

\$4.5MM Secured Construction Loan for a Church Operated Preschool

TRANSACTION HIGHLIGHTS

- Large well-known established Church in desirable location
- Established Preschool with broad appeal and strong enrollment history
- Strong liquidity
- Solid collateral position

CONTACTS

Chuck Doyle, Managing Director
cdoyle@bizcap.com

Reed Upson, Sr. Vice President
rupson@bizcap.com

Matt Christensen, Sr. Vice President
mchristensen@bizcap.com

Tim Gaines, Associate
tgaines@bizcap.com

Keith Secon, Analyst
ksecon@bizcap.com

COMPANY INFORMATION:

311 California Street, Suite 650
San Francisco, CA 94104
Tel: 415-989-0970 / Fax: 415-423-1240

Loans made or arranged pursuant to California Finance Lenders Law License No. 60DBO 67279

WWW.BIZCAP.COM

➤ COMPANY DESCRIPTION

Our Client is a Lutheran Church and Preschool located near many desirable cities and suburbs in Northern California. Operating since the 1960's, the Church has over 300 members and began operating a Preschool, teaching 90-110 students each year since 1993. The median household income is ~\$140K in the suburban city the Church and Preschool are located. For 20 years, the Preschool has operated out of 2 portable buildings, charging tuition, and quickly filling the classrooms each year. The Preschool gained popularity over time from "word of mouth" recommendations, motivated by its (i) academic program, (ii) play-based curriculum, (iii) socialization, (iv) low teacher-child ratio and (v) religious tolerance and (iv) capability to accommodate students with special needs.

In 2018 our Client was advised by the City to either construct a permanent building or close the Preschool. The congregation agreed to build a \$5MM building having 6 classrooms, up from 4, that would accommodate up to 120 students. Our client to date has received \$413.7K in contributions against \$828.6K of pledged support. By the end of 2019, our Client spent over \$242K on expenses for architectural designs and to obtain local permits: our Client is permitted to begin construction. The project will include two phases, the first phase will require 7 months and second 5 months to complete.

COVID-19 limited the Preschool's enrollment to 41 students for Fall of 2020.

➤ FINANCIAL SUMMARY

Income Statement	2016	2017	2018	2019	2020
\$000's	Internal	Internal	Internal	Internal	Proj.
Contributions	\$307.8	\$388.0	\$286.4	\$341.4	\$344.6
Other Income	19.8	32.2	15.7	22.6	118.1
Church Income	327.6	420.3	302.1	363.9	462.7
Tuition	357.3	354.0	385.4	400.0	233.8
Other Income	27.3	25.3	29.2	34.2	-
Preschool Income	384.6	379.4	414.6	434.2	233.8
Total Income	\$712.2	\$799.6	\$716.7	\$798.2	\$696.5
Church Expenses	339.8	332.8	289.1	336.6	338.7
Preschool Expenses	378.4	369.7	376.5	364.3	285.1
Total Operating Expenses	718.1	702.5	665.5	700.9	623.7
Net Income (Loss)	(\$5.9)	\$97.1	\$51.1	\$97.3	\$72.8

Our Client generated between \$712K to \$798K in revenues during the period from 2016 to 2019, consisting of Contributions/Donations that ranged between \$302K to \$420K and Tuition/Preschool income that increased from \$384K in 2016 to \$434K in 2019. Tuition income is forecasted to increase to ~\$740K in 2021, while the Preschool is operating at partial capacity, and >\$1MM in 2022 once operating at 100% capacity. Forecasted Operating Cash Flow coupled with existing cash balances is expected to adequately service the construction loan.

Liquidity has been historically strong. Current fund balances total \$571K Building Fund, \$142K Preschool Reserve Fund, and \$311K in the General Fund. These sums are expected to enable our Client to fund a portion of construction costs and will provide sufficient working capital for until the building is completed. Current liquidity is expected to improve when \$415K in outstanding pledges/gifts/donations are collected during the next couple of years.

➤ OPPORTUNITY HIGHLIGHTS

The project will cost ~\$5MM and will initially be secured with real estate valued at \$9MM as is. Our Client is seeking a \$4.5MM construction loan that will be secured by its 3.14-acres property. The as completed appraised value is \$14MM. The Church is well capitalized, having raised cash/future pledges exceeding \$1.4MM which will increase cash holding from \$957K in 2019. Strong liquidity will enable the Church to finance its operation, construction, and provide a solid working capital position to fund the Preschool.