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# Defiance ETFs

Case Study for DraftKings:  
Making Sports Betting Mainstream



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Special Purpose Acquisition Companies (SPACs) are bespoke tools that allow a fledgling company to become public without the traditional IPO process. SPACs are companies that IPO with the explicit goal of executing an acquisition or merger with a private company. The SPAC itself has no operations and is sometimes called a “blank check” company, as its shareholders essentially entrust their funds to the SPAC directors, who choose which company to acquire.

SPACs have been growing in credibility and popularity, as their founders increasingly comprise individuals with solid and successful business backgrounds. Even before the economic uncertainty of Covid-19, investors looked to SPACs to identify value, and help them benefit from a relatively new company achieving public status and success. For the target companies, the SPAC merger offers less fanfare than an IPO roadshow and launch, but a lot more certainty and control, and a guaranteed cash boost that could take its business to the next level.

Perhaps it is unsurprising that this up-and-coming tool was used to bring the avant-garde DraftKings to the public market. DraftKings is “a digital sports entertainment and gaming company created to fuel the competitive spirits of sports fans with products that range across daily fantasy, regulated gaming and digital media.”<sup>1</sup> It leads an emerging industry that blurs the line between sports betting, fantasy gaming and eSports. As such it has fought off legal challenges and, in the process, changed the law on fantasy sports.<sup>2</sup> Since a 2018 ruling by the Supreme Court that struck down a federal ban on sports gambling, DraftKings has become a gambling bookmaker as well. The company offers online and mobile betting in Indiana, New Jersey, Pennsylvania and West Virginia, with retail locations in New Jersey and several other states.

The global pandemic is both shutting down sports events and connecting people through online forums. It could also leave local governments looking for alternative income sources, for which gambling taxes could come in handy. In this context of unprecedented digital leisure and a sympathetic legislative context,<sup>3</sup> DraftKings was looking for a significant cash injection to expand operations into other states, such as Michigan and Colorado, that have recently legalized sports gambling.

<sup>1</sup> “DraftKings National Study Uncovers New Realities of Sports Fans Ahead of Top League Returns,” DraftKings, Boston, July 20, 2020. [www.draftkings.com/about/news/2020/07/draftkings-national-study-uncovers-new-realities-of-sports-fans-ahead-of-top-league-returns/](http://www.draftkings.com/about/news/2020/07/draftkings-national-study-uncovers-new-realities-of-sports-fans-ahead-of-top-league-returns/)

<sup>2</sup> “The war between DraftKings and FanDuel and the NY Attorney General is over,” Daniel Roberts, October 26, 2016. [www.finance.yahoo.com/news/the-war-between-draftkings-and-fanduel-and-the-ny-attorney-general-is-over-215021442.html](http://www.finance.yahoo.com/news/the-war-between-draftkings-and-fanduel-and-the-ny-attorney-general-is-over-215021442.html)

<sup>3</sup> After the U.S. Supreme Court struck down the federal ban on sports betting in May 2018, 15 states have joined Nevada in legalizing sports betting. See “DraftKings completes merger that makes it a public company, starts trading Friday,” Daniel Roberts, April 24, 2020. [www.finance.yahoo.com/news/draft-kings-completes-merger-diamond-eagle-now-public-company-dkng-222039095.html](http://www.finance.yahoo.com/news/draft-kings-completes-merger-diamond-eagle-now-public-company-dkng-222039095.html)



Cofounder and CEO Jason Robins cited concerns about the unknown outcome of a lengthy, expensive IPO process, having seen major Unicorns Uber, Lyft, Slack, and Peloton falter in their public launches.<sup>4</sup> He saw SPACs as an “innovative thing..., much in the same way I hope people view us as innovative on the product side.”

On April 24, 2020, DraftKings merged with gaming technology firm SBTech and Diamond Eagle Acquisition Corporation, a SPAC founded by former MGM chairman Harry E. Sloan, which IPO-ed in May 2019. The \$3.3bn deal included \$400m that Diamond Eagle raised in its offering the previous year, and a \$304 million equity investment from several institutional investors.<sup>5</sup> The early market reaction was positive, with DraftKings shares rising 10% by the end of the deal week to \$19.35.<sup>6</sup> Their value has continued to climb steadily since then, standing at over \$55 on September 18.

Investors apparently see great potential in DraftKings’ innovative content that does not rely on major sports seasons and sporting events. And DraftKings execs were able to use the SPAC mechanism to gain expeditious access to cash and investor confidence when they needed it.

<sup>4</sup> “DraftKings completes merger that makes it a public company, starts trading Friday,” Daniel Roberts, April 24, 2020. [www.finance.yahoo.com/news/draft-kings-completes-merger-diamond-eagle-now-public-company-dkng-222039095.html](http://www.finance.yahoo.com/news/draft-kings-completes-merger-diamond-eagle-now-public-company-dkng-222039095.html)

<sup>5</sup> “Fantasy sports company and bookmaker DraftKings to become public company,” Jesse Pound,” Dec 23, 2019. [www.cnbc.com/2019/12/23/draftkings-to-become-public-company-forgoing-traditional-ipo.html](http://www.cnbc.com/2019/12/23/draftkings-to-become-public-company-forgoing-traditional-ipo.html)

<sup>6</sup> “DraftKings shares surge as company goes public despite sports shutdown,” Noah Manskar, April 24, 2020. [www.nypost.com/2020/04/24/draftkings-shares-surge-as-company-goes-public-with-sports-shut-down/](http://www.nypost.com/2020/04/24/draftkings-shares-surge-as-company-goes-public-with-sports-shut-down/)