MOHEGAN TRIBAL GAMING AUTHORITY

Moderator: Peter Roberti
May 1, 2012
11:00 a.m. ET

Operator: Good morning and welcome to the Second Quarter Fiscal 2012 Earnings call for Mohegan Tribal Gaming Authority.

I would like to turn the call over to Peter Roberti, Vice President of Finance.

Peter Roberti: Thank you, (Rachel), and good morning, everybody. Thank you for joining our second quarter earnings call this morning. Today, we issued a press release on our operating results for the quarter ending March 31, 2012. That release is available on our website, www.MTGA.com.

I would like to remind you that our comments today may contain forward-looking statements protected by the Safe Harbor Provisions of the Private Securities Litigation Reform Act.

Such forward-looking statements are only projections and actual results may differ materially from those projections. Risk and uncertainties associated with these forward-looking statements are more fully described in today's news announcement and in our filings with the SEC including our reports on the Form 10K and Form 10Q.

Forward-looking statements made during today's call represent the authority's current outlook only as of today's date and the authority undertakes no obligation to update or supplement any forward-looking statements.

Today's conference call may also include discussions of non-GAAP measures, reconciliation of these non-GAAP measures to the most directly comparable GAAP measures included in our earnings press release.

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With that said, let me turn the call over to Mario Kontomerkos, Chief Financial Officer of Mohegan Tribal Gaming Authority.

Mario Kontomerkos: Thanks, Peter. Good morning, everybody. Before we begin, I'd like to introduce the participants for today's call. We have with us today Bruce Bozsum, the Chairman of the MTGA Management Board. From MTGA, we have Mitchell Etess, our CEO, and Peter Roberti, who you just heard from, our Vice President of Finance.

From Mohegan Sun, we have Jeff Hartmann, President and CEO. And from Mohegan Sun at Pocono Downs on the line in Pennsylvania is Bobby Soper who's the President and General Manager.

In addition, we have a number of others in the room who are available to answer any questions you may have today.

As usual, Bruce will give some introductory comments followed by Mitchell who will briefly discuss the significant events during the last quarter. I will then provide you with a brief overview of balance sheet matters after which we'll open up the call to Q&A.

With that, I'll turn the call over to the chairman of the Mohegan Tribe and of the MTGA Management Board, Bruce Bozsum.

Bruce Bozsum: Thanks, Mario. Good morning, everyone. Thanks for listening again. As we previously announced that I am sure you are all aware, during the quarter, we completed our comprehensive financing transaction. This accomplishment reflects a tremendous team effort and we would like to extend our thanks to everyone involved at both the authority and the tribal government.

We believe that this transaction demonstrates and confirms to the financial community that market-based solutions to comprehensive debt refinancing in the Native-American gaming space are achievable. Mitchell will provide you with additional details in a moment.

The board and I are extremely pleased with the operating results of the quarter ending March 31, 2012. We are particularly pleased with the increase in operating margins at both Mohegan Sun and Mohegan Sun at Pocono Downs.

The management team and the board look forward to another successful quarter and year. And as always, thank you for your support in Mohegan and I will now turn the call over to Mitch.

Mitchell Etess: Thank you, Bruce. And hello, everybody, and again, thank you for joining us. Well, there's absolutely no doubt what the highlight of the last quarter was because as you all know on March 6th, we completed our comprehensive refinancing including exchange, offer for all traunches of our outstanding notes, a credit facility amendment and extension and a new debt issuance that was used to reduce the size of the credit facility.

This strategy is designed to extend the maturity dates of our capital structure to 2015 and beyond providing us with a clear runaway to the expiration of the relinquishment agreement payments and allowing sufficient financial flexibility for our operating and diversification strategies.

There's no doubt this was a long and challenging process. We greatly appreciate the support we received in the financial community and are thrilled about having successfully completed this complex transaction.

I'm sure you can imagine how all-consuming this process is and now, with this behind us, we're looking forward to truly focusing on growing our business and for the developing the Mohegan Sun brand and Mohegan gaming advisors.

For more information on the refinancing, refer to Form A.K. filed and on dated March 9, 2012.

Now, for the second quarter results. We're very pleased with our operating results for the second quarter as we continue to see momentum, any impacts of our work at increasing efficiencies and implementation of cost-savings company-wide over the last two plus years.

On a consolidate basis, net revenues increased by .9 percent and adjusted EBIDA totaled $85 million, a 6.4 percent increase over the prior year quarter. Consolidated adjusted EBIDA margin increased by 120 basis points at a result of increases at both of our operating properties.

In conjunction with the right – with our refinancing, we did incur a non-operating charge for the quarter for a loss of – on the early exchange of debt of approximately $14.3 million.

In Connecticut, Mohegan Sun adjusted EBIDA was $74.2 million for the quarter, a 5.6 percent increase over the previous year. EBIDA margins showed 160 basis point improvement increasing from 25.6 to 27.2.

Although slot win decreased 4.1 percent during the quarter, much of the decline was self-inflected in an effort to increase profitability. For example, we made changes in the slot mix that resulted in loss volume by eliminating unprofitable games on the floor.

We're also trying to be smart in our use of free slot play. During the quarter, our use of free slot play decreased by 11.5 percent compared to our nearby competitor who increased their free slot play used by 17.8 percent.

Now, we had been reporting that we had been seeing the Connecticut promotional environments stabilizing and we are hopeful that this spike by our Connecticut neighbor is related to their 20th anniversary celebrations and the stability will resume shortly.

As we all know, too much free slot play use ultimately reduces the wallet of our customers at a profitability of the company and as such, we are trying to maintain a prudent level.

In the hotel, our yield management of rooms has resulted in some room nights being shifted to – from lower end gaming customers to more profitable tangent customers. These actions reduce slot win and handle, but increase EBIDA.

And you can expect to see similar trends going forward. In addition, since we operate at true arena as opposed to a traditional casino entertainment venue, we're subject to the touring schedules of major artists relative to our arena programming.

Consequently, we had fewer headliner acts in this year's quarter versus last year's which contributed to lower volumes in the property and resulting slot win.

Table games revenues in Connecticut did grow 3.6 percent over the previous – prior year quarter based on a higher hold even though drop was down 3.1 percent from the prior year also impacted by the arena schedule and (inaudible).

Hotel revenues for the quarter were up 18.4 percent resulting from an increase in change in customer's occupancy causing ADR and (REVPAR) to be both up 50 percent over the previous year's quarter.

In (inaudible) Mohegan Sun at Pocono Downs continues to see the benefit of the commonwealth's decision to add table games to the casino mix in 2010. Property adjusted EBIDA increased by – increased 15.3 percent to $14.8 million while EBIDA margin increased to 19 percent from 17.4 in the prior year's quarter.

Also encouraging was an increase in gross (inaudible) revenues of 5.8 percent over the prior year quarter and strong table game drops of $55.5 million, an increase of 20.2 percent compared to the prior year's quarter.

Reinforcing the positive trends of the fact that five of the top 10 days in table games revenue at Pocono Downs occurred in the last quarter so you can see our positive trends.

Bobby and his team have done a great job fine-tuning their marketing programs and driving profitable business including taking advantage of the ability to hold saw tournaments which also had a positive impact on gaming revenues for the quarter.

And with those highlights stated, I will now turn the call back over to Mario Kontomerkos. Mario?

Mario Kontomerkos: Thank you, Mitchell. I will now give you a brief update on certain balance sheet related items. Saw that at the end of the quarter was $1.73 billion with no amounts drawn on the authority's $75 million revolver.

After factoring in outstanding letters of credit and restricted covenance, the authority had approximately $73 million available for borrowing under the bank credit facility.

Cash and cash equivalents at the end of the quarter totaled $158.5 million. And so liquidity totaled approximately $155 million net of bank role and restricted cash.

At quarter end, the MTGA was in compliance with all of it's covenants. Capital expenditures totaled $10.2 million for the quarter mainly comprised of maintenance and development capital expenditures at Mohegan Sun. Distributions totaled $10 million for the quarter and are forecasted to total approximately $53 million for the fiscal year.

One additional note, on April 2, 2012, we did repay the remaining $66.5 million of our eight percent senior subordinated stub notes with cash on our balance sheet remaining of approximately $90 million.

So having said all of that, I – at this point, I'll turn it back to (Rachel) for Q&A.

Operator: If you would like to ask a question on the phone lines, please press star, then the number one on your telephone keypad. Again, that's star one to ask a question. Your first question comes from (David Harver) with Credit Suisse.

Male: Hi, (David).

(David Harver): Good morning. Three questions. First on (inaudible) quarter and then you got at the cash uses between the distributions and CAPEX through '12. Just curious, Mario, how you're thinking about deploying sort of free cash flow after that. Do you expect to build cash or do – does that balance given the call structure or just generally speaking how you're thinking about that going forward? That's my first question.

And then I have two others. Thanks.

Mario Kontomerkos: Sure thing. Primarily, you know, the user – any discretionary free cash we generate will be used to pay down debt, (David). To the extent that we have other projects in the pipeline that we think will generate better returns on our capital than what we can generate in prepaying debt, we'll review those, but primarily it'll be to pay down debt.

As you know, we also have an excess cash flow sweep which will help in that effort.

(David Harver): OK. That's helpful. And then two others, on Massachusetts, obviously, the commission recently put out its timeline as well as some process. Just curious to hear your thoughts on that timeline given the experience you've had in the state so far and then any thoughts around that would be helpful. And then I just have a final one. Thanks.

Male: We're kind of going with it. We believe that they'll be issuing the RFP. There may be some prequalification stuff that goes on, but we're looking at them releasing the RFP sometime in the first calendar quarter of 2013.

They're estimating 3.6 months for the RFPs to be submitted and 3.6 months – three to six months for the selections to take place.

So you're probably looking at the earliest you'd see a license assigned to be January of 2014 and then, you know, you need to build and so forth and so on.

So that's kind of how we're looking at it. They – I don't think personally just from what we've seen from them, that'll slip too much. I think they seem to be eager to keep that scheduled.

(David Harver): Got it. OK. That's helpful. And then finally, you guys have a number of growth projects you're currently working towards, I understand, in Wisconsin. Then there's Massachusetts obviously and New York and some others.

Just curious to hear your thoughts on what you think might be the quickest generator return for you in terms of timing, how you're thinking about your growth prospects and then just any color around that would be great and then I'll hop back in the cue. Thanks.

Male: Well, we're – I mean, surely a lot of these things are outside of our control. Like, for example, the college project, which we believe is a great project for us, is more or less caught up in the legal system.

So, you know, that would generate development fees and as soon as we get that litigation stopped and we get that project going.

I can just tell you in general, we're – you know, now that the finances are behind us, we're really focused on finding the right projects, of trying to really (inaudible) Mohegan gaming advisors and we're assessing all the various possibilities.

I really wouldn't want a handicap, which would be the first one to generate fees or anything, but what we're focused on now are really going out and capitalizing on that.

Operator: Your next question comes from (Greg Roselli) with EVS.

(Greg Roselli): Hey, guys. How are you doing?

Male: Good.

(Greg Roselli): Congrats on getting the refi done.

Male: Thank you.

(Greg Roselli): In Connecticut, could you just tell us where the cost cuts are still coming from and, you know, if you think there's room for more in 2012?

Jeff Hartmann: This is Jeff Hartmann, (Greg). You know, we're – it's really – our team is looking across the board. It's generally from process improvements, you know, where we can (inaudible) technology where it makes sense, you know, to look at efficiency whether on the (inaudible).

So it's comprehensive, you know? The answer, you know, looking for additional cost cuts, you know, we're – I'm sure every day we come to work, we look for that. So the answer is yes, we're going to – we're going to continue to dig down and look for them.

(Greg Roselli): But we're – OK.

Jeff Hartmann: (Inaudible) and we'll – you know, we'll get – we'll find more.

Male: And we're cognizant, however, of while doing that continuing to offer the type of service and product that people here have been accustomed to.

Jeff Hartmann: Yes, it's really a core value exercise where we balance, you know, the customer experience as Mitch talked about and bottom line performance and we (inaudible) talents.

(Greg Roselli): Got you. And, I guess, out of Pocono kind of the same question. Is it – is it just sort of the same answer? Is there anything else you're doing there? Because we've seen a couple of quarters of very strong margin. I just wonder if that's something we can continue to carry forward.

Male: Bobby?

Bobby Soper: Yes, sure. You know, certainly, you know, with especially the high tax rate, you know, in slots and the lower tax rate tables, there's a lot more flow through. So clearly, the margins are going to be bumped up, you know, as we see growth in revenue.

Unfortunately, we've seen a lot of growth especially in the table games and that flow-through has, you know, generated, you know, much stronger margins. Hopefully if we can continue that growth, the margins are going to, we believe, growth with that.

So really our story's more revenue, you know, revenue driven. We obviously, you know, have over the year and a half table games are still fairly new, gain some efficiencies in that area especially in labor.

And so we'll probably – there's more upside on the expense side as well, but if we're able to keep these revenue growths, I think you're going to see some flow-through that will be reflected in the margins.

(Greg Roselli): That's great. Thank you. Appreciate the update on the (inaudible) environment up in – up in Connecticut. So just to be – just to be clear, so you guys brought down your free play 12 percent in the quarter and it sounds like your competitor was around 12 percent?

Male: We were down 11.4 percent and they were up...

(Greg Roselli): OK.

Male: ... 17 points.

Male: Seventeen.

(Greg Roselli): Seventeen percent? Excuse me.

Male: Yes.

(Greg Roselli): Yes. At the end of quarter, did you see a meaningful share shift over to Foxwoods or were you able to hold on to your market?

Male: It was a slight – a slight, (Greg) – slight shift.

Male: You know, we're comfortable where we are and how we're using free play, you know? We're, you know – we're – we continue to market the product, hear the entertainment experience and the varying offers, but really we're – we've been a product driven organization for 15 years and we'll continue to market.

(Greg Roselli): Yes. And, you know, with all that factored in with the 11.4 percent reduction in free play, were you able to see your margins in slot revenue increase just by the fact that you lost some share?

Male: It's a slight increase, you know? The – you know, the spend per trip is still, you know, now where, you know – not back to pre-recession levels, but, you know, we – you know, we're looking at making sure that we're making the, what we believe, is the right offer to the right gas. And, you know, how we offer our product, you know, the press release talks about how, you know, some floor configuration and we're constantly focused on that, you know – you know, here at the property.

(Greg Roselli): Yes, and it's clear, but, I mean, have you seen that prior to this 20th anniversary buzz? The guys at Fox had been cutting their promo spending for a few quarters?

Male: I mean, we felt like – it seemed that promotional environment here in Connecticut was stabilizing at that point. So we'll see what happens in the upcoming quarters.

(Greg Roselli): Got you. And lastly, are you guys feeling any impact from resorts rolled as of yet?

Male: Yes, I can – I can answer that. Listen, (Greg), we certainly budgeted a decline in slot revenue of about three percent over the next few years. From resorts, we're (inaudible) one and a half percent decline in year one and we think that we're pretty much within our target range there.

So we haven't seen sort of an impact beyond or too far inside of what we've – what we've forecasted there.

(Greg Roselli): Great. Thanks a lot, guys.

Male: Sure.

Operator: Your next question comes from (Alex Zinger) with (Alvin Capital).

(Alex Zinger): Hi, guys. Congratulations on getting the refi done here. My question is when are you going to file the indenture for all the bonds?

Male: Yes, those will be filed along with the 10Q which will happen no later than the 15th of this month.

(Alex Zinger): OK. Great. Thanks.

Operator: Your next question comes from (Susan Berliner) with J.P. Morgan.

(Rich Digatoni): Hey, guys. This is actually (Rich Digatoni) for (Susan). Have you guys seen any initial impact from the opening of Revel and maybe you guys can comment on what you guys are expecting the impact may be going forward just given their – it looks like they're booking a pretty sizeable event schedule.

Male: No, we haven't really seen any impact from Revel. We don't really anticipate long-term, any impact from Revel. Here, probably you'll see more impact enter market down there, you know?

Historically, what has happened here, like, we saw when (Regatta) opened. You know, you may lose a chip or so at the beginning when people might decide to go there and try it or go there for the opening (inaudible) them here for Memorial Day, but ultimately people will still make their Atlantic City chips and their Connecticut chips and their Atlantic City chips will now probably maybe beat (Revel) as opposed to someplace else.

So we're expecting very similar to the – very similar to the (Regatta) impact.

Male: Yes, we're loaded up this summer in the arena. We have tremendous concerts starting this month, you know? We have the – you know, we're using the arena and what we have coming this summer between, you know, Florence and the Machine and what, you know – One Direction announced their tour. We have Neil Diamond coming, Buffett. Van Halen's coming back.

A couple of big acts I can't announce, you know? We're ready. We're loaded up for the summertime here to really, you know – if there would be an impact to, you know, completely counteract that.

Male: Yes, and their events are, you know – if they impact us, it's not going to be in the arena where they frankly can't really compete with us.

(Rich Digatoni): All right. Thanks. And what – what's the mix between transient and, I guess, gaming customer that you guys kind of saw the shift that drove the rate increase this quarter?

Male: Yes, it's 75 percent casino and 25 percent transient group is our – is our overall mix.

(Rich Digatoni): So what was it? I guess, like, a year ago?

Male: It's over the last six months. It's we've shifted a little bit.

(Rich Digatoni): OK. And then are you guys – do you guys have any update, I guess, on the hotel at Pocono Downs?

Male: Yes. I mean, we are making progress on that. Nothing to report today, but I think, you know, I'm hoping that over the next couple of quarters we have some progress to report to you.

(Rich Digatoni): OK. Great. Thanks, guys.

Male: Keep in mind that we've been saying that for a few quarters, but now that the refinancing's behind us, it does feel like that's a little more achievable.

(Rich Digatoni): Right. Thank you.

Operator: Once again, ladies and gentlemen, if you would like to ask a question, please press star one. Your next question comes from (James Taylor) with Bank of America.

Male: Hey, (James).

(James Taylor): Hey, guys. How are you doing?

Male: Good.

Male: Doing good.

(James Taylor): Good. Good. I guess you touched on for a minute that, you know, the win per visit is not back to sort of pre-recession levels, but is there any way you can kind of maybe try to set aside some of the noise with the, you know, changes in free slot dollars and give us a sense for what's going on with visitation and win per visit in Connecticut?

Male: You know – well, we'll break – you know, break it down between domestic and Asian. I'll paint with a broad brush because we have people that listen, you know?

Our table trips, you know, continue to be very strong, you know, for the quarter. They were strong, you know? Slot trips were basically flat. On the Asian side, you know, we saw some impact on table sides from resorts where, you know, not so much on the slots.

I think the numbers on the slots were somewhat muted because of the weather impact was a positive impact on this border and our Asian bus program was not interrupted by weather this quarter versus last quarter.

So, I mean, I – that's about as far as I want to go on the trips. And, you know, we're looking – you know, we look by, you know – we drill down our database, look by state, by quarter, you know, our segmentation process gets better every month on how we look at our customers and, you know, that's kind of a broad overview.

(James Taylor): OK. That's helpful. In the release you did mention, you know – you just mentioned weather. Have you guys tried at all to quantify what impact weather might have had or even just quantify, you know, sort of bad weather days last year versus, you know, lack of bad weather days this year?

Male: Yes. Listen, it's a – it's a – it's an inexact science, as you know. I mean, I think that, you know, between, you know, top line and utility expenses, we think the benefit was in the several million dollar range in the quarter.

(James Taylor): OK. And someone asked about the hotel, you know, the sort of third-party hotel in Pennsylvania. At a point in time you guys had talked about a similar, you know, initiative in Connecticut. Is that still alive?

Male: No. Now again with everything behind us, we're taking a new look at everything here and what's the best way to do that. I know what Jeff and his team could totally use more rooms and we're trying to assess that in the decision-making process to what's best to do.

So yes, we are still focused on that and getting more rooms for the marketing team here in Connecticut.

(James Taylor): OK. Is there – is there a explicit limit on capital expenditures in the new credit facility?

Male: Yes, there is. I mean, all of this will become public in a – in a couple of – couple of days, (James), but there is a limit and it's a reasonable limit that allows us to, you know, continue to develop, you know, at the facility like we want to and also continue to keep – upkeep the facility in terms of maintenance capital.

(James Taylor): OK. There's been some press coverage of, you know, the possibility for internet poker obviously all around the country, but, you know, Connecticut comes up every once in a while.

Are you guys engaged in those discussions and do you have a view?

Male: We are. We're active in those discussions. I think we're active on a couple of different levels. Obviously, we're engaged with potential vendors or we're engaged at the political level, we're engaged with potential partners. It's actually a pretty interesting process.

There's a lot unknown at this point, right? We don't know if it's federal, we don't know if it's state, we don't know if it'll be state, then followed by federal. We don't – there's a lot of different permutations, but essentially we are trying to be ready for any of those permutations that occur.

(James Taylor): Very good. And just finally, I think I ask this every quarter, can you give us a rough update on where your customers are coming from? Massachusetts? Connecticut? New York?

Male: It's relatively the same range, you know? We're about, you know, 43 to 47 percent from Connecticut, you know, 18 to 20 for Mass. New York is 20 to 22. Rhode Island is about seven and then the balance is from New Jersey, New Hampshire.

So it's really – it relatively hasn't changed in the last year or the subsequent quarters who asked the question.

(James Taylor): OK. Very good. Thank you for the update.

Male: Thank you.

Operator: Your next question comes from (John Maxwell) of Jefferies.

(John Maxwell): Hey. Actually, just the only thing I've got left, Jeff, if – you know, it just seems like you've continued to take units out of the Connecticut property, both slots and tables. Is there more to do or at what point do you think you get to the optimal size that you want to operate with?

Operator: I think we're relatively stable right now, you know? We've – we – you know, we're – we've just gone through some right sizing the floor with our new Mohegan Sun Tower play bonus thing, you know, our new marketing at the game.

So we've done some floor work there, you know? We're under 6,000 units. I think we'll – we're slightly under and that's where we'll be, I think, you know, stable here for a while.

But, you know, we've reconfigured the floor, you know? We're excited to run our first, you know, promotion that's, you know, starting in May for our new installation. A lot going on on the floor, but it's good.

And the table games, you know, we've just – part of the efficiencies, (John), we just tried to align table game mix and pit mix with supervision. (Ray Pinaud), our chief operating officer and the table games team has done a great job of, you know, creating those efficiencies for the company.

I'm going to compliment (Ray) and his team for doing what they've done. So, you know, we're working it everyday.

(John Maxwell): OK. Great. And – excuse me – just Mario, can you, you know, made – it'll probably be posted, but, you know, when you file the documents and stuff, but when you mentioned debt repayment, can – are you going to be limited to just repaying bank debt or could you repurchase any of the outstanding debt issues?

Mario Kontomerkos: Yes, at this point we believe that we'll be able to purchase interim maturities with any free cash flow, (John). And so I think that that'll be the primary area of our focus.

Obviously there'll be a cash flow sweep in there as well that'll be repaying, you know, obviously the first lien debt.

(John Maxwell): OK. Great. Thanks for the update, guys.

Mario Kontomerkos: Sure thing.

Operator: And once again, ladies and gentlemen, if you would like to ask a question, please press star one. Your next question comes from (James Mosher) with (Inaudible) Newspaper.

(James Mosher): Good morning.

Mario Kontomerkos: Good morning.

Male: Hi.

(James Mosher): Hi. This is probably a question for Jeff. I wanted to ask about the current Connecticut work force, what the patterns are there, are you adding or subtracting especially in light of the new bonusing that's coming up. I'm wondering if, like, you're kind of trimming your slot work force, you know, along with this, you know, reconfigured gaming floor.

Jeff Hartmann: No. No, (James). Just the opposite. We, you know – the slot team's working harder than ever. We put 25,000 hours in-between our collector team installing the floor for the power play bonusing, you know?

We're – you know, we're adding – selectively, we're adding positions, you know? In the social media space, we've added – as you've heard me mention over the last year, we've added 10 or 15 positions in that space.

And, you know, the slot team and the – and the I.T. team have – you know, are doing a great job, have done a great job, you know, getting the power play bonusing ready for this weekend.

So, you know, we're working them pretty hard.

(James Mosher): OK. Thank you.

Operator: And at this time, there are no further questions.

Male: OK. Well, thank you, everyone, again for joining us on our quarterly conference call and we look forward to speaking with you in a couple of months.

Operator: Thank you, ladies and gentlemen, for your participation. You may now disconnect.

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