Collection Efficiency Subcommittee Call April 18

The Collection Efficiency Subcommittee is part of the PQ Working Group. The meetings objectives were to discuss and select a set of Collection Efficiency indicators with basic definitions to further refine in subsequent calls/meetings in preparation for the next broader Portfolio Quality Working Group.

1. Collection Rate (Utilization Rate)

There is two ways to look at it:

1. What collection rate do I expect from my total installed systems?
2. What collection rate do I expect from all assets purchased?

The group decided to focus on the total installed systems as this is practical from an operational point of view to make it applicable for also early stage companies. Thus, the customer payments on the assets that are in the field and you net out repossessed and written off. We could use the installed assets and make sure that the KPI still passes the sniff tests by adding complementary KPIs.

The challenge for this KPI is to reflect the different types of business models:

1. Some companies use deposits and give credit with the deposit (deposit is a credit)
2. Some companies ask for a deposit but the deposit itself will not make the system work.

There was discussion around whether deposits should or should not be included.

It all depends on the goal of the KPI to reach a decision:

1. Measure the repayment of the loan.
2. Measure the repayment of the kit.

Typically, the repayment of the loan is more important for the companies as the deposit is always paid.

The decision in the end is that it is useful for internal operational analysis if this is aggregated with cohort analysis in a relevant timing space as it makes sense to have that granularity as a PAYGo company. We should leave it up to the company to decide the right mix of product margin and the collection rate. The relevant timing should also be set by the company internally as they might have some special pricing, etc.

However, from an investor point of view, it is not that relevant as you can have a high margin and collect less or a low margin and collect more. What matters in the end of the day is how the company is performing on the receivables and what kind of return you have as an investor in the end of the day.

The KPI reported is likely only going to be the <u>collection rate</u> directly adjusted by the deposits, thus, the following:

$$\frac{\textbf{\textit{Amount of customer repayments collected}}\ (\textbf{\textit{net of deposits}})}{\textbf{\textit{Amount of customers payments expected}}\ (\textbf{\textit{net of deposits}})}$$

The reasoning behind is that you should expect that the deposit will be collected in most cases. With this formula the collection capacity is measured, and this cannot be used as a conclusive number to measure whether the company is profitable or not. Moreover, you measure the risk outstanding better if you take out deposits. In addition, the investor/PAYGo company can look at the percentage of the deposit of your total sales price which is worked out by the UE WG.

2. Rolling Collection Rate

The difficulty is that you might have a collection rate that is potential skewing by deposits and customers that have just started paying if you consider all the customers until today. By having a 30-day timeframe, you automatically remove the customers that paid for the deposits as most PAYGo models don't require you to do a payment the first 30 days after the installment.

There was discussion around what time frame made the most sense, i.e. 60 days, and whether or leaving out the most recent set of deposits accomplished the intended goal. In the end it was decided that if measuring both the collection rate without deposits included as well as a measure of deposits collected over similar periods, this would be sufficient.

3. Advance Collection Rate

The advance collection rate KPI can be very valuable information. However, there is consensus in the group there is a small number of clients that are paying in advance. The distortion would therefore be trivial. For simplicity, we could not consider this complexity. When investors are doing due diligence, they could look at these metrics.

The decision of the group is to leave this KPI out.

4. System utilization rate

Challenges are when a customer **starts repaying:**

1. Some companies will only activate the systems again once all the outstanding payments are received.
2. Some companies are extending credit as long as the customers are paying something.

Formula should be adjusted to:

$$1 - \frac{Total\ number\ of\ days\ locked}{Total\ customer\ age}$$

Decision of the group is to not include it as a key Portfolio Quality KPI, but it is a key metric to measuring impact. It could be recommended to the companies to measure it for impact purposes.

5. Next steps:

1. The group should focus on the collection rate definition.
2. The group could look at using collection rate as an indication of receivables at risk (RAR).
3. Send out survey to finalize the formula of the collection rate, thresholds, cohorts, and other considerations.