

## REVENUE SHARE AGREEMENT (EQUITY-BASED)



**INVESTOR:**  
Deetken Impact  
Alternative Finance  
(Adobe Mezzanine  
Fund II)



**SOCIAL PURPOSE  
ORGANIZATION:**  
Puntored  
(Colombia)

**ONE OF THE MOST COMMON CHALLENGES FACING IMPACT ENTERPRISES** looking to raise capital to scale is successfully balancing the control and multidimensional performance of the company with the needs and return expectations of investors. Stable cash flow and profitability can help impact enterprises fundraise from impact investing firms.

Revenue share agreements (RSAs) offer an alternative equity financing model that allows investors to obtain a return on investment via periodic payments based on a percentage of the company's revenues.<sup>1</sup> Payments fluctuate with the company's revenues.<sup>2</sup>

RSAs allow for greater flexibility because when revenues are down due to seasonality or other unexpected factors, the repayment will be lower, representing a smaller burden on a company's cash flow. Conversely, when revenues are high, the repayment will scale with the increased revenue base and will allow for the investment to be repaid faster.



This case study is part of the Innovative Finance Toolkit. For more information, or to access more case studies, visit [www.finanzasinnovadoras.org](http://www.finanzasinnovadoras.org)

<sup>1</sup> The terms "percentage of total revenue," "royalties," and "contingent payment" are sometimes used interchangeably, although they may involve different tax implications.

<sup>2</sup> A complete description of this instrument is available at [www.finanzasinnovadoras.org](http://www.finanzasinnovadoras.org)



## Context

Deetken Impact Alternative Finance (previously known as Adobe Capital<sup>3</sup>) is an impact investing fund focused on supporting the early growth of growing businesses using innovative financing instruments. The firm invests in innovative companies that have significant potential to scale and be financially profitable while delivering products and services that significantly impact the quality of life of a critical mass of people and/or the environment.

Puntored is a Colombian fintech company.<sup>4</sup> Processing more than USD 2 billion per year, it is one of the largest fintechs in Latin America. Founded in 2004, Puntored helps drive the growth of all types of companies—from small, independent businesses to SMEs—by providing a portfolio of financial, non-financial, and data services via its Open Finance platform.

What started as a business offering prepaid airtime top-ups has now become a robust technology network offering online products and transaction services<sup>5</sup> across multiple points of sale in Colombia. Puntored's innovative and impact-focused approach facilitates secure, reliable, and efficient financial transactions and provides more people with access to financial and non-financial services, particularly people at the bottom of the pyramid (BoP). More than 11 million people use Puntored channels every month, accessing financial and non-financial services via its network of small business partners.

In 2019, Puntored recorded 245 million transactions and year-over-year growth of 35%. Its bank agent network grew by almost 50% following the incorporation of Bancolombia and Scotiabank Colpatría. In



- 3** Deetken Impact is an impact investment manager based in Vancouver, Canada with more than USD 150 million of assets under management across five investment funds focused on Latin America and the Caribbean. Through a strategic equity investment, Adobe Capital is now part of the Deetken Impact platform. See: <https://adobecapital.org/>
- 4** Fintech refers to companies that use technology to improve or automate financial services and processes.
- 5** Services offered by Puntored include public and private service payments, person-to-person transfers, deposits and withdrawals, face-to-face and non-face-to-face payments, prepaid airtime and packages, prepaid tv, sports betting, insurance, data services, and more





2020, the company projected year-over-year growth of 51%. Additionally, the company expects to add 40,000 new businesses to its network of face-to-face payment providers,<sup>6</sup> which currently covers 70% of Colombia and consists of almost 76,000 mom-and-pop shops, small businesses, and supermarkets across 813 municipalities.<sup>7</sup>

TABLE 1 General Information - Puntored

Year Founded:	> 2004
Location:	> Bogotá, Colombia
Countries:	> Colombia
Financing Sources:	> Angel investors, impact investors, and venture capital.
Partners and Funders:	> Bancamia, Scotiabank Colpatria, Nequi, Daviplata, Mercadopago, RappiPay, Compensar, dale!, Claro Pay, Swiss Agency for Development and Cooperation, Ashoka, New Ventures, Hystra, among others.
Website:	> <a href="http://puntored.co/">http://puntored.co/</a>



<sup>6</sup> Amaya, Juan Sebastián (2020). Puntored fortalece su red de pagos electrónicos con inversión por \$ 20.000 millones [Puntored Strengthens its Electronic Payment Network with COP \$20 Billion Investment]. La República. Retrieved from: <https://www.larepublica.co/finanzas/puntored-fortalece-su-red-de-pagos-electronicos-con-inversion-por-20-000-millones-2969132>

<sup>7</sup> LAVCA & EMPEA (2019). Structuring for Exit: New Approaches for Private Capital in Latin America. Adobe Capital and IDB Lab. Retrieved from: <http://go.empea.org/Structuring-for-exit-report>



## Opportunity and Deal Terms

In 2019, Puntored came up with the idea for Puntopay, a new business unit that would provide technological tools for small business owners to process digital payments. Launching this new business line would require investing in the technological development of payment-processing tools, purchasing Point of Sale terminals, and acquiring new customers. Puntored was already profitable and had a proven track record with its other business units.

The company received offers from traditional Private Equity and VC firms to fund the development of Puntopay, but the founders sought a partner that would not only provide financing but also align with the company's impact goals. In addition, the founders wanted to avoid equity dilution and needed sufficient time for the business unit to grow before making any repayments.

Deetken Impact Alternative Finance (herein referred to as Deetken Impact) launched its second fund at the end of 2017 (Adobe Mezzanine Fund - AMF II) and was looking to add investments outside of Mexico to its portfolio. Puntored's growth prospects, strong financial performance, and focus on financial inclusion made it an ideal candidate for the fund's first investment outside of Mexico. Additionally, Deetken Impact was already familiar with the Puntored management team, which helped facilitate the negotiation and due diligence process.<sup>8</sup>

The RSA instrument used by Deetken Impact and Puntored offered an alternative with a predefined exit based on revenues that offered the company clear milestones for the development of its new business unit and the expected returns and impact goals. For Deetken Impact, Puntored offered both compelling impact and financial stability, with a clear path to both profitability and impact.



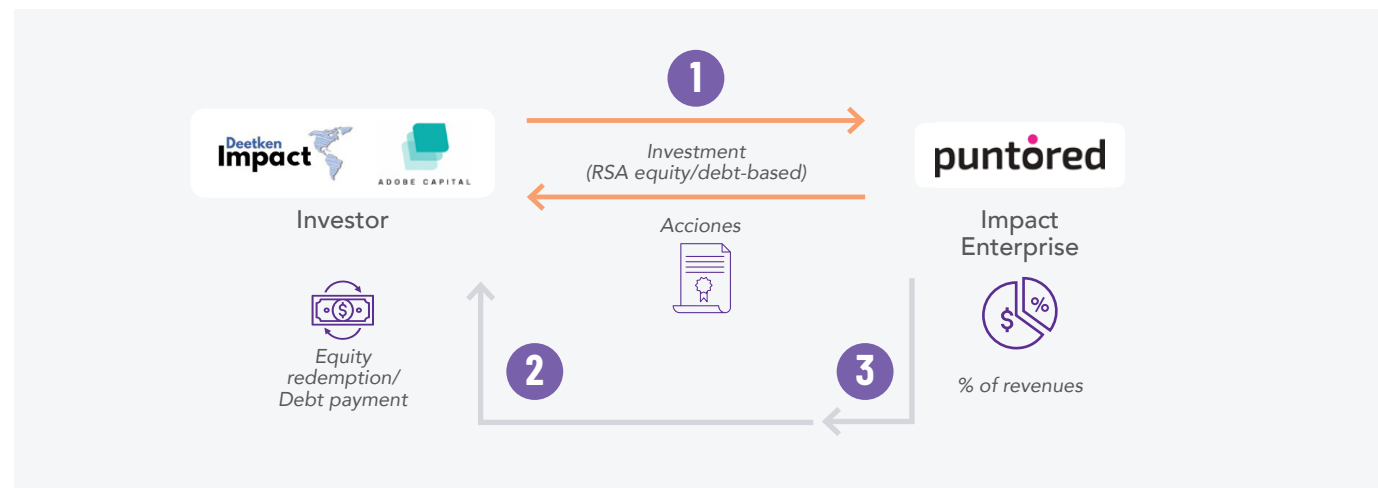
<sup>8</sup> Ibid.



## RSA Structure

The instrument was flexible and offered contract terms that best suited Puntored’s business model. The deal structure included two terms specific to the equity-based RSA: i) the instrument was structured as a combination of a senior convertible loan with dividend or interest-based payments along with a special preferred share<sup>9</sup> and ii) the terms did not include the creation of a redemption pool<sup>10</sup>, with payments made directly from revenue streams.

**FIGURE 1** Revenue Share Agreement (Equity-Based) - Puntored



SOURCE: Created by authors.



- <sup>9</sup> Adobe (now Deetken Impact) received a special Class A preferred share, which gave the firm preferential rights to company dividends over ordinary shareholders, a seat on the Board of Directors, and preferential voting rights over issues that pertain to Adobe’s investment and major strategic or financial decisions (e.g., bankruptcy filings, fiscal auditing, M&A, the creation of new business lines, public offerings, etc.)
- <sup>10</sup> A redemption pool can be created by setting aside a percentage of revenue over time. The redemption pool would allow investors to receive stable cash flow over the investment period.



### IMPACT ASSUMPTIONS

- As financial services become more affordable and accessible to the BoP population, financial inclusion will improve.
- Increasing the penetration and availability of financial services via small, independent businesses creates employment and provides additional income sources so they can grow.

- 1 The investment was structured as a USD 6m senior convertible loan and a special preferred share that gives Deetken Impact preferential dividends and a seat on the company's Board of Directors.
- 2 Puntored makes revenue-based monthly payments until a predetermined multiple on invested capital (MOIC) of between 1.3x and 2.5x is reached.
- 3 The MOIC achieved by Deetken Impact depends on how long Puntored takes to repay the loan, with the firm securing a higher MOIC the longer the loan balance is outstanding.

#### Revenue Share:

The revenue share percentage was calculated based on a 12-month grace period and subsequent monthly variable payment contributions totaling no more than 9% of the company's total revenue in year 5 (greater impact, lower rate) - See Table 3.

#### MOIC:

Multiple of 1.3x during the first year, with annual increases thereafter until reaching 2.5x during year 6. Any outstanding balance may be repaid in full without penalty if the corresponding MOIC (see Table 3) is met.



TABLE 2 Terms of the Puntored RSA

Can Replace:	➤ Equity
Enterprise Lifecycle:	➤ Late growth stage (post-revenue).
Risk/Return Profile:	➤ Medium risk/Average return <sup>11</sup> .
Maturity:	➤ 5-6 years
Amount:	➤ USD 6 million

SOURCE: Lavca & Empea (2019). Structuring for Exit

TABLE 3 Revenue Share and MOIC

Loan Payments		Total Repayment Amount	
Months Post-Closing	% of Total Revenue	Months Post-Closing	MOIC
0-12	0% (grace period)	0-12	1,3 x
13-24	% increases over time	13-24	MOIC increases over time
25-36		25-36	
37-48		37-48	
49+	9%	49-60	
		61+	2,5x

SOURCE: Created by authors based on interviews.



<sup>11</sup> Returns will depend on the behavior of the underlying financial metric and how quickly the investment is repaid.



### Conversion Rights:

Deetken Impact has the right to convert any outstanding balance of the total repayment amount into an equity interest in Puntored in case of a default or a liquidity event. This mechanism offers the option to minimize losses in case of a default and obtain additional upside in case of a strategic sale or public offering. In this case, the loan was repaid more quickly than expected thanks to positive business performance, partially due to increased demand during the COVID-19 pandemic, which allowed Puntored to reach operating profits of around 15% in 2021.<sup>12</sup>



## When to Use this Instrument

- › Equity-based RSAs are effective for business models with consistent positive cash flows that are ready to grow or scale.
- › To support the positive performance of an RSA, there must be a close relationship between the impact investor and management at the impact enterprise to align objectives, ensure that there is transparency and trust, and adjust the terms of the deal structure to respond to the interests of the investor and the impact enterprise.
- › It is important to consider local regulations when structuring RSAs, as deal structures do not necessarily translate across different markets. Good local counsel, patience, and buy-in from both parties are necessary to make this structure work.
- › The flexibility included in the payment mechanism (dividends or interest payments) requires sophisticated financial analysis. The impact enterprise should have the financial capacity in place to effectively negotiate payment mechanisms, rates, and terms in line with the expected performance.



<sup>12</sup> Puntored (7 april 2022) Puntored alista conquista de mercado internacional; revela más primicias [Puntored Prepares to Conquer the International Market: Shares More Firsts] (article originally published by Valora Analitik). Retrieved from: <https://puntored.co/puntored-alista-conquista-de-mercado-internacional-revela-mas-primicias/>