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## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

**Joe Greff** *JPMorgan - Analyst*

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

## PRESENTATION

### Operator

Good morning, and thank you for participating in the Q2, 2014 earnings conference call of Melco Crown Entertainment Limited. (Operator Instructions). Today's conference is being recorded.

I would now like to turn the call over to Geoffrey Davis, Chief Financial Officer of Melco Crown Entertainment Limited.

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

Thank you, operator, and thank you, everyone, for joining us today for our second quarter 2014 earnings call. On the call with me today are Lawrence Ho, Ted Chan, and Ross Dunwoody.

Before we get started, please note that today's discussion may contain forward-looking statements made under 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.

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

Thanks, Geoff, and hello, everybody.

In the second quarter of 2014, we delivered luck-adjusted property EBITDA of approximately \$345 million, representing an increase of over 11%, compared to the second quarter of 2013.

This growth in underlying financial performance comes despite the well documented market-wide weakness in the rolling chip segment, which highlights the importance of the mass market segment in driving our Company's profitability.

We're pleased to have further expanded our market share in the mass table game segment during the second quarter of this year, a trend which we expect to continue in 2014, given our unique premium focused assets, our ongoing proactive table and room optimization process, together with our product enhancements.

We continue to focus heavily on enhancing our product offering, particularly at City of Dreams, which is critical in a competitive environment such as Macau. We recently opened a new and exciting lifestyle dining and entertainment precinct, called SOHO, at City of Dreams, which offers our customers a unique non-game experience not previously available in Macau.

We have also recently begun a large redevelopment at City of Dreams, which will meaningfully expand the integrated resort's luxury retail offering, and improves our ability to cater to the rapidly evolving tastes and preference of visitors to Macau. We anticipate this luxury precinct to be operational by 2016.

The iconic fifth tower at City of Dreams progresses as planned. The new hotel tower will provide nearly 800 ultra-luxurious rooms, suites and villas, and will represent another strong catalyst for growth, particularly in the premium end of the market, when it opens in the first half of 2017.

Turning to Altira: in addition to the Company-wide table optimization process, we're also repositioning Altira to focus more exclusively on larger junkets who are better positioned to compete in this evolving market.

We believe that Altira remains one of the most luxurious hotels and VIP gaming properties in Macau, and we anticipate these changes to the property's positioning will ensure it can compete strongly in this segment of the market.

We're nearing the next stage of our Company's transformation into a leading regional player in the gaming and entertainment industry, with the opening of City of Dreams in Manila in the fourth quarter of this year, and the opening of Studio City, our second large-scale integrated resort in Cotai, in the middle of next year.

The opening of City of Dreams Manila represents our first venture outside of Macau. The integrated resort in the Philippines will feature several world class brands and attractions, including Crown Towers, Hyatt and Nobu hotels, together with the DreamWorks collaboration and family entertainment center, as well as numerous other gaming and non-gaming attractions.

Not only will this broaden our Company's earnings potential, but also represents an important milestone in our regional aspirations.

Studio City remains firmly on track to open in mid-2015. We're currently fitting out the podium and hotel, and will top off the hotel in the next month. Representing the next stand-alone integrated resort to open in Macau, this exciting cinematically themed property will provide a catalyst for the next phase of Macau's growth, offering visitors an entertainment experience not yet available in the region.

We believe that Macau remains the most exciting gaming destination in the world. The city's location at the doorstep of one of the fastest growing and largest consumer feeder markets in the world, together with support from forward-thinking local Macau and Chinese Governments, will ensure Macau's long-term success.

As announced today, I am pleased to report that our Board of Directors has approved the implementation of a \$500 million stock repurchase program. We believe this buyback authorization complements our current capital management strategy, including our ordinary dividend policy, and our ability to pay special dividends when appropriate, which will enable us to return surplus capital efficiently and opportunistically, while retaining capacity to fund an exciting development pipeline.

So on that note, we'll turn it back to Geoff.

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

Thanks, Lawrence. We reported property EBITDA of approximately \$314 million in the second quarter of 2014, compared to approximately \$350 million in the second quarter of last year. Our property EBITDA margin in the second quarter of 2014 was 26.4%, compared to 27.3% in the second quarter of 2013, and 28.8% in the first quarter of this year.



As Lawrence mentioned, our luck-adjusted property EBITDA was approximately \$345 million, representing a year-over-year increase of over 11%. This result flags the importance of the stable mass market segments in driving profitability and cash flow, despite the impact of a weaker rolling chip environment in Macau.

During the quarter, we were negatively impacted by a low blended win rate of 2.7%, together with an unfavorable mix between our revenue share and rolling chip programs. Together, this negatively impacted EBITDA by over \$30 million in the second quarter of 2014.

Our EBITDA and EBITDA margins were also impacted by a more than \$10 million sequential increase in wage-related expenses, including the impact of various staff retention programs. To provide guidance on the impact of the retention programs on our operating costs going forward, we anticipate an additional quarterly labor expense of approximately \$10 million in both the third and fourth quarters of 2014.

The EBITDA contribution from our non-VIP segments represents over 80% of luck-adjusted EBITDA at both City of Dreams and on a Group-wide basis.

As Lawrence mentioned, our Board has authorized a \$500 million stock repurchase program, which complements our existing dividend program. This next phase of our capital management strategy highlights our Company's strong operating cash flow and our disciplined approach to managing our capital structure, which has allowed us to return surplus capital, while also funding our exciting development pipeline.

In accordance with our funding plans for Studio City, we drew down on our \$1.3 billion Studio City term loan in July of this year. This will be reflected in our interest cost and capital structure going forward. 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 around \$30 million; and consolidated net interest expense is expected to be approximately \$35 million, which includes finance lease interest of \$10 million relating to City of Dreams, Manila, net of approximately \$24 million of total capitalized interest.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Cameron McKnight, Wells Fargo.

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### Cameron McKnight - Wells Fargo Securities, LLC - Analyst

A question for you, Lawrence, or Geoff. It looks like flow through at City of Dreams and Altira was much lower than the street had expected. Was most of that due to the unfavorable mix on premium mass and the revenue share versus commission-based business?

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

Yes, we felt the impact of both low hold and the negative mix. In addition to that, as I said in our prepared remarks, we had roughly \$10 million of a sequential increase in wage costs. And then there was an additional \$5 million from miscellaneous utilities and some professional fees that weren't capitalized.



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

Okay. Great, thanks. And then just more generally, according to some reports we've seen, it looks as though the mass market across the board slowed down, at least on a year-over-year basis, pretty meaningfully in July. Do you have any thoughts as to why the mass market might have slowed and what might be going on in that segment?

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

Cameron, it's Lawrence here. I'm going to let Ted elaborate. But I think, generally, mass has held up very well. I think, in the first half of the year, it still grew at over 30%. But it really is the perfect storm in terms of a number of factors I've been looking at.

Visitation in Macau ever since some of the issues in China, which are unexpected in terms of the scale of them, started to take place. And at the same time, you've got World Cup and also starting from the second half of the year with a higher base as well. So I think consensus, and our own prediction, always settles that the year mass was growing in the 20%s. So given that, it always due for a more measured growth. But I guess that's our view; I'll let Ted elaborate a bit further.

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

Yes, hi Cameron. I think first of all, in terms of what we see in the market from July and August, I think more important is really in August. But July, due to the World Cup issue, you see some recovery of travelers in the later part of July and, of course, summertime's started.

In terms of what we're seeing in the properties, really we don't have any issue of filling up our rooms. Actually, our occupancy rate is almost full; 98% in average in those months. So in terms of the traffic, we don't see a big issue. Visitation numbers to both our properties is actually looking quite decent. And also, compared to last year, we have quite an amazing number in terms of visitation as well. So I think it could be too early to say maybe in July, and I think we should do good in August, when August started.

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

Okay, thanks. And then just one final follow-up; are you starting to see more competition on the mass side? Are you starting to see promotions and rebates start to increase? Or are things relatively stable on the mass market promotional front?

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

Competition's always happening in Macau over the last few years. And premium mass is currently what everybody is actually looking for to grow their markets. From my perspective, I think most of our competition and most of our Company really focuses more on the total experience of the customer, rather than cash, credit, rebate to customer.

In actual fact, in our Company whenever we rebate customers in terms of cash or credit, it's more of a pay base scenario. So I would say the current market is quite healthy.

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

I think, in terms of our margin, I think it hasn't been overly promotional. But, at the same time, supplementing to Ted, we operate in a highly competitive market, where we have very intelligent and very smart operators. But at the same time, I think our margin is within the range that it has been and will continue on that basis.

I think, ultimately, the Chinese economy and some of the negative headwinds, I think by the time next year rolls around with new resorts due to open, together with other catalysts such as improved infrastructure, I think the high growth base will come back. But in the meantime, we will continue to do our table optimization, and like Ted said, use our experimental, incremental marketing initiatives.

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

Okay, great. That's it for me. Thanks very much.

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**Operator**

Billy Ng, BofA Merrill Lynch.

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

I have two questions; one actually is a follow-up on Cameron's questions. Just want to get a little bit more color in how the trends perform in terms of the mass market. Comparing first half of July and then second half of July, and let's say, first week of August, do we see activities' volume in the mass market pick up, or it's still pretty much the same?

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

Billy, it's Ted. We think that compare currently if compared to early July, definitely it's actually a pickup. I'm sure everyone know that it's because of the summertime started middle of July and also August is also very important.

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

Do we see further improvement in August so far?

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

August compared to July, of course, there's some improvement. I think the improvement is really coming from these two weeks time.

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

Thanks. Secondly, just want to know more about the return of capital program. You just announced a \$500 million potential buyback, so strategically, or mechanically, how do you plan to deploy that \$500 million? Is there a target share price whenever it hit you will buy, or is there a target timeline that you will use your \$500 million?

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

Billy, it's Geoff. It's not a formulaic plan. It's really at the discretion of management, so we will use it opportunistically.

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

I know there's no fixed formula but, roughly speaking, will we see any buybacks, let's say in the next six months -- or within this year, or it's more like a long-term potential thing?



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

Well, we'll have to evaluate that, going forward. Again, there's no fixed number of shares or an amount that we would expect to buy in any given period. We'll just use our discretion and when we think it's appropriate to buy back shares and weigh that against other alternatives for the cash.

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

I think it's similar to most of the other US gaming companies in terms of how the scheme will be offered.

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

I see. Thanks a lot. Thank you.

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**Operator**

Joe Greff, JPMorgan.

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**Joe Greff** - *JPMorgan - Analyst*

I just have a question with regard to the investigation you referenced in the earnings' press release, and I know you're probably limited in what you can say. But is this specific to one of your properties, or is it specific to the market as a whole?

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

Joe, it's Lawrence. It's specific to us. I think we understand that our Taiwan branch has been indicted for Banking Act and foreign exchange-related offences, although we have not received the formal documentation at this point. We will defend vigorously any indictment brought against us as we have been operating in compliance with Taiwan law.

More importantly, we have been operating in line with all of our US and international gaming operators. We have one of the most reputable law firms in Taiwan that reinforces that we are in compliance with the law. I think that's all we can say at this point because this is pretty fresh as well.

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**Joe Greff** - *JPMorgan - Analyst*

Okay, great. Then my final question; Geoff, could you break out the hold adjusted \$345 million of EBITDA between City of Dreams and Altira, and if you can give us property level margins for each that would be helpful? Thank you.

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

Sure, Joe. To allocate that \$30 million across the two properties, you should add about \$10 million to Altira and roughly \$20 million to City of Dreams. That would bring the margin at Altira to roughly 13%, 13% to 13.5%, and City of Dreams at about 31%.

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**Joe Greff** - *JPMorgan - Analyst*

Great. Thank you, guys.



**Operator**

Karen Tang, Deutsche Bank.

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

It's good to hear that your Studio City project is on schedule for mid-2015. We have heard on the conference call of the other operators that there is a permit backlog at the government level, and the visibility on these permits processing maybe a bit limited. Can you comment on that, please? Thank you.

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

Karen, it's Lawrence here. I think, luckily for us, not luckily because we've always acted in the best faith, and we follow all the rules from the Macau Government. We've got all of our construction permits, and each step of the way -- when we got the foundation permit that's when we do the foundation work; when we get the upper floor permits that's when we do it. So we've never really disobeyed or moved away from the rules. I think then that's why whether it's from a foreign labor quota standpoint or construction progress standpoint, we are firing at full speed.

As we said in the prepared remarks, we have begun fitting out both hotel room and also in the main gaming and retail areas. So we're very happy, we're happy with the progress.

In terms of the backlog, it's no secret; there's plenty of development in Macau and the government is trying very hard to clear up the backlog and there's a huge backlog. But for us, thankfully, since we followed every step of the way, we don't have any outstanding permits that we require from a construction standpoint.

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

Good to hear that. I guess for us, one of the key permit would be the number of table quota. Can you remind us at what stage before opening should we be expecting that number? Thank you.

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

Karen, I think on that front the Macau Government is still thinking about their strategy and also talking to the leadership in China about the quota. Based on what they have guided all these years with the table cap, I think they will allocate the tables accordingly to the diversification and how uniqueness of the property. We're very confident that we'll get our fair share of those tables, but the Macau Government have not communicated with us or the properties that are opening next year.

I anticipate, and again, this is a best guess, that we'll probably find out probably nine months ahead of time. But at this point in time, we still have the property -- all properties -- Studio City can accommodate a capacity of 500 tables.

Are we going to get 500 tables? We honestly don't know. But I think from a fair share standpoint, I think we are going to pull above our weight on the fair share. We've always guided that we hope to get 400 tables or more.

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

Excellent. That's very clear. Thank you.

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**Operator**

There are no further questions at this time. I would now like to hand the conference back to Mr. Geoffrey Davis. Please continue.

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

Thanks, operator. We look forward to speaking to you again in three months. Thank you.

**Operator**

Ladies and gentlemen that does conclude our conference for today. Thank you for your participation, you may all disconnect.

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