TFA Monthly Newsletter

April 2020

In Difficult Times — Pricing Goes Up

By Kristi Jackson

We can't stress enough that our most significant pressing issue right now is to ensure the health and well-being of our family and friends. As this horrible COVID-19 makes its way throughout our country, and world, effects are as minimal as working from home… as major as business interruption and unemployment… and as catastrophic as the loss of so many lives. We try to keep this in perspective and pray you and your families are safe.

Businesses will emerge once the virus has stopped spreading – trust in that eventuality. In the meantime, we offer commentary on yet another aspect of this new financial world that we all must navigate.

While the CARES Act offers significant near-term relief and likely saves countless jobs, a downside of the economic catastrophe will be felt in the financial sector with the cost of borrowing undoubtedly being much higher than it was just a month ago.

Several factors are driving this trend:

Diminished Credit Quality — Clearly, the shutdown of most service sector businesses – and in the Tribal ecosystem, the gaming and hospitality sector in particular – has caused banks and investors to heed caution as they look to forecasts of future performance. There has never been a time when revenue was not just falling to low levels but going to zero. The risk of degradation of borrower cash flow available for debt service is elevated and will be for some time. Whether a casino operation takes one month or three before reopening, the timeline for customer return will likely be ex-

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IN THE NEWS

Ernie Stevens, Jr. Receives ICE Landmark Award For Industry Contributions
3/5/20 – NativeBusinessMag.com

Business Interruption Insurance: What You Need To Know
3/20/20 – Yahoo.com

Sports Betting Bill Signed Into Law In Washington State
3/26/20 – WorldCasinoDirectory.com

Trump Signs $2 Trillion Coronavirus Relief Bill
3/27/20 – NativeBusinessMag.com

Indian Country: What's In The CARES Act
3/28/20 – NativeNewsOnline.net

COVID-19 US State-By-State Projections
3/31/20 – HealthData.org

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tended well into 2021. Riskier borrower profiles will necessarily drive pricing higher.

Bank Returns — Most borrowers today put their credit facilities in place over the past two or three years – a time of an unprecedented pricing race to the bottom by banks in order to maintain business. Current credit lines are being drawn under ultra-low and off-market pricing grids which causes banks' returns to be suppressed. As newer deals price, and as existing deals require significant amendments post-reopening of businesses, pricing grids will be higher. While a bond rather than a bank deal, YUM brands, just this week, priced a high yield notes offering at 7.75%, a yield nearly double what its existing bonds were trading at just weeks prior.

Supply and Demand — As the New York Times noted yesterday, in a single week in March as the economy began to shut down, banks made over $240 Billion in new loans to companies – more than twice what they would normally extend in a full year. Most companies drew their revolving lines as soon as the shutdowns drew near. While bank liquidity remains solid, partly due to much stronger capital requirements post the 2008 Great Recession, there will still be a limit to the amount of capital that banks can lend – and given recent volume, will surely lead pricing higher.

Fewer Alternatives — Cruise line operator Carnival this week went to market with a $6B package of financing. The New York Times reported that the rate being discussed by investors was roughly 12.5% – the company had already drawn their lines of credit and were in the market seeking additional sources of capital. Last October, the company issued notes at 1%. While we are not suggesting any tribal entity is of Carnival's credit quality, it is meaningful to see the dramatic yield increase. The majority of Tribes will be working within the confines of the bank market for the foreseeable future, with a few dipping into the bond markets for longer-tenors or deeper investor bases. As long as the bank market remains the primary source for Tribes' debt capital, they will find themselves captive to the sector's pricing trend – which is up.

As you begin to look forward, shoring up credit facilities or working on projections, consider a pricing increase as a new reality. Raising capital when you're in an adverse position is always difficult, as noted in the two examples above, but there will be borrowing opportunities. The trick will be getting capital at a price you can afford. We are always available to discuss our views and to work through assumption sets as you plan.

We look forward to seeing everyone in person as soon as it's safe to do so. Stay healthy.

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