



TFA

Monthly Newsletter

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IN THE NEWS

The Search for Growth in Gaming Cash Flow

By William Crader, CFA

As we approach the heart of the conference season, TFA thought it would be of interest to our clients to provide an update on economic development trends in Indian Country, with a focus on how many tribes are addressing cash flow and distribution growth. Regardless of size, most tribes with gaming operations rely heavily on that enterprise to support their tribal government and programs. Tribes can increase cash flow by relying on a combination of acquiring gaming cash flow, continuing to enhance amenities around their gaming facility and becoming more efficient operationally. These are strategies any tribe can employ.

Gaming revenue within Indian Country is impressive, but growth over the last several years has slowed. Latest annual data shows Indian Gaming revenues of \$33.7 billion with modest overall annual growth of 4% for 2018. Some NIGC reporting regions showed high single-digit growth, but overall growth was pedestrian relative to the hyper-growth phases prior to the Great Reces-

sion. Almost every conversation TFA participates in with tribal leadership or casino management involves how to maintain or improve EBITDA growth at the gaming enterprise. The primary concern being that if tribal gaming enterprises do not evolve, cash flow will eventually stall and perhaps erode materially. Although competition between tribes has been somewhat muted during the growth phase of Indian gaming, within a mature market we can anticipate competition will only increase between tribes as tribal gaming enterprises seek greater wallet share from secondary and tertiary markets.

U.S. Commercial Casino Opportunities.

In 2018, U.S. commercial casinos generated \$41.7 billion in gaming revenue, representing a 3.5% increase over 2017 gaming revenue. Similar to casinos in Indian Country, the gaming market has matured and the focus currently is on acquisition and consolidation. This should serve as an opportunity for tribes to acquire assets in a diversification play as large commercial operators seek to divest non-core assets.

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North Carolina-Based Tribe Proposes Casino In Virginia

1/8/20 – [NativeBusinessMag.com](https://www.nativebusinessmag.com)

California Lawmakers All Ears At 2020's First Sports Betting Hearing

1/9/20 – [SportsHandle.com](https://www.sportshandle.com)

Pamunkey Indian Tribe Officially Sign Agreements With City Of Norfolk For Proposed Resort Casino

1/14/20 – [WorldCasinoDirectory.com](https://www.worldcasino.com)

Gila River To Reach Solar Energy Goals Through Clēnera Partnership

1/18/20 – [NativeBusinessMag.com](https://www.nativebusinessmag.com)

Gun Lake Investments & Waséyabek Buy \$17.5M Tower

1/20/20 – [NativeBusinessMag.com](https://www.nativebusinessmag.com)

The Evolving Casino Marketing Landscape

1/27/20 – [GGBMagazine.com](https://www.ggbmagazine.com)

Cherokee Nation Work Group To Evaluate Cannabis For Economic & Health Benefits

1/29/20 – [NativeBusinessMag.com](https://www.nativebusinessmag.com)

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Some tribes have already looked outside of their existing gaming markets to acquire cash flow. Most notably in May 2019, the Poarch Band of Creek Indians completed the \$1.3 billion acquisition of Sands Bethlehem (rough math on that valuation is 11.2 x 2018 EBITDA of \$116 million). The Poarch Band continues to look to other markets to diversify cash flow from their primary gaming market in Alabama. In addition, recently the Poarch Band submitted a proposal in October 2019 to develop and build a \$275 million casino and hotel in southern Cook County, near Chicago, Illinois.

Some other notable developments include:

- In Virginia, The Eastern Band of Cherokee Indians and Hard Rock Casino/The Seminole Tribe have both proposed casino resorts in Bristol.
- The Ho-Chunk Nation's proposed retrofit of the Southland Center into a \$380 million commercial casino and hotel in Lynwood, Illinois near Chicago (also competing with the Poarch Creek Illinois casino bid).
- Legends Resort Casino, a proposed \$225 million commercial joint venture between Cherokee Nation and Legends Hospitality in Russellville, Arkansas.
- Mohegan Gaming's \$1.3 billion phase one development of the Inspire Entertainment Resort in South Korea.
- Likewise, Mohegan Gaming is pursuing a \$1.1 billion resort casino, Inspire Athens, in Greece (note: the bid is being appealed by Hard

Rock International/The Seminole Tribe at this writing).

- The Laguna Development Corporation's acquisition of the Ellis Park racetrack in Kentucky.

These are clearly significant transactions that not all tribes will be able to consider. However, with Eldorado's pending acquisition of Caesars Entertainment, there could be numerous opportunities for tribes with strong balance sheets to acquire smaller gaming assets that could complement existing operations or, more importantly, provide access to different regional gaming markets.

It's important to note, that often the primary drivers of successfully integrating acquired assets include improved operating efficiency and cost synergies (Eldorado notes they expect over \$500 million of cost reductions during the first year, post close of the acquisition).

Expansion, Expansion, Expansion.

As an alternative to buying cash flow, many tribes are making significant bets on updating their existing properties with the goal of driving additional

foot traffic to their gaming facilities by offering enhanced entertainment, food and beverage and retail offerings adjacent to their gaming facilities. This strategy requires patience to play out. Once assets are developed, it may require two to five years to gain traction within primary and secondary markets. That said, by offering a more robust selection of activities for gaming patrons and their families to participate in, the tribe creates greater certainty in achieving its cash flow forecast and long-term growth. Even the addition of more hotel rooms can add a significant boost to gaming revenues. (The implicit assumption for any expansion is that one or more market studies have been completed that justify the capital investment for expansion).

These are just a few of our thoughts on gaming cash flow growth. There are also significant non-gaming opportunities tribes are successfully pursuing to support overall cash flow growth. We welcome the opportunity to discuss further with your tribal council or executive management team, and look forward to seeing you at the upcoming NAFOA, NIGA and RES conferences.



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