

Unit Economics Working Group Call – Summary Notes

Date: July 8, 2019

Objectives:

- Review the Firm Level KPI survey results
- Develop list of Firm Level KPIs based on survey results and feedback from WG members
- Finalize the discussion on Firm Level KPIs and Unit Level KPIs

The summary below is based on the review of the 4 proposed Firm Level KPIs from the survey that was sent to the Unit Economics WG members in mid-June 2019.

Total Revenue KPI

- Total Revenue refers to the revenue as it is reported in the Income Statement of PAYGo firms. This metric was proposed since it is easy to obtain from the financial statements.
- However, the challenge with this KPI is that **companies have different accounting policies and therefore different ways of reporting revenue**. Idea proposed to strive towards a standard for the industry for revenue recognition. No strong opinions from the working group members for now.
- The WG suggested that ‘Total Cashflow from Customers’ is more useful and valuable, and less complicated. This would represent the total cash you receive from your customers, which includes customer deposits and follow-on payments.

Conclusion:

Total Cashflow from Customers will be adopted by the working group as a Firm Level KPI instead of Total Revenue.

Total Overhead Costs as a % of Total Revenue KPI

- Total Overhead Cost is expressed as % of Total Revenue and the output can indicate how much fixed costs a company has in comparison to the total revenue generated. This metric could allow you to compare the overhead costs to the lifetime revenue of customers, although this would be challenging to calculate.
- Since total cashflows from customers will be adopted instead of the total revenue KPI, then this KPI should be altered to ‘Total Overhead Cost as a % of Total Cashflows from Customers’.

Conclusion:

Agreed by working group to adopt ‘**Total Overhead Cost as a % of Total Cashflow from Customers**’

Cashflow from Operations KPI

- Cashflow from operations KPI is not a valuable metric for the PAYGo sector as the output is likely to be negative if the company keeps growing. This is due to the fact that most PAYGo firms rely on external financing (i.e. Cash Flow from Financing Activities) for their working capital needs.
- An alternative metric that was suggested would be cash collected as a % of total revenue recognized (calculation: 'Total Cash Flow from Customer divided by Total Revenue')
- Outstanding question is what the time-window for the metric would be and whether it would be periodic (most likely) or cumulative
- The goal of the KPI is to measure how much cash was received in comparison to how much cash is expected (revenue recognized). The metric will also give some information on which accounting policy is used by the PAYGo company.

Conclusion:

Total Cashflow from Customer as a % of Total Revenue was adopted by the working group.

Firm Level Profitability KPIs

- EBT margin and income margin would be an option as it allows you to consider the interest expense.
- Net income margin could be a challenging KPI as you would recognize taxes differently.

Conclusion:

EBT Margin (Earnings before Taxes divided by Total Revenue) was adopted by the working group with the goal of measuring overall profitability including overhead costs.

Additional Considerations – Firm Level KPIs

- As an output from the Unit Economics Working Group we would have (1) Firm Level KPIs as headline KPIs, (2) Unit Level KPIs that will give an investor or entrepreneur more detailed information per product category.
- The WG members agreed that it would be too onerous to have Unit Level KPIs as the main headline KPIs due to the fact that there would be too many of them as they are viewed by product category
- An additional Firm Level profitability metric discussed by the WG members was Total Contribution Margin. The goal of this KPI would be to measure how a PAYGo company is doing against its Variable Costs. There is a mismatch in timing between the time variable costs and cashflows from customers would incur. Therefore, we cannot calculate this KPI as '(total cashflows from customers – variable costs)/ total cashflows from customers. Therefore, the calculation of Total Contribution Margin would be as follows:
 - Total Contribution Margin = [Total Revenue – Total Variable Costs] / Total Revenue
- 'Total Receivables Generated' was another Firm Level KPI proposed by the WG members. This metric provides a view of PAYGo firm size and would be measured over a particular time

period. In addition, would also give a picture on how a company is doing on sales and can tell you something about how big the industry is aggregated.

- Total Receivables Generated should be reported in combination with the nominal and actual credit period (PQ WG) for transparency as there is some variation in contract lengths across different businesses and product lines.

Conclusion (Final list Firm Level KPIs):

1. Total Cashflow from Customers
2. Overhead Costs as a % of Total Cashflow from Customers
3. Cash Collected as a % of Total Revenue
4. EBT Margin
5. Total Contribution Margin
6. Total Receivables Generated

Considerations – Unit Level KPIs

- The Working Group agrees that we can collapse the existing Unit Level KPIs in the Unified Framework into three KPIs (1) Unit Total Payments, (2) Unit Total Costs, (3) and Unit Contribution Margin.

Next steps

1. Summarize the Firm Level KPIs agreed by the WG and send it out to all the members
2. Webinar to share progress update to entire consultative group - July 10.
3. Survey will be sent out to the consultative group after the Webinar.
4. Working Group call with all three working groups – 1st week of August.
5. Pilot to test the KPIs together with a handful of companies.