teaching note

Case Synopsis

The purpose of this case study is threefold: (1) to compare the profitability, liquidity, and solvency ratios of three major U.S. gaming companies, (2) to explore their strategies of maintaining optimal ratios during this world economic downturn, particularly in 2007 and 2008, and (3) to propose strategies for Wynn Resorts'(WYNN) growth after the recession. During 2010, the economic environment in the gaming and hotel markets in Las Vegas continued to experience depressed levels of gaming revenue, visitation, and hotel room demand. While certain gaming and hotel statistics may have increased from the 2009 levels, improvement has not been significant.

WYNN executed well in the capital markets during the economic downturn and maintained a low cost for capital. However, by 2010 neither EBIT nor net income was back at the prerecession level in 2006, although both increased in 2010 as compared to 2009 after three years of decreases. WYNN's operating income of $625 million in 2008 was above 2006 and 2007 after two years of declining performance. The Las Vegas properties showed an increase in EBITDA in 2010 for the first time since 2007.

MGM Resorts International (MGM) and Las Vegas Sands (LVS) were selected as WYNN's major competitors because they have comparable markets (both international and national) and revenue (higher than $2 billion). This case study will provide a useful indirect experience for students who have not experienced such a severe economic downturn. A thorough understanding of the financial performance of these three companies will provide opportunities for students to adopt appropriate strategies to suit their companies' financial situations and needs in their future careers.

Teaching Objectives

1. Understand how macro environmental factors (especially the recession) influence these three gaming companies' financial performance.
2. Understand the SWOT (Strengths, Weaknesses, Opportunities, and Threats) of the three companies and the sustainability of WYNN's strategy.
3. Assess financial performance of the three companies, using the key financial statements and ratio analysis.
4. Analyze the risk associated with leverage and the effect on operation and understand the reason why a high level of debt often limits a company.
5. Consider the impact of globalization on casino shareholders' wealth, such as global economies and diversification.
6. Evaluate several options available to increase WYNN's profits and determine which option is the best for the company.

Suggested Teaching Strategy

This case study is suitable for a variety of accounting and finance courses in which financial statements and ratio analysis are discussed. This case can also be covered during a gaming course about current issues in the gaming industry. Students should be directed to not make any assumptions outside of what is given in the case study. They should also not reference any information not given within the case.

This case is best taught over two classes. The first class would discuss the introduction, SWOT analysis, and financial performance of each of the three companies. In the second class, each company's ratios could be evaluated and compared including having student discuss how each ratio is calculated and how financial statement changes can affect these ratios. Once the companies' comparisons are complete and students understand WYNN's strengths and weaknesses, strategic plans can be discussed.

If the instructor decides to allow students to reference additional information, this case study could also be used as a basis for a more thorough analysis of the three companies. Since all three of these companies are publicly traded and the financial information is available through their websites, students could read the 10-Ks and annual reports to get additional information. The instructor could choose some key ratios and ask students to look at the 10-Ks to get exact information about why the ratios changed.

Suggested Assignment Questions

1. Analyze Wynn Resorts' financial performance based on the selected financial data and the profitability ratios (including stock performance) as compared to Las Vegas Sands and MGM Resorts International.
2. Analyze Wynn Resorts' financial performance based on the selected financial data and the liquidity ratios as compared to Las Vegas Sands and MGM Resorts International.
3. Analyze Wynn Resorts' financial performance based on the selected financial data and the solvency ratios as compared to Las Vegas Sands and MGM Resorts International.
4. Suggest at least three alternative strategic plans to Mr. Wynn and choose one of those options and explain why this is the best choice.

Analysis

1. **Analysis of Wynn Resorts financial performance based on profitability ratios**

Most profitability ratios of Wynn Resorts declined from 2007 levels, although they increased in 2010 as compared to 2009. This was also true for LVS. MGM on the other hand, still saw decreasing levels for many of their profitability ratios in 2010 as compared to 2009.

All companies had the smallest EPS [(net income – dividend on preferred stock)/ average outstanding shares] of all years in 2009, when the recession was at the worst. Even during 2009 WYNN produced a small positive EPS of $0.17. During 2010, both WYNN and LVS had positive earnings per share. WYNN was able to maintain positive EPS for all years during and after the recession, but mainly because they opened two new properties, one in Las Vegas and the second in Macau. MGM had yet to produce a positive EPS even after the recession ended in 2009.

A company's price to earnings (P/E) ratio indicates an investor's willingness to pay for a company's earnings (market price of common shares/ EPS). A high P/E ratio typically indicates that investors believe the company has a higher growth potential. WYNN had extremely high P/E ratios for 2009 and 2010 as did LVS for 2010. At the end of 2010, investors believed that WYNN and LVS both had strong growth potential. LVS had an even higher P/E ratio than WYNN at the end of 2010. In other words, investors in LVS thought that the company had a larger growth potential than WYNN. This expectation was further supported with the high stock price that these companies sold for at the end of 2010. Table 2 shows that LVS's stock price increased 207.6% in 2010 and WYNN's stock price increased 78.3%. MGM's stock price also increased in 2010 by 62.8%, but since they had a net loss for the year, no P/E ratio was calculated. Investors believed there was growth potential for MGM though since the stock price in 2010 increased even with a net loss in the year that was larger than 2009.

Gross profit margin (gross profit/net revenue) for WYNN increased in 2010 to 36.1%. This was the largest gross profit margin since 2007 when 11 months of the year were not in a recession. LVS also had an increase in 2010 to 44.6%, but they were above their 2007 level. MGM again seemed to be lagging behind their competitors since they had not yet recovered to prerecession levels. This was one ratio in which WYNN did not outperform their competitors. Both LVS and MGM had gross profit margin higher than WYNN in 2010. This is not surprising though since this was also the case in 2006 and 2007. The most likely reason was that WYNN catered to mainly high-end customers who expected to receive higher quality services and products which generally lead to a lower gross profit.

Net profit margin (net income/net revenue), also increased for WYNN and LVS in 2010 but decreased for MGM as compared to 2009. Similar to gross profit margin, WYNN had a net profit margin that was less than that of LVS in 2010. WYNN had a net profit margin of 3.8% while LVS had a margin of 8.7%. These were the best net profit margin for both companies since 2006. MGM appeared to be struggling with this ratio like the other profitability ratios. Not only did MGM have negative net income for 2010 and hence a negative net profit margin, but also it was the lowest margin in the five year period.

Return on assets (net income/average total assets) for 2010 was relatively close for WYNN and LVS. WYNN had a return on assets of 2.25% which was the lowest in all years except for 2009. The most likely reason that 2009 was lower at 0.29% was because Encore at Wynn Macau was being built but had not open yet. This would cause assets to be higher, but no net income being produced from these assets since they were not yet in service. For WYNN the lower return on assets ratio for 2010 showed that the company was not using their assets as effectively as they were in the past. LVS, on the other hand, had a return on assets of 2.88% for 2010 and this was the highest return on assets for the company since 2006. This shows the company was starting to get back to prerecession levels. MGM had the worst ROA ratio in 2010 out of all five years.

Total asset turnover (net revenue/average total assets) for 2010 showed that WYNN was better using their assets to generate revenue than their competitors. In 2010, WYNN had a total asset turnover of 0.59 which was double the 0.29 produced at MGM and LVS's ratio of 0.33. WYNN showed that they generated more revenue per dollar of asset in 2010 than in any of the other years. MGM and LVS maintained a consistent total asset turnover for the five years which shows that the company was not using their assets any differently to generate revenue.

Payout ratio (dividend per common share/ EPS) was over 650% in 2010, which means WYNN paid out dividends to their common stock stockholders of six and a half times their EPS for the year. This large dividend payout ratio followed a payout ratio of almost 2,400% in 2009. In four of the five years evaluated, WYNN paid dividends, while LVS and MGM did not. Generally when a company does not pay dividends it may be because the company does not have the cash or positive retained earnings required or it intends to retain its earnings for several purposes: (1) to fund the operation of its business, (2) to service and repay its debt, (3) to make strategic investments in high return growth projects, or (4) to repurchase shares of common stock. Typically, if a company has never paid dividends, like MGM or LVS, it is not a negative sign when they do not pay dividends. However, for a company like WYNN, the investors expected to receive dividends every year.

Return on equity (net income/average total equity) for 2010 was highest for LVS at 7.59%. WYNN only produced a return on equity of 5.78% for 2010. Besides 2009, this was the smallest ratio for all years. It was 60% less than what WYNN produced in 2007 and half of the 2008 ratio. As compared to 2006, the 2010 ratio was 85% lower. LVS's return on equity in 2010 was the highest since 2006. This ratio shows that LVS was earning more net income for every dollar of equity than their competitors. LVS produced net income of over 3.5 times that of WYNN in 2010, but LVS's return on equity was only about 35% higher than WYNN, which indicates that LVS had more equity than WYNN.

2. **Analysis of Wynn Resorts financial performance based on liquidity ratios**

Working capital (current assets – current liabilities) for all three companies was positive during 2009 and 2010. This indicates that the companies could pay all the liabilities that were due in the next 12 months with their current assets. A higher working capital ratio indicates that a company is holding more in current assets than is due, which is not necessarily better. Current assets such as cash do not generate revenue or net income for companies; therefore, having a very high level of working capital may indicate a company is not effectively using their assets. Some companies hold a higher working capital if they are unsure about the future or if there is a risk or a downturn in cash over the next 12 months. All three companies, while having a positive working capital in 2010, had less working capital in 2010 than 2009. This may indicate that they were not as concerned with 2011 as they were with 2010 and, in turn, started investing their assets more effectively.

All companies' current ratios (current assets/current liabilities) for 2010 were above 1.0. This must be the case since they all have a positive working capital for the year. WYNN's 2010 current ratio was the highest at 1.80, LVS was second with 1.60, and MGM's ratio was 1.17. In 2009, WYNN and LVS had current ratios of 3.10 and MGM had a ratio of 1.28. This was the highest of all five years which may have been attributed to the economic uncertainty that was still prevalent in 2009. Similar to the working capital, a firm that has a current ratio too far above one is holding too much in current assets and not investing in non-current assets (such as buildings) which can help the company to generate higher operating cash flows.

Inventory turnover (cost of goods sold/average inventory) shows how often a company is selling its inventory. A high inventory turnover ratio means a company is using their inventory more often. Inventory turnover is often used to calculate days in inventory (365/inventory turnover) which tells how many days a company kept their average inventory on hand. A lower number of days in inventory indicates that a company is more effectively managing their inventory. All companies had the highest inventory turnover of all five years in 2010. This could be an indication that all three companies were becoming more effective at managing their inventory. WYNN's days in inventory for 2010 was 13.22, MGM's was 9.86, and LVS's was the lowest at 2.85. WYNN decreased their days in inventory over 40% from 2006. Even though they had the highest days in inventory, they had the biggest change over the five years. LVS decreased their days in inventory almost 20%, while MGM decreased their days a little over 10%. Since WYNN caters to high-end customers, the higher days in inventory is not surprising, considering the fact that the items generally cost more and cannot be sold as quickly as lower priced items.

Receivables turnover (sales/average accounts receivable) is more of a concern than inventory turnover for casinos that offer credit to their gaming customers. Receivables turnover is often modified to average collection period (365/receivables turnover) similar to days in inventory. Average collection period shows how quickly a company is collecting their outstanding accounts receivable. A lower period shows a quicker collection period. WYNN is the only company that had a decrease in collection period over the five year period and had a decrease year over year, which may be an indication of better collection procedures than just an anomaly. WYNN's average collection period decreased from 29.2 days in 2006 to 14.8 days in 2010. This is a good indication especially during a recession when cash is needed. LVS and MGM both had an increase in average collection period over the five year period. Besides the slight decrease in 2009 for LVS, both companies had a constant increase each year. LVS's average collection period increased from 21.1 days in 2006 to 31.5 days in 2010. MGM's average collection period increased from 18.7 days in 2006 to 38.0 days in 2010. WYNN was the only company collecting their accounts receivable within a month in 2010.

3. **Analysis of Wynn Resorts financial performance based on solvency ratios**

Long term debt to total assets (long term debt/total assets) shows how a company is financing their assets. This ratio did not significantly change for any of the three companies over the five year period from 2006 to 2010. While there were some small changes within the five years, the 2010 ratios were back to 2006 levels. WYNN and LVS had approximately the same ratio, 0.49 for WYNN and 0.45 for LVS, in 2010. MGM had a slightly higher ratio in 2010 of 0.64. Even though WYNN and LVS added properties (i.e., increased total assets), they increased their long-term debt in approximately the same proportion. This may be an indication that the ratio they had in 2006 was the target ratio for the company. In years when new assets were not being purchased and instead decreased due to depreciation, long term debt was being paid off.

Long term debt to equity (long term debt/total equity) is an indication of a company's financial leverage and a higher ratio means a firm is more heavily leveraged. Typically, the higher a firm's long term debt to equity ratio, the riskier the firm. WYNN's long term debt to equity ratio in 2010 of 1.37 was back in line with the 2006 ratio of 1.45. There was fluctuation from 2007 to 2009, most likely due to the money borrowed to build the two new properties and not receiving net income from both properties until 2010, which also increased retained earnings. During 2009, WYNN had a large increase in stockholder's equity which caused this ratio to significantly decrease. LVS's long term debt to equity in 2010 was lower than that in 2006, even with an increase in long-term debt of over 125%. WYNN and LVS's ratios in 2010 were 1.37 and 1.11, respectively, while MGM had a ratio of 4.02. Shareholders of WYNN and LVS would feel more secure in their ratios because the shareholders have a residual claim and only get paid after all debt holders. The debt holders of MGM were owed over four times as much as its shareholders.

Total debt to equity (total liabilities/total equity) is another ratio that is an indication of a company's financial leverage. This ratio is more stringent, taking into account all liabilities and not just interest bearing debt. This ratio should always be larger than the long term debt to equity ratio. WYNN's 2010 ratio of 1.80 was approximately the same as its 2006 ratio which again may be an indication that this was the company's target ratio range. During the recessionary period, WYNN's ratio fluctuated like their long term debt to equity ratio. LVS's 2010 ratio of 1.50 was slightly lower than WYNN's 2010 number. However, unlike WYNN, this ratio was almost 40% lower than LVS's 2006 ratio. LVS's debt-equity ratio decreased because their equity in 2010 increased by 300% over 2006, while their total liabilities only increased by about 50%. MGM's ratio was the lowest in 2007 at 2.75 but increased to 5.32 in 2010 which was above its 2006 level.

The number of times interest earned ratio (earnings before interest and taxes / interest expenses) indicates how many times a company can cover their interest expense. A times interest earned of less than zero means that the company incurred a net loss during the year. This was the case for MGM from 2008 to 2010 and LVS for 2008 and 2009. Companies and lenders prefer to have a ratio above 1.0 since this indicates that the company has made enough income before interest and tax expenses to cover the interest expense for the period. WYNN had a ratio of 2.5 in 2010 which was lower than the 2006 level but higher than the 2008 and 2009 recession levels. The lower number compared to 2006 was mainly due to increased debt which equated to an increase in interest expense. LVS also had the same pattern for this ratio during the five year period. LVS's ratio of 3.2 was higher than WYNN in 2010, meaning LVS could cover their interest payment more than WYNN. Even though LVS could cover their interest payments more, they had almost three times the amount of debt than WYNN in 2010.

Free cash flow (operating cash flow – capital expenditures) shows how much cash a company has available after operating for the period and purchasing any capital expenditures during the period. While a positive free cash flow is necessary for a company to pursue additional investments and expansion, the gaming industry prior to late 2007 always had an ample amount of cash from the credit market. Therefore, negative cash flows in these days were not considered a red flag by gaming company managers or by their investors and creditors. In 2010, WYNN and LVS had negative free cash flows. Both companies had positive operating cash flows for the year, but ended with negative free cash flows which indicated that the companies spent more on capital expenditures. WYNN opened Encore at Wynn Macau in 2010 which is most likely the cause of the negative free cash flow. LVS's negative cash flow was also related to their new properties including Sands Bethlehem in 2009 and Marina Bay Sands in 2010. MGM had operating cash flow of $504 million in 2010 and free cash flow of $209 million, which indicates that they did purchase approximately $295 million in capital expenditures but still saved some of their cash. With MGM continuing to have net losses through 2010, management might have been uncertain about the future and saved cash. WYNN and LVS seemed to be more confident in the future since they spent more in capital expenditures.

4. Strategic plan alternatives

There are a variety of alternatives the students can suggest, and the followings are just a sampling. Each alternative presented should have a reason as to why the student chose that and should be supported by the financial statements and ratios presented and analyzed.

1. Sell one or both properties in Las Vegas (i.e., Wynn and Encore) and invest the proceeds from the sale to develop an online gaming site.
2. Increase the company's long-term liabilities and use the credit to build or acquire another property in Las Vegas.
3. Increase the company's short-term liability and use the credit to renovate and upgrade the properties in Las Vegas.
4. Sell one or both properties in Las Vegas and invest the proceeds from the sale to build a new property in Macau.
5. Sell one or both properties in Las Vegas and invest the proceeds to build a new property in other U.S. jurisdictions or countries (e.g., Vietnam).
6. Increase the company's long-term liabilities and use the credit to build a new property in other U.S. jurisdictions or countries.
7. Increase the company's long-term liabilities and use the credit to develop an online gaming site.

Postscript

For 2011, WYNN reported net income of $613 million, an increase of 283% over 2010 (Wynn Resorts, Limited, 2012). EBITDA for the Las Vegas properties and the Macau properties each increased a little over 82%, showing good growth in both markets. The company had a full year of Encore at Macau in 2011, while it only had a little less than nine months in 2010. Thus, a part of the Macau property increase was due to the operating period. In addition to the new property, Macau total gaming revenue increased to 269.1 billion MOP, an increase of 41.9%, in 2011 and there was no sign of slowing down (Macau Gaming Inspection and Coordination Bureau, 2012). 2012 numbers in the Macau gaming market were anticipated to rise 20%-30% over 2011 (Stutz, 2012). WYNN showed no major changes in assets or long-term debt during 2011 although they did complete a renovation of Wynn Las Vegas in January 2011. In December 2011, WYNN also secured and made a deposit on 51 acres of land on the Cotai Strip in Macau which will be used for a resort with approximately 2,000 hotel rooms, a casino, food and beverage outlets and retail. As of the end of 2011, WYNN stock was selling for $110.49, a 6% increase over 2010.

LVS also demonstrated a large increase of 160% in net income in 2011 most of which was attributed to a full year of operation for Marina Bay Sands in Singapore (Las Vegas Sands, 2012). Although most of the increase was due to Marina Bay Sands, all locations showed an increase in revenue and EBITDA. The Macau properties had a 30% increase in EBITDA, the Las Vegas properties showed a 8% increase, Sands Bethlehem had a 54% increase and Marina Bay Sands produced a 139% increase which all equated to a 59% increase in EBITDA in 2011. Like WYNN, LVS had no significant changes in assets or debt. At the end of 2011, LVS's stock was selling for $42.73, a decrease of 7% from 2010.

MGM produced a positive net income in 2011 after three years of net losses. Their net income was $3.1 billion, a 317% increase over the net loss in 2010 (MGM Resorts International, 2012). This was the best increase year over year for all three companies. EBITDA in all geographic locations increased but was largely due to an increase in Macau. MGM did have a large increase in long-term debt in 2011, but this was borrowed in December 2011 and repaid in January 2012. There were no other significant changes in assets or other liabilities. At the end of 2011, MGM's stock was selling for $14.28, a 4% decrease from 2010.

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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	342.53	22.01	47.92	15.04	90.10	(----)	(----)	312.27	72.16	(----)	(----)	(----)	15.82	25.83
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)	2.25%	0.29%	3.22%	4.71%	14.61%	2.88%	(1.88)%	(1.14)%	1.26%	8.03%	(6.93)%	(5.64)%	(3.72)%	7.06%	3.03%
Total Asset Turnover (a)	0.59	0.43	0.46	0.49	0.33	0.33	0.24	0.31	0.32	0.41	0.29	0.26	0.31	0.34	0.33
Payout Ratio (a)	658.91%	2352.90%	0	256.41%	96.15%	0	0	0	0	0	0	0	0	0	0
Return on Equity (a)	5.78%	0.87%	11.87%	14.37%	39.19%	7.59%	(5.86)%	(4.67)%	5.38%	23.99%	(41.85)%	(32.93)%	(17.05)%	31.98%	18.30%
Liquidity Ratios															
Working Capital (Thousand USD) (a)	673,210	1,557,370	687,310	996,810	584,700	1,459,400	3,784,360	2,210,860	(114,180)	358,910	209,430	669,900	(1,469,550)	(549,300)	(133,350)
Current Ratio (a)	1.76	3.15	1.95	2.70	2.14	1.56	3.06	2.44	0.92	1.49	1.17	1.28	0.51	0.68	0.92
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)	13.22	21.22	18.53	15.67	23.25	2.85	3.61	3.28	3.46	3.52	9.86	11.16	10.49	10.80	11.09
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)	14.84	16.67	18.62	21.73	29.20	31.47	33.80	23.86	22.26	21.10	38.02	34.11	19.73	18.81	18.72
Solvency Ratios															
LT Debt to Total Asset (a)	0.49	0.47	0.64	0.56	0.51	0.45	0.53	0.60	0.66	0.58	0.64	0.58	0.53	0.49	0.59
LT Debt to Equity (a)	1.37	1.13	2.69	1.81	1.45	1.11	1.48	2.16	3.33	1.99	4.02	3.35	3.12	1.84	3.38
Total Debt to Equity (a)	1.80	1.40	3.23	2.23	1.83	1.50	1.80	2.62	4.07	2.43	5.32	4.82	4.86	2.75	4.75
# of times Interest earned (a)	2.51	1.20	1.86	3.28	6.40	3.79	(0.16)	0.47	1.56	4.71	(0.99)	(1.60)	(0.10)	4.05	2.29
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)	(2,122,011)	209,420	(512,620)	(28,722)	752,948	(666,639)

*Notes: 1) 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). 2) The (----) signs indicate that the calculated values are less than zero.