WRITTEN BY
DYLAN WRIGHT
AVISH PATEL

EDITOR
MICHAEL NICOLA

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DRAFTKINGS STOCK REPORT

TICKER : DKNG

AP Capital Research

Surrey Economics and Finance Society

SUMMARY

DraftKings Inc. is a digital sports entertainment and gaming company created to fuel the competitive spirits of sports fans with products that range across the daily fantasy, regulated gaming, and digital media. They provide fantasy sports to their customers by creating exciting opportunities for them to be able to support their favorite teams and compete with friends through an online sports betting interface. Their headquarters are based in Boston, Massachusetts.

DKNG has two main services. The first one being direct ‘Business to consumer,’ where they provide the apps which allow the consumer to view daily sports, make bets, and play games. The second service is B2B (‘Business to Business,’) which involves DraftKings designing, developing, and licensing sports betting and casino gaming software which they can then provide to other businesses. Their model is concentrated in Europe and Asia with a growing presence in the United States.

DraftKings was founded in 2012 but began trading on the New York Stock Exchange in April 2020 after an acquisition with the company Diamond Eagle Acquisition Company and SBTech. SBTech was previously a sports betting and gaming technology.

The company was co-founded in 2012 by three friends who had a passion for fantasy sports. Since the beginning it has grown rapidly, providing coverage to 8 countries in 15 distinct sports categories.

MANAGEMENT TEAM

JASON ROBINS - CO-FOUNDER, CEO, CHAIRMAN

Jason Robins graduated from Duke University, North Carolina in May 2003 with a BSc Economics, Computer Science and Mathematics. After graduating, he attained a role in Marketing and Analysis at Capital One, working there for five years. He later joined Vistaprints in 2008 where his friendship with Matt and Paul prospered into becoming co-founders of DraftKings in 2012.

Jason Robins oversees the company's strategies and operations while also driving funding and partnerships. He liaises with state policymakers and regulators to pass fantasy sports, sports betting and iGaming legislation. He led the company to become the first daily fantasy sports company to partner with Major League Baseball in 2013.

PAUL LIBERMAN - CO-FOUNDER, PRESIDENT & DIRECTOR

Paul Liberman graduated from Worcester Polytechnic Institute in 2005 with a BSc Electrical Engineering and Computer Science. He joined Vistaprint as a marketing research analyst and progressed his career to becoming Senior Manager Strategy & Analytics by 2012.

He started up the company in his spare bedroom with Jason and Matt and acted as Chief Technology Officer until 2013. He then took the role of Chief Marketing Officer before assuming his role as Chief Operating Officer in 2015. In 2020, he became the president of global technology and product. His work led DraftKings to offer their consumers DraftKings' DK Live and Leagues, DraftKings Daily Fantasy Sports app and the DraftKings Sportsbook platform.

MATTHEW KALISH - CO-FOUNDER, PRESIDENT

Matthew Kalish graduated from Columbia University, New York in 2004 with a BA Economics and Computer Science. Whilst taking his role at Capital One as a Business Manager from 2006-2009, he undertook an MBA at Boston College. During his MBA, he won a business

plan competition against his fellow students in bringing home-based combined heat and power generators to the market. He met Paul and Jason at Vistaprints in 2009 and since then their friendship grew and co-founded DraftKings where he served as Chief Revenue Officer until 2019. He was then appointed President, DraftKings North America in December 2019 where he oversees operations. His key role in growing DraftKings is his market leadership by maintaining loyalty and growing their customer base.

FINANCIALS

Revenue YoY	Gross Profit Margin	Operating Margin	Net Profit Margin
30.0%	51.0%	-74.7%	-77.6%
23.6%	33.3%	-226%	-228%
98.2%	27.3%	-262%	-262%
146.1%	50.6%	-83%	-82.7%

($ in thousands)	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Revenue	88,542	70,931	132,836	322,223
Operating Loss	66,117	160,444	348,357	268,338
Sales & Marketing	53,706	46,188	203,339	191,959
Net Income	-68,680	-161,437	-347,753	-266,400

2021 forecast:
DraftKings is raising their projections for their revenue from a range of $750 million to $850 million to $900 million to $1 billion. This equates to year-over-year growth of 40% to 55% .

The company's financials are promising despite the loss in operations. They have a strong cash base which allows them to offset future operational losses and enables them to engage in capital development or acquisitions. After holding a stock offering in June and exercising their warrants, in Q2 they reported $1.2 million in cash which increased to $1.8 million in Q4.

DraftKings has maintained its gross profit margins despite being hit with the cancellation of sports due to the pandemic. Their margins dipped to 33% in Q2 and 27% in Q3 whilst they reclaimed their 50% margin in Q4. DraftKings worst quarter was Q2 as revenue only grew 30% and their margin was 30%.

During each Quarter, we saw consistent revenue growth which coincided with increases in operational costs, particularly in the Sales and Marketing department. The rise in marketing cost is due to DraftKings trying to increase awareness of their products such as their Sportsbook and iGaming products particularly in states who recently legalised gambling.
Increasing awareness of their product and services will assist client base growth. This is evident by the increase in monthly unique players (MUPs) outlined in the company's KPIs. Quarter 2 saw MUPs decrease by 5.5% quarter over quarter in their B2C model due to sports cancellation from the pandemic. This equated to a 35.2% reduction in revenue. In Quarter 3, MUPs grew by 64.5% and this was because some sports restarted such as NBA, NHL and the US Golf Championships. Quarter 4 saw impressive MUPs growth of 44%. They now have 1.5 million users.

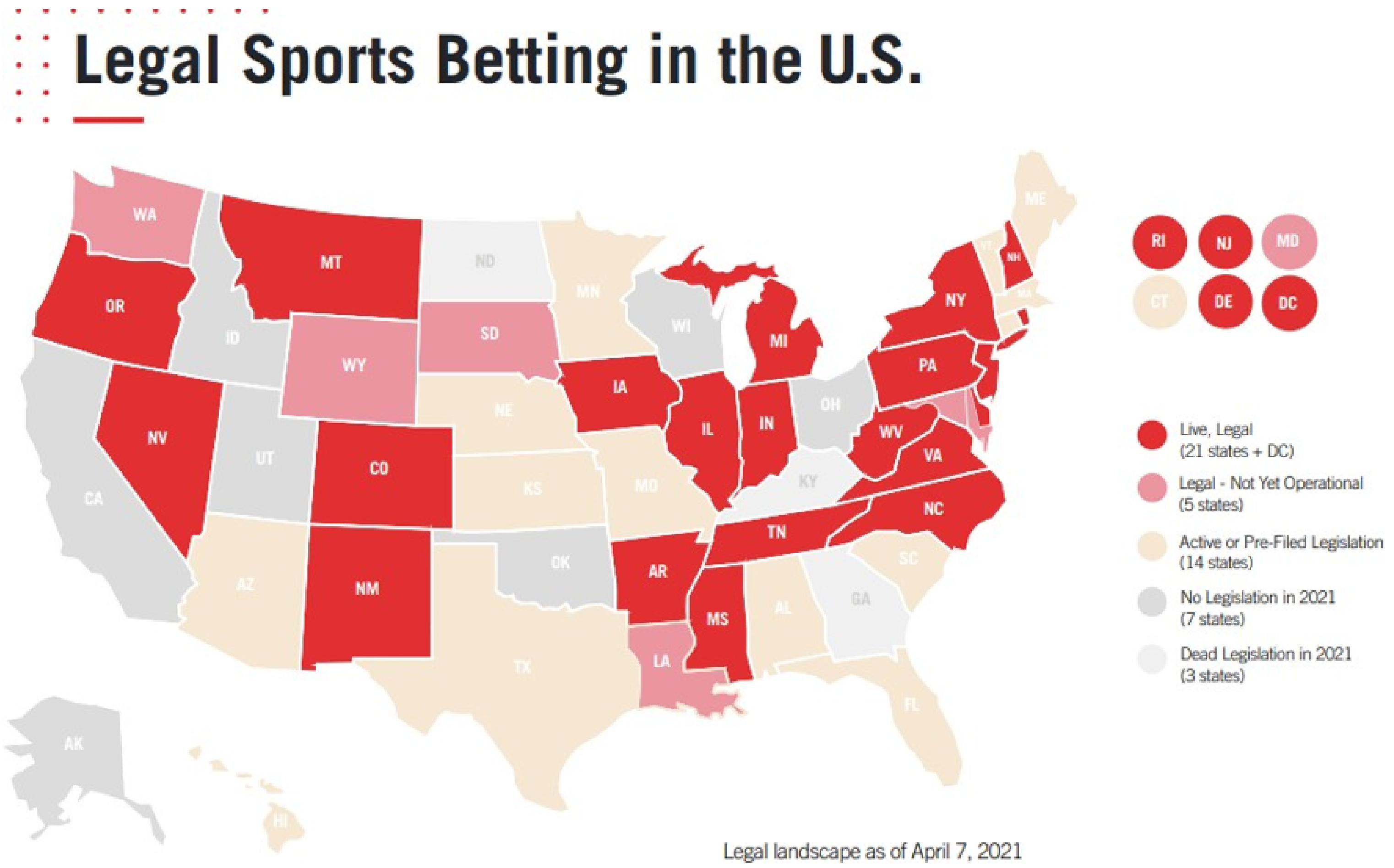
The company has no long term debt as of Q2. In Q1, they had $154.7 million outstanding debt as of March 2020, however the debt issued was convertible notes meaning the debt will convert into shares of the company. This would have diluted the share price once the debt is converted.

CATALYSTS

The global gambling industry is estimated to be worth $466bn and North America takes a 29% market share. The US gambling industry alone is estimated to be worth $119bn. Their forecast for 2027 is estimated at $158.8bn with a compound annual growth of 10.7%.

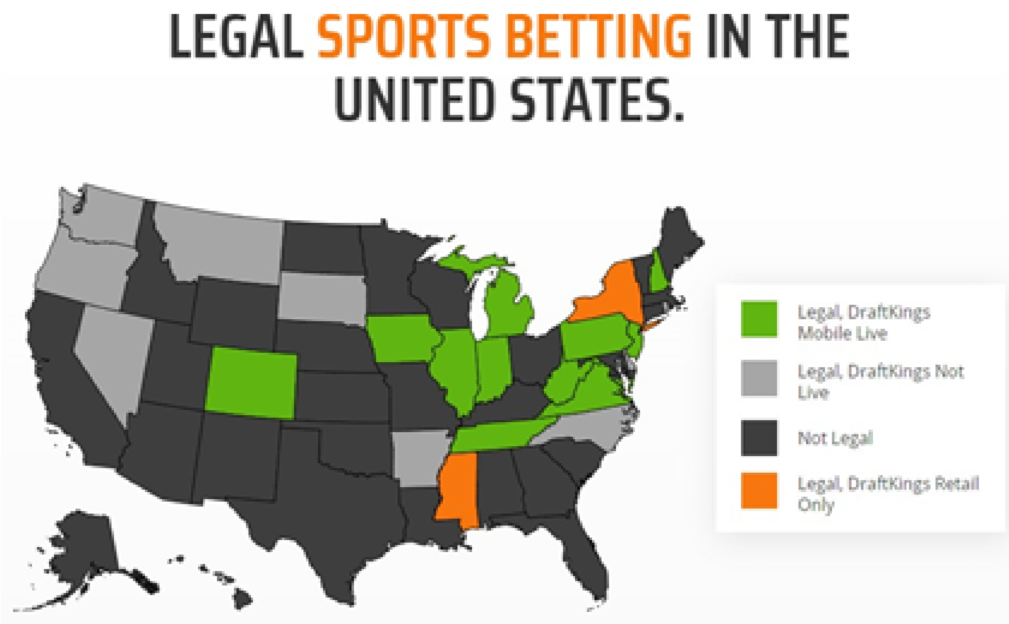
The major catalyst for DKNG to excel in the US gambling market is the legalisation of gambling in individual states. With the strike down of the PASPA law, individual states were given authorization from the federal government to decide how to regulate the gambling industry in their state and whether to legalise sports betting. Since the overruling of the law in 2018, there are 26 states + DC who have legalised sports betting out of 50 states.

There are 21 states + DC who operate retail and online sports booking, 5 states who have legalised sport betting but are not in operation and 14 states who have proposed legislative laws for sports betting and gambling. However, there are 7 states who have not proposed the bill to the state legislature and there are 3 states who have rejected the bill. DraftKings live in some parts of the US, so as the company grows, they can expand their service to more states which ultimately will bring in more revenue for the company.



CATALYSTS

As the vaccination programme in the US is progressing at an outstanding pace, the hopes for normality will be high. With restrictions easing due to the declining infection rate, sports will return with fans inside of stadiums. This will indicate a high probability of fans sports betting their favorite team as they will be incentivised through advertisement that surrounds them. However, given the current adaptation to online services due to the pandemic, we may see a greater use of Draftking's online products compared to their retail services, particularly in sports betting, but we may see an increase in online gambling as well. Consumers will be transitioning from saving their money to spending it as they will soon be allowed to resume normal life away from lockdown.



SWOT ANALYSIS

Strengths

- Leader within the market
- The recent increase in price estimates provides confidence for investors.
- This is a popular stock with ARK Investments, who look for companies which will do well in the future.
- Number of Monthly Unique Players (MUPs)is increasing quarterly. Their Average Revenue Monthly Unique Players (ARMUPs) also are increasing quarterly
- 52.80% of shares held by institutions. Increases confidence for investors as institutions look towards good stocks with future potential.

Weaknesses

- Currently unprofitable
- Investors unhappy with the $600m founders were paid in 2020, instead of rewarding investors
- Missed recent earnings reports.

Opportunities

- Recently offered shares in order to create funds which may be used for acquisitions
- More states legalising online gambling
- Also looking to branch out to Canada.
- Voters in several states approved ballot measures that legalise sports betting, in an attempt to increase budgets which have been largely spent on Covid-19.
- who will oversee and regulate these casinos who will also pay 20% tax on revenues. This tax is estimated to make $65m each year.
- Needham Analyst, Brad Erickson says 'online gambling market could reach $58bn over the next several years.'
- PGA Tour spectators will have their own personal sportsbook after a partnership has been announced with DKNG. This occurs after Arizona authorised betting on sports and fantasy sports. This also authorised professional sports leagues to open on site retail betting shops, which is what the PGA and DKNG will be taking advantage of. This deal benefits DKNG majorly as it will not be limited to PGA only events, but all sports.
- DKNG has hired and appointed Brian Angiolet as Chief Media Officer. With his experience at Verizon, leading major content and advertising initiatives, this will allow DKNG to get more coverage.
- Named an Official Sport Betting partner of the National Football League. This allows DKNG and the NFL to work together. DKNG will integrate their content in to the NFL media.
- They have deals with the UFC and WWE

Threats

- Some states expected to legalise gambling may not
- This may already be priced in, and if some states were to not legalise, then the share price will fall.
- Competitors include: Fanduel, MGM, Penn, Bet365, William Hill, Flutter, Pointsbet, Roar, Boom Fantasy, Stars Group, Boyd Gaming etc

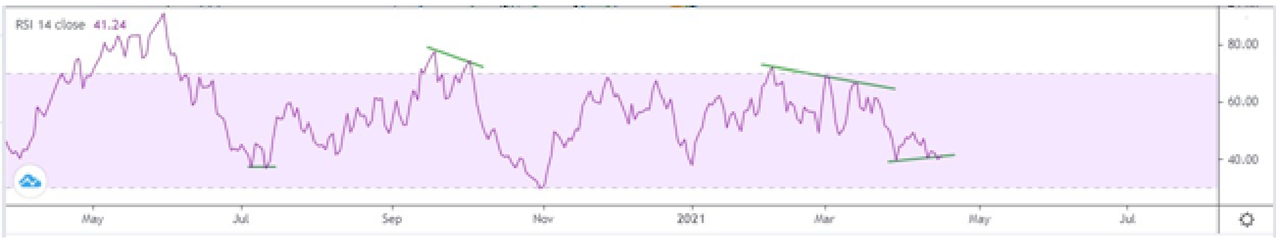
INSTITUTIONS

Based on data from the NASDAQ, there are 657 institutions holding shares of DraftKings. These institutions hold 202,860,600 shares out of the total 398 million shares. This accounts to an institutional holding of 50.97%.

Company Name	Shares Held	Value (in 1000s)
Vanguard Group Inc	23,505,658	$1,362,857
Price T Rowe Associates Inc	19,386,231	$1,124,014
Raine Capital LLC	16,743,300	$970,777
Wellington Management Group LLP	14,718,192	$853,361
Capital Research Global Investors	12,271,485	$711,501

Based on 23 Wall Street Analysts, the consensus for this stock is rated at a moderate buy at $72.77. At the time of writing this report, there is a 25.51% upside potential based on the analyst's 12-month price forecast. There are 16 analysts who rate this stock as a buy, 6 analysts who rate this stock as hold, and 1 analyst rating this stock as a sell. In the 12-month forecast range; the high is rated at $105 and the low is rated at $41.

TECHNICAL ANALYSIS



From a technical perspective, we can see the market has created a 5 Elliot wave pattern. The highs and lows of the waves are shown on the chart. Usually a corrective 3 wave, forms after the 5 wave impulse move. From the chart, DKNG has made a corrective wave and has retraced to 0.382 if we took a fibonacci retracement at the swing of 4-5. Taking a fibonacci retracement at the final impulse move in the smaller 3 wave within the 4-5 impulse move, we can see price retraced to a key zone of 0.5-0.618. From creating this corrective wave we can see a head and shoulders pattern has formed on the chart which is a reversal pattern. The right shoulder has printed and the line chart shows that price is retesting the neckline at $58. If this pattern was to play out, then we could see price fall to 55/54.50 to test this key level before making its move to the all time high. Price is sitting at the 100EMA, a form of dynamic support. Price has tested this level and respected it a couple times before retesting this level again. Price is accumulating, and using the RSI in relation to price, we can see there bullish divergence signalling momentum is turning bullish by creating higher lows on RSI whereas price is creating lower lows. Price will have to break its accumulation to start going back to all time highs. Where will the price go? Price should start to retrace to break all time highs to put in a higher high around $83 for a continuation of a new wave pattern.

As we can see from the chart, price tapped the 0.50 retracement level and has reacted off this level. The 0.50 retracement can indicate a continuation of the trend. By taking a retracement of the pullback, the devil's advocate positions where potential sellers could step in are at the sweet spot (0.5-0.618) or the supply zone (0.786-0.886). At these points we could see a potential pull back but this is all dependent on how price will react at these zones.

OUR THOUGHTS

Dylan Wright

I rate DraftKings as a BUY. Evidently from the 'opportunities' on the SWOT analysis it is visible that DKNG have a lot planned for the future. The acquisitions they have made will allow them to reduce their costs and create more content reaching more people. The gambling industry is still growing and more states are willing to accept gambling terms in order to generate tax revenue to fund a deficit they have created from overspending on the pandemic. DraftKings also has a product where once they spend some funds to bring a new customer in, that new customer will carry on spending with DKNG without DKNG having to do much, which will allow them to cut costs massively while increasing their revenue.
After the recent market correction, DraftKings has an entry point, down 20% from its recent highs. I expect it to pass it's all time high and go further within the year.
My one year price target for DraftKings is $100. For 3-5 years my price target is around $250.

Avish Patel

DraftKings is a great stock to invest in due to the company being the leaders in the gambling industry, if we were to compare market capitalization of their competitors. The stock has massive upside potential due to more states legalising gambling and their drive to gain and maintain customers on their platform through marketing strategies.

Providing the company does not dilute their shares, we could see this company reach a market cap of $100bn in the next 3--5 years as the US gambling market is growing rapidly. For the bull case, I expect DraftKings to have a market cap of 100bn; this means they will have a share price of $251. Base case would be DraftKings reaching a $50bn market cap in the next 3-5 years which would make the share price $126. What we really want to see from DraftKings is continued revenue growth but also cracking down on their operation losses to truly benefit from growth. The company is still in its early days but is progressing well with securing crucial deals for its growth.

I would recommend this stock as I believe DraftKings will be the leader in the gambling industry based on their current impressive growth in their business models.

DYLAN WRIGHT
EQUITY ANALYST
Wrigd011@gmail.com

MICHAEL NICOLA
CO FOUNDER OF AP CAPITAL RESEARCH
michaelnicola457@gmail.com

AVISH PATEL
EQUITY ANALYST
avishpatel92@gmail.com

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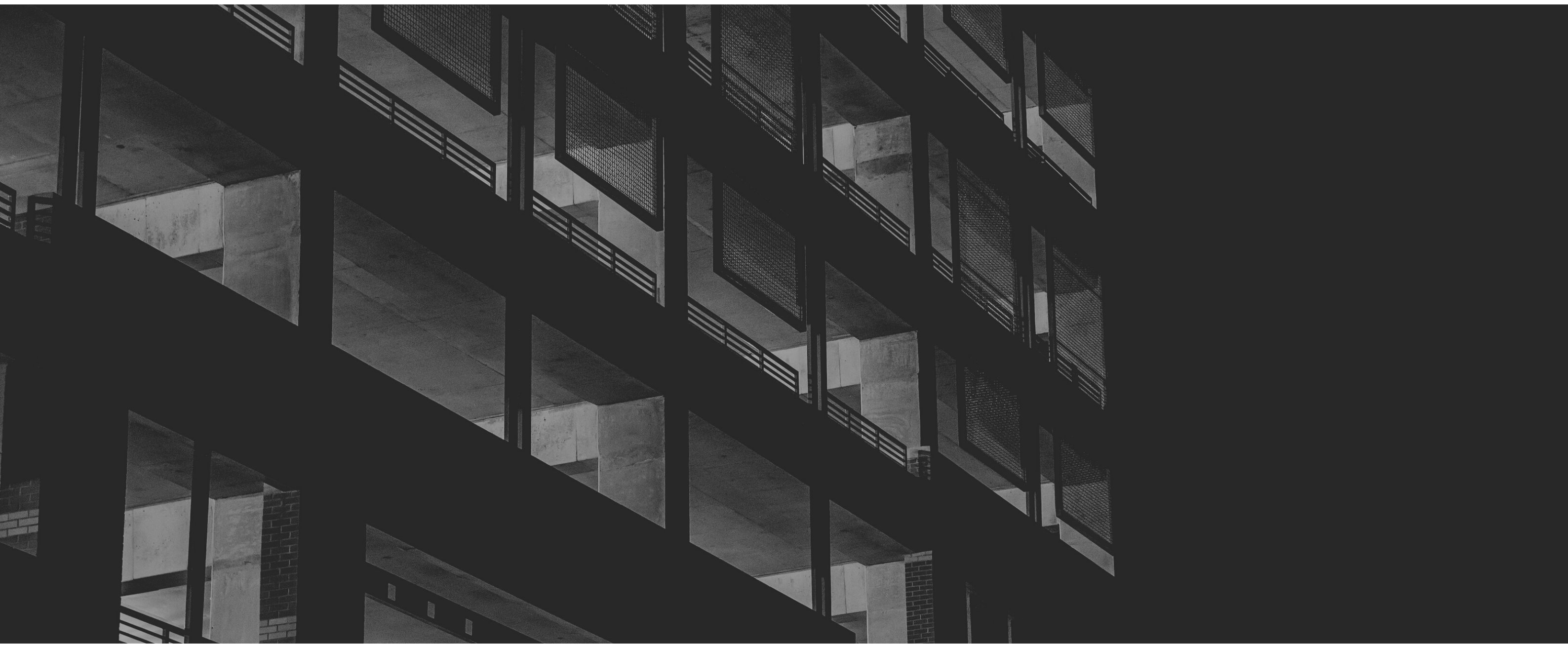

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