Summary Unit Economics Working Group call

Date: June 6

The objectives of the Unit Economics Working Group call were as follows:

- Review the definitions of the Unit Economics KPIs with the Working Group.
- Discuss the recommendations from Professor Dan Gode on the key issues that we have been grappling with in the Working Group.
- Discuss the proposal for the addition of firm level KPIs to evaluate profitability.

General characteristics KPIs

Based on the different Working Group calls, discussions with Professor Gode, we have defined the following general characteristics that apply to all the Unit Economics KPIs:

- **The KPIs should be calculated for each product**. The Unit Economics KPIs mainly provide a view of the unit profitability by product.
- **The KPIs should be forward looking**, yet some of the calculations should be grounded in historical performance to make them credible and reliable. The forward-looking approach allows companies to evaluate the unit profitability of new products, and it is also helpful for young PAYGo firms which may not have an in-depth historical track record.

Key Highlights per KPI

The majority of the time was spent reviewing the definitions of the Unit Economics KPIs and obtaining feedback / comments from the Working Group members. Below are some of the key highlights for the different KPIs:

Average Customer Deposit

- We discussed the need to have two approaches to defining this KPI: (1) On a percentage basis; and (2) On a unit basis.
- This KPI is pretty straight forward and the definition can be considered completed and final.

Average Follow On Contractual Payments

- This KPI was one of the most challenging to define, since there was a desire to show this metric on a PV basis in order to accurately reflect the expected cash flows.
- Based on the recommendations from Professor Dan Gode, who is an Accounting expert, this KPI will be calculated WITHOUT performing the PV calculation since it is very difficult and complex to determine the appropriate discount rate to use. Instead, the PAYGo firm would disclose the contractual follow on payments as well as their discount rate, which can then be used by investors to calculate the Present Value.

Average Credit Cost

- This KPI represents the amount of contractual follow on payments that will never be collected due to write offs.
- Two approaches were considered: (1) Using a Write Off Ratio and multiplied by the contractual follow on payments; and (2) Using the Provision for Credit Cost from IFRS 9.

- Based on recommendations from Professor Gode, the first approach is the easiest and simplest to apply. The Write Off Ratio should be based by product, and in the case where there is insufficient data to calculate by product, then a proxy should be used such as: Write Off Ratio for the firm, or the Write Off Ratio for a similar product.
- The group also mentioned that IFRS 9 Provision for Credit Cost only accounts for outstanding receivables, but we are interested in contractual expected payments, so there is a difference in the data which will yield different results between approach (1) and (2).
- The goal is to look at the Write Off Ratio KPI from the Portfolio Quality Working Group and make sure it is aligned with the Write Off Ratio for Unit Economics Working Group.
- Another point emphasized by the Working Group is that Credit Cost should NOT be netted against Average Follow On Payments, but remain as a separate cost KPI since it is important to track this figure and have more transparency.
- The units in the denominator should be total units sold.

Average Device Cost

- No issues with the definition; Working Group members agree with the way it is defined.

Average Sales & Distribution Cost

- Refers to all the costs related to the installation and sale of the SHS unit to the customer. This includes commissions for sales agents, transportation cost to the customers' homes and installation costs.
- The Working Group members were clear to exclude all fixed costs from this metric since it is very difficult to allocate these costs to a unit.

Average Servicing & Maintenance Cost

- This KPI is challenging to calculate since it occurs over time, and the costs can be extended if a customer extends its payment period.
- It was agreed on the call that the calculation should be based by product and use the sum of the monthly servicing and maintenance costs multiplied by the Effective Credit Period (Nominal Credit Period / Collection Rate). Ultimately, we are interested in the lifetime number for servicing and maintenance cost by product.
- Warranty costs should be added to Servicing and Maintenance Cost.
- The allocation of Call Center costs to products would seem a bit challenging, but some of the Working Group members believe it is achievable.

Firm level KPIs

The next topic discussed was the proposal for the addition of Firm Level KPIs to measure overall profitability. When considering the overall PAYGo firm which has a portfolio of products, the Unit Economics KPIs become very difficult to calculate from the blended financials and may not provide much value. Therefore, we propose to augment the Unit Economics KPIs with Firm Level KPIs to evaluate the overall profitability of PAYGo firms. In addition, we envision the development of a manual that can be used by both investors and PAYGo firms which provides a common language around the Unit Economics KPIs and Firm Level KPIs. The Working Group is in favor of adding Firm Level KPIs; currently, the PAYGo firms report on most of these KPIs to investors as well as internally. Thus, the next step is to agree which Firm Level KPIs to include.

Next steps

Prepare a list of Firm Level KPIs to share with the Working Group, in order to get feedback on whether they make sense to include them and how to define them. Plan to share the list of Firm Level KPIs in the next 2 weeks through a survey.