

ERI

Eldorado Resorts Inc

Consumer

12/11/2017

L LONG
PRESENTED
CURRENT

DATE	12/06/2017		PRICE	\$46.55	MARKET CAP	\$3.60B
PRICE	MARKET CAP	ENT VALUE				
\$31.25	\$2.44B	\$4.05B				
P/E RATIO	BOOK VALUE	DIV YIELD				
N/A	\$11.12	0%				
SHARES O/S	AVE DAILY VOL	SHORT INT				
77.96M	942,970	37.72%				

Eldorado Resorts, Inc. is a gaming and hospitality company. The firm owns and operates gaming facilities located in Ohio, Louisiana, Nevada, Pennsylvania and West Virginia. It operates through the following segments: Eldorado Reno, Silver Legacy & Circus Reno as Nevada, Eldorado Shreveport as Louisiana & Scioto Downs and Presque Isle Downs & Mountaineer as Eastern. The company was founded in 1973 and is headquartered in Reno, NV. .

Publicly traded companies mentioned herein: Boyd Gaming Corp (BYD), Churchill Downs Inc (CHDN), Eldorado Resorts Inc (ERI)

Highlights

The presenter is long shares of Eldorado Resorts (ERI), a regional casino and gaming operator, seeing ERI as a particularly well-positioned company in a secularly strong industry. He sees meaningful upside from a more sophisticated approach to marketing and promotional expenses that leverages advanced statistics and data analysis techniques, which pairs well with ERI's M&A-heavy strategy of cost takeouts and improving efficiency. Under the presenter's thesis, ERI can see FCF yield reach the double-digit range in 2018 as EBITDA comes in above Street estimates.

- The presenter highlights favorable macroeconomic conditions for casino and gaming operators, benefitting national players but even more strongly helping regional players. He states gaming has lagged the rest of the consumer economy and was flattish to down for the past few years, but is now showing strong signs of growth and inflection across the nation.
- This coincides with, "for the first time in many years," a vocal focus from all operators on the rationalization of marketing and promotional expenses. Casino operators have an immense amount of data on customers, and the presenter sees the industry looking to leverage more advanced data science tools to analyze and adjust expenses. He notes casino operators typically spend 25% - 30% of gross revenue on advertising, marketing, and promotions, which is "far higher" than any other industry.
- ERI is well-positioned as an acquirer that has proven itself capable at cutting costs, which fits well with the favorable macroeconomic and secular backdrop. The presenter attributes ERI's strengths here to President Thomas Reeg, who has spearheaded a strategy of reducing marketing teams to fewer number of employees who make more use of big data tools to manage expenses.
 - In 2014, ERI acquired MTR Gaming Group at 7x EBITDA. However, the presenter states that the "true" cost of acquisition was closer to ~5x EBITDA as ERI took down expenses and ramped profitability within the first year. He notes MTR

- continued to grow over the next 3 years.
- In 2015, ERI acquired some regional Reno assets. The presenter states a similar process occurred, wherein ERI ostensibly paid ~6.4x EBITDA, but managed to reduce the effective cost down to only 4.9x EBITDA within a year.
- In May 2017, ERI acquired Isle of Capri, and the presenter expects a repetition of previous acquisitions. He notes Isle of Capri generates ~\$200 million EBITDA at time of acquisition, and ERI guided to a \$35 million reduction in recurring expenses within a year. That target was hit within 5 months, and management has stated there's room for further improvements.
- Due to ERI's track record of accretive M&A, the company is now in a position to tackle some larger acquisitions, in the presenter's view. He cites Boyd and Churchill Downs as potentially interesting assets.
 - Boyd is a strong regional player and could be a very attractive target. The presenter believes ERI can pay \$45 a share for Boyd, which is currently trading at ~\$31, and still make the deal accretive.
 - Churchill Downs recently sold Big Fish Games, its online casino segment, which is something ERI likely had "zero interest in," per the presenter. As such, Churchill Downs has become more attractive as a target.
- The presenter is above Street numbers for 2018, expecting FCF yield to reach double-digits. He believes ERI will generate more EBITDA than Street models suggest by continuing to pursue its expense-cutting strategy.

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