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MERGERS AND ACQUISITIONS: Station founders bid to take company private

Proposed \$4.7 billion deal has observers wondering what will follow

By HOWARD STUTZ
GAMING WIRE

The news Monday that a partnership headed by the founders of Station Casinos and Los Angeles-based Colony Capital had offered to take the gambling company private in a \$4.7 billion transaction brought renewed interest in the gaming industry as a target for private equity investors.

Some gaming analysts had a simple question in looking at the potential Station Casinos buyout: What's next?

"The only real surprise was the timing," said Dan Ahrens, a Dallas-based portfolio manager who oversees the Gaming and Casino Fund. "Awhile back, Station Casinos' stock was jumping on rumors of a buyout. Now, we're all speculating what other casino companies could be the next target."

Coming almost nine weeks after gaming industry giant Harrah's Entertainment became the subject of a \$15.5 billion private equity buyout bid, Las Vegas-based Station Casinos said its founding executives, who took the company public in 1993, now want to make it a privately held venture once again.

The company, which operates 16 casinos throughout Las Vegas, said early Monday a special committee of its board of directors would review a buyout proposal engineered by Chairman Frank Fertitta III, President Lorenzo Fertitta and private investment firm Colony Capital.

The group, Fertitta Colony Partners, would pay \$82 a share for all 57.2 million outstanding shares of Station Casinos. The newly formed company said in a letter to the company's board that it had funding commitments from Deutsche Bank Trust Co. Americas and German American Capital Corp. to complete the transaction. In addition, the Fertitta brothers, their sister, Delise Sartini, and her husband, Blake, and Colony, would also help fund the deal.

But the deal has already drawn objections. On Monday, Helen Roessler filed a lawsuit in Nevada District Court "on behalf of herself and others similarly situated" against Station Casinos

executives and Colony Partners.

The lawsuit, which is being handled by the firm Albright Stoddard, seeks "class action for breach of fiduciary duty" and says the \$82 share price is "well below market value."

Collectively, the Fertitta family members control about 27 percent of Station Casinos' common stock.

In the letter, filed with the Securities and Exchange Commission, Frank and Lorenzo Fertitta said they would continue to operate Station Casinos in their current positions once the transaction was completed.

In a statement, the company said its nonmanagement board of directors will form a special committee to review the bid and any alternative bids that might surface. No time frame to complete that review was given.

In an investors note issued early Monday, Citigroup gaming analyst Geoffrey Davis said the potential for other outside bids might influence the company's stock price.

"Should additional offers emerge, we think the management-led group would aggressively pursue this transaction at higher levels," Davis said, speculating that a final price per share of \$85 to \$90 was "reasonable" possibility.

The news sent the share price of Station Casinos skyrocketing on the outset of trading on the New York Stock Exchange Monday. By day's end, Station Casinos stock closed at \$84.90, up \$15.80, or 22.87 percent above Friday's closing price. More than 9.1 million shares of the company were traded, nine times the average daily volume.

The news also boosted the stock prices of most of the other gambling-industry companies.

CIBC World Markets gaming analyst David Katz said speculation that private equity bidders would continue to investigate gaming as an investment would persist.

"All casino operators remain in play," Katz in a note to investors. "With shares continuing to trade on private market speculation, we recommend to investors (to) continue to own the group."

Ahrens said the market's reaction to the Station Casinos deal was based on speculation that the board of directors and shareholders would ultimately approve the buyout.

"Compared to the Harrah's deal, there really isn't much doubt that this is a done deal because of the family's involvement," Ahrens said. "The entire industry is seeing a good boost because of it."

He said Wall Street was already evaluating the next casino company that could be in the sights of private equity bidders.

"Speculation has centered on Boyd Gaming for all the same reasons," he said.

The bid for Station Casinos marks the fourth major buyout offer targeting the casino industry this year. Privately held Columbia Sussex agreed to buy Tropicana owner Aztar Corp. for \$2.75 billion in transaction expected to close in January. Meanwhile, international casino giant Kerzner was taken private by an investor group led by its chairman and chief executives.

The buyout bid Harrah's by New York-based Apollo Management and Texas Pacific Group of Fort Worth, Texas, was proposed on Oct. 2 and is still being evaluated by the company's nonmanagement board members.

Analysts have said that gaming entices private equity bidders because of the lucrative cash flows from casino operations and the companies' valuable real estate holdings. In 2005, Station Casinos reported net income of \$161.9 million on total revenue of \$1.1 billion.

Station Casinos, controls several potential casino sites around the Las Vegas Valley, including a joint-venture with the Greenspun Corp. to build a hotel-casino in the North Las Vegas master-planned community of Aliante and 58-acre parcel off Tropicana Boulevard west of Interstate 15. The company, which manages an American Indian casino outside Sacramento, Calif., also has two potential casino sites in Reno. The company's 50-50 joint venture in the Green Valley Ranch Resort with Greenspun Corp. would not be affected by the buyout.

Station Casinos has a \$2 billion line of credit that it can tap for its expansion projects, along with cash flows.

Los Angeles real estate investor Tom Barrick oversees Colony Capital, a \$20 billion private-equity fund that was founded in 1991 and operates its casinos through Resorts International. Barrick was licensed in November 2005 by Nevada gaming regulators.

Since 2003, Colony Capital has pushed into the gaming industry. The company bought Resorts, Atlantic City's first casino, for \$140 million, following up with a \$280 million purchase of the Las Vegas Hilton and its 59-acre site on Paradise Road for \$280 million.

The company's largest investment came in 2005. As Harrah's was buying out Caesars Entertainment for \$9 billion, the companies needed to divest casinos that could have federal antitrust implications. For \$1.2 billion, Colony Capital bought two casinos in Mississippi, a riverboat casino in Illinois and the Atlantic City Hilton.

CLOSING STOCK PRICES IN THE GAMING SECTOR MONDAY

Company	Closing Price	Increase
Station Casinos	\$84.90	\$15.80
Las Vegas Sands Corp.	\$97.00	\$6.30
Wynn Resorts Ltd.	\$92.30	\$4.76
Boyd Gaming Corp.	\$46.70	\$4.70
MGM Mirage	\$56.35	\$2.68
Ameristar Casinos	\$33.00	\$2.67
Isle of Capri Casinos	\$31.30	\$2.10
Pinnacle Entertainment	\$34.15	\$1.99
Penn National Gaming	\$39.00	\$1.65
Harrah's Entertainment	\$79.04	\$0.19

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