Finance

Early-stage betting investment vehicle closes $10m funding drive

Sharp Alpha managing partner Lloyd Danzig hopes to introduce start-ups to market-leading operators that don’t have time to build their own B2B solutions

Robert Simmons | 12 October 2021

Sports betting tech advisory firm Sharp Alpha has closed its first $10m venture capital fund, which targets early-stage online gambling companies in the US.

The fund, which *EGR* has learned was oversubscribed, is known as Sharp Alpha Fund I and has already made investments across 11 start-up businesses.

The list includes emerging US sports betting exchange Prophet as well as Players’ Lounge, GridRival, PickUp, Golden Hearts Games, Rush Sports, Sharp Sports, and Verdict MMA.

The fund has been in development since April 2021. Investments in this first tranche of start-ups averaged $250,000, with plans to provide follow-up funding via subsequent rounds.

In addition to the main fund, Sharp Alpha also maintains a co-investment vehicle, which allows so-called “limited partners” to invest additional capital in selected deals alongside the main fund.

EGR understands the Sharp Alpha Fund has more than 100 limited partners and that initial investment allocations have been made using this vehicle in excess of $1m.

As part of the ongoing process, the fund also provides advisory and strategic support through an advisory board.

This board includes former Merrill Lynch global head of leveraged finance Keith Horn, ex-Caesars Entertainment vice-chairman Don Kornstein, former Empire Resorts chairman Emanuel Pearlman, former Harris Blitzer Sports and Entertainment CCO Adam Davis and Mindspring Capital venture partner Daniel Bernard.

All advisors to the fund are also investors.

The fund is backed by a number of institutional investors including the Great Elm Group and the Dutch Sport Tech Fund, as well as a number of multi-billion-dollar VC funds and private equity groups.

Other limited partners in the fund include senior executives from several of the world’s largest investment banks, hedge funds, and publicly traded sports betting companies.

The main focus of the fund is to connect portfolio companies to investors and future funding sources, giving start-ups access to crucial contacts within the financial sector.

Further investors in the fund include a number of Silicon Valley-based companies and some of the world’s largest VC funds.

Sharp Alpha Advisors managing partner Lloyd Danzig pointed to the need to invest in the “picks and shovels” that make up the US sports betting technology industry.

He said: “My thesis from day one was that all of the major stakeholders and market leaders in this space and every major stakeholder that even remotely touches the world of sports betting is going to be buying or licensing technology rather than building it,” Danzig told *EGR*.

"The entire positioning both for myself and for the fund was centered on how best to monetize the explosion of sports betting that I felt I had a front row seat for – and for me the best way was to fund early-stage companies.

"Some of them may go on and become self-sustaining, they may become businesses which IPO, directly serve consumers or go down the B2B route.

"However, the massive opportunity here is in providing the DraftKings and the FanDuel's of the world with the tools, white-label solutions and product user experience that they will need to compete not only in sports betting, but also in competitive entertainment," Danzig added.

The battle to acquire proprietary sports betting technology rather than develop it in-house has been a defining factor in a number of high-profile M&A deals across the US, including DraftKings' acquisition of Golden Nugget, Bally's merger with Gamesys Group and Penn National Gaming's $2bn deal for theScore.

Discussing this appetite to acquire rather than develop, Danzig highlighted the example of DraftKings and its recent purchases.

"Most people would have thought DraftKings would be in a position to build its own content studio, jackpot functionality or micro betting, but they bought VSiN, they bought Blue Ribbon, and they are doing a licensing deal with Simplebet," he explained.

"DraftKings has three billion [dollars] in cash on its balance sheet and they hired the chief media officer from Verizon, so they obviously have the resources and capabilities to build a content studio but there's just so much on their plates.

"Time is of the essence in this gold rush so DraftKings bought VSiN because it made so much more sense to do that and we're going to continue to see that from others.

"This is part two of the fund thesis, built on the belief that M&A will continue to be used as the primary mechanism for vertical integration and differentiation by these market leaders," Danzig added.

Danzig's fund is one of a number of new-stage investment opportunities in the sector, with Bettor Capital partner David VanEgmond launching his own investment vehicle for sports betting tech start-ups earlier this month.

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