So far, track is clear for Station to go private

Steve Wynn invited the wrath of Wall Street soon after the 1999 opening of his USD 680 million Beau Rivage in Biloxi, Miss., which earned less than analysts expected.

Mirage Resorts‘ stock tanked, and Wynn, criticized for overspending on the posh property, faced an unwelcome offer the following year from Kirk Kerkorian’s MGM Grand — a bid that ended with Wynn’s company and his most precious of creations, the immensely profitable Bellagio, being wrested from him.

Fast forward to the present. Station Casinos runs up against a slowing economy not long after opening its USD 1 billion Red Rock Resort — the most expensive off-Strip casino ever built.

Once a Wall Street darling and the industry’s most impressive growth stock, Station stock falters after missing profit expectations, while analysts question whether the company went overboard at Red Rock with touches such as onyx walls and custom chandeliers. The threat of a takeover, either hostile or more friendly, is palpable.

That hypothetical scenario, although unlikely, illustrates the headache of being publicly traded — and is one reason Station Casinos bosses are taking the company private.

Although the typical tourist at a Wynn property couldn’t be more different from Station’s mostly local customer base, the companies share a long-term vision of success that includes building properties able to withstand decades of competition.

Trouble is, that approach often contradicts the quarterly profit benchmarks demanded by Wall Street.

During a marathon hearing Thursday to approve Station's transformation into a private entity, Station President Lorenzo Fertitta told gaming regulators that going private will give executives the freedom to make decisions that might hurt profit in the near term, but will strengthen the company over the long haul.

For Station, that freedom may mean slowing development over the next few years – or at least until it can pay down the debt it has raised to complete the management-led buyout.

Although he didn't reveal a timeline for future casinos, Fertitta assured regulators that the company would continue to grow by building more properties, as it has done in the past.

That could be a tall order for Station, at least in the short term. Before the plummeting housing market sunk the bond market this summer, management locked in bond financing for USD 900 million.

That alone was a coup, because many companies nationwide have had to scuttle or at least attempt to refinance deals that hadn't received commitments from banks. Of the USD 900 million, USD 350 million will be used to acquire Station, leaving USD 550 million for future projects – not enough to build another casino.

Station executives say the deal allows the company to raise more money in the future by using some of its land as collateral, although analysts say that may be a challenge because of the difficulty investment banks are having selling bonds and securities these days.

Station will be a highly leveraged company, with roughly nine times more debt than annual operating profit, after the deal is consummated.

That's what made state Gaming Control Board Chairman Dennis Neilander most uncomfortable with the buyout. Station has been one of the least risky and best performing of Nevada’s gaming companies because of the judicious use of its vast slot machine-generated wealth over the years.

Neilander questioned whether the company will be as aggressive in building casinos as it has been in the past.

After the Gaming Control Board’s unanimous approval, the deal awaits final approval by the Nevada Gaming Commission on Oct. 18.

Bosses say the company will still generate lots of cash – roughly USD 1.3 billion over the next five years – that can be used to pay down debt. No interest payments are due until 2010, and the biggest chunk of the debt payments is not due until at least 2012, they said. The rate of interest is 7 percent, low compared with the double-digit interest rates often paid by smaller companies attempting big deals.

„You know our business. We’re a slot-centric company … with a stable cash – flow stream,“ Chief Accounting Officer Tom Friel told Control Board members Thursday.

Executives already had created a convoluted, although opportunistic, financing structure to prevent the company from running afoul of interest expense limits set by bondholders.

Station set up affiliates that hold different pieces of debt, including an operating company that pays rent on casino properties to a separate company that holds the assets.

Regardless of the company’s immediate plans, the new management structure at Station ensures that Frank and Lorenzo Fertitta will end up with the final word on major decisions for years – or at least until the company decides to go public again.

The brothers will hold two of the seats that make up the private entity’s board of managers, with the third held by

Colony Capital Chief Executive Tom Barrack. The Fertittas and Barrack will each have the right to appoint an additional board member later , although these three individuals, weighted toward Station, are solely responsible for major management decisions.

Handing control of the company to the Fertittas makes sense given their experience and stellar track record in Las Vegas' locals market, a business in which Barrack, a fund manager, has little experience. But it's still unusual because Colony is putting up the bulk of the money. Colony is contributing USD 2.7 billion in equity versus the USD 900 million contribution from the Fertittas.

Maintaining local control is ultimately good news for regulators as well as the company's future as a major Las Vegas employer – especially if the company intends to avoid a Mirage Resorts-style takeover.