

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: **STEVEN G. TSEPELIS DBA BROADWAY VIDEO**
3401 E. Broadway, Long Beach, CA 90803
(Council District 3)

BUSINESS: Retail and rentals of videos, DVD's and other media

OWNERSHIP: The business is a sole proprietorship owned 100% by Steven G. Tsepelis

REQUEST: \$45,000 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 \$652.01. 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 (\$900).

PURPOSE: To provide funds for business acquisition from existing owners.

PUBLIC BENEFIT: Preservation of an existing businesses and job retention and creation. One full-time job and three part-time jobs will be saved and two full-time equivalent employees will be hired within 24 months.

SOURCES AND USES OF FUNDS:

Sources:			
	City Loan	Equity	Total Project
	\$45,000	\$15,900	\$60,900

Uses:			
Business Acquisition	\$44,100	\$15,900	\$60,000
Refinance	\$0	\$0	\$0
Working Capital	\$0	\$0	\$0
Loan Fees	\$900	\$0	\$900

Total:	\$45,000	\$15,900	\$60,900
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**SOURCES OF
REPAYMENT:**

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

COLLATERAL:

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

**SUBORDINATION
AGREEMENT:**

The current owners are providing a small seller's loan of \$5,000 to Mr. Tsepelis and will subordinate to the proposed EDA loan.

CREDIT REPORTS:



**GUARANTOR(S)
IF APPLICABLE:**

An unlimited personal guarantee of Steven Tsepelis.

SITE DESCRIPTION:

Broadway Video occupies 1,500 SF of ground floor space at 3401 E. Broadway in Long Beach. The lease agreement was renegotiated for the business acquisition and will commence in August 2017 with a 3-year term plus two additional options to renew the lease for 2 years each.

**BACKGROUND
STATEMENT:**

Broadway Video has been in operation at the same location since 1985. Broadway Video has outlived all video store chain competitors such as Hollywood Video, Blockbuster etc., as well as many independent stores. They are one of the couple remaining stores, if not the only one in Long Beach. Their inventory mainly consists of classic films not found anywhere. They also carry foreign films, independent productions from film festivals, and all the current Box Office titles.

Steven Tsepelis has managed the Broadway Video store for the past 17 years. He manages the staff and is the buyer for all movies and inventory. His mission is to not only keep Broadway Video in business for another 34 years, but to revamp the store by adding merchandising such as movie posters, movie T shirts, and music in the form of Vinyl LPs. He plans to create a website adding online sales, along with a new social media campaign to attract business from other areas of Long Beach. He plans to aggressively promote to the colleges and also engage in promotional ventures with other local businesses such as restaurants, pizza shops, sports bars, etc.

The loan request is for the business acquisition per a sales agreement between Mr. Tsepelis and the current owners. The sale price is \$60,000, which includes acquisition of all inventory (\$45,000), fixed assets (\$10,000), all rights to the trade name (\$2,500) and goodwill (\$2,500) which includes all client lists of the business. The owners' equity is evidenced by a \$10,000 gift from a close friend of Mr. Tsepelis and a seller carry back loan of \$5,000 that will be subordinated to this loan.

**BUSINESS
DEVELOPMENT:**

Broadway Video is unique and special due to being one of the last remaining video rental stores in Long Beach. The target for Broadway Video is the person who cannot find the selection of movies in the current marketplace of streaming, as well as Redbox and Netflix. Mr. Tsepelis has studied all the competition well and is fully aware of what they are lacking. The goal is to let people know they can find it all in one place at Broadway Video. College students in particular would be a key target as they are unaware of the store experience. Studies currently show that this age group is in 'retro' mode. They are experiencing vinyl for music and DVD's for movies. Studies are showing that people are moving back towards patronizing customer service oriented businesses. Broadway Video offers over 24,000 titles to choose from and this inventory, built up over 34 years of existence, offers many hard to find titles that are unavailable anywhere else including most online streaming companies. They also have no wait period for all new releases unlike RedBox and all online streaming companies.

Additional revenue streams will be created with the new ownership by adding merchandising of movie posters, movie T-shirts, and sales of Vinyl LPs.

The current staff consists of one full time store manager (Steve) and three part time sales people who are paid minimum wage. The business would have closed if not for Mr. Tsepelis' acquisition, so there are at least 2 FTE jobs retained with this loan transaction. In addition, the business does plan to add one or two FTE's within the next 2 years as merchandising sales and demand increase at the store. Store hours are 11am-9pm 7 days per week.

Steven G. Tsepelis, Owner: Steven has worked in the retail industry since he was 16 years old. He owned his own record store in Long Beach from 1985 to 2000 called Record Reaction. He also worked in retail banking for 4 years after completing high school. He was born & raised in Pennsylvania and moved to California in 1979. He has been a resident of Long Beach since 1981. He has worked for various record retailers and distributors over his career. He also started a radio station in Long Beach called Groove Radio and ran it for 4 years before Clear Channel bought it out. He has extensive retail experience and has been managing Broadway Video for the past 17 years.

**PERSONAL FINANCIAL STATEMENTS:
(REDACTED)**

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

**PROJECTED FINANCIAL INFORMATION:
(REDACTED)**

**HISTORICAL FINANCIAL INFORMATION:
(REDACTED)**

CASH FLOW ANALYSIS & COVERAGE RATIOS:

REDACTED

STRENGTHS:

- The owner, Steven Tsepelis, has been managing the business for the past 17 years and has significant experience in the retail industry.
- The business sales have been very steady at about [REDACTED]/year for the last 3 years.
- Existing cash flow for the historical periods (2015 and 2016) is strong at 4.78 and 2.17.
- Existing cash flow for the interim period (Q2 2017) is good at 1.62.
- Adjusted cash flow for the projected periods (2017 and 2018) is strong at 2.33 and 5.32 based on existing revenues and growth trends.

- [REDACTED]

WEAKNESSES:

- Despite pledging all business assets, there is a collateral shortfall due to the liquidation discounts taken on inventory and a lack of fixed assets.
- The business sales are down 11% as of June 30, 2017 due to the ownership transition and do not include the high season for retail sales that happens in the 4th quarter with the holiday season. Sales for 2017 year end are projected to rebound at least 10% and will end very similar to 2016 year end.
- Risk associated with brick and mortar retail business is high.

This credit memorandum was prepared by:

A. Martinez

Andria Martinez, Grow America Fund Loan Officer

Reviewed by:

Seyed Jalali

Seyed Jalali, Economic Development Officer

Approved for Loan Committee:

John Keisler 8/1/17

John Keisler, Director of Economic and Property Development