MOHEGAN TRIBAL GAMING AUTHORITY

Moderator: Mario Kontomerkos
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Operator: This is Conference # 12227054

Good morning. My name is Shelby and I will be your conference operator. At this time, I would like to welcome everyone to the Second 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 followed by the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you. Vice President of Finance and Chief Accounting Officer for Mohegan Tribal Gaming Authority, Peter Roberti, you may begin your conference.

Peter Roberti: OK. Thank you, Shelby. 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 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 being said, I will now turn the call over to Mario Kontomerkos, Chief Financial Officer of the Mohegan Tribal Gaming Authority. Mario?
Mario Kontomerkos, Chief Financial Officer, of the Mohegan Tribal Gaming Authority.

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 Mitchell Etess, President and CEO of MTGA.

And on the phone, Tom Burke, Chief Operating Officer of MTGA, along with Peter Roberti, who you just heard from, our Vice President of Finance and 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 Mitchell, 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 we can open up the call for Q&A. So 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: Thank you, Mario.

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

We are pleased to report another solid set of operating results for our 2nd quarter of Fiscal 2017, which continued in to the first month of this quarter. Mitch will explain how we did this in some detail shortly.
In addition to great performance, we also achieved a number of milestones since quarter's end which continue our strategy of deleveraging and diversification. These include; our successful repricing of our Bank Credit Facility, the commencement of construction of the Mohegan Expo Center Project here at Mohegan Sun, the execution of our Development Services Agreement with Inspire in South Korea, and the successful opening just this week of ilani Resort and Casino near Portland, Oregon. These and other initiatives, and others like them, along with sustaining our strong operating fundamentals, continue to put the Mohegan Tribal Gaming Authority in a very strong and stable position for many years to come.

At this point, let me turn the call over to Mitchell Etess, President and CEO of the Mohegan Tribal Gaming Authority. And he will go in to further detail. Mitch?

Mitchell Etess: Thank you, Kevin. Hi, everybody, and thanks again for joining the call. And as always, we do appreciate all of your support and attention.

We're pleased with our quarterly operating results. Our Adjusted EBITDA declined slightly year over year but, as Kevin indicated, we have undertaken many initiatives. And those drove higher corporate costs, many of them one-time in nature.

Importantly, our underlying fundamentals were solid, particularly at our flagship Mohegan Sun in Connecticut. As Mario will describe in a few minutes, corporate costs are expected to be lumpy in the coming quarters, but primarily to the good.

<u>Mohegan Sun</u>

Connecticut, despite a tough comparison – driven primarily by the weather and of course the extra day last year that was a Saturday, Net Revenues at Mohegan Sun increased by 3.4% and Adjusted EBITDA increased by 5.3%. The property's $81.9 Million of EBITDA was our highest for a 2nd quarter since the good old days of 2008. And our operating margin of 30.9% was our highest for a fiscal second quarter since 2001. During the quarter, we experienced double-digit increases in hotel revenues, retail, entertainment and other, and in food and beverage revenue. We also witnessed, as expected, a nice bounce in our gaming revenues and hold percentage, causing gaming revenues to increase slightly over the last year.

Much of this strength can be attributed to both the new Earth Hotel, which continues to perform well above our initial expectations, as well as to a very strong and star-studded entertainment calendar, including, Bon Jovi, Miranda Lambert, Ariana Grande, Panic at the Disco, Sting, Florida Georgia Line, The Lumineers, Aretha Franklin, Bastille, and several other events including an MMA event, a Cirque show, Dancing with the Stars, the incredible Game of Thrones tour which sold out here, the American Athletic Conference Women's Basketball Championship which of course crowned UConn as their champion, and 6 New England Black Wolves National Lacrosse League games.

Strength's going to continue in the second – in this current quarter with incredible lineup; including The Weekend, Jason Aldean, Def Leppard, Eric Church, Tim McGraw and Faith Hill touring,, the comedian Chris Rock was here last week and it was terrific.

Of course, the kickoff of the CT Sun season, a WWE event and our second Barrett Jackson event. Really, just to mention a few. The arena is incredible. It continues to lead the nation in volume, as Venues Today recently ranked us as the #2 venue worldwide for all venues of our size. That's in the world. That's amazing. Right here in Uncasville. Finally, and continuing on the theme of non-gaming diversification, towards the end of the quarter we broke ground on what will be our newest amenity, the $80 Million dollar Mohegan Sun Expo Center. Together with the new Earth Hotel, the Expo Center will complete the development of our North lot, will drive thousands of new midweek room nights and higher cash hotel revenue to the property, and will continue to fortify Mohegan Sun against new competition. The Expo Center will be open in a little more than 12 months' time. And beyond the impact on hotel revenues as I just mentioned the Expo center will also host a wide array of gate shows driving tens of thousands of through-puts to the property. This has great impact on our business as we saw last year with the inaugural Barrett Jackson event.

Mohegan Sun Pocono

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

As you can see, Net Revenues declined 7.3% and Adjusted EBITDA declined by 7.6% from the prior year quarter. While we don't make a practice out of blaming weather for our results, it is worth mentioning that we had 11 weather events in the current period versus 4 in the prior period. On the other hand, we were encouraged by our ability to maintain our margins in the quarter, as well by the improving sequential trend in year-over-year EBITDA growth over the last two quarters. We would expect this trend in better profitability to continue going forward.

Now to our Corporate activity.

Corporate Results

At MTGA Corporate, we experienced higher costs during the quarter as Adjusted EBITDA was down $6.2 Million relative to last year.

This is primarily due to the confluence of two things. The incurrence of certain one-time costs in this year's quarter as well as the inclusion of certain one-time items which improved last year's quarter and created a tough comparison.

Putting the last quarter aside, the Corporate segment will be a source of significant EBITDA growth for us in the upcoming quarters. One of the main reasons for this will be due to the successful opening of the ilani Resort and Casino, which opened to many thousands more people than expected this past Monday morning. While it is still much too early to draw any conclusions about how the property will perform long term we're nevertheless very encouraged by the substantial early interest in ilani the hard work is just beginning, but the facility itself is without a doubt one of the most attractive in the region, and should do quite well. We congratulate the Cowlitz Tribe on this seminal moment in their long history. During the quarter, we recognized approximately $1.8 Million in fee revenues under our Development Agreement with the Cowlitz Tribe.

In terms of other management & development efforts, Resorts Atlantic City continues to perform well. For the December quarter, Net Revenue increased 20.4% and EBITDAM increased $5.1 Million from the prior year quarter to $4.4 Million, continuing the remarkable financial turnaround that the property has been experiencing for some time and certainly since we took over. For the quarter, MTGA generated over $740,000 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 $525,000 of fee income.

Finally, we wanted to provide a short update on our South Korea development. In March we reached 50% Schematic Design, a major milestone from an architectural and construction costing perspective. There is no doubt that, based on the designs underway, that Project Inspire will be a complete "breakthrough," one-of-a-kind resort for both Korea and the rest of Northern Asia. In April, we executed important agreements between Inspire and the Incheon International Airport Corporation relating to the required surrounding infrastructure, the capital expenditures of which will be ultimately funded by the IIAC, our landlord on the project. Construction on those are expected to begin late this year or early next year. In April, we also entered into a Development Services Agreement whereby we will earn $40 Million over the development period for the project.

Just last week, we received our first installment totaling $10 Million under this agreement. 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 what we believe will be one of the most iconic and successful integrated resorts in Asia.

And, I'll tell you something, it really is spectacular.

Summary

In summary, between strong operating momentum, our new non-gaming additions in Connecticut, the successful opening of the ilani Resort and Casino, and the progress we are making in the South Korea project, 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.

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. Thanks again. And now I'll turn the call back over to Mario.
Mario Kontomerkos.

Mario Kontomerkos:

Thank you, Mitchell. As Mitchell alluded to the.

The first four months of 2017 have been a very busy and productive period for MTGA, perhaps one of the busiest in some time. Let me now walk you through some of the many projects we completed and their impact on our financial statements going forward. As many of you already know, and with your support, in April we were able to successfully reprice our Bank Credit Facility and reduce the interest rate on all of our facilities by 50 basis points resulting in an additional annual interest savings of over $6 Million per year. This follows on the $16 Million of interest savings achieved as a result of our comprehensive refinancing last October. Thus, the two transactions over the last 7 months have resulted in a total of over $22 Million of interest savings.

Also in April we closed on a $25 Million credit facility to partially fund the construction of the previously discussed $80 Million, 240,000 square-foot convention and Expo center. The remaining funding will be sourced from internal cash flows and borrowings on our revolver. Like any other project we undertake, we would expect for this project to pay for itself within 5 years or less, once it opens next summer, and as Mitchell stated, it will be a very important amenity for us.

Also as previously discussed, in April we entered into a Development Services Agreement with Inspire whereby we will earn $40 Million over the development period for the project, which is over the next 3.5 to 4 years.

In the current quarter ending June 30th, we have already received our first installment of $10 Million and we are expected to receive the remaining $30 Million over the remainder of the development period. This transaction should help accelerate our deleveraging strategy and reduces our net investment overseas.

Finally, I'd like to turn your attention to a recent change within the company which oversees the development and management of the ilani Casino operation called Salishan-Mohegan or as we like to call it affectionately here at MTGA SalMo. As some of you likely recall, Sal-Mo was a 49% owner by the MTGA, 11% by the Mohegan Tribe, and 40% owned by Salishan Company, a local partner. In April, Sal-Mo agreed to redeem the shares of Salishan Company for a to-be-determined amount to be paid over the next 7 years. The upshot of this is that, going forward, MTGA's financial statements will now reflect 82% of the fee income from Sal-Mo, as opposed to just 49% previously. This of course will have a beneficial impact on both Consolidated Revenues and EBITDA as well as a potential benefit to the Restricted Group EBITDA to the extent distributions are made. This transaction should also help to accelerate our near-term leverage levels lower, and together with our other recent positive balance sheet activities, incremental fee income as I just discussed from the Inspire project, additional margin enhancement opportunity at our operating properties, and significant upfront-weighted mandatory amortization on our Term Loan A, we now feel very confident in our ability to reach our goal of Total Leverage into the 3's by the end of next year, or earlier.

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

- Total Leverage Ratio, calculated on a gross basis, was 5.02x. We expect that we will be comfortably into the "4's" at the end of the current fiscal year, which is in six month time.
- Total Debt as defined under the bank credit facility was $1.74 Billion, down $76 Million from the prior quarter three months ago.
- $17 Million was drawn on our $170 Million revolver as of March 31, 2017.
- After factoring in outstanding Letters of Credit, we had approximately $144.8 Million available for borrowing under our Bank Credit Facility and Line Of Credit as of the end of the quarter in March 31, 2017.
- Cash and Cash Equivalents at the end of the quarter totaled $80.8 Million.
- Liquidity totaled approximately $146.8 Million, net of Bankroll and Restricted Cash. And subsequent to quarter end, our liquidity continues to trend in the $140 to $150 Million range as a result of increased liquidity and availability under our upsized revolving credit facility.
- Distributions to the Tribe totaled $12 Million for the quarter. Capital Expenditures totaled $29.6 Million for the quarter and these were, comprised primarily of maintenance capital expenditures of $19.6 Million and $10 Million of expansion and development cap ex related to both the Expo and Inspire projects.

Thank you all and now I will turn it over to Shelby for Q&A. Shelby?

Operator: If you would like to ask a question, "star" "one" on your telephone keypad. You're first question comes from David Farber at Credit Suisse. You're line is open.

David Farber: Good morning guys how are you?

Mario Kontomerkos:
Hey David.

David Farber: Hi. Thanks for all the prepared remarks. I had a couple of follow ups. I guess maybe, first just on SalMo, can you just remind us what that fee income is received from, what it owns and how we should think about that, given the increased ownership and then I had a couple follow ups? Thanks.

Mario Kontomerkos:

Yes, sure. SalMo, David, there's sort of three streams of income that was coming to SalMo in the previous iteration. There were development fees, as you know, which half of those have already been received, another half have been deferred until after opening. There were receivables that are totaling over $85 Million now, probably will, some where over $100 Million in the future and there were management fees and with respect to those management fees, I think we've given previous guidance of something in the $15 or $16 Million range on a run rate annual basis.

And now with this change that we're talking about, we think that that guidance should be raised by about one and a half times.

David Farber: OK very good and we'll hear from you guys on the purchase price over the course of the next couple months. Is that the right expectation?

Mario Kontomerkos:

That's correct.

David Farber: Great. And then just – can you give us some more color around how the new hotel is performing? You mentioned it's above expectations again, I'm just curious any sort of incremental information there? And then on the Expo Center sort of walk us through your thoughts on that development and how you see that playing out. Thanks.

Mario Kontomerkos:

Sure, I mean the hotel is doing great, I think we're very pleased – I think you can see from the results that our occupancy is only down just by a couple of points, but RevPAR, ADR and everything, especially given the 30% increase in room nights is up significantly.

So I think we're very happy with that. I think we've talked about $10 Million of annual profit to MTGA after lease payments and on a stabilized basis that's two to three years out and I think we're very comfortable with that expectation. So that's the hotel. As far as the Expo Center, the Expo Center is pretty much the completion of the development of the North Lot, which we've been looking to develop for some time.

You know that the new hotel is there, the Earth Hotel which is doing very well. The Expo Center really complements the new hotel, it completes or at least continues to add on to our non gaming strategy which we've always talked about with you folks for some time now in terms of our diversification.

From a business perspective, we've looked at the Expo business that we currently have. We currently turn away 85,000 room nights annually and when we look at the financial performance and the targets that we'd like to hit with respect to meeting that five year return on the $80 Million, we think we only need 60,000 meeting room nights to be able to hit those targets and keep in mind, we're turning away 85,000. So we think that from a lot of different perspectives this is going to be a very good project for us.

Mitchell Etess: And a few other things, if we do get any hit in demand from the gaming room night side, it's going to allow us to replace those rooms with much more profitable cash rooms as opposed to stuffing them in with low Theo customers which sometimes marketing people can't contain themselves in doing that.

So I mean that really is a big hedge against that and the Expo Center also – I mean I think the impact the arena has had on Mohegan Sun is pretty well documented and obvious. And really in addition to the conventions, the number of trade shows and gauge shows that we're going to be able to put in this thing – and we saw what happened to Mohegan Sun last year and Barrett-Jackson this year.

You can put 15 – 20,000 people through a show like that on a day over a weekend so it's kind of like giving us more radio-type shows, more through put driving more people exposed to the property, more non-gaming and then probably a little bit of gaming revenue as well associated with that. So it continues to round out our destination which has always been our long term goal as things change here in the northeast.

Mario Kontomerkos:
Yes, the only thing I would add to that, David Farber is that just going back to that Barrett-Jackson Show that we held in June of 2016, that show produced as Mitch was saying sort of a knock on effect on the rest of our facility that we haven't seen before. That was our highest non-gaming revenue quarter ever at Mohegan Sun. And so we're hoping for more events like that on a continuous basis.

Mitchell Etess: It's like being – you have the ability to have a whole – another arena show on a day when you have an arena show and it's a huge boon.

David Farber: That makes sense, thanks and then my last question was just can you update us on any new developments with respect to a more permanent CEO? Any thoughts there? and then you mentioned in the press release that there was a development fee I think post the quarter and I'm just curious if you could give us the number there? And then that's it for me, thanks.

Mitchell Etess: Going to search, I mean we're involved right now in the middle of a national search and we will be complete by the end of the fiscal year, I'm very eager for that to happen.

Mario Kontomerkos: And on the development fee, David Farber, we signed a development agreement with Inspire MTGA did in April. And that development agreement, allows us to earn $40 Million dollars of development fees over the next three and a half to four years. $10 Million of which we've already received and is sitting in our bank account as we speak. The remaining $30 Million will be earned over the remaining three and a half to four years.

David Farber: OK so that's what I thought. Thank you very good.

Mario Kontomerkos: Sure

Operator: Your next question comes from the line of James Kayler with Bank of America. Your line is open.

James Kayler: Hey guys, how you doing?

Mario Kontomerkos: Good thanks James.

James Kayler: Good good. I guess maybe just changing gears a little bit, maybe you could dig in a little bit more into sort of customer trends. I guess both in Connecticut and Pennsylvania. I appreciate the caller on the weather impact in Pennsylvania. But I'm curious if you expect to see the revenue in align with Pennsylvania stabilize now that we're sort of out of winter and I guess just generally what you're seeing with customer behavior in Connecticut?

Mitchell Etess: Tom Burke do you want to get that?

Tom Burke: Sure. Thanks, good morning everybody and thanks James. A lot of the behavior that we're seeing is very similar to what we've been seeing over the past quarters. Somewhat mixed across the three properties. We're seeing declines in the low tiers, at all three properties. And I'll speak to each individual property in a moment. We're seeing declines in the lower tier which is some what deliberate at times and then also there's a quantity of those people that move up in tier. So if we go specifically by properties in Connecticut, again we're seeing the same as in past quarters. All of the tiers except the lowest, we are seeing an increase in spending, guest frequency and in the win and profit.

In Pocono, to speak to your question about whether or not -- weather and when we'll see stabilization. Part of that is the weather and part of that is the fact that we have realigned some marketing programs there and adjusted them and we're beginning to see positive results out of that.

A great of example of that is that last Friday was our second highest slot handled since inception of the property; and, also our fifth best gross day ever.

And similarly, at resorts in Atlantic City, we have lower – we have declines in the lower segment, which subjectively may be associated with the Taj Mahal closing. However, the very positive thing, as Mitchell highlighted, is that we continue to see in the upper segments increasing in both frequency and ADT.

James Kayler: Great. Very helpful, thank you …

Tom Burke: You're welcome.

James Kayler: Mario, just to come back to the amendment to the, you know, the Cowlitz agreement. Could you just – to make sure I understand. So will the MTGA be making a cash payment to the – to the outside minority partner? And when does that payment – when does that cash actually leave the system?

Mario Kontomerkos: James, a lot of those details are going to be figured out here over the next few months. So if you could just give us a couple of months on that, we should be able to provide you a lot more information.

James Kayler: OK. Very good …

Mario Kontomerkos: Thanks.

James Kayler: On Korea, I mean, obviously it sounds like things are moving forward. In terms of milestones, you know, what should we be looking for and thinking about? And then, I guess related, at what point do you think you would be out trying to raise the project financing for construction?

Mario Kontomerkos:

Sure. You know, I think the first phase – the first major milestone, I mean, I think we've hit some major milestones here internally with respect to architectural and design. We've reached 50% schematic, which is – you know, fairly advanced in the architectural process. And we're also now able to do some much better costing exercises.

But as far as, you know, milestones that might be obvious – more obvious to outsiders; I think the first phase of dollars in the ground is likely going to be infrastructure dollars. As you may recall, the IIAC has agreed to fund that infrastructure. And we think that that could happen by the end of this year. So that would obviously get the project going in a significant way.

And then, from a project financing perspective, I think it's – I think we're actually beginning that process now. It's going to take some time. And we'll try to time that process so that it completes around the – around the 50% D.D. phase, which is probably six to nine months from now.

James Kayler: OK, very good. And then, I guess just finally, can you give us any update on the legislative situation in Connecticut with the potential satellite casino? There's obviously been a ton of press coverage. Just curious what your take is and what you think the sort of progression will be?

Kevin Brown: This is Kevin Brown. I can take that question because I've spent a lot of time hanging out with legislators in the State Capitol.

What I can tell you is that we have clearly presented the best approach, the best bill that we are behind for the state of Connecticut for job sustainment.

You know, the fact of the matter is, there's a lot going on and there's a lot of other folks that are attempting to direct our State legislature's attention in other directions. But we are confident that the bill that we are behind, which allows us to build that facility in East Windsor, is the best approach for the State. And, you know, aside from the state budget matters that really have most of everyone's attention right now, we are confident that we'll get that bill pushed through.

James Kayler: All right, very good. Thank you, guys. Congratulations on all the progress.

Kevin Brown: Thanks, James. Thank you.

Operator: Again, if you would like to ask a question, please press star followed by the number one on your telephone keypad. You're next question comes from Mike Karane with SunTrust. Your line is open.

Mike Karane: Hey, good morning. Most of my questions have been answered but I wanted to ask one follow-up on the Earth Hotel, which is the impact on gaming that you've seen in Connecticut so far, now that the hotel's been open for a full quarter. Have you – does that impact on say slots, as you expected?

Mario Kontomerkos:
I think – I think generally, yes. I think the results are as we expected. I mean, keep in mind that there's a – there's a gaming impact, there's a food and beverage impact, and obviously there's a lodging impact.

So I think based on the incremental revenues that we're seeing and that are flying through the financial statement as you can see, I think they are within -- those aspects are within our expectations.

Mike Karane: That's all I have. Thanks.

Mario Kontomerkos:
Sure thing.

Operator: Your next question comes from Michael Plancey with NN Investment Partners. Your line is open.

Your next question comes from Bill Carpenter with Goldman Sachs Assets. Your line is open.

Bill Carpenter: Good morning, gentlemen.

Mario Kontomerkos:
Morning.

Bill Carpenter: I hoped maybe you could provide some color on the terms of the convention center financing.

Mario Kontomerkos:
Yes. I could do that, Bill. So it's approximately an $80 Million project. We've raised, through a separate credit facility, that's within the restricted group, but non-guarantor financing, about $25 Million. There's an accordion feature in it that can increase it to $33 Million if we opt to do so. The remainder would be funded by internal cash flows or off of our revolver.

Bill Carpenter: Great. And, any additional color you can provide on Korea would be helpful about, and I just ask that question from the context of some of the geopolitical stuff that's going on there as well as China, for example, clamping down on allowing capital outflows and gambling outside of the district. Thanks.

Mario Kontomerkos:
Yes, sure thing. Look, obviously we're watching all of that closely. Look, I think -- very similar to other reactions like this that we've seen in the past. We would expect what you're seeing there to be temporary in nature. We don't think that this is a long-term action. And I would say certainly, by the time that the property opens, which is 3, 3 1/2 years from now, we would expect something like this to be well in the past.

Bill Carpenter: Great. And, if I recall, there's another -- is there another competitor that might operate in Korea, new facility?

Mario Kontomerkos:
There is a facility that opened on April 20. It's the Paradise facility. The Paradise facility opened not far from, very close to the airport as well in the same general area, Inchon, that we are. And look, we look forward to their success. Their project adds significant critical mass to make the airport be a true entertainment destination that we're looking to turn Inchon into. And so we hope they do well.

Bill Carpenter: Thanks.

Mario Kontomerkos:
Thank you.

Operator: There are no further questions at this time. I will turn the call back over to Mario Kontomerkos.

Mario Kontomerkos:
OK, well thank you everyone. Thanks for joining us. Thanks for your support, and we look forward to talking to you again in about three months time. Thank you very much.

Operator: This concludes this morning's conference call. You may now disconnect.

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