

# CIB bets on DraftKings (NASDAQ:DKNG)

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## Summary

**CIB should buy DKNG and hold it for 5-6 months. The legalization or normalization of Sports Betting in the US, combined with DKNG's prevalent brand name in the industry, will make them a long term market leader.**

- DraftKings has 60% market share in the Daily Fantasy Sports market, which will rapidly propel it into the Online Sports Betting industry as more states legalize online sports betting.
- Currently, 25 states have legalized online sports betting, but only 19 states are operational. Of these 19 states, DraftKings Sportsbook operates in 9 states, while its most prevalent competitor, FanDuel, is only operational in 8 states.
- The cancellation and postponement of many major sports' seasons in 2020 due to the COVID-19 pandemic has bolstered sports culture within the US. Combining this with the normalization of sports betting and DKNG's Sportsbook has, and will continue to, see enormous amounts of online sports wagers.
- DraftKings is currently trading at \$52.75 per share with a 52 week range of \$10.04 to \$64.19. Draft King demonstrates many positive financial indicators. In quarter three they had \$133 million in revenue, which is almost double of the same quarter last year, which was \$67 million. By the end of 2020, DraftKings is expected to have revenue growth of 25-30%

**DKNG's Daily Fantasy Sports Market Penetration and the Normalization of Sports Betting Will Make them a Market Leader in Online Sports Gambling**

DKNG was founded in 2012 as a company situated within the Daily Fantasy Sports industry. From 2012 to 2019 DKNG grew to 800 employees and a market share of 60% of the Daily Fantasy Sports industry. Through successful advertising campaigns, corporate partnerships and user-friendly interface, DKNG has created a loyal customer base and an unparalleled brand name. While the Daily Fantasy Sports industry is undoubtedly different from the Sports Betting industry in terms of legalization and perception, there is certainly significant overlap in customers. Moreover, it is a common belief that many Sports Bettors began as customers of the Daily Fantasy Sports industry.

DKNG's market penetration in Daily Fantasy Sports has allowed it to seamlessly enter the Sports Betting industry as a market force. With the creation of its first Sportsbook in 2019, DKNG's Sportsbook is now operational in 9 states out of the 19 operational sports betting states. FanDuel, which is DKNG's most notable competitor, has a Sportsbook which is only operational in 8 states. DKNG is currently working on becoming operational in the newly legalized states.

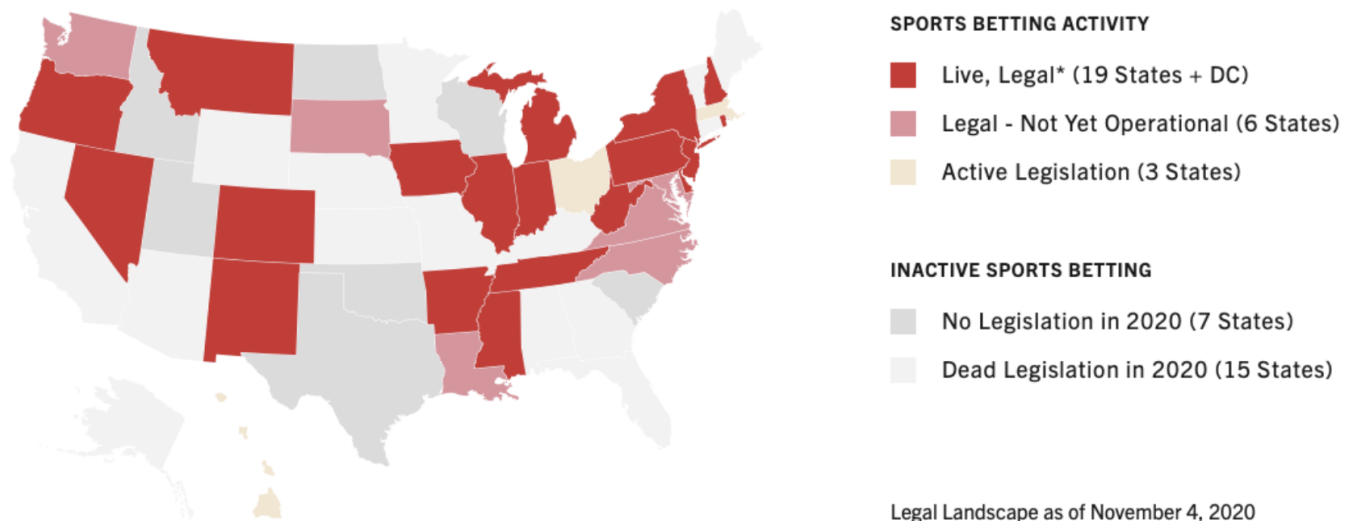


Image Source

Since 2019, the Sports Betting industry has seen enormous growth in terms of both number of customers and total wagers. In September of 2020, New Jersey recorded almost \$750 million in bets, which is 12% higher than the all-time high in August of 2020. While New Jersey consistently ranks first among all of the legalization sports betting states, this impressive growth cannot go unrecognized. Rather, it lends itself to the interpretation of the normalization of sports betting within not only sports culture, but also more broadly American culture. As more states have legalized sports betting and companies like DKNG and its competitors have opened operational Sportsbooks in those states, sports betting has become widely normalized. Prior to widespread legalization, sports betting was more or less condemned within society. However, over the past 2 years, sports betting has found its place at the heart of the sports industry.

This widespread normalization of the previously condemned sports betting is one of the many catalysts that will drive DKNG's long-term success. An investment timeframe of 5-6 months is encouraged based on the rapid legalization of sports betting, combined with favorable changes in major sports' seasons due to the COVID-19 pandemic.

## COVID-19 has Bolstered Sports Culture Which Translates into Sports Betting

The global pandemic caused the sports world to go on a temporary hiatus through the early months of 2020. In terms of sports betting, this caused some serious challenges for DraftKings and other companies in the space. However, as a result of the months-long absence of sports from popular entertainment - it is our belief that COVID-19 has bolstered interest for sports among Western culture. As major sporting leagues crept back to somewhat normal operations over the course of the year, people have become increasingly interested in sports as a form of mobile entertainment. As a result, sports betting engagement has seen all-time highs. For example, in August of this year \$2.1B in wagers were placed in

the US market, which is a historical record for OSG. Additionally, the OSG industry saw a 90% revenue increase compared to August of last year. Furthermore, DraftKings specifically recorded notable increases YTD in average unique monthly users, as well as revenue per unique user compared 2019, despite the adverse consequences of the pandemic. Our investment thesis anticipates that COVID-19 has given new life to sports culture which has in turn created the opportunity for mass familiarity and normalization of mobile sports betting, which DraftKings is perfectly positioned to capitalize on going forward into the 2021 major league seasons.

## Merging with SB Tech Gives DKNK a Long-Term Competitive Advantage

When DraftKings went public, they did so through a SPAC merger with a global leader in sports betting technology, SBTech. This acquisition comes with a multitude of advantageous synergies for DKNK. First and foremost, in their path to profitability, SBTech essentially brings previously outsourced technology in-house which has the potential to cut platform and transaction costs all together for the company over the next year. Additionally, SBTech operates as a global B2B technology company which not only grants DraftKings easier access to foreign markets, but further diversifies its revenue streams. Finally, SBTech's technological infrastructure has allowed them to be one of two Scaled Turnkey providers for the industry, which coupled with greatly enhanced data analytics capabilities further solidifies DraftKings' competitive advantage in the industry going forward. We believe that the benefits of this merger will soon be realized in the coming months as the major sports leagues engage in their seasons, which gives DKNK an edge on the likes of Fanduel which has very similar application offerings.

## Company Financials

DraftKings is currently at \$52.75 per share with a 52 week range of \$10.04 to \$64.19 and a market cap of \$16.2 billion. Draft King demonstrates many positive financial indicators for example their quarter three numbers beat expectations. In quarter three they had \$133 million in revenue, which is almost double of the same quarter last year, which was \$67 million. By the end of 2020, DraftKings is expected to have revenue growth of 25-30%, even though Covid led to extreme disruptions in sports' seasons. Over the next four years growth will be a lot higher than 2020 because there is likely to be a Covid vaccine by the end of 2020. Yearly growth from 2021 to 2025 is expected to be around 40-50%, which is very high. Growth will be high because states continue to legalize sports betting, and with legalization sports betting is also becoming normalized, which will lead to a lot of new users that DraftKings can capitalize on as an industry leader. The biggest risk we see is the high Sales & Marketing spend, which was \$203 million this quarter compared to \$133 million in revenue. We do believe the spend is justified because as states legalize sports betting DraftKing has to acquire users before competitors. Overall, DraftKing will show promising growth this year despite Covid, and will continue to do well through 2025.