

DraftKings, Inc.

First Take: November doesn't reign, but still raising 2024

Reiterate Rating: BUY | PO: 50.00 USD | Price: 44.46 USD

Q4 headline miss, but able to raise 2024 guide anyway

DraftKings (ticker: DKNG) reported Q4 revenue/EBITDA of \$1.23B/\$151M vs. our \$1.31B/\$184M and the Street's \$1.25B/\$181M, and guidance of \$1.26B/\$197M. The miss was driven by \$175M/\$126M revenue/EBITDA headwind from unfavorable hold (win rate) in the quarter. After adjusting for hold, DKNG was ahead of their revenue and EBITDA guide by \$142M/80M and passed through \$125/60M to 2024. DKNG's 2024 revenue guidance moves to \$4.65-\$4.9B and EBITDA to \$410-\$510M, and we update our estimate to align with the new guidance range. DKNG also announced they are acquiring Jackpocket, a lottery ticketing app, for \$750M in cash and stock.

Bottom Line: DKNG shares were down slightly after hours on the headline miss, which is understandable amid high investor expectations. While DraftKings 4Q was not the typical beat and raise of the past several quarters, we think the fundamentals are solidly in-tact with the hold adjusted results 1) flowing through to a 2024 guidance raise, 2) implying a 59% Y/Y revenue to EBITDA flow-through, in-line with prior guide, and 3) further opportunity for structural hold to improve over time. Reiterate Buy and \$50 PO.

Hold impacts Q4 promo %, but structurally headed higher

DKNG missed our Q4 net revenue with the delta driven by promos of ~31% of GGR ahead of our 26%. We think the higher promo is a result of 1) low hold rates inflating promo as a % of GGR, and 2) new customer acquisition coming in ahead of expectation. As [we previewed \(see report\)](#), hold impacts have a high flowthrough to EBITDA, and hold adjusted EBITDA of \$276M was in-line with our estimate of \$233-\$290M. In Q4, DKNG achieved a theoretical hold of 10.4%, improving from their 2023 structural hold of 9.8%, but still a big ~3pt gap to FanDuel. This leaves significant room for future growth.

The King of.... Lottery? Acquiring Jackpocket for \$750M

DraftKings also announced plans to acquire Jackpocket, a lottery ticketing app, for \$750M implying ~10x trailing revenue. We suspect Jackpocket is loss making but could turn the corner in 2024, with plans to reach ~\$80M in EBITDA by 2026. Jackpocket should grow rapidly as they accelerate new state roll outs and move from draw-based games to digitized scratch-off tickets. While the headline valuation is steep, this deal 1) opens a new and large TAM, 2) provides an attractive low-CAC customer channel, esp. in states that OSB is not legal in yet (incl. TX), 3) should see material tech integration and synergy over time. We sense some familiarity here (Jackpocket's CFO spent nearly 4 years at DraftKings) and believe the bar for other external M&A for DKNG remains high.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(3.00)	(1.65)	(0.51)	0.33	0.97
GAAP EPS	(3.01)	(1.45)	(0.20)	0.63	1.26
EPS Change (YoY)	15.5%	45.0%	69.1%	NM	193.9%
Consensus EPS (Bloomberg)	(3.16)	(1.42)	(0.24)	0.82	1.73
Valuation (Dec)					
P/E	NM	NM	NM	135x	45.8x
EV / EBITDA*	NM	NM	44.5x	23.7x	16.0x
Free Cash Flow Yield*	-3.17%	-0.11%	2.15%	4.08%	6.12%

* For full definitions of *IQmethod*SM measures, see page 4.

16 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,686.8	4,642.5
2025E Rev (m)	5,432.9	5,402.6
2026E Rev (m)	6,089.9	6,243.8
2024E EPS	-0.58	-0.51
2025E EPS	0.41	0.33
2026E EPS	0.90	0.97

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Stock Data

Price	44.46 USD
Price Objective	50.00 USD
Date Established	14-Feb-2024
Investment Opinion	C-1-9
52-Week Range	17.02 USD - 44.95 USD
Mkt Val (mn) / Shares Out (mn)	20,729 USD / 466.2
Free Float	91.1%
Average Daily Value (mn)	564.41 USD
BofA Ticker / Exchange	DKNG / NAS
Bloomberg / Reuters	DKNG US / DKNG.OQ
ROE (2024E)	-27.6%
Net Dbt to Eqty (Dec-2023A)	-152.6%
ESGMeter TM	Medium

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Timestamp: 16 February 2024 05:00AM EST

iQprofileSM DraftKings, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-23.2%	-6.2%	16.3%	27.1%	31.7%
Return on Equity	-91.9%	-74.2%	-27.6%	13.1%	24.5%
Operating Margin	-35.1%	-6.4%	8.2%	14.6%	19.3%
Free Cash Flow	(658)	(23)	447	847	1,269

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	5.1x	2.5x
Asset Replacement Ratio	0.2x	0.1x	0x	0.1x	0x
Tax Rate	4.7%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-99.0%	-152.6%	-163.1%	-151.3%	-139.3%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,240	3,665	4,643	5,403	6,244
% Change	72.9%	63.6%	26.7%	16.4%	15.6%
Gross Profit	911	1,557	2,136	2,602	3,069
% Change	48.2%	70.9%	37.2%	21.8%	17.9%
EBITDA	(724)	(152)	464	872	1,292
% Change	-6.7%	79.1%	NM	87.9%	48.3%
Net Interest & Other Income	(661)	(555)	(634)	(618)	(702)
Net Income (Adjusted)	(1,380)	(802)	(255)	169	506
% Change	9.5%	41.9%	68.2%	NM	199.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(1,385)	(706)	(100)	322	659
Depreciation & Amortization	169	202	221	218	238
Change in Working Capital	122	135	74	66	67
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	468	368	263	252	315
Capital Expenditure	(32)	(21)	(11)	(11)	(11)
Free Cash Flow	-658	-23	447	847	1,269
% Change	-5.3%	96.6%	NM	89.6%	49.8%
Share / Issue Repurchase	9	17	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,309	1,282	1,636	2,386	3,554
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	776	789	867	937	1,008
Property, Plant & Equipment	60	61	71	86	105
Other Non-Current Assets	1,895	1,813	1,685	1,561	1,416
Total Assets	4,040	3,945	4,260	4,969	6,082
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	1,242	1,538	1,690	1,826	1,964
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,475	1,566	1,566	1,566	1,566
Total Liabilities	2,717	3,105	3,256	3,392	3,531
Total Equity	1,323	840	1,003	1,577	2,551
Total Equity & Liabilities	4,040	3,945	4,260	4,969	6,082

* For full definitions of iQmethodSM measures, see page 4.

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

12,694,703

Quarterly Earnings Estimates

	2023	2024
Q1	-0.83A	-0.37E
Q2	-0.16A	0.06E
Q3	-0.58A	-0.46E
Q4	-0.09A	0.25E

Price objective basis & risk

DraftKings, Inc. (DKNG)

Our \$50 PO is based on approx. 30x 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				
	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
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN 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				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Churchill Downs Incorporated	CHDN	CHDN US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	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
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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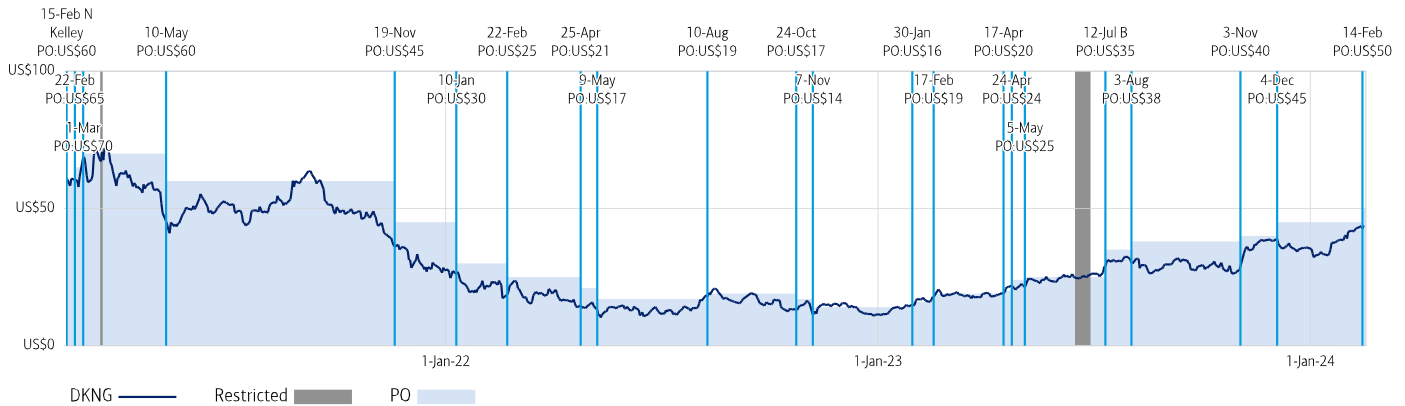
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Equity Investment Rating Distribution: Gaming Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	22	50.00%	Buy	10	45.45%
Hold	12	27.27%	Hold	6	50.00%
Sell	10	22.73%	Sell	3	30.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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