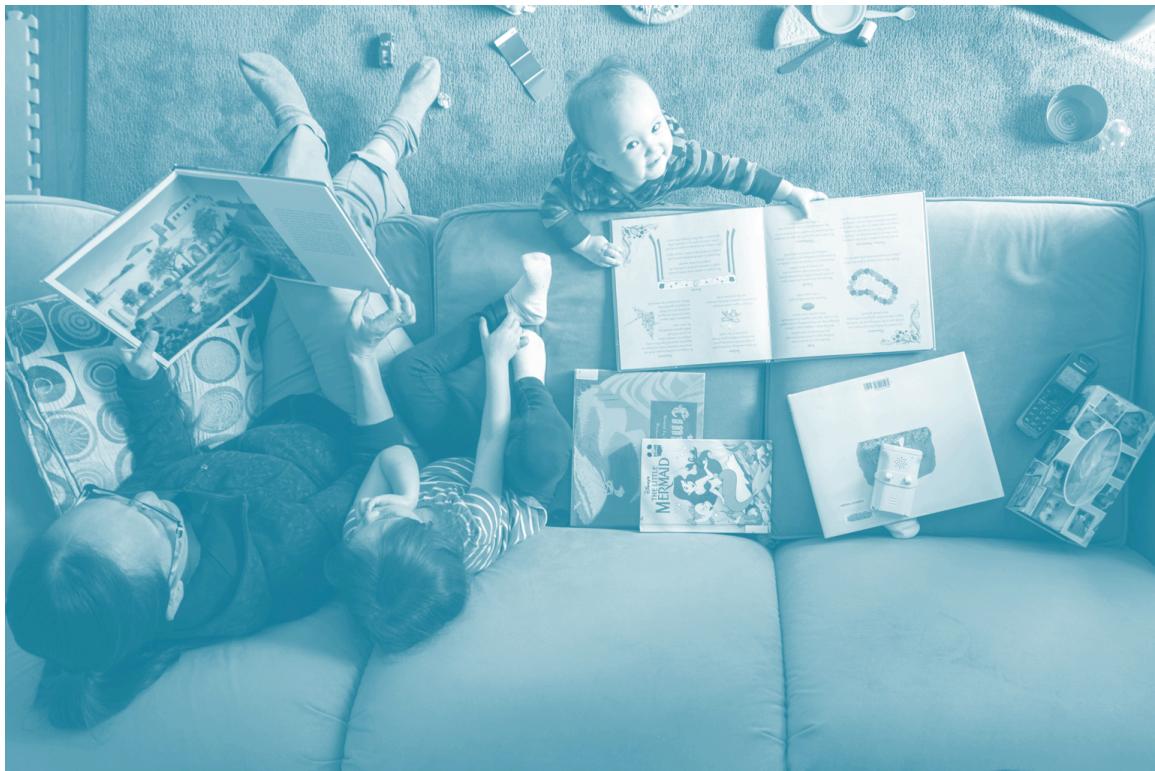




BUSINESS PLAN

Primary Book Club LLC



Erin Witmer, Owner

November 30, 2015

1. EXECUTIVE SUMMARY

1.1 Product

Primary Book Club LLC ("Primary Book Club" or the "Company") is an Arizona-based limited liability company. We teach parents how to be their child's first and best teacher through books. We currently offer a subscription service for parents of babies, toddlers, and preschoolers. For \$18/month, our members receive a set of age-appropriate, expert-selected children's books. With each book, we include a guide that educates parents on language, literacy, social, emotional, cognitive and adaptive skills appropriate for their child's stage of development, and suggest ways to encourage these skills. For example, a preschool-aged child needs to learn how to express emotion with words ("I'm angry"), rather than inappropriate actions (hitting). Concepts like emotion are hard to teach, so we send a picture book that helps young children learn to label different emotions. Our guide explains the importance of this skill and provides actionable advice for parents to help a child develop it. We're developing an algorithm that will select the optimal book for each child every month based on information provided by the parent and feedback on previous selections. Books need to be developmentally appropriate, culturally sensitive, and appealing to engage a child.

1.2 Customers

Our target customer is a busy parent who understands the importance of reading to children, but may not have the time to research the best books to purchase at each stage of a child's development. Our target customer wants to send her child to kindergarten prepared to learn, but doesn't have access to the latest evidence-based research on the skills that are predictive of a child's future success in school. We've talked to many existing and potential customers, and most cite a lack of time and resources for finding good books to read to their young children. Most report defaulting to purchasing the books they read as a child. In doing so, they exclude a generation of possibilities in children's literature. Our target customer understands the value proposition of saving time, expert guidance, saving money by avoiding purchasing books a child is not interested in, and appreciates the opportunity to discover new books they may not have purchased on their own. Almost all of our customers cited an instance where they would not have chosen a selected book if they saw it in the store, but



their child in fact liked the book once received.

1.3 What Drives Us

Our goal is both micro and macro, targeting the home and the home front. We want to help parents of young children spend less time searching for great books and more time sharing them in a way that promotes development and bonding so that parents are empowered to raise confident, self-aware, socially responsible learners. And then through this, we as a society can also try to preempt some of the problems introduced by low levels of literacy and disengaged citizens. We understand that not all parents can afford to spend \$18 on books each month, and so our mission is not limited to those who can. Sadly, an achievement gap is measurable as early as 16-18 months, when research reveals a child's vocabulary and word learning is significantly affected by economic background. By 36 months, when 85% of a child's core brain development has occurred, a child from a high-income household will on average have a vocabulary more than double the size of a child from a low-income household. We've partnered with non-profits that focus on increasing access to books and early literacy programs in the early years of life because those are the years that matter. Studies have shown that 2 out of every 3 students who cannot read proficiently by 4th grade will end up in jail or on welfare. While any child can certainly catch up, on average 4 out of 5 do not. We want to give every child a chance to succeed from the day they enter school. At Primary Book Club, we're not solving the societal problems related to low levels of literacy, we're working to prevent them.

2. COMPANY DESCRIPTION

2.1 Mission Statement

We help parents of young children spend less time searching for great books and more time sharing them in ways that promote development and bonding so that parents are empowered to raise confident, self-aware, socially responsible learners, and as a society, we can preempt some of the problems introduced by low levels of literacy and disengaged citizens.



2.2 Principal Members

Erin Witmer, CEO/Founder. Ms. Witmer is the Founder, CEO and sole-member of Primary Book Club LLC. Ms. Witmer most recently worked as the Director of Hedge Funds for Willett Advisors, the investment office of Mayor Michael Bloomberg and Bloomberg Philanthropies. Prior to joining Willett, Ms. Witmer was an Associate with Lovett Miller & Co., a venture capital firm in Tampa, Florida. She began her career with Goldman Sachs & Co. in New York and London after graduating magna cum laude from Georgetown University's McDonough School of Business with a degree in Finance and Economics. While at Georgetown, she also served as captain of the Women's NCAA Division I swim team and participated in the DC Reads tutoring program. Ms. Witmer's community work also includes active involvement in the Urban Assembly Mentoring Program. Ms. Witmer currently lives in Scottsdale, Arizona with her husband, a retinal surgeon, and their two young boys.

The Company has agreements with two consultants; one software engineer and one director of curriculum. The Company has three advisors in the early education and childhood development industry, and utilizes various freelance consultants for design and web development work.

2.3 Legal Structure

The Company is structured as an Arizona Limited Liability Corporation.

3. MARKET RESEARCH

3.1 Industry

In 2014, unit sales growth in the physical book market was entirely attributable to a growth in the number of children's books sold (200mm in 2013 to 226mm in 2014, 12.8% CAGR). Industry sales of children's books totaled \$1.9bn in the U.S. in 2014. Sales of physical books accounted for 86% of total revenue, versus 14% for e-books. Our target market is readers aged 0-5. Accurate data on the percentage of those children's books purchased specifically for children aged 0-5 is elusive, but here is what we do know:

- Board book sales were \$100mm in 2014 (22% CAGR). Board books (i.e., books composed of thick, durable paperboard pages) are designed for children under 6 and so it's fair to assume the vast majority of these books were purchased for children in our target market.
- There are 20mm children aged 0-5 in the U.S. and the average cost of a children's book purchased (all formats) was \$7.55 in 2014.
- Reading physical books at home to young children remains a priority for parents. 98% of parents report reading to children aged 0-5 aloud in the home, and over 50% of these parents read with children between 5-7 days per week.

Triangulating from these data points, we believe a conservative estimate of the retail sales of physical books to children in the U.S. aged 0-5 is approximately \$500mm.

It's important to note that while we're currently selling books, there are many tangential revenue opportunities with the technology we are developing. These include: the sale of educational and developmentally appropriate toys, additional educational services, and the monetization of aggregate data on trends in children's book preferences and developmental paths to various interested parties such as book publishers.

Sources: *Nielsen, Scholastic*.

3.2 Customers

Our target market includes parents and caregivers of children aged 0-5 as well as those who give gifts to children in this age group (grandparents, aunts, uncles and friends). Our 'beachhead customer' is a new mom in a two working professional household residing in an urban area. However, our limited 'friends and family' launch has confirmed much broader appeal. Our current customers include moms and dads, stay-at-home and working parents,



parents in urban, suburban and rural markets, new parents and those with several older children. We've also seen strong interest from customers looking for unique and practical baby, birthday and holiday gifts. Finally, we are working on a partnership with Southwest Human Development (SWHD), Arizona's largest non-profit dedicated to early childhood development, on a tangential market opportunity. SWHD would like to offer Primary Book Club subscriptions as gifts to large donors who support their early literacy programs. We are working with them to co-brand the donor experience and hope to turn this into a platform we can market to other non-profit and school fundraising programs.

3.3 Competitors

No single outlet dominates the sale of children's books. According to Nielsen, the majority of children's books are purchased through brick and mortar stores. The top 5 children's book retailers include: Barnes & Noble (23%), Amazon (20%), Book Clubs (8%), Wal-Mart (7%), Books-A-Million (3%). We don't consider ourselves a book retailer. Our mission is to be a resource for parents hoping to help foster their child's overall development (cognitive, physical, social and emotional) through activities such as reading. We compete with various organizations across the dimensions of our value proposition: 1. convenience of purchasing books (competitors: traditional and internet retailers, Scholastic book club), 2. supplemental content (competitors: non-profits, other educators), 3. curation of books (competitors: Goodreads, Zoobean).

3.4 Competitive Advantage

Our focus is not on selling books, and therefore we are not competing on price in a commodity business. We see a disconnect between the importance of a parent or caregiver's role in a child's development during the early years of life, and the lack of simple, accessible resources available to help. We are at the very beginning stages of product development, and we are not wedded to the idea that our current product offering is the optimal way to bridge this disconnect. Our technology and operational infrastructure is set up so that we can test product variations and price points (e.g., the form and format of the information we provide consumers, including how they receive and access this information). We are nimble, and open-minded. We also focus on the earliest readers (ages 0-5) whereas most other book



clubs (Scholastic) focus on the K-12 market. We have an opportunity to become a trusted source for both books and developmental information before parents are introduced to other channels. We are also building a proprietary system that will capture information about what children like to read and when, that can be calibrated based on information provided by parents, e.g., a child's interests, background, location, strengths, weaknesses, etc. This will be an asset with many potential monetization paths once fully developed.

3.5 Regulation

We are an Internet retailer and therefore subject to state and local tax laws where we are deemed to have a 'nexus' (currently Arizona and Indiana). We are also mindful of compliance with COPPA, the Children's Online Privacy Protection Act. We believe we are in compliance with these laws because COPPA applies to personal information collected online from children. We have not started collecting information yet, but when we do, this information will be collected from parents. When we do start collecting more information from parents, we will provide them with notice of what information we're collecting and for what purposes, provide them with the right to not have this information disclosed to third-parties, and provide parental access so that they can review, edit, or decide to delete the information they have provided in accordance with their parental rights and our duties under COPPA.

4. PRODUCT/SERVICE LINE

4.1 Product or Service

We currently offer a monthly subscription service for parents of babies, toddlers, and preschoolers. The membership price is \$18/month. Parents receive either one hardcover picture book (preschool) or two board books (baby and toddler) with each shipment. They can also view a teaching guide for each book through our website when they are logged into their account. Our process is designed so that members never receive a book they already own or do not want. The retail value of the books members receive is generally \$16-18 per shipment. Based on customer feedback from a beta test of this product, we will be pivoting to provide a more customized solution for each member, where our proprietary algorithm



selects books for a child based on a combination of age, select demographic information provided by the parent, and ratings of previous selections. The supplemental information will be provided in an explanation of why the book was chosen, rather than a discrete teaching guide.

4.2 Pricing Structure

The membership price is \$18/month. As we roll out new products, we can easily test variations of the product and pricing.

4.3 Product/Service Life Cycle

Primary Book Club is still in the introduction stage of this product, but we have very solid data from beta test customers on the viability of and interest in the product.

4.4 Intellectual Property Rights

The Company owns the intellectual property for all of the code and visual design that has been developed for the existing web application.

4.5 Research & Development

The Company is not currently engaged in any R&D activities.

5. MARKETING & SALES



5.1 Growth Strategy

We've avoided marketing, search engine optimization, and publicity as we focused on building to a point where we could scale quickly. We are now ready to turn our potential energy into kinetic energy. We are working on a go-to-market strategy that includes SEO, PR, and testing a number of marketing strategies. We will offer trials of the product for review by social media influencers (mommy bloggers, etc.), and rewards for our loyal customers, including gift memberships for friends. We will also test an affiliate marketing program. Overall, our focus will be on developing a community, and capitalizing on the power of word of mouth marketing within the baby products market—among both individual consumers (and larger organizations) who are committed to the development and growth of one child (or many children). While we build our brand, we will continue to execute on our product road map, and hire additional people committed to our mission of building an invaluable resource for parents of young children.

5.2 Communication

Primary Book Club will engage customers directly through our listserv and developing a presence on various social media sites.

5.3 Prospects

Our best channel for sales will be through existing customers. We plan to offer incentives for existing customers to refer friends, and test a number of programs such as the ability to gift a free month to a friend after being a subscriber for a certain number of months. We are also exploring partnerships with schools, and advertising on social media to reach potential customers.

6. FINANCIAL PROJECTIONS

6.1 Profit & Loss

	Year 1	Year 2	Year 3
Sales	\$432,000	\$1,056,000	\$2,400,000
Costs/Goods Sold	\$302,400	\$580,800	\$960,000
GROSS PROFIT			
OPERATING EXPENSES	\$129,600	\$475,200	\$1,440,000
Salary (Office & Overhead)	\$65,000	\$140,000	\$375,000
Payroll (taxes, etc.)	\$4,030	\$8,680	\$23,250
Outside Services	\$8,640	\$21,120	\$48,000
Supplies (office & operation)	\$4,320	\$10,560	\$24,000
Repairs & Maintenance	\$4,320	\$10,560	\$24,000
Advertising	\$43,200	\$84,480	\$144,000
Car, delivery & travel	\$4,320	\$10,560	\$24,000
Accounting & legal	\$21,600	\$52,800	\$120,000
Rent	\$24,000	\$24,000	\$24,000
Telephone	\$1,000	\$2,000	\$5,000
Utilities	\$2,400	\$2,400	\$2,400
Insurance	\$4,320	\$10,560	\$24,000
Taxes (real estate, etc.)	\$0	\$0	\$0
Interest	\$0	\$0	\$0
Depreciation	\$0	\$0	\$0
Other expenses	\$8,640	\$21,120	\$48,000
TOTAL EXPENSES	\$195,790	\$398,840	\$885,650
NET PROFIT BEFORE TAXES			
Income Taxes	\$0	\$3,560	\$194,023
NET PROFIT AFTER TAX	\$-66,190	\$72,800	\$360,327

Owner Draw/Dividends	\$0	\$0	\$0
ADJUSTED TO RETAINED	\$-66,190	\$72,800	\$360,327

6.2 Cash Flow (01/01/2016 to 12/31/2018)

	Pre-Startup EST	Year 1	Year 2	Year 3	Total Item EST
Cash on hand	\$10,000	\$10,000	\$-56,190	\$20,170	\$-16,020
CASH RECEIPTS					
Cash Sales	\$0	\$432,000	\$1,056,000	\$2,400,000	\$3,888,000
Collections from CR Accounts	\$0	\$0	\$0	\$0	\$0
Loan/Cash Injection	\$0	\$0	\$0	\$0	\$0
TOTAL CASH RECEIPTS	\$0	\$432,000	\$1,056,000	\$2,400,000	\$3,888,000
TOTAL CASH AVAILABLE	\$10,000	\$442,000	\$999,810	\$2,420,170	\$3,871,980
CASH PAID OUT					
Purchases	\$0	\$302,400	\$580,800	\$960,000	\$1,843,200
Gross Wages	\$0	\$69,030	\$148,680	\$398,250	\$615,960
Outside Services	\$0	\$8,640	\$21,120	\$48,000	\$77,760
Supplies	\$0	\$4,320	\$10,560	\$24,000	\$38,880
Repairs & Maintenance	\$0	\$4,320	\$10,560	\$24,000	\$38,880
Advertising	\$0	\$43,200	\$84,480	\$144,000	\$271,680
Car, delivery & travel	\$0	\$4,320	\$10,560	\$24,000	\$38,880
Accounting & legal	\$0	\$21,600	\$52,800	\$120,000	\$194,400
Rent	\$0	\$24,000	\$24,000	\$24,000	\$72,000
Telephone	\$0	\$1,000	\$2,000	\$5,000	\$8,000
Utilities	\$0	\$2,400	\$2,400	\$2,400	\$7,200
Insurance	\$0	\$4,320	\$10,560	\$24,000	\$38,880

Taxes (real estate, etc.)	\$0	\$0	\$0	\$0	\$0
Interest	\$0	\$0	\$0	\$0	\$0
Other expenses	\$0	\$8,640	\$21,120	\$48,000	\$77,760
SUBTOTAL	\$0	\$498,190	\$979,640	\$1,845,650	\$3,323,480
Loan principal payment	\$0	\$0	\$0	\$0	\$0
Capital purchase	\$0	\$0	\$0	\$0	\$0
Other startup costs	\$0	\$0	\$0	\$0	\$0
Reserve and/or Escrow	\$0	\$0	\$0	\$0	\$0
Others withdrawal	\$0	\$0	\$0	\$0	\$0
TOTAL CASH PAID OUT	\$0	\$498,190	\$979,640	\$1,845,650	\$3,323,480
CASH POSITION	\$10,000	-\$56,190	\$20,170	\$574,520	\$548,500

6.3 Balance Sheet

Assets	Start Date: 01/01/2016	End Date: 12/31/2018
CURRENT ASSETS		
Cash in bank	\$10,000	\$574,520
Accounts Receivable	\$0	\$0
Inventory	\$0	\$0
Prepaid Expenses	\$0	\$0
Other current Assets	\$0	\$0
TOTAL CURRENT ASSETS	\$10,000	\$574,520
FIXED ASSETS		
Machinery & Equipment	\$0	\$0
Furniture & Fixtures	\$0	\$0
Leaseholder improvements	\$0	\$0
Land & Buildings	\$0	\$0
Other fixed assets	\$0	\$0

TOTAL FIXED ASSETS (net of depreciation)	\$0	\$0
OTHER ASSETS		
Intangibles	\$0	\$0
Deposits	\$0	\$0
Other	\$0	\$0
TOTAL OTHER ASSETS	\$0	\$0
TOTAL ASSETS	\$10,000	\$574,520

Liabilities & Equity		
CURRENT LIABILITIES		
Accounts Payable	\$0	\$0
Interest Payable	\$0	\$0
Taxes Payable	\$0	\$0
Notes, short term (due in 12 months)	\$0	\$0
Current part, long-term debt	\$0	\$0
TOTAL CURRENT LIABILITIES	\$0	\$0
LONG TERM DEBT		
Bank loans payable	\$0	\$0
Notes payable to stockholders	\$0	\$0
LESS: short-term portion	\$0	\$0
Other long-term debt	\$0	\$0
TOTAL LONG-TERM DEBT	\$0	\$0
TOTAL LIABILITIES	\$0	\$0
OWNER'S EQUITY		
Invested Capital	\$10,000	\$0

Retained Earnings	\$0	\$574,520
TOTAL OWNERS EQUITY	\$10,000	\$574,520
TOTAL LIABILITIES & EQUITY	\$10,000	\$574,520

6.5 Financial Assumptions

6.5.1 Assumptions for Profit and Loss Projections

Users in FY1 = 2,000 and increase at 100% in FY2, FY3

ARPU = FY1: \$216, FY2: \$264, FY3: 300

COGS = FY1: 70%, FY2: 55%, FY3: 40%

6.5.2 Assumptions for Cash Flow Analysis

Simple assumption that there is no financing of purchases or sales, all payments and collections are cash.

6.5.3 Assumptions for Balance Sheet

No debt or equity financing assumed. Financing through retained earnings.