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MLCO.OQ - Q4 2023 Melco Resorts & Entertainment Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 29, 2024 / 1:30PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the Fourth Quarter 2023 Earnings Conference Call of Melco Resorts & Entertainment Limited. (Operator Instructions) Today's conference is being recorded.

I would now like to turn the call over to Ms. Jeanny Kim, Senior Vice President, Group Treasurer of Melco Resorts & Entertainment Limited.

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

Thank you, operator, and thank you all for joining us today for our fourth quarter 2023 earnings call. On the call are Lawrence Ho, Geoff Davis, Evan Winkler; and our Property Presidents in Macau, Manila, and Cyprus.

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

In addition, we may discuss non-GAAP measures. The 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 it over to Mr. Lawrence Ho.

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

Thank you, Jeanny, and thank you for joining us today. Many of you may already be aware that David Sisk, our COO of Macau has resigned. We will be conducting a thorough search process to identify and appoint a high-caliber individual to steer our business forward in Macau. In the interim, Evan and I will be actively involved in the day-to-day operations of our Macau properties. As we move forward, our focus is to ensure that Melco is leading the market in all aspects of our business through innovation and collaboration.

With this in mind, we're also adding to our leadership team with new appointments in gaming operations, retail, hotels and food and beverage. We expect these new additions to the leadership team and management changes will strengthen us as a team to secure a stronger and more competitive future.

Turning back to our results. Macau continues to demonstrate its extraordinary growth potential and has shown resilience despite China's uncertain macroeconomic outlook. Visitation to Macau during this month's Chinese New Year holiday period was close to 2019 levels and the number of visitors from China exceeded 2019. Our mass GGR and Macau theo property EBITDA during the CNY holiday period was meaningfully higher than 2019 levels.

2023 was a year post-pandemic recovery and the opening of new properties, the City of Dreams Mediterranean and Studio City Phase 2. The Epic Hotel Tower at Studio City Phase 2 offers our patrons a luxury hotel product, which had not been available at Studio City before with 2, 3-bedroom suites and villas. It is attracting a high-end customer base to the property and driving gaming demand with the help of the new high-limit gaming area that opened in December on the second floor of the Epic Tower. The ADT generated by this customer base are at levels that had not been seen at Studio City previously. And Studio City is reaching record levels of daily mass and slot GGR.

2024 is set to be another exciting year for us. Among the various ongoing events and projects, our residency concert series at Studio City is scheduled to start in March. We've started construction of the Cineplex at Studio City Phase 2, and we aim to bring back our award-winning show, the House of Dancing Water, by the end of the year. We will also start renovations on the Countdown Hotel to bring a new high-end luxury hotel offering to our premium mass customers.

In the Philippines, City of Dreams Manila continues to generate solid earnings with significant market share gains in mass table games and slots. City of Dreams Mediterranean in Cyprus continues to be impacted by the conflict in Israel and it is uncertain how long this will last. However, we have seen some signs of improving demand so far this year.

So 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 VP & CFO

Thank you, Lawrence. Our group-wide adjusted property EBITDA for the fourth quarter of 2023 was approximately \$303 million. Luck-adjusted group-wide property EBITDA for the fourth quarter of 2023 came in at \$320 million. A favorable win rate had a positive impact on COD Manila of around \$3 million, while unfavorable win rates at COD Macau, Studio City in Cyprus had a negative impact of approximately \$20 million. Details of these adjustments can be found in the supplementary earnings slides posted on our Investor Relations website.

Macau OpEx increased to approximately \$2.6 million per day in the fourth quarter of 2023 (corrected by company after the call) from approximately \$2.5 million per day in the third quarter, in line with guidance. This was primarily due to the full quarter impact of the W Macau at Studio City, which opened in early September 2023.

Turning to our balance sheet. We repaid another \$200 million of our revolving credit facilities during the fourth quarter of 2023 and repurchased \$100 million of bonds at Studio City via a cash tender. On a consolidated basis, we reduced debt by a total of \$950 million over the course of 2023, and we will continue to focus on debt reduction into 2024. As of December 31, 2023, we had around \$1.4 billion of consolidated cash on hand. Melco excluding its operations at Studio City, the Philippines and Cyprus accounted for around \$750 million. Of this, approximately \$125 million was restricted as collateral required for concession-related guarantees issued to the Macau government.

Another notable movement in our balance sheet in 4Q '23 is the impairment of Altira by approximately \$200 million. Altira has faced some challenges with the change in the VIP segment, and we continue to work through the repositioning of the property. Altira broke even in 4Q '23, and we expect performance to improve in 2024.

As we normally do, we'll give you some guidance on nonoperating line items for the upcoming first quarter of 2024. Total depreciation and amortization expense is expected to be approximately \$135 million to \$140 million. Corporate expense is expected to come in at approximately \$20 million and consolidated net interest expense is expected to be approximately \$125 million to \$130 million.

This includes finance liability interest of around \$6 million relating to fees and payable -- fees payable in relation to the Macau government gaming concession and the Cyprus gaming license and finance lease interest of approximately \$6 million relating to City of Dreams Manila.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of George Choi from Citi.

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

I have a couple of questions if I may. Firstly, the numbers are suggesting that you guys have lost market share in 2023. I was just wondering what you guys plan to do to regain your fair market share? And my second question is on capital allocation. Would you please remind us what your capital allocation priorities are? Is there any chance of a dividend resumption? That's all I have.

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

All right. George, it's Lawrence. So I think, clearly, we had lost share in 2023, and I think that's part of the reason for our management change as well. I think post-COVID, we -- David did a great job for us during COVID in terms of trying to survive. But post-COVID, I guess, we've continued to cut too deep to the bone in terms of our operating expenditure and how we conduct our business. And I'm glad that Chinese New Year, we've had a very strong Chinese New Year so far. And as I said in the prepared remarks, we're substantially above 2019 levels. Our mass GGR was up over 22% from 2019 Chinese New Year. So things are moving in the right direction even without the recent management changes.

So City of Dreams invented the premium mass segment over 10 years ago. And so the goal for us is to really reclaim the crown and the premium mass sector. And in order to do that, I think we need to work together as a team and with some of the new recent appointments to improve the quality of our offering. I think, frankly, post-COVID, looking around, we really did cut way too much of our offering out here. I think that's why we lost some share from that basis.

So I think that is being addressed. We have done it a million times in the past, and we enjoyed having the pole position in premium mass for a very long time. So I think the goal is to really reclaim that. I guess your second and third questions were more -- well, I think capital allocation, our #1 goal this year, I'll let Geoff to elaborate. Our #1 goal continues to be debt reduction. So I think that's our main focus, of course, we have our maintenance CapEx and some of the stuff maybe Geoff can...

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

So clearly, the mandate is debt reduction is the #1 priority from a capital allocation standpoint. At the same time, we are looking for capital-light opportunities to expand the portfolio. But the key laser focus will be on debt reduction.

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

Well, I think in line with that as well, I think, frankly, nobody has any other than, perhaps, Galaxy -- none of the operators really have any major, major CapEx projects in Macau because all the land has been used up. I think for us, as we continue to improve the product offering, we'll look at areas that we can mine our projects that can improve those, but I wouldn't say there are any major CapEx on the horizon.

And with regards to our Macau government investment, tender commitment, I think out of the 6, we've always had -- I think it's public knowledge that we had the lowest amount. And I'm pleased to say that we were the only one last year that fulfilled our full amount. And so I think going forward, even with the additional 20% addition, we're comfortably below everybody else.

Operator

Your next question comes from the line of Ricardo Chinchilla from Deutsche Bank.

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

I was hoping you could comment on your OpEx expectations going forward, given that from your recent comments, you guys are probably going to enhance some of the services for your guests. So how should we be thinking about OpEx for the balance of the year?

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

It's Geoff. I'll take the question, and thank you for the question. So as you know, for the fourth quarter, we came in at \$2.6 million per day. And going forward, we had highlighted that with the opening of the House of Dancing Water by the end of the year, that's likely to increase our daily OpEx by about 100,000 a day. In relation to some of the measures that Lawrence mentioned about being some customer-centric enhancements that we're considering, I think over the course of 2024, but not immediately, we have somewhere in the neighborhood of another 100,000 per day of enhancements.

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

Got it. Perfect. If I follow up -- may follow up with an additional question. I know that you guys classify your premium mass customers into tiers and that you know you highlighted some encouraging data regarding recent performance in the Golden Week. Is there a tier within your premium mass that is doing slightly better or ahead of the rest of ones? Are they back to pre-pandemic levels, perhaps a little bit higher? How should we think about the different tiers that make up your premium mass business?

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

Ricardo. So I think the recovery has been pretty broad-based when you refer to premium mass. Of course, infrastructure or though visitation from China is rising, infrastructure isn't totally back yet. So I think if anything, that's affecting more of the general mass or growing mass. But with regards to premium mass, it's pretty across the board in terms of the various sectors that we have. So I wouldn't say there is 1 or 2 sectors that is over indexing or under indexing.

Operator

Your next question comes from the line of John DeCree from CBRE.

John G. DeCree - *CBRE Securities, LLC, Research Division - Director and Head of North America Equity & High Yield Research*

Maybe just to start with the housekeeping item for Geoff. I didn't -- if I missed it, I apologize. Did you give or could you give CapEx expectations for 2024?

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

Sure. You didn't miss it. For 2024, we're looking at CapEx of approximately \$360 million to \$375 million.

John G. DeCree - *CBRE Securities, LLC, Research Division - Director and Head of North America Equity & High Yield Research*

Great. And then maybe to revisit an earlier question a little bit, some of the comments you had made around pursuing some assets light opportunities to expand the portfolio. Curious if you can elaborate a little bit on that? And I guess, we kind of thinking in the context of some larger markets that some of your peers in global casino operators are looking at, particularly the UAE is very topical right now. So curious if there's other markets or anything you can kind of elaborate on things that you're looking at externally?

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

Well, I think it's a bit early as well. So I think given our -- we're still climbing out of our COVID [hole]. I think we're looking at some like smaller potential projects, but nothing, I think, that's ready to be announced. But in terms of the longer-term bigger projects like UAE or Thailand, I think we're kicking the tires like everybody else. But as we learned from the Japan process, these things usually take -- it's a multiyear process.

Operator

Your next question comes from the line of Karl Choi from Bank of America.

Karl Choi - *BofA Securities, Research Division - MD & Head of Greater China Property Research*

Two questions. First, coming back to the question of the new appointments that you mentioned. Could you elaborate a little bit on -- apart from obviously GGR market share, what are some of the key sort of metrics, sort of KPIs that you're trying -- you're hoping that the new operations people that you're bringing in can achieve this year? And second, can you just talk a bit about the competitive environment. I think on the last call, it was mentioned that reinvestment rate was a little bit elevated, perhaps in relation to the fact that premium mass has recovered a little bit faster. So what's the latest in terms of reinvestment rate? And also just curious, some of your folks are -- some of your peers are rolling out our RFID tables. Is there any plan to do so or get into your portfolio as well?

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

Karl, I think maybe I'll take it and Evan wants to add some color. RFID tables are coming next month. So we're quite excited to have them. But again, it's going to be a rolling process. I think we're getting them for the first time. There's going to be a learning curve but I think we're excited to make use of the full potential of these RFID tables. And I think in terms of reinvestment, the market is very competitive. I think if you look at our competitors' results as well, I think you can see it.

So I think for us, as part of the new plan is how do we -- Melco was always the innovator in terms of product offerings and the service level and being guest-centric. So it's about how do we spend the reinvestment wisely, rather than just purely giving things away. So I think that's -- I think if you look at the appointments that we have, we are reestablishing our strategic analytics and strategic marketing unit. We're adding in retail. We're adding in hotel and food and beverage. These are all guest-centric, guest-facing experiences that we really care about. So I think that will -- we -- it's been a great solution for us in the past. I think will continue to work in the future. I don't know if Evan wants to...

Evan Andrew Winkler - *Melco Resorts & Entertainment Limited - President & Director*

Sure. To continue on what Lawrence articulated, we brought in 3 senior hires. Alidad is really focused on how we're looking at our gaming operations and how do we really get greater efficiency in terms of our spend there, where we're allocating our resource, how we're driving the floor, floor layouts. And so we're looking at that to -- again not just improve our GGR, but also improve some of our efficiency and allocations here as we look at player reinvestment, et cetera.

On the retail front, obviously, we have a luxury player at COD and a luxury retail footprint. It's an area that is a focus of improvement. We feel that bringing in someone who's got deep long-term relationships with these key luxury brands is going to help us enhance that offering. That probably is not today, tomorrow thing, but as we continue to evolve the retail experience, both at COD and SC. And then we brought in a VP of Hotel F&B at COD to just make sure that from a guest and customer experience that we are leading the market once again across all fronts in terms of picking up on some of the OpEx likely to get someone similar at some point here in the future at SC as we look to enhance our bench strength in those areas.

In addition, as Lawrence articulated, we've reoriented our sales force under a central point so that we have more centralized focus around the customer experience and customer journey. And we're also doing that in our premium areas as well. And so I think from top to bottom, the view here is that we've reoriented again, back to being kind of customer-centric in our approach and making sure that we are leading and innovating across the premium category. The belief is that's going to help us regain the market share. But obviously, along the way, we want to make sure that we're doing it in a way that is efficient in terms of how we're allocating the resources to those efforts.

Operator

Your next question comes from the line of Joe Greff from JPMorgan.

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

You obviously talked as others have about a strong Chinese New Year's, which is encouraging. Can you talk about -- and maybe you did, I missed it, but I don't think you did. Can you talk about your views on how you performed in January in relation to the market and as well as in the balance -- in the balance of February outside of Chinese New Year, if you can maybe talk about GGR as a percentage of 2019 or EBITDA per day or some performance metric outside of what's been undoubtedly a strong Chinese New Year period?

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

Joe, I think our -- the results do fluctuate month-to-month. And I think clearly, the reason that we wanted to make a management change at this time was that we felt we were losing share. And more important to us is not so much the top line market share that's never really been the case that we cared about. It was really about EBITDA. But I think month-to-month, it does fluctuate even premium direct VIP, would the win rate seriously affects that. But I think more importantly, and something actually I was surprised that nobody has really been too focused on was the addition of the 2 new Chinese cities that will start accepting visitors on March 3. Both Xi'an and Qingdao are 2 massive cities with over 10 million people and with high disposable income. So I'm actually really excited about that. And I think with our guest-centric and the restructuring that we're doing, I think we should be able to capture a lot of that going forward with the growth. And also, don't forget, there hasn't been any new individual traveler IVS cities in the last 15, 20 years. So if anything, this is a very strong sign of things to come.

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

Great. That's helpful, Lawrence. And then the search that's underway right now to replace David, when do you think you'll search will be complete and you'll have somebody whether that's an external -- I'm presuming it's an external person, but when that person could be up onboard?

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

Well, I think for us, with the new additions and the restructuring, that's probably going to keep us busy for the next couple of months. I think both Evan and I are going to be much more actively involved during that time. I think it's important that we want to find the right candidate. Going forward, we had a great 8-year run with David. But I think the next candidate, I think, really needs to follow the DNA of Melco and what we were -- what made us great all of the years before, which was focused on luxury and amazing, extraordinary guest experiences.

Operator

There are no further questions. I would like to hand back to Jeanny Kim for closing remarks.

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

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

Operator

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

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