

CZR Entertainment Group, Inc. (NASDAQ: CZR)

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Date: 02/28/2025 **Current:** \$33.22

Target Price: \$62 / +86.63%

Ticker: NASDAQ: CZR

Recommendation: BUY

Company Description

CZR Entertainment Group, Inc. (NASDAQ: CZR) is a leading global gaming and hospitality company with a rich history dating back to 1937. Headquartered in Las Vegas, Nevada, Caesars operates an extensive portfolio of properties, including iconic casinos and resorts across North America and internationally. As of Q3 2023, Caesars boasts over 50 properties in more than 20 states and several international locations, including Canada and the United Kingdom. The company reported revenues of \$6.5 billion in fiscal year 2023, driven by strong gaming revenues, hotel operations, and a robust sports betting segment. Caesars is renowned for its commitment to delivering exceptional guest experiences, innovative gaming solutions, and strategic expansions through both organic growth and acquisitions.

Investment Thesis

CZR is leveraging its well-known brand and strong M&A execution team to capture a growing share of the U.S. sports betting and iGaming market, leading to a faster-than-expected digital profitability.

- Caesars has a “loyalty program + property footprint” competitive moat, offering it a brand credibility in sports betting and casino hospitality to fend off pure-play digital competitors (DraftKings, FanDuel).
- After Kentucky officially launched online sports betting (September 2023), incremental states represent “on-ramp” for new digital customers. Since a large portion of technology and marketing infrastructure is already built, new launches can be added with low marginal cost, thus boosting EBITDA.
- Caesars’ current M&A team underwent two main successful deals (Eldorado Resorts, 2020; William Hill, 2021), showing strong ability in acquiring undervalued assets and fueling faster-than-expected digital profitability.

Caesars’ expertise in hospitality, combined with the expanding XR gaming sector and the underserved market of smaller operators seeking asset-light white-label solutions, positions itself to generate high-margin revenue streams through immersive entertainment and licensing-driven growth.

- With global VR’s projected CAGR at 30% through 2030 and XR’s market size over \$100 billion by 2027, a cluster of newer gaming studios, startups, and foreign operators (e.g., Lucky VR, SlotsMillion) lacking regional licensing are actively seeking partnership with regulatory-compliant giant like Caesars.
- White-label deals typically involve upfront licensing fees plus revenue-sharing (e.g., a percentage of Gross Gaming Revenue), delivering recurring, high-margin revenue to Caesars without substantial capex or new property build-outs.

- Caesars' loyalty base and policy offers an edge on cross-pollination experience – an over 65 million members base earn and redeem points on the slot floor could unlock VR-based bonus rounds while purely virtual customer might visit a physical property to redeem significant point balances for on-property perks, increasing cross-selling opportunities.

Catalyst

- **Sale of non-core regional property:** potential divestitures will lower net debt (projected target Net Debt/EBITDA ratio of below 4.0x by 2025), leading a potential interest saving up to \$50–\$100 million annually (assuming 5 - 6%), directly boosting free cash flow and equity valuation multiples.
- **AI-Driven Yield Optimization for iGaming & Hospitality Bundles:** pricing and personalization tools dynamically bundles iGaming promotions with on-property rewards (hotel stays, F&B, show tickets) in real time, customizing offers based on each user's predicted lifetime value and behavior.
- **Cross-Border Influencer Partnerships for Emerging Markets:** young soccer and pop-icon audiences in Asia or Latin America may not yet have robust local sports betting platforms but can legally play on U.S.-licensed apps if using cross-border partnerships.

Risks

- **Strict compliance & responsible gaming expenditure:** The American Gaming Association estimates that compliance-related expenses can account for up to 5–7% of a gaming operator's overall costs in highly regulated markets. Meanwhile, there are including background checks, Know-Your-Customer (KYC) protocols, anti-money laundering (AML) controls, and data security regulations, etc.
- **Multi-state patchwork and tax uncertainty:** disparate and sometimes high tax (Pennsylvania: 36% tax rate on sports betting revenue) burdens can erode margins. A shift in any state's regulatory stance - either by raising taxes or imposing additional fees - may reduce Caesars' regional EBITDA.

Valuation Analysis

In 2024, Caesars Entertainment has a revenue of \$10.99 billion, EBITDA of \$3.8 billion (35% margin), net debt of \$11.6 billion, and roughly 212.48 million shares outstanding—a more modest valuation stems from applying an Enterprise Value-to-EBITDA (EV/EBITDA) multiple between 6.5x and 7.0x. At 6.5x, the enterprise value would be \$24.7 billion (i.e., \$3.8 billion × 6.5), after subtracting the \$11.6 billion net debt, yields an implied equity value of \$13.1 billion; dividing by 212.48 million shares implies a share price of around \$62. Even the lower end of this range (about \$60 - \$62) represents a substantial premium over the current \$30 share price, supported by the company's strong 35% EBITDA margin and continued deleveraging. While macro headwinds, high leverage, and regulatory uncertainties may temper valuations, a moderate multiple around 6.5x - 7.0x EV/EBITDA suggests that Caesars Entertainment could be fundamentally undervalued, pointing to meaningful upside potential if operations remain on track and the market begins to reward its stable cash flow, strong EBITDA margin, and deliberate balance-sheet improvements.