

Caesars restructuring operations to stay solvent

By Devin Banerjee and James Callan, Bloomberg

Caesars Entertainment Corp., the largest owner of U.S. casinos, said it's creating a venture that will raise as much as \$1.2 billion to finance growth investments and bolster the parent company's balance sheet.

The venture, Caesars Growth Partners LLC, intends to buy a stake in Planet Hollywood Resort & Casino in Las Vegas and interests in the Horseshoe Baltimore casino project currently under development, according to a statement released April 23. Apollo Global Management LLC and TPG Capital plan to invest \$500 million in the entity, combining the new investment with well-performing holdings in a structure less constrained by debt. Caesars said it expects to own a stake of at least 57 percent in the venture's earnings.

Caesars Entertainment Corp. Chief Executive Officer Gary Loveman said, "The transaction is an important step in our ongoing efforts to improve the company's balance sheet and position ourselves to make strategic investments."



Caesars Entertainment, which owns two Statelin properties, has had

financial problems for
years. Photo/LTN file

Caesars is the parent company of Harrah's Lake Tahoe and Harveys in Stateline.

Caesars, burdened by more than \$20 billion in debt after the 2008 leveraged buyout by Apollo and TPG, has considered moves to strengthen its capital structure for the past five years. The Las Vegas-based company, which went public in 2012, didn't want to sell more stock because it would dilute shareholders' interests, and instead decided to sell growth-oriented holdings to raise immediate cash while still retaining a stake in those assets.

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Caesars stock has more than doubled in value this year.

Caesars, bought by Apollo and TPG for \$30.7 billion, has been losing money since the global credit crisis as a glut of hotel rooms led to the biggest Las Vegas gambling slump on record. The company earlier this year had its debt rating cut by Moody's Investors Service to Caa2, as little as two levels above default. The casino operator may seek to extend its maturities at the expense of lenders, the ratings company said, giving some creditors a choice of immediate losses or the risk of default.

The company said in February that its fourth-quarter loss more than doubled because of costs related to Hurricane Sandy and a write-off at an Atlantic City property. In Atlantic City, where the company is the largest owner of casinos, gambling revenue fell 28 percent in November after Sandy forced casinos in the seaside resort to close for six days.

The new investment in the growth venture may increase to \$1.2

billion if Caesars stockholders opt to buy a stake in the entity overseeing it, Caesars said. The company will receive the option to buy back all of the venture's assets in the future, according to the statement.

Caesars was one of several jumbo-sized deals struck during a debt-fueled buyout spree from 2004 to 2007. Many of them, including Caesars, Texas utility Energy Future Holdings Corp. and media company Clear Channel Communications Inc., struggled with high debt and depressed earnings in the aftermath of the financial crisis. Some, including hospital chain HCA Holdings Inc. and retailer Dollar General Corp., have registered big gains for the buyout firms.

Apollo's sixth flagship fund was carrying Caesars at one-fifth of its \$1.34 billion investment as of Sept. 30, according to a marketing document obtained by *Bloomberg News*. Caesars had returned \$158.8 million to the private-equity firm, the document shows.

While Caesars has dedicated \$1.1 billion this year to sprucing up its properties, including the construction of the world's second-biggest Ferris wheel, the payroll tax increase felt by many U.S. consumers is contributing to an estimated \$300 million cash burn before capital expenditures, Moody's said in an April 5 statement.

A business in which Caesars stands to benefit is Internet gambling, which was legalized in New Jersey, Delaware and Nevada in the last two years. Online gaming could generate as much as \$210 million in revenue for the company and \$84 million in earnings before interest, taxes, depreciation and amortization, according to Susan Berliner, an analyst at JPMorgan Chase & Co.

Mitch Garber, CEO of Caesars's online gaming business, will be CEO of the new growth venture.