Caesars Entertainment (NASDAQ: CZR)

UChicago 2025 Stock Pitch Competition

Recommendation: Long

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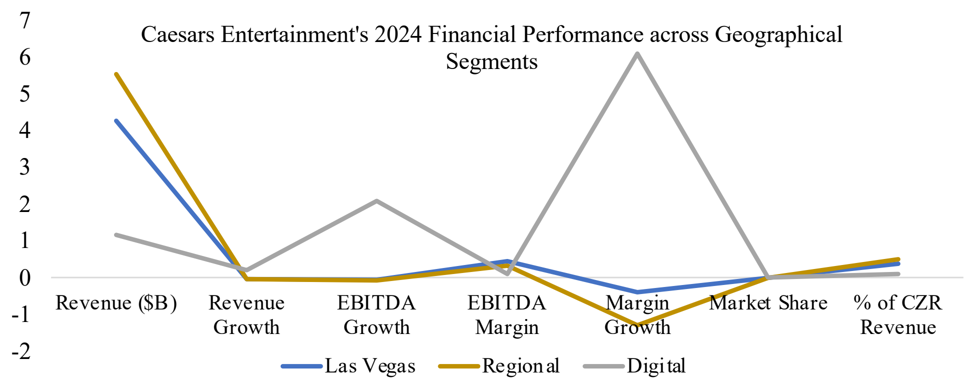
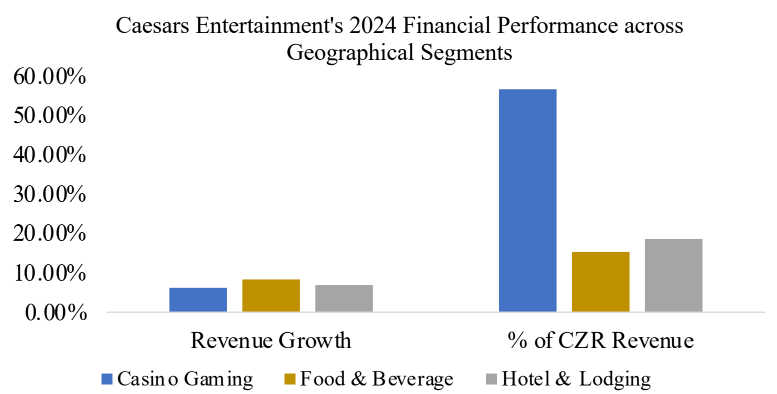
Business Overview

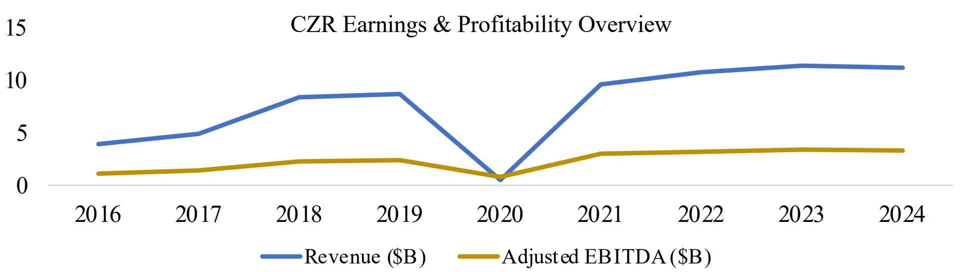
Caesars Entertainment, Inc. is a geographically diversified gaming and hospitality company that owns, leases, brands, or manages 53 domestic properties across 18 states, offering gaming operations, retail and online sports betting, online gaming, hotels, restaurants, bars, entertainment, and retail shops. The company generates revenue primarily through **gaming operations**, complemented by income from **hospitality services** and **digital platforms**.

Current Price: $27.57/Share **Price Target**: $80/Share **Recommendation**: Long **Horizon**: 2 - 3 Years **Risk/Rewards**: High/High

Business Segmentation







- **Top-2** U.S. casino operator
- Revenue totaled ~$11.2B in 2024 with ~$3.3B in adjusted EBITDA driven by high-margin Las Vegas resorts (45%+ EBITDA margin) and a turnaround in digital
- Post-COVID **fundamentals are stable**: top-line has plateaued after strong recovery
- **Balance sheet remains the biggest overhang**, with ~$26B in net debt (~6.5x EBITDA), but deleveraging progress

Industry and Market Overview

Gambling & Hospitality Industry

Industry Headwinds

- **Rising Operational Costs**: Hotels are experiencing increased expenses, notably a 15.3% rise in insurance costs through October 2024, with midscale and small economy hotels facing over 19.6% increases. Additionally, property operations, maintenance, sales, marketing, and IT expenses have each risen by nearly 5%, intensifying financial pressures.
- **Economic Uncertainty:** Decelerating consumer spending and GDP growth, projected at 2.7% in 2024 and 2.1% in 2025, are expected to suppress demand and occupancy growth in the lodging sector

Industry Tailwinds

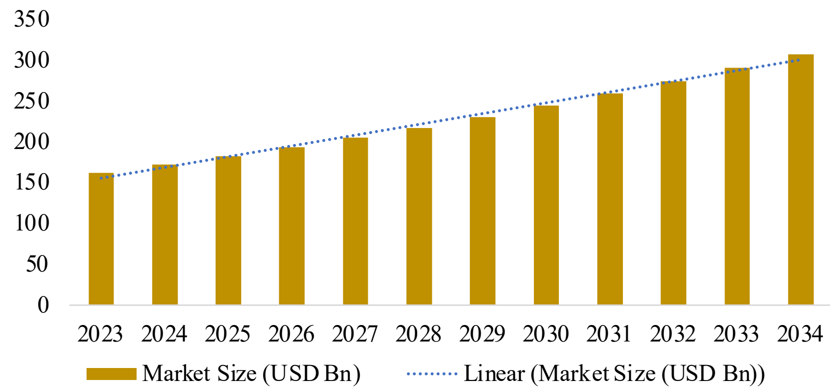
- **Digital transformation** is accelerating Caesars' margin recovery, with Caesars Digital turning profitable in 2023 and scaling toward $1.4B in revenue by 2025
- **Business and group travel are rebounding** sharply
- **Online gambling** is a structural growth engine, with the global market projected to expand from $572.6B in 2024 to $618.7B in 2025

Industry MOAT

- Strict regulatory licensing requirements, limited availability of gaming permits, and scarcity of prime real estate
- High upfront capital costs, local market dominance, and customer loyalty programs

Source: Yahoo Finance, Caesars Entertainment, Market Research Future

Market



Total Addressable Market

- U.S. Online Gambling Market (2025 est.): $23.2B
- U.S. Land-Based Casino Market (2025 est.): $70.5B
- Global Casino Hotel Market (2025): $182.6B

Differentiated View

- Wall Street sentiment anchored to traditional casino performance and Las Vegas recovery, with buy ratings largely justified by valuation tied to physical assets - missing the upside from digital monetization and platform scalability
- Our view captures the underpriced value of Caesars' digital business, with embedded ROIC exceeding that of physical casinos and strategic white-label/content partnerships positioning it for a re-rating not yet priced into consensus

Thesis 1: CZR has long runway with a rapidly scaling digital segment, a stable traditional casino business providing consistent cash flows, and strategic operational improvements that enhance free cash flow generation

Digital Segment

- **Robust Digital Revenue Growth**: Caesars Digital revenue hit $1.2B in 2024 (+20% YoY)
- Adjusted **EBITDA growing** from $38M → $117M — **tripled YoY** with **no proportional increase in capex**
- Sports betting and iGaming growth comes with operating leverage—expanding EBITDA margins without proportional cost increases
- Embedded **ROIC far above physical properties**
- Digital business **valued $4.4–5.0B standalone**, nearly **equal to current market cap of the entire company**

Financial Operations

- $275 million **divestiture** of LINQ Promenade
- Transition from heavy-asset owner to a platform monetizer
- Caesars took action to **improve CapEx** by 30.27% YoY to $439M, lower than same quarter 2023
- Caesars **reduced debt** by **$500 million** using WSOP and Promenade sale proceeds and **repurchased $50 million in common stock**
- Management projects stable brick-and-mortar operations with **reduced capex forecast at $600 million** for 2025

Strategy Updates

- Caesars' **XR/AR** and **white-label initiatives** unlock **high-margin, capex-light revenue** by leveraging brand equity in a 30% CAGR market
  - *Bragg Gaming Collaboration*:
    - In January 2025, Caesars partnered with Bragg Gaming Group to **develop exclusive online casino games**, aiming to differentiate its digital portfolio
  - *NetGaming Agreement*:
    - In October 2024, Caesars expanded its gaming content library offering through a **content partnership** with NetGaming
- **Product Launch**: Caesars has **launched its first branded version** of Pixiu Gaming's Keno, available on its online platforms
- **Regional Growth**: Caesars invested in new regional properties, such as the Caesars New Orleans renovation and the opening of the permanent facility in Danville, which can partially offset regional competition
- **Las Vegas**: Stable conditions in Las Vegas with continued **high occupancy and strong ADRs**
- **Debt Reduction**: Caesars aimed to reduce its debt through asset sales, like the World Series of Poker brand, and refinancing deals

Source: Caesar 10K, Yahoo Finance, Caesars' Newsroom

Thesis 2: CZR is structurally positioned to outperform through cyclical upside in strategic M&A, for which the team has a long proven track record or driving significant growth

M&A Execution Unlocks Accelerated Profitability

- **M&A History**: Caesars has proven its ability to integrate acquisitions (**Eldorado, William Hill**) to **broaden its product suite, consolidate its sports betting share,** and **reduce customer acquisition costs** through **cross-platform synergies**
- **High Industry Multiples: Frequent M&A** and CapEx deals with **high multiples** (industry mean 8.8x) are common in the gambling industry, giving CZR a strong enterprise value **(EV) uplift** in up-cycles
- **Divestiture of Non-Core Assets**: In October 2024, Caesars agreed to sell the LINQ Promenade to a joint venture formed between TPG Real Estate and Acadia Realty Trust for $275 million. This divestiture aligns with the company's strategy to streamline operations and focus on core assets
- Recent **board expansion** and involvement of **Icahn Enterprises** indicate ongoing focus on strategic alternatives and digital asset optimization

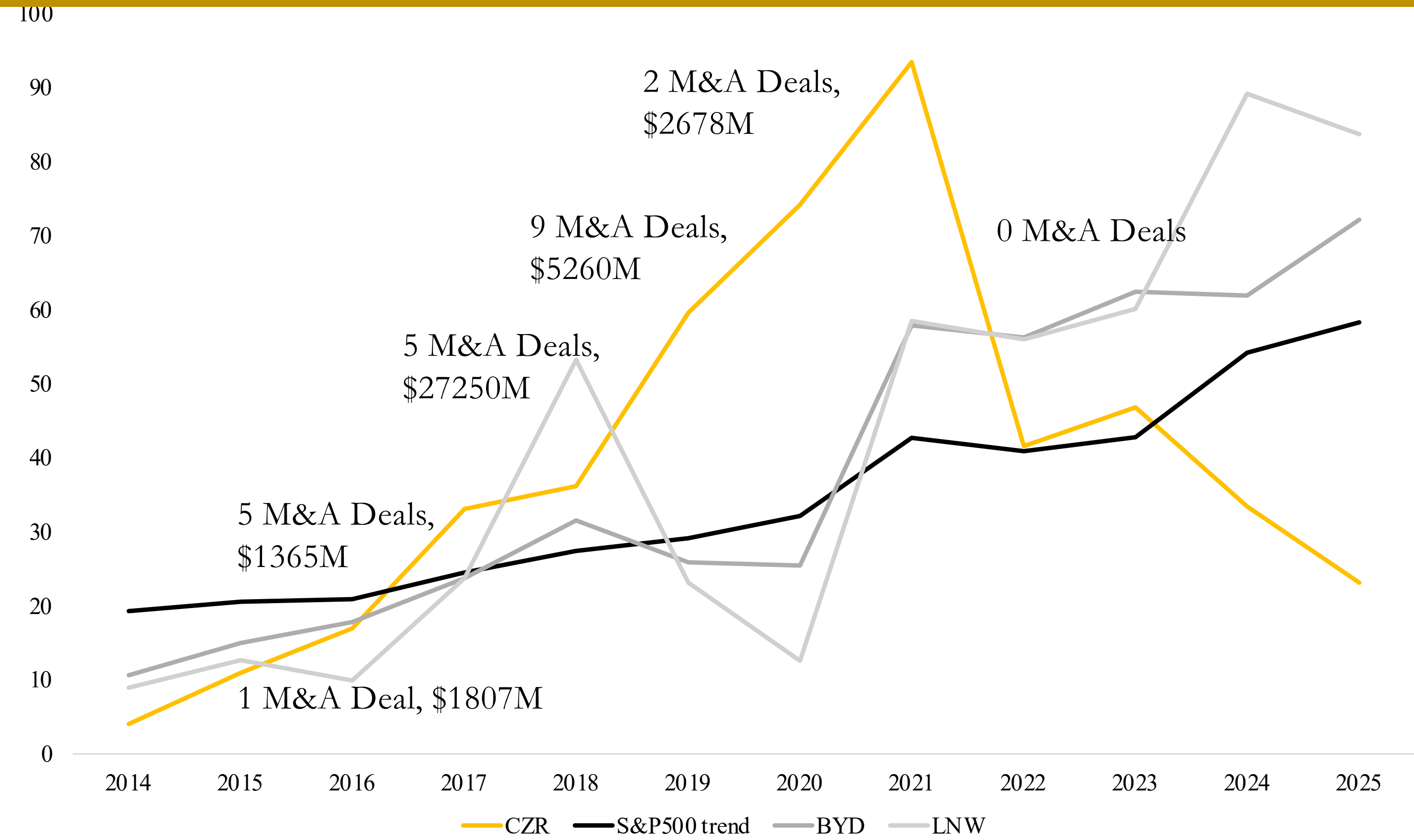
Market Sentiment

- Consensus:
  - Established platform and reputation since 2014, **longer history** before NYSE
  - **Resilient revenue** during covid
  - The highest analyst target is $54.00, while the lowest is $30.00
- Stifel analysts have maintained a Buy rating on Caesars Entertainment, with a price target of $51.00
- TD Cowen analysts also upheld a Buy rating, targeting $48.00, and highlighted the potential value creation through a **possible digital spin-off**
- CFRA analyst Zachary Warring upgraded Caesars' rating from Sell to Hold, increasing the price target to $39.00, based on expectations of **improved financial management**
- JMP analysts maintained a Market Outperform rating with a $53.00 target, noting mixed results but expressing **optimism** for 2025, particularly in **Las Vegas**
- CZR's implied volatility is 86.7, higher than 100% of the time in the last year; the IV is also 41.0% above its 20-day historical volatility, suggesting that options markets expect future volatility to be higher than recent realized volatility

Source: Yahoo Finance, Caesars' Newsroom, Stifel, TD Cowen, CFRA, JMP, Tip Ranks

Thesis 2: CZR is structurally positioned to outperform through cyclical upside in strategic M&A, for which the team has a long proven track record or driving significant growth

Stock Price History



CZR stock price rises are **highly correlated** with number and size of M&A Deals as shown in M&A history

Competitors show **similar price trend** with S&P 500 before covid, and show higher growth than S&P 500 post-covid, suggesting **positive industry trend**

Valuation

Unlevered Free Cash Flows

	Actual				Forecasts				
Fiscal Year Ended	**2021A**	**2022A**	**2023A**	**2024A**	**2025P**	**2026P**	**2027P**	**2028P**	**2029P**
Revenue Category:									
Las Vegas	$3,409	$4,287	$4,470	$4,274	$4,359	$4,447	$4,536	$4,626	$4,719
Regional	5,537	5,704	5,778	5,539	5,594	5,650	5,707	5,764	5,822
Caesars Digital	337	548	973	1,163	1,390	1,620	1,839	2,033	2,186
Managed & Branded	278	282	307	274	277	280	282	285	288
Corporate & Other	9	0	0	(5)	0	0	0	0	0
Revenue	**$9,570**	**$10,821**	**$11,528**	**$11,245**	**$11,621**	**$11,996**	**$12,364**	**$12,708**	**$13,014**
% Growth (Total)	*NA*	*13.1%*	*6.5%*	*-2.5%*	*3.3%*	*3.2%*	*3.1%*	*2.8%*	*2.4%*
% Contribution (Las Vegas)	*NA*	*25.8%*	*4.3%*	*-4.4%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
% Contribution (Regional)	*NA*	*3.0%*	*1.3%*	*-4.1%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
% Contribution (Caesars Digital)	*NA*	*62.6%*	*77.6%*	*19.5%*	*19.5%*	*16.5%*	*13.5%*	*10.5%*	*7.5%*
% Contribution (Managed & Branded)	*NA*	*1.4%*	*8.9%*	*-10.7%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
% Contribution (Corporate & Other)	*NA*	*-100.0%*	*NA*	*NA*	–	–	–	–	–
EBITDA	**$2,990**	**$3,243**	**$3,938**	**$3,739**	**$3,864**	**$4,049**	**$4,235**	**$4,416**	**$4,587**
% Margin	*31.2%*	*30.0%*	*34.2%*	*33.3%*	*33.3%*	*33.8%*	*34.3%*	*34.8%*	*35.3%*
(-) Depreciation & Amortization	$1,126	$1,205	$1,261	$1,324	$1,311	$1,354	$1,395	$1,434	$1,468
EBIT	**$1,864**	**$2,038**	**$2,677**	**$2,415**	**$2,553**	**$2,695**	**$2,840**	**$2,982**	**$3,119**
Tax on EBIT					664	701	738	775	811
Tax rate					*26.0%*	*26.0%*	*26.0%*	*26.0%*	*26.0%*
NOPAT (aka EBIAT)					**$1,889**	**$1,995**	**$2,101**	**$2,207**	**$2,308**
Depreciation & amortization	$1,126	$1,205	$1,261	$1,324	$1,311	$1,354	$1,395	$1,434	$1,468
as % of revenue	*11.8%*	*11.1%*	*10.9%*	*11.8%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*
Changes in net working capital	$298	($246)	($67)	($475)	(274)	(283)	(292)	(300)	(307)
as % of revenue	*-3.1%*	*2.3%*	*0.6%*	*4.2%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*
Capital expenditures	($520)	($952)	($1,264)	($1,296)	(1,212)	(1,251)	(1,289)	(1,325)	(1,357)
as % of revenue	*5.4%*	*8.8%*	*11.0%*	*11.5%*	*10.4%*	*10.4%*	*10.4%*	*10.4%*	*10.4%*
Unlevered free cash flows (UFCF)					**1,714**	**1,814**	**1,915**	**2,015**	**2,112**

Comparable Company Analysis

The model implies an equity value of $30B–$38B for CZR under reasonable exit and growth assumptions, vs. a current market cap of $6B, with CY2025E EV/EBITDA of 4.4x, well below the peer median of 6.8x.

Equity value per share

	Long term growth rate (g):				
59.42	2.0%	2.5%	3.0%	3.5%	4.0%
12.2%	41.62	44.78	48.27	52.17	56.55
11.7%	45.98	49.54	53.51	57.97	63.01
11.2%	50.84	54.88	59.42	64.55	70.40
10.7%	56.28	60.90	66.13	72.08	78.93
10.2%	62.41	67.73	73.80	80.77	88.89

Equity value per share

	Exit EBITDA Multiple				
$61.69	7.0x	7.5x	8.0x	8.5x	9.0x
12.2%	30,586.82	31,676.90	32,766.98	33,857.06	34,947.14
11.7%	31,300.98	32,416.57	33,532.16	34,647.75	35,763.33
11.2%	32,035.30	33,177.11	34,318.92	35,460.74	36,602.55
10.7%	32,790.42	33,959.20	35,127.98	36,296.77	37,465.55
10.2%	33,567.05	34,763.57	35,960.08	37,156.60	38,353.12

				EV / Revenue		EV / EBITDA		'22A-'24A CAGR		EBITDA Margin	
(As of 3/28	Market Cap ($mm)	EV ($mm)	% of 52 Wk High	CY2024A	CY2025E	CY2024A	CY2025E	Rev.	EBITDA	CY2024A	Margin + Growth
Hospitality & Entertainment:											
CZR	$5,960	$17,236	61%	1.5x	1.5x	4.8x	4.4x	2%	11%	32%	43%
BYD	$5,674	$8,534	85%	2.2x	2.2x	7.1x	6.3x	5%	109%	31%	139%
LNW	$7,248	$10,922	74%	3.2x	3.2x	10.6x	7.9x	13%	22%	32%	54%
PENN	$2,539	$4,607	72%	0.7x	0.7x	9.1x	2.8x	1%	-43%	8%	-35%
WYNN	$13,161	$22,021	71%	3.1x	3.1x	12.3x	9.3x	38%	74%	25%	99%
Mean	$6,916	$12,664	72.55%	2.1x	2.1x	8.8x	6.1x	11.77%	34.61%	25.60%	60.21%
Median	$5,960	$10,922	72.00%	2.2x	6.8x	9.1x	18.6x	5.00%	22.00%	31.00%	54.00%

Risks & Mitigants and Event Paths

Scenario Analysis: absolute downside is realized in market price while the upside reflects multiple expansion and value unlocks

Scenario	EV ($B)	Net Debt ($B)	Equity Value ($B)	Implied Share Price	Assumptions
Base Case	24.18	25.98	-1.8	- $8.5	Status quo ops, 3% terminal growth, WACC ~ 11.2%
Upside Case	30.0	25.5	+4.5	+ $21.23	Margin expansion in Las Vegas & Digital, capex discipline, 5% terminal growth, 9.5% WACC
Downside Case	20.0	26.5	-6.5	- $30.66	Higher rates, flat RevPAR, competitive cannibalization, no deleveraging

Risks

Highly Leveraged Capital Structure

CZR's EV of ~$30.4B and market cap of ~$5.95B imply net debt of ~$25.98B - ~6.6x 2024E EBITDA. The DCF shows equity value is negative in the base case (-$1.8B)

Digital Segment Volatility

Digital EBITDA was -$666M in 2022 and turned barely positive in 2023 at $38M, despite >$900M in revenue. The segment is fragile, depending on hold rates and promo rationalization.

Terminal Value Dependence

~64.4% of DCF-derived EV comes from terminal value, driven by 3% LT growth and mid-5x exit multiples. This exposes valuation to assumptions that may not materialize in a recession or if margins compress.

Mitigants

Solid Las Vegas Core

Las Vegas segment alone delivers $2.02B in 2023 adj. EBITDA on $4.47B in revenue — a 45.2% margin. A resilient tourism and convention comeback supports sustainable FCF from the Strip.

Deleveraging Trajectory

CZR paid off multiple loans in 2023–24, including a $400M Convention Center Mortgage Loan and the Baltimore Term Loan. This reflects proactive debt management using FCF

Real Estate Optionality

CZR holds valuable real assets (e.g. Caesars Palace, Paris Las Vegas) which are not fully monetized. These offer downside protection or refinancing flexibility via potential REIT/JV structures.