Business Update

Third Quarter 2023

To Our Shareholders:

2023 has been a very positive year for DraftKings as our core underlying drivers have been very strong. Multiple years of investment are paying off and our inflection to enterprise profitability on an Adjusted EBITDA basis has happened faster – and more substantially – than we expected. In this update, we will focus on our third quarter results, the core drivers of our success and what to expect for the rest of 2023, as well as our outlook for 2024 based on foundational customer and state economics.

Our entire organization executed masterfully around the start of the NFL and college football season. Our preparation was detailed and thoughtful, resulting in a very strong September and third quarter as a whole. Our plans were underpinned by years of consistent and effective investment culminating in an industry-leading product offering heading into football season. Most importantly, we remain laser-focused on our core value drivers: acquiring customers efficiently, retaining and monetizing our existing customers through best-in-class products and leading customer service, entering new jurisdictions, and building an efficient and scaled organization.

This focus on our core value drivers resulted in excellent third quarter results with both revenue and Adjusted EBITDA[1] exceeding our expectations. In addition, our momentum from the third quarter has continued through October and the start of the 2023-2024 NBA season. As a result, we are increasing the midpoints of our revenue and Adjusted EBITDA guidance by $195 million and $100 million, respectively, for fiscal year 2023. And today we are introducing a fiscal year 2024 revenue guidance range of $4.5 billion to $4.8 billion and a fiscal year 2024 Adjusted EBITDA guidance range of $350 million to $450 million.

As we reflect on the third quarter and 2023, here are our key takeaways:

- First, **we are winning**. Our customers have strong loyalty to DraftKings and are engaging with our products in a sustained manner. Our entire value proposition – focusing on the customer, offering the best product, and providing the most exciting betting markets and games – is resonating with our customers and showing up in our financial results and share. Third quarter 2023 revenue increased 57% year-over-year and reports[2] indicate we achieved #1 combined OSB and iGaming Gross Gaming Revenue ("GGR") share in the U.S.[3] This positive share trajectory is very impressive as we have added over 1,000 basis points of combined OSB and iGaming share since the second quarter of 2022.

- Second, **our investments in product and technology are paying off**. We acquired our bet engine in 2020 and completed the migration to become a fully vertically integrated mobile sports betting operator in the third quarter of 2021. Over the last two years, our product and technology team has been innovating to create a best-in-class product. As a result of these efforts, our structural Sportsbook hold percentage is continuing to increase in large part due to increasing parlay mix. We believe we now have the best product

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[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.

[2] Krafcik, C., Singer, D., Bowden, A., Allen, B. (October 18, 2023). *DraftKings Is Your New U.S. Market Leader*. Eilers & Krejcik Gaming, LLC.

[3] Share denominator includes all U.S. states where DraftKings is live with OSB and/or iGaming, as applicable, and data was available as of November 1, 2023. Contributions from the Golden Nugget Online Gaming brand are included. Poker gross revenue is included in the TAM denominator (DraftKings does not currently offer poker).

in the industry and, most importantly, have a clear product roadmap to extend our product lead over the coming quarters and years.

- Third, **our older states are generating significant positive Contribution Profit[4] and newer states are generating positive Contribution Profit faster than previous states**. Foundational state-level unit economics are evolving better than we anticipated. Older states are growing contribution profit rapidly due to strong net revenue growth – from higher customer retention, increasing handle-per customer, improving promotional reinvestment, and better hold – and expanding Adjusted Gross Margin[5] as well as decreasing external marketing and improving CACs. Newer states are turning contribution profit positive in a significantly faster timeframe because we are acquiring customers more rapidly after a state launches. We look forward to sharing additional insight into these drivers at our Investor Day.

- Fourth, **our organization is largely at scale, and we therefore expect attractive Adjusted EBITDA Flow-through Percentage[6] on incremental revenue**. Over the past few years, we have built an organization that is right-sized for the opportunity in front of us, and we expect low annual fixed cost growth from here and therefore a long runway of margin improvement. Fixed cost efficiency contributed meaningfully to our positive Adjusted EBITDA performance in the second quarter of 2023 and is a key enabler of our implied positive Adjusted EBITDA guidance for the second half of 2023 and for our fiscal year 2024 Adjusted EBITDA guidance.

- Finally, **we believe the best is yet to come**. We are excited for the future and look forward to presenting our latest views on the U.S. opportunity, sources of competitive differentiation, core business drivers including additional details on unit economics, and our multi-year financial outlook at our Investor Day on November 14th.

Third Quarter 2023 Results

In the third quarter, we generated revenue of $790 million, representing 57% year-over-year growth, and $(153) of Adjusted EBITDA, representing year-over-year improvement of $111 million.

Relative to our own expectations for the third quarter, we saw strong results across our core drivers:

- Strong **customer retention and engagement** resulted in higher-than-expected handle for the quarter. We are seeing excellent traction with our enhanced and in-house live Same Game Parlay offering as well as with our live and player prop markets.

- **Customer acquisition** across our states was healthy and exceeded expectations. Furthermore, we have already acquired more than 5% of the adult population in Kentucky through October 31st following the

[4] Contribution Profit is a non-GAAP financial measure that we define and calculate as Adjusted Gross Profit less external marketing expense.

[5] Adjusted Gross Margin is a non-GAAP financial measure that we define and calculate 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.

[6] 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.

launch of our mobile sportsbook in that state on September 28th. The pace of customer acquisition in Kentucky on a population-normalized basis has been very strong and similar to other recent state launches.

- **Structural sportsbook hold percentage** was above 9.5% in the quarter and ahead of expectations as we continued to improve our parlay mix and optimize our trading capabilities. Structural hold was particularly strong in MLB as customers engaged significantly more with parlays, player props and live betting markets on a year-over-year basis. Our actual sportsbook hold percentage was approximately 9%, inclusive of customer-friendly sport outcomes primarily due to college and professional football.

- **Promotional reinvestment** outperformed our expectations due to stronger than anticipated retention of existing customers resulting in a slightly higher mix of existing customers versus new customers. Promotions as a percentage of GGR continued to improve on a year-over-year basis for our OSB and iGaming states.

Adjusted Gross Margin was in line with expectations and improved by almost 300 basis points compared to the third quarter of 2022. Adjusted Gross Margin on a year-to-date basis increased by almost 500 basis points compared to the first nine months of 2022. Strong handle growth combined with improving structural sportsbook hold rate and better promotional reinvestment for OSB and iGaming contributed to higher Adjusted Gross Margin.

External marketing and **fixed costs** were in line with our plans as we executed our football season kick-off plan and continued to exert discipline against our compensation expenses and vendor-related costs.

Our **more mature online Sportsbook and iGaming states** continue to exhibit very strong trends. Combining our states that launched from 2018 through 2021, handle and revenue continued to grow at very strong year-over-year rates with corresponding improvement in Adjusted Gross Margin. In addition, external marketing costs continued to decline at a double-digit rate, while we continued to add new customers also at a double-digit rate. We will provide more granularity on state vintage performance at our Investor Day on November 14th.

We ended the third quarter with $1.1 billion of **cash and cash equivalents**, essentially flat compared to our cash and cash equivalents on June 30, 2023, primarily due to positive net working capital[7] in the third quarter, a trend that is typical for our business during this period of a fiscal year.

Full Year 2023 Guidance

On August 3, 2023, we guided fiscal year 2023 revenue of $3.46 billion to $3.54 billion and Adjusted EBITDA of negative $190 million to negative $220 million. Today, we are improving our fiscal year 2023 revenue guidance range to $3.67 billion to $3.72 billion and our Adjusted EBITDA guidance range to negative $95 million to negative $115 million.

Notably, the midpoint of our fiscal year 2023 Adjusted EBITDA guidance implies approximately $44 million of positive Adjusted EBITDA in the second half of fiscal year 2023 in addition to the $73 million of Adjusted EBITDA that we generated in the second quarter of 2023.

[7] Working capital includes accounts receivable, prepaid expenses and other, and accounts payable and accrued expenses.

The $195 million improvement in our fiscal year 2023 revenue guidance midpoint and $100 million improvement in our Adjusted EBITDA guidance midpoint break down as follows:

- **Stronger Customer Retention and Engagement**. Customer retention and engagement, as well as new customer acquisition, continue to exceed expectations due to ongoing product innovation and marketing optimization initiatives. These trends account for $165 million of the revenue improvement and $90 million of the Adjusted EBITDA improvement.

- **Structural Sportsbook Hold Improvement**. Continued year-over-year bet mix improvement, as well as improvements in trading and risk management, are positively impacting our structural sportsbook hold rate, which we expect will be consistent with the third quarter of 2023. This trend accounts for $70 million of the revenue improvement and $50 million of the Adjusted EBITDA improvement.

- **Customer-friendly Sport Outcomes**. Sport outcomes in the third quarter – including college and professional football game results – were favorable for our customers. Outcomes resulted in headwinds to our revenue and Adjusted EBITDA of $40 million and $30 million, respectively.

- **Expected OSB Launch in Maine in 2023**.[8] We are very excited to be one of only two operators expected to operate OSB in Maine. As a result, we have included in our revised guidance our anticipated OSB launch in Maine and the corresponding investment of $10 million that will impact Adjusted EBITDA in the fourth quarter of 2023. Our strong performance allows us to absorb this incremental investment and still improve our implied Adjusted EBITDA guidance for the fourth quarter of 2023.

We now expect our **Adjusted Gross Margin** to be in the range of 43.5% to 45% for the year, an improvement from our previous guidance of 43% to 45%.

We continue to expect **fixed costs** to grow less than 10% and **external marketing** to be consistent with prior guidance even when including our investment in Maine.

We continue to expect that 2023 **stock-based compensation expense** will be less than $400 million.

We expect our **year-end 2023 cash and cash equivalents** to be more than $1.2 billion inclusive of approximately $120 million of annual capital expenditures[9] and capitalized software development costs as well as slightly positive change in net working capital[10] for fiscal year 2023. We expect capital expenditures and capitalized software development costs as well as working capital trends to be similar in fiscal year 2024, implying high Free Cash Flow[11] as a percentage of Adjusted EBITDA.

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[8] Pending licensure and regulatory approvals.

[9] Capital expenditures includes purchases of property and equipment.

[10] Working capital includes accounts receivable, prepaid expenses and other, and accounts payable and accrued expenses.

[11] Free Cash Flow is a non-GAAP financial measure. We define Free Cash Flow as Adjusted EBITDA less investments into property and equipment and capitalized software, adjusted for sources or uses of cash from changes in net working capital and sources or uses of cash from net cash interest, and less cash corporate taxes paid.

Full Year 2024 Guidance

DraftKings is poised for a rapid increase in Adjusted EBITDA due to continued strong revenue growth coupled with a scaled fixed cost structure. All of our hard work across our core drivers is paying off. Our more mature states are expected to continue to grow contribution profit, while our newer states are expected to start to generate positive contribution profit. In parallel, we will sustain our focus on operational efficiency and expense control.

The midpoint of the fiscal year **2024 revenue** guidance range of $4.5 billion to $4.8 billion that we are introducing today equates to nearly $1.0 billion of incremental revenue growth compared to the midpoint of our fiscal year 2023 revenue guidance.

Our fiscal year **2024 Adjusted EBITDA** guidance range of $350 million to $450 million equates to more than $500 million of year-over-year growth in Adjusted EBITDA compared to the midpoint of our fiscal year 2023 Adjusted EBITDA guidance and an Adjusted EBITDA Flow-through Percentage of approximately 53%.

We expect our **Adjusted Gross Margin** to continue to naturally improve as our states mature and therefore to increase by 200 to 300 basis points in fiscal year 2024.

Our revenue and Adjusted EBITDA guidance for fiscal years 2023 and 2024 **includes all our existing jurisdictions as well as mobile sports betting launches in Maine, Puerto Rico, Vermont,** and **North Carolina.** Maine, Puerto Rico and North Carolina are pending launch. Vermont has authorized mobile sports betting and is in the process of running an RFP process for which DraftKings has submitted a bid. These states collectively represent approximately 5% of the U.S. population, and all state launches are pending market access, licensure, regulatory approvals, and contractual approvals where applicable.

Other Items on Our Mind

- We operate in an industry that has faced multiple waves of new operators deploying marketing and promotional dollars upon launch. We have experience managing through these waves and look forward to competing against new entrants as well as current operators. **Our plans and guidance appropriately contemplate expectations for the competitive environment at all times**, **including now,** and we are prepared to continue to execute and win through the remainder of this year and beyond.

- Our **mobile sportsbook launch in Kentucky** has been fantastic with results that are consistent with recent state launches. We expect to remain a top operator in this state.

- We have continued to see legislative momentum with **approximately 5% of the population legalized and pending launch, including North Carolina, Puerto Rico,** and **Maine,** as well as **Vermont,** which has authorized mobile sports betting and is in the process of soliciting bids for its RFP. DraftKings has submitted a bid**.** In Maine, we continued our track record of being a great partner with tribes as we have reached an agreement in principle with the Passamaquoddy Tribe. Looking forward, approximately half of the U.S. population does not yet have regulated mobile sports betting and nearly 90% of the U.S. population does not yet have regulated iGaming, which presents a very large long-term opportunity for DraftKings.

- We have seen **no discernible impact on our business from macroeconomic factors**. We will continue to closely monitor the health of our customer cohorts.

In closing, 2023 is shaping up to be a fantastic year for DraftKings. We remain laser-focused on our core business drivers and on executing efficiently to fully capitalize on the great opportunity ahead of us in 2024 and beyond. We look forward to sharing additional insights during our Investor Day on November 14th and want to thank you for your continued support of DraftKings.

Kind Regards and Talk Soon,

Jason D. Robins
Chief Executive Officer and Co-founder

Jason Park
Chief Financial Officer

Webcast and Conference Call Details

As previously announced, DraftKings Inc. ("DraftKings" or the "Company") will host a conference call and audio webcast tomorrow, Friday, November 3, 2023, at 8:30 a.m. ET, 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 this business update, the Company's Quarterly Report on Form 10-Q, 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. ET on December 31, 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, and the objectives and expectations of management for future operations (including launches in new jurisdictions and the expected timing thereof), are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "confident," "contemplate," "continue," "could," "estimate," "expect," "forecast," "going to," "intend," "may," "plan," "poised," "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 in this document.

You should not rely on forward-looking statements as predictions of future events. DraftKings has based the forward-looking statements contained in this document primarily on its current expectations and projections about future events and trends, including the current macroeconomic environment, 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; market and global conditions and economic factors, including the potential adverse effects of the global coronavirus pandemic (or the emergence of additional variants or strains thereof), as well as the potential impact of general economic conditions, including inflation, rising interest rates and instability in the banking system, on 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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 1,111,596	$ 1,309,172
Cash reserved for users	475,984	469,653
Receivables reserved for users	209,485	160,083
Accounts receivable	27,778	51,097
Prepaid expenses and other current assets	143,079	94,836
Total current assets	**1,967,922**	**2,084,841**
Property and equipment, net	64,927	60,102
Intangible assets, net	718,958	776,934
Goodwill	886,373	886,373
Operating lease right-of-use assets	77,180	65,957
Equity method investments	9,630	10,080
Deposits and other non-current assets	136,526	155,865
Total assets	**$ 3,861,516**	**$ 4,040,152**
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 594,067	$ 517,587
Liabilities to users	856,334	686,173
Operating lease liabilities, current portion	12,132	4,253
Other current liabilities	65,930	38,444
Total current liabilities	**1,528,463**	**1,246,457**
Convertible notes, net of issuance costs	1,253,089	1,251,103
Non-current operating lease liabilities	76,926	69,332
Warrant liabilities	53,695	10,680
Long-term income tax liability	68,253	69,858
Other long-term liabilities	79,668	70,029
Total liabilities	**$ 3,060,094**	**$ 2,717,459**
Commitments and contingent liabilities		
Stockholders' equity:		
Class A common stock, $0.0001 par value; 900,000 shares authorized as of September 30, 2023 and December 31, 2022; 477,198 and 459,265 shares issued and 465,906 and 450,575 outstanding as of September 30, 2023 and December 31, 2022, respectively	$ 46	$ 45
Class B common stock, $0.0001 par value; 900,000 shares authorized as of September 30, 2023 and December 31, 2022; 393,014 shares issued and outstanding as of September 30, 2023 and December 31, 2022	39	39
Treasury stock, at cost; 11,292 and 8,690 shares as of September 30, 2023 and December 31, 2022, respectively	(391,484)	(332,133)
Additional paid-in capital	7,045,655	6,750,055
Accumulated deficit	(5,889,322)	(5,131,801)
Accumulated other comprehensive income	36,488	36,488
Total stockholders' equity	**$ 801,422**	**$ 1,322,693**
Total liabilities and stockholders' equity	**$ 3,861,516**	**$ 4,040,152**

DRAFTKINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in thousands, except loss per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenue	**$ 789,957**	**$ 501,938**	**$ 2,434,536**	**$ 1,385,328**
Cost of revenue	543,454	372,692	1,575,517	998,838
Sales and marketing	313,323	321,714	909,943	840,695
Product and technology	89,005	76,299	266,999	234,853
General and administrative	130,761	186,261	427,493	590,476
Loss from operations	**(286,586)**	**(455,028)**	**(745,416)**	**(1,279,534)**
Other income (expense):				
Interest income	14,420	6,969	39,626	10,360
Interest expense	(670)	(668)	(1,991)	(1,982)
(Loss) gain on remeasurement of warrant liabilities	(7,751)	(6,797)	(44,827)	20,199
Other income (expense), net	(1,217)	8,257	(1,153)	40,566
Loss before income tax provision and loss from equity method investment	**(281,804)**	**(447,267)**	**(753,761)**	**(1,210,391)**
Income tax provision (benefit)	1,291	3,177	3,310	(77,580)
Loss from equity method investment	8	50	450	2,479
Net loss attributable to common stockholders	**$ (283,103)**	**$ (450,494)**	**$ (757,521)**	**$ (1,135,290)**
Loss per share attributable to common stockholders:				
Basic and diluted	$ (0.61)	$ (1.00)	$ (1.64)	$ (2.63)

DRAFTKINGS INC.

NON-GAAP FINANCIAL MEASURES

(Unaudited)

(Amounts in thousands, except loss per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Adjusted EBITDA	$ (153,414)	$ (264,211)	$ (302,053)	$ (671,854)
Adjusted Loss Per Share	$(0.35)	$(0.62)	$(0.71)	$(1.64)

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

	Nine months ended September 30,	
	2023	**2022**
Operating Activities:		
Net loss	$ (757,521)	$ (1,135,290)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	146,722	120,629
Non-cash interest (income) expense, net	(554)	985
Stock-based compensation expense	284,946	448,636
Loss from equity method investment	450	2,479
Loss (gain) on remeasurement of warrant liabilities	44,827	(20,199)
Loss (gain) on marketable equity securities and other financial assets	75	(32,483)
Deferred income taxes	4,527	(78,051)
Other expenses, net	(1,944)	(5,109)
Change in operating assets and liabilities, net of business combinations:		
Receivables reserved for users	(49,402)	(34,691)
Accounts receivable	24,174	13,834
Prepaid expenses and other current assets	(20,757)	(20,669)
Deposits and other non-current assets	(3,983)	(1,989)
Operating leases, net	1,907	698
Accounts payable and accrued expenses	79,047	129,233
Liabilities to users	170,161	136,650
Long-term income tax liability	(1,605)	(11,200)
Other long-term liabilities	5,112	9,476
Net cash flows used in operating activities	**$ (73,818)**	**$ (477,061)**
Investing Activities:		
Purchases of property and equipment	(19,885)	(19,903)
Cash paid for internally developed software costs	(60,006)	(46,513)
Acquisition of gaming licenses	(10,971)	(3,919)
Proceeds from marketable equity securities and other financial assets	24,425	—
Cash paid for acquisition, net of cash acquired	—	(96,507)
Other investing activities, net	(481)	(5,090)
Net cash flows used in investing activities	**$ (66,918)**	**$ (171,932)**
Financing Activities:		
Proceeds from shares issued for warrants	—	44
Purchase of treasury stock	(59,351)	(22,012)
Proceeds from exercise of stock options	8,842	5,125
Net cash flows used in financing activities	**$ (50,509)**	**$ (16,843)**
Net decrease in cash and cash equivalents and restricted cash	(191,245)	(665,836)
Cash and cash equivalents and restricted cash at the beginning of period	1,778,825	2,629,842
Cash and cash equivalents and restricted cash, end of period	**$ 1,587,580**	**$ 1,964,006**
Disclosure of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 1,111,596	$ 1,382,651
Cash reserved for users	475,984	581,355
Total cash, cash equivalents and restricted cash, end of period	**$ 1,587,580**	**$ 1,964,006**
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Equity consideration issued for acquisitions	$ —	$ 460,128
Investing activities included in changes in accounts payable and accrued expenses	$ (408)	$ 12,835
Decrease of warrant liabilities from cashless exercise of warrants	$ 1,812	$ —
Supplemental Disclosure of Cash Activities:		
Increase in cash reserved for users	$ 6,331	$ 104,405
Cash paid for interest	$ —	$ —

Non-GAAP Financial Measures

This document includes Adjusted EBITDA, Adjusted EBITDA Flow-through Percentage, Adjusted Gross Profit, Adjusted Gross Margin, Adjusted Income (Loss) Per Share, Contribution Profit, and Free Cash Flow, which are non-GAAP financial measures that DraftKings uses to supplement its results presented in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company believes Adjusted EBITDA, Adjusted EBITDA Flow-through Percentage, Adjusted Gross Profit, Adjusted Gross Margin, Adjusted Income (Loss) Per Share, Contribution Profit, and Free Cash Flow 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, Adjusted Income (Loss) Per Share, Contribution Profit, and Free Cash Flow are not intended to be substitutes for any 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 defines and calculates Adjusted Income (Loss) Per Share as basic and diluted loss per share attributable to common stockholders before the impact of amortization of acquired intangible assets; 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 Free Cash Flow as Adjusted EBITDA less investments into property and equipment and capitalized software, adjusted for sources or uses of cash from changes in net working capital and sources or uses of cash from net cash interest, and less cash corporate taxes paid.

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, Adjusted Income (Loss) Per Share, Contribution Profit, and Free Cash Flow exclude certain expenses that are required in accordance with 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 amortization of acquired intangible assets, 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 GAAP, for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
(amounts in thousands)	2023	2022	2023	2022
Net loss	$ (283,103)	$ (450,494)	$ (757,521)	$ (1,135,290)
Adjusted for:				
Depreciation and amortization [(1)]	50,245	46,089	146,722	120,629
Interest income, net	(13,750)	(6,301)	(37,635)	(8,378)
Income tax provision (benefit)	1,291	3,177	3,310	(77,580)
Stock-based compensation [(2)]	78,353	126,038	284,946	448,636
Transaction-related costs [(3)]	681	751	1,106	15,030
Litigation, settlement, and related costs [(4)]	3,891	1,390	10,590	5,786
Advocacy and other related legal expenses [(5)]	—	16,558	—	16,558
Loss (gain) on remeasurement of warrant liabilities	7,751	6,797	44,827	(20,199)
Other non-recurring costs and non-operating (income) costs [(6)]	1,227	(8,216)	1,602	(37,046)
Adjusted EBITDA	**$ (153,414)**	**$ (264,211)**	**$ (302,053)**	**$ (671,854)**

(1) The amounts include the amortization of acquired intangible assets of $29.2 million and $29.8 million for the three months ended September 30, 2023 and 2022, respectively, and $88.0 million and $76.1 million for the nine months ended September 30, 2023 and 2022, 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 proposed, pending or completed transactions and offerings, including costs relating to DraftKings' acquisition of Golden Nugget Online Gaming, Inc. in 2022.

(4) Primarily includes external legal costs related to litigation and litigation settlement costs deemed unrelated to DraftKings' core business operations.

(5) Reflects 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. This adjustment excludes (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 the investee's losses and other costs relating to non-recurring and non-operating items.

The unaudited table below presents the Company's Adjusted Loss Per Share reconciled to its basic loss per share attributable to common stockholders, which is the most directly comparable financial measure calculated in accordance with GAAP, for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Basic loss per share attributable to common stockholders	$ (0.61)	$ (1.00)	$ (1.64)	$ (2.63)
Adjusted for:				
Amortization of acquired intangible assets	0.06	0.06	0.19	0.18
Discrete tax benefit attributed to the GNOG acquisition	—	—	—	(0.18)
Stock-based compensation (1)	0.17	0.28	0.62	1.04
Transaction-related costs (2)	—	—	—	0.03
Litigation, settlement, and related costs (3)	0.01	—	0.02	0.01
Advocacy and other related legal expenses (4)	—	0.04	—	0.04
Loss (gain) on remeasurement of warrant liabilities	0.02	0.02	0.10	(0.05)
Other non-recurring costs and non-operating (income) costs (5)	—	(0.02)	—	(0.09)
Adjusted Loss Per Share*	**$ (0.35)**	**$ (0.62)**	**$ (0.71)**	**$ (1.64)**

*Weighted average number of shares used to calculate Adjusted Loss Per Share for the third quarter and year to date period ending September 30, 2023 was 464.8 million and 460.8 million, respectively; totals may not sum due to rounding.

(1) Reflects stock-based compensation expenses per share resulting from the issuance of awards under incentive plans.

(2) Reflects capital markets advisory, consulting, accounting and legal expenses per share related to evaluation, negotiation and integration costs incurred in connection with proposed, pending or completed transactions and offerings, including costs relating to DraftKings' acquisition of Golden Nugget Online Gaming, Inc. in 2022.

(3) Primarily reflects external legal costs related to litigation and litigation settlement costs, in each case per share, deemed unrelated to DraftKings' core business.

(4) Reflects non-recurring and non-ordinary course costs per share 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. This adjustment excludes (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.

(5) Primarily includes the change in fair value of certain financial assets, as well as the Company's equity method share of the investee's losses and other costs relating to non-recurring and non-operating items, in each case per share.

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

	Three months ended September 30,		Nine months ended September 30,	
(amounts in millions, except percentages)	2023	2022	2023	2022
Revenue	$ 790	$ 502	$ 2,435	$ 1,385
GAAP Gross Profit	247	129	859	386
Stock-based Compensation	1	1	3	3
Amortization of acquired intangible assets	29	30	88	76
Depreciation and amortization	16	12	44	31
Adjusted Gross Profit	$ 293	$ 172	$ 993	$ 497
Adjusted Gross Margin	37 %	34 %	41 %	36 %

Information reconciling forward-looking fiscal year 2023 and fiscal year 2024 Adjusted EBITDA and Adjusted Gross Margin guidance to their most directly comparable 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 GAAP, and such forward-looking financial statements are unavailable to the Company without unreasonable effort. DraftKings provides a range for its Adjusted EBITDA and Adjusted Gross Margin forecasts 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 or Adjusted Gross Margin calculations. DraftKings provides a forecast for Adjusted EBITDA and Adjusted Gross Margin because it believes that Adjusted EBITDA and Adjusted Gross Margin, when viewed with DraftKings' results calculated in accordance with GAAP, provide useful information for the reasons noted above. However, Adjusted EBITDA and Adjusted Gross Margin are not measures of financial performance or liquidity under 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 be the Ultimate Host and 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 24 states and in Ontario, Canada. The Company operates iGaming pursuant to regulations in five states and in Ontario, Canada under its DraftKings brand and pursuant to regulations in three 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. In addition, DraftKings owns and operates both DraftKings Network and Vegas Sports Information Network (VSiN), to provide a multi-platform content ecosystem with original programming. 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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