COMPANY PROFILE

Caesars Entertainment Corporation

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TABLE OF CONTENTS

COMPANY OVERVIEW

Caesars Entertainment Corporation (Caesars or 'the company') is a casino-entertainment provider. The company also offers hospitality services. Caesars primarily operates in the US. It is headquartered in Las Vegas, Nevada.

The company reported revenues of (US Dollars) US$4,852 million for the fiscal year ended December 2017 (FY2017), an increase of 25.1% over FY2016. The operating loss of the company was US$1,698 million in FY2017, compared to an operating loss of US$5,502 million in FY2016. The net loss of the company was US$375 million in FY2017, compared to a net loss of US$3,048 million in FY2016.

The company reported revenues of US$1,972.0 million for the first quarter ended March 2018, an increase of 3.7% over the previous quarter.

KEY FACTS

Head Office	Caesars Entertainment Corporation One Caesars Palace Drive LAS VEGAS Nevada LAS VEGAS Nevada USA
Phone	1 702 4076000
Fax	
Web Address	www.caesarscorporate.com
Revenue / turnover (USD Mn)	4,852.0
Financial Year End	December
Employees	65,000
NASDAQ Ticker	CZR

SWOT ANALYSIS

Caesars is a casino-entertainment provider. The company has a strong presence in the casino entertainment market in the US, which provides it a significant competitive advantage. However, increasing competition in the industry could adversely affect it margins.

Strength	**Weakness**
Strong presence in casino entertainment market offers distinct competitive advantage Strong commitment towards responsible gaming	Unfair business practices result in severe consequences High level of indebtedness
Opportunity	**Threat**
Strong growth in the US hotel and motel industry Tourism promotion initiatives by the US government Cost saving initiatives likely to enhance profit margins	Extensive regulation and taxation policies Intense competition could affect the company's profit margins and market share

Strength

Strong presence in casino entertainment market offers distinct competitive advantage

Caesars has strong presence in casino operations. The company's portfolio of properties, including the properties owned and operated by CEOC, represents one of the world's most diversified casino-entertainment portfolios with entertainment facilities in more areas throughout the US than any other player in the gaming industry. The different types of casinos operated by Caesars include land-based casinos, riverboat casinos, harness racing facility casinos, greyhound racing facility casinos and thoroughbred racing facility casinos. As of December 2015, the company owned and operated 12 casinos in the US, which include more than one million square feet of gaming space and over 23,000 hotel rooms (excludes properties held by CEOC).

The company's properties operate under the Harrah's, Horseshoe, The LINQ, Bally's, The Cromwell, Flamingo, Paris, Planet Hollywood and Rio brand names. A strong business presence in the casino entertainment market gives the company a distinct advantage over its peers.

Strong commitment towards responsible gaming

Caesars has a strong commitment towards responsible gaming. The company initiated the casino entertainment industry's first responsible gaming efforts more than a decade ago, when a group of employees formed a task force to study the issue of problem gambling. After extensive research, this task force developed the entertainment industry's first initiative to help employees, guests, and the public understand the importance of responsible gaming and ways to prevent underage gambling. In addition, Caesars works with the National Council on Problem Gambling, its local councils, and other service agencies in its operational markets to promote a better understanding of responsible gaming and underage gambling. The company also supports research on these issues through on-going financial contributions to the National Center for Responsible Gaming. Caesars launched the casino industry's first broadcast advertising campaign to promote responsible gaming and increase awareness of toll free helpline numbers. It has won the National Council's first corporate award, which recognized Caesars for its proactive efforts on responsible gaming.

Furthermore, Caesars also implements various responsible gaming programs at its facilities, including Operation Bet Smart, Project 21, as well as an Unattended Children Policy. Operation Bet Smart is a program designed to formally train employees regarding the importance of responsible gaming and the policies and procedures of Caesars responsible gaming programs. At all of its casino facilities, the company provides responsible gaming signage on the casino floor and back-of-house to help customers requesting assistance. Caesars also provides responsible gaming information in brochures, on hold messages, and Caesars responsible specific media campaign, as well as including helpline phone numbers on all marketing collateral, player cards, and hotel directories. Project 21 program teaches casino employees, minors, parents, and guardians about the consequences of gambling under the legal age. Other Project 21 efforts of the company include front and back-of-house signage, detailed employee training on clues to identify minors, and continuous creation of materials to keep employees and players aware. The Unattended Children Policy undertaken by Caesars deals with the presence of unattended children on casino property. The policy encourages parents not to leave their children unattended at Caesars' casino properties, and trains employees on ways to deal with an unattended child.

Such extensive focus on promoting responsible gaming has positioned Caesars as a pioneer in the casino entertainment industry.

Weakness

Unfair business practices result in severe consequences

The company was proved guilty of following certain unfair business practices in the recent past. In 2013, CEOC's subsidiary, Desert Palace (the owner of Caesars Palace), received a letter from the Financial Crimes Enforcement Network of the US Department of the Treasury (FinCEN) alleging violations of the Bank Secrecy Act. In 2015, FinCEN announced a settlement pursuant to which Caesars Palace agreed to pay an $8 million civil penalty for its violations of the Bank Secrecy Act. This penalty shall be treated as a general unsecured claim in Caesars Palace's bankruptcy proceedings. In addition, Caesars Palace agreed to conduct periodic external audits and independent testing of its anti-money laundering compliance program, report to FinCEN on mandated improvements, adopt a rigorous training regime, and engage in a 'look-back' for suspicious transactions.

Furthermore, in 2013, a federal grand jury investigation regarding anti-money laundering practices of Caesars (along with its subsidiaries) had been initiated. Fraudulent business activities such as these could result in dire consequences for the company such as stringent legal proceedings, huge penalties and hampered market reputation. It could also question the going concern of the business in extreme situations.

High level of indebtedness

Caesars' high debt position on its balance sheet makes it a highly leveraged entity. As of December 31, 2015, the company had $7.1 billion in face value of outstanding indebtedness with an estimated debt service obligation of $767 million for 2016, including principal maturities of $187 million and interest payments of $580 million. Substantial amount of debt could hamper the sustainability of the business in long run and also affect the company’s bargaining power as compared to its peers in the industry.

Opportunity

Strong growth in the US hotel and motel industry

The hotel and motel industry in the US has been reporting a strong growth in recent years. Steady economic growth in the country has resulted in good growth in the industry. The market is also expected to benefit from the future tourism growth in the US. According to MarketLine, the hotels and motels industry in the US grew at a compound annual growth rate of 8.4% during 2011–15 to reach a value of $189.6 billion at the end of 2015. By 2020, the industry is forecast to be valued at $246.3 billion, an increase of 30% since 2015. The US accounts for 26.4% of the global hotels and motels industry value.

At the end of FY2015, Caesars owned and operated 12 casinos in the US, which includes over one million square feet of gaming space and more than 23,000 hotel rooms. Hence, a positive outlook for the hotels and motels industry in the country is expected to augur well for the company.

Tourism promotion initiatives by the US government

The travel and tourism industry is one of the US' leading service sectors and sources of exports. Given the importance of the travel and tourism industry to the US economy and job creation, the government has taken several initiatives in the recent past. Steady progress has been made since 2010, when the government launched the National Export Initiative and the Travel Promotion Act was signed into law. The Act calls for a $10 fee for completing the necessary Electronic System for Travel Authorization (ESTA) for citizens of visa waiver countries to enter the US. The fee up to certain limits will go to fund US tourism marketing. In 2012, the US government announced its national travel and tourism strategy. The national strategy sets a goal of increasing the number of international visitors to the US by 50% to 100 million by 2021, a number that would generate $250 billion in annual spends, with the related impact on jobs and exports.

Further, the travel and tourism is one of the leading services exports in the US as per the data released by the US Department of Commerce's International Trade Administration (the commerce department) in January 2017. As per the same source, international visitors spent more than $21 billion on travel to, and tourism related activities within, the US in October 2016. Also, the US travel and tourism industry annually generates about $1.6 trillion of economic output, which supports approximately 7.6 million US jobs. The commerce department also introduced a new initiative such as ‘2016 US-China Tourism Year’ to support the goal of welcoming 100 million international visitors by 2021. Thus, the initiatives taken by the US government to boost tourism in the country are expected to increase the growth opportunities that can be leveraged by hospitality companies such as Caesars.

Cost saving initiatives likely to enhance profit margins

In light of the severe economic downturn and adverse conditions in the travel and leisure industry, Caesars has undertaken a comprehensive cost reduction study that began in 2008. The study included an examination of all areas of the company’s business, including organizational restructurings at the corporate and property operations, reduction of travel and entertainment expenses, an examination of the corporate wide marketing expenses, and headcount reductions at property operations and corporate offices.

Caesars undertook comprehensive cost-reduction efforts to right size expenses with business levels. In the fourth quarter of 2010, the company embarked on a reorganization referred to as Project Renewal, an initiative designed to reinvent certain aspects of Caesars’ functional and operating units to gain significant further cost reductions and streamline its operations. During the fourth quarter of 2014, Caesars started implementing various cost saving initiatives across the company, which resulted in a reduction in variable marketing programs, such as REEL REWARDS, discounts, and free play that are treated as a reduction in revenue. Additionally, it has reduced its payroll, which in turn resulted in reductions in casino and other direct expenses. The company estimates that these initiatives resulted in approximate cost savings of $100 million at the end of FY2015.

Focus on saving costs proves to be advantageous for the company in the long run as it could result in saving huge expenses. In turn, the profit margins could be improved.

Threat

Extensive regulation and taxation policies

Caesars is subject to extensive gaming regulations and political and regulatory uncertainty which could have adverse impact on its financial results and business operations. Its business operations and performance largely depends upon complying with the regulations and laws established by regulatory authorities in the markets where the company operates. Additionally, these regulatory authorities are vested with high power with respect to the licensing of casino operations and may revoke, suspend, condition or limit its gaming or other licenses, impose substantial fines and take other actions which could adversely impact its business. For instance, the company's revenues and income from operations were negatively impacted during 2006 in Atlantic City, New Jersey as the government ordered three-day shut down of casino operations. In many jurisdictions where the company operates, licenses are granted for limited durations and require renewal from time to time. For example, in Iowa, Caesars' ability to continue its gaming operations is subject to a referendum every eight years or at any time upon petition of the voters; the most recent referendum which approved its ability to continue to operate casinos occurred in 2010. In Maryland, Caesars will have to reapply for its license in 2017.

From time to time, individual jurisdictions have also considered legislation or referendums, such as bans on smoking in casinos and other entertainment and dining facilities, which could adversely impact the company's operations. For example, the City Council of Atlantic City, New Jersey passed an ordinance in 2007 mandating the company to segregate a minimum of 75% of the casino gaming floor as a nonsmoking area, leaving no more than 25% of the area to permit smoking. Illinois also passed the Smoke Free Illinois Act which became effective January 1, 2008, and bans smoking in nearly all public places, including bars, restaurants, work places, schools and casinos. In January 2015, the City of New Orleans, Louisiana passed a ban on indoor smoking and use of electronic cigarettes, which took effect from April 2015. These smoking bans have adversely affected revenues and operating results at the company's properties in the past.

The casino entertainment industry also represents a significant source of tax revenues to the various jurisdictions in which casinos operate. Over a period of time, various state and federal legislators and officials have proposed changes in tax laws, or in the administration of such laws, including increases in tax rates, which could affect the casino industry. Extensive governmental regulations and taxation policies undertaken by the regulatory authorities and other various jurisdictions could hamper Caesars' results of operations.

Intense competition could affect the company's profit margins and market share

The casino industry is highly competitive in nature. The business is characterized by competitors that vary considerably by their size, geographic diversity, quality of facilities and amenities available, marketing and growth strategies, and financial condition. Caesars faces competition from other casino facilities operating in the immediate and surrounding areas. It also competes with various other entertainment businesses, and other forms of gaming operations such as state lotteries, on-and off-track wagering, and card parlors. The company's non-gaming offerings also compete with other retail facilities, amusement attractions, and food and beverage offerings. Some of the major competitors of Caesars include Boyd Gaming, Churchill Downs, Isle of Capri Casinos, Penn National Gaming, Pinnacle Entertainment and Trump Entertainment Resorts. Some of its competitors may have greater financial, marketing, or other resources. In addition, in recent times, many casino operators have been reinvesting in their existing markets to attract new customers or to gain market share, thereby making the competition further intense. Adding to this, the company's competition has increased in its largest market Las Vegas with entrance of CityCenter, a large development of resorts and residences and SLS Las Vegas. Increasing competition could adversely affect the company's margins and market share.