HOULIHAN LOKEY

New CEC Convert Indenture Update

AUGUST 2017 | CONFIDENTIAL

Executive Summary

In the process of finalizing the indenture governing Caesars Entertainment Corporation's (the "Company") new Convertible Notes ("Indenture"), management and their advisors requested revisions to a discrete set of provisions and definitions in the Indenture. This presentation briefly summarizes those requests that Houlihan Lokey, after consultation with Jones Day, has determined would likely have a neutral effect, and in some cases, could have a favorable impact, on the Second Lien Noteholders, as holders of the new Convertible Notes ("Noteholders").

- The common themes behind the proposed revisions are:
  - to rationalize the Consolidated Leverage Ratio ("CLR") structure governing the Company's ability to incur debt for business and legal reasons; and
  - to provide the Company with sufficient flexibility to meet its business objectives, including through the loosening of conditions on the Company's incurrence of debt to finance acquisitions ("Acquisition Debt").
- We believe the proposed revisions provide the Company with a reasonable degree of flexibility while maintaining the spirit and integrity of the covenant structure originally put in place to provide Noteholders with downside protection.
- By way of background:
  - With respect to the Indenture's debt covenant, the Company and its Restricted Subsidiaries can incur (i) an unlimited amount of debt, if they satisfy a requisite CLR, which is defined as the ratio of Consolidated Total Indebtedness to EBITDA for the Company and its Restricted Subsidiaries (Section 4.03(a)) and (ii) additional debt under a limited number of "permitted debt" categories, even if they cannot satisfy the CLR requirement, including Acquisition Debt if certain CLR conditions are satisfied (Section 4.03(b)(xvi)).
  - With respect to the Indenture's restricted payments covenant, the Company and its Restricted Subsidiaries may make restricted payments up to a Cumulative Credit, if certain conditions are met (Section 4.04(a)) and certain carved-out payments, including a basket for up to $125 million per year of dividends, which increases if a CLR condition is satisfied (Section 4.04(b)(xix)).
- This summary highlights the principal proposed revisions to the Indenture and does not contain other technical, conforming and clean-up changes that are recommended.

If Noteholders do not object to the revisions summarized on the following pages by August 31, 2017 at 5:00pm Eastern, they will be incorporated into the Indenture. Noteholders with questions or concerns related to any of these revisions are encouraged to contact Jay Weinberger (jweinberger@hl.com) at Houlihan Lokey to discuss the rationale behind, or implications of, the contents herein

Summary of Proposed Revisions

Provision	Published Version (October 2016)	Proposed Revisions	Rationale
CLR	▪ The CLR-based debt incurrence threshold was initially set at 6.0x, based on the assumption that, at closing, the Company would have the capacity to incur approximately 1 turn of leverage. ▪ Key features of the definitions underlying the definition of CLR: ▪ Master Leases are excluded from the definition of "Indebtedness," and consequently from "Consolidated Total Indebtedness;" and ▪ rent payments under Master Leases are included in "Consolidated Interest Expense," which is an add-back to "EBITDA," which has the effect of increasing EBITDA and the Company's ability to incur CLR-based debt.	▪ CLR level for debt incurrence adjusted to 6.85x. ▪ Continue to exclude Master Leases from "Indebtedness," but removes rent payments under Master Leases from the definition of "Consolidated Interest Expense," thereby removing these as an EBITDA add back.	▪ Removal of Master Leases from Consolidated Interest Expense definition corrects the Debt / EBITDA ratio calculation. ▪ A minimal amount of incremental "cushion" is supportable in light of (i) updated Company projections, (ii) the fact that the Company may have more acquisition and / or development opportunities than originally anticipated, and (iii) EBITDA addbacks are limited.

Summary of Proposed Revisions (cont.)

Provision	Published Version (October 2016)	Proposed Revisions	Rationale
Definition of Master Lease and MLSA	▪ "Master Lease" defined solely to include the Master Lease (CPLV) and the Master Lease (Non-CPLV) as well as any amendments to these that are not less favorable than the terms of the initial Master Leases in effect on the closing date. ▪ Corresponding definition for "MLSA."	▪ Expansion of the definition to accommodate all Master Leases for which forms will be in place on the closing date as well as Master Leases entered into pursuant to the Call Right or Right of First Refusal ("ROFR") Agreements, so long as these additional Master Leases are in a form: ▪ that is substantially similar in all material respects to those in place at closing; ▪ that is, taken as a whole, not less favorable to Noteholders than those in place at closing; or ▪ that results from an arbitration proceeding in accordance with the terms of the Call Right or ROFR Agreements. ▪ Introduction of "Third Party Master Leases" (that is, those entered into with non-affiliates in connection with transactions not covered by the Call Right or ROFR Agreements), which are excluded from "Indebtedness" solely for CLR calculations.	▪ Original definition had potentially unintended consequences: ▪ It may have prevented the Company from entering into new master leases under the Call Right and ROFR Agreements, the terms of which, as a result of lease negotiations and potential arbitration proceedings, would not have allowed them to be considered "Master Leases" in place on the closing date, the consequence of which would be that these new leases would count as "Indebtedness" and would not receive the benefit of previously negotiated covenant carve-outs. ▪ It limited the Company's ability to enter into otherwise accretive sale-leaseback transactions if resultant leases, which would be characterized as Indebtedness, resulted in heightened CLR levels. ▪ New "Third Party Master Lease" definition allows the entry into new master leases to allow the Company to pursue future casino / hotel sale-leaseback transactions, provided that these master leases are not with affiliates and are substantially similar to Master Leases or whose terms, taken together, are no less favorable to Noteholders than Master Leases. As a result, the Company is able to calculate CLR without treating these Third Party Master Leases as "Indebtedness," while not giving the Company the benefit of carve-outs to other covenants that closing-date Master Leases are afforded (such as Transactions with Affiliates).

Summary of Proposed Revisions (cont.)

Provision	Published Version (October 2016)	Proposed Revisions	Rationale
Acquisition Debt Basket 4.03(b)(xvi)	▪ Acquisition Debt is permitted if, after giving effect to the acquisition, the following 3 conditions are satisfied: (A) either the Company has additional capacity to incur debt under the CLR or the CLR is no greater than immediately prior to the acquisition; (B) the stand-alone CLR (calculated without consolidation) of the entity incurring the debt is no greater than prior to the acquisition; and (C) the entity that is the target of the acquisition (on a consolidated basis with its subsidiaries) has capacity to incur debt under the debt covenant's 6.0x CLR.	▪ Remove clauses (B) and (C). ▪ CLR level tracks the change to the debt covenant (that is, it is adjusted to 6.85x).	▪ By requiring the transaction to be delevering at the stand-alone entity level, clause (B) prohibited the Company from borrowing money at newly-created bankruptcy remote entities. ▪ Clause (C) prohibited the Company from pursuing an acquisition that could be delevering on a consolidated basis if the target's debt exceeded the level permitted by the CLR test. ▪ The changes address the Company's concern that these additional secondary requirements, which are not typical in the high-yield market, may inhibit its ability to consummate attractive acquisition opportunities utilizing the most cost-efficient structure. The consolidated CLR test in clause (A) is retained in order to confirm that proposed acquisitions are overall credit accretive.
Restricted Payment Exception for Dividends 4.04(b)(xix)	▪ In the Restricted Payment basket for dividends of $125 million per year, the Company can increase that amount, if the CLR is no greater than 5.5x, by an incremental amount of 10% of the amount by which the Company's market capitalization exceeds $5.5 billion.	▪ The ratio is adjusted to 6.0x.	▪ This proposed revision is based on the same rationale that applies to the changes in the CLR for debt incurrence covenant purposes.

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