



Caesars Entertainment (CZR)
Investment Memorandum

March 2025 *(updated as of Nov. 2025)*

Introduction

Caesars Entertainment (CZR) is entering a multi-year free cash flow (FCF) inflection that the market is not fully valuing. The core thesis is straightforward: a high-quality owned real estate base generating cash, a rapidly scaling Digital gaming segment, incremental liquidity from asset-light initiatives, declining capital expenditures (CapEx), and structurally improving free cash flow conversion together will accelerate deleveraging and enable meaningful share repurchases. Management has reinforced this view repeatedly, with the CEO Tom Reeg stating that they expect to generate ~50% of the current market cap in free cash flow over the next 2 years — a level of FCF yield that is rarely seen in established gaming operators.

This opportunity exists today because the market remains overly focused on near-term regional noise, competitive pressures, and historical Digital losses. These are backward-looking concerns. Meanwhile, CZR is transitioning into a high-FCF, diversified gaming and digital ecosystem with multiple levers of value creation:

- Digital is inflecting toward \$500M in EBITDA (earnings before interest, tax, depreciation & amortization) in 2025 and poised to exceed that meaningfully in 2026–27 through higher structural hold, iGaming mix shift, and improved marketing efficiency.
- CapEx is falling sharply after the completion of Danville, New Orleans, and Las Vegas renovations — unlocking a step-change in FCF.
- Asset monetizations (WSOP, LINQ Promenade, other non-core assets) create incremental liquidity for debt paydown and opportunistic buybacks.
- Interest expense will fall and new tax legislation will reduce cash taxes by \$80–100M annually in 2026–27.
- Regional and Las Vegas segments are stabilizing/improving, with strong group bookings and new properties ramping.

Under our conservative assumptions, the real estate/brick & mortar business alone can generate **~\$1.3B in annual free cash flow**, implying investors today are paying **~80% of cumulative future FCF (assuming a \$5B market capitalization)** — a classic asymmetric value setup. With deleveraging, Digital monetization optionality, and accelerating FCF, the fair value range of \$70–\$90 allows for material upside if Digital is valued properly. Our average buy price of \$24, reflects a 25% FCF yield, providing an even more attractive margin of safety and substantial potential upside relative to intrinsic value.

Business Overview

Caesars Entertainment is one of the largest casino and hospitality operators in the U.S., 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 + Digital) and the downside protection of substantial PropCo (owned real estate) value embedded in the balance sheet.

Causes For Undervaluation

CZR's current misvaluation stems from the market obsessing over legacy concerns — volatile regional trends, historical Digital losses, elevated CapEx, and a levered balance sheet — without recognizing how materially the underlying earnings power has changed.

Over the last three years Caesars has completed the heavy investment phase of its strategic transformation through major property renovations (New Orleans, Harrah's Las Vegas), new builds (Danville), and the full integration of its Digital platform. These investments temporarily suppressed free cash flow and created the perception that CZR is a low-return and 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 **>\$1B 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.

Thesis Point 1: PropCo / OpCo — the real-estate angle alone makes CZR an attractive investment

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 — and together, they support a large portion of the equity upside.

1) High-quality owned real estate creates a value floor

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, with regional properties often receiving 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 if one does not factor in Digital growth, margin expansion, or deleveraging. Put simply: even if the OpCo is being discounted due to leverage concerns or short-term leisure softness, the PropCo creates a natural equity cushion that the market is not fully crediting.

2) Lease accounting / valuation mismatch creates upside optionality

CZR reports a large lease obligation (~\$12.8B) against an implied rent base of ~\$1.3B. Many

analysts capitalize rent at **conservative 8–10x multiples**, while comparable Strip real estate trades at **high-teens transaction multiples**. This inconsistency creates a valuation disconnect in which either the lease liability is overstated or the owned real estate deserves a higher implied valuation.

Correcting that mismatch materially improves equity value. Our fair value estimate does not rely on this clean-up, keeping the thesis conservative.

3) PropCo reduces downside and improves asymmetry

Owned real estate is a tangible, liquid asset class with active buyers. Even in a conservative downside, equity value remains above current levels when applying reasonable PropCo valuations. That means 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 (Real Estate Investment Trust) structures. It is a built-in downside buffer the market is ignoring.

The gap between today’s market price and reasonable PropCo realizations represents equity upside that does not require perfect execution. Substantial upside potential with an asset-baked downside cushion creates asymmetric returns.

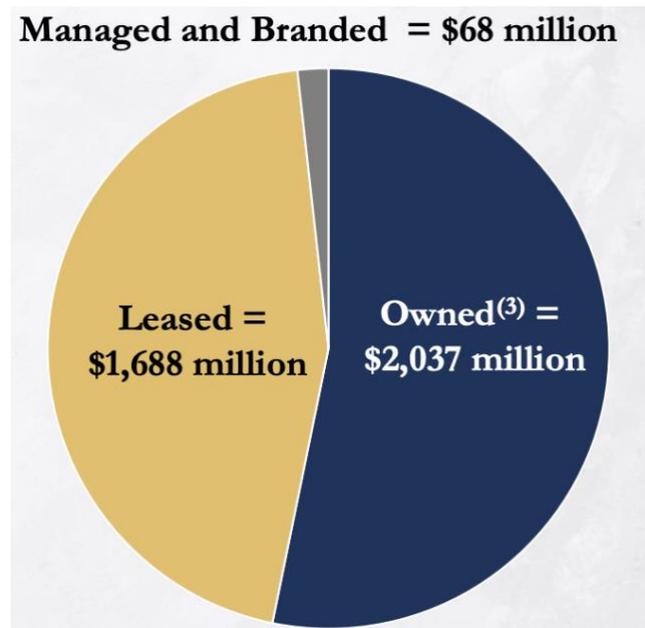


Figure 1 EBITDA (TTM)

Thesis Point 2: Digital Segment Inflection and Structural Margin Expansion

Another critical part of the thesis is the accelerating profitability of Caesars Digital, which is transitioning from a multi-year drag on consolidated results to a material earnings contributor

(Figure 2). The market continues to anchor to the losses incurred during the early rollout of Caesars Sportsbook, but that phase is definitively behind the company. Management now expects **~\$500M in Digital EBITDA in 2025**, with a clear runway to exceed that in 2026–27, as the segment benefits from multiple drivers: higher sportsbook hold percentages, rapid iGaming growth, improved customer retention, and a reduction in promotional intensity. Importantly, these gains are not dependent on unrealistic market-share assumptions or aggressive promotional spend, they are driven by underlying operating improvements that are already visible in quarterly results.

Within Digital, iGaming represents the biggest margin lever, posting 50–70% YoY (year-over-year) growth in key states and carrying significantly higher profitability than sports betting. As iGaming becomes a larger share of the mix, incremental margins expand, allowing a disproportionate share of revenue growth to flow directly to EBITDA. Sports betting, meanwhile, is seeing structural hold normalization, moving from low-8% levels toward 10%+ as same-game parlays and proprietary pricing capabilities scale — matching industry leaders without the need to outspend competitors.

The main point is that the Digital segment, once viewed as a cash-consuming liability, is now becoming one of the company's highest-return businesses and a major contributor to free cash flow. Yet the market continues to value Digital at effectively 0–2x EBITDA, while peers trade at 15–20x. As these earnings materialize and become undeniable, Digital alone can unlock several billion dollars of equity value — an outcome not reflected in the current stock price.

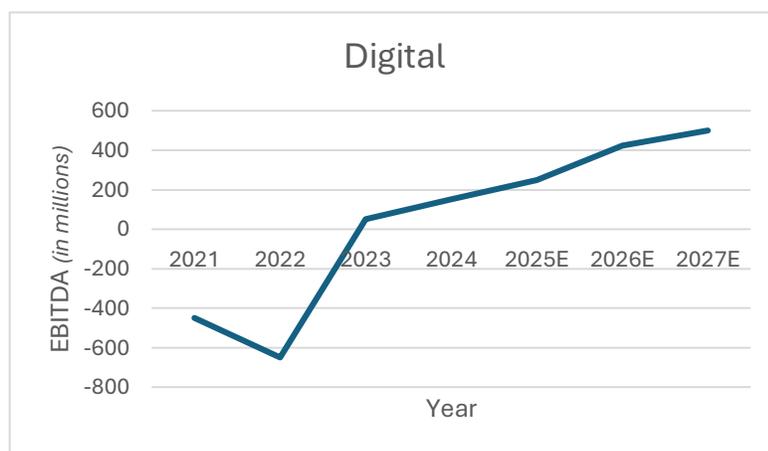


Figure 2

Thesis Point 3: Influx of Cash & Free Cash Flow Inflection

The most important driver of the CZR thesis is the dramatic improvement in free cash flow beginning in 2025, driven by multiple independent cash inflows occurring at the same time. For the last several years, elevated growth CapEx, Digital investment, and integration costs masked

the underlying economics of the business. That phase is over. CZR is now entering what we call their “harvest period,” where earnings growth converts directly into free cash flow at unusually high incremental margins. The company is positioned to move from generating ~\$400–500M of normalized annual FCF historically to **\$1.3B+ starting next year**, with the **potential to exceed \$1.5B as Digital scales** and tax/interest burdens decline. This step-change is not the result of any single event — it is the cumulative effect of multiple cash levers all turning favorable at once. These drivers include:

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

This convergence of cash inflows creates one of the clearest FCF ramp stories in the gaming sector and paves the way for a much healthier Caesars.

Thesis Point 4: Deleveraging and Opportunistic Share Repurchases

The last pillar of the thesis is capital return through debt reduction and share buybacks, which is tightly coupled with the FCF inflection. Caesars has methodically prioritized deleveraging, extending maturities, and lowering interest costs, while simultaneously maintaining flexibility for opportunistic repurchases when the stock trades below intrinsic value (Figure 3). Since mid-2024, management has retired approximately 6% of the share base through ~\$400M in buybacks, while continuing to pay down debt — most recently redeeming \$546M of senior notes in Q3 2025 at an average cost of ~6%. This disciplined approach allows the company to compound value on two fronts:

1. Debt paydown reduces interest expense, increasing free cash flow available for further capital returns.
2. Share repurchases directly enhance per-share metrics, effectively converting the market’s undervaluation into realized shareholder value.

Importantly, management has repeatedly emphasized that buybacks are opportunistic rather than formulaic, meaning they are deployed when the stock is clearly mispriced. With free cash flow projected to exceed \$1.3B annually and incremental upside from Digital growth, interest reductions, and tax savings, Caesars has the capacity to retire shares aggressively over the next several years, creating a self-reinforcing cycle of de-risked balance sheet and increasing equity value. This combination of FCF acceleration, strategic buybacks, and debt reduction forms the foundation for one of the most compelling risk/reward profiles in the gaming sector today.

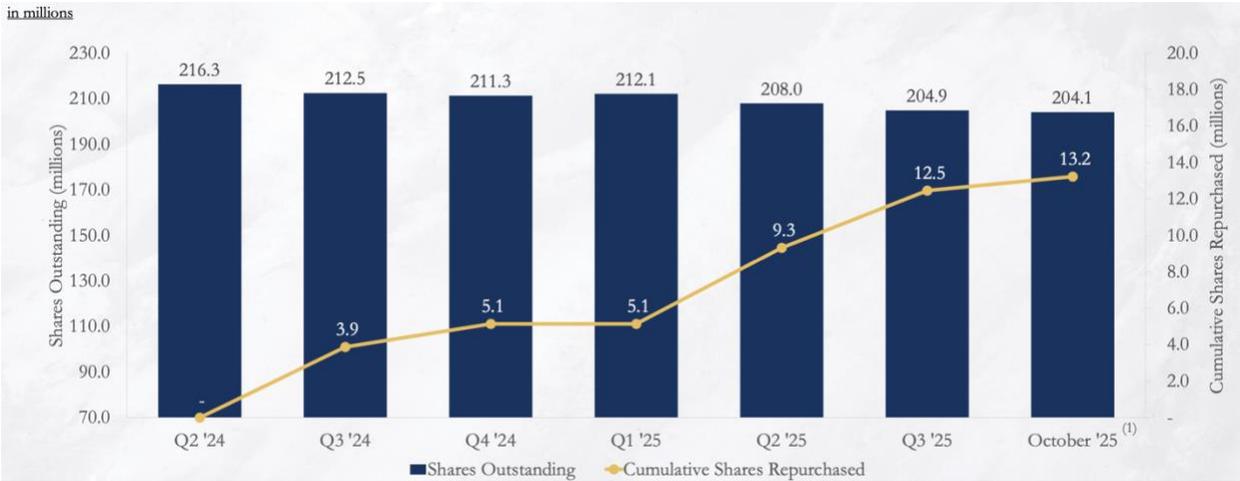


Figure 3

Risks

As with all investments, CZR also has some risk factors one should pay attention to:

Operational / Execution Risk

- *Risk:* Caesars could underperform on property renovations, Digital integration, or operational improvements, which could compress margins and slow free cash flow growth.
- *Mitigating factors:* Management has a proven track record of executing major projects and integrating acquisitions. Core operations are standardized, and key Digital initiatives are already delivering results.

2. Industry / Market Risk

- *Risk:* Competitive pressures or macroeconomic headwinds could affect gaming demand or Digital growth.
- *Mitigating factors:* CZR operates in a leading position with high barriers to entry and a diversified portfolio across Regional, Las Vegas, and Digital segments. Pricing power and tailwinds in iGaming further reduce downside exposure.

3. Financial / Liquidity Risk

- *Risk:* Leverage, debt maturities, or cash flow variability could constrain growth or limit share buybacks.
Mitigating factors: The balance sheet is conservative, cash flow generation is predictable, and management has prioritized liquidity and disciplined deleveraging. Interest and tax tailwinds further improve cash flow flexibility.

4. Regulatory / Legal Risk

- *Risk:* Changes in gaming or tax regulations could increase costs or restrict operations.
- *Mitigating factors:* Caesars operates in markets with relatively stable regulatory environments, and management has experience navigating compliance and legislative changes effectively.

5. Valuation / Catalyst Risk

- *Risk:* Digital monetization and FCF inflection may take longer to fully materialize, delaying upside.
- *Mitigating factors:* Early Digital EBITDA trends are already visible, and multiple independent cash levers (CapEx decline, asset monetizations, tax/interest tailwinds) support the thesis even without full optionality realization.

Conclusion

Caesars Entertainment is entering a rare phase where multiple value levers converge simultaneously. The company's free cash flow is set to inflect sharply due to CapEx falling, asset monetization, and interest/tax tailwinds. Digital is transforming into a high-margin growth engine, materially enhancing overall profitability, 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 **~\$1.3B 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.

In short, Caesars offers a compelling combination of growth optionality, cash flow inflection, and capital return potential, making it one of the most attractive large-cap gaming and digital hybrid opportunities in the market today.