

Gaming

Q1 Gaming Earnings Week 2: Strong revenues, no matter the market

Price Objective Change

Revenues (++) , EBITDA (+), Online (+), Consumer (=)

Week 2 of gaming earnings saw healthy revenues (+3% ahead of our estimates) with 3 beats, 1 in-line and 2 misses on EBITDA. Main Themes: 1) Consumer and exit rates commentary is still solid, 2) Online revenues were better and confidence in 2H '23 profitability increased, 3) Las Vegas and Locals commentary remains strong.

DKNG: “Holding” on to more customers; Guidance raised

Revenues/EBITDA were +6%/+4% ahead of our estimates and FY '23 guidance was raised (details in our [first take, see report](#)). Shares rallied >15% driven by a combination of estimates & multiple re-rating as 1) growth trajectory remains strong (we est. ~18% revenue CAGR from '23-'25), 2) product enhancements are taking hold, 3) profitability is in sight, 4) risk of capital raise is behind us. Trends continue to exceed our expectation but valuation (~25x/~14x actual & “stabilized” 2025 EBITDA) keep us Neutral.

MGM: Macau, Las Vegas, Regionals solid, offset by online

Revenues were ~2% ahead of our estimates driven by Macau & Regionals while Las Vegas was in-line. Property EBITDA met our estimate as Macau upside was offset by larger losses (timing related) at BetMGM. Maintain our \$50 PO & Neutral on strong operations offset by macro uncertainty. See our [first take for more \(see report\)](#).

CZR: Vegas (+), Online (+), Regionals (=), 2025 Goals

Revenues/EBITDA were 2%/3% ahead of our est. as Las Vegas was strong, Regionals were mixed, and Online losses improved. 2025 goals of \$5B in EBITDA & \$12+ in free cash flow provide a path for upside. Maintain \$55 PO & Neutral on stable trends offset by macro and higher leverage/beta vs. peers. See our [first take \(see report\)](#).

PENN: Mixed Q1; Barstool headline risk causes pull back

Revenues were ~3% ahead driven by the Northeast and Interactive. Property EBITDA slightly missed given negative mix shift in regions from the South to the Northeast. 2023 revenue guidance increased by \$225M for Barstool integration & EBITDA guidance was reiterated. Shares fell ~13.5%, which likely reflected headline risks around Barstool in addition to fundamentals. Reiterate Neutral on a balanced risk-reward but lower PO to \$32 (\$35 prior), on 6.8x '24E EBITDA (7.5x '23E EBITDA prior) with increased headline risk for Barstool.

RRR: Strong quarter as Locals remain strong

Revenues/Adj. EBITDA were 4%/6% ahead of our est. driven by non-gaming (+4% Q/Q) while margins of 49.8% were up sequentially. We raise estimates on better non-gaming revenue and continued healthy margins. Stay at Underperform on relative valuation but raise PO to \$45 (\$42 prior) on ~9x (same multiple) on 2024E new EBITDA (2023E prior).

VICI: Solid Q1 FY '23 guidance reiterated

Revenues were ~2% ahead helped by [recent transactions \(see report\)](#) & AFFO guidance was maintained. Reiterate Buy on VICI's mid-teens (AFFO + dividend) total return this year and low double-digit return over time & our \$50 PO on a 4.8% '24 dividend yield.

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Exhibit 1: Stocks Mentioned

Overview of stocks mentioned in this report

BofA Ticker	Bloomberg Ticker	Price	Rating
CZR	CZR US	\$44.68	C-2-9
DKNG	DKNG US	\$24.58	C-2-9
MGM	MGM US	\$43.14	C-2-9
PENN	PENN US	\$26.44	C-2-9
RRR	RRR US	\$48.38	C-3-8
VICI	VICI US	\$32.81	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

DKNG = DraftKings

MGM = MGM Resorts

CZR = Caesars Entertainment

PENN = Penn Entertainment

RRR = Red Rock Resorts

VICI = VICI Properties

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 5.

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Q1 Results & Stock Performance

Exhibit 2: Revenue Performance

Revenues were an avg. 3% ahead of our est.

Stock	Revenue	BofA est.	Cons.	Delta (\$) to BofA	Delta (%) to BofA
CZR	\$2,830	\$2,769	\$2,765	\$61	2%
DKNG	\$770	\$724	\$705	\$46	6%
MGM	\$3,873	\$3,809	\$3,614	\$65	2%
PENN	\$1,673	\$1,621	\$1,590	\$53	3%
RRR	\$434	\$418	\$414	\$16	4%
VCI	\$878	\$857	\$819	\$20	2%

Source: BofA Global Research, Bloomberg, Visible Alpha

BofA GLOBAL RESEARCH

Exhibit 3: EBITDA Performance

EBITDA was an average 1% ahead of our est.

Stock	EBITDA	BofA est.	Cons.	Delta (\$) to BofA	Delta (%) to BofA
CZR	\$958	\$934	\$920	\$24	3%
DKNG	(\$222)	(\$232)	(\$255)	\$10	4%
MGM	\$1,130	\$1,135	\$1,059	(\$5)	0%
PENN	\$478	\$495	\$484	(\$16)	-3%
RRR	\$194	\$184	\$183	\$10	6%
VCI	\$710	\$722	\$709	(\$11)	-2%

Source: BofA Global Research, Bloomberg, Visible Alpha

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Exhibit 4: Stock Performance: Absolute & Relative Performance

CHDN & DKNG posted the biggest gains while PENN posted the biggest declines

Stock	1 Day Return	vs. S&P 500	Since Earnings	vs. S&P 500	YTD Return	vs. S&P 500
BYD	1.5%	1.9%	6.6%	5.0%	29.5%	21.7%
CHDN	14.1%	12.1%	17.6%	15.7%	40.1%	32.3%
CZR	-1.3%	-0.6%	0.2%	-0.1%	7.4%	-0.4%
DKNG	16.2%	14.6%	15.3%	13.6%	115.8%	108.0%
GLPI	1.0%	0.2%	-0.8%	-0.8%	-2.0%	-9.8%
LVS	2.0%	2.0%	6.0%	6.4%	28.3%	20.4%
MGM	-0.2%	0.9%	-6.3%	-5.5%	28.7%	20.8%
PENN	-13.6%	-12.9%	-12.2%	-13.2%	-11.0%	-18.8%
RRR	4.3%	2.6%	4.2%	2.4%	20.9%	13.1%
VCI	-3.2%	-2.1%	-2.9%	-2.1%	1.3%	-6.6%

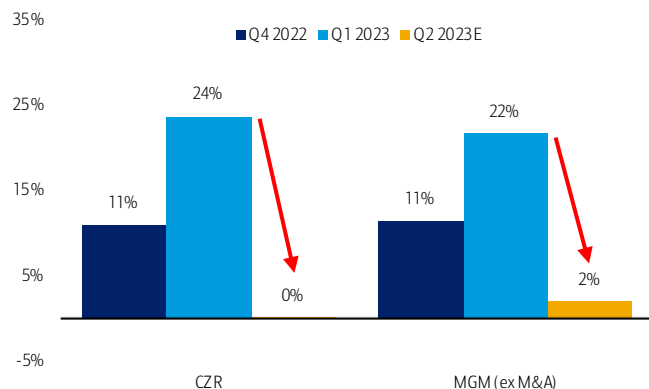
Source: BofA Global Research, Bloomberg, Visible Alpha. BYD = Boyd Gaming, CHDN = Churchill Downs, GLPI = Gaming & Leisure, LVS = Las Vegas Sands

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Las Vegas

Exhibit 5: Strip Y/Y Revenue Growth

Revenue growth was 20%+ in Q1 helped by easy comps, though we expect flattish growth in Q2

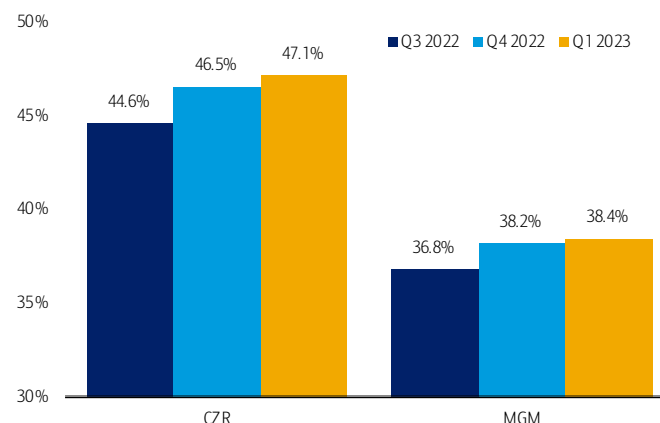


Source: BofA Global Research

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Exhibit 6: Strip EBITDA Margins

Q1 margins were up sequentially for CZR & MGM

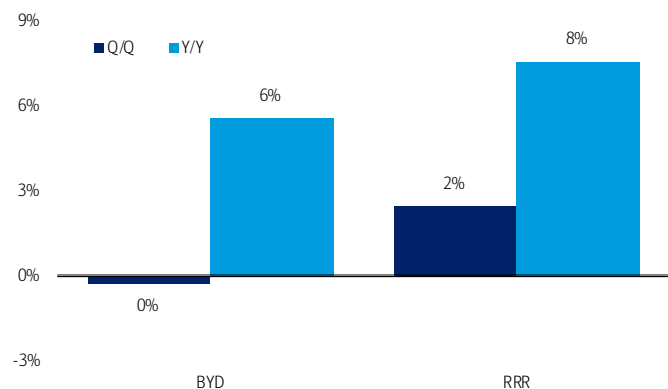


Source: BofA Global Research

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Exhibit 7: Locals Revenue Growth

Revenue growth was flattish Q/Q and up HSD% Y/Y

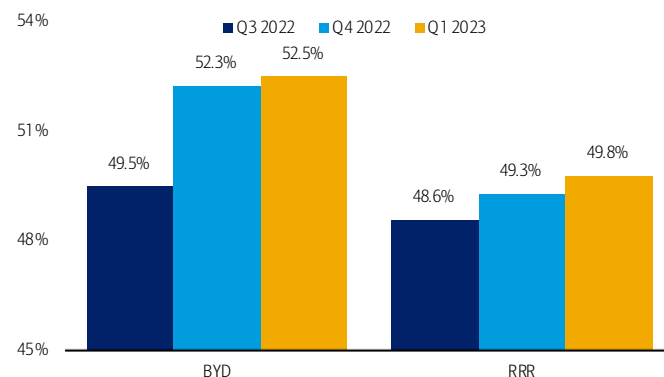


Source: BofA Global Research

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Exhibit 8: Locals EBITDA Margins

Margins were up sequentially for BYD & RRR

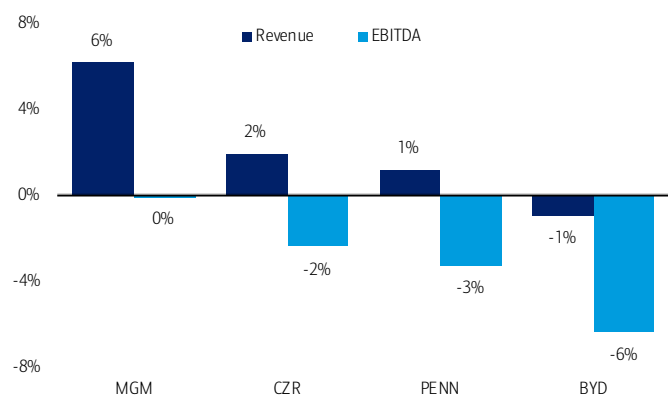


Source: BofA Global Research

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Regionals**Exhibit 9: Y/Y Revenue & EBITDA Growth**

MGM posted the best results while CZR was impacted by weather, PENN by the South and Northeast gaming taxes, and BYD by Louisiana & Mississippi

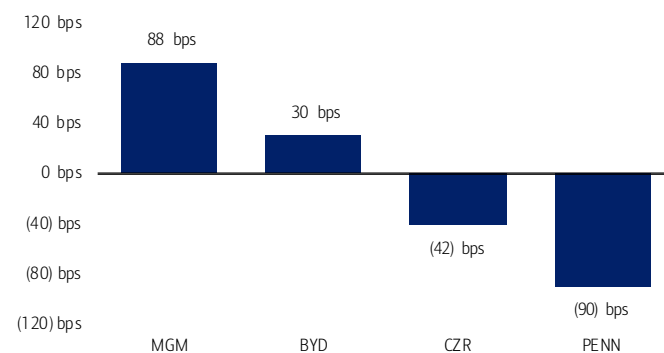


Source: BofA Global Research

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Exhibit 10: Q/Q Margin Performance

PENN posted the biggest sequential decline due to the South and Northeast gaming taxes

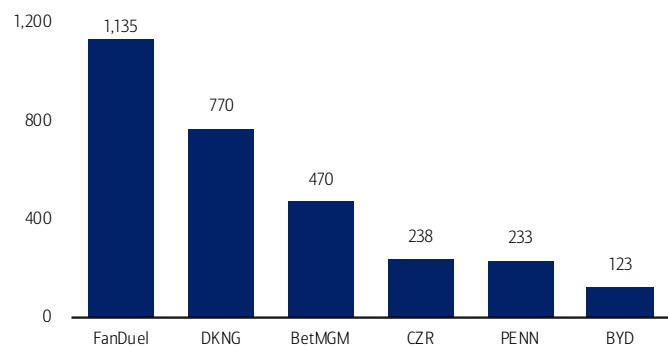


Source: BofA Global Research

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Online**Exhibit 11: Q1 2023 Online Revenue**

FanDuel and DKNG posted the highest revenue

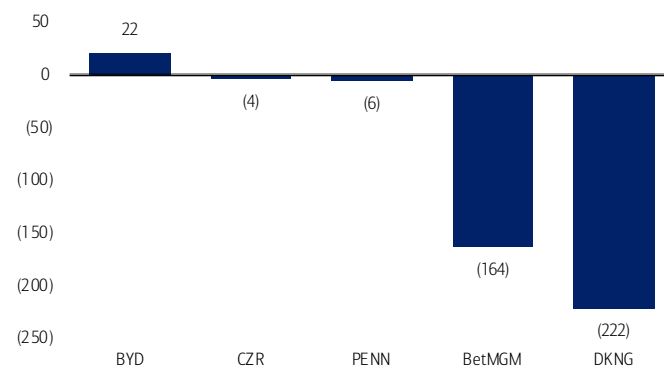


Source: BofA Global Research

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Exhibit 12: Q1 2023 Online Adj. EBITDA

DKNG posted the largest loss, though came in better than our estimate



Source: BofA Global Research

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Exhibit 13: DKNG's Top-Down Valuation

DKNG's actual & "stabilized" EBITDA in our current estimates and our "upside" case"

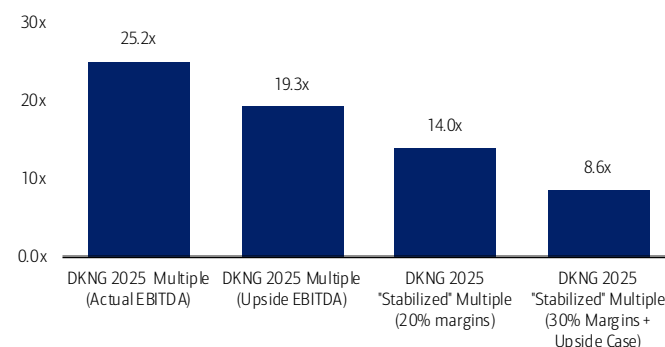
Top-Down Valuation	Current	Upside Case
Share Price	\$24.58	\$24.58
2025E Diluted Shares	503	503
Net Debt	(36)	(36)
Enterprise Value	12,339	12,339
2025 Revenue	4,408	4,781
Stabilized Margin	20%	30%
Implied Stabilized EBITDA	882	1,434
Actual EBITDA	490	639

Source: BofA Global Research

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Exhibit 14: DKNG 2025 "Stabilized" and "Actual" EV/EBITDA Multiples

DKNG's implied multiples based on "stabilized" and "actual" EBITDA



Source: BofA Global Research

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Consumer Commentary

MGM: "We're seeing some really strong strength in our database, especially in our Gold Plus customers.... we see not only their trips continuing to increase, but also their play continue to increase. And in most areas of our database, we're seeing increases in both trips and in spend. The one area where we may be seeing a little bit less is the younger customer. They're probably a little bit more impacted than anything we've seen, but nothing materially"

CZR: "What you're seeing through Vegas is not only just extraordinary demand that continues as you look through each month... We're getting Group business that is higher dollar, comes with banquet business attached and replaces our least profitable players... Obviously, second quarter generally is our most difficult comp of the year since that was our all-time record second quarter last year, we did almost \$1.5 billion of brick-and-mortar EBITDA, but we feel very good about business in the April and through the rest of this quarter in Vegas"

PENN: "April really was a story of 2 halves. We started the month off slowly with the Easter weekend, but finished strong in the final 2 weeks, including having our number 1 company-wide slot volume weekend of the year so far in the last weekend of April"

RRR: "With regard to our group sales business, we continue to see positive momentum driven by growth in both room nights and ADR as our pipeline continues to grow into 2023. And as we begin the second quarter, our business across both our gaming and non-gaming segments remained stable"

VICI: "You're seeing across so many consumer sectors the strength of luxury based where we are in Midtown Manhattan, our neighborhood effectively feels like it's being taken over by LVMH. And that's simply because there is so much spending happening globally in these luxury categories. And it's one of the reasons our partners like Cabot and Canyon Ranch are doing so well right now"

Exhibit 15: Estimate Changes (\$M)

Overview of BofA's estimate changes

	FY 2023		FY 2024		FY 2025	
	New	Prior	New	Prior	New	Prior
PENN	1,955	1,974	2,023	2,032	2,089	2,085
RRR	737	735	812	800	831	816
VICI	2,940	2,947	3,077	3,046	3,293	3,266

Source: BofA Global Research estimates

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Price objective basis & risk

Caesars Entertainment Inc (CZR)

Our \$55 PO is based on approximately 7.7x 2024E EV/EBITDAR. This multiple is in line with 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

DraftKings, Inc. (DKNG)

Our \$25 PO is based on approx. 3.4x 2024E Revenue, in line with a select group of consumer disruptors. We believe this multiple is justified given the early stage enthusiasm for the vertical and the scarcity value associated with DKNG, given it is the only US pure-play for sports betting of meaningful size.

Upside risks to our PO are higher-than-expected growth, faster-than-anticipated state legalizations and quicker and higher profitability than we model to.

Downside risks are lower enthusiasm for growth stocks, slower legalization for sports betting, increased competition, and a slower ramp to profitability.

MGM Resorts International (MGM)

Our \$50 PO is based on approximately 7x our 2024 EBITDAR estimate. This multiple is a discount to MGM's historical average since 2010, due to the the company's evolving corporate structure.

Upside risks are: a stronger than anticipated recovery in Las Vegas, sports betting/iGaming ownership changes and improving consumer sentiment and its majority ownership stake in MGM China.

Downside risks are: execution risks related to sports betting and iGaming, increased Strip promotional competition, and a slower than expected recovery in the Macau market and US.

Penn Entertainment (PENN)

Our \$32 PO is based on approximately 6.8x 2024E EBITDAR. This multiple is in line with PENN's historical multiple, but a discount to other consumer growth stocks with longer track records of growth and greater brand power.

Downside risks are potential margin deterioration, uncertainty on growth projects, and that the sports opportunity is less than we anticipate.

Upside risks are a function of PENN winning additional casino licenses not in our estimates, sports betting ahead of expectations, and stable consumer trends.

Red Rock Resorts, Inc. (RRR)

Our \$45 PO is based on approximately 9x our 2024E EBITDA. We believe this multiple is appropriate given 1) Tough comps, and 2) Labor inflation is also a bigger concern in Las Vegas (LV Locals is RRR's core market) than regionals due to a higher proportion of fixed operating expenses.

Risks to the downside are as follows: 1) Revenue comps are tough as Las Vegas Locals (RRR's core market) meaningfully outperformed the broader US with Gaming revenue +25% above pre-COVID levels. 2) RRR has higher fixed operating leverage than peers

owing to lower gaming tax rate. 3) Following recap/special dividend, incremental cash flow will be targeted at Durango project. 4) Wage and cost inflation as well as competition from the Strip are possible.

Risks to the upside are: 1) Record margins (highest among regionals) and cash flows, 2) RRR's attractive balance sheet and leverage profile, 3) Less of a drag from the Palms and closed properties, and 4) RRR owns 100% of its real estate providing substantial security and flexibility for borrowing

VICI Properties (VICI)

Our \$36 PO is based on an approximate 4.8% 2024E dividend yield. Our dividend yield assumption 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.

Special Disclosures

BofA Securities is currently acting as financial advisor to ORIX Corporation, the core company of the MGM-ORIX Consortium that has been selected as the Prospective IR Operator for the Project for Establishment and Operation of Specified Complex Tourist Facilities in Yumeshima, Osaka (Osaka IR) implemented by Osaka Prefecture and Osaka City, which was announced on September 28, 2021.

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US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	Churchill Downs	CHDN	CHDN US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA 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
NEUTRAL				
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
UNDERPERFORM				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Hersha Hospitality	HT	HT US	Dany Asad
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	NeoGames	NGMS	NGMS 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

Equity Investment Rating Distribution: Gaming Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	24	52.17%	Buy	11	45.83%
Hold	13	28.26%	Hold	6	46.15%
Sell	9	19.57%	Sell	3	33.33%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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