

DraftKings, Inc.

Q3 Review: The King of flow-through... raising estimates and PO

Reiterate Rating: BUY | PO: 40.00 USD | Price: 28.98 USD

Q3 Review: Beats with 2024 guide above expectations

DraftKings (ticker: DKNQ) reported 3Q23 Revenues/Adj. EBITDA of \$790/(\$153M), exceeding our above consensus \$756M/(\$187M), and we think in-line with high buy-side expectations. Initial 2024 EBITDA guidance of \$350M-450M of EBITDA is well above our \$311M, consensus \$280M, and [exceeds a high buy-side bar \(see our preview report\)](#). 2024 revenue guide of \$4.5-\$4.8B implies +25% Y/Y growth at a healthy 53% revenue to EBITDA flow-through.

Bottom Line: Shares were up +7% after-market as we believe DKNQ exceeded a high bar across all metrics and esp. for 2024 guidance. To us, the big takeaway is accelerating operating leverage with 1) sales and marketing dollars down in Q3, Q4 and implied to be down for all of 2024 and 2) strong flow throughs across all time periods and metrics (55% on the core Q3 beat/raise, 61% for Q4 guide, and 53% for 2024). We have increasing conviction in DKNQ's ability to drive profitability and margin as it grows. Reiterate Buy, and increase our estimates (2025E EBITDA goes to \$848M +9%) & raise our PO to \$40 (+\$2) on a slightly lower multiple (22.5x vs. 24x prior) on higher rates.

Initial 2024 Guidance: Revenues (+) & EBITDA (++)

2024 EBITDA guidance of \$350-\$450M exceeds a high buy-side bar of \$350-400M and our expected \$250-350M. Revenue of \$4.5-4.8B is around 8% higher than Street and \$150M higher than our expected \$4.4-4.6B which we think is driven mostly by continued TAM and same-state growth, new states, structural hold improvement and promo declines and is not predicated on meaningful share growth from here. We think the EBITDA guide implies 1) continued reduction in promo, 2) 200-300bps improvement in gross margin, and 3) external marketing dollars down low-to-mid single digits Y/Y.

3Q23 results: Revenue +57%, sales and marketing -2%

DKNQ's Q3 Revenues/Adj. EBITDA were both ahead of our above consensus estimates. Its notable that revenues grew +57% Y/Y, while sales and marketing *declined* -2% Y/Y. 4Q guidance implies more of the same with sales & marketing costs down -HSD%. For 4Q revenues of \$1.3B and EBITDA of \$196M are ahead of our \$1.2B/\$169M, and above the high-end of DKNQ's prior \$150-175M. To further highlight DKNQ's cost inflection, every cost line item beat our estimates. While promotions were a key investor concern before the print, we estimate promos of 37% of GGR were down -200bps Y/Y.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(3.55)	(3.00)	(1.55)	(0.57)	0.45
GAAP EPS	(3.46)	(3.01)	(1.41)	(0.47)	0.55
EPS Change (YoY)	-62.8%	15.5%	48.3%	63.2%	NM
Consensus EPS (Bloomberg)	(3.11)	(3.16)	(1.48)	(0.45)	0.61
Valuation (Dec)					
P/E	NM	NM	NM	NM	64.4x
EV / EBITDA*	NM	NM	NM	39.3x	16.2x
Free Cash Flow Yield*	-4.65%	-4.89%	-0.77%	2.98%	6.55%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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03 November 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	38.00	40.00
2023E Rev (m)	3,616.1	3,696.6
2024E Rev (m)	4,567.0	4,667.0
2025E Rev (m)	5,320.6	5,470.5
2023E EPS	-1.67	-1.55
2024E EPS	-0.68	-0.57
2025E EPS	0.27	0.45

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Stock Data

Price	28.98 USD
Price Objective	40.00 USD
Date Established	3-Nov-2023
Investment Opinion	C-1-9
52-Week Range	10.69 USD - 34.49 USD
Mrkt Val (mn) / Shares Out (mn)	13,446 USD / 464.0
Average Daily Value (mn)	311.14 USD
BofA Ticker / Exchange	DKNQ / NAS
Bloomberg / Reuters	DKNQ US / DKNQ.OQ
ROE (2023E)	-66.7%
Net Dbt to Eqty (Dec-2022A)	-99.0%
ESGMeter TM	Medium

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iQprofileSM DraftKings, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-21.3%	-23.2%	-4.6%	14.2%	25.4%
Return on Equity	-69.7%	-91.9%	-66.7%	-28.2%	16.3%
Operating Margin	-55.5%	-35.1%	-5.1%	7.4%	14.1%
Free Cash Flow	(625)	(658)	(104)	400	881

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	4.0x
Asset Replacement Ratio	0.1x	0.2x	0.2x	0.1x	0.1x
Tax Rate	NM	4.7%	NM	NM	NM
Net Debt-to-Equity Ratio	-128.3%	-99.0%	-132.5%	-154.0%	-148.6%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,296	2,240	3,697	4,667	5,470
% Change	101.4%	72.9%	65.0%	26.2%	17.2%
Gross Profit	615	911	1,637	2,183	2,677
% Change	71.6%	48.2%	79.6%	33.4%	22.6%
EBITDA	(678)	(724)	(107)	349	849
% Change	-71.5%	-6.7%	85.2%	NM	143.4%
Net Interest & Other Income	(798)	(661)	(565)	(553)	(541)
Net Income (Adjusted)	(1,525)	(1,380)	(755)	(284)	227
% Change	-79.1%	9.5%	45.3%	62.4%	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(1,488)	(1,385)	(686)	(234)	280
Depreciation & Amortization	121	169	214	215	213
Change in Working Capital	167	122	25	74	55
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	591	468	377	370	358
Capital Expenditure	(16)	(32)	(35)	(25)	(25)
Free Cash Flow	-625	-658	-104	400	881
% Change	-78.4%	-5.3%	84.2%	NM	120.1%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,153	1,309	1,247	1,659	2,548
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	600	776	960	1,084	1,176
Property, Plant & Equipment	46	60	80	106	135
Other Non-Current Assets	1,270	1,895	1,705	1,478	1,253
Total Assets	4,069	4,040	3,993	4,327	5,112
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	917	1,242	1,538	1,736	1,883
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,474	1,475	1,514	1,514	1,514
Total Liabilities	2,391	2,717	3,052	3,249	3,397
Total Equity	1,679	1,323	942	1,078	1,715
Total Equity & Liabilities	4,069	4,040	3,993	4,327	5,112

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Gaming

Company Description

DraftKings is a founder-led, digitally native U.S. listed pure play on the nascent but rapidly expanding U.S. sports betting and iGaming opportunities. DKNG is a digital sports entertainment and gaming company focused on three main verticals: 1) daily fantasy sports ("DFS"), 2) online sports betting ("OSB") and 3) online casino gaming (iGaming).

Investment Rationale

We rate DKNG a Buy given positive underlying fundamentals, above market revenue growth profile, and inflection to positive Adj. EBITDA

Stock Data

Average Daily Volume

10,736,464

Quarterly Earnings Estimates

	2022	2023
Q1	-1.07A	-0.83A
Q2	-0.47A	-0.16A
Q3	-0.97A	-0.58A
Q4	-0.52A	0E

Exhibit 1: DKNG 2023 Guidance (\$M)

Overview of DKNG's bridge for its updated guidance

Revenue Guidance	Low	Mid	High
Current Guidance	\$3,135	\$3,185	\$3,235
Updated Guidance	\$3,460	\$3,500	\$3,540
\$ Increase	\$325	\$315	\$305
% Increase	10%	10%	9%
"Structural" OSB Hold		\$40	
Favorable Outcomes		\$30	
Retention & Engagement		\$225	
New Launches / Tax Rates		\$20	
Adj. EBITDA Guidance	Low	Mid	High
Current Guidance	(\$340)	(\$315)	(\$290)
Updated Guidance	(\$220)	(\$205)	(\$190)
\$ Increase	\$120	\$110	\$100
% Increase	35%	35%	34%
"Structural" OSB Hold		\$30	
Favorable Outcomes		\$20	
Retention & Engagement		\$100	
New Launches / Tax Rates		(\$40)	

Source: Company Presentations, BofA Global Research

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Exhibit 2: Estimate Changes (\$M)

Overview BofA's estimate changes for DKNG

FY 2023	New	Prior	BBG Cons.
Revenue	\$3,503	\$3,420	\$3,271
EBITDA	(\$162)	(\$218)	(\$282)
FY 2024	BofA	Prior	BBG Cons.
Revenue	\$4,259	\$4,119	\$4,014
EBITDA	\$225	\$177	\$180
FY 2025	BofA	Prior	BBG Cons.
Revenue	\$4,967	\$4,783	\$4,820
EBITDA	\$746	\$689	\$630

Source: BofA Global Research

BofA GLOBAL RESEARCH



Price objective basis & risk

DraftKings, Inc. (DKNG)

Our \$40 PO is based on approx. 22.5x 2025E Adj. EBITDA, a premium to other "proven" best of breed disruptors. We believe this premium multiple is justified given the early stage enthusiasm for the vertical and the scarcity value associated with DKNG, as well as its revenue trajectory and inflection to positive Adj. EBITDA

Upside risks to our PO are higher-than-expected growth, faster-than-anticipated state legalizations and quicker and higher profitability than we model.

Downside risks are lower enthusiasm for growth stocks, slower legalization of sports betting, increased competition, and a slower ramp to profitability.

Analyst Certification

I, Shaun C. Kelley, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
NEUTRAL				
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
UNDERPERFORM				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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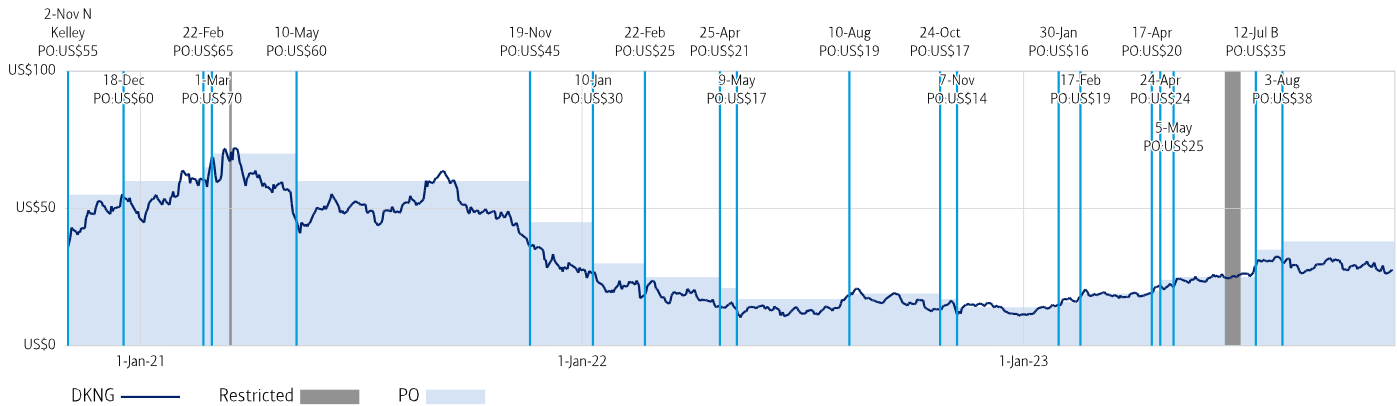
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DraftKings, Inc. (DKNG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Gaming Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	18	47.37%	Buy	5	27.78%
Hold	11	28.95%	Hold	5	45.45%
Sell	9	23.68%	Sell	3	33.33%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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