Letter To Shareholders

February 2023

To our shareholders:

The end of the year is a great time to reflect and gather one's thoughts. In less than three short years as a public company, we have experienced an incredible bull market and now the first true bear market since DraftKings' launch in 2012. We have learned a lot and grown a lot, and now is the perfect time to share how we are thinking about 2023 and beyond with our shareholders.

The financial world changed in 2022. Gone are the days of "free" money. Gone are the days when investors would accept outsized losses as long as revenue grew or share increased.

So what does this mean for DraftKings?

These are the types of business environments in which great companies separate from the pack. If you have the right culture, and I believe we do, then your people will rise to the challenge. They will understand what needs to be done in the moment. The role of a leader in this type of organization is simply to confirm what people already know and to empower them to sharpen their focus on top priorities. In doing so, we create an opportunity to prove that more can be done with the same resources and to demonstrate that decisions previously thought of as trade-offs don't always have to be.

At DraftKings, we talk about *"Ands."* *"Ands"* are things that great companies can effectively do simultaneously, while weaker companies struggle to make progress in one area without harming progress in another. Examples include *Revenue Growth AND Cost Control* and *Win Now AND Invest in Foundational Areas to Win Long-Term*. Achieving *"Ands"* can be very difficult and often requires a rebalancing of resources and focus. However, difficult environments create the opportunity for great companies to differentiate competitively and take major leaps in maturation - often by orders of magnitude not achievable in the business climate of 2020 or 2021.

I believe that we will see three types of companies over the coming quarters and years. First are the companies that are under-capitalized and must take draconian actions to survive. Those that do not take these actions can end up gone forever, but even those that do make it to the other side usually end up greatly damaged. These companies suffer from being forced to make large cuts in areas where their competitors do not, and thus find themselves hopelessly behind even if they do manage to survive.

The second type of company may be well capitalized but cannot deploy capital in a sophisticated way. These companies can compete somewhat effectively in an "easy-money" or "gain share at all costs" business environment such as the one we experienced in 2020 and 2021. When liquidity is not abundant and investor support declines, however, these companies cannot reduce spend without also dramatically harming their ability to compete. After taking a "carpet bomb" approach to deploying capital, these companies will have to take a "hatchet" approach when it comes to reducing their spend.

The third type of company, just like the first two, also knows it needs to become more cost efficient and preserve capital. These companies, if not yet cash flow positive, know that they need to accelerate their path to profitability and must assume that sustained profitability will be their only reliable source of funding going forward. But they are able to do this in a far more sophisticated manner than the second type of company. While the second type of company uses a hatchet, these companies use a scalpel, methodically carving out expenses in areas that do not damage competitiveness.

At the same time, the third type of company will continue to invest behind initiatives that support long-term competitive advantages. These companies have the conviction to invest because they have the data and the analytical know-how to be confident that they are making the right choices. These are the companies that view years like 2020 and 2021 warily and years like 2022 and 2023 as times of great opportunity. These are the companies that thrive when conditions become more challenging. I believe DraftKings is one of these companies.

Why? It starts with the quality of our people and our culture. What our team was able to accomplish in 2022 was tremendous. We cut more than $100 million of in-year costs while also raising our revenue expectations for 2022 every quarter. We entered several new states and Ontario and competed effectively in a more cost-efficient manner. We also made tremendous progress on the product side, closing a significant number of meaningful competitive gaps while also adding more unique features and functionality to differentiate DraftKings from other operators. I believe that our product and customer experience is objectively better than it was a year ago and is being appreciated by our customers. And the best part is that we are just getting started.

Over the past 12 months, we have also focused inward. We improved retention of top talent, fixed internal processes that had not scaled, and streamlined organizational structures so we can accomplish more with the same resources. We established measurement systems to optimize internal efficiency. We evangelized a culture of “rapid escalation” whereby employees are expected to quickly inform senior leaders when they identify inefficiencies that need to be addressed or decisions that are blocked. To be clear, our work is not done here, and it probably never will be. But our appetite and ability to focus on these areas increased in 2022.

Last, but not least, 2022 was a year of tremendous financial results. Fiscal year 2022 revenue of $2.2 billion increased 73% year-over-year and significantly outperformed the guidance of $1.85 billion to $2.0 billion that we provided in February 2022. Adjusted EBITDA[1] was ($722) million for fiscal year 2022 versus our initial guidance in February 2022 of ($825) million to ($925) million, and we outperformed by even more when adjusting for jurisdictions that were not included in our initial guidance. Our fourth quarter 2022 results also significantly exceeded expectations for both revenue and Adjusted EBITDA. Revenue for the fourth quarter increased 81% year-over-year, we generated positive Adjusted EBITDA in October, and Adjusted EBITDA was positive for the entire fourth quarter after adjusting for investments related to our launches in Maryland and Ohio.

In 2023, I expect our strong performance to continue. We are raising fiscal year 2023 guidance for both revenue and Adjusted EBITDA to a range of $2.85 billion to $3.05 billion and ($350) million to ($450) million, respectively. Cohorts continue to be healthy, and we continue to see parlay mix and average leg count increasing, giving us confidence that we will make further gains in our sports betting hold rate in 2023. We also expect to produce our first Adjusted EBITDA-positive quarter in the fourth quarter of this year, which sets us up nicely to achieve our first year of positive Adjusted EBITDA in fiscal year 2024 even while investing in new states, and gives us confidence in our long-term margin targets. Finally, in 2023 we will continue to look inward, making progress with retention and development of top talent, improving our internal operations and processes, and managing expenses.

In closing, I am more confident than ever about what the future holds for DraftKings. With a massive TAM, a high-quality and ever-improving product and customer experience, substantial scale and sophistication in our marketing, a deep focus on efficiency, and what I believe is the most talented group of people and best culture in the industry, we are well-positioned to fulfill our long-term vision and financial expectations. 2022 marked the 10-year anniversary for DraftKings, and as we enter our second decade, I could not be more excited to lead this incredible team as we drive our business to new heights in 2023 and beyond.

I'd like to thank our employees for their hard work, our customers for their loyalty, and our shareholders for their support.

Sincerely,

Jason D. Robins
Chief Executive Officer and Co-founder

[1] Adjusted EBITDA is a non-GAAP financial measure. Please refer to the end of this document for the definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to its most directly comparable GAAP financial measure.

A Letter From Our Chief Financial Officer

I am truly excited about 2023. Though the macroeconomic backdrop in 2022 was difficult, we made significant progress internally that has set us up nicely for a successful 2023 and beyond. We have an excellent team in place to drive revenue, gross profit and contribution profit[2], and the organization is focused on both revenue growth *AND* expense management. We are confident we have sufficient capital to achieve positive free cash flow, and our state unit economics are strong with an early view that states are generating positive contribution profit faster than we previously expected. These factors add up to a business that will accelerate its profitability and subsequently expand its Adjusted EBITDA margins. Here is more detail on each element:

- Our product general managers and functional leaders are highly accountable and operating efficiently. They are enabled with data and analytic insights to inform their decisions on customer engagement, customer retention and monetization, marketing efficacy, and our product and technology roadmap.
- Because of these great leaders, we are very optimistic about revenue, gross profit, and contribution profit heading into 2023. We have much more pattern recognition now on all the core drivers, and those core drivers are all unfolding as we anticipated. Customers are staying engaged and using our products more, sportsbook hold percentage is increasing, and promotional intensity is declining – which have significant gross margin and Adjusted EBITDA flow-through implications – and our national marketing scale continues to surface efficiency opportunities and strengthen an important competitive advantage.
- We are entering 2023 with a continued focus on expense management *AND* revenue growth. 2022 was important in that we exercised and strengthened our muscle around cost and efficiency. Yes, we found more than $100 million of cost efficiencies, but more importantly, our leadership team continues to explore ways to execute more effectively and to streamline processes and improve workflows. I am proud that over the past 12 months, we were able to differentially focus on cost and efficiency without sacrificing the strong revenue growth trajectory we continue to experience.
- I am also very confident about our liquidity and cash flow profile over the coming years and that we have no need for additional capital. We are appreciative of the many investors who have supported us and continue to support us. We are working hard to build the most valuable company we can, and it is great to know that we can focus entirely on operating the business without worrying about additional financing needs.
- Our state unit economics are progressing nicely against our expectations, with an early read that newer states are achieving positive contribution profit faster than we originally projected. The core of our business model is that we invest into a new state for approximately two years through promotions and marketing. Following this period, in our experience a state turns contribution profit positive and begins to generate significant growth in contribution profit. We are seeing this happen as evidenced by the fact that 11 of our states were contribution profit positive in fiscal year 2022, and our total contribution profit - including states that were still in investment mode - was positive $105 million in fiscal year 2022. In fiscal year 2023, we expect more states to turn contribution profit positive and for our total contribution profit to be greater than $500 million even when including investment in new states. The core drivers for this inflection are excellent: we are retaining players well because of our great product, monetizing better through lower promotions and higher hold percentage, converting to higher gross margin because of the flow through from lower promotions and higher hold, and reducing our marketing spend to reflect the maturity of each state.

Fourth Quarter 2022 and Full Year 2022

DraftKings produced outstanding results in the fourth quarter of 2022, delivering $855 million of revenue and ($50) million of Adjusted EBITDA. Adjusted EBITDA was positive on a company-wide basis in October 2022 and was positive for the fourth quarter when adjusting for our launch investments in Maryland and Ohio. In addition, 18 of the 19 states in which we were live as of December 31, 2022 were contribution profit positive in the fourth quarter, with only recently-launched Maryland producing negative contribution profit.

[2] Contribution Profit is a non-GAAP financial measure that we define and calculate as Adjusted Gross Profit less external marketing expense. Please refer to the end of this document for a reconciliation to the most directly comparable GAAP financial measure.

We were pleased that we significantly exceeded the guidance midpoints for revenue and Adjusted EBITDA that we provided on November 4, 2022 and even more thrilled that the outperformance was driven by lasting improvements in our business that we believe will support our results in future periods.

Structural hold improvement, continued promotional optimization, strong fundamental customer activity, and favorable sport outcomes all contributed to approximately $65 million of revenue outperformance relative to the midpoint of the guidance we gave on our third quarter 2022 earnings call. Structural hold improvement was particularly strong, with parlay mix of bets up more than 800 basis points and average leg count up almost 10% on a year-over-year basis.

Importantly, we also managed costs effectively. Adjusted EBITDA outperformed our guidance by about $70 million, with approximately $45 million driven by our $65 million revenue outperformance (representing an approximately 70% flow through percentage to Adjusted EBITDA[3]) and approximately $25 million from increased cost discipline. Our organization has a real mindset for expense management and operating efficiency which permeates through our spending decisions.

For fiscal year 2022, we generated $2,240 million of revenue and ($722) million of Adjusted EBITDA, representing a 73% revenue growth rate and a (32%) Adjusted EBITDA margin.

2023 Outlook

Looking ahead, we have improved our 2023 guidance for both revenue and Adjusted EBITDA relative to our expectations three months ago.

We are raising our revenue guidance for fiscal year 2023 to a range of $2.85 billion to $3.05 billion from the range of $2.8 billion to $3.0 billion that we announced on November 4, 2022. The Company's updated 2023 revenue guidance range equates to year-over-year growth of 27% to 36%.

We expect our Adjusted Gross Margin[4] to improve to between 42% and 45% in fiscal year 2023.

Over the past three months, we have performed a full organizational review to identify where we can become more efficient while not harming our revenue outlook. This work culminated in new marketing and compensation expense plans for 2023.

Our external marketing budget review – which included evaluating renewal decisions for certain team, league, and media deals – resulted in a plan to save an additional $50 million relative to our November guidance.

Our new compensation expense plan will save approximately $50 million relative to the plan we had when we provided guidance in November 2022. We reduced our hiring plan by approximately 500 people and are eliminating approximately 140 roles. Collectively, these actions result in a workforce approximately 10% smaller than our previous plan for year-end 2023.

Our organization has grown rapidly over the past three years – from roughly 1,000 employees then to over 4,000 employees today – which was necessary to build the capabilities required to properly address this large market opportunity. DraftKings is now largely at scale, and we expect compensation expense growth to be modest going forward, which is a key driver of the meaningful slowdown in the growth rate of our fixed costs in fiscal year 2023 versus fiscal year 2022.

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[3] Adjusted EBITDA Flow-through Percentage is calculated as the year-over-year change in Adjusted EBITDA, which is a non-GAAP financial measure, divided by the year-over-year change in revenue. Please refer to the end of this document for the definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to its most directly comparable GAAP financial measure.

[4] Adjusted Gross Margin is a non-GAAP financial measure that we calculate and define as Adjusted Gross Profit divided by revenue. Please refer to the end of this document for a reconciliation of Adjusted Gross Margin to its most directly comparable GAAP financial measure.

Based on these factors, today we are significantly improving our fiscal year 2023 Adjusted EBITDA outlook. We now expect fiscal year 2023 Adjusted EBITDA of between ($350) million and ($450) million compared to our prior fiscal year 2023 Adjusted EBITDA guidance of between ($475) million and ($575) million that we announced on November 4, 2022.

Our revenue and Adjusted EBITDA guidance for fiscal year 2023 includes all the existing jurisdictions in which we are live plus jurisdictions in which we expect to launch during the guided period, including Massachusetts and Puerto Rico.

From an intra-year perspective, we expect to generate roughly 45% of our fiscal year 2023 revenue in the first half of the year and 55% in the second half of the year, consistent with typical seasonality.

Turning to Adjusted EBITDA, we expect roughly 75% of our expected loss to be in the first half of the year and only 25% in the second half, since we expect fourth quarter Adjusted EBITDA to be more than $100 million.

With $1.3 billion of cash on our balance sheet and our improved guidance for fiscal year 2023 Adjusted EBITDA, we now expect to exit 2023 with more than $700 million of cash on our balance sheet.

State Unit Economics Evidence

Our total profitability is a function of more mature states generating positive contribution profit, offset by investment in newer states. We provided additional disclosure in our investor presentation on our sportsbook hold percentage as well as the decline in promotional intensity and external marketing that we are experiencing to help illustrate this contribution profit – and therefore Adjusted EBITDA – inflection. As more of our states mature and generate expected positive contribution profit at an accelerating rate, our investors can better understand how overall Adjusted EBITDA improves rapidly.

In 2022, our total contribution profit across all of our states was $105 million, and we expect that will grow to more than $500 million in 2023. This rapid growth in contribution profit is the result of an acceleration in contribution profit for several of our most mature states due to operating leverage along with several less mature states beginning to generate positive contribution profit, offset by our investment in newer states.

For example, when we look at the five states that we launched in 2018 and 2019, revenue grew 50% in 2022 compared to 2021, an impressive growth rate for states that were in their third or fourth full year. This growth was enabled by strong customer retention, handle per player growth, improved hold, and reduced promotional intensity. Adjusted Gross Margin rate increased over 400 basis points from 2021 to 2022 for those same five states, and external marketing spend in those states dropped by more than 15% in 2022 compared to 2021. These are important data points, and we expect other state vintages will mature in a similar manner.

There are 5 major drivers of this inflection and acceleration:

- **Customer Retention:** We have retained our customers very well. Over a 4-year period from customer acquisition, our average annual retention rate has been 87%. The dynamic is such that we have seen the biggest churn in the first year, and then once a customer stays with us for a year they are very likely to stay with us for multiple years.
- **Handle per Retained Customer Growth:** When a customer has stayed with us, that customer's level of play has typically increased due to more frequent engagement and higher average bet size. Customers are trying new bet types, new sports and new games. They also tend to naturally grow their discretionary entertainment budget as they age and their income increases. Additionally, customers who churn are more likely to be casual, and retained customers tend to be more frequent players.
- **Promotional Intensity:** As a state matures, the mix of new versus existing customers shifts towards existing. Since our promotional reinvestment is higher for a new customer, our promotional intensity

within a state naturally declines over time. Additionally, we are constantly testing and optimizing the design and targeting of our promotions to maximize return and reduce inefficient expenses.

- **External Marketing:** External marketing is a function of how many new customers we are acquiring at a permissible customer acquisition cost (less than 3-year gross profit payback). As a state matures, the number of potential new customers declines, and therefore overall external marketing also tends to decrease on an absolute basis. Additionally, we are starting to see improved efficiency as we shift more of our budget into national marketing. 2022 was the year where we finally crossed the threshold of enough states for national marketing to begin to create this natural tailwind. As we launch additional states, we expect the benefit of this efficiency will increase even more. As a reminder, this is a competitive advantage for scaled operators who are present in many states.
- **Sports Betting Hold Rate:** Our improvement in hold percentage impacts all state vintages. As we discussed throughout last year, parlay mix and average leg count were the biggest drivers of improved hold percentage in 2022. This increased parlay mix and average leg count, as well as other drivers of improved hold, are due to a number of investments we have made, including our in-house data science models, the introduction of more content and parlay options, and an improved user interface for customers to find the bets they want to place and discover new bet types. We will continue to invest in our trading team and associated tools and capabilities.

The first four drivers create natural tailwinds for revenue growth, gross margin rate improvement, and contribution profit improvement as states mature. And we expect these tailwinds will continue to occur independent of any performance optimization by DraftKings. Sports betting hold rate improvement will continue to be an area of focus and investment as it will not occur naturally, but of course improvements here will also lead to growth in revenue, gross margin rate, and contribution profit.

The nature of our cost of revenue is that many of the expenses are dependent on variables such as deposits (payment processing), handle (federal excise tax), gross revenue (state taxes), and customer usage (platform costs like cloud service providers). For this reason, we expect that net revenue that results from increasing hold percentage or decreasing promotions will flow through to Adjusted Gross Profit[5] at a 70% to 90% rate.

Other Items on My Mind

- In 2023, 10 states that collectively represent approximately 19% of the U.S. population have either introduced legislation to legalize mobile sports betting or introduced bills that may result in sports wagering referendums during an upcoming election. In addition, 5 states that collectively represent approximately 14% of the U.S. population have either introduced legislation to legalize iGaming or introduced a bill that may result in an iGaming referendum during an upcoming election.
- Looking at our stock-based compensation philosophy and programs:
    - We have managed our equity compensation programs such that we expect our stock-based compensation expense in 2023 to be approximately $400 million, down from nearly $600 million in 2022.
    - As we are now approaching positive Adjusted EBITDA, the Compensation Committee of our Board of Directors made a significant change to management incentives. Performance-based compensation is 50% based on revenue targets and 50% based on Adjusted EBITDA targets.
    - From a dilution perspective, our Compensation Committee targets a 3-year CAGR of our common shares outstanding from employee stock compensation to be in the 75th percentile of our disclosed peer group. In 2022, our common shares outstanding grew 3.5% due to stock-based compensation, which was below the 75th percentile of the peer group, as included in our definitive proxy statement for our 2022 annual meeting of shareholders.

[5] Adjusted Gross Profit is a non-GAAP financial measure. Please refer to the end of this document for a reconciliation of Adjusted Gross Profit to its most directly comparable GAAP financial measure.

2022 marked an important year for DraftKings. We believe we have struck the right balance between revenue growth *AND* expense management. As we look to 2023, I am incredibly excited to see these efforts drive material improvements to our profitability outlook. While there is still much work ahead, I believe that the leaders at DraftKings understand and are aligned on the key drivers of both our short-term and long-term profitability. For that reason and many others, I have more conviction than ever that DraftKings is on the right path to achieve our long-term goals for Adjusted EBITDA.

Sincerely,

Jason Park
Chief Financial Officer

Webcast and Conference Call Details

As previously announced, DraftKings will host a conference call and audio webcast tomorrow, Friday, February 17, 2023, at 8:30 a.m. EST, during which management will discuss the Company's results for the quarter and provide commentary on business performance. A question and answer session will follow the prepared remarks.

To listen to the audio webcast and live question and answer session, please visit DraftKings' investor relations website at investors.draftkings.com. A live audio webcast of the earnings conference call will be available on the Company's website at investors.draftkings.com, along with a copy of the Letter to Shareholders, the Company's Annual Report on Form 10-K, a slide presentation, and our earnings press release. The audio webcast will be available on the Company's investor relations website until 11:59 p.m. EDT on March 14, 2023.

Forward-Looking Statements

This document contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, including statements about the Company and its industry that involve substantial risks and uncertainties. All statements, other than statements of historical fact, contained in this document, including statements regarding guidance, DraftKings' future results of operations or financial condition, strategic plans and focus, user growth and engagement, product initiatives, the objectives and expectations of management for future operations (including launches in new jurisdictions and the expected timing thereof), and the impact of COVID-19 on the Company's business and the economy as a whole, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "forecast," "going to," "intend," "may," "plan," "potential," "predict," "project," "propose," "should," "target," "will," or "would" or the negative of these words or other similar terms or expressions. DraftKings cautions you that the foregoing may not include all of the forward-looking statements made herein.

You should not rely on forward-looking statements as predictions of future events. DraftKings has based the forward-looking statements contained herein primarily on its current expectations and projections about future events and trends, including the current macroeconomic environment (including the impact of the COVID-19 pandemic), that it believes may affect its business, financial condition, results of operations, and prospects. These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside DraftKings' control and that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements. Important factors, among others, that may affect actual results or outcomes include, but are not limited to, DraftKings' ability to manage growth; DraftKings' ability to execute its business plan and meet its projections; potential litigation involving DraftKings; changes in applicable laws or regulations, particularly with respect to gaming; general economic and market conditions impacting demand for DraftKings' products and services; economic and market conditions in the media, entertainment, gaming, and software industries in the markets in which DraftKings operates; the potential adverse effects of the current macroeconomic environment (including the COVID-19 pandemic), general economic conditions, unemployment and DraftKings' liquidity, operations and personnel, as well as the risks, uncertainties, and other factors described in "Risk Factors" in DraftKings' filings with the Securities and Exchange Commission (the "SEC"), which are available on the SEC's website at www.sec.gov. Additional information will be made available in other filings that DraftKings makes from time to time with the SEC. The forward-looking statements contained herein are based on management's current expectations and beliefs and speak only as of the date hereof, and DraftKings makes no commitment to update or publicly release any revisions to forward-looking statements in order to reflect new information or subsequent events, circumstances or changes in expectations, except as required by law.

DRAFTKINGS INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	December 31, 2022[1]	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 1,309,172	$ 2,152,892
Cash reserved for users	469,653	476,950
Receivables reserved for users	160,083	51,949
Accounts receivables	51,097	45,864
Prepaid expenses and other current assets	94,836	25,675
Total current assets	**2,084,841**	**2,753,330**
Property and equipment, net	60,102	46,019
Intangible assets, net	776,934	535,017
Goodwill	886,373	615,655
Operating lease right-of-use assets	65,957	63,831
Equity method investment	10,080	9,825
Deposits and other non-current assets	155,865	45,377
Total assets	**$ 4,040,152**	**$ 4,069,054**
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 517,587	$ 387,737
Liabilities to users	686,173	528,874
Operating lease liabilities, current portion	4,253	12,814
Other current liabilities	38,444	—
Total current liabilities	**1,246,457**	**929,425**
Convertible notes, net of issuance costs	1,251,103	1,248,452
Non-current operating lease liabilities	69,332	57,341
Warrant liabilities	10,680	26,911
Long-term income tax liabilities	69,858	79,125
Other long-term liabilities	70,029	49,272
Total liabilities	**$ 2,717,459**	**$ 2,390,526**
Commitments and contingent liabilities (Note 13)		
Stockholders' equity:		
Class A common stock, $0.0001 par value; 900,000 shares authorized as of December 31, 2022 and December 31, 2021, respectively; 459,265 and 414,911 shares issued and 450,575 and 407,781 outstanding at December 31, 2022 and December 31, 2021, respectively	45	41
Class B common stock, $0.0001 par value; 900,000 shares authorized as of December 31, 2022 and December 31, 2021; 393,014 shares issued and outstanding at December 31, 2022 and December 31, 2021	39	39
Treasury stock, at cost; 8,690 and 7,130 shares as of December 31, 2022 and December 31, 2021, respectively	(332,133)	(306,614)
Additional paid-in capital	6,750,055	5,702,388
Accumulated deficit	(5,131,801)	(3,753,814)
Accumulated other comprehensive income	36,488	36,488
Total stockholders' equity	**1,322,693**	**1,678,528**
Total liabilities and stockholders' equity	**$ 4,040,152**	**$ 4,069,054**

[1] Unaudited.

Due to the timing of the consummation of DraftKings' acquisition of Golden Nugget Online Gaming, Inc. ("GNOG") (the "GNOG Transaction"), the above periods, to the extent applicable, exclude GNOG's operations prior to the closing date of May 5, 2022.

DRAFTKINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except loss per share data)

	Three months ended December 31,		Year ended December 31,	
	2022[(1)]	2021[(1)]	2022[(1)]	2021
Revenue	$ 855,133	$ 473,325	$ 2,240,461	$ 1,296,025
Cost of revenue	485,435	253,182	1,484,273	794,162
Sales and marketing	345,282	278,444	1,185,977	981,500
Product and technology	83,394	69,639	318,247	253,655
General and administrative	173,244	240,816	763,720	828,325
Loss from operations	**(232,222)**	**(368,756)**	**(1,511,756)**	**(1,561,617)**
Other income (expense):				
Interest income (expense), net	10,324	886	18,702	1,957
Gain on remeasurement of warrant liabilities	9,197	32,970	29,396	30,065
Other income (expense), net	(19,866)	11,951	20,700	11,951
Loss before income tax provision (benefit) and loss from equity method investment	**(232,567)**	**(322,949)**	**(1,442,958)**	**(1,517,644)**
Income tax provision (benefit)	9,714	6,615	(67,866)	8,269
Loss (income) from equity method investments	416	(3,267)	2,895	(2,718)
Net loss attributable to common stockholders	**$ (242,697)**	**$ (326,297)**	**$ (1,377,987)**	**$ (1,523,195)**
Loss per share attributable to common stockholders:				
Basic and diluted	$ (0.53)	$ (0.80)	$ (3.16)	$ (3.78)

[(1)] Unaudited.

Due to the timing of the consummation of the GNOG Transaction, the above periods, to the extent applicable, exclude GNOG's operations prior to the closing date of May 5, 2022.

DRAFTKINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year ended December 31,	
	2022[(1)]	**2021**
Cash Flows from Operating Activities:		
Net loss	$ (1,377,987)	$ (1,523,195)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	169,252	121,138
Non-cash interest expense	870	2,109
Stock-based compensation expense	578,799	683,293
Gain on remeasurement of warrant liabilities	(29,396)	(30,065)
(Gain) loss from equity method investment	2,895	(2,718)
Gain on marketable equity securities and other financial assets, net	(10,999)	(11,311)
Deferred income taxes	(73,407)	(15,509)
Other expenses, net	(7,268)	—
Change in operating assets and liabilities, net of effect of acquisitions:		
Receivables reserved for users	(105,320)	(21,700)
Accounts receivable	2,506	(1,787)
Prepaid expenses and other current assets	(26,217)	(10,078)
Deposits and other non-current assets	(4,921)	(6,458)
Operating leases, net	1,304	(1,059)
Accounts payable and accrued expenses	95,269	167,927
Liabilities to users	152,985	210,932
Long-term income tax liability	(9,267)	13,227
Other long-term liabilities	15,383	5,746
Net cash flows used in operating activities	**(625,519)**	**(419,508)**
Cash Flows from Investing Activities:		
Purchases of property and equipment	(32,402)	(15,925)
Cash paid for internally developed software costs	(64,030)	(46,542)
Acquisition of gaming licenses	(7,213)	(35,809)
Purchase of marketable equity securities and other financial assets	—	(25,000)
Cash paid for acquisitions, net of cash acquired	(96,507)	(64,970)
Other investing activities, net	(8,614)	(6,776)
Net cash flows used in investing activities	**(208,766)**	**(195,022)**
Cash Flow from Financing Activities:		
Proceeds from issuance of convertible notes, net	—	1,248,025
Purchase of capped call options	—	(123,970)
Proceeds from exercise of warrants	44	693
Purchase of treasury stock	(25,519)	(17,830)
Proceeds from exercise of stock options	8,743	31,479
Other financing activities	—	416
Net cash flows provided by financing activities	**(16,732)**	**1,138,813**
Effect of foreign exchange rates on cash and cash equivalents and restricted cash	—	583

Net increase (decrease) in cash, cash equivalents and restricted cash		**(851,017)**		**524,866**
Cash and cash equivalents and restricted cash at the beginning of period		2,629,842		2,104,976
Cash and cash equivalents and restricted cash, end of period	**$**	**1,778,825**	**$**	**2,629,842**
Disclosure of cash, cash equivalents and restricted cash:				
Cash and cash equivalents	$	1,309,172	$	2,152,892
Cash reserved for users		469,653		476,950
Total cash, cash equivalents and restricted cash, end of period	**$**	**1,778,825**	**$**	**2,629,842**
Supplemental Disclosure of Noncash Investing and Financing Activities:				
Investing activities included in accounts payable and accrued expenses		9,155		(3,758)
Equity consideration issued for acquisitions		460,128		33,149
Supplemental Disclosure of Cash Activities:				
(Decrease) increase in cash reserved for users		(7,297)		189,232
Cash paid for income taxes, net of refunds		10,366		5,632

(1) *Unaudited.*

Due to the timing of the consummation of the GNOG Transaction, the above periods, to the extent applicable, exclude GNOG's operations prior to the closing date of May 5, 2022.

Non-GAAP Financial Measures

This document includes Adjusted EBITDA, Adjusted EBITDA Flow-Through Percentage, Adjusted Gross Profit, Adjusted Gross Margin, and Contribution Profit, which are non-GAAP financial measures that DraftKings uses to supplement its results presented in accordance with U.S. GAAP. The Company believes Adjusted EBITDA, Adjusted EBITDA Flow-Through Percentage, Adjusted Gross Profit, Adjusted Gross Margin, and Contribution Profit are useful in evaluating its operating performance, similar to measures reported by its publicly-listed U.S. competitors, and regularly used by security analysts, institutional investors and other interested parties in analyzing operating performance and prospects. Adjusted EBITDA, Adjusted EBITDA Flow-Through Percentage, Adjusted Gross Profit, Adjusted Gross Margin, and Contribution Profit are not intended to be substitutes for any U.S. GAAP financial measures, and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry.

DraftKings defines and calculates Adjusted EBITDA as net loss before the impact of interest income or expense (net), income tax provision or benefit, and depreciation and amortization, and further adjusted for the following items: stock-based compensation, transaction-related costs, litigation, settlement and related costs, advocacy and other related legal expenses, gain or loss on remeasurement of warrant liabilities, and other non-recurring and non-operating costs or income. DraftKings defines and calculates Adjusted EBITDA Flow-Through Percentage as the year-over-year change in Adjusted EBITDA, divided by the year-over-year change in revenue. DraftKings defines and calculates Adjusted Gross Profit as gross profit before the impact of amortization of acquired intangible assets, depreciation and amortization, and stock-based compensation. DraftKings defines and calculates Adjusted Gross Margin as Adjusted Gross Profit divided by net revenue. DraftKings defines and calculates Contribution Profit as Adjusted Gross Profit less external marketing expense.

DraftKings includes these non-GAAP financial measures because they are used by management to evaluate the Company's core operating performance and trends and to make strategic decisions regarding the allocation of capital and new investments. Adjusted EBITDA, Adjusted EBITDA Flow-Through Percentage, Adjusted Gross Profit, Adjusted Gross Margin, and Contribution Profit exclude certain expenses that are required in accordance with U.S. GAAP because they are non-recurring items (for example, in the case of transaction-related costs and advocacy and other related legal expenses), non-cash expenditures (for example, in the case of depreciation and amortization, remeasurement of warrant liabilities and stock-based compensation), or non-operating items which are not related to the Company's underlying business performance (for example, in the case of interest income and expense and litigation, settlement and related costs).

The unaudited table below presents the Company's Adjusted EBITDA reconciled to its net loss, which is the most directly comparable financial measure calculated in accordance with U.S. GAAP, for the periods indicated:

	Three months ended December 31,		Year ended December 31,	
(amounts in thousands)	**2022**	**2021**	**2022**	**2021**
Net loss	**$ (242,697)**	**$ (326,297)**	**$ (1,377,987)**	**$ (1,523,195)**
Adjusted for:				
Depreciation and amortization [(1)]	48,623	32,538	169,252	121,138
Interest (income) expense, net	(10,324)	(886)	(18,702)	(1,957)
Income tax provision (benefit)	9,714	6,615	(67,866)	8,269
Stock-based compensation [(2)]	130,161	184,047	578,799	683,293
Transaction-related costs [(3)]	2,285	10,055	17,315	25,316
Litigation, settlement, and related costs [(4)]	1,224	1,459	7,010	10,392
Advocacy and other related legal expenses [(5)]	—	12,713	16,558	40,415
Loss (gain) on remeasurement of warrant liabilities	(9,197)	(32,970)	(29,396)	(30,065)
Other non-recurring and non-operating costs (income) [(6)]	20,284	(15,240)	(16,764)	(9,739)
Adjusted EBITDA	**$ (49,927)**	**$ (127,966)**	**$ (721,781)**	**$ (676,133)**

Due to the timing of the consummation of the GNOG Transaction, the above periods, to the extent applicable, exclude GNOG's operations prior to the closing date of May 5, 2022.

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(1) The amounts include the amortization of acquired intangible assets of $30.0 million and $20.2 million for the three months ended December 31, 2022 and 2021, respectively, and $106.1 million and $80.1 million for the years ended 2022 and 2021, respectively.
(2) Reflects stock-based compensation expenses resulting from the issuance of awards under incentive plans.
(3) Includes capital markets advisory, consulting, accounting and legal expenses related to evaluation, negotiation and integration costs incurred in connection with pending or completed transactions and offerings. For the three months and the years ended December 31, 2022 and 2021, these costs include, among other things, expenses incurred in connection with the GNOG Transaction.
(4) Primarily includes external legal costs related to litigation and litigation settlement costs deemed unrelated to DraftKings' core business operations.
(5) Includes certain non-recurring and non-ordinary course costs relating to advocacy efforts and other legal expenses in jurisdictions where DraftKings does not operate certain product offerings and is actively seeking licensure, or similar approval, for those product offerings. For the year ended December 31, 2022, those costs primarily related to the Company's support of Proposition 27 in California. For the year ended December 31, 2021, those costs primarily related to DraftKings' support of Proposition 27 in California and the Company's support of the sports betting ballot initiative in Florida. The amounts presented exclude (i) costs relating to advocacy efforts and other legal expenses in jurisdictions where DraftKings does not operate that are incurred in the ordinary course of business and (ii) costs relating to advocacy efforts and other legal expenses incurred in jurisdictions where related legislation has been passed and DraftKings currently operates.
(6) Primarily includes the change in fair value of certain financial assets, as well as the Company's equity method share of investee's losses and other costs relating to non-recurring and non-operating items.

The unaudited table below presents the Company's Adjusted Gross Profit, Adjusted Gross Margin, and Contribution Profit reconciled to Gross Profit, which is the Company's most directly comparable financial measure calculated in accordance with U.S. GAAP, for the periods indicated:

	Year ended December 31,	
(amounts in millions)	**2022**	**2021**
Net Revenue	**$ 2,240**	**$ 1,296**
Gross Profit	**$ 756**	**$ 502**
Adjusted for:		
Depreciation and amortization	45	30
Acquisition amortization	106	80
Stock-based compensation	4	5
Adjusted Gross Profit(1)	**$ 912**	**$ 616**
Adjusted Gross Margin	**41 %**	**48 %**
External marketing	807	713
Contribution Profit(1)	**$ 105**	**$ (97)**

(1) Totals may not sum due to rounding.

Information reconciling forward-looking fiscal year 2023 Adjusted EBITDA, Contribution Profit, and Adjusted Gross Margin guidance to their most directly comparable U.S. GAAP financial measures is unavailable to DraftKings without unreasonable effort due to, among other things, certain items required for such reconciliations being outside of DraftKings' control and/or not being able to be reasonably predicted. Preparation of such reconciliations would require a forward-looking balance sheet, statement of income and statement of cash flow, prepared in accordance with U.S. GAAP, and such forward-looking financial statements are unavailable to the Company without unreasonable effort. DraftKings provides a range for its Adjusted EBITDA, Contribution Profit, and Adjusted Gross Margin forecast that it believes will be achieved; however, the Company cannot provide any assurance that it can predict all of the components of the Adjusted EBITDA, Contribution Profit, or Adjusted Gross Margin calculations. DraftKings provides a forecast for Adjusted EBITDA, Contribution Profit and Adjusted Gross Margin because it believes that Adjusted EBITDA, Contribution Profit and Adjusted Gross Margin, when viewed with DraftKings' results calculated in accordance with U.S. GAAP, provide useful information for the reasons noted above. However, Adjusted EBITDA, Contribution Profit and Adjusted Gross Margin are not measures of financial performance or liquidity under U.S. GAAP and, accordingly, should not be considered as alternatives to net income (loss), gross profit, or cash flow from operating activities or as indicators of operating performance or liquidity.

About DraftKings

DraftKings Inc. is a digital sports entertainment and gaming company created to fuel the competitive spirit of sports fans with products that range across daily fantasy, regulated gaming and digital media. Headquartered in Boston, and launched in 2012 by Jason Robins, Matt Kalish and Paul Liberman, DraftKings is the only U.S.-based vertically integrated sports betting operator. DraftKings' mission is to make life more exciting by responsibly creating the world's favorite real-money games and betting experiences. DraftKings Sportsbook is live with mobile and/or retail sports betting operations pursuant to regulations in 22 states and in Ontario, Canada. The Company operates iGaming pursuant to regulations in 5 states and in Ontario, Canada under its DraftKings brand and pursuant to regulations in 3 states under its Golden Nugget Online Gaming brand. DraftKings' daily fantasy sports product is available in 44 states, certain Canadian provinces and the United Kingdom. DraftKings is both an official daily fantasy and sports betting partner of the NFL, NHL, PGA TOUR and UFC, as well as an official daily fantasy partner of NASCAR, an official sports betting partner of the NBA and an authorized gaming operator of MLB. Launched in 2021, DraftKings Marketplace is a digital collectibles ecosystem designed for mainstream accessibility that offers curated NFT drops and supports secondary-market transactions. In addition, DraftKings owns and operates Vegas Sports Information Network (VSiN), a multi-platform broadcast and content company. DraftKings is committed to being a responsible steward of this new era in real-money gaming with a Company-wide focus on responsible gaming and corporate social responsibility.

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