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Investors in Indiana Downs, Hoosier Park negotiating deals to capitalize on slots

By Peter Schnitzler, The IBJ

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Jockeying for control		
The ownership structures of Indiana's two horse tracks are in flux.		
	Indiana Downs	Hoosier Park
Location	Shelbyville	Anderson
Owners	Oliver Racing LLC, LHT Capital LLC	Centaur Inc.
General manager	Joe Schuster	Richard Mason
Terms under consideration	LHT has offered a deal worth \$130.2 million to buy out Oliver's majority stake.	Centaur is offering to buy back shares from 50 of its original individual investors.

Source: Indiana Horse Racing Commission

Indiana's two horse tracks could change hands as investors race to come up with the \$250 million required to add thousands of slot machines.

The steep cost of a state license combined with the potential of a lucrative payoff has stakeholders in Shelbyville-based Indiana Downs and Anderson-based Hoosier Park jockeying for position.

On June 6, Carmel-based LHT Capital LLC-the minority owner of Indiana Downs led by local home builder Paul Estridge Jr.- filed a proposal with the Indiana Horse Racing Commission to buy out its partners, South Bend-based Oliver Racing LLC and Chicago-based Equine Investments LLC.

Oliver Racing rejected the \$130.2 million deal just two days later, but negotiations between the two camps are still alive.

Meanwhile, 50 investors in Centaur Inc.-Hoosier Park's Indianapolis-based owner-are attempting to cash out. On June 7, Centaur filed an IHRC petition seeking to buy back the interests of many of the firm's original shareholders. Together, the shareholders hold about half of Centaur, said Chairman Rod Ratcliff. Centaur would not disclose the financial value of its stock buyback, which is still subject to regulatory approval.

"Right now, we're sorting the wheat from the chaff," said State Sen. Luke Kenley, R-Noblesville, who oversaw much of the Legislature's slots debate. "We're finding out who really wanted to make the investment and understands it's going to take some time to make a return, and who thought, 'Slot machines [with] no licensing fee? That's an opportunity to print money.'"

The stakes are high, and not just for the players involved in the separate track deals. Indiana's General Assembly approved up to 2,000 slots at each track because the state needs the \$500 million in license fees to underwrite property tax rebates. If Indiana Downs' or Hoosier Park's negotiations should fail, the state won't get the money and homeowners won't get the relief checks they're expecting. Instead, they'll suffer average property tax increases of 24 percent.

"Hopefully, it's a good sign that these folks are getting their pencils out and trying to work things out now," Kenley said. "[But] obviously ... there are all kinds of possibilities of what could happen."

Indiana Downs

Led by Estridge, LHT offered Oliver Racing and Equine Investments \$60 million cash plus a \$30 million subordinated note, which would be worth \$70.2 million in 2015. LHT additionally offered to shield the sellers from any taxes or fees related to the transaction.

Estridge is president of Indianapolis-based custom-home builder The Estridge Cos. Anticipating success at the bargaining table, he's assembled a whole team to redevelop Indiana Downs as a "racino," a racetrack with slot machines. His team includes Indianapolis-based [Browning Investments Inc.](#) as lead developer; Greenwich, Conn.-based gambling financing company Plainfield Direct Inc. for investment capital; [Credit Suisse Securities LLC](#) for debt financing; and [Innovation Capital LLC](#) as investment banker and gambling consultant.

According to Estridge's June 6 offer letter, the Indiana Downs racino upgrade project would cost \$480 million, including \$250 million for the license fee. Factor in the buyout costs and that leaves \$140 million for redevelopment, or \$40 million more than the state requires as a minimum investment in facilities upgrades.

"While we have had our differences of opinion over some aspects of our project, I would hope that this substantial offer will allow us to come together and reach an agreement," Estridge wrote.

But Oliver's reply made it clear a takeover by the Estridge group won't be easy.

"We have no interest in selling our membership interests or change in majority control," wrote Oliver Racing Managing Member Ross Mangano in a June 8 letter to LHT. "Please cease your efforts as you, your lenders, investment advisors and equity partner are creating confusion in our market and are negatively impacting Indiana Downs LLC in its efforts to operate its business and secure financing for its slots operations."

Oliver Racing is attempting to convert Indiana Downs to a racino on the cheap, said Innovation Capital Managing Director Matt Sodl. Sodl called Oliver's strategy "underfunded," but he declined to share more detail.

"Let's just say it's a 1950s approach to finance and project development. It's being devised by folks that have no idea what they're doing," Sodl said. "You open up a half-assed product, you're going to lose customers, and it's going to impact the financing and cash flows of the entity. And that ultimately goes right to value."

Oliver Racing's Mangano referred IBJ to Indiana Downs General Manager Jon Schuster for comment.

Schuster, who isn't involved in Oliver's negotiations with LHT, said Oliver Racing is still considering a wide spectrum of scenarios for financing and redeveloping Indiana Downs as a racino. They range from erecting a temporary facility, which would allow slots play quickly, to construction of a large permanent structure, which would require acquisition of nearby land.

Oliver Racing is committed to Indiana Downs' success, Schuster said, and he promised the state will receive its slots license payment on time. He didn't think the company had hired a developer or investment bank yet.

Estridge's buyout deal might not be dead, even though his initial offer was rejected. Sodl said LHT has already made a counterproposal. He declined to share its terms. And Mangano's rejection letter suggests Oliver Racing is willing to continue discussion of Estridge's vision for the track even if talks don't result in a transfer of majority control.

"I've just called Michael Browning and advised him if you were to bring this proposal as a board member of Indiana Downs to the board, we would consider this proposal at that time for all of us," Mangano concluded his note.

Hoosier Park

The situation in Anderson is less complicated than in Shelbyville, because Centaur

doesn't have to vie for control of Hoosier Park. Centaur Chairman Ratcliff said the company's stock buyback plan germinated when a handful of the company's original investors who are now in their 60s or 70s asked for the chance to sell as they contemplate retirement. Centaur was obligated to present the same repurchase terms to all its shareholders, and the offer ballooned to include 50 investors.

To help it finance Hoosier Park's conversion into a racino, Ratcliff said, Centaur is considering bringing in a major new equity investor. And Centaur is also fielding offers from investment bankers who want to provide debt financing. Ratcliff declined to offer more detail about fund raising or the scope of his construction plans for the Hoosier Park project.

But Jeffrey Smith, Centaur's CEO of Horse Racing, noted that Hoosier Park isn't Centaur's only asset. Complicating matters, the company now has operations in Colorado it wants to improve. Centaur is also attempting to build a racino northwest of Pittsburgh.

Pennsylvania regulators haven't yet ruled whether to approve Centaur's proposal, but the company is one of only two remaining applicants there under consideration.

To generate all the capital it needs for the three projects, as well as the exploration of potential new markets elsewhere, Centaur is considering raising up to \$900 million all at once.

"It's all part of the puzzle we're working on now, to put it all together," Smith said. "We can't put a financing plan in place [for Hoosier Park] when, in a month from now, we need another \$400 million. It's nothing different than what any global operation goes through."

But the first payment for Hoosier Park's racino license is fast coming due. Ratcliff said Centaur is committed to meet the state's Nov. 1 deadline.

"That payment will be made ... no matter what," he said.

Special session?

Property tax rebates are riding on the outcome of Indiana Downs' and Hoosier Park's ownership shakeouts. But Kenley isn't worried yet. He said the flurry of activity is a sign that all the players are working out their differences. Now that everyone knows the price of the slots licenses, impatient investors who thought they were in line for a quick windfall are moving on. Remaining will be those committed to making the two racinos viable businesses.

"It's not just a lay-down-easy deal now," Kenley said. "Instead of an oil well wildcat or gold mine, it's more of a standard business deal. But it's still a viable transaction."

Indiana should be able to issue property tax rebate checks and avoid a special session of the General Assembly, Kenley said, as long as at least one of the tracks makes its slots license payment.

Ed Feigenbaum, publisher of the newsletters Indiana Legislative Insight and Indiana Gaming Insight, said negotiations could still go either way. The horse tracks' owners might fail to resolve their internal disputes. But it's more likely they'll settle their differences and turn both sites into cash cows.

"The Legislature knew full well what they were getting into. They were the ones that set up, I hate to call it a house of cards, but this structure," Feigenbaum said. "If it becomes a house of cards, they should not be surprised, nor should they be surprised if this becomes a thriving venture."