MGM Growth Properties LLC
Form 10-Q
August 08, 2016
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UNITED STATES

SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2016

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 001-37733

MGM Growth Properties LLC

(Exact name of registrant as specified in its charter)

Delaware	**47-5513237**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

6385 S. Rainbow Blvd., Suite 500, Las Vegas, Nevada

(Address of principal executive offices)

(702) 669-1480

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common shares, as of the latest practicable date:

Class	**Outstanding at August 4, 2016**
Class A shares	57,500,000 shares

Class B share	1 share

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MGM GROWTH PROPERTIES LLC

FORM 10-Q

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

MGM GROWTH PROPERTIES LLC

CONDENSED COMBINED AND CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Real estate investments, net	$ 7,847,707	$ 7,793,639
Cash and cash equivalents	338,034	
Tenant and other receivables, net	4,273	
Prepaid expenses and other assets	10,993	
Total assets	$ 8,201,007	$ 7,793,639
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Debt, net	$ 3,134,791	$
Due to MGM Resorts International and affiliates	465	
Accounts payable, accrued expenses and other liabilities	6,228	
Accrued interest	11,888	
Dividend payable	56,720	
Deferred revenue	20,889	
Deferred income taxes, net		1,734,680
Total liabilities	3,230,981	1,734,680
Commitments and contingencies (*Note 9*)		
Shareholders equity:		
Class A shares: no par value, 1,000,000,000 shares authorized, 57,500,000 and 100 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively		
Additional paid-in capital	1,334,290	
Accumulated deficit	(8,181)	
Predecessor net Parent investment		6,058,959
Total Class A shareholders equity	1,326,109	6,058,959
Noncontrolling interest	3,643,917	

Total shareholders equity	4,970,026		6,058,959
Total liabilities and shareholders equity	$ 8,201,007	$	7,793,639

The accompanying condensed notes are an integral part of these condensed combined and consolidated financial statements.

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MGM GROWTH PROPERTIES LLC

CONDENSED COMBINED AND CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenues				
Rental revenue	$ 101,253	$	$ 101,253	$
Property taxes reimbursed by Tenant	9,650		9,650	
	110,903		110,903	
Expenses				
Depreciation	53,123	46,190	104,600	91,617
Property transactions, net	335		1,209	
Property taxes	13,305	12,819	26,541	25,381
Property insurance	559	2,529	2,943	5,293
General and administrative	4,388		4,388	
	71,710	61,538	139,681	122,291
Operating income (loss)	39,193	(61,538)	(28,778)	(122,291)
Interest expense	29,475		29,475	
Other non-operating	72		72	
Net income (loss)	9,646	(61,538)	(58,325)	(122,291)
Less: Net (income) loss attributable to noncontrolling interest	(2,693)	61,538	65,278	122,291
Net income attributable to Class A shareholders	6,953		6,953	
Comprehensive income attributable to Class A shareholders	$ 6,953	$	$ 6,953	$
Net income per Class A share (basic)	$ 0.12	N/A	$ 0.12	N/A
Net income per Class A share (diluted)	$ 0.12	N/A	$ 0.12	N/A

The accompanying condensed notes are an integral part of these condensed combined and consolidated financial statements.

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MGM GROWTH PROPERTIES LLC

CONDENSED COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities		
Net loss	$ (58,325)	$ (122,291)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	104,600	91,617
Property transactions, net	1,209	
Amortization of deferred financing costs and debt discount	1,714	
Straight-line rental revenues	(420)	
Share-based compensation	142	
Changes in operating assets and liabilities:		
Tenant and other receivables, net	(4,273)	
Prepaid expenses and other assets	4,464	
Due to MGM Resorts International and affiliates	465	
Accounts payable, accrued expenses and other liabilities	849	
Accrued interest	11,888	
Net cash provided by (used in) operating activities	62,313	(30,674)
Cash flows from investing activities		
Capital expenditures for property and equipment funded by Parent	(138,987)	(14,779)
Net cash used in investing activities	(138,987)	(14,779)
Cash flows from financing activities		
Proceeds from issuance of debt	3,200,000	
Deferred financing costs	(68,207)	
Repayment of bridge facilities	(4,000,000)	
Repayment of debt principal	(8,375)	
Issuance of Class A shares	1,207,500	
Class A share issuance costs	(75,032)	
Net cash transfers from Parent	158,822	45,453
Net cash provided by financing activities	414,708	45,453
Cash and cash equivalents		
Net increase for the period	338,034	

Balance, beginning of period				
Balance, end of period	$	338,034	$	
Supplemental cash flow disclosures				
Interest paid, net of amounts capitalized	$	15,873	$	
Non-cash investing and financing activities				
Non-Normal Tenant Improvements by Tenant	$	20,889	$	

The accompanying condensed notes are an integral part of these condensed combined and consolidated financial statements.

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MGM GROWTH PROPERTIES LLC

CONDENSED NOTES TO UNAUDITED CONDENSED COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BUSINESS

Organization. MGM Growth Properties LLC (MGP or the Company) is a limited liability company that was organized in Delaware on October 23, 2015. MGP conducts its operations through MGM Growth Properties Operating Partnership LP (the Operating Partnership), a Delaware limited partnership that was formed on January 6, 2016. On April 25, 2016 (the IPO Date) the Company completed a series of transactions, including its initial public offering of its Class A shares as discussed further below. The Company intends to make an election on its federal income tax return for its taxable year ending December 31, 2016 to be treated as a real estate investment trust (REIT).

MGM Resorts International (MGM or the Parent) is a Delaware corporation that acts largely as a holding company and, through its subsidiaries, owns and operates casino resorts. Prior to the IPO Date, the real estate assets of The Mirage, Mandalay Bay, Luxor, New York-New York, Monte Carlo, Excalibur, The Park, Gold Strike Tunica, MGM Grand Detroit and Beau Rivage (collectively, the Properties), which comprise the Company s real estate investments, were owned and operated by MGM. On the IPO Date, MGM engaged in a series of transactions (the Formation Transactions) in which subsidiaries of MGM transferred the Properties to newly formed subsidiaries and subsequently transferred 100% ownership interest in such subsidiaries to the Operating Partnership pursuant to a Master Contribution Agreement (the MCA) in exchange for operating partnership units representing limited partner interests in the Operating Partnership.

On the IPO Date, MGP completed the initial public offering of 57,500,000 of its Class A shares representing limited liability company interests at an initial offering price of $21.00 per share, inclusive of the full exercise by the underwriters of their option to purchase 7,500,000 Class A shares. MGP contributed the proceeds from its initial public offering to the Operating Partnership in exchange for 26.7% of the operating partnership units and the general partner interest in the Operating Partnership. MGM owns MGP s outstanding Class B share following the initial public offering. The Class B share is a non-economic interest in MGP which does not provide its holder any rights to profits or losses or any rights to received distributions from the operations of MGP or upon liquidation or winding up of MGP but which represents a majority of the voting power of MGP s shares. As a result, MGP continues to be controlled by MGM through its majority voting rights, and is consolidated by MGM.

As of June 30, 2016, MGM owned 73.3% of the operating partnership units of the Operating Partnership. These operating partnership units are exchangeable into Class A shares of MGP on a one-to-one basis, or cash at the fair value of a Class A share, at the option of MGP. MGM s ownership of operating partnership units is recognized as a noncontrolling interest in MGP s financial statements. A wholly owned subsidiary of MGP is the general partner of the Operating Partnership and operates and controls all of its business affairs. As a result, MGP consolidates the Operating Partnership and its subsidiaries.

The Company is a publicly traded, controlled REIT primarily engaged through its investment in the Operating Partnership in the real property business, which consists of owning, acquiring, and leasing large scale destination entertainment and leisure resorts, whose tenants generally offer casino gaming, hotel, convention, dining, entertainment and retail. A wholly owned subsidiary of the Operating Partnership (the Landlord) leases all of the Properties back to a wholly owned subsidiary of MGM (the Tenant) under a master lease agreement (the Master Lease).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation. The accompanying condensed combined and consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information set forth in the Accounting Standards Codification (ASC), as published by the Financial Accounting Standards Board (FASB), and with the applicable rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. All adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of results for the interim period have been included.

For periods prior to the IPO Date, the accompanying condensed combined and consolidated financial statements of MGP represent the Properties, which were controlled by MGM, and have been determined to be MGP s Predecessor for accounting purposes. The accompanying condensed combined and consolidated financial statements include Predecessor financial statements that have been carved out of MGM s consolidated financial statements and reflect significant assumptions and allocations. The financial statements do not fully reflect what the Predecessor s results of operations, financial position and cash flows would have been had the Predecessor been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of MGP s future results of operations, financial position and cash flows.

For periods subsequent to the IPO Date, the accompanying condensed combined and consolidated financial statements of MGP represent the results of operations, financial position and cash flows of the Company and its subsidiaries.

The accompanying condensed combined and consolidated financial statements and related notes should be read in conjunction with the audited financial statements and notes thereto included in MGP s Prospectus filed with the SEC on April 21, 2016.

Principles of consolidation. The Company identifies entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of variable interest entities (VIEs). A VIE is an entity in which either (i) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity s economic performance or (ii) the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support. The Company identifies the primary beneficiary of a VIE as the enterprise that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity s economic performance; and (ii) the obligation to absorb losses or receive benefits of the VIE that could potentially be significant to the entity. The Company consolidates its investment in a VIE when it determines that it is its primary beneficiary. The Company may change its original assessment of a VIE upon subsequent events such as the modification of contractual arrangements that affect the characteristics or adequacy of the entity s equity investments at risk and the disposition of all or a portion of an interest held by the primary beneficiary. The Company performs this analysis on an ongoing basis. The condensed combined and consolidated financial statements include the accounts of the Operating Partnership, a VIE of which the Company is the primary beneficiary, as well as its wholly owned and majority-owned subsidiaries. The Company s maximum exposure to loss is the carrying value of the assets and liabilities of the Operating Partnership, which represents all of the Company s assets and liabilities. As the Company holds what is deemed a majority voting interest in the Operating Partnership through its ownership of the Operating Partnership s sole general partner, it qualifies for the exemption from providing certain of the required disclosures associated with investments in VIEs.

For entities not determined to be VIEs, the Company consolidates such entities in which the Company owns 100% of the equity. For entities in which the Company owns less than 100% of the equity interest, the Company consolidates the entity if it has the direct or indirect ability to control the entities activities based upon the terms of the respective entities ownership agreements. For these entities, the Company records a noncontrolling interest on the condensed combined and consolidated balance sheets. All intercompany balances and transactions are eliminated in consolidation.

Noncontrolling interest. The Company presents noncontrolling interest and classifies such interest as a component of consolidated shareholders equity, separate from the Company s Class A shareholders equity. Noncontrolling interest in the Company represent operating partnership units held by subsidiaries of MGM. Net income or loss of the Operating Partnership is allocated to noncontrolling interest based on their respective ownership percentages of the Operating Partnership. Ownership percentage is calculated by dividing the number of operating partnership units held by the noncontrolling interest by the total operating partnership units held by the noncontrolling interest and the Company. Issuance of additional Class A shares and operating partnership units changes the ownership interests of both the noncontrolling interest and the Company. Such transactions and the related proceeds would be treated as capital transactions.

MGM may tender its operating partnership units for redemption by the Operating Partnership in exchange for cash equal to the market price of MGP s Class A shares at the time of redemption or for unregistered Class A shares on a one-for-one basis. Such selection to pay cash or issue Class A shares to satisfy an operating partnership unitholder s redemption request is solely within the control of MGP s independent conflicts committee.

Use of estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company s most significant assumptions and estimates relate to the useful lives of real estate assets, real estate impairment assessments and the allocation of income taxes to the Company s Predecessor. These estimates are based on historical experience and other assumptions which management believes are reasonable under the circumstances. Management evaluates its estimates on an ongoing basis and makes revisions to these estimates and related disclosures as experience develops or new information becomes known. Actual results could differ from these estimates.

Real estate investments. Real estate investments consist of the land, buildings, improvements and integral equipment of the Properties, which were contributed to MGP pursuant to the MCA. Because the Formation Transactions represent a transaction between entities under common control, such real estate was initially recorded by the Company at MGM s historical cost basis, less accumulated depreciation (i.e., there was no change in the basis of the contributed assets), as of the IPO Date. Costs of maintenance and repairs to real estate investments are the responsibility of the Tenant under the Master Lease.

Although the Tenant is responsible for all capital expenditures during the term of the Master Lease, if, in the future, a deconsolidation event occurs, the Company will be required to pay the Tenant, should the Tenant so elect, for certain capital improvements that would not constitute normal tenant improvements in accordance with U.S. GAAP (Non-Normal Tenant Improvements), subject to an initial cap of $100 million in the first year of the Master Lease increasing annually by $75 million each year thereafter. Examples of Non-Normal Tenant Improvements include the costs of structural elements at the Properties, including capital improvements that expand the footprint or square footage of any of the Properties or extend the useful life of the Properties, as well as equipment that would be a necessary improvement at any of the Properties, including initial installation of elevators, air conditioning systems or electrical wiring. Such Non-Normal Tenant Improvements are capitalized and depreciated over the asset s remaining life. Non-Normal Tenant Improvements were $20.9 million as of June 30, 2016.

In accordance with accounting standards governing the impairment or disposal of long-lived assets, the carrying value of long-lived assets, including land, buildings and improvements, land improvements and equipment is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Factors that could result in an impairment review include, but are not limited to, a current period cash flow loss combined with a history of cash flow losses, current cash flows that may be insufficient to recover the investment in the property over the remaining useful life, a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the assets or significant changes in business strategies. If such circumstances arise, the Company uses an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows plus net proceeds expected from disposition of the asset (if any) are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying value of the assets over the fair value of such assets, with the fair value determined based on an estimate of discounted future cash flows, appraisals or other valuation techniques. There were no impairment charges related to long-lived assets recognized during the three and six months ended June 30, 2016 or 2015.

Cash and cash equivalents. Cash and cash equivalents include investments and interest bearing instruments with maturities of 90 days or less at the date of acquisition. Such investments are carried at cost, which approximates market value.

Deferred revenue. The Company receives nonmonetary consideration related to Non-Normal Tenant Improvements as they automatically become MGP s property, and recognizes the cost basis of Non-Normal Tenant Improvements as real estate investments and deferred revenue. The Company depreciates the real estate investments over their estimated useful lives and amortizes the deferred revenue as additional rental revenue over the remaining term of the Master Lease once the related real estate assets are placed in service.

Revenue recognition. Rental revenue under the Master Lease is recognized on a straight-line basis over the non-cancelable term and reasonably assured renewal periods, which includes the initial lease term of ten years and all four additional five-year terms under the Master Lease, for all contractual revenues that are determined to be fixed and measurable. The difference between such rental revenue earned and the cash rent due under the provisions of the Master Lease is recorded as deferred rent receivable and included as a component of prepaid expenses and other assets, or as deferred revenue if cash rent due exceeds rental revenue earned.

Property tax reimbursements from Tenant arise from the triple-net structure of the Master Lease which provides for the recovery of property taxes, which are paid by the Company on behalf of the Tenant. This revenue is accrued in the same periods as the expense is incurred.

Depreciation and property transactions. Depreciation expense is recognized over the useful lives of real estate applying the straight-line method. Useful lives are periodically reviewed. Leased real estate and leasehold improvements are depreciated on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	20 to 40 years
Land improvements	10 to 20 years
Fixtures and integral equipment	3 to 20 years

Property transactions, net are comprised of transactions related to long-lived assets, such as normal losses on the disposition of assets.

Property insurance. The condensed combined and consolidated financial statements include the allocation of property insurance costs incurred and paid by MGM with respect to the Company s Predecessor. MGM has an annual master property insurance program for which a total premium is allocated to each property. The allocation is based on total location value as well as the specific item insured (building, personal property and business interruption). Finally, the allocated amounts are adjusted by

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specific risk factors such as loss expectation and geographical location. Property insurance expenses were allocated to the Company s Predecessor for all th