

# Unit Economics Working Group Revenue + Cost Subcommittee Meeting

## PAYGO PERFORM

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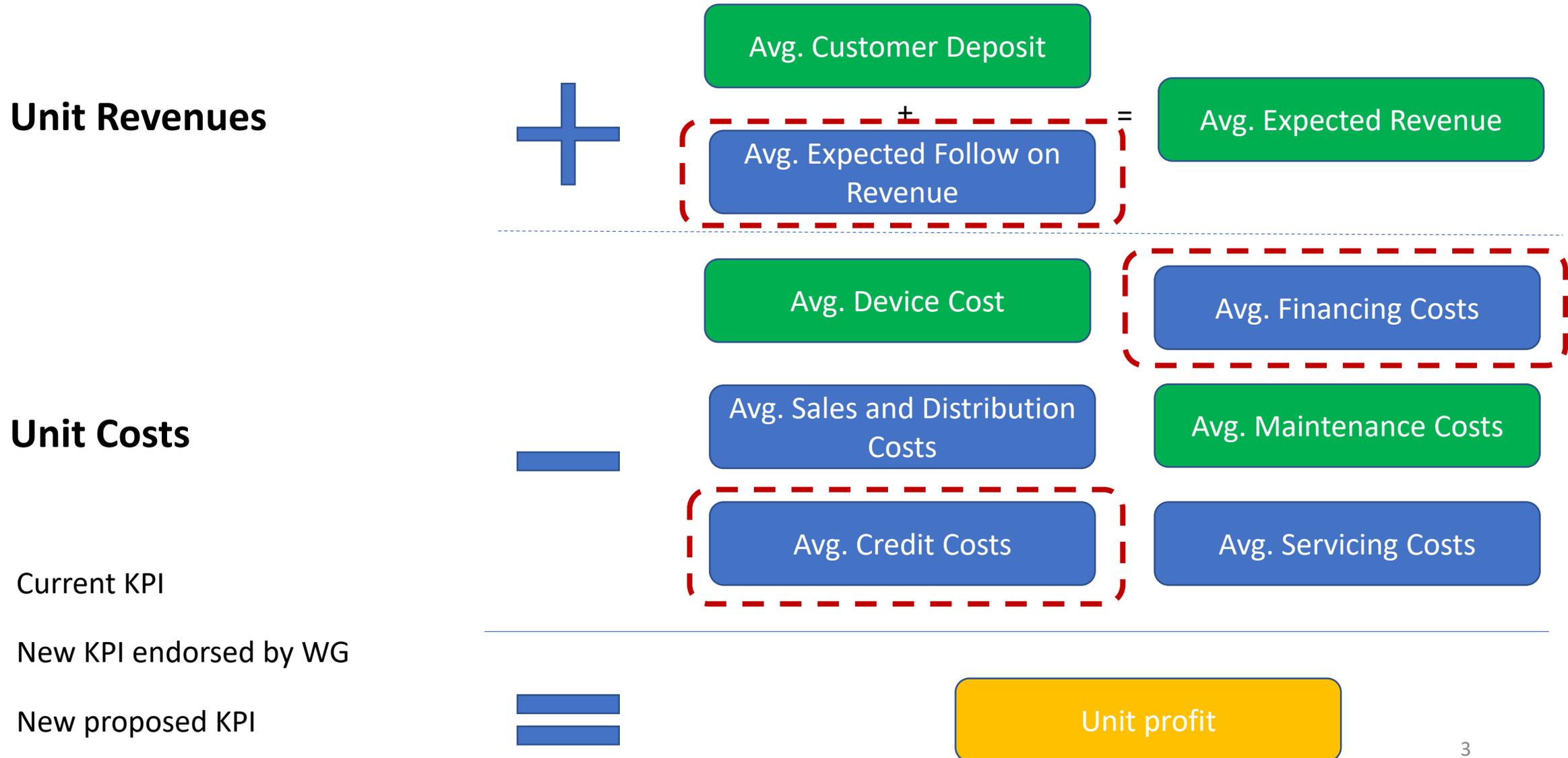
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# Logistics

- We want this and future sessions to be interactive, open to questions or points of discussion at any time, unmute and speak up at any time
- To minimize outside noise, however, your microphones have been muted on entry. Please keep yourself muted throughout the call unless you have a question
- You may ask a question or make a comment at any time during the call. To do so you can:
  - a) Use the Chat box on the right-hand side of the WebEx session.
    - To ensure that your question is seen by the moderator, select “All Participants” from the drop-down menu before sending the question.
  - b) Unmute yourself and ask a question remembering to re-mute yourself when done.

# Unified Framework for Unit Profitability KPIs



# Average Expected Follow On Revenue – How to Calculate it

- Expected Follow On Revenue is impacted by two “costs”:
  - **Time value of money** – there are a stream of payments that will take place in the future, so the cash flows should be discounted to get a Present Value (PV)
  - **Risk of Default (Non-Payment)** – there is a risk that the PAYG customer may stop making payments, which will impact the expected revenue
- Persistent Energy published a business analytics toolkit for PAYG firms where they address these two factors. Specifically, Persistent Energy introduced the following metrics:
  - **Fair Value of Expected Receivables (FVR)** = Expected Follow On Revenue
  - **Present Value of Expected Receivables (PVR)** =  $\sum_{t=0}^n df_t \times FVt$
  - **Risk Adjusted Present Value of Expected Receivables (RAdjPVR)** =  $CR \times \sum_{t=0}^n df_t \times FVt$ 
    - CR = Collection Rate (Utilization Rate)

# Time Value of Money Factor

- To calculate the time value of money factor, it will be equal to the following:

$$\textit{Time Value of Money} = \textit{FVR} - \textit{PVR}$$

- We use the term **Average Financing Cost** to be the same as the **Time Value of Money factor** from above. It is a derived value based on the FVR and PVR
  - Therefore, we should have these two Revenue KPIs (FVR and PVR)
    - FVR = Avg. Expected Follow On Revenue
    - PVR = PV of Avg. Expected Follow On Revenue
- Now, the most important question is: **How to calculate the discount factor? There are a few options:**
  - Use an arbitrary value – if so, what should we use? This is the easiest option
  - Calculate an appropriate discount rate – if so, do we use WACC (i.e., having a cost of debt and cost of equity)? More accurate option, but more complicated; every company will have a different discount factor

# Risk of Default Factor

- The Risk of Default (non-payment) can be calculated as follows:

$$\text{Risk of Default} = PVR - RAdjPVR$$

- We use the term **Average Credit Cost** to be the same as **Risk of Default factor**. It is a derived value based on the PVR and RAdjPVR

- Therefore, we should add another Revenue KPI = RAdjPVR

- **Question: How to calculate Collection Rate (Utilization Rate)?**

- Use the Collection Rate KPI defined by the Portfolio Quality Working Group

$$CR = \frac{\text{Amount of Customer payments collected } (t)}{\text{Amount of Customer payments expected } (t)}$$

# Average Servicing Costs – How to calculate it?

- Based on the Cost Subcommittee call last week, it was decided to combine Average Maintenance Cost and Average Servicing Cost into 1 KPI = Average Maintenance and Servicing Cost
- **Question for the WG: What should be included under Servicing Cost?**

# What to use in the Denominator to Calculate the Unit KPIs?

- There are different factors which we could use:
  - **Active Units** = this was the approach used in the initial set of KPIs
  - **Assets in circulation (t)** = All products that were sold, leased or rented to the customer, including assets that have been repossessed or returned, but excluding assets which have been written off
  - **Installed Assets** = Number of assets that have been installed for customers
- **Question: Which one shall we use? Should we select a different value from the two options above?**

# Next Steps

- Discuss issues that may affect Revenue and/or Cost KPIs
  - Revenue Recognition
  - [Others?]
- Engage expert to provide feedback/insights on what we have defined
- Summarize the results from today's call and consolidate with the discussions from the Revenue and Cost Subcommittees. Provide this summary to all Unit Economics Working Group members to get their agreement on the approach
  - Set up overall UE WG call for the first week of May

**Additional Questions? Feedback?**

# Thank You!

To learn more, please visit

<https://www.findevgateway.org/organization/paygo-perform>