THE DONERAIL GROUP

May 31, 2024

PENN Entertainment, Inc.
825 Berkshire Blvd., Suite 200
Wyomissing, Pennsylvania 19610

Attn: David Handler, Chairman of the Board of Directors
cc: Board of Directors

Dear Mr. Handler,

As you're aware, The Donerail Group LP (together with its affiliates, "Donerail" or "we") is a concerned shareholder of PENN Entertainment, Inc. ("PENN" or the "Company"). We have very much appreciated the significant time and energy that the Company's senior management team has spent with us over the past few months, and we are grateful for the continued productive engagement.

As you also know, our principals possess deep gaming industry experience, having invested in PENN and its peer group intermittently for more than a decade. At the core of our investment thesis, we believe that the Company's current stock price is significantly below the intrinsic value of the Company and that PENN's suite of highly strategic casino assets alone could be worth more than double the Company's current market capitalization.

We believe that the significant criticism from the investment community regarding PENN's recent capital allocation is understandable, however. After four years of effort, attention, and billions of dollars of shareholder capital invested, the Company has been unable to disintermediate the online sports betting landscape, as it had forecast. Moreover, the growing pattern of guidance misses, alongside a demonstrated unyielding appetite to continue to invest in the Company's fledgling Interactive projects, irrespective of past results and without a clear return framework, has significantly damaged the credibility of this management team and Board of Directors (the "Board").

We question whether such credibility is beyond repair, as PENN's shares are now down over 80% in the last three years because of such damage.[1]

Concerningly, it appears that the Board has an obstinate and heightened level of confidence in the Company's management team, willing to compensate the Company's Chief Executive Officer exorbitant amounts of money, notwithstanding the continued earnings misses, guidance cuts, and stock price underperformance. Absent an immediate strategic shift, we believe that the Company's equity price will continue to stall, and shareholder returns will stay muted.

Given our understanding of the Company's assets, however, alongside an understanding of the industry participants' current strategic appetite to grow inorganically, we do believe that a sale of the Company's assets, if undertaken, could generate meaningful and certain value creation for equity investors.

For these reasons, we respectfully ask the question: how can the Board continue to argue the benefits of operating as a standalone entity, which has thus far amounted to an overly risky and highly unprofitable gamble, in the face of what would likely be robust strategic appetite that could yield significant upside for investors?

[1] Source: Bloomberg. Total Return Analysis between 30-May-2021 and 30-May-2024.

<u>PENN's Interactive Strategy Has Destroyed Shareholder Value and Is Causing the Company to Trade at a Steep Discount to Its Intrinsic Value</u>

From its first casino acquisition in 2000 through the end of 2019, PENN's growth strategy was clear: aggressively acquire regional casinos, integrate best practices, amplify cross-selling opportunities, and increase national diversification. During that time, PENN's equity appreciated nearly 3,000%, and PENN became a national leader with over 40 casino properties spread across the United States.[2] PENN's casino operations have been well run over the years, and we understand the consensus view to be that CEO Jay Snowden and his team are good casino operators. We applaud that success, but regrettably, it is now overshadowed by what we believe to be continued and significant strategic failures.

Since the changes were made in PENN leadership, namely your appointment as Board Chair in June 2019 and the subsequent appointment of Mr. Snowden to the CEO role effective January 2020, PENN's long-standing growth strategy radically pivoted. The Company eschewed its tried-and-true strategy of expanding its brick-and-mortar casino operations in lieu of a "bet the house" focus on constructing an online sports betting business to compete with market leaders DraftKings and FanDuel.

Weeks after being named CEO, Mr. Snowden announced a deal with Barstool Sports, stating that PENN's new goal was to "continue evolving […] to a best-in-class omni-channel provider of retail and online gaming and sports betting entertainment."[3] Mr. Snowden continued to express confidence in PENN's foray into digital, asserting his belief that the Company could "do this more efficiently than anyone else in the space," that the Company "should be in the top 3 [market share] in every state where we operate," and that PENN would "remain focused on our efforts to de-lever [the] balance sheet."[4,5]

To shareholder detriment, PENN has not been able to demonstrate the management expertise necessary to build a business that could become a formidable competitor in the online sports betting oligopoly. The Company's inability on each Interactive initiative has resulted in a loss of market confidence and the stock being dragged down with it. The value destruction that has occurred for PENN shareholders under Mr. Snowden has been enormous over any measurable period:

<u>Total Shareholder Return Analysis</u>[6]

					Since Mr. Snowden's Appointment	
	YTD	**1-Year**	**3-Year**	**5-Year**	**as CEO**	**as COO**
Casino Peer Average*	1.5%	22.9%	-19.5%	85.6%	63.9%	406.3%
S&P 400 Index	6.6%	22.8%	13.2%	74.3%	52.9%	159.1%
PENN Entertainment	**-43.8%**	**-41.3%**	**-82.2%**	**-25.9%**	**-42.8%**	**9.0%**

** Public Company peers include: Bally's Corporation, Boyd Gaming, Caesar's, Churchill Downs, DraftKings, Flutter Entertainment, MGM Resorts, Red Rock Resorts, Rush Street Interactive. In the event that the listed peer did not publicly trade for the entire period, the average of the remaining peers was used.*

Since Mr. Snowden assumed the role of CEO over four years ago, PENN stock has declined by more than 40% while its peers, on average, have gained more than 60%. The S&P 400 Index over that same period has gained more than 50%. PENN's relative performance over the last 1-year, 2-year, and 3-year periods is similarly discouraging; in fact, it is rare that we have ever seen such a sustained and underwhelming underperformance under the same CEO without intervention from a company's board of directors. Today, PENN's stock trades at the lowest level since early 2017, excluding a four-week period at the onset of COVID.

Given the repeated and significant losses from the Interactive strategy (described in more detail below), one could reasonably ask whether PENN's directors are really just riverboat gamblers, content with doubling down after each loss – of shareholder capital, of management confidence, of Board credibility – as the highly valuable stream of cash flow

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[2] PENN Total return analysis from 31-Jul-2000, the date PENN announced it was acquiring its first casino, to 31-Dec-2019. Per Bloomberg.
[3] PENN and Barstool Sports Betting and iCasino Partnership announcement. 29-Jan-2020.
[4] PENN and Barstool Sports Betting and iCasino Partnership M&A Announcement Transcript. 29-Jan-2020.
[5] PENN and Barstool Sports Betting and iCasino Partnership announcement. 29-Jan-2020.
[6] Source: Bloomberg. Total Return Analysis over various time periods.

generated by the Company's regional casino business is squandered time and again. We hope the answer to that is "no" and that the Board will finally take action to benefit shareholders.

The Board Has Overseen the Spending of Billions of Dollars in Failed Online Gaming Deals

A review of the Company's recent acquisitions demonstrates the failure of this strategic initiative:

- **Barstool Sports ("Barstool") (2020):** Mere weeks after taking the helm as CEO in January 2020, Mr. Snowden announced that PENN would invest $163 million to acquire 36% of Barstool and form a sports betting partnership. The thesis – that integrating PENN's database and brick-and-mortar casino footprint with Barstool's acquisition and content engine would lead to pronounced results – was fundamentally flawed. At just 12 months in, it was clear that the bet would not pay off as digital gains were weaker than management had initially forecast, and integration efforts were lackluster. Yet, in early 2023, PENN paid an additional $388 million to purchase the balance of the Barstool shares it did not own, taking full control. In August, just six months after its follow-on investment, PENN announced that it was giving up on Barstool and that it had agreed to sell the entirety of the company back to its founder for $1.00.[7] The pre-tax loss for PENN was close to $1 billion.

- **Score Media and Gaming ("theScore") (2021):** The Company's $2.1 billion acquisition of theScore, a small Canadian-based sports media company with less than $25 million of annual revenue, highlighted just how drastically the PENN investment thesis had changed under Mr. Snowden's watch. The principal rationale for acquiring theScore at such a high price was not related to meaningfully increasing revenue or the size of the Company, but rather, advancing PENN's technical sophistications. Had a digitally native and more experienced leadership been at the helm, shareholders have to wonder if this could have been done in a more cost-effective manner from the onset. Further, the failed integration of theScore meant that the "incremental $200mm+ medium term adjusted EBITDA" that Mr. Snowden promised when the deal was announced was never achieved, and the entire leadership team that was acquired in the transaction has since left PENN.

- **ESPN BET (2023):** After its first foray into an online sports gambling platform underwhelmed, PENN thought it wiser to simply give Barstool away in favor of forming a new partnership with ESPN, as the Company sought to, yet again, create an entirely new online sports betting business from scratch. Unfortunately, after less than a year into pivoting its attention to ESPN BET, there has been no improvement in the Company's ability to execute in Interactive.

  Shareholders were told in November 2023 that PENN's estimated Cumulative Net Interactive Investment – inclusive of both operating losses and capital expenditures – was expected to be between $200 and $400 million over a three-year period, a number Mr. Snowden said would be "all inclusive."[8] However, losses immediately began to pile up that suggest this target will be far exceeded. In the fourth quarter of 2023 alone, PENN reported an Adjusted EBITDA loss of $333.8 million, and guided to an EBITDA loss of $400 million in 2024 alone, at the mid-point of its stated range. This guidance was followed by a further guidance revision lower to an estimated $500 million loss, at the midpoint of the provided range, just earlier this month.

Since early 2020, PENN has invested an estimated $4 billion of shareholder capital to create an interactive counterpart to its suite of leading regional gaming properties.[9] The implied value of that multi-billion-dollar investment made in Interactive is now meaningfully negative.

For long-term investors, the continued, deflating guidance misses represent a biting, uncomfortable contrast to not only the stable cash flow profile that the Company enjoyed for years, but critically, to the proclamations made by Mr. Snowden when PENN first entered online sports betting, namely that he believed that PENN "can do [online sports betting] more efficiently

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[7] In addition to the cash consideration of $1.00, PENN also received the right to receive 50% of the gross proceeds received by David Portnoy in any subsequent sale or other monetization event of Barstool. Mr. Portnoy stated in an August 8th, 2023, video on X that he will never sell Barstool again.
[8] PENN Quarterly earnings call. 2-Nov-2023.
[9] Donerail estimate based on the combination of the purchase prices of Barstool and theScore, Interactive segment EBITDA losses from 2020A to 2024E (excluding any estimated contribution of Market Access), Interactive segment capital expenditures, and the purchase of gaming licenses for use by the Interactive segment.

than anyone else in the space."[10] Four years later, irrespective of the dollars lost or promises unkept, management appears to want to continue to invest heavily in this strategy.

What may be additionally troubling for shareholders is that the operating losses that are growing meaningfully – and have become a central part of the PENN equity narrative – sit within an interactive business that currently has no operating leadership. What gives this Board any confidence in PENN's future under this strategy?

The Board Has Paid Mr. Snowden Handsomely Despite Extremely Poor Performance

Despite the Company's numerous failed investments and destruction of shareholder value, the Board has rewarded Mr. Snowden with excessive compensation compared to what is considered market pay for a chief executive of a company of PENN's size, or what we would view as reasonable given the objectively poor business and stock price performance. We would respectfully ask the Board how it defends each of the following:

- Between 2020 and 2023, the Board approved $99.3 million of total compensation for Mr. Snowden, making him one of the highest paid executives in the U.S.

- Even in poor performing years, Mr. Snowden has been handsomely compensated, receiving more than $14 million in 2022 despite PENN's stock declining by over 40% that year.

- Leading shareholder advisory firm, Institutional Shareholder Services ("ISS"), has reported that Mr. Snowden's alignment of CEO pay with company performance sits at a score of -100, the worst possible score, yet no significant changes have been made to PENN's compensation process.[11]

Further, PENN's Board has elected to compensate Mr. Snowden based on the pay packages that exist for a self-selected peer group, and when reviewing the peers that have been selected, we find that PENN's named peers include many exponentially larger, non-competitive companies to PENN. Simultaneously, smaller and more direct competitors that offer smaller pay packages to their CEOs have been excluded.

The average market capitalization of PENN's stated peers is $13.5 billion, a far cry from PENN's market capitalization of $2.2 billion. We question why the Company's comp set was not adjusted to include smaller companies as PENN's market capitalization has shrunk over time, a best practice that many boards are mindful each year to do.

PENN's Publicly Traded Peer Group

Self-Reported Peer Group	Market Cap ($mm)*
Boyd Gaming Corporation	$4,864
Caesars Entertainment, Inc.	$6,893
DraftKings Inc.	$21,054
Electronic Arts Inc.	$34,957
Las Vegas Sands Corp.	$32,782
Lions Gate Entertainment Corporation	$1,806
MGM Resorts International	$12,086
Red Rock Resorts, Inc.	$5,253
Roku, Inc.	$8,264
Sirius XM Holdings, Inc.	$10,540
Wynn Resorts, Ltd.	$10,371
Zynga inc.	N/A
Average Market Cap of Peers	**$13,534**
PENN Market Cap	**$2,230**

** Data as of 30-May-24, per Bloomberg*

PENN's compensation practices are well reported. Mr. Snowden was recently named the No. 3 most overpaid CEO in the S&P 500 by *As You Sow*, a leading shareholder advisory group, with the publication asserting that 77% of his total

[10] Barstool Sports Strategic Alliance Conference Call. 29-Jan-2020.
[11] PENN Entertainment ISS Proxy Analysis and Benchmark Policy Voting Recommendations. 2024.

compensation was "Excess Pay."[12] In fact, Mr. Snowden's compensation was deemed to be so gratuitous, *As You Sow* chose to use PENN as a case-study of wrongdoing in its report. Institutional shareholders appear to share our view, with leading institutional investors BlackRock, Vanguard, State Street Global Advisors, and CalSTRS all having voted against PENN's executive compensation in the past, yet meaningful change has not been made by the Board's compensation committee.

Perhaps most concerning, Mr. Snowden appears to have little confidence in his own strategy or ability to lead PENN to success, given the fact that he has consistently sold stock and is, in fact, responsible for the most stock sales by any PENN executive since being named CEO. Since he was named CEO, Mr. Snowden has sold more than 750,000 shares, for proceeds of approximately $45 million,[13] with several of his sales coming on the heels of the Company's deals and his own seemingly optimistic comments.

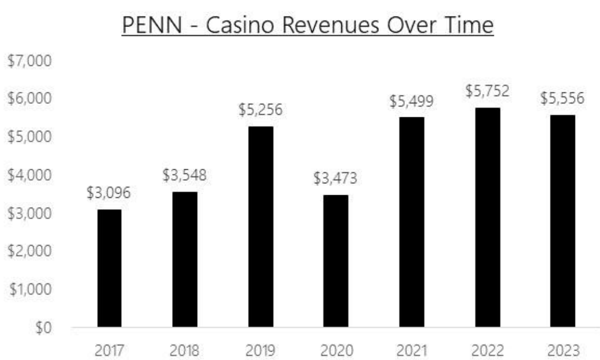
How does the Board have confidence in the CEO's vision if the CEO doesn't appear to have confidence in himself?

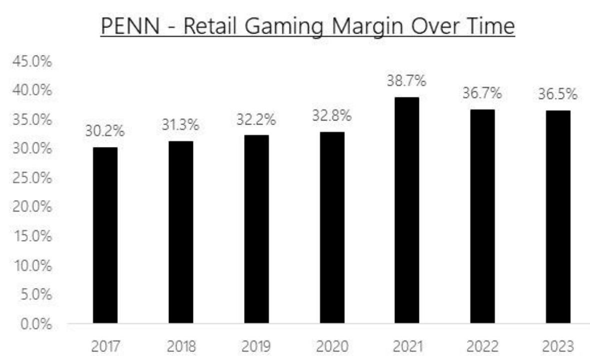
Framing the Value of PENN Centers on the Company's Strategic Casino Portfolio

PENN's equity growth strategy was built on acquiring regional casinos, layering on a tried-and-true operating strategy, and utilizing PENN's infrastructure to optimize cost synergies while cross-selling against the existing customer database to heighten revenue opportunities. The fundamentals of the casino portfolio are currently doing well, and as one Wall Street analyst recently noted, the land-based casino operations are "the only leg of the stool supporting the stock."[14]

The regional casino business is distinct from that of the flashier Las Vegas in its relative stability of cash flows and profitability. In economic recessions or times of exceptional consumer slowdown, our research points to only modest revenue slowdowns,[15] with significant cost structure variability across areas such as gaming taxes, labor, and promotions. Capital expenditures can be controlled efficiently throughout the cycle, optimizing cash flows for stakeholders, and the stable competitive landscape allows for a defensible moat of commercial protection.

PENN's Operations Have Been Resilient Over Time, Highlighting Durability[16]





Yet, the value of PENN's regional casino business is being dwarfed by the Company's failed Interactive strategy, and it is disappointing to see that PENN's highly strategic and valuable set of regional casino properties, thoughtfully combined over the last 40 years, have unfortunately become overlooked by an investment community that "remain[s] skeptical of PENN's interactive strategy and execution."[17] Put simply, the Interactive segment woes have created a cloud over the investment community's perception of PENN, and "…the stock continues to trade on the company's interactive business, which is piling up meaningful EBITDA losses"[18] after "higher-than-expected losses in digital (again)."[19]

[12] The 100 Most Overpaid CEOs: Are Fund Managers Asleep at the Wheel, Feb-2023.
[13] Company SEC filings.
[14] Raymond James Research Note. 20-May-2024.
[15] Industry GGR declined 6.3% through the Great Financial Crisis, per Truist Research.
[16] Charts and data from Raymond James Research Note (20-May-2024) and PENN public filings.
[17] Wells Fargo Research Note. 9-May-2024.
[18] Raymond James Research Note. 20-May-2024.
[19] Ibid.

We believe that this value could be realized if the Company were put up for sale, largely due to the financial stability, scale, and diversified geographic revenue base of the Company's regional casino portfolio, alongside the fact that industry players are focused on growing inorganically.

Given the relatively high number of M&A transactions that have occurred over time involving just casino operating assets – casinos that are sold separately from their underlying real estate ("OpCo" transactions) – investors can have confidence regarding the prospective value of the PENN regional gaming portfolio. Based on our own review of such transactions, and understanding the quality of PENN's retail properties, we believe that PENN's properties could easily fetch 6.0x to 8.0x EBITDA in a sale (using EBITDAR less Cash Rent as a proxy), which is conservative relative to the ~10.6x pro forma pre-synergy multiple that PENN paid to acquire Pinnacle in 2018.

Even using conservative transaction multiples of between 6.0x and 7.0x EBITDA for PENN's casino properties, fair value would be between $5.9 billion and $6.9 billion in a sale transaction. This compares against the Company's current enterprise value of $4.1 billion.

Estimated Value of PENN's Retail Casino Properties in a Sale ($mm)

Consensus Retail EBITDA - 2024E*	$987.8	$987.8	$987.8	$987.8
Illustrative Multiple	5.0x	6.0x	7.0x	8.0x
Illustrative Value of PENN Retail Properties	**$4,939**	**$5,927**	**$6,915**	**$7,903**

** EBITDAR less Cash Rent is used as a proxy for EBITDA*

With many industry players on the record detailing their desire to grow through M&A, much like PENN did for nearly two decades, and the Company's Interactive segment in a state of concerning flux, we wonder if the best path forward for shareholders is not sitting clearly in front of the Board.

Our research over the last few months has left us with resounding confidence that the crown jewel of the Company – PENN's 43 gaming properties spread across 20 states – not only remains intact but has a stronger foundation than ever and continues to be highly valuable.

While we understand that ESPN BET appears as the Company's newest bright and shiny object that may very well have significant value under the right owners, we ask that the Board take a moment to reflect objectively on the past four years of execution, assess the shareholder capital that has been destroyed, and recognize that shareholders may simply be tired of continued gambling on uncertain outcomes.

Respectfully,

Will Wyatt
Managing Partner
The Donerail Group