




RISE OF REVENUE BASED FUNDING
ROYALTY BASED FUNDING

Angel Capital Association Webinar – 8/21/19

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INTRODUCING FOUNDERS FIRST CAPITAL PARTNERS
 Meet CEO, **KIM FOLSOM**



FOUNDERS FIRST CAPITAL PARTNERS:

- National revenue-based investor and advisory support firm
- Special focus service-based and underserved founders
- \$100M committed capital to fund growth in SMBs
- Key partnership with SMB business programs:
LIFT Development Enterprises and small business contracting organizations

BRIEF BIO FOR KIM:

- Co-founder and CEO Founders First Capital Partners
- Founder of lift development enterprises
- VC-backed, serial tech entrepreneur
- Founded 6 tech companies, exited 3
- Created 500 premium wage jobs
- Raised \$30m in venture financing
- MBA Pepperdine University
- BS Information Systems, Minor Economics,
San Diego State University

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How Our Platform Works

Underserved SMB Portfolio Management



Impact Investor Portfolio Management



REVENUE BASED FINANCING – WHAT IS IT & HOW DOES IT WORK



What is Revenue-Based Financing?

A blend between bank debt and venture capital, revenue-based financing (RBF) is a non-dilutive type of capital in which investors lend money to companies in return for a percentage of revenues until the initial loan amount and repayment cap have been paid off.

RBF Term: 1.5 – 2X CAP in 3 to 5 Yrs



HOW DOES REVENUE BASED FINANCING WORK

Calculating Monthly Revenue Based Financing Payment



Prior Month Cash Deposits	
Sales Receipts Cash Deposits	\$145,000
Grant Proceeds	\$25,000
Contest Proceeds	\$5,000
Administrative Fees (Security Deposit Refund)	\$1,500
Total Cash Deposits	\$176,500
Net Cash Receipts (less grant, contest & security deposit)	\$145,000
RBF Amount Payable at 5%	\$7,250

Monthly Financial Reporting

In order to calculate a monthly payment, a borrower business must submit by the 10th of the month "Financial Reports" for the prior month.

Financial Reports include:

- Monthly Balance Sheet (plus YTD)
- Monthly Cash Flow Statements (plus YTD)
- Monthly Bank Reconciliation Report
- Monthly Bank Statements (including customer payment accounts such as PayPal)
- Monthly Compliance Certification certifying the information delivered

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5

ANIMAL AVATARS FOR GROWTH



Clydesdale "Workhorse" Company



\$500K to \$5M Annual Revenues
Regional Niche Market Leader

Zebra Company



\$5M to \$50M Annual Revenues
National Niche Market Leader

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6

Program Performance To Date As of June 2019



Milestones/ Major Achievements:

-  Companies Served: **204**
-  Completed Cohorts: **15**
-  **60%** Add Recurring Revenues within 12 months of graduation
-  Funding Approvals: **\$8.25M**
-  **45%** Increased profits within 12 months of graduation.
-  Total Revenues: **\$87.75M**
-  Jobs Created: **115, Avg Salary \$60K**
-  SMB Founder Growth Confidence*: **4 of 5**

65% program participants report they increased revenues by 25% within 6 month completing phase I of program

RBF Funding: A Better Way To Fund, Grow and Create Jobs



FUNDED BOOTCAMP ALUMNI –CASE STUDY

Klarinet Solutions

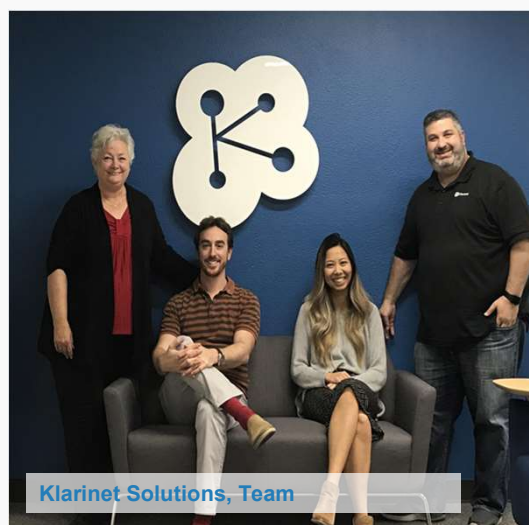
- Interactive digital media engagement analytics platform
- Fall 2016 and Winter 2017 Founders Bootcamp Alums

Before Bootcamp

- Annual sales averaged \$400K revenues for (3) years.
- Single, transactional lumpy sales. Competed mostly on price.
- Three person team

Post Bootcamp, Funding and Expansion Support

- Revenues 2.5X with 24 months
- Revenue pipeline \$1.5M (4) revenue streams (2) recurring
- New SAAS Analytics and Digital Workforce Products
- Expanding team to 9 persons in 2019



Klarinet Solutions, Team

CUSTOMER REQUIREMENTS

(Founders First Fund Requirements)



- **REVENUE:** \$21K per month. Repeat contract revenue, recurring preferred
- **GROSS MARGIN:** 40%, 50% preferred
- **PROFITABILITY:** At least EBITDA positive
- **TEAM:** 2+ Management team, who are equity owners, plus FTEs
- **PROFESSIONAL ACCOUNTING SUPPORT:** Company MUST use GAAP qualified professionals
- **WARRANT COVERAGE:** 5% purchase options
- **USE OF FUNDS:** Fund business growth
- **GROWTH PROSPECTS:** Market and growth forecast to achieve \$5M to \$10M in revenues and add +20 FTE.
- **DIRECT EXPANSION SUPPORT:** Must utilize Founders execution support for business development, fiscal management; \$500 to 1K monthly.



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9

DILIGENCE AND UNDERWRITING PROCESS

(Founders First Fund Requirements)



Application, Financial
Assessment Process for
Termsheet Issuance



Extensive diligence
process similar to that of
TechCoast Angels

ADDITIONALLY

- **Proprietary Assessment of Prior Financial Health and Product Market Fit:**
- **Deep Analysis of Company Unit Economics and Projected Cashflow**
- **UCC Filing Company Assets, Owner Personal Guarantees**
- **Warrant coverage of 1% to 5%**
- **Professional Accountant and Financial System Oversight**
- **REQUIREMENT: EXPANSION SUPPORT:** Must utilize Founders execution support for business and leadership development, fiscal management; \$500 to 1K monthly.
- **Issue a Revenue Based Note**

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10

EXPANSION SUPPORT



Advisory Support mandated for funded business consists of execution support provided in the form of designated coach meets weekly with CEO/Leadership Team
 (1) 90 minutes per month and (1) 15 minute CEO Check-ins

Covers following support in these areas:

- (1) **Business, Revenue Model and Strategy Refinement ***
- (2) **Fiscal Health Management and Performance Monitoring ***
- (3) **Leadership Development and Culture Support ***
- (4) **Predictable Business Development and Customer Retention Strategies ***
- (5) **Market Develop and Lead Generation, Brand Awareness and Recognition**
- (6) **Operations, Team Development and Service Delivery**
- (7) **Funding Growth and Expansion Strategy**
- (8) **Solution Innovation: Technology Enablement and Unique IP Product Development and Retention**

Funded companies pay additional monthly fee: \$500 to \$1000

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11

ADMINISTRATION AND COMPLIANCE



Deep ongoing financial performance monitoring and servicing



ACH payment processing for portfolio companies



ACH disbursement processing for limited partners



Performance reporting for portfolio companies



State licensing requirements



Complex quarterly and annual tax reporting of interest and ordinary income

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12

REVENUE BASED FINANCING – ADVANTAGES & DISADVANTAGES



Advantages

- Ideal for Repeat Revenue companies
- Non-dilutive, You Keep Control
- Approval Tied To Business Revenue
- Not Your Personal Financial Profile
- Access To Follow-on Performance Based Funding up to \$1M
- Funds Are Not Tied To Your Personal Assets
- Gain Expertise With Growing Your Company
- Not Required To Be Profitable

Disadvantages

- It's More Expensive Than Bank Loans, Less Expensive Than Equity
- You Must Have Revenues
- You Must Have At Least 40% gross Margin
- You Must Have Revenue From Contracted Service, Subscription or Technology Enabled Service

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13

FOR ADDITIONAL INFORMATION



Article:

Tech Crunch: Revenue Based Financing 5-Part Series

<https://techcrunch.com/2019/08/19/revenue-based-investing-a-new-option-for-founders-who-care-about-control/>

Webinar:

How to leverage flexible, revenue based funding to grow your service-based business – Register at www.foundersfirstcapitalpartners.com

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14