INRiSC

CREDIT ANALYSIS REVIEW – FINAL

Version_final_F05

June 26, 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 Azuri Technologies ltd. (Azuri). The scope of the review is limited to a general review of the credit-related risks in association with the issuer (Azuri) and the potential issue (the note request). This memorandum does not intend to provide any advice regarding a potential investment in the issuance 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. We underline that the review is meant to identify risk, not validate the business case under review commercially. 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 (Azuri) or the notes issued. INRiSC is not supervised by any regulatory body.

2. Notes issuance & summary

The request concerns:

- Unsecured, GBP 2,500,000 note issuance (of which 500,000 denominated in EUR), the first issue amounts GBP 250,000, each note has a maturity of 6 – 48 months, with semi-annual, linear repayments;
- Borrower is a stock SPV established in the UK, Azuri SSPV1 Ltd, for the financing of Azuri Technologies' assets (borrowing base). The SPV is 100% owned by Azuri Technologies Ltd;
- Azuri Technologies is a limited liability company based in the UK, with activities in the wholesale of solar panels and electrical appliances in, primarily in Ethiopia, Ghana, Kenya and Tanzania;
- Purpose of the note is the financing of stock in the SPV, whereas the SPV acts as a conduit between Azuri Technologies, its supplier and the noteholders.

RISK ANALYSIS OVERVIEW	
Pros	**Cons**
Company	
Experienced and balanced management team, located in Europe and Africa	Relevant business activities in foreign countries (typical for Lendahand note)
Knowledge of local circumstances (socio-economic & regulation)	
Established network of local distributors	
Business	
Large (untapped) market for sustainable (energy) solutions	Country risks; somewhat mitigated in future as more countries are added to portfolio
Straightforward supply chain	Low barriers to entry
Wholesaler with strong distribution network concerned with last mile delivery and after-sales servicing	Single supplier; 3 - 6 months before new producer can supply goods
Distribution lead time for distributors is decreased due to SPV structure	Off-shore collateral (located in Malaysia). Logistical and judicial complications might arise
Product	
Decentralized off-grid solar utilities	PV-panels have their own specs creating some risk in design flaws
Additional sales from ancillary products	
Active in development of supportive tech	
Financials	
As a wholesaler Azuri is not affected by end-users credit risk.	Financials of SPV unavailable, implicitly relying on business model/ financials of Azuri
Separate stock SPV can benefit from lower cost of capital	
Facility/ Notes	
Short to medium term maturity (6 -48 months with semi-annual repayments)	
Loan Structure	
Senior debt	Unsecured
Azuri Technologies will capitalize the SPV for 25%	

Azuri Technology sells solar PV-panels and appliances via local distribution partners to end-customers. Business is at the moment primarily located in East-Africa. Azuri's distributors offer their customers pay-for-services (PayGo), meaning that the customers do not pay upfront for the product but pay monthly fees (installments) for the services of the product. After 18 monthly installments the customer does own the product. Azuri will set up a Special Purpose Vehicle (SPV) that will act as the borrower and is directly financed by the Lendahand notes issued. The use of the note issuance is purely for stock purchases. By setting up a SPV with the sole purpose of buying and selling stock, thereby the noteholders are less exposed to the financial risks of Azuri Technology. Azuri is paid directly by the local distribution partners at the moment of delivery in USD. Therefore there is no credit risk on the (end) customers. Afterwards Azuri pays the SPV for the delivered products in order to service the debt.

3. The Borrower

3.1. The company

The borrower is a recently established stock SPV involved in the buying and selling of solar panels and appliances. The SPV will sell the product to Azuri Technologies. The Azuri Technologies UK holding company is 100% owner of all the subsidiaries, including the stock SPV. The Azuri UK holding company is owned by a consortium of corporations and individuals. The shareholding structure and the company structure is shown in Appendix A.3.

The company, Azuri Technologies, spun out of Cambridge University in 2012. The period from 2012 to date has been a proving ground in which the company has developed the products, service, infrastructure and procedures to enable widespread adoptions of PayGo solar home systems. Azuri Kenya acts as a wholesale company where the operational activities take place; mainly sales to distributors. The distributors are responsible for installation and after-sales servicing. Customer credit risk remains with the local distributors, therefore not affecting Azuri Kenya in a direct manner.

It is an UK based holding company with operational companies in East-Africa, namely in; Kenya, Tanzania, Ghana and Ethiopia. Azuri has won several awards including the United Nations Momentum for Change award at the 2015 COP21 climate summit. Over half a billion Africans live off-grid, while demand for electricity is naturally a given. With access to affordable electricity, families are more easily able to educate their children, extend working hours outside daylight and gain access to communications and the internet via mobile phones. Africans spend approximately some USD 100-140 a year on kerosene lamps and candles, and another 15-25c each time they charge their phones. Azuri benefits from a strong mobile banking technology and subsequent supportive infrastructure to consumer credit activities in Africa.

The company recently successfully raised USD 11 Mio in 2016 to expand its operations in Africa. Azuri subsequently repaid in full its loan from Barclays with an initial principal amount of GBP 1,000,000. At present the distributors are able to ship around 10-20,000 units per year and are family owned business with revenue between USD 50 – 100 Mio. In the future Azuri hopes to attract larger partners who will be able to deliver in +50,000 systems per year.

3.2. Management

The Board of Directors reflect an international track record in experience building rapid growth, venture development and technology-based businesses. They have relevant experience in sectors including solar panel manufacturing, mobile money and geo-services. In management positions are members of the Cambridge Advanced Photovoltaic Research Accelerator from which Azuri spun out. We have interviewed management; Messrs. Reynolds (VP operations) and Watson (CFO). Messrs. Reynolds and Watson show thorough knowledge of the business and the opportunities of different financial structures and correlating risks. By the time of the issuance of this report both gentlemen have moved on to pursue other opportunities. Mr. Reynolds is still involved as a shareholder and advisor to Azuri. He voluntarily decided to take a step back from an operational standpoint. As Azuri grew into a larger corporation more specialized managers were coming aboard. Instead of finding a smaller focus area within Auzri he returned to work as a chemist while maintaining his shareholding and advisory role to Azuri.

Their responsibilities have been assigned to Mr. Alexander Brummeler, Head of Finance and Innovation and Mr. Liam Hickey, CFO. Both gentlemen have extensive backgrounds in their respective fields. Mr. Brummeler worked for over a decade in the private equity industry in Europe and Asia. Apart from being vetted in corporate deal making, through this experience he also come into contact with mobile-based technologies that created social impact in emerging markets. Before joining Azuri, mr. Brummeler worked as a country director at the Pico solar company Waka Waka in Rwanda. Mr. Liam Hickey is a veteran financial comptroller and CFO with over 20 years of experience. He worked for several IT, communications and renewables companies in developed and emerging markets. He has a strong track record of establishing new business units and turning-around failing ones. Mr. Hickey was instated of May this year as the new Azuri group CFO.

3.3. Credit history Borrower

Since the stock SPV (the borrower) is recently established there is no credit history on this entity. There is a relevant three year track record of historical figures for the company Azuri. The company has attracted credit since 2012 and there is no indication it has had difficulties repaying their creditors up till now. The company successfully attracted new capital in the form of loans and equity every year.

4. Business analysis

The key business activities are concentrated around the sales of PV-panels batteries and appliances to local distributors. Azuri has shipped approximately 100,000 units. PV-panels and appliances are purchased from a single supplier located in Malaysia. If a new contractor is to be approached a reasonable timeframe to set up new contracts and delivery would be three to six months.

The local partners of Azuri sell the product to the end consumer on a PayGo basis. By offering the payment plan, customers who normally would not have the financial means to buy a solar system gain that option. The cost of the PayGo is less than consumers would normally spend on kerosene and phone charging services. All the sales are realized directly to the distributors with a bank guaranteed line of credit. It should be noted that the overall business climate in Africa is challenging. Azuri is planning to be active in a fair amount of countries mitigating single country risk. However, at the moment the main countries are Kenya, Zambia, and Tanzania.

Customers pay for a defined period, typically 18 months, after which the product is unlocked indefinitely and no additional payments are required. PayGo is a service, the customer is not in debt. The customer is able to stop the service and return the equipment should they wish to do so, according to Azuri a very small number of people do. With PayGo, responsibility for the product's operation falls to the supplier. If the product does not work, the customer does not pay. Azuri's systems are reliable and verified warranty returns are less than 0.25% of shipments.

In line with the technical background of the management team, Azuri also invested in applying technology to their business model. The company is developing formal IP in the form of patents, particularly in relation to the cryptographic and security mechanisms used in the devices to help minimize the risk of theft or device compromise. Azuri works with cloud-based customer management system. This provides detailed demographic data, not just of the end user but also the distribution chain, and real-time information on payments and stock. The HomeSmart technology is an example of unique IP owned by Azuri and a patent application is in progress. HomeSmart allows solar home system users to be confident of having light every night, even following cloudy days by adjusting light output and electricity used. Other than delivering direct benefit through product upgrades and minimizing taxation, R&D is not expected to yield Intellectual Property Rights with substantial value.

The notes issued through Lendahand will be used for the financing of stock purchases by the SPV. The SPV will help to reduce the lead time of delivery, from the supplier to the local distributors, in fact facilitating faster growth of Azuri. By working through a ringfenced SPV a secured financing vehicle is created with clear collateral and capital requirements. For the noteholders this reduces external business risk influencing the serviceability of the loan.

In Q3 of 2017, Azuri is planning to establish an asset backed portfolio SPV, hereafter 'portfolio SPV', to operate next to the stock SPV. The portfolio SPV will directly finance consumers and create a vendor lease portfolio with a long cash cycle and substantial financing needs. By financing the PayGo leases of the customers, the company will capture annuity revenue from customers. At the moment, the distributors are financially not able to expand their account receivables in line with Azuri's growth path. Therefore Azuri will be more involved with the financing of the PayGo leases. The distributors will still provide servicing and last mile distribution in collaboration with the company. Azuri will retain a higher margin and the distributors still earn servicing fees. The setting up of the new SPV is done in close coordination with local distributing partners. It is assumed that there will be no cannibalization between the stock and portfolio SPVs.

5. Financial analysis Borrower

Since the stock SPV is recently established, there is no financial information available of the stock SPV (the borrower), no assessment can therefore be made of this entity. The SPV is ringfencing revenues through the SPV and therefore debt servicing for the notes.

The risk of Azuri securing enough orders for the servicing of the debt seems limited. In the last 12 months Azuri shipped 15 containers, at Q4 2016 the order book of 2017 consists of 17 containers. This is an estimation, according to Azuri's experiences orders are not always fulfilled. The notes will be used to finance these orders. According to preliminary discussions with management, Azuri could commit to a specific order schedule - thus converting this to a repayment loan schedule. This could act as an assurance, however this is not yet confirmed by Azuri's board.

Azuri Technologies does not guarantee the loan of the stock SPV therefore we must assess the loan on a stand-alone basis. The analysis of the consolidated projections of Azuri technologies are however supplemented to the appendix. Azuri subsequently will capitalize the stock SPV.

5.1. Liquidity

The exact liquidity position of the stock SPV cannot be assessed as the SPV was just established. However, Azuri is able to charge a healthy gross margin. The margin applied should be sufficient to repay the notes, service interest and purchase new stock.

5.2. Solvency

The stock SPV will be capitalized by Azuri Technologies with a 25% equity investment in the SPV. The terms and conditions of the cash infusion are unknown at present. It is understood that the capital infused will act as first loss capital.

5.3. Cash flow analysis Borrower

In normal circumstances the operational cash flow should be sufficient to repay all debt obligations due to the gross margin applied. Realized sales from the SPV to Azuri Technologies will provide adequate coverage of debt servicing. The SPV relies in that respect on Azuri Technologies as its sole debtor.

6. Collateral analysis

The notes are uncollateralized.

7. Risk analysis

Since the stock SPV has only recently been established INRiSC is not able to perform a credit analysis on the financial records. The SPV is held by Azuri Technologies. We analyzed Azuri instead on a consolidated basis. INRiSC did have the opportunity to analyze the mechanics of the envisaged SPV on paper. With all the information provided a reasonable estimation of potential risks was made. INRiSC has not been able to establish control, servicing or other relevant agreements with regard to the SPV.

The proceeds of the notes issuance by the Azuri stock SPV is used solely to purchase stock. The company does not have consumer credit risks as they deal via local distributors. Cash flows going to the SPV are presumed to be kept at sufficient levels to pay suppliers and service the debt due to sufficient margin on COGS.

The transactions of Azuri with its suppliers and distributors are done in USD denomination. The notes are mostly denominated in sterling pound. Therefore there is no FX risk on the business activities and for the noteholders some FX risk on the notes. Since this a singular FX risk against the US dollar, which is deemed a strong and stable currency, FX risks are deemed limited.

The notes are senior unsecured debt.

At this time and point it is not clear how the portfolio SPV will influence the stock SPV by way of procurement of the Azuri's and local distribution partners' networks, but it is assumed cannibalization will be limited.

A. Appendices

A.1. Information used

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

- Investment Memo;
- Presentation Deck;
- Annual accounts 2013 - 2015;
- Projections Azuri Technologies and consolidated 2016-20121;
- Term sheet notes Lendahand;
- Azuri stock SPV overview;
- Azuri shareholder and legal structure;
- Interview conducted between management with Messrs. Reynolds, Watson and INRiSC.

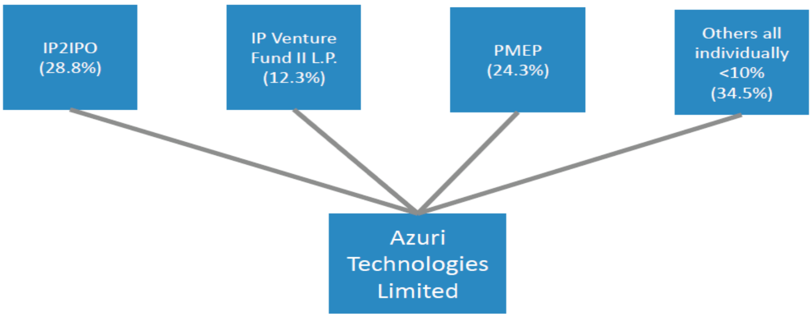
A.2. Concept preliminary term sheet

Issuer	Azuri SSPV1 Ltd
Broker	*Lendahand*
Type	Credit funding via Lendahand Website. Drawdowns by issuance of notes or bonds (the "Notes").
Notes	
Purchaser	(Crowd) investors, grouped in a 'depot' (under Dutch regulations) in the name of Lendahand.
Purpose	Funding of [working capital for solar home systems in Subsaharan Africa].
Start Date	12 June 2017
Maturity	6-48 Months
Currency	GBP
Interest Rate	On the remaining balance of each Note a fixed interest rate of 5% per annum net of withholding tax is paid semi-annually.
Maximum (initial) Credit Amount	GBP 2,500,000 of which 500,000 denominated in EUR (this is the maximum aggregate amount issued under all outstanding Notes)
Eligible Project	- Dedicated to Purpose only - Size: between GBP 100,000 – 300,000 - Maturity: 6 – 48 months
Drawdown	On a monthly basis Issuer is allowed to draw down funds via the Lendahand Website by means of uploading an Eligible Project. Once the Project is funded the Notes will be issued to Lendahand, in whose name the WGE Depot of Investors is held. On a monthly basis the amounts of all fully funded Projects are aggregated. The issuance of Notes will only occur once the total amount is drawn by the Issuer (based on the Lendahand Website Issuer Access Agreement). For each Eligible Project a separate Note will be issued by the Issuer.
Repayment	Notes are repaid semi-annually and linearly on the basis of its maturity. Each repayment leads to an uplift of the Remaining Amount.
Outstanding Amount	Total aggregate principal under all Notes minus Repayments.
Remaining Amount	Maximum Credit Amount minus Outstanding Amount. Remaining Amount cannot be negative or higher than Maximum Credit Amount.
Netting of Payments	Each month the cashflows from amounts drawn under new Notes are netted with the cashflows from Repayments and Interest payments under existing Notes.
Prepayment Penalty	Per Note, as of 6 months after disbursement date, Issuer may prepay up to the Remaining Amount. A fee of 2% on the prepaid amount will incur if the prepayment date is 12 (twelve) months or less after the Issue Date.
Quarterly Reporting & Monitoring	- KPIs

	- Unaudited financial statements - Reporting of value of unencumbered assets and encumbered assets
Annual Reporting & Monitoring	- Audited financial reports within 180 days after year end - Report of social indicators (to be agreed upon) - Possibly a credit re-assessment by Lendahand's due diligence partners
Negative Pledge	The Issuer shall not create or permit to subsist any security interest or encumbrance of its assets without the prior written consent of Lendahand, which consent will not be unreasonably withheld.
Pari Passu Ranking	The Issuer's obligations towards Lendahand under the Agreement, unless secured, rank senior to any company director loan and at least pari passu with the existing or future claims of all its other unsecured and unsubordinated creditors.
Financial Covenants	The following covenants (calculated and reported on a quarterly basis) would be in addition to reporting requirements and affirmative and negative covenants: • Solvency Covenant: A Leverage Ratio of not less than 25%. Leverage Ratio is calculated as follows: total equity / total assets. • FX Covenant: The Borrower will ensure that its unhedged foreign currency position, if any, does not exceed 25% of its total equity at any time. The unhedged foreign currency position shall be defined as a ratio, the numerator of which is total foreign currency assets less the sum of foreign currency liabilities, and the denominator of which is total equity (after giving effect to the value of all hedging transactions in respect thereof). • Liquidity Covenant: cash / (principal repayments + interest payments next 3 months) shall be 100% or higher. This will be measured for the first time 12 months after signing of the contract. • Revenues Covenant: Debt Service Coverage Ratio shall be 1.0 or higher. Debt Service Coverage Ratio is calculated as (revenues last 12 months) / (principal repayments + interest payments next 12 months).
Event of Default	Non-payment of any amounts owing in respect of the Agreement or violation of any one of the covenants as stated above will be deemed as an Event of Default. When Issuer is in default on any debt to any lender, Issuer is considered to be in default on all debts. If an Event of Default has occurred, the Lender has the right to dissolve the Agreement with immediate effect, in which event the outstanding balance under all Notes, together with accrued interest and all other amounts owing under this Agreement, will immediately be due and payable without any notice of default or court intervention being required.
Additional Interest	Additional interest of 2% per annum shall be charged on the outstanding balance under all Notes, plus any accrued but unpaid interest thereon, following the occurrence of an Event of Default until remedied.
Withholding Tax	To be grossed up by the Issuer.
Governing Law	United Kingdom

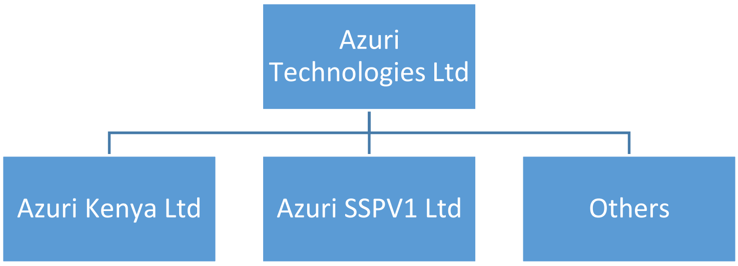
A.3. Azuri legal structure

The first diagram depicts the shareholdings pre EUR 11 mio fundraising. After the fundraising IP group manages the largest equity stake (>40%) and all other are minority shareholder holdings (<25%)



1) Shareholdings pre-fundraising

Figure 2 depicts the organizational structure of Azuri technologies ltd.



Organizational structure

A.4. Financial analysis Azuri Technologies

The projections are based on a financial model provided by Azuri. The projections are at a consolidated level. Since the notes are issued by the SPV, the consolidated projections are purely indicative for evaluating the 'going concern' of the company as a whole, Azuri being the main sales partner of the SPV.

INRiSC reviewed the consolidated annual accounts 2013 until 2015. In this period revenues has approximately doubled year-on-year (GBP 1.3 million in 2015). The company is operating at net losses and negative cash flow, this is not uncommon considering the lifecycle of the company. Azuri has attracted substantial equity in the (recent) past resulting in a rather low indebtedness.

If Azuri would go bankrupt, this would influence the debt serviceability of the SPV. Without the parent company the direct sales channel of the SPV would disappear. It is not unreasonable to believe that whatever stock is at that point left in the SPV, could be sold to the local distribution partners in the process of winding down operations, possibly with a discount. The projections are based on the sales of said goods in Kenya, Tanzania, Ethiopia, Ghana and three unnamed expanding territories.

Key financial ratios, projected, excluding notes issuance	2016	2017	2018	2019
Current ratio	54.38	179.35	193.90	278.33
Total debt/EBITDA	Neg	Neg	0.63	0.11
Gearing	0.06	0.05	0.05	0.03
Interest cover ratio	-60.59	-34.68	25.00	156.75
Debt service cover ratio	-60.59	-34.68	25.00	156.75
cash cover ratio	1248.6	800.1	562.8	635.5

A.5. Liquidity Azuri Technologies

The liquidity position of Azuri is strong due to the low amount of loans both currently and projected. Both the cash coverage ratio and the current ratio score exceptionally well. The company has sufficient cash to fulfil all short term loan obligations. Because of the focus on equity financing, the company has a high amount of working capital guaranteeing adequate liquidity. There is lower probability of default due to failure of compliance with the short term obligation of the company. The recent cash infusion raised via a new capital round with investors has been booked in the bank deposits for projection reasons, which explains the sharp increase in current ratio and cash coverage ratio. It is however fair to state that part of this cash will be converted into other types of assets (e.g. stock, equity infusion in stock SPV, etc) thus becoming less liquid.

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. Cash coverage however is sufficient to support investments and debt service until the operating flows become positive.

A.6. Solvency Azuri Technologies

Like liquidity the solvency ratio is also exceptionally well due to the same reasons as mentioned under liquidity. The company is well capitalized. As shown by the gearing ratio, there is not much indebtedness due to heavy reliance on equity financing. Following the projections of Azuri, the company is not planning on attracting more debt. The company intends to contract debt off-balance via SPVs, of which a stock SPV is to be a first. In the near future the company aims to set up asset backed SPVs with vendor leases to the end-customers.

A.7. Cash flow analysis Azuri Technologies

Historically 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 operating cash flows (which take into account changes in inventory levels that may have accumulated in earlier years) will become positive in 2019, according to projections.