

Harrah's bet yet to pay off as debt presses

Las Vegas (Reuters) – The biggest bet on the Las Vegas Strip has not paid off yet.

Private equity firms Apollo Global Management and TPG Capital bought Harrah's Entertainment, which operates nearly 40 casinos across the United States, for USD 31 billion in January.

It was the peak of a leveraged buyout bubble that moved companies like Hilton Hotels and Station Casinos into the hands of private investors.

Now Harrah's has put most of its development plans on hold as it grapples with a soft economy and a heavy debt load.

„They are doing everything they can to avoid a debt restructuring. The equity investors would be wiped out,“ said Kim Noland, director of high yield research at Gimme Credit.

„They are basically breaking even on a cash flow basis.“

Spending is mostly focused on a new hotel tower at Caesars, which is slated to open next year, and USD 400 million a year for maintenance. It is using the rest of its cash for interest payments, Noland said.

„Four hundred million dollars is a lot – with so many properties it wouldn't be completely out of the question that they might cut back on maintenance,“ she said.

But by delaying capital investment and discounting room prices to keep casinos full, Harrah's runs the risk of losing customers once the economic cycle turns positive.

The credit crunch, combined with higher prices for energy and

food staples, has sapped consumer spending power – a double whammy for casinos, which depend on customers with plenty of disposable income.

Harrah's, which operates seven Las Vegas casinos including the Strip's Caesars Palace and Bally's, has shelved any major development of its Vegas holdings – at the same time competitors are adding thousands of luxury hotel rooms to the gambling mecca.

„They are really positioning Caesars as the high-end, but their other (Vegas) properties are really mass-market. Even Paris is more of a mid-level property,“ said David Schwartz, head of the gaming studies research center at the University of Nevada, Las Vegas.

As one competitor said: „When you market on a deal, the only thing you can offer is a better deal.“

Harrah's property earnings fell 11 percent in the first half of this year and gambling revenue continues to fade – the latest figures showed a 15 percent drop in July for Las Vegas Strip casinos.

Harrah's debt is now trading as low as 37 cents on the dollar and its equity investors last month said they had written down the value of the investment by about 20 percent.

The company is carrying debt equal to more than 9 times its estimated 2008 cash flow, compared with a rate of about 6 for competitor MGM Mirage.

When the private equity deal was announced, Chief Executive Gary Loveman said Harrah's would move forward with long-standing plans to redevelop holdings on the Las Vegas Strip and Atlantic City as well as new casino projects in the Bahamas, Spain and Slovenia.

The Atlantic City expansion has been completed, but Loveman

said on a conference call last month that the project in Spain is „sitting idle“ given the dire state of that country’s real estate and capital markets. He also said Harrah’s had withdrawn from the projects in Slovenia and the Bahamas.

The company has slowed work on a potentially USD 1 billion casino in Biloxi, Mississippi, citing market conditions and the current financing environment.

Meanwhile, previously-announced plans for a stadium and redevelopment in Las Vegas remain in the master planning stage, Harrah’s Senior Vice President Jan Jones told Reuters in an interview.

„Harrah’s as a public company talked about a lot of things, but the priorities are different for a private company,“ said Majestic Research analyst Matthew Jacob.

Loveman’s strategy for Harrah’s has focused on leveraging the company’s massive customer database, called Total Rewards, to cross-market its nationwide chain of casinos, which includes brands like Horseshoe, Harrah’s and Caesars.

Jones said Harrah’s strategy has been to target the mass-market customer and it is keeping Vegas hotel rooms booked during the current downturn by feeding in customers from its Midwestern casinos. „We have a property for everyone,“ she said.

Harrah’s spokesman Gary Thompson said the company „has a lot of cash on hand,“ but is being „conservative and thoughtful“ about how to deploy its resources.

Harrah’s said in April that it planned to change its name to Caesars Entertainment in order to appeal to customers looking for opulence and luxury, but Jones said that is also on hold for the time being.

„We want to tie it to a major initiative – maybe the opening

of the new tower at Caesars," she said.