DraftKings

Business Update

Second Quarter 2024

To Our Shareholders:

Our business fundamentals were strong in the second quarter and as a result we are raising our revenue outlook for fiscal year 2024. There are **five key takeaways** that we are sharing today:

- First, we are achieving **strong and efficient customer acquisition** at less than 3-year gross profit payback periods. New OSB and iGaming customers increased nearly 80% year-over-year while CAC[1] declined more than 40% year-over-year in the second quarter, a period with no new state launches. We now anticipate that the healthy customer acquisition environment will persist throughout the back half of 2024 and potentially beyond. As a result, we are forecasting higher new customer promotions for the remainder of 2024 and a modest amount of productive, incremental advertising. The data may indicate that the **U.S. online gaming opportunity could be even larger than we previously thought**.

- Second, **we have a plan to address high tax states**[2] — including Illinois — that we believe could add Adjusted EBITDA[3] upside in 2025 and beyond. We discuss our plan to roll out a gaming tax surcharge, and why it's the right thing to do, in more detail below.

- Third, the **Jackpocket integration is off to a great start**. We are on track to hit the multi-year guidance for the transaction that we provided with its announcement and expect the deal to generate positive Adjusted EBITDA in fiscal year 2025. In addition, we **launched our Sportsbook product in Washington D.C.**, which should also generate positive Adjusted EBITDA next year.

- Fourth, and most importantly, we are excited about the future and are **reiterating our expectation for $900 million to $1.0 billion of Adjusted EBITDA in fiscal year 2025** before contemplating additional revenue from our plan to address high tax states. We expect to provide more specific details on our fiscal year 2025 guidance with our third quarter 2024 earnings report.

- Fifth, last quarter we said that we would provide an update on capital allocation. We are pleased to announce that **our Board of Directors has authorized a share repurchase of up to $1.0 billion of our Class A common stock**. This inaugural authorization reflects our conviction in the strong trajectory of our business and our expectation that we will generate significant Free Cash Flow[4] in the coming years.

State Taxes

In 2021, New York legalized mobile sports betting and its tax rate of 51% made it only the second state in the nation, after Pennsylvania, that has multiple sports betting operators and a tax rate above 20%. For the next three years, no other states followed suit so there was no major forcing mechanism for DraftKings or any other company to address the potential for higher tax rates becoming more widespread. However, over the past several months,

[1] 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 new OSB and iGaming customers. We do not credit customer acquisition for customers who were previously acquired to DFS.

[2] A high tax state is defined as a state that has multiple sports betting operators and a tax rate above 20%. As of August 1, 2024, these states include Illinois, New York, Pennsylvania, and Vermont.

[3] 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, net income (loss).

[4] Free Cash Flow is a non-GAAP financial measure that we calculate and define 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.

we have seen a shift to tax rates over 20% in certain competitive markets, including a recent significant tax increase in Illinois. **We now must consider the prospect** that some states may choose to tax the industry at a rate that is in excess of what we can absorb while still generating a reasonable profit margin and remaining competitive against the pervasive illegal market that pays no taxes at all.

There is a solution here. As you know, many revenue-based taxes are passed along to the consumer. The online gaming industry has not pursued this approach in lower tax jurisdictions, but it has in higher tax jurisdictions such as Germany. We are planning to implement a gaming tax surcharge on a customer's Net Winnings[5] in any state with a tax rate above 20% that has multiple sports betting operators. The surcharge will be fairly nominal[6] to the customer. In Illinois, for example, it will amount to a low to mid-single digit percentage of the Net Winnings a customer would previously have received, but we believe **additional upside potential exists for DraftKings' Adjusted EBITDA in 2025 and beyond from this gaming tax surcharge**. We plan to implement the surcharge in the four states that have multiple sports betting operators and tax rates above 20% starting January 1, 2025. DraftKings will still absorb taxes up to 20%, so customers will only be impacted above this level. We have provided more detail on how we plan to implement this surcharge on page 5 of our second quarter earnings presentation.

Product Update

We are continuing to **invest in features and functionality that differentiate our Sportsbook offering**. For example, we recently launched in-house player prop wagers for NFL, NBA, MLB, NHL, CFB, CBB, and tennis, and broadened our Progressive Parlays to include spread and total wagers. We implemented a new risk platform to continue to drive higher trading efficiency which we believe will benefit our structural sportsbook hold percentage over time. Finally, we plan to integrate a bet-and-watch experience with NFL streaming.

In iGaming, **we are benefiting from our multi-brand strategy** with Golden Nugget Online Gaming's revenue growth accelerating following the completion of the migration to DraftKings' platform. In fact, the DraftKings and Golden Nugget Online Gaming apps were ranked #1 and #2 overall, respectively, in a recent third-party survey[7]. We have improved our iGaming interface to promote game discoverability and launched a number of new titles (including Rocket 2). We are also introducing new game mechanics such as persistent player collections and blackjack variants. In addition, we are trending to double the number of new games we release in fiscal year 2024 versus last year.

Second Quarter 2024 Results

In the second quarter, we generated $1,104 million of revenue, representing 26% year-over-year growth, and $128 million of Adjusted EBITDA.

We achieved strong results across our core value drivers:

- **Customer acquisition exceeded our expectations**. New OSB and iGaming customers increased nearly 80% year-over-year with particular strength in iGaming, which also benefited from the completion of the Golden Nugget Online Gaming migration to our platform. Our marketing spend remains disciplined as reflected by a more than 40% year-over-year improvement in our OSB and iGaming CAC in the second quarter leading to estimated gross profit paybacks of less than three years.

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[5] We define Net Winnings as customer payout less amount wagered.
[6] We expect that the surcharge will vary between states based on state-specific tax rates.
[7] The DraftKings and Golden Nugget Online Gaming iGaming apps were ranked #1 and #2, respectively, in a survey published in July 2024 (Eilers & Krejcik Gaming LLC. *1H24 Product Analysis: Testing, Scoring, And Ranking U.S. Casino Apps*. 2024).

- **Customer retention and engagement were healthy** and resulted in handle that exceeded our expectations. Handle was strong even with fewer than anticipated NBA playoff games.

- We invested more into **promotional reinvestment** in the second quarter than we initially expected due to very strong customer acquisition.

- **Structural sportsbook hold percentage improved in-line with expectations to approximately 10%**. Sport outcomes were customer-friendly in May and June primarily due to the most-bet MLB teams winning a higher-than-expected percentage of games.

Adjusted Gross Margin[8] was below expectations at 43% in the second quarter due to better-than-expected customer acquisition and corresponding promotional investment.

Our operating expenses were consistent with our expectations as we continued to balance revenue growth with operating efficiency across the organization.

Fiscal Year 2024 and 2025 Guidance

We are **increasing our fiscal year 2024 revenue guidance to $5.05 billion to $5.25 billion** from the range of $4.80 billion to $5.00 billion, which we previously announced on May 2, 2024. Our updated 2024 revenue guidance range equates to year-over-year growth of 38% to 43%. The increase in revenue guidance is driven by strong customer acquisition, engagement and retention trends, as well as the inclusion of Jackpocket and the launch of our Sportsbook product in Washington, D.C. We are also **revising our fiscal year 2024 Adjusted EBITDA guidance to $340 million to $420 million** from the range of $460 million to $540 million, which we previously announced on May 2, 2024. This includes the impact of the Illinois tax increase, higher new customer promotions due to outperformance in customer acquisition, the inclusion of Jackpocket and the launch of our Sportsbook product in Washington, D.C., and a modest amount of productive advertising investment into customer acquisition. We have provided additional detail on the $250 million improvement in our fiscal year 2024 revenue guidance midpoint and the $120 million revision to our Adjusted EBITDA guidance midpoint on page 4 of our second quarter earnings presentation.

We also continue to expect fiscal year 2025 Adjusted EBITDA in the range of $900 million to $1.0 billion due to our underlying business momentum, including the expected benefit of higher customer acquisition in the second half of 2024. We believe **additional upside potential exists** when we apply the gaming tax surcharge to high tax states, which we are not including at this time. We plan to provide additional detail on our fiscal year 2025 guidance with our next earnings release.

Additional Fiscal Year 2024 Guidance Detail

We now expect our **Adjusted Gross Margin** to increase modestly in fiscal year 2024.

[8] 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.

We expect **Adjusted Sales and Marketing Expense**[9] to increase at a mid-to-high single digit rate year-over-year in fiscal year 2024 inclusive of our investment into the Jackpocket brand as well as the launch of our Sportsbook product in Washington, D.C.

We continue to expect 2024 **stock-based compensation** expense to be flat to down in dollar terms and to represent approximately 7% of revenue in fiscal year 2024 compared to 11% in fiscal year 2023 and 26% in fiscal year 2022.

We expect to generate approximately $280 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 combined with interest income.

In Closing

We are very optimistic about the second half of 2024 and are well positioned for continued success in the future. Thank you for your continued support.

Sincerely,

Jason D. Robins
Chief Executive Officer and Co-founder

Alan Ellingson
Chief Financial Officer

[9] 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.

Webcast and Conference Call Details

As previously announced, DraftKings Inc. ("DraftKings" or the "Company") will host a conference call and audio webcast tomorrow, Friday, August 2, 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 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 September 30, 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 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 (including applicable taxes), 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, 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)

	June 30, 2024 (Unaudited)	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 815,880	$ 1,270,503
Restricted cash	12,844	11,700
Cash reserved for users	244,760	341,290
Receivables reserved for users	237,331	301,770
Accounts receivable	65,011	47,539
Prepaid expenses and other current assets	147,007	98,565
Total current assets	**1,522,833**	**2,071,367**
Property and equipment, net	57,425	60,695
Intangible assets, net	949,381	690,620
Goodwill	1,456,009	886,373
Operating lease right-of-use assets	89,516	93,985
Equity method investments	11,141	10,280
Deposits and other non-current assets	131,877	131,546
Total assets	**$ 4,218,182**	**$ 3,944,866**
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 573,512	$ 639,599
Liabilities to users	720,668	851,898
Operating lease liabilities, current portion	11,482	11,499
Other current liabilities	68,078	46,624
Total current liabilities	**1,373,740**	**1,549,620**
Convertible notes, net of issuance costs	1,255,086	1,253,760
Non-current operating lease liabilities	78,162	80,827
Warrant liabilities	25,477	63,568
Long-term income tax liabilities	71,639	72,810
Other long-term liabilities	115,649	83,975
Total liabilities	**$ 2,919,753**	**$ 3,104,560**
Commitments and contingent liabilities		
Stockholders' equity:		
Class A common stock, $0.0001 par value; 900,000 shares authorized as of June 30, 2024 and December 31, 2023; 498,740 and 484,598 shares issued and 485,426 and 472,697 outstanding as of June 30, 2024 and December 31, 2023, respectively	$ 47	$ 46
Class B common stock, $0.0001 par value; 900,000 shares authorized as of June 30, 2024 and December 31, 2023; 393,014 shares issued and outstanding as of June 30, 2024 and December 31, 2023	39	39
Treasury stock, at cost; 13,314 and 11,901 shares as of June 30, 2024 and December 31, 2023, respectively	(470,094)	(412,182)
Additional paid-in capital	7,744,638	7,149,858
Accumulated deficit	(6,012,689)	(5,933,943)
Accumulated other comprehensive income	36,488	36,488
Total stockholders' equity	**$ 1,298,429**	**$ 840,306**
Total liabilities and stockholders' equity	**$ 4,218,182**	**$ 3,944,866**

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenue	**$ 1,104,441**	**$ 874,927**	**$ 2,279,437**	**$ 1,644,579**
Cost of revenue	663,414	510,323	1,373,483	1,032,063
Sales and marketing	215,676	207,487	556,375	596,620
Product and technology	92,655	89,906	181,470	177,994
General and administrative	165,084	136,256	339,335	296,732
Loss from operations	**(32,388)**	**(69,045)**	**(171,226)**	**(458,830)**
Other income (expense):				
Interest income	14,212	13,411	29,279	25,206
Interest expense	(678)	(666)	(1,327)	(1,321)
Gain (loss) on remeasurement of warrant liabilities	9,791	(20,041)	(8,303)	(37,076)
Other (loss) gain, net	(446)	45	(1,181)	64
Loss before income tax (benefit) provision and loss (income) from equity method investment	**(9,509)**	**(76,296)**	**(152,758)**	**(471,957)**
Income tax (benefit) provision	(73,570)	651	(73,921)	2,019
Loss (income) from equity method investment	239	323	(91)	442
Net income (loss) attributable to common stockholders	**$ 63,822**	**$ (77,270)**	**$ (78,746)**	**$ (474,418)**
Earnings (loss) per share attributable to common stockholders:				
Basic	$ 0.13	$ (0.17)	$ (0.17)	$ (1.03)
Diluted	$ 0.10	$ (0.17)	$ (0.17)	$ (1.03)

DRAFTKINGS INC.
NON-GAAP FINANCIAL MEASURES
(Unaudited)
(Amounts in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Adjusted EBITDA	$ 127,967	$ 72,972	$ 150,357	$ (148,639)
Adjusted Earnings (Loss) Per Share	$ 0.22	$ 0.14	$ 0.27	$ (0.36)

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

	Six months ended June 30,	
	2024	**2023**
Cash Flows from Operating Activities:		
Net loss attributable to common shareholders	$ (78,746)	$ (474,418)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	114,803	96,477
Non-cash interest income, net	(1,471)	(378)
Stock-based compensation expense	183,755	206,593
Loss on remeasurement of warrant liabilities	8,303	37,076
(Gain) loss from equity method investment	(91)	442
Loss on marketable equity securities and other financial assets, net	—	75
Deferred income taxes	(79,762)	1,993
Other income (expenses), net	1,920	(3,349)
Change in operating assets and liabilities, net of effect of acquisitions:		
Receivables reserved for users	73,531	50,930
Accounts receivable	(14,494)	19,296
Prepaid expenses and other current assets	(22,698)	11,257
Deposits and other non-current assets	(179)	(6,237)
Operating leases, net	168	1,457
Accounts payable and accrued expenses	(82,154)	(79,933)
Liabilities to users	(148,107)	(86,027)
Long-term income tax liability	(1,171)	(575)
Other long-term liabilities	5,387	6,108
Net cash flows used in operating activities	**$ (41,006)**	**$ (219,213)**
Cash Flows from Investing Activities:		
Purchases of property and equipment	(5,446)	(9,649)
Cash paid for internally developed software costs	(44,072)	(39,287)
Acquisition of gaming licenses	(12,695)	(1,959)
Proceeds from marketable equity securities and other financial assets	—	24,425
Cash paid for acquisition, net of cash acquired	(392,013)	—
Other investing activities, net	(2,308)	(482)
Net cash flows used in investing activities	**$ (456,534)**	**$ (26,952)**
Cash Flow from Financing Activities:		
Proceeds from exercise of warrants	—	—
Purchase of treasury stock	(57,912)	(41,184)
Proceeds from exercise of stock options	5,443	3,336
Net cash flows used in financing activities	**$ (52,469)**	**$ (37,848)**
Net decrease in cash and cash equivalents, restricted cash, and cash reserved for users	(550,009)	(284,013)
Cash and cash equivalents, restricted cash, and cash reserved for users at the beginning of period	1,623,493	1,778,825
Cash and cash equivalents, restricted cash, and cash reserved for users at the end of period	**$ 1,073,484**	**$ 1,494,812**
Disclosure of cash and cash equivalents, restricted cash, and cash reserved for users		
Cash and cash equivalents	$ 815,880	$ 1,113,715
Restricted cash	12,844	—
Cash reserved for users	244,760	381,097
Cash and cash equivalents, restricted cash, and cash reserved for users at the end of period	**$ 1,073,484**	**$ 1,494,812**
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Investing activities included in accounts payable and accrued expenses	$ 1,709	$ 637
Equity consideration issued in connection with acquisitions	$ 331,557	$ —
Decrease of warrant liabilities from cashless exercise of warrants	$ 46,398	$ 1,470
Supplemental Disclosure of Cash Activities:		
(Decrease) increase in cash reserved for users	$ (96,530)	$ 88,556

Non-GAAP Financial Measures

This document includes Adjusted EBITDA, Adjusted Gross Profit, Adjusted Gross Margin, Adjusted Sales and Marketing Expense, Adjusted Earnings (Loss) Per Share, 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 Gross Profit, Adjusted Gross Margin, Adjusted Sales and Marketing Expense, Adjusted Earnings (Loss) Per Share, 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 Gross Profit, Adjusted Gross Margin, Adjusted Sales and Marketing Expense, Adjusted Earnings (Loss) Per Share, 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, as described in the reconciliation below. DraftKings defines and calculates Adjusted Gross Margin as Adjusted Gross Profit divided by net 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 calculated 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 Adjusted Earnings (Loss) Per Share as basic and diluted earnings (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, as described in the reconciliation below. 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 corporate cash 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 Gross Profit, Adjusted Gross Margin, Adjusted Sales and Marketing Expense, Adjusted Earnings (Loss) Per Share, 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 income (loss), which is the most directly comparable financial measure calculated in accordance with GAAP, for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
(amounts in thousands)	2024	2023	2024	2023
Net income (loss)	$ 63,822	$ (77,270)	$ (78,746)	$ (474,418)
Adjusted for:				
Depreciation and amortization (1)	61,623	48,264	114,803	96,477
Interest (income) expense, net	(13,534)	(12,745)	(27,952)	(23,885)
Income tax (benefit) provision (2)	(73,570)	651	(73,921)	2,019
Stock-based compensation (3)	90,220	89,193	183,755	206,593
Transaction-related costs (4)	18,585	425	23,493	425
Litigation, settlement, and related costs (5)	10,804	4,136	20,124	6,699
Advocacy and other related legal expenses (6)	—	—	285	—
(Gain) loss on remeasurement of warrant liabilities	(9,791)	20,041	8,303	37,076
Other non-recurring costs and non-operating (income) costs (7)	(20,192)	277	(19,787)	375
Adjusted EBITDA	**$ 127,967**	**$ 72,972**	**$ 150,357**	**$ (148,639)**

(1) The amounts include the amortization of acquired intangible assets of $36.4 million and $28.9 million for the three months ended June 30, 2024 and 2023, respectively, and $65.7 million and $58.8 million for the six months ended June 30, 2024 and 2023, respectively.

(2) The Company recorded a discrete income tax benefit of $75.8 million during the second quarter of 2024 which was attributable to non-recurring partial releases of the Company's U.S. valuation allowance as a result of the purchase accounting for Jackpocket.

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

(4) Includes capital markets advisory, consulting, accounting and legal expenses related to evaluation, negotiation and integration costs incurred in connection with transactions under consideration and pending or completed transactions and offerings, including costs relating to our acquisitions of Jackpocket and Sports IQ Analytics Inc. in 2024.

(5) Primarily includes external legal costs related to litigation and litigation settlement costs deemed unrelated to our core business operations.

(6) Reflects non-recurring and non-ordinary course costs relating to advocacy efforts and other legal expenses in jurisdictions where we do not operate certain product offerings and are 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 we do 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 we currently operate.

(7) Primarily includes the change in fair value of certain financial assets, as well as our equity method share of investee's losses and other costs relating to non-recurring and non-operating items. In 2024, this amount includes $20.9 million related to product tax credits as a result of audits and appeals related to prior periods.

The unaudited table below presents the Company's Adjusted Earnings (Loss) Per Share reconciled to its basic income (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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Diluted earnings (loss) per share attributable to common stockholders:	$ 0.10	$ (0.17)	$ (0.17)	$ (1.03)
Adjusted for:				
Amortization of acquired intangible assets	0.07	0.06	0.14	0.13
Discrete tax benefit attributed to the Jackpocket acquisition (1)	(0.15)	—	(0.16)	—
Stock-based compensation (2)	0.17	0.19	0.39	0.45
Transaction-related costs (3)	0.04	—	0.05	—
Litigation, settlement, and related costs (4)	0.02	0.01	0.04	0.01
Advocacy and other related legal expenses (5)	—	—	—	—
(Gain) loss on remeasurement of warrant liabilities	—	0.04	0.02	0.08
Other non-recurring costs and non-operating (income) costs (6)	(0.04)	—	(0.04)	—
Adjusted Earnings (Loss) Per Share*	**$ 0.22**	**$ 0.14**	**$ 0.27**	**$ (0.36)**

* Weighted average diluted number of shares used to calculate Adjusted Earnings (Loss) Per Share for the three months ended June 30, 2024 was 518.8 million. For the six months ended June 30, 2023, the basic weighted average number of shares used was 476.8 million.

For the three and six months ended June 30, 2023 the basic weighted average number of shares used was 462.4 million and 458.9 million, respectively. Totals may not sum due to rounding.

(1) The Company recorded a discrete income tax benefit of $75.8 million during the second quarter of 2024 which was attributable to non-recurring partial releases of the Company's U.S. valuation allowance as a result of the purchase accounting for Jackpocket.

(2) Reflects stock-based compensation expenses per share 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 transactions under consideration and pending or completed transactions and offerings, including costs relating to our acquisitions of Jackpocket and Sports IQ Analytics Inc. in 2024.

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

(5) 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.

(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, in each case per share. In 2024, this amount includes $20.9 million related to product tax credits as a result of audits and appeals related to prior periods.

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 June 30,		Six months ended June 30,	
(amounts in millions, except percentages)	2024	2023	2024	2023
Revenue	$ 1,104	$ 875	$ 2,279	$ 1,645
GAAP Gross Profit	441	365	906	613
Stock-based Compensation	—	—	1	2
Amortization of acquired intangible assets	36	29	66	59
Depreciation and amortization	20	14	38	28
Other	$ (21)	$ —	$ (21)	$ —
Adjusted Gross Profit	$ 476	$ 408	$ 990	$ 702
Adjusted Gross Margin	43 %	47 %	43 %	43 %

The unaudited table below presents the Company's Adjusted Sales and 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 June 30,		Six months ended June 30,	
(amounts in millions, except percentages)	2024	2023	2024	2023
GAAP Sales and Marketing Expense	$ 216	$ 207	$ 556	$ 597
Stock-based compensation	8	8	13	19
Depreciation and amortization	1	1	2	3
Adjusted Sales and Marketing Expense	$ 207	$ 198	$ 541	$ 575

Information reconciling forward-looking fiscal year 2024 Adjusted EBITDA, Adjusted Gross Margin, Adjusted Sales and Marketing Expense, Free Cash Flow, and fiscal year 2025 Adjusted EBITDA 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, Adjusted Sales and Marketing Expense 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, Adjusted Sales and Marketing Expense or Free Cash Flow calculations. DraftKings provides a forecast for Adjusted EBITDA, Adjusted Gross Margin, Adjusted Sales and Marketing Expense and Free Cash Flow because it believes that Adjusted EBITDA, Adjusted Gross Margin, Adjusted Sales and Marketing Expense 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, Adjusted Sales and Marketing Expense 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 27 states, Washington, D.C., and 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 owns Jackpocket, the leading digital lottery app in the United States. 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, WNBA 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 DraftKings Network 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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