Strategic Report for

Las Vegas Sands Corporation

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Executive Summary

The Las Vegas Sands Corporation ("LVS") is arguably the world's premier casino-resort operator. With operations in Las Vegas, Macau, Pennsylvania, and a development in Singapore opening in April 2010, LVS has a global presence. It has an industry-leading USD 15.9 billion market cap (as of April 9, 2010) and achieved four percent revenue growth in 2009.

However, LVS has faced significant financial challenges since the economic recession began in the fourth quarter of 2008. At risk of breaking the maximum leverage ratios on its credit facilities, LVS was forced to suspend all of its development projects in November 2008. Many analysts were concerned that LVS had overextended its developmental plans, particularly in Macau, since LVS had approximately USD 10 billion in debt.

After a year of fundraising activity, in November 2009, LVS had the requisite equity and debt financing to recommence several of its development projects. Although a number of projects continue to be suspended, LVS is operating under the presumption that by completing its projects with the highest estimated return on investment, it will generate enough revenue to pay down some of its debts and obtain sufficient funding to continue its developmental pipeline.

While LVS is currently in the midst of recovering from the worst two-year performance in company history in terms of net income, it is also positioned to return to profitable operations with its strong Asian development pipeline. Whether LVS becomes a truly dominant force in the casino-resort industry is dependent on the success of its recommenced development plans in Macau and Singapore, along with the continued recovery of the worldwide economy.

VSG believes that LVS' principal problem is its large amount of long-term debt. Increasing LVS' liquidity and solvency in the short- and long-term is of the utmost importance. With that in mind, VSG highlights five strategic recommendations to LVS in this report:

1) It is essential that LVS do everything in its power to complete its current development pipeline on schedule and on budget.
2) LVS should continue and expand various cost-cutting measures it began in 2009.
3) VSG believes that LVS has the ability to sell its Four Season Macao apart-hotel within the next year, and its two Macau retail malls within the next two to three years. Selling these assets would raise capital that could be used either to pay down debt or to fund future development projects.
4) On April 7, 2010, LVS acquired a table games operations license for its Sands Bethlehem Casino in Pennsylvania. It is imperative that LVS installs table games in the Sands Bethlehem as soon as possible.
5) LVS should continue to lean on its ability to negotiate with government officials in order to achieve greater financial flexibility in some of its agreements in Macau.

We at VSG believe these recommendations are in line with LVS' overall strategic goals, and would greatly enhance its likelihood of completing its developmental projects and returning to profitability. It is important to note, however, that *this report is only current as of April 9, 2010*. Industrial and economic circumstances fluctuate daily, and LVS' optimal strategies are subject to change along with those circumstances. Vector Strategy Group looks forward to the opportunity to continue to provide support to the Las Vegas Sands Corporation as it opens the Marina Bay Sands and moves forward with its Macau projects.

Company Overview

History

The Sands

The Las Vegas Sands Corporation originated from the Sands Hotel & Casino ("the Sands"), which was one of the earliest casino-hotels on the Las Vegas Strip. The Sands opened in 1952 with a casino and approximately 100 hotel rooms. It was purchased a decade later by reclusive millionaire Howard Hughes, who added a 500-room tower.[i] In its prime, the Sands played host to a multitude of performers and entertainers, including Louis Armstrong, Nat King Cole, Johnny Mathis, and Frank Sinatra & the famed "Rat Pack". Many American presidents, including Truman and Kennedy, were known to have stayed at the Sands during their trips to Las Vegas, giving the casino even greater prominence. As time passed, the Vegas landscape began to change. Each new hotel-casino was larger and more opulent than its predecessor. The Sands struggled due to this new competition and was purchased in 1988 by a group of investors led by Sheldon Adelson.

New Ownership

Adelson and other partners had previously founded COMDEX, a Las Vegas computer trade show, which was the premier computer trade show in the 1980's and 1990's.[ii] Adelson knew that his convention attendees frequently encountered difficulties finding accommodations due to the Vegas hotel-casinos' preference for providing rooms to gamblers rather than convention-goers. With his partners, Adelson created Las Vegas Sands Inc. ("LVSI") for the purpose of buying and running the Sands, and thereby provided a much-needed supply of hotel rooms to meet the demands of conventioneers.

To succeed with this strategy, LVSI built the Sands Expo Convention Center in 1990, directly across the street from the Sands hotel. The 1.15 million square foot Expo Center is the largest privately owned and operated exhibit and convention facility of its kind in the United States, and the second largest convention center in Vegas. It has given the Las Vegas Sands Corporation a steady revenue stream from its conventions and exhibitions, as Las Vegas has become the convention capital of the United States.

Figure 1: Number of Large Tradeshows in Top U.S. Cities

City	2006	2007	2008	2009	CAGR
Atlanta	112	98	97	88	-7.7%
Chicago	150	117	122	118	-7.7%
Dallas	84	76	72	80	-1.6%
Las Vegas	250	248	252	232	-2.5%
New York	145	121	127	116	-7.2%
Orlando	100	108	100	100	0.0%
Toronto	136	131	120	116	-5.2%
Total	**1,070**	**992**	**983**	**943**	**-4.1%**

Source: Barclays Capital

In 1995, Adelson and his partners sold the Interface Group Show Division, which included the COMDEX shows, to a Japanese company for USD 862 million.[iii] Adelson used his share from the sale to buy out his partner's shares and become sole owner of Las Vegas Sands Inc. As owner, Adelson's first initiative was to tear down the Sands hotel-casino and replace it with the USD 1.5 billion Venetian Resort Hotel Casino. As part of this construction, The Venetian was connected directly to the Sands Expo and Convention Center. The Venetian opened in May 1999 and has since drastically changed the expectations of what a Vegas hotel-casino should provide, with services such as celebrity chef restaurants, world-class entertainment, all-suite accommodations, expansive shopping, a spa, and fitness facilities. It has won numerous awards naming it one of the finest hotels in the world.

Asian Expansion

Having witnessed the success of the resort-casino combination with the opening of The Venetian Las Vegas, Adelson set his sights on expansion, particularly in Macau, China. As the only province in China to offer legalized gambling, Macau had the potential to become Asia's version of Las Vegas. Historically, Macau's gambling industry had been under a forty-year monopoly by Hong Kong-based Sociedade de Jogos de Macau S.A. (“SJM”), but the Macau government ruled in 2002 to open up the market to new competition by issuing three new gambling concessions, along with three subconcessions.

During 2002, the Macau government gave the three gaming concessions to SJM, Galaxy Casino Company Limited (“Galaxy”), and Wynn Resorts. In December 2002, LVSI’s Chinese subsidiary, Sands China Limited, contracted a subconcession agreement with Galaxy and the Macau government to operate various casino projects in Macau. Importantly, the agreement stipulated that LVSI could do so independently of Galaxy. Under this subconcession, LVSI opened the Las Vegas-style Sands Macao Casino in May 2004. The Sands Macao is situated near the Macau-Hong Kong Ferry Terminal and has 229,000 square feet of gaming space including 420 table games and 1,170 slots. It also has a 289-suite hotel. Demonstrating the enormous potential of developing Asian markets, the Sands Macao paid for itself within ten months of operations.[iv]

Just before the opening of the Sands Macao, in April 2004, LVSI sold The Grand Canal Shoppes at The Venetian Las Vegas to real estate developer General Growth Properties (“GGP”) for USD 766 million. Adelson, as Chairman and CEO of LVSI and later the Las Vegas Sands Corporation, has strategically sold or attempted to sell various “non-core” assets throughout his term. Non-core, in this case, refers to assets not related to the casino or hotel aspects of the business. Proceeds are used towards future casino-resort developments or to pay off debt accumulated in past development. At the same time LVSI sold its Venetian retail mall, it also contracted to sell its Shoppes at the Palazzo (which were then under construction) to GGP upon completion.

Initial Public Offering

In August 2004, the Las Vegas Sands Corporation ("LVS") was incorporated and thereafter purchased all capital stock in LVSI. On December 20, 2004, LVS held its initial public offering, generating proceeds of approximately USD 690 million, the largest ever IPO by a U.S. gaming company.[v] Listed under the symbol "LVS", the Las Vegas Sands Corporation is traded on the New York Stock Exchange. With the proceeds from its IPO, LVS continued expansion in multiple markets, including Las Vegas, Macau, Singapore, and Pennsylvania.

In August 2007, LVS expanded its presence in Macau by opening The Venetian Macao, an anchor property at the corner of the Cotai Strip. Cotai is an area of the land between the islands of Taipei and Coloane in Macau. The "Cotai Strip" encompasses the extensive casino and tourism projects within the Cotai District, the idea of which began with Adelson. The Venetian Macao, a complex combining hotel, convention center, and casino (and being themed similarly to The Venetian Las Vegas), provides 550,000 square feet of gaming space with 620 table games and 2,130 slot machines.

Along with its Asian developments, LVS also expanded its property in Las Vegas by opening The Palazzo in December 2007. The Palazzo is located adjacent to The Venetian Las Vegas; its modern European theme complements the Venetian's Renaissance theme. The Palazzo is connected to The Venetian and The Sands Expo, which raised LVS' Las Vegas property to 7,100 hotel suites and 225,000 square feet of gaming space. Following the opening of The Palazzo, LVS sold The Shoppes at The Palazzo to GGP for an initial purchase price payment of USD 290.8 million plus scheduled payments determined by The Shoppes' net operating income for months nineteen through thirty of its operations.

Back in China, in August 2008, LVS opened The Four Seasons Macao, a second Cotai Strip property adjacent to The Venetian Macao. The Four Seasons Macao comprises 360 suites managed by Four Seasons Hotels Inc., along with 70,000 square feet of gaming space containing 120 table games and 200 slot machines.

Moreover, LVS is currently in the process of completing construction of The Four Seasons Apartments Macao, an apartment-hotel serviced by Four Seasons Inc.

Lastly, in May 2009, LVS opened The Sands Casino Resort Bethlehem, located in Bethlehem, Pennsylvania. The Sands Bethlehem was a venture meant to make LVS more competitive in the Northeast U.S. by taking advantage of the legalization of gambling in Pennsylvania, which is a closer drive from New York City than the casinos in Atlantic City, New Jersey.

Recession

As would be expected, the casino-resort industry was hard hit by the 2008 worldwide recession and LVS was no exception. From February 2008 to February 2009, LVS' stock price plummeted from USD 84 to just over USD 2, recovering to USD 20 in March 2010. With large amounts of debt and very little capital, LVS was forced to suspend all development projects in November 2008.

As a result of the 2009 recession, LVS' Chinese subsidiary, Sands China Limited, undertook an IPO on the Hong Kong Stock Exchange in November 2009. LVS sold 29.7 percent of its stake in Sands China, raising USD 2.5 billion.[vi] This IPO, along with other fundraising activities, netted LVS USD 5.5 billion in equity financing and USD 1.75 billion in debt project financing, all of which was sorely needed due to the large debt that had accumulated throughout LVS' massive developmental projects.

With this new capital, LVS paid down debt and also recommenced construction on two important projects in November 2009: the Marina Bay Sands Casino Resort ("MBS") in Singapore, and Parcels 5 and 6 on the Cotai Strip. MBS, scheduled to open in late April 2010, will be one of two casinos in Singapore, and will have 2,600 hotel rooms along with over two million square feet of convention, retail, and casino space. Parcels 5 and 6, expected to open in June 2011, are planned to have 6,000 hotel rooms, 300,000 square feet of gaming space, and 1.2 million square feet of retail, entertainment, dining, exhibition, and conference facilities.

On April 7, 2010, LVS received approval from the Pennsylvania Gaming Control Board on its application to install table games in The Sands Bethlehem. Immediately following the approval, LVS announced plans to install 89 tables in the casino by July 2010. Furthermore, LVS is recommencing construction on the property's 300-room hotel tower, construction of which had been suspended since November 2008.[vii]

Even with this added capital, however, LVS still has multiple suspended development projects. These include its St. Regis Condominium tower in Las Vegas, Parcels 3, 7, and 8 in Macau, and the retail components of Sands Bethlehem. There is currently no scheduled date to recommence construction of these projects.

Business Model

Since being purchased by CEO Adelson, LVS has evolved from a casino-hotel to a convention friendly casino-resort corporation. The principal causes of this transformation have been Adelson's two innovative strategic decisions to make LVS more competitive in the casino industry. First, he catered to conventioneers rather than shunned them. By employing a strategy now referred to as MICE (Meetings, Incentives, Conventions, and Exhibitions), Adelson helped transform Las Vegas from a "gaming-centric regional location into an international business and leisure destination.[ii]" The principal goal of the MICE strategy is to maintain mid-week demand at the hotel by drawing guests from attendees and exhibitors at the casino-hotel's convention and meeting room complex, while continuing to derive weekend demand from gamblers and vacationers. This strategy has improved LVS' margins while simultaneously turning Las Vegas into a global business center and tourist destination.

Secondly, with the completion of The Venetian Las Vegas in 1999, LVS entered unchartered waters by creating the first modern casino-resort. Using this new integrated casino-resort model, room revenues and retail sales served to bolster casino operations margins. In diversifying its assets and products to include more than a casino and hotel, LVS has opened itself up to new revenue streams and become a popular destination for a variety of different customers. Combining MICE and the integrated-resort strategy has allowed LVS to turn itself into the global casino-resort company it is today.

Competitive Analysis

Overview

LVS operates in the highly competitive casinos and gambling industry under SIC code 7011 – Hotels and Motels and NAICS code 721120 – Casino hotels.[viii] Primary competitive forces include:

- Neighboring casino-resorts (e.g., MGM Mirage properties on the Las Vegas Strip, Genting's Resorts World Sentosa in Singapore, and SJM's Oceanus in Macau);
- Casino-resorts in separate geographic locations (e.g., Atlantic City, NJ; Reno and Lake Tahoe, NV; Malaysia's Genting Highlands; and gaming venues in Australia and New Zealand);
- Native American tribal casinos in the United States;
- Online gambling (e.g., poker); and
- State lotteries.

The casino-resort industry is extremely competitive and highly regulated. To pinpoint LVS' largest strategic problems – and find solutions to those problems – it is first imperative to carefully assess the complex landscape of the casino-resort industry as it pertains to Porter's Five Forces.

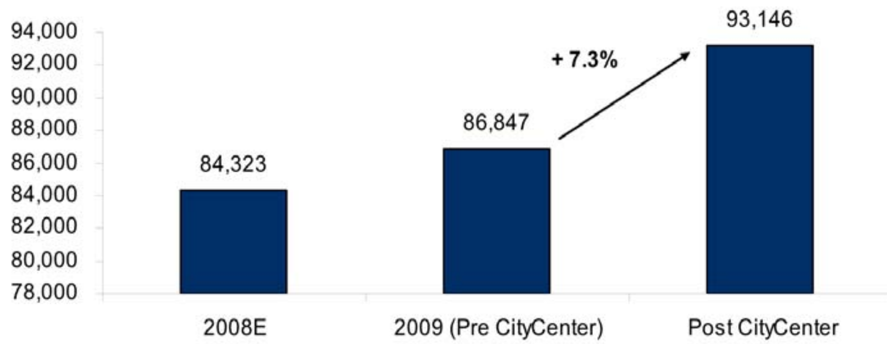
Porter's Five Forces

Force	Strategic Significance
Internal Rivalry	**High**
Entry and Exit	**High**
Supplier Power	**Low**
Buyer Power	**Moderate**
Substitutes & Complements	**Moderate**

Internal Rivalry

In Las Vegas, the casino-resort market has become hyper-competitive, especially since all of the hotel-casinos rely heavily on room revenues and convention guests. Currently, the supply of hotel rooms far outweighs the demand for them, pushing room rates down to unprofitable levels. This is illustrated by the 4.5 percent decline in occupancy rates and the 22 percent decline in room rates in 2009 Year Over Year (“YOY”).[ix] The December 2009 opening of MGM Mirage’s CityCenter, which has approximately 5,000 rooms, put additional downward pressure on LVS’ Revenue Per Available Room (“RevPAR”). Continued proliferation of capacity in this market would be detrimental to LVS.

Figure 2: Las Vegas Room Capacity



Source: Barclays Capital

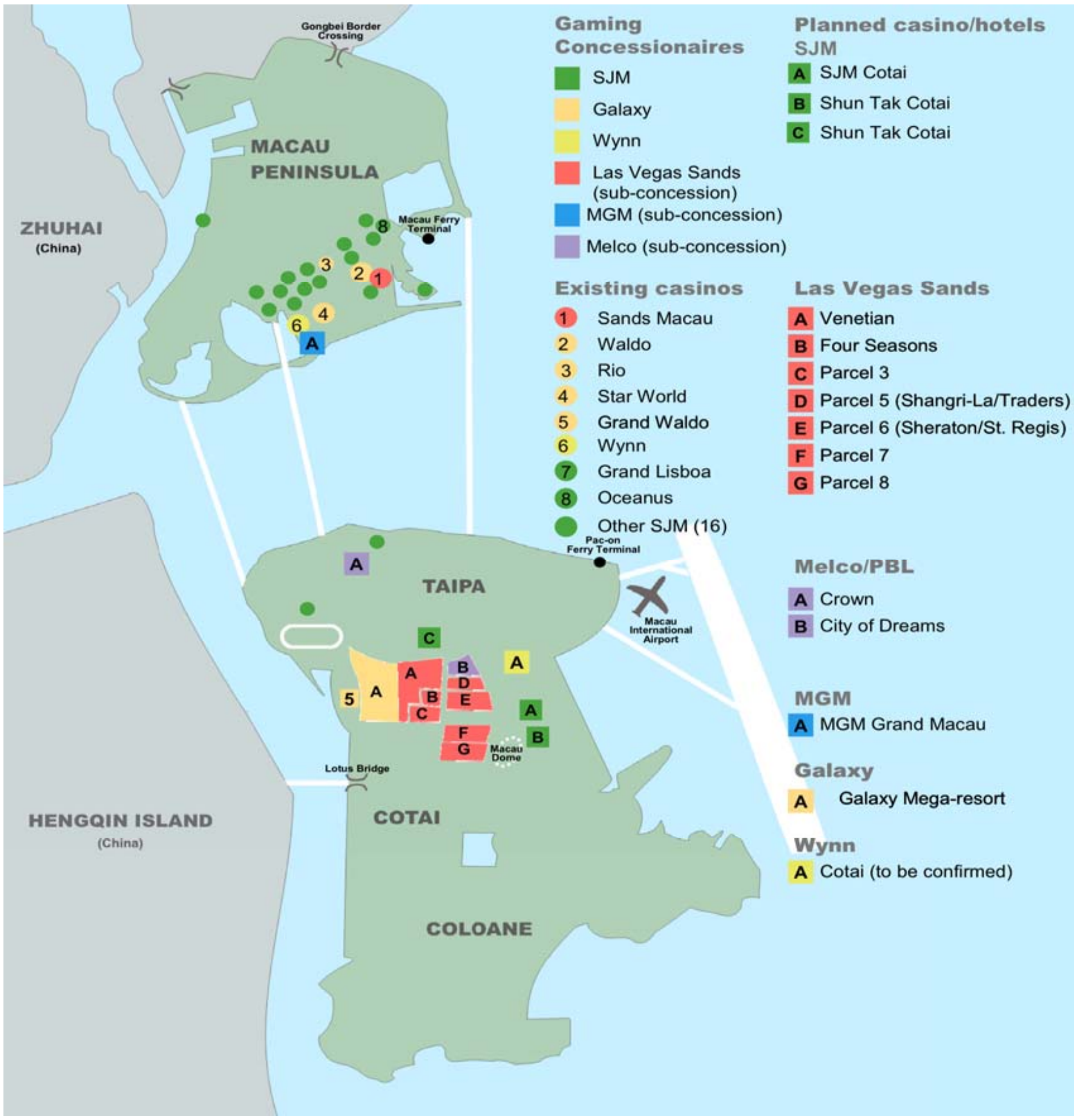
Sands Bethlehem is competing indirectly with Atlantic City for the New York City consumer base. With the recent approval to operate table games in the casino, and subsequent announcement that 89 tables would be installed by 3Q2010, Sands Bethlehem will soon offer the same gambling experience as Atlantic City at two-thirds the distance from New York City.

Figure 3: Geographic Location of Bethlehem in Relation to NYC

Source: Barclays Capital

Macau represents LVS' largest and fastest growing revenue source. Gaming revenues for 2009 in Macau were estimated to be USD 14.9 billion, a 9.7 percent increase over 2008. This growth has continued into 2010, as the all time record for monthly gaming revenues in Macau was set in January 2010 at USD 1.73 billion, up 65 percent from January 2009.[x] Competition is more limited in Macau than in Las Vegas due to only six firms having concessions or sub-concessions to operate. Combined with the developing nature of the market, Macau has become an increasingly lucrative market for the casino companies with gaming licenses there. As of January 2010, LVS had 22 percent market share in Macau, second to SJM, which had 30 percent market share.[x] Given its strong development pipelines, namely Parcels 5 and 6 of the Cotai Strip, LVS should succeed in increasing its Macau revenues.

Figure 4: Map of Macau



Source: Barclays Capital

Lastly, the Marina Bay Sands in Singapore, which LVS expects to open in April 2010, faces a duopoly structure with Genting's Resorts World Sentosa, a casino-resort that also includes a Universal Studios theme park. As the only two casinos licensed to operate in Singapore, both firms are in a position to capture in excess of 50 percent market share depending on the outcome of three significant factors.

First of all, Genting has a first-mover advantage, as its casino-resort opened in February 2010. This advantage lies most in the domestic consumer base, as local patrons have to pay an approximately USD 1,400 annual membership fee for access to one casino.[xi,1] If local patrons are unwilling to pay for membership at both casinos, or if patrons in general become attached to the Genting brand, the first-mover advantage will be reflected in market share.

LVS, on the other hand, has an advantage in VIP-gaming capacity and experience. LVS' Macau VIP-gaming volume has been over ten times larger than its mass table gaming in that market. If the Singapore market exhibits similar characteristics, LVS will have a distinct advantage given its prior experience. Furthermore, LVS may have an advantage in the mass market because its MICE business strategy has more synergies with gaming spend than does Genting's theme park family attraction due to the fact that MICE attracts mostly businesspeople and other adults who are more likely to gamble than are families visiting a theme park.

Figure 5: Singapore Casino Developments

	Marina Bay Sands	Resorts World at Sentosa
First Phase Opening Date	Late 1Q2010	Early 1Q2010
All-in Cost ($MM)	$6,170	$4,775
Total Gaming Facility (sf)	161,459	161,459
Hotel Rooms	2,550 (three towers)	1,800 (six hotels)
MICE (sf)	1,320,000	650,000
Total Retail (sf)	700,000	FestiveWalk (retail, dining)
Entertainment	Theaters (4,000 seats)	Universal Studios
	Outdoor Event Plaza (10,000 seats)	Marine Life Park
	Waterfront Promenade	Maritime Museum
	Watefront Museum	Water Park
	Skypark	

Source: Barclays Capital

[1] This annual membership fee has been imposed due to the Singapore government's desire that its own citizens do not gamble at these new casinos. The Singapore government prefers that the gaming revenues come from foreign travelers and businesspeople. This was a major topic when the Singapore government was considering passing the gaming legislation.

Entry and Exit

Entry and exit forces are probably the most restricting aspects of the competitive landscape in the casino-resort industry. The casino-resort industry is highly regulated and highly taxed. Government officials play a crucial role in the success or failure of casino-resorts. It is impossible to enter the industry without a gaming license and, in some cases, a land concession. For LVS' U.S. operations, Nevada and Pennsylvania each has a gaming control board, which has the power to give out and take away gaming licenses. For example, Pennsylvania gave two category 2 “at large” gaming licenses in December 2006, one of which was utilized by LVS to build The Sands Bethlehem casino.[2] The decision by the Pennsylvania Gaming Control Board (PaGCB) to approve LVS' table gaming operation certificate will have a huge effect on LVS' competitiveness in the East Coast market, and enables LVS to complete the 300-room hotel tower in the Sands Bethlehem complex due to the anticipated increase in Sands Bethlehem casino revenues. The hotel is expected to open in May 2011.[vii]

In Macau, entry has been restricted since 2002, when the government issued gaming concessions to three separate firms: SJM, Galaxy Casino Company, and Wynn Resorts. Each of those three firms was allowed to enter into a subconcession agreement with another firm. A firm with a subconcession approved by the Macau government is entitled to develop and operate certain casino projects in Macau separately from the concessionaire. The three subconcessions were given by SJM to MGM Mirage, Galaxy to LVS, and Wynn to Publishing and Broadcasting Limited. The Macau government agreed not to give any more gaming concessions until April 1, 2009, and has yet to award another concession since the deadline passed. Once given the subconcession, LVS still had to receive a land concession in order to build a casino-resort. In other words, the land on which LVS builds its casinos is leased from the Macau government. Furthermore, the Macau government has control over market entry not only through its gaming licenses and land concessions, but also because it has

[2] Category 2 “at-large” licenses allow for up to 3,000 slot machines on the casino floor.

reserved the power to restrict the number of visas issued for travel to Macau. In effect, it can control the demand for casino-resorts, which can affect the willingness of firms to enter that market.

Lastly, the Singapore government restricted entry to two firms: LVS and Genting. It rewarded each firm a gambling license in 2006 and agreed not to issue another gambling license for at least ten years, in effect creating a relatively noncompetitive duopoly market.[iv]

Aside from government restrictions, high fixed costs are a significant barrier to entry and exit. Most new casino-resorts cost multiple billion dollars to build and open. A very large amount of capital is needed to achieve financing for a casino-resort development. Likewise, to exit the market, there is a large fixed cost in closing down the casino-resort. Finding a buyer is not easy when trying to sell an investment of such magnitude.

However, LVS appears to have successfully navigated most of these barriers to entry and should not encounter too much trouble moving forward. LVS has all the gaming licenses it needs for the immediate future and now has the financial flexibility to overcome the high fixed costs associated with multiple of its development projects. Furthermore, LVS has no stated or implied intention to exit any of its current markets.

Supplier Power

Suppliers in the casino-resort industry have extremely limited power, as they reside in a highly competitive market place in which price is determined by supply and demand. Obtaining supplies such as betting chips, game tables, slot machines, and furniture for the casinos are relatively simple and inexpensive aspects of LVS' business model. Other furnishings and general supplies for the hotels, bars, restaurants, etc. within the resorts also come from competitive markets with an abundance of suppliers.

The principal suppliers in the casino-resort industry are suppliers of land on which to build the casino and gaming licenses with which to operate the casino. Usually, the license suppliers are government officials, such as a state gaming control board. Also, certain governments sometimes control the land. For a detailed explanation of the role of governments in the operations of LVS, please refer to the “Entry and Exit” section.

Buyer Power

As evidenced by the Las Vegas market, buyers have some power in the casino-resort industry and are capable of exerting downward pressure on room rates. Furthermore, buyer preferences are considered in determining attractions and other amenities, such as entertainment shows and restaurants. Every casino-resort company is constantly trying to out-do its competitors with new developments and offerings. For instance, the Marina Bay Sands is the most expensive stand-alone integrated resort property ever built at USD 5.5 billion. When LVS built The Venetian in 1999, it was at that time the most extravagant casino-resort in the world. Every firm in the industry is in a continual battle to provide the most lavish experience to its customers.

As far as gaming is concerned, there is little to no buyer power. No buyer has ever succeeded in using buying power to win more frequently or change the odds. Some VIP customers have power in the sense that LVS will fly them to one of its casinos and extend them lines of credit, but this practice is utilized more so because of its historical profitability. Consumer preferences are taken into account when choosing types of slot machines and table games on the casino floor, but the reason for doing so is less about appeasing customers as it is about taking their money. Overall, buyers mainly have power in the determination of room rates.

Substitutes and Complements

Substitutes for casino-resorts include online gambling, state lotteries, and smaller Native American casinos. Another group of substitutes are the tropical resort destinations without casinos, since many people go to LVS' casino-resorts simply for the resort atmosphere. More substitutes to casino-resorts could emerge as states and countries continue to legalize different types of gambling. Depending on the world economy, consumers may or may not be more willing in the future to pay to travel to a LVS casino-resort over one of its less extravagant, less expensive substitutes.

Many complements to casino-resorts are related to infrastructure. The general design of the Las Vegas Strip – meaning the themed casino-resorts, retail malls, restaurants, clubs, and entertainment attractions – is a complement because it is a huge tourist draw, resulting in higher demand for rooms. Conventions, sporting events, and concerts all are complements to the resort-casino industry, as well, because they increase the demand for hotels in specific areas and result in a higher concentration of potential gambling customers.

In Macau, there are multiple complementary infrastructure-related projects currently underway that would positively affect LVS. First of all, the Macau government is working to make infrastructure improvements at the Macau-Gongbei Border Crossing (which handles 73 percent of the crossings into and out of Macau), which would result in an increased capacity of 35.6 million arrivals per year.[iv] Also, construction plans are underway for a bridge linking Hong Kong, Macau, and Zhuhai with an expected completion date between 2015 and 2016. Please refer to Figure 6 for a detailed list of further infrastructure projects in Macau. Any of these projects would greatly enhance the Macau consumer base by allowing for easier and quicker transportation to the Macau region.

Figure 6: Announced Macau Infrastructure Enhancements

Infrastructure Improvement	Timing	Comments
Gongbei Border Crossing Expansion	Late 2009/Early 2010	Increasing capacity to 500,000 movements/day from 300,000
Pearl River Delta High Speed Railway	Target: November 2010	Connects to Gongbei; limits travel within Macau's mainland target base to less than one hour
Macau Light Rail	Target: 2011	Links ferry terminals to key locations via 12 stops on the Macau peninsula and 11 stops on Cotai
New Taipa Ferry Terminal (Pac-On)	2012	Sixteen 400 passenger berths, three 1,200 passengers berths, heliport
Guangzhoa/Zhuhai Super Highway	Target: 2015	Connects to under-utilized Checkpoint of Cotai
Hong Kong-Zhuhai-Macau Bridge	Target: 2015-2016	Links Hong Kong's Lantau Island to Zhuhai via Macau; reduces travel time by car from central Hong Kong to Macau from 4.5 hours to only 40 minutes (Hong Kong to Macau via ferry is an hour)

Source: Barclays Capital

Financial Analysis

Overview

Although it was hit extremely hard by the recession, LVS is now in a position of relative strength in the casino industry. Through multiple financing activities that included selling equity in November 2008, modifying its Macau credit facility in August 2009, and completing an IPO of 29.7 percent of Sands China Limited on the Hong Kong Stock Exchange in November 2009, LVS now has approximately USD 5.5 billion in equity financing and USD 1.75 billion in debt project financing. These new funds will allow LVS to recommence those of its development projects with the highest estimated rates of return while continuing to meet its credit covenants. These include the Marina Bay Sands in Singapore as well as Parcels 5 and 6 in Macau. Furthermore, with its newly approved table gaming operations certificate in Pennsylvania, Sands Bethlehem is now expected to generate enough revenues to merit the recommencement of construction on that property's hotel tower.[vii]

This improvement was reflected in LVS' 4Q2009 report. Specifically, LVS achieved record revenues of USD 1.28 billion in the fourth quarter, up 17.5 percent YOY. Adjusted property EBITDAR, which is used by company management as the primary measure of the operating performance of LVS' segments, was up 25.5 percent YOY from 4Q2008 to USD 306.2 million.[3] Operating income was back in the black at USD 43.9 million for the quarter, up USD 78.3 million YOY. Finally, net loss attributable to shareholders shrunk by 16.5 percent YOY down to USD 113.9 million. LVS management attributed this

[3] Adjusted property EBITDAR is defined by LVS management as: "net loss attributable to Las Vegas Sands Corp. before interest, income taxes, depreciation and amortization, pre-opening expense, development expense, other income (expense), loss on modification or early retirement of debt, impairment loss, loss on disposal of assets, rental expense, corporate expense, stock-based compensation expense and net loss attributable to noncontrolling interests.[ix]"

relative success in 4Q2009 to healthy gaming volumes and the realization of over USD 500 million in cost savings.[ix]

Profitability

Despite the optimism from its fourth quarter results, LVS was highly unprofitable for the 2009 fiscal year. Operating income was USD -28.74 million and net income was USD -368.74 million. Much of this loss was due to the general economic conditions accompanying the recession, which affected the discretionary spending of consumers on leisure activities. This effect was seen most prominently in Las Vegas, where casino revenues fell 9.4 percent. Three other contributing factors to the negative profitability were a USD 42.5 million legal settlement paid by LVS in June 2009, a USD 94 million reduction in the expected proceeds from the sale of The Shoppes at The Palazzo due to GGP's Chapter 11 filing, and a USD 322 million interest expense.[4,ix] Most of the interest cost is related to the approximately USD 11 billion of long-term debt outstanding on the part of LVS.

Figure 7: LVS Profitability

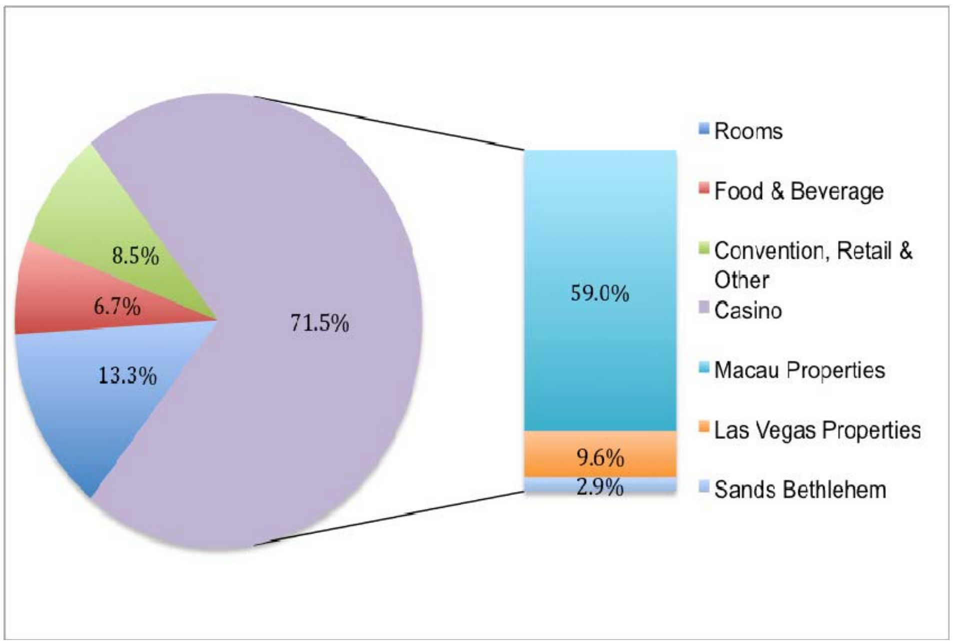
($ Millions)	2006	2007	2008	2009
Revenues	2,236.90	2,950.60	4,390.00	4,563.10
Growth		*32%*	*49%*	*4%*
Operating Income	574.1	330	163.7	(28.7)
Growth		*-43%*	*-50%*	*-117%*
Net Income	442	116.7	(163.6)	(540.1)
Growth		*-74%*	*-240%*	*-230%*

Source: Morningstar

[4] The legal settlement was for a suit in which LVS was accused of breaching an agreement to pay "a success fee in an amount equal to 5 percent of the ownership interest in the entity that owns and operates the Macau gaming subconcession as well as other related claims.[ix]" The suit was settled on June 3, 2009, and LVS does not expect to incur any further charges in connection with the matter.

With that said, LVS achieved record revenues of USD 4.56 billion for its 2009 fiscal year, up 3.9 percent from 2008. This gain was due mostly to the 10.4 percent increase in casino revenues of USD 3.52 billion. Casino revenues increased largely because of a full year of operations of Four Seasons Macao, which opened in August 2008, and the opening of Sands Bethlehem in May 2009. Gaming revenues in LVS' Macau properties represented approximately 83 percent of total gaming revenues and nearly 60 percent of total net revenues. This illustrates the significance of Asian expansion for LVS' profitability. The opening of Marina Bay Sands in Singapore, along with the completion of Parcels 5 and 6 on the Cotai Strip in Macau, contain enormous potential and likely hold the key for a return to profitability.

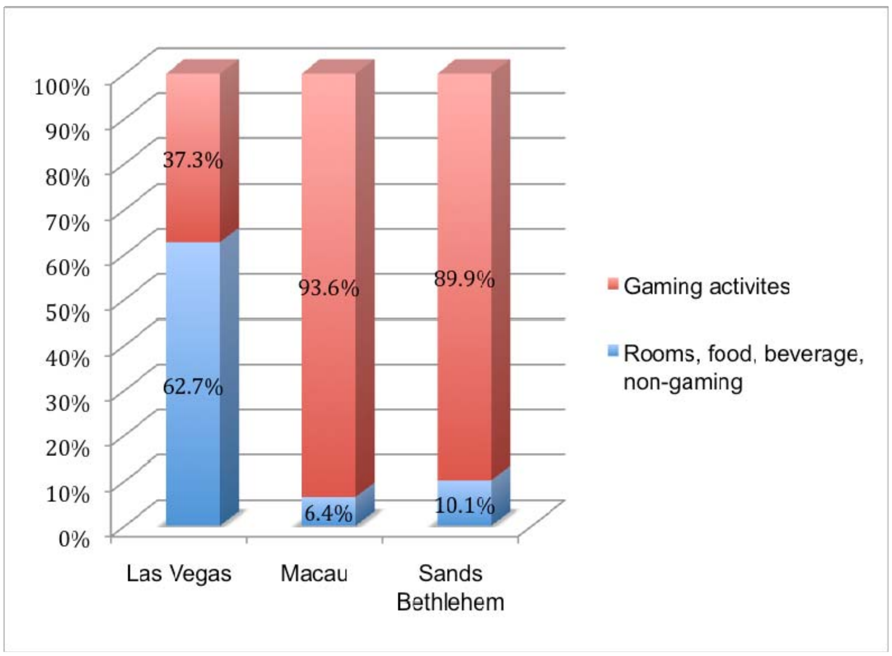
Figure 8: LVS Aggregate Revenue Mix, 2009



Source: Company Filings

As Figure 9 further illustrates, gaming activities are at the core of LVS' revenues, with the exception of Las Vegas. This is due in large part to the strategic structure of Las Vegas in comparison to the other markets. Sands Bethlehem has an unfinished hotel, so its non-gaming revenues come primarily from food and beverage sales. Las Vegas, on the other hand, relies heavily on its hotel room revenues. The Las Vegas market has been turned into a resort-vacation and business-convention hotspot with an average length of stay of 4.1 nights in 2008.[iv] This compares to a meager 1.4 night average length of stay in Macau, due to the fact that Macau is still considered to be more of a day-trip than an extended stay for its Asian patrons. With room and occupancy rates falling due to worldwide economic conditions and escalated competition (particularly in Las Vegas), a reliance on the higher-margin gaming activities can be a positive attribute of the Macau properties, although most analysts agree that the average length of stay in Macau needs to increase in order to unlock that market's full potential.

Figure 9: LVS Revenue Mix By Geographic Location, 2009



Source: Company Filings

As mentioned, LVS uses adjusted property EBITDAR as its primary measure of operating performance. In 2009, LVS achieved record adjusted property EBITDAR of USD 1.09 billion, a 2.1 percent increase YOY. This increase was mostly due to a full year of operations of Four Season Macao, the opening of Sands Bethlehem, and USD 500 million in annualized cost-cutting measures (most of which were related to decreases in payroll-related expenses). As Figure 10 illustrates, EBITDAR increased in all of LVS' Macau-based casino resorts, whereas Las Vegas EBITDAR declined by 33.9 percent. If nothing else, adjusted property EBITDAR further illuminates the stark contrast between the successes of LVS in Asia and its struggles in the United States.

Figure 10: Adjusted property EBITDAR for LVS' Various Segments

Property	Year Ended December 31, 2009		
	2009	2008	% Change
	(Dollars in thousands)		
Macau:	$	$	%
The Venetian Macao	556,547	499,025	11.5%
Sands Macao	244,925	214,573	14.1%
Four Seasons Macao	40,527	7,567	435.6%
Other Asia[5]	(32,610)	(49,465)	34.1%
United States:			
Las Vegas Operating Properties	259,206	392,139	-33.9%
Sands Bethlehem	17,566	-	-%
Total adjusted property EBITDAR	**1,086,161**	**1,063,839**	**2.1%**

Source: Company Filings

Liquidity and Solvency

Following its fundraising activities, which began in 4Q2008, LVS now has the financial strength to resume those of its development projects with the highest expected rate of return. By selling equity, renegotiating its Macau credit facility, and completing an IPO of Sands China Limited, LVS raised USD 5.5 billion in equity financing and secured USD 1.75 billion in debt project financing. After multiple years of being highly leveraged to the point of nearly breaking credit covenants, LVS now has the capital to complete its Marina Bay Sands project by April 2010 and is estimating a completion date for its Cotai Strip Parcels 5 and 6 project in June 2011.

[5] Other Asia refers to the passenger ferry service that LVS runs in Macau.

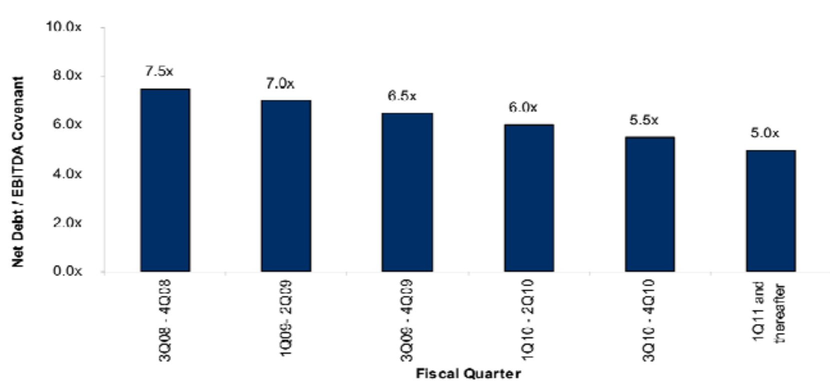
Figure 11: LVS Liquidity & Solvency

	2006	2007	2008	2009
Cash & Equivalents $Mil	468.1	857.2	3,038.20	4,955.40
Growth		*83%*	*254%*	*63%*
Long-Term Debt $Mil	4,136.20	7,518.00	10,356.10	10,852.20
Growth		*82%*	*38%*	*5%*
Financial Leverage	3.43	5.07	3.88	3.16
Growth		*48%*	*-23%*	*-19%*
Debt/Equity	1.99	3.33	2.51	1.73
Growth		*67%*	*-25%*	*-31%*

Source: Morningstar

While LVS still has an enormous amount of long-term debt, it has taken steps to deleverage itself. From 2007 to 2009, LVS decreased its financial leverage by 38 percent and its debt/equity ratio by 48 percent while increasing its cash by 478 percent. This has given LVS room to breathe in terms of honoring its credit covenants, which include credit facilities that maintain a maximum leverage ratio of net debt to adjusted EBITDA. LVS' two most worrisome credit covenants are for its domestic (U.S.) credit facility and its Macau credit facility. The domestic credit facility had a maximum leverage ratio of 6.5x for 4Q2009, which decreases by 0.5x every other quarter until it decreases to, and remains at, 5.0x for all quarterly periods thereafter through maturity. If LVS were to break its domestic credit covenant, it would likely have to suspend its abroad development projects until it could resolve its domestic credit issues.

Figure 12: Domestic Credit Facility Net Debt Covenant



Source: Barclays Capital

In order to remain in compliance with its Macau covenant, LVS negotiated with the Macau government to amend its leverage ratio in August 2009. The Macau government gave LVS slight leeway, increasing LVS' maximum leverage ratio to 4.5x for 4Q2009, and decreasing it by 0.5x every other quarter until it decreases to, and remains at, 3.0x for all quarterly periods thereafter until maturity. As of December 31, 2009, LVS' domestic leverage ratio was 5.3x in the U.S. (maximum ratio was 6.5x) and 2.8x in Macau (maximum ratio was 4.50x), relatively comfortably below the maximum ratios.

Figure 13: Macau Credit Facility Covenants

	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	After
Prior	3.50x	3.50x	3.00x	3.00x	3.00x	3.00x	3.00x
Amended	4.50x	4.50x	4.00x	4.00x	3.50x	3.50x	3.00x

Source: Barclays Capital

Growth

In 2008 and 2009, LVS experienced negative ROA, ROE, and EPS. This was due to its suspended construction projects, poor Las Vegas performance, and high amount of long-term debt. As LVS opens the Marina Bay Sands and finishes construction on Parcels 5 and 6, it should begin to see a higher ROA and ROE. Depending on the strength of the worldwide economic recovery, revenues generated from new openings, improved casino visitation, further cost-cutting successes, and the sale of non-core assets, LVS could realistically return to a positive EPS within the next one to two years.[xii]

Figure 14: Growth

	2006	2007	2008	2009
Asset Turnover	0.41	0.32	0.31	0.24
Return on Assets	8.03%	1.26%	-1.14%	-2.86%
Return on Equity	23.99%	5.38%	-5.12%	-10.39%
EPS	$1.24	$0.33	($0.48)	($0.82)

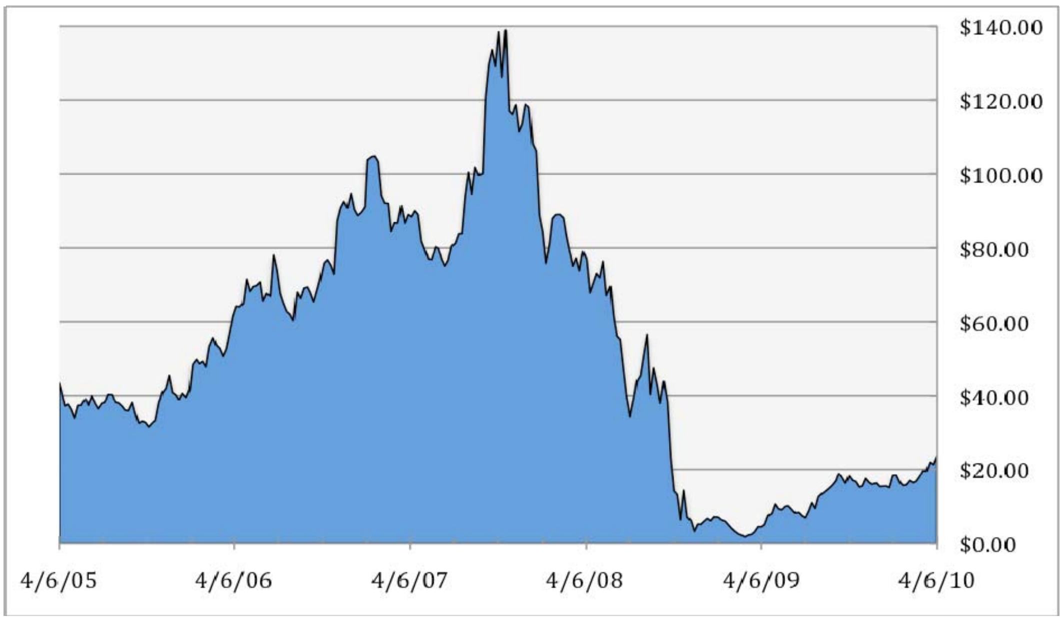
Source: Morningstar

Stock Performance

Following the 2008 recession, LVS' share price tumbled to just over USD 2 per share in February 2008 before recovering back up to USD 15 by August 2009. While its competitors were likewise hit hard by the recession, LVS was probably nearest to bankruptcy due to its large long-term debt. Many analysts believed that LVS had been too ambitious with its development plans. Even after the recovery, there are those who are taking an "I'll believe it when I see it" approach towards LVS as a profitable company.

Figure 15: LVS Stock Performance Past 5 Years

*** (April 6, 2005 – April 6, 2010)**

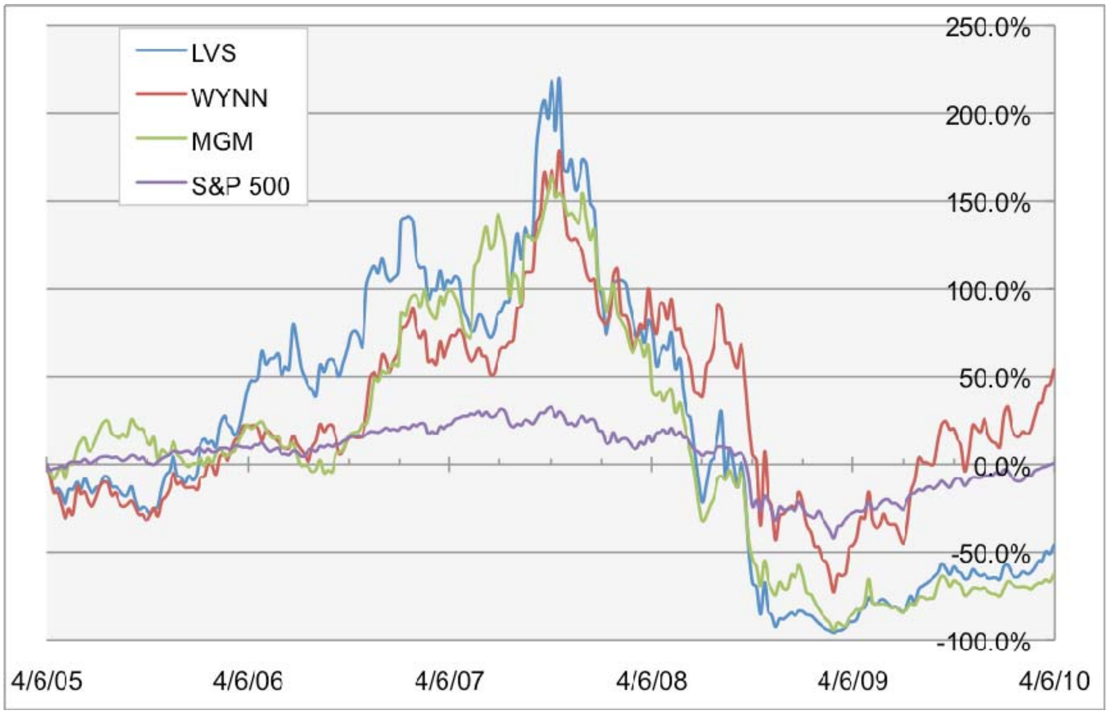


Source: Yahoo! Finance

As shown in Figure 16, LVS and its competitors in the Casinos & Resorts industry are highly volatile. LVS' beta is extremely large at 4.56, meaning that for every one percent increase in the S&P 500, LVS' stock price increases, on average, 4.56 percent, and vice versa. The beta value illustrates just how susceptible LVS is to changes in global financial markets. In bear markets, such as the 2008 recession, LVS' volatility, among other factors, resulted in an approximately 98 percent drop in stock price. This large drop in stock price was relatively mirrored by LVS' main competitors, although WYNN endured the recession much better than did LVS. WYNN's beta is only 2.81, giving it a less volatile stock price and resulting in WYNN outperforming its competitors and the S&P 500 over the past five years.

Figure 16: LVS vs. Competitors in Stock Price, Past Five Years

***(April 6, 2005 – April 6, 2010)**



Source: Yahoo! Finance

Nonetheless, LVS is the biggest company in its industry, with a USD 15.9 billion market cap. Its price/sales ratio is relatively in line with the industry average, as is its operating margin. WYNN has the best operating margin, the highest price, and is trading at an extremely high P/E multiple. This is likely due to the fact that WYNN has a presence in Macau but is not viewed by analysts as overextending its developmental plans. WYNN also managed to maintain a slight annual profit in 2009, making USD 20.7 million (down 90 percent YOY). On average, analysts rate LVS and WYNN as a moderate buy and MGM as a hold.[xiii]

Figure 17: LVS vs. Competitors in Various Stock Statistics

***(All data current as of April 9, 2010)**

Company	LVS	WYNN	MGM	Industry	S&P 500
Price	$24.12	$87.17	$14.80	$1,424.4	$1,194.37
52-Week Range ($)	4.14 – 29.12	28.50 – 87.41	4.50 – 15.06	-	-
Market Cap (Billion $)	15.9	10.9	6.6	45.0	-
P/E	NM (<0)[6]	NM (>0)	NM (<0)	NM (<0)	19.8
P/S	3.5	3.5	0.9	4.2	1.3
Operating Margin	-0.60%	7.70%	-16.10%	1.30%	-

Source: Morningstar and Yahoo! Finance

[6] A company's P/E ratio is not meaningful when relevant or projected figures are less than zero or greater than 100x.

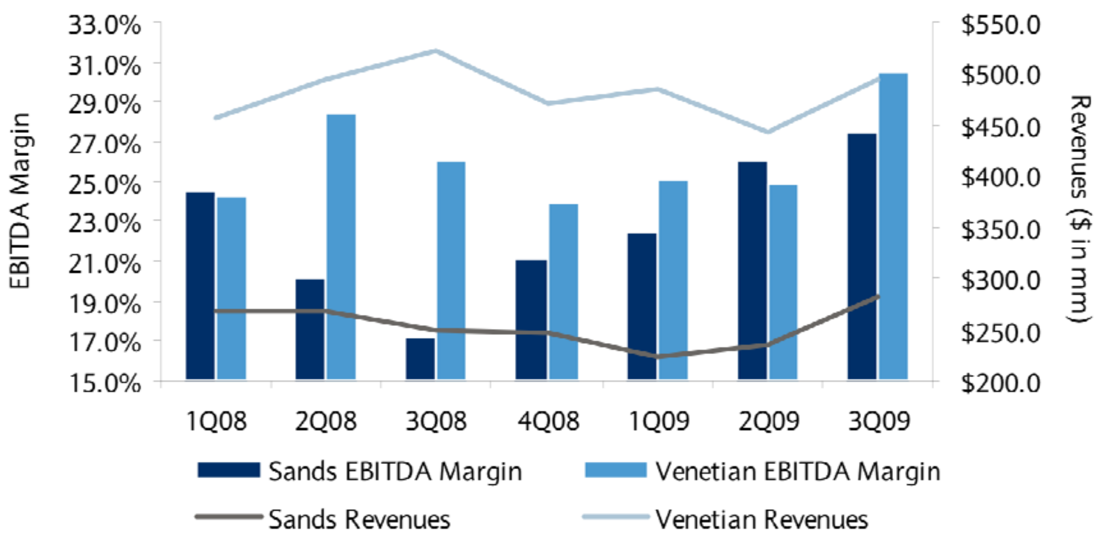
SWOT

Strengths

Strong Strategic Presence in Macau

LVS has clearly sought to better reach its Asian (particularly Chinese) customers. As one of six casino-resort operators licensed to conduct gaming operations in what has become the largest and fastest growing gaming market in the world, LVS is well-positioned to capture a large slice of what is becoming an increasingly huge pie.[7] Since receiving a gaming subconcession in December 2002, LVS has opened three casino-resorts and, as of January 2010, had achieved a 22 percent market share.[x] In 2009, LVS reported a 9.0 percent increase in its Macau gaming revenues from the previous year to USD 2.9 billion. Due to its focus on enhancing mass gaming revenues, LVS' subsidiary, Sands China, has historically been one of the most profitable operators in Macau, achieving an industry-leading 22.5 percent margin in 2008.[iv]

Figure 18: Venetian Macao and Sands Macao Margin Improvement



Source: Barclays Capital

[7] Total gaming revenues in Macau were USD 14.9 billion in 2009, a 9.7 percent increase from the previous year. Las Vegas total gaming revenues were only USD 5.55 billion, a 9.4 percent decrease from the previous year.

Importantly, LVS has achieved success in capturing a solid share of mass gaming revenues, which have average profit margins of 40 percent, instead of the more traditional VIP baccarat gaming (10 percent margins). The Venetian Macao and Sands Macao derive the highest percentage of gross gaming revenues from mass gaming of any casinos in the Macau market, with both around 47 percent.[iv] As LVS continues to expand its Cotai Strip developments, it should gradually be able to change the market to include more weekend-trippers, convention-goers, and family vacationers (i.e. consumers more likely to take part in mass gambling) instead of the day-trippers and VIP gamblers that dominate the present market.

Increased Financial Flexibility

From November 2008 to November 2009, LVS managed to raise USD 5.5 billion in equity financing and USD 1.75 billion in debt project financing. Furthermore, LVS management expects that various cost-cutting measures implemented in 2009 will generate approximately USD 500 million in total annualized savings across operations (USD 200 million in Las Vegas and USD 300 million in Macau). Along with propelling LVS out of the doldrums of near-bankruptcy, this added financial strength has allowed LVS to recommence those parts of its development pipeline with the strongest expected ROI while staying in compliance with its credit covenants. These projects include Parcels 5 and 6 on the Cotai Strip as well as the Marina Bay Sands (MBS) in Singapore. MBS, opening in April 2010, is expected to be yet another lucrative revenue source, as it will be one of only two legal casino operators in the Singapore market.

Dynamic Business Model

LVS was the first casino-resort company to fully institute what is called the MICE (Meetings, Incentives, Conventions, and Exhibitions) model. The principal goal of MICE is to have events at the convention and meeting room complex of the casino-resort take place during the week when hotels and casinos normally experience lower demand. This strategy helps to maintain mid-week demand at the hotel from an oftentimes higher-budget market segment comprised of conventioneer and businesspeople. Furthermore, as an integrated resort operator, LVS has a diverse number of revenue streams coming in from room revenues, retail sales, and restaurant revenues, which serve to bolster casino operations margins. This business model will continue to put LVS in a position of strength as it expands further into Asian markets.

Weaknesses

Continuing Vegas Struggles

Due to the economic recession, declining real estate values, and an influx of approximately 5,000 hotel rooms at MGM Mirage's CityCenter, the Las Vegas Strip market is not doing well. Casino revenues at LVS' Venetian and Palazzo properties were down 9.4 percent YOY in 2009, while room revenues were down 18.3 percent over the same period.[ix] This is particularly negative news because the Las Vegas properties are dependent on the volume of customers who actually stay at the hotel, whereas Macau and Pennsylvania revenues are principally driven by casino customers who visit the properties on a daily basis. LVS management expects convention business to be weak in 2010, but believes LVS will "clearly realize more group rooms in 2010" than in 2009.[xiv] Nevertheless, there is currently an excess of supply for hotel rooms on the Las Vegas Strip, which has had a negative effect on LVS. Luckily, its Las Vegas properties accounted for only approximately 20 percent of 2009 total net revenues (24 percent in 2008), while Macau made up approximately 75 percent of net revenues. As it completes its Asian development pipeline, LVS' dependence on the Las Vegas market will likely become marginal at best.

Halted Construction Projects

From November 2008 to November 2009, LVS suspended all construction projects. Although LVS managed to obtain a great deal of financing for a few of its developments, there are still some projects that will continue to be halted for an indeterminate amount of time. These include the St. Regis-branded condominiums at The Palazzo (capitalized construction costs of USD 184.8

million as of December 31, 2009), Parcel 3 in Macau (USD 35.7 million), and Parcels 7 and 8 in Macau (USD 116.2 million).[ix] Furthermore, LVS has been unable to recommence the retail component of its Sands Bethlehem property. Until LVS has the requisite financing, and demand in these markets merits completion, these developments will be sunk costs on LVS' balance sheet.

Opportunities

Asian Gaming Growth

As mentioned in the "Strengths" section, LVS expects to receive lucrative revenue streams from its developments in Asia. Exemplary of the opportunities in Asia is the fact that LVS' first Asian casino-resort, The Sands Macao, paid for itself within ten months of opening in May 2004. Both China's and Singapore's economies are expected to grow faster than the United States', which is important for an industry that relies heavily on discretionary consumer spending. Macau is the largest and fastest growing gaming market in the world and the only market in China to offer legalized casino gaming. It is within a three-hour flight of approximately one billion people and within a five-hour flight of approximately three billion people.

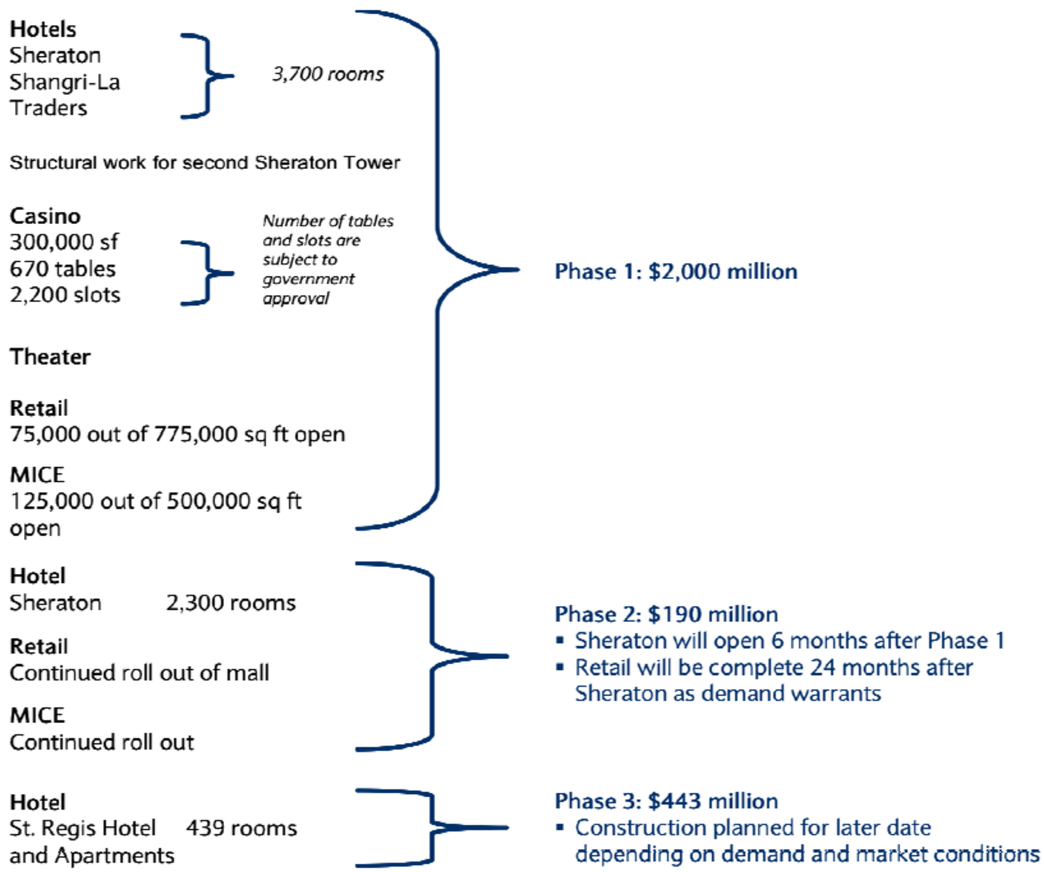
Figure 19: Leading Global Gaming Markets ($ in Millions)

	2004	2005	2006	2007	2008	04 - '08
Macau	$5,172	$5,766	$7,078	$10,378	$13,597	27.3%
Las Vegas	$5,334	$6,034	$6,688	$6,828	$6,126	3.5%
Atlantic City	$738	$4,957	$5,167	$4,889	$4,500	(1.3)%

Source: Barclays Capital

With its additional financing, LVS now has the opportunity to complete its development projects on Parcels 5 and 6 in Macau. Chairman and CEO Sheldon Adelson called these properties "The Game-Changer," as they will help to realize his vision for the Cotai Strip. Phase 1 of the project is estimated to be complete in June 2011. It will include: 1) two hotel towers under the Shangri-La and Traders brands with approximately 3,700 total hotel rooms; 2) completion of structural work on an adjacent Sheraton branded hotel tower with 2,300 hotel rooms; 3) approximately 300,000 square feet of gaming space, including 600 tables and 2,200 slots; and 4) the partial completion of the 1.2 million square feet of retail, theater, entertainment, dining, exhibition, and conference space.[ix] The estimated cost of Phase 1 is USD 2.0 billion. Phase 2 is expected to be completed six months following Phase 1 (December 2011), and will include the completion of the Sheraton tower and retail facilities.[ix] The estimated cost of Phase 2 is USD 190 million. There is a Phase 3 that includes a St. Regis-branded apart-hotel, but construction of that project is planned for a later date when demand and market conditions improve sufficiently.

Figure 20: Completion Schedule for Parcels 5 and 6



Source: Barclays Capital

In Singapore, LVS is nearing completion of its USD 5.5 billion Marina Bay Sands project. There is an announced partial opening date of April 27, 2010, with the grand opening scheduled for June 23, 2010. When finished, MBS will have approximately 2,600 hotel rooms, 800,000 square feet of leasable space (e.g., retail), and a 1.3 million square foot convention center and casino.[ix] It will operate in a Singapore government-imposed duopoly for a minimum of ten years, presenting yet another opportunity to capture a large share of a relatively untapped market.

Potential Non-Core Asset Sales

As part of its overall strategy, LVS has always tried to monetize what it considers to be non-core assets, including retail space and condominiums. In 1999, for example, LVS sold The Grand Canal Shoppes at The Venetian Las Vegas for USD 766 million to General Growth Partners (GGP), a real estate investment firm. The Shoppes at the Palazzo, which opened in January 2008, were also contracted to be sold to GGP in a sale agreement dated as of April 12, 2004. The total purchase price was to be determined by taking The Shoppes at The Palazzo's net operating income ("NOI") for months nineteen through thirty of its operations divided by a capitalization rate.[8] On the closing date of the sale, February 29, 2008, GGP made its initial purchase price payment of USD 290.8 million based on projected NOI for the first 12 months of operations. Based on the agreement, the price could be adjusted up or down depending on projected operating income for the mall. In June 2008, an additional USD 4.6 million was received from GGP, representing the adjustment payment at the fourth month after closing the sale.[ix] Following GGP's April 2009 Chapter 11 bankruptcy filing, it remains unclear if or when LVS will receive further payments for The Shoppes at the Palazzo. With an economic revival, however, payments forthcoming could produce much-needed Las Vegas revenues.

[8] The rate would be 0.06 for every dollar of NOI up to USD 38 million and 0.08 for every dollar of NOI above USD 38 million.

In Asia, LVS currently owns The Four Seasons Apartments Macao on the Cotai Strip, as well as retail space in The Venetian Macao and Four Seasons Macao. The Four Seasons Apartments Macao is an apart-hotel consisting of 286 units that could be ready for occupancy by 4Q2010. LVS is currently completing construction on the project and is working with the Macau government to find an appropriate scheme under which to sell the units. Depending on market conditions and the sales scheme chosen (e.g., selling the entire building or selling individual condos), the estimated value of the apart-hotel ranges between USD 600 million and USD 1.0 billion. Monetizing such an enormous investment would likely yield the capital necessary to recommence other aspects of LVS' developments in Macau. At the very least, it would allow LVS to pay down a substantial amount of its debt.

The sale of the Macau retail space, on the other hand, is unlikely to occur in the near future because occupancy rates are not high enough. The Grand Canal Shoppes at The Venetian Macao only has 76.7 percent of its retail space currently occupied, while The Shoppes at The Four Seasons has an 86.7 percent occupancy rate (as of January 2010).[iv] As the completion of Parcels 5 and 6 nears, demand for that retail space should increase and the monetization of that space will become more profitable and realistic.

Table Games in Pennsylvania

In January 2010, Pennsylvania Governor Ed Rendell signed a bill to legalize table games at Pennsylvania casinos. LVS promptly applied to the Pennsylvania Gaming Control Board for a table games license.[xv] On April 7, 2010, LVS received its table gaming operations certificate. The company now expects to bring 89 tables to the casino by July 2010, and has recommenced construction on the 300-room hotel tower at Sands Bethlehem, with an estimated completion date of May 2011.[vii] The new law allows a maximum of 250 gaming tables per casino, thereby providing LVS a considerable opportunity to increase revenues and its competitiveness in the Northeastern U.S. gaming market depending on the success of the initial 89 tables.

Threats

Continued Las Vegas-Related Issues

If Las Vegas revenues continue to deteriorate due to weakness in Las Vegas visitation and room rates, LVS may again encounter difficulty in complying with its domestic credit covenants. LVS' credit facilities include maintaining a maximum leverage ratio of net debt to adjusted EBITDA. That ratio for the U.S. covenants was 6.5x for 4Q2009, and LVS' leverage ratio for that quarter was 5.3x in the U.S. While there is a little wiggle room there, LVS would be in great danger if Las Vegas troubles were to push its leverage ratio near its covenant limit, as this would likely force LVS to suspend parts of its development projects abroad.

Failure to Monetize Non-Core Assets in a Timely Fashion

LVS has been very clear that it would like to continue to monetize its non-core assets. This is due in large part to a continual need to obtain development project financing for still-suspended projects on Parcels 3, 7 and 8 in Macau, the St. Regis condominiums in Las Vegas, and the retail part of Sands Bethlehem. If LVS does not complete its development on Parcel 3 by April 2013, it is in breach of its land concession and risks losing the land. Currently, LVS does not have funding past the completion of Parcels 5 and 6; and, the adequacy of that funding is based on the premise that those projects are completed on schedule and on budget. A failure to sell non-core assets such as The Four Seasons Apartment Macao or the Macau retail malls would be detrimental to LVS' long-term development financing needs.

Looming in the background of LVS' non-core asset issues is the completed sale of The Shoppes at The Palazzo to the now bankrupt firm GGP. In June 2008, LVS and GGP agreed to suspend payments until March 2010, but there is still no assurance if or when GGP will make its future periodic payments. A failure on the part of GGP to fully honor the terms of the sale would be highly detrimental to LVS' Las Vegas operations.

Government Issues

The casino industry is highly regulated by local and federal government. Furthermore, LVS has chosen to develop casinos-resorts in foreign countries with a lot of government control. In Macau, the Chinese government limits the number of visas it gives to its citizens for travel to Macau, and plays a role in monitoring the growth of the gaming industry. Also, the government maintains the right to issue gaming and land concessions to potential casino operators and developers. Furthermore, as part of LVS' original gaming concession with the Chinese government, LVS is not required to pay corporate income taxes on its casino gaming operations in Macau. This tax exemption expires at the end of 2013. As of June 30, 2009, the Macau corporate tax rate was up to 12 percent of profits. Upon expiration, LVS is forecast to be subject to an effective property tax rate of 16.8 percent of the company's annual rental income from its respective Macau properties.[iv] Any changes in these regulations – the tax rate in particular – would adversely affect LVS' profitability in Macau.

LVS is likewise subject to taxes in every region it operates. The gaming tax rate on gross gaming revenues is 39.5 percent in Macau, 12-22 percent in Singapore (depending on the proportion of revenues from VIP, mass, and slot gaming), 14 percent in Pennsylvania, and 6.75 percent in Nevada.[iv,xvi] These rates impact LVS' strategy. For example, Singapore's gaming tax is approximately half of Macau's, which could explain why LVS is building the world' most expensive stand-alone integrated resort in Singapore. Since LVS is able to keep more of its gambling revenues in Singapore, there is more of a payoff to investing larger sums of money in the Singapore casino-resort. In the U.S., the long gambling history in Nevada probably explains the relatively low tax rate there better than any other reason. Gambling is a huge part of the economy in Nevada and the gambling industry has much political power within that state. When analyzing these tax rates, the importance of completing the Marina Bay Sands becomes even more apparent. There exists in Singapore a great opportunity to profit from gaming operations.

Strategic Recommendations

Overview

Given its influx of capital and debt financing, along with the general economic recovery, LVS should face a much more favorable operating environment in 2010 than 2009. With that said, LVS still faces multiple challenges in order to return to profitability. Vector Strategy Group believes that the biggest challenge facing LVS is its ability to increase liquidity and solvency. Due to the economic recession and its ambitious development plans, LVS has incurred tremendous long-term debt. Without addressing its debt issues, LVS will likely encounter problems obtaining funding for development projects in the future such as Parcels 3, 7, and 8 in Macau. LVS also is much more susceptible to fluctuations in the global economic and credit markets due to its long-term debt, and risks breaking its credit covenants if either of those markets takes a turn for the worse. Given these primary strategic goals, Vector Strategy Group has identified five recommendations to maximize LVS' chances for continued short-run recovery and long-term success in the highly competitive casino-resort industry.

Complete Current Development Pipeline

It is absolutely crucial that LVS do everything in its power to complete its current development pipeline on time and on budget. The Marina Bay Sands in Singapore is scheduled to open at the end of April 2010, the 300-room hotel at the Sands Bethlehem is scheduled to open in May 2011, and Parcels 5 and 6 in Macau are scheduled to open in June 2011. LVS does not have the financial flexibility to deal with costly overruns or construction delays. In order to ensure the timely completion of its projects, LVS needs to constantly monitor its designers, building contractors, and materials suppliers.

By completing its development pipeline on time, LVS will conserve its newly raised capital. This would allow LVS either to use extra cash to pay down more debt, or to commence funding on new development projects. As stated, LVS cannot afford to exhaust its newly raised equity prior to completing its developments, particularly those in Singapore and Macau. LVS has invested too much of its capital in those projects to continue to receive a zero return on those unfinished investments.

Continue Cost-Cutting Measures

LVS management estimated that it eliminated USD 500 million in annualized costs in 2009. Most of these costs were related to payroll, with an estimated USD 200 million conserved from U.S. operations and USD 300 million cut from Macau operations. To free up extra capital, LVS should continue to pursue cost-cutting opportunities so long as such measures do not tarnish LVS' reputation as a world-class casino-resort operator. Specific areas of operations in which cost-cutting opportunities may exist are: payroll, corporate expenses, and green initiatives.

It appears that LVS has begun to take steps in the latter area, launching its Sands Eco 360 degrees Program on March 17, 2010. This program spans four pillars: construction and development strategy, operational and maintenance policies, developing vendor partners that comply with the company's green policies, and employee team members who are equally involved in the program. According to company President and COO Michael Leven, LVS saves USD 4 for every USD 1 invested in its sustainable development program. Some aspects of the program that have already produced noticeable results are those that have been implemented in LVS' Las Vegas properties. These include saving nearly 100 million gallons of potable water per year, recycling 55 percent of daily trash and 75 percent of food waste, utilizing the largest solar-thermal system in the U.S., and using steel with 95 percent recycled content.[xvii] Furthermore, Mr. Leven noted that all future LVS properties would comply with Sands Eco 360's principles and standards, including those in Singapore and Macau. By instituting these policies, LVS is in position to generate huge cost savings on its energy, water, and waste disposal bills.

Non-Core Asset Sales

To raise additional capital, LVS should continue to try to sell off it non-core assets, particularly its Four Season Macao apart-hotel. While this may be difficult due to the current Chinese commercial real estate bubble and potential future bust due to U.S. commercial real estate deterioration, LVS could definitely use the capital that such a transaction would provide.[xviii] The apart-hotel is valued at between USD 500 million to upwards of USD 1.0 billion, with LVS management claiming the latter value. If LVS is able to sell this asset, it could use the extra cash to pay down some of its substantial debt, which in turn would keep LVS' leverage ratios below the maximums stipulated in its credit facilities. Furthermore, LVS could also use this cash to prepare financing plans for other projects, such as Parcel 3 in Macau (which LVS risks losing if it has not completed construction by April 2013).

Other non-core assets that LVS should attempt to sell in the long-run include its retail malls in Macau and its unfinished St. Regis condominium complex in Las Vegas. Its two Macau retail malls, The Grand Canal Shoppes at The Venetian Macao and The Shoppes at The Four Season Macao, currently do not have the occupancy rates or revenues to merit a high enough selling price. As the Cotai Strip experiences more development, visitation, and revenue production, the value of these assets should increase to the point that selling them would generate the necessary profits. As for the unfinished St. Regis condominiums, there is little to no hope of selling them in the short-, or even mid-, term. The Las Vegas real estate market is completely dried up with a U.S.-leading 5.3% foreclosure rate, and an abundance of finished condominiums for sale on the Strip.[xix] With a continued economic recovery, however, selling this asset could become more realistic in a few years.

Table Games in Sands Bethlehem

Since opening in May 2009, The Sands Bethlehem has appeared to be an unprofitable investment. Capitalized construction costs on the project were approximately USD 700 million, while the property only generated USD 18 million in EBITDAR for its first seven months of operation. At that rate, the property would be generating EBITDAR of just over USD 30 million in its first year, giving LVS little to no return on its investment.

The April 2010 approval of LVS' table gaming operations certificate provides LVS with another revenue source for its struggling casino. LVS expects to spend an additional USD 27 million, including the USD 16.5 million license fee, to add 89 table games by July 2010.[vii,ix] LVS must make it a priority to install table games as quickly as possible, as table games will provide more revenues at higher margins, make Sands Bethlehem more competitive in the Northeast U.S. market, and hopefully allow LVS to pay off existing debt related to the Sands Bethlehem project. Furthermore, the introduction of table games to Sands Bethlehem will allow LVS to finish construction of the 300-room hotel tower, giving Sands Bethlehem an added revenue source from hotel rooms.

Continued Negotiation with Macau Government

In the past, LVS has successfully negotiated with the Macau government to receive extensions on its development plans and increases in its maximum leverage ratio. These negotiations have served to allow LVS more flexibility in its ambitious development pipeline. Presently, LVS has recommenced construction on Parcels 5 and 6, but still has no construction plans for Parcels 3, 7, and 8. Vector Strategy Group believes that LVS will likely have to continue its suspension of those projects for multiple years until its present development pipeline has been completed and has generated sufficient revenues to merit continued development. As such, LVS should consider continuing negotiations in a few key areas, including:

- An extension on the (already extended) April 2013 completion date for Parcel 3;
- A favorable change in the current 4 percent tax on gross gaming revenues (the proceeds from which are put into utilities designated by the Macau government), which is subject to change in 2010;
- Continued exemption from Macau's corporate income tax upon its expiration at the end of 2013. If not possible, negotiate for some sort of preferential rates (as opposed to the estimated 16.8 percent tax rate LVS would be charged in 2013); and
- Endorse and recommend continued infrastructure expansion in Macau, including ferry routes, border crossings, bridges, and airports.

Success in any of these areas will enhance LVS' ability to operate profitably in Macau and potentially will free up, or generate, capital which can then be used to pay down debt or fund further development.

Notes

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