

# IR conditions in the USA - Subject: MGM Resorts International

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## 1. Introduction

In July of last year, the “IR (integrated resort) implementation bill” was established in Japan as a bill to promote the development of specified tourist complexes and facilities. Integrated resorts are expected to open in Japan primarily as casinos around 2024, considering the time it will take to select the cities for development and then build the facilities. The candidate locations so far are said to be Osaka, Nagasaki, Tokyo, and Yokohama, among others.

In contrast, as the business models and rules for foreign operating companies are based on the IR business concept used in Japan, most rely on foreign business skills and foreign operators to actually operate these businesses, given the unique characteristics of business models that include casinos, which has led to apprehensions about the possibility that Japanese business will be sidelined. After recognizing that this was a problem, an organization known as the “Japan Business Research Institute for Tourism and IR (Director: Hirotaka Yamauchi)” was established in the summer of last year, which has led to the start of “Japanese IR” and other related Japanese businesses starting to explore business opportunities in this sector.

This institute has also become aware of the same issue, and MGM Resorts International, which is headquartered in Las Vegas, Nevada, USA, visited “MGM National Harbor”, which opened in the outskirts of Washington, D.C. in December 2016, on March 22, 2019 to observe the operating conditions of casino facilities, MICE attractions, accommodation and other facilities. This paper takes a broad view of the current circumstances of IR in Washington D.C. and IR worldwide (including the USA)

and summarizes the visit of MGM Resorts International to Washington D.C. to observe the facilities, for the purpose of providing a supplement to this observation.

## 2. Current IR conditions in the USA and worldwide

The words “IR” and “IRC (Integrated Resort Casino)” came into use worldwide in around 2010 to describe locations such as “Resorts World Sentosa” and “Marina Bay Sands” in Singapore which opened in the same period, and which even now are still considered to be representative of integrated resort facilities. Likewise, the word “integrated resort” appeared in the “Casino Control Act”, enacted in Singapore in October 2006 prior to the facilities opening for business, and is defined as “a development comprising hotel, retail, dining, entertainment, recreation and other facilities, and of which a casino may be a part”.

In contrast, “casino hotels”, which pre-date the term of “IR”, opened for business in the USA in the 1940s beginning with Las Vegas, and since then Las Vegas has flourished as a major amusement city. Steve Wynn opened “The Mirage” (currently owned by MGM Resorts International) in 1989, and MGM Resorts International opened the “MGM Grand Las Vegas” in 1993 as a forerunner to integrated resorts.

Looking back, while the USA (and particularly Las Vegas) is undoubtedly where integrated resorts were conceived, Asia has already established an IR market on a scale that distinguishes it as a world-leading market. The worldwide market is said to exceed 10 trillion yen, which comprises 60% (6.3 trillion yen) of the Asian market, more than double the combined market of approx. 3 trillion yen of North and Central America. In particular, casino sales

raised 3.7 trillion yen in 2017 Macao, which is known as the “Las Vegas of Asia” and has enjoyed significant growth in recent years, equating to approx. 50% of its GDP.

While the US market still maintains a major lead over the Asian market, casino businesses (also known as the gaming industry) still has little influence over the US economy. There are around 1,000 casino facilities across the US that create approx. 180,000 jobs annually, and provide the government with approx. 41 billion dollars, resulting in an economic benefit of approx. 261 billion dollars.

When looking at individual regions, Las Vegas (particularly the central area referred to as “the strip”) has an overwhelming lead in the sales it generates compared with the rest of the USA, and is followed by the Atlantic City area, the Chicagoland area, and the Baltimore / Washington D.C. areas as the respective runners up (here, the aforementioned values and the values in the tables are statistical values that focus on casinos, and it should be noted that this also includes facilities opened solely as casinos and not as part of “integrated resorts”).

Top 10 casino market sales by area in the US (2017)

| Order | Area                           | State | Sales            |
|-------|--------------------------------|-------|------------------|
| 1     | Las Vegas Strip                | NV    | 6.46 billion USD |
| 2     | Atlantic City                  | NJ    | 2.41 billion USD |
| 3     | Chicagoland                    | IL/IN | 1.97 billion USD |
| 4     | Baltimore/<br>Washington, D.C. | MD/WV | 1.77 billion USD |
| 5     | New York City                  | NY    | 1.57 billion USD |
| 6     | Detroit                        | MI    | 1.40 billion USD |
| 7     | Philadelphia                   | PA    | 1.25 billion USD |
| 8     | Gulf Coast                     | MS    | 1.18 billion USD |
| 9     | St. Louis                      | MO/IL | 1.03 billion USD |
| 10    | The Poconos                    | PA    | 0.99 billion USD |

(Source: “State of the States 2018 -The AGA Survey of the Commercial Casino Industry” American Gaming Association-)

### 3. IR conditions in Washington D.C.

The casino market around the outskirts of Washington D.C. boasts the fourth highest sales in the USA. A bill to

reform the state constitution to approve casino operations in five locations in Maryland was approved in 2008.

Thereafter, operation of a sixth location was approved in 2012, and currently there are six casino facilities in operation, creating over 15,000 jobs for state residents. The total casino sales in the state reflect the values from 2017 at approx. 1.61 billion dollars, an increase of 34.2% compared with the previous year. This rapid increase was largely influenced by MGM National Harbor, which opened for business in December of 2016. The tax revenue obtained by the state of Maryland from casino operations was 580 million dollars in 2017, and part of this tax revenue was distributed to Maryland’s education trust funds and also allocated to funding for building new schools, etc.

The state of West Virginia also has an interest in casinos given its proximity to the outskirts of Washington D.C. In the state of West Virginia, there are currently a total of five casino facilities in operation, creating over 8,000 jobs for state residents. The 2017 total casino sales in the state exceeded 620 million dollars, a decrease of 6.4% compared with the previous year. As mentioned above, one contributing factor to the decrease in sales is the opening of large-scale casino facilities in the state of Maryland. The tax revenue obtained from casino operations in the state of West Virginia exceeded 300 million dollars in 2017, and this tax revenue is transferred through the state government and financial endowments to operate state-run public school programs, tourism businesses, state parks, and services for elderly state residents, etc.

## 4. MGM Resorts International

### 4.1. History

As stated previously, MGM Resorts International visited “MGM National Harbor”, which opened in the outskirts of Washington D.C., to observe the casino facilities, MICE attractions, and accommodation and other facilities, and this institute plans on further examination of MGM National Harbor in close collaboration with MGM Resorts International (“MGM”), which operates the aforementioned site.

MGM currently has 30 hotel facilities worldwide

employing 83,000 people, and is consistently ranked amongst the Top 500 “Green Companies” by Newsweek Magazine. MGM is a major, worldwide business that is listed as one of the most admired companies by Fortune magazine, and traces back to Kirk Kerkorian, a businessman who became the most famous and successful person of this generation, despite dropping out of the 8th grade in the late 1960s. Kirk Kerkorian was a temporary owner of the Metro-Goldwyn-Mayer Movie Studio (no longer affiliated with MGM), and was well known as one of the first Las Vegas pioneers. In 1962, Kirk Kerkorian built the world’s largest International Hotel at the time (it should also be noted that Barbara Streisand (American singer, writer, actress, and movie director) and Elvis Presley (American singer) were the first performers at this hotel). Just four years later, Kirk Kerkorian built the MGM Grand Hotel which was even larger than the International Hotel, surpassing even the Empire State Building in size.

Some time after Kirk Kerkorian let go of this business, MGM Grand, Inc., a holding company established by Kirk Kerkorian, purchased Mirage Resorts in 2000 in what was the largest transaction in the casino industry at the time. After being renamed the “MGM MIRAGE” as a new company, it was later purchased by the Mandalay Resort Group in 2005 and retained its name as the MGM MIRAGE until 2010, after which it was renamed as MGM Resorts International. MGM Resorts Japan LLC was established in Japan in 2014.

#### 4.2. Business Performance

MGM states that its corporate philosophy is to “Entertain the Human Race” and positions itself as providing entertainment as an essential factor for the human race as opposed to providing entertainment as just another simple additional activity. MGM runs its business based on a management philosophy predicated on four points, namely “1. Create amazing experiences, 2. Provide consistent and exceptional customer service, 3. Support regional companies, and 4. Respect for all, be comprehensive, and take responsibility”.

MGM’s recent business results includes net revenues of

approx. 11.8 billion dollars in 2018, which is a 9% increase compared with the previous year. This is attributable to the grand opening of MGM Cotai in February 2018 and MGM Springfield in August 2018. This resulted in approx. 1.47 billion dollars of operating income, which is a 14% decrease compared with the previous year. This was seen as the result of including expenses related to opening these new facilities.

When looking at revenues by segment, casino revenues only comprise a small percentage of the overall revenue in the MGM owned facilities in the Las Vegas Strip Resorts, whereas casino revenues comprise a considerably larger percentage of the overall revenue for other domestic areas (Regional Operations) in the US and MGM China.

#### MGM Income by Segment (2018)

| Area                       | Casino/<br>Non-casino | Revenue<br>(Units: 1,000 USD) |
|----------------------------|-----------------------|-------------------------------|
| Las Vegas<br>Strip Resorts | Casino Revenue        | 1,407,733                     |
|                            | Non-casino<br>Revenue | 4,308,939                     |
|                            | Total                 | 5,716,672                     |
| Regional<br>Operations     | Casino Revenue        | 2,026,925                     |
|                            | Non-casino<br>Revenue | 907,596                       |
|                            | Total                 | 2,934,521                     |
| MGM China                  | Casino Revenue        | 2,195,144                     |
|                            | Non-casino<br>Revenue | 254,813                       |
|                            | Total                 | 2,449,957                     |

(Source: MGM 2018 Annual Report)

#### 4.3. MGM National Harbor

MGM opened “MGM National Harbor” in Prince George’s County in Fort Washington, Maryland, in December 2016. A hotel, casino, event hall, theatre, restaurants and other facilities were constructed on a 23-acre plot of land, to create an integrated space for large and small events on a daily basis (the entire facilities site was leased). Despite being the second smallest of all of the MGM-owned hotels with only 308 rooms, the casino was relatively large compared with other MGM casino

facilities (e.g., Bellagio: 155,000 square feet, MGM Grand Las Vegas: 160,000 square feet) with a casino area comprising 146,000 square feet. This casino boasted the highest number of slot machines and game tables of all of the MGM casinos.

The business results for the MGM National Harbor included a 2017 operating profit of more than 50,000,000 dollars, which was the first year it had been in operation for the entire year, while operating profits soared to roughly 120 million dollars in 2018. Casino revenues for Regional Operations increased 10% in 2018 compared with the previous year, but MGM reported that prosperous conditions at MGM National Harbor were key to the increased profits.

As mentioned previously, regional economic factors also played a role, and the grand opening of the MGM National Harbor led to an increase of over 34% in total casino revenues in Maryland, and was also a factor in decreased customer attendance at casino facilities in West Virginia.

## 5. Conclusion

As mentioned previously in this report, MGM has also established an LLC in Japan and has been eyeing opportunities for expansion. Although there is still a need to discuss whether business models that have been successful worldwide can be successfully transplanted to Japan without changes, it is an undoubted fact that IR facilities will shortly enter Japan with annexed casino facilities. Integrated resorts is a sector that has clearly become a forerunner in other countries, which has led to discussion about the ultimate advantages and disadvantages for Japan, and has caught the interest of the Japanese public. Integrated resorts would be an explosive growth driver for the Japanese economy, and we hope that they will contribute to further increasing Japan's international presence, and we plan to make an effort to accomplish this by investigating and researching the leading examples in the USA.

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