance lease interests of \$10 million relating to City of Dreams Manila and approximately \$10.6 million of interest expense associated with Studio City. This takes into account approximately \$11 million of capitalized interest related primarily to Studio City.

That concludes our prepared remarks; operator, back to you for Q&A.

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

Operator?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). David Bain.

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

Geoff, I know you mentioned luck-adjusted margins were plus 200 basis points versus the actual. Can you break out the normalized Q3 margins at COD in Altira? Sorry, if I missed that one.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

I didn't give that, Dave. But on luck-adjusted basis, the margin at Altira was approximately 13% and City of Dreams was approximately 32%.

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

Okay, great. And then, what percentage of the junkets are now on fixed or revenue share? Has that trended down over the last few years, correct?

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

The trend has been towards more revenue share. We're at approximately two-thirds, or 70%, on revenue share, and that's been consistent for about the last 12 to 18 months.

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

Okay, great. And then just lastly, Lawrence, I think you guys continue to lead premium mass. Any sense as to any changes on the horizon; anything competitors are doing? Are things rational out there? Just any thoughts on premium mass as we go forward in giving your results?

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

Sure; hi, Dave. I think I'll let Ted elaborate, but again, a lot of our competitors over the last 12 to 18 months have been trying to get on the premium mass bandwagon, but I think it's really a combination of excellent service and also the hardware.



So, City of Dreams was really -- was always built as a premium product, especially on Cotai. So, we continue to make sure that, from both the product and service side, we do the best job possible. As much as people have tried to catch on, we've continually stayed ahead.

I think, Ted, do you want to elaborate further on --?

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

Yes. I think just like the overall market or you will recall back a couple of years ago if you look at VIP market, everybody has actually raised their right products to the right customers and the theory of demand driving -- opening -- supply driving demand is actually happening in this segment as well.

So you see incremental quarterly improvement, also increase in the number of premium mass customers. It's actually happening in every property in Macau. So, we're very happy about the depth of the market at the moment.

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

Very good. Thanks guys.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

Thanks, Dave.

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

Thanks.

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**Operator**

Cameron McKnight, Wells Fargo.

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**Cameron McKnight** - *Wells Fargo Securities - Analyst*

A question for you first, Lawrence. Could you talk to the labor regulations that exist around dealers, and how you're working around those regulations now, and how you're thinking about those when extra supply comes on over the next few years?

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

Well, I think the government -- since one of our competitors' statement in one of the conferences, I think the government was very clear in that they don't envisage a change in policy with regards to dealers or people working on the casino floor being local Macau people.

But, at the same time I think, given the anticipated supply, I think for the next few years, with the table cap and the number of tables being grown in the market the government is confident that there will be enough people.

And even the last few years, with the major resorts opening up in Cotai whether it was Sands Cotai Central or Galaxy, we, as a Company, haven't really seen any major attrition rates either. So when 2015 rolls around and Galaxy Phase II and Studio City opens up, we are confident that we will be able to get the required labor that will be necessary to operate the property.



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**Cameron McKnight** - *Wells Fargo Securities - Analyst*

Great, thanks. And as a follow-up, and perhaps related to Dave Bain's question, the mass market has continued to surprise in the upside, and we've seen strong growth on top of strong growth.

What do you attribute that to? Is it improved infrastructure over the past 12 months? Is it the Macau product becoming more mature and better known throughout China? Or is it a combination of all the above?

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

Well, Cameron, I think it's all the above. But I think most importantly, I think our team, as I talked about in my remarks earlier on, we do a very good job of optimizing our rooms and also tables. So we have successfully yielded up the business that way, in terms of going after better customers and operating more efficiently.

I think a lot of our competitors are also doing the same thing. So I think you're seeing a much better -- the best group of customers possible in Macau at this moment in time. But we continue to believe that Macau is a supply-driven market.

Right now, with only 25,000 rooms in Macau, which is one-eighth of Las Vegas, at the end of this year we're probably going to be seven times the size of Las Vegas. So I think, on a daily basis City of Dreams turns away a large amount of great customers just from the fact that we don't have enough rooms.

So I think that's why our Tower 5 development, and also Studio City, we're so enthusiastic about it, because we can really accommodate even more great customers.

So I think the breadth of the premium mass segment is going to continue to grow as better infrastructure comes online as well. So if you look at even this year, the greatest growth in terms of their visitation is from the Lotus Bridge border. And this is before Lotus Bridge even goes to 24 hours, or anything being substantially built on Hengqin Island.

As we all know, the first major non-gaming resort, Chimelong Ocean resort, is going to open in Hengqin Island very shortly. And that's going to have another close to 2,000 rooms, and they're expecting 20 million annual visitations as well.

So when all of those things come on line and the train railway links up Hengqin as well, Macau is just going to go gangbusters again. So we're very excited.

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**Cameron McKnight** - *Wells Fargo Securities - Analyst*

Great, thanks very much Lawrence.

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**Operator**

Karen Tang, Deutsche Bank.

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**Karen Tang** - *Deutsche Bank - Analyst*

My question is, first of all well done to the very good mass table improvement, extending the lead over the competitors.



My question is with regards to VIP, recently we have seen a VIP recovery in the market, but we have noticed that your VIP market share, particularly on the junket side, seems to be slipping a bit.

My question is is that a strategic decision to move slightly more towards the premium mass as you are doing so well there? Or what is the strategy there in terms of the junket rolling market share? Thank you very much.

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

Karen, this is Ted; let me take your question. I think you're right, in the third quarter our rolling chip volume did drop a little bit, about 8% Q on Q. It's primarily due to some table shift from VIP tables to mass side.

So, strategically, we are looking at the Group-wide profitability, in terms of EBITDA provision to the Group. And the business, however, is by the end of third quarter, September and particularly in October, we see some substantial improvement on that segment; meaning that some share is actually getting back. And also the productivity per table is improving in that segment.

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**Karen Tang** - *Deutsche Bank - Analyst*

Excellent, good. Just want to understand your strategy, thanks for that qualification.

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**Operator**

Anil Daswani, Citi.

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**Anil Daswani** - *Citi - Analyst*

Again, congrats on a great set of results; two things from me.

First of all, Lawrence, could you comment a little bit more on Tower 5? Can you give us a clue as to what level of CapEx you're looking at for that particular project? And if you believe that you're going to get some additional tables for that the incremented COD?

And secondly with COD Manila, could you give us guidance in terms of opening schedules etc? Is that on track as well, in terms of the build out?

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

Hi, Anil. In terms of City of Dreams Macau and Tower 5, we have started preliminary work on site. As you know, the design has been -- we have been designing it for probably a year and a half now, and I think we're just waiting for certain regulatory approvals to really kick start it.

As far as the kick starting process, we intend to hold a big PR event where we will unveil the design, the world class architect, and also the budget. So I think we're reserving that all for that PR event. But I can assure you, it's probably the most iconic looking building in Asia.

Obviously, there is a table cap in place with the Macau Government. For the next -- supposedly until 2022 there's probably a table cap of about 1,800 tables for five mega integrated resort projects. But our view is that, if the government ever increases the cap, and I'm not saying that they would, but if they do do it, they would want to allocate -- they've been telling us that they would reward operators for contributing to the diversity of Macau, and at the same time for iconic buildings.

So if we were to build a crappy box, like some of our competitors do, naturally it wouldn't qualify for that. So I think this gives us a really good chance of qualifying for tables.





But as we have talked about in the past, our business model was built upon not having any additional tables, and still by optimizing and using up those rooms, we believe that it's going to be a fantastic ROI project as well.

Moving on to City of Dreams Manila, the timetable remains the same, which is around the middle of next year. Construction has gone well, as you know, Philippines has had some severe weather this year. So in hindsight it's actually worked out in our benefit, because it gave us a chance to really stress test the infrastructure and the hardware that we're building.

But I think one thing for sure, and we really learned this the hard way when we started off as a company, we want to make sure that most of the amenities and products are perfect, or close to perfect, when we open. So we definitely wouldn't be opening this property in phases or with significant parts missing.

So we are -- we're working very hard to get that open. The team is fully in place and on the ground in Manila, so both construction and pre-opening work are actively ongoing.

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**Anil Daswani** - *Citi - Analyst*

Thanks, Lawrence. Just a quick follow-up; with Tower 5, is that going to be geared towards enhancing the premium mass product or are you looking to brand that more as VIP or more mass market?

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

It's definitely, as you know we have one of the great -- one of the best luxury brands in Crown Towers currently serving the VIP segment. So this new tower, which we hope to brand eventually, is going to be solely focused on the premium mass segment, and maybe a little bit of the premium direct customers as well.

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**Anil Daswani** - *Citi - Analyst*

Thank you guys.

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

Thanks, Anil.

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**Operator**

Praveen Choudhary, Morgan Stanley.

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**Praveen Choudhary** - *Morgan Stanley - Analyst*

A couple of questions. The first one is, could you confirm if City of Dreams has seen direct VIP contribution going up from 15% to 20% in this particular quarter?

The second question is related to Philippines. We saw that the total project cost went up by 30%, so from \$1 billion to \$1.3 billion. Do you think your contribution also went up by the same amount?



And while we understand that number of table goes up, I'm trying to understand there's a demand situation in Philippines. The recent numbers that is being printed by Bloomberg and Resort of Manila, your competitors are not necessarily very encouraging, so I would love to hear your thoughts on that point as well. Thank you.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

This is Geoff, I'll jump in on the Philippines budget question. Our increase was a \$60 million increase to the construction budget. So the overall budget went from \$620 million to \$680 million, just to clarify.

As far as -- I think I'll let Lawrence expand, but I think our expectations are also driven by what we think is a superior product that we're building.

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

Yes, I think part of the reason that we increased the budget, as Geoff said, from \$620 million to \$680 million was the fact that we are bringing in City of Dreams, Crown and a few unique, very unique, global brands that we hope to unveil along the way ahead of opening next year. So everything is going to be a unique first time in the market brand in the Philippines.

And I think the reason we've done that is that I think, ultimately, if you do something well in that market the potential is definitely there.

I think looking at Bloomberg or some of our competitors and the way they were operating in the market this year, don't forget Bloomberg went through significant management changes over the quarter but, at the same time, they still managed to grow their market without any real meaningful amenities at this stage.

So I think when they have more amenities because, even if you've go to Solaire right now, it's really just casino and a few restaurants. So I think as they bring on more amenities, like retail and -- Singapore -- I mean Philippines is a very different market to Macau, in a sense that you really do need to captivate your customers there for a longer period of time. So I think when those things fall in line, they will do better.

Also, I think from our perspective, we are bringing our wealth of experience and international management team into that market, and so we're very confident that, on top of growing the market, we can also deliver on the bottom line as long as well.

But on top of -- I'm sorry, your first question about VIP contribution, can you remember it?

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

This is Ted. Yes, you picked the right question. I think our premium direct actually grew from last year about 15% to the third quarter roughly about 20% in COD's total rolling volume basis. But, in fact, on a sequential basis we grew more than 20% on the second quarter to third quarter, which is quite substantial in terms of our premium in-house business.

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**Praveen Choudhary** - *Morgan Stanley - Analyst*

Great, if I can follow up one more question, which is actually two questions.

Wanted to understand how you position yourself or your interest in the new avenues, such as Japan? And I want you to talk about why people think that your competitors, without naming names, are ahead of you in that race and why you or others are not ahead of them?

And secondly on dividend, I think that you mentioned before that it probably will be the next year question. I just wanted to get your current thoughts on that. Thank you.



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

Hi, Praveen, it's Lawrence. No, I think on the dividend question first, I think we've communicated in a past call as well that as a Board we are having a discussion at the end of this year about establishing a dividend policy. So I think we hope to disclose and announce that policy over either the next call or the call after that.

And again, we want to have a very crystal clear policy in place. So we're having that discussion with the Board. Again, I think setting aside now, I think between the two founding shareholders, Melco and Crown, our desire for dividend and our interests are completely aligned with our institutional shareholders. As both Melco and Crown has never taken any money off the table, has only put in more.

So anyways, we'll hope to communicate the dividend policy after our Board meeting sometime early next year.

With regards to Japan, we've talked about this in the past as well. We've done -- we've been lobbying there for many years. And I do agree that this is probably the closest that Japan has ever gotten to really liberalizing the gaming market. And with the relationships and in communication channels that we have established over the years, we are getting a lot more calls about partnering up from very big corporations, from all facets of the industry.

With regards to why we're not viewed as one of the leading contenders, I honestly -- I would give a very biased opinion and I couldn't really comment. But, at the same time, I think as Company we've always wanted to under-promise and over-deliver so I think we haven't been one of the most vocal, pounding our chests companies out there.

But rest assured to our shareholders we are working on it and we believe that sometime the Asian way, especially for a country like Japan, is better to be quiet rather than too out there.

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**Praveen Choudhary** - *Morgan Stanley - Analyst*

Thanks, Lawrence. And again congratulations Fantastic job on premium mass and overall business. Thanks.

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

Thanks, Praveen.

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**Operator**

Billy Ng, BofA Merrill Lynch.

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**Billy Ng** - *BofA Merrill Lynch - Analyst*

Actually, all my questions are answered, but thanks again. Congratulations on the results. Thanks, bye.

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

Thanks, Billy.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

Thanks, Billy.

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**Operator**

Simon Cheung, Goldman Sachs & Co.

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**Simon Cheung** - *Goldman Sachs & Co. - Analyst*

Congratulations on the good results; a couple of questions from me. Just trying to understand where you guys are thinking about the VIP market; seems like the momentum is getting stronger in recent months. Do you think that this is coming from maybe junket liquidity, because the macro environment, obviously, isn't that great. That's my first question.

And then second question is, I think I asked it before, can you give us some numbers about the visitation trend in COD? The reason I ask is trying to understand whether your premium mass table yield improvement was driven by the higher conversion rate? Or is that really to combine more visitors going into your property?

And then the last one is on the dividends, now that you've mentioned about Japan's potential investment over there. How would that affect your dividend policy, as you go into the next year and maybe (inaudible) when you start to talk about that policy? Thanks.

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

Hi, Simon, it's Lawrence. Let me handle the first and third one and I'll hand over the second question to Ted. And also, maybe perhaps Ted will elaborate more on the VIP growth trends.

I think, to be honest, the VIP market is gradually picking up after probably a slow year in between. So I think, ultimately, that really can be attributed to the fact that the Chinese economy is not perfect, but it is growing again.

I think if you look at some of the key metrics, the Chinese market is growing, and it's not a surprise to us as well, because we've always said that whenever there's a transitional year, which was last year. We had a once in a decade transition in government leadership and also government administration that things -- business would slow down and some of the visitation would slow down as well.

But we've seen that come back in a big way. In terms of junket liquidity I'll leave that to Ted. But I think it's about the same, hasn't been any major uplift.

So thereby, I would conclude that is more a factor of the growth in the Chinese macro economy rather than any impact of -- I don't know, Ted do you want to jump in? Any --

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

If anything we look at the liquidity in the last few quarters, particularly this year. We only see some improvement in liquidity.

Also, if you ask me compare today's junkets mix of cash business compared to the last few years, I think at the moment -- it is strongest at the moment. So perhaps this junket business become more mature in terms of getting more source of funding.

I guess that's a very, very good time. And we see -- yes, actually, we see a great improvement, in terms of their liquidity (inaudible) in the market.



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

(inaudible) visitation?

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

So up to the visitation number. I think last time I also mentioned that our visitation has exactly stayed flat in the last 12 months, and -- particular in COD. In CODs in third quarter, however, we increased the visitation year, on year, by about 8% to 46,000 people per day.

So to -- in terms of the impact on the revenue, I think it's not really about the headcount of the properties; it's more on a couple of issues in terms of the -- a way in terms of player management, as well as optimization process that we did. We try actually to optimize the number of customer by looking to give a premium offering in the property actually in the last four to eight quarters particularly.

So we're not looking at visitation number to drive the business, instead the quality of customer at the moment.

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

And I think just to cover off on the dividend question and what is like -- a place like Japan or another major jurisdictions like Taiwan or, for instance, Korea.

I think that's part of the in-depth discussion we're going to have at the Board level. But I would like to point out that even -- the most active place being talked about right now is Japan.

Even Japan, you really don't get to spend any significant money in terms of shovel in the ground or pouring concrete until at least two or three years down the road.

At our current run rate of free cash flow being generated, I think that we will take that into consideration when we consider this dividend policy, to have a bullet proof balance sheet, but, at the same time, potentially if we have the opportunity to return some capital to shareholders.

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**Simon Cheung** - *Goldman Sachs & Co. - Analyst*

Okay, understand. Thanks a lot guys. Thanks.

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

Thank you, Simon.

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

It's just a quick follow-up on two things. One, I was hoping to get the latest thoughts on the gaming taxation changes in the Philippines, we're close to a resolution. Any projected impact there?

Lawrence, I followed your remarks on Hengqin; that was pretty interesting stuff. Would that be something you would consider adding capacity to, or amenities; meaning you guys go direct into Hengqin?



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

I think on Hengqin first, we've always been a huge believer that the further integration of the Pearl River Delta, the Hong Kong--Zhuhai--Macau Bridge that is soon to be open in 2016, and other major infrastructure development projects like the Pac On Ferry Terminal, that should open some time next year, hopefully, and the light rail, which are all going up in Macau at the same time.

There is going to be a massive beneficiary to our business, especially since we are -- most of all of our eggs are going to be located in Cotai, and Studio City has really the best site located right next to the Lotus Bridge border.

But with regards to building out on Hengqin, I think we've looked at that in the past. But, ultimately, given the tremendous gaming opportunities in the region right now, I think we would keep our powder dry for those opportunities, and instead probably will try to strike some sort of agreement with the existing operators on Hengqin and the future hotel pipeline developers in due course.

But I think, without a doubt, Hengqin is going to be a game changer for Macau.

With regards to Philippines and the tax rate, I think all four operators are actively and unanimously working with PAGCOR. And I think similar to the fact that PAGCOR has realized and wants to motivate operators to invest more in the market for a better product, and have loosened up some of the table caps and also slot caps, I find PAGCOR to be very pro-business and really pragmatic.

I think there is a solution in place that will really neutralize some of the tax issues. But I think they're working it through their government. But again, all four operators are unanimous and working together on this front.

So they tell us that they hope to have a resolution some time end of the year or some time early next year. So it will be comfortably ahead of when we open our property.

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

Great. Thank you.

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

Thank you.

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**Operator**

Grant Govertsen, Union Gaming, Macau.

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**Grant Govertsen** - *Union Gaming - Analyst*

In Macau this month, I guess there's a couple of things happening, could you give us some color on the double Grand Prix race weekend? I suspect that that might drive incremental traffic to Cotai, given the gridlock on Macau Peninsula. Usually that's just one weekend; this month it's going to be two weekends.

And then as a follow up, I believe this is the month where the government is enforcing the closure of the slot parlors, so if you've any updates there, I'd appreciate it.



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

Hi, Grant, this is Ted. Let me respond on the Grand Prix. I think that it's a feature in Macau and very successful in the past [decade]. So, however, there are some traffic issues of course. As you're in Macau you know it very well.

Our experience last year, or the year before, was actually we don't see much impact on customer increase, but I think the length of stay is actually key. So I guess instead of going out in Peninsula, they stay more time in Cotai, which is good for our Cotai property. I think that's a general response to that.

For the slot parlor, yes, this is a new rule and in terms of the impact on MCE, we have three multi-venues, which will be closed by the end of November; in fact, November 26. And we are all committed to that changes.

All the mitigation plan on the three venues is really in place, actually in the last six months. And all this discipline, reinvestment and marketing plans actually in place. So I think if you notice the number in Mocha it's actually a hidden record in the last few months already. So I think we're ready for the changes.

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**Grant Govertsen** - *Union Gaming - Analyst*

Brilliant. Thank you very much.

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**Operator**

Philip Tulk, Standard Chartered.

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**Philip Tulk** - *Standard Chartered - Analyst*

Most of my questions have been asked, but Geoff, can you breakdown the tables by segment to the two properties for the quarter? Thanks.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

Sure, Philip. The breakout between VIP and mass at Altira about 135 VIPs, 30 mass; City of Dreams, 205 VIPs, 250 mass.

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**Philip Tulk** - *Standard Chartered - Analyst*

205 and 230?

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

205 and 250.

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**Philip Tulk** - *Standard Chartered - Analyst*

250. Okay, thanks.

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**Operator**

[Amee Messa], PIMCO.

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**Amee Messa** - *PIMCO - Analyst*

My question's already been answered regarding your dividend and future expansion plans, but thank you very much.

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

Thank you.

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

Thank you.

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**Operator**

Bryan Maher, Craig-Hallum Capital.

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**Bryan Maher** - *Craig-Hallum Capital - Analyst*

Most of my questions have been answered as well, but I believe earlier in the call you gave an approximate opening date for Tower 5 at City of Dreams. What was that date, do you think?

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

Hi, it's Lawrence. We said 2016/early 2017.

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**Bryan Maher** - *Craig-Hallum Capital - Analyst*

Okay. Thank you very much.

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

Thank you.

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**Operator**

Billy Ng, Merrill Lynch.

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**Billy Ng** - *BofA Merrill Lynch - Analyst*

Sorry my question has been answered, but since I -- actually, I can use this opportunity to ask one -- something maybe you already mentioned. What was the luck-adjusted EBITDA for this quarter; it's \$290 million, the numbers?





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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

Luck-adjusted was \$290 million last quarter. This quarter, it's roughly identical to the reported number, so \$315 million.

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**Billy Ng** - *BofA Merrill Lynch - Analyst*

\$315 million, okay. All right, thanks. Thanks, I got it, okay. Thanks.

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**Operator**

Praveen Choudhary, Morgan Stanley.

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**Praveen Choudhary** - *Morgan Stanley - Analyst*

Sorry for being granular here. Just wanted to understand if there was anything in City of Dreams' cost structure that went up when there was one-off item.

I understand you explained the difference between two different VIP businesses and luck factor. But I'm looking here, mass revenue growing at 16%, quarter over quarter; direct VIP being higher quarter over quarter; and direct VIP is a higher margin business mathematically.

I just can't reconcile the EBITDA which has been flat and the EBITDA margin, which isn't flat on a quarter-over-quarter basis. Can you talk about cost structure of City of Dreams, please?

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**Geoffrey Davis** - *Melco Crown Entertainment Limited - CFO*

So, Praveen, so the -- there was a -- on a luck-adjusted basis the margin at City of Dreams was up similar to the overall margin, about up 200 basis points. So we got the flow-through on that incremental mass market business as well as having a higher margin within the mass market business.

So we were very pleased with the very significant sequential increase in luck-adjusted EBITDA from the \$290 million range up to the \$315 million range.

But no, there was nothing particularly special about our overhead this quarter, or costs. Our provision for bad debts was in line with our normal range; so, no, nothing unusual to report.

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**Praveen Choudhary** - *Morgan Stanley - Analyst*

Very helpful. Thank you so much, Geoff.

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**Operator**

Aaron Fischer, CLSA.



**Aaron Fischer** - CLSA - Analyst

Before I ask my question, I would just put a comment out there, I think that you guys have got a great chance in terms of getting one of the casinos in Japan, so all the best of luck for that.

Actually, I've got a question for Ted. In terms of the minimum bet in the mass market floor, can you just provide some color in terms of how much the minimum bets have changed over the last 12 months and what's your expectation going forward? Because, of course, I understand that minimum bet's gone up a huge amount.

And then the second point or second question would be, given the mass market's grown so rapidly over the last 12 months, how much do you think that's been driven by increased average spend by the same mass market customers? And how much has been driven by some of the VIP customers dropping down into the mass market area?

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

So Aaron, the minimum bet I think we actually change almost every day in terms of minimum bet; it's actually according to demand to supply issue. So, we'll look at how much we increase the minimum bet. I think that it's really the outcome assumption of how many customers are on the tables.

So luckily, and also strategically, we look at improvement of the casino offering, particularly in our Signature Club brand.

We see a lot of great customers or high ADT customers going into our casino floor that drives demand for higher minimum bet, which is the result of very high average bets over the last few quarters.

So at the moment, if you look at our premium mass area, it's actually continued to increase the minimum bet accordingly, because of the average bet of customer actually going up.

That scene is actually repeatedly seen, particular in the last few quarters, resulting in a very impressive year-on-year growth in terms of overall average bet as a result and a better revenue overall.

I hope that answers your first question.

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**Aaron Fischer** - CLSA - Analyst

Yes, thanks, Ted. What about in terms of the growth in the mass business? Do you think that's attributed to some of the VIP customers dropping down from VIP to mass, because you're offering a better product?

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

No, I think we don't see it a drop in VIP resulting in better mass. It's really because, I think, a very, very good player management system we've built proprietary to our local team members over the last three years and continue to [yield] up our good customers accordingly. So, there's not such a migration of VIP to the mass, at the moment, I see.

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

Yes, Aaron, this is Lawrence.

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**Aaron Fischer** - CLSA - Analyst

Okay, thanks. But you've done a great job, Ted.

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

No, and Aaron, first of all, thank you for the comment on Japan.

But I think on the premium mass versus VIP players, we've always maintained that it's not really VIP players dropping down to mass, because our view is that, and having dealt with our customers, the premium mass players that we deal with are much more sophisticated than most of the junket VIP players.

So our premium mass customers are ones who are looking after -- looking for a total experience in terms of hotel experience, food and beverage experience, shows, amenities, the whole lot; whereas, some of the junket VIP players are still the traditional I want to borrow money gamble and go to a night club-type.

So it's a very different animal altogether and I'm glad that the market is becoming more sophisticated, as we had predicted. Which is why we've always maintained that although our product is more contemporary for our customers, they're going to appreciate it over the longer haul; whereas some of the current product in the market, which are very gaudy and gold-ish and just ugly, wouldn't have a long lifespan.

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**Aaron Fischer** - CLSA - Analyst

Thanks a lot, Lawrence.

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

Thanks, Aaron.

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**Operator**

Thank you so much. This is the end of the question and answer session. I now will pass back to the speaker for closing remarks.

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**Geoffrey Davis** - Melco Crown Entertainment Limited - CFO

Thanks, operator; and thanks, everyone, for joining us. We'll see you next quarter.

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**Operator**

Ladies and gentlemen, this does conclude the conference for today. Thank you for your participation. You may all disconnect. Goodbye.

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