

DraftKings, Inc.

Q4 Preview: the King isn't giving up its crown

Reiterate Rating: BUY | PO: 45.00 USD | Price: 38.69 USD

Expecting a Q4 beat, and potentially a 2024 guidance raise

Following our [Q4 gaming preview \(see report\)](#) and [December digital gaming update \(see report\)](#), we 1) raise our estimates to align with state reported data and 2) discuss the earnings set up. We raise our Q4 NGR/EBITDA estimates to \$1.32B/\$183M, vs. consensus at \$1.26B/\$182M. Recall, we lowered our estimates intra-quarter by ~\$30M in EBITDA to reflect unfavorable hold outcomes in November, but we think DraftKings can still surpass the midpoint of the Net Gaming Revenue (NGR) guidance given TAM upside and healthy share.

Bottom line: We think investor sentiment troughed in late 2023 due to near term concerns on 1) competitive intensity from ESPN Bet and BetMGM, 2) promotional environment, and 3) a challenging 4Q set up given hold rates. Since then, FanDuel's commentary on a 13.5% theoretical hold (see Kiranjot's Grewals's report), healthy December Gross Gaming Revenue (GGR) data, and a potential marketing agreement with Barstool have driven the stock up +10% YTD vs. S&P500 up +3%. Reiterate Buy & \$45 PO on DKNG's continued strong growth, execution and cost/profitability inflection.

Share gains drive +55%Y/Y NGR Growth

We expect +55% Y/Y NGR in Q4 vs. +60% in Q3, driven by strength in online sports betting (OSB) and company-specific market share gains for DraftKings. We model DKNG OSB/iGaming GGR up 84%/32% Y/Y vs. overall US OSB/iGaming growth of 39%/20%, with outperformance from +880bps of share gains in OSB and +240bps in iGaming Y/Y. We estimate DKNG Q4 OSB share at 36.4%, up 70bps Q/Q. Some investors could be concerned that DKNG share peaked in Sept./Oct. but we think DKNG is solidly on track, and share fluctuations are driven by 1) FanDuel reengaging in marketing/promo, 2) seasonal shifts in the sports calendar (see ex. 9-10), and 3) the launch of ESPN Bet.

Can DKNG raise 2024 guidance?

Recall in November, DKNG provided initial 2024 guidance of \$4.5-4.8B in net revenue, and [\\$350-\\$450M in EBITDA \(see report\)](#). After adjusting for hold impacts in November, we think DKNG could have beat their Q4 revenue by ~\$159M and Q4 EBITDA guidance by ~\$36-93M, and DKNG could reflect their underlying strength by raising the low-end of 2024 guidance. Possible areas of conservatism for DKNG: 1) it's our sense guidance is predicated on 30% blended iGaming/OSB share vs. 32% in Q4, and 2) faster-than-expected TAM expansion, especially in iGaming.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(3.55)	(3.00)	(1.59)	(0.59)	0.46
GAAP EPS	(3.46)	(3.01)	(1.45)	(0.48)	0.56
EPS Change (YoY)	-62.8%	15.5%	47.0%	62.9%	NM
Consensus EPS (Bloomberg)	(3.11)	(3.16)	(1.41)	(0.24)	0.83
Valuation (Dec)					
P/E	NM	NM	NM	NM	84.1x
EV / EBITDA*	NM	NM	NM	52.3x	21.2x
Free Cash Flow Yield*	-3.46%	-3.65%	-0.55%	2.01%	4.94%

* For full definitions of *IQmethod*SM measures, see page 6.

29 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	3,659.0	3,756.7
2024E Rev (m)	4,671.5	4,723.8
2025E Rev (m)	5,502.5	5,535.7
2023E EPS	-1.60	-1.59
2024E EPS	-0.57	-0.59
2025E EPS	0.44	0.46

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Stock Data

Price	38.69 USD
Price Objective	45.00 USD
Date Established	4-Dec-2023
Investment Opinion	C-1-9
52-Week Range	14.01 USD - 40.00 USD
Mrkt Val (mn) / Shares Out (mn)	18,039 USD / 466.2
Free Float	89.0%
Average Daily Value (mn)	450.12 USD
BofA Ticker / Exchange	DKNG / NAS
Bloomberg / Reuters	DKNG US / DKNG.OQ
ROE (2023E)	-68.9%
Net Dbt to Eqty (Dec-2022A)	-99.0%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 29 January 2024 05:00AM EST

iQprofileSM DraftKings, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-21.3%	-23.2%	-5.0%	14.7%	25.9%
Return on Equity	-69.7%	-91.9%	-68.9%	-29.3%	16.8%
Operating Margin	-55.5%	-35.1%	-5.3%	7.5%	14.1%
Free Cash Flow	(625)	(658)	(99)	362	891

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	3.9x
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%	-135.0%	-153.2%	-147.7%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,296	2,240	3,757	4,724	5,536
% Change	101.4%	72.9%	67.7%	25.7%	17.2%
Gross Profit	615	911	1,648	2,191	2,687
% Change	71.6%	48.2%	80.8%	33.0%	22.6%
EBITDA	(678)	(724)	(119)	350	861
% Change	-71.5%	-6.7%	83.5%	NM	146.1%
Net Interest & Other Income	(798)	(661)	(573)	(562)	(549)
Net Income (Adjusted)	(1,525)	(1,380)	(775)	(291)	232
% Change	-79.1%	9.5%	43.8%	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)	(705)	(239)	285
Depreciation & Amortization	121	169	217	218	216
Change in Working Capital	167	122	42	35	53
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	591	468	382	373	363
Capital Expenditure	(16)	(32)	(35)	(25)	(25)
Free Cash Flow	-625	-658	-99	362	891
% Change	-78.4%	-5.3%	84.9%	NM	146.0%
Share / Issue Repurchase	32	9	3	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,248	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,153	1,309	1,252	1,626	2,525
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	600	776	987	1,046	1,133
Property, Plant & Equipment	46	60	80	106	135
Other Non-Current Assets	1,270	1,895	1,703	1,473	1,244
Total Assets	4,069	4,040	4,023	4,250	5,038
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	917	1,242	1,581	1,675	1,815
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	3,095	3,189	3,329
Total Equity	1,679	1,323	928	1,061	1,709
Total Equity & Liabilities	4,069	4,040	4,023	4,250	5,038

* For full definitions of iQmethodSM measures, see page 6.

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

11,634,061

Quarterly Earnings Estimates

	2022	2023
Q1	-1.07A	-0.83A
Q2	-0.47A	-0.16A
Q3	-0.97A	-0.58A
Q4	-0.52A	-0.04E

Exhibit 1: Q4 Net Gaming Revenue Bridge

We model DKNG Q4 NGR of \$1.32B, 5% above consensus

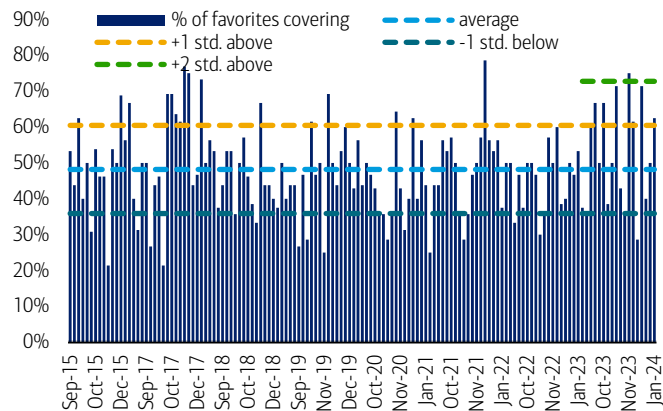
Q4 NGR Bridge	
Q4 OSB GGR	3,197
DKNG Q4 Share	36%
DKNG US OSB GGR	1,164
Q4 iGaming GGR	1,675
DKNG Q4 Share	27%
DKNG US iGaming GGR	447
Canada	34
Total Digital GGR	1,646
Promotion	26%
Total Digital NGR	1,216
DFS	106
BofA DKNG Q4 Net Revenue	1,321
Consensus	1,255
Upside to Consensus	5%

Source: Company Filings, BofA Global Research

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Exhibit 3: Favorites covering the spread since 2015

During Thanksgiving week, 75% of favorites covered the spread, an event that happens < 2.5% of the time



Source: Sports Odds History, BofA Global Research

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Exhibit 5: Hold Normalized NGR

If November hold rates were in line with the 2023 average of 9.3%, we think DKNG would have beat their net revenue guidance by \$159M

Hold-Normalized NGR	
Nov. Market wide handle	12981
Hold Headwind	374
DKNG Share	36%
DKNG GGR	135
Promo	26%
Q4 NGR Impact	100
Q4 NGR Est.	1,322
Normalized Q4 NGR	1,422
Hold Adjusted Full Year NGR	3,854
Guidance	3,695
NGR Upside vs. guidance midpoint	159

Source: Company filings, BofA Global Research

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Exhibit 2: Q4 EBITA Bridge

We expect Q4 EBITDA of \$183M, slightly ahead of consensus

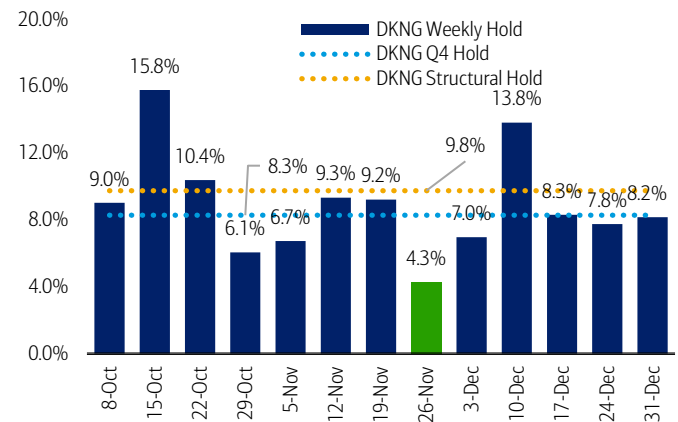
Q4 EBITDA Bridge	
Total Net Revenue	1,321
4Q22 Net Revenue	850
Incremental Revenue	471
Flowthrough	50%
Incremental EBITDA	233
4Q22 EBITDA	-50
BofA 4Q23 EBITDA	183
Consensus	182
Upside to Consensus	1%

Source: Company Filings, BofA Global Research

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Exhibit 4: New York Weekly Hold rates

Due to the high proportion of favorites covering, NY weekly hold fell to 4.3% over Thanksgiving week



Source: NY State gaming Control Board, BofA Global Research

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Exhibit 6: Hold Normalized EBITDA

Similarly, on normalized November hold, we think DKNG could have beat their EBITDA guide by \$36-93M, depending on flow throughs

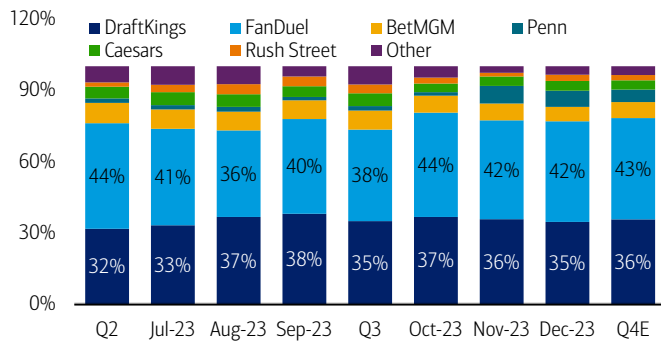
Hold-Normalized EBITDA			
	Low	Mid	High
4Q22 NGR	855	855	855
Y/Y Incremental Revenue	566	566	566
Flowthrough	50%	55%	60%
Incremental EBITDA	283	312	340
4Q22 EBITDA	-50	-50	-50
4Q23 Hold Adjusted EBITDA	233	262	290
FY23 Hold-Adjusted EBITDA	-69	-41	-12
2023 Guidance Midpoint	-105	-105	-105
Upside vs. guidance midpoint	36	64	93

Source: Company filings, BofA Global Research

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Exhibit 7: Online sports betting market share by operator

DraftKings is tracking to 36% share in Q4

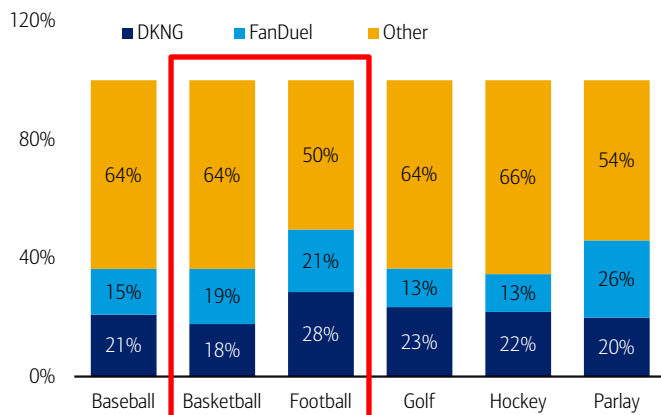


Source: BofA Global Research, State Gaming Control Boards

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Exhibit 9: DKNG vs. FanDuel Illinois handle share by sport (TTM)

DraftKings has a higher handle share than FanDuel in every sport except basketball and FanDuel has higher parlay share

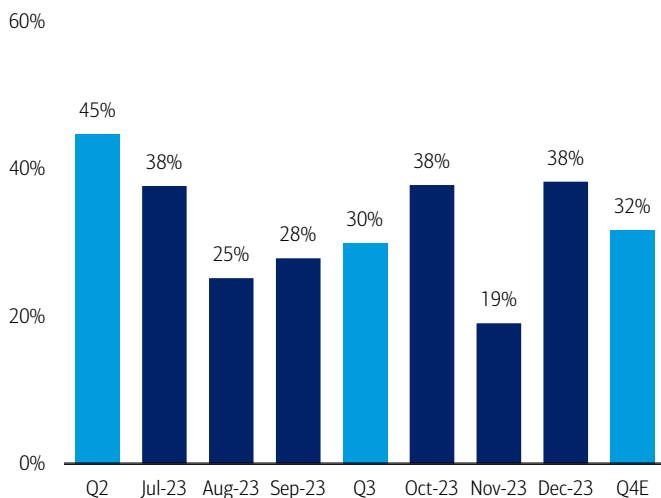


Source: BofA Global Research, State Gaming Control Boards

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Exhibit 11: Market wide gross gaming revenue growth Y/Y

Market wide digital gross gaming revenue is up ~32% in Q3

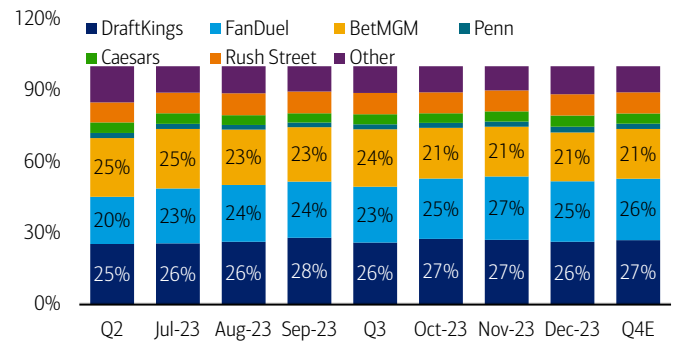


Source: State gaming control boards, BofA Global Research

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Exhibit 8: iGaming market share by operator

DKNG Q4 iGaming share is 27%, up from 26% in Q3

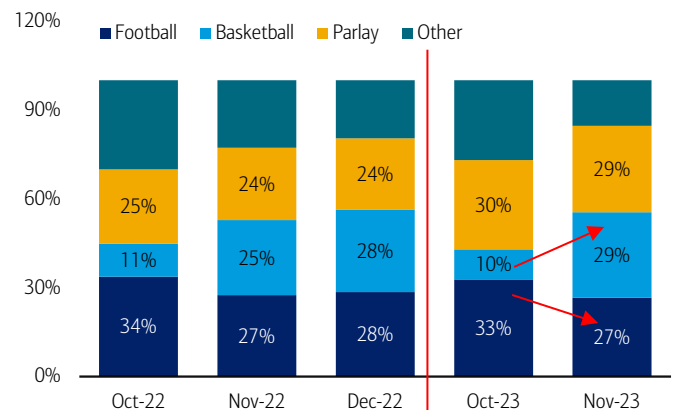


Source: BofA Global Research, State Gaming Control Boards

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Exhibit 10: Monthly Handle Share by Sport

Throughout 4Q, the sport mix becomes more favorable to FanDuel relative to DraftKings given the shift to basketball and away from football

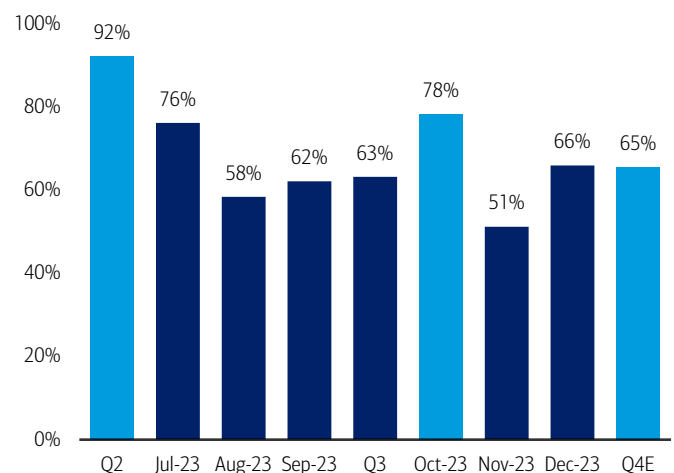


Source: BofA Global Research, State Gaming Control Boards

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Exhibit 12: DraftKings gross gaming revenue growth Y/Y

While we expect DraftKings to be up +53%, with the outperformance driven by market share gains



Source: State gaming control boards, BofA Global Research

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Price objective basis & risk

DraftKings, Inc. (DKNG)

Our \$45 PO is based on approx. 25x 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



US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

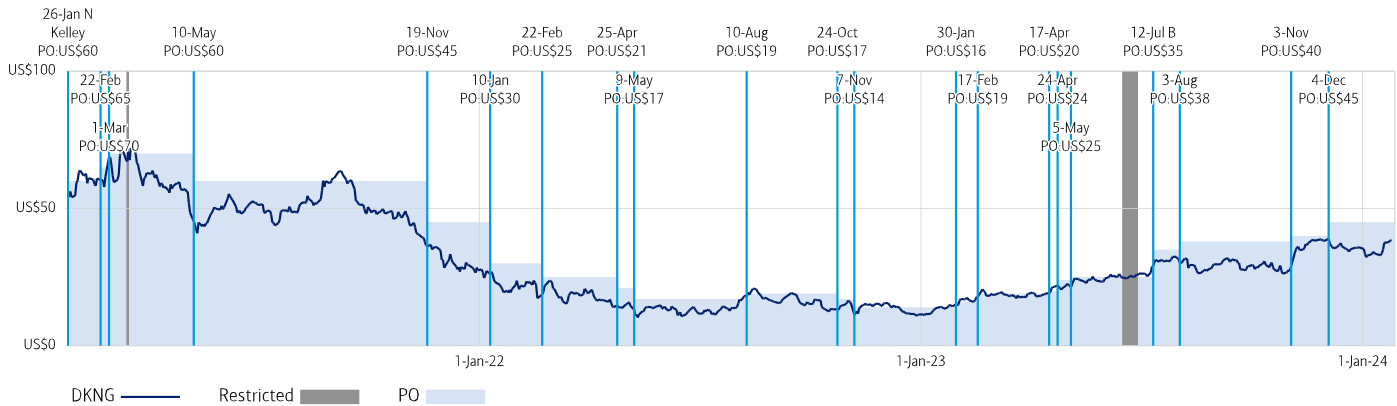
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Disclosures

Important Disclosures

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 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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