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MLCO - Q4 2019 Melco Resorts & Entertainment Ltd Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

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

Geoffrey Philip Andres *Melco Resorts & Entertainment Limited - Studio City Property President*

Richard Huang *Melco Resorts & Entertainment Limited - Director of IR*

CONFERENCE CALL PARTICIPANTS

Harry Croyle Curtis *Instinet, LLC, Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging*

Hay Ling Ng *BofA Merrill Lynch, Research Division - Research Analyst*

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

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

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

Praveen Kumar Choudhary *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Ladies and gentlemen, thank you for participating in the Fourth Quarter 2019 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. Richard Huang, Director of Investor Relations of Melco Resorts & Entertainment Limited.

Thank you. Please go ahead.

Richard Huang - *Melco Resorts & Entertainment Limited - Director of IR*

All right. Thank you for joining us today for our fourth quarter 2019 earnings call. On the call today are Lawrence Ho; Geoff Davis; Evan Winkler; and our Property Presidents in Macau and Manila.

Before we get started, please note that today's discussion may contain forward-looking statements made under the safe harbor provision of federal securities law.

Our actual results could differ from anticipated results. I'll now turn the call over to Lawrence.

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

Thank you, Richard, and hello, everyone. Before I get into our quarterly results, I'd like to take a moment and send our heartfelt sympathy to the people of Wuhan and Hubei and all those who are impacted by the new strain of the coronavirus. Melco has donated HKD 20 million to purchase medical supplies and to support the local community in Hubei. We have also donated HKD 5 million to the Macau Federation of Trade Unions to help members of the Macau community with unstable incomes who are particularly impacted.

We will continue to work closely with the government to ensure the safety and well-being of our customers, colleagues as well as their families and the community.

I would also like to thank the Melco team for continuing to support the company and the community by coming to their workplace, serving our customers and making sure our properties remain safe and operational. I cannot thank these colleagues enough for working through this very difficult time.

Lastly, I would like to express my sincere gratitude to the Macau SAR government for their proactive and decisive response to contain the spread of the virus. I would also like to thank the Chief Executive for his leadership, which is what we need in these challenging times.

Turning to our results. I'm pleased to report that we have finished the year strong with our fourth quarter and our full year 2019 luck-adjusted EBITDA, both reaching all-time record highs.

In 2019, despite macro headwinds and the events in Hong Kong, we increased our Macau mass table revenues by approximately 17%. We also enjoyed modest growth in VIP revenue, despite the significant market-wide VIP decline, which allowed Melco to expand its total GGR market share by approximately 180 basis points year-over-year to approximately 16%.

Benefiting from the opening of the award-winning Morpheus, City of Dreams luck-adjusted EBITDA grew 19% year-over-year in the fourth quarter to \$249 million.

Studio City's fourth quarter luck-adjusted EBITDA grew 22% year-over-year to \$114 million, driven by strong mass table revenue growth of 19%, which outperformed the market significantly.

The strong financial performance was a result of Melco's commitment to excellence and determination to push boundaries with our portfolio of award-winning integrated resorts, attaining a record-breaking total of 107 stars in the 2020 Forbes Travel Guide.

Morpheus was honored as the world's first and only establishment to attain Forbes 5 stars across its entire hotel, spa and dining facilities after a year of its grand opening. The Morpheus Spa also won the Forbes Spa of the Year award.

To strengthen Melco's leadership position in the city's premium mass gaming segments, we will continue to upgrade our resorts and to expand our asset footprint.

At City of Dreams, we opened a new premium mass area in October last year with another new premium mass gaming space opened just ahead of the Chinese New Year. At Morpheus, we are in the process of adding more villas, which have been extremely well-received by customers since we opened in June 2018. The renovation of Nüwa has also recently started.

Our next major project in Macau will be the further expansion of Studio City. Construction has recently commenced, and we have budgeted \$1.35 billion to \$1.40 billion for the expansion. The Phase 2 expansion will increase Studio City's hotel room inventory by approximately 60%, with 2 new hotel towers offering a total of approximately 900 luxury hotel rooms.

In addition to gaming space expansion, Phase 2 will also offer non-gaming attractions that are highly complementary to those in Phase 1, including a Cineplex, one of the world's largest indoor/outdoor water parks, fine dining restaurants and state-of-the-art MICE spaces.

Moving to the Philippines. COD Manila's mass table game operations saw strong double-digit growth in the fourth quarter, while VIP operations continue to be impacted by the market-wide VIP decline and increased competition in and around Entertainment City.

In Cyprus, we continue to ramp up our temporary and our satellite casinos, with luck-adjusted EBITDA from Cyprus more than tripling year-over-year to \$9 million. Construction of City of Dreams Mediterranean is progressing well with opening anticipated around year-end 2021.

Our strong fourth quarter performance demonstrates the resilience of our EBITDA. With over 90% of our 2019 Macau EBITDA contributed by non-VIP segment. That, combined with a modest net debt-to-EBITDA leverage ratio, allows us to maintain our regular dividend while retaining ample financial flexibility to reinvest in our existing properties and to pursue new development opportunities.

We continue to work diligently in Japan. In September last year, we announced our Yokohama First policy as we focus our Japan team on bringing to Yokohama the best IR the world has ever seen. In December, we submitted our response for the Yokohama RFC, and we continue to actively engage with Yokohama officials to discuss our plan.

Finally, the coronavirus outbreak has severely impacted the tourism industry and integrated resort facilities in Asia. Given the uncertainty, we have prudently chosen to focus on our core operations and not to pursue the second tranche of Crown Resorts shares. We will continue to develop Studio City Phase 2 and City of Dreams Mediterranean as planned. But for other discretionary CapEx spend, we will closely review them and prioritize them so as to preserve capital.

2019 was a great year for Melco as we grew our EBITDA to record high levels despite the Macau market experiencing modest decline in gaming revenues.

Taking a longer-term view on things. We remain optimistic of the future of Macau, as we anticipate the Macau mass gaming market to continue to benefit from the expanding Chinese middle class, significant infrastructure improvements in the Greater Bay Area and the new integrated resort openings in Cotai, including our own Studio City Phase 2.

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*

Thanks, Lawrence. We reported group-wide EBITDA of approximately \$383 million in the fourth quarter of 2019, declining by 5% from the fourth quarter of 2018, while luck-adjusted EBITDA increased 15% year-over-year to an all-time record high of \$413 million.

An unfavorable VIP win rate negatively affected EBITDA at COD Macau by approximately \$39 million. At Altira and at Studio City, EBITDA was positively affected by a favorable VIP win rate by approximately \$6 million and \$4 million, respectively. On a consolidated basis, overall results were negatively impacted by approximately \$30 million.

In the fourth quarter, the luck-adjusted property EBITDA margin in Macau was approximately 29%, increasing by approximately 170 basis points year-over-year.

In the Philippines, COD Manila delivered luck-adjusted EBITDA of approximately \$54 million, representing a decline of 12% year-over-year. The sequential EBITDA decline was due mostly to a \$4 million hit from union-related accruals and an increase in the bad debt charge.

Moving on to capital management. The board has declared a quarterly cash dividend of \$0.165 per ADS, flat with the prior quarterly dividend.

To optimize our capital structure, Studio City paid down its \$350 million 2019 senior notes in November of last year. Also in November of last year, Melco or the City of Dreams Macau Obligor Group issued, \$900 million of 2029 senior notes, with the proceeds used to pay down essentially all of our Melco Macau credit facility. Melco's next bond maturity is in 2025.

To provide more clarity regarding our capital structure within our core group, we had cash of approximately \$900 million and gross debt of approximately \$3 billion at the end of the fourth quarter of 2019, excluding Studio City and Cyprus.

As we normally do, we'll give you some guidance on nonoperating line items for the upcoming quarter. Total depreciation and amortization expense is expected to be approximately \$160 million to \$165 million. Corporate expense is expected to come in at approximately \$32 million to

\$34 million. And consolidated net interest expense is expected to be approximately \$83 million to \$85 million, which includes finance lease interest of \$10 million relating to City of Dreams Manila.

For those that follow City of Dreams Manila more closely, our building lease payment for the fourth quarter of 2019 was approximately \$10 million.

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 Joe Greff of JPMorgan.

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

Lawrence, can you just talk about sort of maybe what the fixed operating expenses were in Macau as your properties have been closed? That will give us a sense of how to think about modeling it as we think about different recovery scenarios. That's my first question. And then my second question, can you talk about CapEx this year? How much maybe potentially gets pushed out from what you thought previously, just given sort of maybe a slowing recovery in Macau in terms of just construction bodies and getting materials, things of that nature? That's my second question. And then my third question relates to your existing investment in Crown and how do you think about sort of, I guess, monetizing that or liquidating that position, if you could talk about that.

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

All right. Hey, Joe. I think, why don't I start answering the first couple of questions and then hand it off to Geoff Davis and also David, respectively, to add more color and get more details. We had a phenomenal, I think, similar to the other operators calls. We had a phenomenal start to 2020. We had a great 2019. We had record highs in all the key KPIs for ourselves, in mass. And that really led into 2020. And I think we had our record high market share as well as a company. And of course, as the coronavirus started to spread, the bottom really fell out. And so I think unlike some of the other operators, our view is that the situation will have a much longer ramp-up period to get the business back to where it was. David can share a lot more details. Quite a lot of properties have reopened for the last close to 24 hours, but we anticipate Macau to be very, very quiet for quite a long time. Because there's still a lot of details that hasn't been reviewed. So for instance, how people go from China to Macau, whether they need to be quarantine, how long is that, and there's still a lot of details to be worked out. And so our main daily operating cost, maybe Geoff can shed more details on that.

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

Sure. Thanks, Lawrence. So our run rate overhead, so those are our expenses, excluding gaming taxes and commissions, were about \$3 million a day in Macau, \$2 million at City of Dreams, Altira and Mocha and \$1 million at Studio City. Through some cost-cutting efforts and reduction in variable costs associated with business levels, we've been able to reduce that to about \$2.5 million per day.

So as Lawrence mentioned in his remarks, we're continuing to push forward with Cyprus and Studio City Phase 2, but we're re-evaluating other maintenance and small growth CapEx. We've identified approximately \$100 million of deferrals or eliminations to that sort of capital expenditure. And for 2020, we are looking to spend roughly \$830 million of CapEx, including the [capex] (corrected by company after the call) for City of Dreams Mediterranean or Cyprus and Studio City Phase 2.



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

How do you break that out between maintenance, Cyprus and Studio City?

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

So City of Dreams in Cyprus is about \$180 million. Studio City Phase 2 is approximately \$300 million. And then you can back out the remainder for small growth and maintenance CapEx.

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

Got it. Okay. And then maybe the Crown question.

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

Hey, Joe, it's Lawrence again. So we've mutually decided to get crown to cancel the Tranche 2. And so we don't have any financial commitments on Tranche 2. In terms of what we currently own in Crown Resorts, which is about 9.99%, Crown has amazing assets but given the severity of the coronavirus and the impact to our business, we've taken a very detailed look at all of our capital expenditures. And so given that wasn't considered part of our core investment, core management assets, I think that's why that decision was made. We will continue to, for the foreseeable future, we will continue to take a look at that stake and see what happens going forward. But I think our immediate focus right now is really the stability of our Macau business and the stability of our staff and the safety of our staff and colleagues in Macau.

But David, I think it'd be helpful to maybe shed a bit more color on what's happening in Macau in the last 2 weeks because there's been quite a lot.

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

Yes, sure, Lawrence. So I think there's been several things that have occurred here. I think one of the biggest things is getting into Macau has just been an extreme challenge. I think everybody is aware really, the only way to get across now from Hong Kong is to come via the bridge. We've got basically anywhere from 1 to 3 flights a day. They're coming in from the Macau airport, getting across the border, but depends on if you're going to get quarantined or not. It's just a big challenge for people as they're going through. Even traveling within China has proven to be rather difficult. Kind of going back to maybe a point that Lawrence was making as well, and that is, as we look out towards the future, we kind of see things not recovering quite as quickly. We see things maybe taking more time. One of the things that we've seen that has not been maybe mentioned is given all the time the kids have been out of school to this point, typically, July and August is the school holiday periods. We think that a lot of the kids in China will probably be going to school during that July, August period, which we think is going to have an impact on our visitation, whether it be for hotel occupancy or just customers coming to see us during that period. So we're not as, let's say, hopeful in the next, let's say, 4 to 6 months, we think it's going to be challenged through Macau.

We opened up last night, as I think everybody is aware. There was a trickle of customers. I think as we opened up at Studio City, we had about 10 customers that came in. As we opened up at City of Dreams, there were maybe 10 to 12 customers that were in there. When I left the casino outside at 2 in the morning, we had 20 customers at City of Dreams. It's just going to take some time given the safety protocols that we have in place. It's just not the most comfortable environment to come into right now. So again, I don't think we want anyone to walk away from the call thinking that everything is going to be just perfect and rosy coming out of this going forward.

Operator

Your next question comes from the line of Billy Ng from Bank of America.



Hay Ling Ng - BofA Merrill Lynch, Research Division - Research Analyst

Actually, some of the questions already answered, but I just want to follow-up with David. And you mentioned about, like, maybe 10, 20 customers. I know it's a little bit too early to gauge what kind of so-called normal activities we can achieve right now after the casino reopen, but in terms of, like, maybe can you provide a bit more color as, in the next month or 2, let's assume if the IVS visa is not going to be there or the bridge or the [country] is not going to reopen, do you see -- actually, we will have a loss-making situation still continue even though the casino reopen, or how should we look at the next month or 2?

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

Well, I think a couple of things on that real quickly, Billy. One is obviously, as you know, the group visas and the IVS have basically been shut off by China. We don't see those getting turned on, best case maybe April, probably more likely in May. And again, I think that's going to go very slow as they turn that back on. Most of the customers that we're seeing coming in now, either have business visas, or basically, they've got -- they're coming from Hong Kong or Southeast Asia. As you're aware now, Southeast Asia is starting to experience problems with the coronavirus as well. We just think it's going to be incredibly slow and it's going to take some time for us to get back to the momentum that we had kind of going in through January. And kind of going back to your question in regards to what we think is going to happen from a profitability standpoint, I'm going to let Geoff answer that, but I think our revenues are going to be impacted in a great way. Obviously, we're going to try to minimize our costs as much as we possibly can, but we are going to be challenged. And obviously, we're not the only 1 out there that's going to be challenged through the future of the next, let's say, 4 to 6 months.

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

Billy, in the scenario that David just painted, it is certainly possible that we could have loss-making days in the casino, even when the casinos open.

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

So kind of back to Geoff's point, we're actually kind of really in the gaming business now where we've got volatility in a big way again.

Hay Ling Ng - BofA Merrill Lynch, Research Division - Research Analyst

Can I follow-up with that? The \$2.5 million daily loss during the closure or the daily operating expense during the closure, will that increase back to \$3 million right away after you reopen? Or what is the run rate during this period?

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

The 2.5 is a good run rate for where we are with the casino closed and with minimal business levels. As business levels ramp up, some of those variable costs will start to creep back into the business, as you'd expect. I don't think we get all the way back to \$3 million a day for some time just because some of the cost-cutting initiatives that have put in place by David and the team. But for right now, \$2.5 million is okay, but it will ramp up as the business ramps up.

Hay Ling Ng - BofA Merrill Lynch, Research Division - Research Analyst

Okay. And 1 last question for me. In terms of the Phase 2 Studio City construction, I understand that before the virus breakout, we were waiting for the government approval to start. But can you tell us a bit more now with the situation? Will we -- or should we expect more delay, potentially construction worker could be a big problem if everyone, foreign labor coming to Macau need to be quarantined, and also the government approval cause as whether it will take longer because of the focus on the virus now?

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

Hey, Billy, it's Lawrence here. I think maybe Geoff Andres can add more details, but I think naturally, we got the approval to get started and we're actually quite happy in January. But I think naturally with the coronavirus presenting -- and a lot of the construction work is naturally from Mainland China. And so we do expect that there's going to be a slowdown, a significant slowdown of those workers coming in. Then in terms of government approval, as you can expect during this unprecedented time, the Macau government's 100% attention is on stopping the spread and curing the virus. So you can expect approvals to slow down as well, but I don't know if Geoff Andres has more color.

Geoffrey Philip Andres - *Melco Resorts & Entertainment Limited - Studio City Property President*

Well, it's nice to see that we have piling going on at the Studio City Phase 2 site and the site is busy every day. I think it is still too soon to try to tell if there's any long-term ramifications. But for right now, the piling is happening and there's activity on a daily basis.

Operator

Your next question comes from the line of Harry Curtis of Instinet.

Harry Croyle Curtis - *Instinet, LLC, Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging*

Two quick questions. First, going back to the question on Crown. Lawrence, if you wouldn't mind giving us a sense of the intention -- your intention behind your current investment. Is there an opportunity for liquidity over the next 6 to 12 months?

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

Hey, Harry. Why don't I hand the question over to Evan, our President, to shed more detail.

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

Sure. Thanks, Lawrence. So look, I think, as Lawrence articulated, given the capital needs of the company and given what's going on from a coronavirus perspective, we felt it was prudent to cancel the second tranche. In terms of the first tranche, I don't think that we see an immediate urgency based on what our views are on recovery from a virus perspective. And look, we like the Crown assets. All that being said, we're evaluating every single aspect of the business. I think we identified that as not a majority-owned and operated portion of the Melco portfolio. So to the extent that there were capital needs going forward, that would obviously be a potential source of liquidity.

Harry Croyle Curtis - *Instinet, LLC, Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging*

Okay, excellent. Thank you. And the second question. If you could give us, Lawrence, your current views on the investment that is occurring now in Japan. Is the -- how much of your CapEx that Geoff talked about is actually investing in Japan? And do you think that -- when you think about like Osaka, there was -- it seemed like the Japanese government was increasing their ask for the total CapEx. And I'm wondering if you're seeing any of that in Yokohama?



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

Well, Harry, again, I think Evan can probably add more details as he is leading the Japan effort. But we continue to think that the opportunity in Japan is a very valuable one, and one that we've been pursuing for over 10 years now. And so in terms of the details, maybe I can get Evan to shed more.

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

All right. Sure. And I'm going to defer, maybe Geoff afterwards can answer in terms of what, if any, of the Japan CapEx number would be in the numbers he gave before versus just our development costs being expensed or capitalized in that region. But in terms of the CapEx related to the overall Yokohama build or proposed build, I don't know that there is pressure from the government to increase their ask in terms of what is being put forward. There were sort of national standards that have been set in Japan for a period of time that all the operators are looking at in terms of what tier facility that you would look to build. I think Lawrence has been clear that Melco's perspective is that we would build a top-tier facility that we would be building effectively the greatest IR the world have yet seen. And that continued to be the focus of the team and our efforts. So I don't believe that there is pressure by the city to increase above and beyond what we had proposed. If anything, I think the city and us and other operators are in pretty constructive dialogues about which parts of those facilities are going to generate returns, should there be any thoughts in terms of phasing to make these investments successful and that they're viewing it as a partnership between Yokohama and the potential operators. So we're not seeing pressure to expand above and beyond what we put on the table.

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

Harry, it's Geoff. Just a follow-up of the CapEx number that I provided previously, nothing is for Japan. You can see the development expense that we have on the P&L for the fourth quarter of around \$18 million. That is essentially all Japan.

Operator

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

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

Most of my questions have been asked and answered already. But I wanted just a little bit of color of, once the recovery starts to getting track, do you guys see any benefit with regards to your peers just because of your location in Macau, given that the -- deals like -- do you guys have better location in terms of visitation by and outside of the airports? And when you guys think about any develop -- any developments, what signs would you guys start to see with regards to the virus to start being more constructive on visitation to Macau starting to recover? Like, the infection rates, or what kind of metrics are you guys monitoring right now?

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

Thanks for the question. So it's Lawrence here. So maybe my colleagues can add more color. But I think from our perspective, Melco has always felt that our assets, especially City of Dreams and Studio City, have the best locations. We effectively book in the Cotai Strip. And I think whether there's coronavirus or not, it's always been the future of Macau, that's where the all the infrastructure from Mainland China are leading people to. So I think going forward, assuming there's always been kind of a push within the Macau community to segregate the tourist areas with the residential areas. I think now with the coronavirus, perhaps there's going to be an even bigger interest in that aspect. So I think if that was the case, that will further push business into the Cotai area once business picks back up. But similar to what we talked about throughout the call, we do think that the recovery period is going to be longer than most people think. Yes, of course, there is pent-up demand.



But I think, from people who aren't in Hong Kong and China and Macau right now, this situation is pretty dire. And it's down right depressing. So I think it's going to take quite a long time for people to start saying, well, let's go entertain ourselves in Macau or some of these areas going forward. But again, we do think 2021 is intact. But 2020 I think it's more than half the year is going to be lost.

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

And -- this is Evan. Look, we continue to monitor as a company, I think, the way that a lot of companies are monitoring now. The incidence rate and the death rates that are going on with respect to the coronavirus. As David articulated, there's a lot of pieces to the puzzle to bring our business back online. It isn't just opening the casinos. We need to be able to get people and customers back in seats. And I think our view is that until we kind of hit a peak, and we see substantial sort of over the hump in terms of the infection rate and the death rate going on, that you're not going to have those structural changes that are needed to put the business back on track. And so until we see that, I'm not sure you're going to get the other pieces of the puzzle we need to affect a real recovery here.

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

Understood. And in terms of the dividend that goes out from the Melco resorts finance entity, do you guys see any change versus the prior year and funding more of the dividend from the contribution that you get from the other properties? Or how should we think about the dividend coming out of that entity specifically?

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

Hey, Geoff Davis, would you like to take that?

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

Sure. Sure. Thank you, Lawrence. I mean we set the dividend in a way that we felt it could remain stable. So despite the outlook for Macau, the board has decided to maintain the dividend at current levels. So I think we've set it at a prudent level and think it is sustainable at these levels. The only change I would say is that we have been working on the possibility of being able to dividend money out of the Philippines. And we'll be working on that for the remainder of this year. But essentially, the dividend picture is unchanged, and we feel comfortable with the level going forward.

Operator

Your next question comes from the line of Jared Shojaian of Wolfe Research.

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

I appreciate all the commentary on the coronavirus. I'll take it in a different direction, I guess. On Studio City, can you just talk about the decision to temporarily keep the VIP tables and how you're thinking about that going forward? And then, I guess, before the outbreak, did you see any benefit when the light rail opened?

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

Sure. This is Evan. So I think from a SC perspective in terms of continuing to support that property by allowing them to have the VIP tables, that was a decision that was made in January. Again, there was at that point in time, a strong desire on the part of that property to continue to keep



those tables. We've changed the agreement. So there's flexibility on both the Studio City part and the Melco part where that agreement can be canceled by either side on 30 days notice.

And I think we're going to continue to monitor that as we go through a more challenging business environment on what makes sense for both companies.

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

It's Lawrence here. I think, Geoff Andres can add more details, but we certainly, with the opening of the light rail, we were pleasantly surprised to see the increase in foot traffic. And so it really reinforced our original investment hypothesis, which was that being situated next to the Lotus Bridge border and Hengqin for Studio City is really the best mass foot traffic property in Macau in the future. But maybe, Geoff, if you can share more details.

Geoffry Philip Andres - *Melco Resorts & Entertainment Limited - Studio City Property President*

Yes, Jared, I was pretty excited about the light rail. So I always thought we had the best light rail stop on the line. We can get to the ferry terminal in 14 minutes, airport in 12 minutes. It is clean. It is fast, it is efficient. And it really was really nice. So we got to enjoy it for about a month before we had to close down, but it's definitely a great piece of infrastructure that now it helps us connect with airport and ferry terminal. It also gets us to the City of Dreams and Wynn cluster there very easily, and it also gets us to that Galaxy area real easily. So we're now really in the middle of the road instead of the end of the road when it comes to the strip. And we were seeing about 1,500 additional people a day come in through that bridge. So really easy access from the light rail terminal into our property. And it was just starting to get going. So we look forward to when that can get back in action again.

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

Okay. And then just on Japan, obviously, now you're all in on Yokohama but after seeing only 1 bidder for Osaka, was there something specific to Osaka or the economics in that region that led you to pivot to Yokohama? Can you talk about that specifically?

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

It's Lawrence here. So I think maybe I'll hand it over to Evan to add more details. But as you know, it's been really a corporate pursuit for 10 years for Japan. And we spent a lot of time in Osaka. One of the issues that we ran into Osaka originally was the fact that the government was very insistent on the timetable that the IR be opened before the expo that they were having in 2025.

And Melco has always been very truthful and forthcoming with the government that we felt that was impossible to do, given the scale of the IR and the fact that it's a brand-new industry to construct. And so I think that took us away from it. And we didn't want to commit to something that we weren't 100% confident on delivering.

But for us, I think that's why we pivot towards Yokohama. And in any case, we always felt that Yokohama was a better location, given its proximity to Tokyo, to the Haneda Airport and to the population base and the demographics of that population. I don't think there is any problems with Osaka, per say. I think it's more of an issue with the very complicated structure in which the Japan IR bid has been constructed.

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

Look, the other thing I'd say is, although Melco announced it's Yokohama First strategy in September, it certainly isn't that we were going to Yokohama in September where we had not been spending time. The company has been spending a huge amount of time in Yokohama, engaging with the local community, engaging with local stakeholders. We've been a sponsor of the Yokohama Marinos for quite some time. So there's actually

had been a tremendous amount of groundwork that had been done in Yokohama for many, many months leading up to that September announcement. And I think at the time that, that announcement was made, there was a view, which has been consistent on our part, which is that site is best suited for the type of IR that we would like to build.

And so we think in terms of a development location and our ability to tie an IR into the city to accomplish the objectives of the Japanese government and also be successful from our standpoint in all aspects of an IR, that site lends itself better from a development perspective in terms of what we'd like to build. So that was really the motivation versus any problem with Osaka.

Operator

Your next question comes from the line of Praveen Choudhary from Morgan Stanley.

Praveen Kumar Choudhary - *Morgan Stanley, Research Division - MD*

First of all, congratulations regarding the best hold adjusted EBITDA of the quarter. I have 2 quick questions. First 1 is, you mentioned that the recovery will be slow. Would you be able to comment if the recovery will be more VIP and premium mass driven rather than [ground] mass because you don't want a lot of people being very close to each other and the overall traffic might take longer? And then second question I had was, if you could tell us any number about bad debt provisions, which you have given for most of the other quarters.

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

Hey, Praveen. So like what David said earlier on, we're getting trickles of people. So I think in the initial months, certainly it's not going to be a massive amount of people. So it will be probably VIP focus initially, and then gradually easing with the individual visa schemes and hopefully, the travel agency sales being restarted over in China. But I guess, David, you're closer to the ground. Can you shed more details?

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

Yes, sure. So Praveen, as you know, obviously, you're kind of spot on when you say the VIP probably first. For a lot of our VIP players over in Hong Kong and throughout Southeast Asia, it's a little easier for them to come and visit us. Some of our other VIP players are also businessmen in China, so they have a business visa. So again, easier for them to come across the border. So we expect our VIP to be a little bit strong. We've already had 1 good player in starting today.

So we also expect to see some of our premium mass players, albeit that we'll see a lot fewer of them, but we have started seeing some of our premium mass players trickle in. We're also expecting to see some of them through this weekend a little bit albeit numbers that are significantly less than what we'd normally expect to see on a weekend, but they are trickling in a bit here now. And then lastly, I think, is the as the overall visa scheme clears up, as Lawrence mentioned, I think we will start seeing more of our mass, and let's call it -- we've kind of segregated our players into our Dragons and into our Qi Longs as those players start coming in and then the mass mass will start coming in more. So I think we'll be at our upper end first and then it will start working its way down through the whole customer pool.

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

Praveen, on the bad debt provision. Not sure how far back you want to go. But in the fourth quarter, we were approximately \$12 million. In the third quarter, approximately \$10 million. In the second quarter, it was approximately 0 because we had some good collection activity.

It was around \$11 million in the first quarter of '19 and also \$11 million in the fourth quarter of '18. So both on a sequential and year-over-year basis, it wasn't a meaningful factor in our earnings results.



Operator

There are no further questions at this time. I would now like to hand the conference back to Mr. Richard Huang for the closing remarks.

Richard Huang - Melco Resorts & Entertainment Limited - Director of IR

Great. Thank you, everyone, for dialing in. We'll look forward to speaking with you again next quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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