EXECUTIVE SUMMARY (1/2)

Philadelphia historically has had robust small business capital demand; COVID-19 has shifted demand dynamics

> Philadelphia had $7-9B in historical annual capital demand in 2016 to 2019, with **demand declining moderately, in part, due to diminishing trust in traditional financial institutions**

> Since the advent of COVID-19, **demand surged for emergency capital in 2020 Q2**, but is **expected to be lower through the end of 2021** due to significantly diminished demand for traditional debt products

Sufficient capital access is a challenge for many BIPOC, immigrant, and queer small business owners, who have been more vulnerable in the pandemic and civil unrest as a result

> There is a **shortage of multilingual capital providers**, particularly those who speak Asian languages, which creates a language access barrier for immigrant business owners from many parts of the world

> BSOs who serve diverse business owners find that **lack of existing relationships in the banking community make it difficult to connect their clients to capital**

Black and Brown business owners have greater difficulty accessing growth capital than their white peers, which hinders their pursuit of goals

> Small business owners who are starting up or have recently graduated from microloans have **difficulty accessing loans sufficient to meet their immediate goals**

> Black and Brown business owners have **difficulty finding equity or equity-like products, along with affordable revolving credit**

EXECUTIVE SUMMARY (2/2)

Capital supply has not historically met demand, despite increasing steadily since the financial crisis

> The estimated **gap between capital supply and demand is ~$7-8B annually**

Of the capital supplied, distribution has been inequitable by type, product size, and geography

> Capital supply in Philadelphia has been **driven by bank and CDFI lending, with low levels of SBA lending and equity capital investments relative to peer cities**

> Capital supply is **historically concentrated in microloans and large loans and equity investments**, creating a **"missing middle" for small businesses seeking financing between $100k and $250k to grow and scale**

> There are disproportionately **low rates of small business lending in Black and Latino(a) communities in North and West Philadelphia neighborhoods**

The COVID-19 pandemic and the recent social reckoning have exposed critical needs in the Philadelphia ecosystem, leading to shifts in the capital support landscape

> Federal emergency programs **exposed the lack of local SBA lending capacity for smaller dollar loans**, **leading to new entrants** (e.g., Lendistry) to help provide immediate lending capabilities

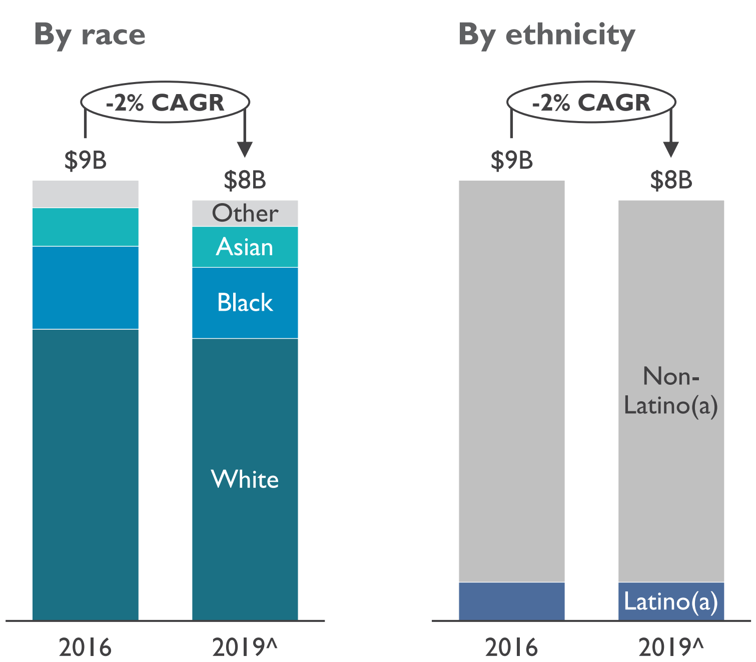
> **Regional and state emergency responses also highlighted the critical need for further collaboration among community financial institutions**, resulting in collaborative initiatives like the PA COVID-19 Relief Statewide Small Business Assistance program

> Responding to calls for racial equity, **local capital providers have also expanded sourcing pipelines among entrepreneurs and communities of color in Philadelphia**, which has, preliminarily, led to more equitable distribution of capital by race / ethnicity and geography

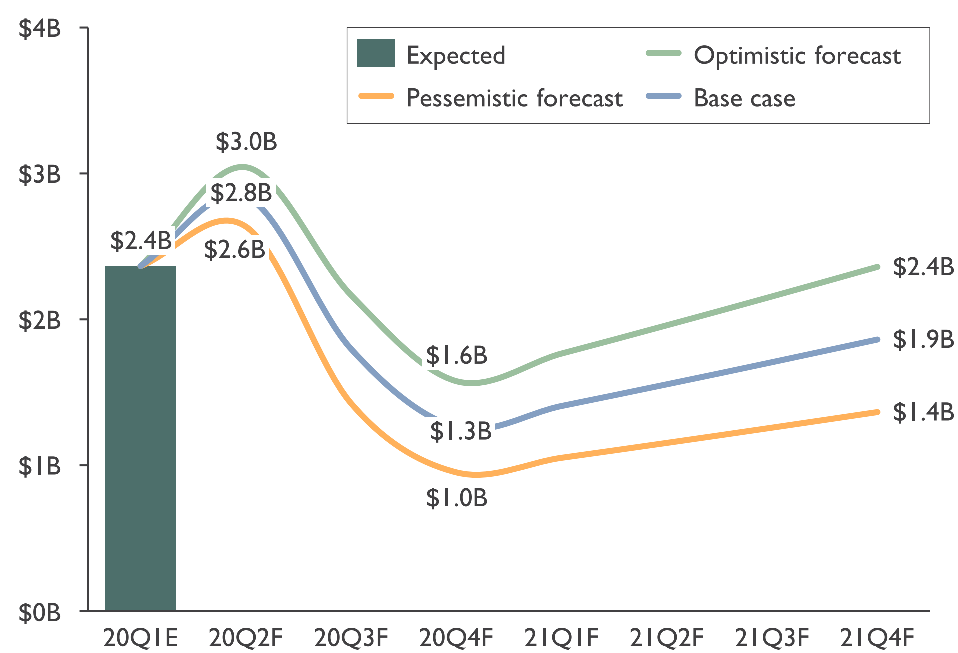
CAPITAL DEMAND: HISTORICAL AND FORECAST

Prior to C-19, capital demand had been declining, partially due to diminishing trust in traditional financial institutions; C-19 has positioned small businesses to offset lost revenue, creating short-term increased demand for emergency funds but lower long-term demand for traditional financing

Historical small business capital demand, 2016-2019



Forecast small business capital demand, 2020-2021F



Source: U.S. Census County Business Patterns; Survey of Non-Employer Statistics; Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

PRELIMINARY

CAPITAL DEMAND INSIGHTS: GENERALLY & BY STAGE

There is a shortage of right-sized and accessible capital for diverse small business owners, leaving them more vulnerable in the pandemic and civil unrest and hindering their growth

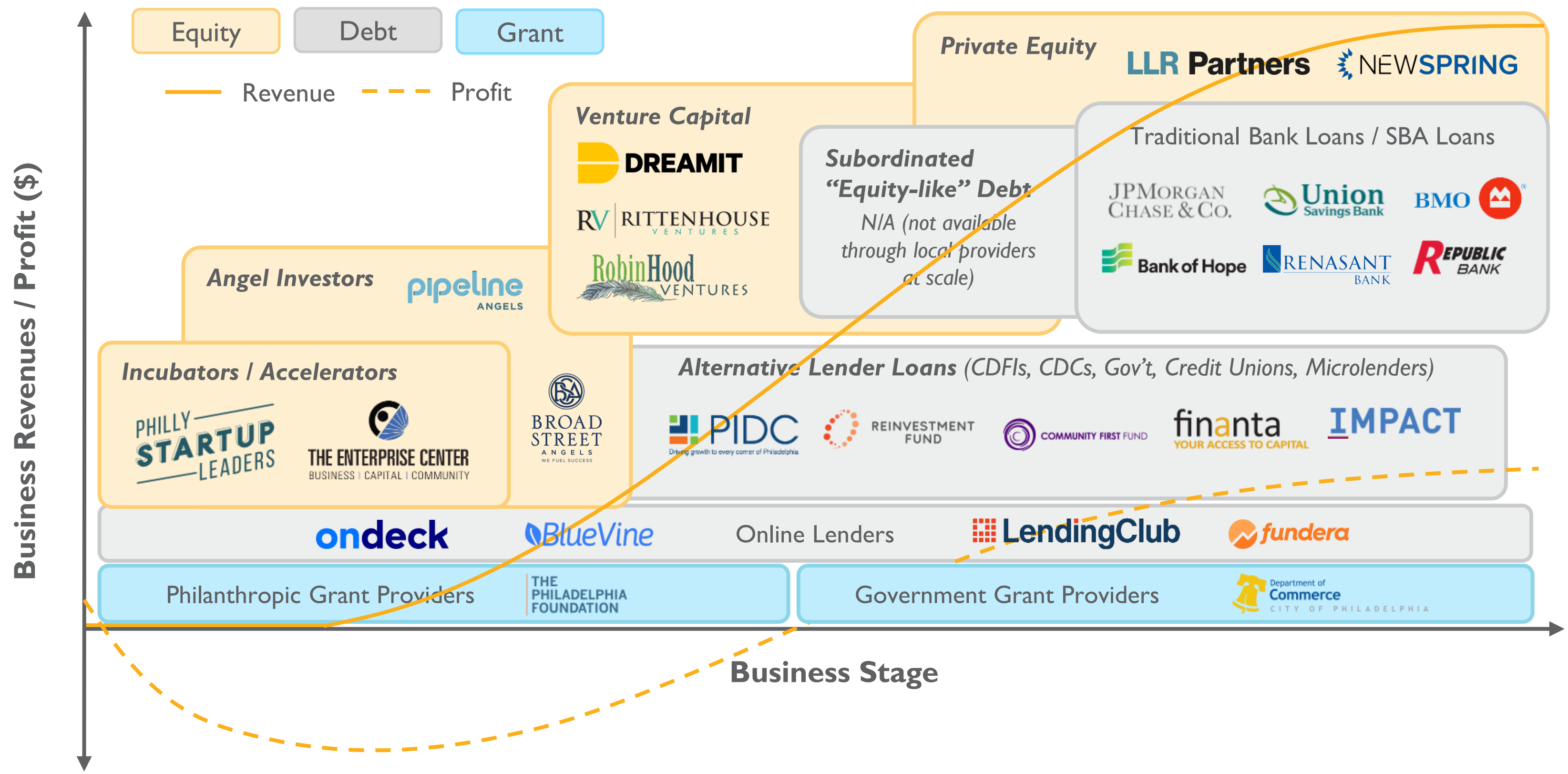
General Insights	Start-up Stage	Survival Stage	Growth Stage
> There is a shortage of multilingual capital providers, especially for Asian languages > Relief application windows were too short to be accessible to many business owners > Many small businesses were unprepared for the pandemic; few had emergency savings or clean bookkeeping > Business owners' willingness to engage with the capital landscape is based on their experience with individual providers	> **Black and Brown business owners struggle to find start-up capital (debt or equity)** > Start-ups have a short capital runway and significant need for operating capital during the pandemic (debt or equity) > There is a shortage of lenders that serve start-ups because there is a shortage of sufficient back-office infrastructure and talent to do due diligence (debt) > Lack of angel investment in Philly compared to peer cities (equity)	> Ability to access capital impacts personal economic stability (debt or equity) > BSOs must have relationships in the banking community to connect their members. There is a disconnect particularly within the LGBTQ+ community (debt) > Survival stage businesses are not taking advantage of cheap capital (including 0% loans) that is being made available in the pandemic (debt, grants) > In the unrest, more businesses turned to credit cards or family than to banks (debt)	> **Black and Brown business owners find that debt is the only source of available capital; equity is perceived as inaccessible** (debt) > Higher-revenue businesses were able to get PPP, but didn't qualify for other emergency dollars (debt, grants) > Business owners who graduate from microloans have difficulty going on to access sufficient growth capital (debt) > There is a need for more accessible contract financing for businesses who lack collateral (debt)

Sources: 1. Business Interviews; 2. BSO Interviews; 3. Restore and Reopen Grant Survey

NON-EXHAUSTIVE // ILLUSTRATIVE

CAPITAL SUPPLY: LANDSCAPE OVERVIEW

Philadelphia has a broad mix of capital providers serving businesses across different stages and mindsets

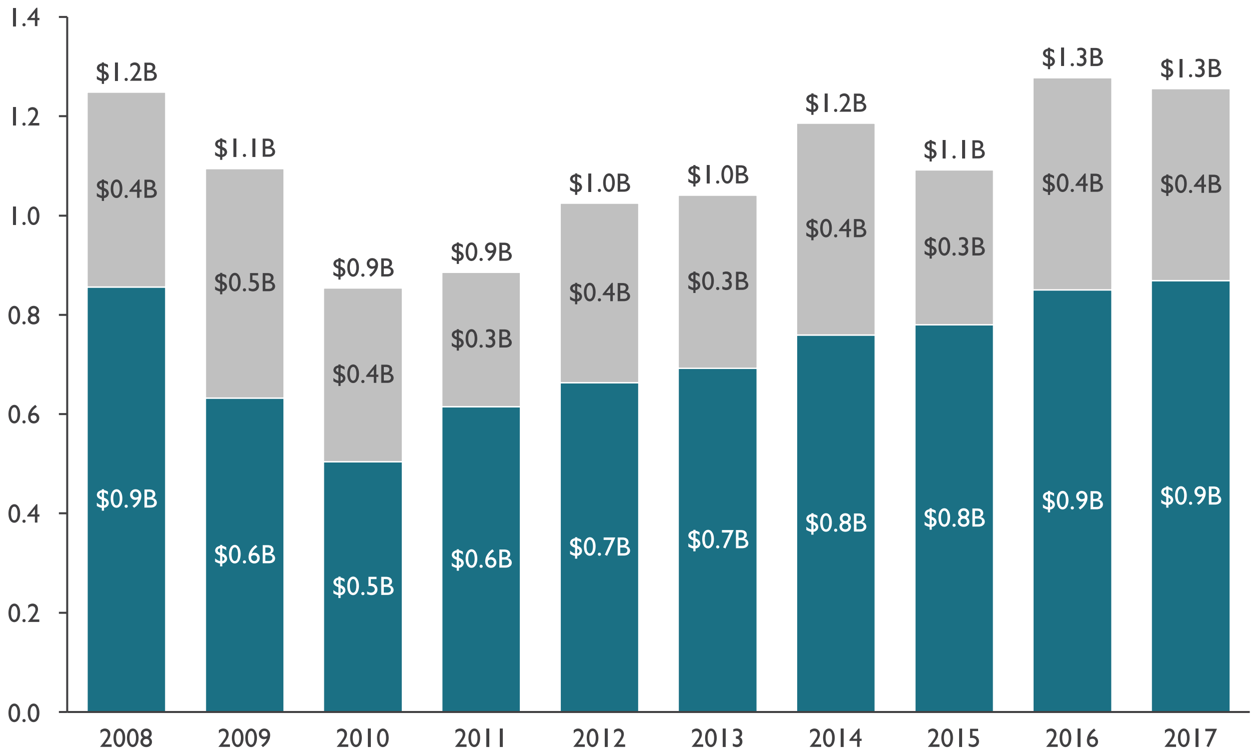


CAPITAL SUPPLY: HISTORICAL

Supply of debt and equity capital in Philadelphia has increased steadily since the financial crisis; however, there is still an annual gap of ~$7-8B between supply and demand

Small business investment in Philadelphia, by capital type

(In USD, 2008-17)



	CAGR% (2008-12)	CAGR% (2012-17)
Total	-4.8%	4.1%
Equity capital^	-2.0%	1.4%
Debt capital*	-6.2%	5.6%

Note: * Figures include lending from traditional sources (non-SBA bank lending, SBA lending, and CDFI lending) on a county-level;
^ Figures calculated on a Metropolitan Statistical Area level

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report

CAPITAL SUPPLY: PEER CITY COMPARISON

Philadelphia has lower SBA lending and equity investments relative to peer cities such as Atlanta and Chicago, while having relatively higher levels of CDFI lending

		Estimated Small Business Capital Supply* (2017)			
	# of small businesses	Non-SBA bank lending	SBA lending	CDFI lending^	Equity investments
Philadelphia	26k SBEs	$0.8B	$0.1B	$35M	$0.4B
Atlanta	53k SBEs	$1.6B	$0.3B	$12M	$0.9B
Chicago	125k SBEs	$5.3B	$1.0B	$14M	$1.9B
Columbus	33k SBEs	$0.2B	$0.1B	$26M	$0.2B
Dallas	61k SBEs	$2.8B	$0.4B	$6M	$0.3B
St. Louis	68k SBEs	$2.0B	$0.2B	$4M	$0.2B

Note: * Figures include lending from traditional sources (non-SBA bank lending, SBA lending, and CDFI lending) on a county-level, while equity investments are calculated on the Metropolitan Statistical Area level; ^ CDFI lending calculated as 2012-17 average

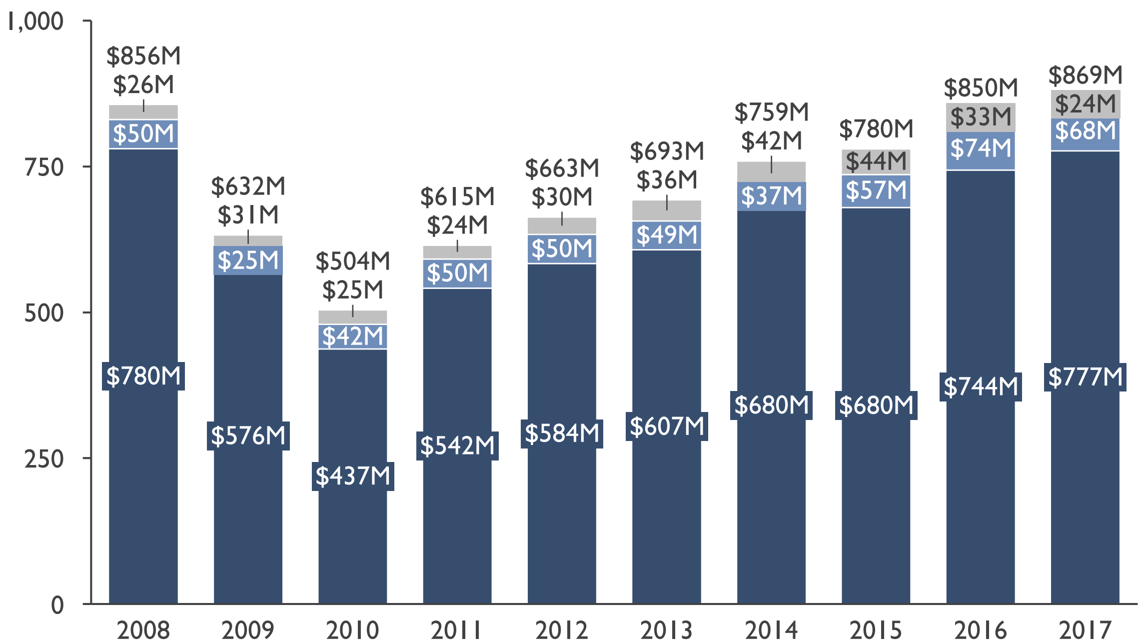
Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report

DEBT CAPITAL: OVERVIEW

Small business lending in Philadelphia is primarily sourced from non-SBA bank lending, which has steadily begun to recover since the financial crisis; while CDFI lending makes up the smallest source of funding in Philadelphia, it has held steady since the financial crisis

Small business lending in Philadelphia

(In USD, 2008-18)



	CAGR% (2008-12)	CAGR% (2012-17)
Total	-6.2%	5.6%
CDFI*	3.7%	-3.9%
SBA**	-0.1%	6.4%
Non-SBA Bank^	-7.0%	5.9%

Note: * CDFI Lending includes all lending by CDFI Fund recipients; ** SBA Lending includes SBA lending, excluding SBA loans made by CDFIs;
^ Non-SBA Bank Lending includes all bank lending, except for SBA loans made by banks or FFIEC institutions

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund

DEBT CAPITAL: LANDSCAPE CHARACTERISTICS

Bank lending in Philadelphia is driven by national, regional, and community banks that focus on larger loan sizes inaccessible to earlier stage entrepreneurs of color; meanwhile, CDFI and mission-driven lending is embedded in communities, but has room to grow

Most small business lending is provided by banks, which historically have been inaccessible to entre-preneurs of color

> In Philadelphia, lending is concentrated among national, regional, and community banks, with most lending sourced via their balance sheets and off-balance sheet investment vehicles

" There are numerous banks in and around Philadelphia – you have small to large institutions. Most banks have some sort of commercial presence and make small business loans in a five county in and around Philadelphia. They dominate the provision of small business capital – some of that is on balance sheet or other vehicles "

> Historically, bank lending has been concentrated in Center City, has skewed toward larger sized loans, and is less accessible to the city's entrepreneurs of color due to higher credit requirements and collateral / personal guarantees

" Most banks in Philadelphia prefer to lend on project-based initiatives in downtown corridors, rather than smaller dollar working capital loans. That type of larger financing requires collateral that deters many entrepreneurs of color from accessing such capital "

Philadelphia has a strong legacy of CDFIs, but their lending capacity has been hindered by balance sheet constraints

> Philadelphia has a history of community development financial institutions (CDFIs) offering smaller dollars loans to businesses in the startup and sustain phases of their lifecycle and pairing lending with business services and management education

> However, most CDFIs lend through their own balance sheets, which constrains CDFIs' liquid assets in loans they originate; this presents opportunities for CDFIs to seek new avenues to better integrate into capital markets, where CDFIs capitalize loans through pools of capital off their balance sheets

" As the former headquarters of the Opportunity Finance Network, Philadelphia has a storied history of CDFIs in the city. Philadelphia has 10 to 12 long standing CDFIs who have served the community for decades. Overall, the CDFIs are deeply rooted in the community, but like in other cities, rely on balance sheet lending, which hampers total lending in the city. "

> Among local CDFIs, public-private partnerships have positioned some institutions like PIDC to have unique financing structures that are position them to lend to more of the city's entrepreneurs

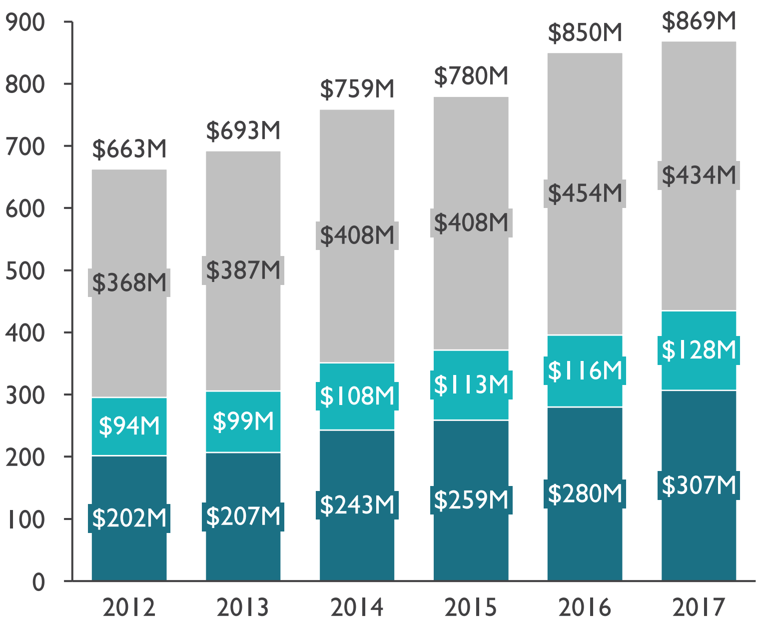
Source: Interviews with capital providers and economic development organizations

Supply

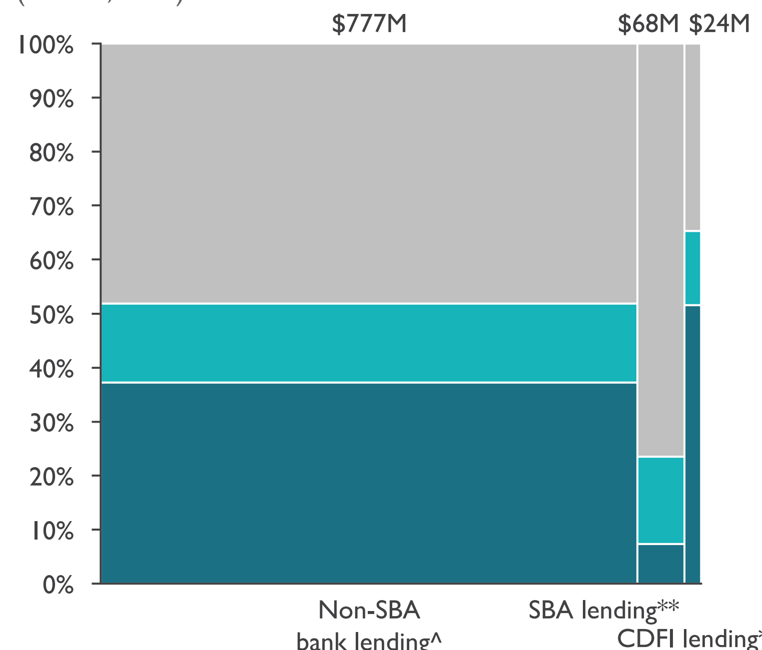
DEBT CAPITAL: LENDING BY SIZE

Lending in Philadelphia has historically been small (<$100k) or large (>$250k), creating a "missing middle" in debt capital for small businesses seeking to scale; nearly 51% of CDFI lending are made through loans under $100k – compared to only 7% of SBA loans

Small business lending, by loan size
(In USD, 2012-17)



Small business lending, by loan size and source
(in USD, 2017)



<$100k | $100-250k | >$250k

Note: * CDFI Lending includes all lending by CDFI Fund recipients; ** SBA Lending includes SBA lending, excluding SBA loans made by CDFIs;
^ Non-SBA Bank Lending includes all bank lending, except for SBA loans made by banks or FFIEC institutions

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund

DEBT CAPITAL: LENDING BY SIZE

The "missing middle" in debt capital is driven by market dynamics for capital providers, who are unable to serve that segment of the market at scale while maintaining financial sustainability

Lenders face challenges offering small dollar loans sustainably

> Bank and community lenders in Philadelphia have challenges offering small- to mid-sized loans sustainably and at scale, given fixed loan origination and servicing expenses which make the unit economics of smaller dollar loans unprofitable

" When you do things at scale, you look to become self-sustaining. Looking at the city's microlenders, their lending doesn't pay for their operations. Then, when you look to mid-sized loans up to $250k, you are looking to have a 40-to-50-person operation and need to be able to finance those back-office operations somehow – the economics are even worse. "

Philanthropy and capital aggregation helps subsidize micro-lending, but leaves a gap in mid-sized loans

> Community lenders in Philadelphia have historically looked to philanthropic sources and capital aggregation pools to supplement their loan revenues; this has historically enabled community lenders to offer loans under $100k, but limits mid-sized lending due to lack of available pools of capital

" Microlenders like WORC are able to provide microloans primarily through grants from philanthropy. Some of other CDFIs do access pools of capital to support microlenders as well. However, when you are getting to the mid-sized loans over $100k, philanthropies do not view that type of lending as inclusive of their mission, leaving a gap in lending "

Addressing the "missing middle" requires new tech platforms or other solutions that can unlock efficiencies to scale

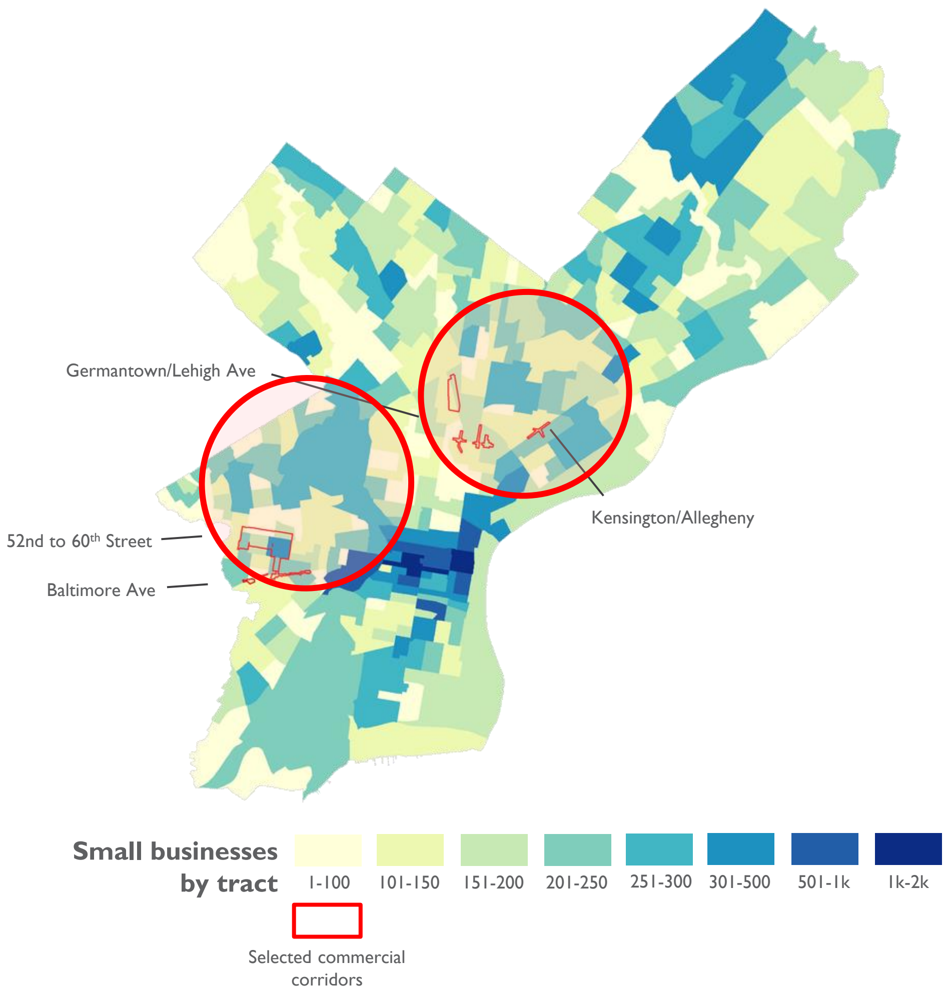
> To sustainably address the "missing middle" in capital in Philadelphia, market participants indicated a need for tech-enabled platforms that enable efficiency in loan operations processes, pointing to the entrants of fintech and online lenders as potential collaborators in the ecosystem

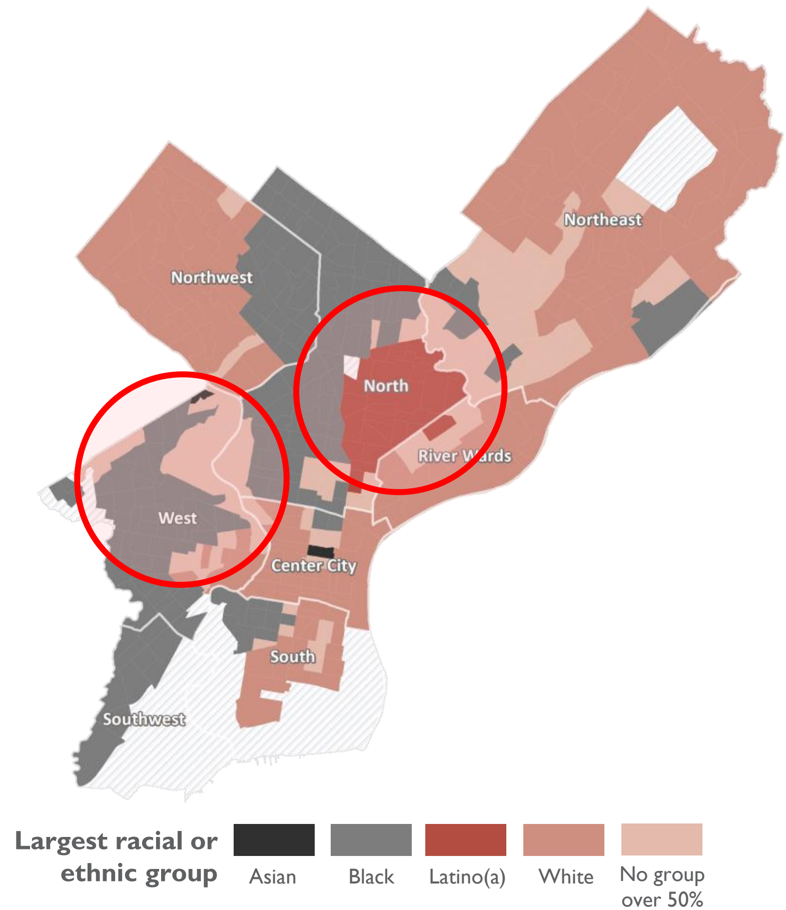
" When we are talking about that type of mid-sized lending, there is a potential for online lenders and alternative FinTech lenders to fill in the void and lend in that range. They may be able to create efficiencies in how they review and service loans, which if the technology works, has real potential to shift the market "

Source: Interviews with capital providers and economic development organizations

RECAP: DISTRIBUTION OF SMALL BUSINESSES IN PHILADELPHIA

Small businesses in Philadelphia are concentrated in Center City or areas of the city with the highest concentration of white residents





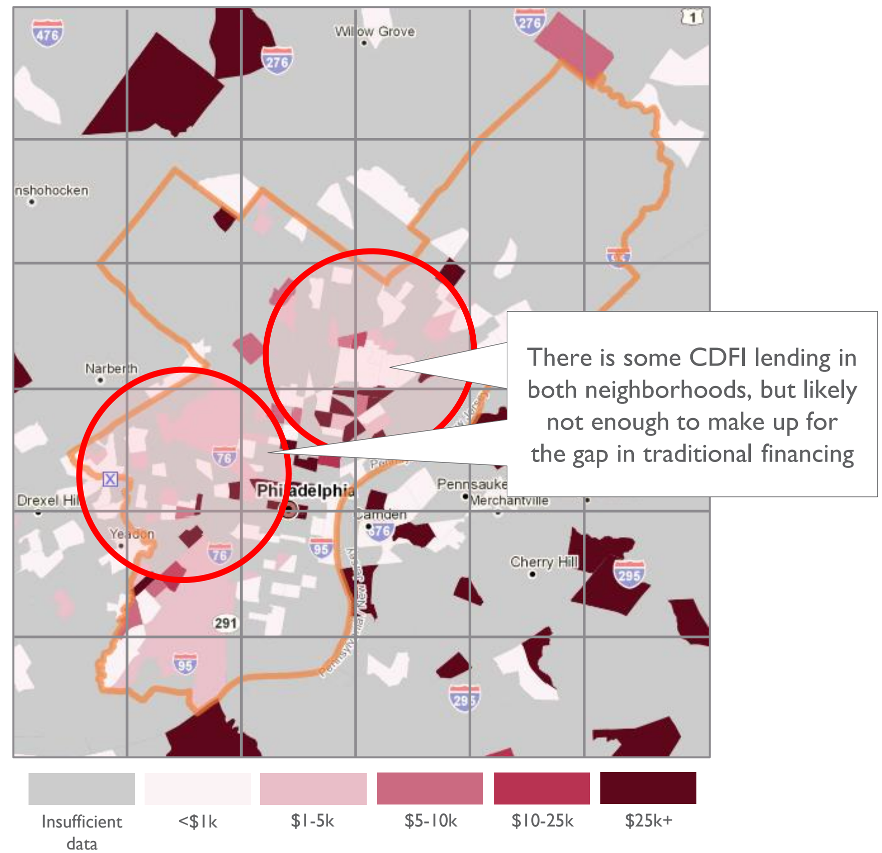
Source: Wolters Klewer Business Counts by Tract, 2017; U.S. Census Bureau ACS, 2018

DEBT CAPITAL: LENDING BY GEOGRAPHY

There are disproportionately low rates of bank lending in Black and Latino(a) neighborhoods in North and West Philadelphia; CDFI lending has filled some gaps, but significant unmet demand remains

Small Business Bank Loans under $100k (2017)

Aggregate CDFI Business Lending (2017)



Source: CRA and CDFI Fund data for Philadelphia (2017), accessed through PolicyMap

DEBT CAPITAL: LENDING BY GEOGRAPHY

Expanding lending in North and West Philadelphia requires new approaches in capital aggregation and in sourcing and referral partnerships among community lenders

Local CDFIs are deeply embedded in North and West Philadelphia, but need dedicated funds to scale impact

- Historically, businesses in North and West Philadelphia neighborhoods primarily have been served by local CDFIs that have deep relationships within communities; however, many of these CDFIs lack the operations to scale and make up for gaps in traditional lending in these neighborhoods
- To scale lending in these neighborhoods, local capital providers suggested creating new capital pools dedicated for these neighborhoods to aggregate risk and expand capacity of new and existing community lenders

" There are CDFIs who have a long history in supporting entrepreneurs in places like Kensington and West Philly, but they are small and do not have the capacity to provide capital to a handful of entrepreneurs per year. To expand lending in those neighborhoods, you need dedicated funds earmarked for those neighborhoods to expand capacity of those existing CDFIs and expand the presence of other community lenders who understand the value of investing in those neighborhoods "

Further collaboration among CDFIs helps bridge a trust gap among CDFIs who have not had as deep of community ties

- Larger community lenders historically have not had the necessary sourcing pipelines and operations in North and West Philadelphia, limiting capital providers' abilities to effectively assess risk and build trust and awareness among entrepreneurs in these neighborhoods
  - During COVID-19, citywide and statewide emergency funds have expanded awareness of larger community lenders and CDFIs, which has expanded sourcing pipelines of the city's coalition of CDFIs
- To build the appropriate pipelines in North and West Philadelphia, there is a need to create a more integrated knowledge sharing and referral platform among community lenders and investors

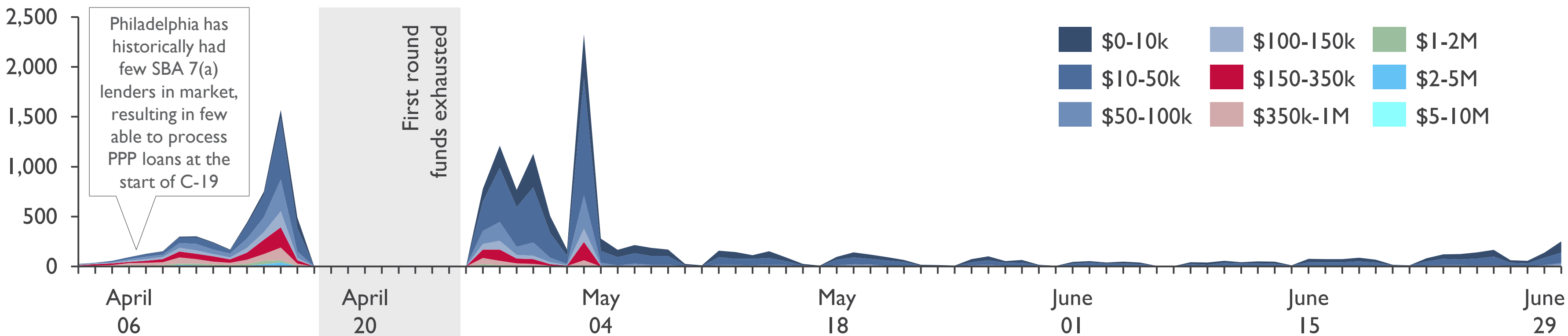
" Collaboration among CDFIs can help connect entrepreneurs in North and West Philly to a greater pool of capital. The neighborhood-based CDFIs can serve as a sourcing pipeline for other CDFIs, which helps connect those with deep community engagement with those who are more capitalized "

Source: Interviews with capital providers and economic development organizations

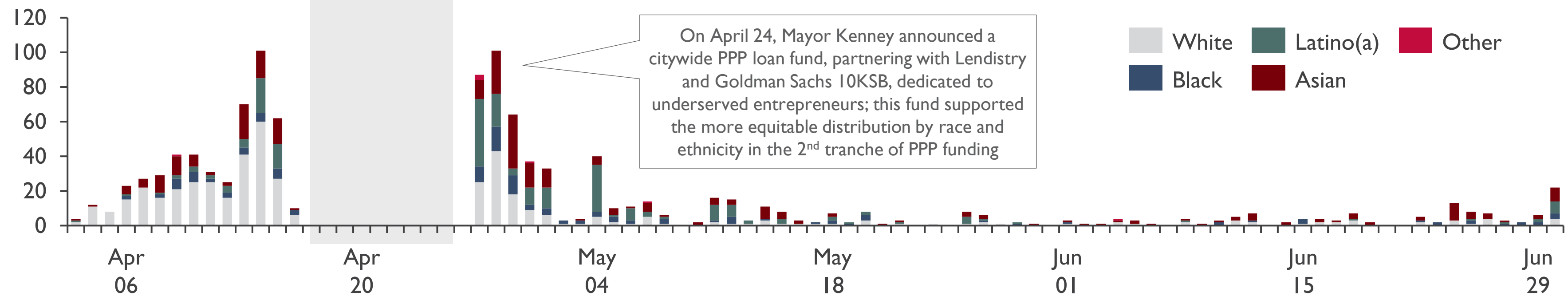
DEBT CAPITAL: PAYCHECK PROTECTION PROGRAM LOANS

PPP loans were difficult for business owners of color to access in the first rounds of funding, as lenders prioritized existing and larger borrowers with access to more support and resources

Daily distribution of Paycheck Protection Program loans in Philadelphia



Distribution of loan applicants in Philadelphia, by race and ethnicity*



Approval date

Note: * Does not include applicants who did not report race or ethnicity; 93% of borrowers in Philadelphia did not report race and ethnicity
Source: U.S. Department of Treasury Small Business Administration

Supply

NON-EXHAUSTIVE

DEBT / GRANT CAPITAL: LOCAL COVID-19 FUNDS

Local and municipal funds have been administered directly by government agencies or through a local intermediaries, providing grants and zero-interest loans to small businesses

	Philadelphia COVID-19 Small Business Relief Fund	Philadelphia Paycheck Protection Program Small Business Relief	R+ Latinx Small Business Relief Fund	COVID-19 Relief PA Statewide Small Business Assistance program
Description	Local C-19 relief fund offering grants and zero-interest loans for businesses with less than $5M in annual revenue	Fund partnership to deploy SBA PPP loans to help local small businesses, with a focus on underserved communities	Grant fund for Latino(a)-owned micro businesses in Philadelphia Region to Retool, Restock, and Redesign as they Reintegrate into the economy	Statewide grant program that provides grants ranging from $5,000 to $50,000 to small businesses economically impacted by C-19
Capitalization	$13.3M in total grants and zero-interest loans distributed	$10M in Paycheck Protection Program loans	No publicly available information	$190M in CARES Act funds
Distribution time	Funds opened on March 23 and closed on March 30	Funds dispersed through second application window of PPP loan made available through June 30	N/A; funds are still being raised	Two rounds of application windows (1st round: 6/30-7/14; 2nd round: 8/10-8/28)
Distribution intermediary	PIDC Philadelphia and Department of Commerce	Lendistry and Goldman Sachs 10,000 Small Businesses	Greater Philadelphia Hispanic Chamber of Commerce	PA CDFI Network (including 18 CDFIs) and Lendistry
Fund status	Closed	Closed	N/A; fund pending	Closed on August 28

Source: Organizational websites

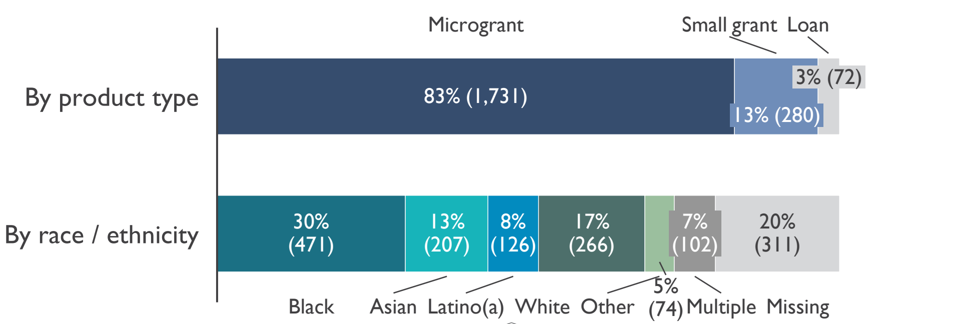
DEBT / GRANT CAPITAL: COVID-19 SMALL BUSINESS RELIEF FUND

Initial findings from the Philadelphia COVID-19 Small Business Relief Fund indicated that the fund had a more equitable distribution by race / ethnicity and geography than historical capital sources, presenting an opportunity to build upon to further support underserved entrepreneurs

Small Business Relief Fund Approval pipeline

7,232	6,112	2,083
Applied	Eligible	Approved

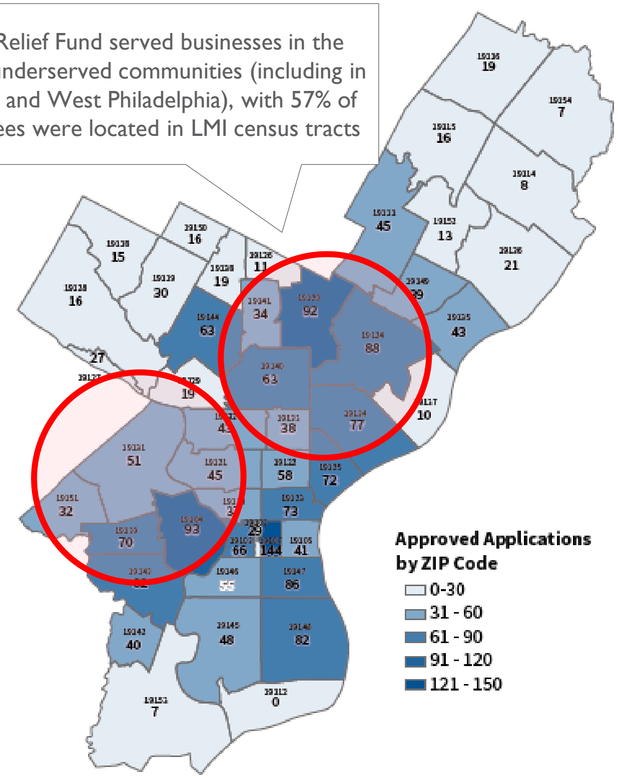
Product and demographic distribution of approved applications



According to self-reported demographic information, 66% of awards went to minority business owners and 32% went to women-owned businesses

Geographic distribution of approved applications

The Relief Fund served businesses in the City's underserved communities (including in North and West Philadelphia), with 57% of awardees were located in LMI census tracts

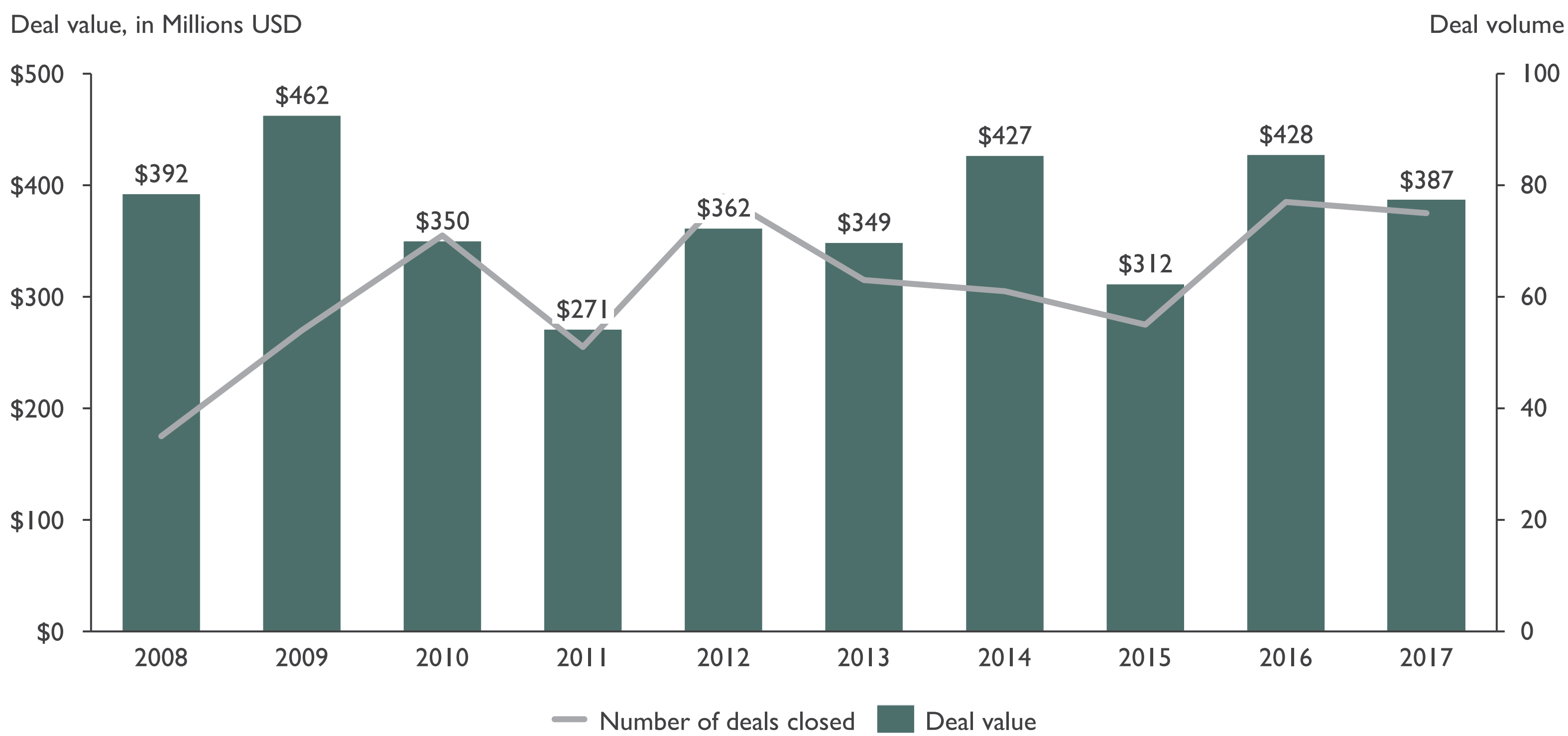


Source: City of Philadelphia Commerce Department; PIDC Philadelphia

EQUITY CAPITAL: OVERVIEW

Equity investment has fluctuated since the aftermath of financial crisis, with annual equity investments between ~$300-450M from 2012 to 2017

Philadelphia Angel Investment and Venture Capital Deal Value ($) and Volume (#) (2008-17)



Source: PwC / CB Insights MoneyTree Report

EQUITY CAPITAL: LANDSCAPE CHARACTERISTICS

Equity investments in Philadelphia have been concentrated in high growth industries and among investor networks that are not deemed as accessible by entrepreneurs of color; momentum has grown to tie supplier diversity initiatives with equity, but more is needed

Equity investors focus on industries that are historically inaccessible to entre-preneurs of color

> In Philadelphia, equity capital has been historically concentrated in high-growth, tech-enabled industries with few pipelines for the city's entrepreneurs of color; equity providers typically look for high-growth potential due to limited partnership structures that require higher rates of return within more limited time windows

" In Philadelphia, the city's angel and venture capital networks primarily seek to investments in higher growth industries like tech and healthcare to get the 10x rate of return they need to repay their limited partners. These industries, however, have not been ones with high concentrations of entrepreneurs of color, which creates a pipeline problem in the first place "

Angel / venture capital pipelines and networks are also deemed inaccessible to entrepreneurs of color

> Few equity providers in Philadelphia have historically had sourcing pipelines with a dedicated racial equity lens, limiting access among the city's entrepreneurs of color into equity investor networks and the corresponding customer and market opportunities to grow their businesses

" Entrepreneurs of color in higher growth industries still are not able to access equity investments because of how the city's investor networks work. Quite often, these networks don't have sourcing pipelines that have any racial equity lens, which makes it difficult for entrepreneurs of color in the city to penetrate "

Momentum has grown tying anchor supplier diversity initiatives with equity investments

> The Philadelphia Anchors for Growth and Equity (PAGE) have begun discussions to tie equity and debt investments to its anchor supplier diversity initiatives, potentially serving as a model to support of contract-ready entrepreneurs of color with both capital and anchor contract opportunities

" Initiatives like the Philadelphia Anchors for Growth and Equity (PAGE) have started to think of ways to integrate equity investment into supplier diversity procurement programs. There is an opportunity to support procurement-ready entrepreneurs of color through this program if it works out "

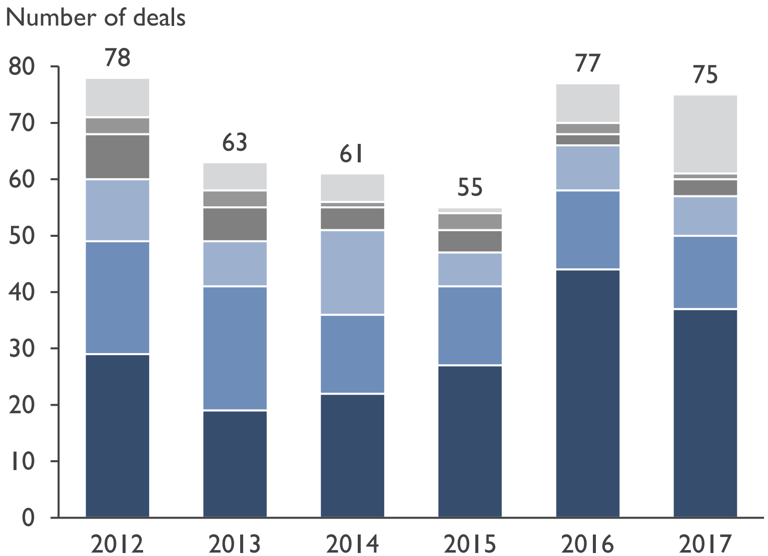
Source: Interviews with capital providers and economic development organizations

Supply

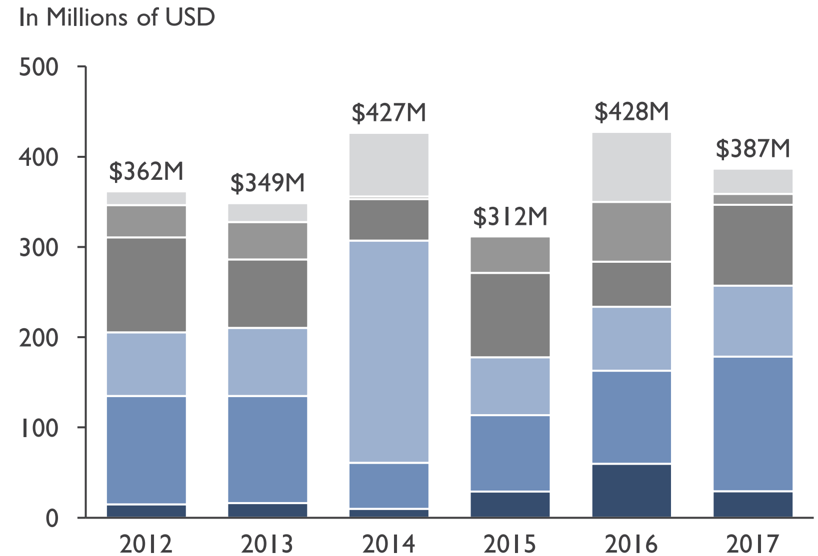
EQUITY CAPITAL: LANDSCAPE BY SERIES

The majority of equity deal volume is in Seed and Series A investments, while larger and later stage investments represent a higher proportion of total deals by value

Philadelphia Angel Investment and Venture Capital Volume (#), by series



Philadelphia Angel Investment and Venture Capital Value ($), by series



Series: Seed, Series A, Series B, Series C, Series D, Other*

Note: * Other includes Convertible Notes, Growth Equity, and other forms of equity capital, as defined by PwC / CB Insights MoneyTree Report
Source: PwC / CB Insights MoneyTree Report

EQUITY-LIKE CAPITAL: REVENUE-BASED FINANCING

"Equity-like" capital products like Revenue-Based Financing will become increasingly important financing options for small businesses in Philadelphia, as businesses look for more flexible products and traditional sources are expected to contract in the coming months

Overview

- Revenue-Based Financing (RBFs) is **a form of capital where investors provide capital to businesses in exchange for a percentage of monthly gross revenues**
- RBFs are **"equity-like" in nature**, as businesses repay investors based on financial performance, **making the products more flexible for startup businesses**
- Unlike equity, **RBFs do not require businesses to give up ownership**
- Also, because revenue-based financing comes from investors or financing firms, **businesses are not typically required to have physical collateral or a personal guarantee**
- RBFs are still nascent in the industry, with early entrants like Lighter Capital and Decathlon Capital present as alternatives to traditional VC; **Founders First Capital is among the only RBF providers focused on diverse entrepreneurs**

Case study: Founders First Capital Partners

- Founders First Capital Partners (F1stcp) is **a revenue-based capital provider and accelerator for underrepresented entrepreneurs**
- F1stcp offers a **Revenue-Based Financing product**, providing capital to businesses in exchange for a percentage of monthly gross revenues
- F1stcp **offers funding with an average check size of $250k with a three to five-year repayment term**
  - F1stcp' repayment from portfolio companies is capped at 1.5-2x of amount financed with warrant coverage of 1 to 5%
- **F1stcp's primary sourcing channel is through its educational platform**, which serve as a pipeline to assess prospective portfolio companies ahead of investment
- Following investment, F1stcp's Credit Officer **evaluates company financials and bank reconciliation on monthly basis to ensure repayment**, requiring additional oversight than more traditional VC funds

Founders First CAPITAL PARTNERS, LLC

Source: Fundera; Company website and materials

HISTORICAL: DEMAND METHODOLOGY

We used a bottoms up methodology to estimate the demand for financing from small businesses in Philadelphia across demographic groups

Number of small employer and non-employer firms in Philadelphia

Asian | Black | Latino(o) | White | Other*

×

% of firms that apply for capital by race and ethnicity

=

Number of small employer and non-employer firms seeking capital

Asian | Black | Latino(o) | White | Other*

×

Average amount of financing sought by race and ethnicity

=

Historical demand for capital in Philadelphia

Sources

U.S. Census County Business Patterns, Survey of Non-Employer Statistics, Annual Survey of Entrepreneurs, Survey of Business Owners

Number of businesses 2018 and 2019 estimated to be increased by 2014-17 annualized growth rate

Federal Reserve, Small Business Credit Survey (2016-19)

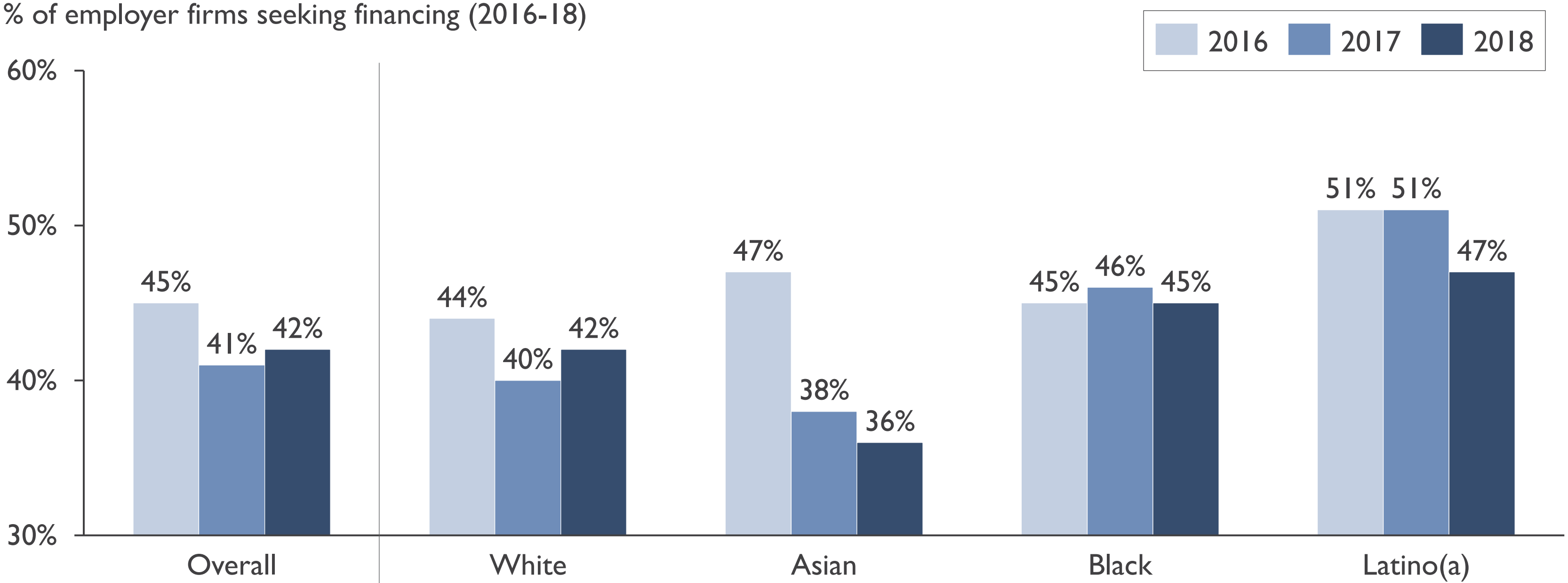
Federal Reserve, Small Business Credit Survey (2016-19)

HISTORICAL: FED CREDIT SURVEY (I OF II)

The Federal Reserve's Small Business Credit Survey measures business owners' appetite to seek capital by demographic group among small employer and non-employer firms

Federal Reserve Small Business Credit Survey on Employer Firms

% of employer firms seeking financing (2016-18)



Avg. financing sought (2018)	~$282k	~$300k	~$362k	~$128k	~$279k

Source: Federal Reserve, Small Business Credit Survey (2016-19)

HISTORICAL: FED CREDIT SURVEY (II OF II)

The Federal Reserve's Small Business Credit Survey measures business owners' appetite to seek capital by demographic group among small employer and non-employer firms

Federal Reserve Small Business Credit Survey on Non-Employer Firms

% of employer firms seeking financing (2016-18)

Avg. financing sought (2018)	~$137k	~$149k	~$122k	~$95k	~$80k

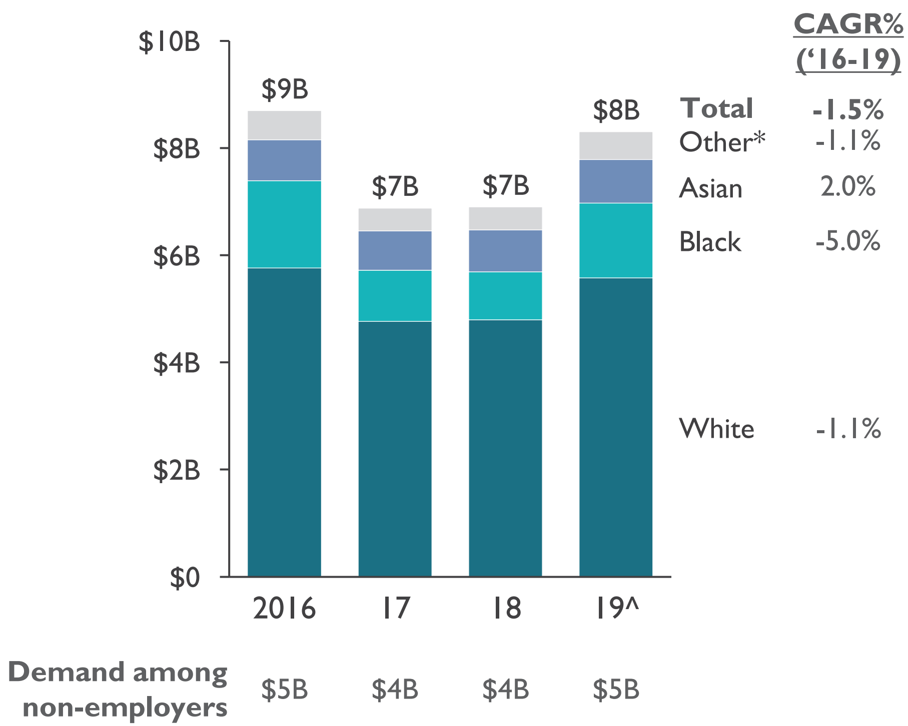
Source: Federal Reserve, Small Business Credit Survey (2016-19)

Demand

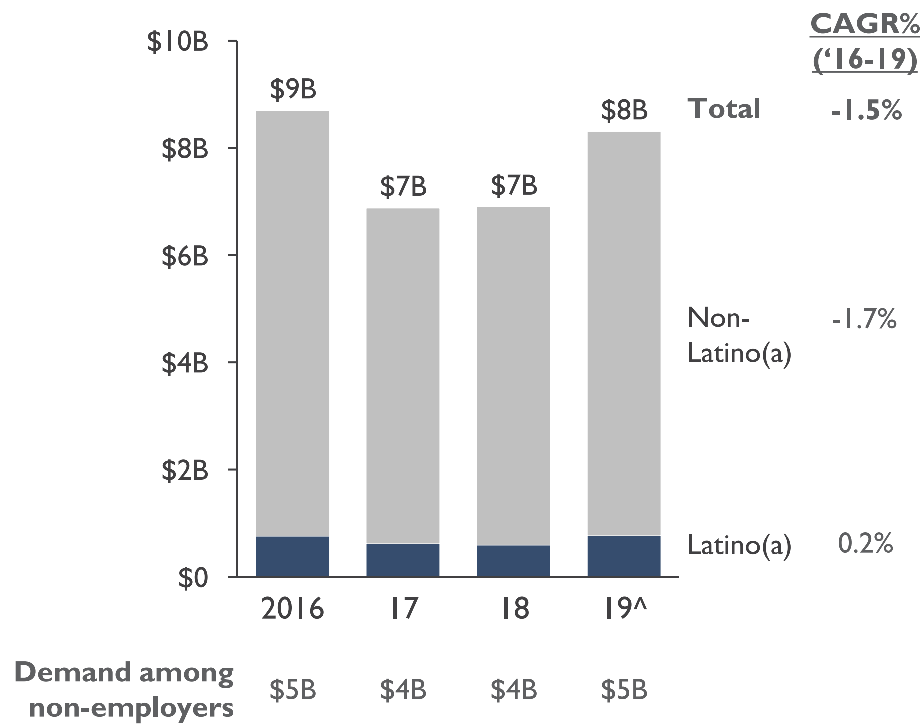
HISTORICAL: TOTAL CAPITAL DEMAND

Small business capital demand in Philadelphia is estimated to be between $7-9B annually; demand has declined across the U.S. from 2016 to 2019, driven, in part, by the 2017 Tax Relief Bill and declining trust in traditional financial institutions among some affinity groups

Small business capital demand in Philadelphia
By race, in billions of USD (2016-19)



Small business capital demand in Philadelphia
By ethnicity, in billions of USD (2016-19)



Source: U.S. Census County Business Patterns; Survey of Non-Employer Statistics; Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

FORECAST: IMPACT OF COVID-19

The effects of COVID-19 are expected to increase demand for emergency no-to-low cost funding in the near term, while reducing demand for traditional small business financing in the longer term

Demand Drivers	Change due to COVID-19		Est. impact on demand	
			Near-term *(20Q2-20Q3)*	***Longer term*** *(20Q3-21Q4)*
Number of small business	Job losses will compel some unemployed to start new businesses	↗	↓	↓
	Reduced sales and limited access to emergency funding will force many small businesses to close	↓		
Proportion seeking financing	New emergency funds and increased capitalization of existing funds will increase near-term demand for low cost debt and grants	↑	↑	↓
	Small businesses pivoting their businesses models (e.g., switching to manufacturing PPE) will need additional working capital	↗		
	Lower sales as economy recovers in medium-to-long term will lower demand for investment capital	↓		
	Emergency debt funding will increase leverage and prevent many businesses from taking on additional debt capital	↓		
Amount of financing sought	Businesses pivoting their business models will have higher capital needs	↗	↓	↓
	Uncertain sales expectations and macro economic conditions will create fears of “over-leveraging” and lower appetite in debt products, while reducing needs for working capital or growth-related investments	↓		

FORECAST: KEY ASSUMPTIONS

To estimate the impact of COVID-19 on demand for small business financing through the end of 2021, we have made the following assumptions across three different forecast scenarios

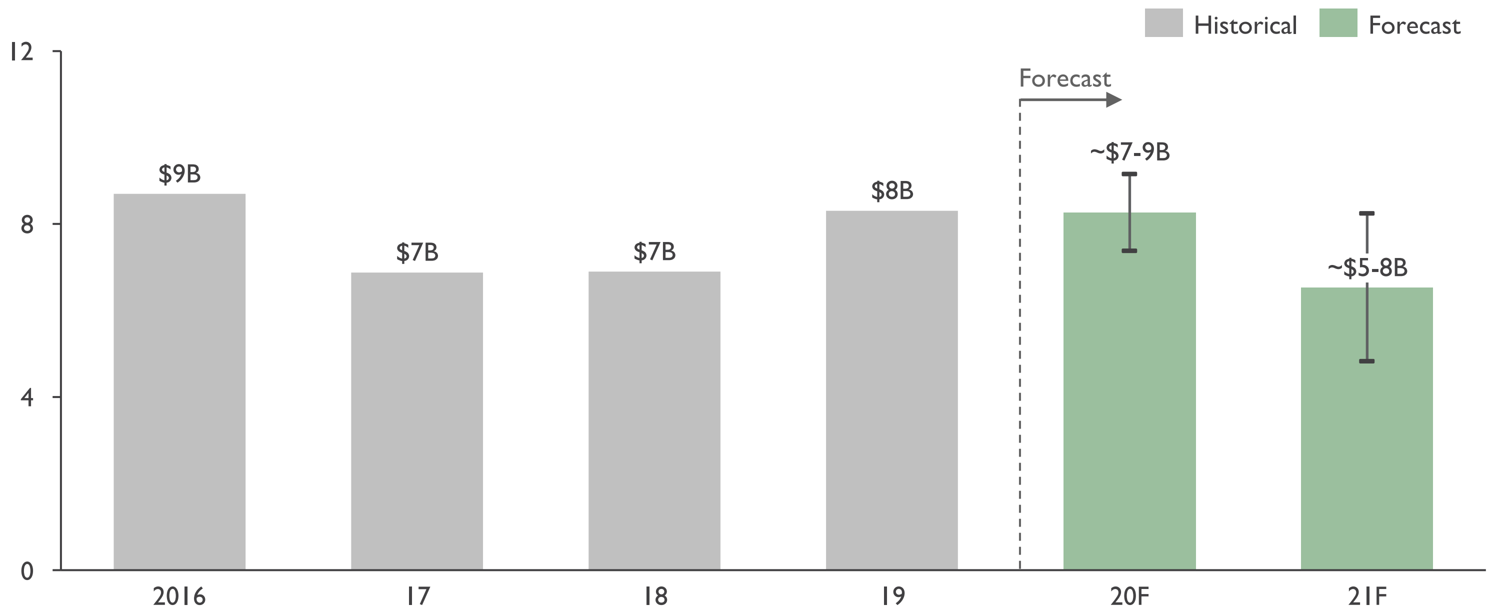
	# of small businesses in Philadelphia	% of small businesses seeking financing	Avg. financing sought
1 **Base case** Expected scenario with assumptions that analysts deems most likely to occur	• Net growth in employer and non-employer firms equal to median growth rates during financial crisis (2007-10)	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys • From 20Q4-21Q4, proportion seeking financing assumed to decline due to lower revenue expectations*	• Amount sought to decline relative to lower expected revenue, assuming a direct relationship between revenue and capital demand
2 **Optimistic forecast** Scenario based on a moderately severe recession due to C-19	• Net growth in employer and non-employer firms equal to growth rates during the latter years of the financial crisis (2008-10)	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys • From 20Q4-21Q4, proportion seeking financing assumed to decline due to moderate revenue expectations*	• Amount sought to decline relative to moderate expected revenue, assuming a direct relationship between revenue and capital demand
3 **Pessimistic forecast** Scenario where C-19 recession results in conditions seen at the height of Great Recession	• Net growth in employer and non-employer firms equal to growth rates at the height of the financial crisis (2007-09)	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys • From 20Q4-21Q4, proportion seeking financing assumed to decline due to significantly lower revenue expectations*	• Amount sought to decline relative to significantly lower expected revenue, assuming a direct relationship between revenue and capital demand

Note: * Based on a logistic regression model assessing the relationship between the percentage seeking financing and the aggregate small business debt-to-income ratio

FORECAST: TOTAL CAPITAL DEMAND

We estimate annual demand will be ~$5-9B over the next two years, driven by reduced revenues, uncertain business and macro economic outlook, and unsustainable debt burdens

Philadelphia small business capital historical demand and forecast
(2016-21Q2F)
Billions of USD



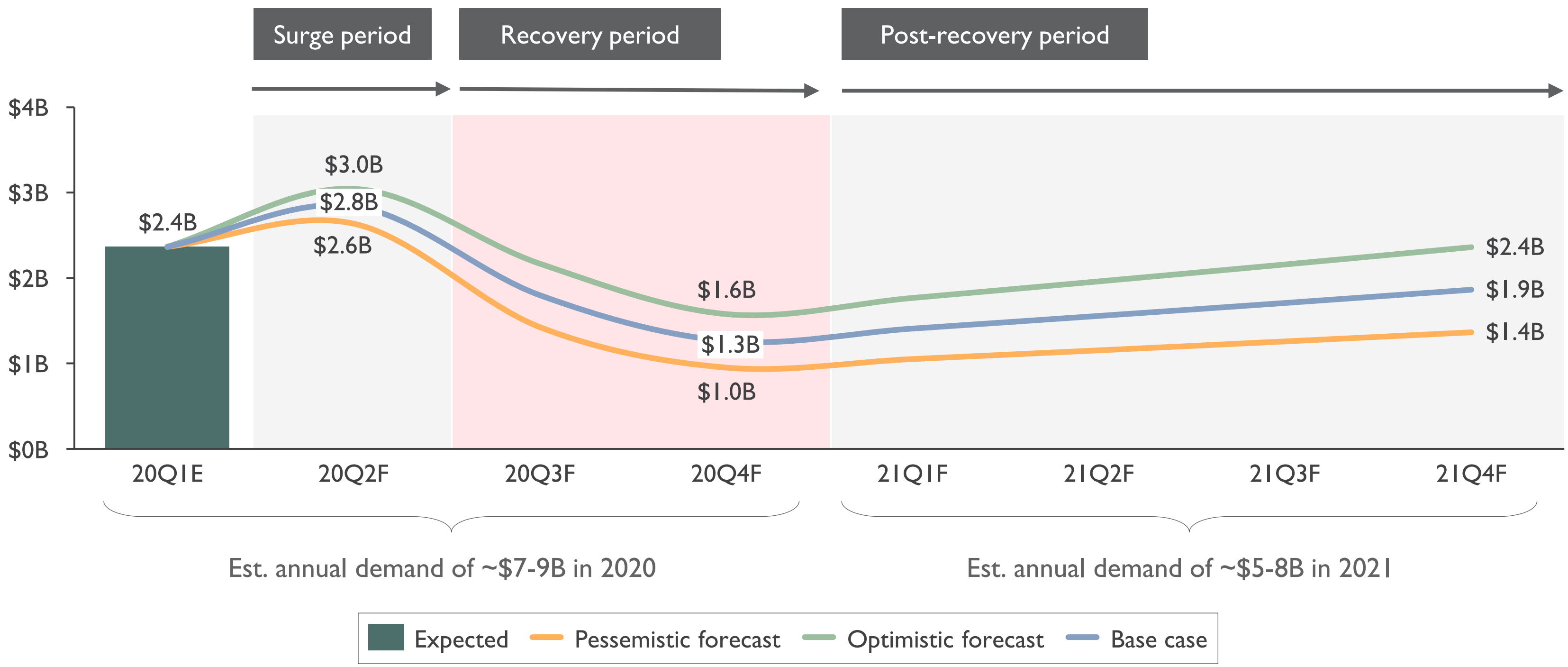
	2016	17	18	19	20F	21F
Demand among non-employer firms	$5B	$4B	$4B	$5B	~$5-6B	~$3-5B

Source: U.S. Census County Business Patterns; U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

FORECAST: TOTAL CAPITAL DEMAND

COVID-19 has prompted some small businesses to position themselves for growth; however, most small businesses are trying to offset lost revenue, creating short-term increased demand for emergency funding but long-term reduced demand for traditional financing

Philadelphia small business capital demand forecast
(2020-21F, Billions of USD)



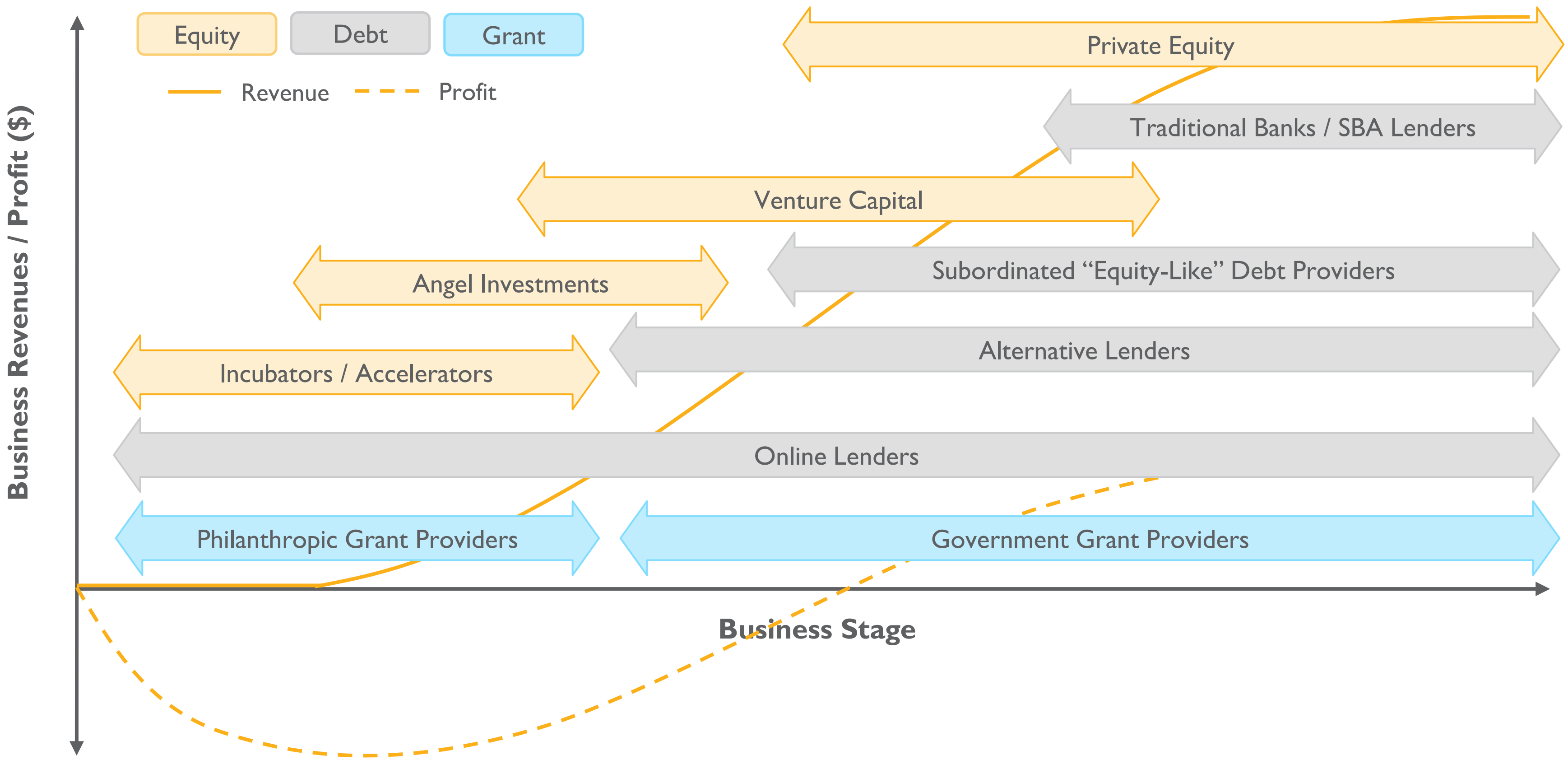
Source: U.S. Census County Business Patterns; U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

Supply

NON-EXHAUSTIVE // ILLUSTRATIVE

CAPITAL LANDSCAPE: FRAMEWORK

A range of institutional capital providers exists to support entrepreneurs at different stages of business with debt, equity, and grant capital



DEBT CAPITAL: TOP LENDER PROFILES

All of Philadelphia's top 7(a) lenders are banks, most of which are regional and community banks rather than national banks; Philadelphia has a well-established CDFI presence, with lending distributed among many long-serving CDFIs in the market

Top 10 SBA 7(a) lenders	# of SBA loans deployed, 2013-17	Average loan size
Union Savings Bank	155	$102k
Renasant Bank	130	$113k
Choice Financial Group	93	$94k
RiverWood Bank	60	$113k
Bank of Hope	59	$143k
First Midwest Bank	43	$285k
BMO Harris Bank	36	$590k
JPMorgan Chase Bank	35	$598k
Associated Bank	34	$667k
MUFG Union Bank	28	$909k

Representative CDFI lenders	# of loans deployed, 2013-17	Average loan size
FINANTA	630	$12k
PIDC Philadelphia	343	$315k
Women's Opportunities Resource Center	185	$5k
Enterprise Center Capital Corporation, The	87	$36k
Entrepreneur Works Fund	45	$13k
Reinvestment Fund, Inc., The	33	$1.3M
Other *(incl. lenders unidentifiable from CDFI fund data)*	45	$60k

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund

Supply

CAPITAL SUPPLY: NON-TRADITIONAL SOURCES

Alternative sources and funding products will become increasingly important financing options for small businesses, as traditional sources are expected to contract in the coming months

	Online lending	Grants	Revenue-Based Financing
Description	> Online lending has played an increasingly important role in small business lending, with **total online lending growing to ~$7-8B annually across the U.S.** > Balance sheet lenders, peer-to-peer lenders, and invoice and payables financing providers **offer traditional debt products to small businesses** > Multi-lender marketplaces also **meet demand by matching investors to small business**	> Small business grants are **non-repayable funds directly to small businesses through public or nonprofit sources** > Prior to COVID-19, **small business grant programs were geared towards community improve-ments** (e.g., PA Redevelopment Assistance Capital Program) > During and following COVID-19, **supply of grants is expected to increase to support recovery** (e.g. PA COVID-19 Relief Statewide Small Business Assistance program)	> Revenue-Based Financing (RBF) is **a form of capital where investors provide capital to businesses in exchange for a percentage of monthly gross revenues** > RBFs are **"equity-like" in nature, as businesses repay investors based on financial performance** > Unlike equity, **RBFs do not require businesses to give up ownership**
Illustrative providers	ondeck, LendingClub, BlueVine, fundera	City of Philadelphia, PGW, pennsylvania Department of Community & Economic Development	Founders First Capital Partners, LLC; lighter capital; Decathlon Capital Partners

Source: Organization websites

ONLINE LENDING (I OF II)

The U.S. landscape of online small business lenders has grown across balance sheet lenders, peer-to-peer lenders, e-commerce platforms, and invoice companies, along with marketplace lenders

	Lenders	Multi-lender marketplaces
Balance Sheet Lenders	CAN CAPITAL, lighter capital, snapcap (A better way to borrow.), CREDIBLY, RAPID ADVANCE, smartbiz, FUNDATION, Kabbage, ondeck	Biz2Credit
Peer-to-Peer Lenders	CREDIBILITY CAPITAL, ApplePie CAPITAL, LendingClub, BOND STREET, Funding Circle, STREET SHARES	bizfi
Payments / E-Commerce Platforms	Square, PayPal, amazon lending	fundera
Invoice & Payables Financing	BlueVine, C2FO, FUNDBOX, taulia, CreditSuppliers (Building Better)	lendio

Source: Milken Institute Center for Financial Markets

ONLINE LENDING (II OF II)

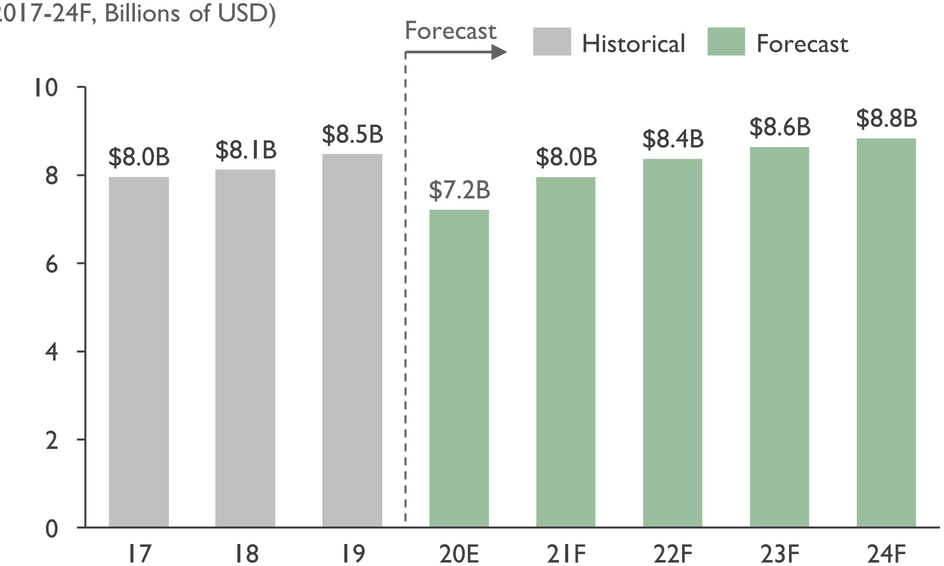
Online lenders have played an increasingly important role in small business lending in the U.S., with total online lending estimated at $7-8B in annual loan volume across the country

Overview

- In the U.S., online lenders have become an increasingly large segment of small business lending – providing access to credit across both urban and rural markets
- Online lenders include balance sheet lenders, peer-to-peer lenders, payments / e-commerce platforms, and invoice and payables financing
- In addition to the individual lender landscape, multi-lender marketplaces have also met demand by matching investors – both individual and institutional – to small business in need of money
  - Marketplace platforms have shown strong growth in recent years, on par with online balance sheet lenders

U.S. online small business lending

(2017-24F, Billions of USD)



	17	18	19	20E	21F	22F	23F	24F
# loans	~110k	~111k	~112k	~115k	~116k	~116k	~116k	~116k
Avg. loan size	~$73k	~$74k	~$75k	~$63k	~$69k	~$72k	~$75k	~$76k

Source: Milken Institute Center for Financial Markets

NON-EXHAUSTIVE // ILLUSTRATIVE

EQUITY CAPITAL: TOP INVESTOR PROFILES

Based on compilations of equity investors in the Philadelphia region, many earlier stage seed and venture capital firms focus exclusively on healthcare, and tech sectors – reflecting the city's assets as a hub for healthcare and tech innovation

Seed / Angel	Venture Capital	Private Equity
pipeline ANGELS	RV RITTENHOUSE VENTURES	LLR Partners
RobinHood VENTURES	COMCAST VENTURES	NEWSPRING
BROAD STREET ANGELS WE FUEL SUCCESS	DREAMIT	EUREKA EQUITY PARTNERS™
MAG© MID-ATLANTIC ANGEL GROUP	Ben Franklin Technology PArtners Southeastern Pennsylvania	VERSA CAPITAL MANAGEMENT, LLC
Social Venture Circle		

Source: MOSourceLink; Axial Forum

"EQUITY-LIKE" CAPITAL: FOUNDERS FIRST – CASE STUDY

Founders First Capital Partners is a revenue-based capital provider that invests in companies through a cohort-based platform to empower underrepresented founders

Products / Services Offerings

- Founders First offers a **Revenue-Based Financing (RBF) product**, providing capital to businesses in exchange for a percentage of monthly gross revenues
- Founders **offers funding between $100k and $250k with a five-year repayment term**
  - Founders' repayment from portfolio companies is capped at 2x of the amount financed
  - Founders offers warrant coverage with 1 to 5% purchase options
- In addition to financing, Founders **provides portfolio companies with monthly one-on-one advisory support dedicated entrepreneurial support**
- Founders also **offers "pre-funding" training bootcamp programs for businesses that are below required revenue threshold** ($250k or more), offered through Lift Development Enterprises
  - Further detail on Founder's full program platform on subsequent slide

Target Portfolio Company Attributes

Demographics	Focus on underserved communities, with minimum of 50% of all portfolio companies led by women, ethnic minorities, or military veterans
Geographies	Companies with United States-based operations
Industry	Industry agnostic, but with soft focus on software, professional services, and e-commerce sectors
Growth potential	Small employer-based businesses (2 to 10 FTE) with $250K to $2M in annual revenues, with at least 35% gross margins

Illustrative Portfolio Company Examples

Klarinet

Klarinet Solutions is women and minority led certified Microsoft Sharepoint Solutions provider, primarily supplying its solutions to mid to large sized companies; Klarient received $100k in RBF from Founders

Strength in Food

Strength in Food is a direct-to-consumer nutritional food solution provider for people with auto immune diseases; Strength in Food participated in Founder's bootcamp, but did not received RBF funding

Source: Company website and materials

“EQUITY-LIKE” CAPITAL: FOUNDERS FIRST – CASE STUDY

Founders First’s platform supports businesses with capital and training with the goal to graduate businesses to become middle market companies

Founders Portfolio Management Process

1. SMBs apply for pre-funding program
2. SMBs complete Pre-Funding Bootcamp programs
3. SMB completes extensive diligence process
4. Investment committee approves SMB Revenue-Based Financing using defined investment criteria
5. SMB receive post-funding support with growth
6. SMBs implementing recurring revenue streams
7. SMBs pay monthly royalties to repay RBF funding to capital

SMB transition to **traditional debt, institutional venture financing,** or **acquisition**

Founders Pre-Funding Bootcamps

24 Months Elevate My Business Challenge
For business $50k to $250k

12 Months Founders Business Growth Bootcamp
For business $250k to $1M

Founders Investment Criteria

1. Demonstrated team performance to generate revenue
2. Team prepare and articulate viable plan for growth (as observed from Bootcamp performance / behavior)
3. Agreement to funding terms
4. Traction / Revenue
5. $10M+ growth potential
6. Recurring revenue potential / evidence
7. Unique technology / IP / barriers solved

Source: Company website and materials