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INSIDE GAMING: Analysts growing grim on gaming

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Wall Street is taking a jaundiced look at the gaming industry. Analysts are re-evaluating earnings projections in light of wartime distractions, and may lower financial estimates for the first quarter and 2003 as a whole. Some say the companies also could preannounce disappointing results. Already, estimates are being dropped for major lodging operators based on demand trends, cost inflation, negative earnings comparisons and high risk factors. The word on gaming companies should be out this week, either from analysts or from the companies themselves.

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In a classic case of saying the glass is half-empty, some sources say Mandalay Resort Group may find itself in a bit of a pickle. It's holding midweek room rates better than competitors thanks to its convention business. But now Strip operators are discounting room rates with the war socking it to leisure travel again and with meeting planners holding off on booking events. Mandalay is said to find itself hamstrung by long-term contracts constraining the discounts it can offer and debating what to do to hold the line on occupancy. Some say the Venetian could be in a similar pickle soon.

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Talk at other resorts is turning toward steep discounting to compete for drive-in, short-haul and last-minute travelers, but no one wants to be quoted. It seems after Sept. 11, 2001, the model that held total revenues up best was room discounting to keep hotels full and gambling at the highest levels possible. Now, one of the challenges is how to avoid a price war. That's one problem that doesn't seem to be bothering the rest of the economy, to wit, gasoline station operators.

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Mergers and acquisitions. Analysts insist chances are increasing for merger and acquisition activity among gaming operators before the end of the year. Wall Street, however, is skeptical that mergers can help gamers. The classic corporate escape when something's not working is to merge with someone else, usually someone with problems. The trouble is that just spells bigger problems, financial types say. Merging gaming companies won't chase the blues, they'll just create bigger problems.

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Interesting footnote. Look at the last Gulf War. The gaming industry representatives were singing songs of contentment all through the buildup and three months after hostilities started. Then came earnings reports and official statistics. Las Vegas had been hit in the gut with a severe downturn, and the big boys kept the news to themselves. It took seven months for their financials to recover, but another six months for small businesses to catch up.

The Inside Gaming column is compiled by Gaming Wire Editor Rod Smith. You can contact him by phone at (702) 477-3893, fax (702) 387-5243 or e-mail at rsmith@reviewjournal.com.

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