

## Gaming

## 4Q23 Earning Review: Regionals holding in, Vegas outperforms

Earnings Review

## Q4 Gaming Recap: Some winners, some losers

With earnings from Caesars Entertainment (ticker: CZR), Churchill Downs (ticker: CHDN), and VICI Properties (ticker: VICI) we are near the end of reporting for U.S. Gaming stocks. Performance wise, we have seen 6 beats, and 4 misses, with RRR and WYNN reacting the best following and PENN and MGM lagging, on digital and regionals, respectively. Key themes are: 1) regionals better than feared in Q4, but several operators called out tough January weather, 2) Las Vegas demand remains healthy, but outperformance is skewed toward the high-end, 3) while Macau GGR was gaining momentum and commentary was positive, Chinese New Year came in below (very high) expectations, and 4) Online was robust despite event outcomes in Q4, and [DraftKings was still able to raise \(see report\)](#), while [PENN is seeing much higher losses than anticipated \(see report\)](#).

## Churchill Downs: Historical racing and Exakta drive Q4

Churchill Downs (ticker: CHDN) reported Q4 Revenue/EBITDA of \$561/\$219M vs. BofA \$556M/\$207M. By segment, Gaming EBITDA of \$113M was in line, Live /Historical racing EBITDA of \$89M was ahead of our \$80M, and TwinSpires EBITDA of \$35M was ahead of our \$33M despite a \$14M revenue miss. We think the Exakta acquisition added \$9M of EBITDA to the TwinSpires segment, vs. our estimate of \$7-8M but was also a \$5M cost benefit in the Live/Historical segment. Together, we estimate total annualized EBITDA from Exakta is ~\$55M (implying a just 5x EBITDA purchase). On projects, CHDN delayed the opening of the Rose in N. Virginia to September, and raised the budget \$60M to \$460M, but will open with 1,650 machines, (500 more than previous). CHDN also announced the Owensboro facility will open with 600 HRMS, vs. prior plan of 300. We tweak our forward estimates slight lower largely on timing and January softness.

## Caesars: Q4 in-line, optimistic for 2024 execution

Caesars (ticker: CZR) reported Q4 property Revenue/EBITDAR of \$2.83B/\$932M, in-line with our \$2.83B/\$930M. Recall, CZR preannounced Q4 [in late Jan. \(see report\)](#). Relative to peers, Caesars faced idiosyncratic challenges in both regionals and Las Vegas. In regionals, CZR margins were -105bps Y/Y vs. -51bps in Q3, while BYD and PENN both saw sequential improvement. In Vegas, CZR gaming revenue was down -16% Y/Y, while market wide GGR was up +11% in Q4. Management was surprisingly optimistic and expects both Las Vegas and regional EBITDA to be up for the year and Vegas up in Q1, but we have remained a bit more conservative as we see share gains still benefiting higher end properties in the market. Centaur and online remain key catalysts for 2024. Our '24 EBITDA est. goes down -1% on challenging January trends and Super Bowl hold.

## VICI: Q4 beat, and 2024 guidance ahead of expectations

VICI reported Q4 Revenue/AFFO of \$932M/\$570M vs. our \$930M/\$554M, and provided 2024 AFFO guide of \$2.34B/\$2.22-2.25 per share vs our prior \$2.30B/\$2.26 per share. VICI reiterated they will opportunistically call the option on CZR's Centaur, but will not do it at a dilutive price. We think VICI is focused on growing through 1) expansion with existing gaming partners, specifically in Las Vegas as partners add rooms, F&B outlets, and more experiences, and 2) exploring growth with new / existing experiential partners.

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## Exhibit 1: Summary of Estimate Changes

We tweak our 2024E EBITDA estimates to reflect earnings and recent trends

	FY 2024		
	New	Prior	% chg
CZR	3,959	3,985	-1%
CHDN	1,107	1,109	0%
VICI	3,123	3,127	0%

Source: BofA Global Research estimates  
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RRR: Red Rock Resorts

WYNN: Wynn Resorts Ltd

PENN: Penn Entertainment

MGM: MGM Resorts

BYD: Boyd Gaming Corp

GGR: gross gaming revenue

## Key Quotes

**CZR re: January Trends:** “January was a debacle from a weather standpoint. I think that's well understood. Across the market, you had about 3 of the 4 weeks that were significantly weather impacted.”

**CZR re: Las Vegas outlook:** “We're working to, frankly, improve our margins from here. We're really not thinking about degradation in margins, and we understand that the cost of the new union contract are a headwind there, but we are comfortable that we should be a grower in absolute EBITDA and on a similar footing in terms of margins in '24.”

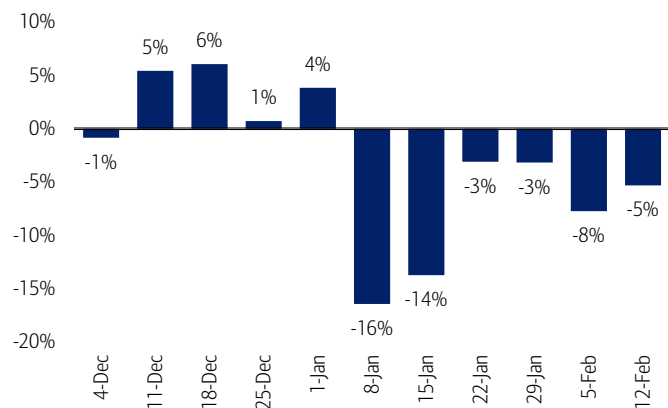
**CHDN re: January and February Trends:** “...many of our regional gaming properties were impacted in January by inclement weather, which combined with the strong start to the year in 2023 will likely cause a difficult comparison for first quarter 2024 from a revenue and margin perspective. Despite the challenging start to the year, we are pleased with the results we've seen so far in February, and we remain optimistic for these properties for the balance of the year. “

**CHDN re: the Consumer:** “So when we think about our business, we're not particularly obsessed or worried about material changes in the quality of customer and the capabilities and the wallet of the customers sequentially. It's been pretty consistent over the last number of months.”

**VICI re: Las Vegas:** “Las Vegas is reaching a global critical mass that really no other place on earth right now rivals. Not Orlando, not Macau, the way things have evolved there. Las Vegas is a category of one and we are very happy to be the leading owner of real estate in a place that is a global category of one.”

### Exhibit 2: Y/Y Regional Placer Visitation Data

In line with management commentary, Placer visitation data shows a decline in traffic in January following Y/Y growth in Dec

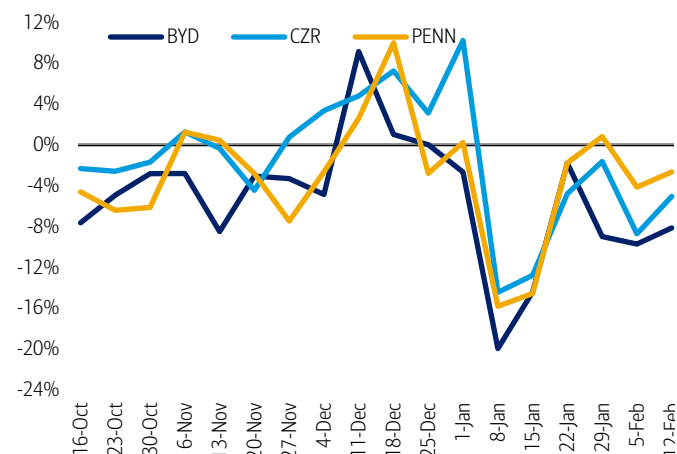


Source: Placer AI

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### Exhibit 3: Y/Y Regional Placer Visitation data by operator

Trends have rebounded in February, and PENN is trending the best



Source: Placer AI

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**Exhibit 4: Stock Performance**

Since reporting, gaming stocks are down an average of -3.5% relative to the S&P500

Stock	1 Day Return	vs. S&P 500	Since Earnings	vs. S&P 500	YTD Return	vs. S&P 500
LVS	1.0%	0.5%	10.3%	5.7%	11.3%	4.5%
RRR	4.8%	4.8%	4.4%	2.5%	8.1%	1.3%
WYNN	6.3%	6.2%	4.3%	2.5%	14.3%	7.6%
BYD	1.9%	1.3%	-1.8%	-3.6%	2.8%	-4.0%
MGM	-6.3%	-7.2%	-6.7%	-9.5%	-4.7%	-11.5%
PENN	-13.8%	-14.5%	-24.2%	-26.0%	-34.4%	-41.2%
DKNG	0.2%	0.7%	-7.2%	-8.2%	17.1%	10.3%
CZR	1.4%	1.3%	0.0%	-2.2%	-11.2%	-17.9%
CHDN	2.1%	0.0%	4.6%	2.6%	-8.9%	-15.7%
VICI	1.2%	1.0%	1.2%	1.2%	-5.7%	-12.5%

Source: Bloomberg

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**Exhibit 5: CHDN Earnings Variance**

CHDN's EBITDA beat was driven by Live/Historical Racing and strong TwinSpires margins, despite a revenue miss in the segment

Revenue	Reported	BofA	Delta %	Delta \$
Gaming	\$228	\$225	1%	\$3
Live/Historical Racing	\$228	\$222.3	3%	\$6
TwinSpires	\$104	\$118	-12%	(\$14)
Other (Net)	\$0	\$0	-33%	(\$0)
Total Revenue	\$561	\$566	-1%	(\$5)
EBITDA	Reported	BofA	Delta %	Delta \$
Gaming	\$113	\$113	1%	\$1
Live/Historical Racing	\$89	\$80	11%	\$9
TwinSpires	\$35	\$33	6%	\$2
Other/Corporate	(\$18)	(\$19)	-4%	\$1
Total EBITDA	\$219	\$207	6%	\$12

Source: Company filings, BofA Global Research

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**Exhibit 6: CZR Earnings Variance**

CZR's EBITDA was in-line, following their pre-announced earnings in late January

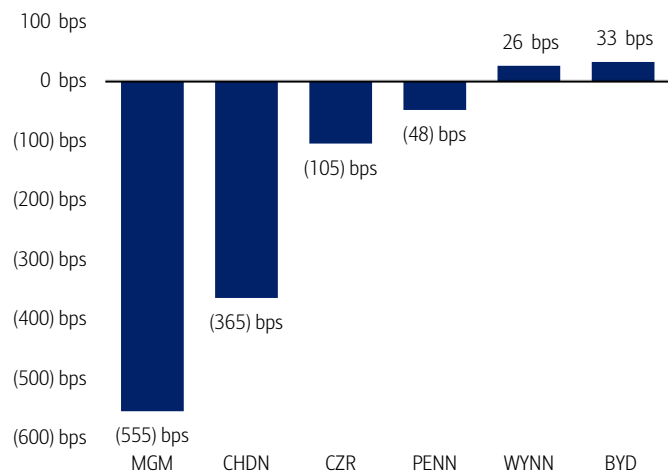
Revenue	BofA Est.	Reported	Delta \$	Delta %
Las Vegas	1,091	1,091	(0)	0%
U.S. Regional	1,363	1,363	(0)	0%
Caesars Digital	304	304	(0)	0%
Managed and Other	67	67	0	1%
Total Property Revenue	2,826	2,825	(1)	0%
EBITDAR	Reported	Reported	Delta \$	Delta %
Las Vegas	489	489	(0)	0%
U.S. Regional	431	431	0	0%
Caesars Digital	29	29	0	0%
Managed and Other	19	18	(1)	-3%
Corporate Expense	36	37	1	3%
Total EBITDAR	932	930	(2)	0%

Source: Company filings, BofA Global Research

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**Exhibit 7: Regional Property level margins change Y/Y**

MGM regional margins were down -555bps Y/Y in Q4 from Detroit Union strike and continued impacts from cyber attack

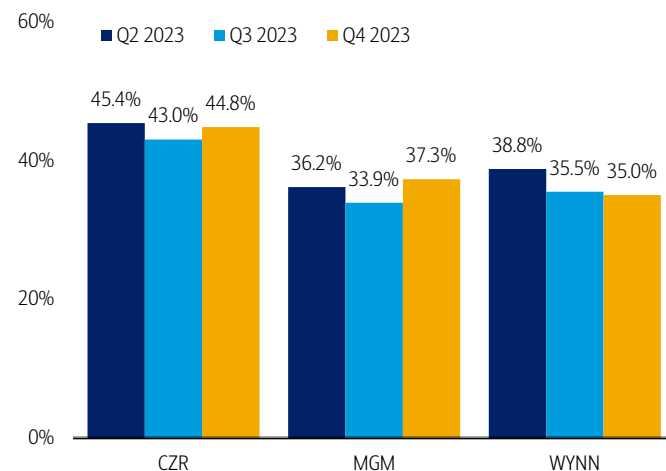


Source: Company filings, BofA Global Research

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**Exhibit 8: Las Vegas EBITDA Margins**

Las Vegas EBITDA margins were up sequentially for CZR and MGM, and down slightly for WYNN



Source: Company filings, BofA Global Research

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**Exhibit 9: CHDN Capex and EBITDA Bridge**

We think CHDN's project capex could add ~\$200M of EBITDA. Based on 4Q results, we think Exacta could be trending ahead of our bull case estimate of \$42M

Project	Description/Capacity	Opening	Investment	ROI	EBITDA	Revenue	Bull Case ROI	Bull EBITDA	Bull Revenue
Derby City Expansion	Hotel and Expansion	2Q23	\$80	15%	\$6.0	\$13.3	20%	\$16.0	\$35.6
Exacta Acquisition	Acquisition	8/22/2023	\$250	13%	31.3	104.2	17%	41.7	138.9
Rose's Emporia	150 HRMs in VA	Sept. 2023	\$30	10%	2.3	5.6	15%	4.5	11.3
Churchill Downs Racetrack	Paddock + Jockey Club Suites	May-24	\$207	13%	25.8	36.9	15%	31.0	44.3
Derby City Gaming Downtown	500 HRMs	Q4 2023	\$90	15%	13.5	33.8	15%	13.5	33.8
Ellis Park / Owensboro Annex	600 Add'l HRMs	1Q25	\$100	10%	10.0	25.0	10%	10.0	25.0
The Rose Gaming Resort (N. VA)	1650 HRMs + Parking/Hotel	End 3Q24	\$460	18%	80.5	201.3	25%	115.0	287.5
Terre Haute (IN)	Greenfield Build	2Q24	\$290	12%	34.8	116.0	15%	43.5	145.0
New Hampshire HRM Facility	Property Build Out	TBD	\$150	10%	15.0	37.5	10%	15.0	37.5
<b>Total Project Capex</b>			<b>\$1,507</b>	<b>14%</b>	<b>\$204</b>	<b>\$536</b>	<b>18%</b>	<b>\$275</b>	<b>\$721</b>
BofA Growth 2023-2025 (Net)					\$165	\$468		\$165	\$468

Source: Company filings, BofA Global Research

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**Exhibit 10: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CZR	CZR US	Caesars Ent	US\$ 41.65	C-2-9
CHDN	CHDN US	Churchill Downs	US\$ 122.88	B-2-7
VICI	VICI US	VICI Properties	US\$ 30.05	B-1-7

Source: BofA Global Research

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**Price objective basis & risk****Caesars Entertainment Inc (CZR)**

Our \$50 PO is based on approximately 7.5x 2024E EV/EBITDAR. This multiple is slightly below CZR's long-term historical average and mid-cycle multiple.

Risks to the upside mainly revolve around management's ability to significantly exceed its forecast which could come from 1) de-levering, 2) late cycle growth in Las Vegas, 4) digital gaming share gains, 5) opportunistic asset sales, land sales, JVs or licensing deals

Risks to the downside stem from 1) high financial and operating leverage, 2) lack of meaningful growth in digital market share 3) potential margin deterioration

**Churchill Downs Incorporated (CHDN)**

Our \$135 PO is based on approximately 13x 2025E EBITDA. This is a premium to both CHDN's historic average valuation and domestic gaming peers which we view as warranted given 1) the one-of-a-kind and irreplaceable nature of the Kentucky Derby, 2) the substantial future growth pipeline coming via the company's HRM expansion and developments and 3) an established, unique, and profitable online growth platform in TwinSpires.

Downside risk to our PO comes from 1) slower and less profitable development of HRM facilities, 2) failure to maintain elevated EBITDA margins, and 3) a smaller valuation premium being awarded to category defining consumer companies. Upside risk is driven by 1) quicker and more meaningful EBITDA growth than we anticipate, 2) better ROI on project capex, and 3) continued multiple inflation across consumer stocks.

**VICI Properties (VICI)**

Our \$34 PO is based on an approximate 7% cap rate. Our valuation reflects higher interest rates and is closer to other category leading triple-net REITs reflecting VICI's

growth prospects following the MGP transaction.

Upside risks to our PO are new accretive M&A both within and outside of the CZR portfolio, as well as non-gaming assets. Downside risks to our PO are inability to execute M&A, overexposure to one operator, and general interest rate risks.

## **Analyst Certification**

I, Shaun C. Kelley, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

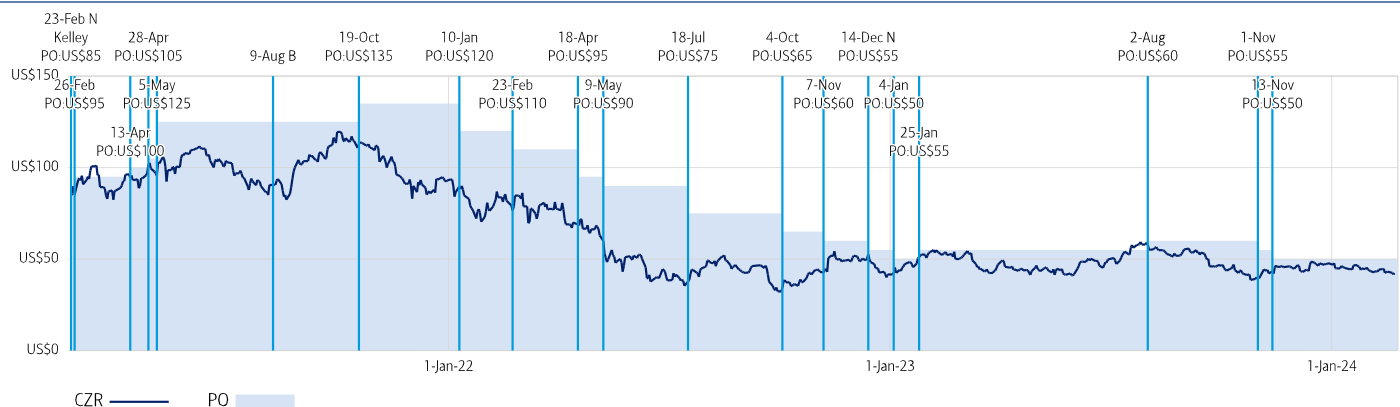
## US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
<b>NEUTRAL</b>				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Churchill Downs Incorporated	CHDN	CHDN US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
<b>UNDERPERFORM</b>				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad

## Disclosures

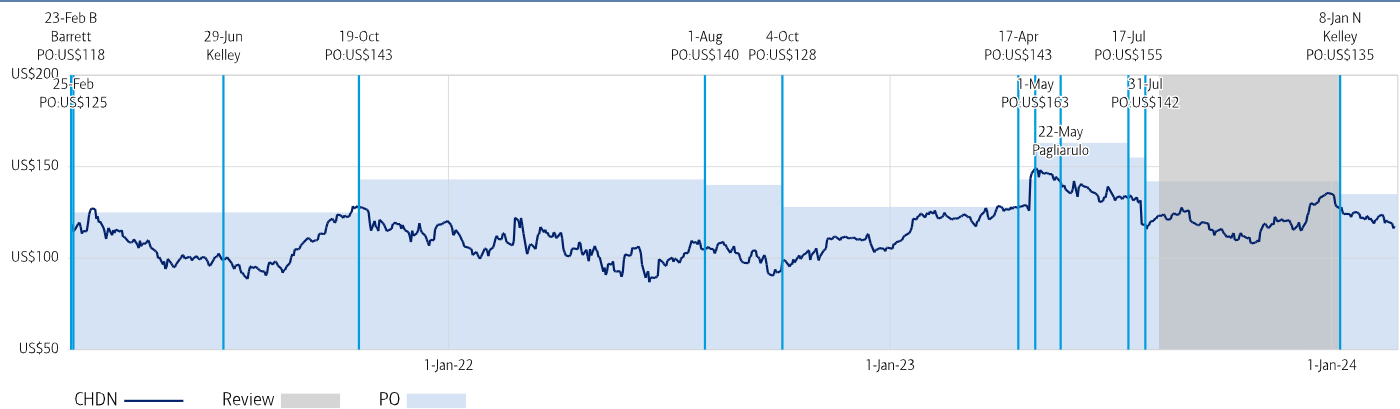
## Important Disclosures

## Caesars Ent (CZR) Price Chart



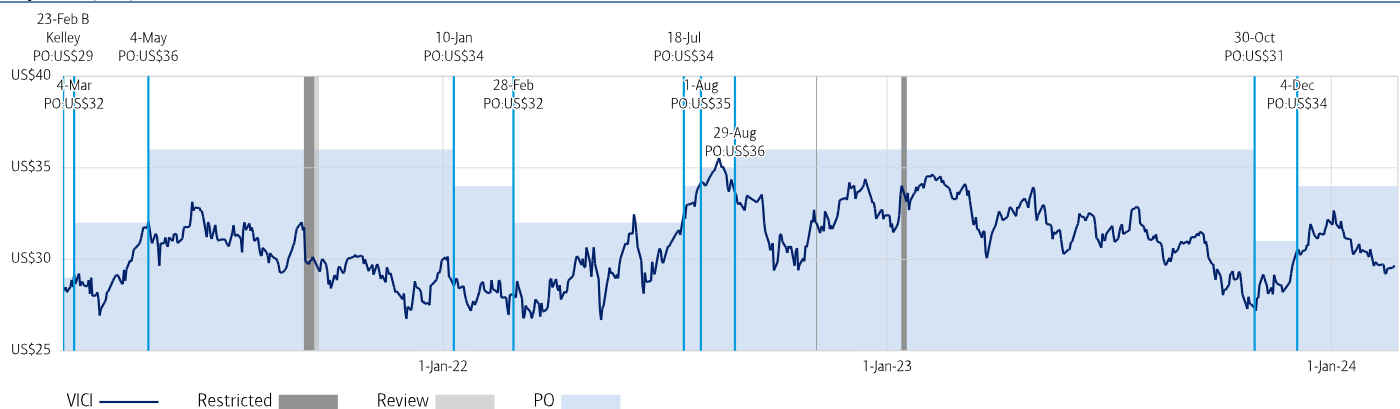
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Churchill Downs (CHDN) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**VICI Properties (VICI) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Buy	22	50.00%	Buy	10	45.45%
Hold	12	27.27%	Hold	6	50.00%
Sell	10	22.73%	Sell	3	30.00%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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