

# Unit Economics Working Group Revenue Subcommittee Meeting

## PAYGO PERFORM

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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.

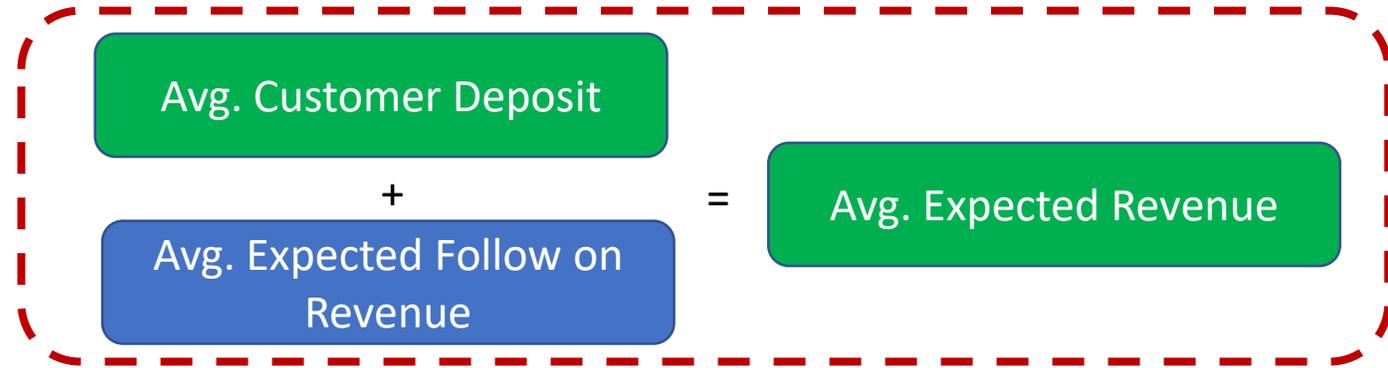
# Agenda

1. Review of Homework Assignment Survey
2. Discuss Next Steps

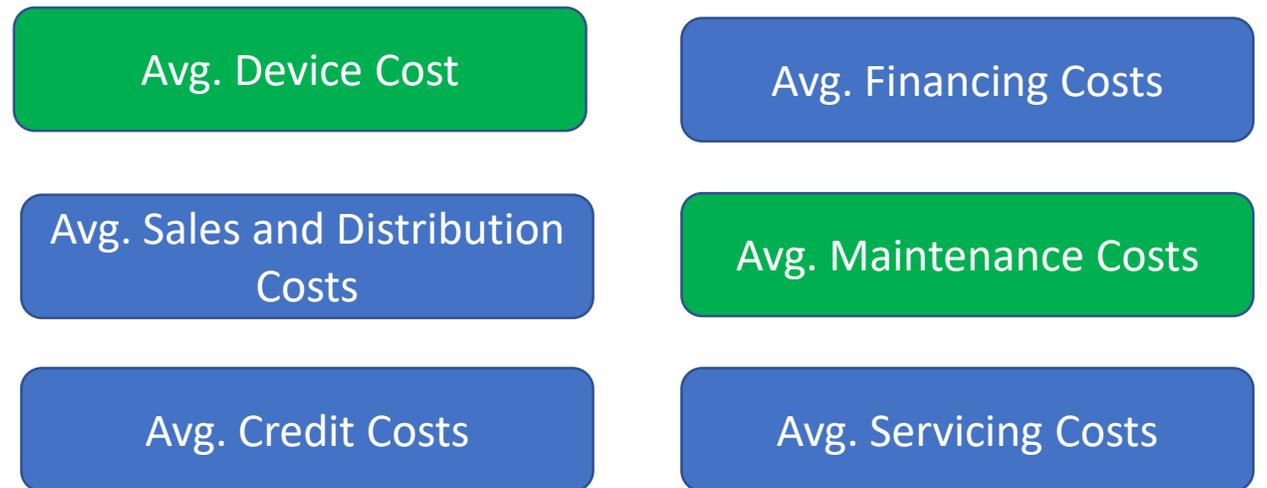
# **1. Review of Homework Assignment Survey**

# Unified Framework for Unit Profitability KPIs

Unit Revenues



Unit Costs



Current KPI



New KPI endorsed by WG



New proposed KPI



# Proposed Definitions for Revenue KPIs

## Avg. Customer Deposit

- Average of Deposits received by customers [Local Currency] for each unit sold / leased

## Avg. Expected Follow-on Revenue

- All expected revenue [Local Currency] per unit excluding Avg. Customer Deposit, where you take into account ALL units in the denominator - active and inactive

# Summary Analysis of Proposed Revenue KPIs

## Summary of Proposed Revenue KPIs

Evaluation Parameters	% of Positive Responses	
	Avg. Customer Deposit	Avg. Expected Follow on Revenue
Should we have this KPI?	 100%	 75%
Agreement on Definition	 75%	 50%

*In general, there is agreement by all or most of the Subcommittee members that we have the right Revenue KPIs, however, we need to review the definitions*

# Average Customer Deposit KPI – Review of Survey Results

## Comments for NOT Agreeing with Definition

The equation appears to be a mixed of the actuals or calculated (Avg. Customer Deposit) and the expected (Avg. Expected Follow On Revenue). there is a problem of circular definition

## Issues / Considerations to be Addressed

Issues with:

- Size. Some companies, like SolarNow, sell SHS and Large-SHS in the kWp range. The average only makes sense with total amount of clients.
- Cash Sales. Some companies, like SolarNow, also sell directly on cash. This could cause an effect on average if taken into account.
- Active Units. This is hard to establish. In the case of SolarNow, all units are considered "Active" unless repossessed due to non-payment/default.
- Deposit. Just to clarify: this is not the same as installments? The deposit is ONLY the upfront payment? In that case, active units doesn't make sense?

i would show only for units sold in the past 3 years, as this is something that may change over time

# Average Expected Follow on Revenue KPI – Review of Survey Results

## Comments for NOT Agreeing with Definition

I do not understand why integrating also inactive units in the denominator. For me, inactive units represent a risk that has become too big to consider any revenue from them. Or at least, I think we should precise if we can still expect payments from an inactive unit (churn) and how to account for it. It seems to me that it is, by definition, out of the normal functioning of the company and should be accounted separately

Seems complicated and it needs to be simplified if it has to be used it must be user-friendly

## Issues / Considerations to be Addressed

Several of the issues stated above apply.

-Active Units: here, this becomes more important. The average will go down enormously in case of non payment.

-Rescheduling: does this include (official) rescheduling? Rescheduling of payments is not a concern if for valid reasons (think, civil war in a region; massive drought...). Those reschedules shouldn't affect this KPI...

-Business Models: to really get away from discussions, it perhaps does make sense to split business models. SolarNow is NOT PayGo (as per normal definition); it is just asset financing.

We should make it simple, understandable and user-friendly. The time aspect should be also well clarified i.e. are we addressing revenue per day, per month or per year. in other words avg revenue for which period since they might differ per period?

Again, would restrict it too units sold in the past 3 years (rolling)

- Separate by product category : not necessary. It could actually be done for any KPI. As we intend to produce a unify KPI for the whole company, I don't think it would be relevant to only breakdown this KPI. All those KPI's discussed could then, in a second time for more details, be computed per product

# Additional / New Revenue KPIs – Proposed

## Comments on Proposed Revenue KPIs

- A complete alternative: It could be considered not to see deposit and installments as separate but just the total % of cash collections?
- A % also takes away issues with size. Of course, the % is also determined by the INTEREST that companies charge, but we should just assume that companies handle "normal" rates.
- I do agree that a KPI like PAR30 % would likely not fit all business models and is too easy to tamper with (let alone, that is supposes monthly installments in the first place)

Total revenue per period of time= total sales per period of time  
E.g: Total revenue per year= total sales of the unit per year.

- Average Revenue per User (monthly) =  $\text{sum}(\text{daily rate, contractual}) / \text{sum}(\text{customers}) * 30.4$
- Utilization rate, 90-day rolling average =  $\text{sum}(\text{days used}) / 90 * \text{sum}(\text{customers})$
- Average Monthly Cash Collection =  $\text{ARPU} * \text{Utilization Rate}$

I was thinking of a way to account for expected revenues, and would like to propose the following new KPIs :

- Churn cost per unit = = It is the (average) difference between what you should have collected and what you actually collect. It is explained by the defaults (churn) of customers who cannot pay the end of their credit
- Net present value of receivables = Represents the money, in present value, you will effectively collect (can be divided by the number of active units)

The money that the company can expect to collect can be calculated :

$\text{FVER} = \text{FVR} - (\text{churn cost})$ , where

FVR : Face Value of Receivables

FVER : Face Value of Expected Receivables

If you not MT (Monthly Top up) the money collected in a month from payments that are not deposit, you can get the ACP (Average Credit Period), in months :

$\text{FVER} = \text{ACP} * \text{MT}$

Finally, it is possible to discount future revenue (with discount factor  $r$ ) and calculate the NPVR (Net Present Value of Receivables) :

$\text{NPVR} = \text{sum}_{(t=1 \text{ to } \text{ACP})} [ \text{MT} / (1+r)^t ]$

We could also see things this way : in a stationary operating state, the volume of FVER remains stationary. Then, it may be easier, instead of considering net present revenue, considering cost of capital of this FVER

# Average Financing Cost KPI – Review of Survey Results

## Comments for NOT Agreeing with Definition

It should be the difference between the "sticker price" of the units and the discounted value of that sticker price based on the actual experienced timing of cash flows discounted at local currency cost of financing. For example, the sticker price might be \$200, but the discounted cash flow in local currency might make this stream of flows \$160, so your financing cost is \$40. You would also need to make sure you did not double count your loss from defaults in this figure.

Not clear if in the formula there is a min but I would suggest.  
Avg. Financing Cost = Cost required to finance the units [Local Currency] / total units (active and inactive)

## Issues / Considerations to be Addressed

It can be hard to exactly allocate the cost of financing for the units, especially if companies take debt for corporate purposes. There has to be a guideline on how to determine Cost to Finance the units. Moreover, it can vary among business models.

Very difficult to isolate financing costs at a unit level.

# Average Servicing Cost KPI – Review of Survey Results

## Comments for NOT Agreeing with Definition

Same as above, list of costs needs to be clearly defined

Same as with cost of sales and distribution -- need to be clearer on what the time frame is for calculating

Avg. Servicing Cost = Cost required to service (i.e. collection of payments, customer service support, etc.) the units [Local Currency] / Average Active units

Need to specify exactly which cost are considered "servicing", otherwise too vague.

## Issues / Considerations to be Addressed

We should create a list of items to define Servicing Cost and include only the variable costs and not the fixed cost or semi variable, such as customer service support (call center).

Need to differentiate Servicing vs Maintenance.

## **2. Next Steps**

# Next Steps

- Determine and refine the definitions for each of the revenue KPIs
- **Issues that should be addressed:**
  - New KPIs proposed – need to agree on which ones we would like to include
  - Revenue recognition
  - Others (?)

**Additional Questions? Feedback?**

# Thank You!

To learn more, please visit

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