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February 11, 2016

Mr. Jeffrey H. Urwin
Head of Corporate and Investment Banking

Mr. Jacques Brand
CEO for North America

Deutsche Bank
60 Wall Street
New York, NY 10005

SENT VIA EMAIL AND U.S. MAIL

Re: Deutsche Bank should insist on immediate buyout of its ownership stake concurrent with the Station Casinos (Red Rock Resorts) IPO

Dear Messrs. Urwin and Brand

We write to urge you to revise the terms of the proposed Station Casinos (Red Rock Resorts) IPO, which was mentioned by Deutsche Bank's co-CEO John Cryan during the bank's annual press conference on January 28. We believe Deutsche Bank should insist on being bought out immediately as part of the casino company's IPO.

As currently structured, Station Casinos will use the IPO proceeds (plus debt) to pay \$460 million to the Fertitta family and management in an insider deal *instead* of paying some \$340 million to Deutsche Bank to buy out its 25% stake. Deutsche, a 25% owner, should demand to be able to dispose of this non-core legacy asset in a way that helps itself and its capital position. Selling off its casino stake now should help boost investor confidence in the bank's willingness and ability to deal effectively with its legacy issues and non-core assets.

Why is the Station Casinos IPO paying company insiders instead of Deutsche Bank?

As you know, Deutsche Bank owns 25% of Station Casinos of Las Vegas through its German American Capital Corporation (GACC) subsidiary, as a result of the casino firm's 2011 Chapter 11 bankruptcy reorganization. The Fertitta family and management own 58.4% of the casino operator, and former creditors own the rest.¹ The casino industry is a highly regulated industry overseen by state and tribal authorities, and Deutsche Bank or its executives have so far not been asked to be licensed for the bank's stake in Station Casinos.

Red Rock Resorts, Inc., a new holding company of Station Casinos, filed for an IPO on October 13. While investors might expect the IPO to be a perfect opportunity for Deutsche Bank to dispose of

this non-core Las Vegas asset in exchange for some additional capital, this is not what will happen with the public offering if it goes forward as currently structured.

According to Red Rock's prospectus filings and the company's presentation at Nevada gaming regulators' meetings on January 21, the offering is intended to raise \$450 million, but in a concurrent deal the casino company will pay \$460 million to the Fertitta family and management to purchase a business they own to internalize management. Existing executives will be retained and no new revenue will be generated by purchasing the management firm. The IPO proceeds will not be used to fund any growth or pay down Station Casinos' \$2.2 billion of long-term debt. While it appears that Deutsche Bank will sell a portion of its equity interest through the IPO (there are still many blank spaces in the latest S-1/A, filed on January 14), it will continue to own 16% of Station Casinos immediately after the IPO, according to Station Casinos CFO Marc Falcone, taking into account the new ownership stakes of public shareholders.² In short, Station Casinos is doing the IPO to fund a \$460-million cash payout to insiders and not to buy Deutsche Bank out.

We are mystified as to why Deutsche Bank agreed to these terms of the IPO. Why is it not seeking to liquidate its Station Casinos stake directly through the IPO? What adds to the mystery is the fact that Deutsche Bank Securities Inc. is acting as an underwriter for the IPO (along with three other banks).

On January 28, Mr. Cryan revealed that the Station Casinos IPO has been postponed "due to market conditions,"³ but he added that the bank is "intent on proceeding there with an IPO and our joint venture or other owners of the company are in line."⁴ We believe the delay presents an opportunity for Deutsche Bank, as an owner, to demand new terms for the IPO to maximize the benefit of disposing of this non-core asset for itself and its capital position.

Taking advantage of the Station Casinos IPO to generate \$340 million in cash and improve the bank's capital ratio can help boost investor confidence in Deutsche Bank's resolve to effectively deal with legacy issues and non-core assets

Deutsche Bank's 25% stake in Station Casinos could be worth north of \$340 million. Last May, it was reported that Station Casinos could fetch an IPO valuation of "more than \$3.5 billion, including \$2.15 billion in debt."⁵ This would imply an equity value of \$1.35 billion, 25% of which would be \$337.5 million. The company's value should have risen since last May, making Deutsche Bank's stake likely even more valuable. Incidentally, \$340 million is close to the approximately \$395 million (EUR 350 million) the bank needs to service its AT1 coupon on April 30 this year.⁶

It has been reported that Deutsche Bank expects to sell its Huaxia Bank stake for up to \$4 billion and the transaction would add 30 to 40 basis points to the bank's common equity Tier 1 ratio.⁷ Selling its Las Vegas casino stake for \$340 million could thus potentially add more than 3 basis points to its common equity Tier 1 ratio. The *Wall Street Journal* recently described the bank's path to higher capital ratios as "treacherous" and that "any unplanned losses from lawsuits, fines, restructuring or defaults would likely mean a capital call, or at least a stop on coupons to some bonds as well as on dividends."⁸ In this environment, selling off a non-core, non-strategic asset for \$340 million to boost its capital ratio should present a clear and strategic course of action for Deutsche Bank. But this is not what the bank has agreed to in the Station Casinos IPO as currently structured.

It has also been reported that a top 10 investor of the bank recently said, "Investors have completely lost their faith in the bank."⁹ We think Deutsche Bank can show it is willing and able to

do whatever it takes to avoid a capital raise and fulfill its bond payment obligations by pushing for an immediate buyout of its Station Casinos stake, either through an IPO or otherwise.¹⁰ (The Fertitta brothers, owners of the Ultimate Fighting Championship, are billionaires according to Forbes,¹¹ and they personally bought JPMorgan's 25% stake in Station Casinos in 2012.¹²)

We have no doubt that doing everything possible to improve the bank's capital ratio, even if by a few basis points, will help boost investor confidence in Deutsche Bank. However, if Deutsche Bank cannot make Station Casinos buy out the bank's stake and the casino firm's IPO ends up being merely a "massive Vegas payday"¹³ for its insiders, there will likely be even more questions about Deutsche Bank's willingness and ability to effectively deal with its myriad legacy issues.

Moreover, if Deutsche Bank is not bought out immediately as part of the IPO, there can be no guarantee that it'll be able to realize more value when it does liquidate its interest in Station Casinos later. Insiders' taking \$460 million of cash out of the company will not help with investor confidence in the casino company, and the IPO's cash-draining tax receivable agreement and dual-class share structure are likely to dampen market interest and depress the share price after the IPO. For more detailed analysis of these other risks associated with the Red Rock Resorts, Inc. (Station Casinos) IPO, we refer you to our website, "Red Rock IPO Dissected" at www.rrrIPOdissected.org.

If Deutsche Bank is serious about selling non-core assets as it navigates current turmoil in the financial market, we believe you should demonstrate that commitment by making a full and fully-paid exit from owning Las Vegas casinos concurrent with the Station Casinos IPO. Otherwise, Deutsche Bank will miss an opportunity to improve its capital position and will instead be taking on the many risks associated with the IPO, starting with the \$460 million cash-out by the Las Vegas casino company's founding family and management.

If you have any questions about Station Casinos, please feel free to contact me at 702-387-7001 or kliu@unitehere.org.

Sincerely,



Ken Liu
Research Director
UNITE HERE Culinary Local 226

cc: Deutsche Bank AG shareholders

Notes

¹ See Station Casinos LLC 10-K, filed 3/10/15.

² See transcript of the January 21, 2016, special meeting of the Nevada Gaming Control Board.

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- ³ “BRIEF-Station Casinos IPO postponed on market conditions – Deutsche Bank,” 1/28/15, at <http://www.reuters.com/article/idUSL8N15C2QD>.
- ⁴ Preliminary 2015 Deutsche Bank AG Earnings Call – Final, *FD (Fair Disclosure) Wire*, 1/28/16.
- ⁵ Christopher Palmeri, “Fertitta brother Said to Weigh IPO for Station Casinos,” *Bloomberg*, 5/27/15, at <http://www.bloomberg.com/news/articles/2015-05-27/fertitta-brothers-said-to-weigh-share-sale-for-station-casinos>.
- ⁶ “A message from Marcus Schenck: Deutsche Bank’s Additional Tier 1 (AT1) capital,” 2/8/16, at https://www.db.com/newsroom_news/2016/ghp/a-message-from-marcus-schenck-deutsche-bank-s-additional-tier-1-at1-capital-en-11386.htm?kid=pr.inter-ghpen.news
- ⁷ Nicholas Comfort, “Deutsche Bank to raise up to \$4 billion from Huaxia sale,” *Bloomberg*, 12/28/15, at <http://www.bloomberg.com/news/articles/2015-12-28/deutsche-bank-says-picc-to-acquire-firm-s-20-stake-in-hua-xia>.
- ⁸ Paul J. Davies, “Deutsche Bank: Not Liquidity Crisis but Capital Fears Are Right”, *Wall Street Journal*, 2/9/16, at <http://www.wsj.com/articles/deutsche-bank-no-liquidity-crisis-but-capital-fears-are-right-1455023021>
- ⁹ <http://www.reuters.com/article/us-deutsche-bank-stocks-idUSKCN0VI1W>
- ¹⁰ Maureen Farrell, “US IPO Windows Could Stay Closed for Months,” *Wall Street Journal*, 2/10/16, at <http://blogs.wsj.com/moneybeat/2016/02/10/us-ipo-window-could-stay-closed-for-months/>.
- ¹¹ See profiles on the Forbes 400 list of 2015 at <http://www.forbes.com/profile/frank-fertitta-iii/> and <http://www.forbes.com/profile/lorenzo-fertitta/>.
- ¹² Chris Sieroty, “Fertittas to buy out shareholder to get majority ownership of Station Casinos” *Las Vegas Review-Journal*, 2/7/12, at <http://www.reviewjournal.com/business/casinos-gaming/fertittas-buy-out-shareholder-get-majority-ownership-station-casinos>.
- ¹³ Josh Kosman, “UFC owners set for massive Vegas payday,” *New York Post*, 1/15/16, at <http://nypost.com/2016/01/15/ufc-owners-set-to-score-460m-las-vegas-payday/>.