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Station Casinos Caters to Locals,  
 Taking Strategy to Indian Sites

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 INVESTOR'S BUSINESS DAILY

Tourists love the glitz and glamour of Las Vegas. Yet regular people — lots of them — live and work behind that neon facade.

Those residents like to gamble, too. But they don't want to bump shoulders with thousands of out-of-towners on the Strip.

That's where Station Casinos<sup>SM</sup> comes in. It runs 11 casinos that cater mainly to Vegas residents. Its facilities sit in local neighborhoods and offer amenities geared toward everyday people.

"We pioneered the local market as it exists today in Las Vegas," said Glenn Christenson, Station's executive vice president and chief financial officer.

That market's not small. Las Vegas nearly doubled its population between 1990 and 2000, according to Census figures. It's seen climbing another 18% by 2005.

"Las Vegas was the No. 1 growing community in the country the last 15 or 20 years," Christenson said. "I don't see anything slowing that growth down. It's a very attractive alternative for retirement."

Instead of pirate ships and showgirls, Station's casinos aim for a family environment. They include bowling alleys, movie theaters and restaurants. Some have child care and computer cafes.

They get business from Vegas residents who may work in Strip casinos but don't want to gamble in that setting. Development should lure more workers to the area, boosting Station's customer base. Its facilities also draw retirees with plenty of time and money.

"The retiree population base has a huge level of disposable time and disposable income," said Marc Falcone, analyst with Deutsche Bank Securities.

**Dinner, Movie Or Gambling?**

Growth in gambling close to home isn't just a Vegas trend. The phenomenon helped turn gaming stocks into market leaders during the first quarter, says Lawrence Klatzkin, analyst with Jefferies & Co.

"The average person spends three hours in a local market casino and spends less than \$50," Klatzkin said. "That's equal to dinner and a movie or a sporting event. It's just another form of local entertainment, and it's become more socially acceptable."

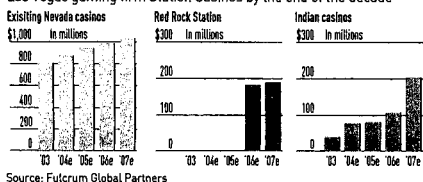
Laws passed in 1997 put a moratorium on new casino building in much of Las Vegas. Station bought up many of the sites that were grandfathered into that legislation. That



Station Casinos runs the Green Valley Ranch and 10 other properties that cater to Las Vegas locals. AP

**Betting On Revenue Growth**

Deals with Indian tribes will make up a greater chunk of revenue for Las Vegas gaming firm Station Casinos by the end of the decade



gives the firm room to branch out as the population grows.

"We were very aggressive in quietly acquiring as much gaming-entitled property as we could," Christenson said.

The firm is expanding its Santa Fe Station property. It began construction this year on the \$450 million Red Rock Station, which it's calling a next-generation locals' casino. It owns a 50% stake in the four-star Green Valley Ranch and a 7% chunk of the hip Palms Casino Resort.

Still, you can build only so many casinos before you saturate a market — even the Las Vegas market. So Station has begun looking outside its home territory for opportunities.

One place with room for growth is Indian reservations. Last month, Station signed a deal with the North Fork Rancheria of Mono Indians in California's Central Valley to build a \$225 million casino. The facility will

have 2,000 slot machines and 70 table games. Station will provide financing and manage the property in exchange for 24% of net income.

That's Station's fifth deal with an Indian tribe. Last year, the firm built a 200,000-square-foot casino called Thunder Valley with the United Auburn Indian Community near Sacramento, Calif. It opened in June and netted the company \$17.2 million in fourth-quarter revenue. Deutsche Bank's Falcone said the tribal casinos could add \$2 a share to earnings by 2006-07.

"Station has leapt to being one of the clear leaders in Native American gaming," Falcone said. "Their success with the Thunder Valley property was a result of getting additional contracts, and I don't think they're done."

Casino operators such as Harrah's Entertainment and Caesar's Entertainment are inking similar pacts.

The deals give casino firms a big return on a small investment. Meanwhile, tribes get financial backing and experienced management.

"Native American casinos are by and large in local markets," Christenson said. "Tribes like our track record relative to our peer group in return on investment and operating margins, and we are the experts in local gaming."

**Slots Drive Profits**

Unlike Strip casinos, the bulk of Station's profit — 85% — comes from slot machines. Strip facilities get much bigger percentages from hotel rooms and table games. That's a more volatile mix, which fluctuates with room and occupancy rates. Station's cash flow is much more predictable, Christenson says.

Like Strip casinos, Station suffered after the 9-11 terrorist attack crushed tourism. Profit fell 51% in fiscal 2001 while revenue declined for the first time in a dozen years. Strip layoffs left the firm's core customers with less gambling money.

The company is back on the upswing with three straight quarters of triple-digit earnings growth. It topped first-quarter profit views by 5 cents a share Tuesday and raised second-quarter and full-year estimates above Wall Street views. Analysts see average annual growth of 19.8% the next five years.

Shares have more than doubled since breaking out of a long base in March 2003.