MOHEGAN GAMING & ENTERTAINMENT

Moderator: Mario Kontomerkos
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OPERATOR: This is Conference #56760072

Operator: Good morning, my name is Tasha and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter Fiscal 2017 Earnings Call for Mohegan Gaming and Entertainment.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. At that time, in order to ask a question, you can press star and the number one on your telephone keypad.

To withdraw your question, press the pound key. Thank you, I'd now like to turn the call over to your host, Mr. Peter Roberti, Vice President of Finance and Chief Accounting Officer, please go ahead.

Peter Roberti: Thank you, Tasha, and good morning everyone. Thank you for joining our call this morning. Before we begin, we'd like to remind everyone that our comments today may contain forward-looking statements made under the Safe Harbor's provision 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.mohegangaming.com.

With that said, I would like to turn the call over to Mario Kontomerkos, Chief Financial Officer of Mohegan Gaming and Entertainment. Mario?

Mario Kontomerkos: Thank you, Peter. Good morning, everybody. Before we begin, I'd like to introduce the participants of today's call. Today, we're joined by the Treasurer of the MGE Management Board, Thayne Hutchins.

We also have Mitchell Etess, President and CEO of MGE, and Tom Burke, Chief Operating Officer, Peter Roberti, who you just heard from, our Vice President of Finance and Chief Accounting Officer, and Chris Jones, our Vice President of Corporate Finance, who recently joined the team.

In addition we have a number of others in the room and on the phone that are available to answer any questions that you may have. Today, Thayne Hutchins, the Treasurer of the Mohegan Tribe and the MGE Management Board 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 I will open the call for Q&A. With that, I'll turn the call over to Thayne Hutchins. Thayne?

Thayne Hutchins: Thank you, Mario. We are pleased to report another set of solid operating results for our third quarter of Fiscal 2017. I will leave it to Mitchell to explain just how we did it in detail shortly.

We also achieved a number of milestones since quarter’s end which continue our strategy of capital light deleveraging and diversification, including the commencement of construction of the Mohegan Expo Center project here at Mohegan Sun and the related financing, the successful opening of ilani Resort and Casino near Portland, Oregon, the execution of our Development Services Agreement with Inspire in South Korea, and the successful repricing of our Bank Credit Facility. Also, during the quarter we launched our new website and rebranded our corporate name as Mohegan Gaming & Entertainment to better align with our strengths. These initiatives, and others like them, along with our strong operating fundamentals, stand to put MGE in strong position for many years to come.

So with that, I'd like to turn the call over to our ironically initialed president and Chief Executive Officer of MGE, Mitchell Grossinger Etess.

Mitchell Etess: Thank you, Thayne. Appreciate it and thanks, everyone, for joining the call today. And we do appreciate your support and when you listen to what Thayne said; this is really a very, very exciting time for our company and a great way to be kicking off the first MGE call.

We're pleased by our quarterly operating results as Adjusted EBITDA increased 16.5% year over year. Importantly, our underlying fundamentals were solid, particularly at our flagship here at Mohegan Sun in Connecticut.

You'll also see that we're starting to materialize meaningful development and management fees, showing returns on our diversification efforts as we continue to position our company for the long term.

Now on to some of the highlights at the operating units

Mohegan Sun:

Mohegan Sun in Connecticut, net revenues increased by 11.2% and Adjusted EBITDA increased by 20.0%. The property's $78.8 million of EBITDA was the highest for the third quarter since 2007.

Property margins of 29.0% was our highest for a fiscal quarter since 2001. Very importantly, Mohegan Sun’s non gaming revenues of $65.3 million grew 13.8% vs. last year and represents the third highest non gaming quarter in our history.

With our new hotel, the Expo Center, coming online and other non gaming endeavors contemplated, this emerging trend of increased non gaming activity will be important and continuing trend for us for the foreseeable future.

We also witnessed, as expected, a nice bounce in our gaming revenues and hold percentage, causing gaming revenues to increase 10.4% over last year. Results were driven by primarily by three factors, one was the new Earth Hotel, which continues to perform above our initial expectations.

The second was a very strong and star studded entertainment calendar, including two shows by Jason Aldean, two shows by Tim McGraw and Faith

Hill, two show by Eric Church, as well as shows by Bon Jovi, Def Leppard, The Weekend, Neil Diamond, Train, Bryan Adams, Journey and a comedy show by Chris Tucker.

And the kickoff of our Connecticut Suns season, with six home games and we also had two MMA events. The strength should continue into the current quarter, with two Ed Sheeran shows, Katy Perry, New Kids on the Block, Queen, The Who, Kings of Leon, Nickelback, Kenny Chesney, Santana, and more Connecticut Sun games, including the playoffs.

And I will take time now to point out that the Connecticut Sun is in first place and I'm sure everybody listening saw our center Jonquel Jones dunk during the all star game. As usual, the arena continues to be impressive and ranked globally.

We're ranked third in the world for United States arenas of our size by venues today. We're the number one casino venue in the world, by Pollstar, and the number one social media in the world by Pollstar.

It's really a tremendous thing that's happened here with the arena. Third factor driving results for the quarter was our emerging convention business. Specifically the 2ND Annual Barrett-Jackson Auto Auction which drove an estimated 72,000 people into the property during one week in June. The success of the Barrett-Jackson show and events like them give us even more confidence in the ultimate success of what will be our newest amenity the $80 million dollar Mohegan Sun Expo Center which opens in less than 12 months time. 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 revenues to the property, and will continue to fortify Mohegan Sun against the new competition by replacing gaming revenue with more insulated non-gaming revenue. Again, this, less than a year away.

And this does remind me in many ways the impact of Barrett-Jacket on what we saw here when we first opened the Uncas Pavilion which was the concert tent that we opened back before our expansion.

We put the tent up for a Lennox Lewis fight, we put it back up when we had a bunch of concerts and we immediately saw the impact of what the arena would ultimately do for us. And, I think the Barrett-Jackson really does show what the impact of the Expo Center is going to be to the property on a regular basis. And, I think we are going to see history repeat itself with that amenity as well.

Mohegan Sun Pocono.

As you can see, Adjusted EBITDA increased 9.5 % despite a decline in Net Revenues of 7.1%. We were encouraged by our ability to grow our operating margins during the quarter with an increase of 330 basis points over the prior year's quarter.

Margins and profitability have shown steady upward progress over the last four quarters and we expect this trend to be better profitably to – changing better profitability to continue going forward.

Net Revenue increased by 14.9% and EBITDAM increased 26.1% or $1.4 million from the prior year quarter to $6.6 million, continuing the remarkable financial turnaround of the property that has been experiencing for some time.

Resorts:

And for the quarter, MGE generated approximately $985,000 in fee income from resorts and those of you who have been to resorts can see that it really has regained it's place as one of the best places to go if not the place to go in Atlantic City. It's really great what's happened to that property.

Paragon:

Our Corporate results also benefited from our consulting agreement with the Paragon Casino and Resort in Marksville, Louisiana from our emerging social gaming efforts which generated another $500,000 in the quarter.

South Korea:

Additionally we wanted to provide a short update on Inspire our South Korea development. In March we reached 50% Detailed Design, a major milestone from an architectural and construction costing perspective, and we are 3.4 months away from entering the construction drawing phase. There is no doubt that based on the designs underway that Project Inspire will be a breakthrough," one-of a kind resort for both Korea and Northern Asia. OK, for Korea and North Asia. We're making solid progress with the various governmental agencies that are receiving required approvals to break ground.

We anticipate will happen sometime before the end of the next calendar year. We're in the process of finalizing our efforts and identifying world class operating leadership for the resort. We have been entering into detailed discussions related to the projects financing structure.

We continue to target an overall project opening for 2020 and with the benefit of excellent demographics, a prime location and what we believe will be a world class development and operations team. We look forward to opening what we believe will also be one of the most iconic and successful integrated resorts in Asia.

Connecticut:

Finally, I want to mention the successful completion of legislation to allow in Connecticut to allow a third jointly owned casino by the Tribes in East Windsor, Connecticut. The governor's signing of the bill last week, work is accelerating on the project to move the development along.

It's likely too early to estimate when we will open the rest. But rest assured both Tribes are as anxious to open the property as quickly as possible and working closely to expedite this process. Finally, land remediation efforts in Preston are starting to pick up. And, expectations for MGE to take possession of the land in early 2019.

We're actively working on our master plan and should have more to say on the development in 2018.

Summary

In summary, between strong operating momentum, our new non-gaming additions in Connecticut and successful opening of the ilani Resort and Casino and the progress we're making in our South Korea project, we're optimistic about both the near and long term future of the Mohegan Tribe and MGE.

Our unique product and corporate culture is something that resonates well both within the out – within and outside of the United States, and we intend to continue to expand in a methodical manner.

While we remain steadfast in seeking new and diverse gaming opportunities and talent we never forget what makes our product so special.

That's the unparalleled guest service product and hospitality experience that has made Mohegan Sun a premier gaming and entertainment brand in the industries. And now with that, I will turn things back over to Mario.

Mario Kontomerkos: Thank you, Mitchell. The fiscal third quarter continued to be a productive one from a financial perspective. As many of you already know, with your support, in April we were able to successfully reprice the interest rate on our Bank Credit Facilities by 50 basis points resulting in 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.

Resulting in a total of over $22 million of interest savings over the 7 month span. 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 of which 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 five years or less once it opens next summer and as Mitchell stated it will be a very important amenity for us as we look to expand our non-gaming business further into the future.

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

Our Total Leverage Ratio, calculated on a gross basis was 4.77 times, down 30 basis points from the previous quarter.

With total debt as defined under the BCF, declining by $22 million. The restricted group benefited in the quarter from the first $10 million installment, in what will be a total of $40 million of development fees during the construction of the Inspire Korea Project.

Going forward, Total Leverage is expected to further decline with the benefit of a full quarter of management fees paid from ilani, of which MGE now receives 82%, and along with our operating performance as we've discussed today, an aggressive mandatory amortization schedule in 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 calendar 2018, if not earlier.

A few other balance sheet metrics to note, as we mentioned, total debt

Total Debt as defined under the BCF was $1.71 billion, again down $22 million from the prior quarter as mentioned.

$13 million was drawn on our $170 million revolver, as of June 30, 2017. After factoring in outstanding L.C.s, we had approximately $108.6 million available for borrowing under our BCF and Line Of Credit as of June 30, 2017.

As of the end of the quarter, Cash and Cash Equivalents at the end of the quarter totaled $87.4 million. Liquidity totaled approximately $119.5 million. And subsequent to quarter end, liquidity continues to trend in the $120 million range.

As you can see from the release, distributions to the Tribe totaled $15.0 million for the quarter. Capital Expenditures totaled $58.8 million for the quarter.

And those were comprised primarily of maintenance capital expenditures of $31.6 million and $27.2 million of expansion and development cap ex related to Expo and Inspire. So with that, I'll thank you all and I'll turn it over to Tasha, the Operator, for Q&A. Tasha?

Operator: At this time, if you'd like to ask a question, please press star one on your telephone keypad. Your first question comes from the line of Michael Pace from J.P. Morgan. Your line is open.

Michael Pace: Hi. Thank you and good morning. Couple questions, maybe just to start off with the third quarter. I guess when I sit back and look at it, results were driven by strong volumes at Mohegan Sun Connecticut and table hold. And I'm just wondering what do you attribute the volumes to?

You mentioned all of the shows but I'm wondering if you could think of this maybe on a little bit of a year-over-year analysis. So some help there would be great. And then, as it relates to the Poconos, revenues were down seven% but your costs were down 10%. So I'm thinking – or wondering if you could maybe peel the onion back a little bit on the cost efficiencies for us there?

Mario Kontomerkos: Yes. Michael, I'll take a shot at this. This is Mario. And then we can have others like Tom chime in as well. As far as Connecticut's concerned, there was a couple of things I think that were notable relative to last year.

I think the main one is obviously the benefit of the Earth Hotel. I think the Earth Hotel is really performing at or above where we thought it would perform at this point. And so that's a big driver of the performance.

The shows, as you can see, I think we had about the same – roughly about the same number of shows but I they were higher quality in nature. We sold more tickets. And so, you can see that we definitely received a benefit from that. And then also, you can see we also had the Barrett-Jackson show as well.

So I think those are some of the major items that are driving the performance in Connecticut. I just also want to mention that the team there has also been doing job in terms of driving the underlying fundamentals and the cost structure of that business as well. As far as Pocono and the revenues, Tom, do you want to handle that one?

Tom Burke: As far as Pocono on the revenue side, it – we're seeing much more efficiency in the labor efficiency and lower FTEs. We did have a benefit effect from lower benefits there.

And what's happening with the revenue side is that we are reallocating money and programs to the higher-worth guests. And consequently, we're seeing a higher margin out of them.

Mitchell Etess: And just to circle back on the Hotel, I don't think you can really underestimate those 400 additional rooms, and the additional gaming customers, or even the non-gaming customers that get in there and are able to spend more time in here, and increase the – their willing to stay. And it has a significant impact. You know, it's a large increase from 1,200 to 1,600 rooms.

Michael Pace: Got it, thanks. And just a couple more, I know you're receiving all of the management related to percent management fees at Ilani.

And I'm just wondering, the actual sale of the 40% to Mohegan and the Tribe, I'm just wondering if you can update us there on the timing of that, where you are on the valuation process, and remind us of how those payments will be made over time?

Mario Kontomerkos: Yes, Michael. The timing and valuation is still to be determined, probably sometime over the next I would say three to six months to be safe, potentially sooner than that.

So that still continues and we look to wrap that up as soon as we can. As far as the payment schedule, I think we do know that the payment schedule will be over a seven year period. They'll be fixed payments and the first payment will start in year three.

Michael Pace: Great. And can you just remind me how much of a receivable you still have there, what that pays, and is that being repaid or expectations for that to be refinanced?

Mario Kontomerkos: Yes, good question. The receivable is at $88.9 million as of June 30th right now. And as we've discussed in the past, there's a couple of different ways that that could be repaid. One can be through – obviously the operating result of the property, which I think are very strong to this point and so that can happen over time.

I think the other method could be through a refinancing of the existing credit facility. Which again, is something that we will look to evaluate once the property has had sort of the requisite amount of time and performance, which may be sometime in the six or nine month period we'll start to look at making that evaluation.

Michael Pace: Great, thanks guys.

Mario Kontomerkos: Thank you.

Operator: Your next question comes from the line of David Farber from Credit Suisse. Your line is open.

David Farber: Hi, guys. Good morning.

Mario Kontomerkos: Good morning.

David Farber: I wanted to touch on Cowlitz for a minute and then I had some follows. But on ilani, can you share with us any performance metrics perhaps for the property, perhaps in terms of EBITDA or however you're comfortable?

I know in some of your older investor decks you outlined like 15 odd million of contribution but that was perhaps on a smaller equity ownership. So I'm curious how you see that property.

Maybe you can share with us some details, and then any expectations you may have for that going forward, given its recent opening, would be helpful, and then I had a couple others. Thanks.

Tom Burke: It's Tom, thank you. I can tell you that with just really two months under our belt, the property is meeting our expectations. We're seeing constant growth in the data base as Mitchell mentioned.

We're up to 134,000 and pre-opening we were hovering over around 30 to 50,000. So, we see that obviously very early in the maturation process of opening a property.

However, when we look at month over month indicators, we're seeing very strong increases in things like ADT, rated win per visitor, movement into aspirational levels in the player tiers, and number of trips, and total theoretical. At this point in time, we're pleased where they are, having opened at the end of April.

Mario Kontomerkos: Yes, and David, the only thing I would add to that is we -- you are correct. We've given some guidance in the past as the management fees, that would -- in order of MGE from the development of management contract.

I think we talked about, at least from a management contract perspective, something on a $15 or $16 million per year range, and out of the 49% ownership stake.

So you can sort of do the math and at 82% you'll end up with something north of $20 million, if you just take the numbers that we've given you in the past.

David Farber: OK, that's good and helpful. You touched a bit on Connecticut and the prepared and then the question before hand. But I guess I just wanted to sort of hear maybe some updated thoughts, you have on the property.

We get investors that ask a good amount on how you guys think and see the property position given Springfield, and then recently getting some investor push back on Montreign.

I guess I'm curious given the Expo, the hotel, and some of the other things you're are working on -- how you feel that property is going to stand in the face of that, and then just any high level thoughts on sort of helping us think of that, would be great.

: Sure, it could be a long discussion, but we'll try to make it a short one for you David. I think one of the things that we've done for about five years, is that we've obviously focused on positioning the property to diversified and not only strong in gaming but also in non gaming as well.

And so, you can see what the benefit of the hotel has been, we've added about 30% more room nights, and we haven't seen really any degradation in ADR which is pretty substantial. So, I think that's a business that we want to continue to focus on. The Expo Center is for the next evolution of that.

We look at the Expo Center as replacing a lot for whatever we might loose from -- on the gaming side -- just based on the business and the validation that we've seen from things like Barrett-Jackson and other shows.

I think generally that's the idea. I don't think you should expect us to stop in that effort, to continue to expand our business line.

I think overtime and over the next six to twelve months, and longer you'll see us to continue to focus and reposition ourselves, so that we continue to have diverse lines of revenue that are less impacted by the impact of -- or the opening of gaming facilities on our borders.

Obviously the MMCT project was an effort to keep revenues and jobs within the state, and I think we've been successful on that. And then as far as Montreign…

Mitchell Etess: Well, I mean also it's not Mohegan Sun. It's going to be continued at a team who is doing a great job, continuing to look at what attractions draw, not just more gaming customers but more non-gaming customers or both.

And that's, like, the beauty of the Expo Center and you'll continue to refinements around the building of more and more different kinds of things and again understanding really on the cutting edge here.

And I think it's really going to make Mohegan Sun even more sticky attraction because there will be more and more reasons to come here more often. So that -- that's -- it's kind of a refocus and reenergizing of the of the building, which is still going to be amazing and still going to be in a great place.

As far as Montreign, I think the reality about Montreign is you can't really loose the same customer twice. And a lot of customers that we would apt to lose to Montreign, we already lost when Yonkers really came to the forefront.

So, I don't really see how -- what they're building there is going to be anything that is going to have a significant impact that we haven't already felt from the opening of Yonkers.

David Farber: That's helpful. I appreciate it and congrats on ilani and all the other things you're working on.

Mario Kontomerkos: Thank you.

Mitchell Etess: Thank you.

OPERATOR: Again, to ask a question you can press star and the number one on your telephone keypad. Your next question comes from the line of James Kayler, from Bank of America. Your line is open.

James Kayler: Hey guys, how are you doing?

Mario Kontomerkos: Good.

James Kayler: I guess, just drilling down into the Connecticut and Pennsylvania a little bit. I noticed that free play was up pretty decently at both properties, and I know in sort of prior quarters, it's been of focus of sort of reducing free slot play.

I'm curious what the change of strategy there is and I mean it seems like it's actually been successful. So just trying to get your thoughts around to where that stands? Was it kind of a one kind of promotion or was it -- is it kind of a change in your outlook?

Tom Burke: Sure, in Connecticut there was an increase certainly in free slot play. There was also higher -- in park, a higher redemption of choice credits, year over year. The higher redemption however you have to keep that in perspective.

As you increase the free slot play, are you getting the growth, slot growth. And we've seen a slot growth of 3% on handle. And the important thing in Connecticut to always keep in mind, is that we are under the 11% threshold for taxing.

Mitchell Etess: And the choice credit impact shows the real power and success of our momentum program because it is really innovative and it does allow people to make their own choices and it is -- the fact that you're seeing that increase in choice credits is evidence of that.

Tom Burke: And then in Pocono, what's happening there is that we saw an increase and that goes to my prior answer to the shifting of how we're spending our marketing dollars there.

We have moved money into free slot play, admittedly and in part, that's a very strategic decision because we are reasonably responding to a more competitive environment there with free slot play from our closest competitors.

Mario Kontomerkos: James, the only thing I would add on that is you saw that the profit in Pocono increased and the expenses declined and I think what Tom's talking about is the fact that we're just reallocating dollars away from expenses that may have been below the line into the free play line. But overall, I think we're doing a good job on the marketing side, there.

James Kayler: OK, very good. And at Pocono, are you seeing an impact from some of the new New York competition or is it -- do you view it more as the existing Pennsylvania competitors that are just being more aggressive?

Tom Burke: At the moment, it's the existing Pennsylvania players that are being more competitive.

James Kayler: OK, very good. In Connecticut, obviously the new hotel rooms have helped quite a bit.

I did see occupancy was down year over year and I guess I am curious, given all the room nights in the past that you've had to turn away, do you think there's an opportunity to ramp occupancy back up to the near 100% that you used to run opening that tower or are you being more selective in trying to drive more cash out of room rates?

Mario Kontomerkos: I can start with that, James. Look, there's always a chance for higher occupancy. But you also have to take into account the balancing act of trying to put the most profitable player or guest as the case may be or as the time of day or day of the week or month of the year in that room.

So I think we're going to be very focused on the profit side as opposed to just on the occupancy side, which I know you are aware of. And you can see the occupancy is down not very significantly when you've taken into account the fact that we've added 30% more rooms.

Mitchell Etess: In fact, the -- I think that when you see that increase in the room nights and the very low decrease in ADR and the fact that we've kicked out a lot of -- not kicked out. That sounds horrible. But we have not marketed to a lower theoretical customer. Our yielding program is quite successful.

James Kayler: All right, very good. Mario, would you be willing to break down the corporate EBITDA a little bit further?

I think that the resorts fees are in there as well as ilani and then obviously, legacy corporate expense. I'm just curious if you could break that down at all and also if you could just give us some guidance on what a good run rate might be for the time being?

Mario Kontomerkos: On corporate EBITDA in total?

James Kayler: Yes.

Mario Kontomerkos: Yes. I think at the beginning of the year, James, we put out a ranged – Pete, what was it, about $25?

Peter Roberti: Twenty-five-ish.

Mario Kontomerkos: About $25 million of corporate EBITDA and I think we're going to be pretty close to that range. I think it was $25 million, $27 million as I recall, James, and I think that's probably a good range.

Now, I would tell you that that's sort of the run rate today but as ilani ramps, we should see a little bit of an improvement in that number but I would stick with that number, I think at this point.

James Kayler: OK, and then just one housekeeping thing. So last quarter, there was about $195 million of restricted cash. I think you haven't put the full balance sheet our yet but I'm curious if you could update us on the restricted cash and just remind us how much of that is dedicated to Korea and if there's anything else in that number.

Mario Kontomerkos: Yes, I think we've got about $160 million of cash in the restricted cash account related to Korea and that'll steadily decline as construction picks up. I think we've spent about $30 million to date in Korea.

Peter Roberti: And James, also there's fluctuations in the won that's effecting that balance as it's converted to U.S. dollars. That's the figure that Mario just mentioned.

James Kayler: Got you, very good. And so maybe just to dig a little bit deeper, remind us what the total equity commitment to Korea is and then how much in total you've contributed and how much is left.

Mario Kontomerkos: So we've raised and funded -- this was last November, $100 million into that account. And our partner also invested $100 million. So there was a -- we started with a total of $200 million, James. And so that's the starting point of the number that I gave you relative to the $160 million figure that I gave you.

James Kayler: OK, so $40 million has gone into the project?

Mario Kontomerkos: That's right.

James Kayler: Perfect, OK, great. Thank you, guys.

Mario Konotmerkos: Thank you.

Operator: There are no further questions at this time. I would like to hand the call back over to Mr. Mario Kotomerkos.

Mario Kontomerkos: Thanks, everybody. Thanks for your support as always and we look forward to talking to you in about three month's time. Thank you very much.

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

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