

NONPROFIT INVESTOR

INDEPENDENT RESEARCH FOR PHILANTHROPY

First Book

Nonprofit Investor Rating:

BUY

Mission Statement

To give disadvantaged children the opportunity to read and own their first book by distributing new books to children who have little or no access to books outside of school.

Financial Overview

\$ in MM, Fiscal Year Ended Dec 31

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenue and Support	\$53.7	\$44.8	\$40.0
Operating Expenses	\$56.1	\$42.9	\$31.6
% of Total Expenses:			
Program Expenses	97%	97%	95%
G&A	1%	2%	3%
Fundraising	1%	1%	2%

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SUMMARY

First Book acts as a distributor, channeling new books from publishers to communities in need. Currently, First Book operates in the US and Canada and has distributed more than 85 million books to children in need.

STRENGTHS

- Innovative and scalable business model.** First Book employs innovative methods to solve the traditionally challenging problem of providing book access to impoverished children. It creates incentives for publishers to donate or sell books to First Book at a deep discount. According to a New York Times piece, the Marketplace business model in particular has potential to be financially self-sustaining in several years, based on current sales trajectory.
- Clearly stated goals and vision for future.** Management publishes annual goals related to books distributed, number of community program partnerships, and other metrics. It has also kept an eye on trends in the book industry, e.g. move towards e-books, and considered the impact of these changes on their business model.

CAUTIONS

- Impact measurement insufficiently robust.** While First Book has made record of impact available online, information and methodology is relatively limited. For example, while it publishes current and projected future figures for number of books distributed, other key metrics such as number of children impacted, number of books distributed in years prior to 2008 (as a measure of growth) are unavailable.
- Potentially risky stream of cash flow contributions.** >90% of cash contribution comes from public support vs. recurring revenue, and organization risks cash flow fluctuations in years with lower public support.

RECOMMENDATION: BUY

First Book has a nontraditional business model that distinguishes it from other nonprofits in the book distribution space. This business model, combined with clear and ambitious management goals, will enable it to scale and become increasingly financially sustainable.

OVERVIEW OF FIRST BOOK

First Book was established in 1992 by Kyle Zimmer, and the organization started out with purchasing books and donating them to low-income children with the help of volunteers.

The organization was established to address the clear need for access to books among underprivileged children in the US. According to statistics published by First Book, 42% of children in America grow up in families that lack the income to cover basic needs, and 80% of after-school programs serving low income families cannot afford books for children. At the same time, numerous studies show strong correlation between book ownership and reading achievement. For example, a study of 3,000 German students found the number of books in the home to be a strong predictor for reading achievement, and a separate study showed that access to print material improves reading performance and attitude towards reading.

In addition, First Book's focus on providing children with new books is a factor that distinguishes it from traditional book drive programs. For example, First Book partner Molina Foundation "switched from using book drives to using First Book because donations were so inefficient, and because low-income children responded so powerfully to new books."

Need

Clear need for improved access to books:

- 42% of children in America grow up in families that lack the income to cover basic needs
- 80% of after-school programs serving low income families cannot afford books for children
- Book ownership ratio in low-income neighborhoods is 1 out of 300 children

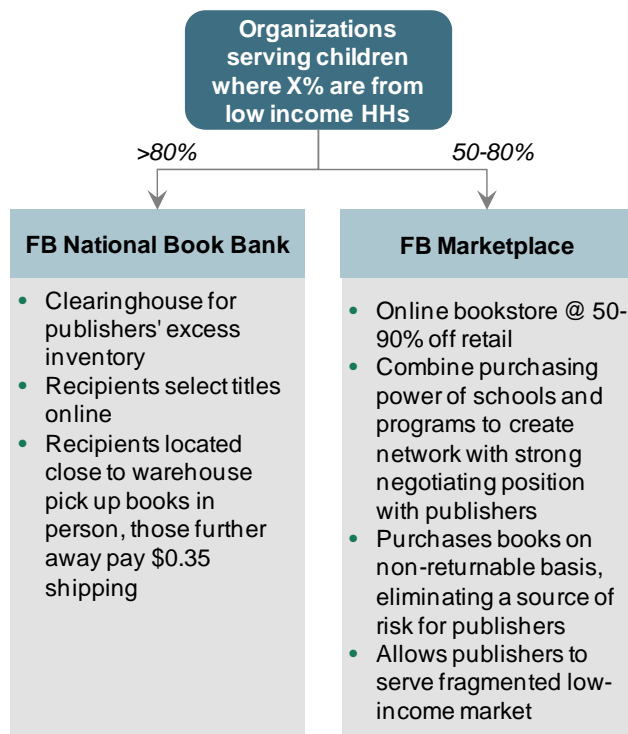
Price the number one barrier to book ownership

- Children's books retail at \$15-20 per hardcover, \$5-10 per paperback
- 94% of teachers use their own money to provide books & resources for their students

Numerous studies show that improved access to books drives literacy and reading behavior

- Study of 3,000 German students found number of books in the home to be a strong predictor for reading achievement
- Study showing that access to print material improves reading performance and attitude towards reading

First Book Solution



In 1999, First Book launched the National Book Bank, which acts as a clearinghouse for publishers' excess inventory. The Book Bank allows educators or program administrators serving low income communities to select titles online, and either pick up books in person for free, or have the books delivered at a marginal cost.

Facing strong demand since the launch of the Book Bank, First Book introduced the First Book Marketplace in 2008. The Marketplace is an "Amazon-like" online bookstore offering books at 50-90% below retail price. By bringing together schools and programs across the country, First Book creates a network with strong negotiating power with publishers, as well as acts as a single point of distribution that allows publishers to conveniently reach the fragmented low-income market. Additionally, as First Book purchases books on a non-returnable basis, it helps eliminate a source of risk for publishers.

FINANCIAL OVERVIEW

The majority of First Book's Revenue and Support comes from Contributed Goods and Services – donated books, warehouse space, etc. from over 100 partners and private funders. While Revenue and Support has declined over recent years, Expenses have gone down at a faster rate. First Book is operationally lean, with 95 – 97% of total expenses deriving from Program Services.

<i>\$ in 000's, Fiscal Year Ended Dec 31</i>	2008	2009	2010
<i>Revenue and support:</i>			
Contributed goods and services	\$ 46,575	\$ 36,792	\$ 29,542
Public support	\$ 6,443	\$ 4,160	\$ 4,651
RTL partnership income	\$ 419	\$ 294	\$ 90
Revenue	\$ 60	\$ 43	\$ 13
Net assets released from restriction	<u>\$ 221</u>	<u>\$ 3,513</u>	<u>\$ 5,656</u>
Total unrestricted support and revenue	\$ 53,718	\$ 44,802	\$ 39,952
<i>Expenses:</i>			
Program services	\$ 54,503	\$ 41,615	\$ 30,127
Donated books	\$ 48,518	\$ 35,680	\$ 22,347
Payroll	\$ 1,788	\$ 1,519	\$ 1,798
Program expenses - books	\$ 2,390	\$ 2,554	\$ 3,632
Other	\$ 1,807	\$ 1,862	\$ 2,350
Management and general	\$ 816	\$ 655	\$ 800
Payroll	\$ 531	\$ 451	\$ 534
Other	\$ 285	\$ 204	\$ 266
Fund-raising	\$ 749	\$ 618	\$ 686
Payroll	\$ 475	\$ 403	\$ 478
Other	<u>\$ 274</u>	<u>\$ 215</u>	<u>\$ 208</u>
Total expenses	\$ 56,068	\$ 42,888	\$ 31,613
Contributed goods and services as % of Revenue and Support	87%	82%	74%
Public support as % of Revenue and Support	12%	9%	12%
Program services as % of Total Expenses	97%	97%	95%

RESULTS AND TRANSPARENCY

First Book provides the required financial information from 2008 – 2010 in its financial statements and Form 990s.

Where measurement of impact was available, First Book showed excellent performance. For example, it published measures such as >85MM books distributed to children in need since inception, studies showing "high interest in reading" tripling among children who received books through First Book. However, key measures such as number of children reached, and methodology, sample size and other detail related to studies conducted, were not made available online.

GROWTH

While Revenues and Support has declined between 2008 and 2010, First Book's management has set goals to reverse this trend and expand its impact. It plans on doubling the number of books distributed in 2011 to 14 – 15MM, primarily through the expansion of its Marketplace program. With the Marketplace program currently offering approximately 1,200 titles, First Book hopes to spur demand among recipients by expanding the number of titles offered to approximately 2,000 in 2011. In addition, it plans on increasing the number of community programs partnered with to further consolidate buying power; as well as to continue to mint new strategic alliances with corporations and authors, such as its First Book and Cheerios joint campaign featuring author Jon Scieszka.

NPI RECOMMENDATION VS. OTHER THIRD PARTIES' RECOMMENDATION

First Book is generally positively accredited by third parties. Founder Kyle Zimmer was awarded Outstanding Social Entrepreneur of the Year by the Schwab Foundation for Social Entrepreneurship in 2007, and has been invited to be a member of the World Economic Forum's Global Agenda Council on Social Entrepreneurship.

On the other hand, it was awarded a two-star (out of four-star) rating by Charity Navigator, due to poor organizational capacity. This rating was, according to Charity Navigator, based on "average annual growth of primary revenue [relative to] average annual growth of program expenses". However, from 2008 to 2010, expenses had declined at a greater rate than revenue. Based on our understanding of Charity Navigator's definition, First Book's organizational capacity has actually improved.

GET INVOLVED

- Donate to First Book online (<http://www.firstbook.org/donate>) via credit card or by mailing a check to its corporate address
- Become a volunteer, fundraising and raising awareness of literacy issues within the local community (<http://www.firstbook.org/get-involved/volunteer>)

DISCLOSURES

Nadia was briefly affiliated with First Book in 2009 as part of another organization, and currently has no ties with First Book. She has never made a donation to First Book.