

MGM Resorts International: Allocating Capital After the Bid Ends

Internal ID: S&F-STR-382

Topic: Risk Management, Pricing Strategy, Corporate Strategy

Industry: Casinos & Gaming

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Case overview

- **Audience / course level:** MBA and executive strategy; corporate strategy and resource allocation
- **Company / industry / geography:** MGM Resorts International; hospitality, gaming and entertainment; United States, Macau and Japan
- **Decision owner and decision date:** MGM board and senior management; September 23, 2026
- **Information cutoff:** October 2, 2026, 4:00 p.m. ET. The case uses facts available by the September 23 decision setting; no later operating outcome is included.
- **Decision scope:** Set a capital-allocation policy for MGM as a standalone company, including how to stage Osaka funding and support, discretionary resort investment, liquidity/debt resilience and repurchases. Whether to cancel Osaka is outside scope.
- **Source notes:** Public filings and releases are cited with the exhibits.

The case

Opening decision

On September 23, 2026, MGM Resorts International told investors that People Incorporated had withdrawn its proposal to acquire the shares of MGM it did not own. MGM said a special committee had negotiated with People for several months and that the board remained committed to executing MGM's strategy as a standalone company. The announcement did not disclose a final counteroffer, the committee's valuation work, or why negotiations ended.

The board and management now have to make “standalone” concrete. MGM has a large, multi-market resort portfolio, a major development commitment in Osaka, and an existing share-repurchase authorization. It also faces recurring rent and lease obligations, debt maturities, operating volatility, and uncertainty over the cost and timing of Osaka. The company must decide how much capital to direct to each use, and what conditions should govern the sequence.

People's June 1 proposal offered \$48.30 per share in cash for shares it did not already own. People said it owned 26.1% of MGM and described the price as 24.1% above MGM's 30-trading-day VWAP through May 29, more than 30% above the 90-trading-day VWAP, and 10.6% above the May 29 closing price. The proposal was nonbinding and subject to a definitive

agreement and customary conditions. These bidder-calculated premiums offer a reference point; they do not establish MGM's standalone value. MGM's September announcement disclosed no agreed price or board fairness conclusion.

Decision question: What capital-allocation policy should MGM's board adopt for the next 12-24 months now that the company will proceed standalone?

Assignment: Prepare a two-page board memo recommending a priority order and decision rules for Osaka funding/support, selective resort investment, liquidity/debt resilience and repurchases. State the strongest argument against your recommendation, the evidence you would request, and the metrics or conditions that would cause you to change course. Use only the facts and clearly labeled assumptions in this case; no valuation model is required.

Situation and strategic context

MGM combines destination resorts and casinos with regional properties, a Macau business, a developing Japan resort, and digital gaming activities. Different units contribute different amounts and face different risks. In the second quarter of 2026, consolidated revenue was \$4.451 billion and Adjusted EBITDA was \$610 million, compared with \$648 million a year earlier. Las Vegas Strip EBITDAR increased 3% year over year, Regional same-store EBITDAR was flat, MGM China EBITDAR fell 15%, and MGM Digital reported a \$31 million EBITDAR loss compared with a \$26 million loss a year earlier.

These measures are not interchangeable. Segment **EBITDAR** is earnings before interest, taxes, depreciation, amortization and rent; it is a segment operating measure before rent. Consolidated **Adjusted EBITDA** is a non-GAAP company measure and includes the effect of rent and corporate items in its reconciliation. In 2025, MGM reported \$2.426 billion consolidated Adjusted EBITDA, alongside \$2.3 billion in annual triple-net rent expense. Comparing segment EBITDAR with consolidated Adjusted EBITDA without accounting for rent and corporate costs can misstate relative performance.

MGM also reports sizable lease obligations. At June 30, 2026, it had \$23.878 billion of operating lease liabilities, measured as the present value of lease payments, and \$6.068 billion of long-term debt. The filing reported \$926 million of operating-lease cash outflow in the first half and \$1.8 billion of contractual cash rent due in the following 12 months under triple-net leases. The lease-liability balance is not annual rent; rent is a recurring cash outflow, while debt is a separate financing balance. Triple-net rent also does not include every cost of operating a property.

At June 30, MGM reported \$2.547 billion in cash and \$6.068 billion in long-term debt. During the first half, it generated \$1.127 billion in operating cash flow, spent \$396 million on capital expenditures, received \$507 million from the Northfield Park operating-resort sale, and contributed about \$138 million to MGM Osaka. These are historical six-month figures. They include timing and transaction effects and do not establish a future cash-flow run rate or normalized free cash flow.

Osaka: funding, ownership and support are different measures

MGM Osaka is a multi-year integrated resort development with a 2030 opening target stated by management. At June 30, 2026, MGM reported a 39% ownership interest and JPY335.9 billion (about \$2.1 billion at the filing's conversion) remaining under its JPY428 billion funding commitment. The interest had fallen from 50% to approximately 39% in April after other shareholders funded equity. MGM's additional July funding raised its share to approximately 40% at the case date. The JPY428 billion commitment represents an expected approximate 43.5% equity share after the expected funding period; actual ownership can change as contributions occur.

The ownership percentages should not be confused with the separate support arrangements. A guarantee covers 50% of specified obligations to the Osaka venture. A different, uncapped guarantee provides funding needed to complete construction and achieve full opening. MGM also reported that its Osaka interest, carried at \$544 million, was pledged as collateral for the venture's credit facility. MGM funded about \$138 million in the first half and a further \$18 million in July. The filings do not provide project-level cash-flow forecasts, a return hurdle, a detailed future contribution schedule, or the probability and amount of a call under the completion guarantee.

The board cannot make the existing commitment disappear by changing a discretionary spending policy. It can, however, ask management to report milestones, cash calls, cost-to-complete, schedule risks, currency exposure and support obligations; determine how much liquidity to reserve; and set conditions for discretionary spending elsewhere while Osaka advances.

Resort investment and capital returns

MGM's second-quarter results show different trajectories across properties and regions. The company has described targeted growth capital and opportunities in Las Vegas luxury offerings, but the public materials in this case do not disclose property-level project economics, incremental cash flows, expected demand uplift, cannibalization, or a ranked pipeline of resort proposals. Students therefore cannot infer returns from segment growth rates alone.

MGM had \$1.4 billion remaining under its April 2025 authorization to repurchase up to \$2 billion of shares. It executed repurchases of about 7 million shares for approximately \$253 million in the first half of 2026. The cash-flow discussion separately reports \$262 million paid during the period; the filing does not reconcile the difference. The two reported amounts should remain separate. Authorization is permission, not a cash balance or obligation to buy shares. Repurchases may return capital flexibly and reduce the share count, but would use liquidity that could support other commitments.

The People proposal also leaves an outside benchmark in the discussion. Its \$48.30 price and premium windows may inform questions about investor expectations and the board's process. They do not tell management whether a repurchase at a future market price would be attractive, what MGM's intrinsic value is, or whether the bid was fair. The special committee's work and any valuation materials are not available in this case.

Keep the digital businesses distinct

MGM Digital is a consolidated reporting segment that includes LeoVegas and other interactive-gaming activities. BetMGM is a separately reported 50%-owned, unconsolidated venture. The \$31 million second-quarter EBITDAR loss belongs to MGM Digital; it is not BetMGM's segment loss. Any view of digital growth should distinguish MGM's consolidated business from the joint venture's results, distributions and possible capital needs.

Decision alternatives

The board can combine elements of these policies. The alternatives define different starting priorities; none removes MGM's existing commitments.

Alternative	Terms known to students	Expected strategic trade-off	Evidence still needed
A. Signal confidence with faster repurchases	Use a material share of the remaining \$1.4bn authorization over the next 12-24 months, subject to a minimum liquidity reserve and committed Osaka funding.	Could return capital flexibly and demonstrate confidence in standalone prospects; could reduce room for project support, debt resilience or property investment. No intrinsic-value estimate is supplied.	Market-price policy; cash reserve and stress tests; Osaka funding schedule and guarantee exposure; debt maturities; project pipeline economics.
B. Fund commitments and gate growth	Protect committed Osaka contributions and support capacity; approve resort projects individually against disclosed operating milestones and incremental-return cases; make repurchases only when liquidity and project gates are met.	Preserves strategic options while imposing discipline on discretionary capital; may return capital more slowly and leaves project execution and opportunity costs.	Verified Osaka cost-to-complete and covenants; project-level cash flows and capacity constraints; maintenance versus growth capex; FX and schedule scenarios.
C. Preserve liquidity while uncertainty narrows	Temporarily limit discretionary repurchases and new resort commitments beyond required maintenance; hold additional liquidity against Osaka and debt obligations; revisit policy at scheduled reviews.	Builds flexibility against construction, operating and financing uncertainty; risks delaying projects or repurchases that could prove attractive and may be interpreted as indecision.	Liquidity stress scenarios; debt refinancing calendar; guarantee triggers; operating downside cases; explicit review dates and release conditions.

Exhibits

Exhibit 1. Timeline and offer terms - [F] MGM investor releases; People SEC proposal letter. Dates are calendar dates; offer premiums are bidder-calculated.

Date	Event
June 1, 2026	People submits a nonbinding \$48.30 cash proposal for shares it did not own; says it owns 26.1% of MGM.
June 1, 2026	People states its price represents 24.1% above 30-trading-day VWAP through May 29, more than 30% above 90-trading-day VWAP, and 10.6% above May 29 close.

Date	Event
September 23, 2026	MGM says People withdrew the proposal after several months of discussions and MGM will execute its strategy as a standalone company.

Exhibit 2. Operating snapshot - [F] MGM Q2 2026 release and Form 10-Q; quarter ended June 30, 2026; USD. Company-defined segment EBITDAR and Adjusted EBITDA are reported measures, not interchangeable.

Measure	Q2 2026	Comparison / definition
Consolidated revenue	\$4.451bn	+1% year over year
Consolidated Adjusted EBITDA	\$610m	\$648m in Q2 2025; non-GAAP company measure
Las Vegas Strip EBITDAR	\$735m	+3% year over year
Regional same-store EBITDAR	\$271m	Flat year over year
MGM China EBITDAR	\$257m	-15% year over year
MGM Digital EBITDAR	\$(31)m	\$(26)m in Q2 2025; consolidated segment

Exhibit 3. Balance-sheet and cash uses snapshot - [F] MGM Q2 2026 Form 10-Q, June 30, 2026 unless indicated; USD. No normalization or forecast calculation is made.

Item	Reported amount	Definition / period
Cash	\$2.547bn	Balance at June 30
Long-term debt	\$6.068bn	Balance-sheet debt measure
Operating lease liabilities	\$23.878bn	Present value of operating lease payments
Operating-lease cash outflow	\$926m	First half of 2026
Contractual triple-net cash rent	\$1.8bn	Due in next 12 months from filing date
Operating cash flow	\$1.127bn	First half of 2026
Capital expenditures	\$396m	First half of 2026
Northfield Park sale proceeds	\$507m	First half of 2026
Osaka contributions	\$138m	First half of 2026; about \$18m additional in July
Repurchases executed	\$253m	About 7m shares in first half, per Note 10

Item	Reported amount	Definition / period
Repurchases paid	\$262m	Cash-flow discussion, first half; not reconciled to executed amount
Remaining repurchase authorization	\$1.4bn	At June 30; capacity, not cash or commitment

Exhibit 4. Osaka funding and support - [F] MGM Q2 2026 Form 10-Q, Note 1 (p. 7) and Note 8 (pp. 14-15); approximate USD translation at June 30 where shown.

Measure	Amount / status	Definition / date
Ownership	39% June 30; approximately 40% after July funding	Current equity interest at stated dates
Expected post-funding equity share	Approximately 43.5%	Expected share represented by total JPY428bn commitment; ownership changes with contributions
Remaining commitment	JPY335.9bn / about \$2.1bn	June 30 balance under MGM's JPY428bn commitment
Specified-obligations guarantee	50%	Applies to certain obligations to the venture; not ownership
Completion/full-opening guarantee	Uncapped	Separate funding support if needed to complete construction and achieve full opening
Collateral	MGM Osaka interest, carried at \$544m	Pledged for venture credit facility

Exhibit 5. FY2025 scale and rent context - [F] MGM 2025 Form 10-K, USD; fiscal year ended December 31, 2025.

Measure	Amount	Definition
Revenue	\$17.538bn	Consolidated FY2025
Adjusted EBITDA	\$2.426bn	Consolidated, non-GAAP company measure
Triple-net rent expense	\$2.3bn	FY2025 recurring rent expense
Segment EBITDAR	Before rent	Segment measure; not directly comparable with consolidated Adjusted EBITDA

Student deliverable and questions

Submit a two-page board memo (plus one page of exhibits if needed) that gives a policy, not simply a list of possible uses. Identify a funding priority order, limits or gates for discretionary actions, a monitoring cadence, and the evidence that would change the policy. No calculations are required; label any scenario assumptions.

1. Which uses of capital are committed, discretionary, or contingent? What ordering should govern cash if operating conditions weaken?
2. What conditions should an Osaka funding review and a resort-investment gate require, given the disclosed facts and evidence gaps?
3. How should the board treat the remaining repurchase authorization and the withdrawn \$48.30 proposal when setting a standalone policy?
4. What is the strongest counterargument to your policy, and what observable evidence would cause you to revise it?