MGM RESORTS INTERNATIONAL

INVESTMENT REPORT

SEBASTIAN SANDOVAL

Investment Summary & Thesis

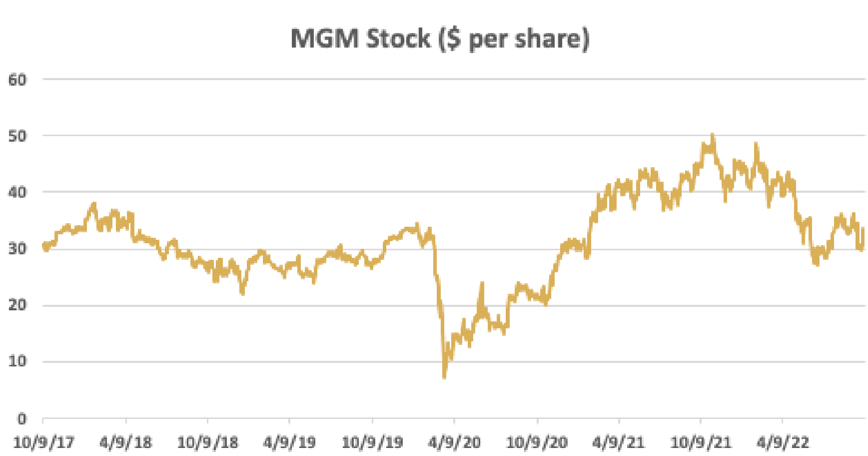
MGM Resorts International is one of the largest global gaming operators in the world, with fifteen properties on the Las Vegas Strip, eight properties in its Regional markets, and two properties in Macau. MGM Resorts International has prospered since its inception and remains a household name in the Resorts and Casinos Industry. With the economy in full swing, MGM Resorts International has eclipsed previous earnings records in 2022.

I am initiating a BUY rating with a 12-month target price of **$45.20** for MGM Resorts International. The target price offers a potential upside of **47.1%** from their October 13th closing price of $30.72.

Key Drivers:

- **Increasing Revenues from the Las Vegas Strip**
  - With the economy returning to pre-pandemic levels, the Las Vegas Strip has seen an increased amount of foot traffic in its Casino Resorts in 2022.
  - Casino Resort occupancy rates are continuing to rise to pre-pandemic levels, while commercial gaming revenues have increased to a peak value in 2022.
  - MGM Resorts International continues to impose a large foothold over the Las Vegas Strip. MGM's 2022 revenues for its Las Vegas Strip business segment are forecasted to outpace its 2019 Las Vegas revenues by ~30%
- **Pursuit of an Asset Light Strategy**
  - Since 2016, MGM has pivoted towards achieving an asset light strategy.
  - This focuses on the sale/leaseback of MGM's large-scale casino resorts through Real Estate Investment Trusts.
  - MGM has used the gained liquidity of these transactions to redeem long-term outstanding debt and repurchase an exorbitant amount of their own shares back.
- **Potential Return of Revenue Growth in MGM China**
  - Starting on November 1st, 2022 Macau will begin the process of reopening its borders.
  - Macau has resumed acceptance of smart travel e-visa applications, allowing mainland Chinese residents to apply for a tourist visa.
  - This is vital to a potential return of revenue growth in Macau because mainland Chinese tourists account for 90% of Macau's commercial gamblers per year.
- **Low Valuation Multiples**
  - As of October 13th, MGM trades at a discount in every valuation ratio relative to the industry average of its peers.
  - MGM's continual pursuit of an asset light strategy has culminated in multiples for P/E, P/B, and P/FCF that are considered industry best.
- **Pent-up Demand after COVID-19 Pandemic**
  - Since the easing of COVID-19 restrictions, MGM Resorts International has exhibited strong demand for its casino resorts among consumers.
  - This has been reflected in MGM's revenues and free cash flows in its quarterly earnings reports for 2022.

Performance



Key Statistics	
Share Price	$30.72
Market Cap	12.96B
Beta	2.06
P/E	4.16
P/B	2.16
EPS	7.14
D/E	1.19
ROE	53.56%

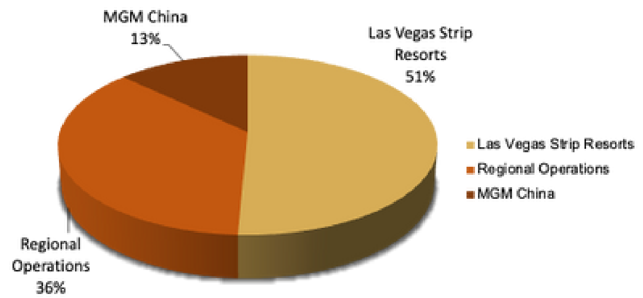
Business Description

Company Overview

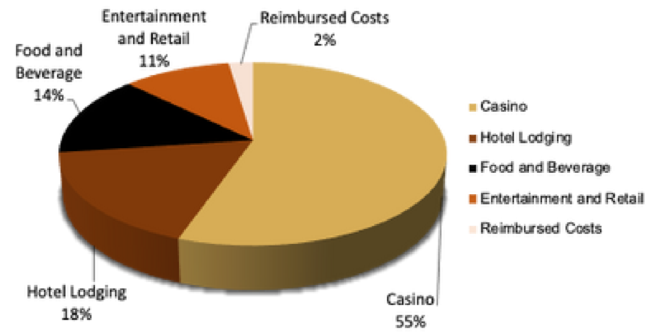
MGM Resorts International is an S&P 500 global Resorts and Casinos company which features the best-in-class hotels and casinos, state-of-the-art meetings and conference spaces, live entertainment, and an array of restaurant and retail offerings. The MGM Resorts portfolio encompasses twenty-five gaming destinations and hotels in the U.S. and Macau, including some of the most iconic names in the industry: The Bellagio, MGM Grand, Mandalay Bay, ARIA, and the Vdara. MGM is split into three business segments: Las Vegas Strip Resorts, Regional Operations, and MGM China. MGM holds a majority of its influence in the United States because twenty-three of its twenty-five casino resorts are located domestically in America.

2021 Revenues

MGM Resorts International records their revenue streams through the company's three reportable business segments. The Las Vegas Strip Resorts consists of the company's domestic casino resorts that are located on the Las Vegas Strip. Regional Operations includes the company's domestic gambling destinations and hotels located outside of the Las Vegas Strip. Lastly, MGM China includes the company's two casino resorts located in Macau. In terms of revenue breakdown in 2021, Las Vegas Strip Resorts accounted for $4.74 billion, 51% of MGM's total revenue. Regional Operations accounted for $3.39 billion, 36% of MGM's total 2021 revenue and MGM China accounted for $1.21 billion, 13% of total revenue.



MGM's 2021 total revenues can be further grouped through the company's business ventures. In 2021, MGM accumulated $5.36 billion from casino gambling and betting. This value represents more than 50% of MGM's total revenue from the services they offer. MGM accumulated $1.69 billion, about 18% of total revenue, from hotel lodging in 2021. MGM also generated $1.39 billion from food and beverage sales in 2021. Lastly, MGM gained $1.0 billion from entertainment and retail purchases in 2021.



Geography

From a geographical standpoint, the majority of MGM's 2021 revenues were generated domestically. The Las Vegas Strip and Regional Operations segments amounted to 87% of the company's total revenue generated in 2021. As shown, MGM has a strong footprint on commercial gambling and betting in the United States. In 2021, revenues generated in America increased by 51.8% from the year prior. The COVID-19 related business closures of U.S. commercial casinos from March 2020 - June 2020 had negative effects on MGM's 2020 total revenue. In 2021, revenues generated in Macau increased by 54.2% from the year prior. The low revenue totals generated in Macau during 2020 was due to a series of casino resort shutdowns and strict border controls set in place to restrict the inflow of visitors.

MANAGEMENT AND CORPORATE GOVERNANCE

William Hornbuckle
CEO

MGM Resorts International is governed by William Hornbuckle who serves as the company's President and Chief Executive Officer. Hornbuckle graduated from the University of Nevada, Las Vegas (UNLV) with a Bachelor of Science degree in Hotel Administration. Hornbuckle began his career in Las Vegas as a room service attendant and busboy at the Jockey Club and grew his management career from there. Hornbuckle has been with MGM Resorts for over two decades, serving as the company's Chief Marketing Officer and Chief Operating Officer in previous years. Mr. Hornbuckle has served as President of MGM Resorts since 2012 and was promoted to Chief Executive Officer from his interim role in July 2020. Therefore, Mr. Hornbuckle was responsible for navigating the company through the damaging effects that the COVID-19 pandemic brought for the Resorts and Casinos Industry.

Jonathan Halkyard

Corey Sanders

Management

Jonathan Halkyard serves as **Chief Financial Officer**

Corey Sanders serves as **Chief Operating Officer**

John M. McManus serves as **Chief Legal and Administrative Officer** and **Secretary**

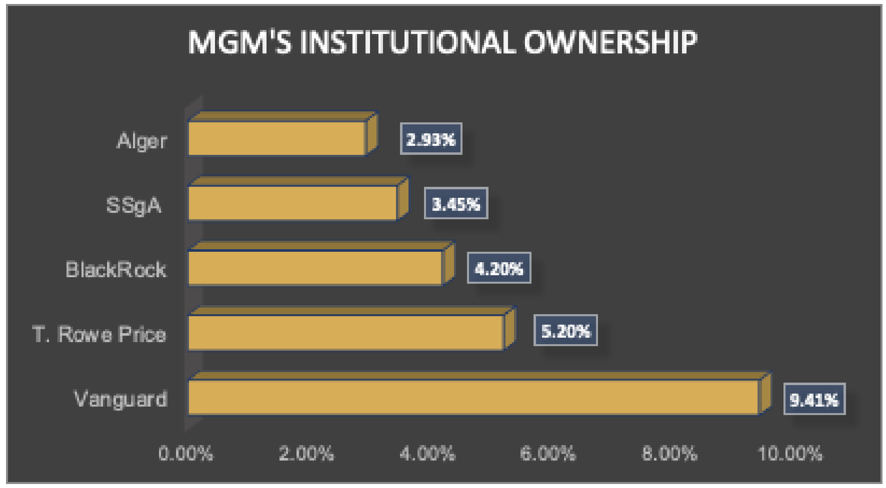
Paul Salem serves as **Chairman of the Board of Directors**

Board of Directors

Paul Salem is the Chairman of MGM's Board of Directors which currently consists of 11 members. In accordance with MGM's corporate governance guidelines, the Board of Directors cannot exceed 20 members, and the majority of board members must lack a material relationship to the company. Another requirement in the company's bylaws state that the Board of Directors are required to meet at least six times per year. In addition, the bylaws state that if the Chairman of the Board and the CEO are the same individual then the fellow board members select one of their own to act as the "Lead Independent Director." This provision does not affect MGM Resorts International since the CEO and Chairman of the Board are two separate individuals. MGM's Board of Directors have split the committee structure into four entities: the Audit Committee, the Compensation Committee, the Corporate Social Responsibility Committee, and the Nominating/Corporate Governance Committee. In terms of board member selection, the current Board of Directors nominates candidates from the recommendations of the Nominating/Corporate Governance Committee and the recommendations of the company's stockholders.

Institutional Ownership

Institutional investors hold a majority ownership of MGM through the 68.6% of outstanding shares they control. This high percentage demonstrates institutional investors' demand for the stock. In addition, MGM holds the highest institutional ownership rate over any other company in the Resorts and Casinos Industry. The largest investors of MGM Resorts International are Vanguard and T. Rowe Price who own a total of 9.41% and 5.20% of outstanding shares, respectively.



Strategic Positioning

Pursuit of an Asset Light Strategy

Over the course of the past several years, MGM has undertaken an Asset Light strategy. MGM's Asset Light strategy focuses on the sale and leaseback of its large-scale real estate assets to Real Estate Investment Trusts, or REITs. An REIT is a company that owns, operates, or finances income producing properties. Since 2016, MGM has gradually sold all of their casino resort properties to Blackstone Real Estate Income Trust and MGM Growth Properties (MGP). MGM Resorts International spun-off MGM Growth Properties as its REIT company and is its controlling shareholder. As of August 2021, Vici Properties acquired MGM Growth Properties for $17.2 billion. Therefore, Vici Properties took over as the landlord of MGM's casino resort properties that were previously owned by MGP. The goal of these large-scale casino resort transactions is to gain large sums of cash in the process. MGM has used the gained liquidity from these sales to finance their long-term debt and repurchase a large sum of shares back. In total, MGM has reduced its long-term debt by 44.3% over the course of the past five and a half years.

Industry Analysis

The Resorts and Casinos Industry has seen significant revenue growth following the easing of COVID-19 restrictions. According to IBIS World, the market size of the Resorts and Casinos Industry, measured by revenue, is projected to reach $73.03 billion in 2022. This represents a 44% increase in market size from 2020 when the industry's total revenues plummeted to $40.9 billion as a direct result of the COVID-19 restrictions set in place. Overall, the industry is made up of companies that offer short-term lodging facilities with a casino on the premises. The casinos offer table games such as roulette, blackjack, baccarat, and other gambling fixtures that include slot machines and sports betting wagers. Consumers can also indulge in a range of services that include food and beverage, live entertainment, and other leisure activities. As of 2022, there are a total of 492 businesses that comprise the Resorts and Casinos Industry according to IBIS World. Furthermore, the Resorts and Casinos Industry in the U.S. has a low market share concentration with 34% of the industry's total market share coming from the largest four operators of Resorts and Casinos. The largest firms, like MGM Resorts, Caesars Entertainment, Las Vegas Sands, and Wynn Resorts are iconic to the city of Las Vegas and offer the most luxurious experience to their consumers.

Resorts and Casinos

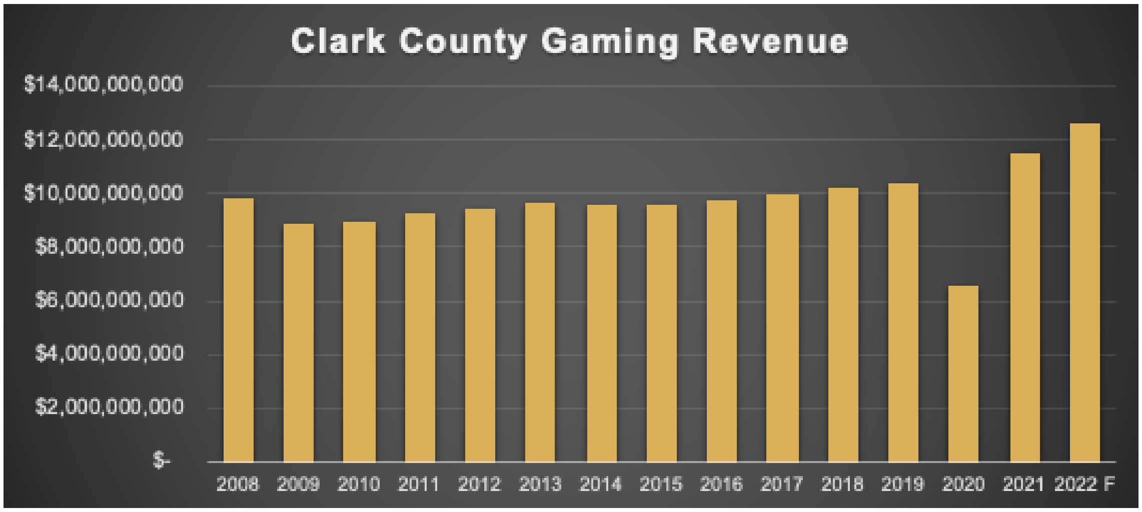
The Resorts and Casinos industry holds high barriers of entry. Firstly, Casino Resorts are highly regulated on the state and federal level. They have to meet stringent licensing criteria in order to begin operations in their desired location. In addition, casino resort operators face high corporate tax rates from their state governments due to the lucrative profit margins they generate. Secondly, a rise in real estate and construction costs due to macro-economic reasons have made it more difficult for new entrants to navigate the market in constructing, opening, and operating casino resorts. Thirdly, new entrants need copious amounts of capital in financing gaming machinery and upgrading rooms/suites and conference halls in order to differentiate themselves from the competition. On a similar note, the Resorts and Casinos industry is highly competitive due to the established players that have already imposed their footprint on the Las Vegas Strip. Therefore, a new entrant will have to overcome customer loyalty in order to attract a bevy of customers. Lastly, casino resort operators rely on high usage rates of debt to finance their business ventures, making them risky if the company becomes over leveraged.

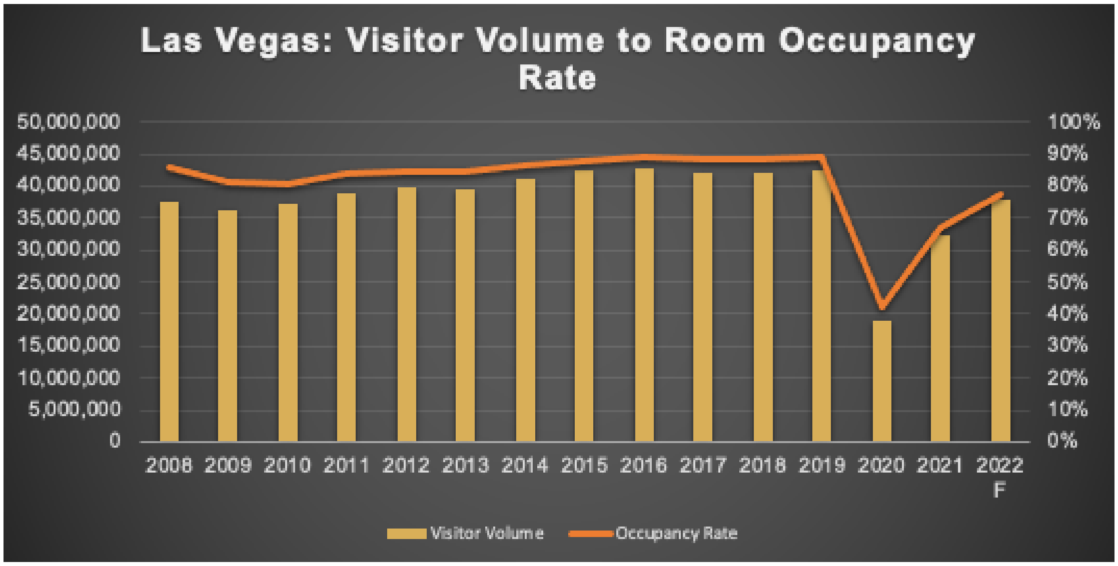
Emergence of iGaming

The emergence of iGaming has posed a significant problem to the gambling and betting services offered by land-based Resorts and Casinos. Since the onset of the COVID-19 pandemic, there has been a large shift towards online gambling and betting. This is mainly due to the government mandated business closures of U.S. commercial casinos at the onset of the pandemic and quarantine restrictions set in place to limit the spread of the COVID-19 virus. The online gambling and betting industry mainly consists of sports betting and online casinos. According to Zion Market Research, the iGaming industry was valued at $61.5 billion in 2021 and is projected to increase to $114.4 billion in 2028, showing a compound annual growth rate (CAGR) of 9.27%. The increased popularity in online gambling and betting can be attributed to the use of cryptocurrencies as a form of payment because it gives the online user financial security and anonymity from data breaches. In addition, the use of live dealers on online casino websites has become a popular trend for virtual gamblers because it gives them a more personalized and hybrid experience to online betting. The increased popularity of iGaming has led the Resorts and Casinos industry to pursue M&A activity to achieve economies of scale. For example, Caesars Entertainment, one of MGM's largest rivals, recently acquired William Hill which is one of the largest online based casino companies in the UK. The subsequent acquisition of William Hill has allowed Caesars Entertainment to diversify its portfolio with an online gaming presence. In its current state, iGaming is a true disruptor to the Resorts and Casinos industry. However, iGaming can be viewed as a complement to Resorts and Casinos if they can acquire the applications and online betting services of iGaming competitors.

Las Vegas Revenue Growth

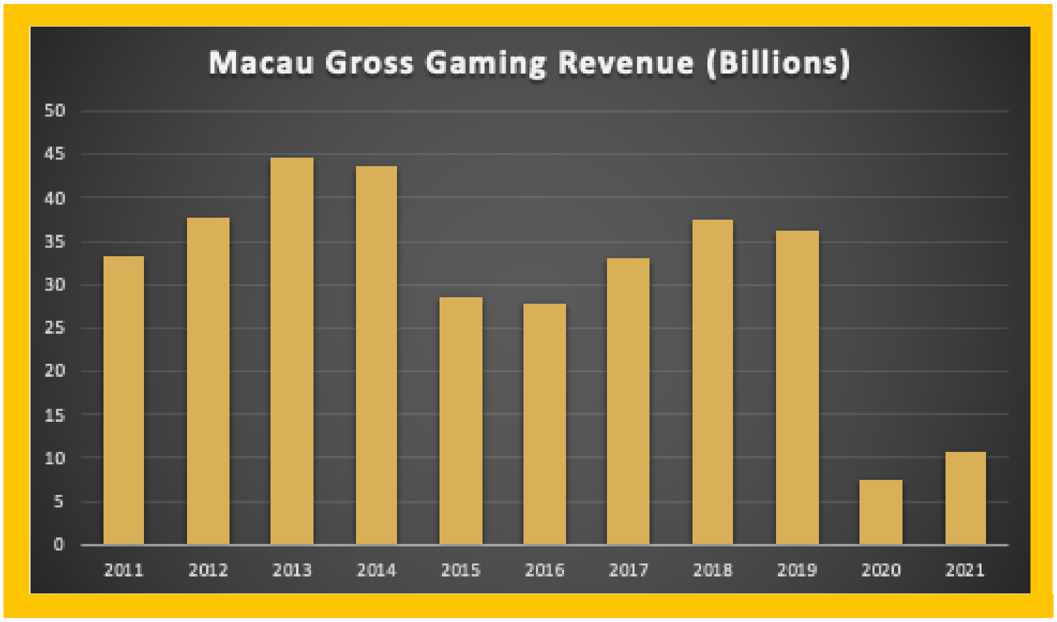
Las Vegas tourist volumes steadily increased in the twelve years leading up to the COVID-19 recession while hotel room occupancy rates remained at a stable 80% during the same time period. The COVID-19 restrictions and the shutdowns of U.S. land-based casinos led to an exponential decline in tourist volume and hotel room occupancy rates in Las Vegas. Tourist volume in 2020 immediately declined by 55% from the prior year while occupancy rates plummeted by 52.6%. Similarly, gaming revenue in Clark County, the county in which Las Vegas is located, increased year-over-year in the twelve years leading up to the COVID-19 recession. As a result of the recession, Clark County gaming revenue declined by 58.3% in 2020 from the previous year. After the easing of COVID-19 restrictions, gaming revenues began to increase. Total gaming revenues generated in Clark County in 2020 and 2021 surpassed pre-pandemic revenue values. At the same time, tourist volume and hotel occupancy rates were lower in 2020 and 2021 compared to the years leading up to the pandemic. Higher gaming revenue streams in Clark County can be attributed to a multitude of reasons. The first being pent-up demand for gambling at land-based casinos post a recession. The second reason being positive consumer sentiment on the economy which leads to increased discretionary spending. The third reason being an increase in disposable income from a combination of less spending during a recession and consumers' gain on government issued stimulus checks during the recession.





MGM China Potential

Historically, Macau generates 3x more gross gaming revenue than Las Vegas on a per year basis. As a result, many consider Macau the gaming capital of the world. The Macau government limits the number of Resorts and Casino operators in the region and imposes strict licensing criteria. In fact, the number of licensed casino operators in Macau is limited to six and MGM is one of them. This gives MGM a revenue stream moat in Macau. Gross gaming revenues in Macau have consistently surpassed $25 billion in the last ten years. However, gross gaming revenues in Macau reached record lows in 2020 and 2021, with neither year eclipsing $11 billion. This is directly related to the consequences of COVID-19 in the Chinese region. There were a series of casino resort shutdowns in the last two years accompanied by strict border controls enacted by the Macau government that restricted the inflow of potential gamblers. Most importantly, the head of the Macau government recently uplifted travel restrictions to mainland Chinese residents and tour groups. Starting in November 2022, Macau will reopen its borders, and this is vital because studies suggest that 90% of Macau's biggest gamblers come from mainland China. With the gradual easing of COVID restrictions in Macau, gross gaming revenue is predicted to achieve equal to greater values than the ones realized prior to the pandemic. Similar to the United States, Macau will exhibit pent-up demand in its casino resorts in the near future which will greatly benefit the region's operators of casino resorts.

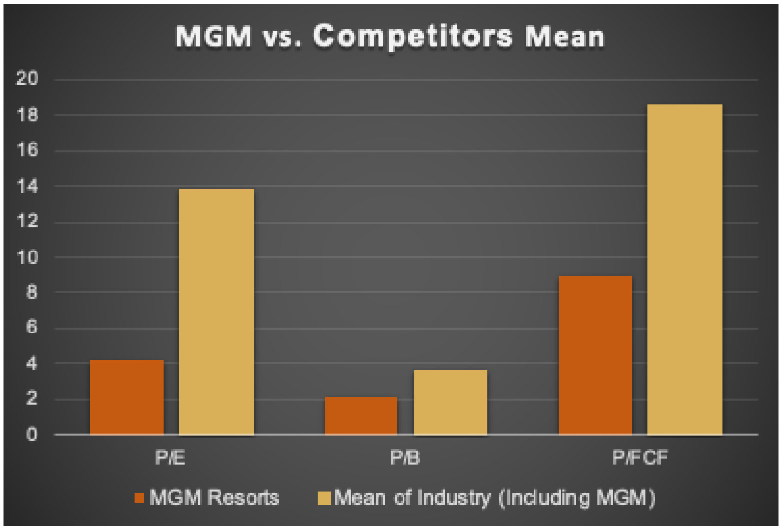


Financial Analysis

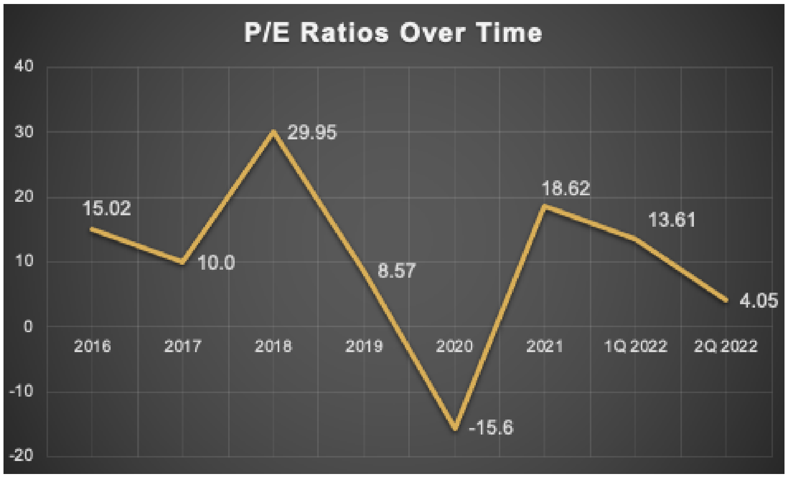
MGM Resorts International currently poses as a value buy. MGM's P/E ratio trades at an 81% discount relative to SPDR S&P 500 ETF Trust (SPY), a benchmark index of the U.S. equity market. In addition, MGM's P/E, P/B, and P/FCF valuation ratios trade at a significant discount compared to the other top companies in the Resorts and Casinos Industry. Most importantly, value stocks tend to outcompete the market during bear markets and when economic recessions occur. According to Morgan Stanley, U.S. stocks have decreased 19% from the start of 2022 and they will continue to fall due to fiscal policy tightening aimed at combating inflation. There are several leading indicators that foreshadow a possible recession in 2023. Firstly, the total number of new privately owned homes that have begun construction has decreased by 14.5% from January 2022 to October 2022. Secondly, in a survey done by the University of Michigan, consumer sentiment on the status of the U.S. economy has reached an all-time low in 2022. To put this in perspective, American consumers had a more positive outlook on the economy, their personal finances, business conditions, and spending conditions during The Great Recession. Thirdly, money supply associated with M2 has gradually increased since the onset of the COVID-19 pandemic. MGM Resorts International is a valuable play considering the current state of the U.S. economy and the strong possibility of a recession occurring in 2023.

Financial Analysis: Valuation

The bar chart on the right shows MGM's current P/E, P/B, and P/FCF values in the orange-colored bar. It also shows the mean values of these ratios for the Resorts and Casinos top seven companies, including MGM Resorts International, in the gold-colored bar. The bar chart displays MGM's value relative to their top competitors. MGM poses as a compelling value play because of how undervalued they are in comparison to the industry mean. MGM posts a P/E multiple of 4.16, a P/B multiple of 2.16, and a P/FCF multiple of 8.98. Alternatively, the industry's top seven companies, including MGM Resorts International, post an average P/E multiple of 15.06, an average P/B multiple of 4.47, and an average P/FCF multiple of 23.28. Relative to the industry average, MGM Resorts International trades at a discount for each valuation ratio. MGM's P/E multiple is about 3.3x lower than the industry average. MGM's P/B and P/FCF multiples are roughly 1.65x and 2.1x lower than the industry average, respectively. As a result, MGM Resorts International is wildly undervalued compared to its industry, and the company's fair stock price is much higher than its October 13th closing price of $30.72.



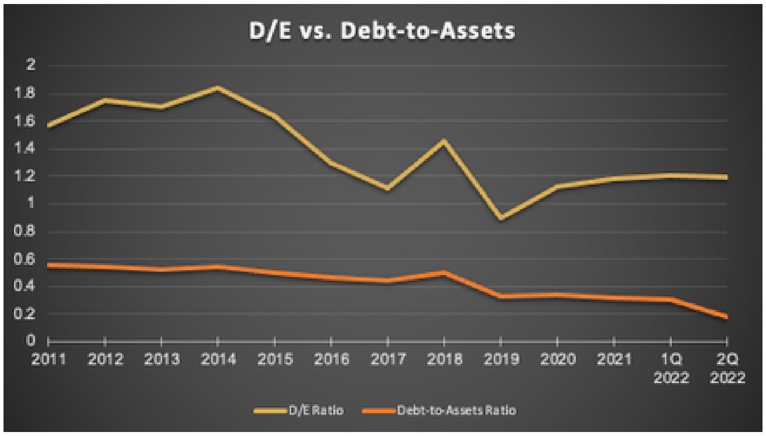
In the past six and a half years, MGM posted their lowest P/E multiple at the end of the 2Q of 2022. One of the most notable statistics from the graph to the right is MGM's P/E multiple of -15.6 in 2020. MGM's P/E ratio went negative in 2020 because of the company's net operating loss, causing EPS to turn negative. Overall, the company experienced a loss in net income in 2020 from the consequences of the COVID-19 pandemic. This is directly related to government mandated business closures of U.S. land-based casino resorts from March 2020 to June 2020 and quarantine/travel restrictions set in place by the U.S. government. As a direct result of these consequences, MGM Resorts International cut their operating expenses from \$11.04B in 2019 to \$6.88B in 2020. But the company's total revenue decreased from \$12.46B in 2019 to \$4.92B in 2020. The difference between total revenue and operating expenses created a net loss for MGM in 2020. MGM has gradually improved their P/E multiples since the start of 2021. The company achieved a desirable P/E ratio of 4.05 at the end of the 2Q of 2022 due to a combination of record high earnings and a large volume of share repurchases.

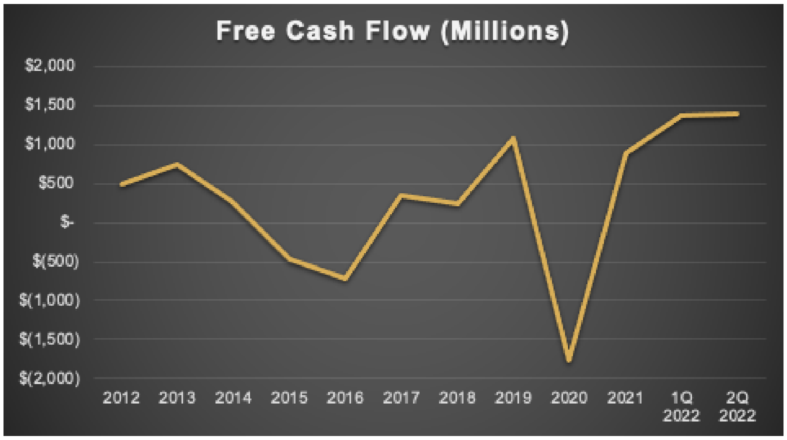


Financial Analysis: Solvency

The line graph below shows MGM's Debt-to-Equity and Debt-to-Assets multiples over the past twelve and a half years. From 2011-2022, MGM Resorts International has slowly de-leveraged its position in the amount of debt used to finance their business activities. Although MGM's D/E multiples have fluctuated in the past twelve years, the company has lowered its total Debt-to-Equity by 24% since the start of 2011. Furthermore, MGM has drastically improved its Debt-to-Assets ratio through its pursuit of an asset light strategy. MGM has gained exorbitant amounts of liquidity through its sale and leaseback of their large-scale casino resorts to Real Estate Investment Trusts. MGM has used the cash to buy additional high income generating properties and redeem its long-term debt. As a result, MGM has lowered its Debt-to-Assets multiple by 65% since the start of 2011.

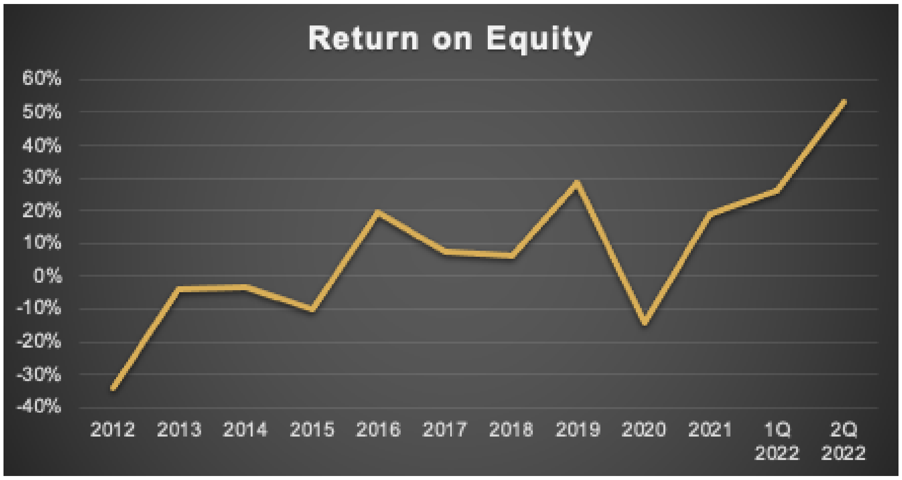
Free Cash Flow is a solvency measure that accounts for a company's total cash after paying for operating expenditures and maintaining capital expenditures. Free Cash Flow is calculated by subtracting a company's capital expenditures from its operating cash flow. Through the graph, potential investors see that MGM's Free Cash Flows are volatile and highly variable. MGM's Free Cash Flows gradually decreased from 2013-2016 but began to steadily increase until 2020. The exponential drop-off in MGM's 2020 Free Cash Flows stem from the COVID-19 restrictions placed on the Resorts and Casinos industry. MGM's operating and capital expenditures surpassed total revenue, resulting in a negative value for Free Cash Flows in 2020. As quarantine and travel restrictions were lifted in late 2020, MGM experienced high revenue streams in 2021 from consumers' pent-up demand to gamble at land-based casinos. Consequently, MGM's Free Cash Flows spiked and are forecasted to reach a record-high in 2022.



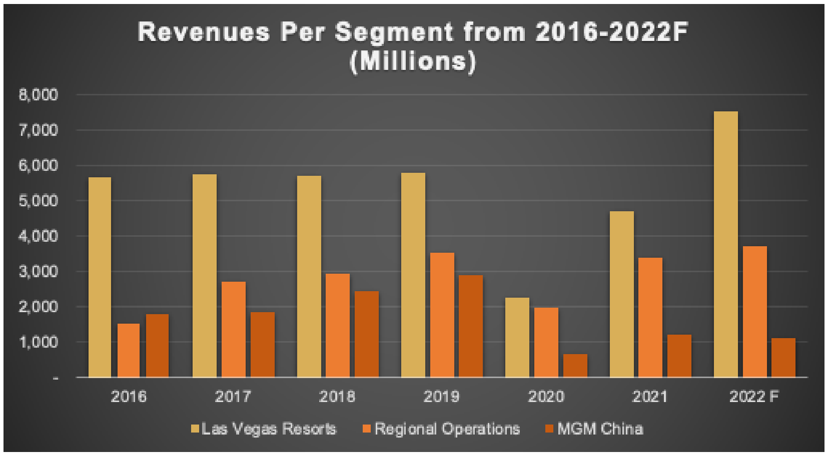


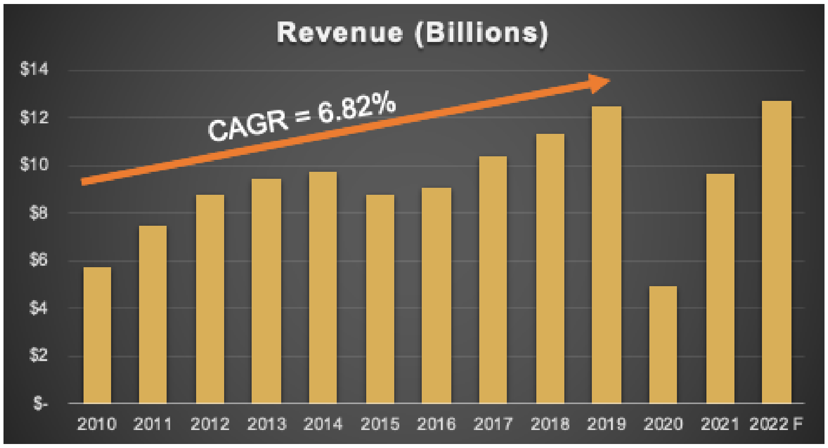
Financial Analysis: Profitability

Return on Equity is an important measure of efficiency and profitability for a company in relation to equity invested by shareholders. ROE is calculated by dividing a company's net income by its shareholders' equity. Similar to Free Cash Flow generation, MGM's ROE has fluctuated greatly in the past eleven and a half years. MGM has experienced negative ROE in 2012, 2013, 2014, 2015, and 2020 due to a recorded net loss in each respective year. In the 2Q of 2022, MGM produced an outstanding return on equity of 53.56%. The exponential increase in ROE was driven by record high revenue streams in the Las Vegas Strip Resorts. As the U.S. economy draws closer to a potential recession in 2023, I expect MGM's ROE to dip significantly from its current position. However, I believe MGM's ROE will return to a substantial value after the American economy recovers from the recession. This is because cyclical industries, especially the Resorts and Casinos Industry, thrive during post recessionary times from a combination of optimistic consumer sentiment on the economy and pent-up demand for the industry.



MGM Resorts International has realized healthy revenue margins since the U.S. economy climbed out of The Great Recession. From 2010, revenues have climbed by a CAGR of 6.82%. MGM Resorts International has consistently generated revenues above $8 billion and reached a peak value of $12.46 billion in 2019. However, 2022 total revenues are forecasted to outpace 2019 total revenues by 1.5%. This is primarily due to MGM's footprint on the Las Vegas Strip. Although MGM China has yet to recover from ongoing COVID-19 travel restrictions and strict border controls placed on Macau, the Las Vegas Strip has produced record breaking revenue streams in 2022. MGM's 2022 projected revenues in the Las Vegas Strip will eclipse their 2019 Las Vegas Strip revenues by 30%. With the reopening of Macau's border to mainland Chinese residents and tour groups in November 2022, I expect MGM's total revenue to significantly increase.





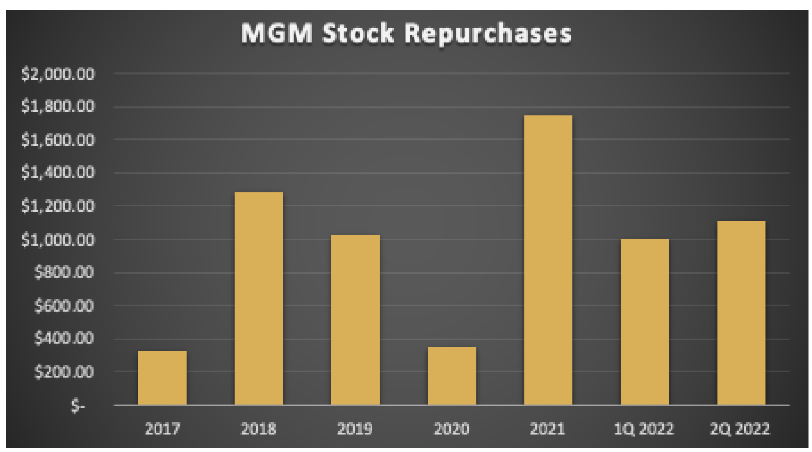
Comparable Companies

Ticker	Market Cap	P/E	P/B	P/FCF	EV/EBITDA	ROE	D/E
MGM	11.79B	4.16	2.16	8.98	6.73	53.56%	1.19
LVS	29.44B	16.46	6.83	-	14.92	-43.73%	3.67
WYNN	7.32B	-	13.94	-	13.26	-	-
CZR	6.95B	-	1.89	72.69	15.54	-29.18%	7.2
BYD	5.13B	9.62	3.43	6.85	7.53	36.47%	1.9
VAC	4.88B	21.41	1.83	19.4	13.64	8.81%	1.67
PENN	4.33B	23.63	1.21	8.46	10.78	5.54%	3.18
Mean (Including MGM)	9.98B	15.06	4.47	23.28	10.30	5.25%	3.14

The table above displays the top seven companies in the Resorts and Casinos industry and some of their key financial metrics. Second to only Las Vegas Sands in market share, MGM Resorts International has performed exceptionally well against their peers. Of all the seven companies analyzed, MGM Resorts International has the lowest Price-Equity multiple among their competitors and is about 3.5x lower than the industry mean. This would give the firm an implied valuation of $54.52, a 77.4% increase from its current price of $30.72. MGM Resorts International has also outperformed the industry mean in the remaining financial metrics. MGM's P/B, P/FCF, EV/EBITDA, and D/E are all significantly lower than the industry averages. In addition, MGM's current ROE of 53.6% is exponentially higher than the industry mean value of 5.25%.

Changes in Capital Structure

In 2017, MGM began to buy back their own shares in an effort to make the company more desirable to potential investors. There are many advantages that come with share repurchases. Specifically, share repurchases improve a company's financial ratios, making a company look undervalued. In totality, share repurchases increase the value of a company's outstanding shares because the bought back shares do not dilute the value of current outstanding shares. Essentially, stock repurchases prevent additional shares from hitting the market and decreasing the value of outstanding shares owned by investors. In addition, share repurchases increase a company's EPS & ROE and decrease its P/E multiple. As a result, the company looks more valuable and profitable to investors. MGM repurchased $1.8 billion worth of their own stock in 2021 to drastically improve its low-quality financial ratios, which took a drastic hit in 2020. MGM has continued to repurchase a large sum of shares in 2022, resulting in P/E, P/FCF, and ROE ratios that are regarded as the best in the Resorts and Casinos industry.



Valuation

Free Cash Flow: Case 1	
1st Growth Rate (2 years)	-10.00%
2nd Growth Rate (3 years)	12.00%
Final Growth Rate	4.50%
Cost of Equity Capital	13.72%
Free Cash Flow (LTM)	1393.57
Total Debt (Millions)	11846.36
Cash (Millions)	4703.06
Shares Outstanding (Millions)	417.39
WACC	10.36%
Growth Path	Linear
Price	**$44.42**

Free Cash Flow: Case 2	
1st Growth Rate (2 years)	-10.00%
2nd Growth Rate (3 years)	18.00%
Final Growth Rate	5.00%
Cost of Equity Capital	13.72%
Free Cash Flow (LTM)	1209.83
Total Debt (Millions)	11846.36
Cash (Millions)	4703.06
Shares Outstanding (Millions)	417.39
WACC	10.36%
Growth Path	Linear
Price	**$49.00**

Free-Cash Flow Model

Using the FCF model, MGM Resorts International was valued on its generated Free Cash Flows from 2009-2021. The assumptions for Case 1 of this model include a cost of equity of 13.72%, a weighted average cost of capital of 10.36%, and three growth stages via a linear growth path. In addition, Case 1 of the FCF model incorporates MGM's LTM Free Cash Flows in the 2Q of 2022. There is a strong likelihood that the U.S. economy enters a recession in 2023. Due to the cyclicality of MGM's business model, I assumed that MGM's revenues would be negatively impacted in 2023 and 2024. Therefore, MGM's first growth rate was set at -10%. During the Great Recession, MGM saw an uptick in Free Cash Flows from 2008-2009, but an 11% decrease in the last quarter of 2007. As a result, the -10% value seemed to match the company's 2007-2009 recessionary performance. The model's assumption of a 12% second growth rate is an appropriate one because the company produced a Free Cash Flow CAGR of 12.62% from 2009-2013. In the years following a recession, a cyclical company tends to achieve high revenue streams and increased Free Cash Flows from pent-up consumer demand. Lastly, the model's assumption of a 4.5% terminal growth rate is a conservative measure because MGM produced a Free Cash Flow CAGR of 5.48% from 2009-2021. For Case 1, MGM Resorts International was valued at **$44.42**. The model's assumptions for Case 2 are very similar, but there are some slight variations. Firstly, MGM's second growth rate was set at a more optimistic value of 18%. This value is an achievable goal for MGM because the company's Free Cash Flows increased by an average of 26.3% per year from 2010-2013. Secondly, MGM's terminal growth rate was increased to 5% which is still below MGM's Free Cash Flow CAGR of 5.48% from 2009-2021. Thirdly, the model assumes MGM's average LTM Free Cash Flows of the past 4 quarters. MGM Resorts International was valued at **$49.00** under the assumptions of Case 2 for the FCF model.

Free Cash Flow to Equity: Case 1	
1st Growth Rate (2 years)	-10.00%
2nd Growth Rate (3 years)	12.00%
Final Growth Rate	4.50%
Cost of Equity Capital	13.72%
Free Cash Flow to Equity (LTM)	1508.78
Net new debt (Millions)	749.78
Interest on debt (Millions)	767.59
Shares Outstanding (Millions)	417.39
Corporate tax rate (%)	17.33%
Price	**$39.11**

Free Cash Flow to Equity: Case 2	
1st Growth Rate (2 years)	-10.00%
2nd Growth Rate (3 years)	18.00%
Final Growth Rate	5.00%
Cost of Equity Capital	13.72%
Free Cash Flow to Equity (LTM)	1325.04
Net new debt (Millions)	749.78
Interest on debt (Millions)	767.59
Shares Outstanding (Millions)	417.39
Corporate tax rate (%)	17.33%
Price	**$40.45**

Free Cash Flow to Equity Model

Using the Free Cash Flow to Equity Model, MGM Resorts International was valued on their ratio of levered Free Cash Flows from 2009-2021 to common equity. The assumptions for Case 1 of this model include a cost of equity of 13.72%, a corporate tax rate of 17.33%, three growth stages via a linear growth path, and MGM's LTM Free Cash Flows in the 2Q of 2022. Case 1 of the FCFE model assumes a -10% growth rate for two years followed by a 12% growth rate for three years and a 4.5% terminal growth rate. In Case 1 of the FCFE model, MGM Resorts International was valued at **$39.11**. Case 2 of the FCFE model exhibits a -10% growth rate for two years followed by an 18% growth rate for three years and a 5% terminal growth rate. In addition, Case 2 of the FCFE model assumes MGM's average LTM Free Cash Flows of the past 4 quarters. Under these conditions, MGM Resorts International was valued at **$40.45** for Case 2. Similar to the FCF models, Case 1 of the FCFE model assumes conservative conditions and Case 2 of the FCFE model assumes slightly more optimistic conditions that are still achievable for MGM Resorts International. Considering that MGM's Free Cash Flows are highly variable, it was a safe bet to assume conditions that are aligned with the cyclicality of the business model and patterned towards future business cycles.

Since MGM Resorts International is very inconsistent with issuing dividends on a yearly basis, I focused on evaluating the company's fair market price via the Free Cash Flow and Free Cash Flow to Equity models. With a looming recession set to hit the U.S. economy in 2023, I conducted a three-stage growth model to fairly evaluate MGM's stock price.

EV/EBITDA Analysis

Using the EV/EBITDA Analysis, MGM's fair stock price was valued in relation to the Resorts and Casinos industry average EV/EBITDA multiple. MGM's firm value was calculated by multiplying its 2Q of 2022 EBITDA by the Resorts and Casinos industry average EV/EBITDA multiple. In this case, the top seven firms of the industry, including MGM, were utilized to calculate the industry mean EV/EBITDA multiple. MGM's total EBITDA in the 2Q of 2022 was $2,698.28 million and the industry average EV/EBITDA multiple was 10.3. Therefore, MGM's firm value equaled $27,792.28 million. MGM's equity value was calculated by deducting total debt and adding total cash reported in the 2Q of 2022 to firm value. In doing so, MGM's equity value equaled $25,024.25 million. MGM's outstanding shares for the 2Q of 2022 totaled 398.42 million. Using the EV/EBITDA analysis, MGM's fair stock price was calculated by dividing equity value by total shares outstanding. This calculation provided a value for MGM Resorts International at **$62.81**.

Weighted Average Price

To value MGM Resorts International properly, a weighted average of all five evaluations was utilized. Both cases for the FCF model were weighted at 22.5% and both cases for the FCFE model were given a 22.5% weighting. The EV/EBITDA multiples analysis was weighted at 10% because valuations based on multipliers are inherently unreliable and are solely used to benchmark relative value. The weighted calculation provided a value for MGM Resorts International at **$45.20** per share, a **47.1%** increase from their October 13th closing price.

Model	Price	Weight	Weighted Price
Free Cash Flow Case 1	$44.42	22.5%	9.9945
Free Cash Flow Case 2	$49.00	22.5%	11.025
Free Cash Flow/Equity Case 1	$39.11	22.5%	8.79975
Free Cash Flow/Equity Case 2	$40.45	22.5%	9.10125
EV/EVITDA Valuation	$62.81	10.0%	6.281
Final Price	-	100.0%	**$45.20**

Investment Risks

COVID-19 Risks and Possible Entrance of New Variants
A surge in COVID-19 infection rates and/or an emergence of new COVID-19 variants could significantly impact MGM's operations, financial results, and liquidity for a prolonged period of time. The spread of new variants, including omicron, has had a material impact on domestic and international travel, which has resulted in reduced demand for hotel rooms, convention space, and other casino resort amenities. While COVID-19 restrictions have eased in 2021, new restrictions to combat the spread of the virus, such as restrictions on travel, stay-at-home directives, and government mandated business closures of casino resorts are foreseeable in the future.

Legal and Regulatory Risks
MGM Resorts International is subject to extensive regulation and the cost of compliance or failure to comply with such regulations may adversely affect MGM's business and operations. State and Federal gaming laws are designed to ensure that gaming is conducted in an honest and competitive nature, free of criminal and corrupt elements. In addition, gaming laws are designed to maximize a state or local region's revenues through imposed taxation and licensing fees. If the jurisdictions that MGM operates in were to increase gaming taxes and fees, MGM's profit margins would be adversely affected. MGM Resorts International is legally liable if the company fails to comply with state, federal, local, and foreign laws affecting their business. For example, MGM would be liable to legal action if it fails to comply with corporate governance laws, such as the Bank Secrecy Act, the Foreign Corrupt Practices Act, etc.

Macroeconomic Risks Associated with Cyclicality
MGM Resorts International is vulnerable to economic downturns in the jurisdictions in which they operate and the locations in which their customers live. MGM's profitability is susceptible to adverse macroeconomic conditions due to the cyclicality of its business model. Factors such as high inflation, economic contractions, and economic uncertainty may cause a decline in discretionary consumer spending, ultimately reducing the demand for hotels and casinos. Periods of economic slowdown are volatile to the Resorts and Casinos industry because they create inflationary constraints for the industry's consumers, causing a reduction in casino resort visitation. As a recession is predicted to hit the U.S. economy in 2023, it is probable that MGM's operations will be adversely affected.

Increased Competition from iGaming
MGM Resorts International faces stiff competition in the Resorts and Casinos industry but faces a greater threat with the emergence of iGaming. Since the onset of the COVID-19 pandemic, mobile and online gaming has increased at a rapid growth rate. The appeal of iGaming lies within consumer preference to gamble at the leisure of their own home, rather than traveling to a land-based casino to do so. The iGaming industry has been revolutionized by certain trends and new technology that have catered towards its success. Currently, the iGaming industry's total market size has a higher predicted CAGR over the next six years than that of the Resorts and Casinos industry. Although the iGaming industry does not pose as a direct competitor to the Resorts and Casinos industry, the switch to online gambling has begun. If MGM Resorts International is unable to compete effectively against companies that specialize in online/virtual gambling, their profitability measures will be adversely affected. MGM should look into into acquiring a successful company within the iGaming industry to achieve economies of scope, diversify its product offerings, and hedge its risk.

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