Letter To Shareholders

February 2024

To Our Shareholders:

In February 2023, we published our first end-of-year letter, which outlined our views on the business environment at that time and where DraftKings would be focused in 2023. In that letter, I described DraftKings as a company that would thrive when conditions became more challenging. I said that our culture and our people positioned us to execute and flourish in 2023. In doing so, **I made 2023 a "prove it" year for DraftKings.**

Our team rose to the occasion. We significantly outperformed the initial top and bottom-line expectations we provided for fiscal year 2023, growing revenue 64% year-over-year despite the worst stretch of sport outcomes that we have seen as a public company in the fourth quarter. Perhaps more importantly, we improved our Adjusted EBITDA[1] in fiscal year 2023 by nearly $600 million year-over-year and had our first two Adjusted EBITDA positive quarters in company history.

Our financial results are only part of the story. We gained significant share, including taking the #1 perch in combined OSB and iGaming Gross Gaming Revenue ("GGR") share in the U.S for the third quarter. We dramatically improved our product and customer experience and made multiple operational improvements to better serve our customers and operate more efficiently. We talked about "*Ands*" as a way to challenge traditional thinking about trade-offs, such as the notion that companies cannot successfully focus on both revenue growth and cost control simultaneously. We proved that not only could we do both things simultaneously but that our efficiency efforts would actually help us gain share and grow our top-line by making us smarter and more effective in how we serve our customers. We focused on our core value drivers and empowered our leaders to set aspirational goals and drive their teams to meet and exceed those goals. We put more energy into developing our people and are seeing a strong group of "next gen" leaders emerging across our departments. We leaned heavily on data and analytics, giving us the confidence to cut expenses in some areas and double down in others. We invested significantly in Responsible Gaming and are working alongside other operators to ensure that the entire industry keeps this very important topic at the forefront.

So what can you expect us to focus on in 2024? In many ways, it will simply be more of the same. We are still in the early innings of the US online gaming industry, and there is still share that can be gained through continued innovation and operational excellence. We will continue to focus on product and customer experience as key differentiators. We will continue to leverage our scale to invest in important areas while also focusing heavily on efficiency and optimization, since we also know that being the most efficient online gaming company is just as big of an advantage as being the most innovative. Lastly, we will continue to focus on the core value drivers of our business. Having superior customer lifetime values ("LTV") and customer acquisition costs ("CAC")[2] is the ultimate competitive advantage, and we have initiatives planned to enhance both in 2024 and beyond.

However, just as success did not come easily in 2022 or 2023, **it will not come easily in 2024**. While we have innovated and advanced our product, technology, operations, analytics, marketing, customer service, and various other areas, we will continue to face competition. We have faced waves of new competition consistently over the years, and in the past we have been able to drive growth and gain share while simultaneously becoming more efficient. I have no doubt that we have the right team in place to do that again, and **it is critical that we maintain our edge and do not take any of our recent success for granted**.

I also recognize that things change. We have evolved over the past few years, and the company that we are today is one that faces both **new opportunities and new challenges**. There are three questions on my mind as it relates to this topic:

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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] Customer acquisition cost (CAC) is defined as external marketing spend divided by new customers. We include all external marketing spend allocated to OSB and iGaming, including national spending, team and league deals, and product-agnostic spending, and divide by total new OSB and iGaming customers. We do not credit customer acquisition for customers who were previously acquired to DFS.

1. **How do we continue to foster our entrepreneurial culture and empower our great people to pursue big opportunities?** This is not an easy thing for any company to do as it grows, and it is particularly challenging for companies in heavily regulated industries where strong processes and controls are even more important. We will continuously encourage and reward our employees for acting as entrepreneurs and owners and for "thinking big" while also treating every dollar like it is their own.

2. **How do we best position our talent to maximize its impact?** Our most valuable and important asset is our people, and we are fortunate to have attracted great employees. As we grow, we need to be even more thoughtful about how we position our best talent against our most critical business objectives. We also must retain our focus on developing the next crop of leaders and giving them opportunities that allow them to stretch, grow, and contribute at higher levels.

3. **How do we leverage the positive and increasing Free Cash Flow[3] we expect to generate to maximize value for our shareholders?** This is a question that I have been asked by investors many times, and while it is a nice problem to have, it is certainly a new one for us. We will continue to evaluate all possible uses of cash with the goal of generating the highest possible returns for our investors. A great example of this is our agreement to acquire Jackpocket, which I am very excited about. You will continue to see us exert strong discipline and maintain a very high bar for proceeding with any potential M&A opportunities as we remain focused on OSB and iGaming in North America. We also recognize that there are other ways to deploy capital to create shareholder returns, and we will continue to explore all options as we begin to accumulate more cash on our balance sheet.

In Closing

2023 was a fantastic year for DraftKings, and I believe 2024 will be even better. I am unbelievably excited about the plans we have in place to continue serving our customers and growing our business. Most importantly, I am excited about the quality of our team, and I have no doubt that we will execute very effectively against our key priorities this year. We will continue to work tirelessly to produce great results and build on the incredible momentum we generated in 2023.

I'd like to thank our employees for their hard work, our customers for their loyalty, and our shareholders for their support. Looking forward to a great 2024 and beyond!

Sincerely,

Jason D. Robins
Chief Executive Officer and Co-founder

[3] 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 corporate cash taxes paid.

A Letter From Our Chief Financial Officer

Our organization executed very nicely in 2023. We were focused on our core value drivers and delivered strong results. I'm very excited about our internal alignment, focus and execution against these drivers and am therefore confident in our ability to drive sustainable performance improvement in our core business while also seeking out new and innovative ideas to differentiate DraftKings in the eyes of our customers.

Thank you to our investors who spent the time to understand DraftKings and followed us as our business produced strong revenue growth and significant improvement in Adjusted EBITDA in 2023. We continued to **acquire customers efficiently**. We **retained customers** through a customer-centric and product-focused mindset. Handle per retained player grew as we **drove engagement** across sports and game types. **Structural sportsbook hold percentage** increased as we drove parlay mix. **Promotional reinvestment for OSB and iGaming improved** as our mix of existing versus new customers matured and as we deployed more surgical promotional tactics. **External marketing in older states decreased**, and **newer states reached positive Contribution Profit[4] faster** as more customers joined us sooner following a state's launch and we were able to pull back more quickly on marketing. We also grew **fixed costs rationally** as we have achieved scale in most of our functions.

2024 will largely be about further **improving and perfecting our execution**, with extra emphasis on creating even more distance from the competition. I feel very confident about how the organization is operating and that everyone is aligned to accelerate our momentum. The culture of DraftKings is amazing. We do celebrate, but the celebrations are short-lived as we turn our attention to tomorrow and get back to work. 2024 is off to a very positive start across all our core value drivers, and our team is energized to keep our momentum going.

2023 Full Year and Fourth Quarter Results

Here are the highlights from 2023, beginning first with an overview of the fiscal year and then a discussion of our fourth quarter results.

Our financial performance for fiscal year 2023 was fantastic. Revenue grew 64% versus 2022 and Adjusted EBITDA improved year-over-year by nearly $600 million.

- **Adjusted Gross Margin[5]** increased nearly 200 basis points as we delivered higher sportsbook hold percentage and improved our promotional reinvestment for OSB and iGaming.

- **Adjusted Sales and Marketing Expense[6]** grew 3% as we reduced marketing in more mature states and transitioned further into more efficient national marketing.

- Our focus on both generating impressive year-over-year revenue growth and operating more efficiently drove a **$571 million increase in Adjusted EBITDA** on a year-over-year revenue increase of $1,425 million, representing an Adjusted EBITDA Flow-through Percentage[7] of 40%.

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[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 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.

[6] Adjusted Sales and Marketing Expense is a non-GAAP financial measure that we calculate and define as sales and marketing expense before the impact of depreciation and amortization and stock-based compensation. Please refer to the end of this document for a reconciliation of Adjusted Sales and Marketing Expense to its most directly comparable GAAP financial measure.

[7] 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.

In the fourth quarter of 2023, we continued to generate great performance across our core value drivers and produced $1,231 million of revenue and $151 million of Adjusted EBITDA.

- **Better customer acquisition, retention and engagement** resulted in higher-than expected handle for the quarter and positively impacted revenue and Adjusted EBITDA by $93 million and $42 million, respectively.

- **Structural sportsbook hold percentage** was 10.4% and well ahead of expectations as we continued to improve our parlay mix and optimize our trading capabilities. This trend positively impacted revenue and Adjusted EBITDA by $53 million and $38 million, respectively.

- As you are well aware of by now, **sport outcomes were very customer-friendly** in the final two weeks of November, while December was consistent with expectations. Our actual sportsbook hold percentage for the fourth quarter was 9.2% as sport outcomes impacted revenue and Adjusted EBITDA by ($175) million and ($126) million, respectively. As a reminder, sport outcomes can create in-period fluctuations in performance though sportsbook hold percentage tends to normalize over the duration of an entire sports season.

Improved Fiscal Year 2024 Guidance

On November 2, 2023, we guided fiscal year 2024 revenue of $4.50 billion to $4.80 billion and Adjusted EBITDA of $350 million to $450 million. Excellent performance across our core value drivers in the fourth quarter of 2023 and continued momentum through the first six weeks of 2024 allows us to improve our fiscal year 2024 revenue guidance range to $4.65 billion to $4.90 billion and our Adjusted EBITDA guidance range to $410 million to $510 million.

The $125 million improvement in our fiscal year 2024 revenue guidance midpoint and $60 million improvement in our Adjusted EBITDA guidance midpoint break down as follows:

- **Customer acquisition, retention and engagement** continue to exceed expectations due to ongoing product innovation and marketing optimization initiatives. These trends account for $90 million of the revenue improvement and $35 million of the Adjusted EBITDA improvement.

- **Our structural sportsbook hold rate** is increasing due to continued year-over-year bet mix improvement as well as improvements in trading and risk management. We expect improvement in our structural sportsbook hold rate to between 10.0% and 10.5% in fiscal year 2024. This trend accounts for $35 million of the revenue improvement and $25 million of the Adjusted EBITDA improvement.

We now expect our **Adjusted Gross Margin** to be in the range of 45% to 47% for the year, an improvement of between 250 basis points and 450 basis points compared to fiscal year 2023.

We expect **Adjusted Sales and Marketing Expense** to decline modestly in fiscal year 2024.

We expect 2024 **stock-based compensation** expense to be flat to down in dollar terms and to represent approximately 8% of revenue in fiscal year 2024 compared to 11% in fiscal year 2023 and 26% in fiscal year 2022.

We expect to generate between $310 million and $410 million in **Free Cash Flow in fiscal year 2024** based on approximately $120 million of annual capital expenditures and capitalized software development costs as well as a modest source of cash from changes in net working capital and interest income. Therefore, we expect that our year-end **2024 cash and cash equivalents** will be approximately $1.6 billion before using $413 million to fund our proposed acquisition of Jackpocket.

From an **intra-year perspective**, we expect first quarter revenue to increase approximately 45% year-over-year and second through fourth quarter revenue to each grow year-over-year in the 20% to 30% range. We expect Adjusted EBITDA to be approximately breakeven in the first quarter, nearly $150 million in the second quarter, and above $300 million in the fourth quarter.

Our revenue and Adjusted EBITDA guidance for fiscal year 2024 **includes all our existing jurisdictions as well as mobile sports betting launches in Puerto Rico and North Carolina** which have authorized mobile sports betting and collectively represent approximately 4% of the U.S. population. DraftKings expects to launch its Sportsbook product in North Carolina on March 11, 2024 pending market access, licensure, regulatory approvals, and contractual approvals where applicable. Our revenue and Adjusted EBITDA guidance for fiscal year 2024 does not include the estimated impact of our proposed acquisition of Jackpocket, which we anticipate will close by the second half of 2024 at which time we will incorporate it into our guidance.

Strong Unit Economics Drives Confidence in 2026 and 2028 Guidance

Foundational customer and state unit economics are exceptional:

- We are **acquiring customers** in an increasingly efficient manner as we transition to a higher mix of national marketing and are seeing a reduction in our payback periods. In 2023, our customer acquisition cost ("CAC") declined 27% year-over-year versus fiscal year 2022 following an annual improvement of 21% in fiscal year 2022 versus fiscal year 2021, while at the same time we rapidly increased the number of new customers we acquired.

- We have **retained our customers** very well. Annual year-over-year customer retention has been 90% for customers that engaged with us in the twelve months following their acquisition quarter, while our average annual retention rate has been 87% over a 5-year period from a customer's acquisition quarter.

- **Customer engagement** has been excellent due to increasing bet frequency and bet size, as our customers are trying new bet types, new sports and new games.

- **Structural sportsbook hold rate** is increasing and was 9.8% in fiscal year 2023. Improving our structural hold continues to be a top focus area; we are building products that customers enjoy and that also generate higher hold percentage while supporting customer retention and engagement.

- **Promotional reinvestment** for OSB and iGaming continued to improve as our customer mix shifts from new customers to existing customers, and we deploy surgical promotional tactics on a customer-specific level.

Our states are inflecting to positive Contribution Profit within 2 to 3 years and generating positive Contribution Profit faster. Newer states including New York, Louisiana, Kansas, and Maryland were Contribution Profit positive for fiscal year 2023, while Ohio and Massachusetts were both Contribution Profit positive two months after their respective launches.

These outstanding trends in customer cohort and state-level economics give us confidence that **we are on track** to generate $6.2 billion of revenue and $1.4 billion of Adjusted EBITDA in 2026 and $7.1 billion of revenue and $2.1 billion of Adjusted EBITDA in 2028 from our existing states alone[8] with the proposed acquisition of Jackpocket providing incremental upside to both revenue and Adjusted EBITDA in 2026 and 2028.

Other Items on Our Mind

- We continue to see **momentum on the legislative front**. To date in 2024, 7 states that collectively represent approximately 11% of the U.S. population have either introduced legislation to legalize mobile sports betting or introduced a bill that may result in a mobile sports betting referendum during an upcoming election. In addition, 5

[8] New Jersey, West Virginia, Indiana, Pennsylvania, New Hampshire, Iowa, Colorado, Illinois, Tennessee, Michigan, Virginia, Wyoming, Arizona, Connecticut, Oregon, New York, Louisiana, Ontario, Kansas, Maryland, Ohio, Massachusetts, Kentucky, Maine, Vermont, Puerto Rico and North Carolina are included. Puerto Rico and North Carolina are pending launch, subject to licensure and regulatory approvals.

states that collectively represent approximately 12% 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.

- We continue to be excited about the **technology-driven initiatives** we are exploring to operate more efficiently. DraftKings has already been leveraging data science and machine learning for the past decade throughout our business in areas such as home page personalization and risk management through line setting optimization and same game parlay simulations. We are excited by the possibility of incorporating new technologies such as artificial intelligence into our technology and infrastructure to position us for further success and differentiation.

- **Responsible Gaming continues to be a key focus** as we build out our program and collaborate with other members of our industry to make sure our customers are engaging with this entertainment product in a safe, responsible, and fun way. We provide our customers with tools to set budgets, limits, and cool-off periods and always give customers the option to self-exclude. DraftKings has dedicated millions of dollars to aid research and fund various responsible gaming programs. We have also established a dedicated, cross functional team to support our responsible gaming program. Our investments include a focus on leveraging technology to detect signs of risk so that we have the ability to proactively engage with customers to ensure they have the resources and support to promote safe play.

- **Our scale provides us with a competitive advantage**. Successful OSB and iGaming operators in the U.S. leverage their databases of highly engaged, young and affluent customers, recognizable and trusted brands, world-class products and technology, and the ability to navigate complex regulatory environments to win in this space.

- **We expect to generate positive and increasing Free Cash Flow** starting in 2024 and are beginning to explore ways to optimize our capital structure. Our expectation for sustainable revenue growth and Adjusted EBITDA margin expansion over the next several years offers us a number of options to maximize long-term returns for our shareholders.

In conclusion, we are very excited about 2024 and beyond as we are all very focused on our core value drivers and their resulting impact on Free Cash Flow generation. 2024 is off to a great start, and we look forward to continuing our dialogue with all of you over the coming months and quarters.

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 16, 2024, 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 shareholder letter, the Company's Annual Report on Form 10-K, our earnings press release, and an earnings presentation. The audio webcast will be available on the Company's investor relations website until 11:59 p.m. ET on March 31, 2024.

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, Jackpocket and their respective industries that involve substantial risks and uncertainties. All statements, other than statements of historical fact, contained in this document, including statements regarding guidance, DraftKings' and Jackpocket's consummation of the proposed transaction and 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 and Jackpocket's 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' and Jackpocket's 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, the outcome of any legal proceedings that may be instituted against DraftKings and Jackpocket following the announcement of DraftKings' proposed acquisition of Jackpocket; the inability to complete DraftKings' proposed acquisition of Jackpocket, including the failure to obtain the requisite approvals of applicable regulatory authorities or the failure to satisfy certain other conditions to closing in the merger agreement for the proposed transaction; the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement or could otherwise cause DraftKings' proposed acquisition of Jackpocket to fail to close; the risk that DraftKings' proposed acquisition of Jackpocket disrupts current plans or operations as a result of the announcement and consummation of the proposed transaction; the ability to recognize the anticipated benefits of DraftKings' proposed acquisition of Jackpocket, which may be affected by, among other things, competition and the ability of DraftKings and Jackpocket to manage growth and retain its key employees; costs related to the proposed transactions; DraftKings' and Jackpocket's abilities to execute their respective business plans and meet their respective projections; potential litigation involving DraftKings or Jackpocket; changes in applicable laws or regulations, particularly with respect to online gaming, digital lottery courier or similar businesses; general economic and market conditions impacting demand for DraftKings' and Jackpocket's products and services; economic and market conditions in the media, entertainment, gaming, lottery and software industries in the jurisdictions in which DraftKings and Jackpocket operate; market and global conditions and economic factors, as well as the potential impact of general economic conditions, including inflation, rising interest rates and instability in the banking system, on DraftKings' and Jackpocket's 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 DraftKings management's current expectations and beliefs and speak only as of the date hereof, and neither DraftKings nor Jackpocket makes any 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
(Unaudited)
(Amounts in thousands, except par value)

	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 1,270,503	$ 1,309,172
Restricted cash	11,700	—
Cash reserved for users	341,290	469,653
Receivables reserved for users	301,770	160,083
Accounts receivable	47,539	51,097
Prepaid expenses and other current assets	98,565	94,836
Total current assets	**2,071,367**	**2,084,841**
Property and equipment, net	60,695	60,102
Intangible assets, net	690,620	776,934
Goodwill	886,373	886,373
Operating lease right-of-use assets	93,985	65,957
Equity method investments	10,280	10,080
Deposits and other non-current assets	131,546	155,865
Total assets	**$ 3,944,866**	**$ 4,040,152**
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 639,599	$ 517,587
Liabilities to users	851,898	686,173
Operating lease liabilities, current portion	11,499	4,253
Other current liabilities	46,624	38,444
Total current liabilities	**1,549,620**	**1,246,457**
Convertible notes, net of issuance costs	1,253,760	1,251,103
Non-current operating lease liabilities	80,827	69,332
Warrant liabilities	63,568	10,680
Long-term income tax liabilities	72,810	69,858
Other long-term liabilities	83,975	70,029
Total liabilities	**$ 3,104,560**	**$ 2,717,459**
Commitments and contingent liabilities (Notes 7 and 15)		
Stockholders' equity:		
Class A common stock, $0.0001 par value; 900,000 shares authorized as of December 31, 2023 and December 31, 2022, respectively; 484,598 and 459,265 shares issued and 472,697 and 450,575 outstanding at December 31, 2023 and December 31, 2022, respectively	$ 46	$ 45
Class B common stock, $0.0001 par value; 900,000 shares authorized as of December 31, 2023 and December 31, 2022; 393,014 shares issued and outstanding at December 31, 2023 and December 31, 2022	39	39
Treasury stock, at cost; 11,901 and 8,690 shares as of December 31, 2023 and December 31, 2022, respectively	(412,182)	(332,133)
Additional paid-in capital	7,149,858	6,750,055
Accumulated deficit	(5,933,943)	(5,131,801)
Accumulated other comprehensive income	36,488	36,488
Total stockholders' equity	**840,306**	**1,322,693**
Total liabilities and stockholders' equity	**$ 3,944,866**	**$ 4,040,152**

Due to the timing of the consummation of the Company's acquisition of Golden Nugget Online Gaming, Inc. ("GNOG" and such acquisition, 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
(Unaudited)

(Amounts in thousands, except loss per share data)

	Three Months Ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Revenue	**$ 1,230,857**	**$ 855,133**	**$ 3,665,393**	**$ 2,240,461**
Cost of revenue	716,658	485,435	2,292,175	1,484,273
Sales and marketing	290,775	345,282	1,200,718	1,185,977
Product and technology	88,157	83,394	355,156	318,247
General and administrative	179,076	173,244	606,569	763,720
Loss from operations	**(43,809)**	**(232,222)**	**(789,225)**	**(1,511,756)**
Other income (expense):				
Interest income	18,792	10,992	58,418	21,353
Interest expense	(688)	(668)	(2,679)	(2,651)
(Loss) gain on remeasurement of warrant liabilities	(12,716)	9,197	(57,543)	29,396
Other (loss) gain, net	929	(19,866)	(224)	20,700
Loss before income tax provision (benefit) and loss (income) from equity method investment	**(37,492)**	**(232,567)**	**(791,253)**	**(1,442,958)**
Income tax (benefit) provision	6,860	9,714	10,170	(67,866)
Loss (income) from equity method investment	269	416	719	2,895
Net loss attributable to common stockholders	**$ (44,621)**	**$ (242,697)**	**$ (802,142)**	**$ (1,377,987)**
Loss per share attributable to common stockholders:				
Basic and diluted	$ (0.10)	$ (0.53)	$ (1.73)	$ (3.16)

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.
NON-GAAP FINANCIAL MEASURES
(Unaudited)

(Amounts in thousands, except earnings (loss) per share data)

	Three Months Ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Adjusted EBITDA	$ 151,018	$ (49,927)	$ (151,035)	$ (721,781)
Adjusted Earnings (Loss) Per Share	$ 0.29	$ (0.14)	$ (0.41)	$ (1.77)

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
(Unaudited)
(Amounts in thousands)

	Year ended December 31,	
	2023	**2022**
Cash Flows from Operating Activities:		
Net loss attributable to common shareholders	$ (802,142)	$ (1,377,987)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	201,920	169,252
Non-cash interest expense, net	386	870
Stock-based compensation expense	398,463	578,799
Loss (gain) on remeasurement of warrant liabilities	57,543	(29,396)
Loss (gain) from equity method investment	719	2,895
Loss (gain) on marketable equity securities and other financial assets, net	75	(10,999)
Deferred income taxes	5,849	(73,407)
Other expenses, net	554	(7,268)
Change in operating assets and liabilities, net of effect of acquisitions:		
Receivables reserved for users	(141,687)	(105,320)
Accounts receivables	3,558	2,506
Prepaid expenses and other current assets	2,451	(26,217)
Deposits and other non-current assets	(19,355)	(4,921)
Operating leases, net	6,558	1,304
Accounts payable and accrued expenses	103,593	95,269
Liabilities to users	165,725	152,985
Long-term income tax liability	2,952	(9,267)
Other long-term liabilities	11,087	15,383
Net cash flows used in operating activities	**(1,751)**	**(625,519)**
Cash Flows from Investing Activities:		
Purchases of property and equipment	(20,902)	(32,402)
Cash paid for internally developed software costs	(80,378)	(64,030)
Acquisition of gaming licenses	(12,105)	(7,213)
Proceeds from (purchase of) marketable equity securities and other financial assets	24,425	—
Cash paid for acquisitions, net of cash acquired	—	(96,507)
Other investing activities, net	(1,400)	(8,614)
Net cash flows used in investing activities	**(90,360)**	**(208,766)**
Cash Flow from Financing Activities:		
Proceeds from exercise of warrants	288	44
Purchase of treasury stock	(80,049)	(25,519)
Proceeds from exercise of stock options	16,540	8,743
Net cash flows used in financing activities	**(63,221)**	**(16,732)**
Net decrease in cash and cash equivalents, restricted cash, and cash reserved for users	**(155,332)**	**(851,017)**
Cash and cash equivalents, restricted cash, and cash reserved for users at the beginning of period	1,778,825	2,629,842
Cash and cash equivalents, restricted cash, and cash reserved for users at the end of period	**$ 1,623,493**	**$ 1,778,825**
Disclosure of cash and cash equivalents, restricted cash, and cash reserved for users		
Cash and cash equivalents	$ 1,270,503	$ 1,309,172
Restricted cash	11,700	—
Cash reserved for users	341,290	469,653
Cash and cash equivalents, restricted cash, and cash reserved for users at the end of period	**$ 1,623,493**	**$ 1,778,825**
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Investing activities included in accounts payable and accrued expenses	569	9,155
Equity consideration issued for acquisitions	—	460,128
Decrease in warrant liabilities from cashless exercise of warrants	4,654	—
Supplemental Disclosure of Cash Activities:		
(Decrease) increase in cash reserved for users	(128,363)	(7,297)
Cash paid for interest	—	—
Cash paid for income taxes, net of refunds	8,341	10,366

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, Adjusted Earnings (Loss) Per Share, Contribution Profit, Adjusted Sales and Marketing Expense, 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 Earnings (Loss) Per Share, Contribution Profit, Adjusted Sales and Marketing Expense, 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 Earnings (Loss) Per Share, Contribution Profit, Adjusted Sales and Marketing Expense, 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 income (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 Earnings (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 Adjusted Sales and Marketing Expense as sales and marketing expense before the impact of depreciation and amortization and stock-based compensation. 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 Earnings (Loss) Per Share, Contribution Profit, Adjusted Sales and Marketing Expense, 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:

(amounts in thousands)	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Net Loss	$ (44,621)	$ (242,697)	$ (802,142)	$ (1,377,987)
Adjusted for:				
Depreciation and amortization (1)	55,198	48,623	201,920	169,252
Interest (income) expense, net	(18,104)	(10,324)	(55,739)	(18,702)
Income tax (benefit) provision	6,860	9,714	10,170	(67,866)
Stock-based compensation (2)	113,517	130,161	398,463	578,799
Transaction-related costs (3)	1,954	2,285	3,060	17,315
Litigation, settlement, and related costs (4)	23,910	1,224	34,500	7,010
Advocacy and other related legal expenses (5)	—	—	—	16,558
Loss (gain) on remeasurement of warrant liabilities	12,716	(9,197)	57,543	(29,396)
Other non-recurring, special project and non-operating (income) costs (6)	(412)	20,284	1,190	(16,764)
Adjusted EBITDA	**$ 151,018**	**$ (49,927)**	**$ (151,035)**	**$ (721,781)**

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.

(1) The amounts include the amortization of acquired intangible assets of $29.3 million and $30.0 million for the three months ended December 31, 2023 and 2022, respectively, and $117.3 million and $106.1 million for the years ended 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. For 2022, those costs primarily related to our support of Proposition 27 in California.

(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 December 31, 2023	Three Months Ended December 31, 2022	Year ended December 31, 2023	Year ended December 31, 2022
Basic loss per share attributable to common stockholders	$ (0.10)	$ (0.54)	$ (1.73)	$ (3.16)
Adjusted for:				
Amortization of acquired intangible assets	0.06	0.06	0.25	0.24
Discrete tax provision (benefit) attributed to the GNOG acquisition	—	0.02	—	(0.16)
Stock-based compensation (1)	0.24	0.29	0.86	1.33
Transaction-related costs (2)	—	—	0.01	0.03
Litigation, settlement, and related costs (3)	0.05	0.01	0.07	0.02
Advocacy and other related legal expenses (4)	—	—	—	0.04
Loss (gain) on remeasurement of warrant liabilities	0.03	(0.02)	0.12	(0.07)
Other non-recurring costs and non-operating (income) costs (5)	—	0.04	—	(0.04)
Adjusted Earnings (Loss) Per Share*	**$ 0.29**	**$ (0.14)**	**$ (0.41)**	**$ (1.77)**

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.

*Weighted average number of shares used to calculate Adjusted Loss Per Share for the fourth quarter and year ending December 31, 2023 was 468.1 million and 462.6 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. For 2022, those costs primarily related to our support of Proposition 27 in California.
(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 December 31,		**Year ended December 31,**	
(amounts in millions, except percentages)	**2023**	**2022**	**2023**	**2022**
Revenue	$ 1,231	$ 855	$ 3,665	$ 2,240
GAAP Gross Profit	514	370	1,373	756
Stock-based compensation	1	1	3	5
Amortization of acquired intangible assets	29	30	117	106
Depreciation and amortization	21	14	65	45
Adjusted Gross Profit	$ 565	$ 415	$ 1,558	$ 912
Adjusted Gross Margin	46 %	49 %	43 %	41 %

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.

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

	Three Months Ended December 31,		**Year ended December 31,**	
(amounts in millions, except percentages)	**2023**	**2022**	**2023**	**2022**
GAAP Sales and Marketing Expense	291	345	1,201	1,186
Stock-based compensation	10	17	36	53
Depreciation and amortization	1	1	3	3
Adjusted Sales and Marketing Expense	$ 280	$ 327	$ 1,162	$ 1,130

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.

Information reconciling forward-looking fiscal year 2024 Adjusted EBITDA, 2026 Adjusted EBITDA, 2028 Adjusted EBITDA, Adjusted Gross Margin and Free Cash Flow 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, Adjusted Gross Margin and Free Cash Flow 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, Adjusted Gross Margin or Free Cash Flow calculations. DraftKings provides a forecast for Adjusted EBITDA, Adjusted Gross Margin and Free Cash Flow because it believes that Adjusted EBITDA, Adjusted Gross Margin and Free Cash Flow, when viewed with DraftKings' results calculated in accordance with GAAP, provide useful information for the reasons noted above. However, Adjusted EBITDA, Adjusted Gross Margin and Free Cash Flow 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 26 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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