

AMR Capital

Introduction

Over 116 million people in the United States live in food deserts. These individuals live over a mile from a grocery store and most not have access to a vehicle. Consider California: this state supplies the United States with over half its produce, but 1 million of its citizens lack access to fresh fruits and vegetables.¹ Meanwhile, consumers and policy makers have become more conscious of the importance of fresh and local foods. Local produce provides superior nutrition because it avoids the biological deterioration that occurs during the extended period between harvest and consumption, typical of globally-sourced food. Large farms that supply the global chain are also less likely to practice crop rotation that guarantees the highest nutritional value. By nature of the distances traveled, globally-sourced produce has a larger environmental footprint than locally-grown food.² Regional food hubs address these problems by purchasing from local farms, increasing the availability of fresh and affordable produce to citizens, and decreasing the environmental footprint of the food chain.

AMR Capital has developed an innovative investment vehicle to launch food hubs across the United States. These hubs in aggregate will provide 150 million servings of premium produce per year and return a 7% IRR to impact investors. The AMR Capital team has a combined 20 years of professional experience in operations, finance, strategy, and consulting. In addition we have raised \$200 million in contingent tax credits from one State government. We have visited food hubs and distribution centers in Florida, Utah, and California, and conducted 140 interviews with industry experts, including consumers in food deserts, farmers, and financiers. AMR Capital is in discussions with two impact investors that have dedicated funds for improving healthy food retail.

Food Hubs

A food hub is a newly imagined aggregation point in the value chain between farmers and end consumers. It works with local farmers and consumers to build a reliable local marketplace for fresh produce, reducing reliance on the dominant global sourcing model. The food hub concept is still nascent and evolving. In the past few years, organizations being labeled as food hubs have been established in several US cities, however, many of these organizations are merely farmers' markets or purchasing cooperatives, and few are able to access sustainable funding. Banks are unwilling to loan to food hubs on account of lack of collateralizable assets, minimal management experience, high startup costs, long duration to profitability, and the fact that the size of the solicited investment is too small for the bank's scope.³ There is not currently a widely deployed model of food hub. AMR Capital will bring an innovative, low-cost food hub model to the 30 largest metropolitan areas in the United States.

Food Fleets

Like an ice cream truck, fresh produce trucks will drive pre-determined routes to deliver produce to underserved communities. Each truck will sell directly to consumers on the street in underserved communities. Corner stores, schools, gyms, and other community centers are another source of

¹ California Watch, "Nearly 1 million Californians living in food desert", May 2011, <http://californiawatch.org/dailyreport/nearly-1-million-californians-living-food-deserts-10122>.

² Interview of Los Angeles Food Policy Council working group in February 2013.

³ Interviews with several Wall Street and Main Street investment banks in 2012.

revenue which will receive a dependable distribution channel for premium fruits and vegetables. In some cities, unaffiliated independent truck drivers are already engaged in mobile produce sales. However, AMR Capital-sponsored Food Fleets will have the advantages of an aggregate purchasing effort, a distinct and trusted brand, and a network of optimized driving routes. Mobile distribution rather than a brick and mortar store allows dynamic and literal market penetration for a fraction of a typical retailer's overhead costs. Average funding requirements for a Food Fleet is \$400,000. These funds will be used to purchase trucks (average of 5 trucks/fleet), hire employees (10/fleet), service trucks and sustain the operations during the growth phase. Food Fleet loans will be structured as a 10-year loan at 8% interest. Food Fleets will be cash flow positive in the fifth year.

Investment Strategy

AMR will use an innovative approach to fundraise \$15 million from limited partners which reduces the investment risks to match the risk profile of a municipal bond. AMR Capital will solicit federal, state and city governments for contingent tax credits. Contingent tax credits will be used as loan guarantees to backstop a limited partner's investment. Tax credits have been successful instruments to fund a variety of other impact investment missions including economic development, real estate, education, energy and health care initiatives.⁴

Traditional tax credits are immediately applied to the soliciting general partners' own tax obligation or sold to other corporations. Contingent tax credits will be held in the possession of AMR Capital except in the event of a shortfall in interest payment or default, in which case the credits are issued as supplemental payment to limited partners. Hence, they are contingent upon the Fund not meeting its debt obligations with its investors.

AMR Fund I will solicit investments from institutional investors who seek an attractive double bottom line. Fund I offers a 5% IRR hurdle on invested capital with 80% carry from the Fund I profits. Limited partners will be charged a management fee of 3% of committed capital. This structure provides an overall return of 7% to limited partners on a fully collateralized investment-grade security. A 10 year municipal bond, in a state with the worst credit rating of A⁵, would offer a taxable equivalent yield of 3.29%⁶ on a comparable product, representing a 3.71% increase in return for similar risk. Every state in the nation has investment-grade credit, so any shortcoming on investment proceeds is secured at the same extent as a State issued bond. Tax credits do not expire and are transferable. Government bodies prefer to allocate these contingent tax credits over traditional tax credits due to the high probability that tax revenue will not be impacted. The government receives immediate social benefits and economic stimulus for a low expected cost.

AMR Fund I will fund 30 Food Fleets over 10 years. The Fund will make loans to Food Fleets and requires amortizing debt payments of 8% annually and 20% of the dividends from each fleet.

⁴ Utah Fund of Funds, New Market Tax Credits, Arizona Tuition Tax Credit Program, Federal Business Energy investment Tax Credit Program, and the Federal Solar Investment Tax Credit, are a few examples of social impact tax credit programs.

⁵ <http://www.pewstates.org/projects/stateline/headlines/infographic-sp-state-credit-ratings-20012012-85899404785>. Accessed March 13, 2013

⁶ Bond Center, Yahoo! http://finance.yahoo.com/bonds/composite_bond_rates. Municipal interest rate/marginal tax rate. Accessed April 18 2013.

Appendix 1 – Financial Projections

Food Fleet Financials (per Fleet)

	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Produce Sales		2,160	2,203	2,291	2,475	2,722	2,994	3,294	3,557	3,735	3,847
Total Revenue		2,160	2,203	2,291	2,475	2,722	2,994	3,294	3,557	3,735	3,847
Cost of Goods Sold		1,296	1,322	1,375	1,485	1,633	1,797	1,976	2,134	2,241	2,308
Total COGS		1,296	1,322	1,375	1,485	1,633	1,797	1,976	2,134	2,241	2,308
Gross Profit		864	881	917	990	1,089	1,198	1,317	1,423	1,494	1,539
SG&A		324	330	344	371	408	449	494	534	560	577
Truck Maintenance		10	10	10	10	10	10	10	10	10	10
Personnel		500	500	500	500	500	500	500	500	500	500
Fuel		13	13	14	15	15	16	17	18	19	20
Total Expense		(847)	(854)	(868)	(896)	(934)	(975)	(1,021)	(1,061)	(1,089)	(1,107)
Operating Income		17	28	49	94	155	222	297	362	405	432
Truck Purchases		200	-	-	-	-	-	-	-	-	-
Interest Expense		60	60	60	60	60	60	60	60	60	60
Total Other Income/(Ex)		(260)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Tax Expense		-	-	-	(54)	(75)	(99)	(125)	(147)	(163)	(172)
Net Income		(242)	(32)	(11)	(19)	20	64	112	155	183	200

AMR Fund I

	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Interest Income		0	179	417	894	1431	1788	1788	1788	1788	1788
Profit-share		0	0	0	0	386	1501	3032	4173	4938	5413
Total Revenue		0	179	417	894	1816	3289	4820	5961	6726	7201
Management Fee		450	450	450	450	450	450	450	450	450	450
Tax Expense		-	-	-	-	-	-	-	-	-	-
Net Income		(450)	(271)	(33)	444	1,366	2,839	4,370	5,511	6,276	6,751

LP Financials

	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Draw Down	-15000										
Return of Capital		-	-	-	444	1,366	2,839	4,370	5,511	469	
Cumulative RoC		0%	0%	0%	3%	12%	31%	60%	97%	100%	
Hurdle Income										5,807	1,310
Carry Income											4,353
CF	-15000	-	-	-	444	1,366	2,839	4,370	5,511	6,276	5,663
MoM		0.0 x	0.0 x	0.0 x	0.0 x	0.1 x	0.3 x	0.6 x	1.0 x	1.4 x	1.8 x

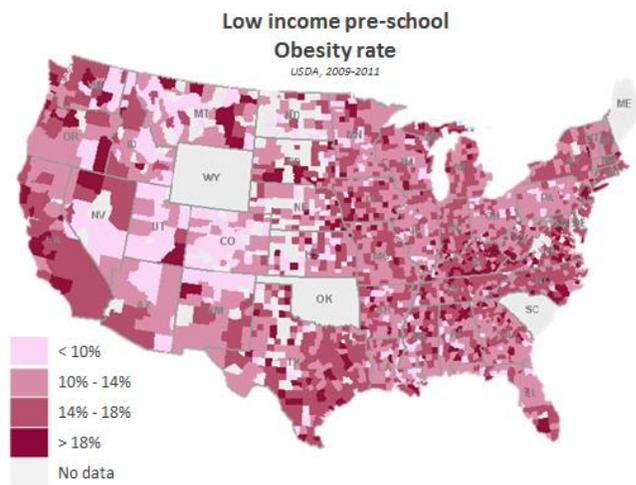
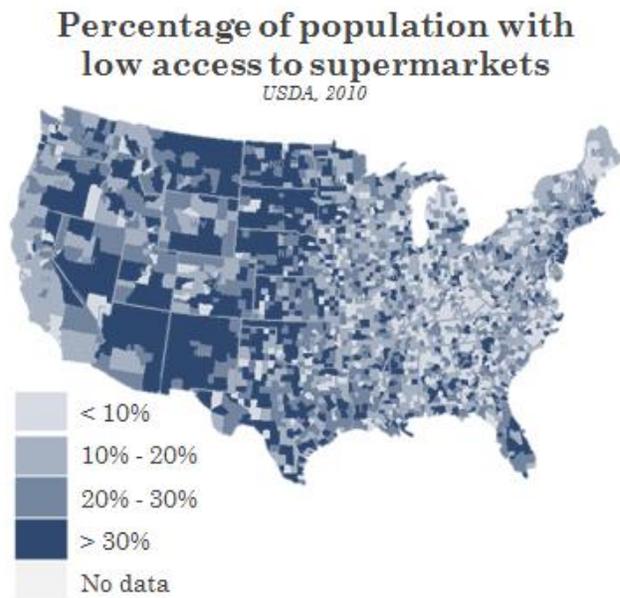
Note: IRR of 7% on \$15,000,000 LP commitment

GP Financials

	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10
Management Fee		450	450	450	450	450	450	450	450	450	450
Carry Income											1088
Total Revenue		450	1538								
Cost of Goods Sold		-	-	-	-	-	-	-	-	-	-
Total COGS		-									
Gross Profit		450	1,538								
SG&A		45	45	45	45	45	45	45	45	45	45
Personnel		400	400	400	400	400	400	400	400	400	400
Total Expense		(445)									
Operating Income		5	1,093								
Tax Expense		-	-	-	-	-	-	-	-	-	-
Net Income		5	1,093								

Note: IRR of 24% on \$150,000 GP commitment

Appendix 2 – Population Heat Maps



Appendix 3 – Value Chain Diagram

