



TFA

Monthly Newsletter

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IN THE NEWS

A Fresh Set of Eyes – Benefits of Independent Valuations

By David Howard

For many years, TFA has been championing the need for tribes to diversify their tribal economies away from a concentration in gaming into other industries and asset classes. We are increasingly seeing more tribes focus on strategies to create new or simply improve existing Economic Development Corporations ("EDC").

Investment strategies for tribal EDCs are unique to each tribe depending on their goals and resources. Some prefer to use their sovereignty to create a competitive advantage, such as operating 8A contracting companies, while others look to industries that are familiar, such as real estate, hotels or commercial gaming. Additionally, passive investing (as discussed in last month's newsletter), is starting to become a more attractive option.

One trend we have noticed is that tribal financial officers often report the value of these myriad non-gaming investments to their boards or tribal councils, on a book value basis. Book value is simply the money invested in an asset minus depreciation. What this does not usually reflect is the current market value of the tribes' investments. Has the value gone down from the initial investment, or has it increased significantly? Often, a fresh set of eyes and a proper independent valuation can better inform tribal leadership of the current estimated value of their investment portfolio. As we all know, better information is essential to better financial decisions.

Let's look at private equity funds. The 2008 financial crisis prompted a greater focus on regulatory oversight

The Big Questions Hanging Over a Black-stone Fund

5/7/2024 – [nytimes.com](https://www.nytimes.com)

Florida governor signs bill that directs gambling revenues to fund environmental projects

4/6/2024 – cdcgaming.com

Alabama-Coushatta Tribe of Texas announces plans to build new casino resort

4/15/2024 – bluebonnetnews.com

IGA Tradeshow: Architects discuss trends and technologies that advance casino design

4/15/2024 – cdcgaming.com

\$500 million for solar energy for tribal families - This will 'revolutionize solar energy access within Native American communities'

4/24/2024 – ictnews.org

Joe Biden nominates Native woman to federal bench - Danna Jackson would become the first American Indian, Alaska Native, or Native Hawaiian to serve as a federal judge in Montana

4/24/2024 – ictnews.org

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and due diligence related to the private equity industry. Limited partners wanted more transparency and consistency on valuing their LP interests so they could assess their own portfolio. Now the top-tier private equity firms are instituting a regular method to provide their limited partners with valuation methods that can easily be communicated and applied on a consistent basis. Many of these valuations are regularly prepared for the PE firms by separate valuation divisions at the large accounting firms like KPMG, PWC, Deloitte, and Grant Thornton, or at specialty firms that have expertise in the particular industry in which that fund invests. Using these independent valuations, PE firms avoid the biases of internal valuations and remove any concerns of internal value manipulation. Of note, the Blackstone Real Estate Investment Trust (known as "BREIT") was the subject of a New York Times article today (see attached link). While BREIT utilizes a third-party valuation firm, they have the final say on value. Their valuations seem significantly higher than other REITs and they are

being criticized by the market for this approach.

There are several valuations methods used by third-party valuation firms:

- **Discounted Cash Flow (DCF)** analysis which calculates the present value of future cash flows.
- **Comparable Company** analysis compares values of comparable companies in the same industry, often using transaction multiples from recent sales.
- **Asset-Based Valuation** is a method that looks primarily at values of fixed and intangible assets.
- **Debt Valuation** is also utilized by some larger firms that have used leverage in their acquisitions, as the market value of debt can also be different from the book value.

No valuation method is perfect, and each method has its own strengths and weaknesses. Valuations can only be as good as the accuracy of the data, the assumptions utilized and the availability of comparable information.

Benefits of independent valuations include:

- Objectivity and creditability provided by the independent party
- Industry expertise and diverse valuation methodologies for specific and complex investments
- Validation of purchase price in M&A transactions
- Better financial reporting
- Improves analysis of long- and short-term financial goals and strategies
- Eliminates any (perceived or real) conflicts of interest that may arise when an internal staff member produces the valuation.

We encourage EDC boards and Tribal Councils to explore the feasibility of independent valuations to stay apprised of the true value they are creating with their economic diversity efforts, and welcome the opportunity to discuss this with you anytime.

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