



**PENN NATIONAL  
GAMING, INC.**

# CELANI FUND PROPOSAL

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# Agenda

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1	COMPANY OVERVIEW
2	COMPETITIVE POSITIONING
3	FINANCIAL ANALYSIS
4	RATIO & COMPETITOR ANALYSIS
5	FINAL RECOMMENDATION

## Company Description

- Founded in 1972
- Operator of casinos & racetracks across
- With the nation's largest and most diversified regional gaming footprint, including 44 properties across 20 states, Penn National is a highly innovative omni-channel provider of retail and online gaming, live racing and sports betting entertainment.
- PNG also owns a 36% stake in Barstool Sports



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# Barstool Sportsbook

- Took a stake in Barstool to open the Barstool Sportsbook
- Barstool's huge fan base gives massive exposure
- A differentiated approach to advertising and promotion
- Live in 11 states



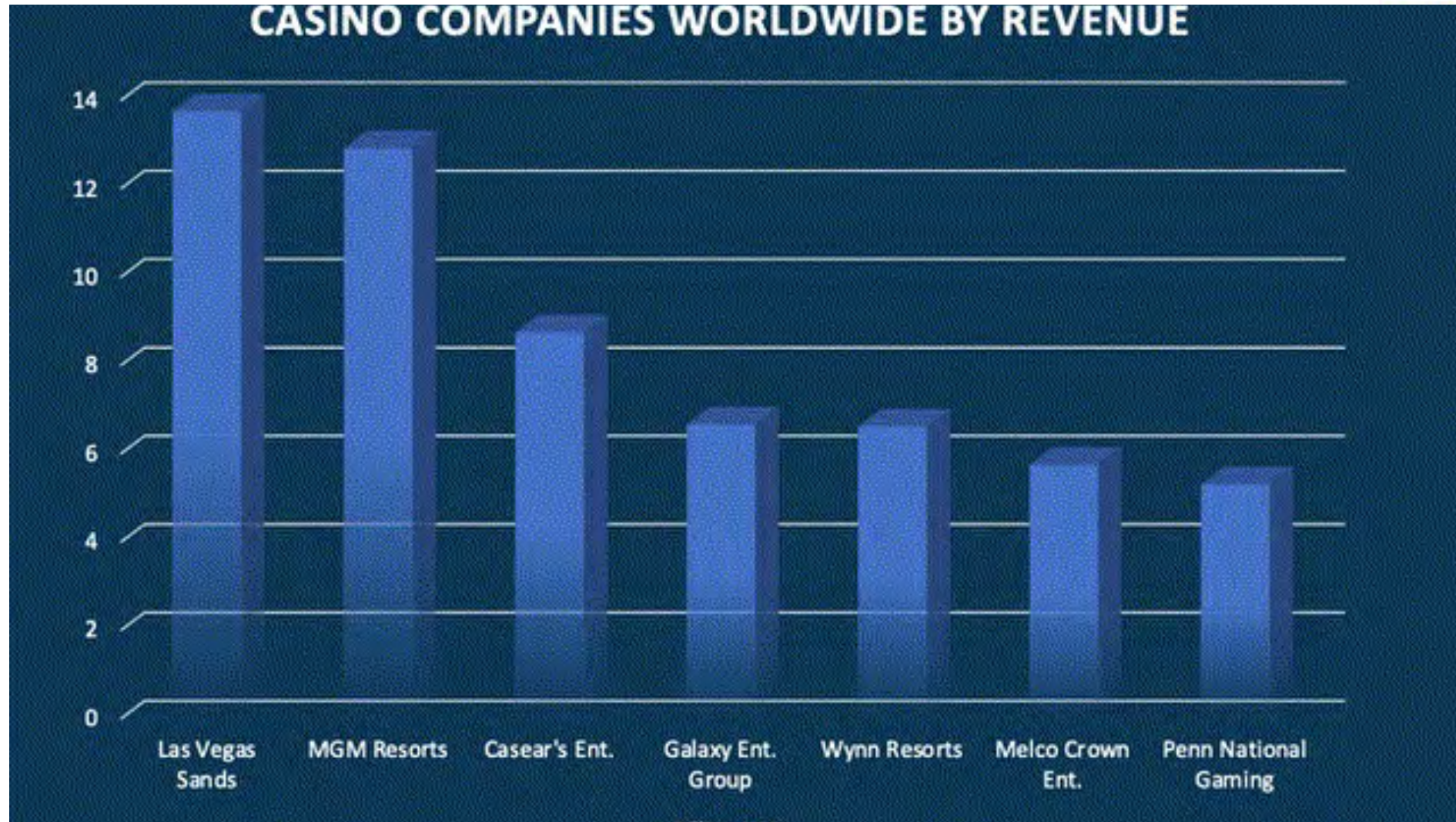
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# Under - Performance

- 69% decline in shares from purchase price.
- Company is now oversold
- Transition from growth to value



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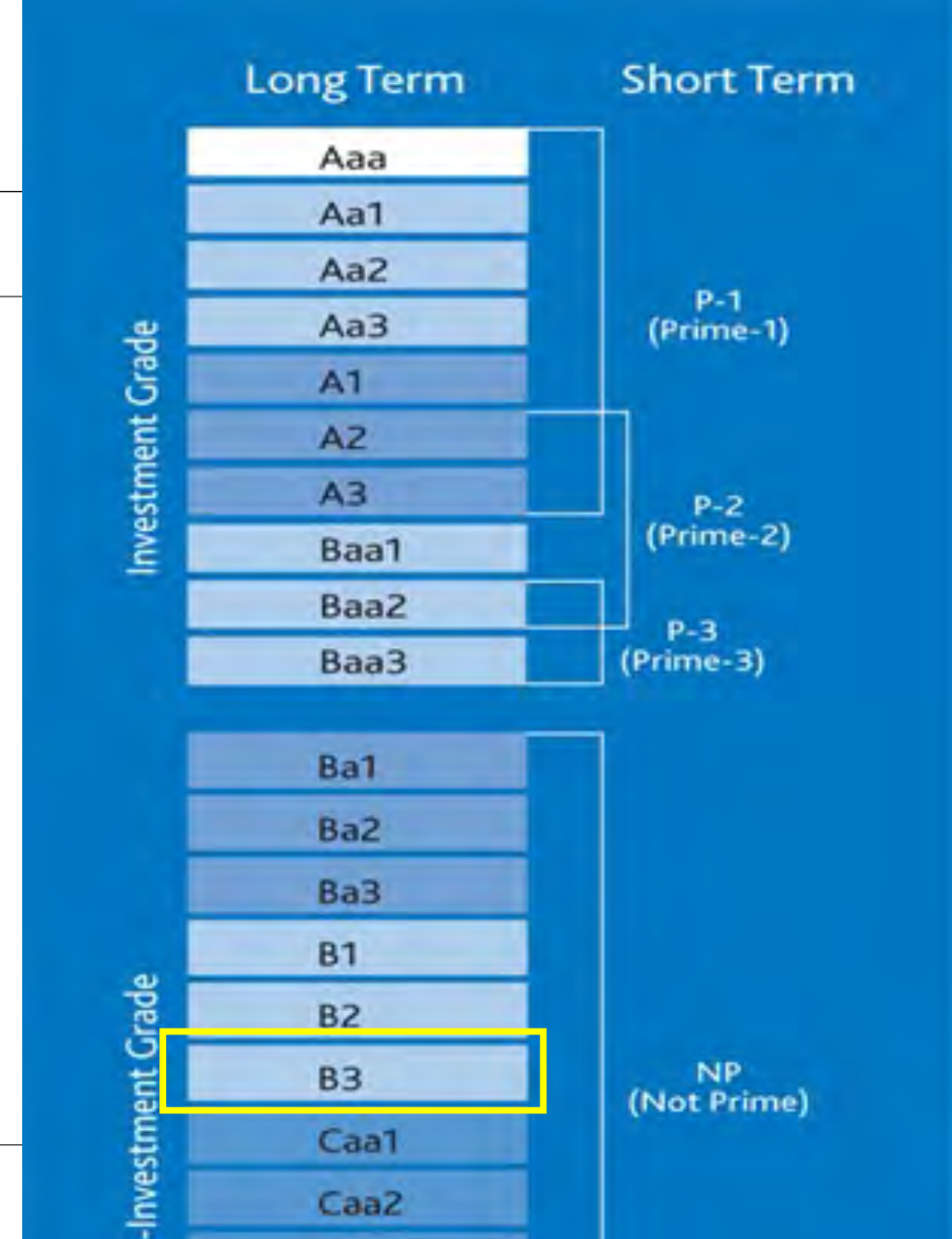
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# Financial Concerns

- 12.6 Billion in Liabilities, most of these lease liabilities
- Not investment grade, rated B3 by Moody's
- Beta of 2.51 has an outsized impact on the portfolio



## Financial Concerns



- Industry is extremely leveraged, especially after covid
- Penn has no international exposure, a positive
- Interest expense is 51% of net income in 2021 providing a significant headwind to earnings

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## New Pure Play Casino Competitors



Boyd Gaming (BYD)



Wynn Resorts (WYNN)



Las Vegas Sands (LVS)

- \*Takeaway: Sportsbook is a small portion of revenue; PENN should be valued as a casino company.

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## Pure Play Casino Ratio Analysis

Company	Market Cap (Billions)	Debt/Equity	Price to Sales	2023 P/E
Penn	6.936	3.69	1.05	13.85
Las Vegas Sands	33.425	6.09	1.78	17.5
Wynn Resorts	9.906	-20.19	1.59	30.26
Boyd Gaming	6.341	2.77	3.57	10.34
Average	14.152	4.18	1.88	17.99

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## Results

- P/S of 1.05 leads to a valuation of \$69.50
- 63.5% upside potential
- FWD P/E of 13.85



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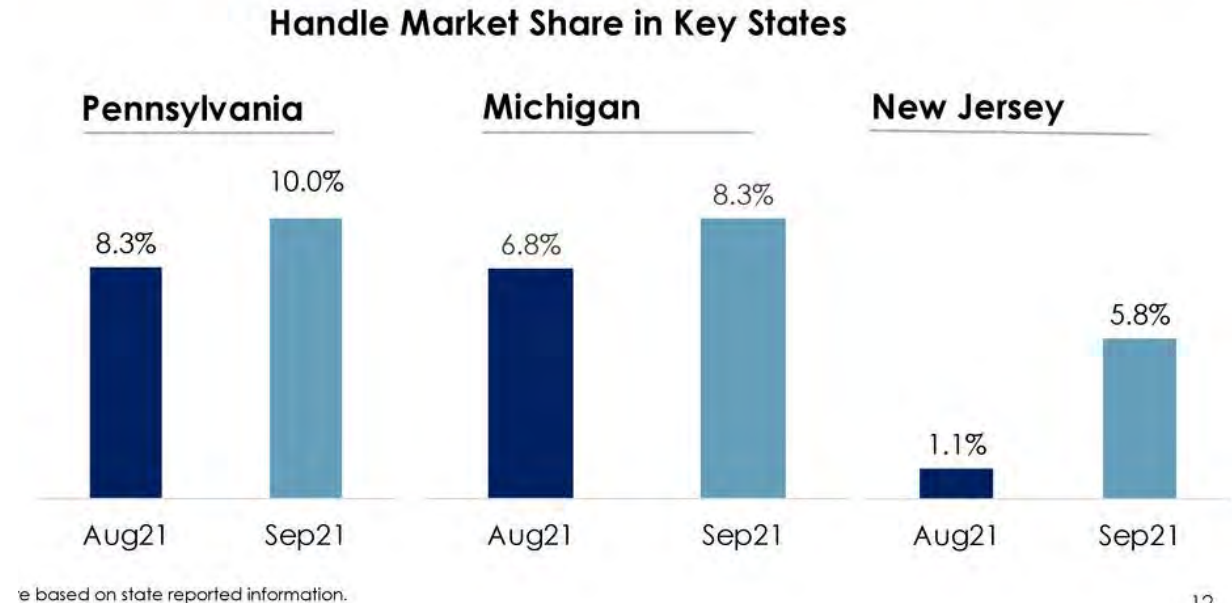
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## Sportsbook – A call option that could payout

- Partnership with Barstool provides social media exposure
- Live in PA, MI, IN, IL, CO, VA, NJ, AZ, WV, IO, and TE
- Mid to high single digit market share.
- Low promotional expenses



## Sportsbook Industry As a Whole

- Some CEO comments:
- “Competitors are spending too much to get customers”
- “The economics are just not something that we're going to participate in in the short term.”
- The market is “not sustainable”
- WYNN sportsbook is similar in size to Barstool sportsbook

### Wynn Resorts is said trying to sell online sports betting business at big discount

Jan. 23, 2022 7:33 PM ET | Wynn Resorts, Limited (WYNN) | PDYPY, CZR, GMVHF... | By:

Wynn Resorts (NASDAQ:[WYNN](#)) is said looking to sell its online sports betting business at what appears to be a deep discount.

Wynn ([WYNN](#)) is attempting to sell its WynnBet online gaming app and has reduced the price to \$500M after [scrapping a deal](#) to take WynnBet public through a [\\$3.2B SPAC transaction](#) with Austerlitz Acquisition Corp. I (NYSE:[AUS](#)) in November, according to a [NY Post report](#).

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## Truth About the Sportsbook Industry

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- Promotions and high customer acquisition costs driving unprofitability
- Multiple players (CZR, MGM, PENN, FAN, DKNG, WYNN, etc.) fighting for a relatively small industry
- While lots of bets are placed, the house edge is small
- Tax rates on revenue are 2-3x above normal tax rates
- PENN is being significantly outspent by legacy casino players

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## Sportsbook Scenarios

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- Bull case scenario (20%): Barstool sportsbook gains market share and becomes profitable in 2023.
- Base case scenario (30%): Barstool sportsbook holds current market share and continues unprofitable for many years.
- Bear case scenario (50%): Barstool will continue being outspent and out advertised, will lose market share and take losses.

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## Summary & Final Recommendation

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- A tough spot between hold and sell, but we lean towards hold for the following reasons:
- Penn's core business is cheap on a multiple basis
- P/S implies 63.5% upside
- Interest expense is incredibly high, but the company generates enough free cash flow to cover it.
- Financial issues make it hard to hold long-term
- **Look to liquidate at a higher price (\$60-\$70)**

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