



TFA
Monthly
Newsletter

January 2024

Economic Diversification: Asset Acquisition (Lessons Learned in the Classic Car Market)

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Happy New Year! We hope everyone enjoyed the holiday, but we at TFA would be reticent to not acknowledge the turmoil dominating news these days. This newsletter is not a forum for debate, but we hope that 2024 brings resolution towards greater global peace by year's end. We wish everyone the happiest new year and look forward to collaborating with our partners and clients toward earning financial success!

Now back to our regularly scheduled programming: The focus I have typically placed on the TFA newsletters which I author is on economic diversification and topics associated with tribes' efforts to establish new economic engines (or independent cash flow streams):

- [January 2021](#): Assessing the opportunity to acquire corporate gaming assets.
- [April 2021](#): THINK DIFFERENT. Looking at how to approach private equity investing in Indian Country.
- [October 2021](#): The "Golden Opportunity" provided to tribes by CARES and ARP funds.
- [June 2022](#): Black-swan events and how tribes can view them as investing opportunities.

- [November 2022](#): Tribal investing in a bear market.
- [January 2023](#): Primer on high-risk investments (FTX case study).

These are just some of the newsletters I thought were relevant to tribal economic diversification from the past three years (they are short reads and are all available for viewing on [TFA's website](#)). TFA continues to believe the importance of pursuing tribal economic diversification is paramount to achieving financial sovereignty.

With that in mind, let me share with you some lessons I learned from finding, buying, owning, and operating an older, used "classic" car since the Covid shutdown and how they apply to asset acquisition. The point being that finding the ideal classic car can be in many ways similar to finding the right business to buy . . . *with the notable exception that cars do not inherently generate cash and a good business does.*

Market Dynamics. Has anyone else out there taken note of the used car market since the Covid shut down? In the span of just three years, this market saw a crash (no sales, zero

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President Biden's Remarks at the White House Tribal Nations Summit
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Arkansas: Pope County judges favor Cherokee casino proposal
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University of Wisconsin-Madison Offers Free Tuition for Members of Federally Recognized Wisconsin Tribes
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Minnesota Reveals New State Flag, Replaces Old Design of Native American Being Displaced
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The Wrap: First Native woman confirmed to federal bench
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Native Language Revitalization Gets \$5.7M Boost
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liquidity) in early to mid-2020) to a spectacular run up through 2021 and 2022 to market rationalization in 2023. At one-point folks were paying six-digit sums above MSRP on certain flipped, slightly used vehicles. CRAZY! But guess what? It doesn't matter if you are buying used cars or [Dutch tulips](#) or [Stanley steel tumblers](#) or a business, you need to take into account the inherent value of a business versus the speculative nature of an asset. Speculation based on perceived rarity or anticipated growth or demand can result in purchase prices that greatly exceed the inherent value of a business (see *the Intelligent Investor* by Benjamin Graham).

Identifying Acquisition Targets. Being on the “buy-side” can be interesting and frustrating at the same time. Whether you're looking at acquiring a billion-dollar asset (think 1958 Mercedes-Benz 300SL; current market value of up to \$1.8 million) or a value-play, smaller million-dollar business (think 1985 3rd Generation Ford Bronco; current market value starting as low as \$10,000) there could be a limited set or a huge variety of options available for purchase. Due diligence is key at this juncture and is why most car folk recommend a “PPI” or pre-purchase inspection . . . which is the same process by which putting a non-disclosure agreement in place with a seller and conducting a thorough due diligence of the acquisition target. Avoiding a “lemon” business could equate to avoiding spending millions of dollars fixing problems within a newly acquired business.

Transaction Costs. This includes due diligence, financing, legal, insurance and taxes. Including estimates of all the above in your return analysis could make a material difference in what acquisition targets are reasonably within your “budget.” Transaction



costs can be absorbed over time (amortized) but can have real cash flow implications when acquiring a business.

Operating and Maintenance Costs. This is where genuine business know-how comes into play and typically where your financial and legal experts fall short. One may be able to source a “holy grail” asset, like a 1965 901 Porsche, but if it is in disrepair and you do not have the expertise to restore it, you could be throwing good money after bad. Operating expertise is essential in evaluating what true synergies can be obtained, which can drastically impact return on investment.

Non-Cash Flow Benefits. One of the unique aspects of working in Indian Country is the positive impact our work provides to tribal members. This is not something that can be captured in an Excel spreadsheet or in a return analysis. Much like the joy provided to car enthusiasts that have a spirited drive carving up canyons, there can be an unquantifiable benefit to your tribal community in acquiring a new business, such as job creation or providing tribal members access to understanding and gaining expertise in a new industry.

Exit Strategy. Establishing an expectation for what one would be willing to sell their newly acquired asset for is just as important as buying. Considering all the above elements and keeping tabs on the market value of your business is critical in success and failure. You may love your vintage Honda, but you need to really consider letting it go if someone is willing to pay you top dollar for it. Or, you could realize the business you are operating is not meeting expected results. Selling may open the door to pursuing another more lucrative or impactful opportunity.

Hopefully, this bit of twist on how to approach acquiring a business, whether it be a billion-dollar corporate gaming facility or investing \$500,000 into a franchise operation, resonates a bit with those reading this newsletter. TFA is confident we can lead you through this process and reach a positive outcome. We also aim to do so with the intent of being your advisor on your tribe's next acquisition (or divestiture). Please reach out if you have any immediate need to discuss strategy. In the meantime, here's to health, wealth, and happiness in 2024. Cheers!!!

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