GREYSTON

SOCIAL ENTERPRISE • EST 1982

Philanthropy New York

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Who Is Greyston?

- $18 Million Hybrid For-Profit Social Enterprise/Non-Profit
- Greyston Bakery:
  - *Food manufacturer committed to creating jobs for the "hard-to-employ," e.g. formerly incarcerated*
  - *Produce five million pounds of brownies per year for Ben & Jerry's*

- Greyston Nonprofits
  - *Child Care Center*
  - *Housing and Support Services*
  - *Workforce Development*
  - *Community Gardens*

Case Study – An Unsuccessful PRI

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- Two well-known foundations each lend $250K in 2000
  - *Proceeds used to “help finance the construction of a new Bakery facility.” Current Bakery plant had run out of capacity.*
  - *Funds loaned to Greyston Foundation, the nonprofit entity but applied to the social enterprise, i.e. for-profit entity.*
  - *Unsecured notes, interest rates of 4.5% and 6%*

- 1999 Greyston Bakery Financials
  - *Sales of $3.7 million*
  - *Cash from operating activities, i.e. before cap expenditures and debt principal, of $200K*
  - *Long-term debt of $350K*

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- 2001-2004: Construction of New Bakery Building
  - *Entire cost funded by debt*
  - *High-profile architect (Maya Lin) hired*
  - *Cost overruns add significantly to the price tag (surprise! surprise!)*
  - *Long-term debt at end of 2004 of $6.9 million*

- 2005 Greyston Bakery Financials
  - *Sales of $6.9 million, almost double sales from 1999. The added capacity did indeed lead to growth.*
  - *Cash from operating activities of ($500K) – major hiccup. Huge jump in ingredient costs and SG&A. No money to pay debt.*

- *2006-2010*
  - *Bakery sales continue to grow, but only low single digits, i.e. well below forecast.*
  - *Profits well below level to service debt.*
  - *Bakery growth suffers due to lack of capital expenditures and inability to fund working capital.*

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- 2010: Ongoing Operation of the Bakery in Jeopardy
  - *Audit indicates "substantial doubt of the company's ability to continue as a going concern."*

- Major Debt Restructuring Across Greyston
  - *Debt forgiveness of $2.5 million*
  - *Essentially every lender takes a huge haircut – less than $0.35 on the dollar.*
  - *Foundations making the PRI investment lose 2/3 of their money.*

- Lessons Learned
  - *The mission is important but take a hard look at the projections. Does the deal make sense?*
  - *Just because "traditional" lenders are investing alongside you doesn't mean it's less risky.*

Case Study – A Successful PRI

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- Faith-based Organization with Socially Responsible Investing Program
  - *Makes loans to nonprofits to support social justice mission*
- Lends Greyston Bakery $250K in 2014 to fund the acquisition of a new wrapping machine for product line expansion
  - *Benefit Corp. designation "fit" with program despite for-profit status*
- Low interest, unsecured debt financing
  - *No collateral required*
  - *Willing to be subordinated to all other lenders*
- Solid cash flow from the Bakery funds debt service
- Low-cost financing and job creation - everyone's happy!