

MOHEGAN TRIBAL GAMING AUTHORITY

Moderator: Mario Kontomerkos
Thursday, April 28, 2016
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Operator: This is Conference # 85028363

Good morning my name is Kaitlyn and I will be your conference operator today. At this time I would like to welcome everyone to the 2nd Quarter Fiscal 2016 Earnings call for Mohegan Tribal Gaming Authority. All lines have been placed on mute to prevent any background noise. After the speakers remarks there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question press the pound key. Thank you. Peter Roberti, Vice President of Finance and Chief Accounting Officer you may begin your conference.

Peter Roberti:

Thank you Kaitlyn and good morning everyone. Thank you for joining our call this morning.

Today we issued a press release on our operating results for our second fiscal quarter ending March 31st, 2016. That release is available on our website at www.mtga.com.

We would like to remind you that our comments today may contain forward-looking statements protected by the Safe Harbors Provisions of the Private Security Litigation Reform Act. Such forward-looking statements are only projections and actual events or results may differ materially from those predictions. Risks and uncertainties that associated with these forward looking statements are more fully described in today's press release and in our filings with the Security Exchange Commission, including our reports on Form 10-K and Form 10-Q. 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 financial measures. Reconciliations of these Non-GAAP measures to the most directly comparable GAAP measures are included in today's press release.

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do not agree to these terms, please disconnect now. By remaining on the line, you agree to be bound by these terms.

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

Mario Kontomerkos:

Thank you, Peter. Good morning everyone. Before we begin I'd like to introduce the participants of today's call. Today we are joined by the Treasurer of the MTGA Management Board, Thayne Hutchins, as our Chairman is in flight to visit with the Cowlitz Chairman in Washington. From MTGA, we have Bobby Soper, President and CEO of MTGA, and Tom Burke, Chief Operating Officer of MTGA, along with Peter Roberti, our Vice President of Finance and our Chief Accounting Officer. From Mohegan Sun, we have President and General Manager, Ray Pineault, and from Mohegan Sun Pocono are Mike Bean, our President and General Manager in Pennsylvania. In addition, we have a number of others in the room and on the phone that are available to answer any questions you may have.

Now the Treasurer of the Mohegan Tribe would like to start with some introductory comments followed by Bobby, who will briefly discuss our operating results for the last quarter. I will then provide you with a brief overview of balance sheet matters, after which we can open up the call for Q&A.

So with that, I'll turn the call over to the Treasurer of the Mohegan Tribe and the MTGA Management Board, Thayne Hutchins.

Thayne Hutchins:

Thank you, Mario.

Good morning everyone and thank you for joining today's call.

Once again, we are extremely pleased with the operating performance of the Mohegan Tribal Gaming Authority for the 2nd quarter of Fiscal 2016, both in terms of financial performance and on the strategic initiatives front as well. We experienced nice increases to both our top line Net Revenues and our bottom line Adjusted EBITDA. I will leave it to Bobby who will explain on just how we did it in detail shortly.

In addition to continued strong financial performance, during the quarter, we also achieved a number of strategic milestones in our diversification efforts both domestically and internationally. Most importantly in February, Inspire Integrated Resort Company, our 50% majority owned, joint venture in our South Korea project, was awarded the Seoul Conditional Gaming License by South Korean government for our contemplated one-of-a-kind integrated resort that has the potential to transform Incheon International Airport, just outside of Seoul, into one of Asia's top leisure destinations. Also, during the quarter, I am pleased to report that we made great progress on the construction of the planned Cowlitz Casino along with the construction of our second hotel tower here at Mohegan Sun. Finally, I am pleased to report that MTGA has recently entered into a consulting engagement to assist the Tunica-Biloxi Tribe's Paragon Casino in Marksville, Louisiana. These initiatives along with our strong operational performance stand to put the Mohegan Tribal Gaming Authority in strong position for many years to come. So in short, we are very excited about where we stand today and where we are headed in the future. At this point, let me turn the call over to Mr. Bobby Soper, President and Chief Executive Officer of the Mohegan Tribal Gaming Authority to go into further detail.

Bobby Soper:

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

We are pleased with our results for the second fiscal quarter. We set several new records at our operating units which I'll touch on later in the call.

Our Consolidated Net Revenues increased by 6.9% during our fiscal second quarter. This was our largest increase in nearly nine years. The increase was driven by increases in net revenues at Mohegan Sun and Mohegan Sun Pocono along with higher revenue generated by Corporate, driven by new development key revenues from our Cowlitz project now that the, casino is under construction in addition to management fees from Resorts Hotel Casino in Atlantic City. Overall, consolidated EBITDA increased 18.2% year-over-year, and consolidated EBITDA margin increased to 26.6%, an increase of 250 basis points from last year, reflecting strong flow-through and our continued ongoing efforts to streamline our operations.

Now, onto our quarterly results for our operating units

Mohegan Sun

In Connecticut, Mohegan Sun's Net Revenues growth of 6.6% was our highest year-over-year revenue growth in any quarter since 2006. In addition Mohegan Sun had their highest EBITDA Margin for a

second quarter since 2001; their highest hotel occupancy ever; and the highest gross revenue per FTE ever.

Adjusted EBITDA increased 13.3% as compared to the prior year. Mohegan Sun's Adjusted EBITDA Margin increased 180 basis points to 30.4% for the quarter, which was the highest for a fiscal 2nd quarter since fiscal 2001, 15 years ago.

Results were very strong in both tables and slots. Table games revenues increased 11.3%, due to an increase in hold and drop as compared to the prior year. As evident from the results, our team has focused its efforts for several quarters now on introducing Mohegan Sun's world-class amenities to higher-end guests from a broader geographic base and these efforts seem to be paying dividends.

Slot revenues increased by 7.2% due to an increase in handle of 9.4%, slightly offset by a decline in hold percentage from the previous year.

On non-gaming side, Hotel occupancy continues to be strong at 98.6% for the quarter while RevPAR and ADR were down very slightly.

The Mohegan Sun Arena again achieved world-class recognition in 2015, and, as in years past, captured an impressive bundle of awards. Now one of the top venues in the world, the Arena is ranked three in the world and the nation for arenas of our size by Billboard and Venues Today. This year again marked multiple national awards, including "2015 Arena of the Year" by the International Entertainment Buyers Association in Nashville and two Academy of Country Music Awards in Las Vegas for "Casino of the Year" for both the Arena and our Wolf Den Venue.

We had 24 events this quarter compared to 28 in the prior year. The performers we had during the quarter were as always, diverse, impressive and appealing to a broad demographic, and included two Luke Bryan concerts, and shows by Brad Paisley, the Drop Kick Murphy's, Aretha Franklin and Def Leppard. We also had five home games by our professional lacrosse team, the New England Black Wolves, who made the playoffs this year, Dancing with the Stars, MMA, Boxing, two basketball tournaments, including the UConn Women's Conference Championship, Lord of the Dance and the Harlem Globetrotters.

Going forward, there are no signs of letting up as the spring and summer lineups are equally spectacular with more great shows and events. This weekend, for example, we have two shows by Jason Aldean.

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

Mohegan Sun Pocono

Mohegan Sun Pocono also set some records during the quarter. This quarter they achieved their highest second quarter EBITDA since 2012, and their highest net slot win since 2012. Net Revenues increased by 5.1% in our second quarter, the highest growth rate in 16 quarters, while Adjusted EBITDA was up 4.0% over the prior year quarter. Our slot results in Pennsylvania were very strong for the quarter. Slot handle was up 12.0% and slot win was up 10.6%. Table games revenues were down a little year over year, but mainly driven by a decrease in hold percentage to 19.2% from 21.8% in Q2 the prior year. Which was a tough call as Q2 in the prior year was a record quarter table revenue for Pocono driven by that high hold. The hotel operating metrics continue to be strong during the quarter with occupancy at 95.7% and ADR and RevPAR at \$62 and \$60, respectively. Also but more importantly and worth noting is the \$176 average rate for the transient segment.

Now, on to....

Atlantic City

Our managed operation in Atlantic City, Resorts, continues to outperform its peers, despite a challenging but stabilizing market environment. For the quarter ended March 31, 2016, revenue at Resorts increased 17.5% and EBITDAM by 48.6% or \$7 million over the prior year quarter, continuing the remarkable financial turnaround that the property has been experiencing for some time. For the quarter, MTGA generated almost \$400,000 in fee income from Resorts.

Resorts' progress in real money wagering online has been equally impressive. For the quarter ended March 31, our online gross revenues increased by 36% as compared to the prior quarter. During the month of March, resortscasino.com and mohegansuncasino.com represent more than 12% of the online casino games market. In late March, our third skin was launched by Poker Stars. As a result of that, we expect to see our market share continue to grow in the coming months and years.

Let me now provide you with an update on each of our major development opportunities.

First here at Connecticut, our **Earth Hotel update**

The Earth Hotel Project a \$125 million, 400-room hotel that will directly be connected to Mohegan Sun in CT and integrated to the property is on time and on budget. The hotel is basically watertight, the last piece of exterior parapet glass will be installed this week, and interior drywall is up to the 5th floor. We plan to start installing furniture in June and look forward to the Fall 2016 opening when we can begin to re-capture the almost half million room-nights we turn away each year.

The hotel is one of several capital-light, non-gaming developments that are being considered here on the reservation. There will be more to come in the not too distant future, and when they do we'll be sure to let you know.

Now Washington, the **Cowlitz Project**

The Cowlitz project is full speed ahead. With the successful financing effort completed in December, the project construction is in full swing and is moving swiftly towards a late-spring 2017 opening. During the quarter, we recognized approximately in \$1.3 million in fee revenues under our Development Agreement with the Cowlitz Tribe. We now have our leadership team in place led by Kara Fox-LaRose, our General Manager, Erik Palmer, our property CFO and Jim Dougherty, our Assistant general manager.

Now on to the other side of the world, **South Korea Project**

As many of you know, in February, Inspire Integrated Resort Company won a conditional license from the South Korean Government to develop a \$1.6 billion venue at the Incheon International Airport near Seoul, the first phase which will be eventually be a \$5 billion development over the next 20 years. As a reminder, Inspire is a joint venture where we hold an approximate 50% a majority ownership interest with the balance owned by our local partner KCC Corporation. We will invest \$100 million, U.S. dollars which was raised in November last year, and in return we'll receive development fees, management fees, and equity distributions. Currently we are in the process of putting together a world-class construction, architectural, and operational team, all with experience from the top existing Integrated Resorts in Asia, and look forward to moving this project ahead.

The resort will feature several hotel towers, a massive retail offering, one of the largest entertainment arenas in Northern Asia, dramatic water features, multiple leisure and entertainment destinations, including a Paramount Studios theme park and of course a casino. The airport adjacent to our site, is currently undergoing a \$4.5 billion expansion that will increase passenger throughput from \$45 million today to \$65 million by 2018, likely placing it as one of the top 5 busiest airports in the world, and is already home to one of the highest grossing duty free shops in the world, which gives us high confidence that our location will do quite well.

Now moving on to the **Paragon Casino Management**

Agreement that Thayne mentioned earlier, you may have noticed that we announced today our newest consulting and management agreement with the Tunica-Biloxi Gaming Authority to provide gaming,

hospitality and entertainment consulting services to the Paragon Casino Resort in Marksville, Louisiana. The consulting agreement commences two days from today, April 30, 2016, for a one-year period, and then will be followed by a management agreement for a five-year term, subject to the receipt of various customary approvals. We are excited to be bringing our expertise and culture to Louisiana to help the Tribe improve Paragon's financial performance while continuing to diversify our own revenue streams.

Now update on our other gaming venture here in **Connecticut Gaming**

With regard to our MMCT venture in northern Connecticut, to be jointly owned with the Mashantucket Pequot Tribe, we continue to review and study locations for the best opportunity for the retention of Connecticut's jobs and revenues. The interest from communities looking to host the facility has been remarkable, and this interest has resulted in our needing more time in order to make the right decision for the State and the two Tribes. That said, our process is making very good progress, including an announcement this week from the Bureau of Indian Affairs confirming that proposed changes to our agreement with the state by the two tribes do not jeopardize existing revenues to the state and providing further legal clarity regarding this opportunity.

Summary

We are steadily coming to conclusion of the process and we expect to be in a position to select a location soon. So in summary, between improving operations and a rapidly diversifying asset base, we believe we are embarking on a very positive time for the Tribe and MTGA. Our ongoing development on the West Coast, our recent entry into Asia, and our newest venture into Louisiana now increases our owned and managed properties to a total of six from two just a few years ago. We're finding that we are a unique product and corporate culture is something that resonates well both within and outside of the United States, and we intend to continue to expand in a methodical, profitable manner. And while we remain steadfast in seeking new and diverse opportunities, we never forget what makes our product so special. That is the unparalleled guest service, product and hospitality experience that has made "Mohegan Sun" a premier gaming and entertainment brand in the industry.

Thanks again, and I will now turn the call back over to Mario Kontomerkos.

Mario Kontomerkos

Thank you, Bobby.

As Bobby mentioned, our balance sheet continued to improve again in the March quarter. Our Total Leverage Ratio, calculated on a gross basis, in accordance to our (BCF) was 4.80x, and net of excess

cash, was 4.45x, the lowest the ratio has been in almost 8 years. Culminating a significant effort by everyone at MTGA, over the past five years. Over that time frame we've often stated to all of you on the phone that we were pursuing two parallel strategic goals. One to delever our balance sheet and two to diversify our income streams. Though these two goals can sometimes seem incompatible, we've been able to find a way to do it through the capital light approach, and we believe now we can say that we've successfully achieved these two goals. Well we're not done yet. We continue to believe that there's significant additional margin enhancement opportunity at our operating properties going forward. As well as capital-light growth opportunities that are currently under evaluation. These, we expect, will continue to drive continued improvement in our credit metrics and further debt reduction, allowing us to reach our goal of driving total leverage into the 3's over the next couple of years.

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

- Total Debt as defined under the (BCF) was \$1.72 billion, up \$47 million from the prior year, due to the \$100 million senior note issuance, in November but net of excess cash Total Debt was \$1.59 billion, down \$80 million from the prior year.
- \$42 million was drawn on our \$100 million revolver as of March 31, 2016.
- After factoring in outstanding Letters of Credit, we had approximately had \$55.5 million available for borrowing under our (BCF) and Line Of Credit as of March 31, 2016.
- Cash and Cash Equivalents at the end of the quarter totaled \$185.9 million, including approximately \$126.9 million of excess cash.
- Liquidity totaled approximately \$182.4 million, net of Bankroll and Restricted Cash.
- Distributions to the Tribe totaled \$10.6 million for the quarter. Distributions are forecasted to be \$53 million for fiscal 2016.
- Capital Expenditures totaled \$12.6 million for the quarter, comprised primarily of maintenance capex at our operating units. And capex is still forecasted to total \$52 million for the fiscal 2016.

So with that, thank you all and now I will turn it over to Kaitlyn for Q&A.

Operator: At this time I would like to remind everyone in order to ask a question simply press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. You're first question comes from the line of James Kayler from Bank of America, your line is open.

James Kayler: Hey guys how are you doing?
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James Kayler: I guess to start with just the underlining business obviously the trends look good in the quarter. Can you just give us a little more color around what you're seeing with

your customers? I guess including spend per visit versus visitation. And also if you see any change in the behavior within the data base. Are you seeing any improvement at the lower end?

Tom Burke: Good morning James. It's Tom Burke. We're seeing very positive trends in both trips and spent per trip. At all three properties, trips and spent per trip are virtually up across the board.

James Kayler: Interesting. And are you seeing any, I think earlier in the recovery, sort of lower end of the data base was lagging have you seen hints that the lower end of the data base is starting to improve a bit?

Bobby Soper: I'll jump in here. I think the improvement frankly is across the board all demographics from our perspective we have had, especially on the table side a relatively higher jump on the high end. But that's just on a relative basis when you look at improvement and spend and visitation it really is across all segments.

James Kayler: All right, very good. In terms of, I guess just quickly on Cowlitz, obviously I can see the construction webcam; I know it's moving along quickly. Can you just give us a quick update on the legal developments there and I guess how we should think about timeline and any important milestones?

Mario Kontomerkos: Yes. Sure James. From a legal perspective I think we're moving along extremely well. I know I think we're still on track in terms of the appeals court ruling in the district court, which we expect sometime this summer. Let say late summer just to be safe. As you know these types of things are not easy to predict. But I think that's the timing there as you know you may have seen in the papers some of the opponents to the project filed an injunction. That was essentially ignored by the courts so we think that's a good sign. So I think from a legal perspective we're moving along fairly nicely. You can see the progress as you said from the webcam. The project is moving at a very accelerated rate and I think we're all very happy with that. And I think we continue to think that a late spring opening of 2017 is appropriate.

James Kayler: Very good. And Mario, just one other housekeeping item, did any of the actual equity investment into Korea actually occur in the quarter or is that cash still sitting in the cash on the balance sheet?

Mario Kontomerkos: That cash is sitting on the cash balance on the balance sheet. So about \$100 million of that \$186 million or so that's on the balance sheet was related to Korea and the investments were primarily made in the preceding quarter, James.

James Kayler: OK, very good. Thank you guys.

Mario Kontomerkos: Thank you.

Operator: Your next question comes from the line of David Hargreaves from Stifel Financial, your line is now open.

David Hargreaves: Hi the line item shared compensation is kind of new to us, so I was wondering if you could sort of go through the mechanics as to how this works the deferrals and when

cash would ultimately be paid out? Just trying to understand the merits of adding that back. Thank you.

Mario Kontomerkos: Sure. This is a, that expense is a non-recurring non cash share compensation expense related to the award of the license in Korea. So I would not expect to see that happen on a recurring basis going forward.

Operator: And again if you would like to ask a question simply press star then the number one on your telephone keypad. Your next question comes from the line of a participant whose information wasn't left, caller please state your name and company, your line is open. And if you queued up for a question your line is open.

Mario Kontomerkos: Caller perhaps we'll move on to the next question.

Operator: And final call for questions, again that is star one to ask a question. And we have a question from the line of a participant's information that wasn't left. Caller, please state your name and company, your line is open.

Vic Roweleski: Hi this is Vic Roweleski on behalf of Susan Berliner.

Mario Kontomerkos: Hi.

Vic Roweleski: Hey so first question was on the debt breakout it looks like that was down about \$50 million sequentially and looks about \$16 million on the revolver and then \$8.5 million down on the short term travel loan, what was the other piece that declined?

Mario Kontomerkos: What we can do Vic is get the exact breakdown for you but from your description the remainder would be due to amortization of the bank facility.

Vic Roweleski: OK. That's helpful. And the other question was on the UBS facility the \$100 million so we're assuming that, that hasn't been drawn down at this point could the maturity of that be extended or is it still looking like it will be maturing in 2017?

Mario Kontomerkos: The maturity can certainly be extended either through new issuance or under the existing capacity within that facility and we're constantly evaluating that option.

Vic Roweleski: OK. Thanks. And on Cowlitz, I think you mentioned you received \$1.5 million did you receive anything else back from Cowlitz during the quarter?

Mario Kontomerkos: During the quarter no Vic as you know on the close that the financing in December we received \$19 plus million related to the advancements, reimbursements of the advancements that we made to that project and we received management development fees since then. But other than those fees that you've discussed we haven't received any other income.

Vic Roweleski: OK. And how much is still owed back to?

Mario Kontomerkos: That's a very good question and I'm glad you asked. So as you know there are three streams of income that is due to us as part of this project. Probably the biggest is the advances that are reimbursed to us. You know that balances in the \$70 to \$80 million range right now. That balance is growing at 12.5% per year. And so we

think that balance can grow to something approximately, or approximating \$100 million over the next three years once the properties open. And obviously that will be a positive event for the credit when that comes back. And that obviously comes back directly to the credit. In addition we've got some development fees that are still outstanding on the order of \$15 million over the next few years and then obviously the management fees which we are entitled, MTGA, is entitled to half of the 24% of the IGRA net revenue calculation which we've talked about in the past. And I'd say seven year management construct from the time that the casino opens. Based on some guidance we've been given that's probably another \$100 million of fee income. So significant fee income in the future we expect from the Cowlitz project.

Vic Roweleski: OK. Thank you.

Operator: We have no further questions at this time. I would like to turn the call back over to Mario Kontomerkos to end the call.

Mario Kontomerkos: OK. Well thank you everybody for joining our call and we look forward to speaking again in three months' time. Thank you very much.

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

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