



Social Enterprise Summit 2009: *First Book Case Study*

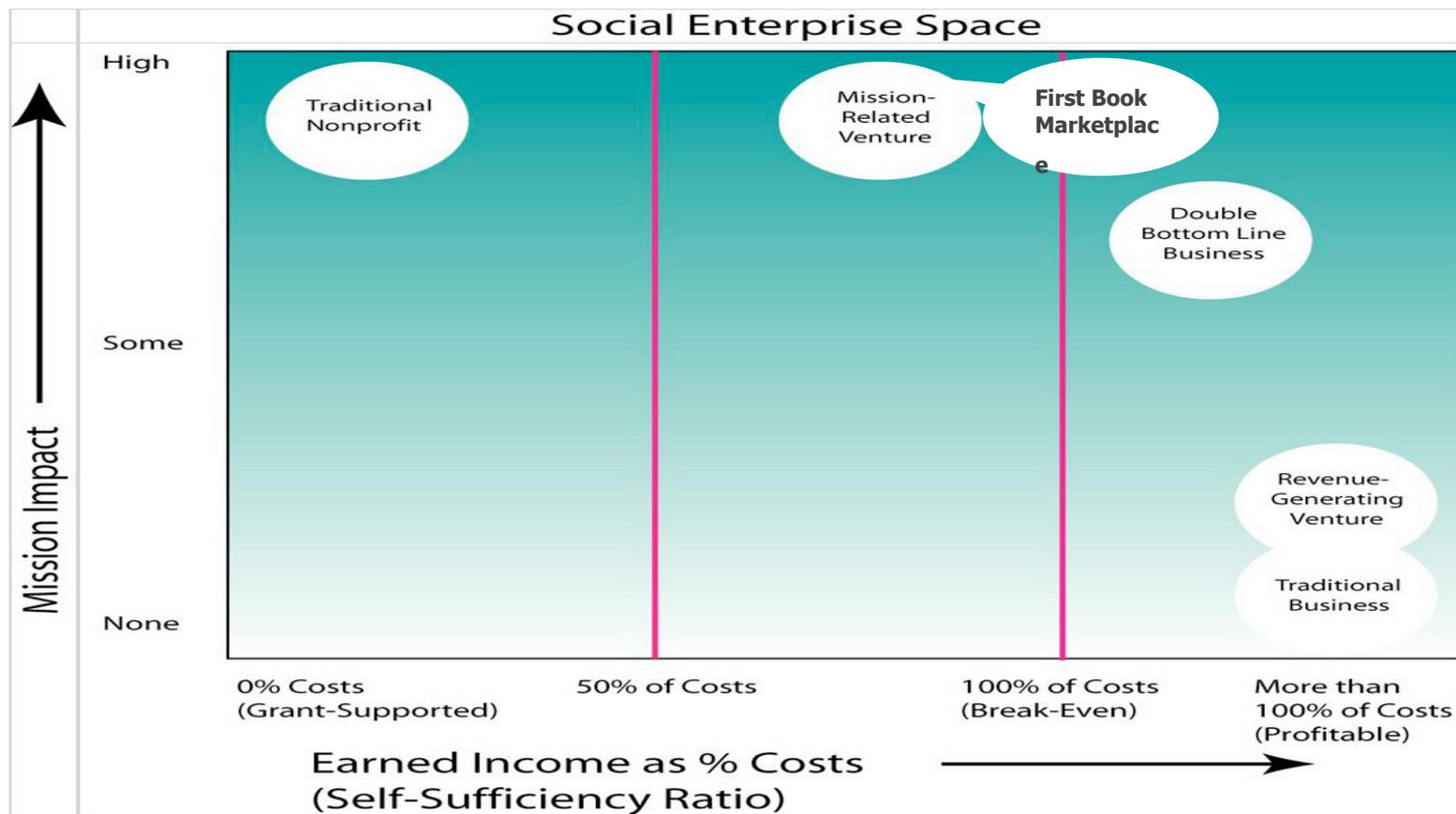
April 2009

First Book and First Book Marketplace

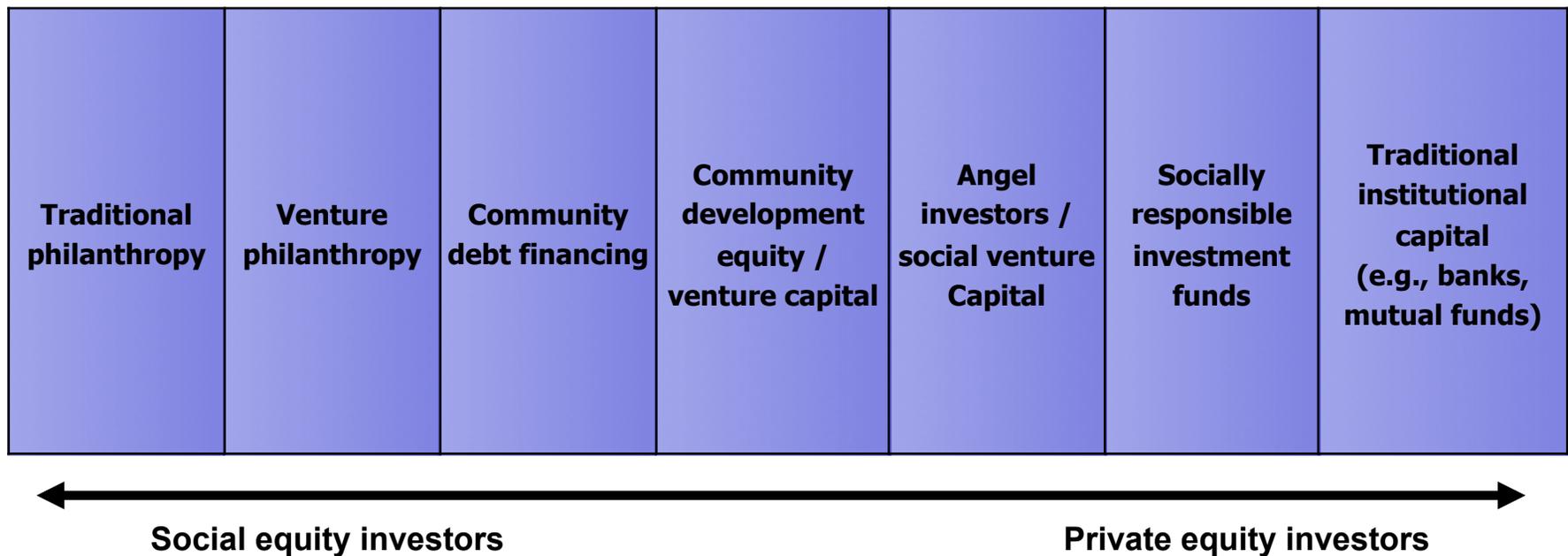


- First Book (FB) is a nonprofit that provides new books to children in need addressing one of the most important factors affecting literacy-access to books.
- First Book Marketplace (FBMP) is a division of FB created as an online store to sell high-quality children's books and educational material at deeply discounted prices to organizations serving children from low-income families.
- FB needed financing to expand FBMP's inventory to better meet the increasing demand for books.

Social Enterprise Sector Overview



Spectrum of Investors



Source: Jed Emerson based on the work of Shari Berenbach and Timothy Freundlich (2000).

Financing Challenges for Social Enterprises



- There is huge gap in the capital market for social purpose enterprise.
- Finance needs have outgrown grants and angels
- Conventional investors are disinterested
- Business plans or strategic plans are not always well-formed
- Need and desire for risk are often not well-aligned
- Lack of net asset base to provide cushion
- Limited assets or collateral available to support debt capital

Calvert Foundation Investment Criteria



Operating History	Minimum three years
Total Assets	Minimum of U.S. \$1M or \$1M in Revenues.
Other Financial Criteria	<ul style="list-style-type: none"> •Independent Audited Financials •Positive Net Worth •Ratio of earned revenue (excluding grants) to total expenses of at least 40%
Social Criteria	<ul style="list-style-type: none"> •Focus on low income populations •Business model produces tangible benefits for society, for each dollar invested there is a societal savings
Impact Measurement	Must collect/analyze data that measures positive social impact of the enterprise on the constituent population

Ideal Characteristics



Ideal candidates will also demonstrate the following:

- 1. Strong financial condition:** Overall financial health is good, including positive net worth that exceeds the value of the loan, asset size of \$2 million or greater.
- 2. Management:** Good, stable management team; management team known among agencies and borrowers.
- 3. Production track record:** Consistent history of good quality products/services, strong performance on past contracts/buyers.
- 4. Diversified funder and revenue base:** With consistent year over year support and future commitments.

Loan Product and Structure



Use of Funds:	Line of Credit, Receivables Financing, Plant and Equipment Financing, Bridge Financing, Working Capital
Principal:	\$250,000 to \$1,000,000, with some possibility of exceptions if guarantees or collateral are available.
Term:	Range from three to five years. With sound financial condition, investments are often recommended for renewal at maturity, and/or maturity can be rolled forward during term.
Interest Rate:	5-9%
Payments:	Generally, the loan is interest only with principal due upon maturity, or long-term amortization match to underlying assets
Collateral:	Determined on a loan-by-loan basis

Description of the Deal



- **Facility**
 - \$1,500,000 participated in equal amounts to Calvert Foundation, Nonprofit Finance Fund and Partners for the Common Good as lead lender
- **Deal Strengths**
 - Expansion of current market.
 - Scalable operations without a large amount of fixed overhead.
 - Well known brand name.
 - Excellent board of directors with a broad experience in literacy campaigns.
 - 15 year history to the organization.
 - Solid business plan
- **Deal Weaknesses**
 - Large investment in inventory that cannot be returned.
 - First debt taken on by the organization.

Making it Happen/ Keeping it Going



Making the Investment Happen

- Underwriting and Mitigating Risk
 - Co-lending with Partners for the Common Good and Nonprofit Finance Fund
 - Structuring the loan with an interest reserve and amortization schedule

Keeping the Investment Strong

- Ongoing Monitoring
 - Quarterly submission of internally prepared financial statements
 - Operating budgets and cash flow statements
 - Audited financial statements
 - Inventory or other deal specific information
 - Quarterly phone calls to discuss financials and operations

For More Information



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