MOHEGAN TRIBAL GAMING AUTHORITY

Moderator: Mario Kontomerkos
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<u>Operator:</u> This is conference # 85028366

Good morning, my name is Sharon and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter Fiscal 2017 Earnings Call for Mohegan Tribal Gaming Authority. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session.

If you would like to ask a question during this time, simply press "star" then the number "one" on your telephone keypad. If you would like to withdraw your question, press the "pound" key. Thank you, Peter Roberti, Vice President of Finance and Chief Accounting Officer for Mohegan Tribal Gaming Authority, you may begin your conference.

Peter Roberti: Thank you, Sharon, and good morning everyone. Thank you for joining our call this morning.

Before we begin, I would like to remind everyone that our comments today may contain forward-looking statements made under the Safe Harbor Provisions of the Federal Securities laws and actual results may differ materially from any predictions contained in these statements.

In addition, our comments may also refer to non-GAAP financial measures. A reconciliation of these measures to the corresponding GAAP financial measures can be found in our press release available on our website under the Investor Relations section at www.mtga.com.

With that said, we'll now turn the call over to Mario Kontomerkos, Chief Financial Officer, of the Mohegan Tribal Gaming Authority. Mario?

Mario Kontomerkos:

Thank you, Peter. Good morning everyone. Before we begin I'd like to introduce the participants of today's call. Today we are joined by the Chairman of the MTGA Management Board, Kevin Brown. We also have Bobby Soper, President and CEO of MTGA and Tom Burke, Chief Operating Officer of MTGA, along with Peter Roberti, who you just heard from, our Vice President of Finance and our Chief Accounting Officer. In addition, we have a number of others in the room and on the phone that are available to answer any questions you may have.

As usual, our chairman will give some introductory comments followed by Bobby, who will briefly discuss our operating results for the last quarter. I will then provide you with a brief overview of balance sheet matters, after which I will open the call for Q&A.

With that, I'll turn the call over to the Chairman of the Mohegan Tribe and the MTGA Management Board, Kevin Brown. Kevin?

Kevin Brown: Thanks, Mario.

Good Morning everyone and thanks for joining today's call.

While table hold is the headline, we are pleased to report that it was temporary and that the operating fundamentals of our business for the Mohegan Tribal Gaming Authority continue to be strong for the first quarter of Fiscal 2017, both on the gaming and non-gaming side, and I will leave it to Bobby to explain just how we did it in detail shortly.

Demonstrating the longevity and staying power of our assets and our brands, we are pleased to report that during the quarter, we celebrated both the 20th anniversary of Mohegan Sun property here in Connecticut and the 10th anniversary of Mohegan Sun Pocono, both of which we are very proud of both of these properties and their decades long strong performance.

Finally, we also achieved a number of strategic milestones during the quarter including the opening of our beautiful new 400-room Earth Hotel here in Connecticut and we are only months away from the grand opening of ilani Casino Resort near Portland, Oregon. These initiatives, and others like them, along with our continued focus on strong operating fundamentals, put the Mohegan Tribal Gaming Authority in a strong position for many years to come.

At this point, let me turn the call over to Bobby Soper, President and Chief Executive Officer of the Mohegan Tribal Gaming Authority to go into further details. Bobby?

Bobby Soper

Thank you, Chairman. Hello everyone and thanks again for joining our call today, and as always, for all your support.

Despite strong gaming volumes at Mohegan Sun and strong non-gaming volumes at both our properties in our first fiscal quarter at MTGA, Adjusted EBITDA declined by 17.3% year over year principally due to a decline in table games revenue at Mohegan Sun, which is driven entirely by low table hold. The low table hold in Connecticut masked what was a series of strong underlying fundamental metrics for our business in the quarter, including Connecticut year-over-year slot handle up almost 2%, Connecticut table volume up almost 11%, Connecticut non-gaming revenue up over 18% and Pennsylvania non-gaming revenue up over 1%. In addition, Resorts Atlantic City grew EBITDA in the December quarter. Normalizing for the lower than expected table hold percentage and some non-recurring benefits included in the prior year Corporate expenses, Adjusted EBITDA would have increased by $2-$3 Million year over year.

Furthermore we opened up our new 400-room Earth Hotel Tower at Mohegan Sun, which is off to a great start. I will have more details on this in a few minutes. Now, on to our results at the operating units.

Mohegan Sun

As stated earlier, at Mohegan Sun in Connecticut, low table games hold impacted both revenues and EBITDA. Relative to the previous year, we believe the EBITDA impact was approximately $12-$13Million, which, on a normalized basis, would have resulted in Adjusted EBITDA of about $72-$73Million, or $2-$3Million higher than last year. The table hold also masks very strong non-gaming volumes, including a 21.5% year-over-year increase in hotel revenues and a 23.5% increase in retail, entertainment, and other revenues, driven by our 20th Anniversary celebration in October and the new Earth Hotel which opened on November 10th.

While still early, we are quite pleased with the performance of the new hotel thus far. In the first two full months of opening, the Earth hotel is generating about $1 million of incremental EBITDA per month. Extrapolating this over a full year would suggest annual incremental EBITDA of $12Million, compared with our previously announced expectations of $10Million at stabilization. Again, it's still early and we have a long way to go before the year is out, but the early signs are encouraging.

On the entertainment side, we had our 20th Anniversary Celebration in October and had several star-studded arena events during the quarter including, Bruno Mars, Kevin Hart, Adam Sandler, Tim McGraw, Carrie Underwood, Fergie, Dane Cook, Sia, , Keith Urban, Jay Leno on New Year's Eve and a few more. Just a few days ago, we had Bon Jovi, and upcoming for the quarter we have Miranda Lambert, Ariana Grande, Panic at the Disco, Florida Georgia Line and a WWE event, just to mention a few.

Additionally, Pollstar Magazine, Billboards Magazine and Venues Today recently ranked us the #1 casino venue worldwide, and #3 nationwide for all venues of our size.

Mohegan Sun Pocono

Now, let's move on to Mohegan Sun Pocono results.

Net Revenues declined 6.3%. The decline in Net Revenues was driven by lower visitation partly due to a more normal weather pattern in the current year's quarter when we had three weather events versus none in the prior period. Adjusted EBITDA at Mohegan Sun Pocono declined by $1.1 Million or 9.0% from the prior year quarter. Results were partly impacted by lower slot revenues, an increase in taxes paid to the Commonwealth of Pennsylvania for table games, higher property taxes, and higher regulatory fees along with the weather, as I mentioned.

Hotel revenues remain stable and occupancy was strong at 92.5%. ADR and RevPAR continue to increase, up 6.7% and 1.7%, respectively to $64 and $59.

Now on to our Corporate results.

Corporate Results

At MTGA Corporate, Adjusted EBITDA was down $3.5 Million relative to last year this was primarily an issue of tough comparisons as last year we benefited from several one-time items which improved last year's quarter by approximately $5.0Million, and results in the current quarter were in line with our internal plan.

The Cowlitz project, now officially named "ilani" Resort & Casino, is moving swiftly towards opening and remains on budget and on schedule. As of today we are about 81% complete, with exterior work nearly complete and most of the work relating to the interiors as well as offsite work. Overhead ceiling work is finished, carpet has been installed on a majority of the gaming floor, and FF&E and gaming equipment has been ordered. In addition, the I-5 interchange roadwork is progressing well and successfully transitioned into a new temporary traffic pattern in November. Operationally, table games dealer training schools began in the middle of January and our marketing and advertising teams are laying out the pre and post- opening strategies for promoting the ilani brand. While we continue to expect a late spring opening, we should be ready to announce a more specific opening date in about 30 days' time. During the quarter, we recognized approximately $1.8 Million in fee revenues under our Development Agreement with the Cowlitz Tribe.

Resorts Atlantic City continues to perform well. For the December quarter, Net Revenue at Resorts increased 9.0% over the prior year quarter, continuing a remarkable financial turnaround that the property has been experiencing for some time. In the online space, Resort Digital finished calendar 2016 with 368% revenue growth to $31.8 Million, boosted by the addition of Poker Stars in early 2016. For the quarter, MTGA generated over $500,000 in fee income from Resorts.

Our Corporate results also benefited from our consulting agreement with the Paragon Casino Resort in Marksville, Louisiana. During the quarter, we recognized $525K of fee income. The initial one year consulting period ends on April 30, 2017, at which time we anticipate entering into a full management term of five years, subject to regulatory approvals.

Now on to **South Korea Project**

Finally, we wanted to provide a short update on our South Korean development. Significant architectural and construction costing efforts are underway for the Inspire project, including those efforts relating to the required surrounding infrastructure, the capital expenditures of which will be funded by Inspire and reimbursed by the Incheon International Airport Corporation, or IIAC, our landlord on the project. Construction on those are expected to begin late this year or early next year. We continue to target an overall project opening for 2020, and with the benefit of excellent demographics, a prime location, and what has now become a world-class development team, we look forward to opening of what we believe will be one of the most iconic and successful integrated resorts in Asia.

Summary

In summary, between strong operating momentum, our new non-gaming additions in Connecticut, the upcoming opening of the “ilani” project in just a few months, and our efforts in Asia, we are optimistic about both the near- and long-term future of the Mohegan Tribe and MTGA. Our unique product and corporate culture is something that resonates well both within and outside of the United States, and we intend to continue to expand in a methodical, profitable manner. And while we remain steadfast in seeking new and diverse gaming opportunities and talent, we never forget what makes our product so special. That is the unparalleled guest service, product and hospitality experience that has made “Mohegan Sun” a premier gaming and entertainment brand in the industry.

Thank you again, and I will now turn the call back over to Mario Kontomerkos.

Mario Kontomerkos

Thank you, Bobby.

Driven by the strong operating fundamentals that Bobby just outlined, our balance sheet continues to improve. A process that has been accelerated recently as a result of the completion of our comprehensive refinancing in October, which provided us with a number of important benefits. Specifically, the transaction resulted in a more simple and straight forward bank/bond structure which will yield us interest savings of approximately $16.5 Million dollars annually, and extended our maturities by approximately three years with the earliest maturity in 2021 and longest in 2024, which extends beyond the entrance of new competitors in our markets and gives us security and certainty through that period. In addition, the transaction resulted in greater liquidity and aggressive mandatory amortization schedule which will accelerate debt pay down, and greater flexibility, all of which led to creating credit ratings upgrades by both agencies. As you see on the release in connection with this refinancing, we incurred a $73.8 Million loss on the modification and early extinguishment of debt.

With this new, more efficient capital structure as our foundation, as well as our growing stream of incremental fee income, additional margin enhancement opportunity at our operating properties, and significant upfront-weighted mandatory amortization on our Term Loan A, we would expect to continue to drive improvement in our credit metrics and further debt reduction, allowing us to reach our goal of Total Leverage into the 3's by the end of next year, or earlier.

And in fact, in the month of January alone, we've already reduced that by approximately $30 Million.

Let me now give you a brief update on the Balance Sheet.

- Total leverage ratio, at December 31st, calculated on a gross basis, was 5.20x.
- Total Debt as defined under the bank credit facility was $1.81 Billion, up $132 Million from the prior quarter. That increase being mainly due to the fees paid in connection with our refinancing, offset by debt repayments
- $99 Million was drawn on our $170 Million revolver as of December 31, 2016

After factoring in outstanding Letters of Credit, we had approximately $68.5 Million available for borrowing under our Bank Credit Facility and Line Of Credit as of the end of the quarter.

- Cash and cash equivalents, at the end of the quarter, totaled $114.7 Million, including approximately $22.0 Million of excess cash.
- Liquidity totaled approximately $90.5 Million, a net of Bankroll and Restricted Cash. And subsequent to the quarter end, our liquidity continues to trend in $95- to $110 Million range as a result of our increased availability under our upsized revolving credit facility that closed in October.

- Distributions for Tribe totaled $12.0 Million for the quarter. Capital Expenditures totaled $10.6 Million for the quarter,. And, these were comprised primarily of maintenance capital expenditures at our operating units.

As a reminder and as we discussed on our previous quarterly call, we still expect the annual Corporate EBITDA to trend in the $23-$25 Million range for fiscal 2017. And, as you saw in the press release that we issued this morning, results for the fiscal first quarter in that area were right in line with that plan.

So thank you all and now I'll turn it over to Sharon to open it up for Q&A. Sharon?

Operator: At this time I would like to remind everyone, in order to ask a question press star and the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Jenna Geanelli. Please state your company. Your line is open.

Jenna Geanelli: Hi there. This is Jenna Geanelli from Citi, thanks for taking my question. Thanks for all the color on the update on the initiative. Can you talk a little bit more about the opportunity in Connecticut and remind us again what you think that's going to look like and similarly how you're thinking about funding that and going about that type of project?

Mario Kontomerkos: Jenna, you're talking about MMCT project?

Jenna Geanelli: Yes.

Mario Kontomerkos: Sure. We can probably give you a little bit of background on -- sort of -- from a legislative perspective and from a timing perspective.

Kevin Brown: Yes, you know we've had some success now here recently in the communities. We've netted down the competition to two remaining locations, I should say communities and we've held town meetings in those towns and the towns are excited. And, that's a good news story. Now though, the effort turns to the Connecticut legislature and we have to work with them, obviously, to get the bill passed. That's the stage that we're at and we will be in that process for the next eight to 12 weeks.

Mario Kontomerkos: And Jenna, on a financing side, as we have, sort of, gone down the path on many of our projects, we'd expect this to be, sort of a, non-recourse JB financing or limited recourse JB financing, project financing not unlike what you've seen at other projects.

Jenna Geanelli: OK, great. And, then also the Earth hotel, it seems like it's ramping nicely. I know you quantifies on an aggregate basis, but can you give us a sense of how that alone has been performing, relative to the average, in terms of occupancies and ADR's and could there even be more upside versus the current million dollars of EBITDA per month that you guys had highlighted?

Mario Kontomerkos: You know Jenna, look, it is early. It's only been two full months, but I will tell you the occupancy is significantly higher that we first expected. I think we were anticipating something in the 80% range; it's closer to the low 90's at this point. The ADR was anticipated to be somewhere in the, I believe, on the transient side was expected to be somewhere in the $130 range. It's also significantly higher there, so we don't want to get too excited and start extrapolating, but, so far the trends are good.

Jenna Geanelli: OK great and then just one more if I may. When we think about Poconos in some of the you know incremental competition coming on line, particularly Up State New York casinos. Have you guys quantified how to think about the impact from that upcoming competition, what the overlap is and what kind of EBITDA decline we can expect at that at property from EBITDA competition? Thank you.

Bobby Soper: Sure, I'll jump in, this is Bobby. Yes we have you know assessed, it's been a discussion for many years on the Up State gaming facilities. It's frankly just a very little part of the overall market, there's one area in the Catskills that there's perhaps a tiny bit of overlap. We don't think the impacts material especially since they're already was gaming near the Binghamton area, which is the same market that we're talking about. So we overall don't think there's really any material impact to the Pocono property.

Mario Kontomerkos: Yes, Jenna just to add some color to that you know about 85% of Poconos business, rated business comes from within 50 miles. And so when you sort of do your concentric circles you'll see that that's well within most overlap, if not all overlap of some of the competition you're talking about.

Jenna Geanelli: OK great, thanks for all the color, I'll turn it over.

Operator: Your next question comes from David Farber from Credit Suisse, your line is open.

David Farber: Good morning guys how are you?

Mario Kontomerkos: Good, David, how are you?

David Farber: I'm great. I have a couple I think relatively straight forward questions, but I guess I just wanted to confirm that it sounded like X Hold you guys are pretty pleased with the quarter. It seemed it was kind of flattish, x all of that. Any just sort of thinking through the quarter, anything else I'm missing and then I had a couple follow ups.

Mario Kontomerkos: No, David, I think your assessment's pretty spot on.

I think we were pleased with the volumes underlying the revenues. Obviously, as Bobby went through, slot volumes were up two%, table volumes were up very significantly, 11%. Non-gaming volumes were up very significantly. A lot of that is due to the new hotel that opened. And, the new hotel is really only open for half a quarter. So, I think we're fairly pleased with the underlying trends that we are seeing.

David Farber: OK. Very good. And, then you talked a little bit about this in the prepared remarks, but, just any updated thoughts, I have to ask on Cowlitz, in terms of timing, and then how do you feel about the budget versus where the expenditures are today? And, then I have just one follow-up. Thanks.

Mario Kontomerkos: Yes, in terms of budget, a lot of projects stay on time with budget, we actually are on time and on budget. So, we're feeling good about that from a timing perspective. We've always said late spring, I would say though to your question that within 30 to 45 days we should be able to announce a more specific opening date.

David Farber: Great. OK. We look forward to that. And, then just finally, just because got a number of questions from guys on our end. There was a local story a couple weeks back on the Norwich Hospital, if I'm pronouncing that right, so I just, sort of wanted to hear from you guys, what the update there is, how that may or may not unfold, if there's thoughts around the credit? If you could just, sort of, walk us through that and then that's it for me. Thanks.

Mario Kontomerkos: Sure thing, David. So, that's a parcel of land -- a very large parcel of land that is directly across the river from Mohegan Sun and I think our goal there, very consistent with our capitalized strategy that we executed on for the last five years or so, is an effort really intended to attract third parties to develop that piece of land in a way that's beneficial for both the town and for MTGA. So, I wouldn't expect any significant capital expenditure from us in any meaningful way. This is really a third party development that would be almost be entirely outside of the credit.

David Farber: OK. Thanks for the help.

Mario Kontomerkos: Thank you.

Operator: Your next question comes from James Kaylor. Please state your company. Your line is open.

James Kaylor: Hey guys. I wish…

Mario Kontomerkos: Hey there.

James Kaylor: How are you? I guess just circling up a bit on this, sort of, underlying volume. Maybe you can just give us a little color on, sort of, how the quarter progressed. I'm curious how volumes in Connecticut and Pennsylvania have -- have held up. I mean, the volume data in Connecticut looked good. Pennsylvania did look like there was some volume, in fact, I'm curious, if you think weather impacted the quarter or anything else?

Mario Kontomerkos: So, a couple things there James, I'll give you first some comments here, I think here, at least in January. January, so far, the volumes are pretty solid, as we mentioned in the release. In Connecticut, our volumes are up generally, despite the fact that we've had three weather events in the month versus one last year. And, the hotel continues to be strong.

Pocono, in January, is down slightly. Resorts is actually up significantly. So, that's primarily what's happening recently. I think we did see a mixture of things that happened in the December quarter. Even though you had an extra Saturday and Sunday, I believe, I think we think more impactful was the fact that the major holidays, Christmas and New Year's, this year, fell on, the eve of both of those days, fell on Saturdays. As opposed to Thursday's last year, which effectively removed two long weekends away, and sort of, adversely impacted us from a timing perspective. So, I think, that's one of the reasons in December, not just us, but everywhere else, you saw a little bit of a decline across the regional markets.

The other thing, just to mention, with respect with some of the northeastern properties in the United States, was that last year we did have significantly less weather, in fact, no weather in December versus two or three events this year in December, depending on which market you're talking about. So, between those two things, I think that's pretty much what's driving what you saw in the quarter. I think as we get into January it's a little bit more normalized.

James Kaylor: Got you. And, I know that hold -- holds should kind of return to the norm. I'm just curious, to how -- there's nothing structural going on with hold, I guess is the first question? And, has hold kind of swung back to a more normal level?

Mario Kontomerkos: The answer is no, there's nothing structural and yes, it has reverted back to normal.

James Kaylor: Very good. Can you just give us a little more color on the corporate expense? You mentioned in the prepared remarks there was some one-time benefits last year. I guess, just curious, what those were and quantify them and just maybe give us some help making out corporate expense on a go forward basis. I think maybe you said maybe $25 to $30 Million, just on a flat line basis.

Mario Kontomerkos: Yes. I think that's right, James. So, last year benefitted by about $5 Million in the corporate expense line, related to two items. Particularly related to Cowlitz. One was a reversal of bad debt reserve. There, which was adjusted after the financing. Obviously, the financing, from an accounting perspective signified greater certainty and the receipt of those receivables that we have outstanding. So, the bad debt reserve was reduced by about $3.4 Million. That was the majority of the impact last year. There was also, remember as a result of the financing, we began earning income on the development fee. The development fee, at that time, there was a catch up for that, for the expenditures that had been made up until that point. That amount was $1.5 Million. So, between those two, that's about $5 Million benefit that we received last year, that we did not receive this year. And, I think you are right in terms of the go forward run rate, in terms of corporate expense.

I think, the number that we reported in this quarter is going to be about the level going forward.

James Kaylor: OK. Very good, and then, I just – I think I've asked this over and over again but I just wanted to reconfirm. Is the – has the equity into Korea, has it already left the balance sheet and/or it certainly – it's not in the cash balance right?

Mario Kontomerkos: Correct. It's sitting in a Korean bank account.

Peter Roberti: But, it's reported as restricted cash on our balance sheet.

Mario Kontomerkos: That's right.

James Kaylor: OK. So, it is still on the balance sheet but it's not in the cash balance, is it?

Mario Kontomerkos: Not in the current line, but in restricted cash.

James Kaylor: Ok, very good. Thank you.

Mario Kontomerkos: Thank you.

Operator: Once again, if you would like to ask a question press start then the number one on your telephone keypad. Your next question comes from Mike Kerrane from Sun Trust. Your line is open.

Mike Kerrane: Ok, thanks for taking my question. Most of them have already been asked and answered but I just wanted to follow up a little bit more on understanding some of the expenses, like, for example the retail entertainment and other, you know, kind of picked up a lot in the fiscal first quarter. A little bit more than I had modeled out and I just want to be able to understand that a little bit better.

Mario Kontomerkos: No, thanks for that. Yes, we did have some increase in expenses. I think, they were primarily variable in nature, Michael. Yes, there were – obviously, there were significantly more – there were eight more headlining shows in the quarter than last year. So, there was a significant expense that was incurred associated with those headliners but obviously significant revenues as well. Which you saw as part of the twentieth anniversary event.

So, those should have offset each other. You know, we also incurred a little more rent expense. At one point $1.8 Million in the quarter for the Earth Tower. Which again, is more than offset by the incremental revenue. So, that's really what's driving the expense.

Mike Kerrane: Right So, when the hotel expense, you know, I did expect those to tick up. Are the margins in the hotel business going to improve going forward? In other words, are there efficiencies that you guys are going to get out of operating 1,200 rooms instead of 800 or should we expect those, kind of, hotel expenses to be - are the margins are what they are or are they going to continue to improve?

Mario Kontomerkos: I think as a typical with most new properties and hotel openings, you always have an intentional lack of efficiency up front. You tend to over staff to make sure the guests' experiences is correct. And I think that over time we're going to get better at that, and the margins should improve.

Mike Kerrane: All right. That's all I have. Thanks.

Operator: Once again, if you'd like to ask a question, please press star, then the number one on your telephone keypad. Your next question comes from Bill Carpenter from Goldman Sachs. Your line is open.

Bill Carpenter: Hi guys. Just two questions. Just a clarification, did I hear correctly that the I-5 ramp at the Cowlitz project is not going to be open fully until November?

Bobby Soper: No you didn't.

Mario Kontomerkos: Oh no, no. Bill, I think what we were saying there was that at the end of last November, we transitioned to a new traffic pattern which went very smoothly.

Bobby Soper: To complete the overhead.

Mario Kontomerkos: To complete the overpass.

Bobby Soper: It's scheduled to be ready at opening.

Bill Carpenter: OK, awesome. Great. And the other question I had was, can you just comment a little bit on Korea and with the stories we've read recently on some additional project or projects coming into the area. And does that change you're thinking about what you're trying to do perhaps relative to the supply and demand characteristics that might occur? Thanks.

Bobby Soper: Yes, I'll take this. There are a number of things out there as it relates to other projects. I can say this: as it relates to integrated resort licenses, there's nothing new there. There's no process been established. Obviously there's been talk over the last 5 years from others, including Las Vegas Sands, about having locals gaining there and integrated resorts, but no – all our feedback from the Korean government is that there are no further licenses awarded or processed for that.

There have been talks of – on Jeju, where casino locals are allowed. Projects opening at that point, which is a much different market than our market and our focus. So as of now, we don't believe the landscape is – and the way we're going to operate – is going to change based on any of things you've read.

Bill Carpenter: Thank you.

Bobby Soper: Thank you.

Operator: We have no further questions at this time. I will turn the call over to Mr. Kontomerkos.

Mario Kontomerkos: OK, well if that's all the questions, again, we thank you all for listening in and for your support. And we look forward to providing you another report in about 3 months' time. Thank you very much.

Operator: That concludes today's conference call. You may now disconnect.

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