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IN THE NEWS

Market Studies and Their Impact on Raising Money

by William Crader, CFA

One of the key elements to any financing is the “market study” – typically a 30- to 100-page analysis provided by an independent, unbiased firm that evaluates the revenue and net income potential for newly-proposed business ventures, expansions to existing business operations or analyzes the impact to existing operations from anticipated new competition. The end objective is for the Tribe (and eventually lenders/investors) to have comfort that adequate market demand exists for a business to be successful based on empirical and statistical data. That is the plain vanilla definition of a market study. What may not be obvious is that the market study is a critical piece of information that influences how much money a Tribe can borrow and how much that money will cost.

The Basics. A market study basically shows the potential for market demand, what competition exists and how that potentially translates into revenue and cash flow from the Tribe’s business. Analysis of a project with no existing cash flow will be much more subjective than an existing business or a business seeking to expand. For example, a greenfield casino will have greater uncertainty around the study’s conclusions

versus an existing casino seeking to expand its gaming floor or add a hotel.

First and foremost a market study should help a Tribe determine and justify to itself that a business venture is worth pursuing from a financial perspective. In Indian Country, market studies are often associated with gaming enterprises; however, market studies are just as valuable and necessary for other Tribal business ventures. If a Tribe is going to commit precious resources of time and money into a business, a competent market study will help determine if a meaningful return on investment can be obtained.

Who Commissions the Study?

Whereas the intent is for the firms that conduct market studies to be unbiased, firms clearly rely on input from those involved in a project for guidance. This is not necessarily an issue, but it inherently does create some level of bias. That is fine as long as Tribes understand this as they review the study. Our view: Tribes should hire the firm conducting the market study and be in control of providing input into the analysis. There are times when developers or management companies provide market studies to Tribes (continued on Page 2)



Above: TFA sponsored wine tasting event, WIGA Conference, July 14, 2014

**Glendale City Council Supports
Tribe’s Casino Plan**
7/16/14 – AZCentral.com

**NIGA Reports 0.5 Percent Growth
to \$28 Billion in 2013 Tribal
Gaming Revenues**
7/23/14 – IndianCountryToday.com

**Muscogee Creek Nation Citizen
Nominated to lead National Indian
Gaming Commission**
7/25/14 – TulsaWorld.com

**PrivateTable.com Poker Site
Deemed Legal**
7/28/14 – PokerUpdate.com

(continued from Page 1) in an effort to promote a business opportunity. In these situations, Tribes need to be extremely critical of assumptions and conclusions.

From a financing perspective, capital providers will want to know who commissioned the study precisely to understand any bias and if the picture being painted is overly optimistic and how potential economic motivations (like a payout from a financing!) might be influencing the study's outcome. If a Tribe has confidence that the market study is accurately reflecting the economic opportunity, that confidence should carry over to discussions with lenders/investors. More importantly, this added credibility can sometimes help achieve better financing terms.

Customers and Competition.

Market studies often present an abundance of economic and demographic data, including population figures, estimated income levels and employment rates. At times these figures and estimates are even coupled with other factors such as tourism activity, weather patterns and traffic flow to provide some basis for potential market demand. Next, any applicable competition is described with the end goal of providing an estimate of how much of the potential market the Tribe's business will capture.

For many, those are obvious components of a typical market study. Although this information is useful, we often believe the standard template of a market study can omit key factors to a business' success. Understanding what nuances are not being captured could materially impact the outcome of a Tribe's financing. Or, possibly worse, they could indicate a Tribe should borrow more money for a bigger project that cannot be sustained.



Cash Flow. Typically a market study concludes with some form of cash flow forecast. Ultimately capital providers are going to be focused on the cash flow (EBITDA) forecast in "Year 1" of operations and what the estimated EBITDA margins are as well as any key metrics that drive those figures. Cash flow growth in subsequent years may indicate potential, but are far less relevant to those providing capital to Tribes (except in cases of new competition influencing results). In addition, we find that when banks work with market studies they are often critical of expense forecasts – many will assume the market study firm has expertise in revenue/demand forecasting, but not necessarily operating the business.

In summary, obtaining a timely market study is often an essential part of the financing process for any business. Numerous aspects

need to be considered, including the quality of the report and any perception of bias that could impact the study's findings and, accordingly, a Tribe's ability and cost to access capital for a business venture. Take an active role in the development of the study. Question assumptions and ask questions. Remember that a lot of stakeholders (inside and outside the Tribe) will rely on this report for many critical decisions that may impact the cost and amount of capital a Tribe can raise.



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