



Founders Market  
Executive Summary  
2022

Introducing Who We Are

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## Founders Market Executive Summary – 2022

### Business Case - 1<sup>st</sup> Store

#### Founders Market ...

...is a true neighborhood community grocery store [15,000sf], unlike current corporate big box stores, creating a community hub with an attractive sense of place, offering quality and organic food people enjoy, and giving exceptional service that cares about a customer as a person. Our Expansion Plan includes five stores in seven years.

#### The Investment Opportunity – Business Case Summary – 1<sup>st</sup> Store

Founders will offer the investor a competitive return on a \$1.6 million dollar investment for preferred stock on the 1<sup>st</sup> store [15,000sf] with a 20% annual payment [\$320,000] commencing the second year after the 1<sup>st</sup> store opens. In the 6<sup>th</sup> year there will be the payback of the investor' initial capital of \$1.6 million.

The draw-down of the \$1.6 million dollar investment is in three amounts: (i) \$450,000 dollars upon the signing the first lease, (ii) \$700,000 at the start of the store's construction, and (iii) \$450,000 upon ordering the store's refrigeration equipment.

#### Store Economic Profile

The stores offer a unique sense of place where neighbors gather to meet, eat with friends, and shop in a beautifully designed facility different from a typical grocery store format, or warehouse/big box corporate format store. Founders offers specialty products, organics, center store full shop items with staff providing personal service in specialty venues with local produce, cheese, meat, fish, poultry, and take-home freshly prepared meals. Workers have an opportunity to earn a living wage, receive medical benefits, and paid to perform community service while advancing in our company as it grows.

#### Market Research and Feasibility Analysis

Intalytics Research of Ann Arbor Michigan completed their market update evaluation for the Founders sites sales potential in December of 2021 which includes three years of site projections. The weekly sales are benchmarked by Intalytics Research for each store location. The feasibility study included Santa Cruz County (Capitola & Soquel Village), Monterey County, and South Santa Clara County). An update of Intalytics' Letters of Opinion will have additional full research reports completed when specific sites are selected.

In addition to benchmarking the weekly sales, each store has a store image level [scored by quality of facilities, store venues' performance, and sales thresholds]. This is established by the Intalytics market report which anticipates the Founders store performance analysis at "130 level" compared to the highest at "140" level for a store such as Whole Foods. Other comparisons are: New Leaf Markets at "110" and Good Earth Markets [Marin County] at "135". All these stores we have designed and built.

The market area population must be in the range of 20,000+ with an average household size of 2.3 people, median age of 43 years, and an average household income of \$85,000. This Founder shopper socio-psych profile is in alignment with the customers' who seek purchasing quality, knowing value, and loyalty to establishments with above average service.

At a 130-image level, Founders Market projected sales:

	<u>Year- 2022</u>	<u>Year – 2023</u>	<u>Year – 20224</u>	<u>Year. - 2025</u>
Projected Weekly Sales	\$ 250,000	\$ 275,000	\$ 295,00	\$ 310,0000
Annual Sales	\$13,000,000	\$14,300,000	\$15,340,000	\$16,120,000

### **Management Profile**

The Founders Market Executive Team is a tested and resilient industry group whose members are John Fry (CEO), Steve Crocker (President), Dan Wolf (General Manager), and Erin Fry (VP Administration). They have combined experience in operations management, store development, and design experience. This balance of industry knowledge is our prime formula for success. The Play Book [2022] presents in detail the specific skills and experience of each Management Team member.

We are seasoned and "boots-on-the-ground" team with store operations grocery expertise for over 25 years, led by Founders General Manager, Dan Wolf. He is recruiting for the assembling the 1<sup>st</sup> Store Team. Regionally, our management has brought on-line twenty (20) Whole Foods Markets: Northern California, Oregon, Washington, and Canada, Toronto; five (5) New Leaf Markets (Northern California); Good Earth Natural Foods expansion (Fairfax, and Mill Valley, CA), and Whole Foods Market Corporate Landmark Store and Headquarters, Austin, Texas.

### **Founders Opportunity & Growth Strategy**

Founders Market has targeted five stores to open in California Coastal region of South Santa Clara, Santa Cruz, and Monterey counties. The first two stores will be located in Morgan Hill and Santa Cruz County, both locations now under current due diligence and lease negotiations.

- Founders' growth strategy anticipates opening one store in late 2022; a second and third stores in 2023 and the fourth and fifth store by 2027, and possibly sooner.
- Each store's total capitalization for development and construction has an estimated costs range of \$5.1m, funded by investor capital [averaging \$1.6m per store], bank loans,

equipment leasing (as needed), landlord's tenant allowances, and cash flow from current store rations to grow the Founders stores. The Landlord at each location leases the site with a finished building shell to Founders specifications.

- A significant strength of Founders Store Departments will be the department team leaders who have both merchandizing “know-how”, and a proven skill-set to financially monitor their departments performance. The “tracking -tools” are addressed in the Play Book. These Team Leaders’ base compensation is competitive, and they share in a store quarterly profit-sharing program.

### **Investors Capitalization & Returns**

Founders will issue private offerings with the objective of generating two tiers of proceeds: 1<sup>st</sup> Store Business Case, and the 2<sup>nd</sup> through 5<sup>th</sup> stores’ future fundings. The investors’ capital provides the funds for Founders Market store development, equipment, inventory, and initial executive team overhead. On-going operations sustain the executive overhead management.

*The Play Book, Business Case –Part III, Investor Funding Section* presents the specific investment strategy summarized below for the 5 stores:

- Profitability is based on market research conservatively set for each store’s net operating income for the range of \$640,000 in the 2<sup>nd</sup> year.
- Founders’ corporate projections for the 5<sup>th</sup> year cash flow with 3 stores open exceeds \$2.8m. In the seventh year with 5 stores operating the cash flow jumps to \$4.2m, pre-tax. Applying the 4x EBITDA formula for the preferred shareholder investors of the 1<sup>st</sup> Store yields a valuation of \$4.0.6m, an internal rate of return [IRR] of 13.2% with positive net present value [NPV].
- Total required investor capitalization for the 1<sup>st</sup> Store’s development and design cost, interior finish-out, and fixtures and equipment will be \$1.6m and five stores total is approximately \$8 million.

### **Specific Risks and Countermeasures**

Every venture has its risks. Our risk management plan has strategy alternatives that will be continually updated. Founders has identified four risks which may impede store openings:

- Delayed store openings resulting from doing one site at a time is mitigated by maintaining two potential sites to lease in the pipeline.
- Lack of store management depth to grow the business is mitigated by recruiting at the time of a store’s opening a second store team leader “in training” to step in when the current team leader is transferred to another store.

- Reducing staff turnover is mitigated by providing competitive employee compensation, benefits package, and actively creating a company culture supportive of store teams having purposeful inputs on store operations, team members recognized by performance rewards in addition to the formalize compensation packages.
- Sustaining operations, if opening sales are behind targets, this can be mitigated by assuring a back-up line of credit for each store separate from Founder’s corporate operations.

### **Business Case Convertible Preferred Stock**

Founders plans to open five stores in 7 years with additional investors who will provide capitalization for the expansion of stores. The 1<sup>st</sup> store’s funding Investors in the 6<sup>th</sup> year will have the option to transfer their initial capital investment for Founders Common Stock at current value, or in the seventh year after their investment, they may choose to exercise a Founder’s buy-out formula of 4x EBITDA.

Each store’s first year operation would generate approximately a net operating income exceeding \$490,000 and cash flow of \$440,000 before tax. In the 5<sup>th</sup> year, the first store should achieve annual net operating income of \$935,000, and cash flow before tax of \$ 880,000 based on the marketing research sales benchmarks (\$7.8m /5th year)

### **The Founders Difference**

**We** possess a deep understanding of the economics of the changing grocery business demands while giving investors **highly competitive economic** return on their investment.

**We** deliver our “mission difference” by improving and creating community, offering healthy food choices and workplace economic needs, while creating worker satisfaction.

**We** address the intangible values of Community offering a marketplace that restores a sense of neighborhood, a place that makes shopping enjoyable, and food venues far from the ordinary supermarket fare.

### **Exhibit A- Economic Value Analysis [EVA]–Store Operations**

**Additional Financial Exhibits** and the Founders Play Book are provided investors upon completion of the Founders’ Investor Suitability Questionnaire

Start-up Year: Sales =	\$13.0m [\$250,000/week]	Cash Flow =	\$439,000
2 <sup>nd</sup> Year Sales	= \$14.3m [\$275,000/week]	Cash Flow =	\$592,000



# FOUNDERS MARKET

*Seek the Good. Give the Best.*

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