



TFA Monthly Newsletter

June 2024

IN THE NEWS

Tribal Diversification Strategies: Commercial Gaming Part I

By William Newby

Over the last year or so, the team at TFA has become increasingly aware of Tribal interest in economic diversification. Through inbound calls, casual conversations at conferences or via formal presentations, TFA has heard from Tribes that there is a growing concern over increasing pressure on revenue—especially from traditional “gaming” tribes. Competition for consumer dollars is fierce and whether it’s from other tribes, proximate commercial activity or new forms of gaming (iGaming or mobile sports betting for example) the level of competition has increased to the point, for many Tribes, that leadership has turned its focus on ways that current revenue streams can be insulated or, better yet, augmented by new, diversified sources of revenue.

While there are manifold ways to economically diversify, for gaming Tribes which are comfortable with that business, the most logical way is through opportunities in the commercial gaming sector.

TFA believes that there are several options for doing so in the world of commercial gaming. Over the course of the next several Newsletters, we will look at some of those

options.

Growth and diversification through acquisition of other commercial gaming assets including casinos, distributed gaming, devices, or management contracts, is not new. However, in Indian Country, the level of activity in that context is low and only goes back several decades beginning in 2005 with **Mohegan's** acquisition of *Pocono Downs* from Penn National Gaming in January 2005 and two years later with **Seminole's** landmark purchase of the *Hard Rock* brand from Rank Group PLC.

Activity picked up beginning in 2019 with **Poarch Creek's** (PCI) purchase of *Sands Bethlehem* followed quickly by **Hard Rock's** grab of *Jack Cincinnati/Turfway Park*. Tribal activity in the commercial space ramped up again in 2021 with a pair of transactions (**Eastern Band of Cherokee/Caesars Southern Indiana** and at the end of the year, **San Manuel/Palms Casino Resort, LV**). From then on, only a few deals were consummated including Hard Rock's purchase of the *Mirage* operating company from MGM (December 2022), **PCI's** acquisition of *Magic City Casino* in Miami (February 2023), **Cherokee Nation Businesses' (OK)** February 2023 purchase of the operating company at *Gold Strike Tunica* (MS), and

President signs proclamations protecting nearly 120,000 acres | Biden's promise to protect 30 percent of the country's land by 2030 gets closer as tribal leaders from California celebrate the latest move.

5/2/2024 – ictnews.org

Tribal Historic Preservation Offices Get \$23M

5/7/2024 – nativenewsonline.net

Navajo Nation hospital constructs new facility to improve health care

5/11/2024 – ictnews.org

U.S. Capitol Historical Society to Commemorate 100th Anniversary of Indian Citizenship Act with Public Symposium of Renowned Scholars

5/22/2024 – nativenewsonline.net

Remembering Native American World War II veterans

5/24/2024 – nativenewsonline.net

Cherokee Nation continues construction momentum thanks to \$1.17 billion investment | Projects supporting housing, health, wellness and more continue to move forward for generational impact

5/30/2024 – ictnews.org

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in a rare reversal of roles, **Laguna Development Corporation's** (Pueblo of Laguna) sale of *Ellis Park Racing and Gaming* (KY) to Churchill Downs. This transaction in late 2022, for which TFA acted as sell side advisor, represents one of the few times a Tribe *sold* a commercial gaming asset.

In studying the description and list above, three facts become apparent: (1) there are two tribes (Seminole and PCI) that have been most active; (2) the relative level of Tribal involvement in the M&A game is modest and (3) the trend is for Tribes to acquire the operating (management) company with a REIT owning the underlying real estate and improvements.

In the context of #1, the obvious factor driving the concentrated activity is available capital needed to affect a purchase. Both Seminole and PCI have strong cash generating operations in, for now, protected markets. These operations can be levered to provide the necessary growth capital.

Specific to #2, Tribes are relatively new to the M&A business, as noted, and although Tribal participation has increased, that participation is concentrated and limited particularly as the acquisition of "aspirational assets" (as both *Mirage* and *Palms* would be) require a tremendous amount of capital (likely over \$1 billion) and management

involvement to reposition the new asset. That being the case, available bandwidth is finite and must be focused on the current on-reservation activities — thereby limiting the amount of commercial activity that can be undertaken. Taken as a whole, the number of tribes participating up to now has been small and those that have participated tend to focus on a sequential strategy of diversification.

Fact #3 follows a trend in the gaming industry generally: Increasing valuation multiples and split assets largely because of the entry into the gaming industry of Real Estate Investment Trusts (REITs). A REIT is a company that owns income-producing real estate properties. A REIT provides its shareholders with an ability to invest in a large, diverse portfolio and receive regular dividends. Gaming REITs own the underlying real estate — they do not operate these properties but lease them to an experienced gaming operator subject to a negotiated long-term triple net lease.

REITs are also "pass through entities" which do not pay corporate income taxes as long as they send ~90% of their income to investors. The REITs capital base and advantaged tax situation mean they can bid higher prices for assets. The resulting purchase price escalation has pushed deals to levels that are unattainable for many competing

buyers. However, there is an upside to this. Because REITS only purchase the real assets, each transaction requires a separate entity which will own the operations (management) of those assets. The management company pays rent to the REIT, but otherwise enjoys the revenue upside in the business that they control.

The "opco" (operating company) can be purchased and generally sells at a much lower multiple than the complementary REIT owned asset. This creates "attainability" that might otherwise be problematic in a rising-multiple environment. For this reason, more transactions over the last five or so years involve only the "opco". Hard Rock's purchase of the *Mirage* opco, and CNB's acquisition of the management company at *Gold Strike Tunica* are two recent examples of this opportunity.

The commercial gaming M&A landscape has evolved from a whole company market with modest multiples—higher for Las Vegas assets/lower for regional—to a market dominated by higher multiples, purchase prices and bifurcated assets. But even within that context, opportunities do exist for thoughtful diversification. Our next newsletter on this subject will highlight four strategies for doing so.

TRIBAL PARTICIPATION in GAMING M&A 2018 to TODAY

Commercial Gaming M&A Transactions							
	2018	2019	2020	2021	2022	2023	YTD 2024
Total Transactions	12	20	11	13	11	11	1
Tribal Transactions	0	2	0	2	2	3	0
Tribal Transactions as a % of Total	0.0%	10.0%	0.0%	15.4%	18.2%	27.3%	0.0%

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