



PENN NATIONAL
GAMING, INC.

Penn National Gaming (PENN)

December 6, 2020

Ryerson
University

TED
ROGERS
SCHOOL
OF MANAGEMENT

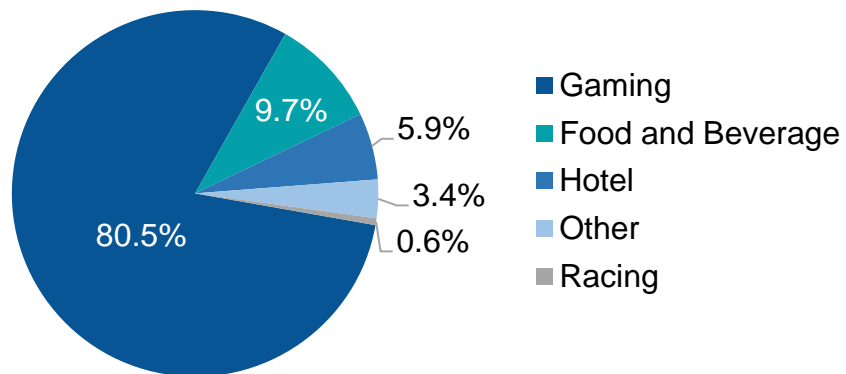
Company Overview

Company Overview

Company Highlights

- Penn National Gaming, Inc. owns and manages gaming and racing properties, video gaming terminal operations, and offers live sports betting
- The company operates an interactive gaming (iGaming) division, which recently launched iCasino, an online casino
- Purchased 36% of Barstool Sports, Inc., a leading platform for digital sports, media and entertainment. Through the deal, it became Barstool Sports' exclusive partner for up to 40 years.

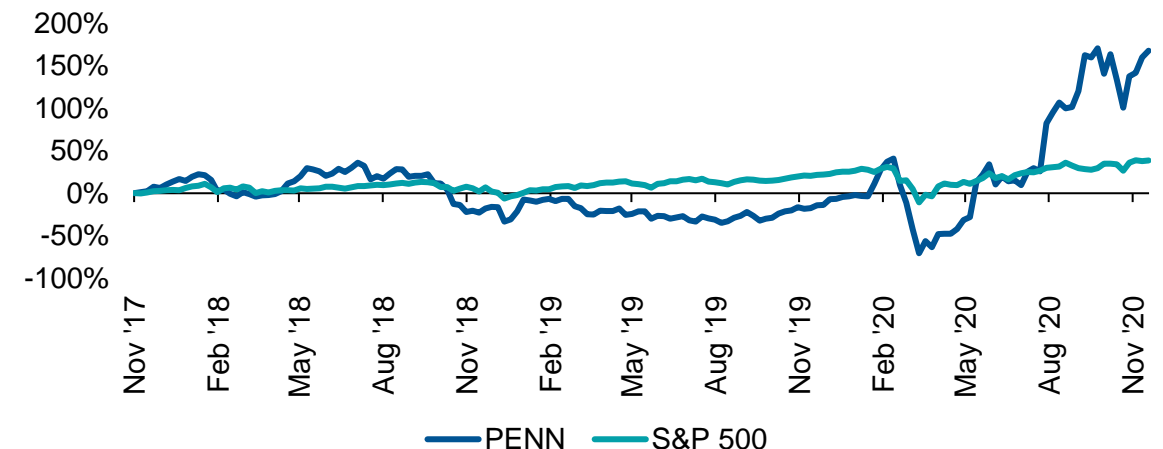
Revenue Segmentation



Valuation & Share Performance

Ticker	PENN
Stock Price	\$67.17
Market Cap	10.43B
Enterprise Value	10.75B
52-Week H/L	\$76.62/\$3.75
Dividend Yield	0%
P/S	2.23

Stock Performance Relative to S&P 500



Management

Senior Management

Jay Snowden – President and Chief Executive Officer

- Prior to joining Penn National Gaming, was the Senior Vice President and General Manager of Caesars and Harrah's in Atlantic City, New Jersey
- Joined the company in October 2011 as Senior Vice President-Regional Operations
- Became Chief Operating Officer in January 2014
- Became President and Chief Executive Officer in January 2020

Todd George – Executive Vice President-Operations

- Held various management roles in the gambling industry throughout his career
- General Manager at Hollywood Casino Corp since 2012
- Joined Penn National Gaming in 2018 as Senior VP – Regional Operations

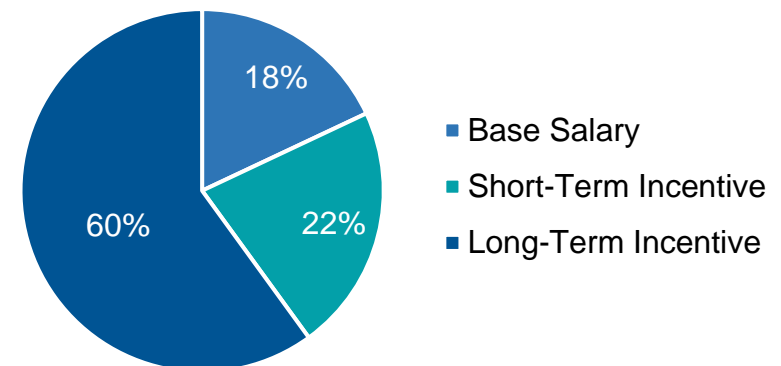
David Williams – Chief Financial Officer & Executive Vice President

- Previously held the position of VP - Finance & Corp. Controller at Filemaker Inc.
- Joined Penn National Gaming in March 2020

Management Compensation

Compensation Structure

- **Base Salary:** Benchmarked against 50th percentile of the base executive salaries within the industry peers.
- **Short-Term Incentive:** To ensure achievement of carefully crafted short-term operational objectives. Provides cash incentive compensation based on company's achievement of adjusted EBITDA targets.
- **Long-Term Incentive:** Awards equity compensation to help align executives' interests with those of the shareholders. Motivates executives to strive for the long-term appreciation of shareholder value.



Industry Analysis

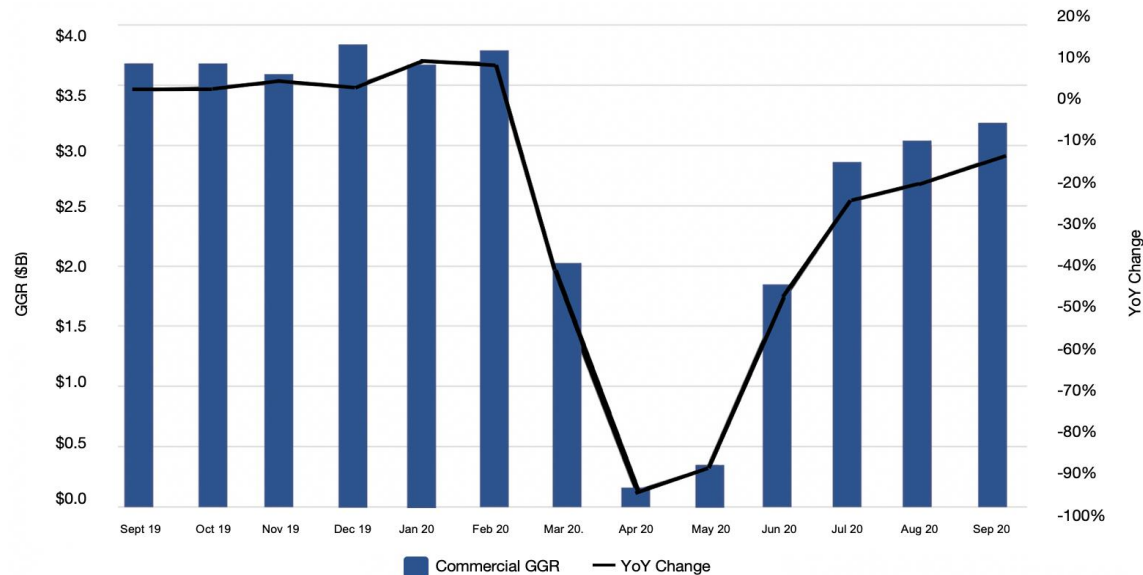


Brick-and-Mortar Casinos and iCasino

Brick-and-Mortar Casino

- Casinos suffered in Q2 of 2020 when they were shut down across the country
- Casino revenue was \$9 billion in Q3 2020, up +294% from Q2
- Global gambling reached \$449.3 billion in 2018, expected to grow at a CAGR of 5.9% to nearly \$565.4 billion by 2022

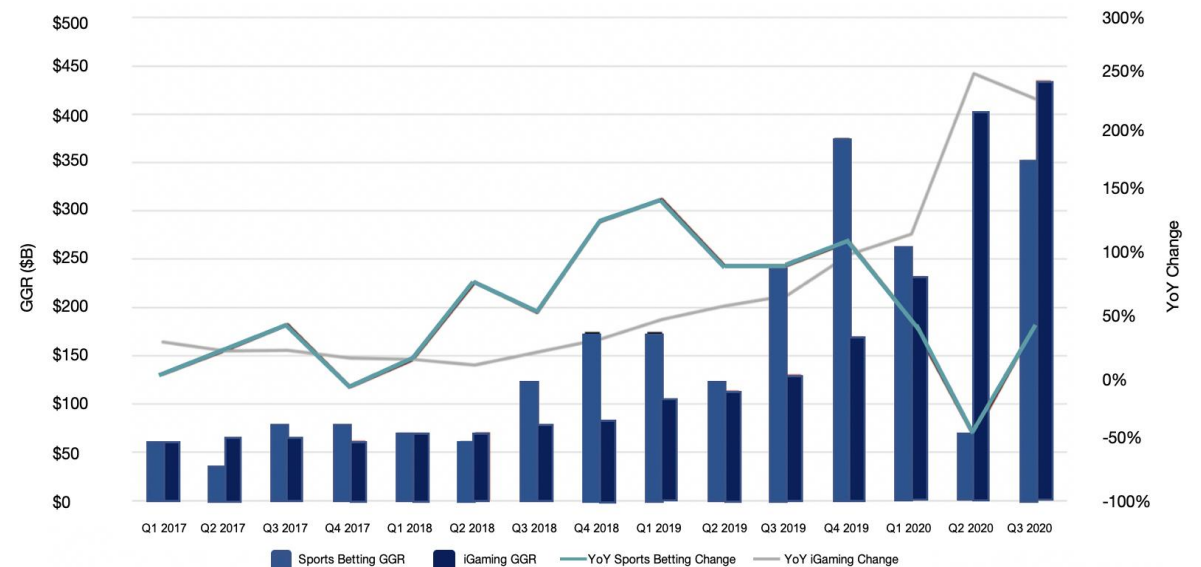
U.S. Gross Gaming Revenue



iCasino

- Market size and value have grown from \$53.7 billion in 2019 to expected \$59.6 billion by end of 2020
- Maintaining a CAGR of 11.5%, expected to reach \$127.3 billion in 2027
- Increase in 43% of daily online poker players
- Increase of 255% first-time poker players compared to an average day – pre COVID-19

Sports Betting and iGaming Growth

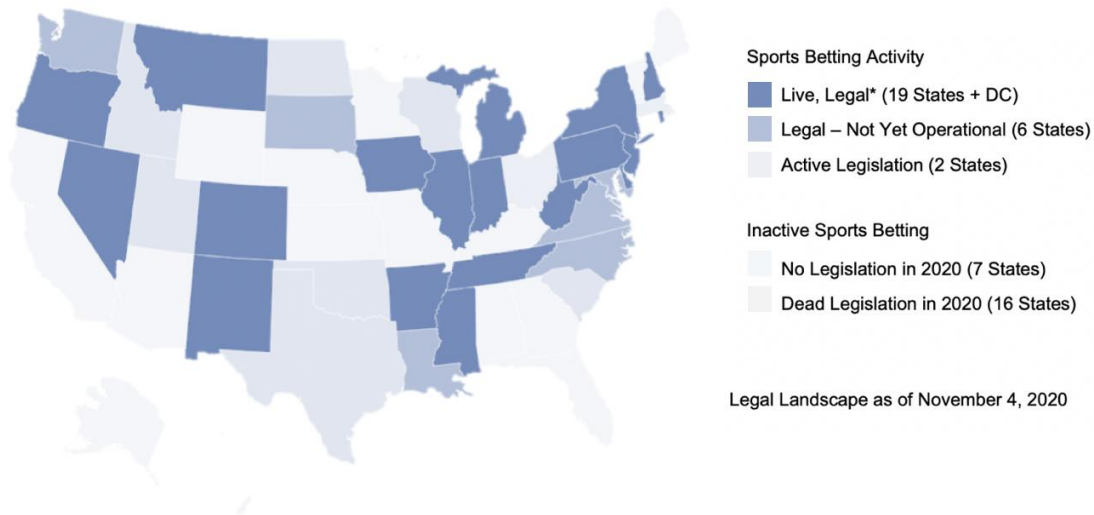


Sports Betting Market Outlook

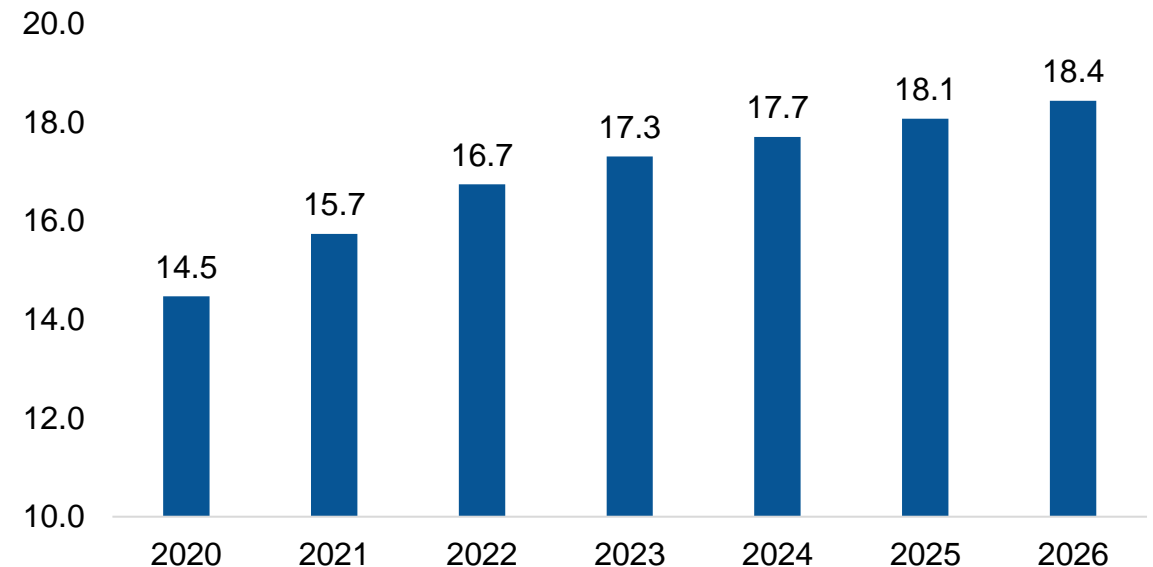
Sports Betting Legalization Across U.S.

- Legalization across the U.S. will have a positive impact on market growth
- Estimated to grow to \$144.44 billion through 2020-2024, CAGR of 11% during the forecast period
- Driving force of growth will be the increase in commercialization of sporting events
- According to KPMG, the entire global sports market is estimated to be worth between \$600-700 billion and its growth over values the GDP growth of some developing countries

Sports Betting Legalization Across U.S.



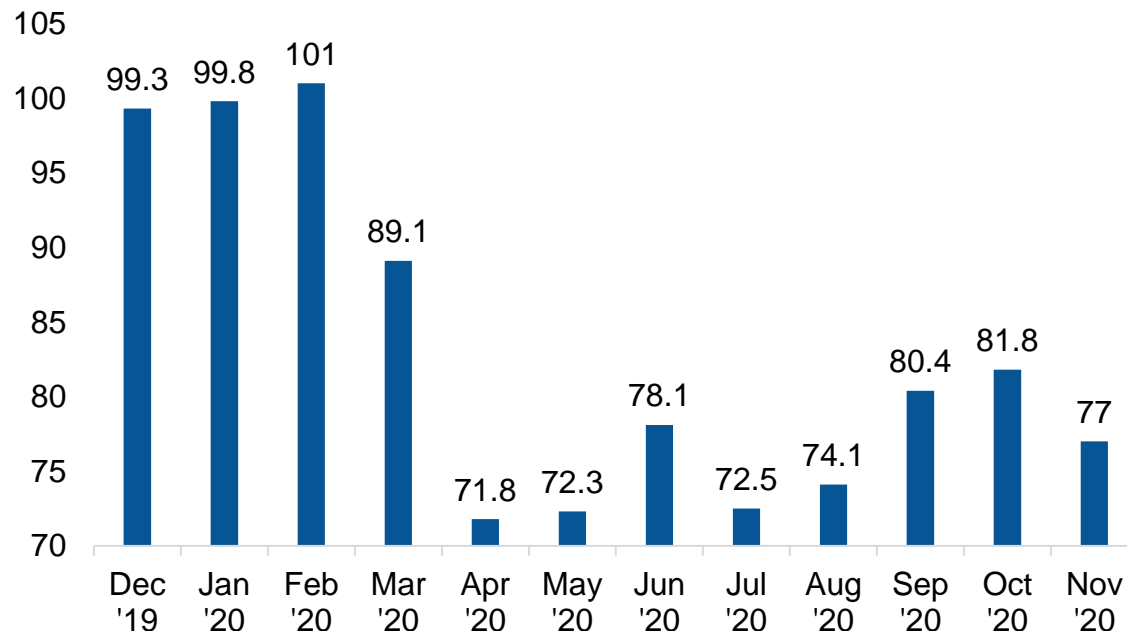
U.S. Online Gambling Market Size (\$B)



Consumer Demographics

- Consumer Discretionary sector tends to underperform in times of economic uncertainty
- As a result of the pandemic the unemployment rate rose to around 11.1% in June 2020 and was at 6.9% in October
- According to McKinsey and Company, about 75% of the \$8.5 billion in 2030 will have both mobile and Internet access
- Social media is important, research from McKinsey and Company shows social media has a strong influence on purchase decisions: across product categories, on average 26% of purchases were triggered through social media

U.S. Consumer Confidence Index



Consumer Behaviour Trends

We have seen five fundamental shifts to consumer behavior, some of which have a lasting impact, as a result of the pandemic



1. Shift to value and essentials

20-40%
Net decrease in intent to spend on discretionary categories



2. Flight to digital and omnichannel

20-50%
Net increase in intent to spend online, even post-COVID-19



3. Shock to loyalty

78%
Of U.S. consumers have changed stores, brands or the way they shop



4. Homebody economy

64%
Of U.S. consumers are not yet resuming "normal" out-of-home activities



5. New holiday outlook

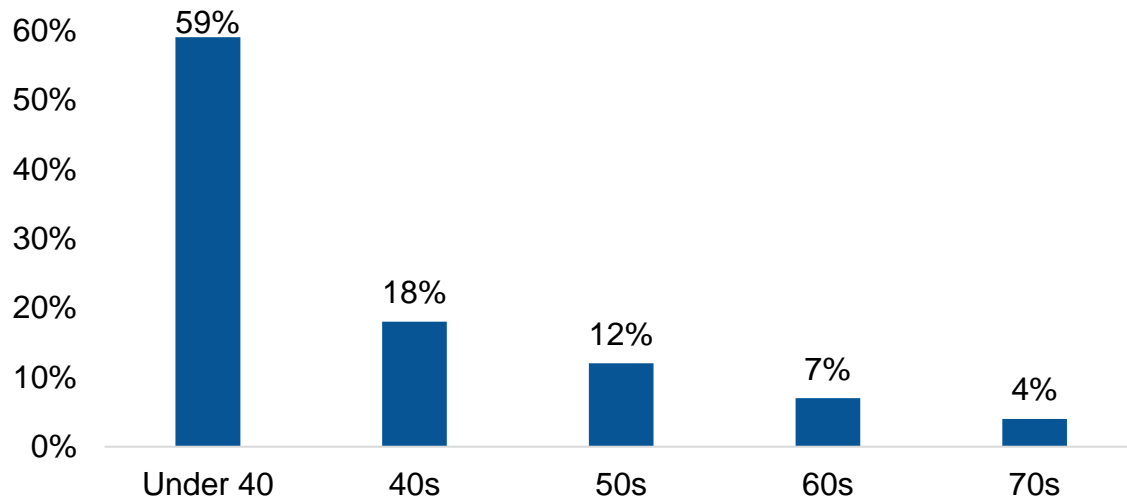
84%
Of U.S. households plan to maintain or reduce their holiday spending

Competitive Positioning

Sports Betting

- Major competitors: DraftKings, FanDuel
- Predicted to become market leader with 33% market share in future years
- Large growth potential as a result from deal with Barstool
- Reach of 48% of millennial and Gen X men
- Launched the Barstool Sportsbook app, released in Pennsylvania, topped the app store
- Plans to launch the app in all states where sports betting is legal by 2021
- The app had 24,000 downloads / day in its debut weekend

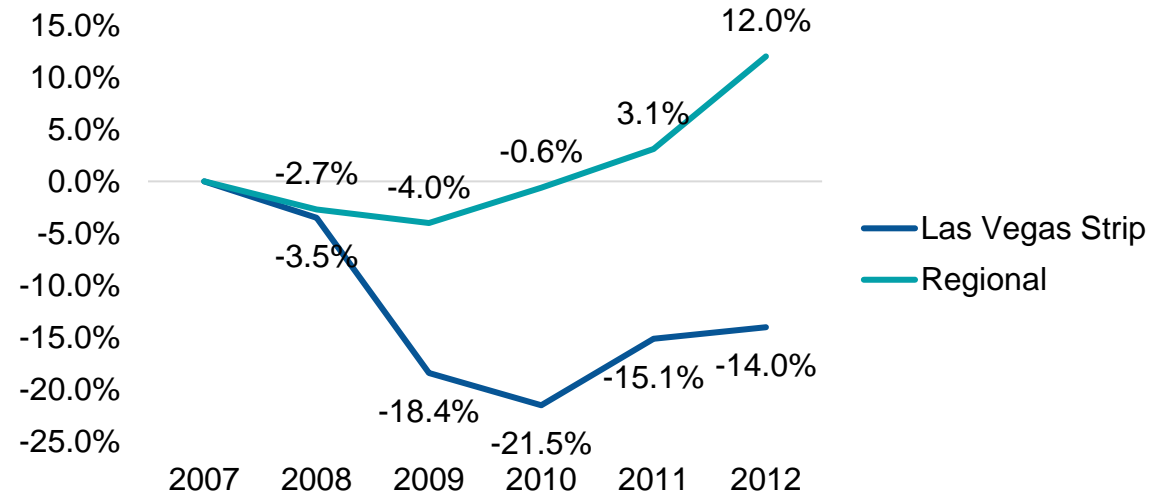
Retail Sports Betting Handle by Age



Casinos

- Major Competitors: Boyd, Caesars Entertainment
- Has the most momentum in the industry right now with a market cap of now USD 11.2 billion
- First major gaming company to launch a REIT, providing more operating leverage
- Current geography: 43 operating facilities in the U.S.
- Regional casinos can be predicted to bounce back from COVID-19 fast due to their performance after great recession

2008 Recession Recovery



Investment Thesis

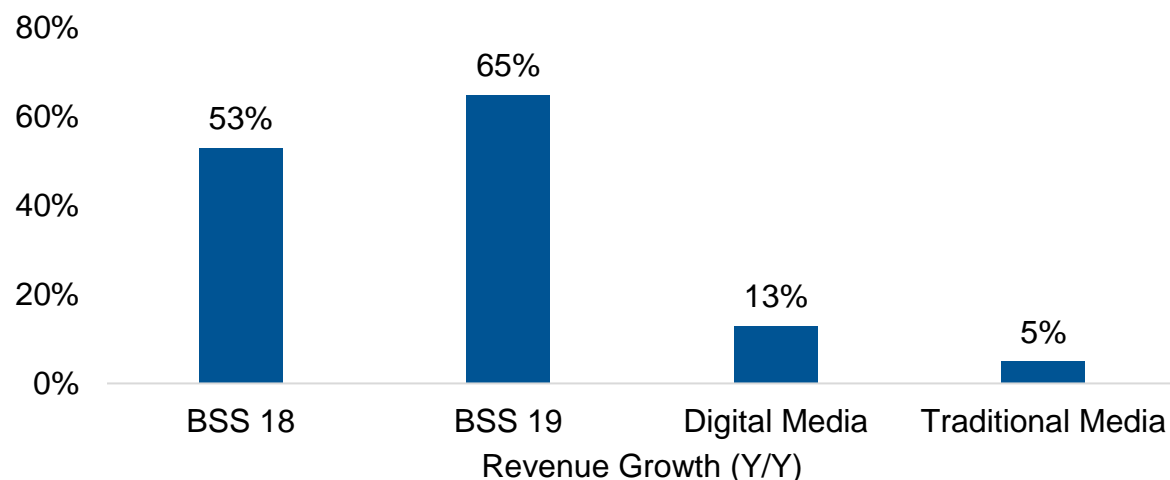


Investment Thesis I – Barstool Sports

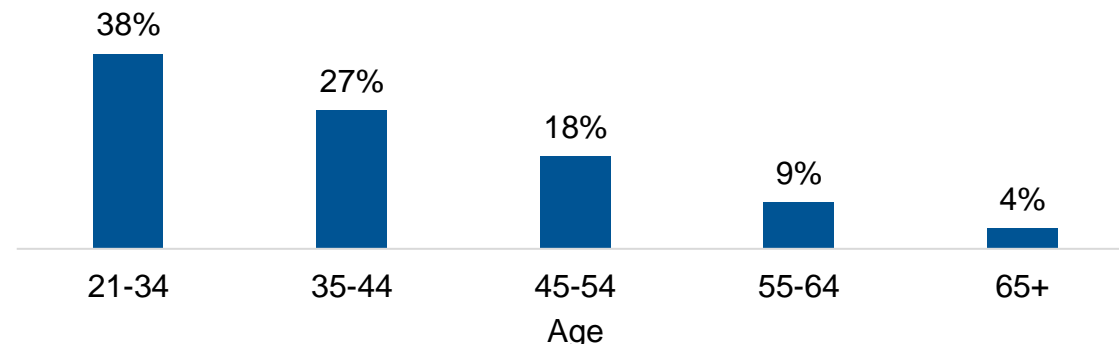
Penn has better positioned itself with Barstool Sports

- Acquiring Barstool Sports (BSS) has enabled Penn to attract a new young loyal betting audience for reduced customer acquisition costs
- Deal structure keeps Barstool incentivized to promote the Penn ecosystem and integrate content into products
- Barstool continues to grow at an exponential rate with 66 million monthly unique visitors across all their platforms

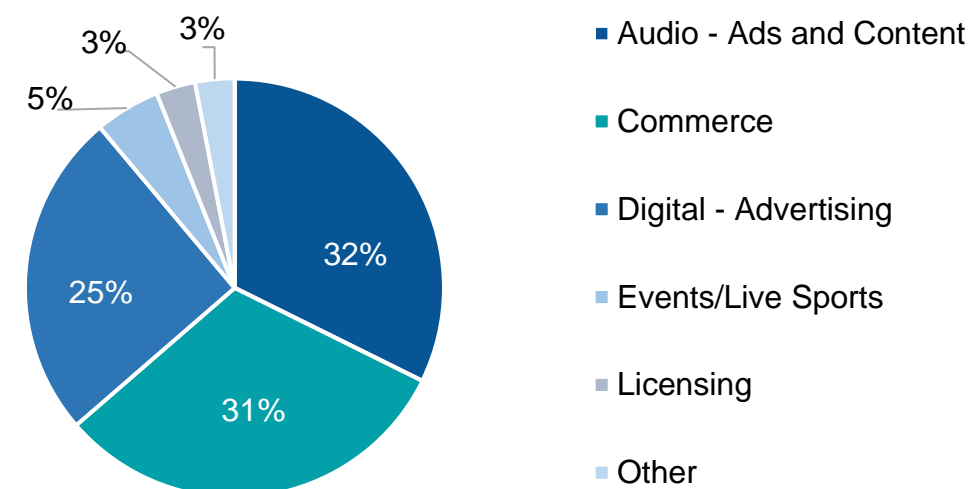
Growing Faster than Media Peers










Barstool Audience Demographics



Diversified Revenue Mix



Investment Thesis I – Barstool Sports

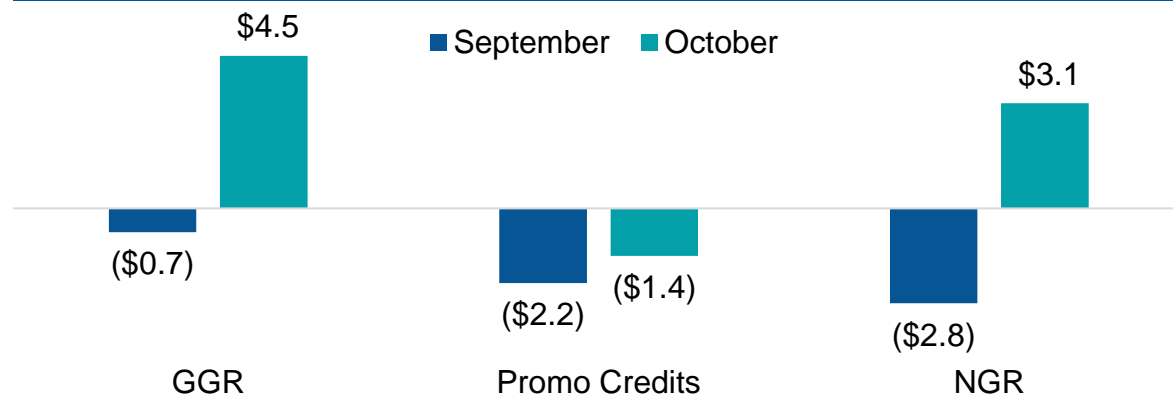
Revenue Drivers							
Strong sports brand	✓	✓	✓	✓			
Large sports betting demographic	✓	✓	✓	✓		✓	
In-house product development	✓	✓	✓	✓	✓	✓	
Large retail sportsbook footprint	✓	✓	✓		✓	✓	✓
Leader in social/digital media	✓					✓	
Profitability Drivers							
Lower marketing costs due to media partner	✓			✓			
Multiple states with direct market access	✓					✓	✓
Recurring revenue from skin partnerships	✓						✓

Investment Thesis I – Barstool Sports

Barstool Sportsbook Success

- The Barstool Sportsbook has shown strong numbers since its launch in Pennsylvania, positioning itself 3rd in market share
- Barstool has geared content and promotions towards the Sportsbook to provide users increased incentives and inclusivity
- Executives strongly believe they will be at minimum 3rd in market share in states where they offer the Barstool Sportsbook

Monthly Performance (\$ in Millions)



48K
Registrations in PA

30K
First Time PA Depositors
represents average deposit size of \$243

\$78M
Total Handle
22% of picks promoted by Barstool

310K
App Downloads in U.S.
95% of registrations new to Penn ecosystem

4.9
Average Rating
on App Store

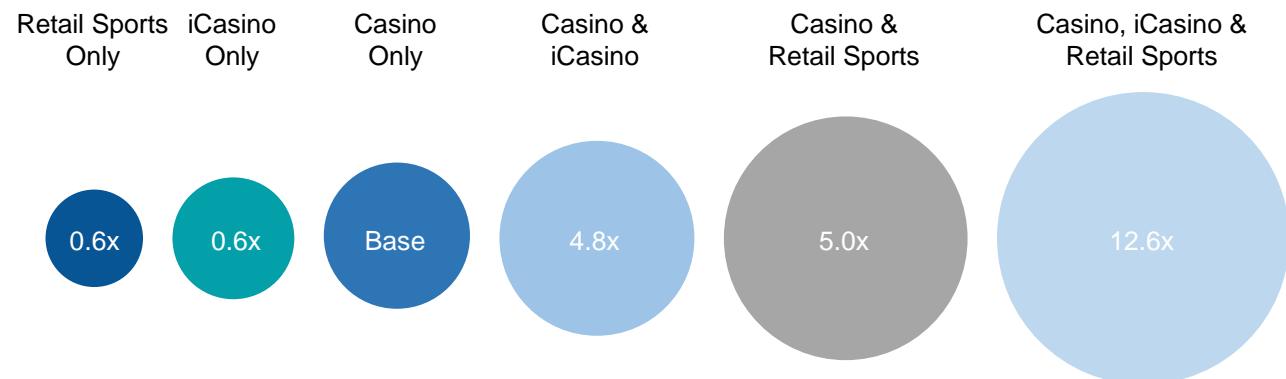
\$0
External Marketing Spend
on launch of Barstool Sportsbook

Investment Thesis II – Omni-Channel Strategy

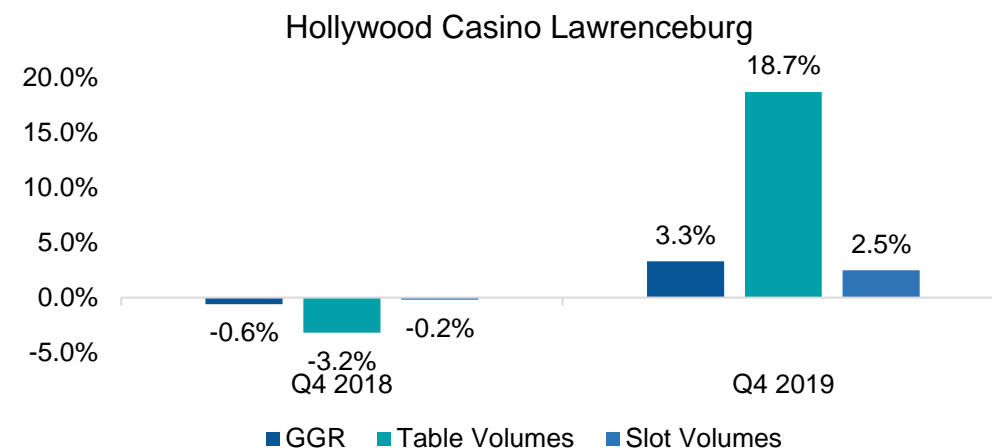
A more diversified revenue breakdown

- Each channel feeds off each other, providing the customer more choice
- Penn can cross-sell to its 20 million mychoice members and Barstool's 66 million "Stoolies", resulting to greater market share
- Penn has the greatest market access (in 19 states) compared to its peers, reducing market access costs
- mychoice membership is designed to incentivize its members to use all its gaming products

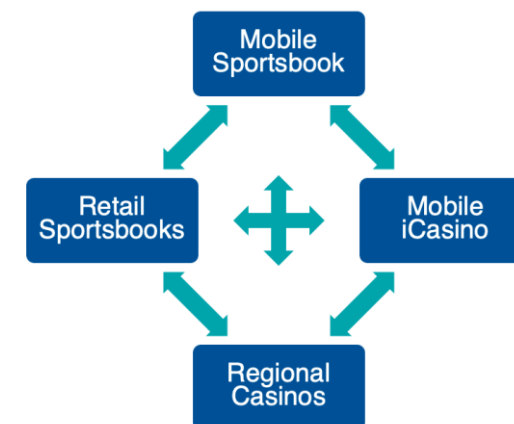
More Channels, Greater Value



Early Evidence of Cross Selling



Penn's Omni-Channel Platform



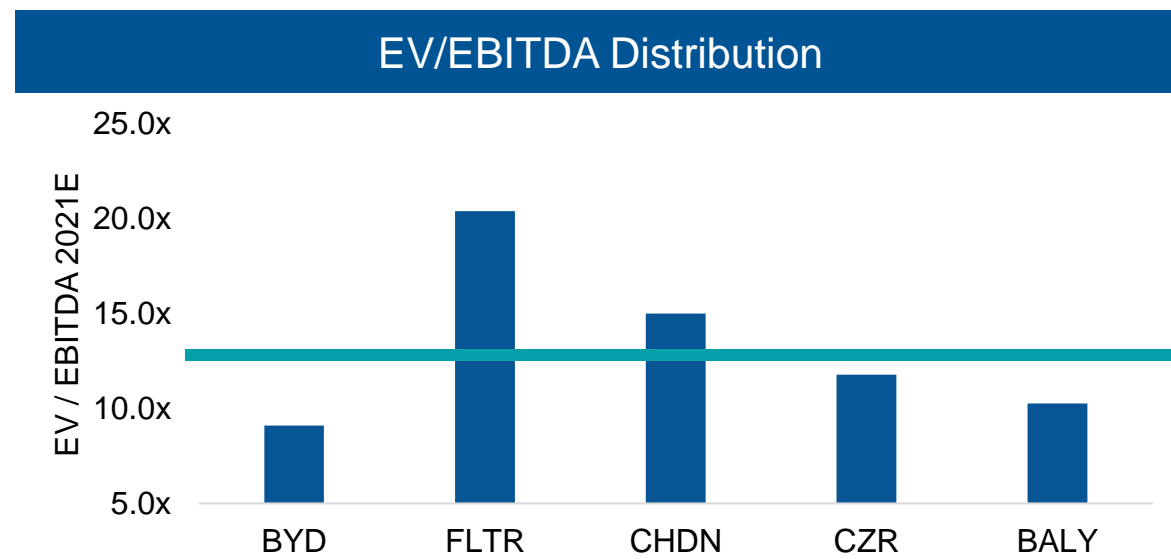
Valuation



Comparables Table

Company	Ticker	Share Price (\$USD)	Market Cap (\$M)	EV (\$M)	P/S	EV/EBITDA 2021E	Debt / Equity	Revenue Growth YoY
Penn National Gaming Inc	PENN	72.38	11,242	20,664	2.3x	12.8x	4.3	47.8%
Boyd Gaming Corp	BYD	39.40	4,395	8,819	1.9x	9.1x	4.8	26.6%
Flutter Entertainment Plc	FLTR	178.08	27,604	31,535	4.6x	20.4x	0.3	14.2%
Churchill Downs Inc	CHDN	185.22	7,308	8,854	7.0x	15.0x	5.8	31.8%
Caesars Entertainment Inc	CZR	69.37	14,448	28,700	2.9x	11.8x	4.5	23.0%
Bally's Corp	BALY	47.51	1,448	2,328	3.9x	10.3x	6.4	19.7%
Bear (First Quartile)		47.51	4,395	8,819	2.9x	10.3x	4.5	19.7%
Base (Median)		69.37	7,308	8,854	3.9x	11.8x	4.8	23.0%
Bull (Third Quartile)		178.08	14,448	28,700	4.6x	15.0x	5.8	26.6%

EV / EBITDA			
	Bear	Base	Bull
EBITDA 2021E	1,632	1,632	1,632
EV/EBITDA 2021E	10.3x	11.8x	15.0x
Enterprise Value	16,742	19,239	24,477
Less: Debt	(11,274)	(11,274)	(11,274)
Add: Cash	1,873	1,873	1,873
Equity Value	7,341	9,838	15,076
Shares Outstanding	155.3	155.3	155.3
Equity Value per Share	\$47.29	\$63.37	\$97.11
Market Premium to Fair Value	(35%)	(12%)	34%



Discounted Cash Flow

Free Cash Flow	2015A 12/31/2015	2016A 12/31/2016	2017A 12/31/2017	2018A 12/31/2018	2019A 12/31/2019	2020E 12/31/2020	2021E 12/31/2021	2022E 12/31/2022	2023E 12/31/2023	2024E 12/31/2024
EBITDA	727.3	814.2	712.8	903.1	986.1	29.4	1,603.2	2,065.2	2,497.8	2,919.3
EBIT	467.8	543.0	445.7	634.1	571.9	(244.0)	1,232.3	1,632.3	2,011.2	2,382.3
EBIAT (NOPAT)	5.7	492.1	(8,426.3)	659.4	286.3	(291.8)	911.9	1,207.9	1,488.3	1,762.9
Add: Depreciation and Amortization						273.4	370.9	432.9	486.5	537.1
Add: Stock-Based Compensation						11.9	11.1	12.3	13.2	14.1
Add: Changes in Net Working Capital						(11.9)	(23.0)	(15.7)	(13.9)	(13.3)
Unlevered CFO						(18.4)	1,270.9	1,637.4	1,974.1	2,300.8
Less: Capital Expenditures						(115.3)	(156.5)	(182.6)	(205.3)	(226.6)
Less: Purchases of Intangible Assets						0.0	0.0	0.0	0.0	0.0
Unlevered FCF						(133.7)	1,114.4	1,454.7	1,768.9	2,074.2
PV of Unlevered FCF						(132.3)	987.3	1,154.4	1,257.3	1,320.6

Assumptions	2021E 12/31/2021	2022E 12/31/2022	2023E 12/31/2023	2024E 12/31/2024
Sports Betting/iCasino Market Share				
Bear Case	11.0%	11.0%	11.0%	11.0%
Base Case	12.0%	12.0%	12.0%	12.0%
Bull Case	13.0%	13.0%	13.0%	13.0%
Gaming Growth Rate				
Bear Case	8.8%	6.4%	3.4%	2.3%
Base Case	9.8%	7.4%	4.4%	3.3%
Bull Case	10.8%	8.4%	5.4%	4.3%

Discounted Cash Flow

Perpetuity Approach	
FCF in Last Forecast Period	2,074.2
FCF t+1	2,115.7
Long-Term Growth Rate	2.0%
Terminal Value	21,946.2
Present Value of Terminal Value	13,973.2
Present Value of Stage 1 Cash Flows	4,587.4
Enterprise Value	18,560.5

Exit EBITDA Multiple Approach	
Terminal Year EBITDA	2,919.3
Terminal Value EBITDA Multiple	12.2x
Terminal Value	35,586.8
Present Value of Terminal Value	22,658.1
Present Value of Stage 1 Cash Flows	4,587.4
Enterprise Value	27,245.5

WACC	
Cost of Debt	5.6%
Tax Rate	26.0%
After-Tax Cost of Debt	4.2%
Risk-Free Rate	0.8%
Beta	2.20
Market Risk Premium	7.7%
Cost of Equity	17.8%
Market Value of Equity	11,481.6
Equity Weight	55.0%
Net Debt	9,400.9
Debt Weight	45.0%
WACC	11.6%

Fair Value per Share	Perpetuity	Exit EBITDA
Enterprise Value	18,560.5	27,245.5
Less: Net Debt	(9,400.9)	(9,400.9)
Equity Value	9,159.6	17,844.6
Diluted Shares	158.6	158.6
Equity Value per Share	\$57.74	\$112.49
Market Premium (Discount) to Fair Value	(20.2%)	55.4%

Risks, Mitigations and Catalysts



Risks, Mitigations and Catalysts

Risks	Mitigations
COVID-19 risk: Drastically reduced demand for casino gaming and related amenities	Reduced operational cost structure: Penn decreased operational expenses and improved its technological capabilities to drive higher margins in the future
Laws and regulations: Different laws and continuous fluctuations regarding product standards in markets of operation	Active participation in laws and regulations: Penn stays actively involved in the rules and regulations pertaining to its industry of operation
Consumer buying behaviours: Changing consumer buying behaviours may be a threat to Penn’s business model	Diversified operations: Diversified streams of revenue across multiple segments of online and in-person gambling

Catalysts
Progress in the legalization of sports betting: Sports betting being pushed for legalization in numerous states shows huge promise
COVID-19 vaccine: The release of an effective Covid-19 vaccine will reduce threats of casino and economy closures. May cause the easing of guidelines resulting in less strict entrant capacities. Reduce the risk of an economic downturn.

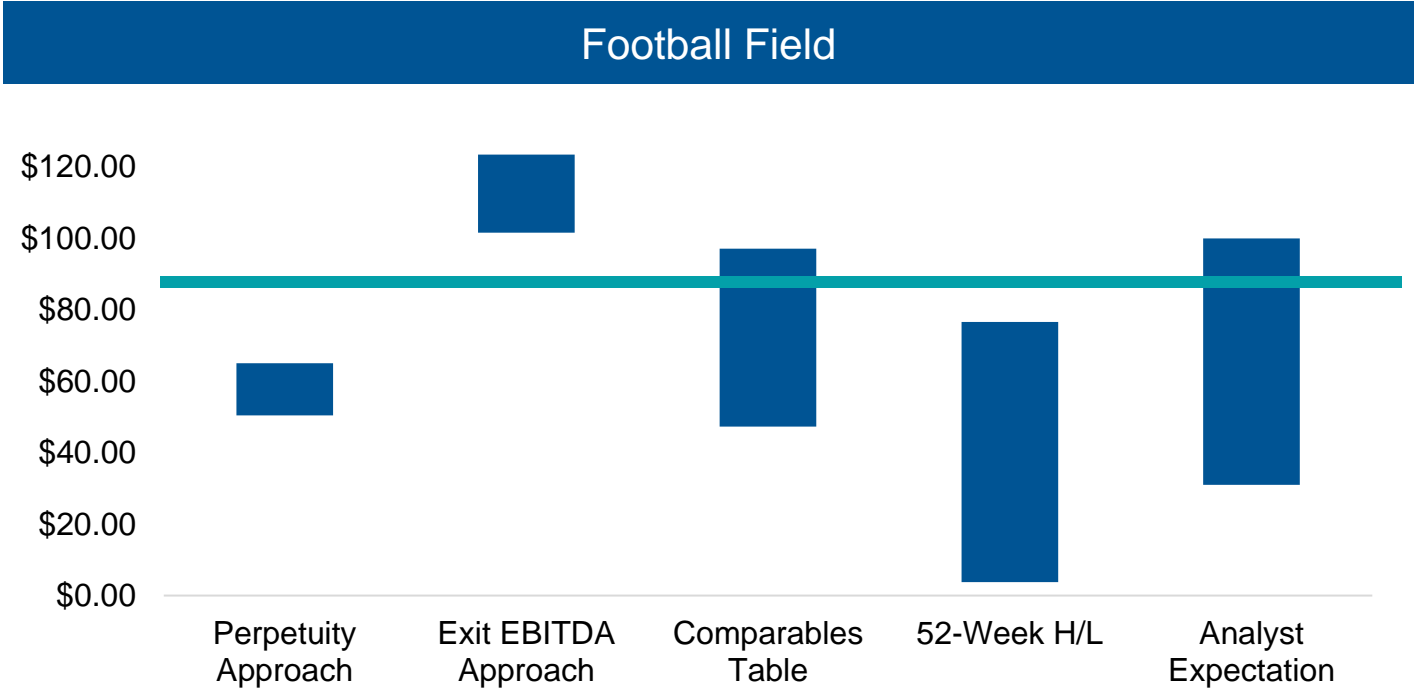
Recommendation



Recommendation



Implied Price	
Perpetuity Approach	\$57.74
Weight	33.3%
Exit EBITDA Approach	\$112.49
Weight	33.3%
Comparables Table	63.37
Weight	33.3%
Weighted Price	\$77.87
Market Premium (Discount)	7.6%



Appendix



Discounted Cash Flow – Net Debt and Dilutive Shares

Net Debt	
Cash and Cash Equivalents	1,873.1
Debt	11,274.0
Net Debt	9,400.9

Options/Warrants	
Basic Shares Outstanding	155.3
Exercisable Options	4.1
Exercise Price	\$13.62
In-the-Money Exercisable Options	4.1
Total Proceeds	55.4
Total Shares Repurchased	0.8
Net Dilutive Options	3.3
Dilutive Impact of Shares from Other Securities	0.0
Net Dilutive Shares Outstanding	158.6

		Long-Term Growth Rate				
	\$57.74	1.0%	1.5%	2.0%	2.5%	3.0%
W	10.6%	60.89	66.32	72.37	79.16	86.85
A	11.1%	54.48	59.30	64.65	70.62	77.32
C	11.6%	48.68	52.99	57.74	63.02	68.90
C	12.1%	43.41	47.27	51.52	56.21	61.41
	12.6%	38.59	42.07	45.89	50.08	54.70

		EBITDA Multiple				
	\$112.49	11.2x	11.7x	12.2x	12.7x	13.2x
W	10.6%	106.44	112.52	118.60	124.68	130.76
A	11.1%	103.58	109.54	115.51	121.48	127.45
C	11.6%	100.77	106.63	112.49	118.35	124.21
C	12.1%	98.04	103.79	109.54	115.29	121.05
	12.6%	95.36	101.01	106.65	112.30	117.95

Barstool-Branded Retail Sportsbooks



- Accelerating plans to convert our retail sportsbook to Barstool Sportsbooks and **attract new demographics** to our properties
 - 4 currently under construction
 - All major retail sportsbooks converted by year end 2021
- **Capitalize on Barstool's loyal fan base** by leveraging the Barstool brand in our existing retail sportsbook
- **Host events with Barstool personalities** on our properties



Barstool Sportsbooks in Development

AMERISTAR
CASINO ★ RESORT ★ SPA
— BLACK HAWK —
(November 2020)


GREEKTOWN
CASINO-HOTEL™
(Nov/Dec 2020)

AMERISTAR
CASINO ★ HOTEL
— EAST CHICAGO —
(December 2020)

HOLLYWOOD
Casino
— LAWRENCEBURG —
(January 2021)



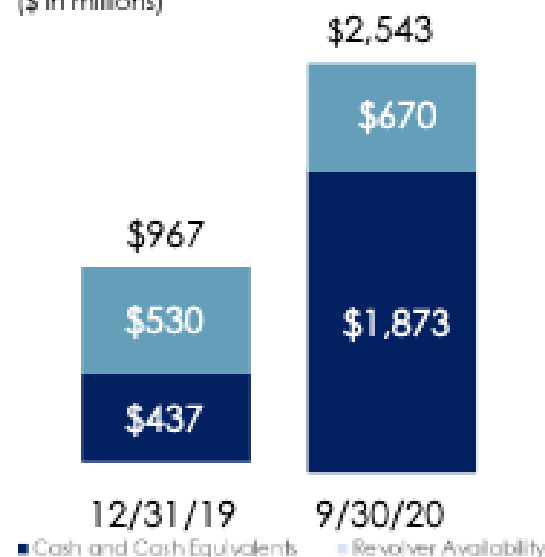
Ameristar East Chicago

Improved Balance Sheet and Liquidity

Following recent capital raises and strong operating performance, the Company has significantly improved its balance sheet and liquidity position

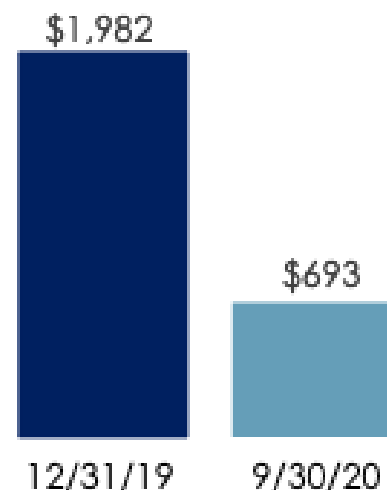
Total Liquidity

(\$ in millions)

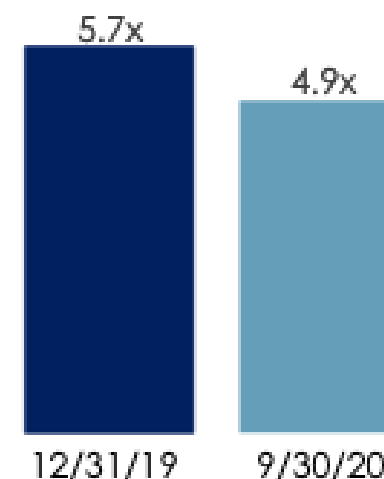


Traditional Net Debt

(\$ in millions)



Lease-Adjusted Net Leverage¹



¹ Lease-Adjusted Net Leverage based on 2019 Adj. EBITDAR

Upcoming Ballot Initiatives

Maryland



Our option to acquire Hollywood Casino Perryville provides us with access to the potential Maryland sports betting market



Louisiana

Our five casinos could add retail sports betting as early as 2021



Colorado



Potential for increased bet limits and new games (including baccarat) would grow audience and revenues at Ameristar Black Hawk

6