

With Caesars bid, Tilman Fertitta seeks biggest stage yet

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At 61, Tilman Fertitta doesn't have a lot to prove. He has a cache of profitable businesses, a hit reality TV show on CNBC, an NBA basketball franchise and an estimated net worth of \$4.5 billion.

But Fertitta, nonetheless, has embarked on a quest to merge his vast private holdings of casinos and restaurants with Caesars Entertainment Corp., one of the gambling industry's biggest publicly traded companies worth \$6.1 billion. If Fertitta can pull it off, he will become the chief executive of a sprawling global empire and gain the opportunity to show again, on his biggest stage yet, that he has what it takes to pump new life into a struggling old brand and make it pay.

His takeover proposal — in which he merges his company into the bigger Caesars, takes 30 percent of the stock and moves it into the CEO suite — is an audacious move in a career marked by audacity. The Galveston native dropped out of college to pursue business, making his first million in what would have been his senior year. While still in his 20s, he placed a bet on a couple of seafood restaurants, building them into his Landry's chain.

He relentlessly rolled up other restaurant brands, steamrolling opponents when necessary, and invested some \$400 million to bring a five-diamond hotel to Houston. When the Houston Rockets came up for sale, he paid \$2.2 billion — a record for an NBA franchise.

If he succeeds in his Caesars bid, Fertitta would face even bigger challenges, not only needing to turn around an underperforming company that emerged from bankruptcy only about a year ago, but also do it in an industry that has struggled to stay profitable as markets grow saturated and competition from online gambling intensifies. That Fertitta is taking on such hard work at a point in life when most would ease back comes as no surprise to those who know him and have done business with him.

"If you want to be the king, you want the entire kingdom," said Ronnie Jones, chairman of the gaming board in Louisiana, where Fertitta operates a Golden Nugget casino, one of five he owns. "Caesars is a huge kingdom. I think Tilman wants the challenge of owning the keys to the kingdom."

Caesars, along with its famous Caesars Palace, is one of the best known brands in the gambling industry. Under the proposed deal, the Las Vegas company will essentially absorb Fertitta's restaurants and Golden Nugget casinos — including debt — in an exchange of stock, sources familiar with the proposal said. The deal, which values Caesars' shares at \$13 each, would give Fertitta control of the enterprise and greater access to capital. Fertitta's businesses last year had sales of around \$4 billion, \$700 million in operating income and debt of \$4.2 billion.



Caesars, whose predecessor Harrah's started in 1937 as a single bingo hall in Reno, Nev., operates more than 50 casino and hotel properties, including 10 on the Las Vegas Strip. During the Great Recession, however, tourism, convention and gambling dollars dried up, and the company, weighed down with \$18 billion of debt, filed for Chapter 11 bankruptcy in 2015. Caesars emerged from bankruptcy in 2017 with about \$9 billion of debt.

Since then, Fertitta has been approached by some Caesars shareholders, wondering if he had any interest in the company, a source familiar with the deal said. Fertitta declined to comment.

Caesars is reportedly planning to reject Fertitta's bid. But rejection hasn't stopped Fertitta before.

Friends and business associates describe Fertitta as driven, a CEO who sees the big picture, but also thinks through the tiniest details. At his newest Houston hotel, The Post Oak, he had a hand in choosing everything from bathrobes to the plush chairs in the spacious lobby. When he visits the hotel, next to Landry's headquarters on the West Loop near the Galleria, he looks for any signs of wear. He'll stop to pick up a cigarette butt if he finds one in the parking lot.

He also has an eye for value and a keen sense of worth, say those who know him. In 2000, when he wanted to add the Rainforest Cafe to his restaurant holdings, he bid \$125 million for the chain — a bid that was rejected as undervaluing the company.

Fertitta, however, held firm, refusing to up his offer and predicting that Rainforest's share prices would fall. Several months later, they did, and Fertitta bought Rainforest for \$50 million less than his original offer.

"If you are just patient," Fertitta said in 2011, "the deals always come back to you."

Fertitta was born in Galveston to a family with ties to the restaurant and gaming business. His grandfather, Vic Fertitta, was an owner of the Balinese Room, a local nightclub and gambling parlor that drew famous acts such as Frank Sinatra and Bob Hope. His father, also Vic Fertitta, ran a local seafood restaurant called Pier 23. The young Fertitta grew up peeling shrimp and waiting tables there.

Fertitta studied business at Texas Tech University and hotel management at the University of Houston before dropping out to further his entrepreneurial endeavors. He had been buying discounted dresses from upscale markets in Dallas and reselling them in the Houston area. He later sold Shaklee vitamins, distributed Pac-Man video games and ran arcades. In the early 1980s, he started a construction company where he built houses and small commercial developments.

Fertitta became an investor in a Landry's seafood restaurant in Katy. In 1986, took over the business and began improving operations, offering consistent meals and service to customers looking for an affordable family dining experience.

In 1993, with just nine restaurants, Fertitta took Landry's public, and began a string of acquisitions that included Joe's Crab Shack, Rainforest Cafe, Saltgrass Steakhouse, Claim Jumper and Bubba Gump Shrimp Co. (He took his company private again in 2010). He turned a former Houston fire station into the Downtown Aquarium, transformed an old fishing village into the Kemah Boardwalk and tore down Galveston's Flagship Hotel, where he once worked as a lifeguard, and turned it into the Pleasure Pier with roller coasters, a Ferris wheel and restaurants.

He still has a major presence in Galveston, where he owns several properties, including the San Luis Resort, Hilton and Holiday Inn, which are not included in the proposed Caesars merger. The Post Oak Hotel, a luxury car dealership, a downtown Houston Westin and the Rockets are also not part of the deal.

Over the years, Fertitta became known for playing hardball. In 2011, he offered to purchase McCormick & Schmick's for \$137 million, but the board of the Portland, Ore. restaurant chain rejected the proposal and adopted a poison pill to make the takeover bid more expensive for Fertitta.

Fertitta lobbied shareholders, pitting factions against each other, and a month later, McCormick & Schmick's put itself up for sale. After posting a disappointing earnings report, the restaurant chain agreed to sell to Fertitta for \$5 million less than his initial offer.

Fertitta got into the gambling business in 2005, when he bought the Golden Nugget casinos in downtown Las Vegas and Laughlin, Nev. That, too, was in his blood. His cousins Frank Fertitta III and Lorenzo Fertitta run Station Casinos, a chain of locals-oriented casinos in Las Vegas. They declined to comment.

Fertitta revamped the downtown casino, one of the oldest in the glittering gambling mecca, in his own larger-than-life image. Today, it's the largest casino in downtown Las Vegas with 2,419 rooms and a three-level swimming pool with an enclosed slide that goes through a shark tank.

"When he came in to buy the Golden Nugget in downtown Las Vegas, it was kind of a brilliant move because the Golden Nugget is one of the premier brands in the gaming industry, like a five-star quality brand," said Matt Sodl, managing director of southern California investment bank Innovation Capital. "And what he has done is he's taken his restaurants' operating mindset and brought it to the gaming industry and created really solid, kick-ass properties on a regional basis."

In 2011, Fertitta bought a Trump casino in Atlantic City and spent \$150 million to transform it into a Golden Nugget, infusing new Landry's restaurants, a pool and a spa into the property. Two years later, he saw an opportunity to acquire a casino in Lake Charles, La., a two-hour drive from Houston. Fertitta, who had long hoped Texas lawmakers would legalize gambling, realized he could expand the southern Louisiana gaming market by attracting well-heeled clientele from Texas.

Fertitta called the CEO of Pinnacle Entertainment, which owned the property, and submitted a \$50 million nonrefundable deposit just so he would have exclusive negotiating rights for the casino. Eventually, Fertitta acquired the property for \$215 million, upgraded the facilities and convinced Louisiana gaming officials to grant him a license. Later he added a tower, taking his investment to more than \$1 billion.

Initially, gaming officials and competitors feared the Lake Charles market — which already had a riverboat casino, a racetrack and the LAuberger casino — would not be big enough to accommodate Fertitta's casino. But Fertitta's plan to extend the market into Texas worked. The Golden Nugget, which opened in late 2014, became the No. 1 casino in Louisiana by visitor traffic and revenue.

In the 12 months ending in Sept., more than 3.8 million people visited the property, which brought in some \$325 million in revenue, according to the Louisiana Gaming Control Board.

"Tilman brought a totally new segment of tourists to Lake Charles," said Jones. "I was suspicious his property would cannibalize the market, but he has grown the market and not shrunk it."

Industry analysts marvel at Fertitta's ability to serve different market segments. Whether it's a \$14 plate of fried shrimp on the Kemah Boardwalk or a \$50 steak at Mastro's, he is able to deliver a product for which customers feel they get their money's worth.

"To be able to get that right on both sides of the spectrum illustrates real talent to me," said Andrew Zarnett, an analyst with Deutsche Bank in New York.

Fertitta has also taken his talents to television. In "Billion Dollar Buyer," the CNBC show where entrepreneurs pitch their products to Fertitta in hopes he'll place an order for his hotels or restaurants, he comes across as upbeat and down home. He gives feedback in a Texas twang, with lots of "y'all's."

Although he never graduated, Fertitta has become one of the University of Houston's biggest boosters as chairman of its board of regents. He attends football and basketball games and sometimes skips lunch at regents meetings to pop into classrooms to visit with students. In 2016, he donated \$20 million, the largest individual gift, to the university to renovate its basketball arena.

"He sees in every student massive potential and a bright future," UH President Renu Khator said. "He is always thinking bigger than we would think. I personally think I like to dream big, but he challenges even my goals. He works to go big or go home."

Fertitta is now working to go even bigger. With his bid for Caesars, his motivation appears simple: He sees an opportunity to take what he's accomplished on a regional scale to a global gaming company.

"He's worked his entire life to put together the business he has today," Zarnett said. "It's his life's work, and now he's got to perform."