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North American Research

Global Gaming Operators

Industry Update

Transaction Highlights

- PENN acquires PNK in cash/stock deal valued at $2.8bn - implies 9.2x purchase price multiple
- PNK shareholders receive $20 cash per share and 0.42 shares of PENN
- PENN estimates $100m of synergies
- BYD acquires four OpCo assets for $575m - implies 6.25x purchase price multiple
- GLPI acquires two real estate assets for $315m, implies 10% cap
- GLPI negotiated $14m rent increase on PNK Lease

Ratings and Targets

- **Penn National** - Reiterate Buy, Raising Price Target to $35 (from $28)
- **Pinnacle Entertainment** - Downgrade to Hold, Raising Price Target to $35 (from $30)
- **Boyd Gaming** - Reiterate Buy, Raising Price Target to $40 (from $32)
- **Gaming & Leisure** - Upgrade to Buy, Raising Price Target to $40 (from $39)

Transaction round-up, key takeaways for PENN, PNK, BYD & GLPI

While the PENN/PNK merger has been telegraphed to the Street, the economics and details were a bit more complex than anticipated. Overall, we generally view the transaction as a positive for all parties involved, though some more than others.

Pinnacle Entertainment: Once again, the PNK team created significant value for its shareholders with the sale of the company to PENN for an estimated $32.14/share . This marks the culmination of a series of value enhancing initiatives, ranging from the Ameristar acquisition and subsequent deleveraging, to continued operational improvements, monetizing the company's real estate, and the acquisition of the Meadows. With the shares of PNK pricing in almost all of the transaction premium today, we are revising our rating to Hold and recommending PENN as a better way to play the post-merger upside.

Penn National Gaming: We are raising our price target on the shares of PENN to $35 (up from $28) and reiterating our Buy rating. Our new price target represents an 8.0x multiple of our 2019 Pro Forma Adjusted EBITDA estimate of $765m, inclusive of synergies. While PENN had to pay up a little more than we hoped to get the transaction over the finish line, we believe the synergy and scale opportunity is significant. We are confident in the company's $100m cost-synergy target and believe this benchmark is very beatable. We also think the revenue synergy opportunity is underappreciated today. We discuss this in detail later in this report, but there are a number of opportunities in yield management, best practices, cross-selling properties, namely to the Tropicana and M Resort, and building on the Interactive business. The increased size and scale opens a number of opportunities for PENN, including providing a balance sheet that is once again big enough to compete for large wholly-owned assets or development opportunities.

Boyd Gaming: The acquisition of $92m of OpCo EBITDA at 6.25x pre-synergy is about as opportunistic as it gets. We estimate the transaction is ~13% accretive to FCF/share and adds about $3.70 to equity value per share. On a pro forma basis, the OpCo assets will comprise less than 15% of Property EBITDA, which we think will result in very little, if any, dilution to the overall multiple. In addition to the value created from this acquisition, we are rolling forward our valuation to 2019. We reiterate our Buy rating and are raising our price target to $40 (from $32), which is based on 10.0x our 2019 PF Adjusted EBITDA estimate of $753m.

Gaming & Leisure: GLPI extracted significant value from yesterday's transactions, including a $14m negotiated rent increase and the purchase of $32m of rent at a very favorable 10% cap. We estimate a 5% increase in both AFFO/share and the annual dividend. We see a near-term valuation opportunity in the shares of GLPI and are upgrading to Buy. Our new price target of $40 implies a 7.1% cap rate and a 14x multiple of our 2019 PF Adjusted EBITDA of $942m

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*Please see analyst certification and required disclosures starting on page 8 of this report.

Penn National Gaming

The acquisition of PNK will significantly expand PENN's size and scale. Pro forma for the transaction, PENN will operate 41 casinos across the US, up from 29 currently. This increases pro forma revenue for LTM 3Q17 by over 60% from $3.12bn to $5.03bn. The company's gaming capacity will include over 53,000 slot machines and over 1,300 table games, making it the largest regional gaming operator in the US. While Caesars still generates more overall revenue (>$8bn), a significant portion of this comes from its Las Vegas assets.

Including synergies and adjusting for the series of asset transactions required to close the merger, we estimate $1.59bn of Pro Forma Adjusted EBITDAR in 2019. We estimate annual rent expense of $822.6m and Adjusted EBITDA of $765.2m. On its conference call, BYD indicated it would assume about $20m of capex for the PNK properties, which leaves the combined PENN/PNK entity with an annual run rate maintenance budget of around $135m. We estimate $120.3m of total interest expense and $70m of cash taxes (assuming PENN is a full tax payer).

Including cash build from now until closing, we estimate pro forma conventional net debt of 2.5x and lease-adjusted net leverage of 5.3x based on our 2019 forward estimates.

Figure 1. Pro Forma Financial Estimates PENN/PNK

				Pro Forma Adjustments			
2019E ($ million)	**PENN**	**PNK**	**Synergies**	**Pro Forma +Synergies**	**Sale/ Leasebacks**	**Divestiture Assets**	**2019E Pro Forma**
Adjusted EBITDAR	$927.5	$769.3	$100.0	$1,796.8	$0.0	($209.0)	$1,587.8
Rent expense	(470.0)	(412.0)	0.0	(882.0)	(45.9)	105.3	(822.6)
Adjusted EBITDA	**457.5**	**357.3**	**100.0**	**914.8**	**(45.9)**	**(103.7)**	**765.2**
Maintenance capex	(80.0)	(75.0)	0.0	(155.0)	0.0	20.0	(135.0)
Interest expense							(120.3)
Cash taxes							(70.0)
Discretionary Free Cash Flow (before project capex and TLB amort)							**$439.9**

Note: Divestiture Assets based on Union Gaming 2019E estimates vs LTM presented in PENN/PNK transaction presentation

Source: Company documents, Union Gaming Securities.

Figure 2. Pro Forma Capitalization

Pro Forma Capitalization	
Cash balance at PENN (as of 2Q18E)	$355.9
Cash balance at PNK (as of 2Q18E)	175.0
Total cash	**$530.9**
Existing credit facility	$768.6
Existing 5.625% senior notes	400.0
Acquisition financing (TLB)	1,250.0
Conventional Debt	**$2,418.6**
Capitalized lease (estimated at 8x rent)	6,580.8
Total Debt	**$8,999.4**
Net Leverage, conventional	2.5x
Net Leverage, lease-adjusted	5.3x

Source: Company documents, Union Gaming Securities.

Immediately accretive to FCF/Share. We estimate the transaction will add $0.64 to 2019 FCF per share, representing 21.4% accretion relative to our original 2019 estimate. While we still need to get a little more clarity on the maintenance capex run rate going forward, how the acquisition financing prices, and the future cash tax position, we remain comfortable there is enough cushion in our model that the transaction will be immediately accretive to FCF.

Figure 3. FCF Accretion (Dilution) – Pro Forma 2019E

Accretion/Dilution	2019E Current	2019E PF
Adjusted EBITDA	$457.5	$765.2
Maintenance Capex	(80.0)	(135.0)
Cash interest expense	(51.5)	(120.3)
Cash tax expense	(43.7)	(70.0)
Discretionary FCF (before TLB amort)	**$282.3**	**$439.9**
Share count	93.6	120.2
FCF/Share	**$3.02**	**$3.66**
Accretion (dilution) $ per share		$0.64
Accretion (dilution) %		21.4%

Source: Company documents, Union Gaming Securities.

Reiterate Buy: Raising price target to $35. While for some investors, the big transaction has finally played out. However, we believe there is more opportunity ahead once PENN gets going as a larger company. We are reiterating our Buy rating and raising our price target to $35 which is based on 8.0x our 2019 PF Adjusted EBITDA estimate of $765.2m, inclusive of the $100m in stated cost synergies. We estimate that PENN currently trades at 7.0x our 2019 PF Adjusted EBITDA estimate. Our valuation and 2019 pro forma discretionary FCF / share estimate of $3.66 implies a free cash yield of 12.6% based on the current implied market value of the equity and 10.4% based on our target valuation. While our 8.0x multiple is a bit higher than what we have seen the market ascribe to Gaming OpCos thus far, we note that $50m of incremental synergies is worth about 0.5x in the multiple. That said, we believe PENN could quickly grow into our multiple if it outperforms its synergy target, which we believe is likely.

Figure 4. Valuation – Price Target and FCF Yield

Valuation	
2019E PF Adjusted EBITDA	765.2
TEV/EBITDA	8.0x
TEV	**6,121.3**
Net debt, conventional	(1,887.7)
Implied equity value	4,233.6
Diluted shares, pro forma	120.2
Price target	**35.23**
Current implied market value	3,488.7
Target implied market value	4,233.6
Current FCF Yield	12.6%
Target FCF Yield	10.4%

Source: Company documents, Union Gaming Securities.

Union Gaming View: With the increased scale, PENN is projecting at least $100m of cost synergies. We believe this number is very attainable, and potentially beatable. Our 2019 estimate for PNK currently includes $82m of corporate expense. The reduction in corporate overhead and duplicative public company costs should account for the majority of initial cost synergies. Further, we believe there are cost synergy opportunities on purchasing, marketing, promotional spend, and best practices.

While the company didn't discuss revenue synergies in detail, we believe this is a significant source of long-term upside to estimates. We see revenue synergies stemming from best practices in marketing efficiencies, yield management, cross-selling properties, particularly driving visitation to the Tropicana Las Vegas and M Resort, and expanding the social gaming and Interactive business across the PNK network.

Yielding up Las Vegas. One of the largest opportunities for PENN will be using its increased scale and geographic reach to yield up the Las Vegas assets. On a pro forma basis, PENN will have roughly 5m active loyalty members when Marquee Rewards combines with PNK's MyChoice program. Currently, Hollywood Jamul sends the most Marquee Rewards members to Tropicana, obviously due to its proximity to Las Vegas in Southern California. However, on that note, we see two significant opportunities for PENN with the PNK portfolio in both Black Hawk and Lake Charles.

- First, Ameristar Black Hawk customers could be a significant source of incremental demand in Las Vegas. McCarran's third busiest flight route behind Los Angeles and San Francisco is Denver. Denver flies roughly 22,600 average weekly seats to Las Vegas, behind San Francisco with 24,700 seats and Los Angeles with over 33,000 seats. In short, PENN will soon have a flag at Ameristar Black Hawk serving the third largest feeder market to Las Vegas.
- L'Auberge Lake Charles also presents a similar opportunity, with Houston sending an average of almost 10,000 seats weekly to McCarran, making it the 16^{th} largest feeder market for Las Vegas.

Ultimately, if PENN really gets going on yielding up its hub and spoke system, we think the M Resort and Tropicana could quickly become capacity constrained, which would be a good thing in the near-term. We think the easiest and highest ROI way to increase capacity is expand existing facilities. However, with 39 regional casinos, PENN could find itself considering another Strip acquisition, though that is likely further down the road. Long-term, we pick PENN as a candidate to add another property on the Las Vegas Strip.

Interactive and social gaming. While this is still a relatively small part of PENN's overall business, we do view the segment as a considerable growth avenue. Expanding the Interactive network across the PNK portfolio and its loyalty members could provide some immediate revenue synergies as well. We suspect with a larger loyalty database, Interactive could become a larger part of PENN's overall strategy going forward

Financial flexibility. We have seen gaming OpCos (namely PENN and PNK) somewhat constrained in terms of balance sheet capacity. With Caesars having emerged from bankruptcy and looking to grow in a big way, we believe the combination of PENN/PNK is crucial to maintaining competitiveness in the M&A and development arenas. With $765m of Pro Forma EBITDA, PENN will have significant balance sheet capacity. We would note that 1.5x turns of incremental leverage would give the company over $1bn of dry powder.

Pinnacle Entertainment

Transaction Implications

This merger had been well telegraphed to the Street and as a result shares of PNK have been trading close to the expected transaction value. Ultimately, we believe PNK got the best deal available and shares have priced in much of the transaction premium in recent weeks.

Based on the current price of PENN as of yesterday's close ($29.03), we estimate shares of PNK are worth $32.19, representing 3.2% upside from current levels.

However, we remain optimistic on the long-term outlook of PENN and are raising our price target on the shares of PENN to $35. Our new price target for PENN suggest shares of PNK are worth $34.70, representing about 11.3% upside from current levels.

At this point, we believe PENN represents the best way to play the opportunity and upside in the combined company as our new price target implies 21% upside from current levels compared with 11% upside for PNK.

Raising price target to $35 but revising rating to Hold. We are raising our price target on the shares of PNK to $35 reflecting the embedded value in the pro forma company. However, we are moving our rating to Hold. We suspect the arbitrageurs will take over and we see PNK trading range bound from here, pegged closely to the trading direction of PENN. That said, we see more upside in the shares of PENN for investors looking to play the long-term opportunity post-merger.

Figure 5. Arbitrage: Implied Valuations

Valuation Arbitrage	
Current share price (PNK)	$31.19
Less: Cash consideration per share	(20.00)
Implied value of equity consideration per share	$11.19
Conversion ratio	0.42
Implied value per share (PENN)	**$26.64**
Current share price (PENN)	$29.03
Conversion ratio	0.42
Implied value of equity consideration per share	12.19
Cash consideration per share	20.0
Implied value per share (PNK)	**$32.19**
Upside (downside)	*3.2%*
Union Gaming price target per share (PENN)	$35.00
Conversion ratio	0.42
Implied value of equity consideration per share	14.70
Cash consideration per share	20.0
Implied value of PNK per share	**$34.70**
Upside (downside)	*11.3%*

Source: Company documents and Union Gaming Securities.

Boyd Gaming Corp

Transaction Implications

Boyd Gaming is one of the biggest beneficiaries of the PENN/PNK merger, taking the opportunity to acquire four geographically strategic (OpCo) assets at forced-sale prices. BYD will purchase $92m of pre-synergy EBITDA from PENN at 6.25x for a purchase price of $575m. The company is forecasting $8m of synergies from the transaction, representing an adjusted purchase price of 5.75x.

Including synergies, we estimate the OpCo assets will contribute less than 15% of overall EBITDA for BYD. As a result of the small contribution to EBITDA, we expect very little, if any, multiple dilution from the inclusion of OpCo assets. BYD is purchasing $100m of EBITDA (inclusive of synergies) at 5.75x while the shares trade at ~10x on a blended basis, representing ~$3.70 of incremental value per share.

Strategically, this opportunistic acquisition gives BYD an OpCo vehicle without disrupting its current portfolio. We believe BYD could use the OpCo vehicle strategically going forward as a source of financing for additional acquisitions if they economic make sense. However, we wouldn't expect BYD to begin monetizing assets or aggressively acquiring OpCo assets. While the REIT partner gives BYD another financing alternative, we suspect BYD will look to keep its mix of predominately owned-EBITDA in an effort maintain its premium trading multiple.

We estimate the acquisition will add at least $50m to FCF based on $100m synergized EBITDA, $29m of incremental interest expense, and $20m of incremental capex. The capex forecast represents about 3.0%-3.5% of LTM net revenue. Overall, we believe the transaction is about 13% accretive to FCF per share.

Reiterate Buy Rating, Raising Price Target to $40. We continue to like the shares of BYD and are reiterating our Buy rating. We are raising our price target to $40 (up from $32), which includes about $3.70 of value per share from the OpCo acquisition. We are also rolling forward our valuation to 2019. Inclusive of the OpCo acquisition, our new price target represents a 10x blended multiple of 2019 PF Adjusted EBITDA.

Figure 6. Summary Pro Forma Valuation

Wholly-owned	2019E EBITDA	Multiple	Value Estimate
Las Vegas Locals	$276	11.5x	$3,178
Downtown Las Vegas	58	10.5x	612
Midwest & South	389	9.0x	3,498
OpCo Acquisition	100	7.5x	750
Corporate expense	(71)	7.0x	(494)
Total Enterprise Value	**$753**	**10.0x**	**$7,545**
Less: debt			(3,581)
Plus: cash			378
Plus: PV of Federal NOLs			189
Implied equity value			4,531
Avg. shares outstanding			115
Implied Value per Share			**$39.56**

Source: Company documents. Union Gaming Securities.

Gaming & Leisure Properties

Transaction Implications

In our view, GLPI extracted considerable value from this transaction. First, the company purchased Belterra Park and Plainridge Park for $315m and will lease both assets back to BYD and PENN, respectively, for total rent of $32m. This represents a very favorable 10% cap (or 9.8x multiple) on the acquisition.

In addition, the company negotiated a $13.9m increase in annual rent under the PNK Master Lease in exchange for supporting the merger between PENN and PNK. This incremental rental revenue will flow directly to the bottom line.

Immediately accretive to AFFO and Dividend. We estimate these transactions will be 5.1% accretive to AFFO and the annual dividend. We are forecasting 2019 PF Adjusted EBITDA of $942m, inclusive of $46m of rent from Belterra Park, Plainridge Park, and the PNK Master Lease adjustment. Assuming the company uses its revolver to fund the $315m purchase price, we estimate the deal will add $0.17 to AFFO/share and $0.13 to the annual dividend per share.

BYD could be a potential growth pipeline for GLPI. Strategically, we view BYD's participation in the transaction as an opportunity for GLPI. While we do not think BYD will be a significant user of REITs as a source of financing, we do see the potential for an occasional one-off transaction involving a REIT. If BYD does consider an OpCo deal going forward, GLPI already has a foot in the door. This represents a modest growth pipeline opportunity for GLPI if they can prove to be an effective partner for BYD.

Upgrading to Buy, Raising PT to $40. Given the favorable dynamics of the transaction, we are upgrading the shares of GLPI to Buy (from Hold) and raising our price target to $40, which implies a 7% cap (14x multiple) on our 2019 PF Adjusted EBITDA of $942m. Our 2019 PF dividend is $2.75, which implies a yield of 6.8% based on our new price target. All in, we are forecasting a total return of about 16% from current levels. Given the favorable outcome of the PENN/PNK merger we see a near-term valuation opportunity.

Figure 7. Pro Forma Estimates and Valuation

	2019E	PF Adjustments	2019E PF		
Adjusted EBITDA	$896	$46	$942		
Net debt	4,363	315	4,678		
Interest expense	205	11	216		
AFFO	690	35	725		
Shares	211	0	211		
AFFO/Share	$3.27		$3.44	5.1%	accretive
Payout Ratio	80%		80%		
Dividend	$2.62		$2.75	5.1%	accretive
Target yield			6.80%		
Target price			**$40.44**		
Implied equity value			8,532		
Net debt			4,678		
TEV			**13,210**		
TEV/EBITDA			14.0x		
Implied cap rate			7.1%		
Net leverage			5.0x		

Source: Company documents and Union Gaming.

Important Disclosure

Analyst Certification

The analyst, John DeCree, primarily responsible for the preparation of this research report attests to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Buy – the total forecasted return is expected to be greater than 15% within the next 12 months

Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 15%

Sell – whose shares exhibit downside potential of at least 15% within the next 12 months

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Valuation and Risks

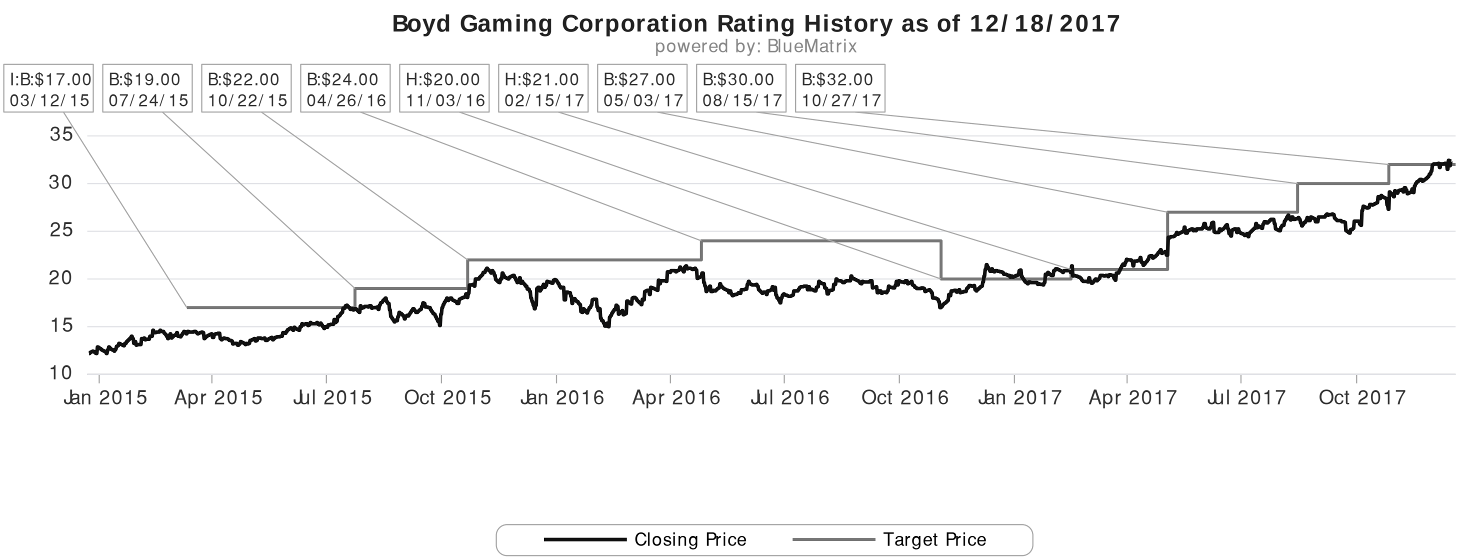
Ratings Distribution (as of 12/19/2017)

Coverage Universe

Ratings	Count	Pct.
BUY	16	67%
HOLD	8	33%
SELL	0	0%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
BUY	5	31%
HOLD	0	0%
SELL	0	0%



Gaming and Leisure Properties, Inc. Rating History as of 12/18/2017

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Penn National Gaming, Inc. Rating History as of 12/18/2017

powered by: BlueMatrix

Pinnacle Entertainment, Inc. Rating History as of 12/18/2017

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