

Driving inclusive premium-wage job creation.





INTRODUCTION

A Message From Our Founder

Dear Founders First community:

As the economy continues its uncertain path, diverse-led companies across the nation are persisting to deliver results that create value, good jobs, and wealth for their communities. While the Fed increases interest rates to curb inflation, the Black unemployment rate has reached the lowest it has ever been, notable progress in work toward equity.

Diverse-led companies — meaning those led by people of color, women, LGBTQ+, veterans, and inclusive businesses in low-moderate income areas — have always been a source of economic development and jobs for their communities. With less biases and more inclusive networks, diverse founders are more likely to hire other diverse candidates as employees. However, due to less access to coaching, capital, and connections to customers, diverse-led companies are, on average, smaller than majority firms. This means that often, diverse-led companies are less able to create premium-wage jobs.

Founders First works to bridge this gap by helping businesses create value and grow sustainably, with growth-focused programs led by experienced diverse entrepreneurs and relevant, patient, non-dilutive growth capital through our Revenue-Based Financing platform. In doing so, we are addressing these gaps head on and helping them build more sustainable companies that can help create premium-wage jobs. By providing growth capital resources to diverse-led communities, we are creating economic value not only for the owners but for those living in these communities. Growing diverse-led companies and their employment bases also can create shared value for other stakeholders. Our model provides social impact conscious investors with the opportunity to help support their double-bottom line priorities by providing capital to diverse-led companies. You can read more about our Revenue-Based Financing platform on page 10.

Below are some highlights of our work to boost premium-wage job creation. Of the 800 member companies we have served to-date:

- Our members collectively have \$375M in revenues
- We increased revenues for LMI companies by \$160M collectively and helped add 206 full-time employees.
- 912 full-time employees added overall, with 50% are premium-wage job holders which results in \$46.5M in premium wages to full-time employees
- 57% of Job Creator Grant recipients were able to add at least one full-time employee within 12 months.

In the year ahead, we will be particularly expanding our work to prepare our member companies to grow through supplier diversity programs led by corporations, public agencies, and anchor institutions (such as universities, hospitals, and utilities). Founders First is proactively working to ensure diverse-led companies have the certifications and, particularly the growth plans and capital, to become solution suppliers of choice for private and public sector partners. You can learn more about this work, for the first time in this edition on page 5.

We are proud of our work but know we have much more to do to achieve our mission of closing racial and social equity gaps in work, wages, and wealth. Thank you to our courageous investors, as well as our community partners and, above all, our member companies, for working together with us on the road ahead. We look forward to our continued partnership.

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 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 U.S. 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 2023, 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:

29 Investments by FFCP

\$30M Change Catalyst Fund
(\$6.5M Subscriptions to Date)

Founders First CDC 2030 GOAL:

5,000

5,000 Program Graduates, 10 Regions

10

TODAY:

792 Graduates Since 2015

Total Member Company Revenue \$375M,
Average Growth in Revenue 112% within 2 years

SECTION 2

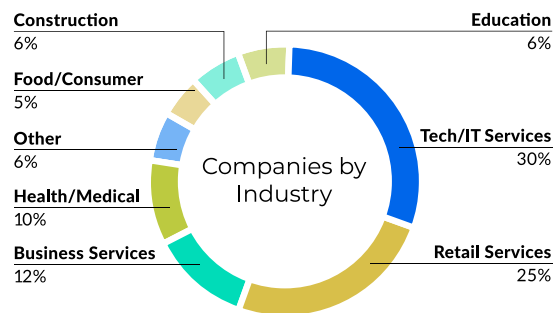
Founders First CDC

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.

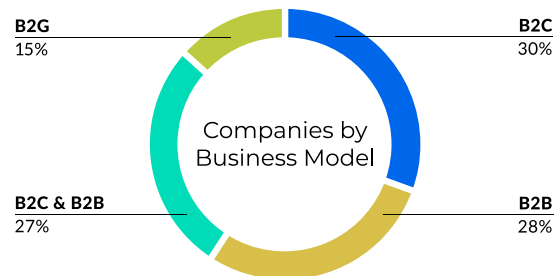
Across these industries, 30% of our member companies are B2B, 28% are B2C, 27% are both B2B and B2C and 15% are B2G.



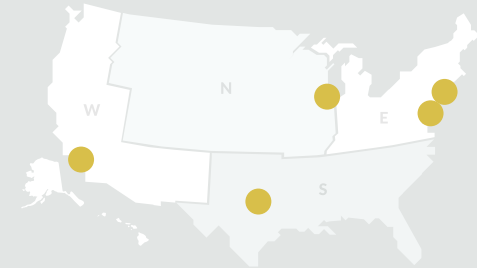
Of the CDC member companies that received funding, 60% of founders identified as female and 40% identified as male. The founders in these companies were 44% Black, 26% white, 12% Hispanic or Latinx, 9% Asian, 3% other and 6% were two or more races.

Of the CDC member companies that were cash flow positive, 63% of founders identified as female and 37% identified as male. Across these companies, 47% of founders were Black, 24% white, 11% Hispanic or Latinx, 11% Asian, 2% other and 5% were two or more races.

Revenue change statistics for member companies showed a +263% increase in revenues for Hispanic-owned companies, a +77% increase for white-owned companies, a +74% increase for Asian-owned companies and an +84% increase for Black-owned companies.



Our Reach



393

Companies Served in California

143

Companies Served in Texas

256

Companies Served Nationally in Other States

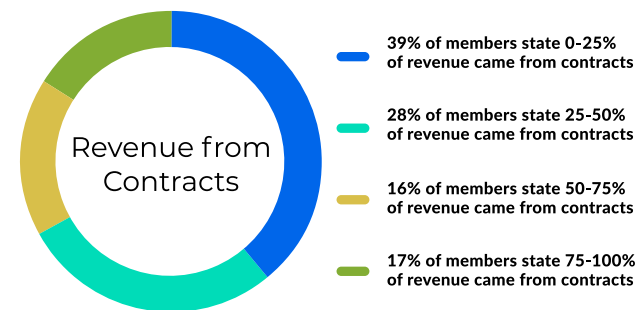
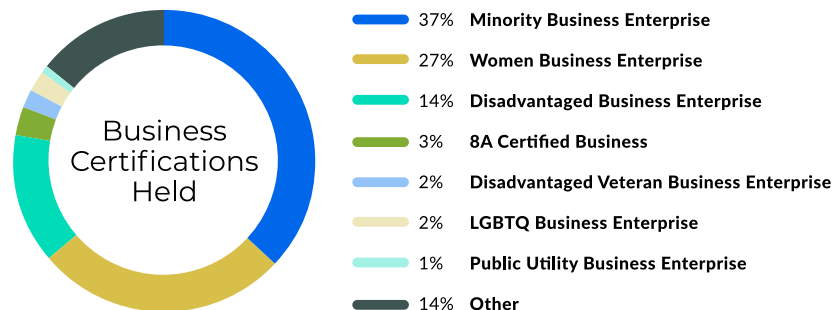
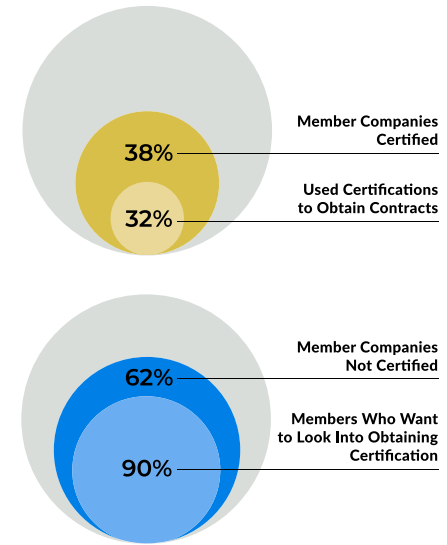
Our offices give Founders First CDC a national reach and a regional presence across the United States, with two more offices opening in the next two years. We separate the country into four regions. Our headquarters in San Diego services the West Region. In the Southern region, our office is located 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.

Supplier Diversity Through Certifications and Contracts

In order for diverse small businesses to grow and scale quickly, it is paramount that they secure private and public sector contracts. Often, corporations and public agencies require that businesses certify as woman-owned, minority-owned, LGBTQ+-owned, veteran-owned, and many more. Securing these certifications, through entities such as the NMSDC, WBENC, LGLCC, SBA, as well as other federal, state, and local agencies, can make the difference in being selected for a supplier diversity contract. Many small business owners make the mistake in assuming that they don't need the certification because it is obvious that they are diverse-owned. However, without the proper certifications, a small business owner can lose out on vital opportunities for their growth.

With the rise of supplier diversity programs, there is a massive opportunity for small business owners to secure contracts. New requirements and goals are evening the playing field for diverse-owned businesses. Supplier diversity advocates like the Billion Dollar Roundtable, NMSDC, and local collaboratives of so-called "anchor institutions" (universities, hospitals, and utilities) are working hard across the country to encourage more larger purchasers to intentionally grow diverse-led companies. Many organizations are recognizing that inclusive procurement can help them reach their economic impact and DEI objectives, but also provide key economic benefits such as supply chain efficiencies, innovation, and resilience, as well as growing market share with diverse consumers and boosting diverse employee retention. These social and financial motivators are spurring many organizations to establish business partner diversity targets, often encouraging at least 10-30% of spend meeting diverse criteria. This means that the diverse owners must own at least 51% of the company to qualify as a diverse-owned company.

We educate our members on taking advantage of their diversity and using that to help grow their business. In our program curriculum, we make sure to emphasize how companies should focus on securing contracts to create recurring revenue. One benefit that our members have is that they are diverse and are eligible to get certifications which will make it significantly easier to secure contracts. By securing those contracts now, funders are much more likely to invest in diverse small businesses because there is less risk once these companies have long-term contracts. View the examined data as it relates to our members and certifications/contracts.



Performance Impact Measures

Founders First CDC gathers data on 200+ attributes to assess the needs of our member companies and determine what 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:

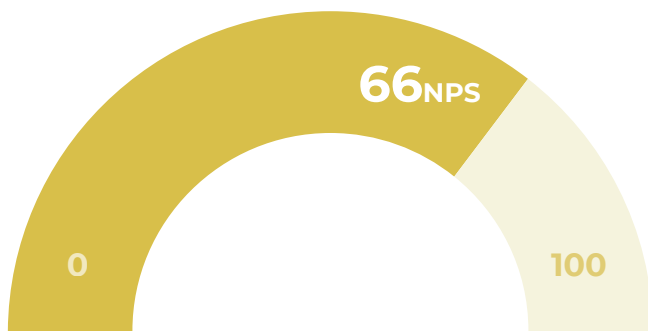
- Job retention
- Job creation
- Increase in revenues
- Funding raised
- Profitability
- Creation of new revenue streams

CDC Programs Delivered

Through Q1, 2023, Founders First CDC has conducted 59 Growth Accelerator cohorts – 19 Bootcamp, 27 Challenge and 13 FastPath programs, and have served a total of 792 companies.

The Founders First CDC team has spent 4,450 collective hours serving our member companies – 2,650 hours coaching and 1,800 hours delivering workshop sessions.

We conduct a Net Performance Survey with our program participants after each cohort and our current NPS score is ranked at 66.



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

77%

People of Color

63%

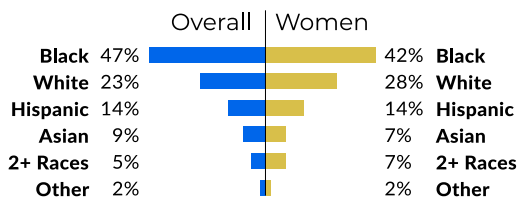
Women

45%

Companies in Low-to-Moderate Income Communities

8%

Veterans



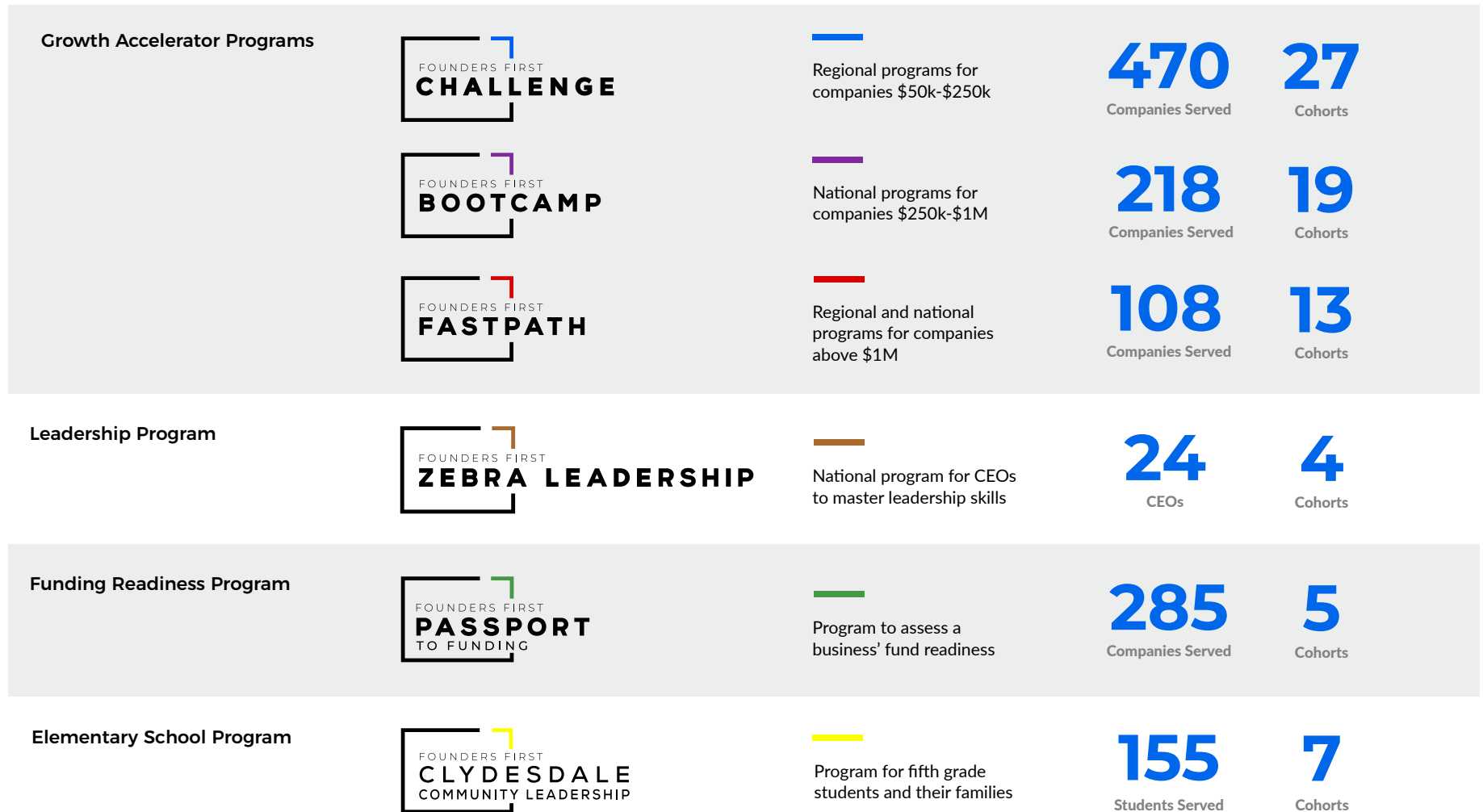
Racial Demographics of Founders First Members



CDC Programs

Founders First CDC offers pre-funding programs that focus on teaching and guidance, putting small businesses on a path to funding, job growth and profit acceleration. Other member programs develop leadership skills for founders and assess fund readiness of their business. We also offer a program specifically for elementary schools, students and their 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 From Start to Finish



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 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 time in business for our member companies is seven years, with an average annual revenue of \$688,000.
- The majority of companies are corporations or LLCs, with some sole proprietors.
- Founders First members are well educated – 5% hold a Ph.D., 32% have Master's degrees and 37% 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.
- 57% of new member companies are cash flow positive and 17% break-even – but 20% run a negative cash flow and 6% are not sure of their cash flow status.

\$332k

Average Funding Received by
Member Companies

\$79M

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 82% 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 programs realize increased cash flow, new recurring revenue streams and better access to funding.

Member company snapshot post-graduation:

- 55% of member companies have added new recurring revenue streams.
- 75% of companies increased revenues, with an average increase of 112%.
- Cash flow status remains about the same – 50% positive, 21% break-even and 30% negative – but the big difference is that all member companies can now account for cash flow status – there were 0% “not sure!”
- 50% of members received funding post-graduation, and 43% of that was equity financing, while 44% was through business loans.
- The average amount of funding received by member companies was \$332k, and an estimated \$79M was raised by our members, based on the average of our confirmed companies.

112%

Average Increase in Revenue

75%

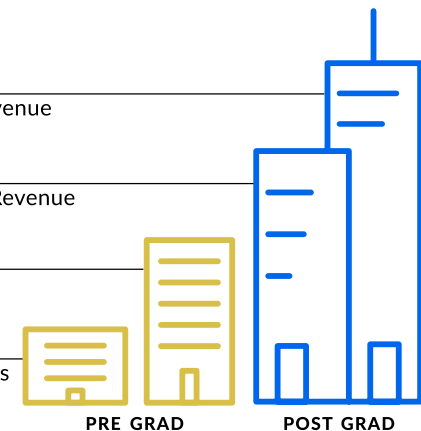
Companies Increasing Revenue

\$688,000

Average Revenue

7

Average Age of Business



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 2023, we have added a total of \$999,000 in prizes and grant awards.

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. We are proud to say that 57% of Job Creator Grant recipients were able to add at least one full-time employee within 12 months.

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, or Woman, or the business is located in an LMI area

Awards:

- 240 grant recipients
- \$647,500 awarded
- Average \$2,500 awarded per company

KITTY FUND

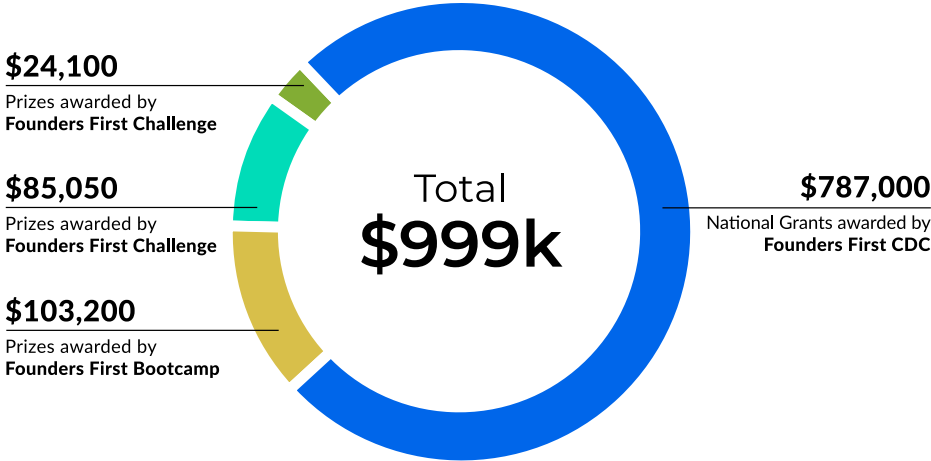
The Kitty Fund provides small grants to mompreneurs across the country in honor of founder Kim Folsom’s mother.

- \$25,000 disbursed in 2022 (50 grants of \$500 each)
- \$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 Founders First’s CEO Kim Folsom’s brother, U.S. Navy veteran Stephen Tadlock. This is our second year awarding \$25,000 to 50 veterans who are running employer-based small businesses.

- 100 grant recipients
- \$50,000 disbursed

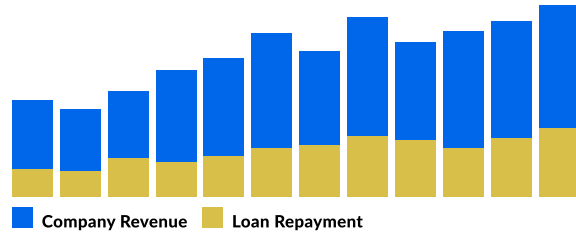


SECTION 3

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

Revenue-based financing 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 retain the company's value upon an exit from repaying the loan. Additionally, funding approval is tied to business revenue, not their personal financial profile, making it easier for many founders to qualify.

Revenue-based financing advantages:

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

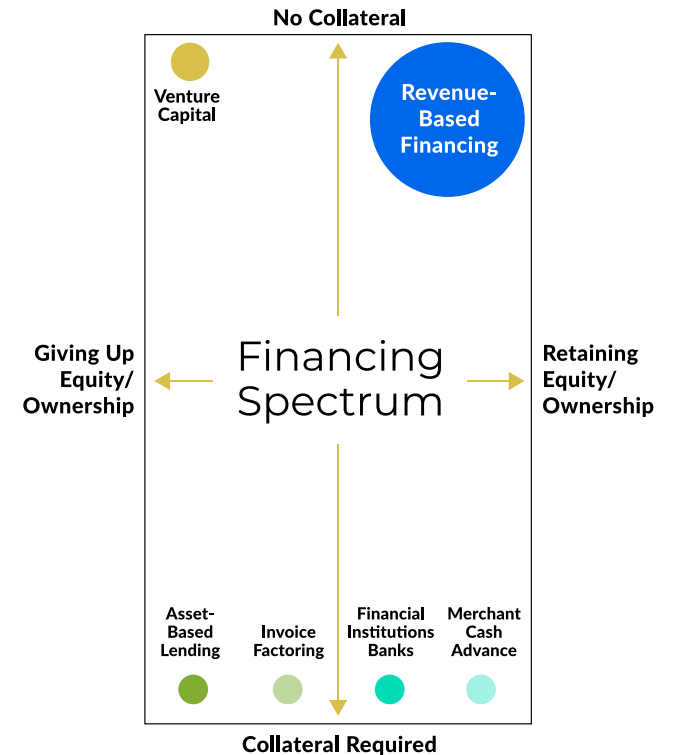
Founders First internal rate of return depends on your performance

Advice and support

Founders First helps and supports growth

Business owners retain control

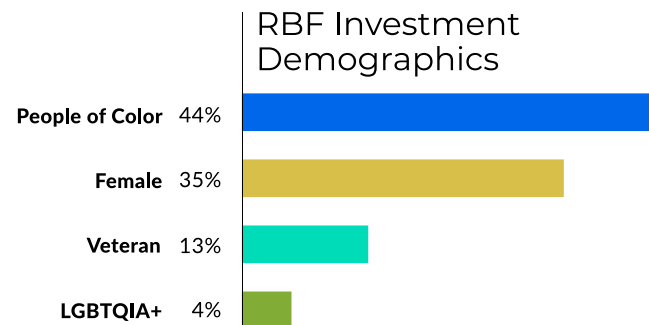
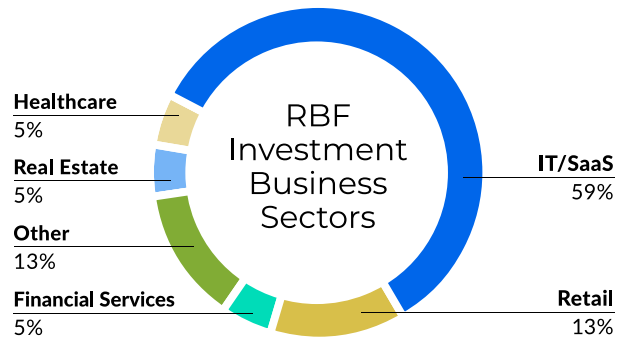
Founders First doesn't take an equity stake



Revenue-Based Financing

Impact From \$6.5M+ in Revenue-Based Financing

To date, Founders First has invested more than \$6.5M in capital. Our founders who take a revenue-based financing investment see their revenues increase by an average of 29%. Our average deal size is \$285,000, and 35% of our investments were made in low-to-moderate income areas. More than 78% of funded companies had existing debt prior to funding, with the average founder carrying \$182k in an average of two sources of debt.



\$6.5M+

Investments in capital, to date,
by Founders First

29%

Member Companies'
Average Increase in Revenue

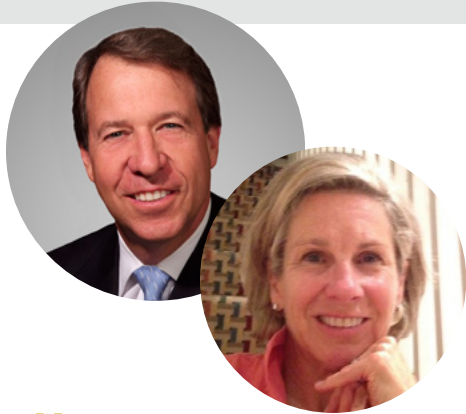
\$285k

Founders First Capital Partners
Average Deal Size

35%

Investments Made in
Low-to-Moderate Income Areas

Institutional Investor Perspective



“

We are enthusiastic supporters of Founders First, which has led an unwavering charge of elevating diverse founders through empowering financial means. Disrupting the status quo by making room for the diverse entrepreneur is sending an essential jolt through a broken system. We couldn't be happier to be part of this critical reform.”

Art & Lindsay Reimers
Principals
Lindmor Foundation



“

We are proud to support Founders First Capital Partners... and their work to bridge the financial and cultural funding gap for small businesses. We believe it's an investment that will provide social and financial returns for years to come.”

Shuaib Siddiqui
Former Director of Impact Investing
Surdna Foundation



Impact Investor Perspective



“

I've been supporting Founders First as a Board member and investor for years, and am excited about the momentum the organization is creating. Growing companies require (the three S's) 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.”

Beverly Cole
Independent Board Member, Bank OZK
Angel & Impact Investor



“

Backing an organization like Founders First just makes fiscal sense. Addressing inequalities in the market like they're doing is something I'm proud to support.”

Harold Lipa
President, Lipa & Associates
Angel & Impact Investor

Our Vision

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 diverse-founded and operated businesses.

Rest assured that as we progress toward the end of 2023 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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