

UNITEHERE! Gaming Research

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MGM Resorts International (NYSE: MGM)

- Labor contracts for most Las Vegas casino resorts expire at the end of May. MGM has a significant presence in Las Vegas with a 59% EBITDA exposure. Last week, 25,000 union members voted to authorize a strike by a 99% margin.
- Main outstanding issues in MGM negotiations include technology, housekeeping workload study, union security in case of change of ownership, and wages and benefits.
- The difference between the two sides' economic proposals is about \$13.7 million in the first year and \$14.9 million in the fifth year.
- A one-month strike could reduce MGM's EBITDA by over \$200 million.
- Union members have started picket duty sign-up and the Union is making other preparations for a strike.

Ken Liu
(702) 266-5620
kliu@unitehere.org
1630 S. Commerce St.
Las Vegas, NV 89141

Labor contracts for most Las Vegas casino resorts expire at the end of May. Collective bargaining agreements between UNITE HERE's Culinary Local 226 and Bartenders Local 165 ("the Union") and most of the casino resorts on the Las Vegas Strip and Downtown Las Vegas are set to expire at the end of this month. All MGM properties in Las Vegas, except Vdara and Signature at MGM Grand, have their contracts expiring at the end of the month. (See the end of this note for a list of properties at risk.)

MGM has a significant presence in Las Vegas with approximately 59% property EBITDA exposure. Negotiations for a new 5-year deal covering all MGM properties' about 24,000 workers started in March, but major differences remain between the unions and the company.

Union members approved a strike authorization vote by a 99% margin last week. On May 22, 25,000 workers voted by a 99% margin to give the Union negotiating committee the authority to call a strike if necessary after the contracts expire.

Main outstanding issues in MGM negotiations:

Technology: the Union is seeking to have a formal role in the ongoing and escalating process of new technology adoption and implementation in the workplace, with the goal of continuing to provide job opportunities and new skill training where necessary for human workers in Las Vegas's customer-service-centric hospitality industry. The company has rejected the Union's proposal.

Hotel housekeeping workload study: The Union has proposed a jointly-funded study by an independent expert to analyze housekeeping workload, which has changed significantly as a result of the company's room product renovations and the introduction of new mattresses, new furniture, new bathroom surfaces and amenities, etc. The company has rejected the Union's proposal.

Ownership/Successorship: The Union has proposed new language to ensure continuity of union contracts and the protection of workers' union rights if and when a MGM property is sold to a new owner, such as a REIT, which may elect to change operator. The company has not accepted the Union's proposal.

Economics:

- Going back to 2012, the Union has seen economic increases (for wages and benefits all-in) averaging 2.2% per year. For the new 5-year contract, the Union is proposing average increases of 4.0% per year. The Union's goal is to cover anticipated healthcare cost increases, improve pension benefits, and create above-inflation wage increases.
- The company's counter provides for approximately a 2.7% increase for each of the five years.
- The difference between the two sides is about \$13.7 million in the first year and \$14.9 million in the fifth year. Recall that MGM has projected free cash flow of up to \$5 billion from 2018 through 2020. The company has also just announced a new, \$2 billion share buyback program, having recently completed a \$1 billion share buyback.

A one-month strike could reduce MGM's EBITDA by over \$200 million.

It is difficult to estimate the potential impact of a citywide strike in Las Vegas. There has not been a large-scale (multi-property, multi-company) strike in Las Vegas since 1984. Back then, it was reported that the 75-day citywide strike by several unions "cost Las Vegas more than \$70 million in tourist dollars and another \$40 million in gross revenue at the gaming tables." We estimate that equaled approximately a 20% decrease in total revenue of the Strip and Downtown Las Vegas during the strike. It is especially challenging to gauge what the strike impact was when Culinary and Bartenders members struck Binion's Horseshoe for 9 months in 1990 or when they struck the Frontier on the Strip for 6-year, 4-month, and 10-day in the 1990s. Those were labor disputes where the employers sought – and eventually failed – to destroy the union.

The most recent large-scale strike by a UNITE HERE affiliate was the 2004 strike in Atlantic City. On October 1, 2004, 10,000 members of UNITE HERE Local 54 went on strike and stayed out until November 3 (and won a historically good contract). The struck casinos experienced gaming revenue decline of as much as 19% in the month of October and the companies commented frankly about the negative impact of the strike when they announced their 4Q04 results. The month-long dispute, which included 24/7 picketing and several mass demonstrations, hurt each struck property's revenue, margins, and EBITDA to various extents for the entire quarter.

Next month, if MGM's unionized employees in Las Vegas go on strike for a month, we believe it could lead to a \$200 million-plus negative impact on the company's EBITDA. In such a scenario, which would be highly disruptive, one might assume a 10% reduction in revenue due to the loss of group as well as FIT business during and likely after the strike. Furthermore, one might assume a 10% worsening of the operating margins due to the use of less experienced and less skilled replacements (such as managers on property or from other parts of the country) to keep the doors open, rooms cleaned, food cooked, and cocktails served, not to mention other factors such as the

disruptions to management staff's regular work.

As an estimate, we use MGM's 1Q18 Las Vegas numbers as a baseline, which showed property revenue of \$1.704 billion and EBITDA of \$531 million, with a 31% margin. A strike-impacted 10% revenue reduction and 10% margin worsening would imply an EBITDA loss of over \$200 million.

$(\$1,704 \text{ million} \times 90\%) \times (31\% - 10\%) = \324.5 million , or \$206.5 million less than \$531 million.

Negotiations are scheduled for May 31. Yesterday (May 28), talks between the Union negotiation committee and the company broke off without a resolution of any of the main issues. The two sides are scheduled to meet again on May 31. Union members have started picket duty sign-up and the Union is making other preparations for a strike.

Appendix:

<p>Labor contracts for the following casinos expire at the end of May, 2018.</p> <p>Caesars Entertainment</p> <ul style="list-style-type: none">• Bally's Las Vegas• Caesars Palace, including Nobu• Flamingo Las Vegas• Harrah's Las Vegas• Paris Las Vegas• Planet Hollywood• The Cromwell• The LINQ <p>MGM Resorts</p> <ul style="list-style-type: none">• Aria Resort & Casino• Bellagio Hotel & Casino• Circus Circus Hotel & Resort• Excalibur Hotel & Casino• Luxor Hotel & Casino• MGM Grand Las Vegas• Mandalay Bay, including Delano• The Mirage• Monte Carlo Hotel & Casino (Park MGM)• New York-New York Hotel & Casino <p>Other:</p> <ul style="list-style-type: none">• Tropicana (PENN)• Westgate Las Vegas• Treasure Island• SLS• Stratosphere (GDEN)• Plaza• Golden Gate• Golden Nugget• Four Queens• The D Las Vegas• El Cortez• Fremont (BYD)• Binion's• Main Street Station (BYD)• Downtown Grand	<p>The following properties' collective bargaining agreements are <u>NOT</u> expiring at the end of May, 2018:</p> <ul style="list-style-type: none">• Rio All-Suite Hotel & Casino (CZR) (Expiring 8/1/18)• Elara Las Vegas, a Hilton Grand Vacations Club (Expiring 10/1/18)• Hilton Grand Vacations Club on Paradise (Expiring 10/1/18)• Hilton Grand Vacations Club on the Boulevard (Expiring 10/1/18)• Hilton Grand Vacations Club at the Flamingo (Expiring 10/1/18)• The Cosmopolitan of Las Vegas• Trump International Hotel Las Vegas• Wynn Las Vegas (WYNN)• Encore at Wynn Las Vegas (WYNN)• Vdara Hotel & Spa at ARIA Las Vegas (MGM)• The Signature at MGM Grand (MGM)
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