Opinion **Lex**

Digital gambling/SPACs: Rush job

Listings via mergers with blank cheque companies have surged in recent years

DraftKings listed via a SPAC merger in December, and Rush Street Interactive is the latest online gambling group to list this way © AP

5 HOURS AGO

Sometimes it takes a few hands to learn a new card game. Online gambling has that status with US public market investors. Four different companies have listed their shares recently, or are about to do so. The timing is auspicious: states have loosened regulations on digital gambling just when bored Americans are stuck at home staring at screens.

The method of the latest listing will be equally modish: via a “special purpose acquisition corporation”. Rush Street Interactive plans to go public at a near-$2bn valuation by merging with dMY Technology Group, a blank cheque company looking to acquire a mobile tech business.

Shares in dMY rose just 5 per cent, signalling that the valuation ascribed was fair to Rush Street and shareholders of the SPAC — a “cash shell” in UK parlance.

Listings via SPAC mergers have surged in recent years. Hedge fund manager Bill Ackman floated a $4bn vehicle last week. Private companies have come to believe traditional IPOs are lengthy, value destroying and unpredictable. In May, GAN Ltd, a London-based gambling software business listed its shares in the US conventionally at $8.50 per share. Today those shares trade at more than $20.

SPAC partisans claim that a listing via a blank cheque company merger allows for a customised deal that is part IPO and part M&A. Rush Street, for example, is raising $160m led by Fidelity Management in fresh capital in conjunction with its deal. The current owners are taking out $125m of cash for themselves but will still own 80 per cent of the business.

Rush expects roughly $300m in revenue next year but says eventually its business could hit sales of between $1.5bn and $2bn. The date for that is a gamble.

In June, Golden Nugget Online, the online gambling business owned by Tilman Fertitta, the billionaire tycoon behind the Golden Nugget casinos and various restaurants, merged with a SPAC. That SPAC is partly controlled by Mr Fertitta, which seems slightly awkward. But its shares now trade above $12, just two bucks higher than the SPAC trading price before the deal. Once again, merger terms appear reasonable for both sides.

Anecdotal evidence is not all in favour of listings via SPAC mergers. DraftKings, a sports gambling high flyer, listed this way in December and its shares have tripled since. The basic truth: whatever listing structure one uses, valuation is tricky, particularly, for emerging sectors.

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