

Definition of Ratings:

Buy: at least 20% undervalued

Hold: less than 10% overvalued

Sell: at least 20% undervalued

Industry: Gaming

Sector: Casino

Screening Criteria: Small-to-Mid Market Capitalization

Companies:

Hollywood Casino (HWD)

Isle of Capri Casinos (ISLE)

Ameristar Casinos (ASCA)

Aztar Casinos (AZR)

Boyd Gaming Corp. (BYD)

Station Casinos, Inc. (STN)

Argosy Gaming (AGY)

S&P 500: 1125.11

10 Year T-Bill: 5.235%

Disclaimer: See back of report for important disclaimer.

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Gaming Industry: Small & Mid Cap Casino Stocks

“You got to know when to hold ‘em”

-Kenny Rogers



April 8, 2002

Recommendation: **Selective Buy**

Our outlook for the Gaming Industry is positive overall, buoyed by higher consumer confidence and a recovering economy. However, equities in this sector have undergone significant price appreciation since 9-11 (**BYD, ASCA**). We believe that while several issues are overvalued, there are still aces left that have not been dealt.

Recommendation:
Selective Buy

The gambling industry is an extreme example of the difference between expected and actual consumer spending patterns post September 11th. Conventional wisdom held that people would not come out to gamble, especially if it involved air travel to places like Las Vegas. Each of the seven stocks comprising the small to mid-cap gaming sector exhibited a significant decline. Seeking potential value in an industry that was definitely hurt by the terrorist attack, we decided to explore this sector. Unfortunately, so have others.

Full Recovery from 9/11

- Every stock in this sector has not only recovered from the September price decline, but some are up over 100% despite exhibiting signs of financial distress.

*Expected Continued
Improved Performance*

- Revenues and bottom line performance should improve quarter over quarter as the market absorbs recent industry growth. The only major new casino in the country slated to open in the next year is a joint venture of MGM and BOYD in Atlantic City, which has not seen a new casino since 1990.

*Absorption of
Oversupply through
Consolidation*

- Consolidations in the Gulf Coast area after several rough years of oversupply will also enable the market to absorb existing demand before another growth spurt. Other facilities in the Midwest are adding lodging accommodations that will attract over night guests, which spend more per capita than day-trippers.

*Strong Revenue
Growth in Both Short
and Long Term*

- We expect that this sector will exhibit strong revenue and earnings growth in both the short and the long term. While several stocks in this industry appear to be undervalued, several have price multiples that already reflect extremely optimistic expectations for performance.

While small cap assets (as a multiple of EBITDA) have been increasing in value over the past few years, they are not keeping pace with investor expectations in 2002.

*Overall Economic
Improvement*

- We believe that improvements in the overall economy will have a positive effect on the gaming sector. Leading indicators, such as Las Vegas hotel occupancy rates, are already back at pre-9/11 levels.

We believe this sector will exhibit growth over the coming year by both restoring operations to year-ago performance levels as well as attracting people more interested in staying closer to home. Expansion in gambling operations in the Midwest and south over the past couple years will continue to gain traction and improve bottom line performance. Discounts in the travel and tourism sectors will have a positive effect on revenues in destination casinos, a major segment of the market. Overall, we feel this sector is a mixed bag, with several stocks overvalued by the market, several others undervalued, and several that are adequately priced. Due to the favorable overall outlook for industry earnings growth however, we rate this industry a **Selective Buy**.

Industry Analysis: Overview

Asset Class definition:
Owners, developers, and
operators of predominantly
American casinos that are
small caps (300M to 1B)

More than 500 legal casinos operate in the United States. Nevada has the largest number of legal casinos (~240). In 2001, casinos made an estimated \$35 Billion in winnings. Standard & Poor's estimates that 40% of casino winnings came from the two largest markets of Atlantic City, NJ (\$4.3B) and the state of Nevada (\$9.5B). An estimated \$9.7B came from casinos allowing "riverboat" gambling, and approximately \$9.5B came from casinos on Native American Land. The remaining \$2.0B came from casinos in Detroit, Colorado, South Dakota, and New Orleans. Casino activity accounts for approximately 54% of the estimated \$6.4B lost by legal casino patrons in 2001.¹ Although large cap companies account for over three quarters of the revenue in the sector, we have chosen to focus on smaller, domestic players capitalized at over \$300Million but less than \$1Billion.

While the gaming industry is somewhat resilient to economic decline, its revenues come primarily from consumer disposable income, which increases along with a healthy economy. Consumers do tend to be somewhat inelastic in their preference for gambling over alternative ways of spending their disposable income, which somewhat insulates this industry from recessions. Goldman Sachs' research indicates that the recession beginning in March 2001 was mild and has since ended, and that the economy will grow moderately in 2002, at an estimated annualized percentage rate of 2.4%.² However, consumer confidence has remained strong throughout the recession, responsible for smaller declines in gambling revenues than in the overall economy.

The gaming industry is similar to the lodging industry in that drivers of growth in this industry primarily come from three areas:

Improving Existing Operations

Brands are very difficult to achieve, and what is nice one year can become threadbare the next. The advantage of improvements is that upgrading operations will improve the image and the bottom line without the major financial commitments of building a whole new property. This is especially important in riverboat properties (like ASCA) that are only now building accommodations to increase the appeal of properties to out of town guests. Expansions help smaller casinos improve the overall attractiveness of their property to leisure travelers who look for an all-inclusive get-away package.

Building New Properties

The industry is just completing a phase of expansion in the Las Vegas market that saw five major new casinos enter the market. Most of these go in at great cost by the majors and are themed to distinguish themselves from the competition. Recent themes have included city based themes (Paris, New York, and Venice) and more typical themes such as western (adopted by

¹ Standard & Poor's Industry Surveys: Gaming & Lodging, 2/7/02.

² Goldman Sachs Macroeconomic Outlook. Dudley, William, 4/1/02.

STN for all its properties), movies (HWD), and tropical themes (ISLE as well as Mandalay Resort Group NYSE:MBG).

OVERVIEW OF U.S. GAMBLING

(All amounts in millions of dollars)

ACTIVITY	AMOUNT LOST BY GAMBLERS (INDUSTRY WINNINGS)			% SHARE OF INDUSTRY WINNINGS
	1999	2000	% CHG.	2000
Parimutuels:				
Horses	3,382.9	3,338.9	(1.3)	5.4
Greyhounds	489.7	457.1	(6.7)	0.7
Jai alai	44.7	46.6	4.3	0.1
Total	3,917.3	3,842.5	(1.9)	6.3
Lotteries:				
Video lottery	1,397.0	1,657.0	18.6	2.7
Other games	14,952.8	15,558.7	4.1	25.3
Total	16,349.8	17,215.7	5.3	28.0
Casinos:				
Nev./NJ slots	8,739.8	9,146.9	4.7	14.9
Nev./NJ tables	4,243.7	4,407.6	3.9	7.2
Deepwater cruise ships	273.4	280.2	2.5	0.5
Cruises-to-nowhere	318.8	339.5	6.5	0.6
Riverboats	8,340.0	9,014.6	8.1	14.7
Other land-based	787.3	1,428.0	81.4	2.3
Other commercial	183.4	171.0	(6.8)	0.3
Noncasino devices	2,002.0	1,558.2	(22.2)	2.5
Total	24,888.4	26,346.0	5.9	42.9
Legal bookmaking:				
Sportsbooks	109.2	123.8	13.4	0.2
Horsebooks	9.4	6.8	NM	0.0
Total	118.6	130.6	10.1	0.2
Card rooms	909.3	949.3	4.4	1.5
Bingo	1,044.6	994.2	(4.8)	1.6
Charitable games	1,417.7	1,483.8	4.7	2.4
Total	3,371.6	3,427.3	1.7	5.6
Indian reservations				
Class II	1,149.8	1,198.1	4.2	2.0
Class III	8,464.9	9,238.5	9.1	15.0
Total	9,614.7	10,436.6	8.5	17.0
Internet gambling*	1,167.0	2,207.5	89.2	3.6
Total legal gambling	58,260.5	61,398.6	5.4	100.0

NM-Not meaningful, *Because Internet gambling is conducted globally, gambling revenue from Internet gambling is not included in the grand total.

Source: Christiansen Capital Advisors LLC.

New Acquisitions

Acquiring new properties gives experienced operators the opportunity to streamline operations and gain scale quickly. Three of the companies we track (ISLE, STN, and AGY) have purchased at least two casinos in the past two years.

Diversification

Another important factor in this industry is diversification. The drop-off in travel late last year was a very clear example of how being in only one market exclusively can have severe consequences. One casino Aladdin PLC, entered bankruptcy proceedings in late September 2001 after being open only year.³

*High Levels of
Consumer Confidence*

According to the University of Michigan survey, consumer confidence soared in March to its highest levels since December of 2000.⁴ Because the casino revenue is heavily dependent upon consumers' sense of their own wealth, and consequently the amount of risk they are willing to take, we feel that consumer confidence is a better predictor than overall economic health for this industry. Consequently, we predict that revenues from gaming, excluding other factors, will increase nationally by slightly greater than 2.4% over the course of the next year.

Geography:

The three main casino centers in the United States are Nevada, Atlantic City, NJ, and gambling along the Mississippi River / Gulf Coast. The latter two are sensitive to regional economic health while the former has a greater amount of sensitivity to trends in tourism and travel. We expect these factors to have an impact on short term stock prices as described below:

Las Vegas and Nevada

Nevada was exposed to negative revenues due to the events of 9/11. In October of 2001, Las Vegas strip-area winnings were down 10.6% Year to Year.⁵ As a destination attraction, this casino center was hurt by consumer's reluctance to fly over the last six months. Going forward, we expect that continuing airfare price wars, cheap hotel rooms, and further incentives to travel will offset the residual effects of the terrorist attacks. Recent growth in convention bookings in Vegas suggests that the city is recovering well from the September 11th effect. We expect these factors will cause revenues to come in ahead of expectations.

*Offsetting Effects from
the Events of 9/11*

"Las Vegas has successfully been pirating away convention business from other Southwestern cities, such as Phoenix, Anaheim, Calif., San Diego and Los Angeles. A reason is the value of Las Vegas compared to other cities," Jim Murren, president and CFO of MGM Mirage, said.⁶ While Las Vegas will never become Orlando, we believe that increasingly family friendly offerings including newer casinos with shopping and attractions will improve

³ Standard & Poor's Industry Surveys: Gaming & Lodging, 2/7/02.

⁴ University of Michigan Consumer Confidence Survey, March 2002.

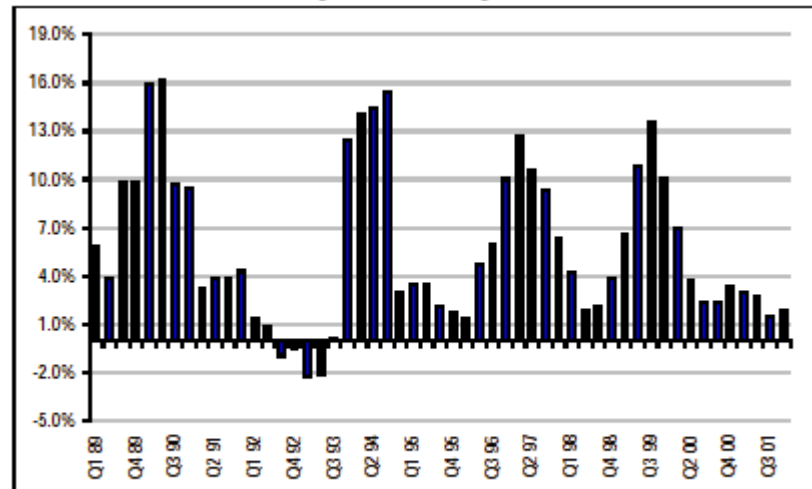
⁵ Nevada Gaming Commission and State Control Board. 4/02.

⁶ David Strow, "Casino earnings likely to show recovery", Las Vegas Sun. April 5, 2002

this region's overall market share of the tourism industry to a greater degree than currently expected.

No new major properties on the Strip are planned before at least 2005, thus allowing all companies to absorb any excess supply that might exist from any downturns in the industry.⁷

Year over year % change in total Las Vegas hotel rooms



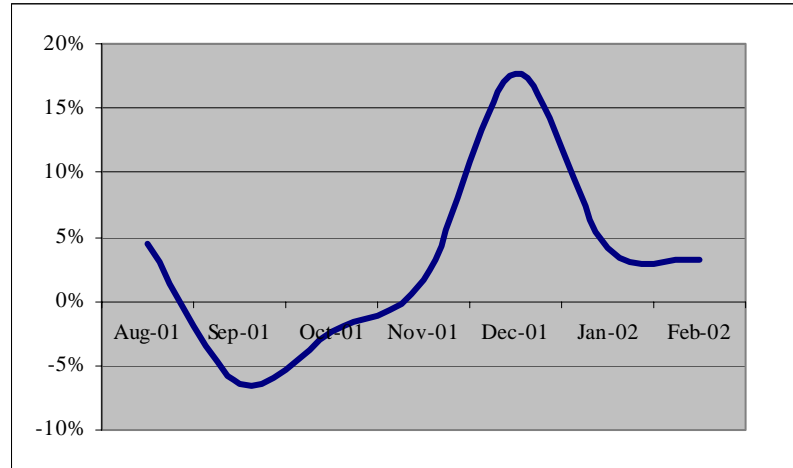
Source: Las Vegas Convention and Visitors Authority.

Atlantic City, NJ

About 35,000,000 people visit Atlantic City each year – almost all by car or bus. The events of 9/11 had a short-term negative impact on the New York metropolitan area's economy, which was reflected in decreased revenues for Atlantic City, NJ establishments in September and October of 2001. In the end, however, three-quarters of the boardwalk casinos improved revenues over 2000 performance. Most others' were only flat. This in part recognizes that people wanted to stay closer to home and avoid flying if they could.

⁷ Merrill Lynch, Gaming/Lodging, the all inclusive package, March 27, 2002. p.6.

Atlantic City Casino Winnings % increase from previous year



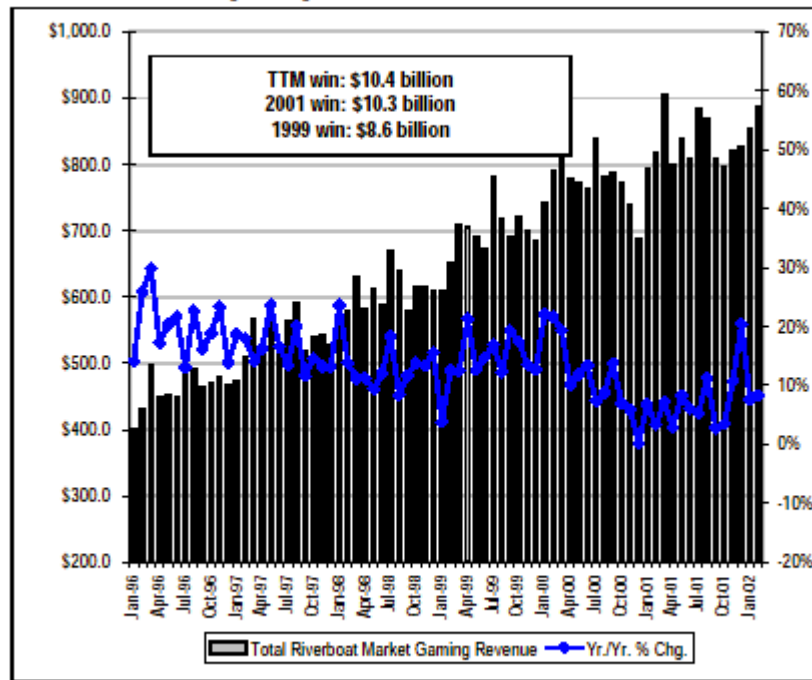
Source: New Jersey Casino Control Commission, 4/02.

Our research indicates that the adverse effects of these terrorist attacks on Atlantic City have passed, and consumers are likely to frequent the casinos closer to home. 30% of Atlantic City gamblers are day-trippers, and that has helped the City rebound faster than initially thought. We do not foresee adverse economic conditions in the Mid-Atlantic Region that will impact gaming revenue that differs from that of the overall country. One new gaming facility, named the Borgata, is the first large facility in 13 years, will open in 2003 (in part owned by BYD). The facility has the potential well stimulate travel to the entire market as people check out the newest offering for gaming.

South & Midwest

These regions were least affected by the events of September 11, with approximately a 3% decline in Year-to-Year revenues in October 2001. Properties in this region are becoming more sophisticated and experienced at gaming. Originally (and nominally) confined to riverboats, and sometimes without hotels to attract over-nighters, gambling is now creeping ashore (into New Orleans and Biloxi, MS, as if evolution were occurring before our eyes). This is a new industry, for the first authorized gambling facility in this area opened in 1991. After spending and overbuilding on the Gulf Coast in the 90's (the Beau Rivage being the most prominent example), operators are learning the market better and slowly obtaining the support of regulators to improve opportunities for services (see the regulation section below). Taxes are higher, but so are operating margins compared to Las Vegas and Atlantic City.

Chart 55: Total Gaming Revenue for Riverboat Markets, 1996-Present
Year-Over-Year Percentage Change



Source: State Gaming Commissions.

Regulation

Regulation plays a key role in the gaming industry. Gaming is a heavily regulated industry, controlled both at the National and State level. The geographic limitations on this market create both barriers to entry and a relatively unsaturated market in regions distant from existing gambling centers. While the long-term trend has been pro-gambling, changes in regulations are uncommon and occur very slowly. Economic strength tends to have little effect on regulation. However, because casinos create jobs, taxes, and tourism, economic weakness increases the likelihoods of additional authorization. For existing casino stocks, decreased regulation would lead to unfavorable competition. Over the long term, this type of legislation is expected. However, in the short term, we do not expect regulation to have any significant impact to the revenues of these stocks in their markets. If anything is noticed, it will be actions like relaxing requirements for getting riverboats underway (which only applied to a few jurisdictions anyway – many riverboats are on pilings in the water!)

Of particular note in light of recent events is the effect of regulation on accounting transparency in gaming stocks. The cash flows of gaming industry stocks are carefully scrutinized and strictly regulated leaving little room for accounting shenanigans. In addition, the relatively large percentage of income as cash lends to the reliability of financial statements. Investors wishing to avoid accounting uncertainties would likely place a premium on gaming stocks in relation to other investments in the current market.

*Little Negative Short-Term
Effects Due to Legislation*

*High Amount of Accounting
Transparency Good for
Stock Performance*

Consolidation

Consolidation of existing casinos will tend to lead to increased market diversification which will lower risk reward. Because of the nature of this business, we do not expect consolidation to have a major impact on revenues or market pricing in the next year.

Casinos have many substitutes both in terms of entertainment and financial speculation, including amusement parks, Internet gambling, and on-line trading. The American Psychological Association indicates that “people gamble because they're looking for excitement, enjoyment and a challenge, while winning money is often a secondary motivating factor.”⁸ On-line trading, in its heyday, still did not have a significant negative impact on gaming revenues.

Casinos are shifting toward a more “family friendly”⁹ atmosphere in order to capture a greater percentage of the dollars spent on entertainment in the US. Companies that exhibit spending on these types of projects will, in addition to capturing market share from traditional casino operations, increase the overall size of the casino pie and open up this market for further diversification into other segments of the entertainment industry.

Loyalty Programs

Casinos are increasingly employing loyalty programs similar to those commonly seen in shopping centers to build loyalty and increase repeat visits to a specific casino. These programs may become increasingly important in developing switching costs that could ultimately separate winners from losers.

Capital Expenditures

Because the ultimate product of casinos is relatively undifferentiated, new casinos tend to cause customers to switch from other casinos. Because gambling is restricted to specific saturated geographic areas, competition within these specific areas can be fierce. Due to inherently low consumer switching costs, we expect that casinos that continue to refurbish and build new casinos that are in a favorable position to capture a large percentage of gaming revenue.

Other Key Factors

Cheap energy prices:

Lower energy prices from the last several years will tend to improve the operating margins of these relatively electricity intensive operations. However, this will not present a significant competitive advantage over other industries.

Slots are the profit driver in this industry:

Slots are cheap to install (\$7000) but can rake in \$30,000 per machine annually, and in some cases over 40% of revenues for our subject firms. They are very popular with people who want to gamble but haven't taken the time to learn a table game. Interestingly, the payout in Vegas is better than the payout in Atlantic City, although east coast machines are used more heavily. Over the past decade, slots have increased their proportion of overall revenues, and they should continue to be even more profitable as electronics replaces the mechanical parts. See Company Statistics (2) at the

⁸ American Gaming Association, 6/2000.

⁹ Standard & Poor's Industry Surveys, “Hotels & Gaming.” 2/02.

Service-industry employment:

end of this report (page 21) for estimated revenues per slot machine as a contribution to overall revenue.

The casino industry tends to employ a large amount of low-skilled labor. A higher unemployment rate over the past 18 months has likely increased profit margins. The expected improvement in economic conditions and decline in the unemployment rate will likely lead to an end of favorable labor costs, which we expect will have a negative impact on the bottom line.

We believe the casino industry is in a good position to benefit through operating efficiencies generated through the use of technology, particularly regarding procurement. However, this does not represent a significant competitive advantage over other industries or has been mispriced by the market.

Upcoming Events:

April 8th - 9th, 2002

New York

New York Gaming Summit

Desmond Hotel and Conference Center, Albany

April 25th - 26th, 2002

San Diego

National Indian Gaming Association (NIGA) Conference

San Diego, California

May 8th - 9th, 2002

Mississippi

9th Annual - Southern Gaming Summit

Mississippi Coast Coliseum and Convention Center

May 13th - 15th, 2002

Canada

Global Interactive Gaming Summit

Toronto Convention Centre

May 22nd, 2002

Atlantic City

Mid-Atlantic Gaming Congress

Boardwalk Hall, Atlantic City

June 11th - 12th, 2002

Puerto Rico

2002 Caribbean Gaming & Hospitality Conference

Caribe Hilton, San Juan

June 24th - 26th, 2002
Las Vegas
iGaming World
Bellagio Resort and Casino

Companies

Argosy Gaming Company
(AGY): BUY

Argosy Gaming Company is an owner and operator of six riverboat casinos located in the central United States. The Company has riverboat gaming operations in St. Louis, Kansas City, Baton Rouge and Sioux City. Argosy also has a riverboat casino that serves the Cincinnati market from Lawrenceburg, Indiana. In the first quarter of 2001, the Company purchased its minority partners' collective 42.5% interest in the Lawrenceburg casino, giving Argosy 100% ownership of the Lawrenceburg Partnership. As a result, the Company now owns 100% of all its casinos. On July 31, 2001, Argosy acquired 100% of the Empress Casino Joliet, which serves the Chicago, Illinois, market.

This quarter, Argosy's Lawrenceburg facility (which comprises approximately 42.5% of EBITDA) has exceeded expectations¹⁰, indicating both a robust local economy and sound corporate management. In addition, it appears that proposed local Indiana taxes that were likely to have a negative effect on earnings will not go into effect in the near future. Moreover, proposed competing gambling facilities in nearby Kentucky are unlikely to be approved. In addition, the company is making sound capital expenditures in both the under saturated Chicagoland and Kansas City areas that are likely to prove lucrative in the future. This company is currently trading at a discount to other similar stocks in the market, leading us to believe that the market undervalues its growth opportunities.



¹⁰ Indiana Gaming Commission. 4/2/02.

Ameristar Casinos
(ASCA) : BUY

Ameristar Casinos, Inc. is a multi-jurisdictional gaming company that owns and operates casinos and related hotel, food and beverage, entertainment and other facilities, with six properties in operation in Missouri, Iowa, Mississippi and Nevada. All of the Company's principal operations are conducted through its wholly owned subsidiaries. The Company's properties are the Ameristar Kansas City in Missouri; Ameristar Council Bluffs in Iowa; Ameristar St. Charles in St. Louis, Missouri; Ameristar Vicksburg in Mississippi, and the Jackpot Properties in Nevada, which includes the Cactus Petes Resort Casino and The Horseshu Hotel & Casino. The Reserve, which included The Reserve Hotel Casino located in Henderson, Nevada, was sold to Station Casinos, Inc. on January 29, 2001.

In the Missouri market, which comprises 60% of the company's EBITDA, Ameristar has outpaced consensus earnings estimates and outperformed most of its peers.¹¹ In Mississippi, Ameristar's recently upgraded property has garnered increased market share.

Ameristar Casinos Inc
as of 1-Apr-2002



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Aztar Casinos (AZR):
BUY

Aztar Corporation operates in domestic gaming markets with casino hotel facilities in Atlantic City, New Jersey, and Las Vegas and Laughlin, Nevada. Aztar operates riverboat casinos in Caruthersville, Missouri, and Evansville, Indiana. The Company is a developer and operator of casinos that provide a gaming environment for middle- to upper-tier customers. Aztar's properties include Tropicana Atlantic City, Tropicana Las Vegas, Ramada Express, Casino Aztar Evansville and Casino Aztar Caruthersville

¹¹ Missouri Gaming Commission, 4/2/02.

. Aztar's results for the 4th quarter of 2001 exceeded expectations. We believe that Aztar's niche approach to the casino business provides switching costs that are undervalued by the market.

Aztar Corp
 as of 1-Apr-2002



Boyd Gaming Corp.
 (BYD): SELL

Boyd Gaming Corporation is a multi-jurisdictional gaming company that owns and operates 11 casino entertainment facilities. The Company has operated in the Las Vegas market for more than two decades and has entered several other gaming jurisdictions in the past seven years. As of December 31, 2000, the Company owned an aggregate of approximately 512,400 square feet of casino space, containing 14,366 slot machines and 417 table games. The Company derives the majority of its ongoing gross revenues from its casino operations. Food and beverage revenue represents the only other revenue source that produces more than 10% of ongoing gross revenues.

Boyd has significantly exceeded earnings expectations for 1Q02 spurred by a very strong opening of new properties Delta Downs in Vinton, LA and significant earnings growth in the company's Las Vegas properties. However, earnings at other recently renovated Las Vegas properties disappointed, leaving question as to the consistency of the company's management strategies. Due to significant recent appreciation, this stock is trading as a significant premium to others in the sector. In light of differing results in the same markets, we believe that this recent growth shows "irrational exuberance" by the market and recommend a sell to lock in gains.

Boyd Gaming Corp
as of 1-Apr-2002



Hollywood Casino Corp.
(HWD): HOLD

Hollywood Casino Corporation (HCC) develops, owns and operates distinctively themed casino entertainment facilities under the name Hollywood Casino. Through its subsidiaries, HCC owns and operates a riverboat casino and entertainment facility in Aurora, Illinois, approximately 35 miles west of downtown Chicago; a casino, hotel and entertainment complex in Tunica County, Mississippi, located approximately 30 miles south of Memphis, Tennessee; and a destination gaming resort located in Shreveport, Louisiana, approximately 180 miles east of Dallas, Texas.

Hollywood is the only company of its peer to currently have negative earnings. However, it still trades at a relative Price/Sales discount to this group. We believe that the renovations the company is conducting on its properties in the lucrative and underserved Chicagoland market give it potential profitability or a possible target for a buyout, which the company's management has been seeking. In addition, the Chairman and CEO, Jack Pratt, and another director were recently ousted and sued by the company for violating securities laws. This turmoil, by people who collectively own more than 34% of the company, is enough news for investors to shy away from this company until its outcome is better understood. The recent price gain results from news that the company is trying to sell itself either in pieces or together. Harrah's (HET) is a strong contender and has shown interest in the Chicago property.¹²

¹² Reuters, "Hollywood Casino Corp. seeking buyers", Doug Young, March 18, 2002.

Hollywood Casino Corp
as of 1-Apr-2002



Isle of Capri Casinos
(ISLE): HOLD

Isle of Capri Casinos Inc. is a developer, owner and operator of branded gaming and related lodging and entertainment facilities. The Company owns and operates 12 gaming facilities located in Lake Charles and Bossier City, Louisiana; Biloxi, Vicksburg, Tunica, Natchez and Lula, Mississippi; Bettendorf, Marquette, and Davenport, Iowa; Kansas City, Missouri; and Las Vegas, Nevada. The Company also owns a 57% interest in and operates a casino and hotel facility in Black Hawk, Colorado. The gaming facilities in Lake Charles, Bossier City, Biloxi, Vicksburg, Tunica, Natchez, Lula, Kansas City, Marquette, Bettendorf and Black Hawk operate under the name "Isle of Capri" and feature the Company's tropical island theme. The gaming facility in Davenport, Iowa operates under the name "Rhythm City." The gaming facility in Las Vegas, Nevada operates under the "Lady Luck" name. In addition, the Company owns and operates a pari-mutuel harness racing facility in Pompano Beach, Florida.

Recent disappointing results and consequent impairment charges from several of this company's key properties causes us to question management strategy. We are also concerned with the company's relatively high leverage. Although the stock price trades at a relative discount to its peer group, we do not see results or any future prospects that support this company's value at any other level. We feel this security is fairly priced.



Station Casinos, Inc.
 (STN): SELL

Station Casinos, Inc. is a gaming company that owns and operates seven distinctly themed hotel/casino properties and two smaller casino properties in the Las Vegas metropolitan area. The Company also owns and provides slot route management services in southern Nevada. The Company owns and operates Palace Station Hotel & Casino, Boulder Station Hotel & Casino, Texas Station Gambling Hall & Hotel, Sunset Station Hotel & Casino, Santa Fe Station Hotel & Casino, Fiesta Casino Hotel, The Reserve Hotel & Casino and Tropicana Station, Inc., the operator of Wild Wild West Gambling Hall & Hotel. The Company also owns a 50% interest in Town Center Amusements, Inc., doing business as Barley's Casino & Brewing.

While the company's 1Q02's performance was better than expected, we feel that the upside is rather limited given the stock's current price premium. We feel that there is a significant chance the company will trade at a level closer to it's peers, which represents greater than a 20% discount. Recently the company received a favorable ruling from the Department of Interior that may allow for the company's interest in an underserved market in California. While not a sure bet, a casino that opens in California will be very popular with people who now have to drive for 10 hours to get to Vegas from San Francisco. Another concern is the non-diversification – all properties are located in Las Vegas.

Station Casinos Inc
as of 1-Apr-2002

Splits: ▼



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Standard & Poor's: Lodging & Gaming Industry Survey, 2/7/02.

Anders, DiPietro, and Marlowe Gaming/Lodging, the All Inclusive Package
Merrill Lynch, 27 March 2002.

Gamingfloor.com

University of Michigan Consumer Confidence Survey, March 2002.

“Gaming Cos. Bet on Richer Takeout Multiples” *Mergers & Acquisitions Report*, March 18, 2002.

American Gaming Association

Nevada Gaming Commission and State Control Board

New Jersey Casino Control Commission

Indiana Gaming Commission

Missouri Gaming Commission

Small to Mid-Cap Casino Companies

[illegible]

Company Statistics (1)

[illegible]

Company Statistics (2)

Company Statistics	SF of Casino Space	Slots	Gaming tables	2001 revenue (MM)	Est. Slot revenue (MM)	Slots as a % Rev/SF of Casino Space
Ameristar Casinos, Inc. (ASCA)*	560,000	14,000	600	\$ 627	\$ 420	67% 1.12
Argosy Gaming Company (AGY)	213,500	6,593	246	\$ 785	\$ 198	25% 3.68
Aztar Corporation (AZR)	252,500	8666	318	\$ 850	\$ 260	31% 3.36
Boyd Gaming Corporation (BYD)	512,000	14,366	417	\$ 1,102	\$ 431	39% 2.15
Hollywood Casino Corp. (HWD)	145,000	3,984	163	\$ 459	\$ 120	26% 3.16
Isle of Capri Casinos (ISLE)*	436,000	14,905	544	\$ 1,041	\$ 447	43% 2.39
Station Casinos, Inc. (STN)*	470,000	15,000	250	\$ 830	\$ 450	54% 1.77

*Estimated resources

77,514
out of 300,000
nationwide

Valuation	Price 4/1/02	Shares outstanding	Market Cap (MM)	Net Debt (MM)	Enterprise Value (MM)	EBITDA	EV/EBITDA Multiple	ROIC 2003E	WACC
Ameristar Casinos, Inc. (ASCA)	\$ 26.30	27.9	\$ 733.8	\$ 780.0	\$ 1,513.8	\$ 165.6	9.1x	13.9	10.2
Argosy Gaming Company (AGY)	\$ 36.50	29.2	1,065.8	930.8	1,996.6	233.3	8.6x	17.9	9.6
Aztar Corporation (AZR)	\$ 21.75	38.2	830.9	345.8	1,176.7	184.6	6.4x	10.4	9.6
Boyd Gaming Corporation (BYD)	\$ 14.98	62.4	934.8	1,048.4	1,983.2	215.6	9.2x		
Hollywood Casino Corp. (HWD)	\$ 15.80	25.3	399.7	548.0	947.7	76.8	12.3x		
Isle of Capri Casinos (ISLE)	\$ 18.20	30.3	551.5	1,018.0	1,569.5	272.2	5.8x	12.2	8.3
Station Casinos, Inc. (STN)	\$ 16.70	58.1	970.3	983.9	1,954.2	203.4	9.6x	9.7	8.5

Source:Hoovers and Merrill Lynch

8.7x
Average

Source: Merrill Lynch

Disclaimer

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