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# Wynn Resorts Ltd. (WYNN)

Q1 2018 Earnings Call

## CORPORATE PARTICIPANTS

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Linda Chen  
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Maurice Wooden  
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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

Matthew O. Maddox

*President & Chief Executive Officer*

### Q1 HIGHLIGHTS.....

#### Opening Remarks

- Well, it's definitely been an eventful three months since we last reported quarterly earnings
- So I'd like to start the call by reminding everyone of who we are
  - We are the leading operator of luxury five-star integrated resorts, catering to the most discerning customers in the world
- We are the designers and developers of buildings and amenities that are global international tourist destinations
- We're 25,000 professionals, dealers, architects, florists, housekeepers, performers, chefs, designers, and thousands and thousands of others that deliver our brand promise to over 20mm customers globally every single year
  - Together, we are Wynn
- Over the past three months, those 25,000 people have done what they do best: being in the moment with our customers, paying attention to every detail, and delivering the best experience available in the markets where we operate
- And the scorecard's in
- Record results
  - Their efforts show immediately right now in what you see

#### Management Team

- Meanwhile, executive management has not only been focused on maintaining and enhancing the operations of the business and stabilizing the culture, but in reducing the noise surrounding our business
- As CEO, I'm not interested in looking in the rearview mirror
- It's a guaranteed wreck on the way
- I'm only focused on the future
- In order to focus on the future, we had to make meaningful progress over the last 60 days, so that on each and every one of these calls we're talking about our business and we're talking about our people and we're talking about our growth
- Just to remind you of a few things that we've done over the last 60 days

#### Shareholder

- Steve Wynn's no longer a shareholder in this business
- In fact, two-thirds of his stock, or 8mm shares, the company personally placed with two long-term institutional thoughtful shareholders and we're proud to have their support
- Galaxy Entertainment, a company that we greatly admire, purchased 920-plus-million-dollars of Wynn stock, right under 5% of Wynn Resorts, Limited, and we look forward to working with them in the future

#### Dividend

- We increased our quarterly dividend by 50%
- And we're no longer mired in litigation, six years of litigation with Universal Entertainment, billions of dollars at risk
- And we were able to solve that by repurchasing the redeemed shares effectively
- There were 24.5mm shares, at \$78 per share
- We didn't finance it at 2%
- We financed it at 6%
  - That was the deal we made
- It was a great deal for our shareholders and for our company
- It was a great deal for Universal
- And it's no longer a financial overhang and a significant drag on management time and a distraction
- And we wish Universal well in the future

#### Outstanding Litigation

- We also resolved all outstanding litigation with Elaine Wynn, six years' worth with no payment by the company
- In addition, I'm particularly proud of our board
- They began a serious search to refresh and expand our board of directors 60 days ago, started with over 50 candidates and using an executive search firm, plus their networks and their connections
- I personally interviewed over 10 different candidates, personally interviewed 10 candidates and I'm really proud of the nominating committee and our board of directors for the three people that they chose

#### Assets

- Three new female board members that are going to bring significant skill and experience to our board and to our company as it relates to corporate governance, strategic communication, hospitality, technology
- And what's exciting about these new board members on top of the great assets that they're going to bring to the boardroom is that our company is now in the top 40 of the S&P 500 in terms of female representation on public company boards

#### Initiatives

- We've also continued to implement significant initiatives internally to bolster our company's culture and to make sure that it remains strong and keeps growing
- I am committed to lead our company and in this industry in diversity and gender equality
- And what's great about our company is our base is already so strong
- For every job opening at Wynn Las Vegas, we get 110 applications, 110 applications
- And that is actually increasing right now
- Our turnover rate is less than half of the industry standard because this is the best place to work and we are going to continue to invest in our people
- They are not an expense
  - They are the asset of the company
- And we're really excited about the future

#### Capital Allocation

- As I mentioned in our March pre-announcement, we're intensely focused on capital allocation to enhance shareholder value
- That includes all future development opportunities in Las Vegas, in Macau, and a region that I'm very excited about, Japan, which we're going to be spending more time and more resources there in the future

#### Savings

- Let me give you a concrete example of this approach
- Over the last 30 days, we launched a review of our \$360mm convention facility to ensure what we were building was exactly right
- We were able to identify \$35mm of savings by simply consolidating some back of house space while only reducing the rentable square footage by less than 5%
- The changes actually enhance the customer experience, do not impact the timing, which is scheduled to open in March of 2020, and enhances the EBITDA potential of the project
  - That type of discipline and focus is something that we are going to bring to everything we do in this company

#### Global Design and Development Team

- In addition, I have begun closely working with our global design and development team which has over 150 employees and is the best in our industry
- Because I want to take a fresh look at the lagoon project – the lagoon component of our project on the golf course in Las Vegas

#### Las Vegas

- I've challenged the team, I don't want to focus on the mass market theme park which is really where we were going before, on trying to attract more of the mass market into the lagoon, and really focus on the luxury customer and what it is that our hotel guest wants
- And so the lagoon is going to be an amenity for our hotel guest because we are going to reinvent daytime activity for the guest in Las Vegas and continue to make Wynn Las Vegas the best place to stay on the Las Vegas Strip
- Lastly, in Las Vegas, we're carefully considering our approach to development of the lagoon
- We're really fortunate to have a large assembly of prime Las Vegas land and the importance of appropriately sequencing that development cannot be overstated
  - We look forward to providing more details on these developments in the very near future

#### Macau

- Moving to Macau
- I have reprioritized and accelerated investment opportunities in Macau
- In 2018, we will begin \$100mm investment program at the Peninsula in downtown Wynn Macau
  - This will include reinvigorating our original casino, we call it the West Casino, building two new restaurants there, taking out a lot of the exterior junket space that's not productive and making that a vibrant atmosphere
- We think the returns to our shareholders will be quite impressive when we're finished with that

- We're also going to remodel our Encore rooms
  - Some of the most popular rooms in all of Macau, we're going to begin that remodel this year

#### Wynn Palace

- Moving to Wynn Palace
- We opened Red 8 in February to great success
- The team is currently working on two new restaurant concepts that we plan on beginning construction on this year that will continue to add to the non-gaming amenities at Wynn Palace
- In addition, we are conceptualizing what we should be doing with the 11 acres of additional land at Wynn Palace
- We're working through what will be best for our company, for our shareholders and also to achieve the government's vision of increasing non-gaming amenities in Macau

## Q1 RESULTS

#### Mass Market

- Turning quickly to some of the quarter results
- We saw strength across the portfolio
- At Wynn Palace, we continue to aggressively take share in the mass market and it wasn't only in the premium mass
- In fact, our premium mass was up over twice what it was at this time last year, but the main floor mass market was up over 70% from last year
- So we're seeing strength across the board in the mass market at Wynn Palace
- In fact, our mass gaming revenues including slots were almost 48% of our gross gaming revenue and that's compared to just 39% in Q4 2017

#### VIP Volume

- Our VIP volumes remain strong, up 39%
- So everything's working there
- Wynn Macau continued to maintain its share during the quarter
- VIP volumes were up 29% over the year and mass was up over 20%
- I really want to commend Ian, Linda, Ciaran, and Frederic and the 13,000 Macau-based colleagues for delivering so strongly over the past several quarters and their intense focus on the future

#### Las Vegas

- In Las Vegas, the property experienced a record first quarter EBITDA
- In fact, overall room revenues for Q1 were a quarterly record for Wynn Las Vegas
- And I think what's important is we've seen no degradation of business
- In fact, what we're seeing is stronger bookings for 2018 and into 2019 if you look at the same time last year
  - So what we're feeling and seeing in Las Vegas is continued strength
- I am as excited as ever about the future prospects of this company
- We have the best assets in the industry and we will continue to execute on our service and product-led strategy in all of our markets over the coming years

## Craig S. Billings

Chief Financial Officer and Treasurer

### FINANCIAL HIGHLIGHTS

#### Performance

- I'll quickly run through some additional points on the quarter
- I'd like to start by reminding everyone that, like our peers, we adopted new revenue recognition accounting guidance in the quarter that impacts the current and historical periods' revenue and expense classifications but does not impact our EBITDA
  - While there are a number of reporting changes stemming from the adoption of this guidance, there are two key changes I would like to note

#### Net Revenue

- First is, the elimination of promotional allowances in determining net revenues with comps now directly reducing the revenues of the departments using those comps
- And the second is the full deduction of 100% of junket commissions from gaming revenues in Macau
- We'll spend some time with the analyst community after this call to help further break down these changes and to distill an apples-to-apples view of EBITDA margins and certain other key metrics impacted by this guidance

#### Macau

- As Matt mentioned, Macau was particularly strong this quarter, delivering \$421.7mm of EBITDA on \$1.3B in net revenues
- Continued ramping of Palace and improved mass revenues drove operating leverage leading to a record EBITDA margin at Palace, something we are particularly proud of
  - These results were not materially impacted by hold but the direct program holding higher than junkets
- Bad debt in Macau was \$300,000 in the quarter compared to \$4.6mm credit in the prior year

#### Las Vegas

- Las Vegas delivered \$142.6mm of EBITDA in the quarter on net revenues of \$431.5mm, driven by strength across the property
- Table games hold percentage was on the high end of our expected range in both the current and prior year periods, driving a little over \$10mm of incremental EBITDA in Q1 2018
- Bad debt in Las Vegas was \$400,000, comparable to the prior year quarter

#### Boston

- In Boston, we incurred \$241.7mm in total project cost during the quarter, taking the total spend to-date to \$1.38B
- We remain on time and consistent with the last published budget
- We ended the quarter with total debt of \$9.36B and total cash and investments of \$2.2B, including \$1.6B at Wynn Macau

- Those debt and cash balances reflect the payment of the \$2.4B Universal note in settlement
  - However, it's important to note that several financing transactions were in motion on March 31

#### Bridge Facility

- Our \$800mm bridge facility used to partially pay the Universal note in settlement was outstanding at quarter-end
- Also, at March 31, the sale of \$927.5mm of stock to Galaxy Entertainment had been arranged but had not yet closed
- When that equity transaction closed on April 3, \$800mm of the proceeds were used to repay the previously mentioned bridge loan

## QUESTION AND ANSWER SECTION

Shaun C. Kelley

*Bank of America Merrill Lynch*

Q

Matt, thanks for the run-through on sort of the overview on the strategy. I think it's really helpful for everybody. Maybe one area you could talk about, since there's been a lot of press speculation on it, would be Massachusetts. Specifically, I mean, clearly, we've got an update on where you stand with the budget but there has been a lot swirling around out there. So could you just give us any of your latest thinking about potential outcomes and strategy as it relates to that project specifically?

Matthew O. Maddox

*President & Chief Executive Officer*

A

Sure. When we entered that market, it was actually five years ago, we were excited about the prospects of that market, the location, and the ability to generate some growth for the company. And five years later to today, we still like the Greater Boston area market. We think it is a really good opportunity.

However, we're \$30B company. And if there was ever any risk due to heightened rhetoric that there could be any contagion from Massachusetts into our \$30B company in Las Vegas and Macau, we will have to take a hard look at what is best to protect our shareholders and our value.

So again, we love the market. We are going to continue to actively cooperate with the regulators there and move forward. But at the same time, we will always be protecting our shareholders and our employees.

Shaun C. Kelley

*Bank of America Merrill Lynch*

Q

And, Matt, there's been some discussion on, like, timeline pointing towards maybe not an open-ended investigation but something that could maybe wrap up a little sooner, possibly as early as early part of the summer. Is that consistent with what your understanding is or could you give people an update on just what your thoughts are and maybe having a more concrete outcome there?

Matthew O. Maddox

*President & Chief Executive Officer*

A



I think that our understanding is consistent with yours that it's in the summer. I wouldn't want to speculate early or mid. But we are actively cooperating with the regulators and it feels like the process is moving forward quite smoothly.

Carlo Santarelli

*Deutsche Bank Securities, Inc.*

Q

Matt, you referenced in your remarks earlier the taking out of the promissory note, the 2% note with the 6%, and I'm assuming that 6% refers to the cost of equity with Galaxy. And if so, what was the decision behind going with an equity investment there?

Matthew O. Maddox

*President & Chief Executive Officer*

A

So, those two things are totally separate. What we agreed to with Universal was that from the time that note was outstanding, the \$1.936B, that instead of it being at a 2% interest rate it would be at a 6% interest rate. And when you recalculate it of over the five-year period, that's why the number was \$2.4B instead of \$1.9B. So the extra 400-plus-million-dollars was incremental interest expense.

Carlo Santarelli

*Deutsche Bank Securities, Inc.*

Q

Right. Sorry. That's correct. I remember that now. But just in terms of the Galaxy and the decision to use equity in that transaction as opposed to potentially a lower after-tax cost of debt, could you talk a little bit about the thought process there?

Matthew O. Maddox

*President & Chief Executive Officer*

A

Sure. So, what I'm focused on is having long-term strategic partners as owners of this company. The two investors that bought 8mm shares from Steve Wynn fit into that category and so does Galaxy. I've been a long admirer of Francis Lui and what he has done, and they are long-term investors. And so having long-term, stable capital in the equity I think is a very good move for this company and for all of the shareholders.

Also, Carlo, I'm not a big fan of lots of parent company debt, which is where that \$1.9B existed. It was the only debt at the parent. So equitizing the parent, getting rid of the \$2B of debt at the parent, really enhances our flexibility to do more in the future.

Carlo Santarelli

*Deutsche Bank Securities, Inc.*

Q

Great. Thanks, Matt. And then, Craig, if you don't mind, I thought you mentioned that the Las Vegas hold impact was \$10mm benefit. If I missed it, I apologize, but did you quantify the lower than theoretical VIP hold in Macau?

Craig S. Billings

*Chief Financial Officer and Treasurer*

A

What I mentioned is that it really didn't have a material impact in Macau because we held high and direct and low in junkets. So really, the only impact was in Vegas.

Felicia Hendrix

*Barclays Capital, Inc.*

Q

Matt, really appreciate the overview and the review of the company's accomplishments over the quarter. I thought that was very helpful. But just to step back, big picture, since this is the first time you're addressing the investment community in this forum, I was just wondering if you could walk us through your vision, both in the near-term and the longer term, and if you could frame your response in regards to governments, organic growth, CapEx, and capital return, that would be helpful. I mean, obviously, your prepared remarks touched upon it a bit, but, just looking forward, how do you see the company evolving over time?

Matthew O. Maddox

*President & Chief Executive Officer*

A

Sure. So the company's current asset base is the best in the business, I believe, and our growth profile is quite strong. And so what we're doing is we're reprioritizing where we want to spend our capital based on where we think we can get more immediate growth. So I have reprioritized spending money in Macau and looking at those projects and what's going to attract new customers and keep our customers at those properties longer.

In Las Vegas, our previous project – and actually the budget was over \$3B – that was not sustainable. And so we are taking a hard look at what is sustainable here, and what's going to keep attracting our customer. So we're moving forward with the lagoon and we're going – and I'm a big believer in the future of Las Vegas. And so what we're going to be coming back to the investment community with later this year is where our next development opportunity will be. Will it be on the lagoon? Will it be on the Las Vegas Strip with the property we purchased in January? Those are things that we are studying now and will spend a lot of time on.

In terms of future development, I am going to be spending more time, and we're really enhancing our team to focus on the Japan opportunity. It's something that I think is getting time, is getting ripe for additional investment and we are really focused on that. We think we have a great story there. We're already talking to potential consortium partners. We're focusing on locations. I've dedicated a couple of people there that are full-time that are developers and understand how to work with the governments in terms of what it is that they want to accomplish. So the vision is we are going to keep developing. We are going to be at the top of the market. We're going to use our 150 people in our design and development team to execute properties at the highest standards that are going to drive shareholder returns.

Felicia Hendrix

*Barclays Capital, Inc.*

Q

Great. And then I assume that the dividend increase is the beginning of kind of a long-term view on capital – on return of capital to shareholders?

Matthew O. Maddox

*President & Chief Executive Officer*

A

It is. We will consistently review, invest in the ground, pay down debt, buy back stock, increase dividends. Those are something that Craig and his team are going to be reviewing on an ongoing basis. And what is going to drive more value? The 50% increase in the dividend is something that was easily sustainable by our business and we, our board and management team, will continuously be reviewing that.

Felicia Hendrix

*Barclays Capital, Inc.*

Q

And that's helpful. Thank you. And then just switching gears to Ian and I think you said Linda was on the call as well, I know the question of concessions, the concession renewals in Macau came up last quarter and I thought Steve actually gave a pretty thorough and helpful perspective on that. But investors continue to ask and be

concerned about this upcoming event. So I was just wondering if either one of you or both of you could share your thoughts on what you think the requirements for renewal could be. Most investors think there might be some kind of payment required. Some have even brought up the chances of having to bring in partners. So I know there's a dozen different scenarios right now we could discuss and it's still unknown, but given that you're both kind of there in the heart of it, I just thought I would pick your brains on this. Thanks.

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Matthew O. Maddox  
*President & Chief Executive Officer*

A

Ian, why don't you go ahead and take that?

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Ian Michael Coughlan  
*President, Wynn Macau, Limited*

A

Sure. Thank you, Matt. So we are completely committed to the future of Macau. We continue to reinvest in the properties. Our relationship with government as an industry has always been very collegiate, very engaged. We've, as an industry, created great success for Macau. We've been good citizens. We take great care of our employees. We brought a lot of stability to the economy here.

And we have every indication that the process will take place at some stage this year and we have a future in Macau as an industry, all of the current players. So we're waiting to be given specific detail. And there has been a lot of discussion about the need for the marketplace to have more of a non-gaming focus to provide some balance with casino revenues. We're very committed to that. Matt's addressed that in his opening remarks. Like our other concession partners in town, we continue to focus on the future of Macau, reinvest and develop for the future.

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Joseph R. Greff  
*JPMorgan Securities LLC*

Q

A couple of quick questions here. One, with respect to Wynn Palace, to what extent were the mass market share gains that you referenced earlier in the call, to what extent were they more H2 Q1 related due to MGM Cotai's construction project, turning into an open property? And just in general, can you just talk about any, I would presume, positive walk-in traffic implications from MGM Cotai?

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Matthew O. Maddox  
*President & Chief Executive Officer*

A

I'll take that at first, Joe, and then I'll turn it over to Ian. But I think what we're seeing there is, we're seeing an increase in the quality of our customers. So we haven't seen a big uptick in foot traffic coming into the buildings but if you look at what it takes now at Wynn Palace from an average daily theoretical basis to get a room comp, that is going up quite significantly, which is really a telltale sign of the quality of the customers. So we're seeing premium mass customers, that are staying at MGM, walking over to Wynn Palace to enjoy our facilities and that's, obviously, has an outsized benefit on the revenue line. Ian or Linda, do you want to add to that?

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Ian Michael Coughlan  
*President, Wynn Macau, Limited*

A

So the stickiness with our customers continues. We continue to ramp up. We've seen a significant gain in, what we call, our Chairman's Club and our Diamond Club areas, premium mass customers are beating their way to Wynn Palace. We are using our rooms much more effectively. And if you look at quarter one 2017, 53% of the inventory of the 1,700 keys went to casino customers. In Q1 of this year, 73% of the rooms went to casino customers. So we clearly have even more room to grow there. We have lifted the type of customers that are staying in the rooms. The deal for Q1 per room on mass tables is up 47% and for slots it's up 23%.

So we're getting better quality customers in the rooms. We've got the finest room product in the marketplace. So people are getting more familiar with the property. The more holidays that happen, the more visitors that are in town, the property's gaining traction. There's still lots of upside. The effect of MGM, MGM will go through the same ramp-up steps that we have to go through. There's no miracles when you open a property and we have seen increased visitation, as Matt referenced. And a small nugget of that is our gondola traffic is up 18% since MGM opened. Visitation into the property is up 7% to 8%.

So there are more people on the street. The light rail has cleaned up significantly. We're waiting for the cross bridge to open between ourselves and City of Dreams. But in general, the neighborhood is tidying up. We've got Morpheus Tower opening up later in the summer and then the Lisboa Palace has announced that they'll open in Q1 2019. So lots of upside for Wynn Macau, very focused on premium mass customers, lots of room to take them in.

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Linda Chen

*President, Wynn International Marketing, Ltd*

A

I think, specifically, how we've been able to accomplish all the growth in the mass and premium mass is, first, we definitely grew database through the new aggressive sales that we have added to our team and the current existing sales and the strong relationship. And, secondly, is what we've done is yield up in the rooms as mentioned before, so every customer that stay in the room are actually playing more than what we used to have when we opened.

And then thirdly, it's increased the frequency of those guests coming back to our property by doing more events and whether it's concerts or casino marketing events, or even food and beverage events, we have leveraged a lot on our facility, expand on the customer base. And then, of course, the casino promotions, we've aggressively addressed those, target each market. The Cotai and the downtown market has different clientele and different [indiscernible] (29:08) casino events and we've addressed that specifically to increase those customers. And the hiring of the sales, we mentioned that. We've aggressively added new sales for both downtown and Cotai.

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Joseph R. Greff

*JPMorgan Securities LLC*

Q

Great. And then, Matt, I have a follow up on some of your earlier comments on Galaxy's investment in Wynn Resorts. You talked about the strategic benefits of having a long-term holder and the consequence of having a better capital structure, which I think all of us on this call totally get. Could you help us understand in what other ways is the Galaxy investment in Wynn Resorts strategic?

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Matthew O. Maddox

*President & Chief Executive Officer*

A

Because both operators, Wynn and Galaxy, focus on quality and on experience. I think that as international jurisdictions open up, we could potentially work together to jointly examine those. We certainly haven't made any agreements to do that, but our operating styles and philosophies are very similar and it's something that could potentially be a value to both companies in the future.

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Harry C. Curtis

*Nomura Instinet*

Q

First, a question in Vegas. Could you give a sense of how full steam are the Genting and Fontainebleau projects in your opinion? Are they at 100%?

Matthew O. Maddox

*President & Chief Executive Officer*

A

I would hate to speculate for them. It doesn't look like 100% from a guy that drives by it every day to go to work, but I really think you would have to ask them. There are some cranes up. There's some people there. So it's not empty at Genting. I'm actually not sure at all about Fontainebleau, but it doesn't feel like it's ramped up to 100%.

Harry C. Curtis

*Nomura Instinet*

Q

Yeah, I guess the – well, the reason I ask is that there are some concerns about capacity growth in 2019 or 2020, but from what we're hearing there seems to be the image and media discussion about these projects really ramping up and that's not the sense that I'm getting and that's – and I'm wondering if collectively in your room you would agree that they're not really running at full capacity.

Matthew O. Maddox

*President & Chief Executive Officer*

A

We would definitely agree that additional capacity in 2019 and 2020 would be a long shot. These are – these projects feel to me like they're much further away than that.

Harry C. Curtis

*Nomura Instinet*

Q

Okay. And then turning to Macau, I thought one of the interesting things in the quarter was that Wynn Macau is proposing to repurchase, what, about 10% of its shares. Who would they purchase it from and is it possible that they purchase it from the parent company? And is there, perhaps, a long-term strategy to reduce your ownership in Wynn Macau?

Craig S. Billings

*Chief Financial Officer and Treasurer*

A

Hey, Harry. It's Craig. So that's really a routine repurchase authorization that we and all other Hong Kong listed companies seek every few years. It's much more procedural and is not reflective of any intent.

Harry C. Curtis

*Nomura Instinet*

Q

I see. Okay. Well then let me ask one other question of maybe Ian. Ian, what's your view on – again, more of an infrastructure timing question. There have been some disagreements about the timing and the impact of the Hong Kong-Zhuhai bridge, as well as when the light rail system really is going to be operational. I wonder if you could give us your view on those.

Ian Michael Coughlan

*President, Wynn Macau, Limited*

A

The general sense in Macau was that it will open for traffic at some stage in the summer and the infrastructure, civil engineering, it's all complete. The bridge – people have been doing test driving over the bridge. The issue with the support services, getting everything coordinated, simple things like rescue between three different parties, getting customs and excise organized, getting the immigration organized, and then dealing with how the traffic enters into the different points of entry. So that's being worked through with three different authorities. And it's a magnificent structure. I don't think we'll see a huge impact from it initially. It will certainly ease the burden on

the ferry terminal activity which right now is chaotic over particularly on the Hong Kong side. So we look forward to that cleaning up significantly.

The travel time from central Hong Kong to Macau, getting through all the border situations will take an extra degree of time. I think the ferry itself will still be considered very convenient for people. But in time it will bring extra visitors to Macau. The biggest gain from the integrated resort perspective would be the closeness of Chek Lap Kok, Hong Kong's airport, and our ability to get our higher-end customers from that airport to the city and to our resort. So we're looking forward to that.

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Harry C. Curtis

*Nomura Instinet*

Q

And the light rail?

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Ian Michael Coughlan

*President, Wynn Macau, Limited*

A

The light rail, again, is scheduled for 2019. They have been testing the rolling stop. And, structure wise, it's getting very close to completion. The drag on the light rail was the depot which had some contractual disputes and the government have done an excellent job in getting that fired back up again very quickly and I think that they're now gaining extra speed. So we hope to have it open next year. Clearly, it's a huge opportunity for Wynn Palace in particular with the station right outside our property and it traveling on two sides of the property. So, again, a great thing for the neighborhood.

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Stephen Grambling

*Goldman Sachs & Co. LLC*

Q

I guess, first on Japan, given some of the rules have seemingly solidified a bit, can you talk to your latest thoughts on how big of an opportunity that market could be? How you would think about capital allocation there? And what your willingness is to lever up a little bit vs. partner with someone such as Galaxy as I think you mentioned earlier.

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Matthew O. Maddox

*President & Chief Executive Officer*

A

Sure. We're big believers in the Japanese market. Everything that Japan stands for in terms of tourism, which is the best hospitality in the world, some of the finest food in the world, architecture that is hands-down some of the best in the world; all of those things we think really fit with what we do, which is the luxury experience in integrated resorts. And more and more people from all over the world, in particular in Asia, are traveling to Japan every year.

So we're going to be very interested in looking at a large-scale opportunity there. We will be working with a consortium of companies. But it's one of the moments that, in our industry, you do not want to miss. And so we'll clearly always watch to make sure that the rules and regulations are conducive to good operating environment. But it's one that we're very focused on.

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Stephen Grambling

*Goldman Sachs & Co. LLC*

Q

And I guess a follow-up question for you, Matt. In your prepared remarks you mentioned stabilizing the culture. Can you clarify that? And as we look to the future, what changes do you want to see and how do you think about creating your own legacy throughout the organization?



Matthew O. Maddox

*President & Chief Executive Officer*

A

Sure. So there's been an onslaught of negativity from the media. And what that does is that destabilizes people because they read that are things for sale, are there problems? And so I've actually been hosting town halls for all employees, about 15 of them, and I think I've seen almost 15,000 employees so far talking about the future of the company and how bright it is and how we're not for sale. And what it is that we're doing and how we're focusing on who we are and we're going to keep reinvesting in our people.

We immediately implemented some initiatives that had been a long time coming, like paid parental leave. Didn't exist in Las Vegas, should have. And so there are simple things like that that we've initiated. We've initiated some leadership development programs for line level staff that want to then make it to supervisor and supervisor to manager. We've rolled that out in a big way because we want to continue to provide opportunities for our people to grow. So really what we're doing is just reminding everybody that we are Wynn. We're very strong and the future is better than the past, no matter what the media likes to say.

Stephen Grambling

*Goldman Sachs & Co. LLC*

Q

That's helpful color. One last one if I can sneak it in for Craig. On the Vegas strength, can you provide any additional color on what drove not only the quarter but as we look further out whether it's by, I guess in the quarter the types of game or customer base for example? Is it primarily baccarat or international customers vs. leisure or convention spillover?

Matthew O. Maddox

*President & Chief Executive Officer*

A

Actually, I'd like Maurice Wooden, our Property President, to grab that.

Stephen Grambling

*Goldman Sachs & Co. LLC*

Q

Perfect.

Maurice Wooden

*President, Wynn Las Vegas, LLC*

A

So I mean, just to continue on from first-quarter strength to the rest of the year, we have a very, very healthy convention base throughout the rest of this year. And actually if you look at 2019, we're significantly outpacing 2019 numbers already. As far as the business goes on the casino side, we continue to see great strength on the international front, especially our Far East and our European markets. We're very stable in our domestic markets. And last year, we had a record slot performance with respect to our slot numbers on the casino floor, and we're pacing very similar to last year's performance. So our business trend here looks very healthy, and our base of business is very healthy from this year forward into 2019.

Stephen Grambling

*Goldman Sachs & Co. LLC*

Q

All super helpful. Best of luck this year.

Matthew O. Maddox

*President & Chief Executive Officer*

A

One other thing I'd like to point out in Las Vegas. If you look at our non-gaming numbers and it doesn't look like the other piece outside of hotel is up very much, there's a reason. Our retail revenues were down almost 20%, but that's because of a change in strategy. We've been moving out of operating unprofitable retail stores and moving into experts in retail and leasing that out. So while our revenues in retail were down almost 20%, our operating income in that department was up almost 10% for the quarter. So those are things that wouldn't be transparent in the press release but moves that we continue to make internally.

David Katz

*Jefferies LLC*

Q

I wanted to ask about Macau specifically and just, Matt, the capital allocation strategy. There was a press report, and I'm not asking you to confirm or deny it, but it did suggest a share repurchase effort. If you could talk through your capital allocation priorities, specifically in Macau, because you did indicate in your prepared remarks about some spending on the Peninsula, if you could talk through those, that would be helpful. Thank you.

Craig S. Billings

*Chief Financial Officer and Treasurer*

A

Hey, David. It's Craig. I'll start, and then I'll pass it to Matt. So as I mentioned earlier in the Q&A, that share repurchase authorization that we're seeking is purely procedural and is done by most all Hong Kong companies and is not reflective in any way of intent. You can actually look at our peers and their filings and see very, very similar proposals.

David Katz

*Jefferies LLC*

Q

Right.

Matthew O. Maddox

*President & Chief Executive Officer*

A

So the capital allocation strategy in Macau is to continue to focus on investment in non-gaming amenities that will drive additional customers to Macau and accelerating the design of those and those investments because we feel like there's great opportunity there. And we'll continue to always revisit our dividend policy there relative to our FCF.

David Katz

*Jefferies LLC*

Q

Right. And just one more. Given the strength in Las Vegas and your outlook in Las Vegas and the opportunities that you have there, some of which are underway and others that are lined across the street, how are you thinking about your domestic presence and specifically in Nevada relative to the other opportunities that are out there? How would you sort of qualitatively rank that?

Matthew O. Maddox

*President & Chief Executive Officer*

A

So we're internally big believers in Las Vegas. I think the future of Las Vegas is very bright. What it is that we build will be consistent with the Wynn brand and with luxury and with the customer that we have been focused on for the last 15 years. So we're moving forward with the lagoon and we are re-evaluating what our next development opportunity should be. But we are moving forward with ideas for a new development opportunity,



whether it's on the lagoon or across the street, because over the next number of years we are believers in Las Vegas.

What we've done at Macau is just accelerate a lot of the ideas that we've been working on and begin to try to move that forward in a more expedited basis. And then we're always looking at international development. So if something comes up like a Japan or pick another place that has great rules and regulations and is a large opportunity and is potentially better returns, then the company will have to look at and shift its focus. But for now, we're monitoring all three and aggressively pursuing all three.

David Katz

Jefferies LLC

Q

Right. And if I can ask just one housekeeping question, Craig. Are we going to get, at some point, sort of Q2 and Q3, Q4 pro formas under the new format? Is that something that may appear in the Q or in an 8-K or...?

Craig S. Billings

Chief Financial Officer and Treasurer

A

David, we'll talk to you after this call about that. We're going to walk you through the changes and give you a sense for what it does, primarily to EBITDA margins, where it has a modest kind of 100 to 200 basis point impact in Macau.

Robin M. Farley

UBS Securities LLC

Q

Great. Most of my questions have been asked already. Maybe just to clarify, because in your opening remarks you talked about March 2020 still being the date, so would the only thing going forward right now as planned in Vegas is the convention center and then you're kind of stepping back from active construction on the lagoon to kind of re-evaluate the scope and timing and budget and that may or may not – that could end up falling behind doing something with the former Alon parcel. Is that the right way to think about what's sort of actively going forward vs. just kind of actively being considered?

Matthew O. Maddox

President & Chief Executive Officer

A

No, no, that's not the right way to think about it. So the convention center's underway. We cut \$35mm out of that budget and enhanced the customer experience. The lagoon is underway. So that is going to be targeted as an amenity for our 4,700 rooms here at Wynn Las Vegas that will reinvent daytime activity in Las Vegas. I don't say that lightly. We're going to have watercraft and great water sports, beach front. We're going to have some restaurants and some bars. It's going to be a really fun place to be for our customers.

The next multi-billion-dollar development of new hotel rooms, new restaurants, the full integrated resort, that is what we are examining right now. Before, that was on the lagoon and being programmed as phase 1B. That's what we are re-examining to decide, do we want to focus there or do we want to focus across the street for the next resort?

Robin M. Farley

UBS Securities LLC

Q

Okay, great. No, that's helpful. And then for the lagoon that is going forward, is the budget and timeframe for that the same as when it was last discussed a few months ago?

Matthew O. Maddox  
*President & Chief Executive Officer*

A

It is. It is.

Thomas G. Allen  
*Morgan Stanley & Co. LLC*

Q

Hey. So on the Macau accelerated investments, how are you thinking about the return on investment on those dollars spent? And then, for modeling purposes, will there be any renovation impact for the short-term? Thanks.

Matthew O. Maddox  
*President & Chief Executive Officer*

A

So we're not going to quantify what the returns on those will be because it's really about adding to the overall integrated resort and keeping our customers longer. Clearly, we think the returns are going to be strong. In terms of renovation, I know the team's working carefully with the Encore room tower remodel, because it's one of the most popular room products in all of Macau, to ensure that we're not jeopardizing business. I mean that tower runs at over 95% occupancy, so taking rooms out to remodel is a delicate dance and we're working through that now to try to make sure we minimize the impact on the business.

Ian Michael Coughlan  
*President, Wynn Macau, Limited*

A

It's also a soft refurbishment so we can manage that very effectively. We did it with the Wynn tower. We don't foresee it hurting occupancy too much.

Thomas G. Allen  
*Morgan Stanley & Co. LLC*

Q

Very helpful. And then just a follow up on Macau. How are you thinking about continuing to ramp up that comp mix at Palace? Where do you see the potential opportunity and any other metrics you can give us around – you talked about bringing an even higher quality customers than you had been bringing in. So any more color there would be really helpful. Thank you.

Matthew O. Maddox  
*President & Chief Executive Officer*

A

Sure. Linda and Ian, why don't you talk about the comp mix in the hotel.

Ian Michael Coughlan  
*President, Wynn Macau, Limited*

A

Well, as I addressed earlier, we've lifted the number of rooms at Wynn Palace that are casino related from 53% in Q1 last year to 73% in Q1 this year, so we continue to have space in the property to bring more high end customers in, casino high end customers. So that's our opportunity. As the property gets more familiar with players, we have a lot more repeat business, new customers are being introduced. All the marketing efforts we're making are bearing fruit. So we just continue the things that we're doing. We believe that we're still on liftoff and ramping up.

Linda Chen  
*President, Wynn International Marketing, Ltd*

A

Also the – actually the quality of our room product is really the top in the market. So we are able to progressively move our customer up to even the next level of room and suite products that they haven't been experienced before. So we have the penthouse and the villas and those are actually new experiences for a lot of the premium mass customers. So we've been able to progressively increase their play based on the better facility that they get to experience.

---

Ian Michael Coughlan  
*President, Wynn Macau, Limited*

A

It may be a good opportunity for Ciaran to talk about the strength of mass at Wynn Macau as well and one of the key focuses is to not cannibalize Wynn Macau.

---

Ciaran Carruthers  
*Chief Operating Officer*

A

So Wynn Macau is, obviously, seeing continued growth in the mass business, despite the gravitational pull of Cotai for that segment. We've done that. Obviously, we have been running very high utilization of our room product by the casino for a long time, about 94% or 95% of our rooms used by the casino. So really for us it's been a better yield and the quality of the customers the market has seen and done an exceptionally good job in the optimization strategy, getting better and better-quality customers into that room and moving a lot of the business that we had previously seen and not lodging with us staying in the hotel rooms.

And the key to us is not to cannibalize a business, not moving anything across the Wynn Palace unnecessarily. We have a lot of customers that have gone across there, and there are customers that enjoy both properties, customers that have been Cotai customers that have now moved to Wynn Palace and enjoyed the Wynn experience and are moving across to Wynn Macau. So for us it's really been about utilizing and optimizing the quality of the customer in the room.

---

Linda Chen  
*President, Wynn International Marketing, Ltd*

A

Also what we actually experienced downtown at Wynn Macau is we've been able to leverage the facility of Wynn Palace to reactivate a lot of our inactive customers that we lost on Wynn Macau to the Cotai market. So once after our Wynn Palace property is available, we've actually been reintroducing our company and brand to those customers. So now they've come actually across both properties. So Wynn Macau has experienced a lot of reactivation of customer that hasn't visited us in the past couple years.

---

Thomas G. Allen  
*Morgan Stanley & Co. LLC*

Q

Okay, thanks. So can I just ask one quick follow up, so, I guess, Ian you said 73% [indiscernible] (51:28). But Ciaran highlighted that at the present it's 94% to 95%. I mean, is that the long-term opportunity?

---

Ian Michael Coughlan  
*President, Wynn Macau, Limited*

A

That is the long-term opportunity. If every room at Wynn Palace goes to a casino customer and one with a high feel, that's where we want to be.

---

Matthew O. Maddox  
*President & Chief Executive Officer*

A

But the Cotai mix is different than Peninsula. So we're not going to start setting targets for the Cotai room mix to be the same as the Peninsula. That, as you know, Thomas, is the wrong thing to do. So we'll continue to increase our room mix in an appropriate way so that we're maximizing bottom line.

Anil J. Daswani

*Citigroup Global Markets Asia Ltd.*

Q

Couple of things. First of all, could you give us an update on any timelines for the 11 acres of additional land that you guys have over at Wynn Palace, is there any timeline that you could suggest or CapEx that you could suggest for what you plan to do with that?

Matthew O. Maddox

*President & Chief Executive Officer*

A

No, too early. We are in the beginnings of the conceptualization phase. We're actually bringing in some of the leading global designers and people in the animatronics world that we worked with in the past that were actually responsible for the Lake of Dreams here in Las Vegas and the Prosperity Tree in Macau to start to conceptualize some really interesting non-gaming amenities but we're at the beginning of that and it will be a number of quarters before we're able to articulate it.

Anil J. Daswani

*Citigroup Global Markets Asia Ltd.*

Q

And the second thing, Matt, could you give us some more granularity on Japan? Are you looking at Osaka, are you looking at Yokohama? What type of CapEx are you guys thinking you would be willing to commit. I know a couple of others have already commented that they're prepared to invest up to a ¥1 trillion. Is it a similar commitment that Wynn is prepared to make to that Japanese market?

Matthew O. Maddox

*President & Chief Executive Officer*

A

So we never lead with a number without knowing the location, all the rules in play, what the consortium looks like and what the expected returns are. So clearly I think anybody could throw out a ¥1 trillion and back into an ROI that makes sense. But until we know those things, we're not going to be putting out budgets based on thin air. So what we're doing is working carefully with the cities and the Tokyo Bay region and in Osaka, explaining our qualifications, what it is that we do, and working on partnerships to move forward in either one of those markets.

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