

RED ROCK RESORTS, INC. (RRR):

Questions For Current and Prospective Investors

Secondary Offering, Growth, and Labor Relations

Red Rock Resorts, Inc. (NASDAQ: RRR) owns a minority ($\approx 35.8\%$) interest in Station Casinos LLC, a Las Vegas-centric regional gaming company.

Secondary offering of up to 37.5 million RRR Class A shares

- Why are three top executives (Executive Vice Chairman, President, and CFO) registering to sell all the shares they can sell?
- What will be the amounts to be paid to Deutsche Bank and other pre-IPO owners under the tax receivable agreement?

Growth concerns

- Is the Las Vegas Regional Market saturated?
- Will Palms cannibalize Palace Station?
- If built, will “Durango Station” cannibalize Palms and Red Rock Resort?
- Is Station Casinos going to sell its 88-acre “Mt. Rose” site in Reno soon?
- Will Station Casinos do a deal to add geographic diversity to its portfolio?
- When will Station Casinos sign another tribal casino development and management agreement?

Evolving labor relations

- Which Station Casinos properties are union?
- Will more become union?

Secondary Offering of Up to 37.5 Million Class A Shares

Why are top Red Rock Resorts executives registering to sell all the shares they can sell?

Certain owners of Red Rock Resorts are registering to sell up to 37,514,810 class A shares (S-1, filed 10/26/16). Selling stockholders include Deutsche Bank, Fidelity, other pre-IPO institutional owners, and three of the company's top executives, who are registering to sell all the shares they can sell.

Name	Title	Class A Shares for Sale	Class A Shares <u>Not</u> for Sale
Stephen Cavallaro	Executive Vice Chairman	988,032	38,461*
Richard Haskins	President	1,281,757	38,461*
Marc Falcone	EVP, CFO, and Treasurer	997,043	30,769*

** Equal to the number of restricted shares each received as part of the IPO.*



What will be the amounts to be paid to Deutsche Bank and other pre-IPO owners under the tax receivable agreement (TRA)?

The tax receivable agreement that Red Rock Resorts entered into as part of its IPO requires the company to pay 85% of certain tax benefits, if realized, to pre-IPO owners when they sell their ownership stakes.

These TRA payments must be made before the company can pay dividends.

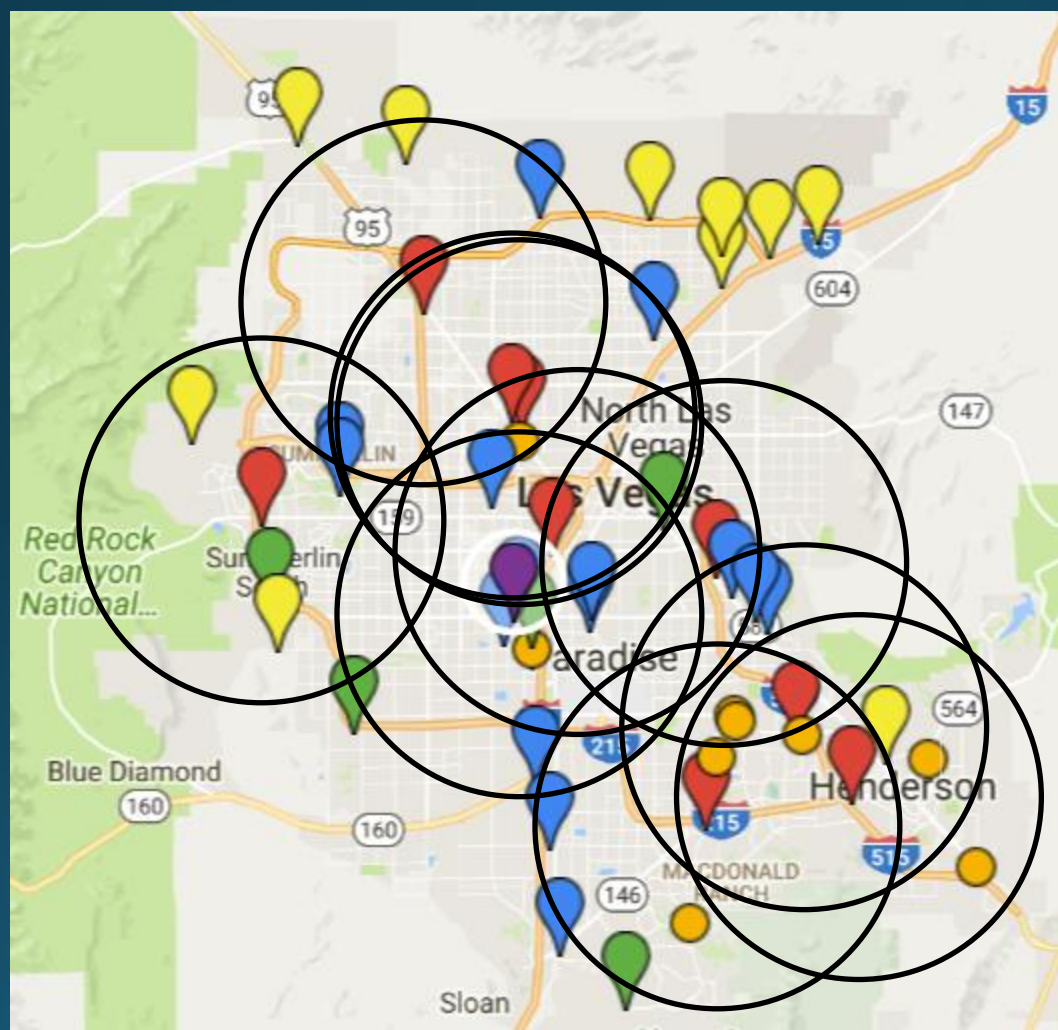
While the company says no TRA payments are due in the next 12 months, it does say the payment amounts “may be significant” and “could be substantial” in its Oct. 26 S-1 filing.

The TRA liability on the balance sheet as of 6/30/16 was \$44.8 million.

Concerns About Station Casinos' Core Market

Is the Las Vegas Regional Market saturated? ([Click on the map to see our interactive map online](#))

Station Casinos has repeatedly said: “over 90% of Las Vegas population [are] located within five miles of one of our gaming facilities.” The map below shows what this means, with 5-mile circles drawn around the company’s 10 major properties (red markers, and purple for the newly acquired Palms).



(Blue markers show the other, non-Station existing major locals casinos.)

Facing low population growth and a decline in locals' gaming behaviors, Station Casinos is unlikely to experience much, if any, upside in its core Las Vegas locals business. ([See the detailed analysis on our website.](#))

And there are more sites approved for casino development (“[Gaming Enterprise Districts](#)”) throughout the valley. Only five such sites are controlled by Station Casinos (green), while the others are not (yellow).

Station Casinos vs. Las Vegas Regional Market

Is there demand for more casinos in the Las Vegas regional market?

Based on [Nevada Gaming Control Board data](#), gaming win per slot per day in the Las Vegas regional market (North Las Vegas, Boulder Strip and Balance of Clark County) declined from \$123.96 in 1Q06 to \$103.7 in 3Q16.

According to the LVCVA's biennial [Clark County Residents Study](#), from 2006 to 2014 there was a significant decline in Las Vegas residents' gaming activity, frequency, and budgets. For example, almost half (46%) of Las Vegas residents did not gamble in 2014, a percentage that rose significantly from the one-third (33%) who said they did not gamble back in 2006.

Why is Station Casinos lagging behind the market?

It seems Station Casinos is not even keeping pace with the modest recovery in the Las Vegas regional market. In 2016, its Las Vegas gaming business has grown at a slower rate than the overall market.

Gaming Revenues (\$ millions)

	1Q16	2Q16	3Q16
Las Vegas Regional Market	570.2	550.8	526.6
Station Casinos - Las Vegas	239.7	233.8	?

Gaming Revenues, y-o-y change

	1Q16	2Q16	3Q16
Las Vegas Locals Market	4.3%	2.8%	0.6%
Station Casinos - Las Vegas	2.4%	1.8%	?

Sources: [Nevada Gaming Control Board](#), company filings

Growth Options - Palms?

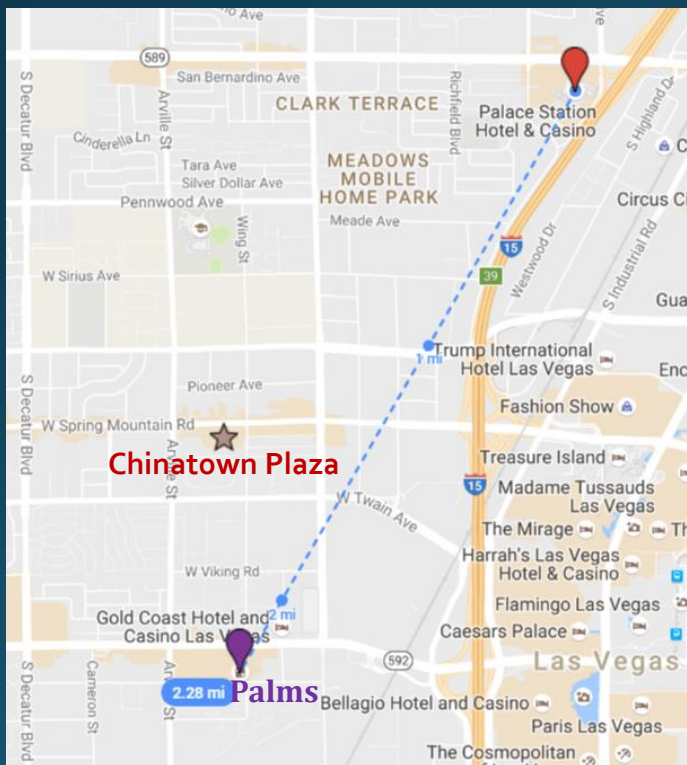
How and when will Station Casinos hit EBITDA target of \$35 million at Palms?

Instead of building a new casino, Station Casinos borrowed money to buy an existing casino for \$312.5 million, which is 8.8x of “synergy-adjusted EBITDA of \$35 million”, according to the company.

We believe Palms’ current annual EBITDA is approximately \$28 million.

- The property had \$70M of EBITDA in 2007, according to [*Debtwire/Financial Times*](#)
- Pre-acquisition LTM EBITDA is 60% below peak, according to [*Station Casinos*](#)
- \$70M x 40% = \$28M

How will Station Casinos expand Palms’ EBITDA from \$28M to \$35M? And how soon can this be done?



Will Palms cannibalize Palace Station?

Will growth at Palms come at the expense of Palace Station?

Palms is just over 2 miles from Palace Station. How many of the “over 370,000 people” living within 5 miles of Palms are already Palace Station customers?

While the new general manager of Palace Station “brings years of Asian casino experience” to the property, Palms is even closer to Las Vegas’ Chinatown Plaza (0.8 miles) than Palace Station is (1.5 miles).

(Click on the map to see our interactive map online)

Palms vs. Palace Station?

Will both Palace Station and Palms continue to compete for the local Asian business?

The screenshot shows the homepage of the Las Vegas Chinese newspaper. At the top, the masthead reads "賭城天天報" (Las Vegas Daily). Below it are navigation links for "原網站" (Original Website), a search bar, and social media icons for Facebook, Google+, Twitter, and YouTube. A "hotels.com combined" logo is also present.

The main navigation bar includes categories such as "焦點新聞" (Focus News), "維加斯新聞" (Las Vegas News), "國際新聞" (International News), "中國新聞" (China News), "臺灣新聞" (Taiwan News), "香港新聞" (Hong Kong News), "美洲新聞" (Americas News), "地產動向" (Real Estate Trends), "法律專欄" (Legal Column), "休閒美食" (Leisure & Food), "金融理財" (Finance & Investment), "潮流尖端" (Fashion & Trends), "醫療健康" (Medical & Health), and "影視娛樂" (Media & Entertainment).

The "焦點新聞" (Focus News) section features a video of Bob Dylan at a podium with the caption "歌手巴布狄倫獲諾貝爾文學獎" (Singer Bob Dylan wins Nobel Prize in Literature). To the right is a list of news items:

- 印度同意達賴訪問中印爭執的阿魯納查省
- 候選人改打網路戰 美大選支出首見減少
- 美媒民調 希拉蕊領先川普差距又縮小
- 杜特蒂與美分道揚鑣 美要菲講清楚
- 伊軍進攻摩蘇爾剿IS 人道危機一觸即發
- 三星回收停產Note7 蘋果、華為受益最大
- 共和黨部遭縱火 塗鴉納粹滾蛋
- 歌手巴布狄倫獲諾貝爾文學獎

The "維加斯新聞" (Las Vegas News) section includes:

- 亨德森舉辦戶外聖誕裝飾比賽
- 輕便摩托車11月起須註冊掛牌 違者明年始吃罰單
- 維加斯多戶市場入住率和租金雙漲

On the right side, there are three advertisements:

- A "frozen strawberry lemonade" advertisement from McCafe.
- A "FOOD EXPRESS" advertisement for "食為先" (Eat First) restaurant, featuring a red circle around the ad.
- A "PALMS CASINO RESORT" advertisement for the "BACCARAT REBATE PROGRAM", also featuring a red circle around the ad.

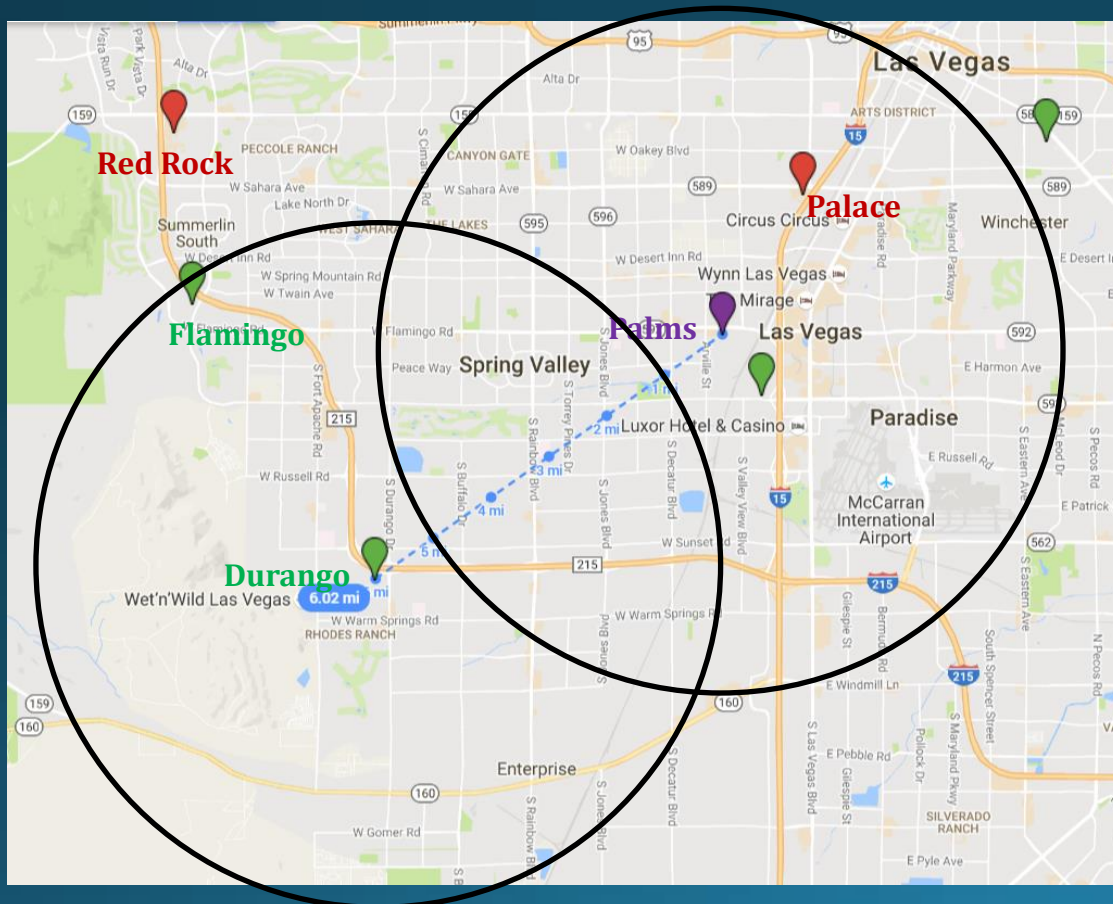
Source: www.lvdcn.com (website of the largest-circulation Chinese newspaper in Las Vegas)
Screen captured on Oct. 31

Growth Options - "Durango Station"?

If built, will "Durango Station" cannibalize Palms and Red Rock Resort?

The 70-acre Durango site in Southwest Las Vegas is 6 miles from Palms and 7 miles from Red Rock Resort. The 5-mile-radius circles of these properties have significant overlaps.

According to JP Morgan analysts, 265,000 people live within 5 miles of the Durango site. It is unclear how many of those also live within 5 miles of Palms in the densely populated Spring Valley area (or within 5 miles of Red Rock Resort in the Summerlin area).



Will Station Casinos build "Durango Station" within the next five years?

Station Casinos has approvals to build at the Durango site 726 hotel rooms and 86,883 square feet of casino space. Last fall, the company applied for and received another extension of time to start construction. The deadline to commence is now Sept. 3, 2018.

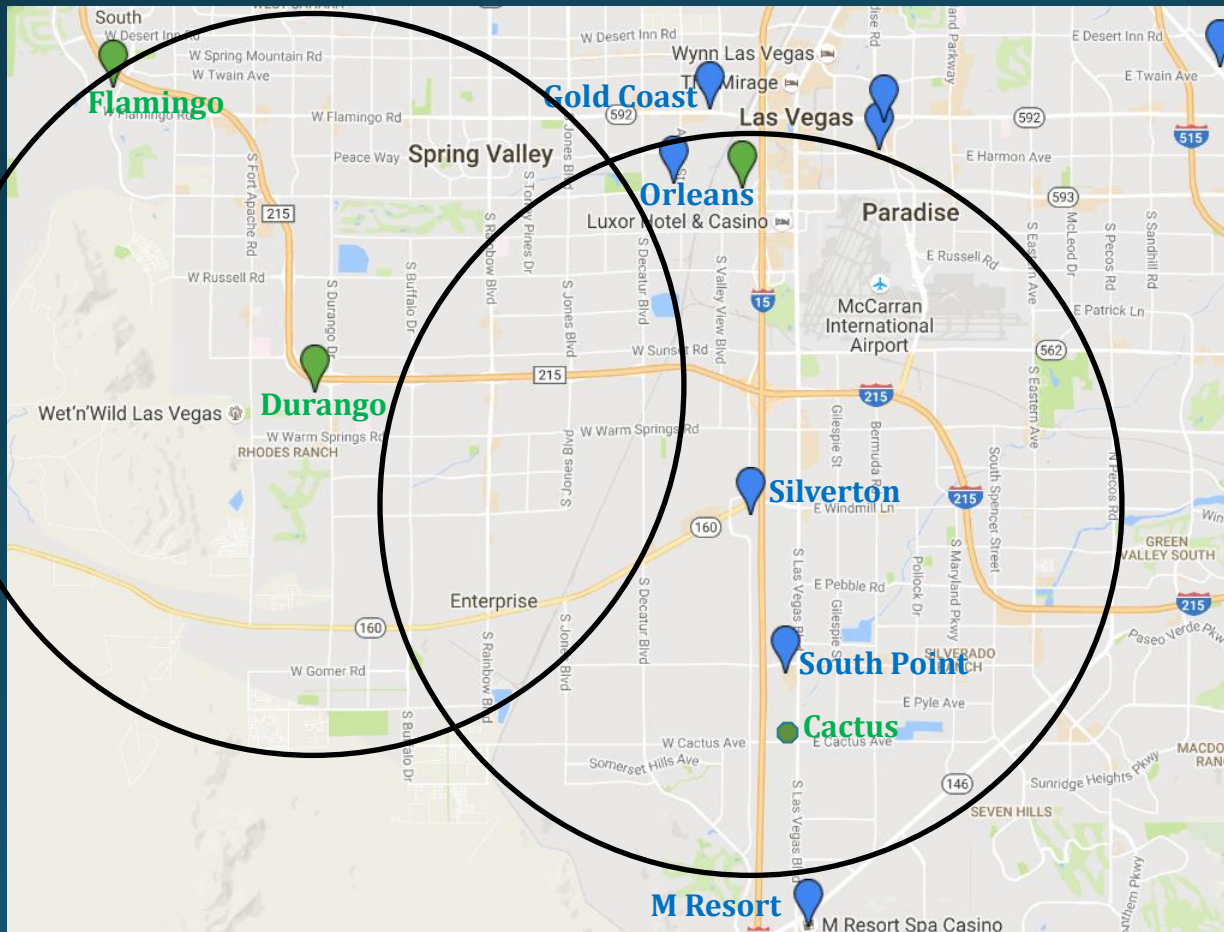
(Side note: What is the plan for – and value of – the company's 58-acre "Flamingo" site between Durango and Red Rock Resort?)

(Click on the map to see our interactive map online)

“Durango Station” vs. Competition

How will “Durango Station” compete for customers of existing casinos?

Aside from its potential cannibalization effect on Station Casinos’ own Palms and Red Rock Resort, “Durango Station” will have to compete against other companies’ casinos. In its September investor presentation, the slide on the Durango site highlights the fact that there are “No major casinos within 5-mile radius”. But there is significant overlap between 5-mile-circles of “Durango Station” and several non-Station competitors. For example, the map below shows the overlap with Silverton Casino:



Can Station Casinos compete?

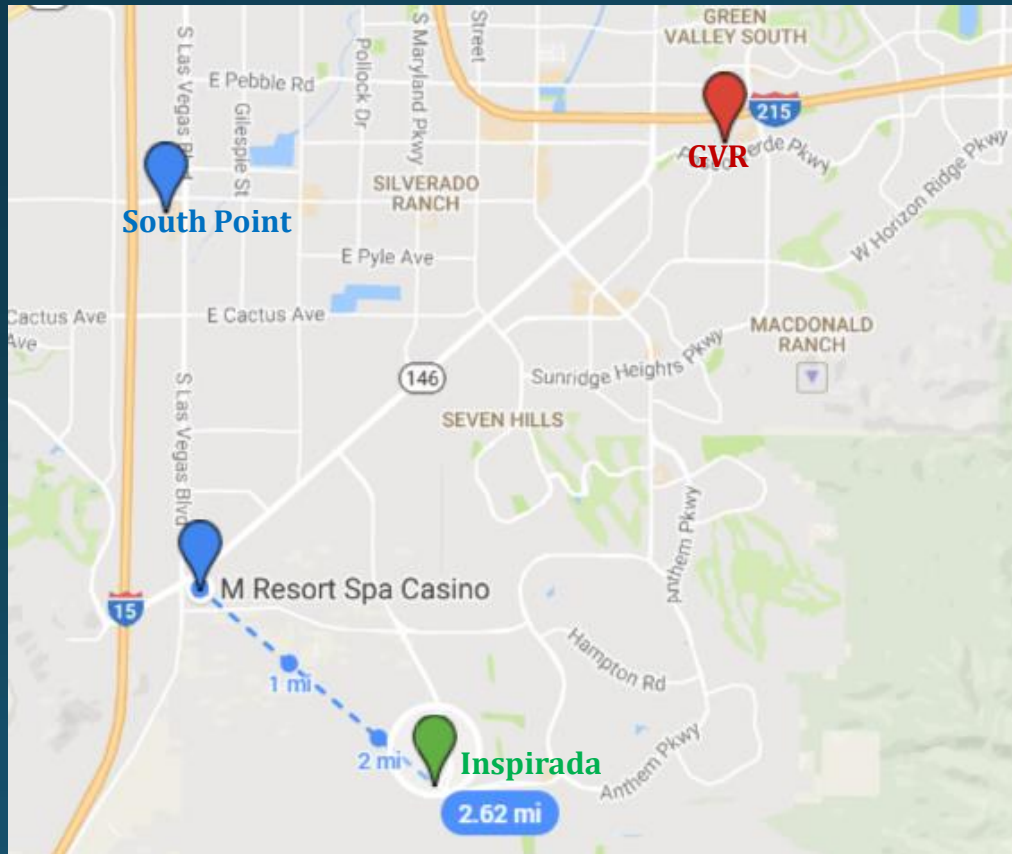
Earlier this year, Station Casinos listed its 57-acre casino site at Cactus and Las Vegas Blvd (between South Point and M Resort, two major locals casinos in South Las Vegas). It is being sold with a deed restriction against casino development, and it is still on the market.

(Click on the map to see our interactive map online)

Growth Options - "Inspirada Station"?

Are there still plans for a casino to be built in the Inspirada master planned community?

"Inspirada's sweeping commercial component, dubbed Inspirada Town Center, is no longer in the plans. The site, just west of the housing developments, was supposed to be anchored by a hotel-casino with up to 1,000 rooms as well as retail, restaurants and a convention center. But the land remains empty and is owned by a large group of investors — including Station Casinos — who don't plan to build anytime soon." – [Vegas Inc. 10/2/14](#)



The Inspirada master planned community was "relaunched" two years ago and had an estimated population of 3,348 as of July 2015.

If built, how will "Inspirada Station" compete against established casinos nearby?

The "Inspirada Station" site is 2.6 miles from The M Resort (owned by Penn National), 5.5 miles from South Point, and 6.0 miles from Green Valley Ranch (owned by Station Casinos).

(Click on the map to see our interactive map online)

Growth Options – Reno?

Is Station Casinos going to sell its 88-acre “Mt. Rose” site in Reno soon?

In its investor presentation in September, Station Casinos calls the 88-acre Mt. Rose site one of its “development opportunities” in Reno against a background of “significant economic momentum” in the region. However, the approvals for a special use permit and gaming entitlement on this South Reno site recently *expired*, according to the Reno planning department.

Earlier this year, the company listed the 88-acre site for sale.



The company is seeking approvals for a small casino entertainment property on 8 acres near the Reno-Sparks Convention Center, but it does not have a start date for construction.



(Proposed Station Casinos project. Photo provided by the company to Reno Gazette-Journal.)

Front page of the listing brochure of the Mt. Rose site from Colliers, circa April 2016

Growth Options – Outside of Nevada?

Will Station Casinos seek to expand into other commercial gaming jurisdictions?

The company has not operated any commercial casinos outside of Nevada after it exited Missouri in 2000 after a dispute with that state’s gaming regulators. But for tribal gaming, Station Casinos has been landlocked in Nevada. Compared to other regional gaming companies, Station Casinos lacks geographic diversity:

Red Rock Resorts (NASDAQ: RRR)	22 properties in 3 states
Pinnacle Entertainment (NASDAQ: PNK)	15 properties in 8 states
Penn National (NASDAQ: PENN)	26 properties in 17 states
Boyd Gaming (NYSE: BYD)	22 properties in 7 states
Eldorado Resorts (NASDAQ: ERI) is buying Isle of Capri (NASDAQ: ISLE)	20 properties in 10 states

Will Station Casinos do a deal to add geographic diversity to its portfolio?

Station Casinos’ core business is in the saturated and stagnant Las Vegas regional market. Will the company be a buyer of other regional gaming assets in order to speed up growth?

When will Station Casinos sign another tribal casino development and management agreement?

Station Casinos has not signed new tribal casino development or management agreements since 2004. A significant part of the company’s EBITDA growth in the past 3 years is from tribal gaming. Its two current tribal casino management agreements expire in 2018 and 2020, and the last management agreement it had that expired (in 2010) was not renewed.

Evolving Labor Relations

Which Station Casinos properties will be unionized?

Employees at Station Casinos-managed tribal casino in Northern California ratified a first union contract in October, 2015.

On September 2nd and 3rd, Boulder Station workers unionized by a 335-177 vote.

On October 15th and 16th, Palace Station workers voted 266-262 not to unionize. The union has filed objections with the National Labor Relations Board:

- “Most egregiously, management announced just after the union filed for the election that it would be giving workers a raise, and did so a few days before the election was held. This is a tactic that the National Labor Relations Board has repeatedly condemned as interfering with the conditions necessary for a fair election. We are confident that the NLRB will find this tactic warrants a new election.”

How much is the company spending on union avoidance consultants?

Station Casinos has retained the services of Cruz & Associates, a union avoidance firm that Trump Las Vegas hired last year for over half a million dollars. (After Trump employees did vote to unionize, the hotel has refused to negotiate, in violation of an order by the NLRB. UNITE HERE has launched a national boycott of Trump Las Vegas and other Trump businesses.)

About UNITE HERE

UNITE HERE is a labor union representing 270,000 workers in gaming, hotel, and food service industries in the United States and Canada.

UNITE HERE's Nevada affiliates, Culinary Workers Union Local 226 and Bartenders Local 165, represent 57,000 workers in casino resorts, hotels, industrial laundries, and airports in Las Vegas, Reno, and Laughlin.

The Culinary and Bartenders are in an ongoing labor dispute with Station Casinos/Red Rock Resorts.

Our website, www.RRRIPOdissected.org, provides critical analysis of Station Casinos/Red Rock Resorts from the perspective of those who work in the gaming industry.

For more information, contact Ken Liu at 702-387-7001 or kliu@unitehere.org.