

## U.S. Gaming: What Florida Means for the Shape of U.S. Gaming

| Ticker | Rating | CUR | 21 Oct 2011<br>Closing<br>Price | Target<br>Price | TTM<br>Rel.<br>Perf. | EPS   |       |        | P/E   |       |       | Yield |
|--------|--------|-----|---------------------------------|-----------------|----------------------|-------|-------|--------|-------|-------|-------|-------|
|        |        |     |                                 |                 |                      | 2010A | 2011E | 2012E  | 2010A | 2011E | 2012E |       |
| LVS    | O      | USD | 41.29                           | 61.00           | 3.8%                 | 0.98  | 1.99  | 3.06   | 42.1  | 20.7  | 13.5  | NA    |
| WYNN   | M      | USD | 120.40                          | 163.00          | 21.0%                | 2.11  | 5.20  | 7.72   | 57.1  | 23.2  | 15.6  | NA    |
| MGM    | O      | USD | 10.23                           | 18.00           | -11.9%               | -1.07 | -0.52 | -0.50  | NM    | NM    | NM    | NA    |
| SPX    |        |     | 1238.25                         |                 |                      | 85.28 | 97.99 | 110.91 | 14.5  | 12.6  | 11.2  | 2.1%  |

O – Outperform, M – Market-Perform, U – Underperform, N – Not Rated

### Highlights

*Florida is on the cusp of adopting legislation that would allow destination casino resorts in Miami. It is a bold vision that takes a page straight out of the Singapore book. Today's call looks at the ramifications.*

- **All of Asia wants to copy the Singapore model for gaming—why not Florida?** Singapore was a bold experiment that succeeded brilliantly. Part of the formula was requiring significant investment scale in exchange for low taxes and limited concessions. Florida is now considering this same formula in Miami. If Miami succeeds, it could be nearly as significant a market as Las Vegas, but, unlike Las Vegas, there will not be open access which is why the concession process takes on importance.
- **The Florida plan may be too ambitious to succeed.** Unlike Singapore, Florida is not a clean slate. There is already over \$3B of gaming in the state now, much of it concentrated in the Miami-Dade and Broward county areas. We estimate the market may support another \$2-\$3B of incremental gaming. The current proposal envisions \$6B of new investment. We believe the market would need to grow to over \$7B in total—bigger than either Las Vegas or Singapore—to support returns on that investment.
- **Still, bidding on a Florida concession is as much about defense as it is offense.** We expect that Florida, if done well, has the potential to pull 15% of the business from Las Vegas, much as Pennsylvania has been depleting Atlantic City. On the other hand, it offers real opportunity for the Las Vegas companies to build an East Coast presence comparable to what is available in Las Vegas and attract Latin American wealth. We see this as a positive catalyst for the successful bidders.

### Investment Conclusion

A successful destination casino resort expansion in Miami has the potential to change the face of U.S. gaming. While it is not yet clear that the market size is compelling enough to justify the spending required by the current legislative proposal, winning a concession may be just as important defensively as it is offensively.

### Details

**Five years from now, there could be three world class casinos in Miami, possibly sporting Genting, LVS, and Wynn brands.** Such a scenario is looking increasingly more likely and is more indicative of the future of gaming than anything else going on in the country right now. Las Vegas, Macau, and Singapore are all tributes to the fact that destination gaming works. Regional gaming (in the U.S.) will always be

hampered by the political process, the inability to coordinate effectively with neighboring jurisdictions, and insufficient demand to justify large-scale investments.

**Miami is an international gateway city with the power to pull from the eastern seaboard, Latin America and Europe.** It has the image of style and sophistication that make it an appealing destination. And now, it may be on the cusp of replicating the formula for destination gaming that really works: strong demand drivers, limited concessions, low taxation rates, significant investment requirements, limited casino to non-casino space ratios, and, preferably, iconic architecture. When was the last time a U.S. city required a minimum \$2B investment as the cost of entry? Never. It is a bold idea that could succeed brilliantly if, and it's a big if, the legislation can come together in a way that does not get too diluted by all the existing gaming interests and agreements in place.

**Is this the beginning of the end for regional gaming?** Below we start to think about the impact of such casinos if they come to bear for the concessionaires involved but also for the industry. The incremental profitability, on a project basis, for the bidders is interesting. We think the potential impact of Miami is broader, though. We expect it may cannibalize Las Vegas and Atlantic City, raising the stakes for players in those markets. It may also expand the potential customer base for U.S. gaming by drawing in significant pools of wealthy Latinos. And it might be the precursor of other moves in Boston or New York that might further erode the appeal of regional gaming.

#### **Florida's Drive for Casinos**

**The history of gaming in Florida is a long, fitful one beginning in the early 1930s.** In 1931, the Florida legislature legalized betting on horse and dog racing, the first time gambling was officially approved in the state. Additional legislation legalizing jai alai and slots soon followed in 1935, driven in part by the state's desire to raise revenue for its Depression-strained budget. Two years later, though, the legislature repealed slot machine gaming. As has often been the case in the history of US gaming law battles, the rationale was largely based on morality. Political opponents of slots cited examples of the corrosive social effects of gambling, and Florida's brief foray into slots died a quick death.

The next major developments for gaming in Florida occurred several decades later. In 1968, revisions to Florida's state constitution opened the door for the creation of pari-mutuel pools. The decision by the Florida Supreme Court added further impetus through its ruling in a 1970 case that allowed previously illegal games of bingo. In 1978, however, Floridian voters rejected a ballot initiative allowing full casino gambling. Shortly afterward, tribal gaming entered the scene. In a 1979 ruling by a federal district court, the Seminole Tribe won the ability to run high-stakes bingo operations.

Throughout the 1980s, the legal structure for Florida gaming continued to experience a number of important changes, reflecting new legislation at both the state and federal levels. During the decade, the Florida state legislature legalized summer jai alai in certain counties and allowed races and games to be simulcast, enabling Floridians to bet on out-of-state games and take bets on intrastate games. In 1984, so-called "cruises to nowhere" began setting sail from Floridian ports heading to international waters in an effort to circumvent gaming laws to conduct high-stakes gambling. Two years later in 1986, Floridian voters rejected another ballot initiative allowing for full casino gambling. But, they did demonstrate a desire for smaller-stakes gambling, approving a state lottery initiative subject to the condition that a substantial share of the revenue generated from ticket sales would support funding for education.

**The Seminoles opened the door to casino gaming in Florida.** In 1988, the federal government clarified the legal structure for tribal gaming in the US, passing the Indian Gaming Regulatory Act (IGRA). IGRA has played a crucial role in the debates over the expansion of Seminole gaming in Florida over the last twenty years. The key aspect of IGRA is its classification of three types of gambling on tribal land and their relevant jurisdictions. States have no regulatory authority over tribal gaming or the ability to impose taxes, and tribes are allowed to conduct any type of gaming that is legal in their state. "Class I" gaming

includes social or traditional tribal games with minimal stakes over which the tribes have exclusive jurisdiction. "Class II" refers to games in which the players are competing against each other for a prize with a guarantee that at least one of the players will win. Examples include bingo and other similar games, and they are under tribal jurisdiction but subject to provisions under IGRA and oversight by the National Indian Gaming Commission (NIGC). "Class III" is defined as all other types of gaming (e.g., slots, house-banked card games, etc.) – that is, games in which the players are competing against the house for the prize, with no guarantee that a player will win. IGRA states that a tribe may legally run Class III gaming when it settles on a "compact" with the state outlining the legal framework.

The 1990s witnessed some minor modifications to Florida's gaming regime, only to give way to much more substantive changes in the 2000s. In 1991, the Seminole Tribe attempted to speed the process of expanding its operations to Class III gaming by suing the state of Florida on the grounds of infringement of its rights because of the lack of a state compact on Class III. Although it ultimately lost the case at the US Supreme Court, it foreshadowed future Seminole efforts to expand the scope of its gaming. In 1994, Floridian voters again rejected another ballot initiative to legalize full casino gambling. In 1996, however, the Florida legislature began to take steps to loosen its restrictions its gaming; pari-mutuel cardrooms became legalized, subject to the approval of the county in which pari-mutuels existed.

More recently, two major events have transformed the development of gaming in Florida. In 2004, Floridian voters adopted a constitutional amendment giving voters in Broward and Miami-Dade counties the option of running Class III slot machines within designated pari-mutuel facilities. Broward County approved slots in 2005, and Miami-Dade County later approved them in 2008, despite the initial failure of a slot referendum in 2005. Revenues generated from slots are taxed by the state and funneled into a state education fund. In late 2007, Governor Charlie Crist controversially entered into a tribal-state compact with the Seminoles that effectively permitted the Tribe to operate table games. The Florida state legislature subsequently challenged this compact in the Florida Supreme Court, arguing successfully that the governor encroached on the powers of the legislature. In 2010, with approval by the governor, legislature and Seminole Tribe, Crist later signed a new compact. With a term of twenty years, it allows the exclusive use of Class III table games (e.g., blackjack) at five Seminole casinos for five years while restricting it in parts of Florida that are not on reservation land. It also grants the Seminoles the right to operate slots at all of its casinos, giving it an effective monopoly outside of Broward and Miami-Dade Counties. In return, Florida has entered into a revenue-sharing agreement that funnels money directly to the state treasury.

### **The Current State of Play**

**Momentum is currently building for legislation that would allow the development of destination casinos in South Florida.** Leading the charge are two South Florida lawmakers, Rep. Erik Fresen (R-Miami) and Sen. Ellyn Bogdanoff (R-Fort Lauderdale), who are preparing a proposal that would authorize three destination casinos in Miami-Dade and Broward Counties requiring a minimum \$2 billion investment in each property. The proposal is also slated to erect a new gaming regulatory structure for Florida that would be analogous to those in Nevada and New Jersey.

Hopes for this proposal received a boost on October 6, when the First District Court of Appeals in Tallahassee affirmed a lower court decision allowing Hialeah Racetrack to run slot machines. The court rejected the argument made by Flagler Gaming Centers and Calder Race Course that voter approval of slots in Broward and Miami-Dade Counties in 2005 and 2008 intended to restrict the number of permits to the seven pari-mutuels that were operating at the time. In effect, this court decision opens the door for further expansion of gaming without a referendum vote.

**Miami is taking a page out of Singapore's book.** First, the concessions are limited to three. Singapore chose to only license two for the first ten years. Is Miami overreaching with three right out of the box?

Second, the minimal investment is \$2B—Singapore was S\$3.85B (about \$2.7B at 2008 exchange rates). Under Fresen and Bogdanoff's proposal, the design of the resorts would be required to give the gambling space a low profile. No more than ten percent of the total square footage of a property would be available for Vegas-type games (e.g., table games and slots), and the space itself will have to be separated from other attractions in the resort (i.e., a visitor won't be forced to walk through the gaming area). Singapore was slightly more restrictive calling for only 6% of the gross floor area to be gaming. The Florida proposal would also advocate for a 10% tax on net revenues, the lowest rate yet on gaming in Florida. Under the current regime in South Florida, pari-mutuels pay a 35% tax rate. Singapore's blended tax rate (mass and VIP) is around 17%.

**The major players in global gaming have already expressed their interest in the development.**

Genting has moved most aggressively, recently buying land owned by The Miami Herald for \$236mm that is adjacent to the 30 acres of property the operator has already amassed. Designs for the so-called Resorts World Miami are already circulating (**Exhibit 1**). Likewise, media reports indicate that Las Vegas Sands and Wynn Resorts have also been in talks with South Florida property owners regarding potential development sites, including the Miami World Center Property in the Park West neighborhood. An LVS executive published an op-ed piece in the Orlando Sentinel formally advocating the economic and community-enhancing benefits of a Sands-style integrated resort. PENN and Caesar's are reportedly interested as well. Finally, as South Florida's largest casino operator, the Seminole Tribe has expressed interest in bidding on one of the licenses. The key issue for the Seminoles will be the legal implications of new casino resorts vis-à-vis its existing compact with the state of Florida. Under the current terms, if the Seminoles lose exclusivity of Class III table games, they are no longer obligated to fulfill their revenue-sharing agreement with the state. Most likely, to the extent that the Seminole Tribe is serious about pursuing one of the new licenses, the state and the Tribe will find some compromise.

Exhibit 1  
Resorts World Miami (Artist's Rendering)



Source: Genting

**There are still some hurdles to overcome.** Not all stakeholders are nearly as enthused as the large casino operators about the prospects of new developments. Obviously, the racinos and pari-mutuels seemingly have the most to lose. Not only would they see new, competitive offerings enter their markets, but they would also continue to labor under the existing 35% tax regime. Given the traditional strong support of pari-mutuels in the Florida Senate, it seems probable that any deal on the expansion of gaming would have tax equalization of 10% for both the new properties and the existing gambling operators. The idea of destination casinos in Florida has also come under heavy criticism from many local and statewide business groups, chief among them being the Florida Chamber of Commerce. In general, the concerns fall into two types: 1) economic and 2) reputational. Regarding the first, the criticism of destination casinos is based on the possibility that new casinos would divert customers from existing hotels, restaurants, and other businesses – an outcome that would create substantial financial distress in those communities. Regarding the second, the criticism is that the image of destination casinos would undermine Florida's reputation as a "family-friendly" global tourist destination. This sentiment has been (understandably) most pronounced in Central Florida, where Disney's properties are based (Disney also has strong ties with the Florida Chamber of Commerce).

**The decision should come soon.** The current timetable for a decision has been reported to be February 2012, with lawmakers potentially voting on the proposal during the sixty-day legislative session that will begin in early January 2012.

**Is the Florida market too saturated for this to work?**

**Florida is no clean slate.** We applaud Florida for having a bold vision and recognizing that it could leverage the domestic and international appeal of the Miami area to achieve it, much in the same way Singapore has done in Asia. One important difference is that Singapore filled a vacuum where there was no gaming at all in the country and very limited gaming in surrounding countries. Florida, by contrast, is one of the more saturated U.S. gaming destinations. While this speaks well for the demand for gaming in Florida, it is a limiting factor in determining how much more gaming investment is supportable. The current bill being considered is requiring \$6B of new investment.

**Florida has more gaming options than Las Vegas.** There is currently ~\$3.4B of gaming occurring in Florida or \$7.4B if one includes the lottery (**Exhibit 2**). There are 8 casinos in the state run by Native Americans. Seven of these are Seminole and one is Miccosukee. These casinos generated revenues of just over \$2B in 2009, making Florida the fourth largest state for tribal gaming. There are five slot parlors with annual revenues of \$357mm. There is pari-mutuel wagering at 16 Greyhound tracks, 6 Jai-alai frontons, and five other like venues with revenues of \$883m. Cardrooms generate another \$125mm of volume. The lottery, which grosses \$4B, is one of the top grossing lotteries in the country. Other opportunities to wager in Florida include electronic sweepstakes games in "internet cafes" which fly under the radar but which exist in anywhere from 350 to 1,000 locations and may comprise another \$1B in gaming revenues according to various estimates (the Florida version of Pachinko?). Finally, we would be remiss if we didn't point out the opportunity to cruise, which is a more popular pastime in Florida than other locations given the backyard opportunity, and gamble out in international waters.

## Exhibit 2

**Florida Gaming Revenues, July 2010-June 2011 (\$000)**

|  |                    |
|--|--------------------|
| <b>Native American Casinos (8)</b>         | \$2,050,000        |
| <b>Slot Parlors</b>                        |                    |
| Gulfstream                                 | \$54,217           |
| Mardi Gras                                 | \$52,922           |
| Pompano                                    | \$106,771          |
| Flagler                                    | \$72,976           |
| Calder                                     | \$70,439           |
| <b>Total Slot Parlors (5)</b>              | <b>\$357,325</b>   |
| <b>Pari-Mutuel Wagering</b>                |                    |
| Greyhound Tracks (16)                      | \$264,667          |
| Jai-Alai Frontons (6)                      | \$32,844           |
| Thoroughbred/<br>Quarter Horse/Harness (5) | \$585,898          |
| <b>Total Tracks/Frontons</b>               | <b>\$883,408</b>   |
| <b>Cardrooms (23)</b>                      | \$125,139          |
| <b>Lottery</b>                             | \$4,000,000        |
| <b>Total</b>                               | <b>\$7,415,872</b> |

Sources: State of Florida, Division For Pari-Mutuel Wagering, Casino City Indian Gaming Industry Report 2010

Note: Native American revenues are for 2009

**Sizing the Miami Market**

**What incremental market size supports \$6B of new investment?** The proposed legislation calls for three new integrated resorts with a \$2B minimum investment each. If Singapore is any example, that investment could morph into something much larger. Their requirement for \$2.8B yielded two resorts of about \$6B each as time, building costs, and other variables moved around. Let's assume that the new concessionaires are perfect construction cost managers and only spend the requisite \$2B each. We argue below that it might take at least \$4B of new gaming spend to justify \$6B of new investment. The key question is whether demand in Florida can support \$4B of incremental gaming, more than doubling the current market size.

**How does Miami compare to Las Vegas?** Las Vegas receives approximately 3x as many visitors each year as Miami (**Exhibit 3**). There is a stark difference, however, in the relative mix of domestic and international visitors. International visitors comprise ~50% of visitation to Miami, whereas it comprises only 18% of visitation to Las Vegas. Based on Miami travel data, approximately 75% of international visitors to Miami are from Latin America.

## Exhibit 3

**Las Vegas vs. Miami Visitation***(Per-year visitors in 000's)*

|               | <b>Miami</b> |      |               | <b>Las Vegas</b> |        |
|---------------|--------------|------|---------------|------------------|--------|
| Domestic      | 6,544        | 52%  | Domestic      | 30,615           | 82.0%  |
| International | 6,060        | 48%  | International | 6,720            | 18.0%  |
| Total         | 12,604       | 100% | Total         | 37,335           | 100.0% |

Source: LVCVA, Greater Miami Convention and Visitors Bureau

**The large proportion of international visitors to Miami is a plus.** International visitors are typically bigger spenders. According to the Las Vegas Convention and Visitors Authority, international visitors spend 27% of tourism dollars despite accounting for only 18% of visitation. We performed an analysis in **Exhibit 4** below that converts Las Vegas' visitation and gaming statistics into a comparable metric for Miami. If one were to resize Las Vegas' current gaming market size of \$5.3 billion based on absolute visitation levels, one would arrive at an estimated \$1.8 billion market size for Miami. After reweighting Miami's market for a larger proportion of International visitors, however, the estimated market size increases to \$2.1 billion.

## Exhibit 4

**Estimated Miami Gaming Market**

(\$ in 000's)

|   |                    |
|---|--------------------|
| LV GGR - TTM                                  | \$5,300,000        |
| Implied LV Intl Gaming Revenue (27% of Total) | <u>1,431,000</u>   |
| Implied LV Domestic Gaming Revenue            | 3,869,000          |
| Implied Vegas Intl Revenue per Visitor        | \$212.9            |
| Implied Vegas Domestic Revenue per Visitor    | 126.4              |
| Est. Miami Intl Gaming Revenue                | \$1,290,404        |
| Est. Miami Domestic Gaming Revenue            | <u>827,003</u>     |
| Estimated Visitor Gaming Market Size          | <b>\$2,117,407</b> |

Source: LVCVA, Greater Miami Convention and Visitors Bureau, Bernstein Analysis

**How does Miami compare to Singapore?** Another point of reference to consider is Singapore, where visitation levels are similar to that of Miami, at 11.6 million visitors / year. We estimate the gaming market size for Singapore to be approximately \$6 billion this year. Property investments in Singapore totaled ~\$12 billion, which is double the expected \$6 billion investment in Miami. A market half the size of Singapore's would bring a gaming market of \$3 billion to Miami. An important point of distinction however is that Singapore did not have local gaming options prior to the opening of its two integrated resorts, and approximately 30% of play in Singapore is from locals.

**Miami feels like a \$2-\$3B market (of new demand).** As a result of our comparisons with Las Vegas and Singapore, we would make a rough estimate that the market for Miami gaming could be \$2 billion to \$3 billion. Interestingly, during WYNN's Q3 conference call, Steve Wynn voiced a similar conclusion, and suggested that the market in Miami could approach \$3 billion "if done correctly."

**Returns on a Miami casino**

**It takes a lot of GGR to support a \$2B investment.** According to the Miami government, each casino operator who bids to build a casino will be expected to build a facility at a cost of \$2 billion. In **Exhibit 5** below, we estimate the economics of a \$2 billion resort, assuming a 15% ROIC and operating metrics comparable to those of higher-end Las Vegas casinos. We estimate that a \$2 billion casino might need to generate ~\$1.4 billion in GGR to provide a solid 15% return.

**For three resorts, the new market potential should be \$4-\$5B in GGR.** In **Exhibit 6**, we provide a sensitivity analysis with ROIC and the number of Integrated Resorts as the parameters in order to assess the required market GGR for a given number of operators. One operator can make 16%+ returns with a \$1.4B market. Two operators can make that return with a \$2.9B market. With three operators, it would be difficult to achieve that ROIC with less than a \$4B market. That is \$4B in addition to the current gaming spend of \$3.4B for \$7B+ total—bigger than Las Vegas and bigger than Singapore. Possible? Yes. Probable? No.

Exhibit 5  
GGR Buildup From \$2B Investment

(\$ in millions)

|                                  |                |
|----------------------------------|----------------|
| Expected Investment              | \$2,000        |
| Assumed ROIC                     | 15%            |
| Required NOPLAT                  | \$300          |
| Assumed Tax Rate                 | 35%            |
| Required EBIT                    | \$461.5        |
| Assumed D&A (15 yrs)             | 133.3          |
| Required EBITDA                  | \$594.9        |
| Assumed EBITDA Margin            | 27%            |
| Net Revenue                      | \$2,203        |
| Assumed Promotional Allowance    | 5.0%           |
| Gross Revenue                    | \$2,319        |
| Net Casino Revenue as % of Total | 50.0%          |
| Net Casino Revenue               | \$1,160        |
| Gaming Discounts/Commissions     | 15.0%          |
| <b>GGR per Casino</b>            | <b>\$1,364</b> |

Source: Company Filings, Bernstein Analysis

Exhibit 6  
ROIC Sensitivity to Number of Resorts and Size of GGR Market

(\$ in millions)

|      |     | # IR's  |         |         |
|------|-----|---------|---------|---------|
|      |     | 1       | 2       | 3       |
| ROIC | 10% | 1,011.4 | 2,022.8 | 3,034.2 |
|      | 12% | 1,152.5 | 2,305.1 | 3,457.6 |
|      | 14% | 1,293.7 | 2,587.3 | 3,881.0 |
|      | 16% | 1,434.8 | 2,869.6 | 4,304.4 |
|      | 18% | 1,575.9 | 3,151.8 | 4,727.8 |
|      | 20% | 1,717.0 | 3,434.1 | 5,151.1 |

Source: Company Filings, Bernstein Analysis

**The Miami vision can be safeguarded with fewer resorts.** If the math doesn't work, the solution is to either reduce the required investment or limit the number of IRs to less than three. Our view is that the \$2B investment is a very smart requirement to insure that this is truly a unique destination resort, not another undistinguished entry into the already saturated world of regional gaming. Reducing the number of IRs allowed is an obvious solution. If the market proves bigger than expected, more can always be added. The successful concessionaire(s) can even be given exclusivities that expire sooner if the market potential exceeds a certain size. On the other hand, if Florida allows/encourages three resorts to over-build the market, there is no going back and undoing the investment. For the concessionaires, this is a risky proposition as currently conceived, especially compared to the potential returns of new resorts in Asia.

**Las Vegas Cannibalization**

**Watch out Las Vegas—Miami is a threat!** One might debate how much regional gaming and internet gaming, if legal, cannibalize the Las Vegas land-based resorts, but it is clear that they are fundamentally different models. Neither has the same experiential elements of multiple multi-billion dollar resort offerings in close proximity with numerous entertainment options. Miami could emerge as a direct head-on competitor with all those elements. Further, it would feature newer casino-resort designs with all the best learning from the last few years of Asian development and be closer to the population centers on the East Coast. We have to believe that there is a cannibalization impact of some consequence which changes how one evaluates these opportunities.

**Miami might steal up to 15% of the Vegas market.** The international component of the Las Vegas market is probably safe. Las Vegas is closer to an Asian clientele. Miami is apt to cultivate its own Latin American clientele. Above we estimate that \$3.9B of the \$5.3B Las Vegas GGR spend is domestic. We know from the Visitor Bureau statistics that 7% of the domestic business is from the North East and 13% is

from the South. If we assume the domestic spend follows a similar pattern, then \$774mm comes from those regions. That is 15% of the total GGR which we would consider at risk from a new, more proximate competitor.

**For the Las Vegas companies, the stakes are higher In Miami.** On the one hand, concessionaires who bid gain back the project returns and potentially some network benefits. On the other hand, they might be playing good defense to protect their Las Vegas franchises. Wynn and LVS, if they enter this market, may prefer to lose Las Vegas business to themselves and keep their customers in-house on either coast. MGM, if it is not a contender, seems vulnerable. Genting, on the other hand, has little to lose and much to gain if selected.

## Disclosure Appendix

**Valuation Methodology**

We value companies using a weighted average of a discounted cash flow analysis (50%) and market multiple valuation (50%). To establish a price target using market multiples for both the Price to Forward Earnings and Enterprise Value to EBITDA, we first derive an average multiple for the sector (Gaming, Lodging, or Leisure) relative to the S&P500. We then determine a relative premium/discount to this sector-wide average for each company based on our assessment of top line growth opportunities, margin expansion potential, and general management strength.

Our DCF model is based on annual cash flow forecasts over an explicit period, combined with a continuing value component intended to capture the firm's value into perpetuity. Our explicit period assumptions are based on annual projections for NOPAT, depreciation, capital expenditures, and working capital. The fair market value of common equity determined by each of these methods is divided by the current diluted share count and multiplied by one plus the cost of equity minus the current dividend yield ( $1 + K_e - d$ ) to calculate a target share price in 12 months time.

**Risks**

The Gaming, Lodging and Leisure sector is a universe of cyclical stocks, whose performances are generally predicated on the state of consumer discretionary spending. Our target prices and recommendations for the companies in our coverage are likely to be affected by economic conditions including rates of business and personal discretionary expenditures as well as market liquidity. Our forecasts are often based on estimates of GDP which may or may not be accurate.

Gaming coverage companies are exposed to government gaming laws, both in the U.S. and in Asia, and may be significantly affected by any major changes to tax, concession, competition, or zoning laws. Similarly, our companies' exposure to significant and growing competition in relevant markets may present a risk to our target prices and recommendations. Gaming earnings are affected by win percentages which may or may not fall into predictable ranges. Finally, efforts to build large-scale casino-resorts may also present a risk to our target price and recommendation if significant returns on each of these investments do not materialize.

## SRO REQUIRED DISCLOSURES

- References to "Bernstein" relate to Sanford C. Bernstein & Co., LLC, Sanford C. Bernstein Limited, Sanford C. Bernstein (Hong Kong) Limited, and Sanford C. Bernstein (business registration number 53193989L), a unit of AllianceBernstein (Singapore) Ltd. which is a licensed entity under the Securities and Futures Act and registered with Company Registration No. 199703364C, collectively.
- Bernstein analysts are compensated based on aggregate contributions to the research franchise as measured by account penetration, productivity and proactivity of investment ideas. No analysts are compensated based on performance in, or contributions to, generating investment banking revenues.
- Bernstein rates stocks based on forecasts of relative performance for the next 6-12 months versus the S&P 500 for stocks listed on the U.S. and Canadian exchanges, versus the MSCI Pan Europe Index for stocks listed on the European exchanges (except for Russian companies), versus the MSCI Emerging Markets Index for Russian companies and stocks listed on emerging markets exchanges outside of the Asia Pacific region, and versus the MSCI Asia Pacific ex-Japan Index for stocks listed on the Asian (ex-Japan) exchanges - unless otherwise specified. We have three categories of ratings:

Outperform: Stock will outpace the market index by more than 15 pp in the year ahead.

Market-Perform: Stock will perform in line with the market index to within +/-15 pp in the year ahead.

Underperform: Stock will trail the performance of the market index by more than 15 pp in the year ahead.

Not Rated: The stock Rating, Target Price and estimates (if any) have been suspended temporarily.

- As of 10/22/2011, Bernstein's ratings were distributed as follows: Outperform - 44.1% (1.5% banking clients) ; Market-Perform - 47.1% (0.5% banking clients); Underperform - 8.8% (0.0% banking clients); Not Rated - 0.0% (0.0% banking clients). The numbers in parentheses represent the percentage of companies in each category to whom Bernstein provided investment banking services within the last twelve (12) months.
- Bernstein currently makes a market in the following companies WYNN / Wynn Resorts Ltd.

### 12-Month Rating History as of 10/23/2011

#### Ticker Rating Changes

LVS O (IC) 02/25/09  
MGM O (RC) 06/13/11 M (RC) 08/06/09  
WYNN M (RC) 05/06/09

Rating Guide: O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated  
Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

#### LVS / Las Vegas Sands Corp

| Date     | Rating | Target(USD) |
|----------|--------|-------------|
| 02/25/09 | O (IC) | 8.00        |
| 05/06/09 | O      | 12.00       |
| 05/26/09 | O      | 10.00       |
| 08/14/09 | O      | 12.00       |
| 09/04/09 | O      | 17.00       |
| 09/25/09 | O      | 18.00       |
| 01/07/10 | O      | 22.00       |
| 03/22/10 | O      | 24.00       |
| 04/14/10 | O      | 27.00       |
| 05/07/10 | O      | 30.00       |
| 07/29/10 | O      | 33.00       |
| 10/20/10 | O      | 40.00       |
| 10/28/10 | O      | 49.00       |
| 12/17/10 | O      | 50.00       |
| 01/18/11 | O      | 53.00       |
| 05/04/11 | O      | 51.00       |
| 07/01/11 | O      | 53.00       |
| 07/27/11 | O      | 58.00       |
| 09/19/11 | O      | 62.00       |



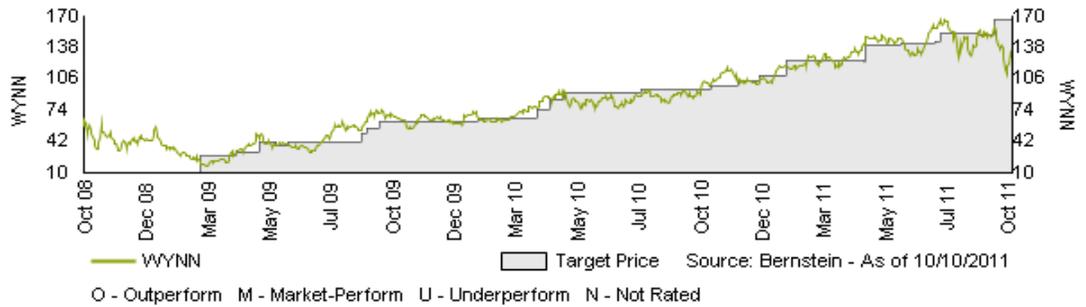
O - Outperform M - Market-Perform U - Underperform N - Not Rated

IC - Initiated Coverage

### WYNN / Wynn Resorts Ltd

| Date     | Rating | Target(USD) |
|----------|--------|-------------|
| 02/25/09 | O(IC)  | 27.00       |
| 04/09/09 | O      | 30.00       |
| 05/06/09 | M      | 40.00       |
| 05/26/09 | M      | 37.00       |
| 06/08/09 | M      | 40.00       |
| 09/04/09 | M      | 49.00       |
| 09/11/09 | M      | 54.00       |
| 09/25/09 | M      | 61.00       |
| 01/19/10 | M      | 64.00       |
| 03/29/10 | M      | 74.00       |
| 04/14/10 | M      | 84.00       |
| 04/30/10 | M      | 91.00       |
| 07/30/10 | M      | 94.00       |
| 10/20/10 | M      | 98.00       |
| 11/22/10 | M      | 103.00      |
| 12/17/10 | M      | 109.00      |
| 01/18/11 | M      | 124.00      |
| 04/19/11 | M      | 123.00      |
| 04/20/11 | M      | 139.00      |
| 06/01/11 | M      | 142.00      |
| 07/12/11 | M      | 143.00      |
| 07/19/11 | M      | 151.00      |
| 09/01/11 | M      | 150.00      |
| 09/19/11 | M      | 165.00      |

IC - Initiated Coverage



### MGM / MGM Mirage

| Date     | Rating | Target(USD) |
|----------|--------|-------------|
| 02/25/09 | U(IC)  | 2.00        |
| 03/06/09 | U      | 1.00        |
| 05/05/09 | U      | 7.00        |
| 08/06/09 | M      | 9.00        |
| 11/20/09 | M      | 10.00       |
| 03/29/10 | M      | 11.00       |
| 05/17/10 | M      | 12.00       |
| 12/17/10 | M      | 13.00       |
| 01/18/11 | M      | 15.00       |
| 05/13/11 | M      | 16.00       |
| 06/01/11 | M      | 17.00       |
| 06/13/11 | O      | 17.00       |
| 09/19/11 | O      | 18.00       |

IC - Initiated Coverage



## OTHER DISCLOSURES

A price movement of a security which may be temporary will not necessarily trigger a recommendation change. Bernstein will advise as and when coverage of securities commences and ceases. Bernstein has no policy or standard as to the frequency of any updates or changes to its coverage policies. Although the definition and application of these methods are based on generally accepted industry practices and models, please note that there is a range of reasonable variations within these models. The application of models typically depends on forecasts of a range of economic variables, which may include, but not limited to, interest rates, exchange rates, earnings, cash flows and risk factors that are subject to uncertainty and also may change over time. Any valuation is dependent upon the subjective opinion of the analysts carrying out this valuation.

This document may not be passed on to any person in the United Kingdom (i) who is a retail client (ii) unless that person or entity qualifies as an authorised person or exempt person within the meaning of section 19 of the UK Financial Services and Markets Act 2000 (the "Act"), or qualifies as a person to whom the financial promotion restriction imposed by the Act does not apply by virtue of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or is a person classified as an "professional client" for the purposes of the Conduct of Business Rules of the Financial Services Authority.

**To our readers in the United States:** Sanford C. Bernstein & Co., LLC is distributing this publication in the United States and accepts responsibility for its contents. Any U.S. person receiving this publication and wishing to effect securities transactions in any security discussed herein should do so only through Sanford C. Bernstein & Co., LLC.

**To our readers in the United Kingdom:** This publication has been issued or approved for issue in the United Kingdom by Sanford C. Bernstein Limited, authorised and regulated by the Financial Services Authority and located at Devonshire House, 1 Mayfair Place, London W1J 8SB, +44 (0)20-7170-5000.

**To our readers in member states of the EEA:** This publication is being distributed in the EEA by Sanford C. Bernstein Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority and holds a passport under the Markets in Financial Instruments Directive.

**To our readers in Hong Kong:** This publication is being distributed in Hong Kong by Sanford C. Bernstein (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission (Central Entity No. AXC846). This publication is solely for professional investors only, as defined in the Securities and Futures Ordinance (Cap. 571).

**To our readers in Singapore:** This publication is being distributed in Singapore by Sanford C. Bernstein, a unit of AllianceBernstein (Singapore) Ltd., only to accredited investors or institutional investors, as defined in the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact AllianceBernstein (Singapore) Ltd. in respect of matters arising from, or in connection with, this publication. AllianceBernstein (Singapore) Ltd. is a licensed entity under the Securities and Futures Act and registered with Company Registration No. 199703364C. It is regulated by the Monetary Authority of Singapore and located at 30 Cecil Street, #28-01 Prudential Tower, Singapore 049712, +65-62304600. The business name "Sanford C. Bernstein" is registered under business registration number 53193989L.

**To our readers in Australia:** Sanford C. Bernstein & Co., LLC and Sanford C. Bernstein Limited are exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 in respect of the provision of the following financial services to wholesale clients:

- providing financial product advice;
- dealing in a financial product;
- making a market for a financial product; and
- providing a custodial or depository service.

Sanford C. Bernstein & Co., LLC., Sanford C. Bernstein Limited, Sanford C. Bernstein (Hong Kong) Limited and AllianceBernstein (Singapore) Ltd. are regulated by, respectively, the Securities and Exchange Commission under U.S. laws, by the Financial Services Authority under U.K. laws, by the Hong Kong Securities and Futures Commission under Hong Kong laws, and by the Monetary Authority of Singapore under Singapore laws, all of which differ from Australian laws.

One or more of the officers, directors, or employees of Sanford C. Bernstein & Co., LLC, Sanford C. Bernstein Limited, Sanford C. Bernstein (Hong Kong) Limited, Sanford C. Bernstein (business registration number 53193989L), a unit of AllianceBernstein (Singapore) Ltd. which is a licensed entity under the Securities and Futures Act and registered with Company Registration No. 199703364C, and/or their affiliates may at any time hold, increase or decrease positions in securities of any company mentioned herein.

Bernstein or its affiliates may provide investment management or other services to the pension or profit sharing plans, or employees of any company mentioned herein, and may give advice to others as to investments in such companies. These entities may effect transactions that are similar to or different from those recommended herein.

Bernstein Research Publications are disseminated to our customers through posting on the firm's password protected website, [www.bernsteinresearch.com](http://www.bernsteinresearch.com). Additionally, Bernstein Research Publications are available through email, postal mail and commercial research portals. If you wish to alter your current distribution method, please contact your salesperson for details.

Bernstein and/or its affiliates do and seek to do business with companies covered in its research publications. As a result, investors should be aware that Bernstein and/or its affiliates may have a conflict of interest that could affect the objectivity of this publication. Investors should consider this publication as only a single factor in making their investment decisions.

This publication has been published and distributed in accordance with Bernstein's policy for management of conflicts of interest in investment research, a copy of which is available from Sanford C. Bernstein & Co., LLC, Director of Compliance, 1345 Avenue of the Americas, New York, N.Y. 10105, Sanford C. Bernstein Limited, Director of Compliance, Devonshire House, One Mayfair Place, London W1J 8SB, United Kingdom, or Sanford C. Bernstein (Hong Kong) Limited, Director of Compliance, Suites 3206-11, 32/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, or Sanford C. Bernstein (business registration number 53193989L), a unit of AllianceBernstein (Singapore) Ltd. which is a licensed entity under the Securities and Futures Act and registered with Company Registration No. 199703364C, Director of Compliance, 30 Cecil Street, #28-01 Prudential Tower, Singapore 049712. Additional disclosures and information regarding Bernstein's business are available on our website [www.bernsteinresearch.com](http://www.bernsteinresearch.com).

## CERTIFICATIONS

- I/(we), Janet Brashear, Senior Analyst(s)/Analyst(s), certify that all of the views expressed in this publication accurately reflect my/(our) personal views about any and all of the subject securities or issuers and that no part of my/(our) compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views in this publication.

Approved By: AK

---

Copyright 2011, Sanford C. Bernstein & Co., LLC, Sanford C. Bernstein Limited, Sanford C. Bernstein (Hong Kong) Limited, and AllianceBernstein (Singapore) Ltd., subsidiaries of AllianceBernstein L.P. ~1345 Avenue of the Americas ~ NY, NY 10105 ~212/756-4400. All rights reserved.

This publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Bernstein or any of their subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction. This publication is based upon public sources we believe to be reliable, but no representation is made by us that the publication is accurate or complete. We do not undertake to advise you of any change in the reported information or in the opinions herein. This publication was prepared and issued by Bernstein for distribution to eligible counterparties or professional clients. This publication is not an offer to buy or sell any security, and it does not constitute investment, legal or tax advice. The investments referred to herein may not be suitable for you. Investors must make their own investment decisions in consultation with their professional advisors in light of their specific circumstances. The value of investments may fluctuate, and investments that are denominated in foreign currencies may fluctuate in value as a result of exposure to exchange rate movements. Information about past performance of an investment is not necessarily a guide to, indicator of, or assurance of, future performance.