MGM Resorts International (MGM) CEO Jim Murren on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.31 misses by $-0.02 | Revenue of $3.31B (9.41% Y/Y) misses by $-15.38M

Earning Call Audio

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MGM Resorts International (NYSE:MGM) Q3 2019 Earnings Conference Call October 30, 2019 5:00 PM ET

Company Participants

Aaron Fischer - Chief Strategy Officer

Jim Murren - Chairman & CEO

Corey Sanders - CFO

Grant Bowie - CEO, MGM China Holdings Limited

Bill Hornbuckle - President & COO

Conference Call Participants

Joseph Greff - JPMorgan

Stephen Grambling - Goldman Sachs

Thomas Allen - Morgan Stanley

Shaun Kelly - Bank of America

Felicia Hendrix - Barclays

Carlo Santarelli - Deutsche Bank

Harry Curtis - Instinet

John DeCree - Union Gaming

David Katz - Jefferies

Operator

Good afternoon and welcome to the MGM Resorts International Third Quarter 2019 Earnings Conference Call.

Joining the call from the company today are Jim Murren, Chairman and Chief Executive Officer; Corey Sanders, Treasurer and Chief Financial Officer; Bill Hornbuckle, President and Chief Operating Officer; Grant Bowie, CEO and Executive Director of MGM China Holdings Limited.

Participants are in a listen-only mode. After the company's remarks, there will be a question-and-answer session. In fairness to all participants, please limit yourself to one question and one follow-up. Please note, this event is being recorded.

Now, I would like to turn the call over to Aaron A. Fischer. Please go ahead.

Aaron Fischer

Thank you. Good afternoon, and welcome to the MGM Resorts International third quarter 2019 earnings call. This call is being broadcast live on the Internet at investors.mgmresorts.com and we have also furnished our press release on Form 8-K to the SEC.

On this call, we'll make forward-looking statements under the Safe Harbor provisions of the Federal Securities Law. Actual results may differ materially from those contemplated in these statements. Additional information concerning factors that could cause actual results to materially differ from these forward-looking statements is contained in today's press release and in our periodic filings with the SEC. Except as required by law, we undertake no obligation to update these statements as a result of new information or otherwise.

During the call, we'll also discuss non-GAAP financial measures in talking about our performance. You can find the reconciliation to GAAP financial measures in our press release and investor presentation which are available on our website. Finally, this presentation is being recorded.

I'll now turn it over to Jim Murren.

Jim Murren

Well, thank you, Aaron. Good afternoon, everyone. I'd like to give a thank you to Grant Bowie for getting up early in Macau and to Bill Hornbuckle for also getting up early, Bill is in Japan and a special shout out to Cathy Park who is on maternity right now with her beautiful son but I am sure listening in to see how we do today. So, let's dive in.

We had another busy and successful quarter with solid results that were in line with our expectations. Looking forward, we feel good about the fourth quarter and for the 2020 financial year given the continued execution of our MGM 2020 plan, healthy market conditions and the ongoing ramp of our newer properties.

Before I get into the results, I want to start with the work of our real estate committee. If we recall the formation of that committee was in January and that was another step in a process we began back in 2016 when we formed MGT to begin to maximize the value of our own real estate assets. Since then, we've continued to shred non-core assets that do not align with our strategy while investing in assets that actually complement our strengths.

The results of the committee's work with management and advisors supports and in fact accelerates our transition to an asset light business model. For MGM, asset light means separating the ownership of capital intensive lower return assets and recycling that capital into high ROI opportunities. The recently announced sales of Bellagio's real estate to Blackstone and Circus Circus to Mr. Ruffen are important milestones to that end. And I think it's important to spend a moment focusing on Bellagio agreement.

That transaction was the product of exhaustive analysis of our asset base and significant time spent on developing a structure that would maximize the value received for our shareholders, while minimizing friction costs. The Bellagio deal wasn't just the sale of a property, we've done that many times, but rather it represents one of the most sophisticated agreements this company has ever entered into, and a process that has led to a partnership with one of the world's leading real estate investors. These transactions were key steps but by no means the end of our journey.

The Bellagio real estate transaction represents more to us than a smart financial deal. It provides a likely blueprint for the future. In fact, a process to monetize the real estate related to MGM Grand Las Vegas is now well underway, and we anticipate sharing more with you on that before the end of this year.

We're confident that the Bellagio sales sets a new benchmark for gaming net lease transactions and will help us deliver the best possible outcome for MGM Grand. We would also of course will evaluate ways to maximize the value of MGM Springfield, our 67.7% stake in MGP, and our 50% stake in CityCenter.

We're really excited about the phase that we're in now. After a lot of work, we can see what our end state will be, and anticipated future MGM Resorts that does not need to own meaningful real estate assets. Monetization of our real estate assets will allow us to achieve a fortress balance sheet with very low core leverage while investing in high return, growth initiatives and simultaneously returning significant capital to shareholders.

This asset light transaction and transition should result in meaningfully higher free cash flow per share, lower leverage and a more flexible financial structure that allows MGM to better capitalize on its core competencies as a developer, manager and operator of leading gaming and entertainment properties. With our unmatched portfolio of brands, leading customer database and expertise in managing hundreds of restaurant, shows, concerts and gaming concepts, we're confident that MGM is positioned to reward shareholders with continued growth.

Between the Bellagio and Circus Circus Las Vegas transactions, we expect to receive estimated net cash proceeds of about $4.3 billion reflecting approximately $250 million to $270 million of cash taxes and about $250 million of the expected debt breakage costs and other transaction costs.

We expect to use the majority of the proceeds from these initial transactions for debt reduction with the remainder for capital returns and given current market conditions, we expect to promptly utilize the remaining $750 million of our outstanding buyback authorization this quarter.

So, now let's talk about our results. The third quarter came in as expected with consolidated net revenues up 9% and adjusted EBITDA up 14% year-over-year to $814 million. Here in Las Vegas results were solid driven by strong demand across all of our segments with the exception of Far East baccarat.

Our convention business remains exceptionally robust, non-gaming revenues increased by 6% with RevPAR up 3.6% Gaming revenue declined by 3% with table games down 12% due to ongoing softness in Far East baccarat volumes. This was somewhat offset by slot revenues which increased 4% in our domestic table game business which was also up.

Our Strip EBITDA increased by 5% to $441 million and on a hold adjusted basis, Strip EBITDA was up 6% year-over-year to $438 million. Our third quarter Strip EBITDA margins were 29.3%, up 40 basis points year-over-year.

Our regional properties continue to perform well in the third quarter with net revenues up 20% and EBITDA up 27%, with the majority of the growth from the inclusion of MGM Springfield, Empire City and Northfield Park, National Harbor and Borgata both delivered strong results during the quarter. And once again, we're very proud of our regional portfolio with leading market positions in just about every market we're in.

MGM China's net revenues grew by 22% $739 million and adjusted property EBITDA was up 40% to $182 million due to the continued ramping of MGM Cotai. This represents we believe excellent performance given the various disruptions in that marketplace.

By property, MGM Macau achieved EBITDA of $102 million, down 14% year-over-year which reflects weakness in the market. MGM Cotai continued its ramp with $80 million of EBITDA, a 48% increase compared to the $54 million in the second quarter. Our Mansion product is ramping up very nicely.

The VIP segment continues to have some challenges but does not represent a significant portion of our cash flows there and we gained market share in mass market, which remains very resilient and of course as always Grant will be on the line to answer your questions.

We continue to make excellent progress on our MGM 2020 plan during the quarter achieving all of our targeted savings and revenue enhancements, some of which were on an accelerated basis. As a result of MGM 2020 initiatives, we were able to achieve revenue initiatives and cost savings of approximately $50 million during the quarter.

We continue to be on track to hit $100 million in adjusted EBITDA uplift this year and increasingly confident that we will meet or beat our $200 million adjusted EBITDA uplift goal by the end of next year. Of course Corey is here to provide any detail around that.

Looking out further, the fundamental backdrop in Las Vegas remains encouraging and we see healthy demand in nearly all of our business segments. Our convention bookings in Las Vegas continue to shape up nicely and we are on actually on track to hit a record mix of convention room nights this year of 20% for the full year 2019 despite citywide convention nights being down in the fourth quarter.

And 2020 is expected to be a particularly strong year for the convention business in Las Vegas given favorable citywide rotations such as CON/AGG and of course we're also excited that this city will be hosting the NFL draft for the first time. And while leisure booking windows are naturally always shorter, we also see favorable trends there in 2020, which particularly support our legacy properties.

The Far East baccarat business continues to remain a challenge here in Las Vegas. And of course, we also face a tough comparable from the prior years' quarter when volumes were strong but our live entertainment calendar in the fourth quarter remains extremely strong with the return of Lady Gaga and Aerosmith at Park Theater and of course we're excited about the opening of our latest Cirque du Soleil show run at Luxor.

We also have a strong sports calendar with two boxing events one this weekend, the Alvarez fight and the Deontay Wilder and Luis fight coming up plus of course Vegas Golden Knights games, the PBR World Finals and UFC 245. And with the current NFL season underway, we're getting closer to the opening of the Raider Stadium next year, which will be a very positive catalyst for our South Strip properties notably Mandalay Bay and Luxor.

By the end of 2020 through continued execution of our asset light strategy, we intend to have domestic net financial leverage of approximately 1 times excluding MGP. On a consolidated basis, we expect to be between 3 to 4 times and on a leased adjusted basis leverage 4 times.

We also remain on track to achieve our stated goals of $3.6 billion to $3.9 billion in consolidated adjusted EBITDA and adjusted free cash flow per share of $3.50 by the end of next year. This will be driven by healthy market conditions in Las Vegas and I think our regional properties, the ongoing ramp of newly opened properties, the benefits of our MGM 2020 plan and our disciplined capital allocation strategy.

As we have been discussing, our major capital projects are complete and all of our resorts have never been in better condition. And accordingly, our CapEx is dramatically lower which will result in accelerating free cash flow. We remain focused on opportunities that we believe will create long-term shareholder value including Japan, sports betting and by continuing to evaluate and execute on transactions that unlock the value of our real estate.

Just yesterday, we were excited to announce a partnership with Yahoo Sports. Our goal is to have the most comprehensive in interactive sports betting platform in the industry. By combining the retail and sports betting operations of MGM and Roar, which is our joint venture with GVC, with Yahoo's fantasy sports and digital content network, we are creating a very dominant partnership.

We believe that when people watch, experience and consume sports content, they will be motivated to bet on sports and everyone I just mentioned will benefit from that. And when you combine two world-class brands such as MGM and Yahoo who both share similar philosophies regarding sports-related content, you have an opportunity to create the ultimate user experience. And part of our sports strategy is driving increased visitation into our properties. Yahoo's 60 million users will now be able to experience what MGM Resorts is all about. We're bringing the best of our Las Vegas and regional properties to them online.

And with that, I'd like to turn it over to the operator for our Q&A.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Joe Greff with JPMorgan. Please go ahead.

Joseph Greff

Good afternoon everybody. My first question is the question I wanted to touch on Jim you kind of touched on as well about the, about looking at monetizing the real estate of the MGM Grand. Can you talk about, I guess why that maybe taking longer or was outside of the real estate committee recent sizable activities?

And then can you then talk about maybe the timeline for proactively monetizing and seeking additional value from some of the other real estate that you referenced on slide 6 of the presentation of the earnings deck?

Jim Murren

Sure, Joe. First on MGM Grand, management and the board of MGM felt very strongly that the best way forward here was to create precise execution on our most valuable asset. We were evaluating all of them, all at the same time but we felt rather than trying to accomplish everything at once, the best way forward was to focus on Bellagio, particularly when we got into an exclusive phase with Blackstone and we were able to work together very constructively with that organization to achieve frankly a multiple on rent that was inconceivable even earlier this year, let alone a year ago.

As you know, Joe, last trade of Las Vegas Real Estate was at 14.25 times and we achieved 17.3. That's three turns, that's $750 million more of value to the MGM shareholders because we focused on our prime asset with the best possible counterparty.

And so we felt strongly that that would set a benchmark and provide a blueprint for transactions for the MGM Grand which is equally valuable, no doubt one of the premier assets here in Las Vegas, a top five profit performer for over a decade. And now, we've turned our sights to that.

And because of the work we've done over the last several months on Bellagio, it makes the timing and the work streams for MGM quicker and a lot easier. And so, we believe that this was the best form of execution to tackle projects one at a time and with deliberacy which has led to these gross proceeds and more importantly, or equally importantly, net proceeds that we've achieved.

So that's why we decided on Bellagio and now we're moving into MGM Grand and of course, we'll be evaluating our EBITDAR OP units, our MGP stake, MGM Springfield, etcetera in due course. The second half your question was what is on the – could you repeat that, Joe?

Joseph Greff

Maybe talk about the timetable for items beyond the MGM Grand.

Jim Murren

Oh. So, we expect to close the Bellagio real estate transaction and Circus Circus, Las Vegas this quarter by the end of this year. We expect that we'll be to, we'll be able to talk to you all about how we're going to how we're going to transact the MGM Grand Las

Vegas Real Estate, we expect to be able to tell you that by the end of this year, which obviously would bring you into early 2020 before most likely any transaction will be completed there.

And it's not mutually exclusive to the other real estate related work that the committee is doing and management is doing. So, expect more to come over the coming months in early part of 2020.

Joseph Greff

Great. And then my follow up Jim and this might be counter to a lot of things that you're talking about but maybe just to kind of get this out there. Maybe you could discuss your appetite in acquiring [indiscernible] in conjunction with other real estate activities and if it’s leverage neutral, particularly if it's in a market that you're currently in and geographically makes sense.

Jim Murren

Sure. We're not engaged in any M&A right now Joe. We're not interested in acquiring anyone else's assets at this point in time or anyone else’s operations. We're really focused on what's in front of us right now. We think that's the best use of our time and our board's time but we are a dynamic company. We’ll look at things as they present themselves over time but I would not want anyone to believe that we're looking at any of that over the near term.

Joseph Greff

Great. Thank you.

Operator

The next question will be from Stephen Grambling with Goldman Sachs. Please go ahead.

Stephen Grambling

Hi thanks. I guess one follow up on the asset sales, are those changing – how you think about capital expenditures at the property level and or how you're prioritizing investment renovations?

Jim Murren

Not at all. No. As a triple net we and as the operator of these assets that actually is – make these decisions very easy for us because the real estate transactions themselves are relatively once you get the leases worked out straightforward financial transactions. The capital that will go into the properties is within our control and will be consistent with the capital spend that we have deployed over the history of the properties.

That was something that obviously our counterparty with Bellagio, got very comfortable with given the amount of investment we've put into Bellagio since MGM acquired Bellagio in connection with Mirage Resorts way back in May of 2000.

So, we've been the operator of Bellagio for most of its life, 19 years of it, over 19 years of its life and we are going to be the operator of it based on a lease for about 50 years whoever's here at that time and we'll continue to invest in the properties whether they're wholly owned properties or whether they’re leased to a third party. And as I said earlier, they're most likely going to be leased to somebody else.

Stephen Grambling

Helpful. And then maybe changing gears to Macau, looks like you're seeing a nice ramp in Cotai. But can you talk to any cadence over the quarter, any impact as you see it from the situation in Hong Kong maybe how that might dictate how that will ramp as the year progresses? Thanks.

Jim Murren

Thanks. Actually the Hong Kong situation is somewhat independent of us but I think obviously, it’s a little bit confusing we haven't seen any direct impact. I think visitors are starting to change their travel strategies.

So, we just got to keep our, keep our things valuable and make sure we promote [indiscernible] unfortunately a separate destination and make sure that we can allow those customers to come in and get in and out of, out of Macau effectively. So, nothing really there.

Stephen Grambling

Thanks, I'll jump back in the queue.

Operator

Our next question comes from Thomas Allen with Morgan Stanley. Please go ahead.

Thomas Allen

Hey. So, just starting on capital allocation, so obviously, you're bringing in a lot of proceeds through the asset sales over $4 billion. Can you say – tell us like your strategy or your methodology about balancing buybacks with taking down leverage. Thank you.

Jim Murren

Sure. First it’s – I think it's important to reiterate what we believe our end state is and how – it’s – we are here that we are actually can see the end state which is going to happen over the next year or two. The end state is that MGM Resorts is going to be asset light. It will continue to invest in assets because it will continue to invest in the properties, all the properties that we operate.

And it will make investments into bricks and mortar and into technology but in areas we believe will be higher return on investment investments than simply owning static real estate and it will be done on a more of a global basis with an emphasis not only on our gaming properties that we operate but also on non-gaming hotels, on sports, on technology on entertainment. So, that's the end state.

In terms of you know why that's important is we believe there's a large experienced economy out there that MGM Resorts and certainly not our competitors, are actually tackling properly in these areas of entertainment and sports in Japan, etcetera. We believe to best do that for shareholders, we should reduce, significantly reduce our financial leverage. And so, it's an overarching priority to get that core leverage, that financial leverage down to 1 times by the end of next year.

We believe we can do that while repurchasing shares and focusing on our dividend and investing in Japan and investing in sports through joint ventures and otherwise. And we look at it all holistically. But it means being very disciplined on capital allocation, focused on that debt reduction, returning capital shareholders as we have been doing in the form of dividends and share repurchase, in making sure that we don't have less financial flexibility but actually have more financial flexibility, particularly because we're in the later stages of this economic expansion.

And as we grow our earnings base, over a reduced number of shares, it will have the impact of accelerating our free cash flow. And so, we look at it in holistically and we believe that given the assets we have, both what we have announced, but based on what we've announced the blueprint that we have achieved for future transactions, we're going to be able to very effectively achieve that over the next 12 to 18 months.

Thomas Allen

Thanks, Jim. Helpful color. And then just on CityCenter, you did $110 million for EBITDA and respecting that you had high hold, I mean that's the fourth quarter in a row that you've been generating pretty strong EBITDA there. Can you just talk about, update us on how you're thinking about where you can grow that property, EBITDA too, and kind of what's driving the success? Thanks.

Jim Murren

Well, ARIA and Vdara, all CityCenter of course, opened in the worst possible time. And it's right now next month celebrating its 10th anniversary. So, out of the great recession came a property that a lot of people were dismissive of and counted out 10 years ago, it’s now one of the most profitable resorts in Las Vegas, and we believe will continue to be so and in fact, accelerate its profitability because it's new, we continue to reinvest in it, and we have been investing in areas where we had gaps before.

We did not have the right restaurant product when we opened up. We've been changing that very dramatically with great success. We did not have enough convention space. We just dramatically expanded the convention space there, and we have other ideas to increase its meetings capabilities which will drive revenue.

We had a poor performing show but now we have T-Mobile Arena and we have Park Theater, and we have a lot of entertainment that ARIA and Vdara benefit from, without having to have it on the campus. And we've been driving, consistently driving casino business through an improved loyalty program and frankly, better brand awareness of the brand new brand called ARIA.

As we evolve into our digital work that we'll be talking to you a lot more about in coming quarters, investing more in loyalty, we think that will accrue to the benefit of all of our properties particularly our Strip properties, and particularly ARIA because it's relatively new and still does not gain some of the casino business, it could vis-à-vis say Bellagio or MGM on the high end. And so, yes we're proud of what's happening there but we believe that from a delta perspective there is probably more room to grow cash flows at ARIA than most any of our properties.

Thomas Allen

Helpful. Thank you.

Operator

The next question will be from Shaun Kelly of Bank of America. Please go ahead.

Shaun Kelly

Hi. Good afternoon, everyone. Jim maybe just to start maybe to stick with the capital allocation component. I believe in the prepared remarks you said something about promptly using your outstanding buyback authorization later on in this quarter.

Obviously there were some pretty substantial share repurchase in the quarter. Could you just maybe give us a little bit more color? Is this sort of the right run rate? I think it was around $350 million this quarter or can it accelerate with some of the proceeds that come in when you actually close on the Bellagio and Circus?

Jim Murren

I think it will accelerate.

Shaun Kelly

Okay, great. And then a second one is probably for a follow up but more for Corey. Just kind of digging into the 2020 plan, I believe the mentioned in the prepared remarks was around you already being at about a run rate of approximately $50 million in the in the quarter for contribution there.

Could you help us a little bit more with sort of the timing or run rate or bridge on that because I think as we look at kind of core operating expenses we would have thought they could have been maybe a little like lower year-over-year at least in Las Vegas. You did see a little bit of margin expansion but up against a fairly easy comp. So, any color you can give us on that would be helpful. Thanks.

Jim Murren

Sure Shaun on the margin expansion, leap in mind it was definitely impacted by the Far East play. If you exclude that, that was about 60 basis points. We're up about 0.1 on the Strip. The core properties are really where you're seeing it because there's less noise in this straight away. Comparable business, they're up almost 300 basis points on margin.

So, from that perspective, we're really happy with where the flow through is. Keep in mind the Strip is going to have increased expense because of Park MGM and the expansion of the food and beverage restaurants and really the full opening of the hotel, which will distort that.

When we look at it in particular, excluding Park MGM we're down about a 1,000 FTEs on the Strip. And so, we're pretty confident at least we're seeing on the labor savings on that. As we mentioned – as Jim mentioned in his prepared remarks, we had $50 million of recognizable savings in the third quarter sorry. And we're seeing – we like what we see going into the fourth quarter.

We have the fixed labor nailed, the variable labor components are in process, including the technology pieces and we've found some other opportunities in scheduling and in forecasting. The purchasing side is also going pretty strong. That's – that will come through monthly, so you'll start seeing. As we ramp up in some of those areas, you'll start seeing some increases in there. And I would expect the fourth quarter to be better than the $50 million.

Shaun Kelly

Thank you.

Operator

The next question comes from Felicia Hendrix with Barclays. Please go ahead.

Felicia Hendrix

Hi. Thanks a lot. Jim, can we go back to your asset light strategy and just on MGP, you've talked a lot over the time about reducing the ownership there. I'm just wondering mechanically like if you get a low majority ownership, how would you treat capitalized rent or how would you think about that that you would have – that would remain on your books as you divest that?

Jim Murren

Sure. So let's first start with MGP, and then maybe I'll turn it to Corey or something we could talk about capitalized, the lease or Aaron, or me, I can do it too. First, MGP when we created a few years ago, we were very focused on ensuring that we were disciplined around asset quality and tenant quality.

And as you remember, we brought that public, I think it was $21 a share, it's done pretty well. But what we're most proud of is it’s stuck to its core strategy of not going out and buying a bunch of broken down stuff someplace and degrading its tenant quality.

And that, I believe MGP is going to continue to be very focused on. James Stewart and Andy are very lasered in on not only the financial characteristics of MGP, but the quality of its portfolio. Clearly, MGM Resorts is incented to encourage MGP to grow and if it came down to a transaction between a third party and MGP, we're always going to favor MGP in a close race. And there's a lot we can do that's mutually beneficial to MGM Resorts and MGP.

As MGP continues to acquire assets but only quality assets, as it continues to do so, it will access the capital markets and in doing so will reduce our stake in MGP. We would also look for other opportunities over time to monetize some of our equity stake as long as it was done in a capital efficient manner.

MGM Resorts is not wedded to any particular ownership of MGP. We've stated that at least in the near-term, our near term goal is to get under 50% but that won't be the end state. We will very likely own far less of MGP than that on a going forward basis. And so, I think the way, I would look at it is MGM Resorts has a strategy.

The strategy has become asset light. It is executed on one stage of that at a multiple higher than anyone could have predicted here at Bellagio. It sets us up very well to work on multiple other transactions, which include wholly-owned real estate, jointly-owned real estate and MGP itself. MGP owns more quality real estate on the Las Vegas Strip than anybody else and it's certainly being mismarked in the marketplace given where the trade was just announced with Bellagio even if you assume any kind of discount between Bellagio and the MGP portfolio.

We would never – you would never assume it would be as wide as it currently is. And so, we believe that there is a lot of future for MGP and MGM Resorts has no pre-disposed view on how much it owns or whether it owns any at all.

We also think the Blackstone deal is very important because it proves out the point that MGM is more than happy to transact with a third party on a lease in highly negotiated lease terms with someone as sophisticated as Blackstone where MGM has very little ownership in that new joint venture. We'll have 5% of the joint venture equity ownership.

And I think that should be illustrative of how we view MGP and any other third party going forward is we do not have to control or even own a majority or even own anything at all of the landlord as long as we can control the capital expenditures, the operations, the marketing of the resorts that we believe are dominant.

And push on [ph] consolidation as long as we still own the golden share and we remain over 30% ownership we continue to consolidate MGP on our financial statements. If it drops below there, then we would end up with the EBITDAR type presentation.

Felicia Hendrix

Right. And then – but you also have the – it's not financial leverage but you have that leverage on your balance sheet. So, I'm just wondering how you're rectifying that, was kind of going more towards delevering story?

Jim Murren

We're still focus as we look at leverage and on the core operational stuff, we talked about 1 time in general consolidated, we're still focused between the 3 to 4 times. As long as we continue to consolidate MGP that's still in our targets.

Bill Hornbuckle

Yeah. And, of course, we've been in constant contact that Corey has and Jim Freeman with the rating agencies and we'll continue to focus on both consolidated leverage, lease adjusted leverage that either meet or exceeds, improves our preexisting financial targets. So everything that we’re doing is for that.

Felicia Hendrix

Just so as we model that and kind of figure out scenarios in the future and how a variety things could look like, if we were thinking about significantly reduced financial leverage but having leased adjusted leverage, we should still use that kind of 3 to 4 times total.

Jim Murren

That's correct.

Felicia Hendrix

Okay. And then just with the debt paydown, some of your longer dated bonds have pretty pricey make whole provisions, so I'm just wondering if you're looking at that as a foregone cost to any transactions?

Jim Murren

We have anticipated what we're going to do in the debt markets with the debt and also friction costs that we gave you just now. And obviously, we'd be focusing on the near-term maturities where the premiums are lower.

Felicia Hendrix

Okay. so you would likely – so, because I think some people might assume that if there was another transaction that you were just kind of use all that to pay down debt. But again, you're getting into some of the longer dated stuff so maybe you might wait. Is that fair to assume?

Jim Murren

We're going to look at everything and I don't think it's prudent for us to lay out our strategy on the call.

Felicia Hendrix

Okay. Thank you. I appreciate that. And then just finally on Japan, I'm assuming that would not be – I mean that would be a JV, but that would not be asset light.

Jim Murren

Not initially, no.

Felicia Hendrix

Okay. Thank you.

Operator

The next question comes from Carlo Santarelli with Deutsche Bank. Please go ahead.

Carlo Santarelli

Hey, guys. Thank you. Corey, I know you talked about it a little bit just in terms of the$50 million. Is it fair to assume I think on the last call you guys talked about 60% in Vegas, 30% in the regionals and 10% at corporate. Is that kind of fair representation of the $50 million in the 3Q?

Jim Murren

Yeah, I think I would say regionals are probably about around 25%. You're going to end up getting about 5% that ends up at City Center. So, it's about 65% that actually impacts the Vegas market in total .

Carlo Santarelli

Okay. Got it. And then Jim on the last call, you talked a little bit about kind of this year and obviously I think at the time you were talking about a consensus number for the Strip, that was around $1.7 billion. You obviously called out some tailwinds, some things that are beneficial in the fourth quarter as well as kind of a continued well-articulated VIP or high end Far East play that's kind of been a little bit of a headwind. As we think about the near term 4Q and into 1Q are you still pretty comfortable with the overall outlook?

Jim Murren

We are. We are comfortable with the Las Vegas consensus. We have – the only thing to think about as hold as whole beyond our control. Year-to-date, we've had I think about less than a $15 million negative hold impact. But yes, we're comfortable where the street is. I think the street is around $1.7 billion Aaron?

Bill Hornbuckle

$1.7 billion, yes.

Jim Murren

Yeah.

Carlo Santarelli

And then…

Jim Murren

And the reason – just why we're comfortable with that, obviously, we're three quarters into it. We're in the fourth quarter we see what our business looks like in the fourth quarter. The convention and entertainment business is very solid this quarter. As just mentioned by Corey we're ramping up the MGM 2020 plan, so that – all that's within our control and that makes us comfortable that that will offset any ongoing weakness Far East play.

Carlo Santarelli

Great, that's helpful. And then just, I noticed in your presentation or I think in the release actually, there seems to be a change in the methodology of how you guys are adjusting for your hold levels. It seems like baccarat is an additional element and it looks like maybe that methodology was changed in the 1Q and to 2Q. Just holistically. could you kind of talk through what went into the thinking?

Jim Murren

Sure. As we look at our business and the mix of business between baccarat and non-baccarat, and also look at our competitors, we felt that there was a better way to look at it and we think our competitors probably look at it this way.

So, starting Q3, what we've done is we've broken out between baccarat and non-baccarat. The normal – the range in baccarat is 25% to 35% which is normalized in the midpoint there would be 30 and on non-bacc, we're about 19% to 23% with the normalized range being around 21%. And so in the past, we've just used a blended rate and compared or hold that way. We think is more consistent with our biggest competitors on the Strip.

Carlo Santarelli

Great. Thank you very much.

Jim Murren

Yeah, that's some good feedback we actually have gotten from a lot of you. So, that's why we made the move.

Carlo Santarelli

Yeah, for sure. Thank you, Jim. Thanks, Corey.

Jim Murren

Yeah.

Operator

Our next question is from Harry Curtis with Instinet. Please go ahead.

Harry Curtis

Hi, good afternoon. Wanted to start in Vegas. Going back to 2015, your Vegas margin was around 26% and after the implementation of PGP, you've got pretty close to a 500 basis point lift. And the question is, what's a reasonable expectation for MGM 2020? You're starting from a higher level and so, is it, is it, is it reasonable to think that you can at least get half of what you got from PGP and is it sustainable?

Jim Murren

Yeah, Harry I think to your point we are at the higher level, so getting that first 500 basis points was a lot easier comparison but what we do believe is that as I've – as I mentioned we're seeing about 31% at the core properties. Our goal and we believe based on our program that we should be able to get to that 32% and that's even with costs increase with the union and labor increases. So, we feel pretty comfortable with that number.

Harry Curtis

Very good.

Jim Murren

Yeah. And I think, I think maybe – Harry I just add to Corey's which is a lot of the investments we're making now are investments that we think are much higher margin investments than what we were able to achieve back 5 to 10 years ago, particularly around loyalty, digital marketing, technology.

So, as we move into this – the end state of asset light it's not just reducing our bricks and mortar intensity it's actually increasing our human capital our human bricks and mortar to drive what we believe to be accelerating revenue and higher margins.

So, it's not so much a PGP like plan which was a cost cutting plan at its core. This is an operating model change and a focus on investing where we believe we can increase the utility of the buildings that we operate and drive revenue and higher margins that way.

Harry Curtis

Very good. I wanted to ask Grant a question. You gained a reasonable amount of share, revenue share sequentially and I guess my question is particularly with the premium customer, what are the challenges of getting mass trial met premium mass trial?

Your run rate this year and in EBITDA is somewhere around $750 million between the two properties, which is about 25% below your target. So, walk me through how you overcome the challenges to get to that billion dollar target. Thanks.

Jim Murren

Thanks, Harry. Well, I think the first thing is we need to get everything up and running. The Mansion is now online and all the villas are now available; getting really positive responses for that. And as we've mentioned before, that's now allowed us to move into another segment that we've really not been able to penetrate. And the progress of adding value in that – to that segment is actually going well.

We're getting huge trial in excess of 20% of the business for the quarter, directly attributed to Mansion as new business, not seems like before. So, that's really the critical point for us. On that one Harry you've got to basically pitch it to every component.

In terms of the other areas we're also trying to balance it up about not getting our reinvestment right ahead of ourselves and that's something we're also very careful about. In terms of run rate though just to follow on from the comment, once you start getting the main summit it start to build and we're starting to see continued strength in that premium mass business coming into the fourth quarter.

There's still some on the business transitioning out of some VIP business to mass but that's really what we're focused on is making sure that the products right, we target ourselves but at the same time balancing up the reinvestment costs. But clearly, the one thing that would give us all a big lift would be some market growth. And that's what all of us are looking for at the moment.

So, the critical point to getting to that $1 billion number is it’s tied back, ultimately testing the market growth and I think we're all looking to see and once we get through these challenging few months now, that that sometime during the course of 2020, we're going to see some real growth back in the market.

Harry Curtis

Just a quick follow-up on that last sentence. Do you think that or do you think there's going to be or how much of a positive impact would you expect from the operation of the light rail and then the beginning of high speed rail expansion down to the Hanshin [ph] stuff?

Jim Murren

I think all of those things are incremental now, Harry. I don't think there's any one – I've said to a number of people that Macau was starting to become more of a mature market. Yes, we're still well underpenetrated in China and the market is still strong, but the characteristics about the single event having a significant impact, it’s just not there. And it's just a question of applying pressure to all of the levers all of the time, keeping our costs in control and making sure that we just take advantage of all the opportunities that arise.

Harry Curtis

Thanks, everyone. Appreciate it.

Operator

The next question will be from John DeCree with Union Gaming. Please go ahead.

John DeCree

Good afternoon, everyone. Thanks for taking my question. Jim, I wanted to go back to the real estate discussion a little bit since it's most popular today, and potentially a number of strip assets potentially coming on the market for sale, and you've just gone through two processes, potentially another one.

I was curious if you could talk a little bit about the type of demands for Las Vegas Strip assets that you're seeing in bound. I'm sure there was no lack of interest in the Bellagio and just wanted to get your thoughts on the number of interested parties.

And then the follow up would be, Blackstone obviously paying a full multiple for Bellagio but a long term partner if you could talk a little bit about some of the other deciding factors other than valuation that that maybe put you in Blackstone together?

Jim Murren

Sure. The two transactions we announced really had two different objectives but accomplish the same thing in terms of moving toward an asset light strategy. I'll take the smaller one first. Circus Circus as you know was part of the Mandalay Resort Group acquisition way back in 2005.

The property was performing extremely well and then the great recession hit and Circus struggled mightily. And we're immensely proud of the men and women there, many of them are there today that brought that property back to a very high level of performance but Circus was never going to be really strategic to MGM Resorts because it doesn't add a customer segment that we don't already adequately account for.

And so, the focus on that was to find a very good home for Circus Circus. And of course we have high degree of respect for to Mr. Ruffin. We transacted with them before. He lives here in town. He's invested in Las Vegas and he has some really exciting plans for Circus Circus. That was important to us because we were intending and will sell the entire enterprise including the land. And we do believe that the northern Strip has got a great future with the convention expansion, with Resorts World, hopefully the Drew and, of course, ideas that Mr. Ruffin has on Circus.

The Blackstone transaction was very different in the sense that we had never contemplated, we'd never contemplate in selling Bellagio outright. We didn't want to transact with the real estate. And by bringing the Real Estate Committee together and spending the time to really understand, not only what our tax basis was at this property, but what our legal options were and what a lease could look like and how we could minimize the friction costs, while still retaining some key decision rights.

We landed on this joint venture concept which, of course, is innovative, first of its kind, where we will retain a 5% equity ownership in the real estate of Bellagio, selling 95% of it to a subsidiary of Blackstone. Blackstone certainly was not the only counterparty we talked to. The net was pretty wide and it zeroed in to a half a dozen or so extremely well-known, very sophisticated, deep-pocketed real estate owners.

But we concluded that the best course of action was to focus on Blackstone to try to get the most precise execution. I think we've done that. We took the time also to create a blueprint for other transactions. And that is having the predicted outcome which is companies like Blackstone and Blackstone themselves continued to be interested in Las Vegas real estate, but really only on quality Las Vegas real estate. And of course we own most of the quality Las Vegas real estate including MGM Grand Las Vegas.

So, one, the blue print we're proud of it, and we think it can be adapted. Secondly, there are a number of counterparties that would be interested. We've done a lot of work already. And by taking our time we've also benefited from increasingly low interest rates which has – and high access to capital markets which also increases valuation.

So we are not interested at this point in time and acquiring assets. We're not looking to acquire any other – anyone else's assets. We're looking to monetize the assets that we own either jointly or in whole. And I think that the blueprint is now well established and you're going to see us use that blueprint in a relatively deliberate, prompt fashion on MGM and perhaps other assets.

John DeCree

Thanks, Jim. I think that answers all my questions. Appreciate it.

Operator

Next question will be from David Katz with Jefferies. Please go ahead.

David Katz

Hi. Good evening and thanks for taking my question. Just thinking about the MGP stake, my question and follow-up is, is there a path to lowering MGM's stake in that other than MGP going out and buying something and using the capital markets to raise equity?

And then if that were to occur what does – well, obviously that triggers a number of different things within the MGM model. And I think Felicia was getting at this earlier. Paint us a picture of what that looks like. Should you get below – I think Corey you said 30% where it would be a deconsolidated entity and what is the balance sheet look like then?

Jim Murren

Well, I'll tackle the first part and kind of – the second answer is to be determined. I don't think we have enough inputs that we are prepared to share to give you a kind of satisfying answer to that unless Corey has a better answer than what I just gave.

I think the important point to make there is that we will own less of MGP because we see – what's on the horizon for MGP and the pipeline of transactions that we know they're looking at that could be done productively and accretively for MGP, which would we believe and only would be done if we believe this would be well received by the markets and therefore be able to access the capital markets, so we will reduce our stake. That's, that's a very clear scenario we foresee.

In terms of other ways of reducing our stake in MGP, there are other ways but our focus right now is on what we've talked about, monetization of the real state of MGM, monetization of our other jointly owned real estate, executing on the Blackstone transaction, which who knows could lead to other transactions with that entity or other entities like Blackstone, executing on the Circus Circus transaction, and MGP whether or not they participate in MGM Grand which is entirely possible, in fact more than likely, would therefore be a part of our reduction of our equity ownership of MGP. But I don't think we're prepared to give an end state to what our balance sheet or theirs would look like on a post deconsolidated basis.

Bill Hornbuckle

What I would say obviously is if they're not consolidated with us, there they have the highest rate leverage ratio right now and obviously given our one times US operation and where we are in China, we would expect our balance sheet leverage to go down even further.

Jim Murren

Even with -- sorry, go ahead.

David Katz

Even, I mean I think part of what where Felicia was headed was you would consolidate the MGP debt, but you would then be replacing it in some sense with a lease obligation now that MGP is deconsolidated and all likelihood potentially right.

Jim Murren

Yes, yes. And think about it kind of simply we'll reduce, we're eliminating near-term maturities, bank debt bonds and replacing it with long-term low cost capital in the form of leases. Just, if we did nothing else but that seems to be a very smart financial strategy given the stage of the economy that we're in right now.

But by reducing our financial leverage and focusing on consolidated leverage and lease adjusted leverage which we've talked about all three, we believe we're strengthening the company's balance sheet and actually redeploying capital in a better return fashion.

David Katz

Got it. Thank you very much I appreciate it.

Jim Murren

Okay. I think that seeing the time is a bit past, I want to just sum up by saying thank you for being on the call. We had a satisfying third quarter. As I said it's in line with our expectations. Our convention business, a key driver of the health of Las Vegas was strong in the third quarter will be strong for us in the fourth quarter and into next year.

We've made great progress on MGM 2020. We're proud of Grant and the team's stronger ramp in Cotai. And we're delivering on our operating targets. We have a positive outlook for the current quarter. We're on track to hit the 2020 targets that we've mentioned for EBITDA, free cash flow per share and leverage.

We're also delivering on our financial targets. We continue make excellent progress on our real estate. We know the positive impact they will have on our balance sheet, our free cash flow per share and our ability to execute on our targeted growth initiatives. And with that I want to thank you for dialing in and as always we'll be around for questions. Thank you.

Operator

Thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.