A loss now will mean a Wynn win down the road

Wynn Resorts executives weren’t too happy with the local response to the company’s first full quarter of earnings as a public company.

Wynn’s third quarter earnings, reported in early November, had TV reporters pondering whether the company was on the verge of bankruptcy and others incorrectly reporting that the company, on the heels of a USD 14 million loss, was laying off workers.

For most companies, a net loss is bad news. It means the company hasn’t actually made any pure profit after accounting for items such as promotional expenses, development costs and other things unrelated to the performance of the underlying business.

But for Wynn Resorts – a company with a growth profile unlike any other casino company or many other publicly traded companies, for that matter – it’s expected. Actually, it’s desired. In Wynn Resorts case, it means the company is spending a big chunk of money now to reap profits in future years.

As a public company, Wynn has been lumped into the same group as any other entity that sells stock. It reports quarterly earnings, which are written about in newspapers and published by wire services. Problem is, casual observers think a net loss means the company is on the road to ruin.

For a development stage company like Wynn, the net loss figure is next to irrelevant for investors and anyone else trying to monitor the company’s performance.

Wynn Resorts, with stock that traded at more than USD 70 per share before the company generated a penny of revenue, is essentially a startup company. Instead of selling products or services on the Internet, Wynn builds billion-dollar casino resorts.

In fact, Wynn Resorts is more like a cable company or telecommunications services company in its growth profile – spending millions, even billions up front for the infrastructure that will generate earnings a decade later.

Observers hoping to see the word „profit“ in the coming year will likely be disappointed. Over the next several years, in fact, it’s unlikely that Wynn Resorts will report positive net income given the billions the company is spending on its Encore resort next to Wynn Las Vegas and Wynn Macau near China.

A look at the company’s 2005 earnings, released last week as part of its fourth quarter results, show the company narrowed its 2005 losses to USD 98 million from $ 206 million the year before. Excluding „pre-opening costs“ of USD 97 million, the company would have made a profit of USD 13 million last year. Those costs include things such as property upgrades, promotional costs and training expenses. Knowing how Steve Wynn likes to tweak his resorts by replacing restaurants, shows and other venues with better-performing amenities, these numbers can add up.

But that’s just playing with numbers. The performance figures investors care about most are operating cash flow (usually defined as earnings before interest, taxes, depreciation and amortization, or EBIDTA), average daily rates, win per table per day and win per slot machine per day.

Wynn generated $ 212 million in operating cash flow since the resort opened April 28. On an annualized basis, the property would have earned some $ 312 million.

That compares to the Venetian’s USD 306 million, MGM Grand’s USD 331 million and Bellagio’s $ 406 million last year. The

Wynn folks – ever obsessed with quality over quantity – say their customers are more profitable. How? By comparing operating cash flow per room. By that measure, Wynn would have earned USD 315 in operating cash flow per room per day last year. Bellagio would have earned $ 283 and Venetian would have earned USD 208.

Wynn Las Vegas also reported the highest room rates on the Strip last year, though comparing properties‘ rates can be difficult and misleading. Hotels have different policies for comping guest rooms and various ways of accounting for that in their results. Wynn also reported a higher revenue per gambling game per day in 2005 versus the Venetian, the only other high-end property to report those numbers. In other words, gamblers lose more per table and per slot at Wynn. But gamblers and even high rollers don't always spend more than, say, business customers who are dropping big bucks in fancy restaurants and bars.

Pure profits are years ahead for Wynn Resorts.

The company's USD 1.1 billion Wynn Macau is expected to open by September 2007, while a second phase could extend that project to 2009. The USD 1.4 billion Encore resort is expected to start construction in spring and open by the end of 2008. That won't mark the end of the company's development costs.

There's still 142 acres of land left to develop at Wynn Las Vegas – land now used for a lush golf course that the company intends to develop someday.

Wynn bought the Desert Inn site for USD 270 million in 2000 and opened Wynn Las Vegas five years later, while Encore will take roughly 30 months to build. And that's considered a fairly aggressive timetable.

The golf course land, on Wynn Resorts books at about $ 1.2 million per acre, is nearly twice the space of Wynn Las Vegas and Encore put together. The Wynn resort sits on roughly 55 acres while Encore will occupy another 20 acres or so.

Executives at competitor MGM Mirage say the company will be helped, not hurt, by customers drawn to Wynn Las Vegas. MGM Mirage, with about 100 acres of undeveloped land along the Strip, also has some future development up its sleeve.

MGM Mirage also has another 200 acres or so of „underdeveloped“ land that could be used to build more profitable structures. The plan is to develop that land in the future, MGM Mirage President and Chief Financial Officer Jim Murren told the Las Vegas Sun last week.

Steve Wynn may have a priceless piece of land located near the two biggest convention centers in town but MGM Mirage is far and away the leading landowner on the Strip. It’s perhaps a matter of quantity versus quality that doesn’t matter because both companies will win in the end.