

Unit Economics Working Group Meeting

PAYGO PERFORM

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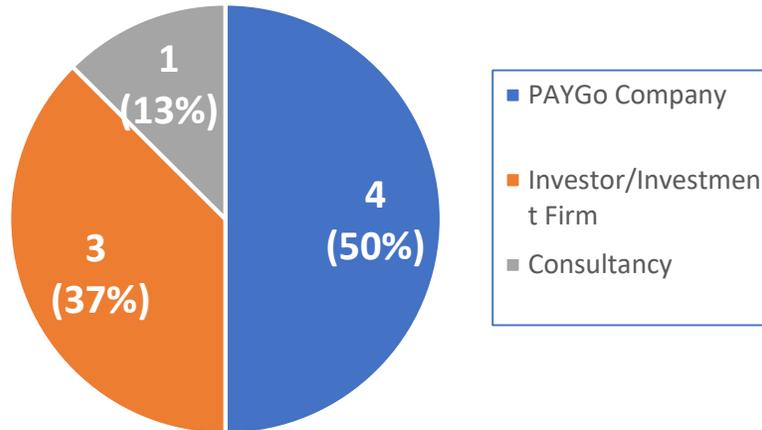
Today's Agenda

- Review of Firm Level KPI Survey Results
- Finalize Discussion on Firm Level KPIs and Unit Level KPIs

General Overview of Survey Results

Overview of Survey Respondents

Breakdown by Type of Organization

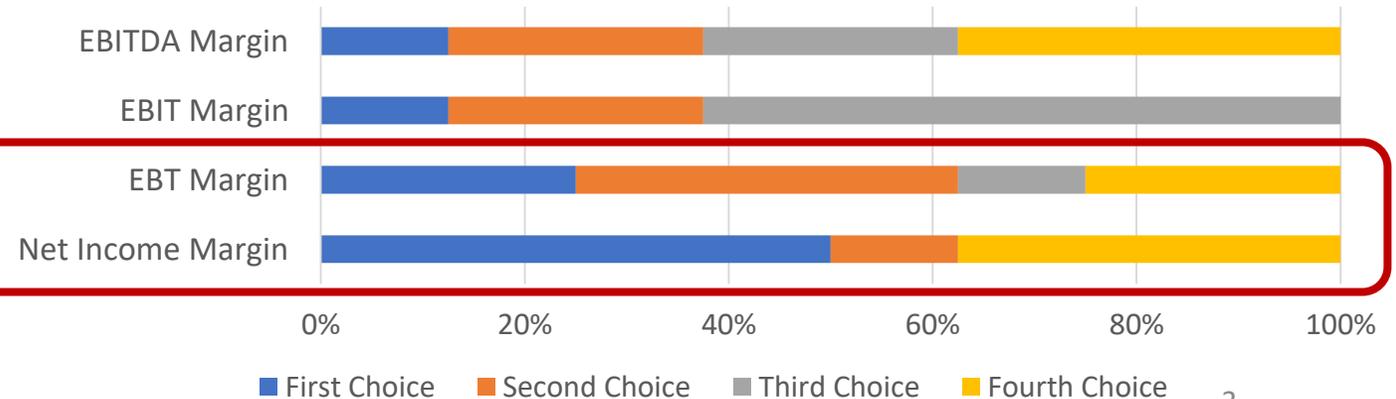


Total Survey Participants: 8

Summary of New Firm Level KPIs

Firm Level KPIs	% of Positive Responses
Total Revenue	50%
Total Overhead Cost as % of Revenue	63%
Cash Flow from Operations	63%

Firm Level Profitability KPIs – Ranking by Importance



Total Revenue KPI – Review of Results

Total Revenue = Revenue reported in the Income Statement (which includes customer deposits and PAYGO revenue)

- Although Total Revenue is an accounting figure and PAYGo firms use different methods to recognize revenue, it is an important metric to use since it is easy to report
- As part of the deliverables of Unit Economics KPIs, we plan to put together a manual and an Excel tool which help explain the different KPIs
 - The manual will highlight the different accounting methodologies used for Revenue recognition, with the goal of potentially proposing a standardized way for the industry
- Other Options to consider:
 - Total Receivables Generated over a period of time

Comments – Not In Agreement with Proposed KPI

It's an accounting figure, not a KPI per se. Not sure how eager companies would be to share it in a semi-public forum. Nice to have and the more that share it the better.

The point of the unit economics exercise is to normalize for accounting differences to see how much firms are making (or losing) per sale. Using their Income Statement revenue means you are taking different accounting policies into account, rather than drilling thru to the true economics.

Not Relevant, this KPI will depend on revenue recognition . Recognition varies based on business model and choice.

Different revenue recognition rules make it difficult to compare.

Total Overhead Cost KPI – Review of Results

Total Overhead as % of Total Revenue = refers to all fixed costs (SG&A, Marketing, etc.) divided by Total Revenue

- This metric provides a view of how much fixed costs does a business have when compared the revenue generated.
- Overall, it seems that most survey respondents are in agreement with including this metric as a Firm Level KPI
- It is suggested that this metric should be based on Total Revenue and Total Overhead Costs

Comments – Not In Agreement with Proposed KPI

Too much business information

As the industry is young, the KPI will not provide any insightful information because it varies based on the company sales and dimension. Young companies will tend to have high ratio compared to older ones

Since the time period of SG&A is not the same as the Revenues in most cases, then difficult to make sense of this metric. If its possible to compare total SG&A vs total Revenues, then this metric would work okay.

Cash Flow from Operations KPI – Review of Results

Cash Flow from Operations = refers to the cash flow generated from the normal operations of the business

- This metric provides a view of how much cash is generated by the PAYGo firm over a specified time period
- This metric can be easily obtained from the Statement of Cash Flow
- An alternative metric could be: **Total Cash Payments as % of Total Revenue**
 - Refers to the cash payments received (Deposits plus Follow On Payments) divided by the Total Revenue

Comments – Not In Agreement with Proposed KPI

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Firm Level Profitability KPI – Survey Results

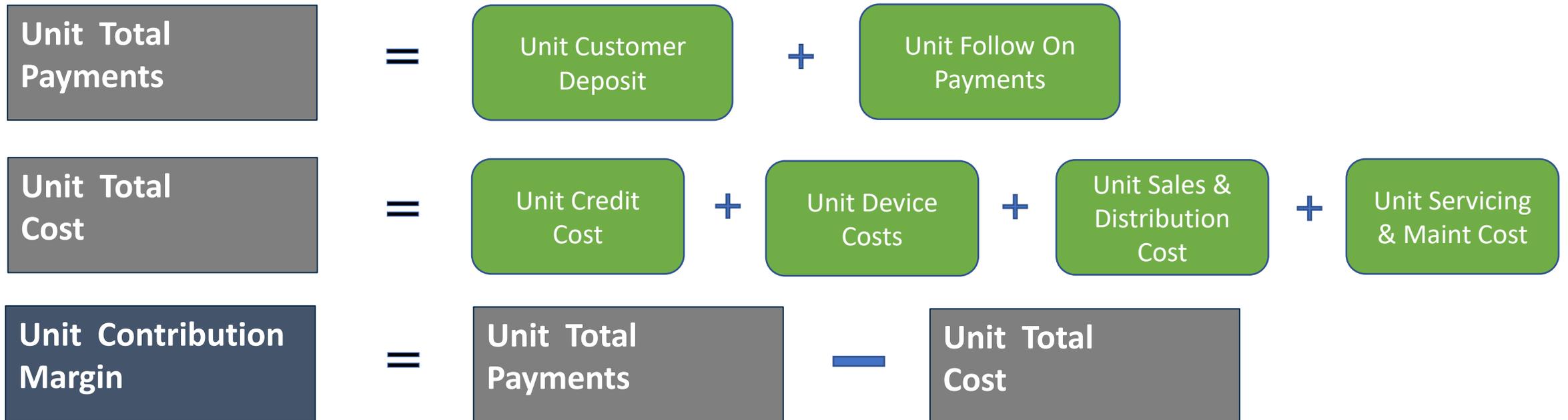
- Four potential measures of Firm level profitability were proposed:
 - EBITDA Margin
 - EBIT Margin
 - EBT Margin
 - Net Income Margin
- Overall, Net Income Margin and EBT Margin were the preferred choices from the survey respondents, since they account for the Interest Expense
- Since the Firm Level KPIs will become the main KPIs which will be initially shown, we also propose to include Total Contribution Margin
 - Total Contribution Margin = $[\text{Total Revenue} - \text{Total Variable Costs}] / \text{Total Revenue}$

Proposed Firm Level KPIs – Summary

KPI Name	 Definition	 Calculation
Total Revenue	Refers to the Total Revenue as reported in the Income Statement	<ul style="list-style-type: none"> Total Revenue includes customer deposits and PAYGo revenue Although there may be differences due to revenue recognition policies, it is an important metric to report
Cash Payments as % of Total Revenue	Provides a view of how much cash has been received as a proportion of the total revenue recognized	$\frac{\text{Total Cash Payments (customer deposits and follow-on payments)}}{\text{Total Revenue}}$
Total Contribution Margin	Provides a view of a PAYGo firm's profitability when taking into account ONLY the variable costs	$\frac{[\text{Total Revenue} - \text{Total Variable Costs}]}{\text{Total Revenue}}$
EBT Margin	Represents the overall profitability of a PAYGo firm when taking into account ALL costs (variable and fixed)	$\frac{[\text{Total Revenue} - \text{Total Variable Cost} - \text{Total Fixed Cost}]}{\text{Total Revenue}}$

Consolidation of Unit Level KPIs

- In an effort to minimize the number of Unit Level KPIs, we propose to consolidate the KPIs into 3 main measures, which consist of sub-KPIs:



KPI Legend

- Sub-KPIs
- Main KPIs

Thank You!

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