

CASE STUDY

Monarch Casino & Resort, Inc.: Its Strategy During the COVID 19 Pandemic

By

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BIOGRAPHIES OF THE CASE STUDY RESEARCH TEAM

CALIFORNIA STATE UNIVERSITY, MONTEREY BAY (CSUMB)

Adjunct Associate Professor James (Jamy) I. Schaap

Professor James I. Schaap (lead researcher for this case study), or Jamy, as he likes to be called, has over 25 years of international business management experience in the areas of leadership and strategic planning, accounting, and finance, forecasting and budgeting, corporate training, operations, and marketing. He spent 16 of those years working for a market-leading foreign multinational firm (Salomon North America). He is also a management consultant, specializing in strategic management, and has worked for the largest consulting firm in Northern Nevada. Additionally, Dr. Schaap is a former Certified Professional Consultant to Management (CPCM) and a former Certified Business Counselor (CBC).

He has more than 40 years of experience in adjunct university teaching, specializing in strategic management and policy, organizational leadership, international management, marketing management, business communications, and changing business environments. He was a co-founder, pioneer, and former board member at The Center for Logistics Management, College of Business, University of Nevada, Reno, where he taught for more than 24 years. He is also passionate about providing much-needed graduate education to professionals who cannot attend traditional, classroom educational programs.

Dr. Schaap is adept in business writing, public speaking, facilitating, and developing the five-step strategic planning process. He has written numerous business plans, a variety of training manuals, and many policies and procedures. He has also published numerous articles in peer-reviewed journals, specifically in the business field—strategic management.

He holds a Ph.D. in Philosophy from Fielding Graduate University, an MBA from Pepperdine University, an M.A. in Human Development from Fielding Graduate University, and a B.S. in Business Administration from California State University, Northridge.

Assistant Professor Angel F. González (Researcher)

Professor Angel F. González is an Assistant Professor of Hospitality Management in the College of Business at California State University Monterey Bay (CSUMB). He focuses on teaching operations courses in restaurant and hotel management, as well as the capstone course for all Hospitality major students. Highly involved with the Monterey County Hospitality Association, the local chapter of the American Culinary Federation, and local businesses in multiple projects. For over ten years, he has served as a certified trainer and proctor for ServSafe and ManageFirst, by the National Restaurant Association. Prior to joining CSUMB, he was an instructor of Hospitality Management at Oklahoma State University in Stillwater, and before that, at Universidad del Este, in Puerto Rico.

Angel earned his Ph.D. from Oklahoma State University and his M.S. and B.S. from the University of Massachusetts at Amherst, with concentrations in Hospitality Management. He enriched his academic and hospitality operations experience earning an Advanced Culinary Arts Certificate from the Culinary Institute of America. Additionally, he completed the Professional Development Program at Cornell University in Hospitality Revenue Management and is a Certified Hospitality Educator by the American Hotel and Lodging Association.

His career in the Hospitality Industry involved working with Hyatt Hotels, Hilton Hotels & Resorts, and the Walt Disney World Company. His educational career focuses on the operational side of the Hospitality Industry and encompasses other areas include Human Resources, Hospitality Marketing, Tourism, and Gastronomy. His primary research interests are in the field of travelers' behaviors and preferences. Specifically, focusing on the factors influencing food-related choices. He is currently working on local restaurant industry, ecotourism, and Hospitality education research projects.

Dr. González is an advocate of guest service excellence, safety, sanitation, and learning through travel. His

educational philosophy includes the development of hospitality leaders with strong entrepreneurship and embracing sustainable development. In his free time, he enjoys exploring in search of new and fresh ingredients, exciting cuisines, thought-provoking art, galleries, and museums.

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ABSTRACT

Purpose

The current paper presents the case of Monarch Casino & Resort, Inc. in the domain of gaming, entertainment, and lodging. Together with the top leadership and operators of Monarch, the authors investigated the timeline, business model, and strategic processes of the company, while exploring the markets that the company caters to. The research was focused on the following sub-domains: the company's growth, business model, strategy, and operations.

Design/methodology/approach

The authors performed a review of the company's literature and conducted interviews; for the part on company performance, the authors relied on in-house online data available of their financial statements, and online data sources for public corporations.

Findings

This paper provides useful insights and lessons learned from a publicly traded company in the gaming sector of the hospitality industry. It seeks to provide a case profile of the business of focus.

Originality/value

In the current paper, the authors analyze a gaming and lodging enterprise and their pathways, including the impact of the current COVID-19 on their operations. The work's originality occurs from the access to information via the highest leadership levels at the organization, therefore pioneering the concept of a case study for a gaming enterprise.

Practical implications

It presents the operations and performance of a publicly traded corporation, with the aim of shining light and providing a useful learning tool in both academic circles and practical industry discussions. The objective being to provide information for readers to gain an understanding of the company and results of the gaming business of focus.

KEYWORDS

Casinos, Gaming, Hospitality, Lodging, Management, Strategy, Strategic Management

COMPANY HISTORY

The Early Years

Monarch Casino & Resort, Inc. (i.e., hereafter referred to as Monarch) traces its history to 1972, when David Farahi, and his brother-in-law, Isaac Poura, bought the Golden Door Motel, a 142-room motel located on four acres of leased property on the southern edge of Reno, Nevada, away from the bulk of the tourist trade that frequented the downtown casinos. The facility's only tangible asset was its proximity to the city's convention center, which, along with overflow of guests from downtown hotels during peak times, provided just enough business to keep the enterprise afloat. The motel was a two-story low-rise structure with an adjoining building that housed the lobby, a coffee shop, a banquet room, and a lounge. Because it was part of the Golden Door motel chain, the name was changed to the Golden Road Motel.

David Farahi's sons, John, Bob, and Ben went to work for the motel property soon after they graduated from college. John was a political science graduate from California State University, Hayward (i.e., now called California State University, East Bay). Bob earned a biochemistry degree from the University of California, Berkeley. Ben received a mechanical engineering degree also from the University of California, Berkeley, and an MBA degree in accounting from California State University, Hayward. Over the next several years, all three of David's sons would eventually come to work for the business on a full-time basis. In mid-1973

David Farahi bought out Isaac Poura after the brothers-in-law proved to be incompatible business partners. In 1976, with David's sons having taken on so much of the responsibility for running the business, David transferred ownership to them and his daughter, Jila Farahi.

Rebranding to Travelodge in 1983

Changing the name of the motel from Golden Road Motel to Travelodge did little to the problems that beset it. The motel struggled through the 1970s, and the three Farahi brothers filled in doing every conceivable job at some point. Not until the early 1980s, when Reno finally grew large enough to bring the Golden Road Motel well within the orbit of the city's tourist section, did the motel began to truly prosper.

In 1983, the Farahi brothers began taking steps to improve the motel's image by making it a Travelodge franchise. In addition, they took over the coffee shop again, which had been leased to outsiders, remodeled it, and opened the Copper Kettle restaurant, which proved popular and helped to bring in more local business and outside traffic. The next major step in the development of the business came in 1986 when the Farahi brothers seized an opportunity, buying 15.8 acres across Virginia Street, within walking distance of the convention center, which they believed would become highly valuable as this area of Reno continued to enjoy rapid growth. It was a costly, risky investment, but they bought the parcel and then successfully petitioned the city to have the site zoned for use as a hotel casino. That same year, they remodeled all the rooms in the Travelodge, taking another step in transforming a once-dilapidated motel into a more modern accommodation.

The use of the newly acquired property, however, did not matter greatly to the company's immediate plans, because in 1987 the Farahi brothers were successful in buying the land on which the Travelodge was situated plus several acres adjoining it. After receiving permission from the city to operate 50 slot machines on the site, they began another remodeling of the motel. They renamed it Quality Inn, and the renovated restaurant and lounge would one day form a building block for the Atlantis complex. The upgraded motel, restaurant, and combination nightclub and lounge became popular with area residents, prompting the brothers to take its most ambitious step to date—transform the Quality Inn and its eight acres of land into a major hotel casino.

The Farahi's had to meet city code that stated that any casino development outside of downtown Reno should have at least a 300-room hotel as part of the casino project. The existing motel only had 142 rooms, so the plans that were drawn-up included a 160-room hotel tower that would bring the total project room numbers to meet the 300-room threshold. To make the plans architecturally workable, the Farahi's decided that the two-story motel rooms needed to be moved to the north side of the property, so the 12-story hotel tower would be built on the main artery of South Virginia Street. At the time, the architect for the project did not see how they could move the four two-story motel wood structures from its existing foundations without demolishing them. Fortunately, a company was found in Oregon that moved structures all over the world and advised the Farahi's that, as long as they built the identical foundations in the new location, they would be able to move the buildings off the existing foundations and secure them on the new foundations. Once the plans were completed by the architect, they were submitted to

City of Reno for a special use permit. Immediately, the project encountered opposition from long-time established casino owners in downtown Reno and they organized, in the neighborhoods surrounding the project, to lobby and put pressure on the City Council to deny the special use permit, even though the property was zoned "Tourist Commercial" and the convention authority had been pushing for rooms around the convention center, which is three miles south of downtown Reno. As anticipated by the Farahi's, the City Council of Reno denied the special use permit and the Farahi's immediately filed action in the District Court against the city. Fortunately, the District Court ordered the city to issue the special use permit in late 1980s.

Finding financial backing was not an easy task, given that many bankers refused the Farahi brothers' contention that being located away from the downtown area was desirable. First Interstate Bank of Nevada finally agreed to fund the project to the tune of \$18 million, a syndicate was formed, and the project was launched in mid-1989. Soon after, the venture received an unrestricted gaming license from the state. By this time, half of the motel units had been moved to the outskirts of the property in preparation for the major construction. Working with the Farahi brothers was Peter Wilday, an experienced architect who had designed several of Reno's most successful hotel casinos. Together, they decided on a tropical motif, featuring waterfalls, palm trees, and thatched roof huts. In 1990 the rest of the motel units were relocated, and construction began on a 120-room high-rise hotel tower and a 16,000-square-foot structure that would house 500 slot machines, 21 table games, a restaurant, several bars, an outdoor pool, and a health club. Work was completed in just eight months and within 2% of the projected budget.

The 1990s

A licensing agreement with Choice Hotels International was reached, so that when the project was completed, the complex opened in April 1991 as the Clarion Hotel Casino. It was an immediate success, and less than a year later a fashionable steakhouse restaurant and nightclub were added. During the first full year in operation, the Clarion generated \$23.2 million, a significant increase from the \$5.2 million in 1990. Business was so good that by the end of 1992, the Farahi brothers had begun making plans for further expansion. This time they looked to the stock market for funding, after several gaming companies had enjoyed recent success in floating offerings. Because the company owned just one gaming property in Reno, Nevada (not Las Vegas), they met with some resistance from investment banks. Finally, Volpe, Welty & Company agreed to underwrite an initial public offering. In preparation, Monarch Casino & Resort, Inc. was formed in 1993 for the purpose of acquiring Golden Road Motor Inn, Inc., the legal name of the business. In August 1993, 2.4 million shares in Monarch were sold to the public, raising \$17.1 million.

With cash in hand, Monarch launched the next phase of the expansion plan in October 1993, constructing a second high-rise hotel tower, which added 283 rooms and suites, a buffet restaurant, an 8,000-square-foot family entertainment center, 10,000 square feet of banquet and meeting space, and 14,000 square feet of casino space that accommodated 450 more slot machines and 14 table games. In less than a year, and on budget, the new facilities were opened to the public, which once again expressed its approval through its business. Within six months occupancy rates were exceeding 90%.

In the meantime, Monarch attempted to become more than a single gaming property company. In 1993 it formed a subsidiary, Dunes-Marina Resort and Casino, Inc., and sought to become involved in the riverboat gambling business, which was opening-up in the Midwest. Monarch proposed to develop such a project in Gary, Indiana, hoping to win one of the first gaming licenses issued by the state. It won the city's approval, prevailing over a dozen rivals, including the likes of Donald Trump, Aztar Resorts International, and Carnival Cruise Lines. In anticipation of winning a gaming license, Monarch had, in March 1994, bought the Muskegon Clipper, which at 345 feet long and 65 feet wide, was one of the nation's largest riverboats. However, the vessel would not be needed. Despite winning the endorsement at the city level, Monarch was beaten out at the state level by two other bidders. The venture was written off, as was a 1995 attempt to secure a lease on a riverboat casino project in downtown St. Louis. The Dunes-Marina Resort and Casino subsidiary was finally dissolved in 1999, because Monarch had decided to focus on its Reno property.

In the mid-1990s, Monarch decided to build up its middle- and upper-middle-income clientele. As of 1994, the Clarion's customer mix was 60% local, moving closer to 50% after the expansion. Marketing efforts were concentrated in the Northwest, on Northern California, Oregon, Washington, and British Columbia. However, going forward, Monarch proposed to grow its customer base beyond these traditional markets. Another important factor in expanding the tourist side of the business was the opening of the National Bowling Stadium in Reno, a massive bowling complex that would host major tournaments and be expected to draw tens of thousands of visitors to Reno each year. In 1995, the first full year following the most recent expansion, Monarch saw revenues rise to \$53 million. With prospects looking bright, the Farahi brothers wasted no time in developing a strategic master plan for expansion that could be accomplished in phases, which the city of Reno approved.

In April 1996, Monarch terminated its licensing agreement with Choice Hotels International and changed the name of the Clarion Hotel Casino to the Atlantis Casino Resort. Conditions in the Reno gaming industry were becoming highly competitive. For example, during a 17-month stretch in 1995 and 1996 the city added 3,500 hotel rooms. Changing names in that environment was risky, but the owners believed it was in its best interest long-term and they were able to rebrand the hotel casino with only a short-term loss in business.

Monarch decided to proceed with the first phase of its master plan in May 1998, taking the unusual step of funding the \$75 million project entirely out of operating cash flow and bank financing. In June 1999 construction was completed, resulting in a third hotel tower that was 28 stories high and contained 388 rooms and suites, and 1,500 square feet of meeting space. The rooms on the top seven floors of this structure were larger, featuring more luxurious accommodations, a private concierge service, and private elevator access. The Sky Terrace bridge was also part of this expansion phase connecting the two parcels across South Virginia Street.

The 2000s

As Monarch entered the new century, it continued to invest in upgrading the Atlantis casino. In 2001, the company spent \$4.5 million to renovate suites in the third tower, acquire

new slot machines, and improve the facility's computer information systems. Another \$6.5 million was spent in 2002 to renovate the first hotel tower, a restaurant, the front desk, and the VIP services area, as well as further upgrades to the gaming equipment. In 2003, Monarch spent \$8.4 million to build a new sushi bar and salon, renovate the second hotel tower, and upgrade more gaming equipment. As a result of the continued expansion, Monarch experienced steady growth on the balance sheet. In 2003, revenues totaled \$116 million and net income of \$9.6 million.

Monarch stood at a crossroads in 2004. It had an option to purchase property in South Reno for the development of a new hotel casino. It also had the approval to expand the Atlantis by 520 hotel rooms and 500 slot machines. Moreover, it could choose to build another resort casino or entertainment facility on the 16-acre parcel of land across Virginia Street. In 2005, plans were drawn up to expand the podium of the Atlantis, which consists of additional casino space, restaurants, and meeting rooms. It also connected the expanded area with a bridge to the convention center. That project took a year to construct and was completed in the spring of 2007.

In 2011, an opportunity was presented to Monarch to acquire the casino property in Black Hawk, Colorado, which had just gone through bankruptcy. In September of 2011, the company purchased the Riviera Casino in the City of Black Hawk, Colorado, which is one of the three mining communities that were allowed commercial gaming by the state of Colorado. The city is located 45 miles from Denver off Highway 70 toward Vail, Colorado. The casino consisted of approximately 700 slot machines, 12 table games, a buffet restaurant and snack bar. Immediately, the company started developing a massive plan to upgrade and expand the facility into a full-scale casino resort spa. In 2021, after ten years of work, Monarch Casino Resort Spa is considered the finest gaming property in the State of Colorado. It consists of 516 rooms, approximately 1200 slot machines, approximately 40 table games, four restaurants, and a world-class spa on the top floor of a 23-story tower.

2021 and Forward-Looking

Despite the COVID-19 pandemic, Monarch is confident it has sufficient liquidity to fund all remaining construction and litigation costs, and ongoing capital expenditures as well as being positioned to benefit from the post-pandemic recovery. In addition, it also feels it has the products and guest services (i.e., specialty restaurants, poker rooms, sport lounges, etc.) in Reno and Black Hawk, including a premier destination gaming resort in Colorado, to provide its customer with exemplary, high-level service.

MONARCH'S BUSINESS

Overall Business Model

Monarch was incorporated in Nevada in 1993, along with its consolidated subsidiaries. It owns and operates the Atlantis Casino Resort Spa, a hotel and casino in Reno, Nevada ("Atlantis") and the Monarch Casino Resort Spa Black Hawk ("Monarch Black Hawk"), a hotel and casino in Black Hawk, Colorado. Moreover, it owns separate parcels of land next to the

Atlantis and a parcel of land with an industrial warehouse between Denver, Colorado, and Monarch Black Hawk. It also owns Chicago Dogs Eatery, Inc., and Monarch Promotional Association Inc., both of which were formed in relation to licensure requirements for extended hours of liquor operation in Black Hawk, Colorado.

Its business strategy is to maximize revenues, operating income, and cash flow primarily through the casino, food and beverage, and hotel operations. The company specifically aims to deliver exceptional service and value to its guests with its hands-on management style focused on customer service and cost efficiencies.

Atlantis Casino Resort Spa

The Atlantis is about three miles south of downtown in the generally more affluent area of Reno, Nevada. The complex features 61,000 square feet of casino space, 818 guest rooms and suites, eight food outlets, two gourmet coffee and pastry bars and one snack bar, a 30,000 square-foot health spa and salon with an enclosed year-round pool, two retail outlets offering clothing and traditional gift shop merchandise, an 8,000 square-foot family entertainment center, and 52,000 square feet of banquet, convention, and meeting room space. The casino also features 1,400 slot and video poker machines, 37 table games, including blackjack, craps, roulette, and others, a race and sports book, a 24-hour live keno lounge, and a poker room. Moreover, the Atlantis also offers a mobile race and sports betting app that is available to patrons who are physically within the state of Nevada.

Through an enclosed skywalk, the Atlantis is the only hotel facility to be physically connected to the Reno-Sparks Convention Center, which offers 500,000 square feet of leasable exhibition, meeting room, ballroom, and lobby space.

Operations at the Atlantis are conducted 24 hours a day, 365 days a year. Business is seasonal, with higher revenues during the summer months and lower revenues during the winter months.

Atlantis Casino –

The Atlantis offers what it believes to be higher than average payout rates on slot machines relative to other Northern Nevada casinos. It seeks to attract high-end players through high quality amenities and services and extension of gaming credit upon a careful evaluation of credit history.

Hotel and Spa –

The Atlantis includes three contiguous high-rise hotel towers with 818 rooms and suites. The rooms on the top seven floors in the third tower are nearly 20% larger than the standard guest rooms and come with restricted elevator access, and a private concierge service.

The Atlantis hotel rooms feature upscale designs and furnishings as well as nine-foot ceilings to create an open and spacious feel. The third hotel tower features a four-story waterfall

with an adjacent year-round swimming pool in a climate-controlled, five-story glass enclosure that shares an outdoor pool deck with a seasonal outdoor swimming pool and year-round whirlpool. Overlooking the third-floor sundeck and outdoor seasonal swimming pool is a full-service salon. It offers designer products and treatments for hair, nails, skincare and body services for men and women. Adjacent to the swimming area, the Spa Atlantis is an exclusive health spa, providing treatments and amenities unique to its market. The hotel rooms on the spa floor feature décor are consonant with that of the spa and glass elevators, rising the full 19 and 28 stories of the respective towers that provide panoramic views of the Reno area and the Sierra-Nevada Mountain range.

Restaurants and Dining –

The Atlantis has eight restaurants, two gourmet coffee bars and one snack bar (as described below):

- The 475-seat Toucan Charlie’s Buffet & Grill, offerings a wide variety of food selections from around the globe including a carving station, live action Pho and Mongolian barbeque, made-to-order salads, artisan charcuterie with a variety of imported and domestic cheeses, and an expansive array of desserts from its in-house bakery including house-made gelato.
- The 160-seat Atlantis Steakhouse – a fine-dining destination featuring Allen Brothers Prime Steaks from Chicago, fresh seafood, and numerous tableside presentations of classic steakhouse dishes.
- The Bistro Napa, featuring creative wine country cuisine served in a 140-seta main dining room with a central wine cellar and an adjacent upscale lounge.
- The Oyster Bar on the Sky Terrace offers pan roast made-to-order, fresh seafood, cioppino, homemade chowder, and bisques.
- The Sushi Bar serving creative, made-to-order sushi rolls with a wide variety of raw and cooked options, all offered in an all-you-can-eat lunch and dinner setting. Combined, the Oyster Bar and Sushi Bar can accommodate up to 137 guests.
- The 178-seat Purple Parrot coffee shop, serving breakfast and American comfort food 24 hours a day.
- The 92-seat Red Bloom Asian kitchen, featuring a modern twist on authentic Asian crafted dishes inspired by the Far East, including exotic dishes from China, Japan, Korea, Singapore, Thailand, and Vietnam.
- The 170-seat Manhattan Deli featuring authentic New York Deli favorites such as matzo ball soup, piled high sandwiches, salads, house made soups, bagels and lox, New York-style pizza, and famous New York cheesecake.
- Two gourmet coffee bars offering specialty coffee drinks, grab-and-go sandwiches, homemade gelato, and freshly baked pastries.
- The Chicago Dogs Eatery – a snack bar, serving Chicago-style hot dogs, pizza, ice cream and arcade-style refreshments.

The Sky Terrace –

The Sky Terrace is a unique structure with a diamond-shaped, blue glass body suspended 55 feet in the air, and spans 160 feet across South Virginia Street, Reno’s main thoroughfare. It connects the Atlantis with parking on its 16-acre site across from South Virginia Street. The structure rests at each end on two 100-foot-tall Grecian columns with no intermediate support pillars. The interior of the Sky Terrace houses the Oyster Bar, the Sushi Bar, a video poker bar, banks of slot machines and a lounge area.

Monarch Casino Resort Spa Black Hawk

Upon completion of its original building remodel and expansion in 2021, Monarch Black Hawk will feature 60,000 square feet of casino space, 1,200 slot machines, and 40 table games. A sports lounge, keno counter and poker room are expected to open later in 2021. The resort includes 10 bars and lounges, as well as four new dining options including a 24-hour full-service restaurant, 250-seat buffet-style restaurant, the Monarch Chophouse (a fine-dining steakhouse), and a specialty restaurant that is expected to open later in 2021. The resort also offers 516 guest rooms and suites, banquet and meeting room space, a retail store, a concierge lounge and an upscale spa and pool facility on the top floor of the tower. The resort is connected to a nine-story parking structure with 1,350 parking spaces and additional valet parking, with a capacity for a total of 1,500 spaces. The Monarch Black Hawk offers a mobile sports betting app that is available to patrons who are physically within the state of Colorado.

Location –

The Monarch Black Hawk is strategically located at the entrance to Black Hawk, Colorado. It is the first property encountered by visitors arriving from Denver and other major population centers via Highway 119.

Hotel and Spa –

The Monarch Black Hawk includes a high-rise hotel tower with 516 rooms, 106 of which are suites. The tower also includes a private concierge lounge, world-class spa, and pool deck on its top floor.

In 2020, the average daily occupancy rate, or ADR, at the Monarch Black Hawk was 29.6%, and average daily room rate, or REVPAR, were \$177.63 and \$52.97, respectively.

Quality –

The Monarch Black Hawk was established as a high-quality resort in Colorado for gaming, dining, and lodging.

High Tier Play –

Through its superior product and service, the property is designed to attract and retain upper echelon guests.

Market Growth –

With the passage of Colorado Amendment 77 on November 3, 2020, effective May 1, 2021, the Colorado market is poised for gross gaming revenue expansion after the removal of single-bet limits (i.e., casinos will be allowed to set betting limits at its discretion, current single-bet limits are capped at \$100) and the addition of new games (including baccarat, pai gow tiles and keno).

Restaurants and Dining –

The Monarch Black Hawk currently has three full-service restaurants (a fourth specialty restaurant is expected to open later in 2021) and a gourmet coffee bar, as described below:

- The 250-seat Monarch Buffet, offers a wide variety of food selections from around the globe, including a carving station, live-action Pho and Mongolian barbeque, artisan charcuterie, and an expansive array of desserts.
- The 160-seat, 24/7 restaurant, offers contemporary American and Asian cuisine in a sophisticated yet comfortable atmosphere, with an emphasis on fresh flavors and quality ingredients.
- The 110-seat Monarch Chophouse, a fine dining destination featuring 28-day aged, USDA prime cuts of beef chosen for its superior marbling and flavor, fresh seafood, and Colorado lamb in an elegant atmosphere with unsurpassed service and attention to detail.
- Java, etc., a gourmet coffee bar offering specialty coffee drinks, grab and go sandwiches, homemade gelato, and freshy baked pastries.

MONARCH'S 2021 STRATEGY

Marketing Strategy: Reno/Sparks, Nevada (the Atlantis)

The Reno/Sparks region is a major gaming and leisure destination with aggregate gaming revenues of approximately \$596 million (*Nevada Gaming Control Board: Gaming Revenue Information*, n.d.).

The Atlantis's revenues and operating income are principally dependent on the level of gaming activity at the Atlantis casino. Monarch's predominant marketing goal is to utilize all the Atlantis amenities to generate additional casino play. Meanwhile, its secondary goal is to maximize revenues from its hotel, food and beverages, spa, convention and meeting rooms, retail, and other key amenities. Knowing this, the Atlantis's location (i.e., near the airport and major freeway arteries and physically connected to the Reno-Sparks Convention Center) makes the facility appealing to leisure travelers, conventioners, and Northern Nevada residents.

For Leisure Travelers -

The Reno/Tahoe region is a popular gaming and vacation destination. The principal segments of Reno's leisure traveler market are independent travelers, package tour and travel guests, guests reached through internet-based marketing and high-end players. The Atlantis maximizes its gaming revenues and hotel occupancy through a balanced marketing approach that addresses each market segment.

Representing a large portion of the Atlantis's guests, independent travelers generally make reservations directly with hotels of its choice, through independent travel agents or the internet. The Atlantis also strives to attract the middle- to upper-middle-income strata of this consumer segment through advertising and direct marketing.

The package tour and travel segment business consist of visitors who utilize travel packages offered by wholesale operators. The Atlantis markets to this segment through relationships with select wholesalers, primarily to generate guest visits and supplement mid-week occupancy. It also welcomes domestic and international reservations on its own website (www.atlantiscasino.com) and is featured on major package tour and travel websites.

In this highly competitive hospitality type of business, the Atlantis also markets to high-end players selectively through direct marketing and hosts. It utilizes complimentary rooms, food and beverages, special events, and the extension of gaming credit to attract and maintain these players' patronage.

For Conventioneers -

The convention business, like the package tour and travel business, supplements occupancy during demand periods. Conventioneers typically pay higher average room rates than other guests. As such, the Atlantis selectively seeks convention and meeting groups that will materially enhance its occupancy and daily room rates, as well as those who will be more likely to utilize its gaming products. However, this segment was significantly affected by the COVID-19 pandemic and related state-imposed (gaming) restrictions. The Atlantis management believes that the segment will normalize after the pandemic. Moreover, the Atlantis is the only hotel-casino physically connected to the Reno-Sparks Convention Center. In management's view, the Atlantis is uniquely positioned to capitalize on this segment. Management also believes the Reno-Sparks Convention Center has created and will continue to create additional guest traffic for the Atlantis within this market segment, which is presently underserved in the Reno area.

For Northern Nevada Residents -

The Atlantis markets its location and accessibility, convenient surface parking, gaming values, ambiance, friendly and efficient service, quality, and relative value of food and beverage offerings to Northern Nevada residents.

Marketing Strategy: Black Hawk, Colorado (Monarch Black Hawk)

The marketing efforts of the Monarch Black Hawk are directed toward patrons from the Denver metropolitan area and the higher-elevation Colorado mountain areas. Black Hawk is 40 miles west of Denver.

The Denver metro area is an attractive market with a population of more than 3 million and a median household income above the national average.

Commercial gaming in Colorado is constitutionally restricted to three mountain towns – Black Hawk, Central City, and Cripple Creek – which in 2020 represented 71%, 10%, and 19% of total Colorado gaming revenue, respectively (*Gaming Division / DOR SBG*, n.d.). These constitutional limitations and scarcity of available developable land in Black Hawk have created a strong barrier to new entries in the gaming market, limiting the threat of new competition.

The Denver International Airport is the sixth highest air traffic feeder market to Las Vegas (i.e., by originating passengers only) in the United States with a 2.8% compound annual growth rate from 2015 to 2019, inspiring strong potential to attract travelers to a well-appointed Monarch Black Hawk resort with upsides from upcoming changes to table-game betting limits and game types.

Monarch Black Hawk's revenues and operating income are principally dependent on the level of gaming activity in the Black Hawk market. Leveraging its premium location, products and services, it strives to grow its market share by attracting gaming and new guests to the market and its property. Its newly introduced superior lodging, spa, and dining products are predominantly intended to drive gaming revenue.

Through Monarch Rewards, its cross-property players' club, guests become eligible for rewards and privileges based on its gaming and other spends at both the Atlantis and Monarch Black Hawk while allowing the casino to track play patterns through a computerized system. This information is used to determine appropriate levels of complimentary awards and to guide direct marketing efforts. Monarch Black Hawk believes that the Monarch Rewards program significantly enhances its ability to build guest loyalty and generate repeat and cross-property guest visits.

Consumer Spending (both locations) -

Consumer demand for entertainment and other amenities at hotel-casino and casino properties, is particularly sensitive to economic downturns and the corresponding effect on discretionary consumer spending on leisure activities and corporate spending on convention and trade shows. Monarch markets and relies on the patronage of customers from the Reno and Denver metropolitan areas. It also depends on the leisure traveler and conventioner guests. Changes in discretionary consumer spending or consumer preferences in these and other geographic markets, brought about by factors such as perceived or actual general economic conditions, effect of high energy and food costs, increased cost of travel, potential for bank failures, decreased disposable consumer income and wealth, or fears of war and future acts of terrorism, could further reduce customer demand for the amenities that Monarch offers. This imposes practical limits on pricing and negatively affecting its operational and financial results.

For example, following the 2007 recession, Monarch experienced one of the toughest economic periods in Nevada history. The housing crisis and economic slowdown in the United

States resulted in a significant decline in the amount of tourism and spending in Reno. While the economy has improved significantly since the end of that recession, its business continues to be affected by recession-induced changes in consumer spending habits. If its customers spend less per visit, its visitations decrease, or they prefer the non-gaming amenities of Monarch's competitors, its business may be adversely affected. Since its business model relies on consumer expenditures on entertainment, luxury and other discretionary items, an economic downturn would further adversely affect its operational and financial results.

The Two Resorts -

Monarch is entirely dependent on the Atlantis and the Monarch Black Hawk for all its operating cash flow. As a result, it is subject to a greater degree of risk than a gaming company with more operating properties or greater geographic diversification. The risks to which it has a greater degree of exposure include the following:

- Changes in local economic and competitive conditions.
- Labor supply disruptions and/or shortages.
- Disruptions in its supply chain.
- Changes in local and state governmental laws and regulations, including gaming laws and regulations, and the way in which those laws and regulations are applied.
- Natural and other disasters, including pandemics, epidemics, and/or outbreaks of infectious or contagious diseases such as COVID-19.
- An increase in the cost of maintaining its properties.
- A decline in the number of visitors to the Reno and/or Black Hawk area.
- A decrease in gaming and non-casino activities at its resorts.

Any of these factors can negatively affect its operational results and ability to generate sufficient cash flow to make various payments or service its debts.

Servicing Monarch's Debt

Monarch's ability to make payments on and refinance its debt and to fund future capital expenditures and expansion efforts depends on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond its control. It is possible that its business will generate insufficient cash flows from operations, or that future borrowings will not be available to it under its amended and restated credit facility agreement, dated July 20, 2016 (the "Amended Credit Facility"), in amounts sufficient to enable it to service its debt as they mature and to fund its other liquidity needs. In addition, it may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be affected on satisfactory terms, if at all.

Rising Operating Costs

The operating expenses associated with Monarch's properties could increase as the result of, among other reasons, the following factors:

- Changes in federal, state, or local tax or regulations, including state gaming regulations or gaming taxes, that could impose additional restrictions or increase its operating costs.
- Aggressive marketing and promotional campaigns by its competitors for an extended period that force it to increase its expenditures on marketing and promotional campaigns to maintain its existing customer base and attract new customers.
- Increases in costs of labor.
- Expenditures for repairs, maintenance, and replacing equipment necessary to operate its business.
- Its reliance on slot play revenues and any additional costs imposed on it by vendors.
- Availability and cost of the products and services it provides its customers, including, but not limited to, goods, beverages, retail items, entertainment, hotel rooms, and spa services.
- Availability and costs associated with insurance.
- Energy price increases because its properties use significant amounts of electricity, natural gas, and other forms of energy.

If its operating expenses increase without a commensurate increase in its revenues, its operational results will suffer.

Technology Services

Monarch relies extensively on its computer systems to process customer transactions, manage customer and employee data, and communicate with third-party vendors and other third parties. It may also access the internet to use its computer systems. Its operations require that it collect and store customer data, including credit card numbers and other personal information, for various business purposes, including marketing and promotional purposes. It also collects and stores personal information about its employees. Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. Breaches of its security measures or information technology systems or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive personal information or confidential data about it or its customers, or employees including the potential loss or disclosure of such information as a result of hacking or other cyber-attack, computer virus, fraudulent use by customers, employees or employees of third party vendors, trickery or other forms of deception or unauthorized use, or system failure, could expose it, its customers or employees, or other individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for it, damage its casino or brand names and reputations or otherwise harm its business. It relies on proprietary and commercially available systems, software tools and monitoring to provide security for processing, transmission, and storage of customer information, such as payment card, employee, and other confidential or proprietary information. Its data security measures are reviewed and evaluated regularly. However, this might not protect it against increasingly sophisticated and aggressive threats. The cost and operational consequences of implementing further data security measures could be significant.

Additionally, the collection of customer and employee personal information imposes various privacy compliance-related obligations on its business and increases the risks associated with a breach or failure of the integrity of its information technology systems. The collection and use of personal information are governed by privacy laws and regulations enacted in the United States and other jurisdictions around the world. Privacy regulations continue to evolve and on occasion may be inconsistent from one jurisdiction to another. Compliance with applicable privacy laws and regulations may increase operating costs and/or adversely affect its ability to market its products, properties, and services to customers. In addition, non-compliance with applicable privacy laws and regulations (i.e., or in some circumstances non-compliance by third party service providers engaged by them) may also result in reputational damage and vulnerabilities that could be exploited to breach its systems and/or subject it to fines, damages, lawsuits or restrictions on its use or transfer of personal information.

Any unscheduled disruption in its technology services or interruption in the supply of electrical power could result in an immediate, and possibly substantial, loss of revenues because of a shutdown of its gaming operations. Such interruptions may occur because of a failure of its information technology or related systems, catastrophic events or rolling blackouts. Its systems are also vulnerable to damage or interruption from earthquakes, floods, fires, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks and similar events.

Other Factors Affecting Monarch's Operations

Tobacco Smoking –

Legislation to ban indoor tobacco smoking has been enacted or introduced in jurisdictions in which Monarch operates. Except for gaming areas in Colorado, its properties are not currently subject to tobacco restrictions. While gaming areas have generally been exempted from these restrictions, if additional restrictions on smoking are enacted in jurisdictions in which it operates, it could experience a decrease in gaming revenue. This is particularly the case if such restrictions are not applicable to all competitive facilities in that gaming market.

Insurance Coverage -

Although Monarch has general property insurance covering damage caused by a casualty loss (e.g., fire and natural disasters), each policy has its exclusions. In addition, its property insurance is in an amount that may be less than the expected replacement cost of rebuilding the applicable complex if it were a total loss. Its level of insurance coverage may not be adequate to cover all losses in the event of a major disaster. In addition, certain events, such as public health emergencies, including pandemics like the recent spread of COVID-19, labor strikes, nuclear events, acts of war, and loss of income because of cancellation of room reservations or conventions due to fear of terrorism, deterioration or corrosion, insect or animal damage or pollution, might not be covered at all under its policies. Therefore, certain acts, events or conditions could expose Monarch to heavy, uninsured losses.

Gaming Taxes and Fees –

Occasionally, the federal government has considered a federal tax on casino revenues and may consider such a tax in the future. State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws that affect the gaming industry. In addition, an economic downturn could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes or other fees. If the state and/or local governments where Monarch's properties are located were to increase gaming taxes and fees, its operations could be adversely affected.

Losing Key Personnel –

Monarch depends on the continued performances of John Farahi, the chief executive officer, and Bob Farahi, its president, and its senior-management team. If it loses the services of the Farahi brothers, or other senior Atlantis or Monarch Black Hawk management personnel and cannot replace such persons in a timely manner with competent and experienced personnel, its business could be adversely affected.

Intermittently, the competition for employees increases. During such times, new and growing businesses in the area create job opportunities that, at times, exceed the area's supply of qualified employees. If Monarch is unable to attract and retain qualified employees, or competition for employees results in materially increased wages, its ability to maintain and grow its business could be adversely affected.

Extreme Weather Conditions –

Extreme weather or weather-related conditions, including snowstorms and forest or range fires may interrupt Monarch's operations, damage its properties, and reduce the number of customers who visit its facilities in the affected areas. If there is a prolonged disruption at either the Atlantis or Monarch Black Hawk properties due to extreme weather or weather-related conditions, Monarch's operations and financial condition could be adversely affected. For example, extreme snow in and around the Black Hawk area often leads to the closure of US Route 6 and Interstate 70, the main arteries between Denver and Black Hawk. An excessive number of snow days in a fiscal period has, in the past, and would, in the future, have a negative effect on Monarch Black Hawk's guest visitations and adversely affect its revenue, operations, and financial results for the reporting period.

While Monarch maintains insurance coverage that may cover certain costs and loss of revenue that it incurs because of extreme weather or weather-related conditions, its coverage is subject to deductibles and limits on maximum benefits. There is no assurance it will be able to fully collect, if at all, on any claims resulting from extreme weather or weather-related conditions. If any of its properties are damaged or their operations are disrupted because of extreme weather or dangerous weather-related conditions in the future, or if extreme weather or weather-related conditions adversely affect general economic or other conditions in the areas in

which its properties are located or from which it draws its patrons, its business, financial condition and operations could be adversely affected.

Legal Proceedings –

From time to time, Monarch is named in lawsuits or other legal proceedings relating to its business. The nature of its enterprise subjects it to the risk of lawsuits filed by customers, past and present employees, vendors, competitors, business partners and others in the ordinary course of business. As with all legal proceedings, no assurances can be given as to the outcome of these matters. Moreover, legal proceedings can be expensive and time consuming. In addition, Monarch may not be successful in defending or prosecuting these lawsuits, which could result in settlements or damages that could significantly affect its business, financial condition, and operations.

Legislation and Regulation –

Regulations governing the conduct of gaming activities and the obligations of gaming companies in any jurisdiction in which Monarch has or in the future may have gaming operations are subject to change and could impose additional operating, financial, competitive, or other burdens on the way it conducts its business.

For example, certain laws governing new gaming activities, such as the federal and state laws applicable to sports betting, are new or developing considering emerging technologies. New and developing areas of the law may be subject to the interpretation of the government agencies tasked with enforcing them. In some circumstances, a government agency may interpret a statute or regulation in one manner and then reconsider its interpretation later. No assurance can be provided that government agencies will interpret or enforce new or developing areas of law consistently, predictably, or favorably. Moreover, legislation to prohibit, limit or add burdens to its business may be introduced in the future in states where gaming has been legalized. In addition, from time to time, legislators and special interest groups proposed legislation that would expand, restrict, or prevent gaming operations or may otherwise adversely affect its operations in the jurisdictions in which it operates. Any expansion of gaming or restriction on or prohibition of its gaming operations or enactment of other adverse regulatory changes could have a material adverse effect on its operating results. For example, in January 2019, legal counsel for the U.S. Department of Justice (“DOJ”) issued a legal opinion on the Interstate Wire Act of 1961 (“Wire Act”), stating that the Wire Act bans any form of online gambling if it crosses state lines and reversing a 2011 DOJ legal opinion that stated that the Wire Act applied only to interstate sports betting. The validity of the 2019 DOJ legal opinion and the conflicting interpretations of the Wire Act by the DOJ are presently the subject of ongoing litigation.

Acquisition, Improvements, and Additional Expansion Potential –

Monarch seeks to identify and evaluate strategic expansion and acquisition opportunities through market and detailed financial analyses. From time to time, it develops overall master plans and then aims to execute each phase of its master plan after re-evaluating current market conditions and making comparisons with other capital investment opportunities.

Monarch has continually invested in upgrading its facilities as part of its strategic objectives. Capital expenditures were \$134.9 million in 2019, \$125.7 million in 2018 and \$46.8 million in 2017. In 2017, 2018 and 2019, capital expenditures were related primarily to the Monarch Black Hawk expansion plan, the acquisition of a parcel of land with an industrial warehouse in proximity to the Monarch Black Hawk, re-carpeting of the casino floor and hotel rooms at Atlantis, a major redesign and upgrade of several of the hotel suites at the Atlantis, an upgrade of the fountains at Atlantis, ongoing capital maintenance spending, and acquisition of gaming equipment at both properties.

Regarding its strategy, Monarch has two options for expansion at its Atlantis property. First, it could expand its existing hotel and casino, thereby providing more hotel rooms, casino floor space, restaurants, and other amenities. Second, it could develop the 16-acre parcel of land it owns across South Virginia Street. This site is connected to the Atlantis by the Sky Terrace and is currently used for surface parking and special events related to the Atlantis. It meets all current Reno zoning requirements in the event Monarch wants to expand its casino or entertainment facility. It also owns additional land adjacent to its two large sites that would facilitate expansion opportunities for administrative and other non-operational uses.

On August 28, 2015, Monarch entered a 20-year lease with Biggest Little Investments, L.P., regarding a portion of the shopping center adjacent to the Atlantis property. The lease covering approximately 4.2 acres, is used for 300 additional convenient surface parking spaces for Atlantis guests.

As mentioned earlier, Monarch intends, from a strategy implementation standpoint, to grow its operations through acquisitions, development, and organic growth. However, this growth strategy could divert management's attention, disrupt its ongoing operations, result in inconsistencies in standards, controls, and procedures, and cause it to incur substantial costs, including legal, professional, and consulting fees. That said, there is no guarantee it will be able to identify or acquire suitable companies or operations, develop, or profitably manage its additional operations or successfully integrate such acquisitions or operations into its existing operations without substantial costs, delays, or other difficulties. Additionally, there is no promise it will receive the necessary licenses or approvals for currently contemplated or future expansion and development projects.

The management of new properties, especially in new geographic areas, may require that Monarch increases its management resources. The ability to achieve its acquisition objectives may be highly dependent on, among other things, its ability to retain or train capable executives. Also, there is no assurance it will be able to manage the combined operations effectively or realize any of the anticipated benefits of its acquisitions. It also cannot provide any promise that the acquired business will generate returns consistent with its expectations. These risks may result in an adverse effect on its operations or financial condition or in costs that outweigh the financial benefit of such opportunities. Furthermore, investments in its growth strategy may result in incurring substantial debt and other expenses or consummating potentially dilutive issuances of equity securities to fund the required capital investment. This could adversely affect

the market price of its common stock, otherwise restrict its operations, and adversely affect its financial condition.

The Competition –

Gaming competition in the Reno area is intense. Based on information obtained from the December 31, 2019, Gaming Revenue Report (Nevada Gaming Control Board, 2019), there are 15 casinos in the Reno-Sparks area, each generating over \$12 million in annual gaming revenues. The competing hotel casinos in the area include Peppermill Resort Spa Casino, Silver Legacy Resort Casino, Grand Sierra Resort and Casino, Gold Dust West Casino, Eldorado Resort Casino, Circus Circus Reno, and the Sands Regency Casino Hotel.

Atlantis' primary competition for leisure travelers comes from those other large-scale casinos that offer amenities that appeal to middle to upper-middle income guests. Some of its competitors have the advantage of having significantly more guest rooms available for sale than Atlantis. Competition for leisure travelers is based on the desirability of the location, the quality and ambiance of the Atlantis facility, friendly and efficient service, the quality and relative value of rooms, food and beverage offerings, entertainment offerings, promotions, and gaming values. According to Atlantis' sources, it's location away from downtown Reno is appealing to first-time and more affluent guests.

Atlantis's primary competition for leisure travelers comes from other large-scale hotel casinos that offer amenities that appeal to middle- to upper-middle-income guests. Some of its competitors have the advantage of having significantly more guest rooms available for sale. Competition for leisure travelers is based on the desirability of the location, quality and ambiance of the Atlantis facility, meeting and banquet rooms designed to appeal to conventions and groups, friendly and efficient service, and the relative value of its rooms, food and beverage offerings, entertainment offerings, promotions, and gaming. According to Atlantis' sources, its location away from downtown Reno is appealing to first-time and more affluent guests.

The resort management believes that the competition for local guests comes primarily from other large-scale casinos outside of downtown Reno that offer amenities that appeal to middle- to upper-middle-income guests, and, secondarily, those casinos in downtown Reno that offer similar amenities. It also competes for local guests based on the desirability of its location, quality and ambiance of the facility, friendly and efficient service, and the quality and relative value of its food and beverage offerings, entertainment offerings, promotions, and gaming values. Management also believes that the Atlantis's proximity to residential areas in south Reno and its abundant surface parking provides it an advantage in attracting local guests over the casinos in downtown Reno.

The Atlantis also competes for gaming guests with hotel casino operations in other parts of Nevada, especially Las Vegas and Lake Tahoe, and those elsewhere throughout the United States and the world. Major Native American owned facilities in Central and Northern California have been very successful, adversely affecting many hotel casinos in the Reno/Lake Tahoe area. Management believes that the Atlantis also competes to a lesser extent with state-sponsored lotteries, off-track wagering, card parlors, and other forms of legalized gaming, particularly in Northern California and the Pacific Northwest. Management also believes that the Atlantis's

numerous amenities, such as a wide array of restaurants, banquet facilities, spa and surface parking are key advantages in its ability to attract local guests that competitor facilities cannot easily match without significant capital expenditures.

Black Hawk, Colorado

There is strong competition in the concentrated Black Hawk/Central City area gaming market, including 21 casinos that generated \$702 million in gaming revenues for the 12 months ended December 31, 2019 (*Gaming Division / DOR SBG*, n.d.). Competing hotel casinos in the area include Isle Casino Hotel, Lady Luck Casino, Lodge Casino, Ameristar, Bally's Casino, Golden Gulch Casino, Golden Gates Casino, Saratoga Casino, Gilpin Casino, and Z Casino. The Black Hawk Central City gaming market is geographically isolated. The only other non-tribal gaming market is Cripple Creek, 75 miles away. There are two federally recognized tribes in Southwest Colorado, both with gaming facilities, and both more than 350 miles from Denver. According to the state's tourism office on (*Colorado Casinos: Cripple Creek, Central City & Black Hawk / Colorado.Com*, n.d.) both of Colorado's American Indian gaming areas with recent developments are near the history rich Four Corners region in the southwestern part of the state, in Ignacio with the Sky Ute Casino Resort, and in Towaoc, with the Ute Mountain Casino.

Management believes that the Monarch Black Hawk's primary competition for visitors comes from larger-scale casinos in the market that offer amenities that appeal to the guests' entire vacation experience including hotel, broader dining choices, as well as other important amenities. It competes for patrons based on the desirability of its location, the first casino encountered when entering the area on the main thoroughfare, as well as the attractive setting, friendly and efficient service, and quality and relative value of its food and beverage offerings, promotions, and gaming values.

MONARCH'S BUSINESS MODEL

Impact of COVID-19

In March 2020, a pandemic was declared after an outbreak of COVID-19. To contain the virus, on March 16, 2020, the state of Colorado mandated a temporary shutdown of all casinos including Monarch Black Hawk. On March 17, 2020, the state of Nevada mandated the temporary closure of all casinos including the Atlantis in Reno. The COVID-19 outbreak has had, and may continue to have, an adverse effect on Monarch's operations.

On June 4, 2020, and June 17, 2020, Monarch was able to reopen, with limited operations, its Nevada and Colorado properties. During the first quarter of 2021, it continued to operate under government-enforced capacity restrictions. Changes were made from routine operations relating to restrictions in occupancy and social distancing requirements, which included reduced seating at table games and in all restaurants, and fewer active slot machines on the casino floors. The convention business at Atlantis was also adversely affected by the state-mandated gathering limits. Monarch experienced hotel stay and convention booking cancellations, and since the reopening, guest visitation and hotel and convention bookings have

been lower than before the state-mandated closures and are expected to remain lower for the near future. At the same time, however, its results of operation in the first quarter of 2021 benefited from pent-up demand with patrons across the gaming industry, particularly in regional gaming markets.

The company has taken noteworthy steps to mitigate the effects of the COVID-19 pandemic and uncertainty by reducing operating expenses, taking advantage of federal and state government programs that support companies and employees affected by the pandemic, and entering an amended and restated credit agreement with its lender, which extended the maturity date of the company’s credit facility to September 3, 2023 and increased the aggregated principal amount of the facility from \$241.3 million to \$270 million (i.e., consisting of a \$200 million term loan and a \$70 million revolving credit facility) with an option to increase the facility by up to an additional \$75 million revolving line of credit.

Monarch believes that its anticipated cash flows from operating activities, combined with the \$70 million available under its Fourth Amended Credit Facility, will be sufficient to fund its operations, meet its debt obligations, and fulfill its capital expenditure plans for the next 12 months.

Because of COVID-19, and its direct effect on the casino industry, Monarch, from a strategic management standpoint, had to make some significant changes to its operations. Exhibit 1 presents Monarch’s income statements for fiscal year 2016 through fiscal year 2020. Exhibit 2 presents the company’s balance sheets for the same five years. Exhibit 3 provides a review of Monarch’s stock price performance since 2016 (*History of Monarch Casino & Resort, Inc. – FundingUniverse*, n.d.).

Exhibit 1:

Monarch’s Five-Year Income Statement

Monarch’s Consolidated Income Statements
(in thousands, except per share data)
Years Ended December 31

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Revenues | | | | | |
| Casino | \$111,550 | \$128,010 | \$125,844 | \$178,585 | \$168,861 |
| Food and beverage | 43,162 | 72,578 | 71,212 | 63,416 | 60,269 |
| Hotel | 20,133 | 35,222 | 30,497 | 24,784 | 23,374 |
| Other | 9,568 | 13,356 | 12,762 | 12,467 | 11,640 |
| Gross revenues | 184,413 | 249,166 | 240,315 | 279,252 | 264,144 |
| Less promotional allowances | 0 | 0 | 0 | (48,526) | (47,112) |
| Net revenues | 184,413 | 249,166 | 240,315 | 230,726 | 217,032 |
| Operating Expenses | | | | | |
| Casino | 34,020 | 45,259 | 43,791 | 73,017 | 69,259 |
| Food and beverage | 36,123 | 57,367 | 54,002 | 25,727 | 24,627 |
| Hotel | 10,104 | 13,123 | 13,059 | 9,320 | 7,231 |
| Other | 4,465 | 6,543 | 6,206 | 4,141 | 3,855 |
| Selling, general, and administrative | 60,395 | 69,312 | 65,802 | 62,719 | 57,730 |
| Depreciation and amortization | 17,324 | 14,875 | 14,617 | 15,132 | 14,835 |

| | | | | | |
|--|--------------|----------------|----------------|-----------------|-----------------|
| Other operating items, net/loss on disposition of assets | 6,711 | <u>3,112</u> | <u>12</u> | <u>4</u> | <u>677</u> |
| Total operating expenses | 169,142 | <u>209,591</u> | <u>197,489</u> | <u>190,060</u> | <u>178,484</u> |
| Income from operations | 15,271 | 39,575 | 42,826 | 40,666 | 38,548 |
| Other income (expenses), net of amounts capitalized | (273) | <u>1</u> | <u>(177)</u> | <u>(967)</u> | <u>(616)</u> |
| Total other income (expenses) | (273) | <u>1</u> | <u>(177)</u> | <u>(967)</u> | <u>(616)</u> |
| Income before income taxes | 14,998 | 39,576 | 42,649 | 39,699 | 37,932 |
| Provision for income taxes | <u>8,680</u> | <u>(7,760)</u> | <u>(8,551)</u> | <u>(14,161)</u> | <u>(13,358)</u> |
| Net income | \$23,678 | \$31,816 | \$34,098 | \$25,538 | \$24,574 |
| Earnings per share of common stock | | | | | |
| Basic | \$1.30 | \$1.77 | \$1.91 | \$1.45 | \$1.42 |
| Diluted | \$1.25 | \$1.70 | \$1.83 | \$1.39 | \$1.39 |

Source: (Monarch Casino Resort, Inc., n.d.)

Exhibit 2:

Monarch's Five-Year Balance Sheet

Monarch's Consolidated Balance Sheets
(in thousands)
Years Ended December 31

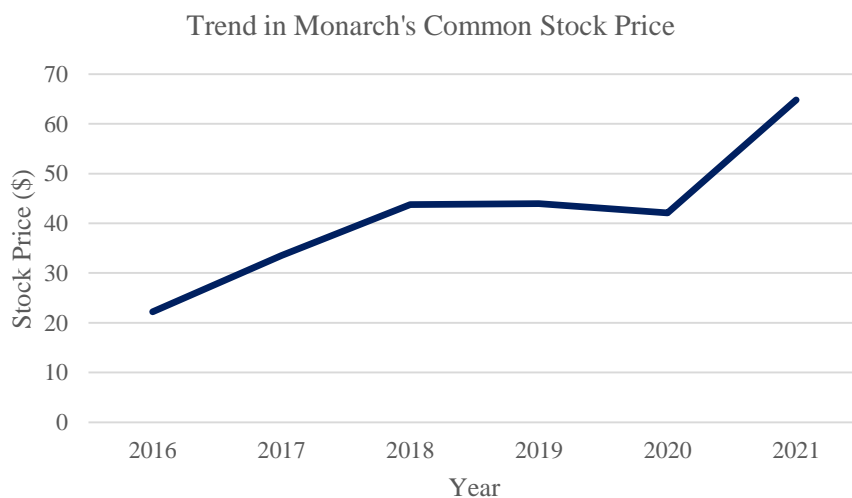
| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$28,310 | \$60,359 | \$30,462 | \$29,151 | \$26,383 |
| Receivables, net | 3,736 | 5,458 | 6,740 | 6,925 | 5,036 |
| Income taxes receivables | 24,894 | 185 | 279 | 2,008 | 408 |
| Inventories | 7,823 | 6,735 | 3,692 | 3,335 | 3,097 |
| Prepaid expenses | <u>8,393</u> | <u>6,238</u> | <u>5,508</u> | <u>4,612</u> | <u>4,487</u> |
| Total current assets | 73,156 | 79,155 | 46,681 | 46,031 | 39,411 |
| Fixed assets (property and equipment) | | | | | |
| Land | 32,986 | 30,769 | 30,034 | 30,034 | 29,549 |
| Land improvements | 9,847 | 7,842 | 7,645 | 7,249 | 6,914 |
| Buildings | 471,819 | 193,235 | 193,235 | 193,286 | 191,370 |
| Building improvements | 33,681 | 31,986 | 25,995 | 24,745 | 24,511 |
| Furniture and equipment | 229,052 | 152,461 | 139,772 | 140,404 | 134,603 |
| Construction in progress | 6,257 | 285,789 | 180,518 | 48,834 | 9,767 |
| Right of use assets | 14,784 | 15,574 | 0 | 0 | 0 |
| Leasehold improvements | 3,848 | 3,848 | 3,782 | 3,800 | 2,688 |
| Less accumulated depreciation and amortization | <u>(229,767)</u> | <u>(220,021)</u> | <u>(206,657)</u> | <u>(197,638)</u> | <u>(184,503)</u> |
| Total net fixed assets (property and equipment) | 572,507 | 501,483 | 374,324 | 250,714 | 214,899 |
| Other assets | | | | | |
| Goodwill | 25,111 | 25,111 | 25,111 | 25,111 | 25,111 |
| Intangible assets, net | 973 | 1,538 | 2,704 | 3,869 | 5,035 |
| Deferred income taxes | 130 | 2,683 | 4,027 | 3,544 | 7,354 |
| Other assets, net | 0 | 908 | 2,280 | 2,818 | 3,355 |
| Total other assets | <u>26,214</u> | <u>30,240</u> | <u>34,122</u> | <u>35,342</u> | <u>40,855</u> |
| Total assets | \$671,877 | \$610,878 | \$455,127 | \$332,087 | \$295,165 |
| Liabilities & stockholders' equity | | | | | |
| Current liabilities | | | | | |
| Current portion of long-term debt | \$12,500 | \$20,000 | \$0 | \$0 | \$0 |
| Accounts payable | 11,655 | 17,037 | 11,182 | 8,184 | 8,720 |
| Construction accounts payable | 49,771 | 7,528 | 17,152 | 5,823 | 2,605 |

| | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Accrued expenses | 34,705 | 34,109 | 31,111 | 25,406 | 23,795 |
| Short-term lease liability | <u>813</u> | <u>791</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total current liabilities | 109,444 | 79,465 | 59,445 | 39,413 | 35,120 |
| Deferred income taxes | 13,220 | 0 | 0 | 0 | 0 |
| Long-term liabilities | 13,984 | 14,797 | 0 | 0 | 0 |
| Long-term debt, net | <u>167,162</u> | <u>175,415</u> | <u>94,500</u> | <u>26,200</u> | <u>26,200</u> |
| Total liabilities | 303,810 | 269,677 | 153,945 | 65,613 | 61,320 |
| Stockholders' equity | | | | | |
| Common stock, \$.01 par value, 10,000,000 shares authorized; none issued | - | - | - | - | - |
| Common stock, \$.01 par value, 30,000,000 shares authorized, 19,096,300 shares issued; 18,426,130 outstanding at December 31, 2020; 18,141,383 outstanding at December 31, 2019 | 191 | 191 | 191 | 191 | 191 |
| Additional paid-in capital | 34,498 | 35,215 | 30,111 | 26,890 | 23,834 |
| Treasury stock, 670,170 shares at December 31, 2020; 954,917 shares at December 31, 2019 | (8,872) | (12,777) | (15,876) | (18,123) | (22,158) |
| Retained earnings | <u>342,250</u> | <u>318,572</u> | <u>286,756</u> | <u>257,516</u> | <u>231,978</u> |
| Total stockholders' equity | <u>368,067</u> | <u>341,201</u> | <u>301,180</u> | <u>266,474</u> | <u>233,845</u> |
| Total liabilities and stockholders' equity | \$671,877 | \$610,878 | \$455,127 | \$332,087 | \$295,165 |
| | | | | | |
| | | | | | |

Source: (Monarch Casino Resort, Inc., n.d.)

Exhibit 3:

Monarch's Five-Year Average Stock Price



Source: (Monarch Casino & Resort - 28 Year Stock Price History | MCRI | MacroTrends, n.d.)

QUESTIONS FOR CONSIDERATION

1. Given what you have read about this case study and any other information you were able to retrieve (i.e., from the Internet), what do you think about Monarch's 2021 strategy?

2. Because of COVID-19, what do you think about Monarch's business model?
3. In reviewing Monarch's financials (i.e., income statement and balance sheet), what financial recommendations might you make for change?
4. If you were to make some strategic suggestions for Monarch for 2022, what might they be?

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