Citizens

Gaming, Online Gaming & Gaming Technology | Company Update
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DraftKings Inc. (DKNG)

DraftKings Restructuring According to Social Media Posts

MARKET OUTPERFORM
Price: $21.81
Price Target: $38.00

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INVESTMENT HIGHLIGHTS

- **DraftKings is restructuring roles within the company, according to social media posts.** DraftKings appears to be restructuring roles across the organization, according to LinkedIn posts. The company confirmed to us that it had reorganized and that has impacted roles within the company, but no further comments were made. Removing G&A costs was a key theme of ours for the company in 2026, following several years of heavy investment across its cost structure to integrate Golden Nugget (iGaming) and Jackpocket (lottery courier) and launch new gaming verticals like DK Horse (horse racing), Pick6 (peer-to-peer), and now DraftKings Predict (prediction markets). The stock is down 56% from the 52-week high stemming from concerns around slowing fundamentals within the sports betting business, yet the cost structure is one area in which we believe the company can help itself. From a high level, all major cost buckets have accelerated. From 2023 to 2025, G&A increased 6%, 13%, and 22% YoY; product and technology increased 12%, 22%, and 26%; and sales and marketing increased 3%, 5%, and 9% despite slowing legalization and player growth (flat in 2H25). Management clearly said on the recent earnings call and our callback that the cost structure is fully baked in for ongoing investment with no revenue upside ascribed within the outlook. We expect DKNG to deliver product improvement as long as the industry is active, but the realization of slowing revenue growth in 2026 (+11% guidance at the midpoint) and 2027 with little legalization in the U.S. allows it to rationalize an employee base that increased 31%, or 1.3k people, in three years. We expect the size of the restructuring (as a percent of employees) to be toward the lower end of the range we saw from technology companies in recent years (2% to 15% of the employee base). This is not the first instance of restructuring after DKNG terminated 3.5% of its workforce in 2023, primarily jobs outside the United States.
- **Impact to the model.** We estimate the headcount reduction, if close to 5% of employees, will result in annual cost savings of ~$30M, based on the median DraftKings employee making ~$100k per year, according to its filings. That said, the timing of the staff reduction, a week and a half following earnings and guidance, suggests the cost savings were most likely contemplated in the 2026 EBITDA guidance of $700M to $900M EBITDA. On one hand, we can take the view the cost savings will act as a cushion baked into guidance, while on the other hand, it will work as an offset for the increasing fixed costs stemming from the launch of DraftKings Predict, the prediction market platform launched in December. We get the sense the company is moving quickly to get the prediction market infrastructure in place, including moving to Railbird as its primary exchange, to compete in a more competitive nature for upcoming events like March Madness, the World Cup, and the NFL season in the fall. We expect to get a more detailed roadmap at the upcoming investor day on March 2nd.
- **The CEO has a broader strategy around AI.** A key theme during meetings with the management over the last two years was the CEO's interest in AI implementation throughout the enterprise. We believe the current round of restructuring could have been larger or more impactful for the model if not for the push into prediction markets based on the CEO's push to implement AI throughout the organization for internal and external functions. Internally, the company has adopted AI functions to help write RFPs, help engineers to write code, add in chatbots, and draft legal opinions, all which can save on outsourced labor over time. Externally, AI is improving its ability to

MARKET DATA

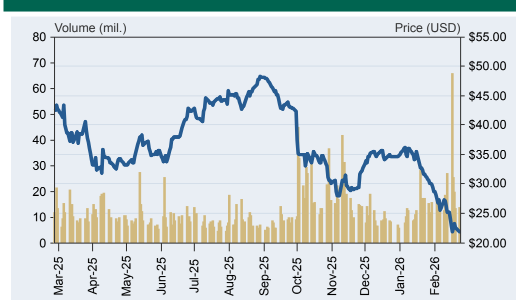
Price:	$21.81
52-Week Range:	$21.01 - $49.59
Shares Out. (M):	508.0
Market Cap ($M):	$11,079.5
Cash (M):	$1,135
Enterprise Value (M):	$18,672
Free Cash Flow Yield:	10.0%

Source: Company reports and Citizens JMP Securities, LLC

FY DEC		2025A	2026E	2027E
Revenue ($M)	1Q	$1,408.8	$1,658.8	$1,829.5
	2Q	$1,512.5	$1,618.9	$1,780.5
	3Q	$1,144.0	$1,405.0	$1,561.8
	4Q	$1,989.2	$2,138.6	$2,357.4
	FY	**$6,054.5**	**$6,821.3**	**$7,529.1**
EBITDA	1Q	$102.6	$183.4	$262.8
	2Q	$300.6	$291.1	$379.6
	3Q	($126.5)	$37.7	$94.9
	4Q	$343.2	$353.0	$465.0
	FY	**$620.0**	**$865.2**	**$1,202.3**

Source: Company reports and Citizens JMP Securities, LLC

STOCK PRICE PERFORMANCE



serve content in a personalized manner. For example, 70% of promotional spending is determined by AI, which should increase over time. Overall, we could expect more cost structure rationalization in the coming quarters to years as the business continues to benefit from AI and maturing markets.

- **We maintain our Market Outperform rating and $38 price target.** Our price target is based on a blend of 15x our 2027E EBITDA and 17.5x our 2027E FCF.

COMPANY DESCRIPTION

DraftKings (DKNG) is a B2B/B2C digital sports entertainment and gaming company with exposure to the fast-growing Online Sports Betting (OSB) and iGaming markets. Founded in 2011, DraftKings was a pioneer in Daily Fantasy Sports (DFS), an innovative take on traditional fantasy sports offerings, which quickly grew the company's brand awareness among sports and gaming enthusiasts. Following the 2018 repeal of the federal ban on sports betting (PASPA), DraftKings has leveraged its platform to break into Sports Betting and iGaming, where it is an early market share winner.

INVESTMENT RISKS

Reliance on market access agreements. DKNG is dependent on market access agreements in most states where it wishes to do business. It has no retail casinos, to which states typically tie skins.

Growth is dependent on legalization. The size of the total addressable market is dependent on new states legalizing online sports betting and iGaming. OSB has gained traction over the last three years, but iGaming has been slow to make its way through the legislative process. We believe there is future risk to earnings should states not look to legalize iGaming. Even with legalization, states have opted for one or two operators (CT, OR for example), which lowers TAM estimates despite being an operating state.

Balance sheet could hamper growth. DKNG essentially has one stream of cash flow in online gaming. It is competing with online operators that have mature online operations internationally, and/or a domestic casino portfolio, which generates high levels of cash flow. Businesses like PENN, MGM, and CZR have billions of dollars of liquidity available to fund online operations and grow through M&A.

Content is king. Casino customers often play games and IP that are in brick and mortar casinos. The online casino supplier industry is highly concentrated with the top-five suppliers accounting for the majority of the market. DKNG is dependent on third-party content and if a competitor were to sign an exclusive agreement for titles, DKNG could be at risk of losing customers to other B2C platforms.

No casino database. Casinos with an online strategy have databases of customers they can cross-sell. The database is the most important marketing tool in the gaming industry. DraftKings has access to Golden Nugget's casino database, but it is smaller vs. many peers in the online space. Retail operators' ability to cross-sell products at a lower CaC could put DKNG at a disadvantage longer term.

No major media sponsors. DraftKings lacks any large media partnerships compared with competitors in the space. Operators have noted the lower spend to acquire customers when sourced though their media channel. The company acquired Vegas Sports Information Network (VSiN) in 2021, a sports media and content platform focused on sports betting news and analysis. However, we believe it could be difficult to compete against EPSN (PENN) with hundreds of millions of viewers trafficking on those websites/stations.

Facts and Disclosures

Analyst Certification:

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Citizens JMP Securities, LLC currently makes a market in the security of DraftKings Inc.

Citizens JMP Securities, LLC, was manager or co-manager of a public offering of securities for DraftKings Inc. (DKNG) in the past 12 months and received compensation for doing so.

Citizens JMP Securities, LLC. expects to receive OR intends to seek compensation for investment banking services from DraftKings Inc. in the next three months.

Citizens JMP Securities, LLC, or its affiliates have received compensation from DraftKings Inc. for products or services other than investment banking services in the previous 12 months.

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Market Outperform (MO): Citizens JMP Securities, LLC expects the stock price to outperform the Russell 3000® Index over the next 12 months.

Market Perform (MP): Citizens JMP Securities, LLC expects the stock price to perform in line with the Russell 3000® Index over the next 12 months.

Market Underperform (MU): Citizens JMP Securities, LLC expects the stock price to underperform the Russell 3000® Index over the next 12 months.

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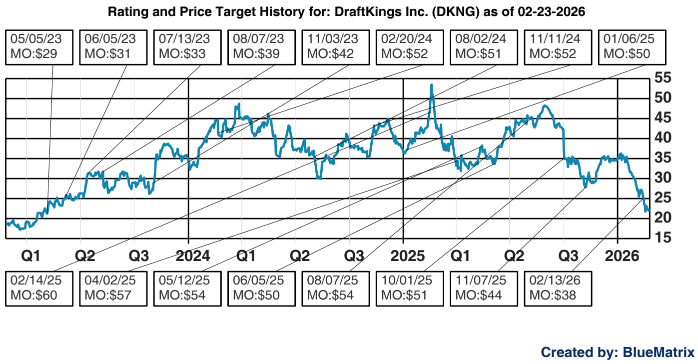
Citizens Capital Markets & Advisory Ratings	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	327	*68.99%*	Buy	327	*68.99%*	73	*22.32%*
MARKET PERFORM	Hold	142	*29.96%*	Hold	142	*29.96%*	24	*16.90%*
MARKET UNDERPERFORM	Sell	3	*0.63%*	Sell	3	*0.63%*	0	*0%*
COVERAGE IN TRANSITION		1	*0.21%*		1	*0.21%*	0	*0%*
RATING SUSPENDED		0	*0.00%*		0	*0.00%*	0	*0%*
TOTAL:		474	*100%*		474	*100%*	97	*20.46%*

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with FINRA Rule 2241, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: Citizens JMP Securities, LLC.



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