

Penn National Gaming (PENN)

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Company Overview

 Penn National Gaming was founded in 1972 in Grantville, Pennsylvania and first became publicly traded in 1994.

Overview

- Penn National Gaming owns or operates 41 gaming and racing properties in 19 states.
- Penn offers live sports betting in Colorado, Indiana, Iowa, Michigan, Mississippi, Pennsylvania, and West Virginia.
- Penn owns roughly 50,000 gaming machines, 1,300 table games, and 8,800 hotel rooms.



Items of Interest

- In February 2020, Penn acquired 36% ownership in Barstool Sports Inc. to help with the promotion of the sportsbook.
- Company launched the first of many Barstool Sportsbook apps in Pennsylvania in September 2020 and Michigan in January 2021.
- In May 2019, Penn acquired Greektown Casino-Hotel in Detroit.
- Penn operates iGaming in Michigan and Pennsylvania.
- Penn has a loyalty program called "mychoice" with 20 million members.

| Operator | Handle | Gross Revenue | Adjusted Revenue | Gross hold | Adjusted hold |
|-----------------------|--------------|---------------|------------------|------------|---------------|
| FanDuel Sportsbook | \$32,602,738 | \$622,372 | \$(5,679,061) | 1.9% | -17.4% |
| DraftKings Sportsbook | \$28,190,634 | \$3,377,189 | \$(1,186,887) | 12.0% | -4.2% |
| Barstool Sportsbook | \$27,482,238 | \$3,330,772 | \$1,698,246 | 12.1% | 6.2% |
| BetMGM | \$22,789,889 | \$5,096,934 | \$(53,435) | 22.4% | -0.2% |
| WynnBET | \$248,879 | \$60,232 | \$27,540 | 24.2% | 11.1% |

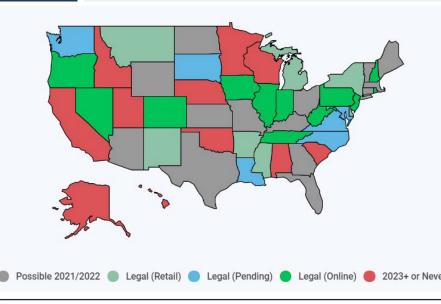
Sportsbook Revenues first month in Michigan



Industry Analysis

Industry Outlook

- The global sports industry reached a market size of 203 billion U.S. dollars in 2020.
- Sports betting revenue in the U.S. was predicted to grow as much as 8 billion U.S. dollars by 2025.
- 19 states have sports betting options in them, 6 are pending, 14 are possible in next two years, and 11 states are unlikely to legalize sports betting in the next few years.
- Though legal in only a handful of states, iGaming grossed \$145.3 million in revenue in August 2020, a 224.2 percent increase from August 2019.







Comparable Company Analysis

Comparable Companies

| *Data in Millions | | | Market Data | | | Financ | ial Data | | | Valuation | |
|----------------------------------|----|--------|-------------|-----------|---------|-------------|--------------|---------------|------------|------------|-------|
| Company Name | - | Price | Market Cap | EV | Revenue | Rev. Growth | Gross Margin | EBITDA Margin | EV/Revenue | EV/EBITDA | P/S |
| Draft Kings | \$ | 59.52 | 23,671 | 16,716 | 615 | N/A | 43.6% | -122% | 27.2X | N/A | 38.52 |
| WYNN Resorts | \$ | 133.32 | 15,414 | 21,522 | 2,096 | -68.3% | 16.8% | -22% | 10.3X | N/A | 7.35 |
| Las Vegas Sands | \$ | 62.44 | 47,694 | 58,321 | 3,612 | -73.7% | 27.8% | -12% | 16.1X | N/A | 13.20 |
| MGM Grand Resorts Intertnational | \$ | 37.14 | 18,379 | 36,094 | 5,162 | -60.0% | 33.1% | -1% | 7.0X | N/A | 3.56 |
| Average | | | 26,290 | 33,163 | 2,871 | -67% | 30% | -39% | -15.2X | 3 0 | 15.7 |
| Penn National Gaming | \$ | 108.23 | 16,936 | 22,774.00 | 3,578 | -32.5% | 47.8% | 28.60% | 6.4X | 22.2X | 4.7 |

Ratio Analysis

| | Average | PENN |
|-----------------|---------|--------|
| Current | 2.59 | 2.42 |
| Quick | 2.31 | 2.27 |
| Cash | 2.20 | 2.16 |
| DSO | 38.58 | 9.47 |
| DPO | 27.69 | 7.20 |
| DIO | 7.805 | = |
| Debt-Equity | 148.44 | 420.40 |
| Gross Margin | 30.3% | 47.8% |
| EBITDA/Interest | (452) | 1.15 |



Ratio Analysis: Excluding DKNG

Comparables Excluding DKNG

| *Data in Millions | * | Liquidity | * | W- | Leverage | | * | Profitibility | |
|----------------------------------|---------|-----------|------|-------------|----------|-----------------|--------------|---------------|------------|
| Company Name | Current | Quick | Cash | Debt/Equity | Leverage | EBITDA/Interest | Gross Margin | EBITDA Margin | Net Margin |
| Draft Kings | 3.96 | 3.36 | 3.28 | 3.03 | 1.58 | -1803.98 | 43.6% | -122.40% | -137% |
| WYNN Resorts | 2.03 | 1.91 | 1.85 | 0.00 | 19.94 | -1.03 | 16.8% | -22.30% | -99% |
| Las Vegas Sands | 1.15 | 1.06 | 0.92 | 405.06 | 5.39 | -3.19 | 27.8% | -13.79% | -47% |
| MGM Grand Resorts Intertnational | 3.21 | 2.92 | 2.75 | 185.65 | 4.94 | -0.95 | 33.1% | 25.55% | -20% |
| Average | 2.13 | 1.96 | 1.84 | 196.90 | 10.09 | (1.72) | 26% | -4% | -55% |
| Penn National Gaming | 2.42 | 2.27 | 2.16 | 420.40 | 6.43 | 1.15 | 0.48 | 0.29 | 0.38 |

Ratio Analysis

| | Average | PENN |
|-----------------|---------|--------|
| Current | 2.13 | 2.42 |
| Quick | 1.96 | 2.27 |
| Cash | 1.84 | 2.16 |
| DSO | 38.58 | 9.47 |
| DPO | 27.69 | 7.20 |
| DIO | 7.805 | - |
| Debt-Equity | 196.90 | 420.40 |
| Gross Margin | 25.9% | 47.8% |
| EBITDA/Interest | (1.72) | 1.15 |



Valuation of PENN

Current Price: \$108.23

Target Price: \$185.24

Valuation Overview

- Valuation has been made following a Price-to-Sales Multiple.
- DraftKings was removed due to the lack of correlation between company sales and market capitalization.
- If priced based on average industry multiples, we conclude PENN's equity is 69.86% Undervalued.

| | Valuation |
|----------------------------------|-----------|
| Company Name | P/S |
| Draft Kings | 38.52 |
| WYNN Resorts | 7.35 |
| Las Vegas Sands | 13.20 |
| MGM Grand Resorts Intertnational | 3.56 |
| Average | 8.04 |
| Penn National Gaming | 4.73 |

| Implied Value/Share | | | | | |
|---------------------|------------|--|--|--|--|
| 100 | | | | | |
| Sales | 3,578,700 | | | | |
| | | | | | |
| Price-to-Sales | 8.04 | | | | |
| | | | | | |
| Implied Market Cap. | 28,771,697 | | | | |
| Charas Out | 156 500 | | | | |
| Shares Out | 156,500 | | | | |
| Implied Value | 183.84 | | | | |

Recommendation: Buy

Current Price: \$108.23

Target Price: \$185.24

Overview

- The damage done by the pandemic has limited valuation techniques for the entertainment/hospitality industry.
- We expect accelerated growth in the industry lockdown restrictions ease and online gambling continues to become legalized globally.
- We recommend buying \$50,000 of PENN stock.

Exit Strategy

- PENN is currently trading at less optimistic multiples compared to the industry average.
- We recommend selling PENN when its equity hits our target of \$185.24 per share.

Advantages of PENN

Capture Growth in Online Gambling Industry

 As online/sports gambling becomes legalized the TAM is expected to grow to over \$57 Billion by 2027.

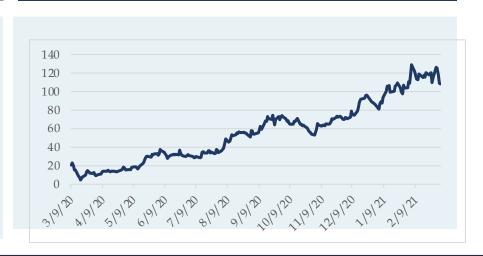
Strong Financial Health Compared to Competitors

• PENN is one of the least levered, most undervalued, companies in the gambling industry.

In-person and Online Gambling Exposure

 PENN offers both in person and online gambling opportunities for customers to have exposure to their services year-round.

Historical Performance





Questions

