

Penn Entertainment

Management meeting takeaways: What's next for ESPN Bet?

Maintain Rating: BUY | PO: 28.00 USD | Price: 18.00 USD

Management dinner in New York

Wednesday night, we hosted Penn Entertainment (ticker: PENN) management CEO Jay Snowden, CFO Felicia Hendrix, and Chief Strategy Officer Chris Rogers for a dinner with investors. Management tone was positive and while ESPN Bet's Q4 losses were clearly larger than expected, we think they are excited by: 1) initial traction of 1M new customers (3x more than anticipated), 2) retention and engagement (incl. steady weekly active user trends - see below), 3) continued support and enthusiasm from ESPN, and 4) tech improvements and integrations to come. We maintain Buy on PENN on attractive risk reward.

Financials: Gaining confidence in 1Q and 2024

Stock weakness has been driven by concerns around the size of ESPN Bet losses, so putting guardrails around these is key to improving sentiment. PENN reiterated the \$200-400M in cumulative losses over the next three years, with deeper losses than initially anticipated (in 4Q and 2024), but pulled forward profitability in 2025 and 2026. For Q1, we come away more confident that the guide contemplates lower Jan. and Super Bowl hold, but achieving it will come down to March Madness and the North Carolina launch (see our bridge in Ex. 4). We expect promo offers for NC to be in line with the market, so results should be a clearer sign of the ESPN's brand's impact. For full year 2024, PENN's previously stated \$150M in off channel marketing spend is purely discretionary and could be a lever to pull back on if needed, and we expect a very measured promo approach to New York given the 51% tax rate on GGR.

Strategy: Focus on tech and ESPN integrations

Strategically, we think PENN's near term focus is getting their product and specifically their same game parlay offerings up to par, which they hope to be at by football season. But beyond that, management sounded excited about a myriad of integration possibilities including 1) Fantasy opportunities, 2) account linking from ESPN+ to ESPN Bet (allowing for much greater personalization around things like team preferences, 3) shareable bet slip, and 4) greater media integration including with ESPN's streaming service launch in 2025.

Recent data: Trends for ESPN Bet are encouraging

One of the key drivers to management's optimism continues to be steady retention and engagement, as seen in their mid-teens market share of weekly active users (highlighted at Q4). Our Sensor Tower data (see Ex. 5-6) validates ESPN Bet that trend has continued and been steadily ~17% daily active user share, dipping to 15% Super Bowl week as PENN made the strategic decision to pull back on promos in order to load-manage and given the highly casual skew bettors. Encouragingly share snapped back and reached 19% in the most recent week. PENN's biggest opportunity is to narrow the gap between this active user share and GGR share over time via 1) improved tech and product, 2) increased wallet share, and 3) deeper integrations.

29 February 2024

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Stock Data

Price	18.00 USD
Price Objective	28.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	16.46 USD - 31.63 USD
Mrkt Val (mn) / Shares Out (mn)	2,732 USD / 151.8
Free Float	99.1%
Average Daily Value (mn)	112.26 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™	Medium

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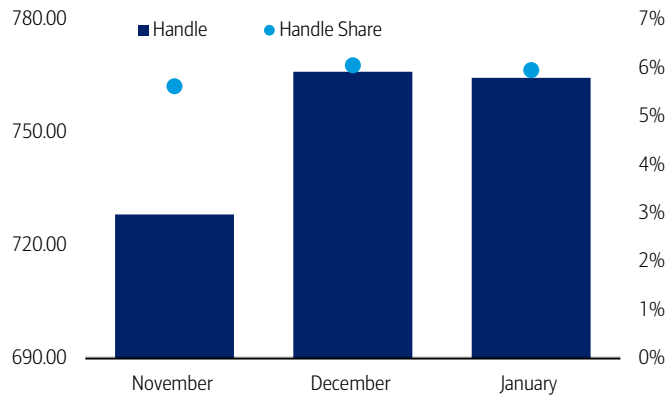
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Timestamp: 29 February 2024 05:00AM EST

Exhibit 1: ESPN Bet OSB Handle (\$) and **Handle Share**

Despite ESPN Bet GGR share slipping M/M, their national handle share has been stable at 6%

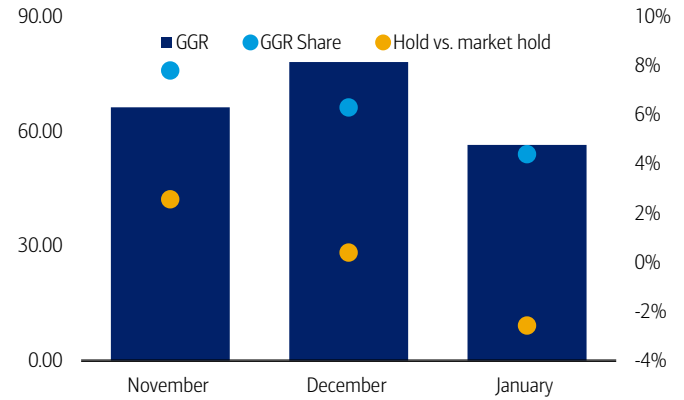


Source: State Gaming Control Boards, BofA Global Research

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Exhibit 2: ESPN Bet OSB GGR (\$) and **GGR share**

ESPN Bet's GGR share declines are driven by hold rates vs. the industry

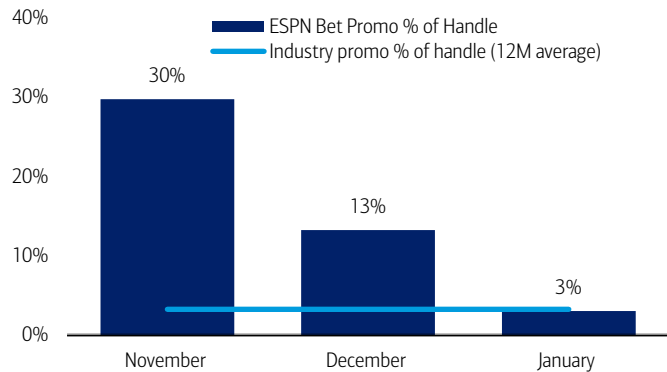


Source: State Gaming Control Boards, BofA Global Research

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Exhibit 3: ESPN Bet Promo % of Handle

ESPN Bet handle share has stayed stable despite a big pullback in promotions



Source: State Gaming Control Boards, BofA Global Research

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Exhibit 4: Q1 Net Gaming Revenue Bridge

Despite the lower GGR share in January, we still think ESPN Bet is on track to meet/surpass our Q1 NGR estimates

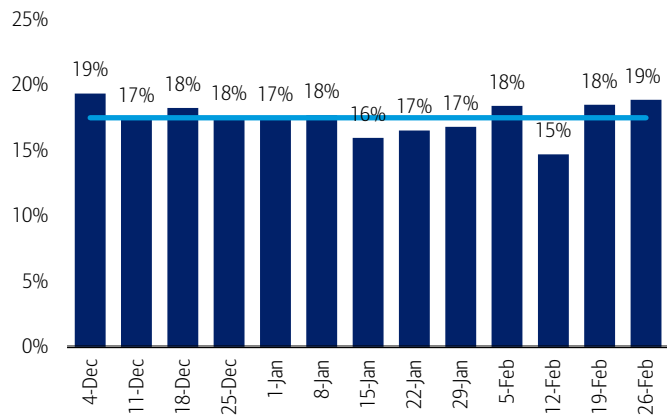
	January	February	March	Q1
Industry Handle	12,857	10,528	13,259	36,645
ESPN Bet Handle Share	6%	6%	6%	6%
Handle	764	626	788	2,179
Hold	7%	8%	8%	8%
ESPN Bet GGR	57	50	63	170
GGR Share	4%	5%	5%	5%
Promo % of Handle	3%	3%	6%	4%
Promo (\$)	23	19	47	89
US OSB NGR	33	31	16	81
Plus Canada NGR	5	5	5	15
Plus iGaming NGR	8	8	8	25
Total NGR	47	44	30	121
Current Model				118

Source: State Gaming Control Boards, BofA Global Research

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Exhibit 5: ESPN Bet Daily Active User Share

ESPN Bet's DAU share has been 17% on average, and has strengthened in recent weeks

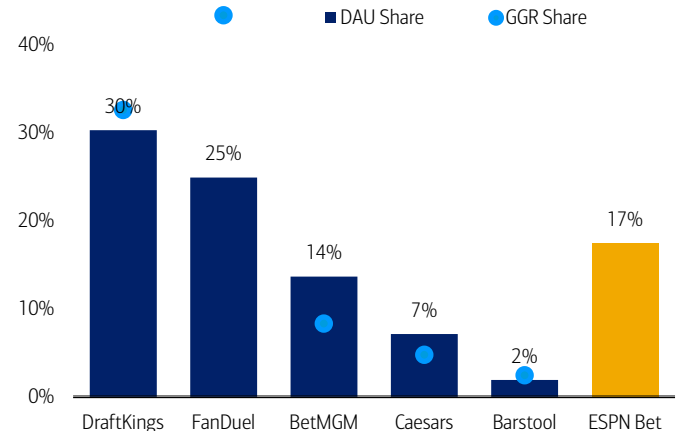


Source: Sensor Tower, BofA Global Research

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Exhibit 6: Daily Active User Share vs. GGR Share

ESPN Bet makes up ~17% of DAUs, compare to only 2% for Barstool



Source: Sensor Tower, BofA Global Research

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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

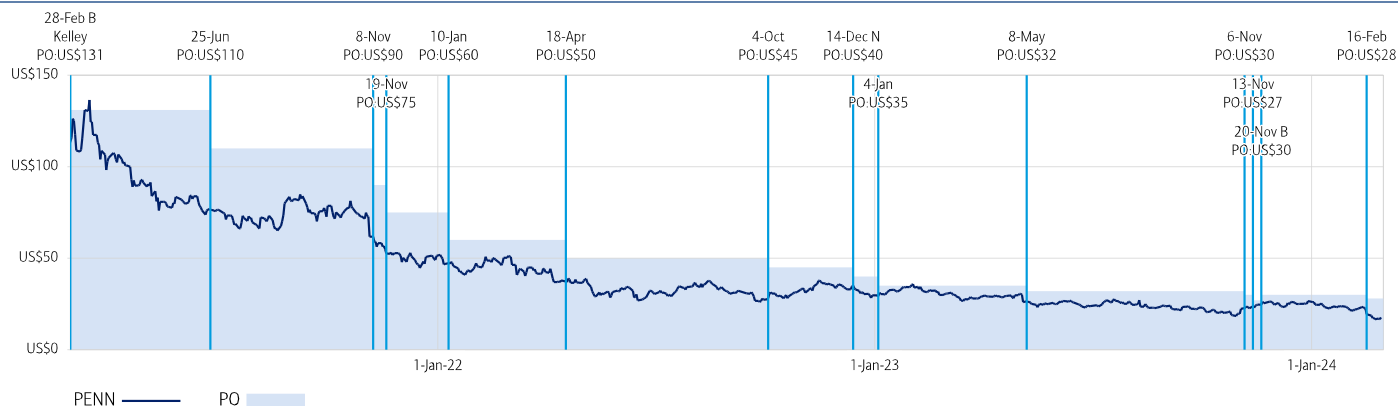
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Penn Entertainment (PENN) Price Chart



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

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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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