Beneficial Returns
Loans for Social Enterprises in Emerging Markets

# CREDIT MEMO: Guayaki Sustainable Rainforest Products, Inc.

**Date:** July 18, 2017

**From:** Ted Levinson

**To:** Credit Committee: (Kathy Coffey, Dick Fletcher, Jean Hazell, John Robinson, Doug Seckinger, Pascal Vinarnic, Rich Voelbel)

**Re:** $800,000 Term Loan with $300,000 Participation from RSF Social Finance

| | | |
|---|---|---|
| Borrower: | Guayaki Sustainable Rainforest Products, Inc. (Sebastopol, CA) | |
| Total BR Commitment Limit: | $500,000 | |
| Structure & Tenor: | 5 year, fully amortizing term loan | |
| Interest Rate: | 6.50% p.a. fixed, ($15,653 monthly payment on entire, $800k facility) | |
| Fees: | Origination: 1% of $800,000 ($5,000 received) – all earned by BR | |
| Repayment Source: | Primary – Cash from Operations<br>Secondary – Liquidation of Collateral | |
| Collateral: | | *Value* |
| | • Deed of Trust on Land in Brazil | $150,000 |
| | • Equipment in Brazil at Cost | $621,000 |
| | • Building in Brazil at Cost | $320,000 |
| | | |
| | TOTAL: | $1,091,000 |
| | LTV*: | 48.5% |
| Impact Score | 18 | |
| Timing: | CC Approval: July 18. Funding before October 15, 2017 | |
| | **based on Beneficial Returns' $500k commitment* | |

**Credit Committee Follow-up**

*Conditions to Approval:*

Credit Committee expressed concerns about YMCO's aggressive growth strategy which may lead to continued drain on cash and compromise Guayaki's ability to meet debt service. Credit Committee proposed a covenant that YMCO would not expand to additional cities without Beneficial Returns' consent unless Guayaki raised at least $5M of cash through equity offering.

Following a subsequent conversation with Chris Mann, CEO of Guayaki, we have agreed on a compromise: YMCO may not expand to additional cities without BR consent unless:

- Guayaki receives > $5M of cash equity
- YMCO receives > $5M of cash equity
- Guayaki receives $3M-$5M of cash equity and an increase in their line of credit of no less than $3M

It is worth noting that although YMCO is losing money, it remains ahead of projections which show breakeven results for 2019 followed by positive net income in subsequent years.

*Clarification:*

Credit Committee expressed concern over how YMCO's net loss was reflected in the income statement. For 2016 the financials reflected a $216k Net Gain Attributable to Non-Controlling Interest in YMCO while we know that YMCO lost money that year.

Laura Baker, Controller of Guayaki, explained that Guayaki owns 66% of YMCO. The full Guayaki net income and the entire net loss of YMCO was reflected in the Core Net Income figures (positive $2,328K.) The positive $261k reflects the "backing-out" of the 33% of YMCO that Guayaki does not own.

For consistency we have revised the historical and projected income statements to simply show the net loss or net income attributed to Guayaki's 66% ownership in YMCO. These changes in presentation have no impact on the Comprehensive Net Income figures or debt service coverage figures from the original memo.

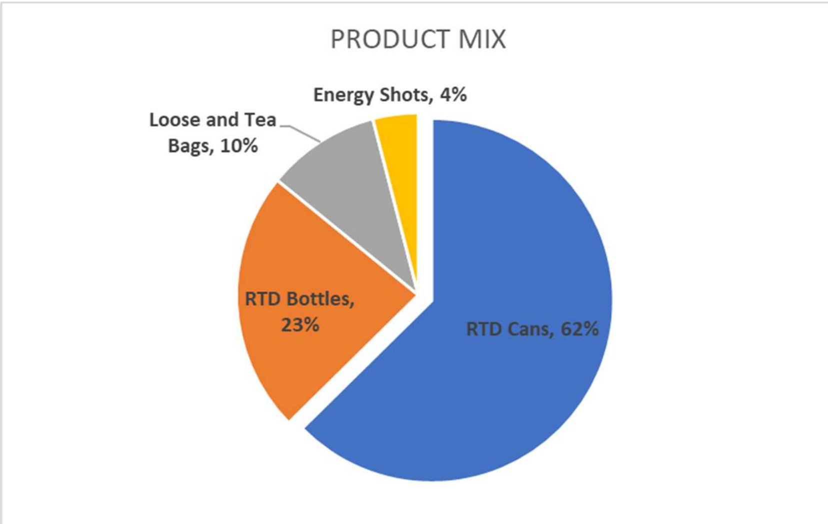
| |
|---|
| |
| *Conditions Precedent to Funding:*<br><br>Intercreditor agreement with RSF establishing that BR is in first position on Brazil collateral. |

**Summary of Request:**

Guayaki Sustainable Rainforest Products, Inc. (USA entity) is requesting an $800,000 term loan to acquire drying and processing equipment for its yerba mate operations in Brazil and reimburse the Company for its $150,000 acquisition of land in Brazil. RSF will participate at $300,000 leaving this request for $500,000.  Disbursement of loan proceeds will be to the US entity and the Borrower will, in turn, transfer the funds to its Brazilian entity (Guayaki Yerba Mate Brasil Shareholdings, Ltda) as an intercompany loan or prepaid expense. GYBSL is 99% owned by Guayaki USA and 1% owned by Guayaki founder Alex Pryor. Beneficial Returns' collateral includes real estate and commercial equipment in Brazil, but the loan will be to the US entity.

**Company History and Background**

Guayaki was started in 1996 by two college friends, Alex Pryor from Argentina and David Karr from Northern California. They were quickly joined by three other partners – Chris Mann, Steven Karr and Michael Newton. The Company has since grown into the domestic leader for yerba mate products. Today the Company has a fully-developed line of yerba mate products including traditional, loose leaf, tea bags, ready-to-drink (RTD) cans and bottles, plus yerba mate energy shots. Guayaki has experienced a 23% compound annual growth rate since 2004 and expects to generate revenues of over $60M in 2017.




The Company sells to three distinct markets: the Natural and Specialty market, such as Whole Foods, Sprouts and independent natural food stores, Conventional Grocery such as Kroger, Safeway and Fred Meyer, and the Convenience Store market such as 7-11 and Circle K. Guayaki is sold throughout the US with deep penetration in urban markets.

**Yerba Mate**

Yerba Mate is the world's third caffeinated plant behind coffee and tea. It belongs to the holly family and is endemic to South America where it grows in the wild and as a cultivated crop. First consumed by Guarani Indians, yerba mate is widely consumed as a hot beverage in Argentina, Paraguay, Uruguay and parts of Brazil. In

*Conventional Yerba Mate Plantation*

Argentina 79% of the population drinks yerba mate – a higher percentage than drink coffee or tea. Guayaki promotes yerba mate as having "the strength of coffee, the health benefits of tea and the euphoria of chocolate."

The leaves of the mate tree naturally contain 24 vitamins and minerals, 15 amino acids, caffeine and more antioxidants than green tea or red wine. The yerba mate tree naturally grows under the cover of larger trees. Over 500,000 metric tons of yerba mate are harvested annually, the vast majority from full-sun cultivation which produces a higher yield, but of lower quality.

**Guayaki Mission**

Guayaki aims to restore and preserve 200,000 acres of rainforest and create 1,000 well-paying jobs in South America by 2020.

To date the Company has 129,725 acres under indirect management, has created 600 living wage jobs supporting 420 indigenous families, and has directly contributed to the planting of 500,000 native hardwood trees. The Company's commitment to these goals permeates all of its activities and decisions. Guayaki refers to their social enterprise model as "Market-Driven-Restoration."

Tropical rainforests are the oldest and most complex land-based ecosystem on earth, containing over half of the Earth's wildlife and at least two-thirds of its plant species. Forests are also carbon sinks and water recyclers – every year storing nearly 40% of man-made $CO_2$ and storing over half of the Earth's rainwater. These tropical forests also represent some of the most threatened parts of our planet – with deforestation eliminating 10 million hectares of forest annually – an area the size of Virginia.

The destruction of the rainforest has repercussions beyond the environment – it is also home to indigenous people whose ancestral lands are threatened by deforestation.

The rainforest is being deforested for economic reasons – the single biggest reason is the conversion of forest to cropland or pasture. In Asia rainforest land is often converted into palm oil plantations while in South America the land is usually cleared to grow soy or raise cattle.

Although not as famous or as large as the Amazon, the Atlantic Rainforest has been even more decimated by deforestation with only 15% of the forest remaining – the majority in coastal Brazil with smaller portions in Paraguay and Argentina.  According to the Nature Conservancy, the Atlantic Forest harbors around 2,200 species of birds, mammals, reptiles and amphibians – 5% of the vertebrates on Earth. This includes nearly 200 bird species found nowhere else, and 60% of all of Brazil's threatened animal species call this forest home. The Atlantic Forest of Brazil is also home to around 20,000 species of plants, representing 8% of the Earth's plants. Guayaki sources its yerba mate from this area.


The Guayaki model allows local farmers, primarily indigenous tribes, to generate income from the forest by restoring and preserving this precious ecosystem.  With Guayaki as a committed buyer of rainforest-grown yerba mate, the forest becomes more valuable in its current state than as farmland.  Guayaki's suppliers earn more income by harvesting yerba mate than they would through mono-crop farming or cattle operations. Guayaki exclusively buys organic, fair trade certified yerba mate that is grown under the rainforest canopy.  Guayaki's suppliers either harvest wild yerba mate from within the rainforest, or they harvest planted yerba mate in re-forested areas that they own and manage.

This is what Guayaki refers to as "Market-Driven-Restoration."  It includes:

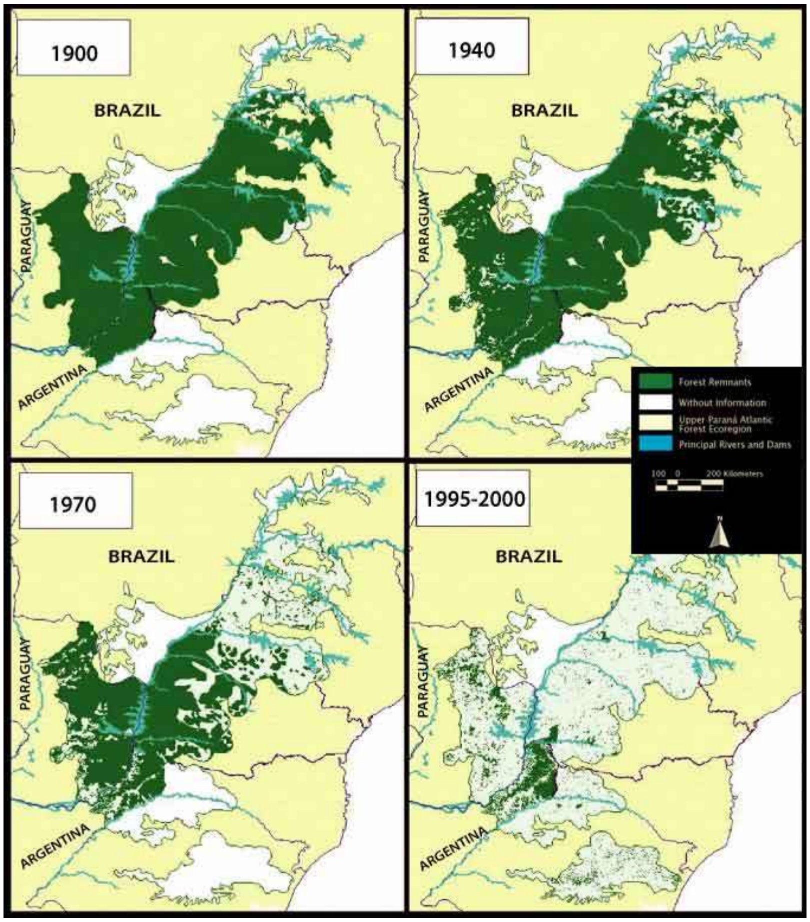
Fair Trade: Viable work and fair, living wages to indigenous populations in Brazil, Argentina and Paraguay.  Guayaki, on average, pays 125-200% of market rates directly to the farmer for its premium yerba mate.  Last year the Company spent over $4M on yerba mate.

Reforestation: Guayaki provides technical support to farmers to set up hardwood nurseries that, in turn, protect the yerba mate plants.

Carbon Negative Product: The restored rainforest where the yerba mate is cultivated absorbs more CO2 than Guayaki's operations emit – making Guayaki a carbon-subtracting product.

Guayaki's work in Paraguay exemplifies the power of using market forces to protect natural resources while providing an ethical and sustainable livelihood to the people who live there.

Guayaki works directly with the Ache Guayaki people in a revolutionary project – one of the first indigenously run, sustainable preserves. This project is an inspiration for other indigenous communities as they see the Ache Guayaki flourish.




The Kue Tuvy Preserve borders the 150,000 acre Mbaracayu Biosphere Preserve in Paraguay and sustains 35 indigenous families who are protecting 12,500 acres of Interior Atlantic Forest. The Ache Guayaki are the last hunters and gatherers remaining in the Atlantic Forest. In June of 2009, the Aché harvested their first yerba mate crop which was purchased by Guayaki. Guayaki has continued to buy all of their annual output at fair trade prices

The four images to the left show the steady reduction in the size of the Atlantic Rainforest over the past century.

**<u>Project Background</u>**

Since its founding in 1996, Guayaki has maintained a staff in South America, but it has never had a formal corporate presence there until now. Earlier this year it incorporated Guayaki Yerba Mate Brasil Shareholdings, Ltda. (GYMBS) in Brazil.

In April, 2017 Guayaki acquired a 60 acre plot of agricultural land for $150,000 in the Brazilian state of Parana. Guayaki intends to build a yerba mate processing and drying facility on the land to replace its current, third-party drying and processing arrangements.

From harvesting to loose tea, yerba mate undergoes a two-step drying process followed by cutting, aging and milling. Creating yerba mate extract (which it uses in the production of its RTD products) requires an additional step. Until now, Guayaki has relied on its suppliers or third party processors to dry and cut the yerba mate. This arrangement has led to inconsistent quality, variations in caffeine content, and logistical challenges. Occasionally, crops have failed to meet Guayaki's quality standards because of faulty processing. Many Guayaki suppliers are small operators who lack the infrastructure to properly process the harvest to Guayaki's specifications. Guayaki has lent a total of $200,000 to its largest supplier so they could invest in processing equipment. This loan has been entirely repaid and this supplier has no additional capacity. Rather than lending more funds to this cooperative to further expand its processing capacity, Guayaki has elected to build its own facility.

By building its own factory in Brazil, Guayaki expects to improve the consistency and quality of its product. It will dry, age and mill yerba mate at this facility with an initial production staff of four plus one manager. The head of Quality Control has already been hired and Second and third shifts will be added as needed. As Guayaki's sales grow the factory's processing capacity will also ensure uninterrupted access to yerba mate. This project is not expected to materially increase gross margins.

**Ownership**

Guayaki has sixty shareholders. After the founders, the largest shareholders are the Swift Family (personally and via their foundation) and White Road Investments, the investment arm of Clif Bar. Barred Rock, an investment vehicle of Chuck Lacy, former President of Ben & Jerry's, owns less than half of one percent. A summary of the cap table is below:

| | |
|---|---|
| Five Founders | 37% |
| Various Swift | 12% |
| White Road/Clif Bar | 3.50% |
| Remaining 40+ shareholders | 47.5% |

**Industry/Competition**

Guayaki operates at the intersection of three fast-growing markets: organic beverages, tea and energy drinks. The tea market has grown more than 600% since 1990 to $12B annually with the greatest growth coming in the Specialty segment (9x growth) and the Ready-to-Drink segment (29x growth.) Today the RTD segment represents nearly half of the domestic tea market and 85% of Guayaki's sales.

Recent SPINS data shows Guayaki growing across all of its major markets with double-digit overall growth in the past 52 weeks and triple-digit growth (120%) in the convenience channel.

| | Natural Channel -RTD Tea | Convenience -RTD Tea | Grocery-RTD Tea |
|---|---|---|---|
| 1 | Guayaki | Red Bull | Lipton Pure Lead |
| 2 | Honest Tea | Monster Energy | Tradewinds |
| 3 | Tazo Tea | Starbucks Coffee | Honest Tea |
| 4 | Steaz | Lipton Pure Leaf | Guayaki |
| 5 | Sweet Leaf | Lipton Pure Leaf | Fuze |
| 6 | | Guayaki | |

Guayaki's current sales are split evenly between these three segments, but the room for growth is heavily skewed towards the convenience market segment. Guayaki's $15M in convenience store sales is dwarfed by Lipton ($630M in sales), Monster Energy ($2.8B) and Red Bull ($3.4B.) Guayaki products are currently for sale in only 3% of all domestic convenience stores, leaving plenty of room for growth.

**Site Visit**

Ted first worked with Guayaki in early 2009 soon after he joined RSF Social Finance. He worked with the Company for seven years and frequently visited their headquarters in Sebastopol, CA. Guayaki remains an RSF borrower today. Ted has not visited Brazil.

Additionally, it is worth noting that Beneficial Returns investor, Swift Foundation, was one of the first investors in Guayaki and remains an investor and subordinated lender ($1,750,000) to the Company.

**Mission Description and Beneficial Returns Alignment**

The Borrower scores an **18** on the Impact Assessment Tool (see attachment to email for template):

*Once a farmer agrees to partner with us, we provide technical advice on how to create nurseries, help them manage the organic growing process from cultivation through harvest and then buy what they produce. The farmers, in turn, must repopulate their rain forest with the native hardwood trees -- which restores the land to its original shaded, biodiverse state -- and provides a living wage and fair working conditions.*

| | Below Average | Average | Best in Class |
|---|---|---|---|
| **SCALE** 70% of the world's poor work in agriculture. Ag is responsible for a majority of our fresh water consumption, 14% of global greenhouse gas emissions and ¼ of global energy consumption. Borrower provides fair wages<br><br>Tropical forests used to cover 14% of the planet and now cover only 7% of all land. Preserving and restoring our rainforests has deep impact on our planet's health.<br><br>Guayaki's actual impact (about 400 jobs and 150,000 acres) is small compared to the problems. | | ✓ | |
| **SYSTEMIC CHANGE**. Hasn't changed legislation or public perception. Educates the public about rainforest preservation and restoration. Serves as a model for other social enterprises. | | ✓ | |
| **SUSTAINABILITY** Guayaki operates a profitable business without philanthropic subsidy. It relies | | | ✓ |

| | | | |
|---|---|---|---|
| entirely on market-based solutions to improve the environment and reduce poverty. | | | |
| **STAKEHOLDER ENGAGEMENT** Through the fair trade framework Guayaki gives poor farmers a voice and engages consumers about the origin and implications of their buying decisions. | | ✓ | |
| **RIGOR** Interrupcion adheres to rigorous standards that are reviewed by independent third party certification entities. | | | ✓ |
| **EFFICIENCY** Annually spends $4M (and growing) on yerba mate. | | | ✓ |
| **INTENTION** Mission is central to the Company and influences all decision making. | | | ✓ |

**<u>Conflict of Interest</u>**

None. The credit is being considered on its own merits.

**<u>YMCO and Equity Raise</u>**

Guayaki's financial performance has been strong and improving and consistent net income has been sufficient to finance the 20% annual topline growth. Nonetheless, Guayaki is about to launch an equity raise which is closely linked to a related company called YMCO.

Historically, Guayaki has delivered its products to retailers through two third-party channels. Grocery stores are serviced by firms such as UNFI and KeHE while convenience stores are served by Direct Store Delivery (DSD) companies. DSD companies not only deliver product directly to stores, they also load the shelves and coolers and market the product. This is how bread and milk is always delivered.

In 2016 Guayaki created its own DSD company called The Yerba Mate Co., LLC. (YMCO) The business is 2/3 owned by Guayaki, ¼ owned by Brian Rich, the CEO, and 8% owned by Patrick Lee. YMCO was formed to exclusively distribute Guayaki products in markets that are new for Guayaki or being poorly served by existing DSD companies. The Company aspires to distribute entirely with a fossil fuel-free fleet. The thesis is that the Guayaki brand can grow substantially faster within these markets when the product is being delivered by salespeople who are only focused on promoting the one brand.

YMCO has been financed with a 5.50% line of credit from Guayaki. YMCO receives standard distributor pricing and terms on the Guayaki product it buys. To date, YMCO has borrowed

$3.1M from Guayaki. Through Q1 the funds have been used to fund operations in the East Bay, Central Valley, Austin, Savannah, Asheville, Silicon Valley and Denver/Boulder/Ft. Collins. For each new market, YMCO hires, leases vehicles and secures warehouse space.

For 2017 Guayaki intends to open 28 new markets, although the definition of a market is fairly modest. Twenty-two of these markets are in the Los Angeles/Riverside area – which means 22 Chevy Bolts, 22 salespeople/drivers and a warehouse.

YMCO is performing to budget, but losing a lot of money. YMCO had a loss of $847,000 in 2016 and $405,000 in the first quarter of 2017. YMCO expects to lose $3.5M in 2017 as it ramps up its sales. Because Guayaki is highly profitable on an operating basis and because YMCO performance has, thus far, demonstrated that it can substantially increase sales, Guayaki intends to continue to support YMCO's operations with a line of up to at least $4M. YMCO is expected to break even in 2019 – primarily on the expected performance in the LA market.

| *in '000s* | | **2016** | | **Q1 2017** |
|---|---|---|---|---|
| **Income** | $ | 657 | $ | 577 |
| **COGS** | $ | (231) | $ | (208) |
| **Gross Profit** | $ | 426 | $ | 369 |
| **Salaries** | $ | 718 | $ | 445 |
| **Rent** | $ | 113 | $ | 83 |
| **Other Expenses** | $ | 411 | $ | 216 |
| **Net Operating Income** | **$** | **(816)** | **$** | **(375)** |
| **Interest Expense** | $ | 19 | $ | 27 |
| **Other Expenses** | $ | 11 | $ | 3 |
| **Net Income (Loss)** | **$** | **(846)** | **$** | **(405)** |

In order to continue to grow YMCO and Guayaki, itself, and to provide liquidity to some of its investors, Guayaki is poised to announce a $10M raise. $1.5M will be used to finance the growth of Guayaki including additional hires, sales and marketing spend and new product development. $3.5M will be used to expand distribution through YMCO. Any additional funds raised (up to $10M) will be used to redeem shares outstanding. Guayaki is selling shares at $75 ($170M valuation) and redeeming them at $65/share. The Company is putting the finishing touches on its Offering Memorandum (I have reviewed it) and already has commitments of $2M from three existing investors and one of their ingredient suppliers.

**Country Analysis**

Brazil ranked #123rd (out of 190 countries) for ease of doing business but scored much higher (#37) for enforcement of contracts. The Political Risks Services Group rated Brazil slightly below the global average in its Political Risk Index, on par with Vietnam, the Philippines and Bolivia.

In the past five years the Brazilian Real has ranged in value from 25 cents to 50 cents and is currently 31 cents. Fluctuations in currency will impact the value of our collateral. It will also influence the price of Guayaki's primary ingredient, although they could increase purchases from Paraguay and Argentina.

Guayaki executes annual contracts with its suppliers in US Dollars which allow for adjustments (up or down) if there are big swings in commodity prices or currency. Because Guayaki is already paying a 1.5X premium for its yerba mate it has few supply issues and is somewhat insulated from a rising Real.

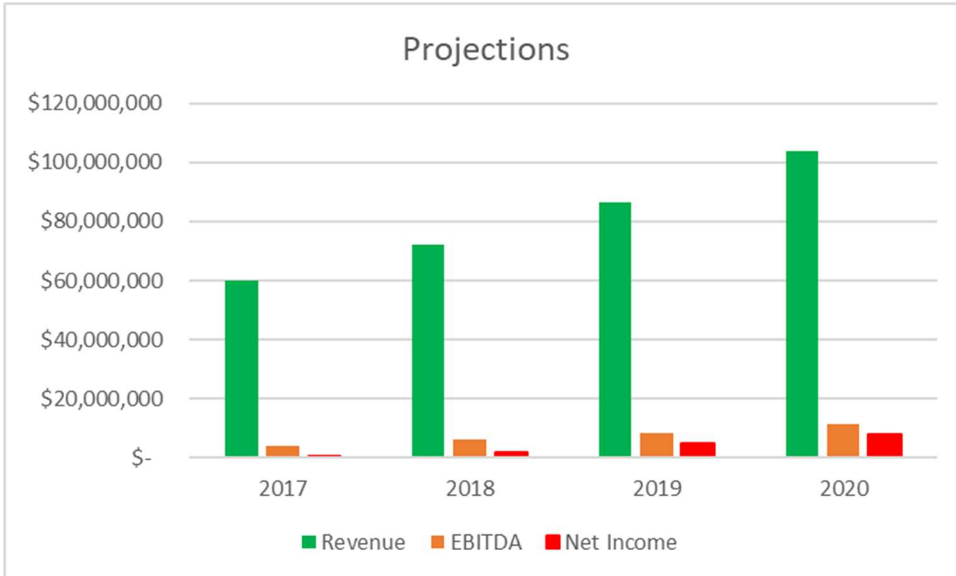

Brazilian Real to USD

## Financial Analysis

*Income Statement & Analysis*

| **Guayaki** | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *in '000s* | **12/31/2014** reviewed | | **12/31/2015** reviewed | | **12/31/2016** reviewed | | **3/31/2017** internal | **12/31/2017** projected | | **12/31/2018** projected | | **12/31/2019** projected |
| Sales | $ 27,006 | *100%* | $ 38,352 | *142%* | $ 48,571 | *127%* | $ 12,222 | $ 67,595 | *139%* | $ 80,752 | *119%* | |
| Returns and Allowances | $ (3,460) | *13%* | $ (5,912) | *15%* | $ (6,543) | *13%* | $ (1,489) | $ (7,511) | *11%* | $ 8,652 | *11%* | |
| Net Sales | $ 23,546 | *100%* | $ 32,440 | *138%* | $ 42,028 | *130%* | $ 10,733 | $ 60,084 | *143%* | $ 72,100 | *120%* | $ 86,520 |
| Cost of Goods Sold | $ 13,335 | *57%* | $ 18,972 | *58%* | $ 22,877 | *54%* | $ 5,500 | $ 32,837 | *55%* | $ 39,122 | *54%* | $ 46,630 |
| Gross Margin | $ 10,211 | *43%* | $ 13,468 | *42%* | $ 19,151 | *46%* | $ 5,233 | $ 27,247 | *45%* | $ 32,978 | *66%* | $ 39,890 |
| Selling & Admin Expenses | $ 8,610 | *37%* | $ 10,532 | *32%* | $ 14,335 | *34%* | $ 4,309 | $ 23,525 | *39%* | $ 27,241 | *38%* | $ 31,964 |
| Income from Operations | $ 1,601 | *7%* | $ 2,936 | *9%* | $ 4,816 | *11%* | $ 924 | $ 3,722 | *6%* | $ 5,737 | *8%* | $ 7,926 |
| | | | | | | | | | | | | |
| Interest Income | $ 1 | *0%* | $ 2 | *0%* | $ 28 | *0%* | $ 3 | $ - | *0%* | | | |
| Interest Expense | $ (200) | *1%* | $ (207) | *1%* | $ (308) | *1%* | $ (79) | $ (400) | *1%* | $ (480) | *-1%* | $ (552) |
| Provision for Income Taxes | $ 343 | *-1%* | $ 1,234 | *-4%* | $ 1,392 | *-3%* | $ 101 | $ 334 | *-1%* | $ 1,033 | *3%* | $ 2,507 |
| Core Net Income | $ 1,745 | *7%* | $ 1,497 | *5%* | $ 3,144 | *7%* | $ 747 | $ 2,988 | *5%* | $ 4,224 | *13%* | $ 4,867 |
| Adjustment | $ (14) | *0%* | $ (3) | *0%* | $ 3 | *0%* | $ - | | *0%* | $ - | *0%* | $ - |
| Net Income (loss) from ownership in YMCO | | | | | $ (558) | | $ (135) | $ (2,340) | | $ (2,220) | *0%* | $ - |
| Comprehensive Net Income | $ 1,731 | *7%* | $ 1,494 | *5%* | $ 2,589 | *6%* | $ 612 | $ 648 | *1%* | $ 2,004 | *3%* | $ 4,867 |

- Guayaki's sales have consistently grown YoY with discounts holding steady (Returns and Allowances) and stable gross margins.
- Gross margins are healthy and SG&A is reasonable
- Company has had five consecutive years of positive net income.
- YMCO (discussed above) continues to lose money but is tracking to plan.
- Guayaki is projecting continued revenue growth with increasing EBITDA and net income. The Company has a strong track record of accurate projections.


Projections
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$-
2017
2018
2019
2020
Revenue
EBITDA
Net Income

*Balance Sheet & Analysis*

| **Guayaki** | | | | |
|---|---|---|---|---|
| *in '000s* | **12/31/2014** | **12/31/2015** | **12/31/2016** | **12/31/2017** |
| | reviewed | reviewed | reviewed | projected |
| Cash | $ 332 | $ 1,864 | $ 1,656 | $ 1,181 |
| Accounts Receivable | $ 1,412 | $ 1,873 | $ 2,568 | $ 3,068 |
| Inventory | $ 3,910 | $ 5,808 | $ 8,917 | $ 10,409 |
| Prepaid Expenses | $ 82 | $ 196 | $ 891 | $ 993 |
| Other Current Assets | $ 212 | $ 247 | $ 910 | $ 1,038 |
| TOTAL CURRENT ASSETS | $ 5,948 | $ 9,988 | $ 14,942 | $ 16,689 |
| | | | | |
| Machinery & Equipment | $ 506 | $ 314 | $ 1,112 | $ 1,184 |
| Leashold Improvements | $ 429 | $ 638 | $ 792 | $ 807 |
| Vehicles | $ 235 | $ 626 | $ 345 | $ 292 |
| Land | $ - | $ - | $ 2 | $ 152 |
| Less Accum. Depreciation | $ (764) | $ (864) | $ (1,094) | $ (1,151) |
| Other LT Assets | $ 1,286 | $ 401 | $ 215 | $ 207 |
| TOTAL LONG TERM ASSETS | $ 1,692 | $ 1,115 | $ 1,372 | $ 1,491 |
| TOTAL ASSETS | $ 7,640 | $ 11,103 | $ 16,314 | $ 18,180 |
| | | | | |
| Accounts Payable | $ 991 | $ 1,180 | $ 1,824 | $ 3,053 |
| Accrued Expenses | $ 345 | $ 328 | $ 576 | $ 469 |
| Note Payable | $ 1,550 | | | |
| Current Maturities LTD | $ 15 | $ 45 | $ 53 | $ 34 |
| Other Current Liabilities | $ 103 | $ 486 | $ 64 | $ 18 |
| TOTAL CURRENT LIABILITIES | $ 3,004 | $ 2,039 | $ 2,517 | $ 3,574 |
| | | | | |
| Deferred Income Tax Liab | | $ - | $ 169 | $ 169 |
| Line of Credit, Stockholder | $ 1,250 | $ 1,750 | $ 1,750 | $ 1,750 |
| LTD less current maturities | $ 28 | $ 2,425 | $ 3,891 | $ 3,920 |
| TOTAL LONG TERM LIABILITIES | $ 1,278 | $ 4,175 | $ 5,810 | $ 5,839 |
| TOTAL LIABILITIES | $ 4,282 | $ 6,214 | $ 8,327 | $ 9,413 |
| | | | | |
| Preferred Stock | $ 7,556 | $ 7,556 | $ 7,556 | $ 7,556 |
| Common Stock | $ 276 | $ 277 | $ 319 | $ 319 |
| Retained Earnings | $ (4,415) | $ (2,880) | $ 439 | $ 1,352 |
| Adjustments | $ (59) | $ (64) | $ (327) | $ (461) |
| TOTAL STOCKHOLDERS' EQUITY | $ 3,358 | $ 4,889 | $ 7,987 | $ 8,766 |

- Company has solid cash position and over $6M of working capital
- A/R remains clean with under 2% over 90 days. Guayaki's largest customer, UNFI, represents 30% of sales – a decline from in the past. Morris Distributing, #2 customer is at 8%.

- Inventory is composed primarily of finished goods cans and bottles with an 18 month shelf life. Inventory days continues to creep up – now at 140.

- Other current assets include notes due from shareholders.
- Guayaki uses third party co-packers and therefore, does not own much equipment. Growth in fixed assets has been primarily vehicles for YMCO distribution business.

| | 12/31/2015 | 12/31/2016 | 3/31/2017 |
|---|---|---|---|
| **working capital** | $ 7,949,000 | $ 12,425,000 | $ 13,115,000 |
| **quick ratio** | 4.90x | 5.94x | 4.67x |
| **leverage** | 1.27x | 1.04x | 1.07x |

- Existing long term debt is composed of a $5M line of credit from RSF @ 5.25%. Matures February, 2018 and should easily be re-approved (Guayaki has been an RSF client for 9 years.)
- Other long term debt incudes various vehicle loans and a $1,750,000, subordinated line of credit from Swift Foundation at 6%. This line matures December 2019 and is also expected to be extended.

*Debt Service Capacity:*

| | 12/31/2015 *reviewed* | 12/31/2016 *reviewed* | 3/31/2017 *internal* | 12/31/2017 *projected** | 12/31/2018 *projected* | 12/31/2019 *projected* |
|---|---|---|---|---|---|---|
| *Net Income with YMCO* | $ 1,494 | $ 2,328 | $ 612 | $ 349 | $ 2,005 | $ 4,867 |
| *+ Depreciation* | $ 148 | $ 293 | $ 75 | $ 398 | $ 388 | $ 504 |
| *+ Net Interest Expense* | $ 205 | $ 280 | $ 76 | $ 400 | $ 480 | $ 552 |
| *+ Taxes* | $ 1,234 | $ 1,392 | $ 101 | $ 334 | $ 1,033 | $ 2,507 |
| ***EBIDTA*** | **$ 3,081** | **$ 4,293** | **$ 864** | **$ 1,481** | **$ 3,906** | **$ 8,430** |
| | | | | | | |
| ***Debt Service*** | | | | | | |
| *$800k BR Loan* | $ - | $ - | $ - | $ 47 | $ 188 | $ 188 |
| *Other Interest* | $ 205 | $ 280 | $ 76 | $ 400 | $ 480 | $ 552 |
| *Other CPLTD* | $ 15 | $ 45 | $ 53 | $ 60 | $ 60 | $ 60 |
| *Total Debt Service* | $ 220 | $ 325 | $ 129 | $ 507 | $ 728 | $ 800 |
| *Net Cash Flow* | $ 2,861 | $ 3,968 | $ 735 | $ 974 | $ 3,178 | $ 7,630 |
| ***Debt Service Coverage*** | 13.00 | 12.21 | 5.70 | 1.92 | 4.37 | 9.54 |

- The 2017 figures above assume that Guayaki spends an additional $300,000 on their Brazilian building to obtain LEED Certification.
- Company shows more than adequate cash flow to service proposed debt.

## Collateral

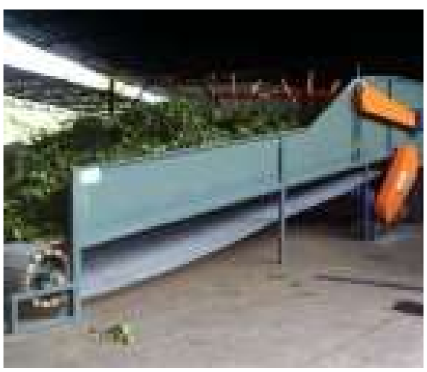
The law firm of Demarest in Sao Paolo has been retained to secure the real estate and equipment in Brazil.  Demarest is the Brazilian representative of Lex Mundi, the largest global network of law firms. Lex Mundi firms offer *"low bono"* services to many social enterprises and impact investors including Acumen, Ashoka, MCE Social Capital and Grassroots Business Fund.

As with the first loan (Interrupcion), this loan will be to a US Company but secured with collateral located overseas (Brazil in this case.)

| | | |
|---|---|---|
| Land | 60 acres, agricultural | $150,000 |
| Building | metal-sided factory and warehouse* | $320,000* |
| Equipment | New production equipment | $621,000 |
| **Total** | | **$1,091,000** |

The land was recently purchased for $150,000 cash in April and Beneficial Returns will obtain a deed of trust on the property.

The building is budgeted to be a simple, but functional metal-sided, 21,000 square foot facility. Guayaki is seriously contemplating a far more costly, LEED-certified building and will make a final decision soon.  For collateral value calculations we have assumed that they stick with the metal-sided warehouse but our debt service coverage calculations assume that they use cash on hand for the additional $300,000 that a LEED-certified building would cost.



All of the equipment will be new and most will be provided by Madec Maquinas, a Brazilian equipment manufacturer with experience in the yerba mate processing business.  The two main drying machines cost $430,000 and $77,000.

Although RSF Social Finance will be a $300,000 participant in this $800,000 loan, they are participating on an unsecured basis.  They are comfortable with this arrangement because they are the senior lender to Guayaki in the US and are secured by a blanket lien on all of the Company's assets including accounts receivable and inventory.

Consequently, Beneficial Returns will be the senior lienholder on the collateral described above.  Based on purchase price, and assuming that Guayaki spends only $320,000 to construct their building, the loan to value will be 48.5%.

We acknowledge that the equipment is specialized and difficult to move.  The factory will be located in a rural part of Brazil and the land and building may also be difficult to sell in the case of liquidation.  The collateral should be viewed as a distant, tertiary source of repayment after the strong cash flows from Guayaki's US operations and its ability to raise additional equity or debt.

**Key Risks & Mitigating Factors:**

*YMCO is losing money: YMCO, Guayaki's two year old direct distribution business, is losing money and projects to continue to do so for through 2018. It is not expected to be profitable until 2019.*

- Guayaki is raising up to $10M of which $3.5M will go to supporting and expanding YMCO. The Company can curtail its growth into new markets if its fundraising is unsuccessful or if the losses exceed their projections. Guayaki is expecting to remain solidly profitable (4%-5.6% net income margin) even with the expected YMCO losses.
- Guayaki's line of credit has a 1.1;1 DSCR covenant. Guayaki will be in default of its RSF loan (and BR's loan, as well) if it lets its debt service fall below 1.1:1.

*Crop Risk: Weather or disease could reduce yerba mate yields. Yerba mate only grows in a particular geography and trees take 6 years to reach maturity.*

- Guayaki sources yerba mate from Argentina, Paraguay and Brazil. The Company keeps four months of inventory on hand. Wild mate, which represents about 40% of their supply, is harvested year round.

*Execution Risk/Country Risk: Guayaki has never operated its own yerba mate processing facility or built a factory.*

- The Company can service the BR debt regardless of whether the factory is operational.

*The Company may not be successful in its equity raise:*

- The equity raise is not a necessity. The Company can continue to operate, and even grow without a capital infusion. With $2M already committed the equity raise looks promising.

***Recommendation based on:***

- Twenty year old business with positive EBITDA and net income for the past five years
- Significant enterprise value ($170M based on current equity raise)
- Adequate collateral
- Strong mission fit

**Documentation**

- Equipment Financing Agreement (Guayaki USA)
- Pledge *(Penhor*) on processing equipment
- Mortgage deed on Parana property and building

**Recommendation**

*Approval of an $800,000 Term Loan with $300,000 participation from RSF Social Finance to Guayaki Sustainable Rainforest Products, Inc. by Beneficial Returns, LLC on terms and conditions substantially as presented herein and outlined in the Term Sheet attached*.

**Recommended By:**

| | |
|---|---|
| Ted Levinson<br>Founder/CEO | Date |

**Approved by Following**

**Decision Team:**

| | |
|---|---|
| Signature | Date |
| Signature | Date |
| Signature | Date |
| Signature | Date |
| Signature | Date |
| Signature | Date |

**Exhibit A: Summary of Terms and Conditions (for approval consideration only)**

Beneficial Returns
Loans for Social Enterprises in Emerging Markets

## Summary of Discussion Terms and Conditions

June 5, 2017

The following summary of terms is provided for discussion purposes only and does not constitute a commitment to lend or an agreement to issue a commitment on these or any other terms or to arrange any financing and shall not create a binding or legally enforceable obligation on any Lender or any other party in any way. The terms contained herein are not all-inclusive. Additions and changes may be made, as the Lender and its respective counsel deem necessary, prudent or desirable. No agreement, oral or otherwise, that may be reached during negotiations shall be binding unless reduced to writing and signed by the Lenders and the Borrower.

| | |
|---|---|
| **Borrower:** | Guayaki Sustainable Rainforest Products, Inc. dba Guayaki<br>6782 Sebastopol Avenue, Suite 100<br>Sebastopol, CA 95472 |
| **Lead Lender and Collateral Agent:** | Beneficial Returns LLC |
| **Participating Lender** | RSF Social Finance (collectively with the Lead Lender, the "Lenders") |
| **Loan Amount and Type:** | $800,000 Term Loan of which $300,000 to be funded by RSF. |
| **Purpose:** | Construct and outfit mate drying and processing facility in Brazil (the "Project") |
| **Availability:** | Loan will be available to fund Project expenses as they are incurred immediately upon satisfaction of all conditions precedent as outlined in this term sheet and the legal documents to be executed and no later than October 31, 2017 |
| **Interest Rate:** | 6.50% per annum, fixed |
| **Term:** | 60 monthly payments of principal and interest |
| **Amortization:** | 60 months |
| **Collateral:** | First Priority Deed of Trust on land in Parana, Brazil<br>First Priority Deed of Trust on buildings and improvements to real estate<br>First Priority Pledge of all drying and processing equipment acquired<br><br>Cost of the Project must exceed $1,000,000 |
| **Loan Fee:** | 1.0% of Loan Amount, a one-time flat fee, will be due and payable at closing. |
| **Deposit:** | A "Good Faith Deposit" of $5,000 is required to be paid to the Lead Lender with this signed term sheet. Except as otherwise provided, the deposit will be applied to the closing costs of the Lenders. If the terms of this Term Sheet are not met the deposit will be promptly refunded less any out-of-pocket expenses already incurred. If the terms of |

| | |
|---|---|
| | this Term Sheet are met and the Borrower elects not to finance with Beneficial Returns the unused portion of the deposit will be retained as earned income. |
| **Additional Costs:** | All out-of-pocket costs incurred by the Lenders including travel expenses, legal costs; escrow, recording, UCC search and filing fees; and title insurance are payable by the Borrower without regard to whether the transaction is closed. Costs not to exceed $7,000. |
| **Late Fees:** | $50 Fee charged on late payments received after payment due date. |
| **Default Rate:** | In any Event of Default, the outstanding balance will bear interest at 5.00% above the applicable Interest Rate. Default includes but is not limited to any failure to make a payment when due. |
| **Prepayment:** | The loan may be prepaid in part or whole at any time. The payoff amount is calculated as the present value of the amount of future payments which will not be received as a consequence of such prepayment discounted at 5%. |
| **Financial & Impact Reporting** | 1. Quarterly management prepared financial statements due within 60 days of quarter end.<br>2. reviewed financial statements due within 150 days of year end.<br>3. Impact report due January 1 annually |
| **Representations and warranties** | Usual and customary |
| **Covenants:** | Usual and customary, and including but not limited to punctual payment, limitation on liens, preservation of collateral, maintenance of accounting records, and financial reporting. |
| **Financial Covenants:** | Debt Service Coverage Ratio of 1.2:1 measured annually. DSCR calculated as EBITDA divided by total debt service. |
| **Events of Default:** | Usual and customary, including but not limited to non-payment, breach of covenant or agreement, misrepresentation, inaccurate or false representations and warranties, fraud, insolvency, bankruptcy, change of control, material adverse change, and cross defaults with other creditors. |
| **Documentation:** | Documentation to be executed in form and substance satisfactory to Lenders which shall include, inter-alia, Loan Agreement, a Promissory Note, Mortgage or Deed of Trust, Guaranty of Brazilian entity and delivery of various documents reflecting Borrower's status and authority as shall be listed on a "closing documentation" list to be provided by Beneficial Returns |

Beneficial Returns
Loans for Social Enterprises in Emerging Markets

| | |
|---|---|
| **Conditions Precedent to Funding:** | Normal and customary for loans of this type<br>Execution of all documentation provided by Beneficial Returns and approved by each of the Lenders<br>Consent of RSF Social Finance as senior lender for Borrower to assume additional debt<br>No adverse changes in the financial condition of Borrower |
| **Approval:** | **Terms and Conditions of this financing are subject to final approval by Beneficial Returns' Credit Committee.** |

Guayaki Sustainable Rainforest Products, Inc. dba Guayaki

By: ____________
Name: CHRIS MANN
Title: CEO

Date: 6/19/17

Lead Lender:
Beneficial Returns LLC

By: ____________
Name:
Title:

Date:

(415) 994-6668 180 Ninth Avenue, San Francisco CA, 94118 www.beneficialreturns.com