INRiSC

CREDIT ANALYSIS REVIEW

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1. Introduction

This memorandum concerns the high-level credit analysis in connection to the notes issuance of Buen Manejo del Campo, S.A. de C.V (Sistema.bio) arranged by Lendahand (the '**Client**'). The scope of the review is limited to a general review of the credit-related risks in association with the issuer (Sistema.bio) and the potential issue (the notes issuance). This memorandum does not intend to provide any advice regarding a potential investment in the request under review. The 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 or the notes issued. INRiSC is not supervised by any regulatory body.

2. Notes issuance & summary

The request concerns:

- A senior ranking, covenanted, EUR 1,500,000 facility with 2 year availability under which notes of up to 48 months can be issued. Each note has semi-annual, linearly amortizing repayments,
- A Mexico based holding and operational company, with activities in the manufacturing and delivery of decentralized biogas utilities in Mexico, Latin America and East-Africa, notably Kenya, and India. The company is opening an office in India in Q1 2018;
- Financing of working capital purposes.

RISK ANALYSIS OVERVIEW Positive aspects	 Negative aspects
Company	
Relevant technical & engineering knowledge and experience	Operates in multiple foreign legal jurisdiction with varying risks
Strong focus on competencies in the specific jurisdictions	Scale-up, structural changes organization
Knowledge of local circumstances (socio-economic & regulation)	
Business	
Large market for sustainable (energy) solutions	Currently long lead times to distribution hub
Straightforward supply chain	
Product	
One product family (digester) with several variations, low technology risk	The company has IP-rights on certain parts but INRiSC is not sure if technology is really proprietary
Decentralized off-grid utilities (biogas digesters)	Sales of ancillaries products could have been more aggressively promoted
High repossession value	
ISO 9001 certified in-house manufacturing process	
Financials	
Social lenders act as third party in agreements partly mitigating customer repayments risk	Repayment on notes depending on payment behavior of customers. Payment morale has been adequate. Additionally the risk has been partly mitigated by social lenders
Adequate credit assessment process	Long cash cycle, yet inherent to business model
Profitable business with strong outlook	Counting on large equity infusion in 2018 to improve solvency
Notes	
Medium term only; 2 year line of credit with notes terms of up to 48 months with semi-annual repayments	FX risks (to be hedged in the future)
Working capital purposes, financing of cash cycle	Indirect credit risk on consumers
Notes Structure	
Senior ranking notes, *pari passu* with bank loan	Unsecured
	Financial covenants with limited strength

3. The Borrower

3.1. The company

Buen Manejo del Campo, S.A. de C.V (BMC) is registered as a Mexican limited liability corporation that manufactures, commercializes and installs small-scale bio-digesters, which transform animal manure into biogas and organic fertilizer, to small farms and agricultural producers. BMC will be referred to in this report as Sistema.bio, the company's operating name. Sistema.bio mission is to create a "sustainable, equitable and empathetic world without waste." As renewable energy and improved waste management are provided by the bio-digesters, carbon dioxide and methane emissions are reduced. In addition, the use of chemical fertilizers will be reduced dramatically which, in turn, reduces sanitary risks and the pollution of water sources and basins. Furthermore, the biogases produced by the bio digesters provide cooking fuel and clean energy which can be used for wood displacement and reduces respiratory diseases.

The company was incorporated in 2010 and currently has subsidiaries in Mexico, Nicaragua, Colombia and Kenya. The subsidiary in India will be registered in Q1 2018. Currently, Sistema.bio has sold over 4,000 bio digesters resulting the company being profitable since 2014 and realizing over USD 5 million of sales revenue up to mid-2017 since its inception.

The company is engaged with partnerships and collaborations with social impact investors and R&D collaborations with universities. The primary NGO partner is the International Renewable Resources Institute (IRRI), which provides links to university and other academic researchers, specific R&D projects as well as grant and donation funded projects.

The primary financial partner is KIVA, an American NGO that specializes in group-lending programs that directs interest-free funds to small loan facilities throughout the world. In addition to financing, KIVA provides technical assistance through fellows, who have supported the growth of the company's in-house lending program.

3.2. Management

The Board of Directors consists of both co-founders Alexander Eaton and Camilo Pages, their first angel investor Lennart Gebelius and Loic de Fontaubert from the impact investment fund Rassembleurs d'Energie and Jason Prapas, a former director of Factor[e] Ventures, reflecting an international track record. Furthermore, the Shell Foundation and Low Carbon Enterprise Fund provide resources and strategic guidance as observers on the Board.

Sistema.bio divides their teams over five different departments: manufacturing, sales, service, administration and finance. Esther Altorfer, Finance Director, is responsible for the administration team and the financing team, which contains the data management systems as the strategic operations. Furthermore, Joaquin Viquez, CTO, oversees the majority of the technical teams globally.

COO Camilo Pages oversees all aspects of manufacturing and shipping, and works directly with administration and finance cores. Camilo also provides oversight and direction to product development efforts in the factory and participates in high level decisions across the business. CEO Alex Eaton works directly with Camilo and the company's directors across the five cores and is also responsible for all reporting and communications to the board of directors. Key roles such as communications, learning and data management work across all areas of the company and have a high level of autonomy and collaboration. The R&D team works between the manufacturing and field teams in problem identification, design, prototyping and testing. In addition, by working closely with the International Renewable Resources Institute (IRRI) educational material, links to universities and other academic researchers support the R&D team.

3.3. Credit history Borrower

Sistema.bio (BMC) was founded in 2010. INRiSC has reviewed a relevant six-year track record of historical figures. According to these figures, Sistema has attracted a fair amount of outside funding since then. Sistema has been successfully working together with banks, NGOs and financial institutions. There are no indications that the company has/had unfulfilled financial obligations. Furthermore, by working closely with KIVA through a working capital financing structure, client risks are shifted away from Sistema to KIVA. How this works is explained in more detail in the next section.

4. Business analysis

Sistema.bio builds, sells, installs, finances and services biogas digesters and accessories to farmers. This is done directly through their wholly-owned subsidiaries located in Mexico, Nicaragua, Colombia, and Kenya. After successfully operating in former countries, the company is planning on opening a new branch in India in the first quarter of 2018. The company has high growth expectations in India. The country is considered to be a very attractive market due to the high density and large number of small farmers, making it ideal to set up an additional factory, which the company planned for Q2 2019.

Sistema.bio core business structure combines manufacturing, finance, sales, installation, and administration units. These teams deliver bio-digester systems, education, financing and servicing. The bio-digesters are manufactured in Mexico according to an ISO 9001 certified in-house manufacturing process with more durable raw materials. In order to maximize the benefits of the technology and ensure full adoption, education and awareness spreading campaigns are undertaken.

Service, financing and operational costs are included in one price. The in-house financing program is able to offer payment plans of up to 12 months with the average loan duration being 9-10 months.

The company trains both internal and external sales promoters. The company uses direct sales and promotion teams who use existing rural networks, groups and cooperatives to promote at demonstration events and provide free one-on-one farm diagnostics and on-going service within the one-year guarantee period. The products' lifetime is close to 20 years and the product main selling point is the high return on investment for the farmer. The value to the farmer are the direct cash savings from the energy produced by the digester and, in particular cases, cash value of the additional energy services. In addition, the bio-fertilizer drastically reduces expenses on chemical fertilizers, significantly increasing crop yields. Farmers are given the option to pay through installments to remove the up-front cash barrier.

Where available, the company uses national and international development funding provided by governments, organizations and private businesses to lower the price and improve the ROI to the end client. The company has attracted several grants, soft-loans and partners with social impact lender Kiva. Kiva in effect mitigates the counterparty risk for the company to end-consumers through pre-financing of the installments. This leads to a structure where the client's down payment and payment at installation already cover approx. 30% of the costs related to producing and installing the digester.

The unique selling point is that Sistema.bio can be installed and moved, in case of default, in just a few hours. The recovery costs on unit are high; the installation can be resold for more than the original loan amount since loan exposure never exceeds 70% of the original value. This creates a high re-selling value since discounts on resold installations never exceed 20%. Currently the Mexican portfolio boosts PAR figures of 0% > 90 days, and 32% > 30 days, Sistema's lenient loan policy which includes offering their clients a 2 months grace period, for example when a client faces cash constraints due to a late harvest, heightens the PAR30 figure. INRiSC does not have extensive reliable comparable industry figures.

In the local branches team members provide the business development, technical, sales, financing and administrative capacity, developing local markets and partnerships, with management and quality control from the central offices. Importantly, the company uses on-going monitoring and data collection in order to drive their product development. The company uses CRM-models that also play an important role in the credit risk analysis. Data management, which is primarily produced by the sales teams, enable the company to track customer's payment morale and look for trends. Based on the feedback from clients' dataset after 6 months of using the digester, more than 92% would recommend Sistema.bio to their neighbours and friends.

5. Financial analysis Borrower

Please note that INRiSC has not tested 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 INRiSC test for consumer payment behaviour, payment terms or consumer default rates and loan losses in the operating countries of Sistema. The financial ratios in the table below are based on a sales forecast and financial projections model as provided by the company.

The company cannot provide official audited consolidated annual accounts for the Holding, INRISC is therefore dependent on the financial model provided. Sistema indicates that it has external accountants in each country who provide monthly financial statements. The financial statements are audited in Mexico. Accounts will be consolidated starting in 2018, once the other country offices reach a significant scale.

Key financial ratios, projected, excluding notes issuance	2018	2019	2020	2021
Current ratio	19.84	14.65	12.89	12.53
Total debt/EBITDA	13.92	1.58	0.67	0.34
Gearing	0.61	0.52	0.30	0.16
Own and Associated Means/Total Assets	0.65	0.66	0.73	0.82
Interest cover ratio	3.35	7.63	23.24	124.85
Debt service cover ratio	3.35	7.63	5.21	9.23
Cash cover ratio	408.2	8.8	2.5	3.5
Solvency ratio	0.6	0.7	0.7	0.8

Financial Ratio Table

5.1. Liquidity

Sistema has a long cash cycle due to the following two facts. First, as is standard with leasing and PayGo companies the accounts receivables portfolio, meaning the amount of money owned to Sistema by its customers, is a large part of its assets. Mitigating this is the partnership the company has with Kiva a social lender proving micro financing to the customers of Sistema. It has currently pre-financed USD 400.000 of the company's receivables. Still, as sales exceed this amount, the company still holds a formidable accounts receivables portfolio representing approximately one-third total assets. This is again mitigated by Kiva, which is committed to growing the line up to USD 1 million in 2018 as required by sales volumes. Second, the company faces relatively long supply lead times resulting in, by Western standards, a high number of days inventory. This can be explained by the fact that Sistema currently has one factory, in Mexico. As Sistema also operates in East Africa and is planning to operate in India product lead times are an issue. Sistema aims to construct a new factory in India decreasing transportation time and costs. The accounts receivable position positively affects the current ratio. Sistema is planning an equity round which will boost their cash position, as reflected in the cash cover ratio. This will also reduce the need for outside credit which is reflected in its humble projected short-term liabilities.

5.2. Solvency

Over the entire projected period the solvency ratio can be deemed strong as the company is planning to finance more than half of its assets with equity. If the company would fail to meet its projected equity raise this would directly negatively influence the solvency. Estimating the likelihood of a successful equity raising campaign is outside the scope of this credit report.

5.3. Cash flow analysis Borrower

As mentioned, the cash cycle of the company is relatively long due to the large investments in working capital (especially accounts receivables) and considerable supply lead times. According to projections the Days Sales Outstanding and Days Inventory will be reduced over the projected period. The Kiva loans are disbursed when the systems are installed meaning, the notes issuance will be used as a bridge financing between these two time points.

The long cash cycle is a financial risk inherent to the business model. The company runs a positive cash flow from core operations. Cash flow from operations, that also accounts for the asset conversion due to investments in working capital, becomes positive in 2020. Meaning that if the company wishes to grow, according to this projection it needs to attract outside financing up until 2020 in order to do so.

6. 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. Sistema.bio claims that due to the transportability of their bio-digester design there is only a 20% discount on repossessed bio-digesters. The products therefore constitute a fairly strong asset-backed security on the company's vendor lease portfolio. The company has attracted soft loans from social investors and an unsecured bank credit line. At the moment the unsecured notes are *pari passu* with the claims of all other unsecured and unsubordinated creditors.

7. Risk analysis

The proceeds of the notes issuance by the company is used to purchase stock and support working capital financing needs. Especially the operations in Kenya are in need of new inventory as sales exceeded expectations. The company has exposure on its customers' creditworthiness and repayment morale. The company has taken steps in mitigating this risk by actively partnering with social lenders like Kiva and by having a clear and consumer credit appraisal procedure and monitoring system in place.

The financials and projections reflect that the company is planning to raise substantial equity in the near future in order for the company to grow their balance sheet in a responsible manner. The equity raised will finance the expansion in the future. Following the sales forecasts the company maintains a strong debt servicing capacity.

Sistema.bio business activities inherently have to deal with forex risk. The risks are limited since most of the company's CoGS are in local Mexican currency. The company experienced some negative forex-results the last years as the US Dollar grew stronger vis-à-vis the Mexican Peso. This risk is exacerbated by the fact that there lies an exposure on both USD (suppliers and loans) and the GBP/EUR exchange rate (loan) versus local currencies. The noteholders holding foreign currency in relation to the different local trading currencies are exposed to forex risk that may impact debt serviceability due to currency fluctuations.

The notes are unsecured and basically provide cash flow financing. With the notes being unsecured, any recovery in case of default ranks behind potential senior secured lenders. In fact, the position of the noteholders is equal to other trade creditors (for as long they do not have specific preferential agreements). In case of default the noteholders will need to share the proceeds remaining after repaying secured lenders.

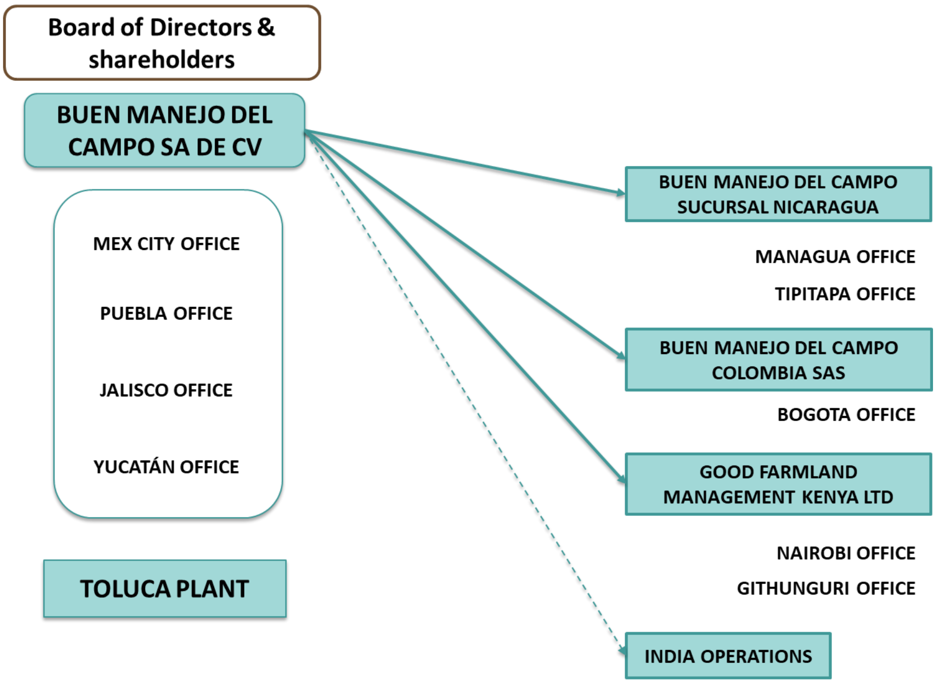
A. Appendices

A.1. Information used

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

- Business presentation;
- Organizational chart and individual shareholdings;
- Loan documentation;
- Annual accounts 2011 & 2016;
- Financial projections of the company;
- Interview conducted between Sistema.bio management Alexander Eaton (CEO) and Graham Day (Colombia Director), Esther Altorfer (Finance Director) and INRiSC.

A.2. Organizational chart



A.3. Concept term sheet

TBD