



TFA
Monthly
Newsletter

April 2016

IN THE NEWS

Acquisitions: What is Fair?

by Jeff Heimann

As Tribes continue to pursue economic diversification strategies, we can expect to hear about more and more Tribes buying private and even public companies. To this day, one of the largest companies ever purchased by an American Indian Tribe is Hard Rock International, the music-themed chain of restaurants that the Seminole Tribe of Florida acquired for \$965 million in 2006. Since then, we have seen many more examples of Tribes acquiring assets outside of their casinos: the Mille Lacs Band of Ojibwe has completed a handful of significant acquisitions and now owns several hotel assets, including (among others) the InterContinental Saint Paul Riverfront hotel, the DoubleTree by Hilton Minneapolis Park Place and the Embassy Suites Oklahoma City. Most recently, last

week the Poarch Band of Creek Indians announced the acquisition of the Royal D'Iberville casino site in D'Iberville, Mississippi.

With any acquisition, how does a Tribe – or any buyer – know what the fair price is to pay? Unfortunately, no simple answer exists. Sometimes an owner is desperate to sell and an opportunity presents itself for a really sweet deal, below “market” value. Other times a company may be broadly marketed with many interested parties bidding, and, through a bidding process, the owner is able to achieve a higher price. In some instances, a buyer may see strategic benefits that helps its own business sell more product or save on expenses, thereby creating “synergies” that result in the value of a



Above: TFA met up with NIGC Chairman Emeritus, Rick Hill, at the Wendell Chino Humanitarian Award banquet at the NIGA conference in Phoenix, AZ.

Can Arizona Afford to Lose \$100 Million a Year?

3/03/16 – AZCapitalTimes.com

NIGA Announces 2016 Wendell Chino Humanitarian Awards

3/14/16 – ICTMN.com

Jamul Indian Village Does Not Need Management Contract to Open

3/16/16 – WorldCasinoDirectory.com

Omaha Tribe Wins Unanimous Decision at SCOTUS

3/23/16 – ICTMN.com

U.S. Court Gives Tohono O’odham Casino Project Green Light

3/30/16 – NavajoPost.com

(continued on Page 2)

(continued from page 1)

combined company significantly exceeding the combined values of the separate companies – and therefore an ability to pay an even higher price than what may otherwise represent a “fair” value.

Two major approaches for determining the value of a company include an “intrinsic” valuation and a “relative” valuation. Let’s take a simple, hypothetical example of evaluating the purchase of a lemonade stand. The intrinsic approach would look at past results of the lemonade stand and, assuming no changes are being made to the lemonade or the market demand for lemonade, use the past results to project future expected cash flows from the property. Discounting those cash flows to a present value would then determine a fair valuation.

The relative approach would look at previous sales of lemonade stands (assuming similar stands have been sold and information around such sales is available). Simply take the selling price of the “comparable” lemonade stand and divide it over its prior year’s

cash flow – then apply that “multiple” times the prior year’s cash flow of the lemonade stand available for purchase and voila! You have determined a fair purchase price.

Of course, acquisitions are not typically (read: never) simple... many factors and considerations come into play that make for a very complex process. Complexity exists at every step through closing and well beyond as you manage the new asset and / or integrate it into your existing enterprises. Simply negotiating the price includes many factors that will influence the final value. For example, the type of buyer, the structure of the deal,

licensing or regulatory constraints, ownership/control impacts, market conditions – financial and economic – and many more factors all can have significant influence on the final price. And perhaps above all, the negotiating skill and knowing how each of the various factors play into valuation can influence the final pricing terms. In a future newsletter, we will examine each of these factors in greater detail.

We welcome and look forward to additional conversations with you on how we can help your Tribe diversify through completing a successful acquisition.



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