Unit Economics Working Group Meeting

PAYGO PERFORM

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Catalyzing markets for modern off-grid energy
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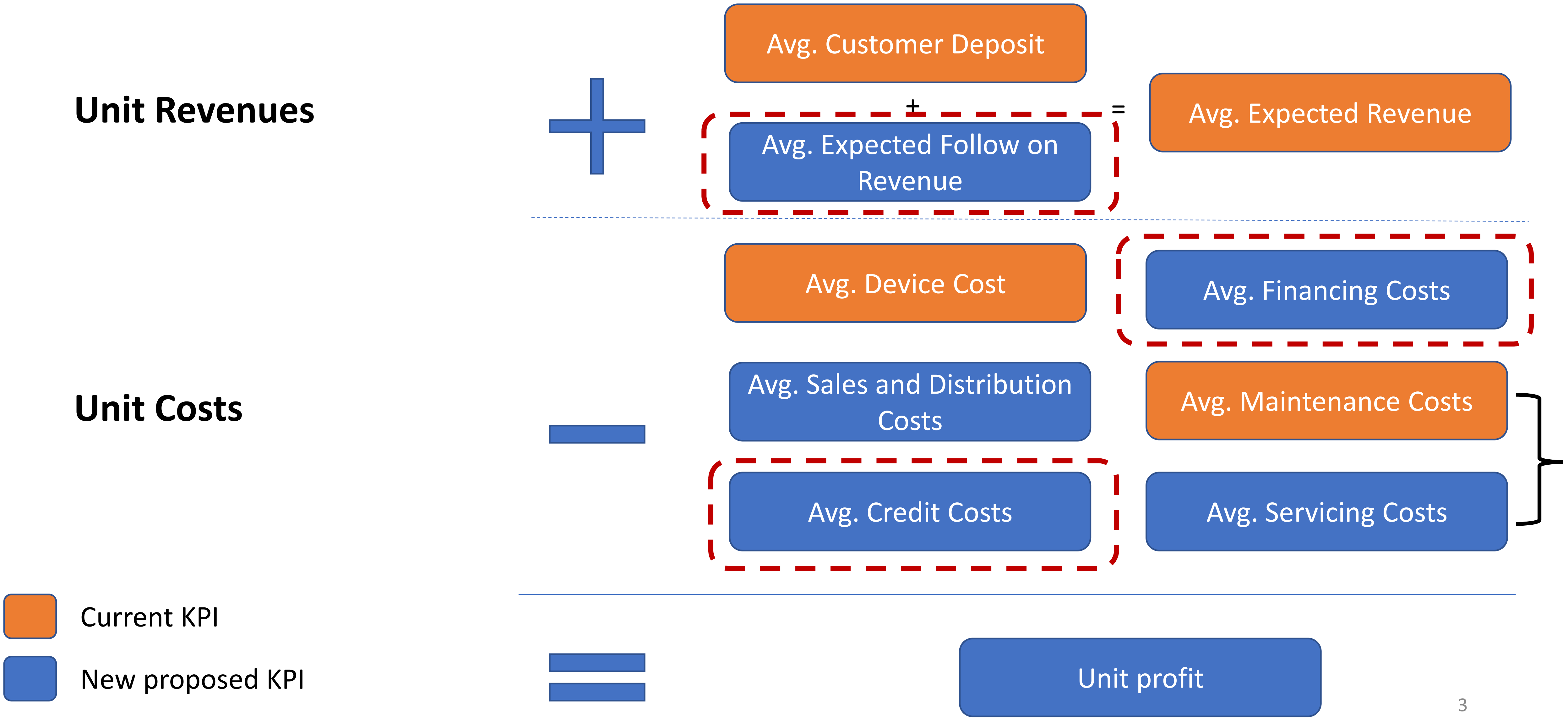
Today’s Agenda

- Review of Unit Economics KPI definitions
- Recommendations from Professor Dan Gode on Key Issues
- Proposal for the Addition of Firm Level KPIs
- Review of Sample Data

Unified Framework for Unit Profitability KPIs – Original



Unified Framework for Unit Profitability KPIs – Updated

Unit Expected Payments

+

Avg. Customer Deposit

+

Avg. Expected Follow On Payments

=

Avg. Total Expected Payments

–

Avg. Credit Costs

Avg. Servicing and Maintenance Costs

Unit Costs

Avg. Device Cost

Avg. Sales and Distribution Costs

=

Unit profit

KPI Status

- Agreed and final
- Subject to Discussion

Average Customer Deposit

	DEFINITION. Two approaches: (1) Total contractual customer deposits as a fraction of total expected payments; (2) Total contractual customer deposits per units sold.
	WHY DOES IT MATTER? Measure of payback timing primarily for cash flow analysis and risk analysis – higher deposit percentage generally correlated with higher repayment rates.
	CALCULATION. Two approaches: (1) Total contractual deposits / Total Expected Payments; (2) Total contractual deposits / Total Units Sold
	NOTES. Contractual Deposit, or down payment, is defined as the total amount expected to be paid at time of unit acquisition, exclusive of payment per use. Calculation is done by product and should be forward looking
	BUSINESS MODEL CONSIDERATIONS. Applies only to PAYGo or Asset Finance companies
	STATUS. Subject to discussion (Yellow)

Average Expected Follow On Payments

	DEFINITION. Sum of expected contractual follow on payments until system is permanently unlocked, net of customer deposits, per unit sold
	WHY DOES IT MATTER? Provides a measure of expected follow on cash flows on a unit basis that a company will receive on a periodic basis
	CALCULATION. Two approaches: (1) Sum of the expected contractual follow on payments [adjusted by the historical collection rate] / Total Units Sold; (2) Present Value of the Sum of the expected contractual follow on payments [adjusted by the historical collection rate] / Total Units Sold
	NOTES. • This KPI has embedded the interest income generated by the PAYGo firm due to the financing of the SHS unit to the customer • A discount rate is required to perform the calculation – NEED TO DETERMINE • The calculation is performed for each type of product sold and it is forward looking • Calculation can be adjusted by the Credit Cost – NEED TO DISCUSS
	BUSINESS MODEL CONSIDERATIONS. Applies only to PAYGo and Asset Finance companies
	STATUS. Subject to discussion (Yellow)

Average Total Expected Payments

	DEFINITION. Sum of contractual customer deposits and expected follow on contractual payments per unit sold
	WHY DOES IT MATTER? Provides a measure of total expected cash flows on a unit basis.
	CALCULATION. This KPI can be calculated by the sum of two KPIs: (1) Average Customer Deposits and (2) Average Expected Follow On Payments
	NOTES. Can be combined with the Cost KPIs to calculate the expected Total Unit Contribution Margin.
	BUSINESS MODEL CONSIDERATIONS. Applies to all business models. For cash-based products, it will be equal to the expected payments to be received
	STATUS. Agreed and final (Green)

Average Credit Cost

	DEFINITION. The average expected contractual payments that will not be recognized due to write offs on a per unit basis
	WHY DOES IT MATTER? Represents the cost related to the probability of write off of expected receivables, which impacts the amount of cash that will be ultimately received
	CALCULATION. Two approaches being considered: (1) [Write Off Ratio * Total Expected Receivables] / Total Units Sold (2) Provision for Credit Cost as per IFRS 9 Accounting Guidelines / Total Units Sold
	NOTES: • Write Off Ratio KPI used from Portfolio Quality Working Group; The % of write off would be based over the lifetime that has been observed by the PAYGo firm • IFRS 9 Accounting Guidelines for the Provision of Credit Cost provides a clear way to calculate the Credit Cost • If the Provision for Credit Cost per IFRS 9 is used, it may require guidelines on how to perform the calculation for PAYGo firms which have not implemented this accounting method • Credit Cost may be netted against Total Expected Payments or kept separate as a Cost KPI – TO DISCUSS
	BUSINESS MODEL CONSIDERATIONS. Only applies to PAYGo and Asset finance firms
	STATUS. Subject to discussion (Yellow)

Average Device Cost

	DEFINITION. The average cost of the device inclusive of hardware, transportation (to the warehouse), import taxes & duties, and stock insurance per unit sold
	WHY DOES IT MATTER? One of the key cost components of a PAYGo firm – typically, it represents the largest variable cost component
	CALCULATION. Sum of (Cost of hardware, transportation cost (to the warehouse), import taxes and duties, stock insurance) / Total Units Sold
	NOTES • This KPI includes the cost of getting the solar device from the factory to the destination where it is delivered (i.e., landed cost) • Transportation costs only include transport from the manufacturing site to the warehouse; it excludes the transportation cost from the warehouse to the end customer • Calculation is done by product
	BUSINESS MODEL CONSIDERATIONS. Applies equally to different business models.
	STATUS. Agreed and final (Green)

Average Sales & Distribution Cost

	DEFINITION. The average cost of installing the device at the customer site, transportation cost (from warehouse to customer) per unit sold
	WHY DOES IT MATTER? Represents the cost required to install and complete the sale of a SHS unit
	CALCULATION. Sum of (installation cost, commission for sales agent and transportation cost to the customer site) / Total Units Sold
	NOTES • This KPI includes 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 • Customer acquisition cost is excluded since it incorporates fixed cost components such as marketing and salaries/benefits of sales managers • Calculation should be done by product
	BUSINESS MODEL CONSIDERATIONS. Applies to all business models.
	STATUS. Subject to discussion (Yellow)

Average Servicing and Maintenance Cost

	DEFINITION. The average cost of servicing a customer (i.e. collection of payments, customer service) and providing maintenance of installed units
	WHY DOES IT MATTER? Represents an ongoing cost that PAYGo firms will need to cover to support the sale of solar devices
	CALCULATION. Sum of (servicing costs and maintenance costs) / Total Units Sold
	NOTES • 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, SMS/payments and call center (incoming and outgoing) • Only a limited number of PAYGo companies offer regular maintenance to their customers. • Units written off are excluded in the denominator • Costs related to repossession of SHS units is included under Servicing Costs • Warranty costs – SHOULD THEY BE INCLUDED? • Calculation should be done by product
	BUSINESS MODEL CONSIDERATIONS. Dependent on the business model, specifically as it relates to maintenance cost
	STATUS. Subject to discussion (Yellow)

Average Contribution Margin

	DEFINITION. The average profit based on variable costs on a unit basis for a particular product
	WHY DOES IT MATTER? Represents the unit profitability for a particular product
	CALCULATION. Can be calculated from the different KPIs: Average Expected Total Payments – Sum of (Avg. Credit Cost, Avg. Device Cost, Avg. Sales & Distribution Cost, and Avg. Servicing & Maintenance Cost)
	NOTES • Calculation should be done by product • Only variable costs are included in the calculation
	BUSINESS MODEL CONSIDERATIONS. Dependent on the business model, specifically as it relates to maintenance cost
	STATUS. Agreed and final (Green)

Summary of Key Updates

- Based on our prior discussions, conversations with Professor Dan Gode (Accounting expert) and review of sample data / financial model, the following updates to the KPIs are proposed:
  1) Naming Convention
     - All KPIs with the word "Revenue" have been modified to "Expected Contractual Payments" to more accurately reflect what is being analyzed
     - "Unit Gross Profit" has been modified to "Unit Contribution Margin"
  2) General View of Unit Economics KPIs
     - KPIs should only be used to analyze the unit profitability of different products. The KPIs do not provide significant value when looking at the unit profitability of a portfolio of products for the entire PAYGo firm; in addition, it becomes challenging to calculate
     - KPIs should be evaluated on a forward-looking basis, and they are based on expected cash flows

Recommendations from Professor Gode on Key Issues

- We have engaged Professor Dan Gode, a Professor of Accounting from New York University and an Accounting expert to provide his views/recommendations on the key issues we have identified. Here are his recommendations:
  1) Time Value of Money
     - While it may be more accurate to perform the PV of the expected follow on contractual payments, it is very complex and requires the determination of an appropriate discount rate, which will be different for each firm
     - Recommend NOT to perform the PV calculation, but allow Investors and PAYGo firms to do the calculation themselves, if required
  2) Risk of Non-Payment / Default (Credit Cost)
     - Two approaches have been proposed: (1) Using a Write Off Ratio multiplied by the expected follow on contractual payments; (2) Use IFRS 9 Provision for Credit Cost
     - Recommend to use approach (1), since it easier and does not require PAYGo firms to abide by IFRS accounting principles
  3) Financing Cost
     - Recommend NOT including financing costs since it is extremely difficult to allocate to different products. Also, there are financing costs which are for the general operations of the business which cannot be attributed to products

Proposal for the Addition of Firm Level KPIs to Measure Profitability

- Unit Economics KPIs are very helpful to evaluate the profitability of particular products for PAYGo firms, and help companies understand what they need to do in order to be profitable at a unit level
- However, 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. Some examples of potential Firm Level KPIs:
  - Total Revenue
  - EBITDA
  - EBITDA Margin
  - Cashflow from Operations
  - Total Overhead Costs as a % of Total Revenue
- Given the adjacencies between Unit level profitability and Firm level profitability, the process of adding and defining new Firm level KPIs should be fairly straightforward
- 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 manual would outline the definitions of the different financial components used to calculate the KPIs and will be accompanied by an Excel tool which will be useful for companies to use to gain a better understanding of the calculation of the KPIs

Next Steps

- Obtain buy-in from the Working Group on the addition of Firm Level KPIs to evaluate overall Profitability
- 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. Please make sure you fill it out and provide your detailed feedback

Thank You!

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