Forbes

Caesars Gives Thumbs Up to Eldorado Acquisition

By **George Schultze**
I wrote the book on vulture investing.
June 26, 2019

When Caesars Entertainment (ticker: CZR) first filed for bankruptcy in 2015, many thought the Roman-themed gaming company was being thrown to the lions. But like the gladiator Spartacus, the company not only survived but emerged from the fray in an even stronger position. We wrote about Caesars when it emerged from the largest casino bankruptcy in history, shedding some $16 billion of debt in the process, and now the recovered company is being acquired by Eldorado Resorts (ticker: ERI) for more than $8.5 billion in cash and stock. The newly combined firm will have 60 casinos in Las Vegas, Atlantic City and 14 other states, making it the largest owner and operator of gaming assets in the U.S. As part of the transaction, Eldorado will also be assuming Caesars' remaining debt, about $8.8 billion, bringing the total price tag for the acquisition to more than $17 billion.

This transaction reinforces a point we made in a column several months ago, (see Chapter 11 Is Not the End of the Game), that bankruptcy doesn't have to mean the end of the road. Interestingly, one of the examples we used of a company finding new life after reorganization was Tropicana Entertainment, a competitor of Caesars, which was also acquired by Eldorado Resorts.

This deal has a lot of the same players as the Tropicana acquisition and looks to unfold in much the same manner. Carl Icahn was the majority owner of Tropicana and is now Caesars' largest shareholder. He was a major mover behind the sales of both companies as well as instrumental in bringing in industry veteran Tony Rodio, who had been Tropicana's CEO prior to the Eldorado transaction, as Caesars CEO in April of this year. If Rodio's first order of business was to sell the company, he's succeeded.

In addition to Eldorado there were reportedly other suitors, but none was apparently willing to pay as much. The final offer from Eldorado to Caesars shareholders works out to about $12.75/share. There was some feeling among investors that the prices should have been closer to $15 or possibly even higher. But based on how late we are in the economic cycle and the more than $8 billion of debt still on Caesars' books, those hopes were probably unrealistic. Moreover, not many other bidders could have extracted as much value from Caesars' real estate affiliate – VICI Properties – in the same way that Eldorado has done with other acquisitions.

And although some of those investors might be grumbling about leaving money on the table, when the dust all clears, they'll likely be better off than they would under any other scenario. Current Caesars shareholders will get a cash payout of $8.50/share on a stock that was trading at about $9 a few days earlier, as well as equity in the new company (0.0899 shares of the new stock for each Caesars share). In essence, Caesars' investors are getting back the market value of their current holding and the free upside offered by the new company.

The combined business will have about $13 billion in revenue with about $4 billion in EBITDAR including synergies that management is predicting will save $500 million in the first year alone. Eldorado management has a good track record with the acquisitions it's made since 2014, including Tropicana, both in terms of quickly deleveraging those properties and of delivering strong value to shareholders. In our discussions with the management it was confirmed that actual synergies will likely exceed $675 million over time.

One of the more interesting aspects of this deal is that it's partially funded through a $3.2 billion sale-leaseback deal with VICI, the REIT spun off from Caesars during the bankruptcy. VICI will acquire the real estate associated with Harrah's properties in Atlantic City, New Orleans and Laughlin, Nevada, for $1.8 billion and raise the rent on existing lease agreements with Caesars for another $1.4 billion.

The new company, like Eldorado, will be headquartered in Reno but will retain the brand value of the Caesars name. After closing Eldorado will own 51% of the new company and have six seats on the board and Caesars would own 49% with five seats on the board.

This complex transaction represents a creative solution that appears to provide considerable benefit to the shareholders of both companies. It's also another great example of how Chapter 11 protection gives still viable companies a chance to fix what's wrong and come out the other side in a much stronger competitive position. Going forward, Eldorado's free cash flow yield of $10.00-15.00 per share should be an attractive proposition for shareholders.