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Harrah's targeted for buyout

Private-equity firms' offer under consideration

By TOM WILEMON
tewilemon@sunherald.com

BILOXI - Harrah's Entertainment, the world's largest casino operator and the parent company of Grand Biloxi, has received a \$15.05 billion buyout offer from two private-equity firms.

Harrah's is reviewing the buyout offer through a committee of independent directors and has retained UBS Securities as an adviser.

"The special committee has not determined that a transaction is in the best interest of Harrah's and its stockholders," Harrah's said in a statement. "There is no assurance that Harrah's will enter into this or any other transaction."

The offer comes before Harrah's has announced specifics about its plans for a major expansion in Biloxi, where the company is acquiring the property of Pinnacle Entertainment and also buying several parcels around its existing casino. A new owner of the company could scale back the expansion plans, cancel them or proceed with development.

Harrah's also owns three casinos in Tunica and a casino in New Orleans.

The Grand Biloxi employs 1,400 people. Longtime employees have worked for a series of different parent companies because of past mergers. It was little over a year ago that Harrah's purchased Caesars Entertainment Inc. for \$1.87 billion in cash and \$3.27 billion in stock. Harrah's also assumed \$3.86 billion in Caesars' debt.

The proposed buyout would be the biggest deal ever for a casino operator and the fifth-largest leveraged buyout in history, according to The Associated Press. The two private-equity groups, Apollo Management and Texas Pacific Group, are offering \$81 per share in cash, a 22 percent premium to Harrah's closing stock price Friday on the New York Stock Exchange. After the news, Harrah's shares surged \$9.56, or 14.4 percent, to \$75.99 in afternoon trading Monday.

Apollo Management, which has managed more than \$13 billion of equity investments since its founding in 1990, owns chemical and plastics companies, the AMC Entertainment theater chain and nutritional supplements retailer GNC.

Texas Pacific Group, which manages more than \$30 billion in assets and was founded in 1992, owns Seagate Technology, Burger King, J. Crew, Bally (shoes and accessories) and Metro-Goldwyn-Mayer. It has operations in more than 120 countries and employs 300,000 people.

Matt Sodl, of Innovation Capital, tracks casino companies and is keeping a close watch on the Coast as the industry rebuilds from Hurricane Katrina. He said the offer is a very credible one from "very smart groups," but not a done deal. He thinks new owners would consider Biloxi a core asset.

"Whether they go where Harrah's was going to invest in all the projects that were on the table in Biloxi remains to be seen," Sodl said.

Company and city of Biloxi officials have said Harrah's may spend as much as \$1 billion to build one or more additional casinos. Investors that build new hotels and resorts on the Mississippi Coast qualify for special tax benefits under the Gulf Opportunity Zone Act of 2005. To qualify for a 50 percent bonus depreciation deduction, a developer must have new construction in place by Dec. 31, 2008.

Tom Wilemon can be reached at 896-2354 or tewilemon@sunherald.com

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