INRiSC

CREDIT ANALYSIS REVIEW

Final_F01

August 21, 2017

Confidentiality / disclaimer

These confidential materials are for informational purposes only and is intended for the original Client's use. No one may reproduce or disseminate the information contained in these materials without the prior written consent of INRiSC, and INRiSC accepts no liability whatsoever for the actions of others in this respect.

No content (including as the case may be, credit-related analyses and data, valuations, model or output therefrom) or any part thereof (Content) may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of INRiSC or its affiliates (collectively, INRiSC). The Content shall not be used for any unlawful or unauthorized purposes. INRiSC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively INRiSC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. INRiSC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content. The Content is provided on an "as is" basis.

In no event shall INRiSC Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses and statements in the Content are statements and expressions of INRiSC's views as of the date they are expressed and not statements of fact. INRiSC's analyses (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. INRiSC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients and customers when making investment and other business decisions. INRiSC does not act as a fiduciary or an investment advisor. While INRiSC has obtained information from sources it believes to be reliable, INRiSC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. The information in this document may be incomplete. INRiSC Parties do not accept any liability for any losses or damages that may result from the lack of accuracy or incompleteness of this information.

INRiSC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. INRiSC receives compensation for its analyses from its Clients, normally, but not limited and restricted to, financial institutions, exchanges or financing platforms, private debt firms and the like.

Contents

1. Introduction

This memorandum concerns the high-level credit analysis in connection to Lendahand's (the '**Client**') potential loan to SolarWorks! Trading B.V. (SolarWorks! SPV). The scope of the review is limited to a general review of the credit-related risks in association with the issuer (SolarWorks!) and the potential issue (the note request). This memorandum does not intend to provide any advice regarding a potential investment in the request under review. Client should make its own considerations and investigations regarding any investment or any offering thereof made to its customers and clients as intended. No rights can be derived from the use of this document. We note that, apart from credit risks, various other aspects might be relevant when considering an investment, e.g. (local) market circumstances, technology risk, country risk, etcetera. The analyses of such other aspects are excluded from this review. Any comments made on such aspects should be seen in conjunction with credit-related analyses and have no value of their own, nor intend to indicate any deeper analyses of such underlying aspects. Information used in this review is limited (as referenced in Appendix A.1). No due diligence or verification of information received has been made. INRiSC has no further interest in the issuer (SolarWorks!) or the notes issued. INRiSC is not supervised by any regulatory body.

2. Notes issuance & summary

The request concerns:

- A senior ranking, covenanted, EUR 500.000 facility, drawdown amounts of EUR 50.000-100.000, each note has a maturity of 2-3 years, with semi-annual, linear repayments,
- Issuer is SolarWorks! Trading B.V., a limited liability company (besloten vennootschap) based in the Netherlands. SolarWorks! Trading B.V. is a Special Purpose Vehicle (SPV) with the sole purpose of providing working capital financing for the operating company SolarWorks! Mozambique. The operating company has activities in the installation, leasing and servicing of solar panels and electrical appliances in Southern Africa.

RISK ANALYSIS OVERVIEW	
Pros	**Cons**
Company	
Experienced and balanced management team	SPV with sole reliance on operations in Mozambique
Successful track record in attracting funding by means of (near-) equity and subsidies	Scale-up; dependent on new equity investments
Knowledge of local circumstances (socio-economic & regulation)	
Established network of (N)GO's and investors	
Business	
Large (untapped) market for sustainable (energy) solutions	Country risks in Mozambique; S&P rating: S/D
Straightforward supply chain, no dependencies on single suppliers	Low barriers to entry, better funded competitors active in the SHS market (although not in Mozambique)
	Distribution network in process of development
Product	
Differentiates on design and functionality (AC and modular)	Higher price range
Decentralized off-grid solar utilities	
Additional sales from anticipated ancillary products	
Financials	
SPV will be 33,33% financed by equity/subordinated debt; the rest will be 'commercial'	Newly incorporated SPV, no financials, request relying on borrowing base, being operations and lease portfolio in Mozambique
Payment behavior of the retail customer is well understood	FX-risks that are momentarily not hedged
According to SolarWorks! adequate provisioning for potential defaults. Cannot be assessed by INRiSC	Equity/subordination, of which 90.000 not committed as of yet
	Possible convertibility risk
Facility/ Notes	
Short term to maturity (2-3 yrs. with semi-annual repayments)	Other details to be determined
Loan Structure	
Senior ranking at SPV level only	Unsecured, structurally subordinated due to SPV structure
	No access to potential collateral (ie lease portfolio and stock held at operating company)
	No recourse, no (group) guarantees

3. The Issuer

3.1. The company

SolarWorks! Trading B.V. will use the note issuance for financing stock purchases and vendor leases by its operating company. The company structure is shown in Appendix A.3. SolarWorks! comprises of a local operating company per country, at the moment only Mozambique, and a financing vehicle located in the Netherlands. The Dutch Holding company is 100% owner of all the subsidiaries.

SolarWorks! Mozambique is where the operational activities take place; i.e. sales, installation, after-sales servicing and management of the vendor lease portfolio. All the direct cash sales to customers are handled by the operating company. The financing SPV (SolarWorks! Trading) orders the units from the manufacturer and sells exclusively to SolarWorks! Mozambique, with an estimated 25% margin. In addition to this margin the financing SPV will be capitalized for 1/3 with equity.

The company, SolarWorks! BV, is a Dutch based holding company with an operational company in Mozambique active in vendor lease, sale and servicing of solar panels, batteries and other electrical appliances. In 2008 the precursor of SolarWorks!, Flynn Solar, was established after the founders Bernard Hulshof and Arnoud de Vroomen had developed a successful first prototype of the Solar Kit, a solar lantern, during the course of 2007. In 2009 the Solar Kit was successfully launched in Southern Africa. During that year Lemnis Lighting, a Dutch company and pioneer in LED lighting, approached Flynn Solar with an offer to buy the solar company. This resulted in access to working capital, an improved supply chain and placing the solar products under the well-known Pharox Solar brand.

The next year, two new products were developed and launched (the Theft-proof Rooflight and the Solar Home System). When in 2012 Lemnis Lighting merged with NTL Electronics (Indian company) the solar business was bought back by the founders. The result was a new company: SolarWorks! The general goal of SolarWorks! is to make the use of candles and paraffin as a source of lighting obsolete in Africa.

SolarWorks! offers their customers premium designed solar products for an affordable price. All SolarWorks! products are designed and developed in the Netherlands at the Technical University of Delft’s incubator (YesDelft) and are true to Dutch design standards. A unique feature is the use of Lithium Iron Phosphate batteries in combination with Alternative Current: making it compatible with a grid connection if these are available while AC appliances can be connected to the systems as well. The high quality batteries in combination with AC functionality are a unique feature in the market, and part of the value proposition SolarWorks! Considering Africa’s notoriously unreliable grid, this is a reliable and affordable option for people who want reliable electric supply and storage. The SHS are modular making them flexible to expand according the electricity demand of the customer. The company now focuses on integrating Internet of Things into their products with which it anticipates on creating smarter and more efficient product features that are tailored to the specific demand of customers.

3.2. Management

SolarWorks! continues to market all existing solar products and is developing a whole range of new solar products. The SolarWorks! development center is based at the incubator of the Technical University in Delft, (the Netherlands, see www.yesdelft.nl) and the commercial head office is located in Johannesburg, South Africa. In the supervisory board of SolarWorks! active shareholders with experience in investing in the region and the industry are present.

The Board of Directors reflect an international track record in finance, business development, supply chain management and design & engineering with a focus on renewable energy and consumer products in emerging countries.

We have interviewed Mr. de Vroomen (CEO). Mr. de Vroomen who comes across as a highly knowledgeable manager. He has been active in the sustainable and renewable energy sector for over a decade. His C.V. also testifies to a deeper understanding of local environments travelling in Africa and performing market research (‘06-’07). Mr. Vroomen worked in finance, business development and marketing at Unilever (‘97-’05). He was COO of the carbon credit originator OneCarbon (‘08-’09) and in charge of the sale of the company in ’09. Mr. Vroomen moved to South Africa in ‘09 to start sales.

The Chief Commercial Officer (CCO) of the SolarWorks! team is Casper Sikkema. Mr. Sikkema has extensive experience in finance, working as an M&A and strategy consultant at (DB&S, ’05-’11). At Royal IHC Merwede (‘11-’13) he was involved in corporate development, strategy, business development in Southern Africa, joint ventures and M&A. For MedCos Skin Solutions (‘14-’15) he was the managing director responsible for business development and financial restructuring. Mr. Sikkema is responsible for building the wholesale distribution and sales network at SolarWorks! Mozambique.

Mr. Bernard Hulshof is the design Director and co-founder of SolarWorks! Mr. Hulshof was already involved in the founding of Flynn Solar in 2007 after meeting Arnoud during fieldwork in Africa. Bernard is responsible for the design and field testing of all SolarWorks! products. On top of that, Mr. Hulshof is responsible for setting up the manufacturing and supply chain in China ('09-'13).

Mr. Thomas de Wijn, is the Chief Operations Officer (COO) at SolarWorks! Before starting at SolarWorks in 2014 Mr. de Wijn worked for the NGO ICAmigos, Guatemala ('04) where he helped to commercialize products of local women cooperatives aiming for international expansion. At L'Oreal the Netherlands ('04-'08) he managed the demand and supply planning. For L'Oreal UK and Ireland ('08-'14) Mr. de Wijn was the divisional product launch manager and responsible for customer supply chain management. As such he focused on key customer metrics including on-shelf availability, stock and service level, performing root-cause analysis of availability issues, driving efficiencies and maximizing sales for both businesses.

3.3. Credit history Issuer

SolarWorks! Trading B.V. has been established in the course of this year (2017).It is a wholly owned subsidiary of SolarWorks! B.V. which has a relevant three year track record of historical figures. SolarWorks B.V. has only attracted credit in the form of convertible loans which can be considered as near-equity. Since the company's inception there is no indication it has had any difficulties repaying their 'creditors'.

4. Business analysis

The key business activities are concentrated around the sales, after-sales and vendor lease of PV-panels, batteries and appliances. PV-panels and appliances are purchased from suppliers located mainly in China. SolarWorks! offers its retail clients a payment plan to grant a larger customer base access to energy. SolarWorks! Mozambique sells Solar Home Systems (SHS) to customers through PayGo financing. PayGo financing entails that the end-consumer makes a down payment and pays a certain fee for the usage of the system. After a certain amount of payments, the system is owned by the customer, usually after a maximum of 36 months. SolarWorks! Mozambique pays SolarWorks! Trading an amount equal to the cost price of the SHS with a 25% markup. These payments are scheduled to coincide with the payment obligations SolarWorks! Trading has with the noteholders. Debt service capacity of SolarWorks! Trading is dependent on the capability of SolarWorks! Mozambique to transfer funds to the financing SPV.

The distribution network of SolarWorks! comprises of shops located in populated areas of Mozambique which are run as a branch network. SolarWorks! is in the process of setting up shops throughout Mozambique. The company has chosen Mozambique as a launching country in view of demographics, infrastructure and customer receptiveness. Currently there are two shops operational. Before the end of this year there will be another two opening up and in the following six months another two will follow. Each shop operates within a densely populated hub. SolarWorks! plans to expand operations to Zambia and Malawi in the coming years.

SolarWorks! benefits from a strong base of mobile banking technology and subsequent supportive infrastructure to consumer credit activities in Africa. SolarWorks! has established working partnerships with both Mpesa and Vodacom Mozambique. Consumers are screened based by third party, Hypoport, which provides consumers with a credit rating based on a questionnaire. Hypoport has developed an app that will dynamically track the credit rating of clients.

It is noted that Mozambique represents a certain country risk; Standard and Poors gives Mozambique a credit rating of SD/D. The "SD" rating means that a debtor has selectively decided to default on payment of a coupon but it will make payments on other debt issues on time and the "D" rating means that a debtor has failed one or more payments. The country experiences slow economic development that create uncertainty around the business climate. This might result in convertibility risk, meaning companies might be restricted to convert currency under certain economic conditions. In such case, SolarWorks! payments to the SPV might be subject to regulatory restrictions as well.

Foreign exchange risks can have large impact on the profitability of the operations of SolarWorks! in general and thereby the ability of the financing SPV to repay the loan to Lendahand. Solarworks will be paid in local currency, which need to be converted to EUR for debt service obligations towards the SPV. Next to that, the SPV runs a EUR/USD risk in view of payment of solar panels in USD. The payment behavior and creditworthiness of the customers are also important variables for the financing SPV, as it is dependent on payment thereof by the operating company. SolarWorks! seems to be effective in terms of credit management, only experiencing an 2% default rate on their loan portfolio so far.

By separating the financing of the lease portfolio, the underlying business risks are masked for the SPV's lenders. These lenders/ bondholders do not have adequate ongoing insights in the business development and operations in Mozambique. Due to the nature of the lease payments it can take some time before adverse business developments in the vendor lease business are noticed, eventually resulting in higher defaults rates and late payments. On the plus side establishing an SPV helps to match the cash cycle of the OpCo SolarWorks! Mozambique with its obligations towards the supplier/manufacturer in China.

5. Financial analysis Issuer

Since the SPV is recently established, there is no financial information available of the SPV (the Issuer), no assessment can therefore be made of this entity.

SolarWorks! B.V. does not guarantee the Lendahand notes issuance to the financing vehicle SolarWorks! Trading B.V. Because an analysis on a stand-alone basis of the newly incorporated SPV is currently impossible, as a reference we conducted a financial analysis of the borrowing base, i.e. the operations in Mozambique. Since the operations in Mozambique are currently the core activities of the holding, the analysis of the consolidated projections of SolarWorks! B.V. are supplemented to the appendix. When taking all working capital funding requirements into consideration the company needs additional financial sourcing. How this financial gap is filled in and its effect on the legal standing of the Lendahand notes issuance is not known at this point in time.

5.1. Operations

The past operational performance (consolidated) as well as projections show net losses until the end of this year for the operations in Mozambique. Although not uncommon for a fast growing company, we note the significant operational costs for setting up a branch network. Assuming significant sales as planned, these costs expressed as percentage of sales will diminish significantly from 2018 onwards.

We note the SPV in essence will have very limited operational activities, other than financing the operations in Mozambique.

5.2. Liquidity

The consolidated projections reflect all liquidity being absorbed for working capital purposes. This incurs a risk of unnecessary liquidity shortage.

The exact liquidity position of the SolarWorks Trading cannot be assessed as the SPV was just established. However, SolarWorks! Trading is to charge a healthy gross margin (25%). The margin applied should be sufficient to repay the notes, service interest, purchase new stock and provide a certain financial buffer for FX-risks. The liquidity position of the SPV depends entirely on matching debt servicing of the SPV with debt servicing of the operations in Mozambique.

5.3. Solvency

Consolidated financials reflect a strong commitment in the form of equity and subordinated debt and relatively high solvency ratio for a vendor lease company.

SolarWorks! B.V. is planning to capitalize the financing SPV with 33.3% equity. The terms and conditions of the cash infusion are unknown at present. It is understood that the equity infused will act as first loss capital. The understanding of INRiSC is, that these funds have not been committed as of yet. At consolidated level, the financials reflect a solid capital position.

5.4. Cash flow analysis Issuer

The debt servicing capacity of the SPV depends entirely on matching debt servicing by the SPV with debt servicing of the operations in Mozambique (Issuer of the SPV).

The consolidated financials and projections reflect a lack of debt servicing capacity, at least until 2019. This is related to the steep anticipated growth of the vendor lease portfolio. However, when separating this aspect, the financials still reflect a lack of debt serving capacity due to operating losses related to building up a sales network. This implies debt servicing will require new issues as well.

5.5. Collateral analysis

The notes are uncollateralized. There is no recourse on the other group entities. We do not have insight in the underlying retail debtor portfolio, nor do we have insight in the value of potentially foreclosed solar panels/systems. Currently, the company had to repossess 27 out of 1,100 installed systems for which their policy is to do so when customers are 60 days late with their payment.

6. Risk analysis

Since the financing SPV has only recently been established INRiSC is not able to perform a credit analysis on the financial records on the debtor. The SPV is owned by SolarWorks! B.V. INRiSC analyzed the financials of the underlying borrowing base on a consolidated basis. With all the information provided a reasonable estimation of potential risks was made. At the moment only a draft distribution agreement between SolarWorks Mozambique (the distributor) and SolarWorks! Trading (the financing SPV) was shared for review by INRiSC.

The proceeds of the notes issuance by the financing SPV SolarWorks! Trading are used to purchase stock and support working capital financing needs related to vendor leases in the operating company SolarWorks! Mozambique. This implies a derived retail consumer risk for the debtor of this issue. If a substantial portion of the end-customers would default on their payment plans, the notes of Lendahand to the financing SPV can no longer be serviced. Currently there is a default rate of 2% on the portfolio, in their projections SolarWorks! uses a conservative 10% default rate, providing a considerable safety buffer in the credit risk of the SPV. Next to this, convertibility risk might suddenly appear (regardless the performance of the underlying vendor lease portfolio).

The transactions of SolarWorks! with its suppliers and distributors are done in USD denomination. The notes are denominated in Euros, resulting in an EUR/USD FX risk. The underlying financials of the distributor (SolarWorks! Mozambique) is dependent on the local currency from Mozambique and are therefore contained for the noteholders. When the FX risks for SolarWorks! Mozambique translate into a business risk at large it will naturally influence the risks for the noteholders. SolarWorks! Holding is examining different routes for mitigating these risk by, for example, attracting funds in local currency. In recent years the currency of Mozambique has risen in vis-à-vis the USD resulting in a FX surplus on the annual account of the company.

The notes are senior unsecured debt. In the event of a default SolarWorks! Trading will be treated as a creditor of SolarWorks! Mozambique. Under this circumstance there is a considerable risk that SolarWorks! Trading and thereby the noteholders will not be repaid. Since SolarWorks! Trading is located in the Netherlands and the OpCo is situated in Mozambique it should be noted that recouping assets in case of default scenario will become more troublesome. The risk for the Lendahand noteholders is also dependent on the terms other financiers will negotiate in the future with SolarWorks! Trading B.V. The planned 33.3% equity stake of SolarWorks B.V. in the SPV will act as first loss capital, granting the noteholders limited comfort. Regarding insight in the overall financial performance of the underlying vendor lease business, we note the holders of SPV notes are lagging behind and –as such- have an implicit subordinated position.

A. Appendices

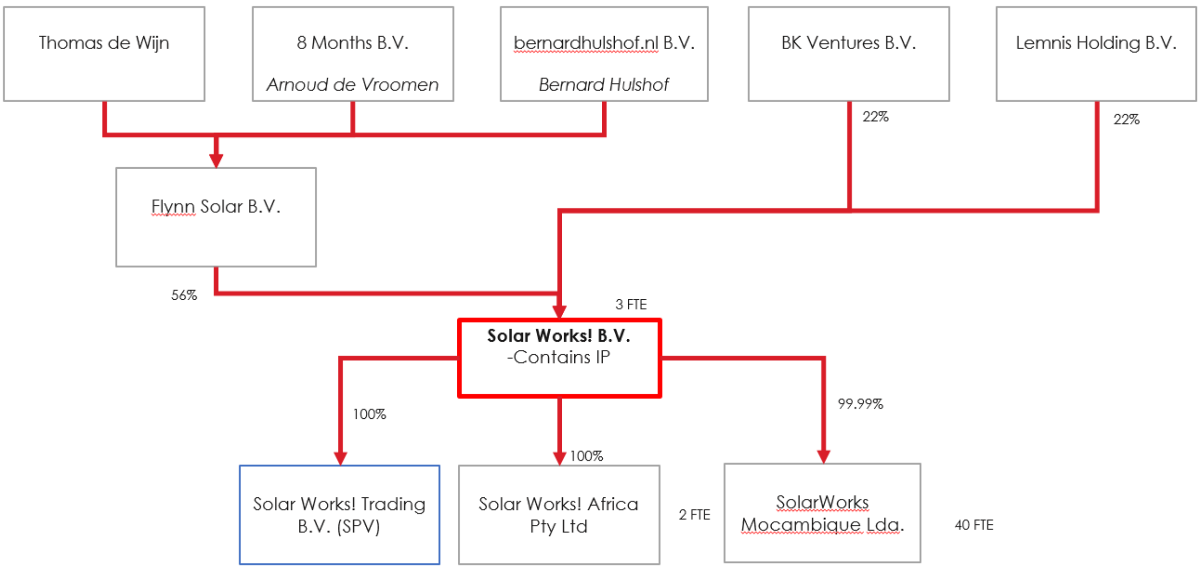
A.1. Information used

The information used in this analysis was obtained from Client and include:

- Business presentation;
- Annual accounts 2013- 2016;
- Consolidated projections SolarWorks! B.V. 2017-2021;
- Term sheet notes Lendahand;
- C.V. of management;
- Articles of association;
- Loan documentation;
- Interview conducted with management: Mr. de Vroomen (CEO)

A.2. Concept term sheet

A.3. SolarWorks! legal structure



Organizational structure including the new SPV

A.4. Financial analysis SolarWorks! B.V.

The projections are based on a financial model provided by SolarWorks! taking all subsidiaries into consideration. Key business is currently in Mozambique. The projections are therefore at a consolidated level. Since the notes are issued by the financing SPV, the consolidated projections are purely indicative for evaluating the 'going concern' of the company as a whole, SolarWorks! being the exclusive sales partner of the SPV and – as such - the borrowing base for this proposition. SolarWorks! B.V. does not guarantee the loan of the financing SPV.

INRiSC reviewed the consolidated annual accounts 2013 till 2016. In this period revenues have fluctuated from EUR 100k – 400k. The company is operating at net losses and has a negative cash flow, this is not uncommon considering the lifecycle of the company. Because earnings are, to a large extent, reflected in the accounts receivable, the cash flow of the company is negatively influenced by the increases of working capital. The company has attracted convertibles (equity) in the (recent) past resulting in a low indebtedness.

If SolarWorks! Mozambique would go bankrupt, the debt service capacity of the SPV will be influenced. Without the operating company, the direct sales channel of the financing SPV would disappear. It is reasonable to believe that whatever stock is at that point left in SolarWorks! Mozambique, could be sold to the local distribution partners in the process of winding down operations, possibly with a discount. It remains to be seen if all current PayGo contracts can be managed in such a way that the operating company will be able to repay its debt obligations to the financing SPV.

INRiSC was able to obtain a good overview of the financials of the company going forward, including intercompany relations. At the moment SolarWorks B.V. functions as the financier of the operations, having exposure on the two subsidiaries. In the last two years the company has absorbed the losses of its subsidiaries. Please note that INRiSC did not test the reality of the projections in terms of market share captured, underlying price levels, costs related to the realization of the product or its components. Nor did we test for consumer payment behavior, payment terms or consumer default rates and loan losses for Mozambique.

Key financial ratios (group, consolidated, not the Issuer), projected, excluding notes issuance				
	2016	2017	2018	2019
Current ratio	1.20	13.50	9.43	4.55
Total debt/EBITDA	Neg	Neg	12.01	3.82
Gearing	-2.09	-3.49	-27.94	5.00
Own and Assoc M/Tot Assets	0.51	0.56	0.47	0.54
Interest cover ratio	-3.34	-6.35	2.35	7.72
Debt service cover ratio*	-3.34	-6.35	2.35	7.72
cash coverage ratio	-2.8	-23.5	-51.6	-40.2

Ratio's table

A.5. Liquidity SolarWorks!

The liquidity position of SolarWorks! is currently fairly strong due to the low amount of loans.

Debt and interest service coverage are negative due to a negative EBITDA. Also, the asset conversion cycle is negative, indicating a growing company and investments in stock. The operating cash flows from core operations become positive in 2018.

A.6. Solvency SolarWorks!

According to the projections the loans of SolarWorks! will increase in the future, nearly half of these new loans are marked by INRiSC as subordinated debt. The exact source of these funds is not yet known at present. It is expected by SolarWorks! for it to come from one the three following sources; 1) Equity, 2) NGO funding, 3) donor funding. The company is well capitalized, albeit mainly through convertible loans. There is a discrepancy between the gearing ratio and the Own and Assoc M/ Total assets ratio, this is due to the fact that the current equity investments are primarily done in convertible loans. It is the expectation that these loans will be converted into equity shares but until this conversion has taken place this will not be visible in the gearing ratio. Discounting the convertible loans, the company has a negative net worth till 2018. Including the convertibles, the company has financed half of its assets with equity.

A.7. Cash flow analysis SolarWorks!

Historical cash flows have been negative, fitting the current development stage of the company. The business will become profitable in 2018 according to the projections. The DSCR presented does not provide a good insight for a fast growing vendor lease company. When considering the maturity profile of both the debtor portfolio and the funding of the lease company, we conclude. The anticipated funding proves a flattered cash flow profile. The operating cash flows will not become positive in the coming years. Meaning that if the company wishes to grow according to the projections it needs to attract outside financing in order to do so. Yet maintaining current debt levels and repayment schedule indicates that the company is not able to service its debts in 2018. In order to not create arrears, the company will have to attract new debt until 2019.

A.8. Risk Analysis

The financials and projections reflect lack of debt servicing capacity, at least until 2020. This is related to the steep anticipated growth of the vendor lease portfolio. However, when separating this aspect, the financials still reflect a lack of debt serving capacity due to operating losses related to building up a sales network. This implies debt servicing will require new issues as well.