

**Ulster County Economic Development Alliance
Ulster County Revolving Loan Fund
Loan Committee Report**

**Applicant:
ORGANIC NECTARS LLC**

**Date of Application:
4/17/2017**

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1.0 APPLICATION SUMMARY

BORROWER: Organic Nectars LLC
 Lisa Protter
 162 Malden Tpke, Bldg 5,
 Saugerties, NY 12477
 Phone # 845-246-0506

LOAN AMOUNT: \$42,000

RATE: 4% **TERM:** 4 years

<u>Use of Funds</u>	<u>RLF Loan</u>	<u>Equity</u>	<u>Bank/Other</u>	<u>Total</u>
Purchase of capital equipment	\$42,000	\$15,000	\$0	\$57,000
TOTALS	<u>\$42,000</u>	<u>\$15,000</u>	<u>\$0</u>	<u>\$57,000</u>

Security A) UCC-1 filing on equipment purchased with loan proceeds
 B) Second lien on additional existing capital equipment
 C) Personal guarantee by Lisa Protter

Jobs:
 Existing: 3 full time 0 part-time 3 FTE
 New: 1 full-time 1 part-time 1.5 FTE

2.0 PROJECT OVERVIEW

Organic Nectars LLC was founded in 2004 by Lisa Protter with the goal of offering a small, select quantity of only the very finest raw products that are truly healthy, environmentally friendly and, of course, delicious. From raw, low glycemic agave sweeteners and dessert syrups to agave cashew crème gelato to extra virgin olive oil, gojiberries and raw cacao products, Organic Nectars is dedicated to delivering the finest quality artisanal food products.

Organic Nectars is poised to capitalize on a growing consumer demand for delicious and indulgent foods that meet a wide range of modern dietary preferences, including: organic/natural/GMO-free, plant-based, dairy-free, gluten-free, low-calorie/low-sugar, kosher and more. The estimated value of the organic food market segment has grown nearly 14% per year since 2000, and now represents total purchases of over \$32 billion.

Nearly seven years ago, Lisa was diagnosed with cancer. As she underwent treatment, she was forced to reduce her work schedule, which resulted in a decline in business income and profits. During this difficult period, Lisa also experienced financial hardship, which led to a default on a personal credit card and to missed payments on her personal mortgage.

Thankfully Lisa has made a full recovery from her illness. She has addressed the delinquent credit card debt, which is no longer in collections. She has also caught up her mortgage payments and has rebuilt personal equity in her home.

Two years ago, she began to rebuild her client base and returned the business to profitability. While her revenues have declined in the past two years, she attributes this to the continuing effects of her forced hiatus, and has redoubled her efforts with an eye toward rapid expansion in the next few years. To compensate, she has been diligent about controlling her expenses and has managed to turn a profit in 2015 and 2016.

As Lisa leads the company on a path toward expansion, she has developed plans and projections that involve the need for increased capital. In 2016 she prepared an investor prospectus and has been seeking equity capital in the amount of \$600,000. While she has yet to secure an investor, she sees several near-term opportunities to increase sales through the purchase of capital equipment, and has approached the Ulster County Revolving Loan Fund to request a loan in the amount of \$42,000.

Coupled with a commitment of the business' own cash in the amount of \$15,000, this loan would allow Organic Nectars to purchase chocolate-making and gelato-making equipment. This equipment would contribute to increased throughput in the company's production process, allowing it to satisfy larger orders from existing customers who have expressed an interest in additional product. This purchase will advance the company's larger plans for growth as outlined in their financial projections (see application materials).

2.1 Description of the Company and the Principals

BORROWER NAME: Organic Nectars LLC
ADDRESS: 162 Malden Tpke, Bldg 5, Saugerties, NY 12477
PHONE #: 845-246-0506 **FAX #:** 845-246-0508
TAX ID#: 46-4882669

Organizational Structure: S Corp

Borrower Size: \$626,114 in
Including revenue (2016)
Affiliates

2.2 Owners and Key Management

Name:	Lisa Protter
Address:	26 Woodmore Ln Saugerties, NY 12477
Phone #:	914-742-1738
SS#:	151-54-0772
% Owned:	100%
Title/Role in Business:	President/CEO

See application packet for resume of Lisa Protter.

2.3 Company Operations

The leadership team at Organic Nectars includes Lisa Protter, President/CEO (see resume in application materials) and Stephen Treccase, VP/CCO. Stephen is a life-long culinary and nutritional foods innovator with a background in music performance and composition.

Organic Nectars produces four main product lines at its facility in Saugerties.

- Cashewtopia® - the world's first organic dairy-free cashew-based frozen dessert
- Dessert Syrups and Beverage Flavors – world's first organic dairy-free alternative sweetener-flavored syrups
- Alternative Organic Sweeteners – delicious and nutritious low-glycemic organic sweeteners
- Raw Cacao Coconut Sugar Chocolates – world's first organic dairy-free coconut sugar chocolates

The company is past recipient of numerous awards and accolades, including two consecutive soft™ GOLD Awards, the specialty food industry's most coveted honor, and "best raw ice cream" and "favorite vegan ice cream" in VegNews, the nation's leading magazine for the vegetarian lifestyle.

Organic Nectars' products enjoy wide distribution – regionally and nationally – through grocery/specialty/natural food stores, restaurants and food service institutions. Key distributors include UNFI, Sysco, and McMahon's Farm (which supplies products for Whole Foods Markets). As well, Organic Nectars self-distributes to wholesale clients in the Hudson Valley region, including Hannaford, Adams Fairacre Farms, and Sunflower Natural Foods. The company also offers online direct-to-consumer sales.

Over the next few years, Organic Nectars plans to accomplish several important milestones in the process of expanding its operations from <\$1M in annual sales to nearly \$7M by 2019.

- Developing a creative brief for packaging and website design companies
- Developing new packaging for chocolate line, which is the company's fastest growing category

- Adding key equipment for improved and expanded production capabilities for in-house production and to respond to repeated request for private label manufacturing
- Pursuing relationships with distributors to establish a presence in key retailers such as Trader Joes, Sams Club, Organic Ave
- Sysco has expressed a desire to increase sales by 20-30% in 2017
- Organic Nectars has recently added 20 Ralphs stores in Southern California

The company's expansion project is planned over two phases. During the first phase, the company will invest in packaging, website development, and key capital equipment. During phase two, the company will invest in an expanded sales and marketing team, additional capital equipment and process automation, key new hires and working capital to provide ingredients and inventory as production scales up.

Additional information about the company's expansion plans are provided in the application packet (see the Investment Opportunity presentation).

3.0 PROPOSED USES OF FUNDS

The company proposes to use the proceeds of funds from the UCRLF for the purchase of three pieces of production equipment: a temperer and enrobing system, a vibrating table-sheet pan, and a variegating table-top depositor.

The company's equity portion of the project will cover delivery and installation of the equipment above, plus the costs of new packaging and website development.

Uses of Funds	
Uses	Amount
Capital equipment purchases	\$52,000
Working capital	\$5,000
Total Uses	\$57,000
FinancialAnalysis_OrganicNectars_FINAL.xls	

4.0 PROPOSED SOURCES OF FUNDS

The Company is seeking funding from two sources, including the UCRLF and NYBDC (SBA loan). It is anticipated that all sources will be debt financing.

Sources of Funds						
Source	Amount	Partic. %	Interest Rate	Term (years)	Est. Monthly P+I Payment*	Est. Annual P+I Payment*
UCRLF (term loan)	\$42,000	74%	4.00%	4	(\$948.32)	(\$11,379.84)
Owner Equity	\$15,000	26%	0.00%	0		
Total Sources	\$57,000				(\$948.32)	(\$11,379.84)
FinancialAnalysis_OrganicNectars_FINAL.xls						
* For LoC, assumes interest-only payments, ** Assumes full amount is drawn each year						

*** Note: Terms for all sources subject to change until final commitments are issued by lenders.**

5.0 UNDERWRITING REPORT

Based on analysis of the Company's financials and other information provided in the loan application, this borrower's request was evaluated to determine its classification under UCEDA's "Underwriting Criteria for Ulster County Loan Funds."

Our analysis indicates that **the project is classified as IA+**. This classification indicates that the loan exceeds the underwriting criteria, and that there is a high degree of confidence that the loan will be repaid.

Adjusted Cash Flow		Discounted Collateral		Adjusted PNW	
CLASS	QUALITY	CLASS	QUALITY	CLASS	QUALITY
I	Existing CF is $\geq 1.0 : 1$	A	1.0+: 1	+	\geq loan amt.
II	Projected CF is $\geq 1.0 : 1$	B	.85 to 1.0: 1	-	< loan amt.
III	Secondary (non-SBC) Source of Repayment	C	$\leq .84 : 1$		

5.1 Adjusted Cash Flow Analysis & Coverage

Based on the "Underwriting Criteria for Ulster County Loan Funds," Adjusted Existing Cash Flow is calculated as follows:

$$\text{Earnings Before Taxes} + \text{Depreciation} + \text{Interest Payments} = \text{Adjusted Existing Cash Flow}$$

In order to be classified as a "Class I" deal, the guidelines state that the Cash Flow Coverage Ratio must be $\geq 1:1$, or, stated another way, that the Adjusted Existing Cash Flow must be greater than or equal to the total debt service payments.

$$\text{Cash Flow Coverage} = \text{Adjusted Existing Cash Flow} \div \text{All Proposed Debt Service (P+I)}$$

In this case, as the table below shows, Cash Flow Coverage has exceeded the 1:1 threshold for the past two years. In the company's first year as an S Corp, in 2014, Cash Flow Coverage was negative since the Company posted a loss for the year. Lisa Protter, the owner, attributed this loss to personal health issues that prevented her from directing her full energy and attention toward the business.

Statement of Cash Flows	ACTUAL			
	2014		2015	2016
Earnings Before Taxes	(\$21,602)		\$43,891	\$53,150
+ Depreciation	\$18,142		\$12,134	\$19,179
+ Interest Expense	\$0		\$0	\$0
Adjusted Existing/Projected Cash Flow	(\$3,460)		\$56,025	\$72,329
Debt Service				
UCRLF	(\$11,380)		(\$11,380)	(\$11,380)
Other existing debt service	\$0		\$0	\$0
Total Cash for Debt Service	(\$11,380)		(\$11,380)	(\$11,380)
Cash flow margin	(\$14,840)		\$44,645	\$60,949
Cash flow coverage	-0.30 :1		4.92 :1	6.36 :1
FinancialAnalysis_OrganicNectars_FINAL2.xls				

Since the adjusted existing cash flow is greater than the total proposed debt service, the underwriting criteria indicate that this project is classified as a “**Class I**” deal.

Since cash flow in 2014 was insufficient to cover the proposed payments to the UCRLF, it is prudent and necessary to explore the Company’s projected future financial performance. The table below shows that over the next three years, the Company expects to generate sufficient cash to cover debt service obligations.

Statement of Cash Flows	PROJECTED			
	2017		2018	2019
Earnings Before Taxes	\$54,745		\$56,387	\$58,078
+ Depreciation	\$20,000		\$20,000	\$20,000
+ Interest Expense	\$1,079		\$1,440	\$1,218
Adjusted Existing/Projected Cash Flow	\$75,824		\$77,827	\$79,296
Debt Service				
UCRLF	(\$11,380)		(\$11,380)	(\$11,380)
Other existing debt service	\$0		\$0	\$0
Total Cash for Debt Service	(\$11,380)		(\$11,380)	(\$11,380)
Cash flow margin	\$64,444		\$66,447	\$67,917
Cash flow coverage	6.66 :1		6.84 :1	6.97 :1
FinancialAnalysis_OrganicNectars_FINAL2.xls				

5.2 Value of Proposed Collateral

This loan is secured by the following collateral:

- a) Lien (first position) on equipment purchased with loan proceeds
- b) Lien (first position) on other business assets

c) Personal guarantee by Lisa Protter

Based on the “Underwriting Criteria for Ulster County Loan Funds,” the adjusted value of the proposed collateral is \$65,267.

Collateral						
Asset	Type (See UW Guidelines)	Fair Market Value	Prior Lien Loan Amt	Available Value	Discount Rate	Discounted Value
New capital equipment		\$52,000	\$0	\$52,000	50%	\$26,000
Existing capital equipment		\$27,201	\$0	\$27,201	50%	\$13,601
Accounts Receivable		\$59,165	\$0	\$59,165	80%	\$11,833
Inventory		\$69,167	\$0	\$69,167	80%	\$13,833
						\$0
						\$0
						\$0
Total Collateral Value						\$65,267
Value of UCRLF Loan						\$42,000
Excess Collateral Value						\$23,267
Coverage Ratio (LTV)						1.55
FinancialAnalysis_OrganicNectars_FINAL2.xls						

Since the value of the collateral is in excess of the value of the loan amount, this project’s collateral value is **classified as “A.”**

5.3 Net Worth of Guarantors

Name	Stated Net Worth	Adjusted Net Worth	Credit Score
Lisa Protter	\$405,000	\$255,744	784

Since the adjusted net worth of the guarantors is in excess of the loan value, the adjusted personal net worth is **classified as “+.”**

6.0 CONCLUSION

The application from Organic Nectars exceeds the underwriting criteria set forth by the Ulster County Revolving Loan Fund, with a classification of IA+, the highest rating possible under the UCRLF's criteria.

Lisa Protter, the owner of Organic Nectars, is highly committed to the growth of the company. She is seeking investors to contribute approximately \$600,000 of capital to facilitate a major expansion of production, marketing and sales. With that investment, Lisa is confident that the Company will grow dramatically in the next several years, and she expects sales to jump to over \$6 million per year within four years.

With a modest investment from the Ulster County Revolving Loan Fund, Organic Nectars will solidify its current level of production while it pursues its larger investment goals. Since the Company's application meets the UCRLF's underwriting guidelines, creates jobs, and supports the expansion of a company that fits within one of the County's target industry clusters, this appears to be a solid loan application.

7.0 APPLICATION TRACKING SUMMARY

Applicant Name:	Lisa Protter				
Business Name:	Organic Nectars, Inc.				
Initial Inquiry Date:	3/30/2017		Loan Amount:	\$45,000	
Initial Application Date:	3/31/2017		Loan Fund(s):	UCRLF	
Loan Purpose:	\$45,000 for purchase of equipment to expand production, as part of larger capital raise of approximately \$600,000. Other sources/uses described in application.				
Office of Economic Development Tasks			Underwriting Tasks		
Task	Date	Initial s	Task	Date	Initial s
App received	3/31/2017				
App forwarded to UW	4/5/2017		App received by UW	4/5/2017	
			Questions due	4/12/2017	
Questions received by OED	4/12/2017		Questions sent to OED	4/12/2017	
Questions sent to Applicant	4/14/2017				
Response rec'd	4/17/2017				
Application finalized	4/17/2017				
Response due to UW	4/17/2017		Response received	4/17/2017	
			Determination due	4/18/2017	
			UW Determination	Approved	
Applicant notified					
Determination due	5/30/2017				
RLF Meeting Date	5/11/2017				
EDA Meeting Date	TBD				
RLF Recommendation	Approve / Deny				
EDA Determination	Approve / Deny				
USDA Determination Due	N/A				
USDA Determination	Approve / Deny				