

G2E FREE Webinar

Navigating Gaming's Financial Crisis: It's More Than Just The Numbers

Organized by:



Presenters



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Agenda

- Capital investment run amok
- Current state of the industry
- A period of restructuring
- The macro view
- Will de-leveraging rule the day?
- Leadership during chaotic times
- Lessons from another industry
- Innovation to lead the way
- Questions
- Takeaways



Capital Investment Run Amok

- The runaway balance sheet?

	Total Assets			Annualized Balance Sheet Growth
	2004	2008	% Increase	
Harrahs Entertainment	\$ 8,585,600	\$ 31,048,600	261.6%	37.9%
MGM Mirage	\$ 11,115,029	\$ 23,274,716	109.4%	20.3%
Las Vegas Sands	\$ 3,601,478	\$ 17,144,113	376.0%	47.7%
Wynn	\$ 3,464,212	\$ 6,742,615	94.8%	18.1%
Station Casinos	\$ 2,045,584	\$ 5,831,636	185.1%	29.9%
Penn Gaming	\$ 1,643,407	\$ 5,189,676	215.8%	33.3%
Boyd Gaming	\$ 3,919,032	\$ 4,605,427	17.5%	4.1%
Ameristar Casinos	\$ 1,315,469	\$ 2,225,238	69.2%	14.0%
Isle of Capri	\$ 1,599,214	\$ 1,994,791	24.7%	5.7%
Pinnacle Entertainment	\$ 1,208,768	\$ 1,919,224	58.8%	12.3%
MTR Gaming	\$ 296,247	\$ 527,710	78.1%	15.5%
Dover Downs Entertainment	\$ 160,900	\$ 241,332	50.6%	10.8%
Total	\$ 38,954,340	\$ 100,745,078	158.6%	26.8%



Capital Investment Run Amok

- The growth was fueled by debt

	Interest Bearing Debt		CAGR
	2004	2008	
Harrahs Entertainment	\$ 5,152,900	\$ 23,208,900	45.7%
MGM Mirage	\$ 5,458,862	\$ 13,464,166	25.3%
Las Vegas Sands	\$ 1,789,928	\$ 10,470,738	55.5%
Wynn	\$ 1,638,169	\$ 4,299,177	27.3%
Station Casinos	\$ 1,336,213	\$ 5,782,153	44.2%
Penn Gaming	\$ 1,039,892	\$ 2,430,180	23.6%
Boyd Gaming	\$ 2,310,025	\$ 2,647,674	3.5%
Ameristar Casinos	\$ 766,301	\$ 1,648,500	21.1%
Isle of Capri	\$ 1,101,578	\$ 1,497,039	8.0%
Pinnacle Entertainment	\$ 640,488	\$ 943,332	10.2%
MTR Gaming	\$ 139,308	\$ 377,610	28.3%
Dover Downs Entertainment	\$ 51,950	\$ 108,325	20.2%
Total	\$ 21,427,614	\$ 66,877,794	32.9%



Capital Investment Run Amok

- EBITDA growth has not kept pace

	EBITDA		% Increase	Annualized Increase
	2004	2008		
Harrahs Entertainment	\$ 1,144,464	\$ 2,016,000	76.2%	15.2%
MGM Mirage	\$ 1,367,695	\$ 1,859,825	36.0%	8.0%
Las Vegas Sands	\$ 301,973	\$ 715,794	137.0%	24.1%
Wynn	\$ (81,529)	\$ 609,286	NA	NA
Station Casinos	\$ 369,386	\$ 423,059	14.5%	3.4%
Penn Gaming	\$ 279,565	\$ 568,437	103.3%	19.4%
Boyd Gaming	\$ 438,618	\$ 401,089	-8.6%	-2.2%
Ameristar Casinos	\$ 232,872	\$ 290,508	24.8%	5.7%
Isle of Capri	\$ 244,150	\$ 196,247	-19.6%	-5.3%
Pinnacle Entertainment	\$ 81,235	\$ 95,033	17.0%	4.0%
MTR Gaming	\$ 57,794	\$ 70,960	22.8%	5.3%
Dover Downs Entertainment	\$ 35,153	\$ 47,354	34.7%	7.7%
Total	\$ 4,471,376	\$ 7,293,592	63.1%	13.0%



The Macro View

- The "New Normal"
- Impact on consumer
- A prolonged period of low gaming revenue growth
- Pockets of development
 - Overseas
 - New jurisdictions



The Macro View

Do you agree with this premise or do you think your market will behave differently?

- I agree
 I disagree



Will de-leveraging rule the day?

	2010	2011	2012	2013	2014	2015	2016 and Beyond
Harsha Entertainment	\$ 638,500	\$ 276,700		\$ 6,701,300	\$ 533,000	\$ 7,917,700	\$ 7,140,700
MGM Mirage	\$ 1,081,500	\$ 4,839,400	\$ 544,600	\$ 1,342,700	\$ 1,140,300	\$ 878,400	\$ 3,009,300
Las Vegas Sands	\$ 134,636	\$ 1,157,253	\$ 1,904,498	\$ 2,604,136	\$ 4,373,136	\$ 1,495,360	\$ 95,379
Station Casinos	\$ 2,475,000	\$ 250,000	\$ 1,323,662		\$ 442,000		\$ 1,439,940
Wynn			\$ 1,118,700	\$ 860,200	\$ 2,179,600		\$ 38,500
Boyd Gaming			\$ 2,112,800	\$ 11,900	\$ 279,600		\$ 240,800
Penn Gaming	\$ 63,600	\$ 1,623,600	\$ 114,000			\$ 250,000	\$ 330,000
Ameristar Casinos	\$ 647,000	\$ 97,300	\$ 295,000		\$ 636,500		
Isle of Capri			\$ 54,000		\$ 357,300		
Pinnacle Entertainment			\$ 201,000	\$ 9,500		\$ 380,600	\$ 443,800
MTR Gaming			\$ 114,300		\$ 260,000		
Dover Downs Entertainment			\$ 98,075				
BH Re LLC (Planet Hollywood)	\$ 843,000		\$ 775,000	\$ 250,000	\$ 225,000	\$ 150,000	\$ 201,000
Mohegan Sun	\$ 26,000	\$ 13,000					
Total	\$ 5,970,236	\$ 8,257,253	\$ 8,645,823	\$ 11,779,736	\$ 10,426,436	\$ 11,072,080	\$ 12,939,419



Leadership During Chaotic Times

- Communicate Effectively
- Be Visible
- Be Composed
- Relentlessly Operate the Business
- Build the Team
- Keep the Organization's Values in Sharp Focus and Act Accordingly



Leadership During Chaotic Times

Is this leadership style reflected in your organization?

- Yes
- No
- I don't know



Lessons From Another Industry

- Parallels to the Airline Industry
 - High fixed costs
 - Intense competition in major markets
 - Volatile markets impacted by general economic conditions
 - High cost of capital and capital intensive
 - Limited or declining market growth in foreseeable future



Lessons From Another Industry



Southwest vs. the Gaming Industry



- At Southwest:
 - No layoff/no furlough policy
 - Stock options widely available
 - Wages lower than competitors
 - Officers pay increases proportionally the same as all other employees
 - Limited labor strife
 - Frontline employees encouraged to have fun with customers
- In the gaming industry:
 - Record layoffs
 - Massive unionization by unions not traditionally associated with the gaming industry

Innovation Will Lead The Way


- Given the lack of capital in the gaming industry for the foreseeable future, innovation represents the single most cost effective avenue for value creation.
- Innovation is a process that has been well studied and can be managed like any other business process
- Having an engaged and energized workforce is the foundation upon which innovation occurs

Examples Of Innovation


- Financial Innovation – Recapitalizing through untraditional sources of capital
- Product Innovation – Changing fallow space for nightclubs, high energy, etc.
- Companies that use customer service as a differentiator
- Historic Innovations
 - Bill changers, cashless, electronic tables, etc, (vendors)


Questions





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Takeaways

- The gaming industry has grown at an unsustainable rate
- Balance sheets are bloated and over leveraged
- The industry must re-cast significant levels of debt over the next several years
- The macro economy will grow at a slow pace and the consumer will not lead the way for some time
- The gaming industry can expect a period of continued restructuring

Takeaways

- Lessons can be learned from other industries and gaming's past
- Leadership lessons for chaotic times
- An engaged and energized workforce will be essential going forward
- Innovation represents the single most cost effective avenue for value creation