



TFA

Monthly Newsletter

January 2021

IN THE NEWS

Frenzied Focus on Online Gaming Potentially Creates Opportunity for Indian Country

By William Crader, CFA

In the last twelve months, the Pandemic has provided a clear catalyst for major players to make moves to solidify their position in the online gaming world, which at this point is strictly limited to low-margin sports betting (with few exceptions, the more profitable online variants of traditional table games or slot play are not yet permissible by law). This point was emphatically reinforced today (Monday, January 4) with Las Vegas-based MGM Resorts International making an unsolicited \$11 billion takeover offer for Entain PLC, which is MGM's partner in the highly successful BetMGM sports betting and online gaming joint venture. At their heart, some of these moves do not inherently seem based on existing

business fundamentals (actual cash flow) but valuations based on the future promise of establishing and owning virtual/online gaming "real estate". While we could debate the merits of these opportunities in both a positive and negative light, more importantly for Indian Country, TFA offers up that this continues to be an opportune time for tribes to acquire brick-and-mortar assets to diversify from the existing gaming markets.

First, a bit more on the proposed MGM offer. While rejected by Entain based on valuation, the MGM offer would have represented a 16x EBITDA multiple. This would have been a relative bargain compared to DraftKings recent trad-

COVID-19 Casino Tracker

12/1/20 – [AmericanGaming.org](https://www.americangaming.org)

Renewed Gaming Compact Ensures Stability for Paskenta Band of Nomlaki Indians for the Next 25 Years

12/1/20 – [Indianz.com](https://www.indianz.com)

Digital payments: Southern California tribal casino to launch cashless gambling markers

12/2/20 – [CDCGamingReports.com](https://www.cdcgamingreports.com)

Everi launches its digital wallet at WinStar World Casino in Oklahoma

12/3/20 – [CDCGamingReports.com](https://www.cdcgamingreports.com)

Ponca Tribe of Nebraska Invests Millions in Fast-Tracked Healthcare Project

12/2/20 – [NativeBusinessMag.com](https://www.nativebusinessmag.com)

Sheldon Adelson Ramps Up Efforts to Get Casino Bill Approved in Texas

12/10/20 – [Casino.org](https://www.casino.org)

California tribes collect more than 1.4 million signatures to put sports betting on the ballot

12/15/20 – [CDCGamingReports.com](https://www.cdcgamingreports.com)

(continued on Page 2)

(continued from Page 1)

ing levels at around 40x revenue and remains cash flow negative. Consider, too, the special purpose acquisition vehicles (SPAC) recently launched, including Tillman Fertitta's Landcadia Holdings, which last year acquired the related internet gaming company, Golden Nugget Online Gaming for an estimated \$745 million in enterprise value (or 6.1x estimated 2021 revenue). The SPAC is essentially a blank-check company that may even trade on a nationally-listed exchange, which offers capital to the management team backing it to make acquisitions of yet-to-be-identified companies. There are several focused on the online gaming space.

Although publicly-held companies can certainly make an argument that acquiring hyper-growth, but cash flow negative, enterprises makes sense (to prop up their own public valuations), tribes are inherently different entities that oftentimes value cash flow and profitability over theoretical capital appreciation. With commercial gaming reeling under the current Covid-19 environment, in particular Las Vegas Strip properties have been hit

hard, the current situation presents a unique opportunity for tribes to consider expanding their gaming enterprise reach outside of their traditional markets. This does not mean to suggest that a Strip property needs to be acquired (although we will not be surprised if a tribal enterprise buys a Strip property in 2021), but evaluating regional gaming assets trading at lower multiples could provide a meaningful way for a tribe to leverage its gaming operating expertise and diversify its cash flow streams.

Tribes benefit from being "privately held" entities that do not have the pressure of quarterly earnings calls and annual shareholder meetings. That is not to

suggest tribes do not face their own nuanced challenges, but with respect to acquiring a gaming asset this could serve as a distinct advantage.

Bottom line is that while corporate operators have their attention focused on establishing their online gaming beachheads, now may be the time for tribes to aggressively look for complimentary gaming operations that add real cash flow to their bottom line. TFA stands ready to assist its clients with all diversification efforts. We look forward to continuing our dialogue with clients, old and new, in 2021.

Happy New Year!



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