



TFA
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THINK DIFFERENT. Private Equity in Indian Country – An Immense Untapped Opportunity

IN THE NEWS

By William Crader, CFA

Private equity is the domain of billion-dollar deals. Got it. Don't get me wrong, it's really swell to see some very successful tribes pull off \$1B+ deals, but from our perspective the riddle that hasn't been solved within Indian Country (and really has become pronounced during the Pandemic more broadly across the United States) is providing capital to small business and industry (for context, maybe the term "micro capitalization" makes sense . . . definitely sub \$300 million and more appropriately \$20 million to \$100 million market opportunities). This discussion is not limited to capitalizing companies with native ownership, but just as important, sourcing and executing high-quality private equity deals to diversify tribes' business holdings.

Both private and public sectors have tried to address this gap. The Federal government has attempted to support Tribes in this area (think SBA Loans, Indian Loan Guarantee Program or the recently renewed State Small Business Credit Initiative). The problem with most traditional

financing models is the proverbial "equity requirement", the requirement of 20% equity capital (or more) to access debt financing. Likewise, tribes have attempted to provide equity to spur diversification and economic growth, but often contend with political factors and the sheer volume of capital requests that prohibit efficient deployment of investment capital. Add on other headwinds, like adverse selection, and private investment in Indian Country struggles to find a way to get capital into viable business models (the concept of adverse selection is important in Indian Country with the primary implication being a tribe's deal selection is limited to lower quality opportunities often turned down by other investors).

Additionally, the following are some classic obstacles to obtaining equity dollars:

The Big Hurdle. This is going to be one sentence and factual: In Indian Country, it is tough to come up with 20% equity . . . let alone 100% equity financing for a

Legislation Backed by Casino Giant Would Allow Casinos, Sports Gambling in Texas
3/10/21 – smcorridornews.com

Massachusetts: Craps Games, Expanded Blackjack Tables Approved by Gaming Commission
3/12/21 – cdcgamingreports.com

Annual Budget Proposals Show NY Lawmakers Split on NYC-Area Casino Plans
3/15/21 – usbets.com

Deb Haaland Becomes First Native American Cabinet Secretary
3/15/21 – nytimes.com

American Rescue Plan has \$31 Billion Coronavirus Solutions for Native People
3/16/21 – nhonews.com

California: Jamul Casino to Offer Cashless Slots this Spring
3/24/21 – cdcgamingreports.com

Las Vegas Resorts Corridor Welcomes First Tribal Casino with Virgin Hotel
3/25/21 – fox5vegas.com

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business venture.

Common Problem. Unfortunately, the vast majority of business plans generated in Indian Country may offer a high social/societal return on capital but lack commercial viability. Accordingly, these projects are not financeable from typical financing sources that do not put a valuation on positive externalities for the community.

Tribal Investing – Life is too short. It's tough to get deals done in Indian Country . . . they often take a long time to gain approval and most investment firms just don't want to deal with it. "Life is too short" they say. "Too much hair". "Why invest here when I can buy an index fund". Just a few real-life quotes regarding perception about investing in Indian Country.

Why can Indian Country Generate Outsized Risk-Adjusted Returns? Different Rules Apply. Tribal investors do not have to play by the same rules. There are opportunities that exist when operating on reservation or via a tribal enterprise – regulatory advantages and tax benefits. It's an opportunity to make a difference generating wealth and economic opportunity for long-disenfranchised tribal communities.

Think Different. The thought behind Steve Job's Apple, Inc. ad campaign is just as relevant as it was 20 years ago. It should be a mantra in board rooms about how to take advantage of attributes only offered by doing business on reservation lands or through tribal enter-

prises. Because unique opportunities exist in Indian Country, corporate investors shouldn't shy away (due to extended timelines or other political hurdles) but instead participate. If outside investment isn't available and the prospects are strong, instead of going after economic diversification alone, should we team up with other tribes and co-invest in these opportunities?

Different Return Metrics – Maximize Cash Flow, Not Exit Multiples. Cash is king, especially within Indian Country for supporting tribal government programs as well as economic diversification. Aiming for an exit strategy potentially undermines one of the key benefits of being a sovereign entity: A sovereign tribe does not have to sell anything. Instead, like Berkshire Hathaway, they can focus on generating long-term value for membership (stockholders) by increasing cash flow and dividends, not by following the PE industry's "flipping model" which requires a liquidity event at the end of a defined investment horizon. In addition,

PE investment models generally do not include the positive social impact of job creation, supporting industries aligned with Native American culture (like green energy) and growing tribal economies.

The Industry: It's Indian Country. Understanding how to do business in Indian Country is inherently different. Accordingly, why limit the focus to a particular vertical instead of applying the understanding of how to work in Indian Country to business opportunities generally?

This article is a thought piece, a jumping off point for ongoing discussions we would like you to be a part of. We and our tribal partners are working hard to figure out how to maximize value and, more importantly, create collaborative efforts between tribes in drawing private investment into tribal business and economic diversification that benefits Indian Country. If any of the above resonates with you, we look forward to having you join the discussion.



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