



25 April 2008

# Gaming Industry

## NV gaming tax proposals - a wolf in sheep's clothing

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### The gaming industry mobilizes against the tax proposal

In recent days, major gaming companies have begun to communicate with their employees regarding the Nevada State Education Association's (NSEA, or teacher's union) petition initiative to raise the NV gaming tax 44%. This comes in conjunction with the beginning of the NSEA's signature collection process. Herein, we have included some updated thoughts on the initiative, as well as an attempt to quantify the potential impact to the gaming employment base. This is a follow-up to our "Big con" bulletin (14 Mar) with a focus on gaming employees.

### Teachers already earn much more than the average casino employee

Noted in our previous bulletin, NV teachers already earn 40% higher median wages than other Nevadans (\$39k vs \$28k). They also earn significantly more than the average casino worker. According to FY07 NGCB data, the average annual wages per casino employee statewide were just \$27k, comparing very unfavorably to teacher compensation.

### Up to 10,000 gaming employees could be laid off

We don't think the NSEA has considered that casinos have a fiduciary responsibility to shareholders by seeking the highest returns on invested capital. When expenses go up (a tax increase), a business will look to eliminate costs in other areas – in this case cutting jobs as they are the largest variable cost in a notably fixed cost business. We note that when the gaming tax was raised in Illinois, casinos laid off 26% of the work force. While not as extreme, we think NV casinos could lay off up to 5%, or nearly 10,000 employees statewide. We base this on actual FY07 data, which suggests that if the proposal were in effect last year, the 44% tax increase on gaming revs taken by teachers would have been \$374m (300 bps of \$12.5bn in revs). Casinos would seek to offset this by cutting \$374m in expenses (as there is no gaming-related price increase available to offset the tax increase), or the equivalent of 10,000 employees at \$38k/employee (average wages, benefits, taxes). We also note that if it happened today, this would cause the state's already high unemployment rate of 5.8% to reach 6.6%.

### Higher teacher salaries haven't resulted in improved student achievement

The NSEA has recently commented that higher teacher salaries are directly correlated to improved student achievement. We disagree based on comparing national rankings of teacher salaries against student achievement. Data suggests NV teachers are compensated as well as the national average, ranking 25th of 50 states in 2005 (but even more favorable when considering NV's low personal income tax burden). However, if the above NSEA argument is true, then NV students should be ranked at least 25th overall. Unfortunately, this is not the case, with NV students consistently ranked at or near the bottom of many achievement studies. Again, we think the data shows the NSEA's proposal appears to be nothing more than a smokescreen to increase teacher salaries under the guise of helping students.

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## Key Indicators

Companies featured			
<b>Boyd Gaming Corp. (BYD.N),USD17.66 Buy</b>			
	2007A	2008E	2009E
EPS (USD)	1.77	1.54	1.62
P/E (x)	25.1	11.4	10.9
EV/EBITDA (x)	10.7	7.5	8.5
<b>Las Vegas Sands (LVS.N),USD69.60 Buy</b>			
	2007A	2008E	2009E
EPS (USD)	0.87	1.48	1.85
P/E (x)	114.0	47.1	37.7
EV/EBITDA (x)	56.8	24.5	19.6
<b>MGM (MGM.N),USD50.10 Buy</b>			
	2007A	2008E	2009E
EPS (USD)	2.13	2.02	2.38
P/E (x)	36.9	24.7	21.0
EV/EBITDA (x)	12.9	9.1	8.4
<b>Pinnacle Entertainment Inc. (PNK.N),USD14.16 Buy</b>			
	2007A	2008E	2009E
EPS (USD)	0.64	0.38	0.72
P/E (x)	45.1	37.7	19.7
EV/EBITDA (x)	14.0	8.0	6.9
<b>Wynn Resorts Ltd. (WYNN.OQ),USD105.95 Buy</b>			
	2007A	2008E	2009E
EPS (USD)	2.42	2.56	3.44
P/E (x)	47.0	41.4	30.8
EV/EBITDA (x)	18.9	19.1	13.2

### Related recent research

NV gaming tax proposals: the big con

14 Mar 2008

**At least the NSEA's signature gatherers are up-front about the proposal**

We have been approached to sign the NSEA petition in order to qualify it for the November 2008 ballot. Not surprisingly, the signature gatherers pitched the plan as a referendum to increase teacher's salaries, never once suggesting it was a vehicle to help student achievement. We need greater resources for schools (textbooks, computers, etc.) more than higher teacher salaries.

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**Valuation and risks**

We employ an EV/EBITDA-based valuation methodology for each of the gaming operator stocks and a PE-based valuation methodology for each of the gaming equipment manufacturer stocks under our coverage discussed in this bulletin. We select what we deem to be an appropriate multiple on our forward earnings estimates based on our assessment of relative growth rates and competitive position.

Risks to investing include general economic weakness affecting casino visitation, increasingly competitive environments, legislative risks including the potential for higher tax rates, and the potential for gaming expansion in neighboring states.

# Appendix 1

## Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Boyd Gaming Corp.	BYD.N	17.66 (USD) 23 Apr 08	2,6,7,8,14,15,17
Las Vegas Sands	LVS.N	69.60 (USD) 23 Apr 08	2,17
MGM	MGM.N	50.10 (USD) 23 Apr 08	1,2,6,7,8
Pinnacle Entertainment Inc.	PNK.N	14.16 (USD) 23 Apr 08	2,6,8
Wynn Resorts Ltd.	WYNN.OQ	105.95 (USD) 23 Apr 08	1,2,7,8,14,15

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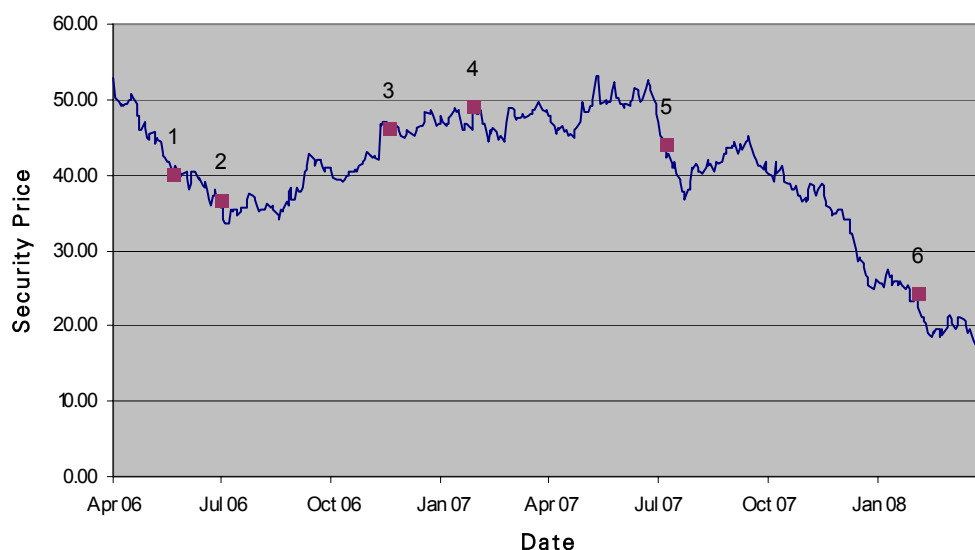
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### Historical recommendations and target price: Boyd Gaming Corp. (BYD.N)

(as of 4/23/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	6/15/2006:	Buy, Target Price Change USD55.00	4.	2/21/2007:	Buy, Target Price Change USD63.00
2.	7/25/2006:	No Recommendation, Target Price Change USD0.00	5.	8/1/2007:	Buy, Target Price Change USD50.00
3.	12/13/2006:	Buy, Target Price Change USD67.00	6.	2/28/2008:	Buy, Target Price Change USD38.00

**Historical recommendations and target price: Las Vegas Sands (LVS.N)**

(as of 4/23/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

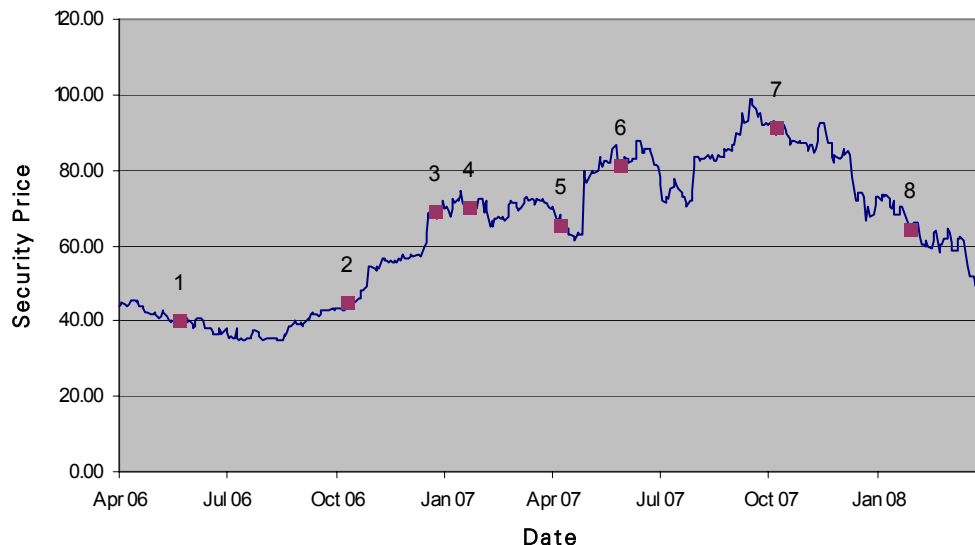
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1.	10/30/2006:	Buy, Target Price Change USD85.00	5.	9/17/2007:	Buy, Target Price Change USD130.00
2.	1/16/2007:	Buy, Target Price Change USD119.00	6.	11/2/2007:	Buy, Target Price Change USD120.00
3.	5/3/2007:	Buy, Target Price Change USD117.00	7.	2/5/2008:	Buy, Target Price Change USD114.00
4.	8/2/2007:	Buy, Target Price Change USD114.00	8.	4/7/2008:	Buy, Target Price Change USD108.00

**Historical recommendations and target price: MGM (MGM.N)**

(as of 4/23/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

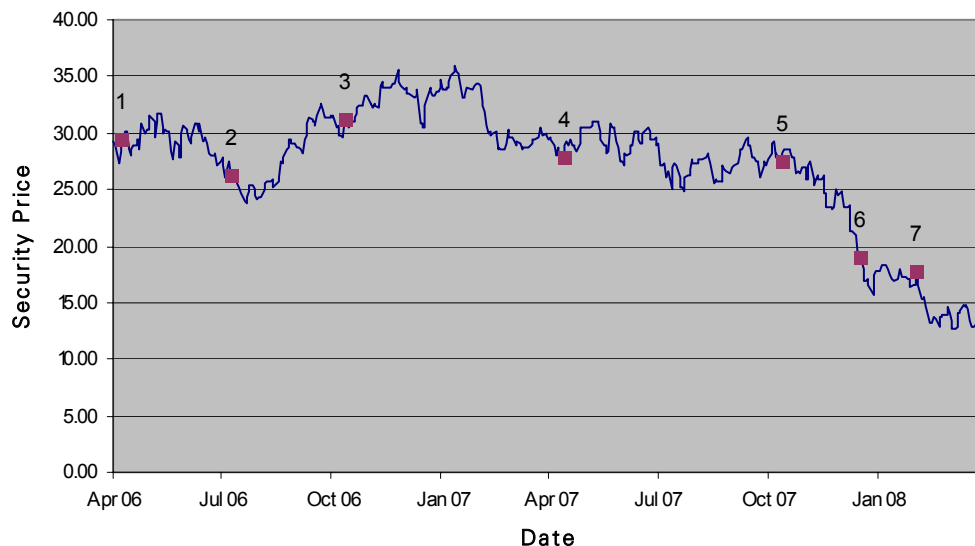
- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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2.	11/3/2006:	Buy, Target Price Change USD55.00	6.	6/22/2007:	Buy, Target Price Change USD104.00
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4.	2/14/2007:	Buy, Target Price Change USD80.00	8.	2/21/2008:	Buy, Target Price Change USD95.00

**Historical recommendations and target price: Pinnacle Entertainment Inc. (PNK.N)**

(as of 4/23/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

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2. 8/2/2006:	Buy, Target Price Change USD38.00	6. 1/10/2008:	Buy, Target Price Change USD38.00
3. 11/6/2006:	Buy, Target Price Change USD42.00	7. 2/27/2008:	Buy, Target Price Change USD36.00
4. 5/8/2007:	Buy, Target Price Change USD40.00		

**Historical recommendations and target price: Wynn Resorts Ltd. (WYNN.OO)**

(as of 4/23/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

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**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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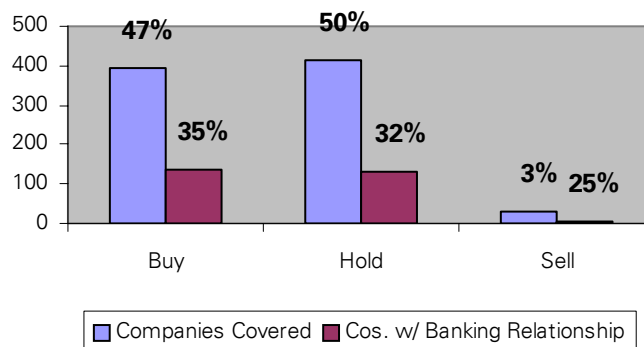
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North American Universe

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