

BUSINESS LOAN PROGRAM

CREDIT MEMORANDUM

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

AUGUST 7, 2017

1:00 P.M.

LOAN OFFICERS: Andria Martinez - NDC

BORROWER: **ROOTS, INC. DBA ROOTS THROUGH RECOVERY**
3939 Atlantic Ave., Suite 102, Long Beach, CA 90807
(Council District 8)

BUSINESS: Substance Abuse Counseling Services

OWNERSHIP: The business is an S Corporation owned 100% by Kelly Lyman.

REQUEST: \$95,000 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 \$1,376.46. Interest rate will be fixed at 5.75%, which is the current WSJ prime rate, plus 1.50%. Fees total 2% of the loan amount (\$1,900).

PURPOSE: To provide funds for working capital needs.

PUBLIC BENEFIT: Job creation. Three full-time equivalent employees will be hired within 24 months.

**SOURCES AND
USES OF FUNDS:**

Sources:			
	City Loan	Equity	Total Project
	\$95,000	\$66,904	\$161,904
Uses:			
Business Acquisition	\$0	\$0	\$0
Refinance	\$0	\$0	\$0
Working Capital	\$93,100	\$66,904	\$160,004
Loan Fees	\$1,900	\$0	\$1,900
Total:	\$95,000	\$66,904	\$161,904

**SOURCES OF
REPAYMENT:**

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

COLLATERAL:

Third position UCC-1 Broadform Filing on all business assets subordinate to two existing lien positions held by Valley Economic Development Corporation (VEDC) securing existing debt of \$500,000 (balance as of 5/31/17 was \$462,556).

**SUBORDINATION
AGREEMENT:**

None

CREDIT REPORTS:



**GUARANTOR(S)
IF APPLICABLE:**

An unlimited personal guarantee of Kelly Lyman.
An unlimited corporate guarantee of Ava Max LLC.

SITE DESCRIPTION:

Roots Through Recovery occupies 3,279 SF of ground floor space at 3939 Atlantic Ave. in Long Beach. The lease agreement was initiated in May 2016 with a 3-year term, plus two additional options to renew the lease, one option for 3 years and another for 2 years. The term, plus options are good through 2024.

**BACKGROUND
STATEMENT:**

Roots Through Recovery is an outpatient treatment center in Long Beach that provides healing and wellness to those suffering from drug or alcohol addiction and mental health issues, especially trauma. Through long-term treatment and support, Roots Through Recovery helps people embark on a life-affirming journey of recovery; to lead a life guided by wisdom, integrity and hope.

The inception of Roots Through Recovery grew out of a present and increasing need for high quality addiction and mental health treatment in Long Beach. Past trauma is often the underlying cause of addiction, so the company takes a very trauma-centered approach in the various groups and individual therapy sessions provided. The company sets out to create a safe and supportive environment where breakthroughs happen, and where dreams and passions are rediscovered.

The loan request is for working capital to support accounts receivable as the company continues to grow. The company accepts most major medical insurance and it has taken about 6 months to get set up as a vendor. Accounts receivable as of 5/31/16 were \$275,300, which represents over 100 days in receivables. In order to grow the business and take on more clients, the company needs working capital to support the long AR cycle.

**BUSINESS
DEVELOPMENT:**

Roots, Inc. was originally founded in 2013 as United Community Support Center operating out of Palmdale, CA with a focus on youth care. They have since expanded upon their mission, bringing the highest quality and affordable care to the recovery community across the continuum. Now as Roots Through Recovery, the company is focused on adult care and provides a variety of treatment options including intensive outpatient, day treatment, individualized outpatient and specialized treatment programs for unique population groups.

The roots approach embraces compassionate care with traditional 12-step and evidence-based treatment delivered by the most experienced and highly trained clinical staff to create sustainable life changes. Treatment modalities include cognitive behavioral therapy (CBT), dialectical behavior therapy (DBT), eye movement desensitization and reprocessing therapy (EMDR), Mindfulness-Based Relapse Prevention (MBRP), Motivational Interviewing, Seeking Safety and Somatic Experience (SE).

Roots Through Recovery believes that everyone should be able to access high quality treatment. They accept most major insurance, offer a sliding scale for cash pay, and have several payment options for out-of-pocket expenses.

The current staff includes 4 FTE's, the Clinical Director who is an LMFT, an Executive Program & Clinical Assistant and two Primary Therapists who are MFTI's. There is also support from a 6-person Board of Directors. The company plans to add at least three additional FTE's within the next 2 years.

Kelly Lyman, CFO: Grew up in Long Beach and attended Wilson High School. She attended university at UC Irvine and also USC but did not achieve a degree. She studied accounting and has been self-employed as a Bookkeeper for the past 10 years. She also worked for larger firms as a Bookkeeper since 2000. Since revamping the Roots Inc. company structure and business strategy, she downsized her bookkeeping business in order to focus on the growth of the company in Long Beach. She maintains only a handful of other clients and manages the daily financial accounting for Roots, Inc. as the Chief Financial Officer. She is divorced and currently resides in Westminster with her daughter, Ava Maxine.

**PERSONAL FINANCIAL STATEMENTS:
(REDACTED)**

**ANNUAL INCOME & PERSONAL BUDGET:
(REDACTED)**

**PROJECTED FINANCIAL INFORMATION: See spreadsheets attached
(REDACTED)**

**HISTORICAL FINANCIAL INFORMATION: See spreadsheets attached
(REDACTED)**

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

STRENGTHS:

- The owner, Kelly Lyman, has been in business over 3 years and has significant education and experience in her field.
 - The business revenues have grown 746% as of May 31, 2017.
 - Existing cash flow for the historical period in 2016 and interim period in 2017 is strong at 2.96 and 3.47.
 - Adjusted cash flow for the projected periods (2017 and 2018) is strong at 1.64 and 1.40 based on existing revenues and growth trends.
- [REDACTED]
- [REDACTED]

WEAKNESSES:

- Existing cash flow for the historical period in 2015 is insufficient to cover the projected and existing debt service. This is due to the company move, change in service base and the addition of other debt, which funded the expansion. Interim and projected cash flow for 2017 is strong and does support the proposed loan debt service. The cash flow from the affiliate, Ava Max LLC, also helps to support cash flow coverage and will be secured by the corporate guarantee.
- Despite pledging all business assets, there is a collateral shortfall due to the service-based nature of the company and a lack of fixed assets, as well as the previous liens from the other lender (VEDC). However, Ms. Lyman's personal guarantee and the corporate guarantee of her real estate holding company, Ava Max LLC are supported with significant real estate investments.
- Risk associated with a relatively young business connected to the medial industry is high.

This credit memorandum was prepared by:

A. Martinez

Andria Martinez, Grow America Fund Loan Officer

Reviewed by:

Seyd Jalali

Seyd Jalali, Economic Development Officer

Approved for Loan Committee:

John Keisler 8/1/17

John Keisler, Director of Economic and Property Development