


**CAESARS**  
ENTERTAINMENT®

Chase Webber  
FIN-431-01  
Caesars Entertainment Stock Pitch  
30 October 2023

# Caesars Entertainment Inc | NAS : CZR

Current Price : \$39.14\*

Recommendation: **BUY**

\*as of 10/27/23

12-Mo. Target Price % : +93.71%

12-Mo. Target Price \$ : \$75.82

Sector: Consumer Cyclical  
Industry: Resorts & Casinos

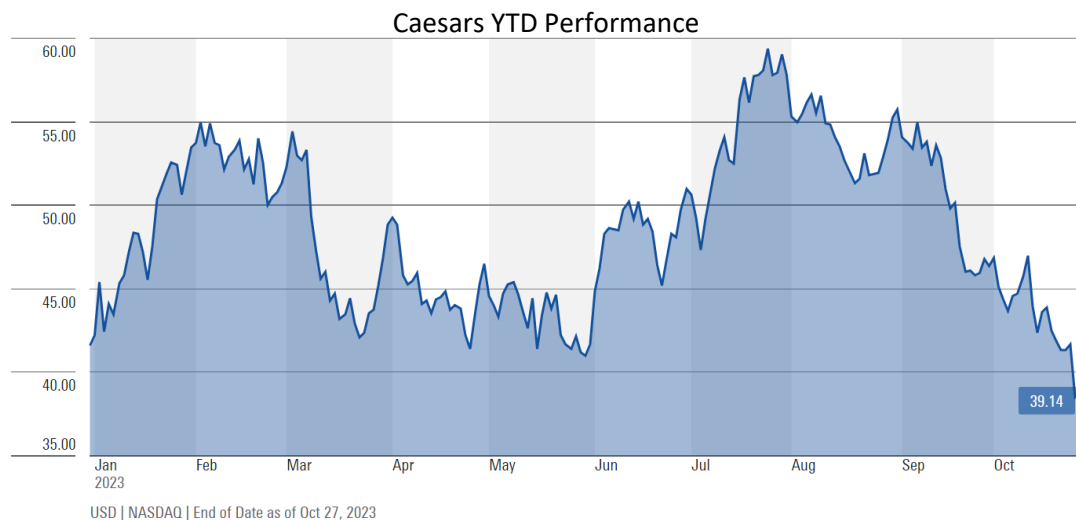
Profile *	(Figure 1, Blmg.)
Closing Price	\$39.14
52 Wk H/L	\$60.27-\$38.33
Mkt Cap	\$8,426.4M
Shrs Out	215.3M
Beta	2.83
12 Mo. EPS	\$4.96
12 Mo. Return	-5.71%

## Abstract

Caesars Entertainment (NAS: CZR) is the Las Vegas leader in casinos and has a worldwide presence. Focusing on gaming and hospitality, CZR is striving to find innovative changes to the established, normal casino life. Because of this, the recommended investment action for Caesars Entertainment is a buy, with a forecasted ~94% stock price increase over the next 12 months. This forecast was based upon a 50/50 split (Figure 2) of relevant valuation metrics and market multipliers. CZR is expected to grow due to a positive outlook for both the company and the industry as a whole.

Findings		
Model	Price (\$)	Weight (%)
FCFM	(109)	16.7
RIM	(3)	16.7
MVAM	(120)	16.7
P/B Price	104.59	12.5
P/Sales Price	3.22	12.5
P/FCF Price	1.51	12.5
P/EBIDA Price	806.19	12.5
Valuation	<b>\$75.82</b>	100%

(Figure 2, Analysis)



Key Financials	(Figure 3, Ana.)						
FY	2020	2021	2022	2023E	2024E	2025E	2026E
Revenue (M)	\$ 3,474	\$ 9,570	\$ 10,821	\$ 11,633	\$ 12,214	\$ 12,825	\$ 14,107
Rev. Growth	27.2%	175.5%	13.1%	7.5%	5.0%	5.0%	10.0%
EPS	\$ (13.50)	\$ (4.83)	\$ (2.39)	\$ 4.21	\$ 4.42	\$ 4.64	\$ 5.11

## Business Description

Caesars Entertainment (NASDAQ:CZR) is a gaming and hospitality company. CZR was founded in 1937 and operates under the names Harrah's, Caesars, Horseshoe, and Eldorado. With their business model, CZR has the business segments: Las Vegas, Regional, Caesars Digital, and Managed & Branded – CZR is seeking to continue to grow their market share in all of these industries, specifically Caesars Digital.

In 2020, CZR merged with Eldorado Resorts, turning Caesars into the largest casino and entertainment company in the United States. Eldorado purchased Caesars for \$17.3B, turning the company into Caesars Entertainment, the world's largest gambling and gaming company. Caesars now owns over 55 casinos in 16 states, the most world-wide.

## Properties, Products, and Services

As stated, CZR owns over 55 casinos in 16 states, but also own casinos 2 outside of the states (Appendix 4). CZR constantly seeks out new growth opportunities for their highly cyclical business. Caesars is looking to improve their iGaming segment, as digital sports betting has been extremely popular in recent times – CZR digital revenue increased from \$337M in 2021 to \$548M in 2022. CZR has invested \$1.1B in 2023 in digital assets thus far, seeking to continue that growth. CZR wants to compete with the likes of FanDuel, MGM, and DraftKings, who all have established reliable and trusted online sports betting interfaces and posting strong gross gaming revenue (GGR) (Figure 4). Though CZR has not yet experienced strong, positive growth in this segment – CZR expects their iGaming to be fully profitable and established by 2025. In regards to this industry, "Caesars is positioned to benefit from the sports betting and iGaming market, where we see U.S. industry sales reaching \$40 billion by 2030 versus \$12.5 billion in 2022" (Morningstar). CZR online-sports betting is only in place in 6 jurisdictions in the US causing this segment's revenues to be lower than hoped. But, with the help of the acquisition of William Hill sportsbook, CZR expects this segment to be their highest growth opportunity.

## Sales & Marketing

From 2020 to 2021, advertising expenses increased by over 700%, much thanks to the merger but still emphasizing its importance. In the beginning of 2022, "Caesars Entertainment CEO Tom Reeg sent a warning to the sports betting industry on the perils of a cutthroat ad-spending war that he viewed as spiraling out of control" (Sports Handle). But, CZR had to continue to spend money for advertising in order to stay competitive in the digital sportsbook market.

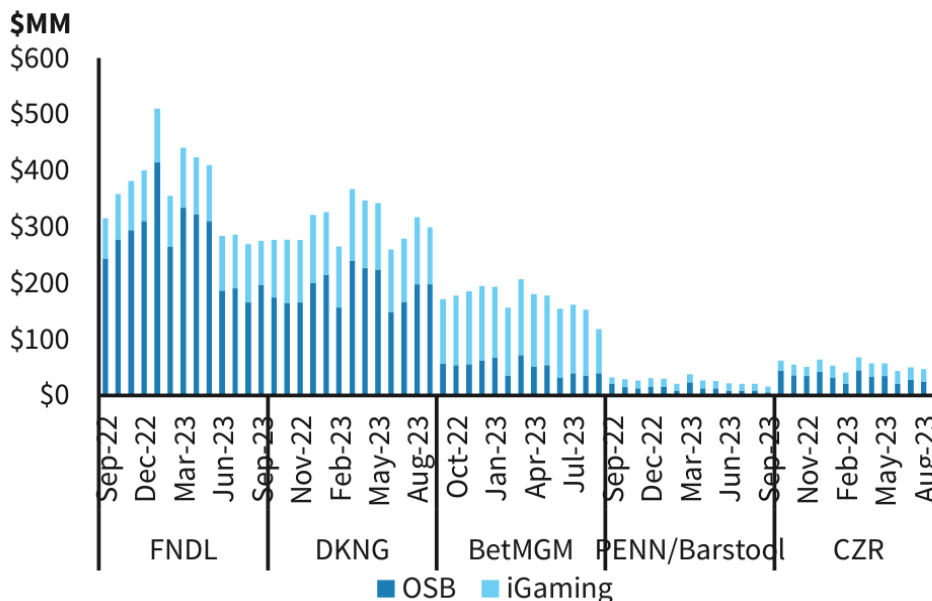


Figure 4

While advertising expenses dramatically increased over this time, so did revenue. As COVID slowed down during the end of 2020/beginning of 2021, CZR noticed a revenue increase of 175% YoY 2020 to 2021. Again, due to the nature of the CZR business being highly cyclical – CZR is dramatically affected by changes in the economic cycle, sometimes even more than other cyclical businesses.

Caesars also has the largest casino loyalty program with over 60 million total members, beating out the second-best MGM by nearly 20 million. This benefits the company greatly as they can leverage this exposure they have by methods of data analytics to make predictive models or descriptive analytics.

Both of the dramatic increases in advertising and revenue prove how cyclical a business CZR is. In the resorts & casinos industry, they are highly susceptible to consumer's confidence and can be dramatically affected by changes in the economic cycle.

## Industry Overview & Competition Position

Caesars is in the consumer cyclical sector, one that thrives during expansion in the business cycle – but struggles during contraction. In this sector, cyclical businesses like MGM, Wynn, and LVS should outperform during expanding stages of the economy. Caesars has shown strong positive growth after COVID, with a stock price at its climax during the end of 2021. Since then CZR has noticed a nearly -50% stock price drop since the beginning of 2022. YTD, CZR is down about 6%, with a recent drop during the past months due to a cybersecurity breach. CZR seems to parallel the growth of S&P Consumer Discretionary Index (SP500-25), but with much more volatility (Figure 5).

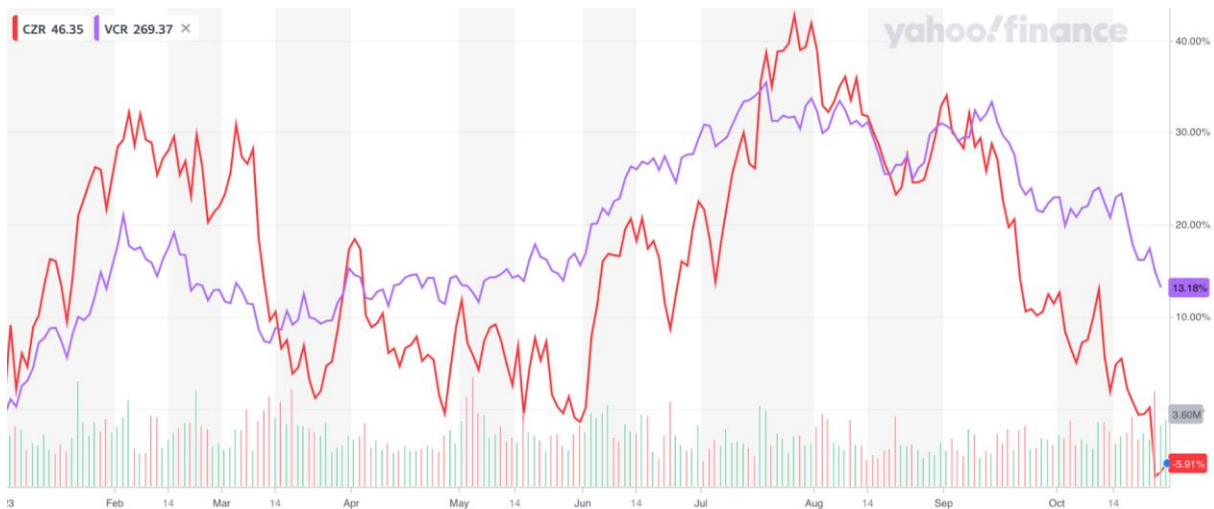


Figure 5

## Industry Analysis

In regards to industry, CZR is in the gaming, hospitality, and entertainment industry. In terms of this industry's market cap, Caesars stands in the top 10 with the likes of MGM, LVS, and WYNN, which were found are comparable companies with similar business models and financials. But, YTD, Caesars Entertainment is the only company out of these 4 to have a negative return (Figure 6). Though CZR has been able to post strong revenue marks recently, CZR has faced some cybersecurity troubles causing investors to have less faith in the brand because of their newfound focus on digital gambling/sports betting. Though CZR has been experiencing struggles with this, so have other gambling companies as MGM just became positive on their digital sportsbook. CZR has to keep up with certain trends in the gambling industry, like the digital sportsbook, in order to stay a prominent company in this industry.

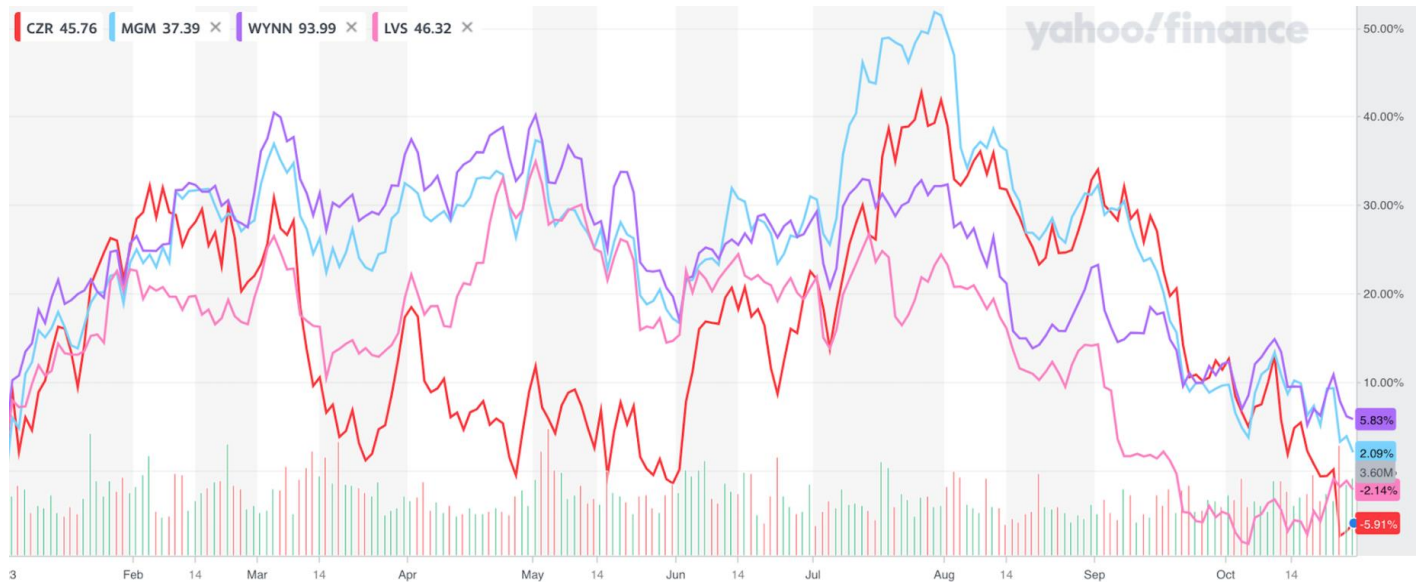


Figure 6

## Competitive Positioning

Porter's Five Forces is a model that can determine the level of competition an industry/company faces. With the *Five Forces* being: 1. Threat of entry, 2. Rivalry between existing competitors, 3. Pressure from substitute products, 4. Bargaining power of buyers, and 5. Bargaining power of suppliers; a company like CZR can determine their competitive stance in the massive gaming industry.

- Threat of Entry: Low** – Caesars was founded in 1937 and has a prominent standing with 9 casinos in Las Vegas. Due to the fact that it has taken CZR nearly a century to get to this standing, it is unlikely that new entrants will make an impact on Caesars business. Due to all the regulatory policies surrounding casinos, it makes it very difficult for new entrants to become acclimated and successful – so this force is the least impactful on Caesars Entertainment.
- Rivalry between existing competitors: High** – In terms of rivalry and competition, CZR competes in Las Vegas which has over 150 operating casinos. Caesars must constantly compete in order to bring the most business to their casinos, hotels, sports books. With Las Vegas revenue holding the most weight in Caesar's total revenue, they put a lot of effort and compete to attract gamblers to come to them instead of every other casino in Vegas.
- Pressure from substitute products: High** – Like rivalry between existing competitors, Caesars will of course face pressure from substitutes in this highly competitive industry. Again, the substitutes are every other hotel in Las Vegas or any other sportsbook online. Due to the fact that there are so many options, this force is heavily impactful on Caesars' business model.
- Bargaining power of buyers: High** – As a cyclical business, CZR is extremely susceptible to consumer's buying power. In periods of economic downfall, Caesars recognizes that their sales can and/or will decrease. For a casino, they experience this effect even more than other cyclical businesses. Consumers, or gamblers, are the most crucial profit-making factor for a casino, so if gamblers don't gamble Caesars will struggle.
- Bargaining power of suppliers: Low** – Since Caesars' owns and operates most of their casinos, they face little-to-no pressure from suppliers. In this industry, the role suppliers play are in terms of food, bedding, cash, and other daily operations items a casino and hotel would need.

## Investment Summary

Given Caesars Entertainment's historic performance, industry analysis, mergers, and economic outlook, a **BUY** is the recommended investment action. With continued growth in Las Vegas and in their digital revenue segment, along with their recent merger, CZR's stock price is expected to grow by nearly 94%, with a 12-month price target of \$75. CZR is currently highly undervalued and has an overweight recommendation due to their positive economic and industry outlook. As the global leader in casinos and in loyalty members a part of them, investors should look to purchase shares of this stock while it is valued as low as it is, which is currently at the bottom of its 52-week high/low (Figure 1).

## Valuation

A target price of \$75 was discovered through the use of revenue forecasting, valuation metrics, and market multipliers. These metrics consisted of a free cash flow model, residual income model, and market value added model – which combined held half of the weight. Market multipliers held the other half of the weight and were based on the companies MGM, Las Vegas Sands, and Wynn. The multiplier price resulted in a bullish opinion with the valuation metrics in a bearish opinion (Figure 2, Appendix 3). Finally, a revenue growth rate of 7.5%, 5%, 5%, and 10% were predicted for 2023, 2024, 2025, and 2026, respectively (Figure 7). All together, they forecast the stock price to nearly double over the next 12 months.

CZR Revnue (M of \$)

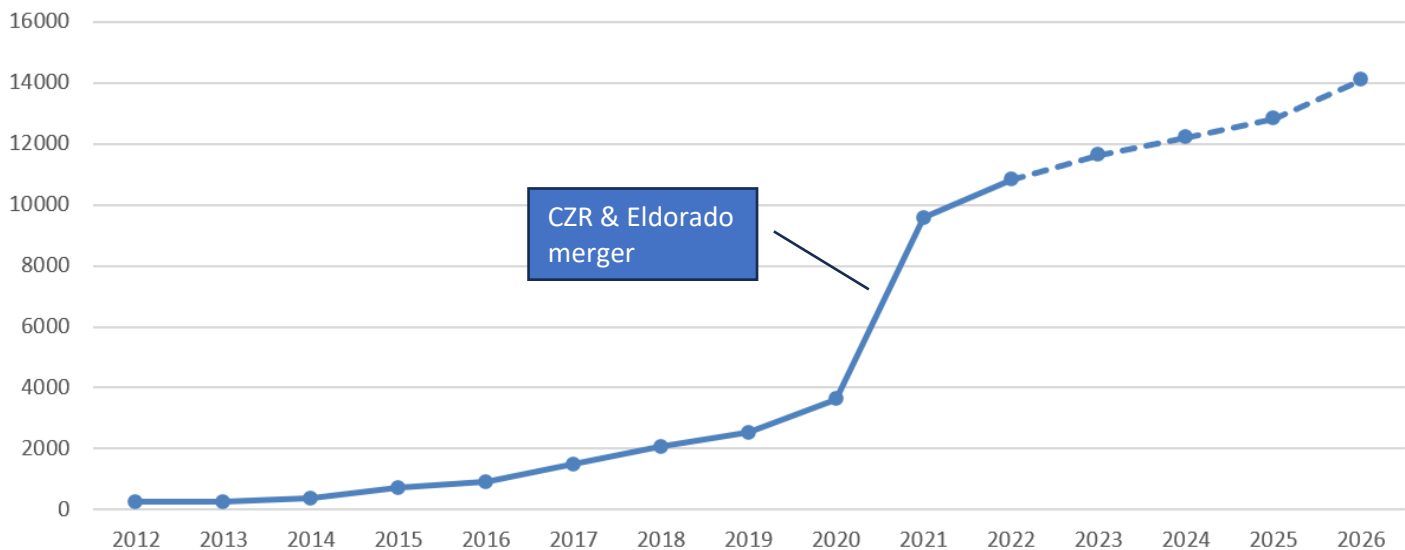


Figure 7

## Financial Analysis

Looking at Caesar's financials, it would appear that the company has a negative outlook. With negative net income over the last 3 years, CZR has been appearing to struggle. But, in May of 2019 before the merger, a 20-year gaming industry investment banker joined the company as CFO. After this, Caesars went on to merge, becoming the largest gaming company, during COVID. Because of this, Caesars balance sheet constantly is showing a heaping amount of debt. With constant acquisitions and taking on more properties, there are risks that coincide with this. But, outlook for CZR's revenue, their biggest driving factor for revenue comes from their digital revenue segment. Caesars has invested \$1.1B in this segment thus far and are expected to continue this until their product and presence is fully functional. As government

policies are starting to allow online wagering in more states, this opens more potential for Caesars to notice revenue growth. Finally, since the merger with Eldorado, Caesars Entertainment EBITDAR (earnings before interest, taxes, depreciation, amortization, and rent/restructuring costs) has increased by 30%, with realized revenue over \$1B during August 2023, totalling about a 30% ROI.

## Investment Risk

Finally, regarding risks for Caesars, there are many that come with the investment. Caesars, a cyclical business, is heavily affected by economic factors such as slowed or negative economic growth, outbreaks like COVID, and many ESG policies. Continuing on about the amount of debt they have, this high amount of leverage is risky to both the company and investors, resulting in a below average credit rating (B rating from S&P). In this industry, the guidelines are pretty strict compared to others, so CZR needs to ensure they comply with all of the rules. Caesars, with the largest loyalty program, also has a large risk associated with their data. This year, both MGM and CZR have fallen to a cybersecurity attack, which lowered share prices and confidence in the company. Summarized, uncertainty in the economy will slow Caesars growth, high leverage results in uncertainty, and government policies can drastically affect their business model.

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Appendix 3: Valuation metrics & market multipliers

Appendix 4: CZR by location

## **Appendix #2: References/sources**

Bloomberg Terminal

Morningstar

Barclays DKNV U.S. Gaming 3Q23 Preview

Deutsche Bank Caesars Entertainment 2Q23

Yahoo Finance



## Appendix #3: Valuation metrics & market multipliers

Ticker	CZR US Equity	10/27/2023					
Forecast Data							
Year	1	2	3	4	5		
	7.50%	5.00%	5.00%	10.00%	2.50%		
	1	2	3	4	Avg.	Your Company	
Computators' Ticker	MGM US Equity	LVS US Equity	WYNN US Equity	US Equity		CZR US Equity	
PX_TO_BOOK_RATIO	2.6308	9.4629	#N/A N/A	N/A Invalid Securit	6.04685	2.4052	
PX_TO_SALES_RATIO	1.0379	8.9356	2.4939	N/A Invalid Securit	4.1558	0.8237	
PX_TO_EPS_BEFORE_ABNORMAL_ITEMS	#N/A N/A	#N/A N/A	#N/A N/A	N/A Invalid Securit	#DIV/0!	#N/A N/A	
PX_TO_FREE_CASH_FLOW	14.0787	#N/A N/A	#N/A N/A	N/A Invalid Securit	14.0787	411.0859	
PX_TO_EBITDA	1.9695	150.5143	15.7795	N/A Invalid Securit	56.08777	3.0277	

	P 0	P 1	Include
DDM			NO
FCFM	\$ (109)	\$ (109)	YES
RIM	\$ (2)	\$ (3)	YES
MVAM	\$ (150)	\$ (120)	YES
<b>Average</b>	<b>\$ (87)</b>	<b>\$ (77.24)</b>	
Multipliers' Prices			
P/B Price	\$ 104.59	\$ 104.59	YES
P/Sales Price	\$ 3.22	\$ 3.22	YES
P/EPS Price	#DIV/0!		NO
P/FCF Price	\$ 1.51	\$ 1.51	YES
P/EBIDA Price	\$ 806.19	\$ 806.19	YES
<b>Average</b>	<b>\$</b>	<b>\$ 228.88</b>	
EPS1/K	\$ (22.00)		
<b>Average</b>	<b>\$ 70.91</b>	<b>\$ 75.82</b>	

## Appendix #4: CZR by location

