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MLCO - Q4 2017 Melco Resorts & Entertainment Ltd Earnings Call

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CORPORATE PARTICIPANTS

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

Geoffrey Stuart Davis *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

Andy Choy *Melco Resorts & Entertainment Limited - Property President of Altira and Mocha*

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

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

Ross Dunwoody *Melco Resorts & Entertainment Limited - VP of Development and Investor Relations*

CONFERENCE CALL PARTICIPANTS

Anil Jeevan Daswani *Citigroup Inc, Research Division - MD and Head of Global Gaming Research and Hong Kong Country Research*

Billy Ng *BofA Merrill Lynch, Research Division - Research Analyst*

Grant Wesley Govertsen *Union Gaming Securities, LLC, Research Division - Research Analyst*

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the Fourth Quarter 2017 Earnings Conference Call of Melco Resorts & Entertainment Limited. (Operator Instructions) Today's conference is being recorded. I would now like to turn the call over to Mr. Ross Dunwoody, Vice President Development and Investor Relations of Melco Resorts & Entertainment Limited. Thank you. Please go ahead, sir.

Ross Dunwoody - *Melco Resorts & Entertainment Limited - VP of Development and Investor Relations*

Thanks, operator. Thank you all for joining us today for our Fourth Quarter 2017 Earnings Call. On the call today are Lawrence Ho, Geoff Davis and our property presidents in Macau and COO in Manila. Before we get started, please note that today's discussions may contain forward looking statements made under the safe harbor provision of Federal Securities Laws. Our actual results could differ from our anticipated results. I will now turn the call over to Lawrence.

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

Thank you, Ross, and hello, everybody. 2018 is shaping up to be another strong year with the demand environment continuing to improve the anticipated completion of the Hong Kong-Zhuhai-Macau Bridge and the ongoing build-out of Cotai driving expansions in Macau's gaming market. To solidify our leadership position in the premium segments, we need to consistently offer customers innovative world-class lodging, dining and entertainment experiences. As illustrated by the extensive upgrade to our flagship property, City of Dreams, which includes launching the Forbes Five-Star Nüwa hotel, rebranding and redeveloping the Countdown hotel and unveiling Morpheus. With Morpheus, we plan on, once again, redefining the premium mass market by providing customers an integrated resort experience that has never been seen before, in Macau. That includes our collaboration with legendary chef, Alain Ducasse, who will be anchoring the food and beverage offering at Morpheus with 2 Ducasse restaurants. Morpheus will also feature some of the most inspired must-see nongaming amenities in Macau, including ultra-luxurious sky villas, an infinity pool 130 meters above ground and a breathtaking atrium. The opening of Morpheus and planned redevelopment of the Countdown will



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almost double City of Dreams luxury hotel room count to approximately 2,100, offering the much-needed lodging capacity to drive further mass and premium mass gaming revenue improvement over the long term.

Moving on to Studio City, we continue to refine its entertainment offerings and improve accessibility into the resort, which should extend the ongoing ramp-up that we have experienced over the past several quarters. We will also continue to explore the Phase 2 expansion of Studio City, which we believe will contribute to the continued growth and development of this property.

In the Philippines, City of Dreams Manila delivered a strong quarter with all gaming segments continuing to enjoy robust year-over-year growth including record mass table revenue in the fourth quarter, which is a testament to our commitment of driving high-quality earnings.

Aimed at optimizing our operating excellence, we have announced the redeployment of our senior management with David Sisk, appointed as the Property President of City of Dreams; Geoff Andres as Property President of Studio City; and Kevin Benning taking over at COD Manila as COO. These internal transfers highlight the management bench strength that we have at Melco, which has enabled a smooth and seamless transition. Which -- with each of them delivering impressive results in their prior roles, I have every confidence in their ability to drive further profitability improvement for the group in their new positions.

Lastly, 2018 would be an important year for Japan. With the country potentially taking a major step forward towards the development of IRs with unique Japanese touch. Japan continues to be a core focus of ours. We believe, Melco is in a strong position to help Japan realize the vision for Integrated Resort development by committing to be an ideal partner and by offering world-class Integrated Resorts, which delivers long-lasting benefits to the country. With that, I'll turn the call over to Geoff, to go through some of the numbers.

Geoffrey Stuart Davis - Melco Resorts & Entertainment Limited - Executive Vice President and CFO

Thank you, Lawrence. We reported group-wide property EBITDA of approximately \$340 million in the fourth quarter of 2017, increasing by 12% from the fourth quarter of 2016, while luck-adjusted property EBITDA increased by over 18% on a year-over-year basis to approximately \$378 million. An unfavorable VIP win rate negatively impacted EBITDA at City of Dreams Macau, by approximately \$26 million and at Studio City, by approximately \$14 million. At Altira, EBITDA was positively impacted by a favorable VIP win rate by approximately \$6 million. The luck-adjusted property EBITDA margin in Macau was approximately 28%, down from 29% in the prior quarter and up 25 -- up from 25% in the fourth quarter of 2016. Despite the recent VIP resurgence, the EBITDA contribution from our non-VIP segment still represents more than 85% of luck-adjusted EBITDA on a Macau-wide basis, highlighting the mass gaming and non-gaming segments importance and driving group-wide EBITDA and EBITDA margins. The credit environment in Macau continues to improve as we experienced ongoing success in collecting on bad debts, which highlights improving credit quality and our prudent approach on provisioning for potential bad debts during the challenging times.

City of Dreams Manila delivered luck-adjusted EBITDA of approximately \$58 million, representing an increase of 32% year-over-year. The luck-adjusted EBITDA margin expanded by approximately 160 basis points on a quarter-over-quarter basis and approximately 220 basis points on a year-over-year basis to 36%. These strong results came despite the peso depreciating against the dollar, which has negatively impacted COD Manila's EBITDA by approximately USD \$2 million for the fourth quarter and \$15 million for the full year of 2017.

Moving on to capital management. The board has decided to increase the quarterly cash dividend by 50% to \$0.135 per ADS. This is consistent with our strategy of focusing on recurring dividends rather than opportunistic specials. As a reminder, in the past 4 years, we have returned approximately \$2.8 billion of capital back to shareholders, which includes \$650 million of special dividends and \$200 million of regular dividends in 2017. To provide more clarity regarding our capital structure within our core or wholly-owned group, we had cash of approximately \$700 million and gross debt of approximately \$1.4 billion, excluding Studio City in the Philippines at the end of the fourth quarter of 2017. 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 \$130 million to \$135 million including approximately \$45 million at Studio City.

Corporate expense is expected to come in at approximately \$33 million to \$36 million and consolidated net interest expense is expected to be approximately \$60 million, which includes financed lease interest of \$10 million relating to City of Dreams Manila and \$11 million of capitalized



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interest. For those who follow City of Dreams Manila more closely, our building lease payment for the fourth quarter of 2017 was approximately \$8 million. Operator, that concludes our prepared remarks. Back to you for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question coming from the line of Mr. Harry Curtis from Nomura.

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

My first question, Lawrence, is the management change -- is related to the management change. The intelligence we're getting is that David Sisk is very good at what he does. Can you give us your sense of what incremental skills he adds? And how that is likely to change market share and operating performance at City of Dreams?

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

Sure, Harry. Of course, our recent management change, we recognize that at City of Dreams, which is our flagship property, that we were in terms of our really core business, which is mass and premium mass, that we weren't keeping pace with the market. And ultimately, we benchmark ourselves at the highest level of that segment. And what I identified previously was that there was a leadership issue and the fact of it is, as senior leaders of the company, we need to get the best out of our people and have all of our teams work together in unison. And I felt that the prior property president couldn't get the team to be at their best. And what I have seen with David, at Studio City, in his 1.5 years to 2 years with us, is that he really pulled the team together and he runs the operations very meticulously, and we've seen drastic improvement at Studio City. I think that's the reason why we made the management reshuffle, but at the same time we're very pleased with all of the changes, because they are all internal. We didn't have to go external -- I think for the first time in our company history, we have a very deep bench, and we're pleased with Geoff Andres, coming back to Macau. Geoff has done a fabulous job for us in Manila. We have the smallest footprint there, but yet, we're one of the best-performing property consistently. And Kevin has done some great stuff under Geoff Andres, in Manila. So I think, overall, we are very pleased with our management reshuffle.

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

And my other question related to your comments on Phase 2 of Studio City. What do you envision there? And can you give us some sense of what the timing and possible CapEx budget looks like?

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

Well, I think on the -- it's a bit early on CapEx, and we've -- over the years, we've gone through many iterations of what we wanted to build at Studio City Phase 2. And of course, this is still subject to discussion and ultimately, approval from our minority shareholder - New Cotai. So we're still working through it and at the same time we have had a lot of dialogues with the relevant government departments as we've had to -- before we start construction, we need to expand our land development area. And so that is ongoing as we speak, so a lot of work has been done on that. But phase 2 is, we want to make sure -- we love what Studio City is. It is a great property. So I think, one key component of Phase 2 would be additional hotel rooms, because I do think that Studio City is significantly under-roomed. And I think the timing would be quite good. I think the bridge border and the footpath that leads to Studio City, we are doing all that we can to try to ask the government to open it sooner, but hopefully, it's going to be opened some time within this year, and the walk from the Lotus Bridge to our property in the future would be literally less than 1 minute.



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Operator

We have the next question coming from the line of Anil Daswani with Citigroup.

Anil Jeevan Daswani - *Citigroup Inc, Research Division - MD and Head of Global Gaming Research and Hong Kong Country Research*

Lawrence, and my question is really on the mass table hold. Now clearly, we have seen a significant decline in this versus not only the third quarter, but even some since the fourth quarter of 2016. Can you give us an idea of what David is going to do differently compared to Gabe, in trying to reverse this? I understand Morpheus is going to be huge here, because it clearly gives you the capacity to be able to increase that length of play that clearly, is a factor that's hurting this on the mass side.

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

Yes. I think, maybe, I'll hand it off for David, to go through the details, but I think at the end of the day, with our decline in our mass hold rate and our mass GGR, it was really a function of some of our top players trying other properties. And again, echoing what I said earlier on, the property president position needs to get the best out of everybody at the property. And I think that previous property president wasn't -- didn't do that. And so I think on the details, maybe, I'll hand it off to David, to go through it.

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

Sure. Anil. So, I think, it's a lot of different things, but I think one of the first things, obviously, is we have to stop the leakage of our premium players. Obviously, they're going to go out, they're going to sample whether it's Wynn Palace or MGM or the other properties out there, and we have done not so good a job of getting them back. Part of that, I think, is to do with our -- motivation of our sales team and our sales staff there, so it's part of what we've done in the first couple of weeks, is we brought back some of the sales leadership, we brought back some of the sales people, and we're looking to try to bring in additional sales people now that perhaps maybe left us over the last 12 months, get them back in and get them back to our family here and get them focused on building those relationships with those players and getting them back more frequently. What we've also done as well is now we have just started looking around the property and taking a hard look and say, you know, we don't need certain sections there. So we're taking out that middle section, which really blocks one of the sidelines. So we're in the process now of taking that out, we're looking to brighten and lighten the casino and really try to contemporize it more. We are adding some smoking pods on the floor, which really does help us and kind of centralizes and encourages more play, as people don't have to get up and go too far away to go grab a cigarette. They can watch the trends and get right back to the games. So again, as we look at this, we are just trying to really kind of energize the team and the staff there. People seem to be understanding what we're trying to do. I think it's only been a couple of weeks as I said, but we're pleased, I think, in terms of where we're headed.

Anil Jeevan Daswani - *Citigroup Inc, Research Division - MD and Head of Global Gaming Research and Hong Kong Country Research*

David, my next question is on the Philippines. Obviously, that market hasn't been impacted as badly from the launch of Okada Manila as one had anticipated, because of the lack of the rooms. Do you guys think that when they finally get their product opened that will become more of a threat to the Philippine business? Or you guys comfortable that the market there is growing fast enough to be able to absorb the new capacity coming from your competitor?

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

Anil. Let me pass that off to probably Geoff and Kevin. So you guys please feel free to chip in, but we've been extremely happy with our investment in the Philippines. And the property -- the way the property was built and also with the improving relations between the Chinese and the Philippine government, we are seeing a significant uptick in Chinese tourists. That was always lacking. So even that part of it has improved significantly. Infrastructure, I think the government has done a very good job in building the expressway. Now from -- literally from the airport to Entertainment



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City and our property, and our property is on the very first stop of that bridge, is less than 10 minutes. So there are a lot of positive macro factors that are driving the growth in the Philippines. And at the same time, Philippines and China almost have the -- this highest GDP growth globally. So I think all of those factors have been a big contributor, but I think, in terms of getting more color on the ground, maybe I'll pass it off to Geoff and Kevin, who were much closer to it then.

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

Anil, this is Geoff. When you think about the Philippines and their public policy of getting high-quality Integrated Resorts, you now have really 4 good resorts in that -- in Manila, with Solaire, City of Dreams, Okada and Resorts World. So collectively, I think, we are all doing a very good job of changing how people perceived Philippines and perceived Manila. And you can see it in the inbound tourism numbers. The inbound tourism from China is growing dramatically, also from Korea and also Southeast Asia. And I can tell you that Kevin and I had great success in getting into Southeast Asia, Korean markets, in particular and driving trials for the property and repeat business. So I think, as Okada continue to activate their property, it's a very high-quality property, it continues to improve the overall perception of Manila as a place to visit, and I think it's also very exciting. And then when you also look at -- in about 1.5 years, one of the largest malls in Asia is going to open up right across the street from City of Dreams Manila, and we're in a connect right into with the sky bridge. So it's a very good sign for entertainment and fun and excitement in Manila.

Anil Jeevan Daswani - *Citigroup Inc, Research Division - MD and Head of Global Gaming Research and Hong Kong Country Research*

Thanks Geoff. If I could trouble one more last question. Altira clearly had a phenomenal quarter. Is this something that we should expect going forward or was this a one-off?

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

Anil, it's Lawrence here. I think, before I -- I'll let -- Andy is on the call as well, I'll pass it off to him to give you more details, but we are pleased with what Andy and the team at Altira have done. I think, for many years, Altira was neglected and really didn't have, again, the leadership to pull all the various teams behind. And so I think Altira is having a resurgence, it's finding -- Altira is not going to be an Integrated Resort on Cotai, but at the same time, it has always been a very boutique niche product serving the sophisticated luxury in Macau. And so we're pleased with the progress of Altira. Andy, do you want to give more color?

Andy Choy - *Melco Resorts & Entertainment Limited - Property President of Altira and Mocha*

Yes. I'll say that the teams there have been a doing a lot of little things right and kind of fine-tuning the offering there. We've said all along it's the best-kept-secret in Macau, and that we really haven't gone to market and found its place over the last few years. And we're really starting to do that now. You're right that what we did have a spectacular quarter, and we hope to be able to continue that and the trends are looking good, but we're going to stop short of promising any numbers on a go-forward basis at this point in time.

Operator

We have the next question coming from Billy Ng from Bank of America.

Billy Ng - *BofA Merrill Lynch, Research Division - Research Analyst*

My first question is regarding to the dividend policy. Understanding that the firm direction is to continue to increase the regular dividend, and we can see that the cash flow is going to improve dramatically in the next couple of years when we have Morpheus and the CapEx coming down. So my question is how -- of course, I think we're pleased with the 50% increase of the regular dividend, but how often or how fast we can adjust the regular dividend? Do we need to wait for a whole year to see another increase or it depends on the situation?



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Geoffrey Stuart Davis - *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

Billy, it's Geoff, Geoff Davis. We definitely have an intention to increase the dividend, the ordinary dividend over time. And we will revisit the dividend level more frequently. But it'd be difficult sitting here right now to say when exactly or how much. But again, the intention is for it to increase over time, and we are very happy to review that policy more frequently than on an annual basis.

Billy Ng - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. Great. And other thing is just to -- maybe you mentioned that in the statement there, I just want to clarify, is there some bad debt reversal in the fourth quarter as well and then -- so how much are we talking about?

Geoffrey Stuart Davis - *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

In total, the provision write-back in the fourth quarter was approximately USD 11 million.

Billy Ng - *BofA Merrill Lynch, Research Division - Research Analyst*

Okay. And so when you mentioned the \$378 million luck-adjusted EBITDA number, does that include or not include that \$11 million adjustment or when we talk about luck-adjusted, we don't adjust the bad debt reversal there?

Geoffrey Stuart Davis - *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

We do not adjust for the -- it's just purely a calculation on the hold impact, and, of course, the mix impact depending on where that hold was in revenue share versus turnover. But no, no adjustment for bad debt provision as we talk about the or luck-adjusted EBITDA.

Billy Ng - *BofA Merrill Lynch, Research Division - Research Analyst*

Maybe, just one last follow-up. I think, David has mentioned that he has already and saw some opportunities in COD, but on going-forward basis what kind of hold rates, I know it's hard to say, but is there a target to get back to 30%, 33% or any numbers we should use for the rest of the year?

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

Billy. I don't like kind of focusing on the hold percentage in terms of trying to get to an exact rate. Obviously, when I see the hold go-up and I think, our focus is trying to bring back our quality players, who extend the playing time and ultimately, we believe, that would drive our hold percentage up. So again, it's motivating our team, focusing our Morpheus and getting that opened, so we can have a good experience for our players, getting them back in, increasing our visitation, that's going to drive our whole percentage.

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

And Billy, it's Lawrence. I think rolling on from David's point, the opening of Morpheus cannot be understated because Morpheus is helping us relaunch City of Dreams after the property has been opened for 9 years. So there is significant work ongoing, in the casino floors, in the retail areas, in all common areas right now at the City of Dreams. And the whole goal is so that Morpheus can be a significant catalyst when it opens in addition to adding with our room capacity that we're getting the best customers back, and also giving the best possible guest experience in retail, food and beverage in our hotel and all aspects of the properties. So there's very high hopes that we have for Morpheus. And I think when that is finished,



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when Morpheus is finished, we will be able to capture a lot of that high-end players back. And I think, naturally, like David said, the hold rate will go back up.

Operator

We have our next question coming from the line of Mr. Joe Greff from JP Morgan.

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

My first question is for David Sisk. And David, in your comments about stopping the leakage of premium mass players and eventually elongating their length of play at City of Dreams, can you redeem premium mass share without changing or eroding the property or the segments expense or margin structure?

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

Joe. Yes, I think we can. I think one of the things that I think that we've not been able to do as much as the database is growing and to really try to kind of push our database, we've not been able to do that (inaudible) we had the rooms or the, let's say, the suite product as much as we've had in, let's say, before the market started growing like it did. So I think there's a huge opportunity for that. I also think as we go through the property -- and there's other things we can do to be more efficient within the property to kind of keep our costs structure in line. So between those 2 things, I think, overall, we'll be in a very good position.

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

Great. And then my next question is for Lawrence and with respect to the dividend policy, I think, for everybody in this call is happy to see the focus more on a routine recurring than a special dividend basis, and not to say, we are not pleased with the 50% dividend bump, but just on our math, you could obviously pay out a lot more and it wouldn't imperil the balance sheet in any way whatsoever. So it seems to us that maybe you're conserving the balance sheet or the dry powder associated with the balance sheet for some reason. And outside of Japan, are there any other things that we should be thinking of that you're thinking about perhaps that impacts the dividend policy whether that's M&A in Macau or otherwise?

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

Jo. When -- we tend to be pretty conservative when we think about our balance sheet and ultimately, the most important initiative that we have, as a company, is Japan. And so we've spent significant resources both time and money on Japan over the last few years. And ultimately, as part of that bidding process, a pristine balance sheet is going to be one of the main criterias and that's why we want to keep the balance sheet the way it is. And at the same time, we also have Studio City Phase 2 that we're going have to build out in Macau. And as a company, we've always been very open-minded in terms of other development opportunities assuming they are of sizable and will help us grow our brand, and so we just want some flexibility to keep those options open. But I think, like, what Geoff said earlier on, we will continue -- we will continually look at our dividend policy and whether there are opportunities for share buybacks in the future.

Geoffrey Stuart Davis - *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

Jo, this is Geoff. I...

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

Where does that (inaudible) and, I guess, it's -- that's the latter part of my question?



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

Look, we're -- again, we're a very open-minded company. We have -- we're -- in terms of -- as a company, we have great partnerships, we've had partnerships all over the world in every jurisdiction that we're in. And I think, we're -- we would be a great, great partner for any potential M&A opportunities. And we've always said that this company has global aspiration. So we will continue to keep our eyes open for those opportunities.

Geoffrey Stuart Davis - *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

I'd just add Joe, it's Geoff, that we put a premium and have always put a premium on flexibility and optionality to be able to pursue growth. So that definitely factors into how we manage the balance sheet. And I haven't seen your math on the dividend, but I just ask you to keep in mind that when we think about cash available for dividend that really should not include what you're modeling for Studio City or Philippines EBITDA. So please keep that in mind as you think about the starting point of your math.

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

Great. And what's CapEx for this year, Geoff?

Geoffrey Stuart Davis - *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

In 2018, CapEx should be roughly \$225 million to \$250 million, that excludes approximately \$150 million of additional CapEx related to Morpheus.

Operator

The next question comes from Jared Shojaian from Wolfe Research.

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

So the premium mass leakage, is that a new development from the fourth quarter or is that something that's been building for some time? And do you believe it's as simple as just reenergizing the property, because I would think that with the palace becoming more accessible, that could've had some impact and then there's obviously risk that this could get potentially worse in the near term with MGM Cotai opening, so I'd love to hear your thoughts on that.

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

It's Lawrence here. I guess, for the details, I'll pass it off to David. But I think it's -- with the new properties opening, and we've always expected our top-tier customer base to trial other properties. So it's not a new phenomenon. And -- but I think what has happened within our own property was the fact, what David mentioned earlier on, in terms of unmotivated -- certain parts of the population being unmotivated and at the same time, we have had significant construction disruption really starting in Q3 and then Q4. And of course, there's going to be -- there's still will be disruptions throughout both Q1 and Q2 as we head into the opening of Morpheus. So I think that has been a big factor, but at the same time, I think if we can solve our own internal issues and with Morpheus as a significant new property catalyst, again, I think, we would -- City of Dreams would be the best property in all Cotai and so ...

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

And so I think we've -- somewhat as Lawrence has said, we've kind of had a perfect storm of events with obviously the new properties opening and the property undergoing a major, major renovation as we prepare ourselves for the Morpheus opening, what we call, City of Dreams 2.0. Those challenges have led to some, maybe further in the decline, the motivation has been a big part of the decline as well. Ultimately though, there's an opportunity with our rooms and that room product is so unique, people want to see the product and get to experience the product. It's -- we really believe, it's a game changer for us. We really believe, it's a game changer for us to go after and really build on the premium mass players that perhaps have kind of gotten somewhat diverted because of some of the newer properties out there. So we're really excited about that. So to answer your question more specifically, I'd say that we truly believe, yes, we can reverse this and we can be in a very positive trend once Morpheus opens.

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

Got it. And if you have to guess, just switching gears here, would you say initial construction for Studio City Phase 2 starts before or after the IPO?

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

Given that we have filed the -- indicated that we have filed the initial IPO document, I don't think it's really appropriate for me to speculate at that -- this time.

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

Okay. And then just one more for me. Any insight into how we should think about how much incremental EBITDA Morpheus can generate in 2018 initially? And then how should we think about the ramp period over time for Morpheus?

Geoffrey Stuart Davis - *Melco Resorts & Entertainment Limited - Executive Vice President and CFO*

Well, this is Geoff. Without giving specific guidance, which we don't do, of course, we have return hurdles when we make any investment, particularly a major investment like Morpheus and always looking to get an or exceed a 20% cash-on-cash return. So again, without commenting specifically on Morpheus, there will be a ramp-up period. Maybe I'll hand it off to David, for may be some more specific thoughts on how long that ramp-up period might take.

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

Sure. So typically ramps can take anywhere from 6 months to 12 months. Obviously, it depends on the property and everything else. In this case, I think, we're probably closer towards the 6 months, so I would hope by the end of the year, we would be fairly starting into that ramp-up period and kind of getting used to everything else. And obviously, ironing out most of the challenges you have when you open a new property or when you open up a new tower or something as significant as Morpheus, and some of the other casino aspects that we're opening with it as well for the renovations.

Operator

We have the next question coming from Grant Govertsen with Union Gaming.

Grant Wesley Govertsen - *Union Gaming Securities, LLC, Research Division - Research Analyst*

A couple of questions on the Philippines. First one relates to VIP. Looks like the volume there has been fairly flat for the past several quarters. Just wondering what you're seeing on that front? I mean, is it getting incrementally harder to get that extra [guy] to come to Manila? Is there something



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else, maybe, from a competitive standpoint? And then on the second question, this relates to the mass market story there, which still seems very robust. Maybe this is a question for Geoff Andres just. What are you seeing from an infrastructure standpoint over, call it, the next 12 maybe the 18 months that will keep that engine going? And then just, I guess, generically, if you could talk about just, what you're seeing from a competitive standpoint, especially with Okada ramping?

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

Grant. When it comes to the VIP, really we had some substantially big players early in the year that did not get return trips in the second half of the year. So you see that volatility is a little bit greater in the Philippines, because you don't have that level of VIP play that you have in Macau. And then on the mass side, really, a lot of credit to Kevin Benning, because the team there is really engaged in continuing to activate all part of that wonderful property, City of Dreams Manila, to drive mass play. And currently even City of Dreams Manila is expanding the gaming casino footprint within the building in order to add more table and add more slot machines. So I think it's a really good story in Manila as we -- hotels run very high occupancy. Food and beverage is fantastic. We've got some new entertainment offerings coming up that will integrate with the new mall across the street. So I think, City of Dreams Manila and Manila market, in general, has some good days ahead.

Operator

We have no further questions at the moment. I'd like to hand the conference back to our speaker.

Ross Dunwoody - *Melco Resorts & Entertainment Limited - VP of Development and Investor Relations*

So thank you very much for joining. We'll be back in 3 months' time. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for the day. Thank you for your participation. You may disconnect your phone lines now.

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