

## Gaming

# Digital Gaming Update: ESPN Bet in NY; BetMGM in-line; DKNG PO to \$50

Price Objective Change

## PENN: Big opportunity in the Big Apple

Tuesday morning, Penn Entertainment (ticker: PENN) announced an agreement to purchase the New York State Gaming License from Wynn Interactive for \$25M. We think this is a good deal for PENN as it 1) grants them access to the largest online sports betting state, and 2) the \$25M price is the NY license fee that all operators had to pay. In 2023, New York GGR of \$1.7B made up 17% of total US OSB GGR. If ESPN Bet can reach mid-to-high single digit share in New York, it could add \$100-200M of GGR in 2025 or 10-20% upside from our estimates. Recall PENN guided to ~\$200-400M in total losses in Interactive over the next three years. We lowered our [Q4 loss estimate to - \\$225M in Q4 \(see report\)](#), and think the New York launch could add as much as ~\$50-75M of losses driven by a 51% tax rate on gross gaming revenue, but also adds national scale to better leverage ESPN media and more revenue and EBITDA in the outyears.

## DKNG: Barstool Marketing agreement; raising PO to \$50

Following the Super Bowl, Barstool Sports announced a marketing agreement with DraftKings (ticker: DKNG). Before its acquisition by PENN, Barstool was viewed as a unique and valuable channel for customer acquisition, and it could be returning to these roots. Both Boston-based, Barstool and DraftKings are already creating unique content together, which enables customer engagement without the regulatory concerns the PENN encountered. While some investors seem disappointed PENN didn't have a bigger exclusive, we think many loyal Barstool fans may have already churned out of PENN after the ESPN deal was announced. DKNG is set to report Q4 earnings after market close on Thursday. We think the key investor questions are 1) can DKNG raise their 2024 guide on underlying strength, and 2) promotional activity in Q4. We estimate [Q4 NGR/EBITDA of \\$1.32B/\\$183M \(see report\)](#). We are raising our PO from \$45 to \$50, based on ~30x 2025E EBITDA, which implies 20x on 2026E EBITDA (from 25x 2025E EBITDA prior) to reflect market re-rating of growth stocks.

## BetMGM: Q4 In-line; launch of new marketing campaigns

BetMGM reported 2024 net revenue of \$1.96B, at the upper end of their guidance of \$1.8-2B, and FY EBITDA loss of -\$67M was in-line with our expectations. 2024 is expected to be an investment year for BetMGM to reinvigorate share, and we are seeing more marketing including ads with Tom Brady and Wayne Gretzky. While still early, we think the new ads are resonating as BetMGM has recently been in the top-10 in the app store sports category compared to in the 20-30s for most of the football season.

## Big Game: Early signs point to strong demand

On Thursday, New York will report OSB GGR data from the Big Game this weekend. Early handle data seems positive with 1) GeoComply data showing a +22% Y/Y increase in pings during the game on Sunday, 2) Nevada big game handle reaching an all-time high of \$186M, up +21% Y/Y. The hold rate in Nevada was 4.3% vs. 3.6% last-year and lower than the long-term average of 7.6%. It's our sense OSB hold rate will be okay as a Chiefs win is offset by no Travis Kelce touchdown, and OSB will benefit from increased parlay mix relative to the data reported in Nevada.

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**Refer to important disclosures on page 4 to 8. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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GGR – gross gaming revenue

OSB – online sports betting

**Exhibit 1: New York Online Sports Betting**

We think the NY license could add 10-20% of GGR upside from our current estimates

	Low	Mid	High
2025 NY GGR TAM	2,026.2	2,026.2	2,026.20
GGR Share	5.0%	7.5%	10.0%
GGR	101.3	152.0	202.6
Current GGR Est.	1,013.1	1,013.1	1,013.1
<b>Upside</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>

Source: NY Gaming Control Board, BofA Global Research

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**Exhibit 2: Potential loss from NY launch**

If NGR follows a similar cadence to the ESPN Bet launch in late 2023, PENN could lose ~\$75M on the NY launch

	Month 1	Month 2	Month 3
NY Monthly average handle	1,591	1,591	1,591
ESPN Bet Handle Share	10.0%	7.5%	7.5%
Hold Rate	8.0%	8.0%	8.0%
GGR	12.73	9.55	9.55
Tax Rate	51%	51%	51%
Tax expense	-6.49	-4.87	-4.87
NGR % of Handle	-18%	-3%	0%
NGR	-28.8	-4.0	0.0
Gaming Loss	-35.26	-8.87	-4.87
Marketing			25.50
<b>Total Loss</b>			<b>74.50</b>

Source: State Gaming Control Boards, BofA Global Research

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## Price objective basis & risk

### DraftKings, Inc. (DKNG; C-1-9; \$42.69)

Our \$50 PO is based on 30x 2025E Adj. EBITDA, a premium to other "proven" best of breed disruptors. We believe this premium multiple is justified given the early stage enthusiasm for the vertical and the scarcity value associated with DKNG, as well as its revenue trajectory and inflection to positive Adj. EBITDA

Upside risks to our PO are higher-than-expected growth, faster-than-anticipated state legalizations and quicker and higher profitability than we model.

Downside risks are lower enthusiasm for growth stocks, slower legalization of sports betting, increased competition, and a slower ramp to profitability.

### MGM Resorts International (MGM; C-2-9; \$45.66)

Our \$50 PO is based on approximately 7x our 2024 EBITDAR estimate. This multiple is a discount to MGM's historical average since 2010, due to the the company's evolving corporate structure.

Upside risks are: a stronger than anticipated recovery in Las Vegas, sports betting/iGaming ownership changes and improving consumer sentiment and its majority ownership stake in MGM China.

Downside risks are: execution risks related to sports betting and iGaming, increased Strip promotional competition, and a slower than expected recovery in the Macau market and US.

### Penn Entertainment (PENN; C-1-9; \$22.72)

Our \$30 PO is based on approximately 6.5x 2024E land-based EBITDAR plus \$8 for sports. This multiple is in line with PENN's historical multiple, but a discount to other consumer growth stocks with longer track records of growth and greater brand power.

Downside risks are potential margin deterioration, uncertainty on growth projects, and that the sports opportunity is less than we anticipate.

## Analyst Certification

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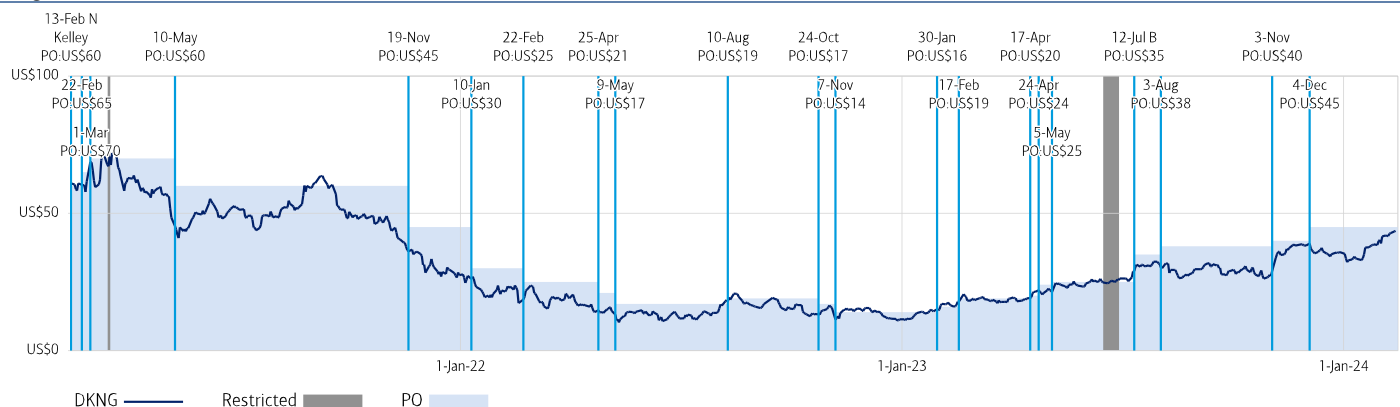
## US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
<b>NEUTRAL</b>				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Churchill Downs Incorporated	CHDN	CHDN US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
<b>UNDERPERFORM</b>				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad

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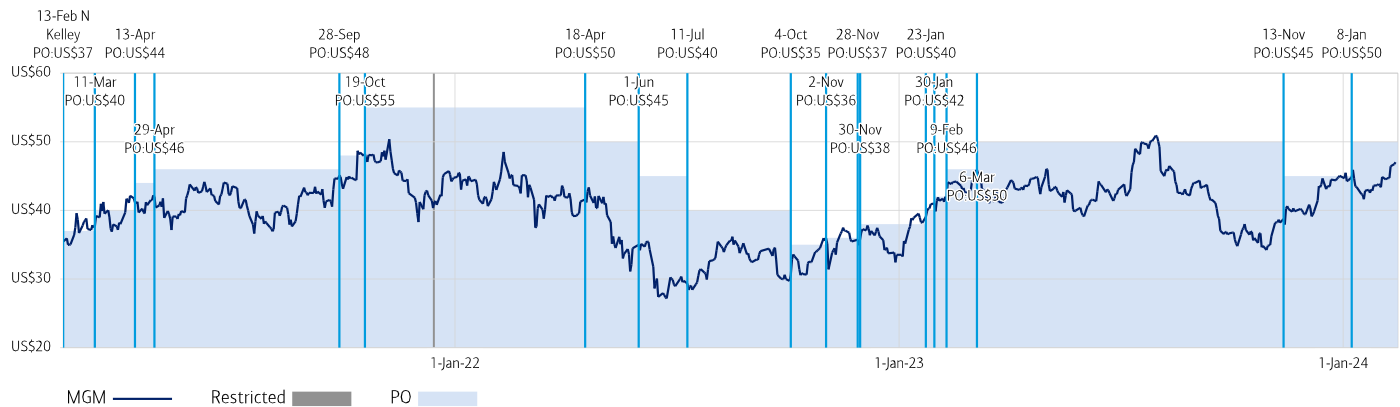
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## DraftKings, Inc. (DKNG) Price Chart



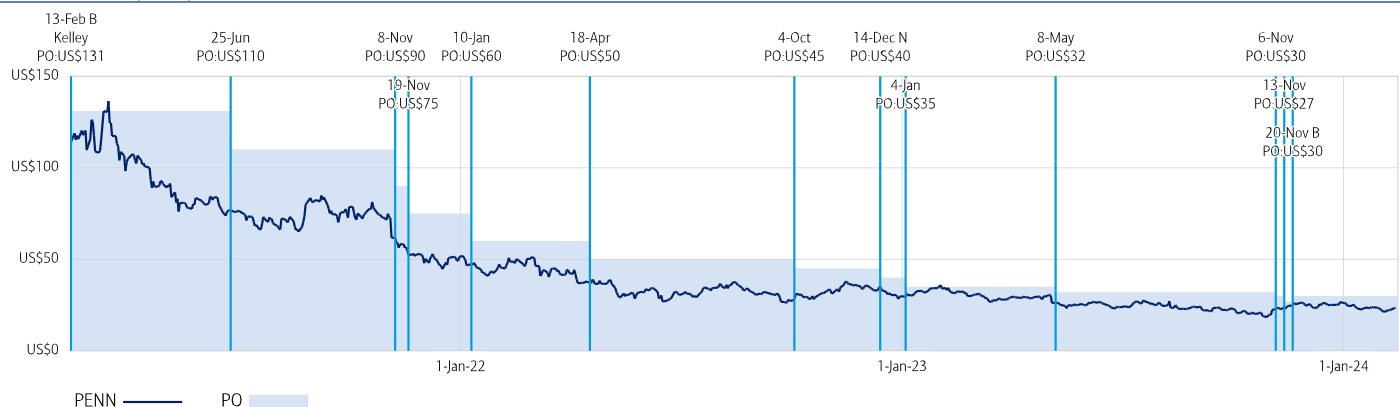
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**MGM Resorts (MGM) Price Chart**

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**Penn Entertainment (PENN) Price Chart**

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	22	50.00%	Buy	10	45.45%
Hold	12	27.27%	Hold	6	50.00%
Sell	10	22.73%	Sell	3	30.00%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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