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UNITE HERE Estimates Caesars Entertainment and MGM Each Risk Approximately \$1 Million Per Day if Casino Workers Go on Strike in Atlantic City

- Workers at five Atlantic City casinos voted to authorize a strike with a 96% majority on June 15. The strike authorization vote included workers at all three Atlantic City casinos operated by Caesars Entertainment (CZR), Caesars, Harrah's, and Tropicana, the only Atlantic City casino operated by MGM Resorts International (MGM), Borgata, as well as Hard Rock.
- Caesars' total EBITDA exposure to Atlantic City was approximately 15% in Q3 2021.
- **A strike could cost Caesars approximately \$1 million per day** in EBITDA loss assuming a Q3 2022 operating expense YoY increase of 10% and that the strike causes a Q3 2022 net revenue YoY decline of 25%.
- **A strike could cost MGM approximately \$1.6 million per day** in EBITDA under the same assumptions. MGM has never experienced a strike at the Borgata.
- The strike deadline of July 1st for the properties operated by Caesars and MGM falls ahead of the July 4th holiday weekend and the third quarter peak season.
- Labor market tightness could amplify the effects of a strike.

Caesars Atlantic City EBITDA exposure is significant. Caesars' three Atlantic City casinos collectively reported \$119.6 million of EBITDA in Q3 2021, or \$1.3 million per day, according to the New Jersey Division of Gaming Enforcement.¹ This was approximately 15% of Caesars' company-wide estimated EBITDA of \$808 million for the quarter.² All three Atlantic City casinos are potentially exposed to the effects of a strike in Q3 2022, if one occurs.

Table 1. Caesars' Estimated EBITDA Exposure to Atlantic City

	3Q 2021
Caesars Entertainment estimated EBITDA	\$808 million
Total EBITDA Exposure to Atlantic City	\$119 million (15%)
Daily EBITDA Exposure to Atlantic City	\$1.3 million

Source: Company reports, New Jersey Division of Gaming Enforcement.³

According to UNITE HERE's estimates, Caesars risks losing approximately \$1 million per day in EBITDA if a strike occurs in Q3 2022.⁴

Projecting potential EBITDA loss from a strike in Atlantic City is difficult due to changes in the industry, the impacts of the pandemic, and lack of recent comparable strikes. UNITE HERE projected hypothetical scenarios of a 20%, 25%, or 30% YoY net revenue decline caused by the strikes. We assume a revenue reduction due to factors which may include decreased customer service, operational disruptions, loss of group business and conventions, reduced hotel room occupancy, and reduced food and beverage business during and after the strike. New Jersey is among the states with the highest union density in the country and there may be significant customer support for a strike and refusals to cross picket lines during a dispute. Our model assumes a 10% YoY increase in operating expenses in Q3 2022 in line with the collective 10.2% increase at Caesars' properties in Atlantic City during Q1 2022 (the most recent reported by the New Jersey Division of Gaming Enforcement).⁵

Table 2. Potential Daily EBITDA Loss Scenarios

	20% YoY Net Revenue Decline	25% YoY Net Revenue Decline	30% YoY Net Revenue Decline
Potential Daily EBITDA Loss	\$0.845 million	\$1.008 million	\$1.171 million

Source: New Jersey Division of Gaming Enforcement reports for 3Q 2021, UNITE HERE estimates assuming net revenue decline caused by the strike and 10% YoY operating expense increase.⁶

MGM's Borgata also has potential strike exposure which could result in daily EBITDA losses of \$1.6 million per day, according to UNITE HERE's estimate.⁷

Table 3. Potential Daily EBITDA Loss Scenarios

	20% YoY Net Revenue Decline	25% YoY Net Revenue Decline	30% YoY Net Revenue Decline
Potential Daily EBITDA Loss	\$1.343 million	\$1.589 million	\$1.836 million

Source: New Jersey Division of Gaming Enforcement reports for 3Q 2021, UNITE HERE estimates assuming net revenue decline caused by the strike and 10% YoY operating expense increase.⁸

The last Atlantic City strike by members of UNITE HERE Local 54 involving Caesars Entertainment occurred in 2004. MGM has never experienced an Atlantic City strike. During the 2004 strike, Caesars operated two Atlantic City casinos, Caesars, which it still operates, and Bally's, which it no longer operates.⁹ The strike began on October 1st and lasted for 34 days. In the month of October 2004 compared to October 2003, Caesars experienced a 19% YoY decline in gaming revenue and Bally's experienced a 20.5% YoY decline.¹⁰ The five casinos in the city which did not have strikes in that period all reported gaming revenue increases, which ranged from 10.3% to 40%.¹¹ In the earnings call following the strike, Caesars' management stated:

"We estimate that the impact of that strike on our Bally's Atlantic City and our Caesars Atlantic City properties was approximately \$10 million or about \$0.02 per share...

The strike ended on November 4th and we continued to feel its effect well into that month [...].

For the quarter, gaming win in Atlantic City declined 9 percent on a 13 percent decline in volume. RevPAR was down 19 percent. Because of the strike, fourth quarter hotel occupancy dropped from 92 percent in '03 to 73 percent in '04. Room rates rose only 1 percent. The result was a 10 percent decline in net revenue and a 7 percent decline in EBITDA for the region."¹²

Caesars now operates three out of nine casinos in the market, compared to two out of twelve during the 2004 strike and much has changed for the company and the industry.

In the fourth quarter of 2014, a protracted labor dispute began between Local 54 and the Trump Taj Mahal. That quarter, the Trump Taj Mahal had a 26.9% decline in net revenue in contrast to the other casinos in the market which collectively had a 15.68% increase in net revenue.¹³

The current July 1st strike deadline falls just ahead of the major July 4th holiday weekend and the peak third quarter, unlike the 2004 strike which occurred in the off season. In 2021, Caesars' New Jersey properties generated 33.2% of their net revenue and 42% of their gross operating profit in the third quarter.¹⁴ The importance of the season was emphasized by Jim Ziereis, Vice President of Sales for Caesars Atlantic City Region, who said, "Those 100 days of summer, we have to absolutely maximize, put our best foot forward, and really nail it."¹⁵

The ongoing labor shortage could amplify the effects of a strike. In late April, Jim Plousis, Chairman of the New Jersey Casino Control Commission, stated that the industry was attempting to fill 2,500 open positions.¹⁶ Sean Pattwell, Executive Director of the Casino Reinvestment Development Authority, said, "the biggest challenge this summer has been adequately staffing hotels, casinos, restaurants, and other outlets [...]."¹⁷

UNITE HERE Local 54's members carry out crucial operations at Atlantic City casinos. They clean hotel rooms, clean public areas including the gaming floor and restrooms, and staff food and beverage operations. The absence of their labor and expertise could lead to operational disruptions and reduced quality of customer service, risking reputational damage.

Endnotes

- 1 We used the Gross Operating Profit as reported by the New Jersey Division of Gaming Enforcement (NJ DGE) as the casino's estimated EBITDA. As reported by the NJ DGE, the Gross Operating Profit is derived from Net Revenue minus Costs and Expenses. See NJ Division of Gaming Enforcement, Quarterly Reports for the Quarter Ended September 30, 2021: Caesars, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/Caesars3rdqtr2021.pdf>. Harrah's, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/Harrahs3rdqtr2021.pdf>. Tropicana, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/Tropicana3rdqtr2021.pdf>.
- 2 Caesars Entertainment reported Adjusted EBITDA for 3Q 2021 of \$870 million. Caesars Entertainment defines Adjusted EBITDA as "revenues less operating expenses and is comprised of net income (loss) before (i) interest income and interest expense, net of interest capitalized, (ii) income tax (benefit) provision, (iii) depreciation and amortization, and (iv) certain items that we do not consider indicative of our ongoing operating performance at an operating property level." Our calculation of estimated EBITDA of \$808 million for the quarter is derived from subtracting "Transaction costs and other operating costs" (\$21 million), "stock-based compensation expense" (\$21 million), and "other items" (\$20 million) from Caesars reported Adjusted EBITDA of \$870 million. CZR, 10-Q for 3Q 2021, <https://www.sec.gov/ix?doc=/Archives/edgar/data/0001590895/000159089521000135/czr-20210930.htm>, p. 42.
- 3 The company's EBITDA is estimated (see note 2) and for the exposure in Atlantic City, we used the reported Gross Operating Profit (see note 1).
- 4 Our estimate assumes 25% YoY net revenue decline and 10% YoY operating expense increase.
- 5 NJ Division of Gaming Enforcement, Quarterly Reports for the Quarter Ended March 31, 2022: Caesars, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2022/Caesars1stqtr2022.pdf>. Harrah's, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2022/HardRock1stqtr2022.pdf>. Tropicana, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2022/Tropicana1stqtr2022.pdf>.
- 6 NJ Division of Gaming Enforcement, Quarterly Reports for the Quarter Ended September 30, 2021: Caesars, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/Caesars3rdqtr2021.pdf>. Harrah's, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/Harrahs3rdqtr2021.pdf>. Tropicana, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/Tropicana3rdqtr2021.pdf>.
- 7 Our estimate assumes 25% YoY net revenue decline and 10% YoY operating expense increase. See NJ Division of Gaming Enforcement, Quarterly Report for Quarter Ended September 30, 2021: Borgata <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/Borgata3rdqtr2021.pdf>.
- 8 See previous note.
- 9 In 2004, Caesars agreed to sell the Atlantic City Hilton. The announcement that the agreement was signed was published on September 27, 2004, before the strike. Press release, https://www.sec.gov/Archives/edgar/data/858339/000110465904028577/a04-10948_1ex99d1.htm.
- 10 David Porter, "Atlantic City Casinos Show Revenue Increase, Despite Monthlong Strike," November 11, 2004, Las Vegas Sun, <https://lasvegassun.com/news/2004/nov/11/atlantic-city-casinos-show-revenue-increase-despit/>.
- 11 See previous note.
- 12 CZR, Q3 2004 Earnings Conference Call, Transcript, FD (Fair Disclosure) Wire, February 10, 2005.
- 13 NJ Division of Gaming Enforcement, Quarterly Press Release Q4 2014, <https://www.nj.gov/oag/ge/docs/Financials/PressRel2014/FINAL-4thQTR2014PressRelease.pdf>. Calculation of 15.68% collective increase in net revenue for casinos in the market excluding the Trump Taj Mahal includes all casinos that were operating in both 2013 and 2014.
- 14 We used the reported results from Caesars' three casinos and CIENJ. NJ Division of Gaming Enforcement, Quarterly Press Releases and Statistical Summaries, 3rd Quarter 2021, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/3rdQTR2021PressRelease.pdf>. NJ Division of Gaming Enforcement, Quarterly Press Releases and Statistical Summaries, 4th Quarter 2021, <https://www.nj.gov/oag/ge/docs/Financials/QuarterlyFinRpt2021/4thQTR2021PressRelease.pdf>.
- 15 Matthew Fazelpoor, "Atlantic City Bets Big on Development," June 20, 2022, NJBIZ, <https://njbiz.com/welcome-ad/?retUrl=/atlantic-city-bets-big-on-development/>.
- 16 Eric Conklin, "Atlantic City Casino Job Fair Seeks to Fill 2,500 Open Positions," April 22, 2022, Press of Atlantic City, https://pressofatlantic-city.com/news/local/casinos/atlantic-city-casino-job-fair-seeks-to-fill-2-500-open-positions/article_30b63a18-c24d-11ec-962e-137ad08c-19de.html.
- 17 Matthew Fazelpoor, "Atlantic City Bets Big on Development," June 20, 2022, NJBIZ, <https://njbiz.com/welcome-ad/?retUrl=/atlantic-city-bets-big-on-development/>.