Details of Settlement with Wynn Resorts, Limited (NASDAQ: WYNN)

As announced in our press release of March 9, 2018 entitled “Settlement with Wynn Resorts, Limited (NASDAQ: WYNN)”, we have reached a settlement agreement (hereinafter, “the settlement”) with Wynn Resorts, Limited (hereinafter, “Wynn Resorts”) under which Wynn Resorts is to pay to our company group an aggregate amount of 2,632 million dollars.

We have already explained the background of the settlement in our 45th general shareholders meeting held on March 29, 2018. However, we feel the matter is attracting an extremely high level of interest of our shareholders, so, we would like to present the details of the settlement as follows:

In reaching the settlement, we acknowledged that Wynn Resorts has the right to redeem its shares held by Aruze USA, Inc., while Wynn Resorts acknowledged that the redemption price for the shares was unreasonably set by the company. As a result, Wynn Resorts agreed to pay in a lump an aggregate amount of 2,632 million dollars to our company group.

To begin with, we should explain the following facts as the background of this agreement: Our company group had Mr. Kazuo Okada, former Chairman, while Wynn Resorts had Mr. Steve Wynn, former Chairman. They both came under investigation for personal unsuitability by gaming authorities including Gaming Control Board of Nevada, USA. The investigation was causing a great impact on the business continuity in terms of maintaining licenses for operating casino business as well as observing the covenants agreed with financial institutions in a loan agreement. Under such circumstances, our management had to continue to act to avoid risks in priority over other matters.
In general, regulating casino operating business by gaming authorities is not well known, but basically, the business is subject to very severe examinations and regulations though they differ country by country. For instance, as a company licensed and registered in Nevada, we must follow the Nevada Gaming Control Act and other regulations. Specifically, we are under the duty of preventing any direct or indirect involvement of undesirable or unsuitable persons in any capacity in the gaming business. Under the regulations, we are required to notify NGCB of any beneficiary owners of more than 5 % of our voting shares and anyone acquiring more than 10% needs to apply the agency for a personal suitability review. If NGCB determines the person as unsuitable, we may be imposed a penalty by the agency, including a revocation of the license.

As such, when financing a large amount of money for casino operating business, financial institutions commonly incorporate into their finance agreement an acceleration clause stipulating that in the event the management or shareholder of the borrower is determined as unsuitable by NGCB, their loan immediately becomes due and payable by the borrower regardless of the agreed due date.

The loan agreement (for a total amount of 33 billion yen) of February 13, 2018, entered into by Tiger Resort Asia Limited, our subsidiary, has a similar acceleration clause which stipulates that in the event that Mr. Kazuo Okada, our former chairman, participates in any form in the management of our company or Tiger Resort Asia Limited, then, the loan will be accelerated and immediately become due and payable by Tiger Resort Asia Limited, causing our company a risk of exercising the security interest, which was established in the 51% of the company shares currently held by us.

Such factor involving a license, which is a bottom line for casino operators to continue their business, was the original reason for Wynn Resort to redeem its shares held by Aruse USA. Unexpectedly, Mr. Steve Wynn has fallen into the same situation as Mr. Kazuo Okada did in the sense that he has come under review for personal unsuitability. For this reason, Mr. Steve Wynn immediately resigned as Chairman of the Board of Directors of Wynn Resorts, leaving the day to day management of the company.

Consequently, under the similar situation in which both the former chairmen are subject to investigation on suspicion of personal unsuitability, we opened direct talks with Wynn Resorts by deepening mutual understanding to a certain level and finally could reached the settlement. In addition, our company group and Wynn Resorts have agreed to mutually establish a
cooperative system to the extent possible, as good friends and good supporters in the observance of basic management duty of enhancing corporate value while avoiding risks. Besides, Wynn Resorts has promised us to participate in terms of human resources in our on-going IR project in the Philippines.

Now, we would like to move on to an explanation about the development of the lawsuit with Wynn Resorts: At first, we filed a lawsuit against Wynn Resorts to claim for a return of the shares under the supervision of Mr. Kazuo Okada acting as then in-charge director. However, after his resignation as our director, we retained Japanese and US lawyers to review all the matters related to the lawsuit including materials collected during the discovery, an evidence disclosure process in a US court. As a result, we gained the following important fact: That is, we acquired the common shares in Wynn Resorts through Aruze USA, our fully owned subsidiary. At that time, Mr. Kazuo Okada, then sole representative of Aruze USA, without obtaining an approval from, or reporting to, our company, its Parent, concluded with Mr. Steve Wynn, a shareholder’s agreement with an incorporated clause which can form a ground for incorporating mandatory redemption clause into the article of incorporation of Wynn Resorts, (a clause which allows Wynn Resorts by a board resolution to redeem its shares held by a person suspected as unsuitable). According to the US attorney in charge and other lawyers, it was hard to fight over the validity of the mandatory redemption clause of the Wynn Resorts’ article of incorporation in light of the existence of the shareholder’s agreement and other factors, and additionally, it was uncertain whether our argument that the redemption itself is invalid is acceptable as it is in a US trial; however, the dispute over the validity of the redemption price which was decided solely by Wynn Resorts stood as a fair chance of success for us. In recognition of this decisive fact, our existing management changed its litigation strategy to chiefly focus on the validity of the discounted price for share redemption and initiated settlement talks with the company, enhancing our aggressive media strategy at the same time and finally reached the settlement.

The aggregate amount of 2,632 million dollars to be paid to our company group in a lump sum almost corresponds to the total amount of cash and bank deposits held by Wynn Resorts at the time of reaching the settlement. In our opinion, had it been claimed by our company group to pay such a large amount of money as making it impossible to continue its business, Wynn Resorts would have continued the lawsuit thoroughly by repeating appeals. As such, we feel both our company group and Wynn Resorts were really faced with a tough management decision.

Like Mr. Steve Wynn, Mr. Kazuo Okada, one of the shareholders of our large shareholder,
is currently under the investigation for personal unsuitability. If we become a large shareholder of Wynn Resorts, as we stated already, it could cause an adverse effect on its license because of the Nevada regulations. If Wynn Resorts’ license for operating casino business is revoked, it will endanger its solvency, making it meaningless even if we win in the US lawsuit. Under such circumstances, we feel the only solution to the issue was, while maintaining the values of the both sides, that Wynn Resorts was to pay to us almost full amount of cash and bank deposit it held, which was considered as a limit of the company’s paying capacity.

The agreement released our company group from the heavy burden of high-interest borrowings as well as litigation-related expenditures, creating us more freedom of management. It enables us to devote ourselves to ensure the success of our Entertainment City in Manila, Philippines as a top-class Asian resort, by making the most of the best location and taxing system, as well as the enhancement of manufacturing business. We are planning to preferentially allocate the revenue from the settlement to the repayment of borrowings and to the promotion of the Philippine Project; however, we need some more time to reach a final decision.

For your information, we are currently under a rating review by a major rating agency. It is being conducted based on our conclusion that it will bring about better results to our company group if we start to re-negotiate with our lenders after enhancing our creditworthiness by obtaining a credit rating.

We will report any further development individually, including the results of the credit review as soon as finally decided.