case study

Weathering the Storm: A case study of Wynn Resorts' financial performance during the economic downturn

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Introduction

Accompanied with massive expansion the casino industry in the United States experienced a consistent growth in gaming revenue from 1997 through 2007. However, during 2008, the industry experienced an unprecedented revenue decrease. According to the American Gaming Association (2010), commercial casinos produced $36.2 billion in 2008, a 3.5% decrease from 2007. The industry continued reporting revenue decreases in 2010, generating only $34 billion. This result was mainly caused by the decrease in employment rate and consumer confidence, in addition to catastrophic weather events, travelers' fear of terrorism, and health epidemics. Further, companies within the casino industry have faced slight margins and fierce competition (LexisNexis Academic, 2007). While economic conditions improved after 2010, the trend may not continue in the future and the extent of the projected economic improvement was unknown (Las Vegas Sands, 2011).

Wynn Resorts performed well in the capital markets during 2007 and maintained a low cost of capital. However, through 2010 the company did not produce net income as high as 2007 even with the addition of two new properties. On August 31, 2011, after the main competitors of Wynn Resorts (i.e., MGM Resorts International and Las Vegas Sands) released their financial performance and annual reports for 2010, Steve Wynn, CEO of Wynn Resorts, scheduled a meeting with his executive management. Mr. Wynn asked these executives to give him an analysis of how Wynn Resorts had performed compared to their main competitors during the recession and as the U.S. economy started to come out of the recession. According to the National Bureau of Economic Research (2010), the U.S. recession which started in December 2007 officially ended in June 2009. Mr. Wynn specifically asked the executives to complete a ratio analysis by computing and comparing ratios of Wynn Resorts and their two major competitors (use the table in the Appendix). Based on this analysis, he wanted management to propose strategic plans which could be presented to the Board of Directors that would increase the company's cash sources and maximize shareholder wealth.

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Economy Downturn and Impact on the Gaming Industry

The largest gaming market in the world through 2010 was the United States (PricewaterhouseCoopers, 2011). United States gaming revenue continually increased from $50.9 billion in 1997 to $92.3 billion in 2007 (American Gaming Association, 2010). Total gaming revenue included revenue from all forms of legalized gambling in the United States (e.g., commercial casinos, Indian casinos, bingos, lotteries, bookmaking for sport events, pari-mutuel for horse and dog racing, and card rooms). Particularly, commercial casinos experienced a significant revenue increase during this period, from $18.2 billion to $37.5 billion. However, they recorded their first decrease in gross gaming revenue in 2008, producing only $36.2 billion, a decrease of 3.5% from 2007. This trend continued in 2010, generating $34.6 billion in gross gaming revenue in 2010, a decrease of 7.8% from 2007 (American Gaming Association, 2010).

While the United States was the largest gaming market, Macau overcame the Las Vegas Strip as the largest gaming destination in 2006 (Cheng, 2007). According to Macau's Statistics and Census Service (2011), total gross gaming revenue increased every year from 2002 to 2010:from 23.5 billion Macau Pataca (MOP) in 2002 to 189.6 billion MOP in 2010, an increase of over 706%. Although Macau's gaming revenue saw a continual increase year after year, the increase slowed between 2007 and 2009 at the same time as the U.S. recession, but rebounded strong in 2010. The increase in gross gaming revenue was 46% in 2007, 31% in 2008, and 9.7% in 2009. During 2010, gross gaming revenue increased 57.5% over 2009.

These constant gaming revenue increases in previous years followed by both a decrease in gaming revenues in the United States and the slowdown in Macau gaming revenue growth during 2008 and 2009 clearly indicated that gaming companies were in a situation they have never been in before. Although the U.S. recession officially ended in June 2009, the U.S. poverty rate continued its upward march increasing to 15.1% in 2010 from 14.3% in 2009, and the employment rate continued to fall, reaching its lowest level since 1983 in July 2011 (Nichols, 2011). If the U.S. economy fell back into a recession, as some economists were warning, the consequences could be more painful than the last recession. On August 7, 2011, Conrad DeQuadros, senior economist at RDQ Economics said, "It would be disastrous if we entered into a recession at this stage, given that we haven't yet made up for the last recession" (Rampell, 2011, p.1). Consequently, gaming companies, in addition to their creditors and investors, started looking more in depth at the companies' financial performance.

Company Background: Wynn Resorts

Business Summary

As of December 2010, Wynn Resorts (WYNN) owned and operated four destination casino resorts: Wynn and Encore in Las Vegas and Wynn Macau and Encore at Wynn Macau in Macau. Wynn Las Vegas featured 2,716 guest rooms and suites, an 111,000 square foot casino, 22 food and beverage outlets, an on-site 18-hole golf course, a spa and salon, two night clubs, a showroom, and 74,000 square feet of high-end retail. Encore in Las Vegas which opened in December 2008 was connected to Wynn in Las Vegas and featured a 2,034 all-suite hotel and a 76,000 square foot casino. The resort offered 13 food and beverage outlets, two night club and lounges, a spa and salon, 60,000 square feet of meeting space, and 27,000 square feet of retail outlets featuring boutiques. Wynn Macau opened in September 2006 and featured 595 hotel rooms and suites, 222,000 square feet of casino gaming space, six restaurants, a spa, lounges, meeting facilities and 48,000 square feet of retail spaces. Encore at Wynn Macau opened in April 2010 and similar to the Las Vegas property was connected to Wynn Macau and included a hotel consisting of 414 suites and villas, 34,000 square feet of gaming space, two restaurants, a spa, and retail. In addition, Wynn Resorts, through Wynn Macau, had been granted a concession to manage other gaming properties in Macau (Wynn Resorts, Limited, 2011).

SWOT Analysis

Wynn Resorts believed that majority owner Steve Wynn was the preeminent designer, developer, and operator of destination casino resorts and had developed brand name status. Mr. Wynn's involvement provided a distinctive advantage over other gaming enterprises. Unlike their main competitors, such as MGM Resorts International (MGM) and Las Vegas Sands (LVS), the company provided only full-service luxury resorts, targeting a high-end market. The company's other strengths included database marketing technology and approximately a 70-person design, development, and construction subsidiary, of which senior management had significant experience in all major construction disciplines (Wynn Resorts, Limited, 2009). The main weaknesses were the dependence on Mr. Wynn and existing management, the dependence on a limited number of properties and locations for all of its cash flow, and being highly leveraged. In addition to being highly leveraged, the debt facilities which held this liability had financial covenants which restricted the company from some transactions and required certain ratios to be at or above minimums or below maximums (Wynn Resorts, Limited, 2011). Another weakness of WYNN was its reliability on high-end and international customers.

Opportunities for the company included a rise in two-income households, U.S. GDP growth, and potential in overseas markets. Threats included increased competition in the industry. For example, a number of gaming facilities were located closer to where the com-

Table 1

Summary of Financial Highlights: Wynn Resorts (Thousand USD, except stock price)

	2010	2009	2008	2007	2006
Total Net Revenue	4,184,700	3,045,610	2,987,320	2,687,520	1,432,260
Operating Income	625,250	234,960	313,850	429,400	70,900
EBIT	559,910	253,490	321,980	471,010	947,250
Interest Expense	222,860	211,390	172,690	143,780	148,020
Net Income	160,130	20,650	210,210	258,150	628,730
Current Assets	1,561,140	2,282,960	1,411,090	1,581,990	1,095,790
Total Assets	6,674,500	7,581,770	6,742,620	6,299,280	4,660,180
Current Liabilities	887,930	725,590	723,780	585,180	511,090
Long Term Debt	3,264,850	3,566,430	4,290,420	3,533,340	2,380,540
Total Liabilities	4,293,910	4,421,410	5,150,100	4,351,120	3,014,600
Stockholders' Equity	2,380,590	3,160,360	1,592,520	1,948,160	1,645,580
Net Operating Cash Flow	1,057,310	593,960	523,180	659,170	240,770
Net Investing Cash Flow	(296,120)	(551,080)	(1,339,000)	(1,322,740)	401,810
Net Financing Cash Flow	(1,492,640)	815,520	667,570	1,151,940	(287,460)
Closing Stock Price	103.84	58.23	42.26	112.13	93.85

Table 2

Stock Performance Comparison (Percent)

	2010	2009	2008	2007	2006
WYNN	78.3	37.8	(62.3)	25.9	82.0
LVS	207.6	151.9	(94.2)	15.2	126.7
MGM	62.8	(33.7)	(83.6)	46.5	56.4
S&P 500	12.8	23.5	(38.5)	3.5	13.6

pany's customers lived than the company's own properties. Other domestic threats included decreases in airline capacity to Las Vegas, increasing tax rates and unemployment rate, the weak housing market and consumer confidence, and the decrease in liquidity in the U.S. credit markets. Global threats included global economic downturn, foreign currency fluctuations, adverse tax consequences, government regulations, and general geopolitical risks. For example, during 2009, China implemented certain policies which limited visitation to Macau and Hong Kong by mainland Chinese residents.

Financial Highlights

As displayed in Table 1, overall, the company's financial highlights were favorable for the time period. Total revenue over the five year period increased from $1.4 billion to $4.2 billion and increased every year in the period even during the U.S. recession from 2008 to 2009. Some of this increase was attributed to the opening of two properties, Encore Las Vegas in 2008 and Encore at Wynn Macau in 2010. However, the same was not true for EBIT (earnings before interest and taxes), operating income, and net income. Neither EBIT nor net income was back at the prerecession level of 2006, although both increased in 2010 as compared to 2009 after three years of decreases. Operating income of $625.3 million in 2010 was above 2006 and 2007 after two years of declining performance. The Las Vegas properties showed an increase in EBITDA (earnings before interest, taxes, depreciation, and amortization) in 2010 for the first time since 2007. The company's long-term debt increased through 2008 to $4.3 billion, but after that there was a decline. As of December 31, 2010 the company had $3.3 million in long-term debt, and $1.1 billion in net cash flow from operations in 2010 to pay down this debt.

WYNN's stock closed at $103.84 at the end of 2010, the highest year end closing since 2007. This was also the second highest year end closing stock price in all five years. Table 2 shows how WYNN's common stock performed over the five years as compared to LVS, MGM, and the S&P 500. In years when WYNN's stock had a positive return, it outperformed the S&P 500 producing returns 61% to 640% higher. In 2008 when the stock had a negative return of 62.3%, it performed 61.9% worse than the S&P 500. The percentage return in 2010 was close to the returns produced in 2006.

Factors effecting Wynn's performance during 2008-2010

The company's revenue reflected an increase in casino income due to high-end gaming markets and higher income from food & beverage, entertainment, retail, and other services. In 2008, the company experienced a $162.6 million decrease in casino revenue at Wynn Las Vegas, yet a $474.7 million increase in casino revenue at Wynn Macau (Wynn Resorts Limited, 2009). The opposite occurred in 2009 with an increase in casino revenue at the Las Vegas properties of $55.1 million and a decrease at Wynn Macau of $81.2 million (Wynn Resorts Limited, 2010). In 2010, both markets had an increase in casino revenue with $28.5 million occurring at the two Las Vegas properties and $1,009.8 million occurring at the two Macau properties. The company's net income was offset by higher operating expenses due to increased revenue and new revenue generated by the two new properties, increased depreciation & amortization charges, and higher interest expenses (Wynn Resorts Limited, 2011). General and administrative expenses also increased mainly related to the opening of the two additional properties. The provision for doubtful accounts increased during 2008 primarily due to an increase in casino revenue at Wynn Macau. This expense decreased again in 2009, just to increase in 2010 due to the opening of Encore at Wynn Macau (Wynn Resorts Limited, 2011). Depreciation and amortization expenses for 2010 were $405.6 million, an increase of $185.7 million when compared to 2007, primarily due to the opening of Encore at Wynn Las Vegas and Encore at Wynn Macau. The company's interest expense of $222.8 million in 2010 was an increase of $79 million over 2007. This increase was mainly due to the interest expense for Encore at Wynn Las Vegas that was capitalized instead of expensed (Wynn Resorts Limited, 2009). WYNN's outstanding long-term debt as of December 31, 2010 was $269.1 million less than that as of December 31, 2007.

Major Competitors

1. Las Vegas Sands Corp

Business Summary

As of December 2010, Las Vegas Sands (LVS)'s principal operating and developmental activities occurred in the following geographic areas (Las Vegas Sands, 2011):

- Las Vegas in the U.S.: The Las Vegas properties included The Venetian Las Vegas, The Palazzo, and The Sands Expo Center. Both The Venetian Las Vegas and The Palazzo included hotel rooms (4,027 suites and 3,066 suites, respectively), gaming space (120,000 square feet and 105,000 square feet, respectively), entertainment, spas, food and beverage outlets, and retail stores. With approximately 1.2 million gross square feet of exhibit and meeting space, The Sands Expo Center was one of the largest overall trade show and convention facilities in the U.S.
- Pennsylvania in the U.S.: In 2009, the company partially opened

the Sands Bethlehem with 146,000 square feet of gaming space, a hotel, retail space, and dining outlets. In 2010, the company recommenced construction of a 300-room hotel tower, which was expected to open in 2011.

- Macau, a special administrative region of the People's Republic of China: The Macau properties included The Venetian Macao, the Sands Macao, and the Four Seasons Hotel Macao. All properties included hotels, gaming space, entertainment facilities, restaurants, and retail space. The hotel within the Four Seasons Macao was operated by Four Seasons Hotel, Inc.
- Singapore: Marina Bay Sands had a staggered opening throughout 2010. This resort featured three hotel towers (with 2,600 rooms and suites), the Sands SkyParkTM, 161,000 square feet of gaming space, an enclosed retail, dining and entertainment complex, a convention center and meeting room complex, and theaters.

SWOT Analysis

LVS was a diversified company in many markets inside and outside of the United States. Strengths included diversification and strong brand awareness. LVS was diversified by geography and serviced offered. By having domestic properties in Nevada and Pennsylvania and international properties in Macau and Singapore, LVS had decreased their reliance on one particular market. LVS had also diversified within the hospitality industry. Instead of concentrating on just gaming revenues, they focused on hotel and convention business. The main weaknesses of LVS was the strong reliance on debt for development and the fact that Sheldon Adelson and his family own 49% of the company as of December 31, 2010, so they owned the controlling interest in all decisions made by the Board of Directors. Opportunities and threats are external to a company and should be similar for companies that are in the same industry and within the same geographic locations (Shoemaker, Lewis, & Yesawich, 2007). Based on each company's annual reports, these opportunities and threats were similar for the three companies evaluated in this study (Las Vegas Sands, 2011; MGM Resorts International, 2011; & Wynn Resorts, Limited 2011).

Financial Highlights

As shown in Table 3, overall, the company's financial highlights were favorable. Total revenue over the five year period increased from $2.2 billion to $6.9 billion and increased every year even during the recession (2008-2009). During this period, LVS's properties in Macau generated more revenues than the properties in Las Vegas. In 2008, the Macau resorts generated $3.0 billion which was $1.7 billion more than what the Las Vegas properties generated. The revenue contributed from the properties in Macau increased in 2009 and 2010 to $4.1 billion. On the other hand, the revenue from the Las Vegas properties decreased through 2009 and 2010 to $1.2 billion. The company's EBIT, operating income, and net income decreased each year from 2007 to 2009, but increased in 2010. The company's long-term debt increased over the five year period mainly due to the new properties developed in Singapore and Macau. As of December 31, 2010, the company had long-term debt of $9.4 billion and net operating cash flow of $1.9 billion to pay down this debt (Las Vegas Sands, 2008; 2009; 2011).

Table 3

Summary of Financial Highlights: Las Vegas Sands Corp (Thousand USD, except stock price)

	2010	2009	2008	2007	2006
Total Net Revenue	6,853,180	4,563,100	4,389,950	2,950,570	2,236,860
Operating Income	1,180,590	(28,740)	163,660	330,010	574,090
EBIT	1,162,720	(50,760)	198,570	383,090	640,090
Interest expense	306,810	321,870	421,830	244,810	135,850
Net Income	599,390	(354,480)	(163,560)	116,690	442,000
Current Assets	4,058,910	5,632,670	3,741,280	1,379,090	1,093,560
Total Assets	21,044,310	20,572,110	17,144,110	11,466,520	7,126,460
Current Liabilities	2,600,410	1,839,310	1,530,420	1,493,270	734,650
Long Term Debt	9,373,760	10,852,150	10,356,120	7,518,000	4,136,150
Total Liabilities	12,609,740	13,220,690	12,403,710	9,206,240	5,051,310
Total Equity	8,434,570	7,351,420	4,740,400	2,260,280	2,075,150
Net Operating Cash Flow	1,870,150	638,610	127,790	365,460	(196,720)
Net Investing Cash Flow	(2,707,820)	(2,010,060)	(3,570,960)	(3,287,430)	(2,235,860)
Net Financing Cash Flow	(1,127,560)	3,305,970	5,605,240	3,322,870	2,442,980
Closing Stock Price	45.95	14.94	5.93	103.05	89.48

While LVS's stock price was at $45.95 at the end of 2010 and the highest since 2007, it was still 55% lower than 2007. The closing price in 2010 was also lower than 2006. Table 2 shows that when LVS's stock had a positive return it outperformed the S&P 500, producing returns over three times higher. In 2010, LVS outperformed the S&P 500 by over 1500%. In 2008 when the stock had a negative return of 94.2% it performed almost 145% worse than the S&P 500. 2009 and 2010 showed the largest percentage return for LVS of the five years.

Factors effecting LVS's performance during 2008-2010

LVS showed a decrease in net income of $280 million or 240% even though revenue increased $1.4 billion or 49% from 2007 to 2008. The $900 million increase in revenue was due to additional casinos revenues at The Venetian Macao. While LVS had a dramatic increase in revenue from 2007 to 2008, management was not able to bring that to the bottom line during 2008 or 2009. However, the company's financial performance improved in 2010 with net revenues of $6.9 billion, an increase of $2.29 billion compared to 2009, and with net income of $599.4 million in 2010, a 312% increase from a loss of $354.5 million in 2009. This increase was mainly driven by $1.3 billion of net revenues at Marina Bay Sands in Singapore, which opened in April 2010, as well as an increase of $849.5 million from LVS's Macau properties and $106.8 million from LVS's Las Vegas properties (Las Vegas Sands, 2011). During 2010, operating expenses were $5.7 billion, an increase of $3.1 billion as compared to $2.6 billion for 2007. This increase was primarily attributable to the opening of new properties, increased casino activity across multiple properties, and an increase in general and administrative expenses and depreciation and amortization expenses. In 2010, depreciation and amortization expenses were $650.0 million, an increase of $447.4 million over 2007. This increase was primarily due to a full year of depreciation expense related to the new properties. The additional casino expenses were largely attributable to the 39% gross win tax on the additional revenue generated at the Macau properties (Las Vegas Sands, 2011).

2. MGM Resorts International

Business Summary

As of December 2010, MGM Resorts International (MGM) was a holding company, which owned and operated hotel, casino, and entertainment resorts. The company consisted of 15 wholly-owned casino resorts and 50% investments in four other casino resorts in the following locations (MGM Resorts International, 2011):

- Las Vegas in Nevada: CityCenter (50% owned), Bellagio, MGM Grand Las Vegas (including The Signature), Mandalay Bay, The Mirage, Luxor, New York-New York, Excalibur, Monte Carlo, and Circus Circus Las Vegas.
- Other locations in Nevada: Circus Circus Reno and Silver Legacy (50% owned) in Reno; Gold Strike in Jean; Railroad Pass in Henderson.
- Other locations in the U.S.: MGM Grand Detroit in Detroit, Michigan; Beau Rivage in Biloxi, Mississippi and Gold Strike Tunica in Tunica, Mississippi; Grand Victoria (50% owned) in Elgin, Illinois.
- Macau, a special administrative region of the People's Republic of China: MGM Macau (50% owned).

MGM embarked on its most ambitious development with an $11 billion mega-resort in Las Vegas on 66-acres between Bellagio and

Table 4

Summary of Financial Highlights: MGM Resorts International (Thousand USD, except stock price)

	2010	2009	2008	2007	2006
Total Net Revenue	6,019,230	5,978,590	7,208,770	7,691,640	7,175,960
Operating Income	(1,158,930)	(963,880)	(129,600)	2,863,930	1,758,250
EBIT	(1,102,450)	(1,237,160)	(59,700)	2,866,770	1,738,290
Interest Expense	1,113,580	775,430	609,290	708,340	760,360
Net Income	(1,437,400)	(1,291,680)	(855,290)	1,584,420	648,260
Current Assets	1,455,650	3,053,500	1,533,030	1,175,390	1,514,750
Total Assets	18,961,050	22,518,210	23,274,720	22,727,690	22,146,240
Current Liabilities	1,246,220	2,383,600	3,002,580	1,724,690	1,648,100
Long Term Debt	12,047,700	12,976,040	12,416,550	11,175,230	12,994,870
Total Liabilities	15,962,500	18,647,780	19,300,360	16,666,980	18,296,690
Stockholders' Equity	2,998,550	3,870,430	3,974,360	6,060,710	3,849,550
Net Operating Cash Flow	504,010	587,910	753,030	994,420	1,217,410
Net Investing Cash Flow	(586,080)	(330,260)	(1,981,440)	209,300	(1,652,430)
Net Financing Cash Flow	(1,475,180)	1,488,750	1,122,080	(1,240,540)	510,020
Closing Stock Price	14.85	9.12	13.76	84.02	57.35

Appendix

Ratio Comparison: WYNN, LVS, and MGM

	Wynn Resorts					Las Vegas Sands					MGM Resorts International				
Profitability Ratios	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
EPS (Total, Diluted)	$1.29	$0.17	$1.92	$2.34	$6.24	$0.51	($0.82)	($0.48)	$0.33	$1.24	($3.19)	($3.41)	($3.06)	$5.31	$2.22
Price/Earnings ratio (a)	80.50	342.50	22.00	47.90	15.04	90.10	(----)	(----)	312.30	72.20	(----)	(----)	(----)	15.80	25.80
Gross profit Margin	36.10%	35.50%	35.90%	40.30%	42.80%	44.60%	38.10%	38.30%	42.40%	48.40%	39.00%	41.70%	42.70%	46.20%	47.20%
Net Profit Margin	3.80%	0.70%	7.00%	9.60%	43.90%	8.70%	(7.80)%	(3.70)%	4.00%	19.80%	(23.90)%	(21.60)%	(11.90)%	20.60%	9.00%
Return on Assets (a)					14.61%					8.03%					3.03%
Total Asset Turnover (a)					0.33					0.41					0.33
Payout ratio (a)	658.91%	2352.9%	0	256.41%	96.15%	0	0	0	0	0	0	0	0	0	0
Return on Equity (a)					39.19%					23.99%					18.30%
Liquidity Ratios															
Working Capital (Thousand USD) (a)															
Current Ratio (a)															
Inventory Turnover	27.60	17.20	19.70	23.30	15.70	128.00	101.10	111.20	105.60	103.80	37.00	32.70	34.80	33.80	32.90
Days in inventory (a)															
Receivables Turnover	24.60	21.90	19.60	16.80	12.50	11.60	10.80	15.30	16.40	17.30	9.60	10.70	18.50	19.40	19.50
Average collection period (Days) (a)															
Solvency Ratios															
LT Debt to Total Asset (a)															
LT Debt to Equity (a)															
Total Debt to Equity (a)															
# of times Interest earned (a)															
Free cash flow (Thousand USD)	(418,650)	(436,850)	(853,590)	(391,410)	437,360	(247,230)	(1,548,980)	(3,661,222)	(3,478,246)	(3,478,246)	209,420	(512,620)	(28,722)	752,948	(666,639)

*Notes:

1. Blank ratios should be computed based on information within the case study.
2. Some ratios were retrieved from CoreReference. Most ratios were calculated by the authors based on each company's annual reports and are marked by (a).
3. The (----) signs indicate that the calculated values are less than zero.

Monte Carlo. The mega-resort, CityCenter, opened in December 2009 and consisted of (1) Aria, a 4,004-room casino resort; (2) Mandarin Oriental Las Vegas, a 392-room non-gaming boutique hotel; (3) Crystals, a 425,000 square foot retail district; (4) Vdara, a 1,495-unit luxury condominium-hotel; and (5) restaurants and entertainment venues. In addition, this mega-resort featured residential units in the Residences at Mandarin Oriental (225 units) and at Veer Towers (699 units) (MGM Resorts International, 2011).

SWOT Analysis

MGM's famous brands and its positioning strategies for different segments made it easier for the company to pursue international expansion. The company's strengths included brand quality, economies of scale in operations, purchasing, and marketing, advanced technology, recognitions for its industry-leading diversity initiatives, and community philanthropy programs. In 2010, the company introduced a new players' club loyalty program (M life) which was a tiered system and allowed customers to qualify for benefits across multiple MGM properties regardless of where they stayed. Other strengths were providing unique entertainment attractions, targeting markets with growth potential, and investing in and managing non-gaming resorts. The company stated in their 2010 annual report that over half of their net revenues came from non-gaming activities and that their convention facilities helped to maximize hotel occupancy during off-peak periods (MGM Resorts International, 2011, p. 8). The main weaknesses of the company were its high level of leveraging from its expansions and limited geographic diversification. Particularly, the expansion projects involved risks and uncertainties. For instance, the design, timing, and cost of the projects may have changed and been subject to risks attendant to large-scale projects. In addition, with the opening of properties in CityCenter, the risk of cannibalization of the company's existing properties in the market increased. For example, Aria, Bellagio, MGM Grand Las Vegas, Mandalay Bay, and The Mirage competed for some of the same premium gaming customers. The company's opportunities and threats were similar to those of WYNN (MGM Resorts International, 2011).

Analysis of Financial Highlight

As displayed in Table 4, overall, the company's financial highlights were favorable in 2007. The company's total revenue, EBIT, operating income, and net income increased by 7% to 144% compared to 2006. In addition, the company's long-term debt decreased by 14% during 2007. However, the company's financial highlights became unfavorable during the recession period (2008 and 2009) as total revenue decreased from $7.7 billion in 2007 to $6.0 billion in 2009. Although the company's revenue and EBIT slightly increased during 2010, the company's operating income and net income had decreased every year since 2008. As a result, the company generated a net loss of $1.4 billion even after the recession. During 2008 and 2009, the company's long-term debt increased to $13.0 billion, but slightly decreased through 2010 to $12.1 billion. As of December 31, 2010, MGM had $504.0 million in net cash flow from operation to pay down the debt. MGM's cash flow from operations decreased by 24% during 2008 and continued to decrease through 2009 and 2010.

MGM's closing stock price in 2010 was the highest since 2007 at $14.85. This though was still 82% lower than 2007 and 74% lower than 2006. Evaluating Table 2 shows that in 2008 and 2009, MGM's stock had a negative return. Even as the S&P 500 seemed to have adjusted in 2009 for the bad performance in 2008, MGM did not. MGM did produce positive returns in 2010 though that were almost four times that of the S&P 500. The stock return percentage in 2010 was larger than any of the five years.

Factors effecting MGM's performance during 2008-2010

The main reasons for the net income decrease during 2008 included: (1) no more gains from the CityCenter partnership, (2) a non-cash impairment charge, (3) a significant tax payment of approximately $300 million related to the 2007 CityCenter transaction, and (4) a decrease in revenue. The company recognized a $1.0 billion pre-tax gain on the contribution of CityCenter to a joint venture during 2007 (MGM Resorts International, 2008). During 2008, the company had a $1.2 billion non-cash impairment charge related to goodwill and indefinite-lived intangible assets which were recognized in the 2005 acquisition of Mandalay Resort Group. This impairment charge resulted from factors impacted by economic conditions (MGM Resorts International, 2009). In addition, total revenue decreased by approximately 6% during 2008, including a 12% decrease in table games, a 5% decrease in slots, and a 10% decrease in rooms, mainly due to decreased volumes. The company's revenues continued decreasing by 17% in 2009, but increased by 1% in 2010. In particular, CityCenter generated a loss of $208.6 million in 2009 and of $250.5 million in 2010. Meanwhile, the company's income from MGM Macau increased to $11.9 million in 2008, $24.6 million in 2009, and $129.6 million in 2010 (MGM Resorts International, 2011).

The company attempted to increase net income by decreasing expenses during 2008. For instance, a 44% decrease in corporate expense in 2008 was mainly attributable to cost reduction efforts implemented throughout the year (e.g., the elimination of annual bonuses and reduced salaried management positions). The company's corporate expense in 2009 increased by 32% due to legal and advisory costs, but decreased by 14% in 2010. Depreciation and amortization expenses for 2010 decreased 8% due to certain assets being fully depreciated. The sale of Treasure Island was the main reason for the decrease in depreciation and amortization expenses in 2009. The company's interest expense for 2010 was $1.1 billion, an increase of $405.2 million when compared to 2007, mainly due to higher interest rates on the company's senior credit facility and newly issued fixed rate borrowings. In 2009, the company reviewed their CityCenter investment and found the investment may have experienced an "other-than-temporary" decline in value. Accordingly, the company recorded an impairment charge of $956 million. In 2010, due to the company's assessment of the uncertainty of fully recovering their investment, the company recorded an additional impairment charge of $1.1 billion for the CityCenter investment (MGM Resorts International, 2010; 2011).

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