

UNITEHERE! Gaming Research

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CAESARS ENTERTAINMENT CORP. (NASDAQ: CZR)

- Caesars has a significant presence in Las Vegas with a 63% EBITDA exposure.
- Labor contracts for most Las Vegas casino resorts, including all but one of the Caesars properties, expire at the end of May. Last week, 25,000 union members voted to authorize a strike by a 99% margin.
- Main outstanding issues in CZR negotiations include technology, housekeeping workload study, union security in case of change of ownership, and wages and benefits.
- The difference between the two sides' economic proposals is approximately \$7.4 million in the first year and \$8.9 million in the fifth year.
- A one-month strike could reduce CZR's EBITDAR by nearly \$120 million.
- Negotiations are scheduled for May 29 and May 30

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Labor contracts for most Las Vegas casino resorts expire at the end of May. Collective bargaining agreements between UNITE HERE's Culinary Local 226 and Bartenders Local 165 ("the Union") and most of the casino resorts on the Las Vegas Strip and Downtown Las Vegas are set to expire at the end of this month. All Caesars properties except the Rio have contracts expiring at the end of the month. (See the end of this note for a list of properties at risk.)

Caesars has a significant presence in Las Vegas with a 63% EBITDA exposure. Negotiations for a new 5-year deal covering all CZR properties' approximately 12,000 workers started in March, but major differences remain between the unions and the company.

Union members approved a strike authorization vote by a 99% margin last week. On May 22, 25,000 workers voted by a 99% margin to give the Union negotiating committee the authority to call a strike if necessary after the contracts expire.

Main outstanding issues in CZR negotiations:

Technology: the Union is seeking to have a formal role in the ongoing and escalating process of new technology adoption and implementation in the workplace, with the goal of continuing to provide job opportunities and new skill training where necessary for human workers in Las Vegas's customer-service-centric hospitality industry. The company has rejected the Union's proposal.

Hotel housekeeping workload study: CZR has renovated over 15,500 or 67% of its hotel rooms in Las Vegas and plans to remodel another 3,735 in 2018. The Union has proposed a jointly-funded study by an independent expert to analyze housekeeping workload, which has changed significantly as a result of the introduction of new mattresses, new furniture, new bathroom surfaces and amenities, etc. The company has rejected the Union's proposal.

Ownership/Successorship: The Union has proposed new language to ensure continuity of union contracts and the protection of workers' union rights if and when a CZR property is sold to a new owner, such as a REIT, which may elect to change operator. The company has not accepted the Union's proposal.

Economics:

- During the life of the current 5-year contract (2013-2018), the union's economic package (wages and benefits all-in) increased at an average rate of approximately 2.4% per year. For the new contract, the Union now proposes to increase compensation by about 4.2% on June 1, 2018, and annual increases of approximately 4% thereafter. The Union's goal is to cover anticipated healthcare cost increases, improve pension benefits, and create above-inflation wage increases.
- The company's counter provides for approximately a 2.8% increase for each of the five years.
- The difference between the two sides' economic proposals is approximately \$7.4 million in the first year and \$8.9 million in the fifth year. Recall that CZR had projected free cash flow of approximately \$2.9 billion from 2018 through 2021 when it was preparing to complete the Chapter 11 reorganization of its CEOC subsidiary last year. The company also does not expect to be cash taxpayer for the next three years, and just announced a share buyback program of up to \$500 million.

A one-month strike could reduce CZR's EBITDA by nearly \$115 million.

It is difficult to estimate the potential impact of a citywide strike in Las Vegas. There has not been a large-scale (multi-property, multi-company) strike in Las Vegas since 1984. Back then, it was reported that the 75-day citywide strike by several unions "cost Las Vegas more than \$70 million in tourist dollars and another \$40 million in gross revenue at the gaming tables" (UPI, 6/15/1984). We estimate that equaled approximately a 20% decrease in total revenue of the Strip and Downtown Las Vegas during the strike. It is especially challenging to gauge what the strike impact was when Culinary and Bartenders members struck Binion's Horseshoe for 9 months in 1990 or when they struck the Frontier on the Strip for 6-year, 4-month, and 10-day in the 1990s. Those were labor disputes where the employers sought – and eventually failed – to destroy the union.

The most recent large-scale strike by a UNITE HERE affiliate was the 2004 strike in Atlantic City. On October 1, 2004, 10,000 members of UNITE HERE Local 54 went on strike and stayed out until November 3 (and won a historically good contract). The struck casinos experienced gaming revenue decline of as much as 19% in the month of October and the companies commented frankly about the negative impact of the strike when they announced their 4Q04 results. The month-long dispute, which included 24/7 picketing and several mass demonstrations, hurt each struck property's revenue, margins, and EBITDA to various extents for the entire quarter.

Next month, if CZR's unionized employees in Las Vegas go on strike for a month, we believe it could lead to a nearly a \$115 million negative impact on the company's EBITDAR. In such a scenario, which would be highly disruptive, one might assume a 10% reduction in revenue for an extended period due to the loss of group as well as FIT business during and after the strike.

Furthermore, one might assume a 10% worsening of operating margins due to the use of less experienced and less skilled replacements (such as managers on property or from other parts of the country) to keep the doors open, rooms cleaned, food cooked, and cocktails served, not to mention other factors such as the disruptions to management staff's regular work.

As an estimate, we use CZR's 1Q18 Las Vegas numbers as a baseline, which showed revenue of \$906 million and EBITDAR of \$321 million, with a 35% margin. A strike-impacted 10% revenue reduction and 10% margin worsening would imply an EBITDAR loss of nearly \$115 million.

$(\$906 \text{ million} \times 90\%) \times (35\% - 10\%) = \207.4 million , or \$113.6 million less than \$321 million.

Negotiations are scheduled for May 29 and May 30. The Union negotiation committee and Caesars are set to meet over two days this week.

Appendix:

<p>Labor contracts for the following casinos expire at the end of May, 2018.</p> <p>Caesars Entertainment</p> <ul style="list-style-type: none">• Bally's Las Vegas• Caesars Palace, including Nobu• Flamingo Las Vegas• Harrah's Las Vegas• Paris Las Vegas• Planet Hollywood• The Cromwell• The LINQ <p>MGM Resorts</p> <ul style="list-style-type: none">• Aria Resort & Casino• Bellagio Hotel & Casino• Circus Circus Hotel & Resort• Excalibur Hotel & Casino• Luxor Hotel & Casino• MGM Grand Las Vegas• Mandalay Bay, including Delano• The Mirage• Monte Carlo Hotel & Casino (Park MGM)• New York-New York Hotel & Casino <p>Other:</p> <ul style="list-style-type: none">• Tropicana (PENN)• Westgate Las Vegas• Treasure Island• SLS• Stratosphere (GDEN)• Plaza• Golden Gate• Golden Nugget• Four Queens• The D Las Vegas• El Cortez• Fremont (BYD)• Binion's• Main Street Station (BYD)• Downtown Grand	<p>The following properties' collective bargaining agreements are <u>NOT</u> expiring at the end of May, 2018:</p> <ul style="list-style-type: none">• Rio All-Suite Hotel & Casino (CZR) (Expiring 8/1/18)• Elara Las Vegas, a Hilton Grand Vacations Club (Expiring 10/1/18)• Hilton Grand Vacations Club on Paradise (Expiring 10/1/18)• Hilton Grand Vacations Club on the Boulevard (Expiring 10/1/18)• Hilton Grand Vacations Club at the Flamingo (Expiring 10/1/18)• The Cosmopolitan of Las Vegas• Trump International Hotel Las Vegas• Wynn Las Vegas (WYNN)• Encore at Wynn Las Vegas (WYNN)• Vdara Hotel & Spa at ARIA Las Vegas (MGM)• The Signature at MGM Grand (MGM)
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