RARITAN
RESEARCH GROUP

Overall Thesis: Buy
Estimated Fair Value: $46.05
Current Price: $43.79 (July 15, 25)
YTD Growth: 20.67%
LTM Low-High: $28.69-$53.61

July 14, 2025 – Maisam Tejani – Rutgers University

DraftKings (NASDAQ: DKNG)

Company Overview

DraftKings is a digital sports entertainment company which provides users with online sports betting, casino, and fantasy sports products. The vast majority of revenue (over 90%) relies on sportsbook and iGaming (online casino) products Over the last few periods, DraftKings has been significantly investing in marketing and sales incentives to retain the paid user base and has been strategizing ways to leverage cross-product offerings and promotions to maximize profit. The company relies on both proprietary and third-party technology which they claim is currently highly scalable with minimal incremental spending. Likewise, they predict that the increasing maturity of the company will lead to stable profit expansions and slower growth of marketing and fixed costs. Over the last two years, their monthly unique players (MUPs) has almost doubled from 1.9 million to 3.7 million, with revenue margins slowly increasing as average revenue per MUP remains slightly to the upside.

Catalysts and Risks

DraftKings is susceptible to several risk factors coming from short-term volatility, seasonality, technological development, and public policy. At the same time, there is massive room for growth in light of shifting demographic trends, as well as the relative maturity of the company.

- Regulation: DraftKings recognizes that their industry is extensively regulated and these regulations are evolving based on political and social norms overtime. Additionally, they have to pay licensing fees and gaming taxes. Currently DraftKings operates in 26 jurisdictions out of 39 that have authorized certain forms of sports betting.
- Macroeconomic Volatility: As tariffs threaten inflation in core areas of everyday life, the discretionary income that individuals are left with is significantly lowered, decreasing the earnings growth of entertainment based companies like DraftKings
- Seasonality: DraftKings historically overperforms in Q4 when both the NFL and NBA run simultaneously. Seasons in which less popular sports dominate most of viewership result in less quarterly revenue

While these risks are certainly based in fact and are probable to exercise some effect on the stock price, at the same time there are broader catalysts which craft DraftKings into a reasonable investment option.

- Shifting demographics: As more people pass their state's legal age of gambling, more revenue will be unlocked for DraftKings, as sports betting and iGaming forms of entertainment are most popular among younger generations.
- Brand Recognition: Studies show that DraftKings is the most popular sports betting application, in spite of what its revenue figures may show as of now. DraftKings has dedicated significant capital towards marketing expenses, and continues to do so beyond many competitors
- Industry and Company Maturity: As DraftKings finalizes its proprietary technology, and figures out certain data structures like how to price the riskiness of bets to maximize customer retention and profit, the company will simultaneously increase margins and decrease capital expenditures, providing it with larger free cash flows.

Thesis

As DraftKings refines its proprietary software and continues to establish itself as the most recognizable name in iGaming and sports betting, it becomes clear that it represents a good buying opportunity. The increasingly positive demographic shifts, along with the increased focus on political lobbying, supplement its growing maturity as they get off the ground and achieve relative stability. While admittedly, it has not generated positive profits in the past, forward guidance looks increasingly positive, both related to margins and the bottom line. A more detailed breakdown of the intrinsic stock price, as well as forecasting breakdowns, can be found in the sections below.

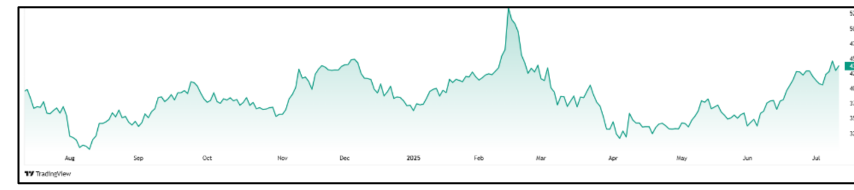

Figure 1: LTM Chart (Source: Trading view)

Figure 2: **Current** Trading Comps

	P/E	EV/EBITDA	EV/REV
DKNG	0	-62.38	4.43
RSI	165.33	16.69	1.24
FLUT	99.62	26.54	3.84
PBTHF	4.2	84.45	1.5
MGM	16.93	16.8	2.31
CHDN	18.83	11.48	4.43
High	165.33	84.45	4.43
75th	99.62	26.54	3.84
Median	**18.83**	**16.8**	**2.31**
25th	16.93	16.69	1.5
Low	4.2	16.69	1.24

Figure 3: Sensitivity Analysis

$46.05	10.10%	10.20%	10.38%	10.50%	10.60%
3.00%	$45.02	$44.20	$42.78	$41.87	$41.13
3.25%	$46.75	$45.87	$44.35	$43.38	$42.60
3.50%	$48.60	$47.66	**$46.04**	$45.01	$44.18
3.75%	$50.59	$49.59	$47.86	$46.76	$45.87
4.00%	$52.75	$51.67	$49.82	$48.64	$47.69

WACC	
Beta	1.6
Risk Free Rate	4.38%
Market Risk Premium	4.01%
Cost of Equity	10.79%
Market Cap	21,732
Total Debt	1,335
Total Debt + Equity	23,067
Percentage of Equity	94.21%
Cost of Equity	10.79%
Percentage of Debt	5.79%
Cost of Debt	4.58%
WACC	10.38%

Figure 4: Discount Rate Calculations

DCF									
Income Statement	(All numbers in millions)								
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	1,296	2,240	3,665	4,768	6,437	8,046	9,655	11,393	13,216
%Growth	N/A	72.84%	63.62%	30.10%	35.00%	25.00%	20.00%	18.00%	16.00%
EBIT	(1,561)	(1,511)	(789)	(608)	193	805	1,641	2,279	2,908
			-	-					
%Margin	N/A	-3.20%	47.78%	22.94%	3.00%	10.00%	17.00%	20.00%	22.00%
Taxes	8	68	(10)	86	10	56	115	160	204
% of EBIT	0.62%	3.04%	-0.27%	1.80%	5.00%	7.00%	7.00%	7.00%	7.00%
EBIAT/NOPAT					183	748	1,526	2,119	2,704
Cash Flow Items					1	2	3	4	5
	2021	2022	2023	2024	2025	2026	2027	2028	2029
D&A	121	169	202	271	354	402	386	342	396
% of Sales	9.34%	7.54%	5.51%	5.68%	5.50%	5.00%	4.00%	3.00%	3.00%
CapEx	99	103	113	121	129	161	193	228	264
% of Sales	7.64%	4.60%	3.08%	2.54%	2.00%	2.00%	2.00%	2.00%	2.00%
Change In NWC	4,572	(985)	(318)	(643)	0	80	193	342	396
		-		-					
% of Sales	352.78%	43.97%	-8.68%	13.49%	0.00%	1.00%	2.00%	3.00%	3.00%
Unlevered FCF					409	909	1,526	1,891	2,440
Present Value of FCF					370	746	1,135	1,274	1,489
Terminal Value Calculations									36,709
Present Value of Terminal Value									22,406
Implied Enterprise Value									23,895
Net Debt									1,052
Implied Equity Value									22,843
Shares Outstanding									496
Implied Equity Value									$46.05
Current Equity Price									$43.79
Implied Upside/Downside									5.17%

Industry Overview

The U.S Sports betting market is estimated to be valued around $18 billion, with a CAGR of 10.9% over the next six years. As states continue to legalize mobile betting apps, larger client bases are unlocked and enticed to join, driven by the perceived convenience of mobile gaming. Notably, states like Texas and California have yet to legalize sports betting, which poses a roadblock but also a clear path to increased growth if policy changes are made. The growing presence of sports betting in tandem with sports broadcasting itself is another general industry catalyst, as partnerships with ESPN and other similar companies are continuing to drive brand awareness for companies including FanDuel (FLUT). AI is another broader industry consideration, as ML tools are being used to enhance user experiences and betting formats.

DCF Overview

In line with analyst expectations, top line growth is going to continue an upward trend in and around the 30% mark, with margin growth turning slightly to the upside before accelerating significantly as the company finishes development of internal software and pricing strategies. Revenue growth, once again in line with analyst estimates, will continue to grow albeit at a less rapid pace, stabilizing around 15% YoY revenue growth within five years out. Margin growth is predicted to continue growing overtime, as economies of scale and increasingly streamlined processes decrease the cost associated with expanding operations. D&A is predicted to decrease as a percent of sales as the company does not rely heavily on tangible goods, and likewise Capex will stay consistent in acknowledgement of the company having already engaged in most of their upfront R&D for proprietary software and developments. The WACC employed was 10.38%, based on calculations above, and the terminal growth rate was set at 3.5%. The growth rate, while generally on the higher side, reflects the more lucrative nature of betting services given comparatively lower operational costs. It is also worth nothing that while one of the catalysts for selecting DKNG is its move towards stability, the industry it finds itself in is far from mature, and still possesses incredible room for growth.

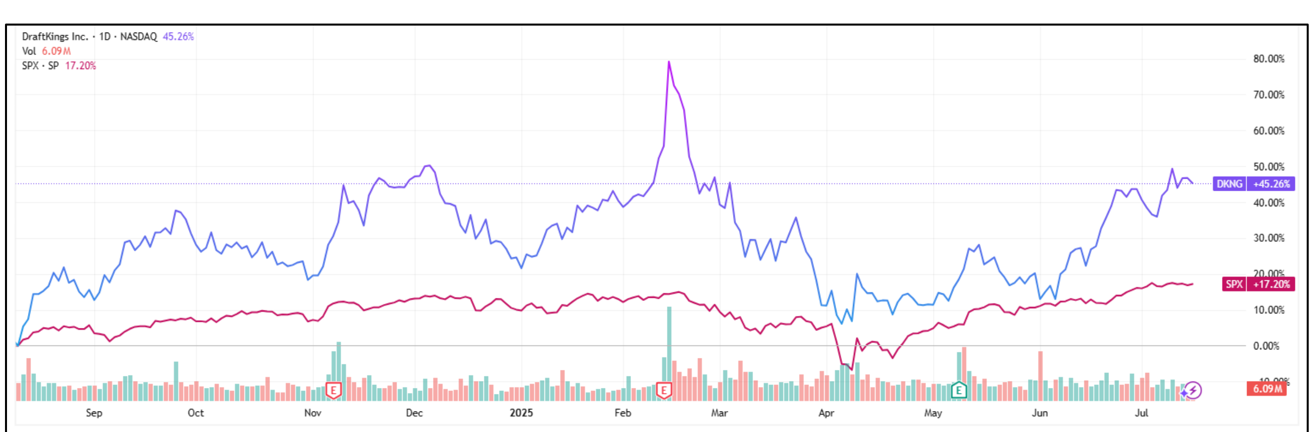

Figure 5: DKNG YTD performance compared to the S&P 500