

# BUSINESS LOAN PROGRAM

## CREDIT MEMORANDUM

CITY OF LONG BEACH  
ECONOMIC AND PROPERTY DEVELOPMENT DEPARTMENT  
333 W. OCEAN BOULEVARD, 3<sup>RD</sup> FLOOR  
LONG BEACH, CA 90802

MARCH 9, 2017

3:30 PM

**LOAN OFFICERS:** Andria Martinez - NDC

**BORROWER:** **Romeo Chocolates, LLC**  
460 Pine Ave., Long Beach, CA 90802  
(Council District 1)

**BUSINESS:** Chocolate manufacturer & retailer

**OWNERSHIP:** The business is a Limited Liability Company owned 100% by Romeo O. Garcia.

**REQUEST:** \$50,000 Revolving Loan

**FUNDING SOURCE:** EDA and CDBG funds are proposed subject to availability.

**TERM & INTEREST:** A 7-year, fully amortized loan with monthly principal and interest payments of \$706.70. Interest rate will be fixed at 5.00%, which is the current WSJ prime rate plus 1.5%. Fees total 2% of the loan amount (\$1,000).

**PURPOSE:** To provide funds for furniture, fixtures & equipment and working capital needs.

**PUBLIC BENEFIT:** Job creation. Two full-time employees equivalents will be hired within 24 months.

**SOURCES AND  
USES OF FUNDS:**

<b>Sources:</b>			
	<b>City Loan</b>	<b>Equity</b>	<b>Total Project</b>
	\$50,000	\$135,000	\$185,000

<b>Uses:</b>			
Tenant Improvements	\$0	\$80,000	\$80,000
FF&E	\$19,400	\$15,000	\$34,400
Working Capital	\$29,600	\$0	\$29,600
Start-up Costs	\$0	\$40,000	\$40,000
Loan Fees	\$1,000	\$0	\$1,000

<b>Total:</b>	<b>\$50,000</b>	<b>\$135,000</b>	<b>\$185,000</b>
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**SOURCES OF  
REPAYMENT:**

(1) Business Cash Flow  
(2) Liquidation of Assets

**COLLATERAL:**

First position UCC-1 Broadform Filing on all other business assets.

**SUBORDINATION  
AGREEMENT:**

None.

**CREDIT REPORTS:**



**GUARANTOR(S)  
IF APPLICABLE:**

An unlimited personal guarantee of Romeo O. Garcia.

**SITE DESCRIPTION:**

**Romeo Chocolates, LLC**, occupies 1,200 square feet of ground floor retail space at 460 Pine Ave. in Long Beach. The lease agreement was initiated in late 2016 and has a seven year term with a renewal option for an additional seven year term. The business is adjacent to The Pier Bar, Saint & Sinners Bakery, Plant Junky, and a new crepery in an area that has been dubbed "Decadence Row" by Longbeachize editor, Brian Addison.

**BACKGROUND  
STATEMENT:**

**Romeo Chocolates, LLC** is a micro-batch, artisanal confection line featuring world sourced chocolate with local influences founded in 2014.

Romeo Chocolates provides the following products:

- Truffles, bon bons, and other confections
- Chocolate Bars and barks
- Sipping Chocolate & Hot Chocolate
- Tablea and champurado
- Retail linked products, sipping chocolate gift sets, chocolate & candle gift set, tumblers, mugs, and other curated products.

Romeo Chocolates focuses on artisanal, micro-batch, bean-to-bar chocolate production and retail that focuses on thoughtfully sourced fine chocolate and cacao beans. Quality and equitable sourcing of local ingredients and cocoa from around the world, precision in classical recipes, along with innovation in flavor profiles, creating close connections with the local community and consumers to engage in a dialogue about the development of fine chocolate, while also promoting sustainable farming and trade practices with cacao growing regions and farmers, are the basis of Romeo Chocolates mission statement.

Business planning and organization began in Summer of 2014 with professional training taking place in Fall of 2014. The owner, Romeo

Garcia, attended Ecole Chocolat Professional School of Chocolate Arts and completed the Master Chocolatier Program in Belgium, as well as internships with three other chocolatiers. In Spring of 2015, Romeo Chocolates launched the business with pop-up locations and special events. In 2016, wholesale accounts were added, and the lease agreement for 460 Pine Ave. was secured to open a permanent retail location.

The loan request is for \$50,000 to fund furniture, fixtures and equipment for the retail location, as well as general working capital, which includes inventory & packaging supplies, staffing expenses, and permit & plan fees associated with the tenant improvements. Mr. Garcia's owner equity of \$95,000 comes from personal savings and liquidating his 401K retirement account. In addition, there is \$20,000 of equity that was raised from a Kickstarter campaign and the landlord will provide \$20,000 in tenant improvements allowance. The equity has funded \$65,000 in start-up costs to date and will fund the tenant improvements, along with the landlord contribution.

## **BUSINESS DEVELOPMENT:**

**Currently, Romeo Chocolates** is primarily sold through wholesale accounts, special catered events and chocolate making workshops. There are approximately 20 wholesale accounts at this time, as well as some online sales. The events and workshop revenues are also a solid foundation of the business, with more than 30 events in 2016. The new retail location on Pine Ave. will be a permanent home for the business and is expected to significantly increase the exposure and sales of the company.

Romeo Chocolates currently employs 2 part time employees. The company plans to add at least 2 additional FTE's within the next 2 years, but will likely add 5-7 employees over the next few years.

**Romeo O. Garcia, Founder & CEO:** Romeo has a bachelor's degree from UCSB and a master's in Education from San Francisco State University. He worked in higher education for more than 14 years before falling in love with chocolate. Romeo discovered a passion for chocolate making while taking cooking classes in San Francisco on weekends to unwind from his fast-paced career. In his search for re-centering and relaxing from long workdays, Romeo became enamored with the artistry of design, balance of flavors, and the richness of the story of cacao and chocolate making.

An avid learner, Romeo decided to take a creative sabbatical and a career change. He enrolled and graduated from Ecole Chocolat Professional School of Chocolate Arts and completed the Master Chocolatier Program in Belgium. He continued his studies with Chef Russ Thayer at the Chocolate Academy in Chicago and Chef Melissa Coppel at her Atelier in Las Vegas. He serves as a member of the Fine Chocolate Industry Association and is a member of Historic Pine Ave. Business & Resident Association, where his brick & mortar shop is slated to open. Romeo now calls Long Beach home, and you can try his various chocolate collections, as he carefully sources local ingredients and cacao from various regions around the world. In addition to the extensive training Romeo has completed in the art of chocolate making, he has also completed many hours of training with the LBCC SDBC. Since 2014 he has worked with business consultant, Mike Daniel with the SBDC office, as well as, financial consultant, Nate Jemison.

**PERSONAL FINANCIAL STATEMENTS:  
REDACTED**

**ANNUAL INCOME & PERSONAL BUDGET:  
REDACTED**

**PROJECTED AND HISTORICAL FINANCIAL INFORMATION:  
REDACTED**

**CASH FLOW ANALYSIS & COVERAGE RATIOS:  
REDACTED**

**STRENGTHS:**

- Romeo Garcia has been in business just 2 years but completed a professional school in chocolate making and has traveled extensively to learn the art of chocolate making from other well-established chefs and chocolatiers.
- Adjusted cash flow coverage for the projected periods (2017 and 2018) is strong at 8.01 and 9.35 based on adding retail sales from the new location to existing wholesale accounts and events.
- Proforma debt to equity ratios are very low for 2017 and 2018 at 0.31:1.00 and 0.18:1.00.
- Personal credit of the owner is good with no late payments.

**WEAKNESSES:**

- Risk associated with a very early stage business in the food industry is high.
- Existing cash flow was not sufficient in 2015 & 2016 to cover proposed debt service due to the limited revenues and start-up nature of the company.
- Despite pledging all business assets, there is a collateral shortfall due to the start-up nature of the company and a lack of fixed assets.

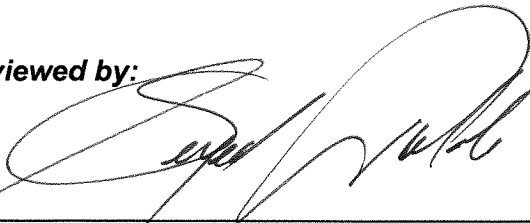
***This credit memorandum was prepared by:***

*A. Martinez*

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**Andria Martinez, Grow America Fund Loan Officer**

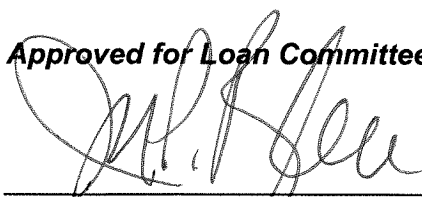
**Reviewed by:**



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**Seyed Jalali, Economic Development Officer**

**Approved for Loan Committee:**



3/6/17

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**John Keisler, Director of Economic and Property Development**