

Summary Unit Economics Cost Subcommittee call

Date: April 16, 2019

The objective of the call was to discuss the responses of the survey and further refined the list of Cost KPIs. Another objective was to identify a list of issues that should be addressed for each KPI and started working on them before the next broader Unit Economics Working Group call.

1. Unified Framework

Based on the Unified Framework that was discussed in our Unit Economics Working Group 1st Call, 6 Cost-related KPIs were proposed:

- Average Device Cost
- Average Sales & Distribution Cost
- Average Maintenance Cost
- Average Servicing Cost
- Average Credit Cost
- Average Financing Cost

Based on the results of the survey, it was clear that **all of the proposed Cost KPIs seem to be relevant; however, the proposed DEFINITIONS NEED TO BE MODIFIED/DISCUSSED.**

2. Highlights per KPI

Average Device Cost

- This KPI should include the cost of getting the device from the factory to the destination where it is delivered (i.e. landed cost):
 - i. Cost of Hardware
 - ii. Cost of transportation to the warehouse
 - iii. Import taxes and duties
 - iv. Stock insurance
- Installation cost SHOULD NOT BE INCLUDED in this metric

Average Sales & Distribution Cost

- This KPI should include the variable cost of making a sale to the customer, and the costs associated of taking the product from the warehouse and installing it at the customer site. Therefore, the following components should be included:
 - i. Installation cost
 - ii. Sales commissions for agents
 - iii. Logistics costs (i.e. sales transportation costs, transportation cost from shop to customer, etc.)
- It is important to note that Installation Cost will be dependent on the business model
- Also, Marketing Costs are NOT INCLUDED in this metric – only Variable Costs

Average Maintenance Cost

- A lot of PAYGo companies do not offer regular maintenance to their customers, except for a few of them (i.e. BBOX)
- Potential costs included here may be related to after-care warranty costs. However, time frame makes a difference as it relates to warranties. It was decided not to include Warranties at this time
- Also, given that few firms have the concept of providing maintenance to their customers, it was agreed to combine with Average Servicing Cost – see below

Average Servicing Cost

- Servicing costs relate to all costs that take place after the sale of the unit to service the customer. This may include the cost of collection agents, etc.
- It was agreed to combine Servicing and Maintenance Costs into 1 KPI – we will call it: Average Servicing and Maintenance Costs

Average Credit Cost and Average Financing Cost

- These two KPIs will be discussed in our follow up call scheduled for **Tuesday, April 23**.

3. Follow up questions

An important item that wasn't discussed in the call is what should be used in the DENOMINATOR WHEN CALCULATING THE COST KPIs on a UNIT BASIS. HERE ARE SOME OPTIONS:

- Active Units** – will need to define what we mean by “Active”
- Assets in Circulation (from Persistent Energy)** – defined as All Units that have been sold, leased or rented to the customer, including assets that have been repossessed or returned, but excluding assets which have been written off as they were stolen, lost or don't function any longer
- Installed Assets (from Persistent Energy)** – defined as the Number of Units currently provided to customers
- OTHER?

DURING THE CALL, WE CAME TO AN AGREEMENT THAT THE COST KPIs WOULD ONLY FOCUS ON VARIABLE COSTS. All Fixed Costs would not be allocated to any of the Cost KPIs. Therefore, when calculating Unit Gross Profit, it can be determined how much Gross Profit would be needed to cover Fixed Costs.