What have (a few) CDFIs learned about financing food hubs?

Gray Harris, Coastal Enterprises
Rick Larson, Natural Capital Investment Fund
Steve Saltzman, Self-Help

October 18, 2013
CEI: Rural CDFI in Maine

- Sustainable Agriculture & Food Systems at CEI: Creating Opportunity Along the Value Chain from Farms to Retailers.

- Mission: To rebuild a food system that supports farms, local value chains, and affordable access to healthy food for all people.

- TA and Finance model provides:
  - Business TA: team-based business planning services; industry resources/networks.
  - Financing: From debt to equity; <$10,000 to >$1 Million; Coordinate multiple sources of capital.
  - Project-based initiatives in Maine and nationally.

- FY13 committed/invested over $5 million in food system businesses along the entire value chain.
Natural Capital Investment Fund: 
Food Value Chain Lending

- $13 M CDFI serving 8 Southeast/Appalachian states
- Triple-bottom-line focus – Financing good stewards of land and water
- Up to $250,000 in debt or royalty financing
- Specialize in sub debt & partnering with senior lenders
- 45% of loans (by number) are ag related: producers, value-added products, aggregators, and retail markets buying locally
What do CDFIs need to know?

- Food hubs exist within a system (value chain)
- We can’t do it alone: Partnerships with other NGOs and academics are critical
- Direct technical assistance is key
What kinds of financing are needed?

- Stage determines financing
- A toolbox of financial products is useful
- Construction financing likely
- The layer cake: collaboration between lenders
- Individual “impact investors” a source?
Key due diligence checklist

★ Does the business have the right entrepreneur?
★ Market, market, market
★ How will the business handle seasonality?
★ What’s the path to profitability?
★ Competition with existing aggregators?
★ What will your committee ask?
FINANCING FOOD HUBS

Wholesome Wave
Healthy Food Commerce Investments

OFN Conference
October 19, 2013
Food hubs were defined to support regional food infrastructure needs

A business or organization that actively manages aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.

- Support new, beginning farmers
- Diversify supplier base
- Infrastructure behind local food demand
- Stimulate economic development
- Strengthen regional capacity to move food

Support new, beginning farmers

Diversify supplier base

Infrastructure behind local food demand

Stimulate economic development

Strengthen regional capacity to move food
What do food hubs do exactly?
Wholesome Wave’s framework for “food hubs” focuses on activity
How are food hubs different?

Wholesome Wave has identified 3 criteria that distinguish food hubs from traditional operations:

1. **Pricing and payment practices**
   Practices that drive increased margin to producer (fast payments, price transparency)

2. **Market Access / “Liquidity”**
   Hub accepts product from producers that don’t have access to wholesale markets

3. **Professional Development**
   Hub staff time goes to assisting producer and helping to improve a nontraditional operation

These criteria impact costs and operations:

- Need **adequate lines of credit** to float payments
- Staff skill, time to **market variable products**
- Partners, staff skill, time to **train and advise suppliers**

Why should CDFIs care?
Wholesome Wave Investments is an intermediary structuring and facilitating food hub investments

- Institutional Buyer relations
- Grower & Producer relations
- Business development
- Marketing & Operations insight
- Policy expertise and influence
- Mission driven capital
- Mission Investors
- Regional food enterprise deals

No access to capital!

No dealflow!
Over $4MM in food enterprise investment so far!

<table>
<thead>
<tr>
<th>Deal Development</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deal Amt.</strong></td>
<td>Fresh Source Capital LLC</td>
</tr>
<tr>
<td>Triggered</td>
<td>wholesome wave, CEI</td>
</tr>
<tr>
<td><strong>August 2013</strong></td>
<td>Red's Best</td>
</tr>
<tr>
<td>Multi-million</td>
<td>(Public, Private)</td>
</tr>
<tr>
<td>$100,000</td>
<td>(Public, Philan.)</td>
</tr>
<tr>
<td><strong>June 2013</strong></td>
<td>June 2013</td>
</tr>
<tr>
<td>$100,000</td>
<td>$500,000*</td>
</tr>
<tr>
<td>$800,000</td>
<td>(Public, Private)</td>
</tr>
<tr>
<td><strong>Sep 2013</strong></td>
<td>Sep 2013</td>
</tr>
<tr>
<td>$500,000*</td>
<td>$800,000</td>
</tr>
<tr>
<td>(Public, Private)</td>
<td>(Public, Private)</td>
</tr>
<tr>
<td><strong>June 2012</strong></td>
<td>June 2012</td>
</tr>
<tr>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>$225,000</td>
<td>$225,000</td>
</tr>
<tr>
<td>(Public, Private)</td>
<td>(Public, Private)</td>
</tr>
</tbody>
</table>

* Tranche of large $9 million redev. project

OCS (grant triggered through HFFI funds)

+ 1 Private investor
Our process – screening and assessment

- **Screen**
  - Does enterprise fits WW basic criteria for investment and mission fit?

- **Assess**
  - What is the organization’s growth potential and investment need?
  - Which investors could be a fit?
  - Should WW facilitate this deal?

- **Engage**
  - Seek, structure, coordinate financing

**Table: SWOT Analysis**

<table>
<thead>
<tr>
<th>Area</th>
<th>Summary/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRATEGY &amp; BUSINESS MODEL</strong></td>
<td>- DBEDC plans to create a food enterprise center by redeveloping a former meat factory in the Dorchester neighborhood of Boston. The facility would support the growth of entrepreneurial food manufacturing and processing companies by offering much needed mid-sized certified kitchen and processing facilities.</td>
</tr>
<tr>
<td><strong>IMPACT POTENTIAL</strong></td>
<td>- While not officially designated as a food desert by the USDA, our research shows the Dorchester neighborhood to be a high-need area with higher poverty, higher prevalence of diet-related diseases, and relatively low supermarket access, as compared to Boston and Massachusetts averages.</td>
</tr>
<tr>
<td></td>
<td>- Investing in a project that expands availability of healthy foods in Dorchester would serve the intended purpose of the HDFI funds.</td>
</tr>
<tr>
<td><strong>MARKET OVERVIEW</strong></td>
<td>- Market study conducted by established broker CBRE confirms assumptions on demand, occupancy, pricing and lease-up period for the project.</td>
</tr>
<tr>
<td><strong>MARKETING &amp; SALES</strong></td>
<td>- In this project, marketing and sales covers the efforts made to recruit and retain rent-paying tenants. The project development team has engaged a broker to assist with recruiting appropriate tenants to the facility.</td>
</tr>
<tr>
<td></td>
<td>- CCK offers a feeder stream of potential shared kitchen tenants for ~20% of the available space.</td>
</tr>
<tr>
<td><strong>OPERATIONS</strong></td>
<td>- DBEDC will own the facility and is planning to contract out property management to Crop Circle Kitchen (CCK), an established kitchen incubator entity in Boston.</td>
</tr>
<tr>
<td></td>
<td>- CCK is experienced at running a shared kitchen and is competent to perform other tasks related to managing the facility. Operations have not yet started so confidence at this point is based on quality of plans and track records.</td>
</tr>
<tr>
<td></td>
<td>- The Pearl facility is projected to include a farmers market and a mobile grocery operation. Additionally, there has been discussion of a retail store to sell the products of the food production tenants.</td>
</tr>
<tr>
<td><strong>FINANCIAL ANALYSIS</strong></td>
<td>- The Pearl budget and loan model starts off with fairly conservative assumptions on vacancy loss and lease-up in the first 3-4 years of the project, then tapers to 10%. Any vacancy rate higher than this would pose a risk to repayment for more deeply subordinated lenders.</td>
</tr>
<tr>
<td></td>
<td>- Based on available projected cashflow, the project will rely on a low-rate loan (e.g., 4.25%) for the first 3-5 years to ensure debt service coverage over 1.5x.</td>
</tr>
<tr>
<td><strong>ORGANIZATION &amp; MGMT</strong></td>
<td>- DBEDC has a seasoned real estate development team working on the financing and management of this project.</td>
</tr>
<tr>
<td></td>
<td>- CCK has built local credibility as an incubator of small food businesses. While there are some concerns about leadership capacity and re-organization with CCK, the operating staff is in place to execute against the kinds of activities required to manage the Pearl facility. In a worst-case scenario, DBEDC can hire another experienced property manager.</td>
</tr>
</tbody>
</table>
| **RISK MITIGATION** | - Major risks include managing vacancy and leasing up the property within projected time periods. Tenants for the shared kitchen have already been identified and there are
## Scorecard analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>A</th>
<th>VT</th>
<th>Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Model &amp; Strategy</td>
<td>🟢</td>
<td>🟢</td>
<td>🟥</td>
</tr>
<tr>
<td>Impact Potential</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Market Overview</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Operations</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>HR/Talent</td>
<td>🟢</td>
<td>🟢</td>
<td>🟥</td>
</tr>
<tr>
<td>Marketing</td>
<td>🟢</td>
<td>🟢</td>
<td>🟢</td>
</tr>
<tr>
<td>Risk Mgmt</td>
<td>🟢</td>
<td>🟢</td>
<td>🷄</td>
</tr>
<tr>
<td>Technology</td>
<td>🟢</td>
<td>🟢</td>
<td>🷄</td>
</tr>
<tr>
<td>Financial analysis</td>
<td>🟢</td>
<td>🟢</td>
<td>🷄</td>
</tr>
</tbody>
</table>
Why do CDFIs need deal intermediaries?

Deal intermediaries serve as

- **Curator**
  - Efficiently source high potential deals
  - Save time and energy on deal prep & dev.

- **Consultant/Expert**
  - CDFIs can not be expert in every industry sector

- **Coach**
  - Entrepreneurs need help navigating investment process and sometimes just a confidence boost
Financing Food Hubs
Sandi Kronick, Eastern Carolina Organics
Oct 18, 2013
What is ECO?
-grower-based marketing and distribution service
-certified organic
-advocacy, business/production planning
-grower- and manager-owned LLC (profit-sharing, voting)
-80/20 split, harvests based on orders
2004: $48K grant from NC Legislature
Rented a Ryder for 6 months
$240K in sales (April-Dec)

1-2 employees
Office, truck, inventory

2005: 2 F/T employees
Launched LLC (15 owners)
$680K in sales

$11K in earnings for Q1 CF
Moved into warehouse

MANY CDFIs

ONE PURPOSE

#OFNCONF
REAL FOOD FROM REAL FARMS

★ The focus has always been farmers & produce!
★ We retained 20% of sales from DAY 1 (and never felt guilty about it)- always operated with a need to be sustainable.
★ Our a-ha moment: we’re a trucking company
Our Capital Needs: COOLERS

★ 2005: It started with a hand-me-down
★ May 2006: cooler co financed $50K project with 50% down, 500 sq ft/16 pallets ($766K in sales that year)
★ May 2008: personal loans, and LPLP financed $120K project with 20% down, 1100 sq ft/30 pallets ($1.1M)

Always: -out-growing the space right away -felt like we were catching up to the growth rather than planning for it
ECO-HUB

- 26,000 sq feet with 6 like-minded tenants
- Focus on green light industrial jobs
- Just under $1.6M in loans from Self Help Credit Union, Natural Capital Investment Fund and WFM LPLP
- $50K in discounts from CREE lighting, $50K in building improvement funds from City of Durham

2012: $3M in sales
2013: $3.5M projected
Critical Lender Points

★ Cared to really understand challenges & priorities
★ Relationships in the network (conferences, food buyers, 501©3s)
★ Relationships built on shared values
★ Accessibility, Patience, Flexibility
★ No interaction was a waste of time
★ Not Scared!
Critical Food Hub Points

★ Lack of TA (logistics, finances, IT)
★ Collecting valuable data points
★ Motivations around ownership/ROI
★ The hype (commercial kitchens, hubs)
★ Are there enough farmers?
★ Personal guarantees
★ Is there a niche to protect from commodity pricing?
★ Entrepreneurial readiness (detail-oriented, lifestyle, turn-over)
★ Competitive issues when you’re trying to ‘save the world’
Dear All,

Thank you all for joining us for the Financing Food Hubs discussion at OFN! Please find attached our presentation slides. You will find the food hub definition slide inserted as slide 2 in the Wholesome Wave deck.

Resource hubs:
USDA: http://www.ams.usda.gov/AMSv1.0/FoodHubs
NGFN: http://ngfn.org/resources/food-hubs/food-hubs

Resources mentioned during session:
- The food hub diligence toolkit discussed by Wholesome Wave should be published by the end of the year. We’ll let you know when it comes out or keep an eye on their website: http://wholesomewave.org/.
- For those of you in the northeast, CLF Ventures is working on a regional site suitability analysis for food hubs in New England, due out soon.
- Local Market Sizer: http://newventureadvisors.net/marketsizer.html

Contact info:
Sandi Kronick: sandi@easterncarolinaorganics.com
Malini Ram Moraghan: malini@wholesomewave.org
Rick Larson: rlarson@conservationfund.org
Steve Saltzman: steve.saltzman@self-help.org
Gray Harris: gharris@ceimaine.org
Daniel Wallace: dwallace@ceimaine.org

We hope you found the session engaging and informative. Thanks for attending! Please contact Daniel Wallace (dwallace@ceimaine.org) with any questions or clarifications.