Mohegan Tribal Gaming Authority

Moderator: Mario Kontomerkos
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OPERATOR: This is Conference #12652340

Operator: My name is Jennifer, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Second Quarter Fiscal 2018 Earnings Conference Call.

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. I would now turn the call over to Mr. Peter Roberti, Vice President of Finance and Chief Accounting Officer. Please go ahead.

Peter Roberti: Thank you, Jennifer, 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.mohegangaming.com.

With that said, I will now turn the call over to Mario Kontomerkos, President and Chief Executive Officer, of Mohegan Gaming & Entertainment.

Mario Kontomerkos: Thank you, Peter. Good morning everyone. Before we begin I'd like to introduce the participants of today's call, as we always do.

Today we are joined by the Chairman of the MGE Management Board, Kevin Brown. We also have Tom Burke, Chief Operating Officer of MGE, Peter Roberti, our Vice President of Finance and our Chief Accounting Officer, who you just heard from, along with Chris Jones, our Vice President of Corporate Finance. In addition, we have a number of others in the room and on the phone who are available to answer any questions you may have.

So as we begin today, the Chairman will provide some introductory comments. Tom Burke and I will then briefly discuss our operating results for the last quarter and then Chris Jones will provide you with a brief overview of the 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 MGE Management Board, Kevin Brown. Kevin?

Kevin Brown: Thanks, Mario. Thank you, good morning, everybody, and thanks for joining today's call. I'm pleased to report for our fiscal year 2018 2nd quarter earnings that despite the struggles with Ladyluck and some external factors in the overall gaming ecosystem, our properties have performed very well.

In addition to those steady operations and that performance, I'm also happy to report that we're making significant forward progress on our development pipeline in our significant global diversification efforts

Specifically and most importantly, during the quarter, we reached an agreement to buy out our "partner" in Korea making MGE the 100% owner of this exciting first of its kind development in Korea. Once opened, Inspire will be the premier entertainment resort in Northern Asia, leveraging a higher underpenetrated market, while significantly diversifying MGE's earnings at the same time.

Perhaps in a sign of good things to come in Northern Asia, it's worth noting that Korea saw a 10% lift in Chinese visitation in the month of March, the first positive lift since one year ago in March of 2017.

This among all the other things that are in news, seem to indicate the relations on the Korean Peninsula are perhaps thawing in many ways and at many levels.

Thanks again everyone for dialing into hear this good news and at this point for more detailed review, let me turn the call back over to the President and CEO, of Mohegan Gaming & Entertainment, Mario Kontomerkos.

Mario Kontomerkos: Thank you, Kevin.

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

We are pleased with our fiscal 2nd quarter revenue and earnings performance, as our wholly owned properties in Connecticut and Pennsylvania performed admirably, showing growth in aggregate gaming volumes and flattish non-gaming volumes, despite a combination of challenging comparisons due to slot hold, table hold, and arena calendar; the imposition of additional gaming taxes in Pennsylvania; and some higher expenses at CT in the quarter, all of which caused net revenues and EBITDA to decline somewhat. The good news is that we view most of those items as timing-related or one-time in nature.

Turning to our managed properties, we continue to be very pleased with the performance at the *ilani* Casino & Resort just north of Portland, Oregon in the Pacific Northwest, where the property has recently crossed its 1 year anniversary and has really begun to truly turn a corner as month-over-month metrics continue to climb at a very strong rate, portending strong future growth. Tom Burke will provide more details on those performances in a moment.

On the development front, we continue to reposition the Connecticut footprint towards a more even balance of non-gaming and gaming to adapt and to become resilient in any competitive environment. The success of the Earth Hotel was one very important component of this repositioning – next will be the opening of the $80M Mohegan Expo Center, on course to open in early summer, and in time for the legendary Barrett Jackson auto auction in early June. Early indications are encouraging that the Expo Center will deliver what we expect in terms of non-gaming midweek room-nights, and perhaps even more than that.

Additionally, work on Inspire, our South Korea development, continues. During the quarter, we reached an amicable agreement as mentioned by our Chairman Kevin Brown, to acquire our partner's stake in the project, making MGE a 100% owner of Project Inspire. This is a very important step for MGE, as it furthers our diversification efforts into Asia, the world's fastest-growing major gaming and entertainment market. We continue to plan for a groundbreaking and financing during the second half of 2018, and continue to target an overall project opening for 2021.

Back in Connecticut, we continue to press forward with our MMCT casino project in East Windsor together with our joint venture partner the Mashantucket Pequots. Demolition of the existing buildings on site is now complete and we look forward to providing you with further updates and additional progress next quarter. We remain resolute in our plans to develop our JV property in East Windsor CT, despite attempts to block or delay the project.

With that, let me turn the call over to Tom Burke, Chief Operating Officer of MGE**,** to provide some of the highlights at both the wholly-owned operating units and managed properties during the quarter. Tom?

Tom Burke: Thank you Mario and good morning, everyone, and thank you for being with us today. As you saw in the press release this morning, Net Revenues at Mohegan Sun decreased by 1.8% and Adjusted EBITDA decreased by 5.2%. Most of these decreases were caused by a tough comparison to the prior year, driven mostly by decreased table games and slot machine hold. Volumes in table drop and slot handle were both actually up 1.6% and 1.4%, respectively, as compared to the prior year quarter, with overall earnings being impacted by hold at tables and an unfavorable mix of slot hold, adversely impacting profitability in slots. Additionally, there were higher than expected utilities and insurance expenses and other expenses, some of which we view as temporary and one-time in nature. Offsetting these headwinds, non-gaming performance was a positive story, with overall non-gaming revenues, excluding entertainment, was up 1.1%, while non-gaming profitability was up 2%. Entertainment revenues, primarily the arena, were slightly down, as we didn't have quite as strong a headliner list in the quarter vs the year ago period.

However, our unrivalled strength in entertainment continued into the 2nd quarter with three shows by Jacky Cheung, referred to as the "God of Songs" in Asia, Walk the Moon, Little Big Town, Dropkick Murphys, Rod Stewart, Judas Priest, Alice Cooper, Dancing with the Stars, two basketball tournaments, a Bellator MMA event, and five New England Black Wolves games, our professional indoor lacrosse team, just to mention a few.

The arena in Connecticut continues to be impressive and ranked globally. The Top 100 Arena venues in the world for ALL size venues, reported by Pollstar Magazine, ranks Mohegan Sun Arena 37th in the world and 13th in the U.S. That is our best showing to date. We beat out T-Mobile in Vegas, The O2 in London, Wells Fargo Center in Philly, TD Garden in Boston, Prudential Center in Newark, Nassau Coliseum, MGM and Mandalay Bay in Vegas just to name a few.

We continue to be the Number 1 Casino Venue in the world - a huge credit to our World Class Team. Our unrivalled strength in entertainment continues into the current quarter with shows by Bon Jovi, Tim McGraw and Faith Hill, Daughtry, Lorde, Bad Bunny, ZZ Top, Slayer, Brett Eldredge, a Dane Cook comedy show, the Long Island Medium Theresa Cuputo, six CT Sun WNBA basketball games, a Reality Fighting MMA event, and two New England Black Wolves games

- **Mohegan Sun Pocono**

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

  Due to a decrease in Net Revenues driven by lower than prior year table game hold percentage, and an increase in taxes assessed by the Commonwealth of Pennsylvania, adjusted EBITDA decreased slightly year over year. Importantly, performance is moving in the right direction and we are confident in our decision to refocus our efforts on the core gaming customer. We continue to refine our master plan for this property and look forward to sharing some of these enhancements with you in the near future.

- **Managed Properties: *ilani* and Resorts**

  Just a few words on our two managed properties, the *ilani* Resort & Casino just north of Portland, Oregon and Resorts Casino Hotel in Atlantic City. At *ilani*, we recognized approximately $3.1 million in fee revenue, which is 70% higher than the prior year and in line with the $3.0 million quarterly run rate we expect going forward. We continue to be pleased with the property's early results and with its rapidly ramping revenue profile as its player database is at over 214,000 in March, up from approximately 190,000 in December, a growth of 13% and it continues to grow daily. While the property just recently reported their fourth quarter '17 results and we don't want to give away any of their first quarter '18 thunder, we can tell you performance has improved meaningfully.

  With revenues growing double digits in Q1 of '18 versus the fourth quarter of '17. Additionally, on April 12th, ilani opened its new Meeting & Entertainment Center with a Grammy Award winning Little Big Town as the first show. This should help and will help, in driving additional positive results.

  Resorts Atlantic City, like the rest of Atlantic City, faced an almost perfect storm in the March 2018 end quarter.

  The combination of several weather events, challenging comparisons, all contributed to a $4.2 million year-over-year decline in EBITDA. Management fees earned by MGE in the quarter were approximately $388K. Let me now turn the call over to Chris for a brief update on the Balance Sheet.

Chris Jones: Thank you Tom.

- Our Total Leverage Ratio, calculated on the gross basis, was 4.63x, with Total Debt, as defined under the BCF, of $1.69 billion, declining by an impressive $42 million from the prior year quarter.
- $41 million was drawn on our $170 million revolver as of March 31, 2018.
- After factoring outstanding Letters of Credit, we had approximately $106 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 $101.1 million.
- Liquidity totaled approximately $122.9 million, net of Bankroll and Restricted Cash at the end of the quarter.
- Distributions to the Tribe totaled $12.0 million for the quarter
- Capital Expenditures totaled $24.7 million for the quarter, comprised of maintenance capital expenditures of $9.6 million and $15.1 million of expansion and development cap ex related to the Expo and Inspire projects.

Also we have got a number of inbound since we have released the earnings about certain questions about some of the whole or adjusted impact and I just want to go through those really quickly.

From Mohegan Sun, Connecticut over all whole had a negative impact on EBITDA of roughly about $4.5 million and overall health will leave you with onetime healthcare cost at a negative impact of $1.5 million.

At the Pocono property, the tax increase had about $500 million impact -- $500,000, excuse me, $500,000 impact for the quarter, and roughly a little less than $100,000 impact on whole at Pocono as well. And with that, I'd like to hand it back for Mario, for the closing statement.

Summary

Mario Kontomerkos: Thank you Chris. As you can see our fiscal second quarter was an important one for MGE, as it showed the resilience of the Mohegan model, in the face of challenging comparisons and one-time expenses and lower table games hold at both of our properties.

It is, in fact, this resilience that causes us to remain steadfast in our view that Mohegan Sun Connecticut and Mohegan Pocono are well prepared to weather whatever storms may emerge on the horizon, with expectations of emerging as an even stronger and more profitable operator (from an EBITDA margin perspective). At the same time, MGE has made and continues to make great progress in its efforts to diversify its EBITDA stream, as we said earlier, we announce the plans to becoming a 100% owners of Inspire, in Korea. We view our position in Korea as highly advantageous, as when we open, we will be the ONLY true integrated entertainment resort in Northern Asia, an enviable position given our proximity to Shanghai, Beijing, Seoul, and Tokyo,.

Folks, these are some of the largest MSAs in the world and in aggregate, they carry some of the most affluent, mobile, and fastest growing populations on the planet. Again, this is where we want to be.

Combining all of this with our most important asset, our incredibly dedicated and enthusiastic workforce who day in and day out are driven to deliver the unparalleled mix of unmatched guest service, entrepreneurial innovation, and the spirit of hospitality that makes the Mohegan product so special, and you can understand why I am quite optimistic about both the near- and long-term future of the Mohegan Tribe and MGE.

Finally, I want to close today's call with an official thank you to Tom Burke, our MGE's Chief Operating Officer, for all of his hard work and dedication to Mohegan over the last five years. As many of you already know, Tom is retiring at the end of this calendar year after over 40-- how many years, Tom?

Thomas Burke: 40 year is a milestone.

Mario Kontomerkos: In the gaming and hospitality industries. Tom will be staying on and helping to transition us as we announce a new COO in the coming months. Tom, we can't thank you, enough.

Thomas Burke: Thank you, Mario.

Mario Kontomerkos: With that, I thank you all and now I will turn it over to Jennifer for Q&A. Jennifer?

Operator: Your first question will come from James Kayler with Bank of America Merrill Lynch.

James Kayler: I guess, just start with the hold impacts were helpful. I guess, was the magnitude of the hold swing in Connecticut is that kind of what drove the flow through the negative flow through was maybe little bit worse than I would expect given the revenue numbers?

Mario Kontomerkos: James I think, that's a good question I think, you're, right. This is Mario. I think, the flow through as you know, the tax rate in Connecticut no contribution to the state on table games revenues. And so, the flow through correspondingly is very, very high.

James Kayler: Understood. And the $1.5 million of healthcare cost? Was that like a specific event -- I'm trying to figure out it's likely to repeat or if it was really just sort of a onetime issue?

Mario Kontomerkos: Yes, really is James, the timing event related to changing in program and we saw certain sort of influx of claims. We don't expect that activity going forward.

James Kayler: OK. Very good. And then, on the weather -- you did mentioned weather in the press release, do you have any sort of color on a what impact weather might have had. There were a ton of storms in March both in Pennsylvania and Connecticut, I'm curious if that had much of an impact?

Tom Burke: It's Tom. Really the way it's here, Resorts was very significantly affected in Atlantic City, both by actually hit by and the outlying area. And we had somewhat moderate effect at Pocono, as far as storms. And I mentioned previously, here, Connecticut pretty much went on scathed with weather this year, compared to year-over-year.

James Kayler: OK. Very good. Maybe just more broadly, Mario, can you talk about where you think you stand in terms of like optimizing the cost structure and what opportunities you think might still exist?

Mario Kontomerkos: Yes. James, look, I think, look this is an area very high focus for us. I think, we believe that, when you look at our cost structure and you compared it some of the cost structures or some of the most -- some of the best-in-class operations in United States, we are one of those operations, we think there's always room for improvement. We've actually quantify that number.

We think is about $100 million of EBITDA enhancement over the next few years. We have a program in place to capture that number. We're very confident in it. And we want to become more confident in that number over the last few months.

James Kayler: OK. Very good. And then, it just finally, on Korea obviously, you have a big transaction there. And I guess, maybe, if you could just give us your level of confidence that the $300 million investment is sort of the absolute max.

And I guess, maybe give us some color on where the rest of the financing stands. And I guess, your level of confidence around closing on that?

Mario Kontomerkos: Sure. Our level of confidence that we are not going to be investing any more than $300 million is extremely high. I guess, 1 level of confidence that you also should have is or you know you have is that any amendment that we recently completed, we're limited to no more than $300 million. Unless we want to come back to the lending community to promote more.

So I think, that's obviously, a -- that gives us great confidence that we won't be investing more. I think, maybe your question is also relating to overall, project costs.

I think, one of the things that we learn about Korea and we like very much, is that the lending community and the local lending community really depends and puts a lot of weight on the credit quality of the construction company in Korea. The construction company is the one who provides the guarantees around the time and cost. And it's not the sponsor.

And so, we think and really so, one of the important parts of the decision-making process that we're going to be entering into over the next couple of weeks or months, actually selecting that contractor. And making sure that they can provide that type of guarantees. So, I think, we feel very confident that 1, that the $300 million is that amount.

Number 2, that the rest of the project is guaranteed without additional support from the parent. Number 3, that the financing will be put in place. We have heard from all of the leading organizations, all the leading financial institutions in Korea and that process is underway.

So I think we feel very, very good about it. You know how we feel about the market, we feel extremely optimistic about the opportunity in that market. We think is a very, very under penetrated market. Look to be honest with you, I think, it's probably the next major gaming market in the world.

Operator: Your next question is from Michael Pace with JPMorgan.

Michael Pace: Just a follow up on the James question on cost cutting. Mario, you mentioned the $100 million. I'm wondering if you could dive a little bit deeper into that interest color on where that comes from headcount marketing, other things. Just for, maybe a confidence level in terms being able to achieve that.

Mario Kontomerkos: OK. Sure Michael. Look, I think, what we can do is we could probably break it down into buckets. You probably will understand as for obvious reasons were not going to get into a lot of detail about where exactly all that savings come from. But, where we can tell you is that, yes -- I think -- obviously, we will call it gaming changes. I think, is one area that is very significant improvement.

I would also mention to you that as we look at our cost structure here, obviously, you look at our cost structure and the various components that are the most important, in our cost structure, we look at that very closely they're also some enhancements to revenue that we think will come to things like the Expo Center. We've already said that we think that's at least $13 million or $14 million of EBITDA.

And generally in the past, we've been pretty good at anticipating those and actually we're coming a little bit below in our forecasting. So potentially we do that again. So I think, this is just sort of a quick overview of some of the areas that we think can really get us to that number.

Michael Pace: OK. And then, maybe an update on convention center bookings, how is that going?

Mario Kontomerkos: It's going very well. What I would tell you is this, look, we're building this -- is Expo Center for obviously, for a lot of reasons. The biggest reason is that, we want to drive many, many rooms nights here, we wanted and in particular, midweek room nights to this property.

I think, we're very glad, we've got a target out there of about -- of about a very long time target of about 60,000 room nights that we want to attract, new room nights from the meeting in business segment.

I think, about half of that is already booked on a long-term basis, Michael. So the property is not even open yet. You know these facilities take time to ramp. So we're feeling very good about the booking pace so far of the Expo Center.

Michael Pace: That's great. And then, the ilani receivables amount that you have –on the balance sheet, I didn't have a chance to look at the financials yet, just the amount there in timing and the likelihood of getting that back?

Mario Kontomerkos: Looks like, Michael, it's about $95 million. And the timing is as soon, as fast as we can complete the refinancing at Cowlitz.

Michael Pace: Got it. And just a quick update – a refresh just a timing of Korean project when you expect to start spending money there and -- things are always moving target. just when you think that can begin to begin operational? A year works there, not a quarter?

Mario Kontomerkos: We are starting to spend money now. And I think, it's going to as you know, sort of think visualize the difficult construction project construction curve of these expenses, it's going to pick up and it's going to increase from quarter-to-quarter going forward.

So I think, -- the real money will start to be spent right around the middle to the end of the year, once we are financing, once a breaking ground. And then again, all sort of building towards that 2021 opening day.

Operator: Your next question is from Mike Crane with SunTrust.

Mike Crane: Just a couple quick ones from me -- one, I wanted to ask about occupancy rate in Connecticut, which looks like it was down slightly, I am wondering just if you could any additional color on that?

Mario Kontomerkos: Really stems in large part to the sort of change and scheduling the entertainment schedule that we talked about earlier.

So it shows, we have some control but not a lot of control over when these shows tour last year we had a very strong calendar over the entertainment perspective.

This year was strong as well. You can see the number of events was the same by the quality of events was little bit different. And so, that was probably the major factor driving the change in occupancy. So must be a timing difference.

Michael Crane: OK. And just last question, just from the corporate line item is, wondering if you could provide any more like granular color on that, whether it's ilani, Inspire resorts, Marksville or just other components of that in terms of revenue positive 6 and the EBITDA of negative 8. And then, also, what is kind of the outlook is for that line item if there is any upside on the corporate line item?

Mario Kontomerkos: Yes. I look, I think, in most of the revenue increase is going to be driven by Cowlitz. And I think, the story there going forward is probably even better.

I think, we'll probably just keep that $3 million number out there for you per quarter but I think, as you see the numbers rolling over the next few quarters, I think, you're going to be pleased. I think, what you're saying is, pleasing to us.

I think, Tom and Chris, may have mentioned earlier. But the growth there in this current quarter has been in the double digit range over the last year. So one year in that property is really starting to crank. We like what we see there. So I think, that's what you're going to see on the revenue side.

Clearly, for those of you folks who are not familiar with how the management fee is calculated is sort of -- based on so it's based on a formula after depreciation and interest expense.

So after the refinancing, it should rise. Those fees rise, to a significant degree. Keep that in mind. On the expense side, I would say, look, corporate expense is lumpy, right?

There is about $500,000 in there, relative to last year related to additional areas labor related to the Inspire project as we wrap that project up and moving forward look, there's also a number of other expenses in there they are lumpy.

In other words, will they be in the number next quarter maybe, maybe not. There's development pursuits in there. There are other things that sort of coming and coming out. So that number is going to be lumpy going forward.

Operator: And your final question will come from Dennis Farrell from Wells Fargo.

Dennis Farrell: Mario, the Las Vegas conference call Sheldon Allison mentioned, that there might be a Korean national visitation casino located outside Seoul. I want to get your thoughts on that speculation.

Mario Kontomerkos: Well, here's what I tell you Dennis, tell you that I'm glad that to some degree, folks are seeing the potential of the Korean market, which we've identified and are busy many years ago. So I think, that's a good thing.

I think, folks see what the potential is there, and what it could be. I think -- the prospects for a locals only casino outside of Seoul is probably fairly low. I think, one of the benefits of our development there is that, we are relocated just minute -- just less than an hour drive to one of the biggest metropolises in the world.

And we're going to be able to drive business from local and foreigners, which is very excited about. We –didn't go into this proposition needing locals. So that's why we're excited about this development.

Dennis Farrell: OK. And then, in regards to Connecticut, there is news articles I think, everyday on satellite casino option for you guys and the Mashantucket's. So I was wondering, if you could just give us an update, maybe what's going on there and potentially what's going on legally with DC?

Mario Kontomerkos: Well, look, I think, that we probably are going to mention or say much more than we did in our statement earlier. Look, we continue to press on our project in East Windsor, together with our JV partner as fast as we can.

We demolish the existing building on site, going to continue moving that project forward. It's going to be more projects on this project the next time we speak.

And we -- obviously, there are efforts to delay the project, this is nothing think you haven't before. We've seen it before. At the end of the day, we're going to be on the right side of history. And we're going to continue forward. So that's pretty much all we can say with respect to some what's going on legally.

Dennis Farrell: OK. and lastly, Springfield they've accelerated the opening to August is some I've read so far. I'm just wondering if you could provide us I guess, what type of strategy you guys might have in front of that opening or are you just going to take a wait and see approach and then act and also, have you seen labor pressure with them looking for dealers potentially reaching into the Connecticut market or some other markets? So I guess, wondering what your marketing strategy will be? And then also, is there any impact on labor?

Mario Kontomerkos: Thanks, I think, we talk a little bit earlier about the long-term EBITDA enhancement goal of a $100 million.

And we sort of broke it down into three or four different buckets. And I think, at this point, it's given this is a competitive opening. We probably won't be going a lot more detail on that.

Our team has been working for a long time and is come up with an excellent plan, to be able to combat any new competition that comes our way. And we're very, very confident about that plan I don't think we're getting much detail about it me feel pretty good about it.

Operator: Thank you, ladies and gentlemen. I would now like to turn the conference back over to Mario Kontomerkos for closing remarks.

Mario Kontomerkos: Well, thank you, everybody thanks for joining us. As we continue forward here and we look forward to speaking with you over the next three months. Thanks very much.

Operator: Thank you, ladies and gentlemen; this does conclude today's conference call. You may now disconnect.

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