PAYGo PERFORM Progress Update

This document summarizes two recent PAYGo PERFORM events: 1) The Last Mile to KPIs 2.0 Workshop (June 19th) with 67 attendees, and 2) "How Far We Have Come" Webinar (July 10th) with 85 attendees.

Progress Update from the Working Groups

The KPI Framework includes the following types of indicators: company indicators, financial indicators, and operational indicators.

1. **Financial Indicators**: these KPIs were the primary drivers of the need to update the KPIs 1.0 and convey details about the company's portfolio quality, profitability, or other related financial performance metrics.
2. **Company Indicators**: these KPIs give context to interpret Financial and Operational Performance KPIs and are helpful in placing PAYGo companies in the proper context for comparison.
3. **Operational Indicators**: the goal of these KPIs are to measure operational performance to allow companies to assess where they could improve and eventually benchmark themselves against peers. These indicators are suggested as internal indicators and may not be included in the externally reported indicators due to their sensitive nature.

Unit Economics Working Group

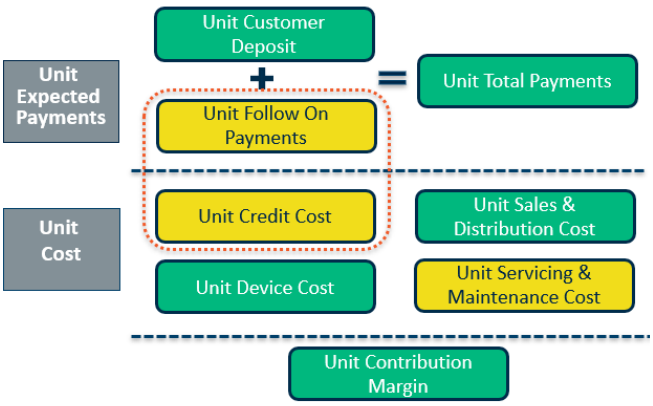

Figure 1. Unit Economics Unified Framework

Based on the feedback received from the industry in 2018, the original version 1.0 UE indicators (ARPU, Average Total Expected Revenue, Average Unit Cost, Average Customer Deposit as a Proportion of Unit Cost, Average Maintenance Cost) had to be refined further. Though most of the indicators (except ARPU) were semi-applicable to the industry, it was unclear what should be included in costs or revenues. The UE Working Group therefore introduced a Unified Framework (see Figure 1.) in which all variable costs are accounted for on a unit basis. The green marked KPIs have been agreed by the working group and are close to final and the yellow marked KPIs are still subject to discussion. See the complete overview per KPI here.

Recommendations from Unit Economics WG:

- **Unit Follow-On Payments**
  Ongoing debate whether we should apply a present value calculation or report the gross amount. The main argument to apply a present value calculation is to better reflect

differences in the timing of the receipt of cash payments. Reporting the gross amount would be more straightforward, making it easier to calculate the KPIs and report.

- **Credit Cost**
  Using the Write-off Ratio to capture the risk of non-payment of customers for the formulae. This should match with the write-off ratio of PQ, should be product-specific and based on historical performance.
- **Financing Cost**
  These costs are difficult to attribute to a specific unit and the recommendation is therefore to exclude this KPI.
- **Contractual vs. Actual Repayment Period**
  To account for variable collection rates that often stretch out the period of payment the effective credit period (nominal credit period/ collection rate) is recommended.

Furthermore, firm level KPIs (see overview) are required to help better understand profitability on a company-wide level.

Portfolio Quality Working Group

Since the Unlocking Solar Capital event in Kigali, the Portfolio Quality Working Group has refined the portfolio quality KPIs to suit the distinct needs and characteristics of the PAYGo industry. They also looked at the set holistically to ensure that company activities that affect portfolio quality are captured in at least one of the KPIs. The current set of KPIs include (see complete overview per KPI here):

- **Receivables at Risk**
  This KPI is derived from KPI 1.0 'Portfolio at Risk' and changed name to signify that Portfolio at Risk is not directly comparable with other more traditional financial entities. To finalize this KPI, the PQ WG will have to choose between two methods of identifying risky streams: consecutive days of nonpayment or collection rates below a significant threshold.
- **Write-off Ratio**
  This KPI is derived from KPI 1.0 'Churn Rate' and compares the remaining payments of written-off receivables streams to the total receivables outstanding. To finalize the Write-off Ratio, the PQ WG still must work through periodicities and determine the need for standardization of a write-off.
- **Repossession Ratio**
  The counterpart of Write-off Ratio, **Repossession Ratio,** indicates the portion of installed units that are repossessed for redeployment. This KPI is also derived from KPI 1.0 'Churn Rate'.
- **Collection Rate**
  This metric has proven to be a better fit for the industry in place of KPI 1.0 'Standard Deviation of Amount Ahead/Behind' as it speaks to the unique nature of flexible payments at the heart of PAYGo solar. The goal of the metric is to capture the ratio of actual receivables collected over what could have been collected.
- **Effective Credit Period**
  The PQ WG has added an ancillary KPI, the **Effective Credit Period**, to give an overall sense of effective period based on collection rate in addition to the already existing **Average Credit Period**.
- **Average Receivables Portfolio Size**
  This is a proposed ancillary KPI, coming from the KPI WG, and measures the average value in USD of the company's outstanding receivables streams over the period of measure.

- **Receivables Portfolio Growth Rate**
  This is a proposed ancillary KPI and can be derived from annual receivables portfolio size figures and measures the annual growth rate of **Average Receivables Portfolio Size**. The KPI will provide an important frame of reference as high growth can cloud wide-angle portfolio quality metrics.

KPI Working Group

The company indicators include **Sales Model**, **Sales Distribution Model**, **Geographical Area**, **Total Net Sales**. Previously included **Portfolio Size** will be further developed in the PQ WG. You can find the definition, calculation here. All indicators have been agreed upon by the working group and are close to ready for pilot.

The operational indicators include **Average Selling Price**, **Sales per Distribution Channel**, **Sales Point Rate**, and **Net Promoter Score**. Previously included **Warranty Cost** will be further developed in the UE WG. The current KPI that still needs some refining Sales Point Rate. The Net Promoter Score would be a desired KPI for the industry to have. However, it might be costly for the industry to adopt. Therefore, this KPI might also be part of the 'recommended internal KPIs', leaving it up to the individual company to adopt this KPI.

Next steps for PAYGo PERFORM

1. The KPI Framework 2.0 beta will be based upon the feedback from the WGs, CG, and SG by October 2019. To get the KPIs ready for piloting, we will examine and finalize periodicities, run pilots to test, and determine appropriate cohorts, and analysis to recommend providing further insights for companies and investors alike. We will also look at the complete set as a whole and assess whether the set of KPIs form a coherent framework.
2. Define the appropriate party to collect the PAYGo PERFORM data and assess what else is needed to perform the data piloting will be finalized September 2019.
3. We are currently planning to begin pilot preparations in Q4 of 2019. The pilot will be executed with a handful number of companies. Together we will test the KPIs 2.0 beta in practice over Q1 and Q2 of 2020 and make final alterations to improve the KPI Framework. If you would like to participate to the pilot, please send an email to paygoperform@gogla.org.
4. After making final iterations and agree the KPI framework with the CG and SG, we will launch the KPI framework to the industry.

Feedback from Consultative Group

Overall feedback on PAYGo PERFORM Initiative

All of the participants at the Workshop and Webinar found that PAYGo PERFORM is moving in the right direction: some felt moderate adjustments needed to be made before the pilot (59% Workshop, 55% Webinar) and others felt that only some minor adjustments needed to be made before the pilot (41% Workshop, 45% Webinar).

Amount of KPIs

The Consultative Group, comprising of industry stakeholders, indicated that the proposed KPIs are all/almost all important and manageable (52% Workshop, 63% Webinar). Some were of opinion that a handful of KPIs should be dropped (30% Workshop, 27% Webinar). A small minority found that there were far too many and we need to significantly pare down the list (7% Workshop, 0% Webinar), and others indicated that we need more KPIs to adequately capture necessary information (11% Workshop, 10% Webinar).

The CG raised the issue that the amount of KPIs would significantly increase if a company worked with operations in several countries (perhaps via different sales models) and with different product lines.

Data reporting

We asked PAYGo Companies in the room to respond to the following: *'Assuming necessary adjustments are made, I would be comfortable sharing my data for external reporting purposes: ___'*

The preferred option was to report externally, but only if anonymized effectively (70%). 10% of the PAYGo representatives present indicated that they would like only to report internally and with bilateral conversations with investors. Others want to report externally depending on the category of indicators (20%).

We also asked investors in the room to respond to the following: *'Having the KPI framework would: ___'*

70% indicated that the KPI framework will help them understand the risk and opportunities in the sector, but only if external reporting (on at least a subset of them) for trends is available. 30% responded that the framework will be a helpful tool in 1-on-1 Due Diligence but don't need to be reported on externally.

Other comments made during the session regarding data reporting were:

- PAYGo Companies are reluctant to report on some KPIs publicly and individually as it is commercially sensitive information that they do not want to share with competitors.
- Investors might increasingly require companies to report on these indicators.
- GOGLA commented that it is important in the current climate, where PAYGo companies like Mobisol have issued profit warnings and have decided to restructure, to push for more transparency.

Other feedback/questions:

- Have all business model considerations been considered per indicator?
- What are the implications to different accounting practices for asset quality KPIs?
- Would the write-off ratio recommended be comparable across different companies and business models?
- Should portfolio size be in local currency to not distort historical data by FX fluctuations?
- How to deal with partial repossessions?
- If and how will growth and customers' changing behavior (e.g. customers are moving up the energy ladder and are looking for more expensive appliances) affect the KPIs?
- Should the KPI framework also consider impact indicators?
- Are these indicators appropriate for proposing a regulatory framework?