

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

**Applicant:  
Fruition Chocolate**

**Date of Application:  
02/07/2018**

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## 1.0 APPLICATION SUMMARY

**BORROWER** Fruition Chocolate  
Bryan and Dahlia Graham  
3091 State Route 28  
Shokan, NY 12481  
Phone # 845-657-6717

**UCRLF LOAN REQUEST** \$100,000

**RATE** 4.0%

**TERM** 7 years

**LOAN PURPOSE** Capital equipment and leasehold improvements

<b><u>USES/SOURCES</u></b>	<b>CWC</b>	<b>UCRLF</b>	<b>Equity</b>	<b>Total</b>
Equipment Purchases	\$194,500	\$90,500	\$40,000	\$325,000
Renovation		\$9,500		\$9,500
Refinance Debt	\$61,500			\$61,500
Soft Costs	\$4,000			\$4,000
<b>TOTAL</b>	<b>\$260,000</b>	<b>\$100,000</b>	<b>\$40,000</b>	<b>\$400,000</b>
Participation	65%	25%	10%	100%

**SECURITY**

A) Lien (second position) on equipment purchased with loan proceeds  
B) Lien (second position) on additional existing capital equipment  
C) Personal guarantee by Bryan and Dahlia Graham

**JOBS**

Current FTEs	Retained FTEs	New FTEs (Year 3)
7	7	7

<b><u>CASH FLOW SUMMARY</u></b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Net Income	\$(30,940)	\$(15,799)	\$13,673	\$38,598	\$138,672	\$184,485
Adjustments to Net Income	\$26,599	\$23,711	\$63,206	\$82,451	\$99,085	\$115,621
Cash from Operating Activities	\$(4,341)	\$7,912	\$76,879	\$121,049	\$237,757	\$300,106
New Debt Service	\$(59,049)	\$(59,049)	\$(59,049)	\$(59,049)	\$(59,049)	\$(59,049)
Cash Flow Margin	\$(63,391)	\$(51,137)	\$17,830	\$62,000	\$178,708	\$241,057
Cash Flow Coverage Ratio	<b>-0.07</b>	<b>0.13</b>	<b>1.30</b>	<b>2.05</b>	<b>4.03</b>	<b>5.08</b>

**Rating** I

<b>COLLATERAL SUMMARY</b>	<b>Asset Value</b>	<b>Prior Liens</b>	<b>Available Value</b>	<b>Adjusted Value</b>	<b>Coverage Ratio</b>	<b>Rating</b>
	\$658,920	\$285,000	\$373,920	\$161,600	1.62	A

<b>NET WORTH SUMMARY</b>	<b>Assets – Stated Value</b>	<b>Assets – Adjusted Value</b>	<b>Liabilities</b>	<b>Adjusted Net Worth</b>	<b>Loan Amount</b>	<b>Rating</b>
	\$56,872	\$49,509	\$4,966	\$44,543	\$100,000	-

## 2.0 PROJECT OVERVIEW

The project is to triple Fruition Chocolate's production and sales over the next 5 years by outfitting an expanded production facility with specialized equipment. The Company also intends to open a second boutique retail store to achieve projected sales growth. With support from the Ulster County Revolving Loan Fund, the business will be able to make a capital investment that will allow it to retain and grow its staff, retaining 7 FTE jobs and adding 12 FTE jobs over 5 years, five of which will be production/manufacturing jobs.

The Company's expanded and upgraded factory will allow it to increase production without compromising quality, while also balancing market mix (wholesale and retail) and product mix (chocolate and confections) in order to grow Fruition faster, and expand Fruition's market through retail, wholesale, and online sales locally, nationally, and internationally.

Fruition Chocolate plans to expand its bean-to-bar chocolate and confectionary manufacturing business to meet growing demand in the U.S. and abroad. Fruition Chocolate's expansion project is based in New York State's Ulster County. The Company's production and factory outlet in Shokan, NY will be the site of the bulk of the expansion. It also operates a small retail boutique in Woodstock, NY and plans to add another boutique shop in 2019.

The Company intends to enter into a new lease at its current facility in early 2018, which will nearly double its production space. The Company also plans to purchase new equipment in 2018, which will allow us to triple our production and sales over the next 5 years in order to match increasing demand. The financial need is \$400,000, which will be spent on equipment, build-out/leasehold improvements, and moving costs. The owners plan to put 10% of the project cost, or \$40,000 out of retained earnings. They also plan to cover 100% of the lease increase through regular operations. The Company is seeking debt financing to cover the remaining \$360,000 project cost, and has submitted applications to the Catskill Watershed Corporation's loan fund and the Ulster County Revolving Loan Fund. Separately, the Company is working with its commercial bank to restructure existing revolving lines of credit to facilitate the Company's growth.

On February 15, 2018 the Company received preliminary approval of its loan application to Catskill Watershed Corporation. The CWC Board of Directors must approve the loan at their next regularly scheduled meeting on March 6, 2018 before the organization will issue a commitment letter. Among the conditions of the loan is participation at an amount of \$100,000 by the Ulster County Revolving Loan Fund.

Additionally, recent communications with NYSESD indicate that Fruition Chocolate will soon receive an incentive proposal outlining the terms and conditions under which the Company can receive a NYSESD Economic Development Grant. The Company is eligible for up to \$80,000 in grant funds through the program, though the precise incentive has not yet been determined.

## 2.1 Description of the Company and the Principals

**BORROWER NAME:** Fruition Chocolate

**ADDRESS:** 3091 State Route 28, Shokan, NY 12481

**PHONE #:** 845-657-6717

**FAX #:**

**TAX ID#:** [REDACTED]

**Organizational Structure:** S Corporation

**Borrower Size:** [REDACTED]

Including

Affiliates

## 2.2 Owners and Key Management

<b>Name:</b>	Bryan Graham	Dahlia Graham
<b>Address:</b>	329 Wall St, Apt 2A Kingston, NY 12401	329 Wall St, Apt 2A Kingston, NY 12401
<b>Phone #:</b>	845-853-6916	845-853-6916
<b>SS#:</b>	[REDACTED]	[REDACTED]
<b>% Owned:</b>	[REDACTED]	[REDACTED]
<b>Title/Role in Business:</b>	Owner/President and Master Chocolate Maker	CEO

## 2.3 Company Operations

Fruition Chocolate produces world class, small batch, chocolate from bean-to-bar using responsibly sourced ingredients and hands on production techniques. The Company uses its own chocolate to craft exceptional chocolate bars and confections, which have consistently received national and international recognition and awards. The Company's bean-to-bar approach to manufacturing and crafting is fairly unique to the industry, where few artisans are willing and able to master both the chocolate-making process and making retail confections.

Fruition purchases its non-cocoa ingredients locally (such as butter from Ronnybrook, and bourbon for our caramels from Tuthilltown Spirits), and supports other commercial ventures in the area. Thus, Fruition is a local corporation committed to supporting and using local based business. The impact on the Hudson Valley community is important and continuing. For example, Westwind Orchard is in Accord, NY, and grows organic raspberries and pumpkins. Fruition worked with them to collaborate because they are local, socially and environmentally conscious, and they produce a high quality, fresh product. With Westwind Orchard, Fruition has developed a custom line of co-branded chocolate bars.

Fruition Chocolate's ingredients are sourced locally whenever possible as is the case for our butter, bourbon, and fruit. As cacao grows in tropical regions, the Company sources its primary ingredient, cocoa beans, from Central and South America where it takes pride in building relationships with local farmers to support transparent and fair trade practices.

Fruition sells chocolate in its two retail stores (one attached to the production facility in Shokan, the other located near the Village Green in Woodstock), online, via distributors, and direct wholesale to specialty grocers, cafes, and restaurants. Fruition products can be found in much of the U.S. as well as internationally in Denmark, Germany, the U.K., Australia, and Singapore. Approximately 95% of sales are in the U.S. and 5% globally. The majority of the U.S. sales are conducted within New York State. The Company's goal is to further increase our sales, which is only possible if it expands production capacity by leasing additional production space and purchasing specialized equipment.

Additional Company information is provided in the attached Business Plan. The Company's Press Kit, also attached, provides additional information on Fruition Chocolate's product line and the many awards its products have received.

### 3.0 PROPOSED USES OF FUNDS

The Company proposes to use the proceeds of funds from the UCRLF, CWC and its own equity for a combination of capital equipment purchases, leasehold improvements and moving costs. Capital equipment to be purchased will enable the Company to triple production capacity. The equipment to be purchased may include:

- Tempering Moulding Line with Cooling Tunnel (\$128k)
- Pre Refiner (\$28k)
- Rottar Grinder (\$25k)
- Cracker, Winnow & Sorter (\$45k)
- Flow Wrapper for Automated Packaging (\$58k)
- Marble Tables (\$2k)
- Cocoa Butter Press (\$25k)
- Vertical Cutter Mixer (\$6k)

Funds will also be used to make leasehold improvements on the newly-leased space that will be used for expanded production operations. Finally, funds will be used to move large pieces of production equipment, which require special rigging and cranes.

Uses of Funds	
Uses	Amount
Capital equipment purchases	\$330,000
Leasehold improvements	\$65,000
Moving costs	\$5,000
<b>Total Uses</b>	<b>\$335,000</b>
FinancialAnalysis_FruitionChocolate_DRAFT.xls	

### 4.0 PROPOSED SOURCES OF FUNDS

The Company is seeking funding from two sources, including the UCRLF and CWC. In addition to these, the Company will contribute \$40,000 of cash on hand toward the overall project cost.

<b>Sources of Funds</b>							
<b>Source</b>	<b>Amount</b>	<b>Partic. %</b>	<b>Interest Rate</b>	<b>Term (years)</b>	<b>Est. Monthly P+I Payment*</b>	<b>Est. Annual P+I Payment*</b>	<b>Est. Annual LoC Paydown**</b>
UCRLF (term loan)	\$100,000	25%	4.00%	7	(\$1,366.88)	(\$16,402.57)	\$0.00
CWC (term loan)	\$260,000	65%	5.75%	7	(\$3,767.14)	(\$45,205.69)	\$0.00
Owner Equity	\$40,000	10%	-				
<b>Total Sources</b>	<b>\$400,000</b>				<b>(\$5,134.02)</b>	<b>(\$61,608.25)</b>	<b>\$0.00</b>
FinancialAnalysis_FruitionChocolate_DRAFT.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.**

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## 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 meets 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
<b>I</b>	Existing CF is $\geq 1.0 : 1$	<b>A</b>	1.0+ : 1	+	$\geq$ loan amt.
<b>II</b>	Projected CF is $\geq 1.0 : 1$	<b>B</b>	.85 to 1.0 : 1	-	< loan amt.
<b>III</b>	Secondary (non-SBC) Source of Repayment	<b>C</b>	$\leq .84 : 1$		

### 5.1 Adjusted Cash Flow Analysis & Coverage

Over the period from 2015 through 2017, Fruition Chocolate's total income has grown from \$366,000 to nearly \$645,000. The company has achieved this growth while continuing to control its costs, leading to a net profit, of approximately \$14,000 in 2017. After adjusting for depreciation, interest expense, and additional occupancy costs following the expansion, net income from operations, which represents the available cash to finance new debt, was \$76,900 in 2017.

Looking forward to the next three years, the company expects to see rapid growth, driven by the expansion of production and sales operations. Projected gross revenue is \$1,032,237 in 2018, with year-to-date figures on target to reach that goal. By 2021, in part through the addition of a third retail location, the Company expects to surpass \$2.0M in annual sales.

The Company has received preliminary indication that it will receive an incentive proposal from NYSED in connection with this project. Based on ESD's grant parameters, the Company would be eligible for up to 20% of the project cost, or \$80,000 in State assistance. Grants are offered on a reimbursement basis, so the underwriting analysis presented here does not assume any of the potential grant award will be available for purposes of completing the project. Instead, any grant award will provide a future cash infusion to support the Company's ongoing operations.

Without the addition of new capital equipment, the Company will be unable to expand production sufficiently to achieve its sales and income goals.

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 exceeds the 1:1 threshold for 2017.

Statement of Cash Flows	ACTUAL		
	2015	2016	2017
<b>OPERATING ACTIVITIES</b>			
Net Income	\$ (30,940)	\$ (15,799)	\$ 13,673
+ Depreciation			
+ Interest Payments			
- Increased Occupancy Costs			
Total Adjustments to reconcile Net Income to Net Cash provided by operations:			
<b>Net cash provided by operating activities</b>	<b>\$ (4,341)</b>	<b>\$ 7,912</b>	<b>\$ 76,879</b>
<b>Debt Service</b>			
UCRLF	\$ (16,403)	\$ (16,403)	\$ (16,403)
SBA/NYBDC	\$ (42,647)	\$ (42,647)	\$ (42,647)
<b>Total Cash for Debt Service</b>	<b>\$ (59,049)</b>	<b>\$ (59,049)</b>	<b>\$ (59,049)</b>
<b>Cash flow margin</b>	<b>\$ (63,391)</b>	<b>\$ (51,137)</b>	<b>\$ 17,830</b>
<b>Cash flow coverage</b>	<b>-0.07 :1</b>	<b>0.13 :1</b>	<b>1.30 :1</b>

FinancialAnalysis\_FruitionChocolate\_FINAL.xls

As a result, the underwriting criteria indicate that this project is classified as a “**Class I**” deal.

Though the underwriting criteria do not require a review of projected cash flows, the table below shows that in 2018, 2019 and 2020, the business is also anticipated to generate sufficient cash to cover debt service obligations.

Statement of Cash Flows	PROJECTED		
	2018	2019	2020
<b>OPERATING ACTIVITIES</b>			
Net Income	\$ 38,598	\$ 138,672	\$ 184,485
+ Depreciation			
+ Interest Payments			
- Increased Occupancy Costs			
Total Adjustments to reconcile Net Income to Net Cash provided by operations:			
<b>Net cash provided by operating activities</b>	<b>\$ 121,049</b>	<b>\$ 237,757</b>	<b>\$ 300,106</b>
<b>Debt Service</b>			
UCRLF	\$ (16,403)	\$ (16,403)	\$ (16,403)
SBA/NYBDC	\$ (42,647)	\$ (42,647)	\$ (42,647)
<b>Total Cash for Debt Service</b>	<b>\$ (59,049)</b>	<b>\$ (59,049)</b>	<b>\$ (59,049)</b>
<b>Cash flow margin</b>	<b>\$ 62,000</b>	<b>\$ 178,708</b>	<b>\$ 241,057</b>
<b>Cash flow coverage</b>	<b>2.05 :1</b>	<b>4.03 :1</b>	<b>5.08 :1</b>

FinancialAnalysis\_FruitionChocolate\_FINAL.xls



## 5.2 Value of Proposed Collateral

This loan is secured by the following collateral:

- a) Lien (subordinated) on equipment purchased with loan proceeds and other business assets
  - a. Prior liens by Rondout Savings Bank (\$25,000 LOC) and CWC (\$260,000 note)
- b) Personal guarantee by Bryan and Dahlia Graham

<b>Collateral</b>						
<b>Asset</b>	<b>Type (See UW Guidelines)</b>	<b>Fair Market Value</b>	<b>Prior Lien Loan Amt</b>	<b>Available Value</b>	<b>Discount Rate</b>	<b>Discounted Value</b>
New capital equipment		\$317,000	\$285,000	\$32,000	50%	\$16,000
Existing capital equipment		\$257,385	\$0	\$257,385	50%	\$128,693
Accounts Receivable		\$0	\$0	\$0	20%	\$0
Inventory		\$84,535	\$0	\$84,535	20%	\$16,907
						\$0
						\$0
						\$0
<b>Total Collateral Value</b>		<b>\$658,920</b>	<b>\$285,000</b>	<b>\$373,920</b>		<b>\$161,600</b>
<b>Value of UCRLF Loan</b>						<b>\$100,000</b>
<b>Excess Collateral Value</b>						<b>\$61,600</b>
<b>Coverage Ratio (LTV)</b>						<b>1.62</b>
FinancialAnalysis_FruitionChocolate_FINAL.xls						

Based on the “Underwriting Criteria for Ulster County Loan Funds,” the adjusted value of the proposed collateral is \$161,600.

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

<b>Name</b>	<b>Stated Net Worth</b>	<b>Adjusted Net Worth</b>	<b>Credit Score</b>
Bryan and Dahlia Graham	██████████	██████████	

Since the adjusted net worth of the guarantors is less than the value of the loan value, the adjusted personal net worth is **classified as “-.”**

## 6.0 CONCLUSION

The Farm Bridge's application meets the underwriting criteria set forth by the Ulster County Revolving Loan Fund. With a classification of IA-, this project represents an opportunity for the UCRLF to support a successful, small-scale manufacturing business as it grows to meet market demand.

While the project's underwriting review meets the UCRLF guidelines, it is also worth noting several other important factors regarding this application.

- The Catskill Watershed Corporation's loan committee has approved the loan, contingent on UCRLF participation at the levels included in this report. The application must be approved by the full CWC board at its March 6<sup>th</sup> meeting before a commitment letter will be issued, but a preliminary term sheet has been provided by CWC staff.
- NYSED has indicated that it is preparing an incentive proposal through its Economic Development Grant Program for this project, which may fund up to 20% of the total project cost through subsequent reimbursements. Since the award is not finalized, it has not been factored into the underwriting review. As such, any future award will provide additional working capital to support the Company's continued growth.
- The Company is an important player in the local food and beverage manufacturing cluster, purchasing ingredients for its products from a range of local growers and processors. By supporting Fruition Chocolate's growth, the UCRLF can spur further growth in sales by other local businesses.

## 7.0 APPLICATION TRACKING SUMMARY

Applicant Name:	Bryan Graham				
Business Name:	Fruition Chocolate, Inc.				
Initial Inquiry Date:	01/12/2018	Loan Amount:	\$100,000		
Initial Application Date:	01/12/2018	Loan Fund(s):	UCRLF		
Loan Purpose:	\$100,000 for capital equipment and building improvements/lease fit-up, in partnership with Catskill Watershed Corp.				
Office of Economic Development Tasks			Underwriting Tasks		
Task	Date	Initials	Task	Date	Initials
App received	1/30/2018				
App forwarded to UW	2/6/2018		App received by UW	2/6/2018	
			Questions due	2/6/2018	
Questions received by OED	2/6/2018		Questions sent to OED	2/6/2018	
Questions sent to Applicant	2/6/2018				
Response rec'd	2/7/2018				
Application finalized	2/7/2018				
Begin UW review	2/7/2018		End UW review	2/16/2018	
			Determination due	2/16/2018	
			UW Determination	Approved	
Applicant notified					
Determination due	3/6/2018				
RLF Meeting Date	2/26/2018				
EDA Meeting Date	3/6/2018				
RLF Recommendation	Approve / Deny				
EDA Determination	Approve / Deny				
USDA Determination Due	N/A				
USDA Determination	Approve / Deny				