

# NGA Financial Conference



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# Grocer's Challenge

- “Food deserts” are not self correcting, as operating costs are generally higher and margins are lower
- We have observed that food desert locations often experience a gap in profitability of around 5% of sales (ie. 4% loss instead of 1% profit), causes include:
  - Reduced average sale
  - Lower inbound gross profit
    - Reduced grocery gross profit (increase formula penetration)
    - Lower penetration of high margin department's (Produce, Deli, General Merchandise, Gourmet)
  - Higher training costs and reduced productivity
  - Higher security and insurance costs
  - Higher building and maintenance costs
- Filling the gap with higher pricing, lower wages or reduced standards have proven to be ineffective
- **This gap has resulted in high grocery store failure rates**

# Reducing the Financial Gap

Assumptions: 60,000 sq ft store, \$130psf building cost, \$100psf equipment cost, weekly sales of \$600,000, NMTC values at 24%, 7 year amortization on normal, 7 year balloon on NMTC, 6% interest, assumed 10 year r/e tax abatement, [normal r/e taxes of \$3psf], assumed FFFI incentives are obtained to cover capital and/or preopening costs in excess of normal levels

	<u>Normal</u>	<u>FFFI</u>	<u>Savings</u>
• Rent	\$ 20.00psf \$ 1,200,000/yr	\$ 10.00psf \$ 600,000/yr	\$ 600,000/yr
• Interest Expense	\$ 360,000/yr	\$ 273,600/yr	\$ 86,400/yr
• Real Estate Tax	\$ 180,000/yr	\$ 30,000/yr	\$ 150,000/yr
<b>Total savings</b>			<b>\$836,400/yr</b> <b>2.7% of Sales</b>
• Debt	\$ 6,000,000	\$ 4,560,000	\$ 1,440,000
• Debt Amortization	\$ 857,143/yr	\$ 0	\$ 857,143/yr
<b>Operating Cash Flow Improvement (Ex. Balloon payment after 7<sup>th</sup> Yr.)</b>			<b>\$1,694,000/yr</b> <b>5.4% of Sales</b>
Average Cash Flow (Inc. Balloon payment after 7 <sup>th</sup> Yr.)			\$ 1,043,000/yr 3.3% of sales

# What You Need to Know About NMTC

- Qualified Census Track
- Deal Structure (other structures are possible)
  - Leverage Loan (7 year balloon/no amortization) 75%
  - NMTC Equity (after 7 years to be forgiven) 20%
  - Owner's Equity 5%
- Interest Rates
  - Leverage Loan Market Rate
  - NMTC Equity Nominal rate (1%)
- Choices
  - Deal size (one or more new stores or remodels) should exceed \$7 million in total capital required
  - Leverage financing can be provided by NMTC provider or financed separately
  - Keep or Sell the tax credit
  - Can finance newly deployed capital for stores, real estate and working capital
  - Advisors (consultant to find the right NMTC provider, lawyer and accountant)
  - Need a single purpose entity
  - Need cooperation with other Company lenders

# UpLift Solutions

A national nonprofit to support food businesses, government and nonprofits to create sustainable environments for underserved communities.

## Program Areas

- ✓ **Sustainable Food Systems**
- ✓ **Health Innovations**
- ✓ **Economic Opportunity**

# Sustainable Food Systems

- Technical Assistance for Increased Food Access
  - Financing new stores
  - Public/private partnerships
  - Operator education and certification for successful operation of low access stores
- Healthy Food Access Fund (HFAF)
- Urban Agriculture
- Alternative Energy

# Healthy Food Access Fund

- Established a CDE and applied for \$70 Million in NMTC (NMTC allocations should be announced in early 2012) solely dedicated to assisting grocers expanding to high impact food desert locations
- The HFAF offers consulting services to obtain NMTC from other funds as a backup option for its approved clients
- Establishing lending relationships to fund new stores with banks, socially interested investors, pension funds and foundations
- Bundle services from UpLift Solutions to improve grocers' success/profitability and community outcomes
- All projects must meet UpLift's requirements:
  - Community (good jobs, commitment to community involvement, sustainability)
  - Financial



***Delivering Entrepreneurial Solutions that Support  
Underserved Communities for the Joy of a Healthy Life***

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