



We're on a mission.





INTRODUCTION

A Message From Our Founder

A Thriving Inclusive Economy Benefits the Overall U.S. Economy

In the 25+ years of my own entrepreneurial journey, including founding seven companies, raising over \$145 million, and operating in five recessions, I have seen firsthand just about every challenge that small businesses have to endure.

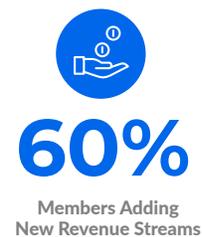
But there is one constant operating challenge for diverse founders, and that is that **economic downturns have a more devastating impact on their businesses.**

There are three reasons for this:

1. **Limited customer-base or transactional revenue** that is negatively impacted when the economy slows down.
2. **Lack of reserve capital** to overcome revenue shortfalls during economic downturns.
3. **Lack of access to resources and partner connections** to help them adapt their business models in a changing economic environment.

I started Founders First as a national economic justice platform in 2015 to help diverse founder-led companies overcome these three obstacles so that they can thrive in almost any environment and become lucrative businesses for their owners, employees, communities, and investors.

Our member businesses have stepped up to the challenge — and then some. I'm delighted to share their achievements throughout this report, but here a few highlights they have accomplished in aggregate:



These results and performance of spotlighted companies you will read in these pages showcase what the Founders First team knows for sure: **Building an inclusive economy is not just good for diverse founders, it's great for the U.S. economy.** And for our funding partners and investors, you can do good and do well. These tenants are central to our mission.

I hope you enjoy learning more about the impact that Founders First and the companies we work with are creating.

Sincerely,

Kim T. Folsom
Founder, Chairperson & CEO

SECTION 1

Who is Founders First?

Founders First operates through two distinct entities: **Founders First Community Development Corporation (CDC)**, a small business growth accelerator which operates as non-profit 501(c)(3) corporation, and **Founders First Capital Partners**, a source of direct revenue-based funding and advisory services to diverse and minority-led businesses located outside of major capital markets.

While separate, both entities support one another. Founders First CDC fills the knowledge gap, offering the business training that diverse founders often need before they can adequately receive and deploy funding. Founders First Capital Partners fills the investment gap, offering funding these same founders typically can't get elsewhere, as well as continued support to help them succeed.

Founders First Mission

Our mission is to solve racial and social economic equity gaps by training, funding, and growing small businesses owned and operated by diverse founders.

At Founders First, our vision for the future is nothing less than an inclusive economy where diverse-led businesses thrive just as much as majority firms.

Founders First Background

Founders First was founded in 2015 to address a pervasive problem that still exists in our economy. Diverse and minority-led businesses are not growing as fast as other businesses, yet they comprise an increasing share of all US firms.

Diverse owners start businesses at five times the rate of majority-led firms, and diverse teams outperform those run by a single race or gender by 32%. Yet, since 2002, these

firms were allocated less than 2% of investment capital, their revenue has remained largely flat and they have only been able to hire at a collective growth rate of 1%. Our mission at Founders First is to fix this incredible disparity.

There are many reasons that diverse-led businesses don't flourish the way they should, but chief among them is the lack of access to capital, training, and business connections needed to accelerate growth. Part of the problem with our business culture, fostered by venture capitalists in Silicon Valley and Manhattan, is the idea that the bulk of capital investment should swing for the fences in an attempt to find the next Apple, Amazon, or Google. While it's true that these businesses became global market leaders, they are as rare as the proverbial unicorn, and far riskier investments.

Rather than chasing unicorns, we maintain there are great investment opportunities among regional niche market leading companies. This has led us to adopt new animal avatars for growing diverse businesses — our “workhorse companies,” the Clydesdales, with \$500k to \$5M in revenue and our “for profit, with a cause” companies, the Zebras, with \$5M to \$100M in annual revenues. With their growing, steady, recurring revenue, these types of companies provide great investments that are far less speculative.

Founders First Impact Goals

As shown in the graphic, we have aggressive goals for both our investments and our growth acceleration programs.

Our target is to fund 1,000 companies and matriculate 5,000 program graduates by the year 2030.

The statistics and stories in this report illustrate our cumulative progress toward these goals through Q1 2022, and the impact that Founders First has for our founders and their companies.

Impact Goals

Founders First Capital Partners 2030 GOAL:

1,000

1,000 companies funded an average of \$250k

\$250k

TODAY:

22 investments by FFCP

\$30M Change Catalyst Fund
(\$5M subscriptions to date)

\$100M lending capital agreement with CIM

Founders First CDC 2030 GOAL:

5,000

5,000 program graduates, 10 regions

10

TODAY:

500+ graduates since 2015

Total member company revenue \$197M,
average growth in revenue 80% YOY

3 accelerator programs in 5 regions of focus, needs-
matching program to expand regions

SECTION 2

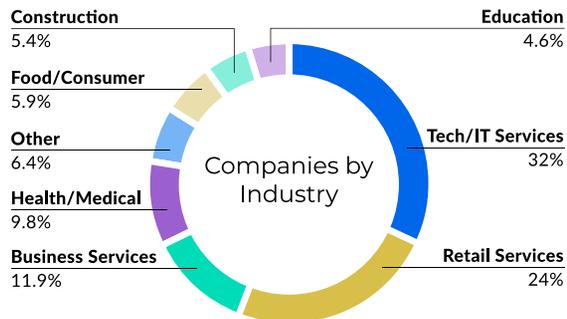
Founders First CDC

Who Founders First CDC Serves

We pride ourselves on the fact that our services are targeted to diverse-owned businesses. We accept a wide variety of entrepreneurs, but all have the same goal of growing their businesses. Founders First CDC is a leader in advocating for access to underrepresented and underserved small business owners, including women, people of color and LGBTQIA+, veterans, low-to-moderate (LMI) companies and companies located in LMI areas.

Just over half of our member companies are in technology and retail, with business services and health/medical companies comprising the next 20%. The rest of our members span food, consumer, construction and education.

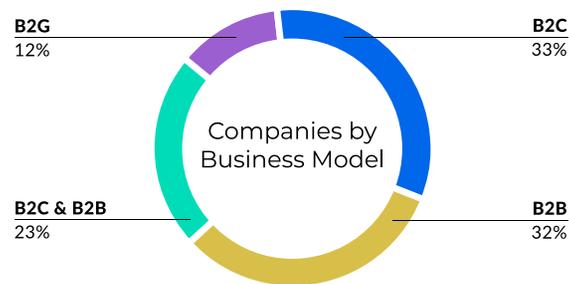
Across these industries, 32% of our member companies are B2B, 33% are B2C, 23% are both B2B and B2C and 12% are B2G.



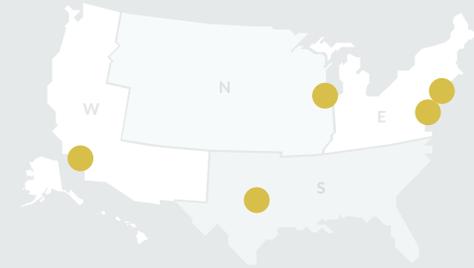
Of the CDC member companies that received funding, 57% of founders were female and 43% were male. The founders in these companies were 47% Black, 24% white, 15% Hispanic, 6% Asian and 8% were 2 or more races.

Of the CDC member companies that were cash flow positive, 68% of founders were female and 32% were male. Across these companies, 49% of founders were Black, 23% white, 11% Hispanic, 9% Asian and 8% were 2 or more races.

Revenue change statistics for member companies showed a +167% increase in revenues for Hispanic-owned companies, a +57% increase for white-owned companies, a +50% increase for Asian-owned companies and a +38% increase for Black-owned companies.



Our Reach



337

Companies Served in California

102

Companies Served in Texas

125

Companies Served Nationally in Other States

Our offices give Founders First CDC a national reach and a regional presence across the United States, with two more offices opening in the next two years. We separate the country into four regions. Our headquarters in San Diego services the West Region. In the Southern region, our office is located in Dallas. For the Northern region, we have a presence in Chicago. Finally, our Eastern region has dual hubs in Philadelphia and New Jersey. We are able to reach more companies in these diverse hubs when we have boots on the ground.

Performance Impact Measures

Founders First CDC gathers data on 200+ attributes to assess the needs of our member companies and determine what type of resources they require. By collecting and analyzing all of the attributes, we constantly learn about the challenges and needs for our diverse companies. We strive to understand our members before they become part of the Founders Family, measuring:

- Where they are as founders and leaders of their business
- Their progress and any gaps in their entrepreneurial journey
- Their confidence and development as business leaders
- The health and growth of their business

We measure the impact we're having along six key metrics:

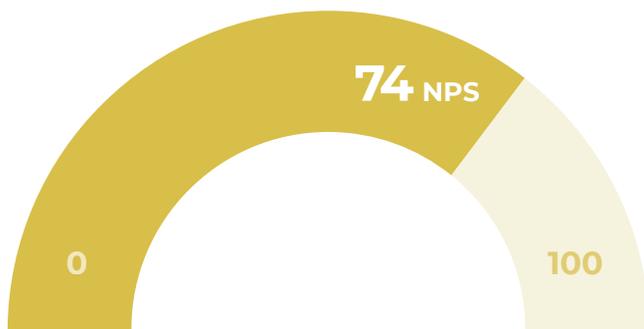
- Job retention
- Job creation
- Increase in revenues
- Funding raised
- Profitability
- Creation of new revenue streams

CDC Programs Delivered

Through Q1, 2022 Founders First CDC has conducted 48 Growth Accelerator cohorts — 16 Bootcamp, 23 Challenge and 9 FastPath programs, and we have served a total of 564 companies.

The Founders First CDC team has spent 3,500 collective hours serving our member companies — 2,100 hours coaching and 1,400 hours delivering workshop sessions.

We conduct a Net Performance Survey with our program participants after each cohort and our current NPS score is highly ranked at 74.



Diversity Impact Measures

Lifting up diverse founders and enabling them to succeed is core to our mission. We provide access to resources and funding know-how to enable diverse founder-led businesses. Our programs support inclusive communities and we provide relevant growth funding to advance our mission. Founders First CDC welcomes everyone into our programs, as long as they meet the revenue requirements for their specific accelerator.

Who We Have Served

76%

People of Color

61%

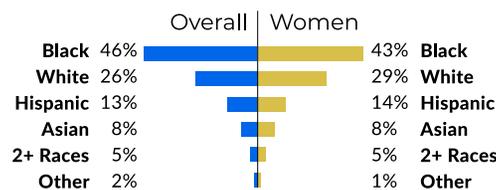
Women

46%

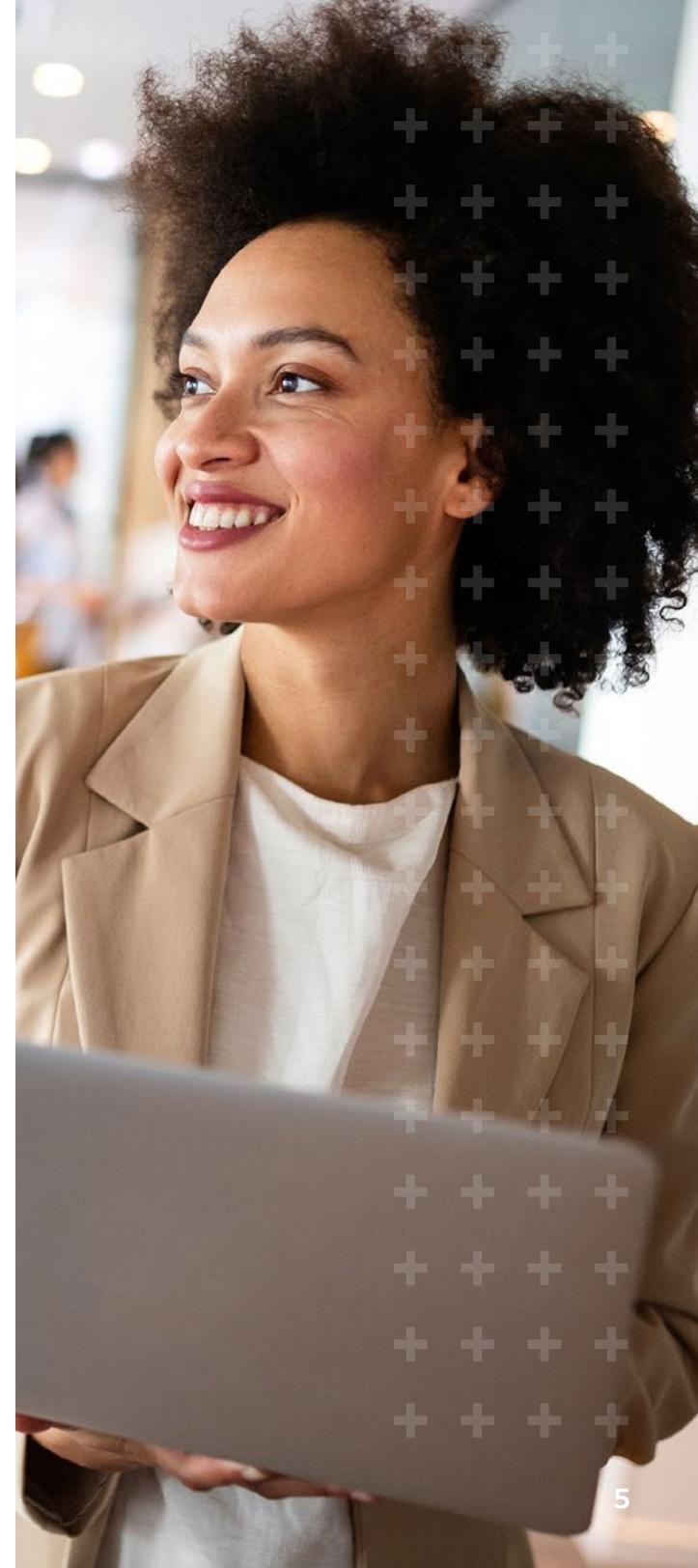
Companies in Low-to-Moderate Income Communities

9%

Veterans



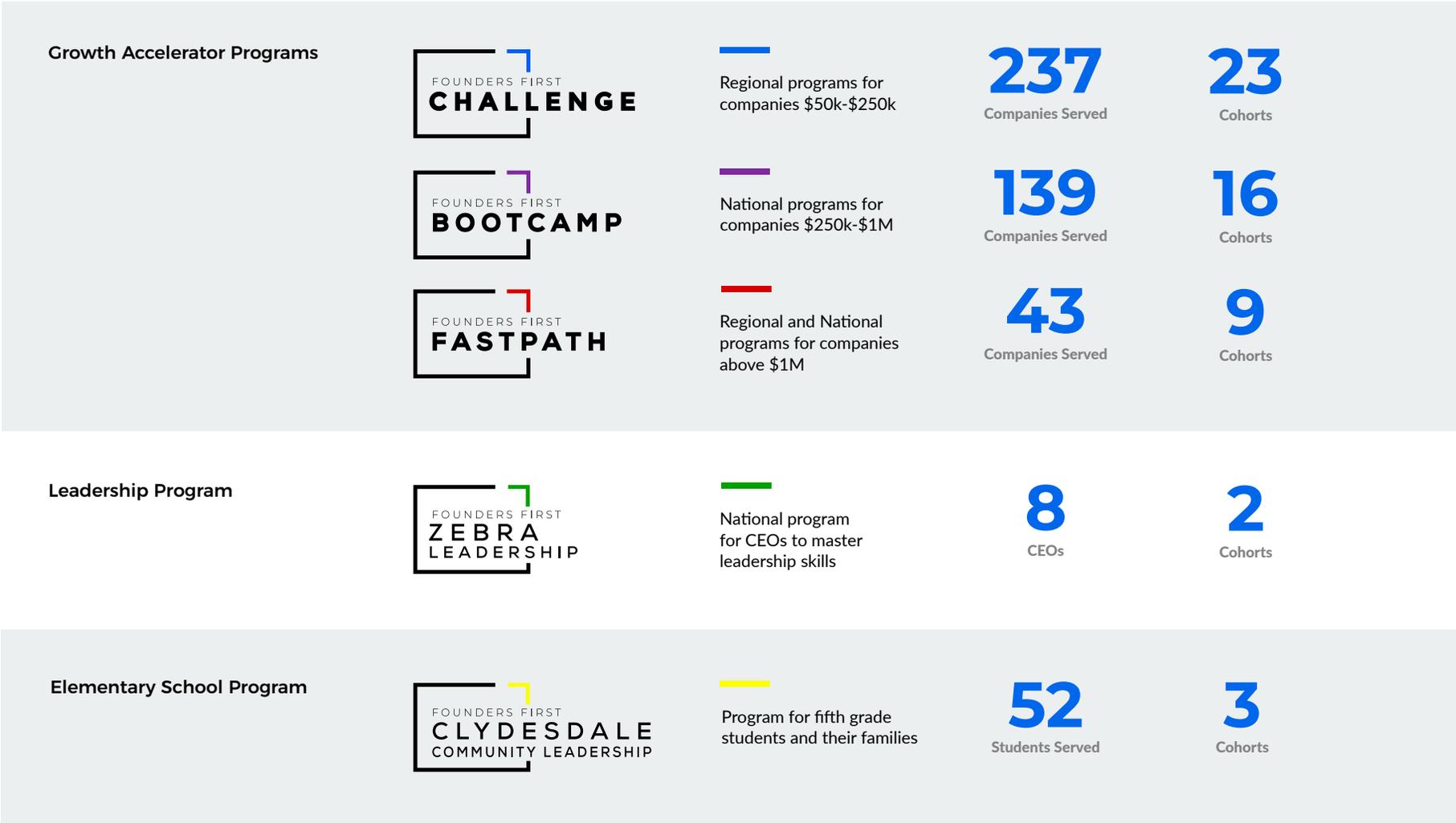
Racial Demographics of Founders First Members



CDC Programs

Founders First CDC offers three pre-funding programs that focus on teaching and guidance, putting small business businesses on a path to funding, job growth and profit acceleration. Another program is focused on developing the leadership skills of the founder. There is also a fifth program specifically for schools, students and families.

The CDC growth accelerator programs provide tools and resources that business owners can put to immediate and practical use. We partner with our founders to assist with their growth goals in workshops that teach increasing levels of business acumen. In our growth accelerator programs we help them construct a three-year growth playbook. Execution of this playbook is key to success, so we pair founders with experienced business owners and professionals to hold them accountable. The coaching they receive from these mentors helps them gain the benefit of real-world experience and see things from a different perspective. The CDC programs are specifically designed for entrepreneurs in different stages of their business careers and have helped hundreds of small business owners achieve their goals.



The CDC Program Journey

Member Company Snapshot Starting Gate

Member companies join our growth acceleration programs from different stages of maturity and experience. Our founders are diverse not only in their ethnicity or gender, but in their business acumen, education and background.

At enrollment, everyone starts with an assessment of current state. We gather a set of base statistics from which we can assess the company's level and establish a benchmark with which to measure future progress. These statistics are a mix of demographics and company information.

Member company snapshot on enrollment:

- The average age of business for our member companies is seven years, with an average revenue of \$445,000.
- The majority of companies are corporations or LLCs, with some sole proprietors.
- Founders First members are well educated – 4% hold a Ph.D., 30% have Master's degrees and 39% have Bachelor's degrees – all but 8% have some level of college education.
- The majority of founders bootstrap their company or take personal loans to get started, while some finance with personal savings, credit cards or friends and family help. Only 5% have funding from VCs or angel investors.
- 53% of new member companies are cash flow positive and 18% break-even – but 22% run a negative cash flow and 7% are not sure of their cash flow status.

\$302k

Average Funding Received by Member Companies

\$40M

Funding Raised by Members After Graduation

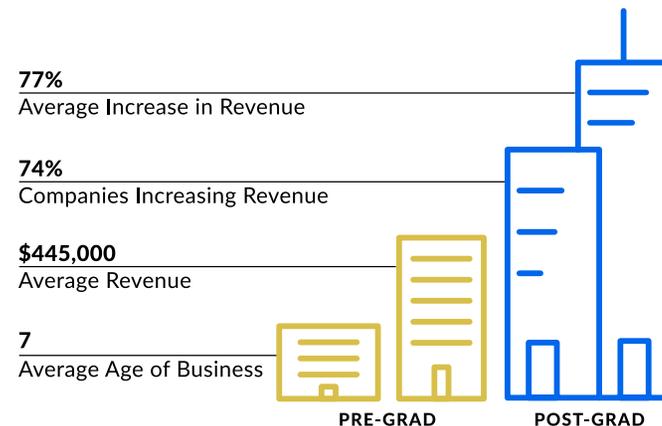
Member Company Snapshot Post-Graduation

When Founders First member companies complete one of our programs, they have renewed focus and 81% are confident in their opportunities for business growth. We provide regular check ins with them to monitor progress and for those that see stagnation or declines in their business, we provide resources based on the company's needs.

Overall, graduates of our growth acceleration programs realize increased cash flow, new recurring revenue streams and better access to funding.

Member company snapshot after graduation:

- 60% of member companies have added new recurring revenue streams
- 74% of companies increased revenues, with an average increase of 77%.
- Cash flow status remains about the same – 49% positive, 22% break-even and 29% negative – but the big difference is that all member companies can now account for cash flow status – there are 0% “not sures”
- 57% of members received funding post-graduation, and 60% of that was equity financing.
- The average amount of funding received by member companies was \$302k, and an estimated \$40M was raised by our members, based on the average of our confirmed companies.

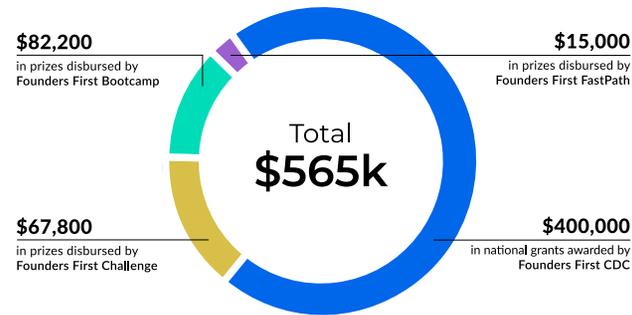




Grants and Awards for Small Businesses

Founders First provides grant funding for our program participants, including full-tuition scholarships, and all the companies that participate in our accelerator programs compete for prizes awarded through our pitch contests. In addition, we provide grants to small businesses across the U.S. to help carry out our mission to solve racial and social economic equity gaps.

Through the end of the first quarter of 2022, we have dispersed a total of \$565,000 in prizes and grant awards:



Total Awards & Prizes Disbursed to Small Businesses

JOB CREATORS QUEST GRANT

The Job Creators Quest Grant incentivizes diverse small business owners to create premium wage jobs and retain their workforce. In addition to funds awarded for their commitment to job creation, they also receive tuition scholarships to join our accelerator programs. We believe that money paired with education makes the biggest difference for business owners and has the strongest impact for sustainable job growth.

Grant criteria:

- Annual revenues from \$100,000-\$3 million
- Currently 2-10 employees
- Ability to add 1-2 new employees in the next 12 months
- Founders are BIPOC, LGBTQIA+, Veteran, Woman or the business is located in a LMI area

Awards:

- 110 grant recipients
- \$337,000 awarded
- Average \$3,000 awarded per company

KITTY FUND

The Kitty Fund provides small grants to mompreneurs across the country in honor of founder Kim Folsom's mother.

- \$25,000 disbursed in 2021 (50 grants of \$500 each)
- \$12,500 disbursed in 2020 (25 grants of \$500 each)

STEPHEN L. TADLOCK FUND

The Stephen L. Tadlock Fund makes micro-investments in small businesses run by veterans. The award, which will be granted prior to Veterans' Day, was inspired by Founder's First CEO Kim Folsom's brother, U.S. Navy veteran Stephen Tadlock. The \$25,000 fund will make its first investments in 50 veterans who are running employer-based small businesses.

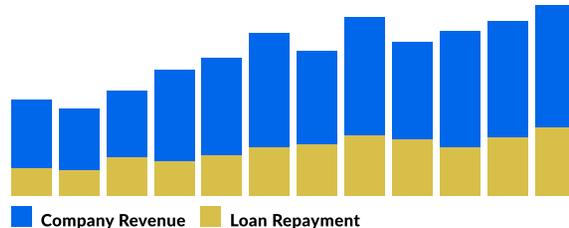
- 50 grant recipients
- \$25,000 disbursed

SECTION 3

Founders First Capital Partners

Revenue-Based Financing

Founders First Capital Partners is a revenue-based financing (RBF) lender. RBF is a non-dilutive type of capital where investors lend money to companies in return for a percentage of revenues until the initial loan amount and repayment cap have been paid off. Payments go up and down based on how much revenue the company brings in each month.



Small business owners like our members need capital to fund their growth, but different financing options pose various drawbacks:

- Banks require collateral that small startups can't provide
- Fintech merchant financing provides fast access to cash, but is costly
- Angel investors often cannot provide capital to scale
- VC investors look for sizable equity stakes and favorable exit opportunities

With lower barriers to access, revenue-based payments and no loss of ownership or equity, RBF is the best of equity and debt for small business owners.

Why RBF Makes Sense for Our Model

RBF can be ideal for businesses with at least 40% gross margins and repeating revenue streams, which our members learn to develop in our growth accelerator programs. While more expensive than bank loans, RBF is less expensive and far more flexible than equity investments. There are limited financial covenants in place, and as a result, payments depend only on the company's performance. This is all possible without giving up control, and without pledging real estate assets. Founders will still retain the value upon an exit. Additionally, funding approval is tied to business revenue, not their personal financial profile, making it easier for many founders to qualify.

RBF advantages for Founders First member companies:

Limited financial covenants

Payments depend only on company performance

No loss of control

No board seat, no ability to replace management

No pledge of real estate assets

May not have to submit to claims of against the assets of the company

Aligned interest

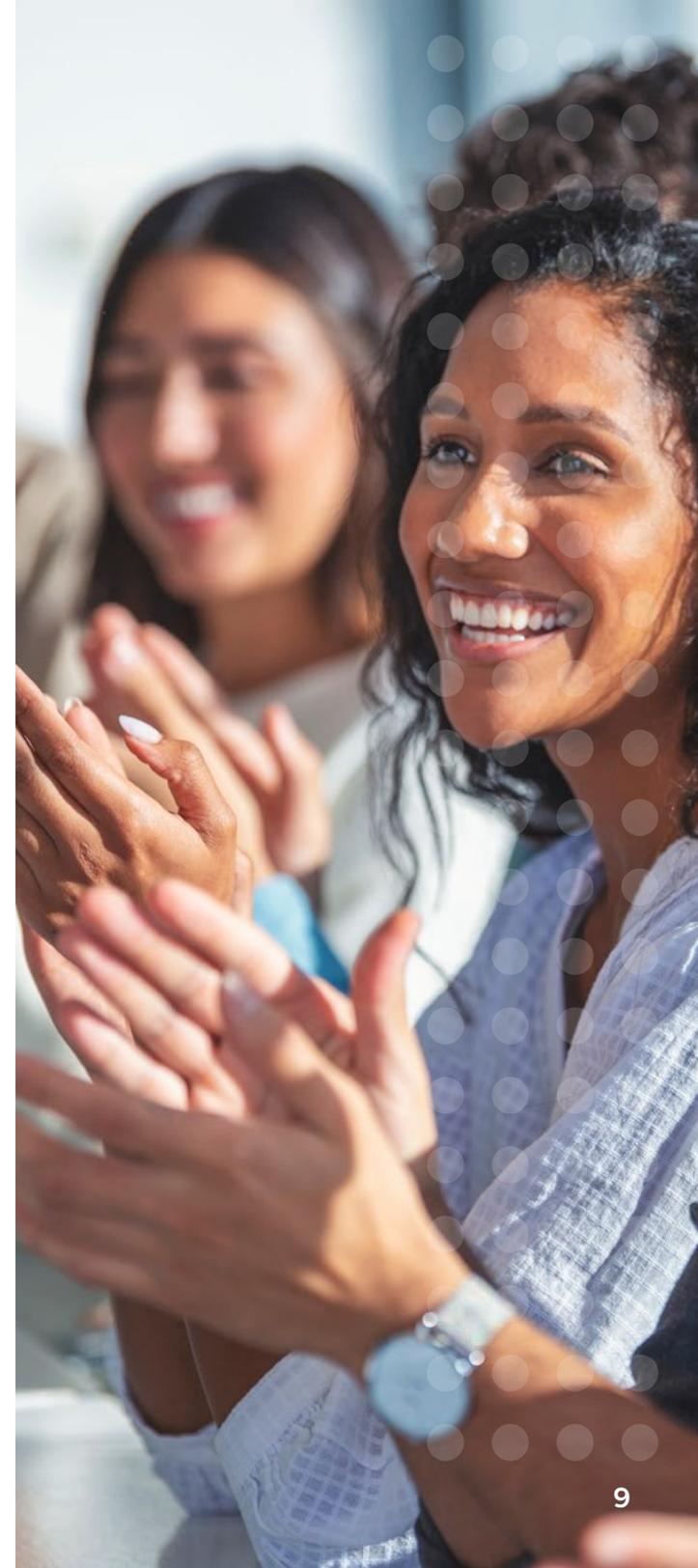
Founders First IRR depends on your performance

Advice and support

Founders First helps and supports growth (some investors provide)

Business owners retain control

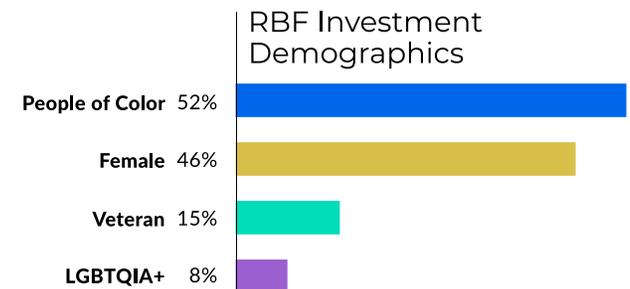
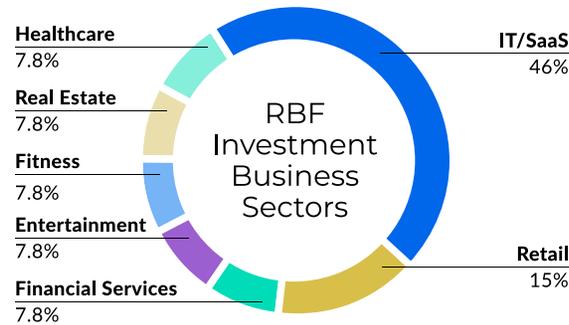
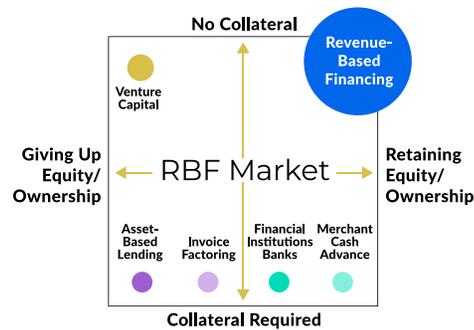
Founders First doesn't take an equity stake



RBF Funding

Impact From +\$3M in RBF Funding

To date, Founders First has invested more than \$3M in capital. Our founders who take an RBF investment see their revenues increase by an average of 31% within two years after funding. Our average deal size is \$173,000, and 38% of our investments were made in low-to-moderate income areas. More than 75% of RBF-funded companies had existing debt prior to funding, with the average founder carrying \$150K in an average of two sources of debt.



\$3M

Investments in capital, to date, by Founders First

31%

Member Companies' Average Increase in Revenue Two Years After Funding

\$173k

Founders First Capital Partners Average Deal Size

38%

Investments Made in Low-to-Moderate Income Areas

Institutional Investor Perspective

Impact Investor Perspective



Founders First delivers differentiated exposure for our portfolio, both in terms of financial and impact returns. Venture stage, but not VC-targeted businesses, especially BIPOC owned, are so critical to our society but funding opportunities of this caliber are difficult to find.

Adam Connaker
Director of Impact Investment
Surdna Foundation University



We all benefit when there is diverse representation of investors and entrepreneurs designing services and products that reflect the needs of everyone in the U.S. This is done by providing under-represented and under-resourced groups with equal access to capital. Through their thoughtful approach, Founders First is leading the way to ensure that financial support is available for diverse-led businesses. We look forward to continuing our partnership together.

Erin Harkless Moore
Managing Director, Impact Investments
Pivotal Ventures
A Melinda French Gates Company



By their very nature, businesses can have a tremendous impact on society, whether through the jobs they create, the culture they encourage, or the specific contributions their goods or service provide to people. Founders First created a model that generates impact through its support of historically underrepresented business owners, enabling these founders to grow, develop, thrive, and thus create influences of their own. That type of social and economic ripple effect is exactly what this nation needs to fulfill a hope of equal opportunity for all. I am thrilled to be a small part of this effort.

W. H. Joe Knight
Independent Board of Director, State Farm
Distinguished Professor, Seattle University



I've been supporting Founders First as an Advisory Board member and investor for years, and am excited about the momentum the organization is creating. Growing companies require strong people, strong execution and strong cash flow – a formula I've seen work time and time again. Founders First brings these elements and more to diverse founders who may not have access to the networks and financing that others take for granted.

Giles Bateman
Co-founder, PriceClub
Former Chairman, CompUSA
Former Independent Director, WD40 & BevMo



Thank you for taking the time to learn about the mission we're on and all of our initiatives. We hope you've been able to see how Founders First CDC and Founders First Capital Partners work symbiotically to achieve our goals of training, funding and growing businesses owned and operated by diverse founders.

Rest assured that as we progress toward the end of 2022 and beyond, we'll be expanding our efforts to build our vision of an inclusive economy, breaking down the barriers for growth, job creation, and wealth building. The growing list of companies we work with represent an outstanding opportunity for investment.

We hope you'll join us on our journey!





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Join us on our mission.

To learn more, go to:

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foundersfirstcdc.org

