

LBO WIRE

Z Capital Strikes Exclusivity Pact With Affinity Gaming in \$700M Deal

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Z Capital Partners has entered into an exclusivity agreement with Affinity Gaming to acquire the shares it doesn't already own in the Las Vegas casino operator for \$15 each, according to a filing with the **Securities and Exchange Commission**.

The deal values Affinity Gaming at about \$700 million in enterprise value, said a person familiar with the situation. Z Capital offered \$15 a share in cash, according to a letter the firm sent to the Affinity board on Nov. 25.

Z Capital Partners, which is the private equity arm of Z Capital Group, owns 40.4% of the company through its various vehicles, including Z Capital Special Situations Fund GP LP, according to the **SEC** filing.



AFP/Getty Images

Dmitry Astakhov

Handshake

The Lake Forest, Ill., firm, with both private equity and credit businesses, first invested in Affinity Gaming with its debt and acquired an equity stake in the casino and slot machine route operator when it came out of a chapter 11 bankruptcy protection process it filed in 2009 after taking on too much debt for expansion.

Z Capital Partners, which specializes in turnaround situations and targets companies with enterprise value under \$1 billion, has tried for years to gain control of Affinity and has been buying interests from fellow shareholders. In the past year, Z Capital has made several offers to acquire shares it didn't already own, with the purchase price raised from \$9.75 a share in April to \$13 a share on Nov. 15. Its latest offer price of \$15 each was raised from the \$14.50 proposed on Tuesday, according to **SEC** filings.

Shares of Affinity are registered with the **Securities and Exchange Commission**, but they don't trade on an exchange and rarely change hands. Other Affinity shareholders include Greenwich, Conn.-based hedge fund firm **Silver Point Capital** and **Highland Capital Management** in Dallas.

Affinity has 11 casinos in four states, including the Primm Valley Resort & Casino and four others in Nevada.

The company said earlier this month that its **net revenue of \$300.4 million** for the first nine months of the year was 2.3% higher than the year-earlier period, buoying adjusted earnings before interest, taxes, depreciation and amortization to \$52.5 million for the nine months ended Sept. 30, up 34% over the \$13.3 million a year ago.

The person familiar with the situation said Z Capital noted that Affinity's casinos are mostly regional ones that cater to locals, as a form of entertainment, rather than tourists, and therefore have a more stable revenue source, especially as the low energy prices allows its clients to have more disposable income.

Should the deal go through, the person said, Affinity-with operations also in Colorado, Missouri and Iowa-would be in a position to act as a consolidator in the industry when other casino operators optimize their businesses and may shed some locations.

The gaming industry has been in flux with several large operators being financially distressed. At the beginning of this year, **Caesars Entertainment Corp.** placed its largest unit under chapter 11 bankruptcy protection after a 2008 leveraged buyout by **Apollo Global Management** and TPG Capital that hampered its balance sheet right as the financial crisis hit. Late last year, **Trump Entertainment Resorts Inc.**, which owns two Atlantic City casinos bearing Donald Trump's name, filed for chapter 11 bankruptcy protection despite having already shut down three of its 12 casinos last year.

Data provider IBISWorld said in an October note that U.S. gaming revenue is expected to record a steady annual growth of 1.2% in the next five years from the current revenue of \$19.8 billion as unemployment eases and domestic and international travel grows.

The person familiar with the situation said there is also a real estate element to the Affinity investment, which could be taken advantage of through vehicles such as a real estate investment trust.

With the exclusivity agreement, Affinity's board has until Dec. 14 to make a decision on the acquisition proposal, according to the **SEC** filing.

Z Capital, with about \$2.3 billion in regulatory assets under management, has offices in New York; Lake Forest, Ill.; and Zurich.

<https://www.zcap.net>

<http://www.affinitygaming.com>

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