

# SAINT PAUL PORT AUTHORITY

## MEMORANDUM

TO: BOARD OF COMMISSIONERS DATE: November 5, 2013

FROM: Laurie J. Hansen 

SUBJECT: APPROVAL OF MIF APPLICATION FOR PEARSON'S CANDY

### Action Requested:

Approval of the submission of a MIF application for a \$200,000 forgivable loan for Pearson's Candy Company.

### Public Purpose:

The loan proceeds will be utilized to relocate a production line from Bloomington to Saint Paul and will create 40 new jobs in Saint Paul.

### Business Subsidy:

A forgivable loan is considered a business subsidy for purposes of MN Statutes. A public hearing regarding this subsidy will be held at the November 26, 2013 Board Meeting.

### Background:

Pearson's Candy Company was founded in 1909 by P. Edward Pearson. In 1951, Pearson's purchased Trudeau Candy Company of Saint Paul and became a candy manufacturing business.

In August of 2011, Brynwood Partners acquired Pearson's. The central investment thesis of Brynwood's acquisition was to dramatically grow the company to leverage existing capacity/overhead. The sources of this growth would be both organic (existing brands) and acquisition-based. Brynwood has a strong reputation and track record of creating growth stories from packaged goods company/brand acquisitions. Specifically in the confections space, Brynwood has dramatically grown DeMet's Candy Company. Their success with DeMet's Candy Company is serving as a model for Pearson's.

In May of 2013, growth plans for the company took their biggest step forward with the acquisition of the Bit-O-Honey brand and manufacturing assets from Nestle USA. Bit-O-Honey, being a classic, nostalgic, quality confection distributed nationally by Nestle, was a perfect fit to compliment Pearson's existing product lines. Pearson's is now in a position to sell Bit-O-Honey where existing Pearson's brands are strong, and vice versa. All of this sales activity, built on top of Bit-O-Honey's existing volume will create significant manufacturing demand, which will require capital investment and notable job creation in order to keep pace.

**Current Status:**

The Bit-O-Honey production line is currently located in Bloomington, Indiana. The proposed project for which the MIF loan is being requested is the relocation of that production line to the Pearson's manufacturing facility in Saint Paul, Minnesota. The costs include: moving the equipment, renovating the current manufacturing facility, adding some additional equipment, and related labor costs. This move will assist Pearson's in realizing the economies of scale by bringing all of their production into one facility. The relocation of the production is necessitated by the purchase of the brand from Nestle.

Pearson's is requesting a \$200,000 MIF loan which will be forgiven if 40 jobs paying \$13.00 per hour are created by April, 2016. The company may request one extension to April, 2017 to reach compliance. Loan forgiveness in whole or part, will be based on the actual number of jobs created with full forgiveness at 40 jobs created. If compliance is not attained, the company is capable of repaying all or a portion of the MIF loan.

Financial statements for the fiscal years 2011, 2012, and 2013 have been reviewed. The net income for the year-end March 31, 2012 was distorted by the Brynwood acquisition which resulted in significant one-time expenses. Without those costs, the company would have been profitable for all three years.

**Key Ratios:**

	<u>3/26/2011</u>	<u>Year Ended</u> <u>3/31/2012</u>	<u>3/30/2013</u>
Debts/Worth	8.24	1.38	1.36
Gross Margin	42.16	40.37	37.84
EBITDA (in 000's)	4,956	1,564	4,509

These financial statements demonstrate the financial strength of Pearson's as a standalone company.

Pearson's also offers an attractive benefits package to their workforce. Benefits are valued at \$3.04 per hour, excluding vacation and holiday pay.

MIF is necessary to convince Pearson's to relocate the production line to Saint Paul and create the jobs here. As an alternative, the company could utilize a contract manufacturer or one of the other Brynwood owned confection plants to produce Bit-O-Honey on a contract basis for them. Without the inducement of MIF, these jobs may not be created in Saint Paul or anywhere in Minnesota.

**Recommendation:**

We recommend authorization to submit a MIF application on behalf of Pearson's Candy Company.