



October 4, 2018

**THE PHILIPPINE STOCK EXCHANGE, INC.**  
6/F PSE Tower  
5<sup>th</sup> Avenue corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City

Attention: **MS. JANET A. ENCARNACION**  
*Head of Disclosure Department*

Re: Report on Form 17-C

Dear Ms. Encarnacion:

We submit the SEC Form 17-C disclosure, as attached.

Thank you.

Very truly yours,

**MELCO RESORTS AND ENTERTAINMENT  
(PHILIPPINES) CORPORATION**

By:

A handwritten signature in blue ink, appearing to read 'MA'.

**MARISSA T. ACADEMIA**  
*Corporate Information Officer*

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE  
AND SRC RULE 17.2(c) THEREUNDER

1. **October 4, 2018**  
Date of Report (Date of earliest event reported)
2. SEC Identification Number **58648**    3. BIR Tax Identification No. **000-410-840-000**
4. **MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**  
Exact name of issuer as specified in its charter
5. **PHILIPPINES**  
Province, country or other jurisdiction  
of incorporation
6.  (SEC Use Only)  
Industry Classification Code:
7. **Asean Avenue cor. Roxas Boulevard, Brgy. Tambo, Parañaque City 1701**  
Address of principal office Postal Code
8. **c/o (02) 691-8899**  
Issuer's telephone number, including area code
9. **N/A**  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class

Number of Shares of Common Stock  
Outstanding and Amount of Debt Outstanding

**COMMON**

**5,685,571,666**

Outstanding Debt: PhP 2 billion note facility

11. Indicate the item numbers reported herein: **Item 9 – Other Events**

Please see attached Annex “A” for an announcement by the Company.

**SIGNATURE**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION**

By:



**MARISSA T. ACADEMIA**   
Corporate Information Officer

**October 4, 2018**  
Date

**FOR IMMEDIATE RELEASE****Responses of Melco Resorts and Entertainment (Philippines) Corporation  
to Queries regarding the Voluntary Tender Offer undertaken by  
MCO (Philippines) Investments Limited**

Manila, October 4, 2018 -- Melco Resort and Entertainment (Philippines) Corporation (“**MRP**”), an Integrated casino developer and a subsidiary of Melco Resorts & Entertainment Limited (NASDAQ:“**MLCO**”), responded to certain queries (“**Queries**”) regarding the voluntary tender offer (“**Tender Offer**”) to be undertaken by MCO (Philippines) Investments Limited (“**MCO**”) over shares of MRP. MRP has shared the Queries with MCO as the bidder for the Tender Offer and with FTI Consulting Philippines, Inc. (“**FTI**”), MCO’s independent valuer.

In response to such Queries, MCO would like to emphasize and reiterate the following points relating to the Tender Offer:-

*(a) Rationale of the Tender Offer*

As set out in the Tender Offer Report, the Tender Offer is conducted for the purpose of the voluntary delisting of MRP from the Main Board of the Philippine Stock Exchange (“**PSE**”). MCO believes that maintaining MRP’s listed status is no longer aligned with MRP’s future business and operations plans. MCO also believes that the Tender Offer, and the potential delisting of MRP from the PSE, would be beneficial to MRP and its shareholders as a whole due to the possible saving of costs required to maintain MRP’s listing status. MCO reiterates that the conduct of the Tender Offer or the potential delisting of MRP from the PSE, if approved, do not otherwise affect MRP’s continued operations in the Philippines or its commitment to the Philippine market;

*(b) Conduct of Tender Offer and request for voluntary delisting remain fully compliant with the relevant Philippine rules and regulations*

MCO maintains that the Tender Offer and the request for voluntary delisting of MRP are being conducted in full compliance with the Securities Regulation Code and its implementing rules and regulations and the PSE Rules on Delisting, respectively. As stated in MRP’s reply to the PSE’s request for clarification dated 26 September 2018, FTI is accredited by both the PSE and the Philippine Securities and Exchange Commission (“**SEC**”), and was certified as independent by the PSE for the purpose of issuing a fairness opinion. Further, as stated in the Tender Offer Report, under the PSE Rules on Delisting, MCO must acquire at least 95% of the outstanding capital stock of MRP for the PSE to consider and approve a petition for voluntary delisting. While it was also stated in the Tender Offer Report that in the event that MCO fails to obtain at least 95% of the outstanding capital stock of MRP in the Tender Offer, MRP will nonetheless proceed with the request for voluntary delisting, such request remains subject to the approval of the PSE. Each MRP shareholder shall have the right and full liberty to consider for itself whether or not to participate in the Tender Offer and MCO will fully comply with the applicable rules and decision made by the PSE on MRP’s petition to delist;



*(c) Right of MRP shareholders to consider and participate in the Tender Offer*

MCO submits that while shareholders and investors of MRP are entitled to express their views on what constitutes a “fair price” under the Tender Offer, the other minority shareholders of MRP are equally entitled to decide for themselves, and if thought fit, to tender their MRP shares in the Tender Offer that is and will be conducted in accordance with the relevant Philippine rules and regulations. Any further unnecessary delay or disruption to the Tender Offer will essentially deprive the MRP shareholders of their entitlements and rights as shareholders of MRP to consider and participate in the Tender Offer.

*(d) Deferral of commencement of Tender Offer*

As disclosed in MRP’s filing with the PSE on 1 October 2018, MRP was informed by MCO that it has agreed to defer the Tender Offer for a period of approximately two weeks from 1 October 2018 or until such time that it otherwise determines. Such deferral was requested to allow MCO to address the issues raised in the Queries in the form of this press release and give the shareholders of MRP and the potential investors appropriate time to digest this press release. MCO hopes that an appropriate deferral in the Tender Offer process will satisfactorily address the issues raised in the Queries but at the same time will not prejudice the rights and interests of MRP shareholders by any further undue delay or disruption to the Tender Offer process.

The following is MRP’s response to the issues raised in the Queries based on the information and responses provided to MRP by MCO (which has incorporated the opinions and responses provided by FTI):

**1. Tender Offer Price (“TO Price”) implies a forward EV/EBITDA multiple which is below comparable Philippine-based and Macau-based entities’ EV/EBITDA multiples.**

MCO believes that an analysis of comparable publicly listed companies is highly supportive of the TO Price. Evaluating other publicly listed companies is not simply an arithmetic exercise but requires judgment in order to analyze the data available and interpolate to a reasonable range of values as a conclusion. MCO believes that FTI’s analysis reached a thoughtful and reasonable conclusion.

There are reasons why companies trade differently from each other. By definition, the only perfect “comparable company” to any company is the company itself. Obviously, a company’s own recent trading history is viewed as highly relevant to informing valuation. Looking to other publicly listed companies allows one to make a judgment as to whether or not the valuation of the company determined by the public market appear consistent with the valuation the market has placed on other public companies that share certain characteristics. While the companies selected in a comparable companies analysis are publicly listed companies that share some similar business operations, characteristics and risks with the subject company being valued, they also have significant



differences. In reality, finding similar and perfectly comparable companies is a challenge, if not impossible.

For example, in the case of MRP, Macau-based listed entities are similar in that they are casino gaming companies operating in Southeast Asia. However, they are also extremely different in that they operate in a different country with a different base currency, regulator, licensing and tax structure. Macau is a more highly developed gaming market that benefits from being the largest gaming market in size and scale in the entire world. The Macau market has a history of strong growth and is viewed as enjoying a more stable business environment for gaming. The Macau companies have much larger market capitalizations and liquidity profiles. Based in part on these reasons, these companies are generally priced by the market at much higher EV/EBITDA multiples. One would expect that these companies command a premium vs. MRP.

MCO submits that the companies that are the most comparable and therefore the most relevant to MRP are the three other integrated resort operators based in Entertainment City in the Philippines.

All four of these companies face the same:

- competitive environment
- addressable customer base
- regulatory regime and regulator
- current and future gaming and corporate tax framework
- relicensing risk and the competitive risk of new licenses being issued to third parties
- labor pool and labor issues
- currency fluctuations

Of the four companies, only two, other than MRP, are publicly listed. One of the two companies, Travellers International Hotel Group Inc. experienced a tragedy last year and its operating performance has not yet recovered. MCO believes that it trades at an artificially high multiple today as its current value is primarily driven by its soon to be open next phase and significant and very valuable land bank. As such, its multiple has limited comparative value. On the other hand, MCO believes that Bloomberry Resorts Corp. (BLOOM), the owner of Solaire Resort & Casino is comparable to MRP. Even then, there are significant differences between BLOOM and MRP, as discussed below.

BLOOM and MRP operate properties located literally down the street from each other on Aseana Ave. Both benefit from having mature operations and being viewed by investors as good operators in the market. However, BLOOM has historically commanded a premium in its EV / EBITDA multiple valuation to MRP. MRP management has tried to market MRP to investors to reduce that gap but has largely been unsuccessful.

Investors often cite the following as a rationale for the premium given to BLOOM vs MRP:

- Straight forward ownership structure for BLOOM vs MRP which has a more complex financial arrangement and holding structure involving two different affiliates of the SM Group

MELCO RESORTS AND ENTERTAINMENT (PHILIPPINES) CORPORATION

CITY OF DREAMS MANILA, ASEAN AVENUE CORNER ROXAS BOULEVARD  
ENTERTAINMENT CITY, PARANAQUE 1701, MANILA, PHILIPPINES

T +632 800 8080 MELCO-RESORTS-PHILIPPINES.COM

3445-5478-6827, v. 2

- BLOOM / Solaire benefits from a premium beach front location
- BLOOM / Solaire benefits from a much larger 16 hectare site with ample room to build a second phase while MRP / COD Manila is maxed out on its 6.2 hectare site and will struggle to find a large contiguous area for expansion
- BLOOM / Solaire owns both its land (which, according to publicly available information, it purchased in June 2018 for Php 37.33 billion) and its buildings vs. MRP, which is a tenant; note that the land value alone is a large percentage of BLOOM's enterprise value
- Solaire has already announced expansion plans and secured building sites for (a) another phase contiguous to Solaire and (b) a new casino resort in a Quezon City

BLOOM's forward EV/EBITDA multiple as of 7 September 2018 (the last trading day prior to the Tender Offer announcement) is 8.58x. Based on the factors above, MCO believes that the views expressed by investors as demonstrated in the relative trading between BLOOM and MRP are relevant. MCO believes that MRP merits a discount to the EV/EBITDA awarded to BLOOM and the TO Price of 6.2x EV/EBITDA is consistent with public market valuations of the two businesses and the consequences of the factors listed above.

## **2. TO Price represents a discount to the “consensus fair value estimate” from sell-side analysts**

Independent sell-side analysts' fair value estimates are usually calculated as a 12-month target price. The target price would only be realized if the assumptions that went into its determination are met over the next twelve months, and the investor holds onto the stock and sells at the right time. Risks associated with buying and holding onto the stock are often cited in analysts' reports, giving investors a perspective of the specific risks associated with the stock possibly not reaching the target price.

The TO Price, on the other hand, is based on an evaluation of the fair price of the stock as of the present, taking into consideration current operating conditions, prevailing risk factors, and future prospects as MCO sees them now. Among other factors, MCO also considered the price action of the stock in the publicly traded stock exchanges as an indicator of value since it is a result of the collective view of market participants on how much the stock is worth, presumably based likewise on risk and return expectations by stock investors. The TO Price already represents a premium from the prevailing market price prior to the Tender Offer. The TO Price represents a 16.7% premium over the last closing share price on 7 September 2018 of Php6.21, an 11.2% premium over the six-month volume weighted average price (VWAP) and 14.2% premium over the three-month VWAP of MRP's common shares.

## **3. Tender Offer price is “unfair” since it is heavily discounted compared to previous offerings despite the expected turnaround in the revenues and profits of MRP.**

In MRP's reply to the PSE's request for clarification dated 26 September 2018, MRP (as notified by MCO) stated that the fact that the TO Price may be lower than an investor's acquisition cost does not, in and of itself, make the TO Price unfair. The follow-on offer prices of Php14 in 2013 and Php11.30 in 2014 was determined based largely on market demand for the investment resulting from a marketing

process conducted by international investment banks. These prices are reflective of market sentiment for the stock at that time, despite MRP incurring losses during the period. It is entirely reasonable that MRP enjoys better current operating metrics today but trades at reduced share price levels vs. prior periods. Early investors were basing investment decisions on the longer-term profit and growth potential of MRP, they were obviously not applying multiples to negative earnings. MCO does not believe that investors are comparing today's profits to past losses and selling the stock. Instead MCO believes that performance today is likely below expectations for a number of investors when they purchased the stock at higher price levels. Please note, while the company has started registering profits in recent months, MCO has not observed the stock price reaching prices as high as Php11 over the past three years. However, during the same period, MRP has traded as low as Php1.15. The market has a view of the current valuation of MRP stock due to a confluence of factors, not only in relation to MRP, but also the Philippine economy, domestic operating conditions, and the competitive dynamics in the gaming industry in the Philippines versus other markets. This view will constantly evolve as conditions change.

#### **4. Reliability of FTI's Fairness Opinion report**

FTI has exercised diligence and reasonable care in conducting its valuation and fairness opinion report, which involves using professional judgement in selecting appropriate valuation methodologies, as well as the inputs required for the study. MCO has been informed by FTI that it has followed the relevant guidelines of the PSE and the International Valuation Standards (IVS) in the conduct of this study.

In relation to the valuation matters raised, MCO addresses them below:

##### **a. Discount Rate: WACC, Cost of Equity, Beta and Alpha Risk Premium**

MCO believes that the Cost of Equity (17.56%) and WACC (15.56%) calculated by FTI as of the 30 June 2018 valuation date are reasonable. Recent reports published by sell-side analysts vary widely in terms of the discount rates and inputs used to value MRP, with some using betas as high as 2.3, cost of equity of 18%, and WACC of 16%. The inclusion of a 2.5% alpha risk premium is also reasonable. In fact, on 31 March 2017, MCO's affiliate company commissioned a third-party international firm to conduct an independent report on the cost of capital of City of Dreams Manila. The report included a specific company risk premium of 3.0%, which is even higher than FTI's assumption of 2.5%. The report concluded with a 18.54% cost of equity as of that date.

##### **b. Guideline Public Companies Method**

FTI conducted a comprehensive screening process to identify comparable companies using Thomson Reuters' Eikon, which is thoroughly discussed in its Fairness Opinion report. Further, inputs used to calculate WACCs of the comparable companies were likewise lifted from Eikon.

As mentioned above, comparable companies are publicly listed companies that exhibit similar business operations, characteristics and risks with the subject company being valued. Due to the inherent difficulty in finding truly comparable companies, adjustments on the multiples of the selected





comparable companies had to be made to account for differences in risk profiles. FTI notes that adjustments to multiples are allowed under IVS.

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**About Melco Resorts and Entertainment (Philippines) Corporation**

Integrated casino developer Melco Resorts and Entertainment (Philippines) Corporation is a company listed on the Philippine Stock Exchange with trading symbol of “MRP”. It is a subsidiary of Melco Resorts & Entertainment Limited (NASDAQ:“MLCO”), the developer, owner and operator of casino gaming and entertainment casino resort facilities in Asia. It developed City of Dreams Manila, which is managed and operated by Melco Resorts Leisure (PHP) Corporation. For more information about Melco Resorts and Entertainment (Philippines) Corporation, please visit: [www.melco-resorts-philippines.com](http://www.melco-resorts-philippines.com).

**For investment community, please contact:**

Richard Huang  
Director, Investor Relations  
Tel: +852 2598 3619  
Email: [richardlshuang@melco-resorts.com](mailto:richardlshuang@melco-resorts.com)

**For media enquiries, please contact:**

Chimmy Leung  
Executive Director, Corporate Communications  
Tel: +852 3151 3765  
Email: [chimmyleung@melco-resorts.com](mailto:chimmyleung@melco-resorts.com)