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CEO SPOTLIGHT

Steve Wynn Plays the China Card

Wynn Resorts has been overly punished by China fears. The stock could more than double from here.

By [DYAN MACHAN](#)

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Steve Wynn, founder, chairman, and chief executive of Wynn Resorts, is a consummate gambler. In the course of a tumultuous 40-year career, he has won, lost, and won again.

These days, his gambler's luck has turned ice cold in Macau, the Chinese gaming hub, where Beijing's corruption crackdown and stock market meltdown have pulled the rug out from under Wynn Macau, Wynn Resorts' 72%-owned venture. Casino revenues in the Chinese protectorate have fallen for 15 straight months.

But if Wynn's colorful, obsessive, pugilistic past is any guide, he will keep rolling the dice until he's a winner again. "I don't want to stop anything," he says of his undertakings in China, and his plans for a casino resort near Boston.

Wynn's biggest bet for now, the \$4.1 billion Wynn Palace on the Cotai strip of Macau, is set to open in March. It's his third property in Macau. In addition, Wynn Resorts (ticker: WYNN) operates two hotels in Las Vegas—Wynn Las Vegas and Wynn Encore.



"It would scare the hell out of me" to think a successor would "trade on reputation as opposed to build it."
Photo: Jared Kepler for Barron's

"The status quo is not OK," says Wynn, 73, speaking in the plush inner sanctum of his office and three-story living quarters in the Wynn Las Vegas hotel. Wearing cream and ivory tones that match the room, he fusses with the curtains to shield his eyes from the bright desert light; his sight is impaired from retinitis pigmentosa, a degenerative eye disease. Wynn has a lot on his mind, having just finished a call with one of his trusted China hands.

"Have we seen the bottom?" *Barron's* asks.

"I cannot second-guess a centralized government," he snaps. Even his two male German shepherds are tense.

As two massive Picassos and a security guard look on, Wynn says he isn't worried about the long term because the Chinese government will ultimately attend to growth. "Chairman Xi knows that if his country doesn't grow—if he can't take another 600 million to 700 million people out of poverty—he doesn't get to be in charge," he says.

China has made massive investments not just in developing Macau, but in launching high-speed rail service to reduce travel time from the provinces, and building a bridge to shorten commutes from Hong Kong. "The future of our business in China is secure because we are creating jobs and doing what the government wanted—making Macau an international tourist destination," Wynn says.

In 2014, 70% of Wynn Resorts' \$1.3 billion in operating income came from Macau. The balance came from Las Vegas, a decidedly mature market. While visitors to Las Vegas hit a record high in 2014, spending hasn't returned to the pre-recession glory days. Gaming revenues, for example, were nearly \$2 billion lower last year than in 2007, according to the Nevada Gaming Control Board. There are four main players in Las Vegas today—MGM Resorts International (MGM), Caesars Entertainment (CZR), Las Vegas Sands (LVS), and Wynn.

Wynn notes that the recession devastated MGM's and Caesars' ability to service the massive amount of debt taken on in the pre-crisis years. Caesars filed for bankruptcy protection in January. "MGM is going to make it through, but at a fraction of its prior vitality," he says. "But as the economy improves, my average room rates will move up, and the cash I make is for real rather than going to service debt. So for us, Las Vegas is looking good."

Using his speakerphone, Wynn punches in a few numbers to call his treasury office. For a surreal moment, he is put on hold and left listening to himself ask in a soothing baritone voice, "Do you want to relax and unwind? Try our spa..."

Even though Las Vegas revenues were down in the latest quarter due to gaming declines, Wynn's average room rate inched up to \$289 from \$283 in the same period in 2014. Nongaming revenues rose 5.3% in the quarter. Wynn's Ebitda (earnings before interest, taxes, depreciation, and amortization) margins have also improved steadily, rising to 32.6% in 2014 from 24.5% in 2009.

FOR YEARS, WYNN RESORTS and Wynn's prior company, Mirage Resorts, were stellar growth stocks. Mirage Resorts shareholders enjoyed 25% annual returns from 1973 to 2000, when Mirage was sold to MGM. Wynn Resorts has enriched investors, as well. The stock has returned an average of 18% a year since coming public in 2002.

Yet, recent results haven't been pretty. Wynn Resorts is expected to earn \$311 million, or \$3.30 per share, for 2015 on revenue of \$4.2 billion. That's down from \$772 million, or \$7.58 per share, on revenue of \$5.4 billion in 2014. At a recent price near \$70 a share, Wynn has lost 70% of its value from its apex in early 2014.

Macau's other major casino operators— Sands China (1928.Hong Kong), Melco Crown Entertainment (MPEL), and MGM—saw their earnings plunge by about 40% in the first half of 2015.

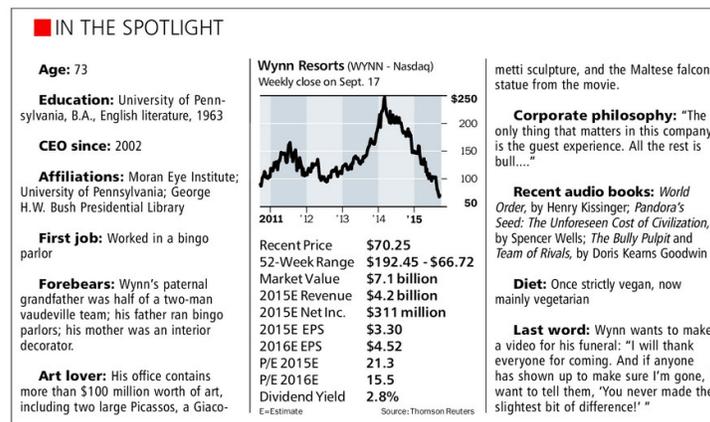
Both Ron Baron of Baron Funds and David Winters of Wintergreen Funds, longtime Wynn cheerleaders, sold their holdings in Wynn Resorts earlier this year. T. Rowe Price reduced its stake dramatically.

Some value seekers are betting on a turnaround, however. Mason Hawkins' Southeastern Asset Management thinks the weakness in Macau is an opportunity to buy more shares of Wynn, a high-end player, at a substantial discount. "CEO Steve Wynn has positioned the company to weather the downturn while having a pipeline of casinos for future growth," the firm wrote in a second-quarter letter to shareholders.

When Macau stabilizes, Wynn has the best opportunity in the industry to bounce back strongly, says Morningstar analyst Dan Wasiolek. Even with the downturn, Wasiolek figures Wynn Palace will contribute to revenue in 2016. Assuming a conservative 5% growth rate, he estimates that the company is worth \$145 per share, offering a wide safety margin.

IT WOULDN'T BE THE FIRST TIME that Wynn has beaten tough odds through fierce ambition and no small amount of chutzpah. Though he grew up comfortably in Utica, N.Y., and graduated from the University of Pennsylvania, he started his adult life with less than zero. His father, a bingo-parlor operator and avid gambler, died on the operating table in 1963, leaving his eldest son, then 21, with more than \$300,000 in debts.

After graduating from Penn, Wynn gave up a spot at Yale Law School to take over the family business, and expanded the bingo parlors. Then he set about repaying his father's lenders. Since many didn't expect the young man to honor the debt, his dad's former colleagues became contacts and supporters. With little in the way of backing, he was able to get a \$1 million loan for his first Las Vegas land deal. He bought a sliver of land from Howard Hughes and cheekily resold it to Caesars Palace.



He invested his profits into the rundown Golden Nugget, one of the city's oldest hotels. Sparing no expense, he renovated the property to draw a higher-paying clientele. He brought in headliners like Frank Sinatra, who joined Wynn in making TV commercials. At the time, Las Vegas had little gloss and specialized in cheap hotel rooms and dollar shrimp cocktails. From the beginning, Wynn sought to create the entertainment, service, and luxury to lure higher spenders. In 1989, he opened the Mirage with an erupting volcano.

The Mirage broke Las Vegas records for gaming revenues, but Wynn takes special pride in the fact that it also broke records for nongaming spending. His formula became building lavish resorts, each one grander than the last. The Mirage was followed in 1993 by Treasure Island, with a full-scale pirate ship, and in 1998, by the Italianate Bellagio.

But as competition heated up for coveted high rollers, Mirage Resorts overspent to lure them, cutting into its bottom line. The shares tumbled, allowing Kirk Kerkorian of MGM Grand to build a position and buy the company for \$6.4 billion. Wynn was out. Yet before the ink on the sale was dry, he was negotiating for the Desert Inn, the site today of Wynn Las Vegas and the first property in the company that became Wynn Resorts.

CONTROVERSY seemingly dogs Wynn at every step. Take his vision for a shimmering casino and resort in Everett, Mass. The headlines, alas, have been dominated by a spat with Boston's mayor, Martin Walsh. "It will feel good when they stop hitting us," Wynn told a group of analysts in July.

With Wynn, even marriage is an adventure. He married and divorced his former wife Elaine twice, and their latest rift devolved into spectacle when she sued Wynn in 2012 over restrictions on selling her shares.

In 2011 Wynn married Andrea Hissom, 51, a mother of two who appears on command wearing a marble-size diamond brighter than a chandelier. "Every day is exciting," she says.

Wynn, who owns 10% of Wynn Resorts stock worth more than \$700 million, has groomed three candidates as possible successors: Wynn President Matt Maddox, Wynn Las Vegas President Maurice Wooden, and Wynn Macau President Gamal Aziz. To choose among them, Wynn says he might come up with a secret test to make sure they will never shortchange luxury to save a few bucks. "It would scare the hell out of me" to think a successor would "trade on reputation as opposed to build it," he says.

"Maybe people don't really know the difference between 400 and 600 thread-count sheets," he adds. "I say they do."

WYNN BELIEVES that his successor will come up short in one part of his job—as designer in chief. Wynn has been deeply involved in every hotel property, and his busy, carnival-like lobbies are one Wynn trademark. He points to the adjoining room, where a 10-foot drawing table is often covered with his sketches. Every hotel, he says, has been started with a blank sheet of paper and his felt-tip pens. Some of his design choices are also related to his vision problems, which have cost him some color distinction. "I tend to like strong paintings and vivid color," he says.

From his initial sketches have come lakes, curving two-story escalators, and private lagoons. Later come details like the number of scarlet-colored Swarovski crystal chandeliers that will hang over the casino tables, and where he'll place pieces from his private art collection. Wynn paid \$33.6 million for Jeff Koons' Tulips sculpture, now displayed in his Las Vegas lobby. He won't hesitate to tear up construction that doesn't offer, say, the sweeping view he had in mind from a staircase.

Wynn says he pulled out all the stops in designing the new Macau property. "We had to be a clearly superior choice," he says of the property, which will have gigantic gondolas carrying guests to the hotel entrance. "It will become *the* photo op in China," Wynn says.

Even though the Everett project is off to a rocky start, Wynn shows a childlike enthusiasm when talking about how the property will bring back the concept of the grand hotel. He points outside his window to 135 acres that he may develop once conditions improve. He also dreams of building a casino near New York City, should that be possible. "I want to do one more hotel," he says, breaking into a grin, "because maybe, just maybe, I'll get it right the next time."

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