

21 February 2018

North American Research

Rating: Buy

Price Target: \$45.00

Price	\$34.47
52wk Range	\$25.15 - \$38.41
Shares Outstanding (MM)	566.1
Market Capitalization (MM)	\$19,650.7
Enterprise Value (MM)	\$35,612.9
30D Avg Volume (000s)	9,607.0
Short Interest/Float	3.5%
Dividend Yield	1.3%
YTD % Chg	3.2%
YTD % Chg Relative to Index	1.0%
Total Implied Return to PT	30.9%
Pricing Date	February 20, 2018



MGM Resorts International

Global Gaming Operators

MGM | NYSE | \$34.47

Company Update

Guidance derisks tough 1Q comp, raising PT to \$45 (+ \$5)

Perhaps a greater focus than 4Q results was 1Q guidance given the difficult comparison to the convention calendar last year in Las Vegas. While expectations were already tempered for 1Q, management's guidance (net revenue down 3%-5%; RevPAR down 4%-6%), eased potential concerns of an even greater impact. We believe the 1Q guide was the last near-term hurdle for the stock, making way for investors waiting on the sidelines to get on board.

We are reiterating our Buy rating and raising our price target to \$45 (from \$40). With some of the near-term focus on quarterly trends fading, we expect shares of MGM to begin working much better, particularly in 2H18 as the market starts to appreciate the earnings potential of MGM Cotai and the FCF opportunity. We believe there are several key components to the MGM thesis that are still greatly underappreciated by the market today:

MGM Cotai is transformational. MGM grew net revenue in Macau about 3% in 2017, including 10% in 4Q17, despite the influx of new competition in the market. We can't wait to see what MGM can do with its new hardware on Cotai. We believe the market is underestimating the MGM Cotai opportunity. We are forecasting \$1,006m of Adjusted Property EBITDA from MGM in Macau in 2019, which is noticeably ahead of the current Consensus forecast of \$876m. While we expect a ramping period throughout 2018, we think 2019 is poised to be a big year for MGM in Macau.

FCF Acceleration - cash tax holiday extended. MGM was already a compelling FCF story as its development cycle nears completion and MGM Cotai begins ramping. However, we believe the market is still reluctant to price in the upside. In 2017, the company paid about \$180m of cash tax, which was likely going to upwards of \$200m in 2018 and 2019. With the tax reform act, MGM is unlikely to pay any meaningful cash tax over the next two years, and the long-term rate is considerably lower than previously modeled. The near-term \$200m annually in cash tax savings is worth an estimated \$5/share based on a target 7% FCF yield. We expect this incremental cash flow will lead to further deleveraging and ultimately greater shareholder distributions (dividends and buybacks).

Continued domestic growth opportunity. We can appreciate MGM (in Las Vegas specifically) is now several years into a growth cycle and larger gains are harder won. However, we see some continued opportunity for topline growth ahead. We look to the revival of the international baccarat business, higher parking fees, increased resort fees, continued pricing power on ADR, and the potential for an uptick in domestic gaming spend as consumers benefit from tax reform. In short, while growth might be more moderate from here, there is still opportunity ahead domestically.

Analysts

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Year to Dec	Net Revenue	Property EBITDA	Adjusted EBITDA	EV/EBITDA	Net Debt/EBITDA
2018E	12,006	3,364.7	3,029	11.8x	3.3x
Prior	11,918	3,328.9	3,024	11.5x	3.4x
2019E	13,089	3,760.0	3,416	10.4x	2.6x

*Please see analyst certification and required disclosures starting on page 5 of this report.

Estimates

1Q18: In Las Vegas, we are modeling a 4.3% y/y decline in Net Revenue to \$1,374m, which is mostly in line with management's guidance for a 3%-5% revenue decrease. Our Adjusted EBITDA estimate for Las Vegas of \$425m represents an 11% y/y decline and includes a 230 bps margin decline to 31%. This is relatively consistent with management's guidance for a 250 bps margin decline, driven mostly by the tough convention comp. We do believe there could be some upside to our 1Q18 forecast, which would likely come on the margin front.

FY2018: We are raising our FY18 Adjusted EBITDA estimate slightly to \$3,029m (up from \$3,024m previously). We are conservatively modeling less than 1% net revenue growth in Las Vegas in 2018 and flat margins y/y. We believe this is relatively conservative compared with management's guidance for low-single-digit net revenue growth and a ~50 bps improvement in margin. We do believe there is upside to our forecast and would look to higher parking fees, higher resort fees, continued ADR pricing power, and potentially some improved demand on the gaming floor as sources of incremental revenue growth in our model.

FY2019: We are instating our 2019 Adjusted EBITDA estimate of \$3,416m. Our model includes \$1,006m of Adjusted Property EBITDA from Macau, which is notably above the FactSet Consensus estimate of \$876m. Our model also includes 6% net revenue growth in Las Vegas and 70 bps of y/y margin improvement, driven primarily by the ramp of The Park MGM & NoMad (Monte Carlo rebranding).

Valuation: Raising Price Target to \$45

We are raising our price target to \$45 (from \$40) which is based on our sum-of-the-parts analysis on the following page. Our valuation ascribes a blended ~10.2x multiple to 2019 EBITDA generated by the Wholly-owned domestic business, including an 8.5x forward multiple on the leased properties, a 13x multiple on the Bellagio, 11x on MGM Grand, and 10x on Circus Circus. Our SOTP analysis also values MGM Growth Properties at 16x 2019 EBITDA and MGM China at 14.0x 2019 EBITDA. We include \$3 of equity value per share from CityCenter based on a 12x multiple of 2019 EBITDA.

Investment Case: Maintain Buy

We are reiterating our Buy rating on the shares of MGM today and raising our price target to \$45 from \$40. We believe the near-term concern regarding softer leisure demand post-October 1 in Las Vegas and the difficult 1Q convention comp are largely baked into expectations. With the big sticking points for the bears now out of the way, we expect the shares will begin to work much better going forward and look for real upside in 2H18 as MGM Cotai ramps. Our 2019 Adjusted Property EBITDA estimate for MGM in Macau of \$1,006m is noticeably ahead of the FactSet Consensus estimate of \$876m.

We also contend MGM's accelerating FCF generation is still greatly underappreciated. The company guided to very little cash tax liability over the next two years (compared with >\$200m in our prior model). Assuming a 7% FCF yield, this cash savings is worth an estimated \$2.8bn of value (or \$5/share). We don't believe the shares currently reflect the new free cash flow profile of MGM today.

Figure 1. MGM Resorts Sum-of-the-Parts Valuation

Wholly-owned	2019E EBITDA	TEV Multiple	TEV		2019E EBITDA	TEV Multiple	TEV
Bellagio	\$514	13.0x	\$6,683	MGM Growth Properties			
MGM Grand	379	11.0x	4,171	Adjusted EBITDA	\$781	16.0x	\$12,503
Circus Circus	76	10.0x	760	Less: net debt			(3,740)
MGM Springfield	77	9.5x	727	Implied equity value			\$8,763
Management operations	25	8.0x	201	MGM equity stake	73.4%		6,432
Total EBITDA/TEV	1,071	11.7x	12,543	Diluted shares			572
				MGM equity value per share			\$11.24
Leased properties							
Mandalay Bay			\$273	MGM China	EBITDA	Multiple	TEV
The Mirage			181	MGM Macau - Peninsula	\$600	14.0x	\$8,406
Monte Carlo			70	MGM Cotai	\$405	14.0x	\$5,675
New York-New York			147	Less: net debt			(1,624)
Luxor			136	Total			\$12,457
Excalibur			116	MGM equity stake	56.0%		6,970
MGM Grand Detroit			166	Diluted shares			572
Beau Rivage & Gold Strike			154	MGM equity value per share			\$12.18
The Borgata			258				
MGM National Harbor			183	CityCenter	EBITDA	Multiple	TEV
Total EBITDAR			1,683	Aria	\$369	12.0x	\$4,427
Less: rent payable to MGP			(781)	Mandarin	9	12.0x	105
EBITDA			902	Vdara	41	12.0x	491
TEV/EBITDA			8.5x	Total	\$419	12.0x	\$5,023
TEV			7,665	Less: net debt			(1,392)
				Implied equity value			3,631
Total Enterprise Value (Domestic)	1,973	10.2x	20,207	MGM equity stake	50.0%		1,815
Less: MGM Borrower Group Net Debt			(6,366)	Diluted shares			572
Implied Equity Value			13,841	MGM equity value per share			\$3.17
Diluted shares outstanding			572				
Value per share			\$24.18	Wholly-owned domestic			\$24.18
				MGM Growth Properties			\$11.24
Corporate	EBITDA	Multiple	TEV	MGM China			\$12.18
Corporate expense	(\$344)	10.0x	(\$3,440)	CityCenter			\$3.17
Diluted shares			572	Corporate			(\$6.01)
MGM equity value per share			(\$6.01)	UG Price Target			\$44.75

Source: Company documents, Union Gaming Securities.

Figure 2. MGM Resorts Summary Financial Model

\$ in millions, FYE December.	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
Revenue													
Las Vegas Strip	5,342.7	5,548.3	1,435.9	1,404.4	1,528.9	1,272.7	5,642.0	1,373.8	1,439.0	1,536.5	1,313.8	5,681.0	5,880.1
Other Nevada	78.8	0.0	-	-	-	-	0.0	-	-	-	-	0.0	0.0
MGM Grand Detroit	547.4	565.0	144.2	142.6	140.0	143.3	570.1	144.8	146.8	148.4	148.1	588.2	602.9
Mississippi	528.5	540.9	132.0	136.6	142.5	130.9	542.1	136.0	140.7	146.8	137.5	560.9	577.8
National Harbor	0.0	53.0	173.2	177.8	179.6	186.9	717.4	178.4	183.1	185.0	192.5	739.0	761.1
Springfield	0.0	0.0	-	-	-	-	0.0	-	-	45.8	81.7	127.4	312.6
Borgata	0.0	348.5	201.1	209.4	244.1	196.2	850.8	185.0	213.6	244.1	196.2	838.9	838.9
Reimbursed Costs	398.8	397.2	100.2	99.3	102.4	100.2	402.0	100.2	99.3	105.0	110.0	414.5	414.5
Other/MGM Hospitality	79.1	81.8	19.2	22.8	18.4	18.6	79.0	19.4	23.0	18.6	18.8	78.8	82.2
MGM China	2,214.8	1,920.5	502.4	448.7	470.8	548.6	1,970.5	663.1	705.4	755.9	851.6	2,978.0	3,619.2
Total revenue	\$9,190.1	\$9,455.1	\$2,708.1	\$2,641.7	\$2,826.7	\$2,597.3	\$10,773.9	\$2,800.6	\$2,950.9	\$3,186.1	\$3,068.1	\$12,005.7	\$13,089.2
<i>Las Vegas Strip, y/y change</i>	2.9%	3.8%	6.5%	(0.6%)	4.4%	(3.7%)	1.7%	(4.3%)	2.5%	0.5%	4.6%	0.7%	3.5%
<i>Other Nevada, y/y change</i>	(33.2%)	NA											
<i>MGM Grand Detroit, y/y change</i>	3.2%	3.2%	2.4%	1.5%	(1.9%)	1.6%	0.9%	0.4%	2.9%	6.0%	3.4%	3.2%	2.5%
<i>Mississippi, y/y change</i>	5.3%	2.4%	1.4%	(3.0%)	1.9%	0.8%	0.2%	3.0%	3.0%	3.0%	5.0%	3.5%	3.0%
<i>National Harbor, y/y change</i>	NA	3.0%	3.0%	3.0%	3.0%	3.0%							
<i>Springfield, y/y change</i>	NA	145.2%											
<i>Borgata, y/y change</i>	NA	NA	NA	NA	NA	(0.6%)	NA	(8.0%)	2.0%	0.0%	0.0%	(1.4%)	0.0%
<i>MGM Macau, y/y change</i>	(32.5%)	(13.3%)	7.1%	(0.7%)	(5.8%)	9.8%	2.6%	32.0%	57.2%	60.6%	55.2%	51.0%	21.6%
<i>Total revenue, y/y change</i>	(8.8%)	2.9%	22.6%	16.4%	12.4%	5.5%	13.9%	3.4%	11.7%	12.7%	18.1%	11.4%	9.0%
EBITDA													
Las Vegas Strip	1,396.7	1,657.3	476.9	439.5	513.8	348.3	1,778.5	424.6	468.6	495.4	398.4	1,787.0	1,892.6
Other Nevada	3.4	0.0	-	-	-	-	0.0	-	-	-	-	0.0	0.0
MGM Grand Detroit	155.0	171.4	44.6	45.4	42.3	45.2	177.5	42.9	45.5	44.5	46.7	179.6	165.8
Mississippi	134.9	143.5	35.2	34.4	41.2	30.4	141.1	36.5	35.7	42.7	31.6	146.5	153.8
National Harbor	0.0	9.6	32.1	37.0	37.4	27.7	134.3	41.0	41.2	42.5	43.3	168.1	182.7
Springfield	0.0	0.0	-	-	-	-	0.0	-	-	8.4	15.6	24.0	76.6
Borgata	0.0	81.3	58.9	101.4	78.9	44.2	283.3	49.0	74.8	78.1	51.0	252.9	257.5
Other/MGM Hospitality	37.4	13.0	10.9	9.1	4.4	3.4	27.7	11.0	9.2	2.2	3.4	25.8	25.2
MGM China	539.9	520.7	143.0	116.3	118.2	147.4	525.0	160.5	177.3	204.5	238.7	780.9	1,005.8
Property level EBITDA	\$2,267.3	\$2,596.8	\$801.7	\$783.1	\$836.2	\$646.6	\$3,067.5	\$765.5	\$852.2	\$918.3	\$828.6	\$3,364.7	\$3,760.0
Corporate expenses	(254.1)	(283.7)	(64.3)	(72.1)	(81.3)	(108.4)	(326.0)	(88.0)	(85.0)	(80.0)	(83.0)	(336.0)	(344.0)
Adjusted EBITDA	\$2,013.2	\$2,313.0	\$737.4	\$711.0	\$754.9	\$538.2	\$2,741.5	\$677.5	\$767.2	\$838.3	\$745.6	\$3,028.7	\$3,416.0
Income from unconsolidated affiliates	257.9	527.6	39.7	40.6	37.7	28.0	146.0	29.4	29.2	26.6	27.3	112.6	110.1
Non-cash compensation	(532.1)	(545.0)	(13.4)	(12.0)	(12.1)	(12.9)	(550.4)	(12.7)	(11.5)	(11.5)	(12.2)	(547.9)	(545.5)
Reported Adjusted EBITDA	\$2,238.9	\$2,795.7	\$763.7	\$739.5	\$780.5	\$553.4	\$2,837.1	\$694.3	\$784.9	\$853.5	\$760.7	\$3,093.4	\$3,480.6
EPS (GAAP)	(\$0.80)	\$1.92	\$0.36	\$0.36	\$0.26	\$2.45	\$3.43	\$0.22	\$0.43	\$0.53	\$0.35	\$1.52	\$1.93
EPS (ADJUSTED)	(\$1.85)	\$2.17	\$0.44	\$0.42	\$0.30	\$2.51	\$3.67	\$0.31	\$0.53	\$0.65	\$0.50	\$2.00	\$2.59
<i>Las Vegas Strip, y/y change</i>	10.6%	18.7%	16.7%	2.1%	13.6%	(4.6%)	7.3%	(11.0%)	6.6%	(3.6%)	14.4%	0.5%	5.9%
<i>Other Nevada, y/y change</i>	(1643.0%)	NA											
<i>MGM Grand Detroit, y/y change</i>	7.0%	10.6%	11.4%	3.7%	(3.9%)	3.8%	3.6%	(3.9%)	0.2%	5.2%	3.2%	1.1%	(7.7%)
<i>Mississippi, y/y change</i>	21.9%	6.4%	(2.5%)	(15.6%)	9.5%	4.8%	(1.6%)	3.8%	3.8%	3.7%	4.0%	3.8%	5.0%
<i>National Harbor, y/y change</i>	NA	27.6%	11.4%	13.6%	56.2%	25.2%	8.7%						
<i>Springfield, y/y change</i>	NA	219.7%											
<i>Borgata, y/y change</i>	NA	NA	NA	NA	118.4%	(2.3%)	113.4%	(16.8%)	(26.3%)	(0.9%)	15.5%	(10.7%)	1.8%
<i>MGM Macau, y/y change</i>	(36.5%)	(3.5%)	25.3%	(2.4%)	(21.1%)	7.2%	0.8%	12.2%	52.4%	72.9%	61.9%	48.8%	28.8%
<i>Total Property EBITDA, y/y change</i>	(5.7%)	14.5%	32.9%	22.6%	15.9%	2.1%	18.1%	(4.5%)	8.8%	9.8%	28.2%	9.7%	11.7%
<i>Total Cash EBITDA, y/y change</i>	(7.6%)	14.9%	37.0%	26.1%	17.8%	(5.5%)	18.5%	(8.1%)	7.9%	11.1%	38.5%	10.5%	12.8%
EBITDA margins													
Las Vegas Strip	26.1%	29.9%	33.2%	31.3%	33.6%	27.4%	31.5%	30.9%	32.6%	32.2%	29.9%	31.5%	32.2%
Other Nevada	4.4%	NA											
MGM Grand Detroit	28.3%	30.3%	30.9%	31.8%	30.2%	31.6%	31.1%	29.6%	31.0%	30.0%	31.5%	30.5%	27.5%
Mississippi	25.5%	26.5%	26.7%	25.2%	28.9%	23.2%	26.0%	26.9%	25.4%	29.1%	23.0%	26.1%	26.6%
National Harbor	NA	NA	18.6%	20.8%	20.9%	14.8%	18.7%	23.0%	22.5%	23.0%	22.5%	22.7%	24.0%
Springfield	NA	18.3%	19.1%	18.8%	24.5%								
Borgata	NA	23.3%	29.3%	48.4%	32.3%	22.5%	33.3%	26.5%	35.0%	32.0%	26.0%	30.1%	30.7%
MGM Macau	24.4%	27.1%	28.5%	25.9%	25.1%	26.9%	26.6%	24.2%	25.1%	27.0%	28.0%	26.2%	27.8%
Property level EBITDA	24.7%	27.5%	29.6%	29.6%	29.6%	24.9%	28.5%	27.3%	28.9%	28.8%	27.0%	28.0%	28.7%
Adjusted EBITDA	21.9%	24.5%	27.2%	26.9%	26.7%	20.7%	25.4%	24.2%	26.0%	26.3%	24.3%	25.2%	26.1%
Cash flow from operations	1,005	1,951	405	237	517	513	1,672	490	620	765	594	2,469	2,822
Maintenance capex	(561)	(433)	(110)	(131)	(123)	(241)	(605)	(155)	(164)	(164)	(185)	(688)	(596)
Distributions from CityCenter	-	-	43	-	-	-	43	54	-	-	-	54	54
Distributions (to) from JVs/non-controlling	-	-	(35)	(35)	(35)	(35)	(140)	(37)	(37)	(37)	(37)	(148)	(152)
FCF before growth/expansion	444	1,518	303	71	359	237	970	351	420	564	372	1,707	2,127
Development/expansion capex	(906)	(1,768)	(325)	(293)	(365)	(389)	(1,372)	(400)	(300)	(110)	(80)	(890)	(48)
Advances to CityCenter development projects	-	-	-	-	-	-	-	(70)	(70)	(70)	(70)	(280)	(288)
Share buybacks / dividend	-	-	(63)	(63)	(433)	(63)	(622)	(70)	(70)	(70)	(70)	(280)	(288)
FREE CASH FLOW	(\$462)	(\$249)	(\$85)	(\$285)	(\$439)	(\$215)	(\$1,024)	(\$119)	\$50	\$384	\$222	\$537	\$1,791
Cash	1,670	1,447	1,395	1,757	1,987	1,500	1,882	1,902	2,119	2,656	2,963	2,963	4,184
Total debt	\$12,854.4	\$13,081.2	\$13,184.6	\$12,736.4	\$12,770.4	\$12,826.6	\$12,826.6	\$12,926.6	\$12,996.6	\$13,036.6	\$13,061.6	\$13,061.6	\$12,999.1
Net debt	11,184.1	11,634.2	11,778.9	10,979.9	10,784.1	11,327.7	10,964.2	11,025.5	10,877.7	10,380.0	10,098.0	10,098.2	8,814.8
Total debt/ LTM EBITDA	6.4x	5.7x	5.2x	4.8x	4.6x	4.7x	4.7x	4.8x	4.7x	4.6x	4.3x	4.3x	3.8x
Net debt/ LTM EBITDA	5.6x	5.0x	4.7x	4.1x	3.9x	4.1x	4.0x	4.1x	4.0x	3.7x	3.3x	3.3x	2.6x

Source: Company documents, Union Gaming Securities.

Important Disclosure

Analyst Certification

The analyst, John DeCree, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

Company Specific Disclosures

Union Gaming or an affiliate has a client relationship with or received compensation from this subject company MGM Resorts International for non-securities services in the last 12 months.

Ratings Definitions

Current Ratings Definition

Union Gaming Securities LLC and Union Gaming Securities Asia Limited use a traditional ratings construct (Buy, Hold, and Sell) that is underscored by percentage upside/downside from current trading levels along with dividend yields for total return. We exclude special dividends and contemplate regular dividends only in our total return forecasts. These are absolute ratings, not relative or forced ratings. We define a Buy rating as a company whose shares exhibit total return (appreciation and dividends) potential of at least 15% within the next 12 months, and conversely a Sell rating as a company whose shares exhibit downside potential of at least 15% within the next 12 months. A Hold rating is reserved for companies whose shares exhibit total return potential between those parameters.

Buy – the total forecasted return is expected to be greater than 15% within the next 12 months

Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

Sell – whose shares exhibit downside potential of at least 15% within the next 12 months

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Valuation and Risks

Valuation

Valuation Methodology for Price Target: Enterprise Value-to-EBITDA, Sum-of-the-Parts Analysis, Price-to-Earnings Ratio, Discounted Cash Flow Analysis, Price-to-AFFO, Net Asset Value.

Risks

Investment Risks: Union Gaming Securities' equity research team covers the casino, gambling, gaming, lottery and related sectors. The companies operating within these sectors generally have a global presence or significant exposure to China and Las Vegas, among other markets. In addition, the markets that companies in these sectors operate are highly regulated by local and federal governments. Risks across or specific to one or more of these sectors include regulatory or legislative impacts related to licensing, tourism or the competitive landscape. Licenses to operate gaming facilities or supply gaming equipment or lottery services are often governed by regulatory authorities. Additional Risks for investing in these sectors include volatility in consumer discretionary spending and consumer confidence, currency, interest rates, unemployment rates, access to capital, the cost of capital, commodity costs, geopolitical uncertainty, and unfavorable government regulations. Companies operating within our covered sectors rely in part on tourism, and business trends could be impacted by changes or influences to tourism in a given market or markets, including visa policy, transit policies and security, transportation infrastructure, weather and natural disasters.

Ratings Distribution (as of 02/21/2018)

Coverage Universe

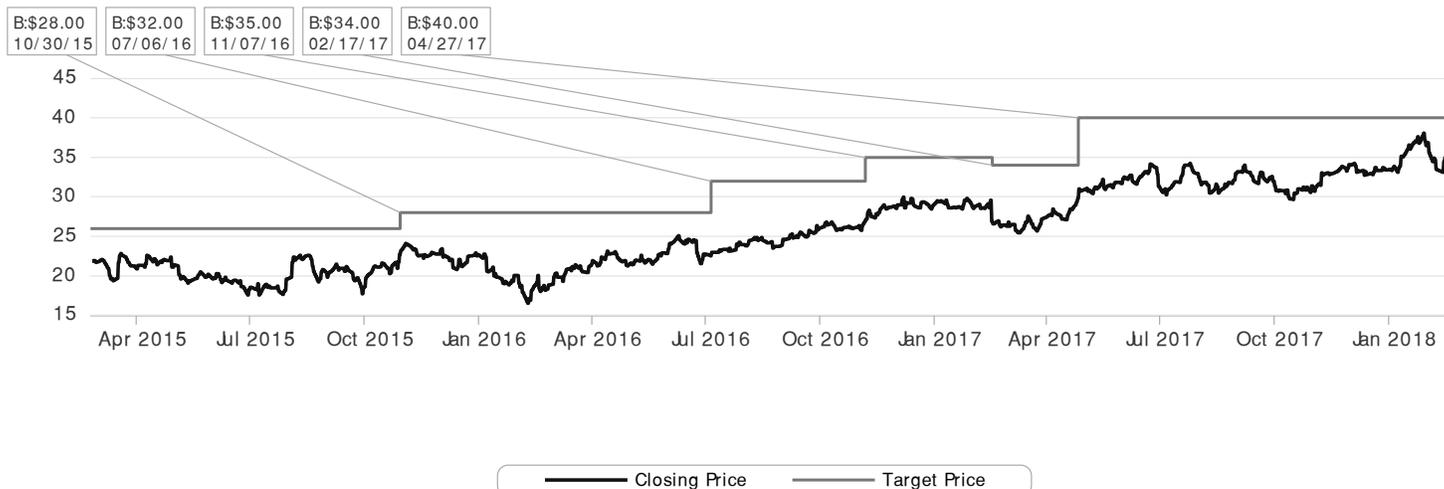
Ratings	Count	Pct.
BUY	16	64%
HOLD	9	36%
SELL	0	0%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
BUY	7	44%
HOLD	1	11%
SELL	0	0%

MGM Resorts International Rating History as of 02/20/2018

powered by: BlueMatrix



General Disclosures

Additional information is available upon request.

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