



Overview of Penn National Gaming's Acquisition of Pinnacle Entertainment

Pennsylvania Gaming Control Board | March 21, 2018





Introductions

- Penn National Gaming, Inc.
 - John Finamore, Senior Vice President, Regional Operations
 - Daniel Ihm, Vice President, General Manager at Hollywood Casino at Penn National Race Course
 - Chris Rogers, Vice President, Deputy General Counsel
 - Frank Donaghue, Vice President Regulatory Affairs & Chief Compliance Officer
- Pinnacle Entertainment, Inc.
 - Elizabeth Tranchina, Vice President and Legal Counsel





Agenda

- Transaction Overview
- Strategic Rationale
- Snapshot of New Combined Company
- Detailed Transaction Summary
- Proposed Financing
- Limited Impact on Pennsylvania
- Economic Concentration
- Change of Control Fee





Transaction Overview

- Penn National Gaming, Inc. (“PENN”) to acquire Pinnacle Entertainment, Inc. (“PNK”) pursuant to a merger agreement dated December 17, 2017
- Total transaction value (inclusive of debt) is approximately \$2.8 billion before divestitures and \$1.9 billion net of divestitures and real estate sales
- PNK shareholders to receive \$20.00 per share in cash and 0.420 shares of PENN per PNK share; in each case such share conversion to be calculated on a shareholder by shareholder basis at closing





Strategic Rationale

**Enhances Penn National's position as the leading
US regional gaming operator**

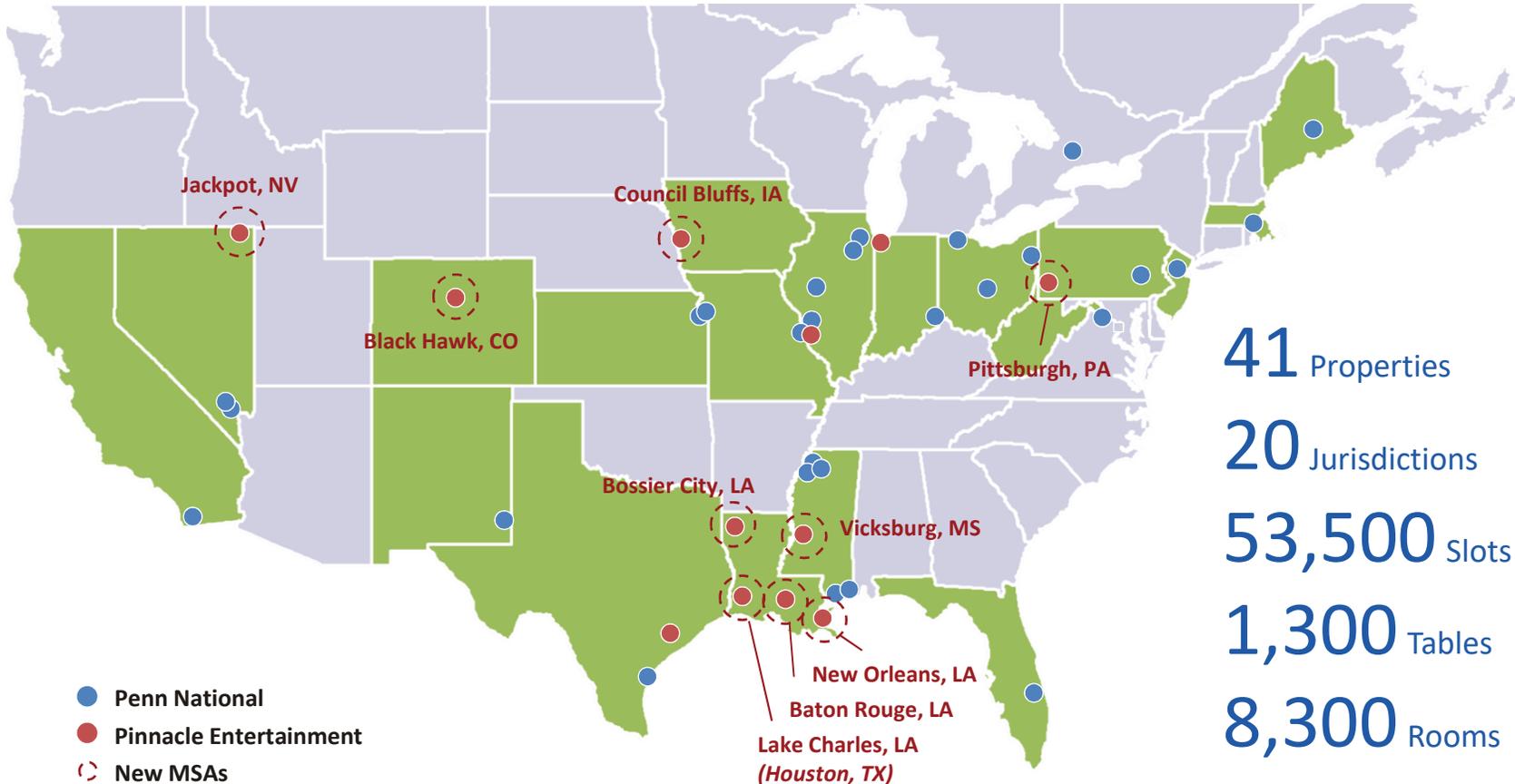
**Increases geographic diversification with
highly complementary properties**

**Best-in-class regional properties enhanced by
the Company's Las Vegas assets**

**Accelerates innovative growth strategy
and enhanced customer experience**



Snapshot of New Combined Company



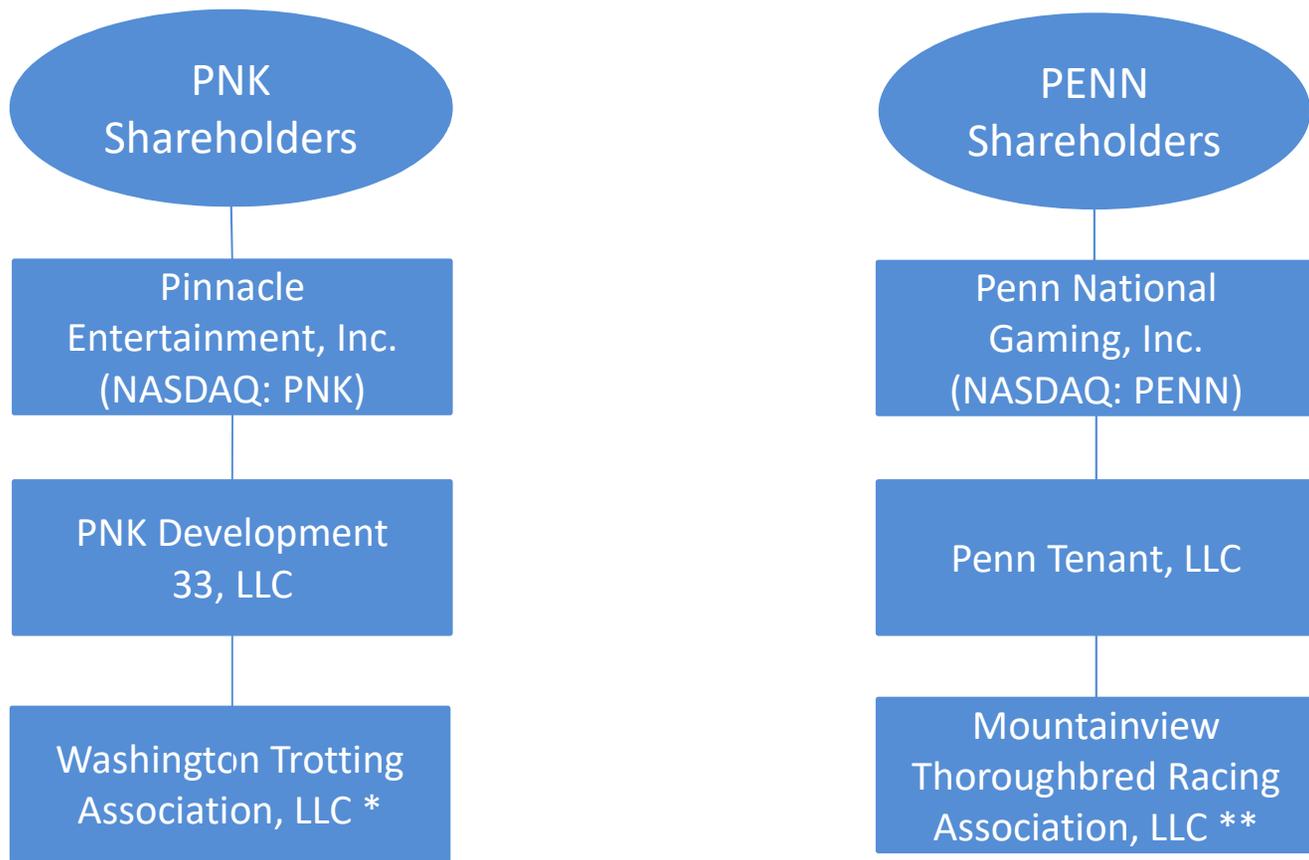
- Penn National
- Pinnacle Entertainment
- New MSAs

41 Properties
20 Jurisdictions
53,500 Slots
1,300 Tables
8,300 Rooms
30,000+ Employees



Note: Excludes Divestiture Assets. Does not include Retail Gaming and Penn Interactive Ventures.

Current Structure

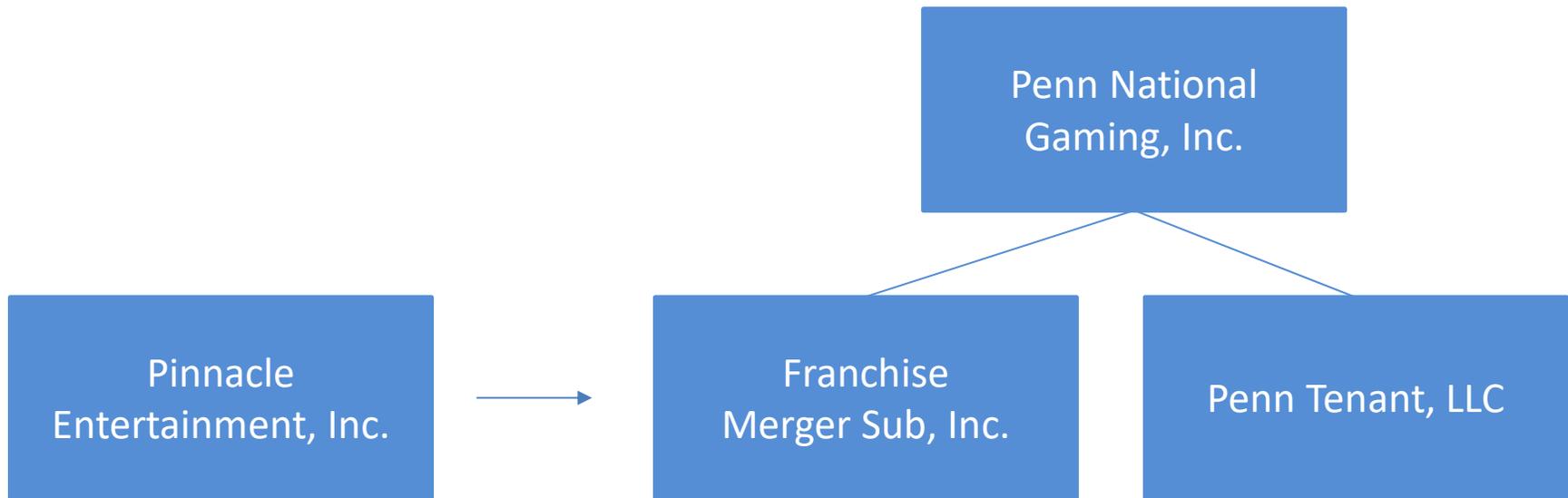


* Category 1 Licensee
Racing Licensee
The Meadows

** Category 1 Licensee
Racing Licensee
Hollywood Casino at PNRC



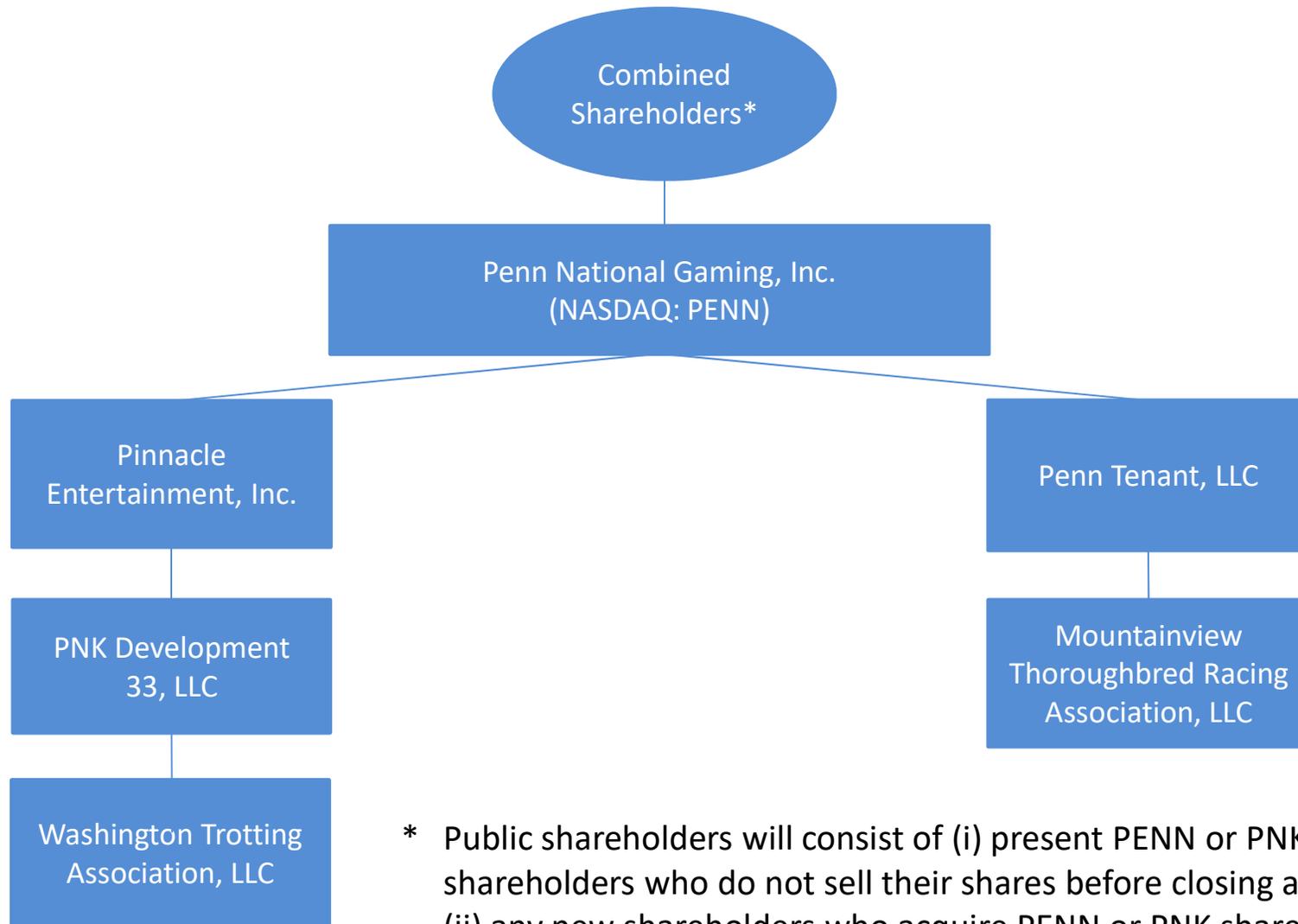
Proposed Merger



- PNK will merge into a newly-formed, wholly-owned direct subsidiary of PENN
- PNK will survive the merger as a wholly-owned direct subsidiary of PENN



Proposed Post-Transaction Structure



* Public shareholders will consist of (i) present PENN or PNK shareholders who do not sell their shares before closing and (ii) any new shareholders who acquire PENN or PNK shares before closing.



Divestitures

- Immediately prior to the closing of the merger, BYD will acquire the operating entities associated with:
 - Ameristar Kansas City (Missouri)
 - Ameristar St. Charles (Missouri)
 - Belterra Resort (Indiana)
 - Belterra Park (Ohio)
- Total purchase price of approximately \$575 million, which will be used to fund the acquisition of PNK by PENN





Sale Leasebacks

- Immediately prior to the closing of the merger, GLPI will acquire the real estate associated with:
 - Plainridge Park Casino (Massachusetts)
 - Belterra Park (Ohio)
- Total purchase price of approximately \$315 million, which will be used to fund the acquisition of PNK by PENN



Three Penn Leases with GLPI After Closing

- The PNK master lease (entirely outside PA) will be the only lease amended to accommodate these transactions:
 - Add the real estate associated with Plainridge Park
 - Remove the divested assets (Belterra Resorts, Ameristar Kansas City and Ameristar St. Charles)
 - Increase the total rent payable to GLPI by \$38.9 million (which will be fixed for the lease term and not be subject to any escalator or reset) to reflect the addition of Plainridge Park and to adjust to current market conditions
- PENN will assume the existing lease (approved by the PGCB on September 9, 2016) for The Meadows Racetrack and Casino outside of Pittsburgh, PA *without amendment*
- PENN master lease (approved by the PGCB on August 23, 2013) will continue in place *without amendment*
- GLPI is a separate publicly-traded company. None of the leases confer any operation rights or input. They are entirely a passive landlord.



Financing Overview

- PENN intends to finance the deal, including the repayment of PNK's existing indebtedness and the payment of related fees and expenses, through a combination of:
 - Debt financing
 - Newly issued shares of PENN
 - Proceeds from divested operations
 - Proceeds from the sale of real estate
 - Cash on the balance sheets of PENN and PNK as of the closing date
- In order to facilitate the debt financing, PENN has entered into an amendment to its credit facility to increase its capacity for secured debt



Sources and Uses

- Anticipated sources and uses at closing assuming successful amendments to PENN's credit agreement (in \$ millions)

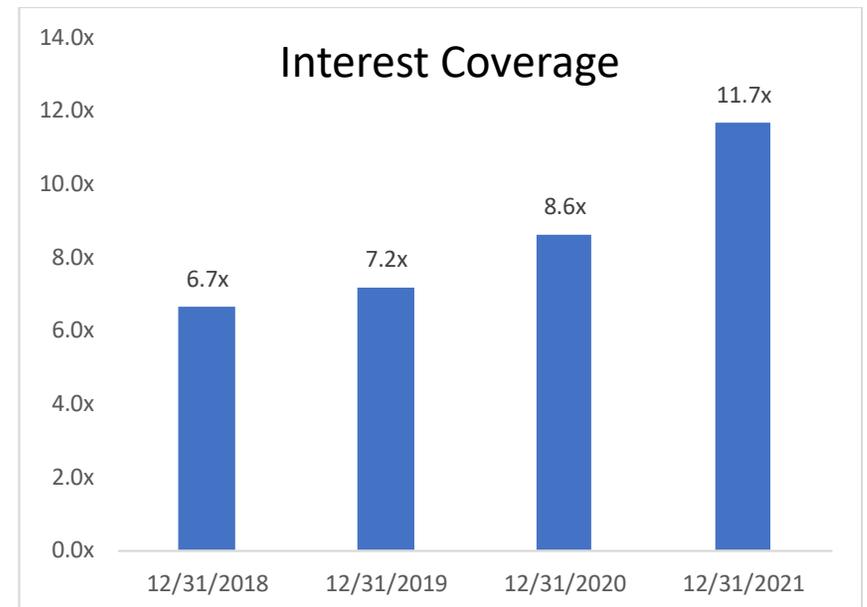
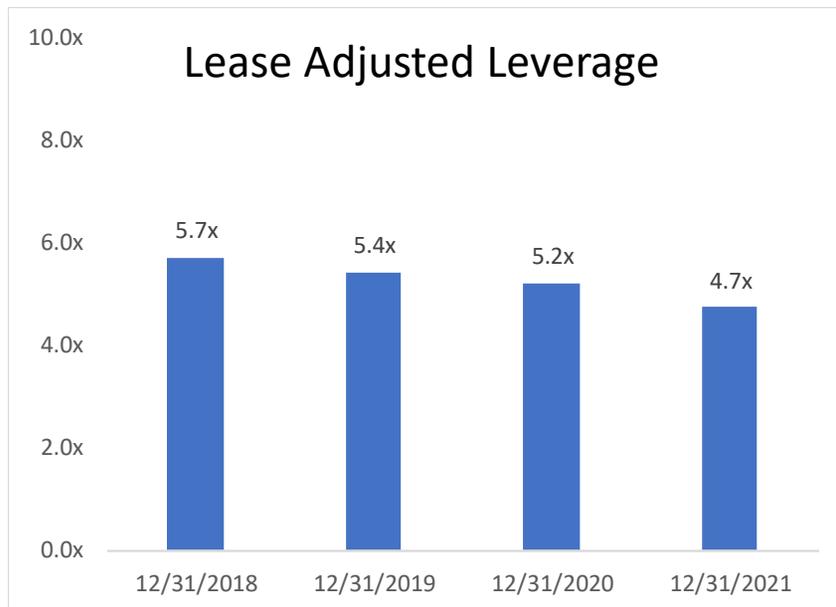
Sources		Uses	
New Term Loan	\$1,250	Purchase of PNK Equity	\$2,022
Equity to Seller*	756	Repay PNK Revolver	161
Asset Sale Aftertax Proceeds	851	Repay PNK Term Loan A	173
Cash Flow from Operations	180	PNK Snr Notes Due 2024	500
		Transaction Costs	181
Total	\$3,037	Total	\$3,037

*Valuation of stock consideration based on closing price of Penn common stock on February 20, 2018 (\$28.45)



Penn Projected Leverage

- PENN's lease adjusted leverage ratio at the close of the transaction is expected to be 5.8x EBITDA and interest coverage ratio (EBITDA / Interest) is expected to be 6.8x (roughly in line with current levels)
- By December 31, 2021, PENN's estimated leverage ratio is projected to decline to 4.7x EBITDA, and its estimated interest coverage is projected to increase to 11.7x EBITDA, as a result of significant cash flow generation



Limited Impact on Pennsylvania

- The licensee for Hollywood Casino at Penn National Racecourse (“Hollywood Casino”) will remain Mountainview Thoroughbred Racing Association, LLC
- The licensee for The Meadows Racetrack and Casino (the “Meadows”) will remain Washington Trotting Association, LLC, and PENN will become the ultimate parent of WTA
- PENN will continue to lease the real estate associated with Hollywood Casino from GLPI pursuant to the existing PENN master lease (which will not be altered by the transaction)
- PENN will lease the real estate associated with the Meadows Casino from GLPI pursuant to the existing Meadows lease (which will also not be altered by the transaction)



Limited Impact on Pennsylvania (cont.)

- Both Hollywood Casino and the Meadows will receive the benefits of a combined database of over 5 million customers, including access to PENN's destination properties in Las Vegas (the M Resort and Tropicana Las Vegas)
- Both the Hollywood Casino and the Meadows will also benefit from cross promotion with PENN's interactive businesses (including any online real money gaming offerings), as well as PENN's VGT operations (including possible truck stop locations in Pennsylvania)
- The Meadows will benefit from PENN's deep experience in horse racing
- PENN expects to continue to invest capital at both properties





Lack of Economic Concentration

- **Meadows and Hollywood Casino operate in different markets and do not compete with each other**
 - Western Region (4): Rivers, Meadows, Presque Isle and Nemaquin
 - Central Region (4): Sands, Mohegan, Hollywood Casino, Mount Airy
- **The shortest driving distance between Meadows and Hollywood Casino is 233 miles (the distance is 188 miles as the crow flies)**
- **Neither Meadows nor Hollywood Casino is the most dominant operator in its respective market**
 - Meadows generates the 2nd most gross terminal/table game revenue in the Western Region.
 - Hollywood Casino generates the 3rd most gross terminal/table game revenue in the Central Region.



Lack of Economic Concentration

- **Meadows and Hollywood Casino taken together only represent a modest percentage of market share when looking at the Commonwealth as a whole**
- **Combined, they would only rank third in gross revenue & third in net revenue behind Parx and Sands**
- **The 10 other facilities presently operating represent approximately 85% of existing market share**
- **Several others have interests in and/or control of multiple facilities**
 - Rush Street: Rivers & SugarHouse
 - Greenwood Racing, Inc.: Parx & Live! both of which are in Southeast Pennsylvania approximately 19 miles apart (plus 2 more Category 4 facilities)
 - Eldorado Resorts, Inc.: Presque Isle Downs & Lady Luck both of which are in the Western Region
 - Mount Airy #1, LLC: Mount Airy plus the right to apply for a Category 4 license



Lack of Economic Concentration

- **Enacted October 30, 2017, Act No. 42 of 2017 significantly expanded the availability of gaming licenses in Pennsylvania in several respects further diluting each casino's share of the gaming market**
 - Authorization of 10 Category 4 licenses
 - Interactive gaming certificates
 - While preference is given to existing licensees for Category 4 facilities and interactive gaming, new operators from outside Pennsylvania may also obtain these privileges
 - Video gaming terminals at truck stops which is open to any qualified entities and the law permits an unrestricted number of licenses
 - Fantasy sports are now legalized with an unrestricted number of licenses
 - Airport gaming
- **Since FIU examined the market as it stands today, these factors are not yet accounted for in FIU's analysis**
 - Western Region will have at least 6 independent casino operators
 - Central Region will have at least 5 independent casino operators



History of Change of Control Fee

- In anticipation of then-pending and future changes of control, the Board adopted PGCB Motion No. 2007-238 LIC imposing a change of control fee of **\$2,500,000 unless special circumstances would dictate otherwise**
- Expert testimony of PricewaterhouseCoopers identified 10 criteria for the Board's consideration
 - A "significant change in ownership fee may be expected to alter the investment environment in ways that could jeopardize major capital expenditures that have the opportunity to generate far greater tax revenues for the Commonwealth over the long term."
- The Bureau of Licensing recommended that
 - "the long-term financial condition of the gaming industry outweighs short-term gain."
 - "the taxpayers of Commonwealth will benefit more in the long term by fostering competition for our gaming licensees and enticing new operators, who are willing to invest the necessary capital to ensure that our gaming facilities remain engines of economic growth and sources of vital revenue to the Commonwealth well into the future."



Application of PGCB Motion No. 2007-238

PGCB Motion No. 2007-238 LIC has been consistently applied from 2007-2017

Facility	Date	Fee Amount
Harrah's Chester Downs	December 18, 2007	\$2,500,000
Hollywood Casino	May 29, 2008	\$2,500,000
Rivers Casino	August 14, 2008	\$2,500,000
Mount Airy Casino	September 23, 2009	\$1.00
Presque Isle Downs	September 17, 2014	\$2,500,000
Meadows Racetrack & Casino	September 7, 2016	\$2,500,000
Harrah's Philadelphia	June 7, 2017	\$100,000





Special Circumstances

- Expiration of the ten year protection from major regulatory changes eliminates a significant rationale for the change of control fee.
- Enacted October 30, 2017, Act No. 42 of 2017 significantly expanded the availability of gaming licenses in Pennsylvania in several respects.
 - 10 Category 4 licenses authorized
 - Relaxed restrictions on larger Category 3 licensees
 - An expanded Pennsylvania Lottery, including internet-based lottery games, keno and other new forms of lottery gaming.
 - Increased the tax rate on gross terminal revenue by 1.0%.
- In addition, Act No. 42 of 2017 is only the latest example of gaming expansion in the U.S. Northeast.
- PENN is already licensed, in good standing and well known to the Board.



Recommended Change of Control Fee

- In 2007, the Bureau of Licensing opined that the “the long-term financial condition of the gaming industry outweighs short-term gain” because the industry was an engine of economic growth and tax revenue
- With Pennsylvania’s further expansion of its gaming industry, the long-term financial condition of the gaming industry as an engine for economic growth and tax revenue for the Commonwealth is *even more important today* than in 2007
- We therefore recommend a change of control fee of no more than \$2,500,000.

