

Rating Action: Moody's upgrades Saracen Development's CFR and secured notes to B3; outlook positive

30 Aug 2021

New York, August 30, 2021 -- Moody's Investors Service ("Moody's") today upgraded Saracen Development, LLC's (Saracen) Corporate Family Rating and \$285 million senior secured notes due 2025 to B3 from Caa1, and its Probability of Default Rating to B3-PD from Caa1-PD. The rating outlook is positive.

Saracen owns Saracen Casino Resort in Pine Buff, Arkansas, located 45 minutes from Little Rock, Arkansas. The company is a wholly owned unrestricted subsidiary of Downstream Development Authority and has its own financing structure. There are no explicit guarantees or cross-default provisions that link the two entities. As a result, Saracen and Downstream Development Authority are rated on a standalone basis with each rating factoring in the common ownership and relationship between the companies.

The one-notch CFR upgrade to B3 considers that Saracen Casino Resort has performed well since opening (October 2020) and will generate annual EBITDA of between \$64 million and \$70 million in its first complete year of operations, above Moody's prior \$60 million first year EBITDA expectation. This performance was despite the challenges and uncertainty related to the coronavirus, and Moody's initial concerns that there is only a limited history of commercial gaming in Arkansas.

Saracen's EBITDA for the latest 12-month period ended 30-June-2021, which only includes about 8 months of full operating results, was about \$47 million. And while debt-to-EBITDA on a 30-Jun-2020 LTM basis is high, at 7.2x, Moody's projected debt-to-EBITDA range for the first full year of operations is between 5.2x and 4.7x, which is below Moody's previous 5.5x upgrade factor at a Caa1 CFR.

The one-notch upgrade also considers the improvement in Saracen's liquidity. Saracen will generate a considerable amount of annual free cash flow relative to its EBITDA, in part due to its high EBITDA margin, at over 40% on a 30-Jun-2021 LTM basis, and in part due to limited capital expenditure needs considering the Saracen Casino Resort has only been open less than a year. Moody's estimates that Saracen will generate at least \$20 million of free cash flow in its first full year of operations and maintain close to \$25 million of unrestricted cash on its balance sheet.

The upgrade of Saracen's \$285 million senior secured notes considers that it accounts for almost all of the company's debt capital.

The positive rating outlook considers that in addition to successfully opening despite the challenges presented by the coronavirus and a new casino market, Moody's expects that there will be a gradual easing of social distancing requirements that will result in increased visitation along with increased EBITDA and improving leverage.

Upgrades:

..Issuer: Saracen Development, LLC

.... Probability of Default Rating, Upgraded to B3-PD from Caa1-PD

.... Corporate Family Rating, Upgraded to B3 from Caa1

....Senior Secured Notes, Upgraded to B3 (LGD3) from Caa1 (LGD3)

Outlook Actions:

..Issuer: Saracen Development, LLC

....Outlook, Changed To Positive From Negative

RATINGS RATIONALE

Saracen's B3 Corporate Family Rating considers that Saracen is well located in the southeastern Arkansas - about 50 miles from Little Rock, a major population center. Also considered is the fact that there is little in the way of direct casino competition. Saracen's closest competitor is an existing horse track and racino located southwest - about 60 miles from Little Rock. The casino is also managed by Downstream Development Authority that successfully constructed, opened and has profitably managed the Downstream Casino Resort located in Oklahoma since 2008. Saracen previously generated revenue from a moderately sized casino annex, but the main casino opened in October 2020.

Key credit concerns include the company's short operating history in that the casino has been open less than one year. Saracen's relatively small and single asset profile are also a risk because the company is dependent on regional economic conditions and would be vulnerable in the event there are new competitive developments in its drawing area. Another concern is that Saracen's revenue and earnings are also dependent on cyclical discretionary consumer spending, and there is uncertainty regarding the sustainability of the current earnings level when a broader range of competitive leisure activities reopen.

The coronavirus outbreak and the government measures put in place to contain it continue to disrupt economies and credit markets across sectors and regions. Although an economic recovery is underway, the recovery is tenuous, and continuation will be closely tied to containment of the virus. As a result, a degree of uncertainty around our forecasts remains. Moody's regards the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The gaming sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment. More specifically, Saracen remains vulnerable to a renewed spread of the outbreak. Saracen also remains exposed to discretionary consumer spending that leave it vulnerable to shifts in market sentiment in these unprecedented operating conditions.

Additional social risk for gaming companies includes evolving consumer preferences related to entertainment choices and population demographics that may drive a change in demand away from traditional casino-style gaming. Younger generations may not spend as much time playing casino-style games (particularly slot machines) as previous generations. Data security and customer privacy risk is elevated given the large amount of data collected on customer behavior. In the event of data breaches, the company could face higher operational costs to secure processes and limit reputational damage.

Moody's expects Saracen will apply its cash flow from operations less capital expenditures to a combination of expansion development and debt repayment. Saracen's current debt covenants preclude distributions to the Tribe at this time.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A higher rating can be achieved once Moody's has a higher degree of confidence that the risks related to the coronavirus have lessened further and the operating environment improves along with revenue and earnings visibility. Moody's would also need to be comfortable that earnings are sustainable. An upgrade is also dependent on Saracen achieving and maintaining debt-to-EBITDA below 4.5x.

Saracen's ratings could be downgraded if the company is unable to sustain the projected earnings level, economic conditions in its drawing area weaken, or there is increased competition. A deterioration in liquidity, shareholder distributions or acquisitions could also lead to a downgrade. In addition, debt-to-EBITDA sustained above 5.5x or cash flow from operations less capital expenditures that is weak or negative could result in a downgrade.

Saracen is a wholly-owned unrestricted subsidiary of Downstream Development Authority with its own independent financing structure. Saracen was established to develop, own and operate Saracen Casino Resort in Pine Buff, Arkansas, located 45 minutes from Little Rock, Arkansas. A 300-slot annex opened in September 2019 and the main casino resort with 2,000 slots plus table games opened in October 2020. Downstream Development Authority is an instrumentality of the Quapaw Tribe of Oklahoma, owner of Downstream Casino Resort located in Northeast Oklahoma. Net revenue for the 30-Jun-2021 LTM period was \$114 million.

The principal methodology used in these ratings was Gaming published in June 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1276316. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Keith Foley
Senior Vice President
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

John E. Puchalla, CFA
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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