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INVESTMENT MEMORANDUM

Caesars Entertainment (CZR)

March 2025

1. INVESTMENT SUMMARY

Company	Caesars Entertainment, Inc.	**Ticker**	CZR
Sector	Consumer Discretionary	**Industry**	Gaming & Hospitality
Date	March 2025 (Upd. Nov. 2025)	**Target Price**	\$70 – \$90
Rating	BUY	**Time Horizon**	2 – 3 Years

Executive Summary

Caesars Entertainment (CZR) is entering a multi-year free cash flow inflection that the market is not fully valuing. A high-quality owned real estate base, a rapidly scaling Digital segment, declining capital expenditures, and structurally improving FCF conversion will together accelerate deleveraging and enable meaningful share repurchases. Under conservative assumptions, the brick-and-mortar business alone can generate approximately \$1.3 billion in annual free cash flow, implying investors today are paying roughly 80% of cumulative future FCF at the current market capitalization. With a buy price near \$24, this represents a 25% FCF yield and substantial margin of safety relative to a fair value range of \$70 to \$90.

2. BUSINESS OVERVIEW

Caesars Entertainment is one of the largest casino and hospitality operators in the United States, with a portfolio spanning major Las Vegas Strip assets and a broad regional footprint. The company generates revenue across casino operations, hospitality, entertainment, and a rapidly scaling Digital segment that includes online sports betting and iGaming.

CZR operates a mix of owned real estate and leased properties, giving it both the operating leverage of an OpCo (casino operations and Digital) and the downside protection of substantial PropCo (owned real estate) value embedded in the balance sheet. This structure is central to the investment thesis and is explored in depth below.

3. CAUSES FOR UNDERVALUATION

CZR's current mis-valuation stems from the market focusing on legacy concerns without recognizing how materially the underlying earnings power has changed. The concerns include volatile regional trends, historical Digital losses, elevated CapEx, and a levered balance sheet. These are backward-looking.

Over the last three years, Caesars completed the heavy investment phase of its strategic transformation through major property renovations (New Orleans, Harrah's Las Vegas), new builds (Danville), and full integration of its Digital platform. These investments temporarily suppressed free cash flow and created the perception that CZR is a low-return, capital-intensive business. In reality, the company is now exiting this investment cycle with a stronger asset base, higher-margin digital infrastructure, and a clear path to convert over \$1 billion of EBITDA growth directly into free cash flow.

The market is still pricing CZR as if it were a mature regional casino operator with flat earnings, but the company today resembles a diversified, omni-channel gaming ecosystem with multiple high-return levers that are only now beginning to contribute. The mismatch between outdated investor perception and approaching cash generation is the foundation of the opportunity.

4. INVESTMENT THESIS

Pillar 1: PropCo / OpCo — The Real Estate Angle Alone Makes CZR Attractive

One of the cleanest ways to understand Caesars is to separate the OpCo from the PropCo. Once you isolate the economics of the operating business from the capital-intensive real estate beneath it, several key points emerge.

First, CZR owns a significant portfolio of Strip and regional properties, including six Strip assets (Figure 1). These types of assets routinely transact at high-teens multiples in Las Vegas, while regional properties often receive rent multiples well above what the market implicitly assigns to CZR's consolidated equity. That disconnect means the real estate alone accounts for a meaningful share of enterprise value, even without factoring in Digital growth, margin expansion, or deleveraging. Even if the OpCo is being discounted due to leverage concerns or short-term leisure softness, the PropCo creates a natural equity cushion.

Second, a lease accounting mismatch creates further upside optionality. CZR reports a large lease obligation (approximately $12.8 billion) against an implied rent base of roughly $1.3 billion. Many analysts capitalize rent at conservative 8-10x multiples, while comparable Strip real estate trades at high-teens transaction multiples. Correcting that mismatch materially improves equity value. Our fair value estimate does not rely on this clean-up, keeping the thesis conservative.

Third, owned real estate is a tangible, liquid asset class with active buyers. Even in a conservative downside scenario, equity value remains above current levels when applying reasonable PropCo valuations. If the OpCo underperforms, if Digital takes longer to scale, or if consumer softness weighs on EBITDA, the PropCo still provides a recoverable path through monetization, sale-leasebacks, or REIT structures. It is a built-in downside buffer the market is ignoring. Substantial upside potential with an asset-backed downside cushion creates asymmetric returns.

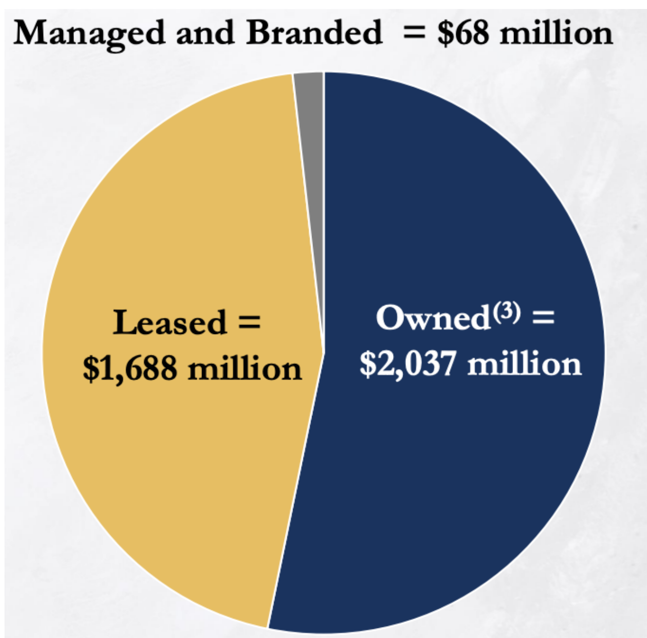

Figure 1 EBITDA (TTM)

Pillar 2: Digital Segment Inflection and Structural Margin Expansion

The accelerating profitability of Caesars Digital is another critical part of the thesis. The segment is transitioning from a multi-year drag on consolidated results to a material earnings contributor (Figure 2).

The market continues to anchor to losses incurred during the early rollout of Caesars Sportsbook, but that phase is definitively behind the company.

Management now expects approximately $500 million in Digital EBITDA in 2025, with a clear runway to exceed that in 2026-27. The drivers are operating improvements already visible in quarterly results: higher sportsbook hold percentages, rapid iGaming growth, improved customer retention, and a reduction in promotional intensity. Within Digital, iGaming represents the biggest margin lever, posting 50-70% year-over-year growth in key states and carrying significantly higher profitability than sports betting. Sports betting, meanwhile, is seeing structural hold normalization, moving from low-8% levels toward 10%+ as same-game parlays and proprietary pricing capabilities scale.

The market continues to value Digital at effectively 0-2x EBITDA, while peers trade at 15-20x. As these earnings materialize, Digital alone can unlock several billion dollars of equity value not reflected in the current stock price.

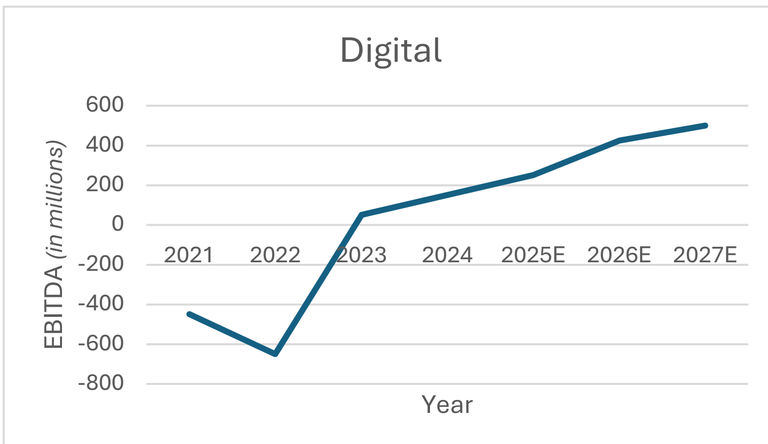

Figure 2

Pillar 3: FCF Inflection — The Harvest Period

The most important driver of the thesis is the dramatic improvement in free cash flow beginning in 2025, driven by multiple independent cash inflows occurring simultaneously. For the last several years, elevated growth CapEx, Digital investment, and integration costs masked the underlying economics. That phase is over. CZR is now entering what we describe as the harvest period, where earnings growth converts directly into free cash flow at unusually high incremental margins.

The company is positioned to move from roughly $400-500 million of normalized annual FCF historically to $1.3 billion or more, with potential to exceed $1.5 billion as Digital scales and tax and interest burdens decline. This step-change is the cumulative effect of multiple cash levers all turning favorable at once:

- CapEx rolling off sharply after years of heavy reinvestment in Danville, New Orleans, and Las Vegas renovations
- Asset monetizations including the WSOP sale and LINQ Promenade partnership, with additional non-core assets still optional
- Structural Digital margin expansion, allowing EBITDA growth to flow almost fully to the bottom line
- Interest expense declining as deleveraging accelerates
- Cash taxes falling by $80-100 million annually beginning in 2026 under newly enacted legislation

Pillar 4: Deleveraging and Opportunistic Share Repurchases

The final pillar is capital return through debt reduction and share buybacks, tightly coupled with the FCF inflection. Since mid-2024, management has retired approximately 6% of the share base through roughly $400 million in buybacks (Figure 3), while simultaneously redeeming $546 million of senior notes in Q3 2025 at an average cost of approximately 6%. This disciplined approach compounds value on two fronts.

Debt paydown reduces interest expense, increasing free cash flow available for further capital returns. Share repurchases then directly enhance per-share metrics, converting the market's undervaluation into realized shareholder value. Management has emphasized that buybacks are opportunistic rather than formulaic, deployed when the stock is clearly mispriced. With FCF projected to exceed $1.3 billion annually, Caesars has the capacity to retire shares aggressively over the next several years, creating a self-reinforcing cycle of a de-risked balance sheet and increasing equity value.

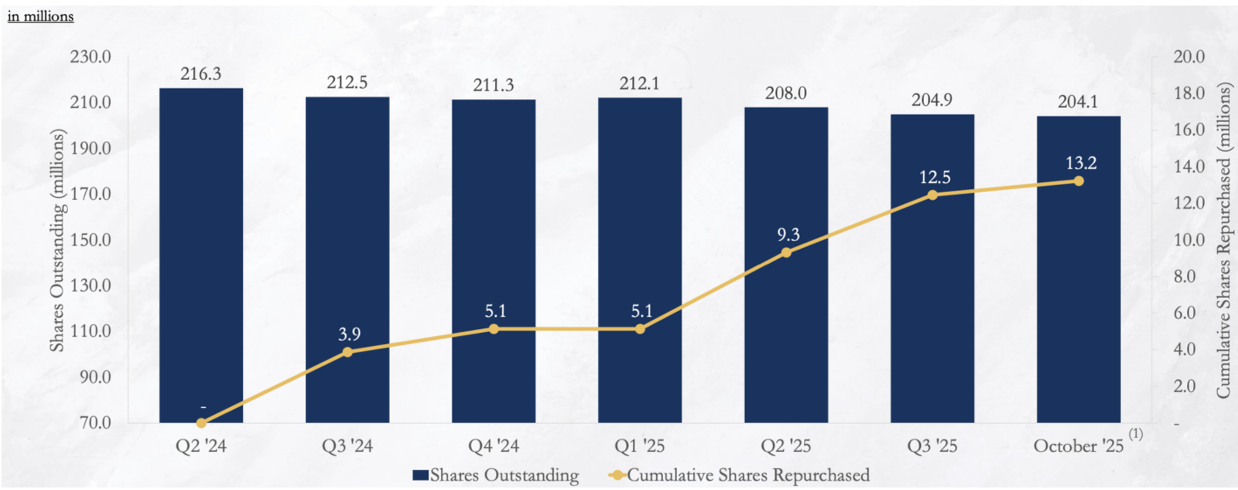

Figure 3

5. VALUATION

Our investment was initiated at an average buy price of approximately $24, reflecting a 25% FCF yield on the brick-and-mortar business alone. This provides a margin of safety that does not require any credit for Digital upside.

Under conservative assumptions using the PropCo/OpCo framework, the real estate and gaming operations alone support a fair value well above today's price. Applying high-teens transaction multiples to the owned Strip and regional real estate base, and reasonable operating multiples to the OpCo earnings stream, the consolidated fair value range is $70 to $90 per share. This range assumes no value for Digital beyond its current minimal market pricing.

The key upside scenario is straightforward: if Digital is ultimately credited at even half the multiple of its peers (call it 8-10x EBITDA versus the sector at 15-20x), several billion dollars of additional equity value is unlocked. That outcome is not in our base case and not required for the investment to work, but it is a substantial and increasingly probable source of additional upside as earnings materialize.

At today's price, investors are effectively paying approximately 80% of cumulative future FCF over the next two years, as CEO Tom Reeg has stated publicly. A level of FCF yield that is rarely seen in established gaming operators, and rarely available at this scale.

6. RISK ANALYSIS

Risk Factor	Severity	Mitigation
Operational / Execution Risk	Medium	Underperformance on renovations, Digital integration, or ops improvements. Management has a proven track record; Digital initiatives are already delivering results.
Industry / Market Risk	Medium	Competitive pressures or macro headwinds affecting gaming demand. CZR holds a leading position with high barriers to entry and diversified Regional, Las Vegas, and Digital exposure.
Financial / Liquidity Risk	Medium	Leverage, debt maturities, or cash flow variability constraining growth. Balance sheet is conservative; interest and tax tailwinds further improve cash flow flexibility.
Regulatory / Legal Risk	Low	Changes in gaming or tax regulations increasing costs. CZR operates in stable regulatory markets; management has navigated compliance changes effectively over many cycles.
Valuation / Catalyst Risk	Low–Medium	Digital monetization and FCF inflection taking longer than expected. Early Digital EBITDA trends are already visible; multiple independent cash levers support the thesis even without full optionality realization.

7. CONCLUSION & RECOMMENDATION

Caesars Entertainment is entering a rare phase where multiple value levers converge simultaneously. Free cash flow is set to inflect sharply due to CapEx falling, asset monetization, and interest and tax tailwinds. Digital is transforming into a high-margin growth engine, while deleveraging and opportunistic share repurchases amplify per-share value and reduce risk.

Despite this, the market continues to price CZR as a legacy, capital-intensive regional operator, failing to recognize the magnitude of the structural cash flow improvements and Digital monetization optionality. Under conservative assumptions, the company can generate approximately $1.3 billion in annual free cash flow, implying the stock is trading at roughly 80% of cumulative future FCF.

With visibility into stable Las Vegas operations, improving Regional performance, and a scaling Digital segment, the risk/reward is strongly asymmetric. Caesars offers one of the most attractive large-cap gaming and digital hybrid opportunities in the market today.

D I S C L O S U R E S

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