

Harrah's Debt Load Will Nearly Double

Casino giant Harrah's Entertainment Inc.'s debt load will nearly double and its priority will shift to paying it down instead of reinvesting in growth after one of the biggest leveraged buyouts ever, according to SEC documents filed Wednesday.

Harrah's Chief Executive Gary Loveman told key employees that the company's debt would rise to USD 21 billion, or eight times operating profit, from the current multiple of 4.7, after being bought by Apollo Management Group and Texas Pacific Group, according to a presentation he made Tuesday after the deal was announced. Other Securities and Exchange Commission filings show Harrah's current debt is USD 10.7 billion.

Equity in the company will shrink from more than USD 14 billion to USD 7 billion, SEC documents show. One slide from Loveman's presentation was titled: „With high initial debt levels, capital allocation priorities will likely change.“

Harrah's historical priorities show two check marks beside „reinvest for growth“ and „mergers and acquisitions,“ but only one beside „share repurchases“ and „reduce debt.“ Under the new structure, only one check mark goes toward reinvestment and acquisitions, while two appear beside reducing debt.

Loveman's presentation backs up some analysts' conclusions that the company's growth plans will take a back seat to debt repayment after it accepted a USD 17.1 billion buyout bid by the private equity firms.

Standard & Poor's Ratings Services on Wednesday lowered its ratings on Harrah's to „BB“ from „BB+“ to reflect the expected higher debt load. It left the company on credit watch for a

further downgrade.

„The financial realities of being a moderately leveraged company to being a highly leveraged company is that there's just less financial flexibility on a capital spending front,“ said Susquehanna Financial Group analyst Robert LaFleur.

„You have competing uses for each dollar of free cash flow. You know, do you invest it in another project or do you use it to de-lever the company that you just levered up to financially execute this transaction?“ he said.

Loveman told The Associated Press on Tuesday that he was „confident“ that master plan redevelopments on the Las Vegas Strip and Atlantic City, N.J., would continue, and added there were no plans to sell off any properties.

Texas Pacific founding partner David Bonderman said the private equity pairing would be able to „help Harrah's deliver on its growth strategy“ with a long-term perspective. Harrah's is pursuing projects in the Bahamas and Spain, SEC documents show.

Analyst David Katz with CIBC World Markets said property sales would need to be considered to reduce debt. The Rio casino-hotel in Las Vegas and Showboat in Atlantic City are prime sell-off candidates because they fall outside core brands Harrah's, Horseshoe, Bally's and Caesars, he said.

„The next issue for us is to figure out which properties they may or may not want to sell and how does the math pencil out?“ he said.

Loveman said in his presentation that shareholder approval for the deal was expected some time in 2007 and the deal would be completed in about a year.

A special committee of Harrah's board, which excludes Loveman, said it would continue to solicit third-party bids for 25

days, a standard period that also gives the buyers time to raise funds.

The SEC filings on Wednesday showed the penalty for nixing this Apollo-Texas Pacific bid for a higher suitor would cost Harrah's USD 500 million, and cost the private equity partners USD 500 million if the deal fails because they can't obtain financing. The bidders also would pay USD 250 million if the deal fails because they can't get regulatory approval.

The transaction for Harrah's, excluding debt, ranks as the seventh-largest leveraged buyout ever, according to Thomson Financial. The largest was RJR Nabisco Inc.'s USD 25 billion acquisition by Kohlberg Kravis Roberts & Co. in 1998.

Harrah's is the world's largest casino company by revenue, operating 39 casinos nationwide, including Caesars Palace, Bally's and Paris on the Las Vegas Strip, and Caesars and Harrah's in Atlantic City, N.J. It also has interests in Casino Windsor in Canada and Conrad Punta del Este in Uruguay and owns U.K.-based London Clubs International PLC, which operates seven casinos in the U.K., two in Egypt, one in South Africa and is a consultant for a casino in Lebanon.