

Penn Entertainment

Q4 Review: The stakes behind ESPN Bet are rising; lowering PO

Reiterate Rating: BUY | PO: 28.00 USD | Price: 19.39 USD

ESPN Bet Q4 and 2024 losses are larger than expected

Penn Entertainment (ticker: PENN) reported Q4 revenue/EBITDA \$1.40B/\$113M vs. BofA \$1.37B/\$203M. While property EBITDAR beat our estimates by \$21M, PENN's Interactive segment including ESPN Bet lost -\$334M, larger than our -\$225M, and more than 2x initial guidance of ~\$150M. Loss expectations were elevated following strong uptake [of ESPN Bet \(see report\)](#), but the material Q4 miss coupled with the 2024 outlook for another \$380M of losses drove shares down 14%.

Bottom line: The outlay for ESPN Bet may be shifting higher as peak startup losses are now double the \$300-400M we anticipated only back in August. While stronger customer acquisition (a good thing) is the primary reason, potential share gains are not keeping up and elevated opex raises the fixed cost bar and breakeven point for the business, in our view. Beyond market revenues, key positive catalysts may be 1) appointing a new head of Interactive in coming weeks, 2) additional clarity or guard rails on digital spending/losses and 3) additional insight into activist plans for the business. Reiterate Buy on attractive risk-reward, but lower our estimates and PO to \$28 PO (from \$30) on higher digital losses (\$2/share).

Digital: Q4 miss on higher promo, but coming down fast

PENN's \$334M loss in digital was mostly driven by 1) higher uptake of promotions and 2) elevated variable costs. The big silver lining in Q4 was that promos have already dropped to just 2.8% of handle or down 90% from November, and at just 36% of GGR, are already nearing peers while weekly active users and cash handle remain steady. Implied Q4 opex was \$365M and we think this can drop to ~\$260M/quarter in 2024. On 6% US OSB share and 2% iGaming share, we estimate a 2024 interactive loss of - \$380M, vs. our prior -\$200M. Our new estimate includes ~\$50-75M of incremental losses from the [expected launch in New York \(see report\)](#) ahead of the football season, and a ~\$105-120M increase in same-state losses.

Regional: Q4 quite solid with 2024 guidance ahead of ests.

PENN's property revenues/EBITDAR of \$1.37B/\$476M vs. BofA \$1.35B/\$455M. Of the \$21M EBITDAR beat, \$9M was from the Northeast, \$5M in both the South and Midwest, and \$3M in the West. PENN provided initial 2024 property revenue/EBITDA guidance of \$5.675B/\$1.965B at midpoint, +1% ahead of our prior \$5.58B/\$1.95B. Implied margins of ~34.6% embed ~120bps (vs. our prior estimate of ~60bps) of Y/Y margin deleverage which is driven by 1) new competition in select markets, 2) weak trends in January from weather, 3) moderate cost and wage inflation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.24	(3.07)	(0.50)	0.24	1.70
EPS Change (YoY)	-49.4%	NM	83.7%	NM	608.3%
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	15.6x	NM	NM	80.8x	11.4x
EV / EBITDA*	6.61x	8.48x	8.73x	7.42x	6.50x
Free Cash Flow Yield*	19.7%	-3.13%	-7.39%	1.17%	7.07%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 16 February 2024 05:00AM EST

16 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	30.00	28.00
2024E Rev (m)	6,571.5	6,738.9
2025E Rev (m)	6,916.5	7,274.2
2026E Rev (m)	NA	7,638.5
2024E EPS	0.71	-0.50
2025E EPS	1.75	0.24
2026E EPS	NA	1.70

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Stock Data

Price	19.39 USD
Price Objective	28.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	18.35 USD - 32.86 USD
Mkt Val (mn) / Shares Out (mn)	2,942 USD / 151.8
Free Float	99.1%
Average Daily Value (mn)	112.06 USD
BofA Ticker / Exchange	PENN / NAS
Bloomberg / Reuters	PENN US / PENN.OQ
ROE (2024E)	-2.6%
Net Dbt to Eqty (Dec-2023A)	63.7%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Key Term:

OSB: Online Sports Betting

iQprofileSM Penn Entertainment

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.3%	5.7%	4.9%	5.6%	6.8%
Return on Equity	5.7%	-14.8%	-2.6%	1.4%	10.1%
Operating Margin	20.8%	15.0%	13.7%	14.4%	16.9%
Free Cash Flow	579	(92)	(217)	34	208

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	4.0x	NM	NM	17.2x	3.4x
Asset Replacement Ratio	0.5x	0.8x	1.0x	0.8x	0.8x
Tax Rate	NM	1.6%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	32.1%	63.7%	92.4%	114.7%	123.2%
Interest Cover	1.5x	0.9x	0.9x	1.0x	1.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,321	6,363	6,739	7,274	7,638
% Change	7.0%	0.7%	5.9%	7.9%	5.0%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	1,939	1,512	1,469	1,727	1,971
% Change	-2.8%	-22.0%	-2.9%	17.6%	14.1%
Net Interest & Other Income	(1,141)	(1,452)	(1,022)	(1,007)	(984)
Net Income (Adjusted)	219	(490)	(74)	34	232
% Change	-47.9%	NM	85.0%	NM	583.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	220	(492)	(77)	31	229
Depreciation & Amortization	568	489	549	678	680
Change in Working Capital	(148)	(329)	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	239	642	(121)	(125)	(128)
Capital Expenditure	(300)	(403)	(568)	(550)	(573)
Free Cash Flow	579	-92	-217	34	208
% Change	-11.3%	NM	-136.4%	NM	506.9%
Share / Issue Repurchase	(601)	(200)	(200)	(200)	(200)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(38)	3	300	300	300

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,624	875	672	720	942
Trade Receivables	389	463	463	463	463
Other Current Assets	NA	NA	NA	NA	NA
Property, Plant & Equipment	4,516	3,489	3,583	3,532	3,504
Other Non-Current Assets	10,973	10,927	10,927	10,927	10,927
Total Assets	17,502	15,753	15,644	15,641	15,835
Short-Term Debt	56	57	57	57	57
Other Current Liabilities	1,103	1,211	1,285	1,362	1,441
Long-Term Debt	2,721	2,752	3,052	3,352	3,652
Other Non-Current Liabilities	10,026	8,698	8,612	8,526	8,440
Total Liabilities	13,906	12,718	13,006	13,297	13,590
Total Equity	3,597	3,036	2,638	2,344	2,246
Total Equity & Liabilities	17,502	15,753	15,644	15,641	15,835

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Gaming

Company Description

Penn National Gaming Inc. is a diversified, multi-jurisdictional operator of gaming properties, as well as horse racetracks and associated off-track wagering facilities (OTWs). The company currently operates 41 facilities in 18 different jurisdictions.

Investment Rationale

We are Buy rated on PENN given stable regional gaming trends and upside opportunity from ESPN Bet

Stock Data

Average Daily Volume 5,780,654

Quarterly Earnings Estimates

	2023	2024
Q1	3.05A	-0.38E
Q2	0.47A	0.03E
Q3	-4.80A	-0.16E
Q4	-2.37A	0.01E

Price objective basis & risk

Penn Entertainment (PENN)

Our \$28 PO is based on approximately 6.5x 2024E land-based EBITDAR plus \$6 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
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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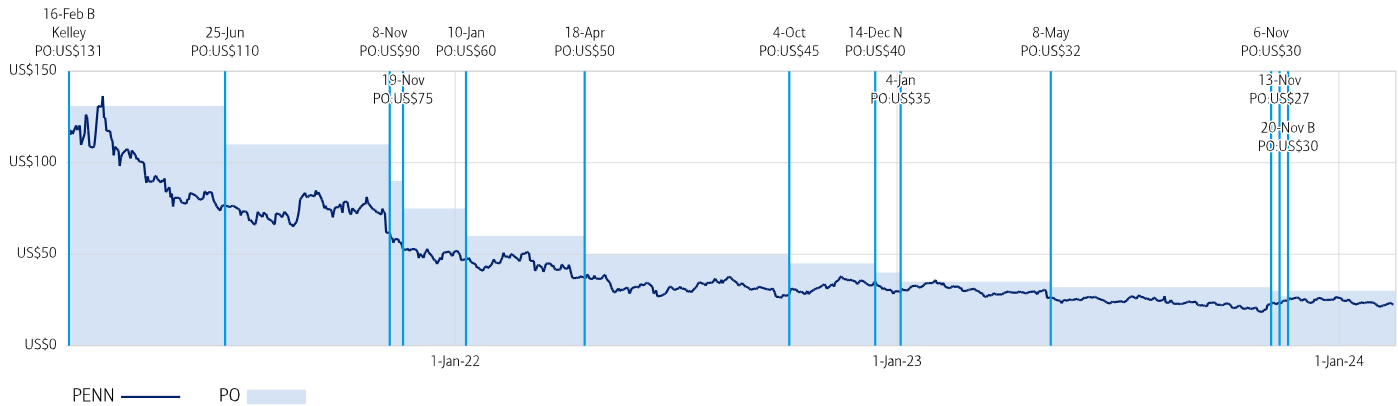
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Penn Entertainment (PENN) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Gaming Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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

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