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The Fiscal Forensics of the Las Vegas Strip Lessons from the Financial Crisis

Dean M. Macomber

ABSTRACT: Hitting with the force of a 100-year storm, the first two years of the financial crisis caused a \$5.2 billion swing from profitability to loss for the top 22 performing Las Vegas Strip properties between peak fiscal year 2007 and 2009. By fiscal year 2011 visitor count had almost climbed back to peak levels but the aggregate loss is still stubbornly high at \$ -1.6 billion. Other signs of recovery trickle in but are sporadic and volatile. This article is an attempt to disaggregate the variance and look at where Las Vegas has been, where it is now and how it got there to learn from this trying period and help manage the future.

Keywords: Las Vegas, financial crisis, profitability, analysis, recovery.

Hitting with the force of a 100-year storm, the first two years of the onslaught of the financial crisis caused a \$ -5.2 billion swing from profitability to loss for the top 22 performing Las Vegas Strip properties. These properties went from generating a combined Pre-tax Net Income of \$ +1.5 billion in fiscal year ending June 2007¹ to a pre-tax net loss of -\$3.7 billion in 2009.² The most damage was done during the initial two-year period but lingering forces continued to cause harm: in 2010 the combined loss had shrunk but was still in negative territory at \$ -1.8 billion. The recently released 2011 report indicates the top performing properties are still running at a pre-tax net loss that is stubbornly high, \$ -1.6 billion.³ All was not in negative territory, however. In calendar year

("CY") 2011 total visitor counts have virtually returned to 2007 levels, 39.1 million visitors versus 39.2 million visitors in CY 2007. Other signs of recovery trickle in but are sporadic and volatile. (See [Figure 1](#))

What does all this mean? What does it imply for the future of Las Vegas? This paper looks at where Las Vegas has been, where it is now and how it got there as a means to help the brave predict the future.

Before delving into the numbers to better understand the dynamics of the financial crisis's impact on the Las Vegas Strip properties, the inherent economic structure of casinos and some of the situational forces that impacted the top Las Vegas Strip properties during this five year period need to be understood.

Casinos are typically both capital and labor intensive. These two forces push up the intersection of the revenue and expense curves, the breakeven point, because they raise the starting point of fixed costs, steepen and accelerate the shape of semi-fixed and variable costs that must be added to immovable fixed costs. When revenue is strong and up the revenue curve beyond the breakeven point this embedded financial structure creates operating leverage, i.e., percentage increases in profits can increase faster than percentage increases in revenue. Because revenues continued to grow unabated in Las Vegas for such a long period of time producing good if not great operating margins, high cash flows and ROIs relative to many other industries the casino industry was regarded as “bullet proof,” revenue was infinite, and growth an entitlement. But, under these same conditions, when revenue sags the worm turns, revenue slides down the revenue curve and the same shape of the expense curve that worked so well on the upside works against the owner with operating margins, profits, and ROIs all suffering and, in fact, increasing the further revenue drops (reverse operating leverage).

Aggravating the “status quo” many of the big Las Vegas properties today were built when banks were lining up to lend money for gaming projects even if they did not need it. This, when combined with unbounded and ultimately unrealistic developer’s optimism, resulted in a plethora of upscale properties that today are so big, so expensive (size and quality level), and too inflexible design-wise and position-wise to morph sufficiently to escape a loss when revenue fell.

Additionally, in an exquisite example of bad timing, several big companies that operated multiple large existing properties were taken private taking on hoards more debt to finance the buyout on the bet that revenues would at the worst continue at pace but would actuality continue to show even higher growth. Unfortunately, for those involved, this further reduced the margin for error on the downside, for some severely.

Thus, when the financial crisis and aftershocks caused the downturn the breakeven point was at its highest and the expense curve at its steepest and most accelerated. The result? The revenue drop off was more impactful than normal. Companies rushed to save themselves (and executives their jobs) by pushing debt repayment back and paying for the privilege. This only made things worse.

The data analysis in this paper will use 2007 as a benchmark against which to measure current performance because this is when Pre-tax Net Income for the top Strip properties peaked at \$ +1.5 billion. In order to better identify, quantify, and focus on the forces at work that led to the most recent 2011 \$ -1.6 billion loss this article will focus on the \$ -3.1 billion variance between the two periods. Negative signs (“-”) will denote unfavorable variances and positive signs (“+”) will denote favorable variances. It is insightful to begin with an understanding of the structure of the variances.

The first structural dynamic that needs to be understood is the apparent difficulty owners and management had controlling the unfavorable variances because they amounted to \$ -4.1 billion and 130 percent of the net unfavorable variance. The best they could muster in response was a \$ +1.0 billion of offsetting positive variance.

The second important dynamic is that revenue accounted for \$ -1.7 billion or 55 percent of the unfavorable variance with expenses accounting for the remaining 45 percent or \$ -1.4 billion.

The third structural dynamic is that \$ -1.5 billion or 48 percent of the unfavorable total Pre-tax Net Income variance occurred above the EBITDA profit line the result of variances in operating revenue and operating expenses with the remaining \$ -1.6 billion or 52 percent occurring below generated by depreciation, amortization, and interest which are balance sheet items related to the cost of the project and subsequent funding.

Perhaps the most important structural dynamic is that only a small number of the 30 revenue and expense categories that

comprise the Pre-tax Net Income Statement drove the results. Two categories accounted for -69 percent of the net variance, the top four accounted for 108 percent, and two others bring the total to six and cumulatively accounting for \$ -3.8 billion or 122 percent of the total negative variance. The remaining 24 line categories summed to a net positive variance of \$ +0.8 billion or 22 percent of the remaining variance bringing the net to \$ - 3.1 billion.

These dynamics tell us not only what was and is happening but what needs to be done in the future to prevent a recurrence. Let us look further into the variance following the sequence of the financial statement to understand more.

Revenue

The front of the financial crisis storm caused an initial revenue drop of -13 percent in one year from an aggregate Total Revenue of \$14.6 billion at its peak in 2008 to \$12.7 billion in 2009. Total Revenue hit bottom in 2010 at \$12.1 billion. It climbed back to \$12.8 billion in 2011 but disappointedly to still only 88 percent of the 2008 peak.

How much of this decrease was the direct and indirect result of a world economic epidemic, the financial crisis, and the so-called U.S. Great Recession that ensued? The chart below shows the year-over-year change in selected U.S. sales categories as a reference point. Growth in all sectors hit a wall and decreased but fell to 0 percent to -6.4 percent growth except for the auto industry which fell off a cliff experiencing a -23.9 percent drop. By 2010 all of the categories, including the auto industry, were at zero or experiencing slow growth. By 2011 the sales pace for five out of the six categories were above 2008 levels, three had climbed back to their five-year peak dollar sales volume and two set a new record for the five-year period. The auto industry had climbed back to within 85 percent of its 2007 peak dollar sales volume. (see [Figure 2](#))

While admittedly a small sample, it appears that the top performing Las Vegas Strip casinos fell harder than other consumer

industries and has been slower to recover except sharing a kinship with the auto industry. This is not surprising, per se, given that even in the value chain of leisure, entertainment, and recreation pursuits casino gaming would probably fall in the sector comprising activities that are first to be cut and among the slowest to rebound. For automobiles a recession may mean deferring a car purchase or purchasing a small and lower priced car. For casino gaming, for most it means stopping or severely cutting back and, problematically for Las Vegas, playing closer to home now that casino gaming is relatively widespread across the United States.

Was the fall in revenue due to a decrease in overall visitor count, budget (spend per visitor), or both? [See Figure 3.](#)

Initially not only the number of visitors decreased but also spend per visitor. The decrease in visitor count stopped in 2009 but spend per visitor did not bottom until 2010. By 2011, even though year-over-year visitor count and spend per visitor were both positive the increase were to levels that were still below 2007 levels, i.e., 89 percent and 91 percent, respectively. This is better than the automobile industry's performance but less than the other sales sectors that returned or were above their peak levels by 2011. While in percentage terms this may not look like a lot in hard dollars the top Las Vegas Strip casinos had \$ -1.4 billion less in revenue or an average of \$ -63 million per property. When fixed costs are high this can be toxic as will be shown later in this article.

Capacity

Capacity and Goldilocks have a lot in common: both want "Not Too Much. Not Too Little. But, Just the Right Amount." Because too much can drive up capital and operating costs and too little may prevent the casino from being able to serve the demand that exists. In aggregate net capacity did not change radically among key revenue activities. There was one less property in this category, 22 properties in 2011 versus 23 in 2007. But, despite the decrease of one

property, the number of tables games increased by 52 units or +2 percent to a total of 2,255 tables. Slots, by comparison, reduced in count by approximately 3,000 units or -9 percent to 37,319 units. Daily room capacity increased only a net of +574 rooms to 70,774 rooms or 1 percent. The average property had 3,217 rooms in 2011 versus 3,052 in 2007. It would appear that insufficient capacity was not an issue but that too much capacity in terms of the number of units and/or the cost of those units may be a lingering issue. Each surplus unit of capacity cost capital dollars to build and operating dollars to fund debt repayment and fixed and semi-fixed operating expenses.

Utilization

Whether there is too much or too little capacity can often be determined by utilization levels. Win per unit per day can be used as a rough proxy used for physical and financial utilization of gaming capacity. The win per unit per day for slot machines was \$180 in 2011, a +9 percent increase over the \$165 reported in 2007 and directly correlated to the -9 percent reduction in capacity indicating the increase was capacity not demand related. In monopolistic and oligopolistic venues, slot win per unit can be much higher in the over \$200 to as high as \$600 range. But, over the short term, once a casino is built and the slot machines are purchased it is hard to make any radical after-construction or short term changes; the ploy is generally to make what you have work better. For table games win per unit per day was \$3,473 in 2011 versus \$2,913 in 2007, a +19 percent increase, much greater than the +2 percent increase in capacity. However, virtually all of this increase was due to Baccarat, a high average bet game. A total of 141 new full size Baccarat games were added from 2011 versus 2007 but, in effect replaced other games that were removed.

On the non-gaming side, occupied rooms only decreased -4 percent translating into a 91 percent occupancy in 2011 versus 96 percent in 2007, a remarkably high occupancy rate at either level for this number

of rooms. But average daily room rate suffered as one might expect in value seeking times: it dropped -15 percent to \$131 from \$154, indicating that owners/operators had to decrease price to generate the room demand they could. Structurally, this is damaging because at these high utilization levels the marginal profit at both occupancy levels is at its peak due to operating leverage. Lowering rates to keep occupancy high may have been a necessity but the attendant decrease in occupied rooms combined with the lower average daily rate has a greater than proportionate impact on profit. The tension between policies to keep heads-in-beds that would spend on gaming and other non-gaming activities versus maintaining hotel rate driven brand equity and profitability has been tense these last few years. Some of the top 5-star, 4-star^{plus}, and 4-star properties found that by lowering their average rate they were getting budget conscious customers in their room that did not spend their typical customer profile amounts on the gaming floor or restaurants, bars, and entertainment venues or worse. To their dismay, some found they were becoming dormitories to value conscious visitors because those in the rooms were going to less expensive properties for their gaming, food, beverage, and entertainment activities.

In a gaming destination like Las Vegas revenue per occupied room can be telling. In aggregate for the group, gaming revenue per occupied room was \$200 in 2011 vs. \$232 in 2007, a -14 percent decrease. Interestingly, food and beverage revenue per occupied room was \$120 in 2011 versus \$115 in 2007, a +4 percent increase. The \$ +5 increase came \$ +1 from food and \$ +4 from beverage, the latter perhaps not surprising given the increased stress resulting from the financial crisis but also due to the expansion of day clubs and nightclubs at the casinos during this period whose drink prices are incrementally high.

Investment

A balance sheet item, the Cost of Fixed Assets (i.e., the cost of the physical facility and certain other assets before deductions for Depreciation and Amortization) increased almost \$10 billion or +32 percent to \$40.3 billion. This is a huge increase and as a foreshadowing of the next level of analysis, will be shown to have a huge impact on Pre-tax Net Income. For now, however, let it suffice to say that in aggregate the cost of each property increased +32 percent yet total revenue decreased by -13 percent. Put another way, the additional investment and cost/unit did not, could not, or has not yet served to offset the decreases in revenue and/or find new demand/revenue to replace it.

Profit

Turning to profit – the acid test for capitalism – Pre-tax Net Income actually peaked in 2007 at \$1.5 billion. In 2008 Pre-tax Net Income fell to \$0.8B. But, in 2009 when revenue fell off the -13 percent cliff Pre-tax Net Income fell to \$ -3.7 billion.⁴ Why? Because, as already alluded to, this decrease in revenue kicked reversed operating leverage to its ugly twin and in many instances took properties past the breakeven point where losses increase faster than the drop in revenue. Thankfully, in 2010 the rate of decline slowed as companies reacted the best they could but still reported a Pre-tax loss of \$ -1.8 billion. In 2011 the top properties were still “in their sick bed” with an aggregate loss of \$ -1.6 billion. For private and publicly owned companies the sign is supposed to be positive and sufficiently positive to repay debt and provide an adequate return to investors. Any result below these thresholds progress from disappointing to bad as it approaches zero then awful when it turns negative.

From Profit to Loss

To help determine what forces caused Las Vegas Strip properties to slide from operating at a profit to a loss, let us undertake a more rigorous comparison of the variance between

the most recent year reported Pre-tax Net Income of \$ -1.6 billion in 2011 to the peak Pre-tax Net Income of \$ +1.5 billion in 2007. The variances will be further segregated into revenues and expenses first in aggregate, then by department, and finally by the type of expense.

Of the \$ -3.1 billion unfavorable variance in Pre-tax Net Income \$ -1.7 billion or 55 percent was attributable to a decrease in Total Revenue and \$ -1.4 billion or 45 percent was from an increase in expenses. See [Figure 4](#).

The negative EBITDA variance was generated by the aforementioned decrease in Total Revenue of \$ -1.7 billion but was offset somewhat at this level on the financial statement by the collective owner’s/manager’s efforts to decrease expenses by \$ +264M. Even so, expenses could not be reduced fast enough: expenses decreased +2 percent but revenue fell -12 percent. This caused the EBITDA margin to slide from 25 percent of total revenue in 2007 to 17 percent in 2011. Not only had revenue decreased a significant amount, less profit was being brought to the bottom line for each revenue dollar generated.

[Figure 5](#) delves further into the variance by looking at each operating department and the bulk General and Administrative category then rank ordering the profit variance first by the largest unfavorable variance and then by the largest offsetting favorable variances.

Now it can be seen that the Gaming and Hotel departments were the culprits that drove the unfavorable EBITDA variance representing a combined -106 percent of the total decrease. Four of the five operating departments incurred revenue losses with the two largest, Gaming and Hotel, both unable to prevent an -18 percent period-over-period unfavorable revenue variance. Only the Beverage Department was able to generate a +9 percent increase in revenue.

Of the four departments showing an unfavorable revenue variance, three were able to reduce expenses, Gaming, Other, and Food. Gaming could not do so quickly or deep enough to offset the revenue loss hence,

together with a slight revenue shift toward the lower margin table games versus slots, the decrease in departmental profit margin dropped to 33 percent in 2011 from 41 percent in 2007. By contrast the Other and Food Departments were able to decrease expenses faster than the decrease in revenue thus showing a favorable period-over-period increase and higher departmental margins: 48 percent versus 36 percent for Other and 17 percent versus 10 percent for Food. The Beverage Department showed an unfavorable increase in expenses but at a rate less than the increase in Beverage Revenue thus allowing it to show a positive Departmental Profit variance and a 1 percentage point gain in margin.

An increase of 12 percent in General and Administrative Expenses that was 23 percent of Total Revenue in 2011 versus 19 percent in 2007 added to the unfavorable EBITDA variance.

Looking at the same EBITDA data rank ordered by expense type provides additional insight to what has been taking place (see [Figure 6](#))

In reviewing the above expenses it should be recalled again that overall Total Revenue decreased -12 percent over this period with Gaming and Hotel revenues decreasing -18 percent each. The only decrease in expense that tracked the rate of decrease in revenue were Gaming Taxes (which are taxes on revenue and therefore outside the control of management and directly variable so no credit can be given here) and Rent which may be due to performance clauses tying rent expense to revenue and/or profits as much as coincidence.

Labor's Role

Digging in a bit further, it should be remembered that Labor is the largest single expense category for the top performing Las Vegas Strip casinos comprising 38 percent of total EBITDA expenses in 2011 vs. 40 percent in 2007. Payroll and Related Expense decreased \$ +298 million or +4 percent but as a ratio to Total Revenue increased +2 percentage points because Revenue dropped

faster than the cost of labor. Benefits represented 57 percent of the decrease with payroll the remaining 43 percent. The number of employees was down +11 percent or +283 employees per property to an average of 3,859 employees per property. Payroll per Employee increased -7.5 percent during this period with the decrease in the number of employees suggesting an increase in average wage and/or a shift in the mix to higher paid employees. Benefits decreased on a per employee basis but not enough to prevent the combined Payroll and Related cost per employee increase of -4.5 percent. Variations by department in Payroll and Related Expense (shown in the green box) and selected metrics that measure such results are shown in [Figure 7](#).

Assuming that staffing was right-sized to deliver target service levels and labor productivity was efficient in a financial context in 2007, headcount should have decreased at least at the same pace as the decrease in physical demand, e.g., the decrease in the number of casino players and playing time of those players, the number of occupied rooms, food covers, drinks served, and entertainment seats sold. All of the statistics needed to determine if this occurred are not provided by Nevada gaming regulators. But, employee headcount decreased +11 percent which is probably in line with visitor count reduction but Salaries and Wages increased either due to increased rates and/or a shift in the mix to higher paid employee categories and could not be offset by a decrease in Payroll Taxes and Benefits. In the final analysis, the total Payroll and Related Expense only decreased -4 percent not enough to prevent adversely impacting profit when revenue fell +12 percent.

Other Expenses

Marketing Expense showed a Period over Period unfavorable increase of \$ -161 million or -8 percent causing the ratio to total revenue to increase 3 percentage points. Care must be taken in interpreting this variance, however, because different companies categorize expenses differently when it

comes to marketing. In this analysis Music & Entertainment expense is included under Marketing because it is an activity used to generate traffic to a casino more so than to act as a profit center. If Music and Entertainment is removed, the variance becomes a favorable \$ +55 million.

Complimentaries, free services given to players and non-gaming customers as incentive to patronize the property increased \$ -25 million. But, Gaming comps decreased \$ +28 million. Hotel comps increased \$ -52 million presumably to keep “heads-in-beds” which seemed to work for the Hotel Department based upon the aforementioned 91 percent 2011 twelve month occupancy. Combined Food, Beverage, Other, and General & Administrative comps increased a net of only \$ -1 million. Bad Debt, considered a Marketing Expense because credit is also used as an incentive to motivate gaming and non-gaming patronage, also increased but only \$ -12 million. Preferred Guest Expense, additional incentives paid to the best casino players, decreased \$ +67 million. Advertising and Promotion decreased \$ +28 million.

It is reasonable to expect, perhaps even demand, that the Marketing Expense increases with such a decrease in revenue in order to fight to retain customer loyalty, steal market share from competitor casinos in Las Vegas and in other venues, and to attract new players/visitors to Las Vegas when disposable income and leisure time is strained domestically and internationally across virtually all demographics.

Other Expenses at the Operating level decreased \$ +208 million or +13 percent, a good showing, but were offset by a \$ - 245M or -18 percent in the General and Administrative Expense categories resulting in a net unfavorable variance of \$ -37 million. It is unclear what may have caused the General and Administrative unfavorable variance because this is a bulk reporting line item.

Food Cost of Sales decreased \$ +29 million or +5 percent enabling the ratio to food revenue to stay more or less steady in the 29 percent range by falling with the same rate as

the decrease in sales. Beverage Cost of Sales also decreased \$ +11 million or +8 percent and, as a ratio to total beverage revenue improved to approximately 16 percent from approximately 19 percent with more sales. This may have been due to volume of drinks but during this period a number of night and day clubs opened which are able to charge high prices for their drinks. Other Cost of Sales decreased \$ +46 million a +19 percent variance improving the ratio to total Other Revenue to 10% from 12 percent on decreased sales.

Combining the departmental variances by expense in [Figure 8](#) shows the departmental source and dynamics as well as the expense type.

By focusing on the ‘right’ of the graphic under EBITDA it can be seen that essentially the decrease in revenue could not be staunched and expenses could not be decreased fast enough to offset the decrease in revenue. Two departments accounted for the majority of the drop in revenue, Gaming and Hotel revenue. Together they accounted for 62 percent of unfavorable variance in revenue, 38 percent and 24 percent, respectively. The increase in departmental profit of the other three operating departments essentially offset the increase in General and Administrative expenses. As stated previously the Owner’s commitment to size and to five and four star quality-levels together with inflexible building design, contracts, and other forces seemed to conspire to make expenses apparently difficult to reduce.

The Rest of the Picture

[Figure 9](#) illustrates what occurred below EBITDA and completes the picture of what drove the remaining \$ -1.6B unfavorable variance.

The \$ -0.5 billion unfavorable variance in Depreciation and Amortization is primarily a manifestation of a \$ +10 billion in the Cost of Fixed Assets, i.e., an increase from \$30.6 billion in 2007 to \$40.3 billion in 2011. Depreciation and Amortization is a non-cash expense that reduces tax payments and

thereby reduces net income but does not typically affect free cash flow. But, since it affects earnings, however, it can also affect debt covenant ratios and the stock prices of publicly traded companies which can have other implications.

The interest charge is the single greatest source of unfavorable variance among all categories, \$ -1.1 billion representing 35 percent of the total variance in Pre-tax Net Income. It is a huge number in the absolute: \$2.3 billion in 2011. This is a result of an increase in debt of \$ +22.3 billion and an increase in leverage, i.e., Debt to Total Liabilities and Capital Ratio from 44 percent in 2007 to 70 percent in 2011. Rather devastatingly, interest took 102 percent of an already weakened EBITDA in 2011 versus 30 percent in 2007. In aggregation, the added capital investment of the physical plant did not create a major increase in capacity nor did it seem to inspire any material increases in visitor demand or revenue. The decision to increase leverage made things worse. Note that had the 2011 EBITDA had the 2007 Depreciation and Amortization plus Interest levels Pre-tax Net Income would have been \$ 26 million versus a \$ -1.6 billion loss.

Bottom line, the Pre-tax Net Income variance from 2011 to 2007 was \$ -3.1 billion. Revenue decreased \$ -1.7 billion causing 56 percent of the variance and expenses increased \$ -1.4 billion comprising the remaining 44 percent of the variance, albeit the vast majority of the increase in expenses (\$-1.7 billion) occurred below the EBITDA line. The forces impacting performance were not only those of a 100-year storm but they were the "Perfect Storm" ... physical demand fell, spend per visitor fell, operating expenses could not decrease fast enough, the increase in investment along with refinancing taking place resulted in higher debt and higher leverage causing interest to consume an already weakened and lower EBITDA. And, regrettably, the increase in investment did not increase capacity nor build properties that inspired the Marketplace, grow existing markets, found or unlocked new ones.

Revenue decreased -12 percent and total expenses increased -11 percent. Not pretty.

As mentioned before four categories of the financial statement drove 108 percent of the variance, two revenue – Casino and Hotel – and two expenses – Interest and Depreciation & Amortization. Two other expenses, Other Expense and Marketing Expense in General Administrative combined to account for another -13.7 percent bringing the total for these six categories to 122 percent of the Pre-Tax Net Loss variance. These six categories put the top performing Las Vegas properties in such a negative position that the remaining 24 categories could not reverse it.

Conclusion

Locals, industry insiders, vested interests, and erstwhile friends-of-Las Vegas continue to look for the bright side, grabbing the smallest most incremental new factoid as a sign that Las Vegas has hit bottom and the inevitable return to unconstrained growth has begun anew. Outsiders, naysayers, skeptics, and enemies-of-Las Vegas look at the same proverbial glass – the data stream – and draw at best more reserved, conservative conclusions and, at worst, a specter that the city that has lost its mojo, has seen the End of an Era, and doom the Gaming Mecca to a future of mixed results and mediocrity.

In this regard, while there is a clamor for un-emotional, unbiased, and well researched answers to what the future holds for Las Vegas, given the unprecedented depth and breadth of local, regional, domestic, and world economic difficulties that now more than ever are interwoven and dependent upon each other, the most honest answer right now is "I don't know."

Despite this uncertainty, what is clear is that Las Vegas has developed a critical mass, is THE Gaming Mecca for North America, and enjoys unique dynamics that suggest it will not become a modern day western ghost town anytime soon, but will remain a major tourism center. The question then becomes not IF Las Vegas prospects will continue to rebound but over what period of time, at what pace, and perhaps most importantly

what will be the stabilized level performance and the new growth dynamics that build from there? To use the parlance of the day, “What will be the New Normal?”

One thing is for sure, however: not having learned from the past five years and continuing to do business “as usual” are prescriptions for mediocrity at best and perhaps ruin at worst.

About the Author

Dean Macomber is president of Macomber International, Inc. With over 37 years of diversified experience in the gaming industry ranging from dealer to CEO, development to operations involving mega-destination resorts to locals' oriented casinos in numerous domestic and international venues, Macomber provides executive level consulting in the areas of strategic and business planning, feasibility and all other project development phases as well as pre- and post-opening management and profit improvement engagements.

This paper was published May 2012 as the seventeenth in the UNLV Center for Gaming Research's Occasional Paper Series, accessible online at <http://gaming.unlv.edu>.

Figures

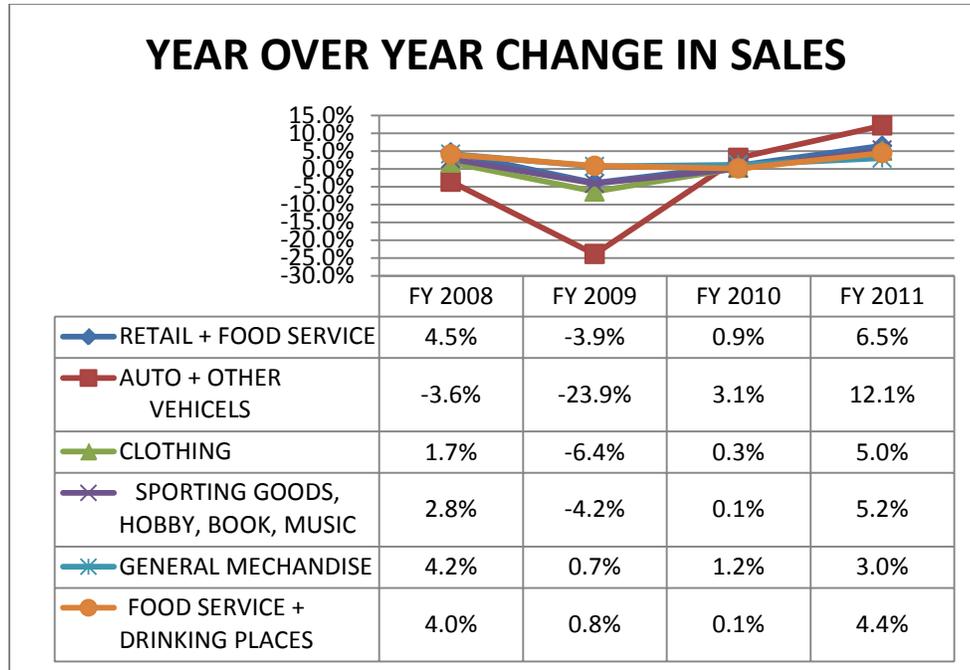
Figure 1

AGGREGATE LAS VEGAS STRIP RESULTS TOP PROPERTIES – GENERATING >\$72M IN ANNUAL GAMING REVENUE

	<u>TOTAL VISITORS</u>	<u>TOTAL REVENUE</u>	<u>TOTAL PRE-TAX NET INCOME</u>
2007	39.2M	\$14.6B	\$ +1.5B
2008	39.1M	\$14.6B	\$ +0.8B
2009	36.1M	\$12.7B	\$ -3.7B
2010	36.7M	\$12.1B	\$ -1.8B
2011	38.3M	\$12.8B	\$ -1.6B
 CY 2011	 39.1M		

Source: Actual visitor counts June 2006 through November 2011 from Las Vegas Convention and Visitors Authority. CY 2011 visitor count was estimated by University of Nevada-Las Vegas Center for Business & Economic Research.

Figure 2



Source: U.S. Census Bureau and Macomber International, Inc.

Figure 3

VISITOR DRIVEN STATISTICS
ALL CLARK COUNTY CASINOS GENERATING OVER \$1M IN GAMING REVENUE

	YoY CHANGE IN TOTAL <u>TOTAL REVENUE</u>	YoY CHANGE IN TOTAL <u>VISITORS</u>	TOTAL REVENUE PER VISITOR and <u>YoY CHANGE</u>
2008	-0.9%	-0.2%	\$557 -0.8%
2009	-11.8%	-7.6%	\$531 -4.6%
2010	-5.0%	+1.5%	\$497 -6.4%
2011	+6.8%	+4.3%	\$509 +2.4%

Figure 4

Favorable variances are shown with a green background and/or a “+” sign and unfavorable variances with a red background and/or a “-” sign. The 2011 over 2007 percentage change is shown below each variance.

	PROFIT	REVENUE	EXPENSES
PT NI Variance	(\$3,144,530,442)	(\$1,748,911,667)	(\$1,395,618,775)
% Change	-208%	-12%	-11%

We need to look further. Let us take a look at the operating or EBITDA level which, as already mentioned, accounted for 48 percent of the unfavorable variance.

	PROFIT	REVENUE	EXPENSES
EBITDA Var.	(\$1,484,931,759)	(\$1,748,911,667)	\$263,979,908
% Change	-40%	-12%	2%

Figure 5

	PROFIT	REVENUE	EXPENSES	Margin 2011	Margin 2007
Gaming	(\$807,182,911)	(\$1,044,700,738)	\$237,517,827	33%	41%
% Change	-33%	-18%	7%		
Hotel	(\$765,179,760)	(\$691,216,963)	(\$73,962,797)	60%	69%
% Change	-29%	-18%	-6%		
Gen. & Admin.	(\$314,131,344)		(\$314,131,344)	23%	19%
% Change	-12%		-12%		
Other	\$239,845,896	(\$29,544,125)	\$269,390,021	48%	36%
% Change	33%	-1%	20%		
Food	\$120,432,582	(\$55,954,031)	\$176,386,613	17%	10%
% Change	58%	-3%	10%		
Beverage	\$41,283,778	\$72,504,190	(\$31,220,412)	44%	43%
% Change	12%	9%	-7%		
EBITDA Var.	(\$1,484,931,759)	(\$1,748,911,667)	\$263,979,908	17%	25%
% Change	-40%	-12%	2%		

“Other Department” may include entertainment, retail (revenue and or lease income), other operating departments not listed and other income.

Figure 6

	VARIANCE	RATIO TO TOTAL	
		2011	2007
Marketing	(\$161,218,799)	17%	14%
% Change	-8%		
Other	(\$37,372,319)	24%	21%
% Change	-1%		
Labor	\$297,712,618	32%	30%
% Change	7%		
Cost of Sales	\$86,327,881	7%	7%
% Change	9%		
Gaming Taxes	\$75,802,544	3%	3%
% Change	17%		
Rent	\$2,727,983	0%	1%
% Change	15%		

Figure 7

LABOR VARIANCE DISAGGREGATION – FY2011 VS. FY 2007

Source: Nevada Gaming Abstract,
Las Vegas Strip Casinos generating >\$72 million in annual gaming revenue

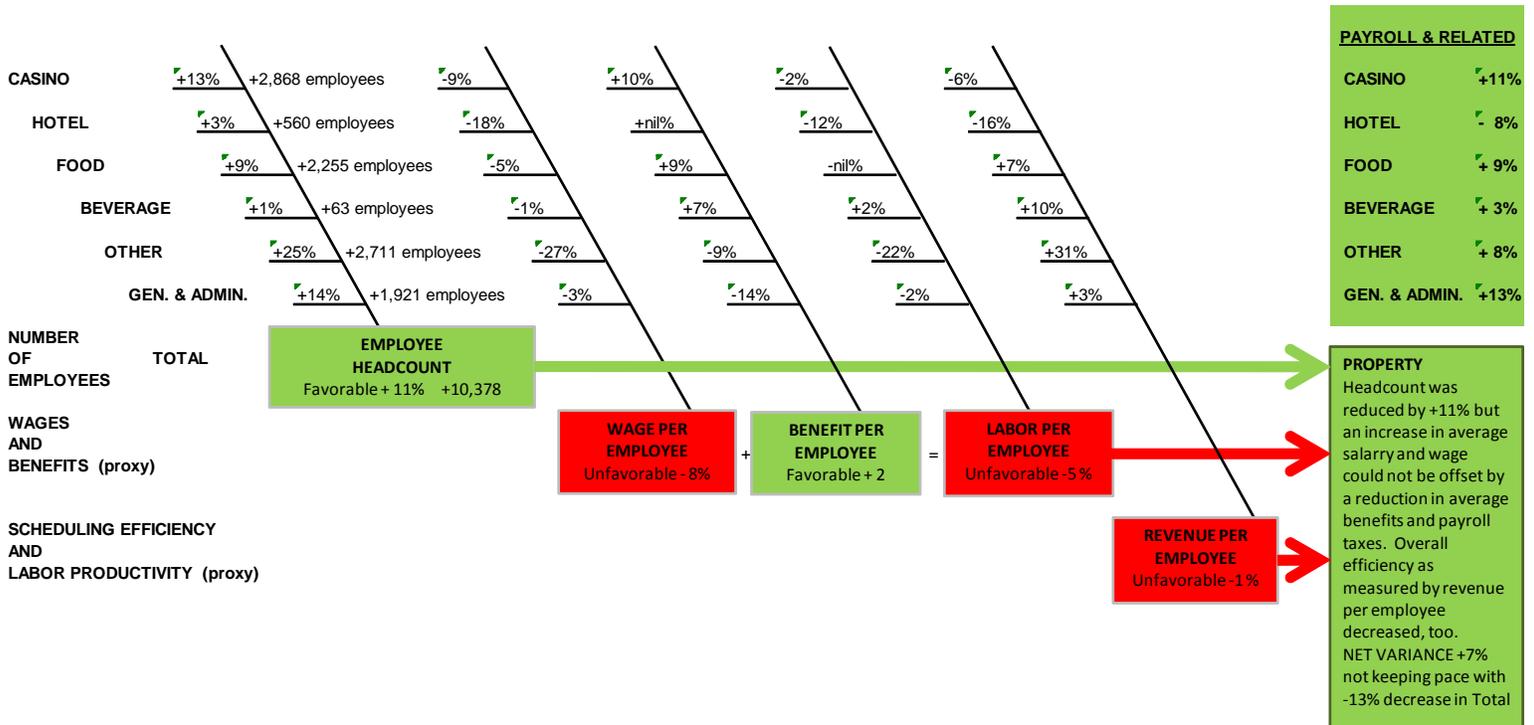


Figure 8

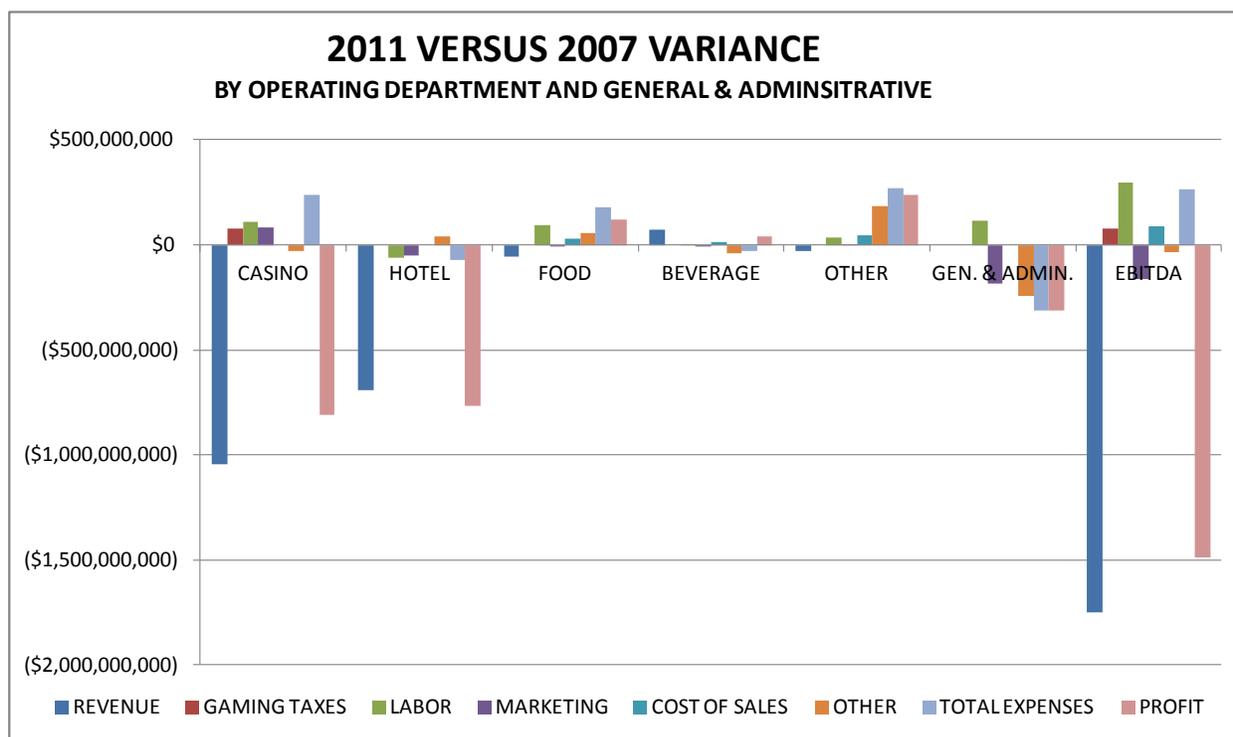


Figure 9

	VARIANCE	REVENUE	EXPENSES
EBITDA Var.	(\$1,484,931,759)	(\$1,748,911,667)	\$263,979,908
% Change	-40%	-12%	2%
Depr. & Amort.	(\$515,292,844)		(\$515,292,844)
% Change	-48%		-48%
EBIT Variance	(\$2,000,224,603)	(\$1,748,911,667)	(\$251,312,936)
% Change	-76%	-12%	-2%
Interest	(\$1,144,305,839)		(\$1,144,305,839)
% Change	-101%		-101%
PT NI Variance	(\$3,144,530,442)	(\$1,748,911,667)	(\$1,395,618,775)
% Change	-208%	-12%	-11%

Notes

- ¹ All time periods will be Fiscal Years ending June 30 to align with the 12 month calendar used by Nevada regulators to report industry results unless otherwise noted.
- ² All data from this article is from the Nevada State Gaming Control Board's *Nevada Gaming Abstract*, the official statistical report of the Nevada regulators unless otherwise indicated. There are two reporting categories for the Las Vegas Strip: properties that report 12 month annual gaming revenue between \$1 million and \$72 million and those that generate \$72 million and above. While not the subject of this article, in 2007 there were 15 properties in the \$1 million to \$72 million category that generated \$150M in Pre-tax Net Income or 9 percent of the total 38 property Las Vegas Strip Pre-tax Net Income of \$ +1.7B. This article will focus on the top performing property category because they so dominate the financial performance of Las Vegas Strip properties, i.e., 23 properties generated 91 percent of total reported Las Vegas Strip Pre-tax Net Income in 2007 and 22 properties generated 74 percent of the Pre-tax Net Loss in 2011.
- ³ The 256 statewide casinos Pre-tax Net Loss for 2011 was \$ - 4.0 billion generating a fair amount of commentary because it was worse than the statewide 2010 Pre-tax Net Loss of \$ -3.4 billion. The 148 Clark County casinos which include Las Vegas casinos generated \$-4.0 billion in Pre-tax net Loss or 100 percent of the State total with the remaining categories (other Nevada counties) reporting mixed income and losses but the total net impact was not sufficient to change the overall State performance. Within Clark County, the 41 Las Vegas Strip properties generated a loss of \$ -2.2 billion or 55 percent of the total loss. The remaining \$ -1.8 billion loss was generated by the 107 other casinos in Clark County. Of this amount a \$ -1.3 billion loss was reported by the "Balance of County" category the performance of which is dominated by large, publicly held locals' casinos.
- ⁴ The Dow Jones Industrial Average peaked in July 2007 at 13,896 and hit a low in January 2009 of 7,609.

About the Center for Gaming Research

Located within Special Collections at UNLV's state-of-the-art Lied Library, the Center for Gaming Research is committed to providing support for scholarly inquiry into all aspects of gaming. Through its website, <http://gaming.unlv.edu>, the Center offers several unique research tools and information sources.

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UNLV is a doctoral-degree-granting institution of 28,000 students and 3,300 faculty and staff. Founded in 1957, the university offers more than 220 undergraduate, masters and doctoral degree programs. UNLV is located on a 332-acre campus in dynamic Southern Nevada and is classified in the category of Research Universities (high research activity) by the Carnegie Foundation for the Advancement of Teaching.

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