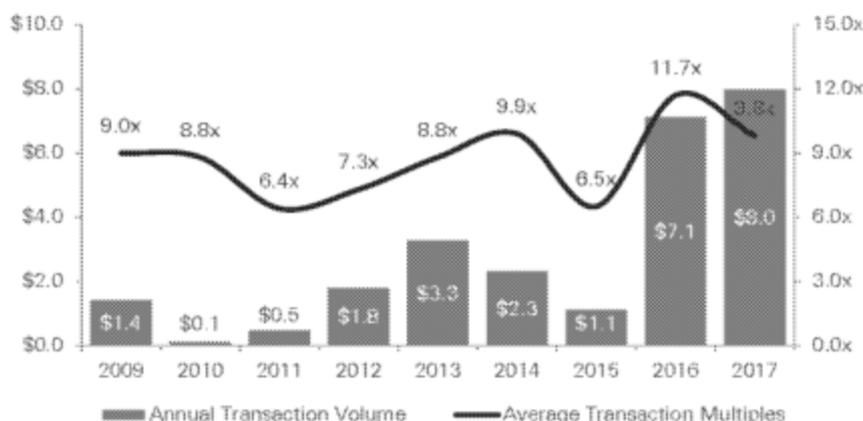




**Increased M&A Activity.** Facing a lack of new greenfield opportunities, gaming operators have once again shifted their focus to M&A activity in order to fuel growth. M&A activity remained fairly tepid from 2009 until 2015. However in 2016, strong fundamentals, low cost of capital, high valuations and the involvement of gaming REITs resulted in a significant increase in transactions. This momentum has extended into 2017, as gaming companies have announced transactions valued at ~\$8.00 billion (closed transactions at ~\$5.14 billion). The most notable transactions that have closed so far include (1) the acquisition of Isle of Capri by Eldorado Resorts, (2) the sale-leaseback of MGM National Harbor to MGM Growth Properties, and (3) the sale of American Casino and Entertainment Properties to Golden Gaming. For further details on these and other transactions please refer to Exhibit 6. Upon examining the recent M&A activity, we note that: (1) the presence of gaming REITs and low borrowing rates has elevated valuation levels; (2) while operators are paying higher multiples, transactions are expected to be accretive owing to meaningful synergy expectations; (3) multi-asset portfolio deals are garnering a significant premium relative to single asset transactions outside of Nevada; and (4) positive sentiment regarding the prospects of the Las Vegas Locals markets have expanded valuations and it now takes a double digit multiple to enter that market.

Exhibit 6: Gaming M&A Annual Transaction Volume & Average Multiples



Source: Company Filings and Deutsche Bank

Over the past six months, management teams noted that M&A discussions in the regional markets have intensified owing to an increase in the amount of willing sellers. However, valuations seem to have increased as well, which may be preventing several negotiations from closing. Despite of the high valuations, we believe that 2018 is primed to be another year of record activity given the excess of smaller operators who could potentially benefit from scale and multi-asset corporations and REITs expressing willingness to grow via acquisitions.

We believe that the merger of Penn National and Pinnacle Entertainment could be the first big transaction to be announced next year. In our view, a combination of both entities has the potential for significant cost and revenue synergies. We believe that while Pinnacle has a lean cost structure, significant cost synergies could be achieved from the removal of public company costs, reduced marketing expenses, and economies of scale. In contrast, difficulties that could prevent the transaction from closing include the price negotiation given high valuations for regional assets and forced dispositions related to ownership limitations in certain markets.