

Melco Resorts & Entertainment (Q4 2024)
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Corporate Speakers:

- Lawrence Ho; Melco Resorts & Entertainment; Chairman and Chief Executive Officer
- Evan Winkler; Melco Resorts & Entertainment; President & Director
- Geoffrey Davis; Melco Resorts & Entertainment; Executive Vice President, Chief Financial Officer
- Jeanny Kim; Melco Resorts & Entertainment; Senior Vice President, Group Treasurer

Participants:

- George Choi; Citi; Analyst
- Ricardo Chinchilla; Deutsche Bank; Analyst
- John DeCree; CBRE; Analyst
- Joe Stauff; Susquehanna; Analyst
- Praveen Choudhary; MS; Analyst

PRESENTATION

Operator: Ladies and gentlemen, thank you for participating in the fourth quarter 2024 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: Thank you, Operator. Thank you, everyone, for joining us today for our fourth quarter 2024 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 harbor provision of federal securities laws. Our actual results could differ from our anticipated results.

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

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

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

Lawrence Ho: Thank you, Jeanny. Thank you, all for joining us today. 2024 was a year of transition for us in Macao. We invested in our business with a focus on enhancing the customer experience to build a stronger foundation for growth. The contributions from these initiatives are now evident with our market share in the fourth quarter of 2024 growing month-to-month. We ended the year with a market share of approximately 15.6% in December and property visitation exceeded pre-pandemic levels for the first time since reopening of the borders.

2025 is off to a great start. Our market share year-to-date continues to grow from 4Q 2024 levels. We had a solid Chinese New Year. Total GGR, excluding junkets outpaced both 2024 and 2019 and property visitation was up 17% compared to last year.

A single day within this year's Chinese New Year period placed within our top 10 all-time high mass drop and GGR days. With House of Dancing Water scheduled to reopen in May 2025 and other projects that we have in the pipeline, we expect visitation to grow further, driving revenue and EBITDA, which will enhance our margins as we see the benefit of the operating leverage that we built through 2024.

We will continue to invest in our properties in Macau. This year, our focus will be on increasing visibility and accessibility with our primary objective to attract and retain high-quality, high-value customers. For example, at Studio City, we're nearing completion of the revamp of the high limit area. At City of Dreams, we will renovate the area outside the main casino entrance and active spaces around this entrance to enhance the visual appeal and drive incremental traffic. All of our baccarat tables in Macau will be smart tables by the end of March. Full deployment of this technology across our properties in Macau will enable us to further refine our approach to marketing and player reinvestment.

In Cyprus, City of Dreams Mediterranean and our satellite casinos achieved solid results for the fourth quarter of 2024, despite the ongoing challenges that we faced in the region. In Sri Lanka, the fit-out of the casino at City of Dreams Sri Lanka is progressing well and we are on track to open in 3Q 2025. Turning to the Philippines, City of Dreams Manila continued its solid performance with growth in EBITDA and market share quarter-to-quarter.

We announced today that we will be exploring strategic alternatives in relation to COD Manila. We are very proud of the business that we have built together with our partners over the last 10 years. Our decision to explore strategic alternatives is part of our strategy to be asset light where we can, capitalize on our investments and reallocate our resources. This will allow us to enhance financial flexibility, strengthen the balance sheet and support our long-term growth initiatives.

With that, I turn the call over to Geoff.

Geoffrey Davis: Thanks, Lawrence. Our group-wide adjusted property EBITDA for the fourth quarter of 2024 was approximately \$295 million. Adjusted for VIP hold, our

property EBITDA would have been approximately \$312 million, 5% higher than that of 3Q 2024. Our OpEx in Macau during Q4 2024 increased to \$3.2 million per day. This was in part due to new activation additional programming through year-end and as more staff came on board during the fourth quarter. Despite the sequential increase in OpEx, the EBITDA margin in 2024 on a theo basis, was fairly steady compared to that in the prior quarter. OpEx has been trending down so far in 2025. We expect run rate OpEx per day to decline to approximately \$3.1 million within the first quarter and further down to \$3.0 million as we exit the second quarter of 2025. We continue to remain disciplined in our approach to OpEx and reinvestment as we look to take advantage of operating leverage.

Turning to our balance sheet, our liquidity position remains strong. We added another \$250 million of liquidity with the closing of a \$250 million revolving credit facility for Studio City in November 2024. This takes our available liquidity to \$3.3 billion with consolidated cash on hand of approximately \$1.3 billion. Melco, excluding its operations at Studio City, the Philippines and Cyprus, accounted for approximately \$700 million of the consolidated cash on hand. We have approximately \$1.2 billion of debt coming due in 2025, but those maturities are covered. We have \$1.8 billion in available capacity under Melco's RCF, which is more than enough to cover the \$1 billion coming due at Melco.

At Studio City, we expect to refinance the remaining bonds due in 2025 with a combination of operating cash and drawdown from the new \$250 million credit facility. Debt reduction remains our key focus in terms of capital allocation. However, we believe our shares are significantly undervalued and are not trading at levels that reflect our current or future performance. We disclosed in our third quarter results that we had repurchased 112 million ADSs. Since then, we have repurchased another 20 million in MLCO shares.

Corporate expense in 4Q 2024 was \$25 million. The increase compared to the prior quarter is primarily related to the payment of trademark license fees. We have shared service agreements in place across our properties to regulate the shared service we provide between Melco Group companies. These shared services can include corporate shared services such as IT or finance functions and also include the use of trademark licenses and brands. Melco Resorts has an agreement in place with Melco International, who owns certain trademarks and brands related to City of Dreams. In 4Q 2024, this was the first quarter that these fees were paid. These fees are paid on a monthly basis and based on a percentage of revenue.

As we normally do, we'll give some guidance on nonoperating line items for the upcoming first quarter of 2025. Total depreciation and amortization expense is expected to be approximately \$135 million to \$140 million. Corporate expense is expected to come in at approximately \$25 million to \$30 million. And consolidated net interest expense is expected to be approximately \$100 million to \$125 million. This includes finance liability interest of around \$7 million relating to fees payable in relation to the Macau gaming concession and the Cypress gaming license and finance lease interest of

approximately \$5 million relating to City of Dreams Manila. That concludes our prepared remark.

Operator, back to you for the Q&A.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Your first question comes from George Choi with Citi.

George Choi: I have a couple, if I may. First of all, this is for Lawrence. So GGR has been quite choppy in the early days this year and the trends around Chinese New Year were not as strong as anticipated. We would love to get your views on the overall market GGR growth prospects for this year. If it is possible. Then secondly, in light of what you just announced on City of Dreams Manila and the asset-light strategy, I'm just wondering what are the implications on Studio City, please?

Lawrence Ho: George, maybe I'll answer the second question first. I think we all, as a group, committed to the asset-light strategy. We really started that with Sri Lanka. I think that is a model that we like going forward. At the end of the day we're trying to shed weight at this stage. So in terms of Studio City, taking on any more interest in there is really no longer a priority. And frankly, if Macau lets me do a REIT tomorrow, I would do it. So I think we are very focused on the asset-light strategy.

In terms of your question about the choppiness of the market, if anything, I think as a group, Melco had an amazing January. It's probably one of the best January's we've had in recent years. And I know Chinese New Year wasn't as strong as people had hoped, but the tail has been much longer. So I think every single, whether it's weekday or weekend in February has been stronger than the previous -- than the prior year. So if anything, I think it's a healthy development because at the end of the day you don't want from a customer experience standpoint also from our services, we also don't want everybody to be jampacked in Macau within a 7-day period.

So for us, at least, we -- I think that's a healthy development that the business has spread throughout the month and over the weekend. So I think all in all, we're very happy with how 2025 has started. And I think maybe Evan can talk about a little bit of all the good stuff that we have been doing in 2024, where we're really seeing the results pay dividend.

Evan Winkler: Sure. I guess just in the context of what Lawrence was saying around the market, I mean our January was very strong kind of across the board, and we've had continued momentum into February. I think from our perspective on the market and taking what you're saying, it has been choppy in the past year, but it feels like we've solidified. We've got some strength under us, and we're moving up. I feel like within that market the early part of this year based on our activations, we've been able to take some share and got good momentum here heading into 2025. At COD, if you've been new entrants going from the Cotai Strip directly into gaming.

So we shortened substantially the amount of time it takes to get from the street into actual gaming space. We supported that pretty heavily here in Q4. We've had very strong take up on that product. We've now got over 30 tables in that space and that looks a winner for us. We've made improvements kind of throughout the property in different areas at COD. We're now going to be riding as we go into Q2 here with House of Dancing Water coming on board. So I hope we're going from strength to strength.

Studio City has performed well, candidly, in spite of really a lot of challenges given the improvements that are being made. If you had been by Studio City, you noticed there was hoarding almost across the entire front of the property. We just brought a lot of that down. But because of that, we've got a new all-day dining where the hoarding stood, but the inside hasn't been finished, but that's coming online in the next couple of months, we've got an incredibly beautiful new redemption area, a new sign-up area, as you go right into the front of the property, which is also with our -- as Kevin will tell you, we're about to move our 6-ton Chinese New Year snake, which is in the front of the property and we're moving it there. And so again we've done a number of improvements.

We've got more direct access now going directly from elevators in. So I think a lot of the work that we've been doing on each property to kind of get the flow, get the momentum on that ground floor together has really started to pay off and we're seeing it in Q1. So I think we feel pretty good to hear about what it looks like heading into '25. SP-2 Thank you very much, -- those are very good color.

Operator: Your next question comes from Ricardo Chinchilla with Deutsche Bank.

Ricardo Chinchilla: I was hoping if you could provide a little bit of insight into your capital allocation strategy with the potential proceeds from the asset review, would you guys would be more inclined to reduce leverage at the restricted group level? Or maybe perhaps a combination between debt reduction and share buybacks, given that you view your share as undervalued?

Lawrence Ho: Ricardo, it's Lawrence. I think first of all, the COD Manila, we celebrated our 10th anniversary, and we really do like the asset considering we spent \$500 million on hard construction and we've generated over \$1.6 billion over the 10 years in property EBITDA. But I think for us, maybe on that Geoff can talk about some of the uses potentially.

Geoffrey Davis: Sure. I think paying down debt will continue to be our primary objective for the foreseeable future. But in addition to that, I think there are other levers that we can pull -- and specifically, if we look at capital-light investment opportunities, that will also play a role in how we consider capital allocation going forward. We think they're going to be plenty of additional opportunities for new and attractive markets for Melco to explore.

Of course with the shares trading where they are, -- we have been opportunistic and active in buying back MLCO shares. And to the extent we continue to see discounted valuations in the share price, that's also going to be one of the things that we'll look at when we consider use of proceeds for a potential sale in Manila and just more broadly think about how to allocate excess capital to shareholders. So paying down debt is number one, but with the shares where they are, and we're going to take a very hard look at buying back more stock.

Ricardo Chinchilla: I wanted to follow up on your comments with regards to Golden Week. Can we interpret from your comments that usually, historically, after a very strong coding week, you had couple of weeks where volumes declined significantly. There's been less the situation after this year's holding week, and you guys have had less of a drop down from business bonus to the following come weeks?

Lawrence Ho: Yes. Ricardo, I recall we absolutely have seen overall February has been very strong. I think both Chinese New Year, then have been much stronger than before and even on a normal week day have also been stronger. So I think all in all, we were in a very good start to 2025 -- and this is before a lot of the excitement comes into play that Evan talked about earlier on with House of Dancing Water returning in May various property activations that we had success on starting with last year and the construction disruption being completely done at Studio City. So I think all in all, it's setting up to be a great year.

Ricardo Chinchilla: Perfect. Last one for me. Could you please be so kind to provide detailed CapEx guidance for the different parts of the business between the restricted group, Studio City and outside of the restricted group?

Geoffrey Davis: Sure. For 2025, we anticipate having about \$415 million of total CapEx. About \$80 million of that will be for Sri Lanka, \$290 million roughly for Macau. But of that \$290 million, approximately \$70 million will be for Studio City. Sorry, the remainder will be, of course in Manila and Cypress.

Operator: Your next question comes from John DeCree with CBRE.

John DeCree: I just wanted to ask about the OpEx comments that you've made coming down in 1Q and then again in 2Q, and we've kind of always associated a little bit of a tick up in OpEx with House of Dancing Water. So curious what's kind of driving the little bit of OpEx decline that you're seeing to start the year? Then as a follow-up would be -- is that sustainable for the full year? Or would we see OpEx step up again in the back half of around programming or whatever?

Geoffrey Davis: This is Geoff before I hand over to Evan. Just one quick comment. The numbers that I provided in my prepared remarks, of course excluding House of Dancing Water. House of Dancing Water is still approximately 0.1 of incremental expense when that goes back online. But I'll hand over to Evan for the color.

Evan Winkler: Sure. Look, I think from an expense standpoint as we were in Q4, expenses were higher than we anticipated. Call it, about 40% of the overage was probably in greater focus on activations, advertising, supporting the new gaming area, supporting with some more entertainment as we were going through a tougher period from a customer standpoint at Studio City where we had hoarding and pushing in the business.

I think we feel pretty good about having spent that given the momentum that we saw in December carrying into January. About 30% of that was some sponsorships and some higher than anticipated maintenance costs. Then about 30% of that was candidly creep as we've improved product and service sort of everywhere. We've had increased across the board, and we were slower there probably in getting some of the titration of getting those costs down, having looked now at sort of what works and what doesn't work. Tim, Kevin, Raymond, myself, the team in Macau has been pretty laser-focused on that over the last few weeks.

We've already put in place a number of things to bring those costs down. So I think we feel very confident that we can go down to that level. We've also got the benefit here as we're looking now at x pace going into Q2 to bring it down further, where walkers could sort of be fully online. We're already seeing some of those benefits, and we're using that to be more server what we're doing from a gaming reinvestment standpoint and how we're modifying those programs, which is going to drive a lot of the rest. I think that's why we're confident we can bring them back to what we think is a healthy level here into the end of Q2. The one caveat I will say on that, it does feel like we've kind of hit, I would say the rational moment in Macau.

I don't feel like everyone is doing what they were doing earlier in the year where we had this sort of fierce competition where at one point, it felt like everyone was trying out how to run a fast food restaurant on their gaming floor and what could you do more and more and more. I think that's all settled and is going in the right direction. I don't think it's going to be incredibly rapid, but I think certainly the highs are behind us. And I think and everyone else as we look out into the later part of the year that you're going to see some gradual easiness on that as all of us of what we're doing and added a bit more rationality into that. So when we look at those factors, I think we feel good about being able to bring those down to the level that we think is appropriate.

Operator: Your next question comes from Joe Stauff with Susquehanna.

Joe Stauff: I just wanted to follow up on that answer. That was really helpful on the daily OpEx, but -- so in the fourth quarter, if the overage really due to higher spending given some of the new projects and products that you had. Is it fair to say that was a tactical decision, meaning you knew you had a new product, you wanted to spend behind it to get a return. And essentially, I think I heard you suggests that it looks though early or year-to-date that's paying off, just to clarify.

Evan Winkler: I think that's correct. Meaning we knew we were going to be above where we were. If you've been out to Macau we extended some activations we were doing from the Cotai Strip into the property. We've extended promotions and giveaways. We went a little heavier into advertising promotion-- went a little heavier on entertainment. We did some last-minute calls in terms of concerts and some other spends in terms of bringing people into the property. We wanted to make sure it was vibrant in what we're doing.

We saw sort of a benefit in a couple of ways. One, in the case of COD, we just brought a lot more people on the property. Now not all of them ended up as rated players. Your percentage conversion of that is still fairly low, but it does help the property does help the ecosystem. And even if the conversion percentage we were getting, we were bringing in about a thousand new people a day, so meaningful in terms of what we were able to accomplish there.

On Studio City, again I think we were a little bit more defensive trying to make sure with everything going on there that we held I think felt emboldened our first construction works on the gaming floor where we were knocking out the marble and we had limited hoarding. We seemed a little bit immune from the players having an adverse reaction. So I think we would be better off than we were, but the hoarding was so extensive this time and it was really an access issue directly from the front of the property and from the street that the impact was a little more profound.

So when that happened, we then decided to step on the gas a little bit. So in that part, deliberate, I think we feel good about that. And again, feel good about the momentum that's given us here going into Q1.

Joe Stauff: Got it. It makes a lot of sense. I mean with the effort again to in Macau, in particular, to with a change in management and trying to recruit new employees and so forth in different aspects of your Macau operations. Do you feel as though you're there in terms of what you need to operate with going forward? Or are there still some tweaks that you feel you need to do? -- in terms of, again sort of your headcount and the people that you think you need?

Evan Winkler: I think we feel, generally speaking, very good about the team that we have in the field, in terms of who we recruited. And look, there are things that we always look for. We always look for exceptional salespeople. -- we always look if there's an exceptional culinary talent kind of in any market. But in terms of -- what we need to do to fill out both on the executive side from a functionality standpoint and then also the incremental on headcount for product and service we feel good.

I also think as we're now looking at every aspect we improved and looking at the ones that have been most meaningful to the guests and the ones that we think have been less meaningful, we would allow some of that increase to actually kind of move out by attrition. So in some of these areas, you do have employee turnover. And as we're having some people drop off, we're looking at which areas we want to continue and to keep in

which areas we can cut back a little bit now that our product and service is really back where we want it to be.

Operator: Your next question comes from Praveen Choudhary with MS.

Praveen Choudhary: A couple of questions from me. First of all, congratulations that I see the positive trend in the market share. The two questions I have is, the first one is you mentioned that Melco, MLCO, has been paying a certain amount of money to 200.HK for the first time. Just wanted to get the run rate going forward? Or is it too small? And what changed after 20 years of this business? I know LVS and Wynn, et cetera, always pays. So if you can tell us a little bit about that, that will be helpful. The second question was on asset-light strategy that you're going to employ in Philippines. Could we extrapolate that to Cyprus as well as if you are interested in Thailand?

Lawrence Ho: Praveen, maybe I'll answer the second question first. I think the asset-light strategy is one that we are committed to. So any jurisdiction we're in, I think it is feasible we would do it. So Cyprus would certainly be within that bucket. I think Thailand is a generational opportunity, probably happens once every century. So I think - - but it's still early days in Thailand. We've done a lot of studies. We've made a lot of trips. We've opened an office. We've done a whole bunch of stuff there. But I think having experienced the Japan bidding process, I think we're in the very early innings in Thailand right now. So we will keep a very close eye to it. We're always very open-minded with structures and partners anyways. But Thailand, I think Geoff mentioned it earlier on for these exceptional growth opportunities, we might make exceptions. So I think that's on the asset-light part of it. And I think on the trademark license fee, I think maybe, Geoff --

Geoffrey Davis: Sure. So that is reflected in our corporate expense and the incremental amount is provided in the corporate guidance that we have provided. We definitely took a look and surveyed some of what of our competitors are doing in the market in respect to IP fees but we felt it was the appropriate time to institute these fees going forward, but the level is at a considerably lower percentage of revenue than what we see from our competitors.

Praveen Choudhary: Thanks very much for the clarification. If I could have one follow-up. I see that you're guiding for lower OpEx quarter-over-quarter, but obviously higher market share quarter-over-quarter. It sounds like we could get much higher level of quarterly run-rate going into Q1 and then with House of Dancing Water may be higher. So again without boxing you into a number, it sounds like 300 a quarter kind of number can be achieved if the current momentum stays. Is that a good way to think about it?

Geoffrey Davis: Directionally, I think that's accurate, we're looking to rationalize our OpEx and at the same time to build off the foundation we've built in 2024 to enhance our assets to drive more market share.

Operator: There are no further questions at this time. I'll now hand back to Jeanny for closing remarks.

Jeanny Kim: Thank you for participating in the call today. And we look forward to speaking to you again next quarter. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.