Case 30

Wynn Resorts, Ltd.

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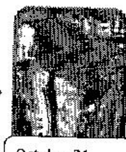
ROAD TO GOLD TIMELINE

October 25, 2002
• IPO NASDAQ, WYNN



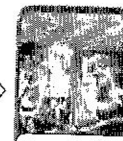
October 31, 2002
• Groundbreaking of Wynn Las Vegas

April 28, 2005
• Doors Open at the Wynn Las Vegas

September 6, 2006
• Doors Open at the Wynn Macau

December 15, 2007
• 2nd phase of Wynn Macau is Complete

2009
• Expected Completion of the Encore Las Vegas Diamond Suites



Future
• Wynn Resorts on the Cotai Strip

"KNOW WHEN TO HOLD 'EM, KNOW WHEN TO FOLD 'EM"

1 Millions of people travel to Las Vegas each year with big dreams of hitting the jackpot; most of them leave Las Vegas empty handed, heartbroken, and even further in debt. Very few people win big, and even fewer make their lives' fortune in 'Sin City'; Steve Wynn is one of the lucky few who has. From humble beginnings with a family run bingo parlor in Maryland, to Chief Executive Officer and Chairman of Wynn Resorts LTD, premium destination, world class Casinos and Resorts. Seen by many in the entertainment industry as a visionary, Steve Wynn has revolutionized the City of Las Vegas one casino at a time.[1]

2 From small stakes in the Frontier Hotel in 1967 as a newcomer to Vegas; to upping the ante with a complete renovation of the Golden Nugget from a dingy downtown Vegas casino to a four star resort and gaming facility. Mr. Wynn was not satisfied with his accomplishment of attracting high net worth clientele to downtown Vegas; he had dreams of expanding his casino empire, starting with a twin Golden Nugget Resort in Atlantic City a rival gambling destination. Also on his repertoire of great successes are the magnificent Mirage (1989), Treasure Island (1993), and the breathtaking Bellagio (1998). After what was considered the largest merger in the gaming industry's history, the Mirage became a part of MGM, Inc. for $6.4 million. Steve Wynn stepped down as Chairman and CEO and set his sights on developing his largest casino resort yet, the Five Diamond Wynn Las Vegas.

3 Wynn Resorts LTD owns and operates the Wynn Las Vegas, NV, and the Wynn Macau, a casino resort located in the Macau Special Administrative Region of the People's Republic of China. The company is in the process of developing an expansion to the Wynn Las Vegas,

Source: The authors would like to thank Khalifa Al Jalahma, Erin Cavanaugh, Sevgi Eason, Gary Held, Kelley Henry, John Kinnecome, Deb Lahteine, Antoinette Paone, and Farah Syed and Will Hoffman for their research. Please address all correspondence to Dr. Alan N. Hoffman, MBA Program Director, LaCava 295, Bentley College, 175 Forest Street, Waltham, MA 02452; ahoffman@bentley.edu. Printed by permission of Dr. Alan N. Hoffman.

[1] http://www.investingvalue.com/investment-leaders/steve-wynn/index.htm

the fact that overall sales have been increasing. It is likely that this trend will continue unless Whole Foods starts to focus on growing sales within the stores they have and not just looking to increase overall sales by opening new stores. It is also increasingly difficult to find appropriate locations for new stores that are first and foremost in an area where there is limited competition and also to have the store in a location that is easily accessible by both consumers and the distribution network. Originally Whole Foods had forecast to open 29 new stores in 2010 but this has since been revised downward to 17.

55 Opening up new stores or the acquisition of existing stores is also costly. The average cost to open a new store ranges from \$2–\$3 million and it takes on average 8-12 months. A lot of this can be explained by the fact that Whole Foods custom builds the stores which reduces the efficiencies that can be gained from the experience of having opened up many new stores previously. Opening new stores requires the company to adapt their distribution network, information management, supply and inventory management and adequately supply the new stores in a timely manner without impacting the supply to the existing stores. As the company expands this task increases in complexity and magnitude.

56 The organic and natural foods industry overall has become a more concentrated market with few larger competitors having emerged from a more fragmented market composed of a large number of smaller companies. Future acquisitions will be more difficult for Whole Foods as the FTC will be monitoring the company closely to ensure that they do not violate any federal antitrust laws through the elimination of any substantial competition within this market.

57 Over the last number of years there has been an increasing demand by consumers for natural and organic foods. Sales of organic foods increased by 5.1% in 2009 despite the fact that U.S. food sales overall only grew by 1.6%.[13] This increase in demand and high margin availability on premium organic products had led to an increasing number of competitors moving into the organic foods industry. Conventional grocery chains such as Safeway have remodeled stores at a rapid pace and have attempted to narrow the gap with premium grocers like Whole Foods in terms of shopping experience, product quality, and selection of takeout foods. This increase in competition can lead to the introduction of price wars where profits are eroded for both existing competitors and new entrants alike.

58 Unlike low-price leaders such as Wal-Mart, Whole Foods dominates because of its brand image, which is trickier to manage and less impervious to competitive threats. As competitors start to focus on emphasizing organic and natural foods within their own stores, the power of the Whole Foods brand will gradually decline over time as it becomes more difficult for consumers to differentiate Whole Foods' value proposition from that of their competitors.

[13] Organic Trade Association http://www.organicnewsroom.com/2010/04/us_organic_product_sales_reach_1.html

called The Encore Diamond Suites. In addition, the company continues to explore opportunities to develop additional gaming or related businesses in other markets, both domestic and international.

4 The officers of the company include the following:

- *Stephen A. Wynn*
  Chairman of the Board and Chief Executive Officer
- *Marc D. Schorr*
  Chief Operating Officer
- *John Strzemp*
  Executive Vice President and Chief Administrative Officer
- *Matt Maddox*
  Chief Financial Officer and Treasurer

5 As mentioned, Mr. Wynn was previously the Chairman of the Board, President, and CEO of Mirage Resorts. In 1997 under his leadership, Mirage Resorts was ranked by Fortune magazine as the second most admired company among American companies; it was also rated in the top three for innovativeness and quality for their product and services. Steve Wynn is a man who is obsessed with details and continuously strives for perfection.

6 The Wynn Las Vegas Resort & Casino, which opened on April 28, 2005. The property, which encompasses 217 acres of land, is located at the intersection of the Las Vegas Strip and Sands Avenue. The resort not only features an 111,000 square foot casino with 137 table games, but also luxury hotel accommodations in 2,674 hotel rooms and suites, 36 fairway villas, and 6 private entry villas. The property offers its guests 18 restaurants, a Ferrari and Maserati car dealership, 76,000 square feet of high-end retail shops, recreational facilities including an 18-hole golf course, five swimming pools, full cabanas, a full service spa and salon, and lavish nightlife (nightclubs and lounge entertainment). The Wynn Las Vegas has been described on the strip as "intimate," since it is significantly smaller than some of its competitors' structures. Because of the demand for the services provided by Wynn Las Vegas, The Encore Diamond Suites are currently in development. Encore will be located on the Strip, adjacent to Wynn Las Vegas and is expected to be completed in 2009.

7 Wynn Resorts is constantly looking for additional locations and opportunities to expand both domestically and internationally. In addition, Wynn is currently looking at opportunities for possible resorts in the Philippines as well as expanding into new markets, such as horseracing.

WHO IS THE PIT BOSS?

8 The greatest operational strength of Wynn Resorts LTD is the founder himself, Steve Wynn. With over 30 years experience in Las Vegas, this man has contacts, alliances and knowledge that could not be easily replaced. As told by a bartender at Wynn Las Vegas, Mr. Wynn continues to be a very hands-on CEO. He can be seen regularly on the casino floor talking with customers and employees. His passion for perfection can be seen throughout Las Vegas, from the Golden Nugget on Fremont Street to the Bellagio, and including the Wynn Casino, which shares his name. When talking about the Wynn Macau and its scale in comparison to some of the other casinos, Mr. Wynn stated, "Bigger ain't better. Better is better." This is the idea that lays the foundation on which Wynn Resorts relies to differentiate their resorts from those in direct competition.

9 Many of the other senior executives joined Mr. Wynn when he left The Mirage. The management team at Wynn Resorts has a tremendous amount of experience with building quality resort casinos. As Wynn Resorts continues its growth, the combined experience of these individuals will ensure the resort continues to build world-class operations.

10 If Steve Wynn left the company for any reason other than death or a severe disability, the resort would lose all lines of credit. Although Mr. Wynn is an operational strength, the company's complete dependence on him is a significant weakness. *"Our ability to maintain our competitive position is dependent to a large degree on the efforts and skills of Stephen A. Wynn, the Chairman of the Board, Chief Executive Officer, and one of the principal stockholders of Wynn Resorts."*[2]

ACES WILD

11 "The US tourism industry is the third-largest retail industry after automotive and food stores, according to the TIA. Travel and tourism is also one of the nation's largest services export industry."[3]

12 The hotel/tourism industry has changed in the recent years, due to possible threats of terrorism and cutbacks in consumer spending on travel. Post September 11, the US was forced to introduce more strict visa requirements as well as more meticulous passport requirements. These requirements started on January 1, 2007. Recent escalating airline fuel costs have also brought airfare increases. These changes impact the number of people who choose to travel and vacation farther away from home, thus affecting the overall industry.

13 There are many opportunities in the gaming industry from a social and demographic vantage point. As the legalization of gambling is spreading in the US, the social acceptance of the pastime is beginning to spread as rapidly. In the past, gambling has been negatively tied to addiction and corruption, but today gambling is being seen more and more as a socially acceptable and fun recreational activity, especially among the elderly.

14 In 2006, the Las Vegas strip had 38.9 million visitors, and Wynn Las Vegas enjoyed 94.4% occupancy at its 2,716-room hotel, far exceeding the area's average.[4] Wynn Resort's brand is synonymous with luxury in the casino market, and it capitalizes on this reputation, appealing to the high-end market.

15 Based on demographic trends in the US, Wynn Las Vegas is in the right industry at the right time. In a report provided by *Mintel Research* on Casino and Casino-Style Gambling, they note that the population is aging, which is good news for the industry; as people get older, it is believed that they are more likely to gamble. "Overall, the US population is growing older . . . Casino gambling is very much a sport of a graying generation. Retirees and empty nesters typically enter casinos with a disposable income, financial security, and free time."[5] Currently in the US, the baby boomers are in the process of retiring, they are healthier and wealthier than earlier generations, and have greater spending power. As the boomers retire, they are spending more money on leisure and recreation, and they are piling into the casinos. This growing market segment represents an opportunity for the gaming industry and for Wynn Resorts more specifically.

[2] Schuman, Michael, "Egos Bigger than China," *Time*, Vol. 168, Issue 7, October 23, 2006.

[3] "The North America Hospitality and Tourism Sectors." *Mergent Industry Report*. October, 2006.

[4] "Wynn Resorts, Limited: Form 10-K" *United States Securities and Exchange Commission*. Filed 31 December 2006. Available Online. Thompson Research.

[5] "Casino and Casino-style Gambling-US-November 2006." Available Online. http://academic.mintel.com.ezp.bentley.edu/sinatra/oxygen_academic/search_results/show&/display/id=177167/display/id=247080

16 There are a few social and demographic threats that Wynn Resorts must watch and take into account. Firstly is that the social norms in the United States differ from those in practice in Macau and should not be universally applied. The occupancy rate at the Wynn Macau resorts is 80%, which is significantly less than that of the Las Vegas resort.[6]

17 Of those that visit Macau, only 25% actually stayed overnight. Those that did stay overnight tended to stay for a short period of time (1-2 nights). This is significantly different than the average visitor in Las Vegas. While Wynn is investing in expansion of the Macau facility, it is important to bear in mind this distinction. While Macau visitor behavior may change, analysts agree that it will not happen overnight. Investing in the hotel arena may not be a safe bet for Wynn and other casinos.[7] Wynn's ideal client is what is referred to as a "whale," aka the risk-friendly, deep-pocketed, high-roller gambler. With increased global competition, it will be imperative for Wynn Resorts to maintain its social status and high brand image to attract and retain the "whale" customers. If they go elsewhere, it will be a substantial loss for the company.

PUT ON YOUR POKER FACE

18 Within the gaming and resort entertainment industry there are many competing properties including, The Mirage, Las Vegas Sands, The Venetian, Paris, and The Bellagio, to name a few. Each casino has its own theme, which attracts a significant number of visitors and directly competes with the Wynn Las Vegas.

- *Ameristar Casino* has casinos in St. Charles, Kansas City, Iowa, Blackhawk, Vicksburg, Cactus Petes and Horeshu. They have established themselves as the premier gaming and entertainment facility in these areas.
- *MGM Mirage* owns featured resorts such as The Mirage, Bellagio, Mandalay Bay, and Luxor just to name a few.
- *Las Vegas Sands Corporation* is one of the leading international developers of multi-use integrated resorts. The company owns The Venetian Resort Hotel Casino, the Sands Expo and Convention Center in Las Vegas and The Sands Macau in the People's Republic of China (PRC) Special Administrative Region of Macau. The company has recently opened 2 new resorts in 2007, The Palazzo Resort Hotel Casino in Las Vegas and The Venetian Macau Resort Hotel Casino in Macau. They are also developing the Cotai Strip, a development of resort casino properties in Macau, and were selected by the Singapore government to build The Marina Bay Sands, an integrated resort scheduled to open in Singapore by the end of 2009.
- *Boyd Gaming Corporation* is one of the premier casino entertainment companies in the United States. They have operations in Illinois, Indiana, Louisiana, Mississippi, New Jersey and Nevada.
- *Harrah's* owns, operates, and/or manages about 50 casinos, Bally's, Caesar's, Harrah's, Horseshoe, and Rio just to name a few. The majority of the casinos are based primarily in the US and the UK. Operations include casino hotels, dockside and riverboat casinos, and Native American gaming establishments.

[6] "Wynn Resorts, Limited: Form 10-K" *United States Securities and Exchange Commission.* Filed 31 December 2006. Available Online. Thompson Research.

[7] Cohen, Muhammad. "No Sure Thing". *Macau Business.* December 2006. Available Online. http://www.macaubusiness.com/index.php?id=634

19 Steve Wynn feels unaffected by competition, as he believes his casinos cater to travelers who have higher demands. Wynn's main focus is to target high-end players with fancy new suites and baccarat tables. Wynn focuses on differentiating itself by concentrating on the atmosphere and design of the resorts and by enhancing customer service and luxury as a full service provider.

20 The timing could not be better for Steve Wynn to start something new. The $9.4 billion merger between Harrah's and Caesar's Entertainment along with MGM and Mandalay Bay coming together give Wynn several top managers to choose from when developing his casinos. In addition, due to such mergers, it could be expected that casinos like Harrah's, which traditionally target middle-market gamblers, will reduce their focus away from the Caesar's Palace high-end customer to target the middle-class gambler. Such a move could result in additional revenues for Wynn as such gamblers will look to Wynn Resort for higher-class amenities.

21 In general, rival casino operators say that new properties are good for Vegas because they create more reasons for people to come to town. Behind the scenes, however, they compete for the kind of gamblers who feel comfortable betting $10,000 or more per hand. MGM may already have launched its counteroffensive. "They're throwing tons of events, shopping sprees, baccarat tournaments, fishing trips," says Steve Conigliaro, an independent businessperson who hosts high rollers at various casinos. "Steve Wynn is going to take some business away. He knows what people like." "The idea of this building was to create extended spaces, to bring the outdoors inside, and to transport the guest into another realm," said spokesperson Denise Randazzo. "The real difference here is that we save all the really amazing features for the resort guests."[8]

LUCK OF THE DRAW

22 In the resort casino industry, the ability to find land and licenses in legal areas is very difficult as many countries have strict regulations around gaming resorts. Gaming licenses are difficult to obtain due to government regulations and limited availability. It is arguably more difficult to find a location that not only can support the size but also meets the legal requirements of that location. Today, Wynn Resorts LTD has a premier spot on the Las Vegas strip that is also home of the strip's only golf course. Wynn is also the holder of one of only four licenses in Macau. Having such scarce resources provides the company with a remarkable advantage.

23 Regulations regarding expansion in China remains questionable and could potentially be a barrier to entry. In Wynn Reports 10-K, they note certain risk factors for the company including the fact that their concession in Macau effectively expires in June 2017, at which time the government in Macau has the right to take over their operation. The company also notes that there are currently only three gaming concessions granted until 2009; if the government in Macau were to revise this situation by granting more concessions they would in essence alleviate this particular barrier to entry for other casinos and Wynn could potentially see more competition in the area.

24 Macau, an island located 37 miles southwest of Hong Kong and an hour ferry ride away, has become a popular gaming destination. At this time, there are 24 operating casinos in Macau with several others in the construction and development phase. Sociedade

[8] Freiss, Steve. "In Las Vegas, a $2.7b haven for high rollers." Boston Globe. April 29, 2005.

de Jogos de Macau (SJM) owns and operates 17 of these 24 casinos. "Most are relatively small facilities" and not on the high-end like The Wynn. However, they control three of the largest casinos in Macau: the Hotel Lisboa, The Greek Mythology Casino and the Jai Alai.[9]

25 Currently, Wynn Macau is charged a 35% tax on gross gaming revenue, and they are forced to contribute up to 4% of gross gaming revenue for the promotion of public interests, social security, infrastructure, and tourism in Macau.[10] If regulations were to change and taxes were lowered, Wynn Resorts would be able to retain more of its earnings.

26 Currently, the Chinese government does not allow casinos on its mainland, only Macau,[11] so the breaking of the casino monopoly in Macau has provided to be an enormous growth opportunity for Wynn Resorts.[12] The government of Macau is trying to turn Macau into the "tourist destination of choice" in Asia.[13] In 2002, the 'government-sanctioned' casino monopoly in Macau ended when the government granted concessions to three outside companies to operate casinos in Macau. Each of the three was allowed, with the approval of the government, to grant one sub-concession to another gaming operator.[14] If this legal situation were to occur in other areas of the globe, it could provide additional global growth opportunity for Wynn Resorts. Under the concession granted to Wynn Resorts, Wynn is able to develop an unlimited number of casino resorts in Macau with the government of Macau's approval.[15] This legal opportunity provides significant value for Wynn Resorts since they are one of a select few with such a right. In addition, since a limited number of companies have casino operating rights in Macau, Wynn is operating in a somewhat restricted competitive environment because they hold one of those six gaming licenses.[16]

27 Recently, Wynn Resorts was granted concession for its land application for 52 acres in Macau's Cotai Strip. This legal right is essential for Wynn Resorts future expansion plans. Stephen Wynn stated in Wynn Resorts third quarter 2007 conference call that he plans to build "the most beautiful hotel on the earth in Cotai." Currently, the designs include a 1,500 to 2,000 all-suite hotel to occupy all 52 acres, and Stephen Wynn stated this hotel will have things that have never been seen before; it will be expensive but "it will be an experience."

28 The Chinese government has and is expected to continue to relax restrictions on travel and currency movements between China and Macau. Thus far, by relaxing its currency and travel restrictions, Chinese citizens from certain urban and economically developed areas are able to visit Macau without a tour group, and they are now allowed to bring an

[9] "Wynn Resorts, Limited: Form 10-K" *United States Securities and Exchange Commission.* Filed 31 December 2006. Available Online. Thompson Research.

[10] "Wynn Resorts, Limited: Form 10-K" *United States Securities and Exchange Commission.* Filed 31 December 2006. Available Online. Thompson Research.

[11] Tan, Kopin. "Gambling on LVS, Wynn in Macau." 25 November 2007. Available Online. http://online.wsj.com/article/SB119594535268803103.html?mod=googlenews_wsj.

[12] "Macau Wow." *Economist.* 1 September 2007. Vol. 384, Issue 8544, Pg 62. Available Online. Business Sources Premier.

[13] "Wynn Resorts, Limited: Form 10-K" *United States Securities and Exchange Commission.* Filed 31 December 2006. Available Online. Thompson Research.

[14] Ibid.

[15] Ibid.

[16] "Wynn Resorts Ltd: Stock Report." *Standard & Poor's.* 22 September 2007. Available Online. www.etrade.com.

increased amount of money into Macau; this will possibly boost the profit potential for Wynn Macau.[17] If the Chinese government continues to loosen its restriction on travel and currency, tourism to Macau will grow and the profit potential for Wynn Resorts will increase.

29 In 1999, Portugal retuned Macau to Chinese control after 450 years of Portuguese control. Macau's legislative, regulatory, and legal institutions are still in a phase of transition since this change in control occurred less than eight years ago.[18] The long-term success of Wynn Macau will depend on the successful development of the political, economic and regulatory framework in Macau. Wynn Resorts could be affected if an unfavorable environment develops in Macau.

30 By doing business in an emerging market, there are significant political, economic and social risks for Wynn Macau.[19] For example, domestic or international unrest, health epidemics such as the bird flu, terrorism or military conflicts in China or Macau will drastically affect Wynn Macau by not only reducing the inflow of customers from a decrease in tourism, but also, by decreasing discretionary consumer spending and by increasing the risk of higher taxes and government controls over gaming operations.

31 Furthermore, under Wynn Resorts agreement with the government of Macau, the government has the right at any time to "assume temporary custody and control over the operation of a casino in certain circumstances."[20] The ability of the government to take control of the casino at any time it deems appropriate is a significant threat to the success of Wynn Resorts since it could lose control of its operations in Macau.

32 Additionally, Wynn Macau is subject to the strict regulatory controls by the government, which limits their freedom of operations and creativity. For example, one of the regulations requires them to have an executive director who is a permanent resident of Macau and holds at least 10% of the company's capital stock.[21] The Macau government must approve this executive director and any successor, and they have to approve all contracts for the management of the casinos operation in Macau. This is just one example of the type of restrictions and the level of control the government holds over Wynn Macau.

33 The Macau land concession poses additional threats to Wynn Resorts. Under the agreement, Wynn Macau is leasing the 16-acres from the government of Macau for 25 years. The government of Macau may redeem the concession beginning June 24, 2017 and Wynn Macau will be entitled to fair compensation based on the amount of revenue generated during the previous tax year.[22] If the government takes back the land, the long-term plans of Wynn Resorts would be derailed, possibly leaving them with high debt and no means to repay. However, if the government does not take back the land, the concession may be renewed but the semi-annual payments to use the land could substantially increase, taking away from Wynn's bottom line.

34 After April 1, 2009, the government of Macau has the right to offer additional concessions for the operation of casinos in Macau.[23] If additional concessions are granted, Wynn Macau will face further competition since these competitors already own land in Macau but do not have concession to build yet. In addition, if the efforts to legalize gaming in Thailand

[17] Ibid.
[18] Ibid.
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Ibid.
[23] Ibid.

or Taiwan are successful, Wynn will face additional competition from the surrounding area.[24] This competition will draw away customers, it will reduce the level of potential profits, and Wynn Macau could lose key employees to more attractive employment opportunities elsewhere in Asia.

35 Another threat exists in the possibility of Wynn Resorts being unable to collect on its gaming debts. This could have a significant negative impact on Wynn Macau's operating results if the company cannot collect their earnings. In Macau, taxes are due on gross gaming revenue regardless of whether revenue was actually collected. In essence, Wynn Macau would have to pay taxes on money it never received if it was unable to collect on the debt.[25]

36 As the competitive environment in Macau increases, the available employee talent pool will decrease which could hamper future expansion plans in Macau. Wynn Resorts will need to petition the government to allow visas for more immigrant workers, and if they are unable to do so, they run the risk of having employees who cannot run the facilities. If Wynn is successful, the strict immigration laws will take time to change that could threaten Wynn's future in Macau.

37 Wynn Resorts has positioned itself well in the growing gaming markets, particularly in Macau. The development of a casino in this area is a strategic opportunity. From an economic standpoint, Macau's GDP has grown nearly 30% in the first two quarters of 2007. The growth in gambling has also resulted in increased foreign investment in the area. US exports to Macau have seen a tremendous increase as well.[26]

38 Macau's GDP growth is not likely to be sustainable. With increased competition in the region, Wynn's first-mover advantage will be diminished. Also, the company only has two casinos producing revenue, and with development efforts underway on their next projects, cash flow is undoubtedly going to be an issue.

PUT YOUR MONEY WHERE YOUR MOUTH IS

39 One of Wynn Resorts LTD's greatest marketing strengths is strategic development of its product. The product that Wynn sells is a luxury destination experience that makes the customers feel pampered and valued through high-quality amenities and customer service. This lavish experience allows consumers to justify spending significant amounts of money gambling, dining, drinking, shopping, and at the spas. The company strategically developed the Wynn brand name to be synonymous with high-quality goods and services. Continuous promotion of the brand is part of Wynn's overall company strategy.[27]

40 Steve Wynn is known for raising the luxury bar in Las Vegas. The packaging of Wynn's product is the glitz and glamour of its hotels, casinos, restaurants and shops (such as a Ferrari and Maserati dealership). As a customer enters the lobby of a Wynn hotel, they are instantly struck with grandiose decor. This feel extends throughout the hotel in the hallways, hotel rooms, suites, villas and private-entry villas. The casino takes flash and glitz to another level and a mere glimpse of the lights and sounds would make any customer excited to gamble. The casino floor is designed specifically for the high-end customer and contains

[24] Ibid.

[25] Ibid.

[26] "Macau." *BuyUsa.Gov.* 18 September 2007. Available Online. www.buyusa.gov/hongkong/en/macau.html

[27] Wynn 10k.

many private VIP areas and high roller tables. These special areas and tables further contribute to the high-end customer experience.

41 The resort is able to charge a premium price due to the clout of the Wynn name, the high-income base of its customers and the high quality of its products and services. In 2006, Wynn generated the highest room rate on the Las Vegas Strip. The average room rate for the quarter ending December 31, 2006 was $291, with the next highest being the Bellagio at $260 and then the Venetian at $243.[28]

42 Wynn is further segmenting the high-income customer market with the introduction of Encore at Wynn Las Vegas, an all-suite hotel with its own casino, restaurants, nightclub, pool and spa. This product layering allows Wynn to capitalize on the "celebrity" obsession with Las Vegas. Encore at Wynn Las Vegas will be superior to Wynn Las Vegas in luxury, amenities, and of course, price. This will serve to keep out people that cannot afford the price and will be attractive to elite customers who seek privacy as well as luxury.

43 Steve Wynn is by no means a newcomer to Las Vegas and he knows the importance of strategic placement on the Vegas Strip. Wynn owns 235 acres on the strip, which houses hotels, casinos and a golf course, the 'only' golf course on the strip. Wynn was also strategic in its purchase of land in Macau and Cotai obtaining significant portions of land in the middle of all the excitement.

44 Wynn has been successful in the past with direct marketing to its high-end target customer. This past year, it has expanded its promotion to include various media channels such as print media, radio and television.[29] Wynn Macau provides the opportunity for cross marketing with Wynn Las Vegas. Since the target market segment in both Wynn Las Vegas and Wynn Macau is high income, its customers have the resources to travel and vacation in other parts of the world, which can make cross marketing very effective. Wynn is the only gaming operator to target high-end customers in both Las Vegas and Macau.[30] Wynn Las Vegas already has a strong client base of Asian customers and Macau provides the opportunity to increase this customer segment. Wynn recognizes that the Chinese economy is on the rise and that the population is becoming increasingly educated and wealthy. The "premium customer" in China, those in the top income brackets, will increase to approximately 180-200 million over the next 10 years.[31]

45 Since Wynn has the highest rates on the strip, it would be tough to extend its customer base beyond high-end clients. In addition, the already high prices may cause Wynn to increase rates at a slower percentage per year than other hotels on the strip. For the quarter ended December 31, 2006, Wynn's average room rate increased 4.4% from 2005 to 2006 while competitors' rates increased from 5.0% to 9.5%.[32]

46 Wynn faces the challenge of understanding the customer in Macau and other global markets. In order to accomplish this, Wynn has marketing executives located in offices around the world. However, a sole marketing executive in strategic global locations may not be sufficient to conduct thorough market research and adjust the product as necessary. Lastly, focusing solely on the high-end market can be a marketing weakness in that Wynn is missing a large customer base of middle-income clients. This segment includes vacationers and younger people looking for a relatively inexpensive place to stay with the understanding that most of their budget will go to dining and entertainment.

[28] Kramer, Ron. *Wynn Resorts,* Bear Stearns Retail, Restaurants and Consumer Conference, March 1, 2007

[29] Wynn 10k.

[30] Kramer, Ron. *Wynn Resorts,* Bear Stearns Retail, Restaurants and Consumer Conference, March 1, 2007

[31] Ibid.

[32] Ibid.

47 When a customer pulls into the Wynn entrance off the Las Vegas or Macau strip, the feel is that of just being removed from a busy crowded city street and dropped into a tropical paradise. As you enter the casino, you are surrounded by beautiful flower gardens, and soothing sounds of water. Though close in the distance are the sounds of the casino floor, a gaming atmosphere is not the first to strike you. Wynn resorts makes their customers feel at ease by inviting them to relax and enjoy the serene surroundings. In the restaurants, specifically the Mediterranean themed Bartolotta's, the renowned chef comes out and interacts with the diners. Every moment in the casino and each interaction with staff are designed to be the ultimate customer experience. The staff is focused on giving the customer a luxury experience and quality customer service.

48 Wynn Resorts' goal is to attract high-end gaming customers. In August of 2006, Wynn Resorts, LTD. changed its tip pooling policy to include pit bosses and table supervisors. Operationally, this move made it feasible for experienced dealers to take positions as supervisors, who up until that point generally earned less than the dealers. The return on this new policy that the company expects is simply that as high rollers gamble more, the pit bosses, or "table supervisors" will have more at stake in making sure the customers are happy. They will give comps more, and in return, customers will stay longer and return more often. This tip pooling policy is an example of the kind of moves Wynn has made to further the luxury experience the customer receives.

SMALL BLIND—BIG BLIND

49 It is clear that Mr. Steve Wynn was successful at building and operating a casino resort empire that turned his personal worth into $1.6 billion. This feat was accomplished with his personal ambition, business savvy, and vision for what entertainment really means to the world. Although Steve Wynn appears to be, the epitome of casino resort gurus, this label does not hold the key for guaranteed future success of the Wynn Resorts LTD, there are many challenges that Wynn will have to face, and the future may throw some curve-balls along the way. As it stands now there are three major challenges the firm will need to address in the future; the first being that they need to secure a way to maintain their competitive advantage as increased competition will be introduced both domestically and abroad into the gaming industry. Secondly, the Macau government reserves the right to take control of the Wynn casino in 2017, as mentioned above this would be detrimental to the profits for the company Wynn Resorts LTD, some solutions will need to be devised to ensure that the survival of the company is not majorly dependent on the revenues generated by the Wynn Macau resort and casino. Moreover, a third concern about future success, but certainly not the final concern, is the loss of Mr. Steve Wynn himself. If this loss was to occur, someone else with his expertise, passion and governmental ties (concessions and licenses) is a scarce resource. In the most likely scenario a loss of Steve Wynn may result in the sale of the firm to a competing company such as MGM, Inc. The Wynn Resorts, although not guaranteed future success, is certainly on the right track, and quite the remarkable company.

FINANCIAL STATEMENTS (February 22, 2008 10-K Edgar Online)

WYNN RESORTS, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Operating revenues:			
Casino	$1,949,870	$ 800,591	$ 353,663
Rooms	339,391	283,084	170,315
Food and beverage	353,983	309,771	173,700
Entertainment, retail and other	245,201	205,213	125,230
Gross revenues	2,888,445	1,598,659	822,908
Less: promotional allowances	(200,926)	(166,402)	(100,927)
Net revenues	2,687,519	1,432,257	721,981
Operating costs and expenses:			
Casino	1,168,119	439,902	155,075
Rooms	83,237	73,878	44,171
Food and beverage	212,622	194,403	118,670
Entertainment, retail and other	161,087	134,530	80,185
General and administrative	310,820	231,515	118,980
Provision for doubtful accounts	36,109	21,163	16,206
Pre-opening costs	7,063	62,726	96,940
Depreciation and amortization	219,923	175,464	103,344
Contract termination fee	—	5,000	—
Property charges and other	60,857	25,060	14,297
Total operating costs and expenses	2,259,837	1,363,641	747,868
Equity in income from unconsolidated affiliates	1,721	2,283	1,331
Operating income (loss)	429,403	70,899	(24,556)
Other income (expense):			
Interest and other income	47,765	46,752	28,267
Interest expense, net of capitalized interest	(143,777)	(148,017)	(102,699)
Distribution to convertible debenture holders	—	(58,477)	—
Increase (decrease) in swap fair value	(6,001)	1,196	8,152
Gain on sale of subconcession right, net	—	899,409	—
Loss from extinguishment of debt	(157)	(12,533)	—
Other income (expense), net	(102,170)	728,330	(66,280)
Income (loss) before income taxes	327,233	799,229	(90,836)
Provision for income taxes	(69,085)	(170,501)	—
Net income (loss)	$ 258,148	$ 628,728	$ (90,836)
Basic and diluted income (loss) per common share:			
Net income (loss):			
Basic	$2.43	$6.29	$(0.92)
Diluted	$2.34	$6.24	$(0.92)
Weighted average common shares outstanding:			
Basic	106,030	99,998	98.308
Diluted	112,685	111,627	98,308

WYNN RESORTS, LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,275,120	$ 789,407
Restricted cash and investments	—	58,598
Receivables, net	179,059	140,232
Inventories	73,291	64,368
Deferred income taxes	24,746	13,727
Prepaid expenses and other	29,775	30,659
Total current assets	1,581,991	1,096,991
Restricted cash and investments	531,120	178,788
Property and equipment, net	3,939,979	3,157,622
Intangibles, net	60,074	65,135
Deferred financing costs	83,087	74,871
Deposits and other assets	97,531	80,792
Investment in unconsolidated affiliates	5,500	5,981
Total assets	$ 6,299,282	$ 4,660,180
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts and construction payable	$ 182,718	$ 123,061
Current portion of long-term debt	3,273	6,115
Current portion of land concession obligation	5,738	7,433
Income taxes payable	138	87,164
Accrued interest	12,478	15,495
Accrued compensation and benefits	93,097	71,223
Gaming taxes payable	75,014	46,403
Other accrued expenses	18,367	10,742
Customer deposits and other related liabilities	177,605	127,751
Construction retention	16,755	15,700
Total current liabilities	585,183	511,087
Long-term debt	3,533,339	2,380,537
Other long-term liabilities	39,335	5,214
Long-term land concession obligation	6,029	11,809
Deferred income taxes	152,953	97,064
Construction retention	34,284	8,884
Total liabilities	4,351,123	3,014,595
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, par value $0.01; 40,000,000 shares authorized; zero shares issued and outstanding	—	—
Common stock, par value $0.01; 400,000,000 shares authorized; 116,259,411 and 101,887,031 shares issued; 114,370,090 and 101,887,031 shares outstanding	1,162	1,018
Treasury stock, at cost; 1,889,321 shares	(179,277)	—
Additional paid-in capital	2,273,078	2,022,408
Accumulated other comprehensive loss	(2,905)	(94)
Accumulated deficit	(143,899)	(377,747)
Total stockholders' equity	1,948,159	1,645,585
Total liabilities and stockholders' equity	$ 6,299,282	$ 4,660,180

WYNN RESORTS, LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Year Ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:			
Net income (loss)	$ 258,148	$ 628,728	$ (90,836)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	219,923	175,464	103,344
Deferred income taxes	68,152	170,321	—
Stock-based compensation	18,527	16,712	4,676
Amortization and writeoffs of deferred financing costs, and other	19,318	23,419	14,045
Loss on extinguishment of debt	157	11,316	—
Provision for doubtful accounts	36,109	21,163	16,206
Property charges and other	60,857	25,060	14,297
Equity in income of unconsolidated affiliates, net of distributions	481	(911)	(1,331)
Decrease (increase) in swap fair value	6,001	(1,196)	(8,152)
Gain on sale of subconcession right	—	(899,409)	—
Increase (decrease) in cash from changes in:			
Receivables, net	(75,029)	(72,927)	(104,418)
Inventories and prepaid expenses and other	(7,565)	(21,261)	(58,934)
Accounts payable and accrued expenses	54,093	164,287	159,578
Net cash provided by operating activities	659,172	240,766	48,475
Cash flows from investing activities:			
Capital expenditures, net of construction payables and retention	(1,007,370)	(643,360)	(877,074)
Restricted cash and investments	(293,734)	205,216	499,765
Investment in unconsolidated affiliates	—	—	(3,739)
Purchase of intangibles and other assets	(43,216)	(59,456)	(40,181)
Proceeds from sale of subconcession right, net	—	899,409	—
Proceeds from sale of equipment	21,581	—	109
Net cash provided by (used in) investing activities	(1,322,739)	401,809	(421,120)
Cash flows from financing activities:			
Proceeds from exercise of stock options	9,180	21,790	1,404
Proceeds from issuance of common stock	664,125	—	—
Cash distributions	(683,299)	(608,299)	—
Proceeds from issuance of long-term debt	1,672,987)	746,948	627,131
Principal payments on long-term debt	(297,321)	(440,929)	(121,933)
Proceeds from termination of interest rate swap	—	6,605	—
Purchase of treasury stock	(179,277)	—	—
Payments on long-term land concession obligation	(7,411)	(9,000)	(8,921)
Payment of deferred financing costs and other	(27,045)	(4,572)	(21,008)
Net cash provided by (used in) financing activities	1,151,939	(287,457)	476,673
Effect of exchange rate on cash	(2,659)	—	—
Cash and cash equivalents:			
Increase in cash and cash equivalents	485,713	355,118	104,028
Balance, beginning of period	789,407	434,289	330,261
Balance, end of period	$ 1,275,120	$ 789,407	$ 434,289
Supplemental cash flow disclosures:			
Cash paid for interest, net of amounts capitalized	$178,072	$133,850	$95,839
Cash distributions to convertible debenture holders	—	58,477	—
Cash paid for income taxes	79,168	180	—
Equipment purchases financed by debt and accrued assets	—	—	860
Stock-based compensation capitalized into construction	809	1,353	2,651

BOARD OF DIRECTORS
(http://phx.corporate-ir.net/phoenix.zhtml?c=132059&p=irol-govboard)

Stephen A. Wynn
Chairman of the Board and Chief Executive Officer

Kazuo Okada
Vice Chairman of the Board

Linda Chen
Director

Dr. Ray R. Irani
Director

Robert J. Miller
Director

John A. Moran
Director

Alvin V. Shoemaker
Director

D. Boone Wayson
Director

Elaine P. Wynn
Director

Allan Zeman
Director