Southeastern Asset Management

As of September 30, 3019, Melco International represented 6.7% of the Longleaf Partners International Fund and 6.6% of the Longleaf Partners Global Fund.

Gwin Myerberg:	00:00	Hello and welcome to the Price-to-Value Podcast with Southeastern Asset Management, where our Global Investment Team discusses the topics that are most top of mind for our clients from a Business, People, Price point of view. We at Southeastern are long-term, concentrated, engaged value investors, and we seek to own high quality businesses, run by capable people at a discounted price-to-intrinsic value (or P/V).
Gwin Myerberg:	00:29	I'm Gwin Myerberg, Global Head of Client Relations and Communications. On today's podcast, Ken Siazon, our Head of Asian Research, Portfolio Manager for our Asia Pacific Strategy and Co-Portfolio Manager for our Non-U.S. Strategy, and Manish Sharma, Co-Portfolio Manager for our Asia Pacific Strategy, interview Lawrence Ho, CEO and Chairman of Melco International and Melco Resorts and Entertainment. We own Melco International in our Non-U.S., Asia Pacific and Global portfolios.
Gwin Myerberg:	00:57	With that, I'll hand it over to Ken. We hope that you enjoy the conversation.

Ken Siazon:	01:02	We're very excited to have Lawrence Ho on our podcast today. Lawrence is the Chairman and CEO of Melco International, listed in Hong Kong, as well as its subsidiary, Melco Resorts and Entertainment, listed in the US. Melco is one of the six licensed casino operators in Macau with operations in the Philippines, Cyprus and a 10% stake of Crown Resorts (Crown) in Australia. Melco International is the of our largest investments in our Asia Pacific, Non-U.S. and Global strategies.
Ken Siazon:	01:30	Melco is a beneficiary of the ongoing consumption upgrade in China, with more than 90% of its EBITDA (earnings before interest, tax, depreciation and amortization) coming from its high margin and fast-growing mass gaming business. Most importantly, it's led by Lawrence Ho, an owner-operator with a 56% stake in the company, who has been an adept capital allocator, focused on building value per share through the cycle.
Ken Siazon:	01:53	In the last downturn in 2015 and 2016, Melco returned almost $2 billion to shareholders through special dividends and value accretive buybacks and increased Melco's ownership in Melco Resorts, by buying out joint venture partner Crown's stake at a large discount to intrinsic value. This accelerated the value growth coming out of the downturn in 2017 and 2018.
Ken Siazon:	02:18	In the current downturn that started in the second half of last year, Lawrence has adeptly used the group's financial strength to repurchase close to 10% of Melco Resorts' free float, privatize its Philippine subsidiary at attractive multiples and purchase 20% of Crown Resorts from his former partner, James Packer.
Ken Siazon:	02:38	Thanks very much for your time, Lawrence. When we met you eight years ago, it was around this time, November 2011. Your stock price was weak, as was everyone else's in Macau, and you were about to dual list Melco Crown in Hong Kong. When we were looking at all the Macau operators, that's when we decided to partner with you.
Ken Siazon:	03:06	We're glad to have made that decision. It was about the people and about how you thought about allocating capital. Since then, we've had an exciting ride together, and we've seen you compound value through the cycle. We've seen you take advantage of cyclical downturns by allocating capital well. Because of that, Melco is one of our largest investments in our Non-U.S., Asia Pacific and Global strategies today.
Ken Siazon:	03:42	Can we rewind to the beginning of your story? I believe when you took over Melco in 2001, it was somewhat of a distressed

		asset. You decided to work on this company and your business on your own, and you must have been in your mid-20s then. A few years later, you decided to partner with Crown, rather than what we would have thought would be natural, to work with your father.
Ken Siazon:	04:15	We would love to understand how you all started this business and your thought process when you started.
Lawrence Ho:	04:22	First of all, thank you to you, Ken and Manish, for all the support over the last eight years, and really for believing in the company way back when. We've appreciated the partnership and support.
Lawrence Ho:	04:40	Melco’s, and my, investment philosophy has always been to take advantage of weaknesses in market conditions. When I bought the company in 2001, it was right after 9/11. The global markets were in turmoil. That's why Melco was a company with very little assets and just a terrible business. It was really a listing vehicle for me, so that we could do other things.
Lawrence Ho:	05:16	The first step of going into the gaming market for Melco was right after Macau opened up its gaming market, because Macau had been a monopoly for 40 years until 2002. In 2002, it opened up the market to foreign companies. That was a great opportunity for Melco to start getting involved in that.
Lawrence Ho:	05:46	I think the reason I decided to do my own thing was that, looking back at Macau from 20 years ago, you can see the successful cases of international gaming destinations globally. Whether it's Las Vegas or, more relevant to our case back then, Australia, and how well some of those markets did compared to Macau, which was sort of archaic, in terms of the gaming market.
Lawrence Ho:	06:25	Combining with the fact that China was just opening up; its economy was experiencing phenomenal growth. It still has phenomenal growth. From the very beginning, I recognized that the Chinese customers' taste and preference will evolve over time. What they liked in the '80s and the '90s and the early 2000s was going to evolve. There was an amazing opportunity for me and for Melco to exploit. As they were climbing the consumer ladder, that's certainly a business that we can build on, as the Chinese patrons became more internationalized, and they travelled outside of China and saw the world.

Lawrence Ho:	07:18	That's how the business was really created from the very get-go. From the start, I never worked for my father, and I knew that I didn't want to work for him. Our philosophies were very different. The infrastructure, the people and the management, the company that he had built, just wasn't something that I can work in. And so I thought, creating my own business, focusing on my own thing, was a huge bet, and thankfully it paid off, and thanks to partners like you guys.
Ken Siazon:	08:05	How did you come about partnering with Crown? I guess there weren't a lot of potential partners for a Macau license. Any color on that?
Lawrence Ho:	08:19	Around 2003, that's when I created the Mocha business, there were only 800 slot machines in the entire Macau. That was an area where it was a low hanging fruit. I said, "This is ridiculous." You have more than 800 machines in any typical Las Vegas casino, let alone an entire market, and that's why I thought this is a huge area to develop.
Lawrence Ho:	08:52	And after the success of the initial Mochas - I had three of them by mid-2004 - I decided to embark on another area that I thought was non-existent, not even underserved, but non-existent, which was the super high-end VIP segment. And not in the Macau sense because Macau, of course, they've had junkets forever. But I wouldn't say they are high luxury, high level of service, international five-star experience.
Lawrence Ho:	09:34	That was the thing that I wanted to pursue. Given that Macau had been operating in a monopoly for 40 years, I knew that the formula to success was really finding an international Western operator who had the experience to partner with. And so, for a few months in 2004, I went on a search between Las Vegas and Australia. I even went to the UK to look for potential partners, who had that experience, who had that international depth.
Lawrence Ho:	10:17	I met pretty much all the companies that didn't win a license in Macau at the time. The meeting with James (Packer) and his management team just clicked. Because ultimately, because of the properties that they had in Melbourne and Perth, they already understood the Asian customer base. They were reaching out to a lot of Asian customers. Whereas some of the US operators that I spoke to - don't want to name names because it's pretty embarrassing stories for them - were more focused on the US. They were citing examples like "this is how we did it in Mississippi", which clearly wouldn't have worked in Macau.

Lawrence Ho:	11:14	I had a personal relationship with James. I was lucky enough to meet the legendary Kerry Packer on my very first visit. He just walked into the room to listen to me talk. The relationship was great from the very get-go. They understood the Asian business. Their focus with the Crown properties in Australia was very much on the high end, on the premium end of it, which was exactly the thing that I thought would work in Macau and in Asia.
Lawrence Ho:	11:51	All in all, that's how the Crown partnership started. Within a few months of that first meeting, we had concluded the joint venture with them.
Ken Siazon:	12:03	So, it's interesting to see how this relationship has developed over the last 10-15 years. Did you ever imagine that you would end up buying them out of the joint venture and then on top of that, buying a 20% stake in Crown?
Lawrence Ho:	12:22	If you asked me if I had anticipated that 15 years ago when we first formed a joint venture, certainly not, because 15 years ago, Melco was just starting. I think we were a 1 billion Hong Kong Dollar market cap company, when we first started those discussions. It would be insane to think that way.
Lawrence Ho:	12:50	But having said that, there have been some significant milestones over the last 15 years. Even buying the Macau gaming concession, together with Crown, back in 2006 for $900 million was a significant milestone because at the time people thought James and I were crazy. I really have to thank James for supporting me and going along with it.
Lawrence Ho:	13:15	At the time, everybody else said $900 million is too big of a number. Caesars, Genting and everybody just backed away from it. But in hindsight, it was really the defining moment of Melco Resorts to control our own destiny. Because if we had to piggy-back one of the existing licensees, we would have been effectively a satellite operator, and we wouldn't be in control of our own fate.
Ken Siazon:	13:50	Can we step back and ask about your family? Given that your father has run gaming in Macau for decades, is there anything that you can tell us about what you've learned from your father about doing business and in life, in general?
Lawrence Ho:	14:15	Again, I've never worked for him. I didn't work with him. And so, from business, I really didn't learn anything. But in life, I guess it's really respect. He's a very respectful individual, and certainly

		I think I've taken that from him. That’s why in the various places where we work, unlike some of our competitors, all the governments enjoy working with us because we do have respect. We respect different people's opinions.
Lawrence Ho:	14:58	That's probably one of the core attributes that Melco is known for. Ken, you're in our Tokyo office today. Japan is a country and a culture that is really built on respect as well.
Ken Siazon:	15:13	You talked about being an early leader and concentrating on that premium mass business, and that's also part of the reason why we decided to invest with you eight years ago. Can you talk about how that has helped you differentiate yourself from your competitors, and the various cycles that you've gone through in the last few years? I would love to get your view on how that has changed, if at all, in the last 10 years.
Lawrence Ho:	15:51	From the very get-go, the philosophy at Melco was really to focus on the growing middle class in China and Asia. That really started with the hypothesis that if the 19th century is the European century, the 20th century is the US century, the 21st century clearly is the Asian century, with the rise of population and power of China, India and Japan.
Lawrence Ho:	16:24	That was the core thesis from the very beginning. And even as early as the Melco Crown IPO back in December 2006, during the IPO presentation, I was telling everybody that the future is mass. And the mass is going to be the key driver of the industry in Macau and in Asia.
Lawrence Ho:	16:54	In hindsight, I was a few years early (laughs). VIP did have a huge run in, I think 2013, before the bubble popped. But still, it's always been part of the philosophy of the company to focus on mass and on premium mass. It's a segment that we created, that we pioneered.
Lawrence Ho:	17:23	And again, similar to my early philosophies of building the slot halls and the ultra-luxurious hotels, it was an area that we had identified that was underserved, or non-existent. So, we focused on that. That's why, even to this day, City of Dreams, Macau, Studio City, all of our properties, the premium mass segments are so strong because we've developed this player loyalty program for years and years, ahead of our competitors.
Ken Siazon:	18:00	Besides financial metrics, what other kind of KPIs (Key Performance Indicators) do you use to try and measure yourself against competitors or distinguish yourselves from them?

Lawrence Ho:	18:20	Seeing how Macau and Asia, for instance, our business in Manila (Philippines) has developed, it's more important for us to judge ourselves against our competitors. And I think we've told you guys this in the past, doing budgeting in Macau and Manila is difficult. Over the last 10-12 years, the budget swings pretty widely. Whether it's the sell side analysts or internal projections, it could swing quite a bit.
Lawrence Ho:	18:53	What I didn't want to see is, in the past was the rising tide lifting all the boats. For me, that doesn't really mean anything, because all the competitors are doing better at the same time.
Lawrence Ho:	19:06	Last year, we changed our compensation scheme for all our senior management, to be based on a competitive set of KPIs. We judge ourselves based on, how are we doing with respect to our competitors? Are we growing faster than our competitors from an EBITDA basis? And again, we're not a company that focuses on revenue. We really focus on EBITDA and what really drives shareholder value.
Ken Siazon:	19:36	Do you think you guys do better in generating value in the up cycle or in the down cycle?
Lawrence Ho:	19:45	Based on experience, and having seen a couple of the cycles, we do better, for whatever reason, and this is a point that I've been telling our colleagues as well, we tend to do better in the down cycle. Because again, our business is more stable, with the mass being predominantly our main business.
Lawrence Ho:	20:08	Because what you see in Asia, whether it's Macau or Manila, is the VIP business tends to be very volatile. It’s prone to both economy risks and policy risks. Whereas the mass business, and this was what I was saying 10 years ago as well, is something that relies on people traveling and wanting to have new experiences. It's a much more stable business.
Lawrence Ho:	20:41	Generally, our companies and our earnings are more insulated than most of our competitors when it comes to swings in volatility.
Manish Sharma:	20:53	Hey, Lawrence, this is Manish from Singapore. Despite all this US-China trade war and the China macro issues, Melco Resorts just printed record luck-adjusted EBITDA up 25% year-on-year, and you gained market share in both mass and VIP at City of Dreams.

Manish Sharma:	21:11	Despite that, Melco Resorts continues to trade at a discount to its peers, both in Macau and the US. So, what does the market not appreciate about Melco Resorts in your view?
Lawrence Ho:	21:25	Well, it's a constant source of frustration for us as well over the years. We do trade at, for whatever reason, a lower multiple. Meanwhile, we feel that we have some of the best assets globally. But we've continued to talk to our bankers, our analysts and, of course, our partners and shareholders. Over the last couple of years, we've really tried to, the best we can, without impeding growth, simplify some of the business.
Lawrence Ho:	22:07	So far, the common feedback that we get, and I'm merely passing this on, is our structure is not as simple as some of our competitors. For instance, we have partnerships in the Philippines. Studio City is a partnership. Originally, Melco and Crown, that was another partnership.
Lawrence Ho:	22:29	I guess the partnerships were a factor, that's what was told to us. And that's why last year we started, and now I think we're close to being done with, the privatization of the Philippines asset to get it delisted, deregistered, and we're just trying to simplify as much as we can. But at the same time, we don't want to do it if that is going to cost our shareholders or stop our growth.
Manish Sharma:	22:58	Do you think, Lawrence, Melco Resorts is listed in the right location? It's listed in the US. And the reason we ask this is, it seems to be trading somewhat in line with its US-listed peers, but US gaming players, they need to pay this big corporate income tax. Whereas in Macau, pretty much all the tax comes straight from the revenue line. So, the EBITDA is really cash flow after tax in the case of Macau, which is not the case in the US. So, we wonder, should it be listed in Hong Kong instead of in the US?
Lawrence Ho:	23:34	Well, I think that's why we explored that. When we first met back in 2011, we experimented with that, to get it dual listed in Hong Kong, and hopefully, eventually, have a majority of the flow go back to Hong Kong. But ultimately, given the nature of capital markets globally, money flow goes all over the place. So, that process really didn't work out that well.
Lawrence Ho:	24:09	But, again, it's a bit of history as well. Back in 2006, when we first listed the company in the US rather than Hong Kong, and of course, since then, Hong Kong has changed some of its listing rules. But we're still happy with the US, and I think as long as we continue to do right by our shareholders, in terms of driving our

		underlying EBITDA and also our growth initiatives, hopefully, people will recognize the value of Melco.
Manish Sharma:	24:45	Switching gears a little bit, Macau has gone through a number of cycles of volatility. How would you compare the state of the industry today versus what we saw back in 2014 and 2015?
Lawrence Ho:	24:59	2014 and 2015, clearly, I still remember looking back, we do, as part of our annual budget. Even though we compensate our senior management on relative performance compared to our competitors, whether it's in Manila and Macau, we still do our annual budget, so that we can keep track of our daily operating.
Lawrence Ho:	25:25	I remember back in 2013, the budget that we did for 2014, included a five-year plan. At the end of that five-year plan, we were projecting that the GGR (Gross Gaming Revenue) in Macau was going to be $100 billion. Well, clearly, we're nowhere near that. And so, 2013 and 2014 was a bubble, without a doubt. Coming out of the global financial crisis, given some of the liquidity that China had pumped into the system, some of that liquidity worked its way into Macau.
Lawrence Ho:	26:09	And so in hindsight, it was too good to be true. But at the same time, the good thing for Melco was, we weren't as reliant on that VIP market as our competitors. Even though the VIP market was raging at the time, we still focused on our core business, which was continuing to build out premium mass and mass.
Lawrence Ho:	26:36	I think that insulated us compared to our competitors. But certainly after 2014 and 2015, it was also a good time for us to take stock. Some of the significant reorganizations that we've done since then, I think it's going to be healthier. I think we've slimmed down and streamlined significantly.
Lawrence Ho:	27:04	Over the last few years, we've really embraced Kaizen and operational efficiency a lot more. Back in 2013, 2014 and 2015, during those bubble days, we were constantly looking to hire more and more people. That philosophy in terms of spending right, being cost conscious has helped. We were one of the early adopters and early people to embrace that.
Manish Sharma:	27:39	One quick question on this VIP versus premium mass. In the past, VIP and premium mass used to be quite correlated. When VIP goes down, premium mass goes down as well. This time around, it looks like VIP is going down fast, but premium mass seems to be holding its own. Is that something specific to Melco

and City of Dreams? Or do you think that's more of a market-wide phenomenon?

Lawrence Ho:	28:04	I think it's a market-wide phenomenon. We've been trying to explain to investors and stakeholders for the last 10 years because, like you said, people always thought that VIP and premium mass were the same customer base. And for the last few years, we kept telling people they're very different. The VIP, I guess, is a very misleading term because some of those guys aren't VIP at all. But they're playing through the junkets, and the junkets are lending money to those people.
Lawrence Ho:	28:41	If anything, the premium mass customers are the more sophisticated, more likely to travel to London, Paris, Europe, than are some of the junket-based guys, who are really purely there to gamble and borrow money to gamble. I'm not surprised to see the divergence of those two segments. Again, I think we predicted a lot of these things a bit too early. You can fault us for being too early in some of these ideas, but hopefully, it will continue to play out.
Ken Siazon:	29:20	Lawrence, for such a young guy, you've gone through a lot of volatility just in starting City of Dreams in 2009. Are there lessons learned, are there things that you would have done differently when you look back at the last 10 years of operating Melco?
Lawrence Ho:	29:44	For sure, part of our philosophy and our management philosophy is we really have to continue to look back to see what we've done well, and what we haven't done well. For me personally, we've done a lot of great stuff. But I have to admit, some of the things that I've built, some of the attractions that I've created and the shows we have were a bit too far ahead of our customer base.
Lawrence Ho:	30:17	Some of the things that I thought were ultra-cool were probably a few years ahead of where our guests' tastes were going. What I've learned in the last few years is that sometimes what I find cool might not be cool to our customers. We just need to merge and converge that a little bit more.
Lawrence Ho:	30:44	We're getting better and better at it. Ultimately, our guests and customers are the key. We need to build and have our services really revolve around what they like. At the same time, as a company, our philosophy is still that we want to be ahead of the curve, so that we continue to show them new and exciting things every time. But not too far ahead, which we were at certain points.

Ken Siazon:	31:17	Can we switch to capital allocation, which is a big reason why we love partnering with you? When we look at your track record of capital allocation over the last few years, whether it's through buying out joint venture partners at what we thought were value accretive prices, paying special dividends or buying back shares. Can you talk about how you think about the different options for capital allocation today? Maybe specifically about your most recent decisions to privatize the Philippines and to purchase a stake in Crown.
Ken Siazon:	31:57	Where do you see the opportunity set, today? We'd love to understand how you think about what the highest and best use of your free cash flow is today.
Lawrence Ho:	32:06	At Melco, our philosophy is that we will always be a growth company. So, we're always looking for growth opportunities. We've looked all over the world over the last 10 years for opportunities. But at the same time, we're also very cautious. We want to be cautious with our balance sheet, but also, we're very cautious with our brand, in terms of what we're doing.
Lawrence Ho:	32:34	And so with certain jurisdictions that potentially would have had a high ROI (return on interest), we've shied away from it because of regulatory concerns. We want to be regarded as a global player. The greatest opportunity for Melco, or any global gaming operators in our lifetimes, is going to be Japan. We've never wanted to do anything that would deviate from that mission.
Lawrence Ho:	33:05	Our priority will always be growth. But at the same time, we're also very bullish in terms of the places where we have invested: Macau, the Philippines and Cyprus. We will continue to try to deploy more capital in those places in a cautious and reasonable manner.
Lawrence Ho:	33:28	In terms of returning capital to shareholders, we've always been very open minded with regards to both share buybacks and dividends. We've increased our regular dividends for, I think, three straight years. So certainly, that would be a trend going forward. But I think our redeploying capital strategy will not take away from our growth opportunity.
Lawrence Ho:	33:59	I think on this latest Crown opportunity, we were really seeing assets that are iconic on a global basis, that can help with our portfolio.

Ken Siazon:	34:13	Following up on this Japan opportunity, I feel like you are much more bullish on this Japan opportunity than some of your competitors, who in recent weeks, have seemed to turn slightly more negative about the potential returns that they can get from Japan. I think you've mentioned in the past, that any casino is going to cost $10 billion or more. I think Orix basically said that it's going to cost $12 billion the other week for Osaka.
Ken Siazon:	34:47	Has your bullishness on the attractiveness of the Japan opportunity changed at all in the last few years?
Lawrence Ho:	34:56	No, not at all. We've been pursuing this Japanese opportunity from the beginning of Melco, really from 2005. It really hasn't changed, because ultimately, when you look at annual visitation or tourist visitation in Japan, it's still very low. It's around 30 million people.
Lawrence Ho:	35:21	When you compare that to even Macau, it's lower than Macau, and Macau is 28 square kilometers in radius. It's the size of seven Shinjukus. And you have the entire Japan, and Japan is quickly becoming one of the favorite travel destinations for mainland Chinese. We all know how big the middle class in mainland China is, together with the fact that the Japan economy is finally doing okay for the first time really in 20 years. Once that turns around, it's going to be significant again.
Lawrence Ho:	36:01	My view on Japan hasn't changed. If anything, we're as bullish as ever.
Ken Siazon:	36:07	How do you think geopolitics plays into the outcome for the winners? Does it put Melco at a disadvantage relative to, I don't know, US alliance partners?
Lawrence Ho:	36:22	Well, with these valuable licenses, of course, geopolitics will always play a big role because these are very limited, sacred licenses. But again, geopolitics is something that we can't control. The US-Japanese relationship versus the China-Japanese relationship is not something that we can do anything about.
Lawrence Ho:	36:51	What Melco is trying to do is really appeal, that based on our track record of our working history in Macau, the Philippines and Cyprus with the urbanization projects, that we would be their best partner. And demonstrating that we've done more work in the community than most of our partners. Those are things that we can control, and those are things where we will put our best foot forward.

Lawrence Ho:	37:24	I agree with you, from a geopolitical sense, it probably does put us at a disadvantage.
Ken Siazon:	37:32	Do you believe that a final consortium structure is going to end up being a situation where the operator is less than 50% owner?
Lawrence Ho:	37:41	I think it's highly likely. I think, looking at the MGM-Orix structure, it's a potential template for sure.
Ken Siazon:	37:52	I know you've recently declared the “Yokohama First” strategy. Was that a change? Or has it always been that way?
Lawrence Ho:	38:01	Internally, it's been that way for at least 12-18 months because we feel that the design we have for Yokohama, and also the community engagement that we've done there, had been much more effective. So internally, that had been the case. But again, we're very respectful of the Japanese process and also very respectful of where the local government is.
Lawrence Ho:	38:28	And in Japan, before the local government puts up their hand to say they were interested, it's actually not right to say you're focused on that city. Even though *internally* we had been working towards that, we didn't want to declare publicly until the mayor recently declared that Yokohama was in the race.
Ken Siazon:	38:55	Can we switch back to Macau for a little bit? Because a lot of our investor questions are always around license renewals. I would love to get your view as to what your expectations are on license renewals. Whether it means that there are going to be no new entrants? Just like geopolitics plays a role in Japan, do you think geopolitics plays a big role in license renewals as well in Macau?
Lawrence Ho:	39:26	It's hard to say because at the end of the day, this is the 20th anniversary of the Macau handover to China coming up in the next month. There's a new chief executive. He just announced his cabinet yesterday. This is all fresh off the press. We really have to see what the policy is.
Lawrence Ho:	39:52	I suspect Macau has always been very international and pragmatic in their approach, that they're going to recognize the contribution of the concessionaires over the last 20 years, in terms of developing Macau into an international tourism center. Even though I'm a CPPCC (Chinese People’s Political Consultative Conference) member, and I'm a Vice Chairman of the Chinese National Chamber of Commerce, I think these

		decisions are being made at the highest level in Macau, probably in consultation with China.
Lawrence Ho:	40:37	This is my personal opinion. I don't think anything drastic is going to happen, given the recognition of the contribution. But again, if geopolitics play a big role in Macau, it could swing things.
Manish Sharma:	40:56	Lawrence, switching focus to Melco International, the Hong Kong-listed entity where we are investors. The market seems to place a sizable holding company discount on that. I would love to get your thoughts on this discount. Does it make sense for the market to place this discount? Why does it fluctuate so much, and do you ever think that discount will ever fully close?
Lawrence Ho:	41:22	Well, I think the holding company discount at the Melco International level has moved around, between 20% to 40% at certain times. I don't know if it will ever narrow. Again, group wide between Melco International and Melco Resorts, we have been on a simplification drive over the last five years.
Lawrence Ho:	41:49	For instance, at the Melco International level, we have tried to divest and close down some of the legacy businesses that we've created over the last few years, to really focus on Melco Resorts. But at the same time, the mandate at Melco International is a little bit wide. Melco Resorts is clear, global gaming in key jurisdictions, and all gaming activities are going to be invested and operated at the Melco Resorts level.
Lawrence Ho:	42:25	The most recent deal that we did on Cyprus was really to continue the simplification drive. At Melco International, we still look at development projects that are non-gaming in China. I think in China, there's still a lot of initiatives, including most recently, the Greater Bay initiatives that the national government is pushing. There are non-gaming hospitality-based things that Melco is looking at as part of that. That's really the focus for the next few years.
Manish Sharma:	43:02	Do you think Melco International and Melco Resorts will exist as two separate entities 10 years from now?
Lawrence Ho:	43:10	Answering that question at this point in time, I would say yes. Because at the end of the day, the structure has been operating like this for the last 10, 15 years. I would say, yes, at this stage.
Manish Sharma:	43:29	Touching on infrastructure, like you mentioned just now, Macau and the Chinese government have invested a lot in

		infrastructure. Can you touch on the top two or three key infrastructure improvements that you're looking at as we speak? The Hong Kong bridge is a huge one. On top of that, this Lotus bridge immigration checkpoint could get busier with the high speed, Zhuhai-Macau rail link. Is that something you are excited about for Studio City?
Lawrence Ho:	43:54	Very excited. Again, we've been waiting for the infrastructure support for many years. It seems like in the last two years, everything is finally clicking. When we opened Studio City in October 2015, we had anticipated that the Lotus Bridge would be more frequented by visitors. A lot of that was predicated on the development of Hengqin Island.
Lawrence Ho:	44:24	Of course, Hengqin Island's development has been slower than anticipated. In the last two years, with the opening of the Hong Kong-Zhuhai-Macau bridge that has significantly improved accessibility into Hong Kong. With Hong Kong Airport being one of the best international airports in the world, you now have pretty much daily flights from all parts of China and Asia within a 30-minute drive to Macau.
Lawrence Ho:	44:59	I think the latest policy is that, as part of the Greater Bay initiative in China, they're really going to push more traffic into Hengqin. The Lotus Bridge visitation will increase significantly. Right now, I think less than 10% of the visitors coming into Macau use Lotus Bridge compared to the other ground border crossing.
Lawrence Ho:	45:21	Going forward, Lotus Bridge, with a lot traffic going into there, solves quite a number of the issues that the Macau government is having as well. Because there's overcrowding in residential streets, by diverting the traffic to Lotus Bridge and for people to go straight into Cotai, which is the main integrated resort area, that's going to alleviate that traffic congestion as well, and improve the lives of the daily, ordinary Macau citizens.
Lawrence Ho:	45:55	And even the train railways, Hengqin is going to be linked to Zhuhai. So, again, there are significant train and various other infrastructure improvements that are ongoing right now. The icing on the cake ultimately is going to be the development of the Greater Bay area. Once that's happening, Macau's already designated as the main tourism center within the Greater Bay. So, I think there's going to be significant benefits as well.
Manish Sharma:	46:30	That sounds exciting. There's a lot of new stuff coming up. On Hong Kong protests and China-US trade war, those headlines

		have hit your share price. But how have these really impacted the business as you see it?
Lawrence Ho:	46:47	The protests in Hong Kong have impacted business less. We haven't really seen anything. But it's really as you said, the US-China trade war has impacted business more. More so in a sense that the Renminbi currency devaluation has had an impact. Of course, even the middle class in China, when they travel and they're spending, they're very focused on how their economy is doing. With the uncertainty within the Chinese economy, it has caused some pullback.
Lawrence Ho:	47:27	But again, Melco has done quite well in the last 12-15 months since then, partly because we opened Morpheus as well. As you see in our latest quarter, we have significantly outperformed our competitors, as we've continued to ramp up Morpheus as part of City of Dreams Macau. The reorganization that we've done internally, and the team building, has worked out quite well.
Lawrence Ho:	47:56	Even though the rest of the industry has suffered, we've done very well and continue to grow on both a sequential and on a year-on-year basis.
Ken Siazon:	48:08	Can I follow up on Morpheus? When it launched last year, it started off slow, but it's really picked up in the past few quarters. Do you believe that this is the steady state run rate of Morpheus, or do you think that there's still more to come?
Lawrence Ho:	48:32	We certainly think there's more to come. Of course, when we first built it, we had hoped that the ramp up would be even faster because it wasn't a brand-new integrated resort. It was an additional tower, as part of City of Dreams. Thankfully, the last three to four quarters, we've seen some significant growth.
Lawrence Ho:	49:00	As part of integrating Morpheus, we've done significant renovation and remodeling at the existing City of Dreams facilities as well. There were a couple of quarters in there, where we had construction disruption. So, we're hopeful that this disruption trend is past, and we're on a great trajectory.
Lawrence Ho:	49:22	What I keep telling our colleagues on a daily basis is that there are other new supplies on the horizon, with our competitors the Londoner, the Four Seasons Suites and the St. Regis Suites. They're all going to be quality products on the horizon. How can we devise a strategy now, so that we remain the latest and greatest?

Ken Siazon:	49:48	When you think about business planning for next year, do you have any thoughts, and I think you said something about the VIP trend stabilizing, do you have any thoughts on next year what you're expecting for growth on the mass and VIP side?
Lawrence Ho:	50:09	The assumption changes on a monthly basis with the US-China trade war, and what's happening with that. But assuming a partial deal gets done, and things start to stabilize and the tariffs are rolled back gradually, and our customer base has more confidence in the Chinese economy and their earning power, we do think that mass will continue to have good growth next year.
Lawrence Ho:	50:48	I think VIP has stabilized. But what I mean by stabilized, it's probably flat to a minimal decline, rather than this year, where we've seen a double-digit decline.
Ken Siazon:	51:05	So, Lawrence, I don't know whether you're up for it, but I was wondering whether we could do 20 or so quick questions, very quickly?
Lawrence Ho:	51:12	Yeah, sure.
Ken Siazon:	51:13	Lawrence Ho, control freak or delegator?
Lawrence Ho:	51:16	Delegator.
Ken Siazon:	51:18	Lawrence Ho, intuitive or quantitative?
Lawrence Ho:	51:22	Intuitive.
Ken Siazon:	51:24	Lawrence Ho, patient or impatient?
Lawrence Ho:	51:27	Impatient.
Ken Siazon:	51:28	Revenue growth or return on incremental capital?
Lawrence Ho:	51:34	Revenue growth.
Ken Siazon:	51:35	Market share or return on assets?
Lawrence Ho:	51:40	Market share.
Ken Siazon:	51:42	Macau or Hong Kong?
Lawrence Ho:	51:45	Macau.

Ken Siazon:	51:47	Macau license renewal, same players or new players?
Lawrence Ho:	51:53	Same players.
Ken Siazon:	51:55	Macau, next five years, double-digit EBITDA growth or single-digit EBITDA growth?
Lawrence Ho:	52:02	Double-digit.
Ken Siazon:	52:04	Macau regulatory environment in the next five years, tougher or the same?
Lawrence Ho:	52:11	Tougher.
Ken Siazon:	52:13	Japan casino, LVS (Las Vegas Sands) or Wynn?
Lawrence Ho:	52:17	Melco.
Ken Siazon:	52:18	Melco. (laughs)
Ken Siazon:	52:21	A bigger worry, macro or geopolitics?
Lawrence Ho:	52:30	Geopolitics.
Ken Siazon:	52:32	Osaka license, MGM-Orix, or the other guys?
Lawrence Ho:	52:37	I think MGM-Orix.
Ken Siazon:	52:39	Melco HQ in five years, Macau or Japan?
Lawrence Ho:	52:43	Japan.
Ken Siazon:	52:45	Hong Kong dollar peg, peg or no peg?
Lawrence Ho:	52:49	I think there will still be a peg.
Ken Siazon:	52:51	RMB (Renminbi) in five years, higher or lower.
Lawrence Ho:	52:54	Higher.
Ken Siazon:	52:56	Chinese gaming in 10 years, onshore or offshore?
Lawrence Ho:	53:00	Offshore.
Ken Siazon:	53:01	Hong Kong economy in five years, better or worse?
Lawrence Ho:	53:06	Than right now?

Ken Siazon:	53:07	Yeah.
Lawrence Ho:	53:08	Better.
Ken Siazon:	53:10	Greater Bay Area in five years, more integrated or same?
Lawrence Ho:	53:15	It's got to be more integrated.
Ken Siazon:	53:18	Lotus Bridge in two years, biggest traffic gateway to Cotai or not?
Lawrence Ho:	53:26	Two years, not, but five years, probably, yes.
Ken Siazon:	53:30	Sushi or dim sum?
Lawrence Ho:	53:32	Sushi.
Ken Siazon:	53:34	Sake or baiju?
Lawrence Ho:	53:36	Neither, I don't drink.
Ken Siazon:	53:39	Ice hockey or basketball.
Lawrence Ho:	53:42	Definitely ice hockey.
Ken Siazon:	53:44	Thank you very much for your time.
Lawrence Ho:	53:46	Thanks a lot guys.
Gwin Myerberg:	53:50	Many thanks to Lawrence Ho for joining us today and to Ken and Manish for the fascinating discussion. Thank you as always to all our listeners for tuning into the Price-to-Value Podcast with Southeastern Asset Management.
Gwin Myerberg:	54:02	If you have any questions or would like to share topics that you would like to see us cover in future episodes, please feel free to send us an email at podcast@SEasset.com.