Summary Unit Economics both SCs call – April 23, 2019

The Unit Economic WG's objectives were to further refine the Unit Economics KPIs and discuss (1) Average Financing Cost, and (2) Average Credit Costs in particular. Both Revenue and Cost Subcommittee members were invited as both perspectives were required to further develop these KPIs.

1. Cost of Financing

First topic discussed was Expected Follow on Revenue and how it should be calculated – specifically, should we consider taking the **Present Value of Expected Revenue**. The members of the Subcommittees offered different views on this topic.

- Doing the Present Value calculation involves determining a discount rate, and this part may be difficult to do
- The question of what to use as a discount rate was debated by the folks in the call. To be accurate, you should use a WACC, which takes into account the cost of debt and cost of equity, but this is too complex and not necessary. On the other hand, selecting an arbitrary number is easiest, but it may be difficult to define what that value may be
- After debating this topic, some offered that using the cost of debt as the way to discount the revenue would be the best way
- It was also suggested that instead of having a Present Value calculation using a discount rate, it would be better to capture this effect as part of a Cost of Financing KPI. This KPI would take into account the financing rate for solar panels in inventory. The interest expense would be allocated across the different units. A few different options were offered for the calculation of interest expense:
    - Calculate interest expense based on the debt required to buy the solar panels
    - Calculate interest expense based on the debt required to keep the inventory in the warehouse until it is sold
- **It is important to note that we are mixing two different things here: (1) The present value of a stream of payments (i.e. expected revenue); and (2) The cost involved in financing the solar panels. Therefore, it is essential that we separate these two issues, and it may not be possible to capture both of them in a Cost of Financing KPI – this item requires further discussion**

2. Credit Cost

- The second topic discussed is related to the cost of non-payment or risk of default, which can also be part of expected revenue. In our prior call, it was decided to separate this metric as a cost component
- Similar to Cost of Financing, there were different views expressed during the call
- Some expressed the fact that the idea of Credit Cost is not applicable to Unit Economics but should be taken into account in Portfolio Quality. Also, it was expressed that this metric matters to understanding on a business level and not a unit level
- On the other hand, a few expressed support for including this KPI since it provides a clearer picture on what profitability you can expect from the sale of a solar panel. Also, it is good to have it for comparability purposes. If you have a higher risk that payments will not be collected, the expected profitability will also decrease
- Ultimately, a final determination needs to be made on whether to include it or not