

# LANDandBUILDINGS

## **Land and Buildings Calls on MGM Resorts' Board to Hold Senior Management Accountable**

- *Believes MGM's Chairman and CEO is the root cause of the significantly depressed valuation of MGM at 7x EBITDA, while peers trade at approximately double the multiple –*
- *MGM Resorts' shareholders deserve a leader who can unlock value, not a leader who seeks to entrench himself at shareholder expense as he apparently did in the August transaction with Pansy Ho –*
- *Urges MGM's Board to exercise its fiduciary duty to all shareholders and ensure that MGM Resorts has the right leadership to unlock and sustain value –*
- *Estimates that MGM's fair value is in excess of \$35 per share, representing more than 40% upside –*

**Stamford, CT** (September 22, 2016) – Land and Buildings Investment Management, LLC ("Land and Buildings") today issued the following public letter to the Board of Directors of MGM Resorts International (NYSE: MGM) ("MGM" or the "Company") calling on the Board to exercise its fiduciary duty to ensure that senior management is held accountable for the continued underperformance of MGM:

Dear MGM Board of Directors:

We have waited patiently for MGM's severely undervalued stock price to recover to fair value since the company announced last year a profit enhancement plan and REIT formation. However, it has become clear to us and, we believe, to the investment community as well, that despite the company's recent efforts, this plan has not been optimally executed and shareholders do not trust Jim Murren, Chairman and CEO, to enhance shareholder value and shepherd the company into the future.

We urge you to exercise your fiduciary duty to all shareholders to ensure that senior management is held accountable for the continued underperformance of MGM. Despite enjoying the best fundamentals in real estate and bright outlook for 2017, ~20%<sup>1</sup> increase in EBITDA year-over-year as a result of slashing the bloated cost structure management itself created and monetizing a portion of the real estate, shares of MGM still trade at a "silly" valuation as leading sell-side analyst Joseph Greff at JP Morgan has declared<sup>2</sup>.

### MGM Resorts' Crown Jewels Alone Worth 20% More Than MGM's Enterprise Value

MGM Resorts trades at 7x EBITDA<sup>3</sup>, significantly below 15-16x for Las Vegas Sands (NYSE: LVS) and Wynn Resorts (Nasdaq: WYNN), below inferior regional owners/operators at ~8x, and below MGM's REIT (NYSE:MGP) at 15x and MGM China (HK: 2282) at 14x<sup>4</sup>. Remarkably MGM Resorts trades at a discount to the value of its Crown Jewels, Bellagio, City Center and MGM Grand, which we estimate are worth 20% more than the total enterprise value of MGM Resorts<sup>5</sup>.

### Murren's Rein as CEO and Chairman is a Drag on MGM's Valuation

MGM's fair value is by our estimate in excess of \$35 per share, or more than 40% above current levels. There is one main cause for this undervaluation, in our view: Jim Murren. We share other investors' concerns that CEO & Chair Murren lacks credibility and has consistently over-promised and underperformed. We have documented those concerns in the Restore MGM video which can be found at [www.RestoreMGM.com](http://www.RestoreMGM.com). CEO & Chair Murren has presided over disastrous developments returns, bloated costs, high leverage and poor corporate governance.

- MGM Resorts stock has underperformed its closest peers LVS and WYNN by nearly 900% since Mr. Murren became MGM's CEO in 2008<sup>6</sup>.

- MGM has persistently traded at a discounted EBITDA multiple valuation to LVS and WYNN since Mr. Murren became CEO.
- CEO & Chair Murren burdened the company with an overleveraged balance sheet through ill-fated developments and poorly timed stock buybacks that necessitated massive equity issuance and 76% expansion of the share count to avoid bankruptcy.
- MGM's return on invested capital during CEO & Chair Murren's tenure has been paltry versus its closest peers, including over \$4.5 billion of impairments during his tenure and the disastrous \$9 billion City Center project.
- CEO & Chair Murren oversaw the implementation of a dead hand proxy put in 2012, which is an egregious entrenchment technique.

#### CEO & Chair Murren's Credibility Discount on Display this Summer

Investors need to look no further than the recent \$325 million purchase by MGM Resorts of MGM China stock from MGM China's Co-Chairman Pansy Ho to understand how Mr. Murren undermines investor confidence. Why was it necessary for MGM Resorts to pay a 17%, or \$50 million, premium to purchase MGM China stock from Pansy Ho? Was it to provide Pansy Ho with capital to buy shares in MGM Resorts from the estate of MGM's largest shareholder Kirk Kerkorian? Was this another entrenchment maneuver to hand Pansy Ho, a friendly shareholder of Mr. Murren, 4.8% ownership of MGM Resorts so Mr. Murren could count on her vote to secure his position as Chairman and CEO of MGM?

Why would Mr. Murren, who committed to reducing leverage at MGM Resorts, invest \$325 million in MGM China stock above a 14x multiple when he could have purchased MGM Resorts at 7x multiple? It is self-evident to us that Mr. Murren cannot be trusted with shareholder capital.

#### Can We Trust CEO & Chair Murren to Clean up his Own Mess

Mr. Murren has acknowledged that MGM had a bloated cost structure and missed revenue opportunities at his analyst day in May as he outlined substantial \$400 million in incremental EBITDA, or a whopping 25% increase in EBITDA, that would be earned by reducing costs and driving new revenue streams. However, this bloated cost structure and missed revenue opportunities occurred during the past decade as he presided over MGM as Chairman and Chief Executive Officer. It was only after shareholder prodding that CEO & Chair Murren bothered to look under the hood to see what was ailing MGM. Mr. Murren's track record give us no reason to have confidence he will fix his past mistakes.

#### MGM is Enjoying Strongest Fundamentals in Real Estate Today – Are we Positioned to Capture this Upside?

MGM has the potential to significantly beat 2017 EBITDA estimates given the strong outlook in Las Vegas with essentially no new supply, strong demand driven by both the business and leisure segment and operational low hanging fruit through cost cutting and revenue opportunities. Las Vegas hotel RevPAR is up 7% year-to-date including 17% growth in July. Yet, CEO & Chair Murren's lack of credibility highlights, in our view, that many analysts are not giving the company credit for its profit enhancement plan and its \$400 million EBITDA target for 2017 and have no confidence the company will fully capitalize on the strong fundamental tailwinds in Las Vegas.

#### How Much Power Does One Executive Need

Are shareholders to believe that Mr. Murren is the best qualified to be Chairman of MGM Resorts, MGM China and MGM Growth Properties after the dismal track record he has racked up as Chairman and CEO of MGM Resorts? For comparison, Hilton Hotels & Resorts (NYSE: HLT) management has indicated that its REIT will have a no overlapping management board members and will have a separate management team.

To add insult to injury, CEO & Chair Murren seemingly missed the opportunity in 2015 to get a private letter ruling to create an autonomous REIT as Hilton did during the same time period. CEO & Chair Murren missed the opportunity to spin off MGM China on a tax efficient basis. Why? So he could be Chairman of

three companies? What other opportunities are MGM shareholders missing today as CEO & Chair Murren seeks to augment his position further at our expense?

It's Time to RestoreMGM.com

MGM Resorts' shareholders deserve a leader that instills confidence that MGM Resorts is on the right path to create shareholder value. The embedded value of MGM is clear and a new leader could unlock this value in numerous ways. MGM Resorts could consider selling Bellagio, MGM Grand or City Center to MGP or others. MGM Resorts could spin-off or sell its stake in MGM China. MGM could use proceeds from asset monetizations to immediately capitalize on the significant discount MGM Resorts trades at through a stock buyback program. Instead, inexplicably, MGM uses its capital to move forward with the Springfield Massachusetts development and the overpriced purchase of MGM China shares.

How can you, the Board as representatives of all shareholders, continue to tolerate these actions without demanding a public explanation from management and personal accountability from CEO & Chairman Murren? Shareholders deserve evidence that this Board is not silenced by Murren's firm grip on our company but is acting on the all shareholders' behalf to protect our best interests.

It is time for the board to look out for the interests of all MGM Resorts shareholders by ensuring that MGM Resorts has the right leadership to unlock and sustain value for the future.

Sincerely,



Jonathan Litt

Founder & CIO

Land and Buildings Investment Management, LLC

###

**About Land and Buildings:**

Land and Buildings is a registered investment manager specializing in publicly traded real estate and real estate related securities. Land and Buildings seeks to deliver attractive risk adjusted returns by opportunistically investing in securities of global real estate and real estate related companies, leveraging its investment professionals' deep experience, research expertise and industry relationships.

**Media Contact:**

Dan Zacchei

Sloane & Company

212-486-9500

[Dzacchei@sloanepr.com](mailto:Dzacchei@sloanepr.com)

---

<sup>1</sup> Based on first half 2016 domestic resort EBITDA disclosed in company earnings call presentations

<sup>2</sup> JP Morgan research dated August 4, 2016

<sup>3</sup> Represents valuation for MGM Resorts after backing out the company's ownership of MGM China (HK: 2282) and MGM Growth Properties (NYSE: MGP)

<sup>4</sup> Based on Bloomberg and Wall Street estimates

<sup>5</sup> Using the total enterprise value of approximately \$12 billion after deducting out the company's ownership of MGM China (HK: 2282), MGM Growth Properties (NYSE: MGP) and a 14x multiple on 2017 estimated EBITDA of the Crown Jewels, and assigning no value to the ~\$700 million of EBITDA prior to corporate expense generated unrelated to the Crown Jewel assets or the \$2 billion in domestic developments

<sup>6</sup> Bloomberg data as of September 20, 2016