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CASE 16

MGM Resorts International

Scott Currence, Greg Giordano, Greg Jennings, Katie Punske, Peter Ocko, Ryan Smart
W. P. Carey School of Business, Arizona State University

Tina Borja
Rice University

Introduction

MGM Resorts International (MGM) is a *Fortune* 500 company traded on the NYSE in the complex and unpredictable industry of gaming and hospitality. MGM is one of the leading global hospitality companies with a portfolio of 15 wholly owned resorts and gaming properties located in Nevada, Mississippi, and Michigan and 50 percent stakes in four additional properties in the US and China (Exhibit 1). With approximately 45,000 full time employees, the company has an enterprise value of $18.09 billion and 2010 revenues of more than $6 billion (Exhibit 2). It is the third largest revenue generating company in its industry. MGM believes its success is due to its reputation for delivering high quality gaming and luxury services and believes its hospitality and entertainment venues are the best in the business.[1]

Previously thought to be a recession-proof industry, gaming was not only hit harder than expected by the most recent economic recession, but is on a slower than predicted road to recovery. Nevertheless, many leading analysts view MGM as a worthwhile long-term investment. In fact, within the MGM conglomerate, Mandalay Bay, Bellagio, and MGM Las Vegas experienced double-digit EBITDA growth in 2010 and were projected to grow even more in 2011.[2]

Yet, despite its isolated wins and the subtle optimism in the financial community toward the gaming industry as a whole, MGM faces significant concerns. At $12.1 billion, MGM carries one of the heaviest debt burdens and shows the largest net operating losses in the industry year over year since 2007—posting losses in excess of $1 billion for both 2009 and 2010[3] (Exhibit 3). Domestically, MGM has debt obligations maturing in 2013 and 2014. Internationally, MGM is working to offset a weak dollar with new growth ventures in China and Vietnam and has experienced higher than anticipated returns from its Macau (China) property. While its competitors are experiencing similar difficulties and achievements domestically and abroad, MGM also faces market share erosion as its competitors put capital toward enhancing their images against the MGM brand with more frequency and ease.

Adding to its challenges and central to its recent lack of flexibility is MGM's ill-timed massive undertaking—CityCenter. Construction began on this 68-acre, $9 billion joint venture on the Las Vegas Strip (The Strip) in 2006 when American businesses could still reasonably turn a blind eye to the brewing implosion of the banking and credit markets and the subsequent withdrawal of the common consumer from the gaming and hospitality markets. While MGM cannot be blamed for the timing of this bit of bad luck, it had to weather the storm and now must deal with the damage rendered.

In a nutshell, MGM is at a crossroads that could provide the opportunity for a timely strategic evaluation; it needs to reevaluate its identity within the industry and seek opportunities that enable long-term sustainability. The company and its directors must analyze its tangible and intangible assets and determine if and where they fit within the vision for the company. Most pressing however is whether MGM should downsize to cut its losses and how to stop the flow of market share to its competitors.

Firm History

Part 1: The Beginning

The group of properties that comprise what is now known as MGM Resorts International began in the 60s under the leadership of Kirk Kerkorian. Kerkorian, a pilot and the owner of a small charter airline that

Exhibit 1 MGM Resorts International Current Holdings

Locale	Name	Opened / Acquired	Stake*
	MGM Grand Las Vegas	opened 1993	
	New York-New York	opened 1997	
	The Mirage		
	Bellagio	acquired in 2000 / Wynn	
	Monte Carlo		
Las Vegas Strip	Mandalay Bay		
	Luxor	acquired in 2005 / Mandalay Resort Group	
	Excalibur		
	Circus Circus Las Vegas		
	CityCenter	opened 2009	50%
Las Vegas Suburb	Gold Strike Jean	acquired in 2005 / Mandalay Resort Group	
	Railroad Pass Henderson		
Reno, NV	Circus Circus Reno	acquired in 2005 / Mandalay Resort Group	
	Silver Legacy		50%
Detroit, MI	MGM Grand Detroit	opened 1999	
Biloxi, MS	Beau Rivage	acquired in 2000 / Wynn	
Elgin, IL	Grand Victoria	acquired in 2005 / Mandalay Resort Group	50%
Tunica, MS	Gold Strike Tunica	acquired in 2005 / Mandalay Resort Group	
Macau SAR, China	MGM Grand Macau	opened 2007	51%

Source: 2011 MGM Resorts International History, UNLV Center for Gaming Research and MGM Resorts International 2010 10-k

Exhibit 2 MGM Resorts International Annual Income Statement

Historical MGM Income Statement (Summarized)						
	Fiscal Year Ending December 31,					
	2005	2006	2007	2008	2009	2010
Total Revenue	6,128.8	7,176.0	7,691.6	7,208.8	5,978.6	6,019.2
Cost of Revenue	3,316.9	3,715.1	4,027.6	4,034.4	3,539.3	3,757.5
Gross Profit	**2,812.0**	**3,460.9**	**3,664.1**	**3,174.4**	**2,439.3**	**2,261.7**
SG&A, Total	1,036.2	1,367.1	1,604.7	1,420.4	1,312.1	1,257.3
D&A, Total	560.6	629.6	700.3	778.2	689.3	633.4
Operating Income	**1,215.2**	**1,464.1**	**1,359.0**	**975.7**	**437.9**	**371.0**
EBITDA	**1,803.3**	**2,118.1**	**2,059.4**	**1,754.0**	**1,127.2**	**1,004.4**
Net Interest (Expense)/Income	(628.7)	(749.2)	(691.1)	(609.3)	(775.4)	(1,113.6)
Other, Net	137.6	223.0	207.8	78.8	(124.5)	(173.1)
EBT Excl. Unusual Items	**724.0**	**938.0**	**875.7**	**445.2**	**(462.0)**	**(915.7)**
Merger & Restructuring Charges	0.1	(1.0)	0.0	0.0	0.0	0.0
Impairment of Goodwill	0.0	0.0	0.0	(1,179.8)	0.0	0.0
Gain (Loss) on Sale of Investments	0.0	0.0	0.0	0.0	(1,131.6)	(1,422.6)
Gain (Loss) on Sale of Assets (One Time)	0.0	(3.8)	8.3	25.0	187.4	0.0
Other Unusual Items, Total	(57.0)	44.8	1,274.4	40.6	(606.5)	122.3
EBT Incl. Unusual Items	**667.1**	**977.9**	**2,158.4**	**(669.0)**	**(2,012.6)**	**(2,216.0)**
Income Tax Expense	231.7	341.9	757.9	186.3	(720.9)	(778.6)
Earnings from Cont. Ops.	**435.4**	**636.0**	**1,400.5**	**(855.3)**	**(1,291.7)**	**(1,437.4)**
Discontinued Operations	7.9	12.3	183.9	0.0	0.0	0.0
Net Income	**443.3**	**648.3**	**1,584.4**	**(855.3)**	**(1,291.7)**	**(1,437.4)**

Source: Capital IQ. MGM Resorts International. Retrieved May 5, 2011 from www.capitaliq.com

Exhibit 3 MGM Resorts International Annual Balance Sheet

Historical MGM Balance Sheet (Summarized)						
	Fiscal Year Ending December 31,					
	2005	2006	2007	2008	2009	2010
Cash	377.9	452.9	416.1	295.6	2,056.2	499.0
Total Receivables	352.7	381.5	412.9	368.1	753.0	497.9
Inventory	111.8	118.5	126.9	111.5	101.8	96.4
Prepaid Expenses	110.6	124.4	106.4	155.7	104.0	252.2
Other Current Assets	65.5	437.4	63.5	602.1	38.5	110.1
Total Current Assets	**1,018.6**	**1,514.8**	**1,125.8**	**1,533.0**	**3,053.5**	**1,455.6**
Net PP&E	16,541.7	17,241.9	16,870.9	16,289.2	15,070.0	14,554.4
Long-Term Investments	931.2	1,092.3	2,482.7	4,642.9	3,611.8	1,923.2
Goodwill	1,314.6	1,300.7	1,262.9	86.4	86.4	86.4
Other Intangibles	377.5	367.2	362.1	347.2	344.3	342.8
Other Assets	516.0	629.4	623.2	376.1	352.4	598.7
Total Assets	**20,699.4**	**22,146.2**	**22,727.7**	**23,274.7**	**22,518.2**	**18,961.0**
Accounts Payable	156.4	182.2	220.5	142.7	173.7	167.1
Accrued Expenses	950.9	956.2	934.7	856.7	794.2	785.7
Other Current Liabilities	427.3	509.8	569.5	955.6	335.9	292.0
Total Current Liabilities (excl. ST Debt)	**1,534.6**	**1,648.1**	**1,724.7**	**1,955.0**	**1,303.8**	**1,244.7**
Total Debt	12,355.4	12,994.9	11,175.2	13,464.2	14,055.9	12,050.4
Other Liabilities	3,574.3	3,653.7	3,767.1	3,881.2	3,288.1	2,667.3
Total Liabilities	**17,464.3**	**18,296.7**	**16,667.0**	**19,300.4**	**18,647.8**	**15,962.5**
Common Stock	3,235.1	3,849.5	6,060.7	3,974.4	3,870.4	2,998.5
Total Equity	3,235.1	3,849.5	6,060.7	3,974.4	3,870.4	2,998.5
Total Liabilities & Equity	**20,699.4**	**22,146.2**	**22,727.7**	**23,274.7**	**22,518.2**	**18,961.0**

Source: Capital IQ. MGM Resorts International. Retrieved May 5, 2011 from www.capitaliq.com

ferried gamblers from Los Angeles to Las Vegas, began to purchase, lease, sell, and build properties, such as The Flamingo and The International, through his Leisure International Company. In 1971, and soon after opening the world's largest hotel at the time, Paradise Road, Kerkorian sold Leisure International to Hilton Hotels. The following year, Kerkorian began to build another hotel-casino on The Strip that would open in 1973 as the MGM Grand Las Vegas. With 2,100 rooms, the MGM Grand Las Vegas allowed Kerkorian to reclaim the bragging rights as owner of the world's largest hotel. In 1986, Kerkorian sold the MGM Grand Las Vegas and the MGM Grand Reno to Bally's (both renamed Bally's after their purchase) and, later that year, incorporated MGM Grand. The late 80s and early 90s held several ventures for Kerkorian and MGM including the start of MGM Grand Air, a new charter airline, and the opening of the new 5,005 room MGM Grand—making Kerkorian, once again, owner of the largest hotel in the world.[4]

Part 2: The Growth Years 1995–2007

In the mid 90s, MGM riveted its attention to the booming real-estate market. Not only did it acquire property and facilities on The Strip, but also in South Africa and Australia. Between 1995 and 1997, MGM opened New York-New York on The Strip and MGM Grand Australia in Darwin, and agreed to manage four casinos in South Africa. Looking to expand further, MGM acquired Primadonna Resorts in 1999. Later that year, MGM Grand Detroit opened in a temporary facility and 'The Mansions,' high-end luxury suites at MGM Grand Las Vegas, were introduced.[5] From 1995 to 2000, net revenues grew 327 percent—from $722 million to $3.08 billion.[6,7]

This growth trend continued into the early 2000s with the $6.4 billion acquisition of Steve Wynn's Mirage Resorts. This acquisition included Golden Nugget, Monte Carlo (50 percent), Mirage, and Bellagio on The Strip as well as other regional locations including Beau Rivage in Biloxi, Mississippi. With the acquisition of

Mirage Resorts, MGM Grand Inc. was renamed MGM Mirage. In 2005, MGM made another large purchase acquiring Mandalay Resort Group for $7.9 billion and its 16 locations including Luxor, Mandalay Bay, and Circus Circus on The Strip. The acquisitions of the Mirage and Mandalay holdings incurred large debt transactions of $2 billion[8] and $2.5 billion,[9] respectively.

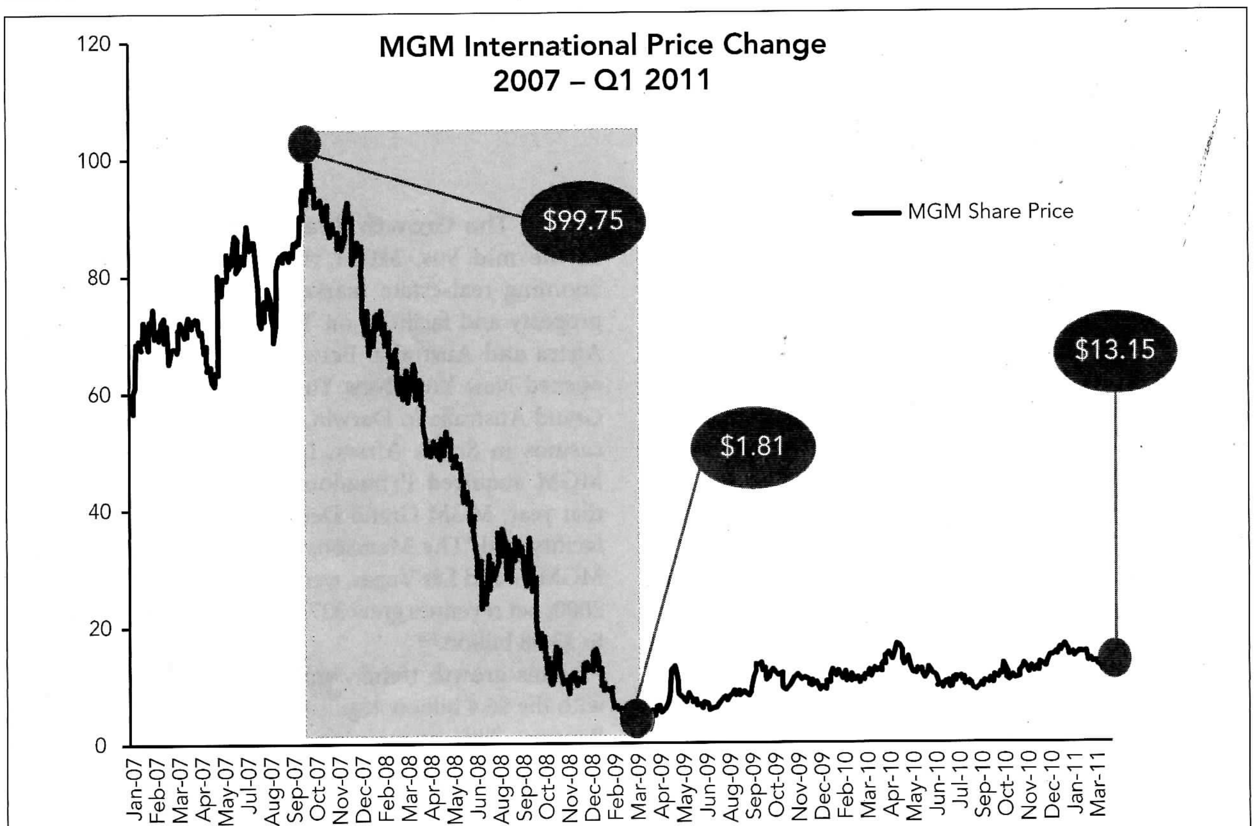
In 2006, MGM announced its focus on extending the MGM brand into the development of its hospitality subsidiary, MGM Hospitality, responsible for sourcing both gaming and non-gaming investment and management opportunities. Concurrently, the company opened the Grand Macau in China. Divestments of multiple properties played a major role in accumulating nearly $1 billion in capital during this same period.[10] By the end of 2007, total revenue had increased 7.2 percent and net income was an astonishing $1.58 billion. However, within only 15 months of its 2007 banner year, MGM's stock prices would plummet from $99.75/share to less than $2.00/share (Exhibit 4).

Part 3: Economic Downturn 2008 Forward

In 2006, MGM had begun construction in Las Vegas on the largest private development project in US history—CityCenter: a multi-use gaming, condominium, hotel, convention, and retail outlet development. It was CityCenter that would bring MGM to the brink of bankruptcy in 2009.

With many industries beginning to feel the strain of the weakening economy beginning in 2008, the majority of industry experts continued to contend the gaming industry was recession proof. But when called on its bluff, The Strip—overbuilt and significantly funded by MGM's growth investments—showed its hand. In 2008, MGM reacted by folding its $5 billion Atlantic City project and selling its Treasure Island Resort and Casino for approximately $775 million.[11] The $7 billion CityCenter project budget quickly ballooned to over $9 billion and MGM had to be bailed out by its joint venture partner—Dubai World.[12] To avoid negative credit/stock ratings and continue operations, MGM needed to generate cash; however, it was in too deep on a number of projects and had no choice but to stick it out and see them to completion. CityCenter opened in December 2009—unfortunately, to less than stellar fanfare. Stock prices fell hard and fast with impending negative quarterly profit earnings. MGM reported a net loss of $856 million in 2008 and $1.3 billion in 2009 and saw its stock price hit an all-time low on March 6, 2009 of $1.81/share.[13]

Exhibit 4 MGM Resorts International Stock Price Change



Source: Capital IQ. MGM Resorts International. Retrieved May 5, 2011 from www.capitaliq.com

Looking at this period in retrospect in April 2011, Chief Financial Officer Dan D'Arrigo explained it this way:

We were faced with many challenges over a 24-month period. We were focused on getting to the finish line with CityCenter and then shoring up our own finances and liquidity as it pertains to MGM Resorts. We were able to do a lot of things during that time, however, that a lot of companies could not do, including raising capital and improving our liquidity. What gets lost often is the fact that this company raised over $7 billion in liquidity during some of the darkest financial times when capital markets were closed. Bond markets were closed and there was no lending going on at all. . . . One thing became crystal clear to us. We weren't effectively leveraging who we are and who we were as an entity.[14]

On June 15, 2010, the company officially changed its name to MGM Resorts International based on CEO Jim Murren and the board of directors' hopes of better aligning the MGM brand with its international intentions.[15] Although 2010 ended with a net loss of $1.43 billion, many industry analysts believed that, based on its fourth quarter 2010 results, MGM was on track for a return to prosperity—albeit in ten years or more. While operations contributed positive cash flows of $499 million in 2010, analysts expressed short-term concerns that this was the result of a period of underinvestment in its properties due to high debt burdens. In addition, some analysts forecasted negative cash flows in 2011—further limiting MGM's financial flexibility.[16,17]

To the surprise of most, when MGM released its 2011 first quarter earnings in May 2011, MGM reported increases to revenue of 3 percent and EBITDA of 15 percent. Even though a net loss of $90 million was reported, it was $7 million less than the loss reported in the same quarter the previous year. All told, the announcement was considered by many a healthy progression compared to the previous few years. Additionally, signs of a spring thaw began to pop up in the form of improved room occupancy as well as a rebound of the heavily relied upon Las Vegas convention market. A major bright spot were the increased revenues from overseas markets with MGM Grand Macau continuing to show improvements, again reinforcing optimism around MGM.[18]

Future expectations for MGM are mixed. Despite being the third largest company in its industry, MGM has the lowest profits. Earnings estimates by top analysts show modest sales increases of 3 percent to 5 percent expected in 2011 and 2012 with year over year earnings estimated between −0.3 and −0.6 percent.[19] Already factored into their estimates, on April 13, 2011 MGM announced it would take a 51 percent ownership stake in the MGM Grand Macau.[20] Along with the potential sale of the Atlantic City Borgata, this ownership stake should result in positive liquidity of approximately $311 million.[21] In the meantime, management has been able to retain large assets and continue construction on properties yet to be completed. One of these properties is the MGM Grand Ho Tram in Vietnam scheduled to open in 2013. This $4.2 billion multifunctional entertainment site is located near Ho Chi Minh City near the South China Sea and features 1,100 luxury rooms[22] (Exhibit 5).

The Pit Bosses

MGM is a premier luxury resort and entertainment conglomerate. Many companies have portfolios similar to MGM and compete in various geographic markets with a variety of casino sizes and target markets (Exhibit 6). MGM's primary competitors are Las Vegas Sands, Wynn Resorts, Penn National, Boyd Gaming, and Caesars Entertainment (Exhibits 7 and 8). As MGM consolidated its energies and efforts to survive the economic recession amidst its massive development of CityCenter, each of these competitors staked a claim to a piece of MGM's market share.

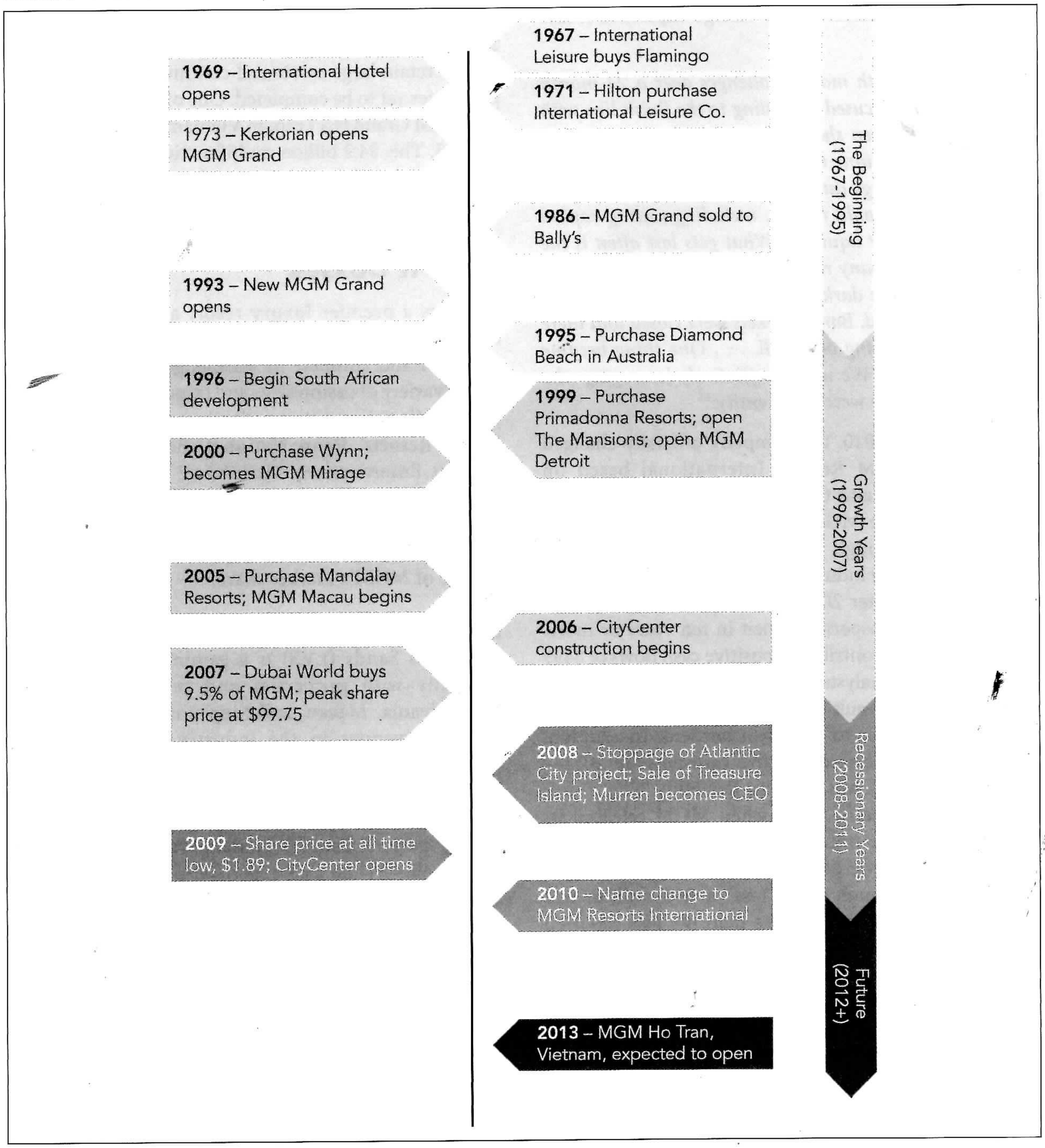
Las Vegas Sands

Las Vegas Sands (LVS) is a gaming and convention company with properties and resorts in Nevada, Pennsylvania, Macau, and Singapore and the second highest revenues in the industry. Incorporated in 1988, LVS owns and operates The Strip's very popular Venetian and Palazzo. LVS reports an enterprise value of $38.6 billion with revenues in 2010 of $6.9 billion (up over 50 percent from 2009) and over 34,000 employees on payroll.[23] While LVS experienced net losses in 2008 and 2009 of $164 million and $355 million respectively, the company rebounded in 2010 to turn a profit of $599 million with an 8.75 percent profit margin.[24] Like many of its competitors, LVS came through the recession by suspending operations that did not have the potential to quickly turn a profit. On a less optimistic note, in March 2011, LVS was subpoenaed in a joint SEC and Department of Justice investigation stemming from allegations made by fired CEO of Sands China, Steve Jacobs, that he was instructed to engage in illegal activities including bribery of foreign officials.[25] Despite this and the cautious expectations for the industry overall, LVS's first quarter 2011 results were much more favorable than predicted with operating income reported at $299 million—making LVS, at least for the moment, leader of the pack.[26]

Wynn Resorts Ltd

Founded in 2002, Wynn Resorts (Wynn) primarily owns and operates Wynn Las Vegas and Encore at Wynn Las Vegas on The Strip. Additionally, the company

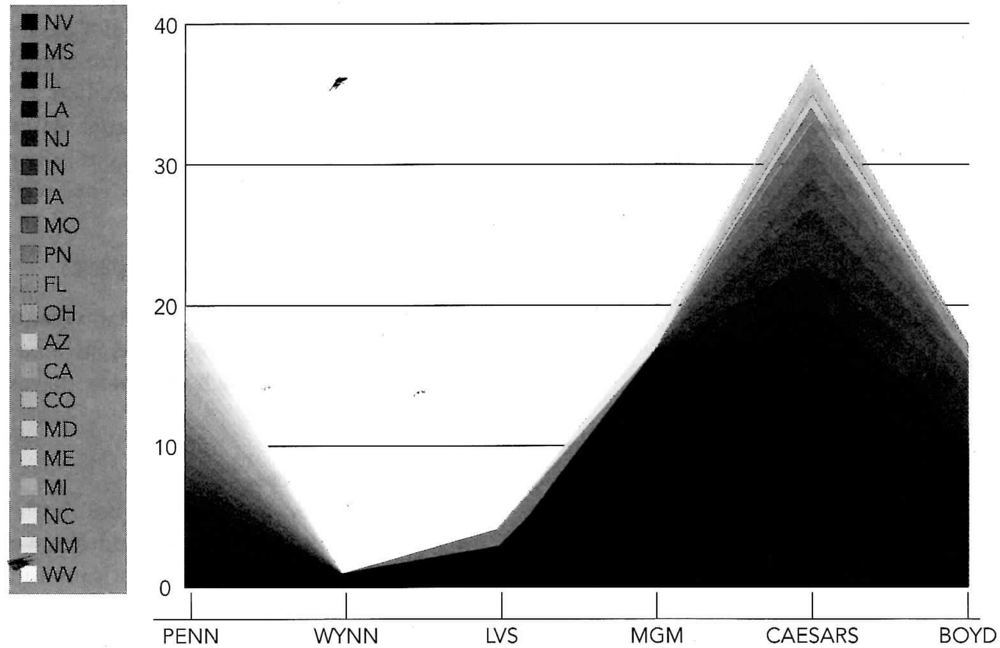
Exhibit 5 MGM Resorts International Timeline



Source: 2011 MGM Resorts International History, UNLV Center for Gaming Research

operates two casinos in Macau that opened in 2006 and 2010.[27] Wynn hotels and casinos are considered preeminent luxury destinations. By 2010, and with only three properties, Wynn had developed an enterprise value of $19 billion with over 16,000 employees. Wynn's 2010 revenue exceeded $4.5 billion with a reported profit of $307 million and a profit margin of 6.77 percent. With ongoing pressure to outperform its competitors in the upper-end luxury gaming market, Wynn has successfully managed its finances by borrowing money to clear its balance sheet and delever itself by generating cash from new operations.[28] For example, Wynn created a new alliance with PokerStar, a popular online gaming poker business, to establish a new environment promoting safe online poker play. Furthermore, Wynn has closely managed its budgets on new investments. As

Exhibit 6 Penn, Wynn, LVS, MGM, Caesars, and Boyd Diversity of US Locations by State



Sources: Corresponding corporation 10-k filings for year end 2010

Exhibit 7 Caesars, LVS, MGM, Wynn, Penn, and Boyd Side by Side Comparison

	Caesars	LVS	MGM	Wynn	Penn	Boyd
Employees	50,000	34,000	45,000	16,405	15,636	21,300
Enterprise Value (in B)	n/a	$40.70	$19.37	$22.19	$5.37	$4.07
Net Revenues* (in B)	$8.82	$7.63	$6.07	$4.54	$2.53	$2.29
Net Revenue per Employee (in T)	$176,400	$224,412	$134,889	$276,745	$161,806	$107,512
Net Income* (in M)	($843,10)	$664.52	($143,000)	$306.94	($49.96)	($1.65)
Net Income per Employee (in T)	($16,862)	$19,545	($31,778)	$18,710	($3,195)	($77)
Profit Margin*	-9.56%	8.71%	-23.58%	6.77%	-1.74%	-0.07%
Total Debt (in B)**	$18.29	$10.10	$12.08	$3.18	$2.15	$3.43
Debt as a % of Revenue	207%	132%	199%	70%	85%	150%

Source: Yahoo Finance and corresponding corporation 10-k filings.

* for period 04/01/2010 through 03/31/2011

** as of 3/31/2011

part of its 2009 efficiency initiatives, the construction of its casino in Macau that opened in 2010 came in $125 million under budget.[29]

Trends in 2011 show its first quarter earnings were primarily driven by its holdings in Macau. Table game holds allowed Wynn to achieve an increase in EBITDA of over 70 percent in the first quarter 2011. With net income reported at $173.4 million, in April, the board announced a cash dividend of $0.50/share.[30]

Penn National

Founded in Pennsylvania at the Penn National Race Course, Penn National Gaming Inc. (Penn) began business in 1972 and went public in May 1994.[31] Penn owns and operates 19 casinos and racetracks in 16 different states and is primarily an acquisition-based company of mid-size casinos. Penn employs 16,000 people and has over 27,000 gaming machines. Penn's enterprise value in 2010 was $4.91 billion with $2.5 billion in revenue and net income amounting to $47 million. Penn's first quarter EBITDA for 2011 increased by 19.7 percent to $178 million primarily due to new acquisitions and openings in West Virginia and Pennsylvania.[32]

Boyd Gaming Corporation

Boyd Gaming (Boyd) was founded in 1975 by Sam Boyd and taken public in 1988. Over the next thirty years, it acquired 16 gaming properties in six different states. Boyd's company vision states it is "a billion-dollar company that retains the philosophy of a family-owned business, focused on creating long-term, sustainable growth for our shareholders. This philosophy defines and separates us from the competition, making us unique in our industry."[33] In 2010, Boyd had an enterprise value of $4.1 billion with revenues of $2.2 billion and a net loss of $1.65 billion. In the first quarter of 2011, Boyd sustained a $3.5 million loss and a 36 percent increase in expenses.[34] Furthermore, Boyd announced on May 16, 2011, that The Sahara, a presence on The Strip for nearly 60 years, was officially closing its doors.[35]

Caesars Entertainment Corporation (formerly Harrah's)

Caesars Entertainment Corporation (Caesars) is considered the "largest and most diverse casino company in the world" with operations under the Harrah's, Horseshoe, and Caesars names.[36] Founded and headquartered in 1998 in Las Vegas, Caesars has over 50,000 employees and is the number one revenue generator in the industry. On January 28, 2008, Apollo Global Management, LLC and TPG Capital, LP, both private equity firms, acquired Caesars and assumed its debt load of $13.4 billion in an all-cash transaction valued at $30.7 billion. As a result of this acquisition, Caesars stock is no longer publicly traded and complete financial data for direct industry comparison is not available. In 2010, Caesars had net revenues of $8.8 billion with a loss of $831 million.[37] Caesars strives to abide by the following philosophy: "We concentrate on building loyalty and value for our customers, employees, business partners, and communities by being the most service-oriented, technology-driven, geographically-diversified company in gaming."[38]

Although Caesars fourth quarter 2010 EBITDA increased by 3 percent, net revenue decreased 0.4 percent. Las Vegas occupancy at Caesars properties increased 440 basis points with continued growth on The Strip.[39] While 2011 showed modest growth—albeit with declining revenues—and after winning a court ruling to proceed, Caesars planned to move ahead with a new 27,000 seat sports arena on The Strip.[40]

A Tale of Two Cultures

In a review of the US based hospitality/gaming industry, two distinct customer geographies must be addressed—the US and China—each of which drives significant revenue for the sector.

The United States

Within the US, populations are both aging and migrating away from Eastern and Midwestern urban areas.[41] By 2030, one in five Americans will be over the age of 65. Sunbelt states such as Florida, Nevada, and Texas have all seen significant gains in both population and new business. Despite a post-9/11 slowdown owing to tighter immigration restrictions, over 1 million legal immigrants have arrived each year since 2005—numbers that will help replace and support the retiring baby-boomer workforce.[42]

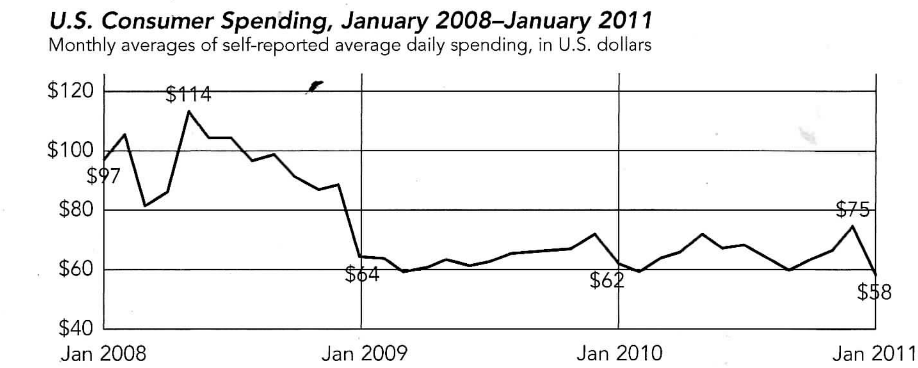
The recent collapse and subsequent federal resuscitation of many major US banks has put a significant strain on the nation's economy. Americans fortunate enough to have a job are now putting what little disposable and discretionary income they have toward delayed expenditures and reducing debts incurred during this period (Exhibit 9). With more than 25 percent of the

Exhibit 8 MGM, LVS, Wynn, Penn, and Boyd 2010 Income Statements

	Fiscal Year Ending December 31, 2010				
	MGM	**LVS**	**Wynn**	**Penn**	**Boyd**
Total Revenue	**6,019.2**	**6,853.2**	**4,184.7**	**2,459.1**	**2,140.9**
Growth Over Prior Year	*0.68%*	*50.19%*	*37.40%*	*3.79%*	*30.46%*
Gross Profit	**2,261.7**	**2,980.2**	**2,897.9**	**994.2**	**805.3**
Margin %	*37.57%*	*43.49%*	*69.25%*	*40.43%*	*37.62%*
EBITDA	**1,004.4**	**1,971.5**	**1,056.0**	**582.8**	**379.8**
Margin %	*16.69%*	*28.77%*	*25.24%*	*23.70%*	*17.74%*
EBIT	**371.0**	**1,235.2**	**650.5**	**370.4**	**180.5**
Margin %	*6.16%*	*18.02%*	*15.54%*	*15.06%*	*8.43%*
Earnings from Cont. Ops.	**(1,437.4)**	**781.6**	**316.6**	**(61.7)**	**18.7**
Margin %	*−23.88%*	*11.40%*	*7.57%*	*−2.51%*	*0.87%*
Net Income	**(1,437.4)**	**599.4**	**160.1**	**(59.5)**	**10.3**
Margin %	*−23.88%*	*8.75%*	*3.83%*	*−2.42%*	*0.48%*
Diluted EPS Excl. Extra Items	**(3.19)**	**0.51**	**1.29**	**(0.76)**	**0.12**

Source: Capital IQ. MGM Resorts International. Retrieved May 5, 2011 from www.capitaliq.com

Exhibit 9 Consumer Spending Trends



Source: Gallup Poll. Consumer Spending. Accessed April 30, 2011

two fastest growing demographic segments in the US—Blacks and Hispanics—living at or below the poverty rate,[43] entitlement programs funded by the increasingly poorer federal and state governments—both of which have seen tax revenues drop significantly over the last three years—are stretched to the limit.[44]

With the faltering economy the central focus of American discourse, local governments and populations have begun to move away from the traditional moral questions surrounding casino development of "Should we?" and toward "How can we?" (Exhibit 10). State legislatures in Pennsylvania,[45] Michigan,[46] Indiana,

Exhibit 10 US Casino Facilities

State	# of Commercial Casinos	Land-based Casinos	Riverboat or Dockside Casinos	Racetrack Casinos	Racetrack Casinos[1]	Indian Casinos	Non-casino Slot Device Locations
NV	256	X				X	X
SD	34	X[2]				X	X
CO	32	X				X	X
MS	30	X	X			X	
LA	18	X	X		w/ table games	X	X
IN	13	X	X		w/ table games		
MO	12		X			X	
NJ	11	X					
PE	10	X		X			
IL	9		X				
NY	8				X	X	
FL	5			X		X	
NM	5			X		X	
WV	5	X			w/ table games		X
DE	3				w/ table games		
MI	3	X				X	
OK	2			X		X	
RI	2				X		
KS	1	X[3]				X	
MD	1	X[4]		X			
ME	1				X		
OH	TBD						

[1]with publicly run video lottery terminals and slots
[2]maximum bet $100
[3]state owned
[4]slots only

(Continued)

Exhibit 10 US Casino Facilities (*Continued*)

States with Indian Casinos Only
AK
AL
AZ
CA
CT
ID
MN
MT
NC
ND
NE
OR
TX
WA
WI
WY

States with No Commercial or Indian Casinos
AR
GA
HI
KY
MA
NH
SC
TN
UT
VA
VT

Source: American Gaming Association - Industry Resources. http://www.americangaming.org

Illinois, and Mississippi have seen regional casinos thrive—generating revenue and providing jobs for constituents (Exhibit 11).[47] The trend continues with Ohio casinos set to begin operations in 2012 and expected to contribute in excess of $500 million per year to state coffers.[48] Of course, Nevada continues to be a force as well with casinos the largest employers in the state, a powerful lobby in the American Gaming Association, and the vocal advocacy of the Senate majority leader, Harry Reid.[49]

Las Vegas continues to occupy a unique place in American consciousness. Having been dubbed "Sin City," it serves as a multifaceted escape. Its marketing campaign tagline "What happens here, stays here"[50] signifies the break from normal life it provides. The industry is now attempting to spread this feeling to casinos across the country to capitalize on the American demand for instant gratification by providing levers to pull and dice to roll. Once considered a diversion of the less virtuous, many factors are purported to contribute to the less contentious acceptance of the world of casinos, gaming, and gambling. Among others, these include declining religious affiliations, a sharp jump in teen pregnancies,[51] a rise in prescription narcotics use, and the displacement of the traditional family by cohabitating (both opposite and same gender) and single parents[52]—all considered indicators of changing socio-cultural values in the US.[53] Topped off with a mind numbing news cycle and the tacit acceptance of the wholesale erosion of privacy, the fact that casinos are no longer associated with moral or lifestyle choices but instead viewed as yet another form of entertainment is unsurprising (Exhibit 12).

While public gaming corporations in the US are subject to the same transparency regulations of the SEC as any other US corporation, their forays into China have created issues. Most notably are potential Foreign Corrupt Practices Act (FCPA) violations by LVS[54] and MGM's difficulties in New Jersey given its dealings with a questionable Chinese investment partner.[55]

China

As one of the oldest cultures in the world, China has a rich history and tradition of gambling that extends back thousands of years. Interestingly, the oft-envisioned demand of the Chinese government for social order may in fact be what perpetuates the habit and obsession with gambling held by so many of its citizens. Deprived of many freedoms, Chinese have a measurable external locus of control—in other words, they "believe that luck, destiny, chance and powerful others control their lives more than themselves."[56] Seemingly contraindicated, this, in combination with proper deference to superstitions, leads to a higher illusion of control—and thus, increased risk taking, often, at games of chance. Measuring one's karma or virtue in this manner may also explain the large percentage of Chinese that gamble not for the money, but for camaraderie and entertainment. In 2010, nearly 25 million people visited the tiny 11 square mile coastal region of Macau with 88 percent

Exhibit 11 MGM Resorts International: Presence in Top 20 US Casino Markets by Revenue

Rank	Casino Market	2010 Annual Revenues	% of MGM Attention
1	Las Vegas Strip (NV)	*$ 5.777 billion*	55.9%
2	Atlantic City (NJ)	*$ 3.573 billion*	
3	Chicagoland (IN/IL)	*$ 2.057 billion*	2.9%
4	Connecticut	*$ 1.385 billion*	
5	Detroit (MI)	*$ 1.378 billion*	5.9%
6	St. Louis (MO/IL)	*$ 1.086 billion*	
7	Tunica/Lula (MS)	*$926.92 million*	5.9%
8	Biloxi (MS)	*$830.86 million*	5.9%
9	Philadelphia (PA)	*$816.31 million*	
10	Shreveport (LA)	*$764.92 million*	
11	Boulder Strip (NV)	*$757.03 million*	
12	Kansas City/St. Joseph (MO)	*$753.44 million*	
13	Reno/Sparks (NV)	*$684.05 million*	8.8%
14	Lawrenceburg/Rising Sun/Belterra (IN)	*$676.17 million*	
15	New Orleans (LA)	*$640.94 million*	
16	Lake Charles (LA)	*$639.13 million*	
17	Black Hawk (CO)	*$625.17 million*	
18	Yonkers (NY)	*$582.23 million*	
19	Pittsburgh/Meadow Lands (PA)	*$531.80 million*	
20	Downtown Vegas (NV)	*$493.39 million*	
n/r	Vegas suburbs – Henderson/Jean		11.8%
n/a	Macau		2.9%

% of MGM Attention calculated based on number of locations in area as a percentage of total MGM locations – partial ownership/joint ventures credited as .5 location.

Source: http://www.americangaming.org

Exhibit 12 Las Vegas Visitor Demographics

	2010 %
GENDER	
Male	50%
Female	50
MARITAL STATUS	
Married	79
Single	14
Separated/Divorced	5
Widowed	2
EMPLOYMENT	
Employed	66
Unemployed	2
Student	3
Retired	27
Homemaker	3
EDUCATION	
High school or less	23
Some college	24
College graduate	48
Trade/vocational school	5

	2010 %
ETHNICITY	
White	86%
African American/Black	5
Asian/Asian American	3
Hispanic/Latino	6
Other	1
HOUSEHOLD INCOME	
Less than $20,000	1
$20,000 to $39,999	7
$40,000 to $59,999	17
$60,000 to $79,999	24
$80,000 to $99,999	16
$100,000 or more	24
Not sure/no answer	10
VISITOR ORIGIN	
U.S.A.	**82**
Eastern states	6
Southern states	11
Midwestern states	12

(Continued)

Exhibit 12 Las Vegas Visitor Demographics (*Continued*)

	2010 %
AGE	
21 to 29	10
30 to 39	19
40 to 49	23
50 to 59	19
60 to 64	9
65 or older	20
MEAN	49.2

	2010 %
Western states	**54**
California	**30**
Southern California	26
Northern California	4
Arizona	7
Other Western states	16
No ZIP code given	0
Foreign	**18**

Source: Year End Summary 2010–Only Vegas–Retrieved from http://www.lvcva.com

of those visitors coming from China, Hong Kong, and Taiwan.[57] Unlike Las Vegas, however, nearly 55 percent of Macau visitors are "day trippers"—visitors that arrive and leave without spending money on accommodations.

China is predicted to reach the same proportion of 1 in 5 citizens over the age of 65 ten years after the US, in 2040.[58] However, by today's population rates, that will equal 267.9 million seniors in China as compared to only 62.4 million in the US.[59] Complicating the issue of its aging population will be a marked shortage of working age Chinese (as a result of China's 1979 one child policy) to replace and support its aging population. Unlike the US, immigration has not, and likely will not, replenish China's youth.[60]

Even so, at present and in contrast to the US, urban incomes in China rose tenfold between 1991 and 2009[61] making China's middle class alone the same size as the entire US population.[62] In addition to being newly affluent, China's new middle class, at least for now, is able to both spend and save simultaneously.[63]

Despite being illegal in China, there is no shortage of opportunities for those living in China to gamble. From a friendly round of mah jong with the neighbors to roaming card games to cruise ships in Hong Kong and Singapore that take passengers to international waters and set anchor, gambling has and will continue to be an integral part of Chinese culture. Officially, casino operations are restricted to the former Portuguese colony of Macau where a tenuous balance of private interests, criminal elements, and regional government are all now being more closely watched by Beijing.[64] While a lucrative source of income for the Chinese government, many are beginning to express concern about the reasoning of officials that, because gambling is illegal, it is not possible that any of its citizens would have a gambling addiction; therefore, because it could not be a problem, no gambling addiction education, intervention, or rehabilitation is required or offered.

The Dealers

In the casino/hotel realm, there are two distinct supplier lines inbound to properties: hospitality related supplies, including everything from food to sheets to soap, and casino/gaming specific supplies with slot machines to electronic poker to craps tables and thousands upon thousands of decks of cards. For all their consumable and durable products, the resort casinos have a large contingent of eager suppliers to choose from for anything from mattresses and poker chips to staff uniforms and bottled water.[65] The cost of ultra luxury products or furnishings may still be relatively high, but with fewer buyers in the market and the promise to consider a long-term relationship, casinos are often able to leverage their size and sustainability as a customer to squeeze the margins of a supplier. In fact, in this high-profile market, even elite manufacturers of branded goods can find themselves competing for "shelf space" inside a hotel or casino. "Even top tier brands are not concerned about pricing power when a casino comes calling," says Carleen Jorgensen, Managing Director of Brand and Consumer Marketing at Burson Marsteller. ". . .via partnership or other arrangement, they will find their way in before a competitor does to get exposure."[66]

On the other hand, casino specific suppliers face a tough battle. International Game Technology, better known as IGT, is the most successful maker of slots and electronic gaming machines and does well with its highly diversified offering of branded machines.[67] However, IGT has faced not only antitrust complaints from rival slotmaker Bally Technologies,[68] but battles with WMS Industries, another game manufacturer, and others in casino operations and security as well.[69] Due to this lack of industry solidarity, the major casinos in Las Vegas and Macau hold the winning hand.

Specialized assets such as the exclusive rights to a high demand show, popular entertainer, or even a celebrity chef are significantly more expensive on relative terms but, compared to the revenue they can generate, represent a small portion of total expenses and can pay off in spades.[70]

The Players

Hotel/casinos derive revenue from two distinct customer bases: conventions, purchased with corporate dollars, and leisure travelers not affiliated with an event or meeting.[71] Although trade shows, associations, and corporations have traditionally paid a premium to meet in Las Vegas, the recession allowed what was left of these customers to extract substantial discounts from hotel/casinos.[72] With alternatives to Vegas cropping up across the country, corporate pricing power now extends not only to pitting hotel/casinos against one another to host events, but to one geographic destination as compared to another as well. Jill Goldner, head of travel and meeting services for Sketchers USA, said that while Las Vegas was historically a lead candidate for major events, other locations, fueled by municipal and state government incentives, are offering loss-leading hospitality and exhibition packages to secure long-term deals.[73] Although conventions account for less than 20 percent of Las Vegas business, they are a rich and essential overall piece of the pie given their spending patterns, and their relative absence has seated bargaining power squarely with consumers.[74]

In addition to discounts for corporate travelers, former Jefferies casino analyst and LVS consultant Larry Klatzkin said that the occupancy and utilization hole left by fewer conventions has created a several-year buying power opportunity for leisure travelers who, of late, have been staying in hotels and dining at locations that would normally be well outside their normal price range. While temporary, the bargaining power of the leisure traveler is likely to remain for several more years. To the hotel/casino owner, however, leisure travelers are next to no help at all as they are less likely to deliver revenue to on-site entertainment venues or high-end dining, preferring to go off site to less expensive options.[75] Needless to say, with luxury properties at rock bottom, losses at lower-tier properties have been pushed even further.

Despite the bargaining power of individual buyers, rising airfares and travel costs have enhanced the popularity of the newly coined "staycation" whereby potential vacationers enjoy time off closer to their physical home.[76] Additionally, unlike the Chinese gaming demographic that has the cash flow to spend without having to forego saving, Americans are now more carefully deciding what to do with their smaller cash streams.

The Wild Card

Aside from the fact that the capital requirements just to construct, let alone operate a casino are daunting, the US hotel/casino market is currently saturated with rooms and gaming space and it is estimated to be several years before this capacity is absorbed.[77] In addition, with the era of cheap money likely ending,[78] a new entrant would have significant difficulty securing financing for a competitive project and, in the market today, would have to operate with untenable discounts. Even were these challenges surmounted, creating a destination unique enough to lure away the deeply loyal customers of other resorts is unlikely.

The existing major gaming concerns also hold the advantage when it comes to attracting top shows and performers. Furthermore, gaming companies must secure premium advertising channels and retail tenants.[79] Here, the issue is not of a store refusing to carry a product, but a new entrant's ability to secure desirable partners in the absence of a significant value-driving brand. With those partners only interested in extending reach at prime destinations, the well-established relationships built by MGM, Wynn, Caesars, and others will not be easily unseated. These barriers are furthered by government policies and dynamics where, within an already heavily regulated structure where long cultivated personal relationships are critical, the major players are already well ensconced with the American Gaming Association speaking for them.

Finally, according to an industry insider, retaliation from the major players would be "brutal."[80] The overall collection of resources, systems, political power, and financial power concentrated in the hands of the top hotel/casinos would make it nearly impossible for a new operator to succeed. Often cited is the experience of the Sahara: upon its assumption of the Sahara, novice operator SBE, an owner/operator of hotels and nightclubs in Los Angeles, was unprepared to compete directly with other mid-market offerings and failed to establish a strong brand strategy, even as it looked to redevelop. The result was a quick shuttering of the historic Las Vegas casino in May 2011.[81]

Forbidden in the US, Internet gambling—what would otherwise be a strategic bypass of these various challenges—is not an option.

Playing a Player

The rivalry among the largest hotel/casinos has been fueled by desperate attempts to stay economically viable in a difficult time. Pre-recession, the rivalry assumed the form of "bigger is better" with MGM, LVS, Wynn, Caesars, and Boyd each attempting to top one another with more extravagant showpiece casinos (Borgata, CityCenter, etc.) and serial acquisitions spurred by vibrant and seemingly unlimited debt markets. Currently, each is battling to attract US visitors to Las Vegas with a handful attempting to simultaneously pursue the lucrative Macau market and yet another mix concentrating on burgeoning regional markets such as Pennsylvania and Ohio.[82] However, the attention paid to Macau and regional locations is diminishing the pot in Las Vegas.[83] UBS analyst and portfolio manager Robert McCarthy calls the sector "the most competitive besides tech, with bigger egos and bigger bankrolls. . . . Share of wallet is only so much, and even loyal customers are subject to relentless entreaties for their limited money."[84] Users of high-end casino features such as restaurants, spas, and golf courses spend a greater total percentage of money gambling, so each casino is determined to keep them on site to capture those bets.[85] The intensity of the rivalry is so great, leaders taunt each other by name when poaching convention business. Though their balance sheets look different, most of MGM's competitors are equally balanced across customer segments (value, mid-market, and luxury) with Sands and Wynn going toe-to-toe with MGM in Macau—and understandably so as, in February 2010 alone, Macau casinos generated $1.68 billion+[86] and the local government is highly motivated to move infrastructure projects along to deliver additional visitors.[87] Industry growth overall has been notably slowed in Las Vegas by the recession; however, domestic gaming-focused destinations and Asian properties are thriving.

Winner Takes All

As with many industries, the hotel and gaming industry suffered a direct hit during the most recent recessionary period with consumer discretionary spending—the primary sales driver for the industry—dropping 43 percent from December 2007 through January 2011.[88] After record revenues of $7.7 billion in 2007,[89] MGM realized a net reduction of 16.5 percent to $6.0 billion in net sales from the fiscal years ending 2007 to 2010.[90] During this same period, direct competitors LVS and Wynn *increased* net sales via casino openings by 132 percent and 56 percent, respectively.[91, 92] MGM saw a 3.3 percent increase in its 2011 first quarter year over year revenue—from $1.457 billion to $1.505 billion.[93] This increase was primarily derived from non-casino revenues (room, food and beverage, entertainment, and retail). The 3.3 percent increase is lackluster, however, compared to that of competitors with average increases seen by Boyd, Penn, Wynn, and LVS in this period at 36.4 percent (Exhibit 13).

Exhibit 13 Industry Ratios

	MGM	LVS	Wynn	Penn	Boyd	MGM Ranking (Out of 5)
Profitability						
Return on assets	1.1%	3.7%	5.7%	5.0%	2.2%	5
Return on capital	1.4%	4.2%	6.5%	5.6%	2.6%	5
Return on equity	(41.9%)	9.9%	11.4%	(3.4%)	1.5%	5
Margin						
Gross Margin %	37.6%	43.5%	69.2%	40.4%	37.6%	5
SG&A Margin %	20.8%	12.2%	9.3%	16.7%	19.5%	5
EBITDA Margin %	16.7%	28.8%	25.2%	23.7%	17.7%	5
Net Income Margin %	−23.9%	8.7%	3.8%	−2.4%	0.5%	5
Liquidity						
Current Ratio	1.2x	1.6x	1.8x	0.7x	0.5x	3
Quick Ratio	0.8x	1.4x	1.6x	0.4x	0.3x	3
Leverage						
Debt to Equity	401.9%	120.2%	138.2%	123.7%	247.0%	5
Debt to Capital	80.1%	54.6%	58.0%	55.3%	71.2%	5
Liabilities/Assets	84.2%	59.9%	64.3%	60.2%	75.3%	5
Other						
Capex as a % of Revenue	3.4%	29.5%	6.8%	14.8%	4.1%	5
Q1 2011 YoY Revenue Improvement	3.3%	38.7%	58.3%	12.6%	36.1%	5
Q1 2011 Stock Performance	−11.4%	−8.1%	22.5%	5.4%	−11.6%	4
Full Year 2010, unless otherwise noted						

Source: Capital IQ. MGM Resorts International. Retrieved May 5, 2011 from www.capitaliq.com

In 2010, MGM's casinos contributed 36.7 percent of overall gross revenue ($2.443 billion), down from 39.4 percent ($2.618 billion) in 2009. This reduction was primarily driven by a 13 percent decrease in revenue from table games. Non-casino revenue saw a slight improvement in 2010, increasing its portion of gross revenue from 60.6 percent, or $4.026 billion, to 63.3 percent, or $4.210 billion.[94]

From 2007 to 2010, with immense pressure on top-line revenues, MGM gross margins incurred a 1,006 basis point decline, from 47.6 percent to 37.6 percent.[95] At 37.6 percent, this 2010 gross margin is well below those of LVS (43.5 percent) and Wynn (69.3 percent). However, recent cost savings strategies, along with the introduction of M-Life—a customer rewards program—have proven favorable to gross margin performance, providing 64 basis points of gross margin improvement and moving MGM from 36.9 percent in the first quarter of 2010 to 37.5 percent for the same period in 2011.[96]

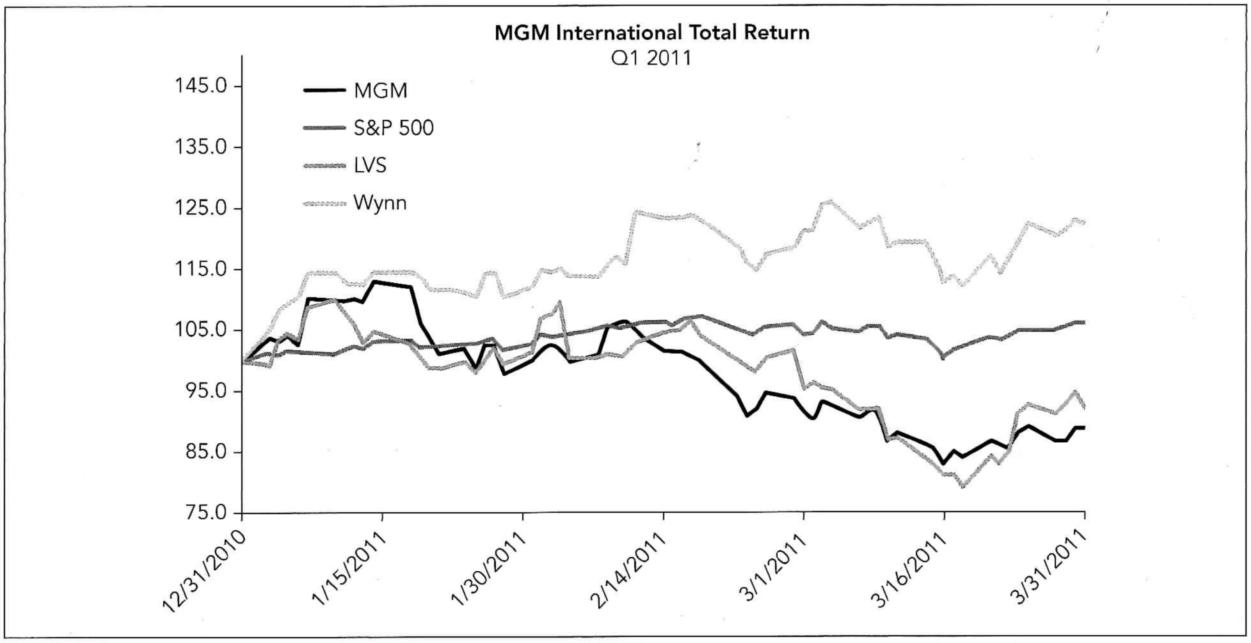
In 2010, three properties—Bellagio, MGM Grand Las Vegas, and MGM Grand Detroit—contributed over 67 percent of operating income (before corporate expenses).[97] MGM Macau showed the greatest increase in profitability jumping from $24.6 million in 2009 to $129.6 million in 2010.

Like revenues, MGM's peak earnings occurred in 2007, with earnings from continuing operations of $1.4 billion, and earnings per share (EPS) of $4.70.[98] During the subsequent recessionary years, earnings fell 200 percent to −$1.4 billion in 2010. EPS followed, falling $7.89, to −$3.19. Competitors LVS and Wynn did not see this large decrease in profitability. In fact, LVS had an increase of over $650 million in earnings from 2007 to 2010 and an EPS increase of 55 percent, from $0.33 to $0.51.[99] Wynn also increased its earnings by over $120 million; however, its EPS declined 28 percent from $1.80 to $1.29.[100]

From December 2007 to March 2011, MGM share prices fell 84 percent, from $84.02 to $13.15.[101] Over the same period, LVS share prices fell only 59 percent, from $103.05 to $42.22 (Exhibit 14). Wynn has actually provided shareholders with a 30.8 percent increase in share price from year ending 2007 to first quarter ending 2011. Looking at only the first quarter of 2011, MGM shares have declined 11.4 percent. This decline is second within the industry only to Boyd, with an 11.6 percent share price decline. LVS, Penn, and Wynn all outperformed MGM providing returns of −8.1 percent, 5.4 percent, and 22.5 percent, respectively.

With the majority of MGM's revenue cash based, operating cash flows are significant.[102] Because of the capital intensive nature of the industry, these significant operating cash flows provide the necessary capacity to fund reinvestment requirements throughout the company, repay debt financing, and provide excess cash for future needs. MGM's poorest operating cash flow performance in the last decade occurred in 2010 with $504 million in operating cash—a 59.1 percent reduction from its 2006 high of $1.232 billion (Exhibit 15).

Exhibit 14 MGM Resorts International vs. Peers 2011



Source: Capital IQ. MGM Resorts International. Retrieved May 5, 2011 from www.capitaliq.com

Exhibit 15 MGM Resorts International Annual Cash Flows

	Historical MGM Cash Flows (Summarized)					
	Fiscal Year Ending December 31,					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Net Income	443.3	648.3	1,584.4	(855.3)	(1,291.7)	(1,437.4)
D & A, Total	588.1	653.9	700.3	778.2	689.3	633.4
Amortization of Deferred Charges	5.8	(3.1)	4.3	10.6	50.9	88.0
Other Non-Cash Items, Total	189.8	124.8	(1,351.9)	1,306.3	1,568.8	1,021.1
Change in Net Operating Assets	(44.1)	(191.9)	57.2	(486.9)	(429.3)	198.9
Cash Flow from Operations	**1,182.8**	**1,232.0**	**994.4**	**753.0**	**587.9**	**504.0**
Capital Expenditure	(719.1)	(1,758.8)	(2,917.4)	(781.8)	(136.9)	(207.5)
Sale of P, P&E	7.8	11.4	47.6	86.0	22.3	77.6
Cash Acquisitions	(4,421.0)	0.0	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	746.3	0.0
Other Investing Activities	(170.5)	105.0	3,079.1	(1,285.7)	(962.0)	(456.2)
Cash Flow from Investing	**(5,302.8)**	**(1,642.4)**	**209.3**	**(1,981.4)**	**(330.3)**	**(586.1)**
Total Cash Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0
Issue/(Retire) of Debt	4,196.2	662.4	(1,804.5)	2,389.8	497.8	(1,872.7)
Issue/(Retire) of Common Equity	(71.6)	(157.8)	463.8	(1,240.9)	3,356.7	588.5
Financing Cash Flow Items	(61.8)	5.5	100.2	(26.9)	(2,365.7)	(190.9)
Cash from Financing Activities	**4,062.8**	**510.0**	**(1,240.5)**	**1,122.1**	**1,488.8**	**(1,475.2)**
Foreign Exchange Effects	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous Cash Flow Adjustment	0.0	(24.5)	0.0	(14.2)	14.2	0.0
Change in Cash	**(57.2)**	**75.0**	**(36.8)**	**(120.5)**	**1,760.6**	**(1,557.2)**

Source: Capital IQ. MGM Resorts International. Retrieved May 5, 2011 from www.capitaliq.com

Other competitors did not have this level of operational cash flow degradation over the same period, 2006 to 2010; Boyd decreased 32.0 percent, from $419.5 million to $285.1 million;[103] Wynn increased 339.1 percent, from $240.8 million to $1.057 billion;[104] and LVS increased operating cash flows by $2.067 billion, from −$196.7 million in 2006 to $1.87 billion in 2010.[105] With the high level of capital within the industry, a high level of expenditures is necessary to either maintain or revitalize assets. MGM is behind the industry in terms of reinvestment into its business, spending only 3.4 percent of sales in 2010 on capital expenditures.[106] This compares to 4.1 percent, 6.8 percent, and 29.5 percent in 2010 for Boyd, Wynn, and LVS, respectively. Certain industry analysts view MGM's low level of reinvestment in 2010 as a threat to the quality of the MGM portfolio.[107]

Carrying a high level of debt is indicative of a capital-intensive industry. In the early to mid 2000s, debt was cheap at rates of ~4.3 percent, relative to highs in the 80s of ~15 percent to 16 percent.[108] MGM took advantage of these rates during the pre-recessionary years, undertaking projects such as CityCenter and purchases including Mandalay Resort Group. With debt as its primary funding source, however, MGM was highly leveraged with net debt to EBITDA nearly doubling from 5.9x in 2006, to 11.5x in 2010.[109] The extent of MGM's leverage far exceeds that of its competitors at 8.8x, 3.6x, 3.4x, and 1.9x, for Boyd, LVS, Penn, and Wynn respectively. MGM considered and then ruled out selling locations from its portfolio. This was fortunate as the locations with the highest likelihood of sale (Detroit and Biloxi) ultimately proved to be the most accretive and cash flow generating businesses for MGM.[110] Instead, over the course of 2010 and start of 2011, MGM refinanced its debt, thus supplying sufficient liquidity through 2012 and into 2013.[111]

How It's Been Done

After its growth and acquisition period in the 90s and early 2000s, MGM was able to market its stable of holdings as "the finest assembly of resort brands in the hospitality industry."[112] Within the MGM portfolio are products and services that appeal to customers on both the high and value ends of the customer spectrum. Properties such as Bellagio offer exclusive products including world class restaurants and shopping, salon and spa treatments, limousine service, art collections, and full concierge services for its guests.[113] Targeting a different market segment, Circus Circus, for example, offers more value-oriented products and services such as a pizzeria and access to Dollar Rent-a-Car.[114] Because MGM's target markets vary, it aligns primary and secondary products and services to meet the particular needs of its customers and guests.

One of MGM's primary objectives is to operate all its properties with an emphasis on delivering excellent customer service. With guest and concierge services, MGM employees are available to fulfill just about any guest request. MGM's commitment to recruit, train, and retain well-qualified, motivated employees who provide superior and friendly customer service is evident in the exemplary service provided throughout the organization.[115]

Complimenting its service activities are MGM's marketing and sales activities. MGM offers unique, "must-see" entertainment attractions, communicated through distinctive and memorable promotional programs.[116] To encourage customer loyalty, MGM introduced its M Life Players Club at all wholly owned properties in 2010. M Life is a customer rewards club with a tiered point system. Customers earn points for purchases as well as gaming activity and can redeem those points for food, concerts, or other unique experiences.[117] Additional aspects of M Life include MGM's ability to personalize marketing, for example, "If a guest attends a Madonna concert, he or she might receive an offer to attend an upcoming Lady Gaga show."[118]

With its large-scale projects like CityCenter and MGM Macau, MGM has attempted to both solidify its place in Las Vegas and simultaneously expand its reach into a high growth international market. While these projects could provide unparalleled returns, their timing and costs have stressed the financial capacity and flexibility of MGM. In its 2011 first quarter earnings call, CEO Jim Murren confirmed that debt reduction and necessary renovations and upgrades are at the top of the priority list.[119] This continuous reinvestment through capital improvements plays a significant role in customers' perceived value as any visible degradation of properties or services signals lower quality and less value.

Leaders and Headings

Although Kirk Kerkorian is widely acknowledged as the Vegas visionary that helped build the modern MGM, in reality, he was more of a facilitator than a leader.[120] Kerkorian's April 2011 retirement "Director Emeritus" status leaves Jim Murren, the current Chairman and CEO, to navigate MGM (Exhibit 16). Beyond reducing its significant leverage, MGM Resorts International has a makeover to complete.

First and foremost is the question of whether MGM is properly managing its portfolio of properties. Should the company seek to shed underperforming assets or those that do not fit well into the organization post-recession? Is MGM well represented enough in

Exhibit 16 MGM Resorts International Executive Officers

Name	Age	Position	Year Started with MGM
James J. Murren	49	Chairman, CEO, President and Director	1998
Robert H. Baldwin	60	Chief Design and Construction Officer and Director	2000
William J. Hornbuckle	53	Chief Marketing Officer	1998
Corey I. Sanders	47	Chief Operating Officer	1997
Daniel J. D'Arrigo	42	Executive VP, CFO and Treasurer	2000
Phyllis A. James	58	Executive VP & Special Counsel—Litigation and Chief Diversity Officer	2002
Aldo Manzini	47	Executive VP and Chief Administrative Officer	2007
John McManus	43	Executive VP, General Counsel and Secretary	2001
William M. Scott IV	50	Executive VP—Corporate Strategy and Special Counsel	2009
Robert C. Selwood	55	Executive VP and Chief Accounting Officer	2000
Rick Arpin	38	Senior VP—Corporate Controller	2002
Alan Feldman	52	Senior VP—Public Affairs	2000
James A. Freeman	42	Senior VP—Capital Markets and Strategy	2010
Shawn T. Sani	45	Senior VP—Taxes	2002
Average Age	**48.6**	**Average Tenure at MGM through 2010**	**9.1 years**

Source: MGM Resorts International 10-k filing for year ended 2010 high growth areas? Are there acquisitions, even in an ambiguous economic landscape, that make sense considering the impending transformations of the domestic and Asian demographic markets?

Second, where can MGM most quickly make up the biggest differences between itself and its competitors? Are there experts or practices in complementary industries that could deliver systems that would be unique—and profitable—given the current circumstances of the hospitality and gaming industry?

Away from home, given the forecasts and development in Asia, what is the right model for MGM internationally? Has MGM given enough consideration to the end goals of its Asian customer or is it simply charging ahead with a "Las Vegas approach"?

And finally, does the ceremonial exit of its figurehead mark the end of an era or simply make MGM an open target? Do its partnerships with Dubai World and Pansy Ho—relationships that provide fiscal security and a capacity for growth it could not achieve independently—signal weakness and sully its reputation in the eyes of its customers and, if so, ultimately, is it worth it?

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