



With this report we are reaffirming our Buy rating on PENN 5.625% Senior Notes 2027 (\$103.8, 5.0% YTW, 261bps) given our belief that the notes are attractive on a relative value basis.

For 2017, we are projecting Penn National will generate Adjusted EBITDA of \$868 million (+3.0% versus \$844 million) on revenues of \$3.15 billion (+4.0% versus \$3.03 billion). Factoring capital expenditures of \$105 million, cash interest of \$56 million, cash tax refunds of \$31 million, payments of financial obligation of \$455 million, share repurchases of \$25 million, and acquisitions of \$128 million (includes earned-out payment related to the Rocket acquisition), we project free cash flow of \$133 million in 2017. Using our projected total debt of \$4.85 billion and fixed charges of \$512 million, we estimate Penn National will end the year with leverage of 5.6x and coverage of 1.7x. Factoring consolidated cash of \$265 million, we estimate net leverage at 5.3x.

For 2018, we are projecting Penn National will generate Adjusted EBITDA of \$912 million (+5.0% versus \$868 million) on revenues of \$3.21 billion (+2.0% versus \$3.15 billion). Factoring capital expenditures of \$115 million, cash interest of \$55 million, cash taxes of \$30 million, payments of financial obligation of \$462 million, and share repurchases of \$25 million, we project free cash flow of \$225 million in 2018. Using our projected total debt of \$4.62 billion and fixed charges of \$517 million, we estimate Penn National will end the year with leverage of 5.1x and coverage of 1.8x. Factoring consolidated cash of \$265 million, we estimate net leverage at 4.8x.

Exhibit 6: Penn National (\$ Millions)

	2015 (A)	2016 (A)	LTM	2017 (E)	2018 (E)
Adjusted EBITDAR	\$796	\$844	\$859	\$868	\$912
Less: Development Capex	137	19	\$28	\$27	\$50
Less: Maintenance Capex	63	79	74	78	65
Less: Advances to Jamul	130	184	17	1	0
Less: Acquisitions	453	91	161	128	0
Less: Cash interest	45	61	64	56	55
Less: Rent Payments	437	442	451	455	462
Less: Share Repurchases	0	0	25	25	25
Less: Cash taxes	5	(11)	(21)	(31)	30
Less: Insurance Financing	11	0	1	3	0
Plus: Asset sales	1	18	6	1	0
Plus: Proceeds from Jamul	(24)	274	279	5	0
Free Cash Flow	(\$506)	\$271	\$345	\$133	\$225
Total Debt	\$5,300	\$4,947	\$4,904	\$4,847	\$4,622
Cash	237	230	265	265	265
Leverage	6.7x	5.9x	5.7x	5.6x	5.1x
Net Leverage	6.4x	5.6x	5.4x	5.3x	4.8x
Coverage	1.7x	1.7x	1.7x	1.7x	1.8x

Source: Company Filings and Deutsche Bank

Downside risks to our call include a deterioration of industry fundamentals and higher-than-expected cannibalization from the opening of new competition.

Red Rock Resorts: From an operating perspective, it was a good quarter, as results were modestly ahead of consensus expectations. Similar to previous quarters, F&B headwinds and disruptions from renovations at Palms and Palace Station continue to hurt Las Vegas operations. From a strategic perspective, we are somewhat concerned regarding the incremental spend at