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# Wynn Resorts' (WYNN) CEO Matt Maddox on Q3 2019 Results - Earnings Call Transcript

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## Q3: 11-06-19 Earnings Summary

 **Press Release**

EPS of \$0.17 misses by \$-0.73 | Revenue of \$1.65B (-3.59% Y/Y) misses by \$-25.34M

## Earning Call Audio

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Wynn Resorts, Limited (NASDAQ:WYNN) Q3 2019 Earnings Conference Call November 6, 2019 4:30 PM ET

## Company Participants

Craig Billings – President, Chief Financial Officer and Treasurer

Matt Maddox – Director and Chief Executive Officer

Ian Coughlan – President, Wynn Macau, Limited

Marilyn Spiegel – President, Wynn Las Vegas

## Conference Call Participants

Carlo Santarelli – Deutsche Bank

Joe Greff – JPMorgan

Felicia Hendrix – Barclays

Shaun Kelley – Bank of America

Thomas Allen – Morgan Stanley

Daniel Adam – Instinet

Stephen Grambling – Goldman Sachs

David Katz – Jefferies

Ricardo Chinchilla – Deutsche Bank

Chad Beynon – Macquarie

### **Operator**

Welcome to the Wynn Resorts Third Quarter 2019 Earnings Call. All participants are in a listen-only mode until the question-and-answer session of today's conference. [Operator Instructions] This call is being recorded. If you have any objections, you may disconnect at this time.

I will now turn the line over to Craig Billings, Chief Financial Officer. Sir, you may begin.

### **Craig Billings**

Thank you, operator, and good afternoon, everyone. With me today in Las Vegas are Matt Maddox and Marilyn Spiegel. Also on the line are Ian Coughlan, Ciarán Carruthers, Frederic Luvisutto and Bob DeSalvio. I want to remind you that we may make forward-looking statements under safe harbor federal securities laws and those statements may or may not come true.

I will now turn the call over to Matt Maddox.

### **Matt Maddox**

Good afternoon everyone and thank you for joining us today for our third quarter conference call. I'd like to get started talking about Macau. In the third quarter, in Macau, we generated \$301 million of EBITDA. However, we had a hold impact from our direct

business of approximately \$22 million. We held negative 1% at Wynn Palace in our direct program and 1.2% in our direct program at Wynn Macau. The way the direct programs are structured, you pay commission on turnover not on win loss, so when you have abnormally low hold, that revenue mix significantly impacts EBITDA and that was a \$22 million impact in Macau.

VIP continued to compress and we did see some customer trial out at Cotai with some of the newer product at both City of Dreams and MGM, but I believe and we all believe that that is quite temporary. Mass continued to grow. We maintained our share in mass market and slots at 14%. And I'm pleased to say that while the VIP trends and the mass trends continued into October, we generated over \$4 million a day of EBITDA during the month of October, driven largely by an 8% growth in our mass drop during that month.

Moving onto Las Vegas. We've continued to see the positive momentum that we experienced in the first quarter. We had \$13 million impact and hold in our baccarat business in Las Vegas. But if you take a look at the strategy and the way that we made the pivot to focus on taking market share in the domestic business, casino business and in slots, it is working and Marilyn and the team are doing a great job. We had 9% growth in our domestic table games drop and as well as 9% growth in slot handle during the quarter. Our hotel revenues grew by 5% during the quarter and retail is continuing to really gain traction as it was up over double digits in revenue growth during the quarter. The Las Vegas strategy is working and we're really excited about 2020.

Moving on to Boston, at Encore Boston Harbor first I'd like to congratulate Brian Gullbrants as the new property president. He's been with us for over a decade and I know and we all know that he is the exact right person to lead that project. We've been opened for 136 days in Boston and we're learning each and every day how to become more local. We've been tweaking our food and beverage product to make sure we're giving the customers what they want. We've been working on our messaging and we now have new messaging out to the market.

We are going to the first time in our company's history in North America launch a loyalty card tiered card program and that will be launching in Boston in the first quarter. And I'm sure as all of you that are very familiar with our business now that tier card program is

essential in a regional marketing in a regional property. Our table games business in Boston and our hotel business has actually been quite encouraging. And we always knew the slots would take time to ramp.

If you think about it, when we opened our doors in our local database, we had zero customers. Fast forward 136 days, we have 250,000 people in our database, which is significant growth. In order to compete in a high frequency market where people are coming multiple times a month, a robust database is necessary because you need to message to the customers what it is you're doing each week and why they need to come into the property. We are on the path to growth there and I think that we have the right team in place. So that's really the wrap on the third quarter, but what I'm excited about is 2020. And the reason is we began a transition with this company in 2018. We reallocated capital to Macau. We thought about Las Vegas differently.

We focused on opening Encore Boston Harbor. And if you look at where we are today, I was in Macau two weeks ago, walking when Macau, our new property downtown, with Ian and Ciarán who runs the property and Linda looking at what's about to open in 60 days. We've taken everything that we know about compression of energy in space and what works in food and beverage in new hotel rooms and we've invested in Wynn Macau to make what we think will be the best premium Mass product on the peninsula and it will continue to gain share. We have 7,000 square feet of new retail that we'll be opening, two new restaurants, the new casino and a fully remodeled Encore Tower. All of that opens at the end of this year and in early 2020. And we'll position Wynn Macau as a market share taker in the very near future. Wynn Palace remains as the high quality environment that is really going to continue to be the aspirational property at Cotai.

So it's not just our product that I'm excited about, when I was there and we were talking not just internally, but to our peers in the market, people are quite sanguine about Macau in 2020. There's a new government that's coming in and people are very excited about in December. A lot of the infrastructure projects that have been talked about and underway for years and years and years in Hanshin Island are starting to complete. Visitation in Macau has been up double digits for the last three quarters. So 2020 feels like Macau is well positioned for growth and that we are well positioned to capture our share of that growth.

If you look at Las Vegas, we actually have more products coming online in 2020 than we have since we opened Encore in 2008. We have a 430,000 square foot convention center that's opening in 90 days. This convention center is on our golf course and has a 390 foot promenade with two story glass walls overlooking the golf course leading to an 83,000 square foot ballroom. That's almost two acres. And when we walk event planners into that space, their jaws drop and they ask where do we sign. That will be opening in 90 days.

On top of that, we have three new restaurants that we'll be opening in 2020 creating an entirely different segment of social dining at Wynn Las Vegas and we are very excited about where we are positioned and how we're positioned against our competitors for 2020. And if you think about Boston, we're at the beginning of the ramp. We're not at the end. So each quarter we're going to be tweaking our marketing, we're going to be focusing on growing our database, working on controlling expenses and growing revenues and EBITDA each quarter. So I'm very excited about the transition that we've been through and the future of this company as we move forward into 2020.

With that, I'm going to turn it over to Craig.

### **Craig Billings**

Thank you, Matt. As noted in our release, our Macau operations delivered adjusted EBITDA \$301.2 million on \$1.1 billion of operating revenues. The quarter was characterized by strength in both main floor core mass and premium mass with combined property win in the mass segment up 7% year-over-year. Our results in Macau are negatively impacted by a low direct VIP hold percentage as Matt mentioned, which decreased EBITDA by approximately \$22 million from a normalized level with the hold impact weighted slightly more heavily to Palace at \$13 million. Also, you recall that we received \$11 million of insurance proceeds in the prior year quarter impacting the year-over-year EBITDA comparison.

The team in Macau did a great job in the quarter of controlling costs at both properties without negatively impacting the guest experience. At Wynn Palace, our operating expenses excluding taxes were flat year-over-year and down sequentially, which helped drive a 200 basis point increase in normalized EBITDA margin compared to 2Q despite top line pressure. At Wynn Macau, OpEx increased slightly year-over-year and was down

sequentially despite some incremental payroll expenses we begin to staff up for the West Casino opening. We are well prepared to drive strong operating leverage when the top line environment improves.

Our Las Vegas operations produced adjusted property EBITDA of \$88 million in the third quarter on operating revenue of \$399.5 million with year-over-year growth in both baccarat and non-baccarat table drop and slot handle. On the hotel side, RevPAR increased approximately 4% [ph] year-over-year to \$269 driving \$116.1 million of hotel revenue. We held low in Las Vegas, which negatively impacted EBITDA by approximately \$13 million. Bad debt expense in Las Vegas was \$4.5 million compared to \$500,000 in the prior year costing us \$4 million in comparable EBITDA.

We spent just under \$60 million in project costs on the group space expansion at Wynn Las Vegas taking our spend to date to \$302.7 million. This expansion is slated to open in the first quarter of 2020. We ended the quarter with total debt of \$9.54 billion and total cash and investments of \$1.68 billion including approximately \$947 million at Wynn Macau. During the quarter, we returned over \$100 million to shareholders through our quarterly dividend payment. We will continue to look closely at our capital allocation alternatives, including periodic increases to our dividends and opportunistic share repurchases.

Finally, during the quarter, we completed a refinancing of our U.S. capital structure, which extended our maturities, streamlined our U.S. Restricted Group and simplified our collateral package for the U.S. and corporate entities. We believe the simplification of our U.S. capital structure will make it easier to understand and ultimately lower our cost of debt capital over time.

With that, we will now turn it over to questions.

## **Question-and-Answer Session**

### **Operator**

Thank you. [Operator Instructions] Our first question comes from Carlo Santarelli [Deutsche Bank]. Sir, your line is open.

**Carlo Santarelli**

Hey guys, thank you and good afternoon. Matt, you talked a little bit about the low direct hold in the period. Obviously hearing a negative number is pretty startling. Just in terms of – and I don't know that you guys are going to answer this, but just in terms of the mix of direct relative to your junket business at the combined assets in Macau right now, do you guys have kind of a ballpark that you could provide us to the mix of direct right now on a rolling chip volume basis?

**Matt Maddox**

Carlo, we usually don't get into the mix between direct and our junket business. And so, I'd rather not get into those specifics right now. I do think that our direct will likely have more growth potential in particular Wynn Palace going forward as we're seeing some of the smaller junket operators consolidate into the top three. So our direct business is really on a customer by customer basis with our program run by Linda Chen. And I think that as we continue to ramp that piece up that I feel pretty good about where the direct business is going.

**Carlo Santarelli**

Understood. And then maybe just bigger picture in terms of what you're seeing in Macau on the VIP side, obviously, we were still facing some comparisons that were a little bit challenging in terms of role in the market, et cetera. With the performance in the quarter and obviously what you've seen over the holiday period in October, are you starting to see any kind of stabilization in the business, maybe on a quarterly sequential basis in VIP across the market?

**Matt Maddox**

Well, I think that you've seen that commentary in the market that there feels like there's some stabilization. I think that a lot of people are very optimistic that that we're at a stabilization point and that 2020 could be a period where we're starting to see some growth. Carlo, in the past, we've spoken about, just to go back to your question, direct versus junket and it's ranged from 80:20 down to 90:10 between junket and direct. And it

really is very quite volatile during the – from quarter-to-quarter. But we think that both our direct business has growth opportunity in 2020 and that the junket business hopefully will continue to stabilize.

**Carlo Santarelli**

Great. Thank you. That's helpful. And then just if I could one follow up on Boston Harbor and the ramp there, when you think about kind of the – obviously driving that slot business and kind of building that database, the other side of the equation is obviously the cost side. And if I kind of just adjust for gaming taxes and the period knowing this is very simplistic and crude way of doing it, you kind of arrive at 1.45 million a day or so to run the property. I assume you're not going to be willing in the near term to sacrifice the experience all that much. But over time when you think about the ability to take costs out of the building with some of the changes that you ultimately make, do you see there being plenty of cushions in there to do so as we look out to 2020 and beyond?

**Matt Maddox**

I don't want to say there's plenty of cushion, but clearly when you open a property, you have more staffs than you end up meeting when you're operating in a very efficient way and also as well as how you procure items. You do just get smarter. And so, I would think that the 1.4 million will definitely be – have a downward trajectory through 2020. Craig, do you have any thoughts on that?

**Craig Billings**

I would agree with that. That's likely to be peak for the near-term.

**Carlo Santarelli**

Great, thank you guys.

**Operator**

Thank you. Next we have Joe Greff with JPMorgan. Sir, your line is open.

**Joe Greff**



Hello everybody. Craig, could you give us hold adjusted EBITDA margins at the two properties in Macau and the 3Q?

**Craig Billings**

Sure, Greff. Wynn Macau was 30.4% and Wynn Palace was 29.2%, which is about 200 basis points higher than Q2.

**Joe Greff**

Got it. And was there any renovation disruption that Wynn Macau from the West Casino construction? And is that part of maybe the hold adjusted EBITDA and the mass growth acceleration in October relative to the 3Q?

**Matt Maddox**

I think there's definitely a disruption from the renovation. Again, just walking the property two weeks ago, it's hard to quantify because we're not seeing large drops in volumes coming in the door, but about half the building is behind construction walls, the podium level. So there's definitely some disruption. And I think we're just going to see what the impact is going to be when we open our new facility in about 60 days. It's really targeted for the premium mass customer. And Joe, if you – you know the property well, the new gaming floor feels very similar to Encore in Macau, but it's anchored by two restaurants and has two entrances to the boardwalk that go between MGM Wynn and SJM, which is very heavily trafficked and before it had no entrances. So we feel really confident that the way we've repositioned this property away from smaller mid-tier junket operators and two the premium mass market is going to work.

**Joe Greff**

Great. That's helpful. And then as you kind of look at the growth in mass in October that 8% year-over-year growth that drove that \$4 million of EBITDA per day, how much of that is share gain versus market dynamics and just relative growth rates in mass? And then my final question, skipping over to Las Vegas, can you remind us what some of the specific strategies going after some of the domestic gaming segments versus where the focus was heretofore? And that's all for me. Thank you.

**Matt Maddox**

Sure. So again, our drop was up 8% in Macau on the mass side. I don't necessarily think that's share gain. I think that's we're continuing to keep pace with the market at about a 14% market share between mass and slots. Ian, do you have any additional thoughts on that?

**Ian Coughlan**

It's really just the daily hand to hand combat and all of the initiatives that we put in place over the last two years. We continue to aggressively drive our signup of our loyalty program. That was up 48% in the third quarter versus the third quarter last year. Wynn McCowen in particular has driven that up very heavily. Through the construction disruption, we focus very much on our players. We've increased the number of holes on the floor and we're hiring up now for the new 44 tables that we're introducing at Wynn Macau. Also at Wynn Palace, we've introduced a new pit of 20 tables just off our high limit at table games area, which will also be very fruitful for us. We moved around some slot machines. So in both properties we continued to change the floor and react to the customer base.

**Matt Maddox**

And I'm going to let Marilyn to talk a little bit about the strategy in Las Vegas.

**Marilyn Spiegel**

Sure. So the – really it's a three part strategy. First off with people installing the right people in casino marketing; secondly, making sure the marketing was correct and adding the technology that we needed to really market to those guests effectively, both our current guests to reactivate and bring in new guests and third was using the amenities that we have. So we were able to leverage our rooms to really grow the domestic business.

**Joe Greff**

Great. Thanks guys.

**Operator**

Thank you. Next we have Felicia Hendrix from Barclays. Your line is open.

**Felicia Hendrix**

Hi, thank you very much. Marilyn when we have you – while we have you I may have missed this, but in the prepared remarks, Matt or Marilyn can answer this. Did you guys talk about in Vegas how much your baccarat business was either up or down? Or how that performed in the quarter in Vegas?

**Marilyn Spiegel**

Well, at baccarat drop was up for us in the quarter. We played very unlucky and that's really the issue that we had. We had more players who were big players and beat us year-over-year. And so, that was what's happened in baccarat. But we still see them coming and believe that that we are the property of choice for them.

**Felicia Hendrix**

Yes. And that's – thank you for that because that's actually where my question is coming too because as we're at the end of earning season and various companies had made various comments about the high-end baccarat player in Las Vegas and some have said not to expect them to kind of come back, others have done better. So it seems like you're kind of on the end of the spectrum that you're still kind of operating business as usual in that part.

**Marilyn Spiegel**

We actually believe it's a cyclical issue in baccarat. It's not a structural issue. And we think that they will continue to come.

**Matt Maddox**

I agree. I mean if – for people to try to predict the travel patterns of 1.4 billion people in China and many billions of people in Asia did not come to the world entertainment capital in Las Vegas, I think that's a mistake over a 10 year period. Las Vegas is going to continue to reinvent itself. We're continuing to invest and it is a place where people like to go. And so, I agree with Marilyn. It's temporary. This is not a change in customer behavior.

**Felicia Hendrix**

Thank you. That's, that's helpful. And then – and Matt maybe you could talk about Japan for a moment. In the quarter, you made an announcement about a change of strategy there. Maybe you could help us – walk us through that? And how you're looking at Japan now?

**Matt Maddox**

Sure. So we've been working on Japan quietly behind the scenes for almost a decade now. We have spent 85% to 90% of our time in the Tokyo Bay area, talking to over the last 10 years. So we didn't necessarily change strategy. I think we just publicly said that we would not be pursuing Osaka, which is something that was – something we were going to announce eventually. And we believe that there will be opportunity in the Tokyo Bay area.

We are working with various consortium partners now and we're doing things quietly and behind the scenes. I spend. I go over there about one week out of every couple of months. We have people on the ground. We're building up our team. I still believe this is going to be a longer process than a lot of people are anticipating. And we're going to make sure that if there is something that's right for Wynn that it is financially sound that the project is something that will change the company and we're with partners that share our same values.

**Felicia Hendrix**

And how were you thinking about returns there as given the potential high costs?

**Matt Maddox**

And that was my point, Felicia.

**Felicia Hendrix**

Yes.

**Matt Maddox**

We are going to pursue Japan with vigor, but we will not pursue it if it does not make financial sense. So we're going to be very disciplined in terms of how any structure is put together, what the costs are going to be and what a return profile is going to be. So we liked the Japanese market. We think that it will be a very high revenue market, but we're focused on making sure that it will be something that our shareholders will also like.

**Felicia Hendrix**

Okay. Thank you. Much appreciated.

**Operator**

Thank you. Our next question is from Shaun Kelley of Bank of America. Your line is open.

**Shaun Kelley**

Hi. Good afternoon everyone. I'm just wondering if you could talk a little bit more about how you're thinking about supply growth in Macau into 2020. I think Matt in the prepared remarks you mentioned a little bit about some customer trial for new product this year. There's obviously some new stuff opening in your neighborhood, but probably more like in the second half of next year, but you also have some infrastructure coming in. So maybe just some of the pros, cons as you're thinking about the longer term outlook there.

**Matt Maddox**

Sure. I'll give you my thoughts and then Ian, I'd like for you to take it as well. The major supply growth outside of SJM's property has really already happened. I think all of us operators now are continuing to refine our projects and build out in the areas where we think there'll be high returning high ROIs. Galaxy is continuing to build many non-gaming amenities and we do have the Crystal Pavilion that we will be presenting that is an additional 700 plus hotel rooms in Phase 1 in an entertainment facility. That will unlikely really begin in earnest until 2021 and complete in 2024. So I think right now Macau has more infrastructure and more visitors coming to the market then it will an increase in supply. Ian, do you have any thoughts?

**Ian Coughlan**

I think we'll start to see the arrival of new product or revised product in the marketplace after 2020. I think later in 2021, we'll see the arrival of SJM, which we believe that Grand Lisboa Palace is going to drive additional business for Wynn Palace in particular. We'll see a Sands Cotai go through their transformation into The Londoner. And most of that will take place in 2021 and it will be spread like a lot of the projects have been over the last four years. With infrastructure, we're excited about the light rail system, which has been under build for nearly eight years and comes to fruition later this year, hopefully within the next 10 to 12 weeks. And that has a drop-off point right outside of our Wynn Palace property. It connects directly to the Cotai Ferry Terminal in the airport. And we think that that's going to bring a lot more visitors to this general area of Cotai.

### **Shaun Kelley**

Great, thank you. And then just in the – you give us an inch, we take a mile camp. Just going back to the comments around October, obviously it implies a very nice sequential improvement from what you recognized in EBITDA for the third quarter. Just for people that not extrapolate too much into that, any color you could give around. Does that include just normalized hold because there's a big bounce back relative to what you actually recognized? Or did you hold a little heavy in that that helped that trend at all? Or was it golden week or any other seasonality?

### **Matt Maddox**

Well, you had golden week, which helps October. We actually generated more than \$4 million a day, a little more than \$4 million a day. But on a normalized basis, it was right at \$4 million a day for the month of October.

### **Shaun Kelley**

Great, thank you very much.

### **Operator**

Thank you. Next we have Thomas Allen from Morgan Stanley. Your line is open.

### **Thomas Allen**

Thank you. So just sign of struck to me in the press release was that you're going to Boston hold of 16% to 20% on tables in Vegas 22% to 26%. I'm guessing a lot of that is game mix. But if some of that also you expect hold to kind of ramp as the property – as the property ramps? Thanks.

**Craig Billings**

Thomas, it's Craig. Yes, it really has to do with how markers are handled and the ability to repay markers in the pit in Las Vegas and not repay markers in the pit in Boston. It purely has to do with regulatory.

**Thomas Allen**

Okay, helpful. Thank you. And then there was announcement on a sports betting partnership this past quarter. Can you just talk more about what you're doing there? Thank you.

**Matt Maddox**

Craig, I will let you to take that one.

**Craig Billings**

Sure. We have a sports betting strategy that's very focused on high quality products and various selected markets. So we're likely to launch a sports betting product early in 2020 in New Jersey and then move out to selected states and ultimately hopefully deploy that product in Massachusetts where we think that will be a game changer for Encore Boston Harbor.

**Thomas Allen**

All very helpful. Thank you.

**Operator**

Thank you. Next we have Harry Curtis from Instinet. Your line is open.

**Daniel Adam**

Hey guys. This is Daniel Adam on for Harry. Just one question on our end. So you had a \$22 million direct VIP hold impact in the quarter, but if I look at your overall VIP hold percent in Macau, it came in at 3%, so at the high-end of the normalized range. So I guess my question is – well you must have held high in your junket business. What was the positive hold impact in the non-direct VIP play in the quarter? Thanks.

**Craig Billings**

It's Craig. We're quoting it net of high junket hold. So we're giving you our normalized EBITDA impact inclusive of that high hold in junket.

**Daniel Adam**

Okay, got it. So the direct impact was even greater than \$22 million is what you're saying.

**Craig Billings**

Yes, correct.

**Daniel Adam**

Okay. Thanks guys.

**Operator**

Thank you. Next we have Stephen Grambling from Goldman Sachs. Your line is open.

**Stephen Grambling**

Thanks for taking the questions. One quick follow up on Las Vegas. Can you just expand on the puts and takes to think about into 2020 both at the market level and then what you're doing at the property as we think about any of the initial reads you might be seeing from ConAg, the golf course or some of the new space? Thanks.

**Marilyn Spiegel**



Sure. The golf course opened up in first weekend in October. It's been great. We often have more demand than we have supply for the number of players coming to the course. So we feel really great about that. 2020, of course, February is the launch of the convention center. And we will see a good growth in the convention center, but during the Investor Day, you'll recall that we talked about the room remodel. And so the room remodel is going to hit in June and it's going to mostly take up that time with leisure rooms. But we haven't refreshed our rooms at Wynn for eight years and it is time to do so. So that will be factored into 2020 also. But as we think about 2020, the convention business being solid, that casino business continuing to grow and then we plan on good FIT business and leisure business that will fill in the gaps.

### **Matt Maddox**

The strategy has been – so many of our competitors are not investing in my opinion as they should in our product, in their products. And so, we have a real opportunity to continue to capture market share at the higher end of the business. So we will be completely reprogramming the lake of dreams with new shows. We're remodeling all of our rooms at Wynn Las Vegas. We have a new convention center. We have new restaurants. We're spending the money to create an entirely new fun experience here while a lot of our competitors are not doing that. And so, we see real opportunity in Las Vegas to capture share. The market may be growing along with the economy, but we'll be capturing share.

### **Stephen Grambling**

Perhaps that's a good segue to my follow up. And I realized you are on a path to deleveraging the balance sheet, but could you share any thoughts on how the cap rate, implicit interest rate and structure of the Bellagio transaction announced impact, how you think about financing and/or capitalizing the business?

### **Matt Maddox**

Sure. I'll start off with that. So if you look at where OpCos are trading and where these deals are occurring, it appears to me that the way that our North American assets are valued. We're getting full value for our real estate. And in order to grow in this business,

you have to continue to invest to capture more market share. I'm not quite sure right now that this OpCo/PropCo structure in the Las Vegas market where you have to heavily invest, I'm not sure one plus one equals two if you look at the way the OpCos are trading. So we feel very comfortable with the way that we're running our business with owning our real estate and we believe we're getting proper value. Craig, do you have any thoughts on that?

### **Craig Billings**

Yes, I would just add that obviously being an OpCo exposes you to much greater volatility and sensitivity throughout the economic cycle, particularly at the tail end of the economic cycle. So there's a whole host of operating considerations. And as Matt mentioned, investment considerations that you have to take into account before you access a funding source like that.

### **Matt Maddox**

It appears to me that they borrowed \$4.2 billion at an average rate of 8% over 30 years and guaranteed the debt. I think that's what that trade was. So that's an interesting source of capital but an expensive one in my opinion.

### **Stephen Grambling**

Fair enough. And then should we be expecting – just one last quick one. Should we expect any kind of capital investment in Boston as you're thinking about right sizing some, what's going on there? Thanks.

### **Matt Maddox**

The capital investments that we're talking about are reconfiguring restaurants. We're building out a sports bar that could potentially become a sports book, so not large capital investments. We do have 11 acres of land across The Street where many developers have been talking to us about partnerships, where we could have new hotels, retail, et cetera. So we've been thinking about that more as landlords and partners as opposed to outright developers. But first we're going to ramp Encore Boston Harbor. And then we're going to watch the neighborhood build out.

going to make the neighborhood a little bit...

## **Stephen Grambling**

Super helpful. Thanks so much. Best of luck.

## **Operator**

Thank you. Next we have David Katz [Jefferies]. Sir your line is open.

## **David Katz**

Hi afternoon everyone. I wanted to just address Las Vegas and specifically there's a piece of property across The Street from where you are that if know memory serves, it traded at one time for 37.5 million an acre. And obviously you paid quite a bit less than that. What are your thoughts about – what you could or might do with that given that the Vegas market has episodes of high trading and we seem to be in one of those?

## **Matt Maddox**

So we like owning that land as option value. We've invested significant capital in Wynn Las Vegas over the last two years to position this product, to take more market share. We are continuing to think about what could work on the 33 – 36 acres across The Street. But in order to really understand what would work, we believe that first we need to see how Resorts World opens, which is coming in the next 18 months, I believe. Get a feel for the market; watch the Raiders stadium come in. Right now, it's expensive to build in Las Vegas. The trades have more jobs than they have manpower. So what we want to do is watch and see how the Las Vegas market expands with this new product – projects coming on board and then we can determine what will make the most sense to increase shareholder value on that 36 acres.

## **David Katz**

Great. And if I could, Craig, just go back to sort of what – how we should be thinking about target leverage at this point and the capital allocation alternatives update? And apologies if I missed it at the very beginning, I got on just a couple of minutes late.

## **Matt Maddox**

No problem, David. Nothing significant has changed since we had our Analyst Day in July. We published free cash flow targets at that Analyst Day. They're available on our website. We've historically talked about leverage – steady state leverage in the 3.5 times net debt level, which is actually pretty close to where we are today. We continuously look at the dividend. We'll look at it again early in 2020. And to the extent we are able to be very opportunistic from a share repurchase perspective we will do that, so really sticking to the strategy that we've previously discussed.

**David Katz**

Is there an open authorization?

**Matt Maddox**

There is.

**David Katz**

Okay. Thank you very much.

**Operator**

Thank you. Next we have Ricardo Chinchilla from Deutsche Bank. Your line is open.

**Ricardo Chinchilla**

Hey, guys. Thanks for taking the question. I was wondering if there's any progress with regards to the terms of the lease that you guys are going to do between the convention center and the Las Vegas entity.

**Matt Maddox**

Yes, thanks for your question. So in connection with the refinancing that we most recently did, one of our stated uses of the revolver was to purchase the convention facility from Wynn Resorts and bring it down into the restricted group. There will then be a lease between the entity that holds that within the restricted group and Wynn Las Vegas. We will

put that lease in place at the point at which we make the purchase which we anticipate to be very early in Q1 2020. We haven't disclosed any terms on that lease, but you should assume it would be market.

**Ricardo Chinchilla**

Perfect. Thank you. And could you please just provide us with the CapEx number for the quarter?

**Matt Maddox**

Sure. Total CapEx was \$242.3 million system wide.

**Ricardo Chinchilla**

Thank you.

**Operator**

Thank you. Next we have Chad Beynon from Macquarie. Your line is open

**Chad Beynon**

Afternoon. Thanks for taking my question. Regarding the Hong Kong travel disruption that we saw in the third quarter, do you have a sense or could you quantify what this may have meant for your customers to Macau to the Greater Bay Area? And then also has this ended as we enter the fourth quarter? Are you still seeing some of this potentially playing into current business fundamentals? Thank you.

**Matt Maddox**

It's really hard to quantify because you're seeing visitation in Macau increase. I do think that it has impacted our premium business that would be the fly-in traffic in the Hong Kong that gets picked up in one of our luxury cars and driven over to Wynn Palace or Wynn Macau. But I think it's been hard for us to actually quantify that impact. Ian, do you have any thoughts on that?

**Ian Coughlan**

There's been some residual impact more about people that would travel through Hong Kong and then come onto Macau, but I don't think it's been market significantly impactful. With all the other headwinds that are there, it's hard to break out. As long as the airport stays in operation, that's a very good feeder for us as you referenced in the premium mass sector.

**Chad Beynon**

Great. Thank you. And then Marilyn, just a follow up on the strong convention commentary that you noted for 2020. Are you still confident that this can kind of drive a 5% occupancy lift at the property? And given that there's been more details coming out over the past couple of quarters on a Legionnaire MSG Sphere and just the timing of the cities convention expansion. Could this actually be higher than a 5% lift given extra demand coming to the city? Thanks.

**Marilyn Spiegel**

Wouldn't that would be great. But frankly, I think what we've said is 4% to 6% additional occupancy and we see that right now. But again, a reminder that you won't really see the full year impact until 2021 once the rooms come online and the convention center has been operational.

**Matt Maddox**

Remember that's long booking business. So that's business that tends to book 18 months out. And so, you really see the convention – increased occupancy from the convention space come into its own in 2021.

**Chad Beynon**

Thank you very much.

**Matt Maddox**

And with that operator that will be our last question. So thank you everybody for taking the time to join today and we'll see you next quarter.

## **Craig Billings**

Thank you.

## **Operator**

Thank you all for participating in today's conference. You may disconnect your line and have a great day or a great evening.