REVENUE SHARE AGREEMENT (DEBT-BASED)

INVESTOR:
Viwala (Mexico)

SOCIAL PURPOSE ORGANIZATION:
Various

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LIMITED ACCESS TO FINANCING IS ONE OF THE MOST SIGNIFICANT CHALLENGES for impact enterprises, particularly those in the early or growth stages. Impact enterprises need access to flexible capital that allows them to grow and maintain their social and/or environmental mission without neglecting their financial sustainability. This flexibility should respond to the types of financing these enterprises need, as they are often perceived as too risky for traditional banking or unattractive (from a financial returns point of view) for venture capital.

Revenue share agreements (debt-based) allow an impact enterprise (borrower) to convert principal repayments to a variable cost instead of a fixed cost. Some of the main benefits of this instrument include i) reducing the cost of capital and supporting the growth of impact enterprises, ii) generating parity between payment capacity and debt amortization, and iii) accelerating the enterprise's profitability, bringing it closer to break-even.

The key to this instrument is that repayments fluctuate based on company's revenues, thus allowing for greater flexibility. When revenues are down due to, for example, seasonality or other unexpected factors, repayments will be lower, representing a smaller burden on a company's cashflow. If revenues increase, repayments will scale with the increased revenue base, allowing the investment to be repaid faster.

Context

Viwala is a fintech company that challenges the status quo, offering access to innovative financial instruments that help social and/or environmental impact enterprises access the financing they need to grow. The initiative emerged as part of New Ventures Group's[1] efforts to finance small and medium enterprises (SMEs) that have a positive impact on their community and to respond to the financing needs of female entrepreneurs and women-led enterprises.[2]

Viwala's technology provides revenue-based loans to women-led and/or social/environmental enterprises. Viwala's model leverages philanthropic resources to mobilize private capital, multiplying available resources by 10x and creating financial instruments that respond to the needs of impact SMEs. The platform currently operates in Mexico and will soon launch in Belize, Honduras, and Guatemala.

Viwala offers different financial products based on the growth stage of each enterprise, the potential for additional growth, and the enterprise's social/environmental impact profile (Table 1). Early-stage enterprises with significant potential for growth are eligible for revenue-based financing.

1 See: https://www.nvgroup.org/areas/financing
2 For more information, visit https://viwala.com/

TABLE 1 Investment Matrix

Growth Stage	Impact Profile				Growth Potential
Early: revenue-based loans, fixed-rate loans.	1 Women-led enterprises[3].	2 Social/ environmental impact enterprises.	3 LGBTQ+-led enterprises (focus on trans-led enterprises).	4 Enterprises focused on protecting the Mesoamerican Reef.	**Low:** fixed-rate loan.
Growth: revenue-based loans, fixed-rate loans, performance-based loans.					**Medium:** fixed-rate loans and performance-based loans.
Stable revenues: fixed-rate loans and performance-based loans.					**High:** revenue-based loans, fixed-rate loans, performance-based loans.

SOURCE: Viwala

3 Enterprises within this category are not eligible for performance-based financing.

TABLE 2 General Information

Year Founded:	2019
Headquarters:	Mexico
Geographic Focus:	Mexico
Financing Sources:	Private investors.
Partners and Funders:	USAID (seed financing), private capital.
Website:	www.viwala.com

Opportunity and Deal Terms

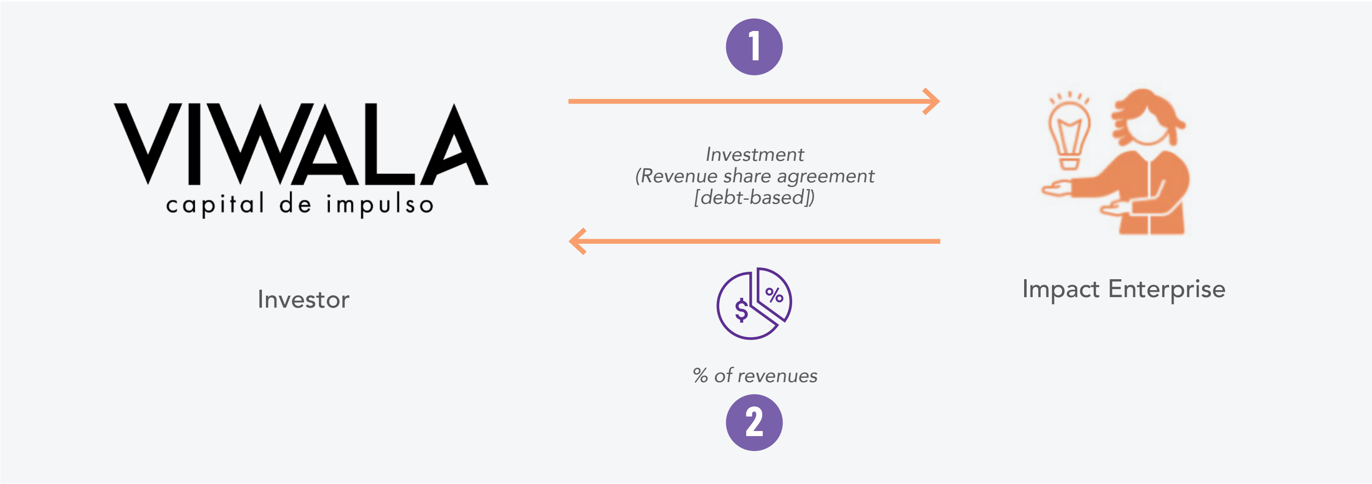
The Viwala portfolio seeks to finance women-led, LGBTQ+-led, and social/environmental impact enterprises with more than six months of operations and demonstrated annual revenues of more than MXN 500,000 (USD 25,000)[4]. Based on the specific characteristics of the enterprise, financing is provided via one of the four Viwala loan products: *Crédito Mujeres, Créditos Diversa, Créditos Impacto,* and *Créditos Incluye*[5].

4 Data as of August 31, 2022.
5 For more information, visit https://viwala.com/

To qualify for a Viwala loan, funds must be used as working capital, to purchase assets to scale production, or as a bridge loan until the company secures additional funding.

Viwala is a fintech, which means that it accepts loan applications from potential clients at any time directly via the Viwala website and via its digital marketing channels and partners.

FIGURE 1 Structuring a Revenue Share Agreement (Debt-Based)



SOURCE: Created by authors.

6 Traditional bridge loans are short-term loans with an initial maturity of one year or less, put in place to bridge a potential gap until a company can secure permanent financing. See: https://www.whitecase.com/insight-alert/basics-bridge-loans

ASSUMPTIONS

- Early- and growth-stage impact enterprises are unlikely to be able to mitigate risk enough to access traditional financing, which limits their ability to survive beyond the seed stage.
- The revenues of early- and growth-stage enterprises are variable. Given that repayments are adjusted to correspond to revenues, revenue share agreements give enterprises a better chance of reaching break-even and sustaining their growth.

1. Once the loan application is approved, Viwala requests the enterprise's legal information to formalize the contract and complete the deposit (a loan proposal is usually sent about 48 hours after an application has been submitted, and the loan is disbursed between 2 weeks and 2 months following the application's approval).

2. Monthly revenue-based payments are calculated based on a predetermined multiple on invested capital (MOIC) between 1.2x and 1.5x, which varies based on how quickly the loan is repaid.

Interest Rate:

Monthly repayments are based on a fixed percentage of revenues. Interest rates fluctuate depending on the state of the economy but are generally below market rate.

Revenues:

Defined as all revenues registered with the Mexican tax authority, excluding foreign exchange gains.

Revenue Share:

The agreed-upon percentage of the revenue the company shall pay to the investor is generally between 0.5% and 6.0% of total sales.

TABLE 3 Terms and Conditions of a Revenue Share Agreement (Debt-Based) - Viwala

Can Replace:	Equity or debt (depending on the stage and purpose of the investment).
Enterprise Lifecycle:	Early growth stage (post-revenue).
Risk/Return Profile:	Medium risk/Average return.[7]
Maturity:	12-48 months.
Amount:	USD 5,000 to USD 500,000.

SOURCE: Created by authors.

MOIC:

The MOIC is generally between 1.2x and 1.5x, depending on the repayment terms and the loan total.

Periodic Repayments and Return on Capital:

Repayments are made monthly, with the option to prepay in case of arrears. When established in their contract, clients have the opportunity to prepay with a discount.

Other Details:

This instrument can sometimes include a grace period. All Viwala clients have access to an analysis of the business and can request access to free mentoring opportunities based on the results.

7 Returns will depend on the behavior of the underlying financial metric and how quickly the investment is repaid.

When to Use this Instrument

- Revenue share agreements (debt-based) are appropriate for impact enterprises with **proven growth**.
- The investor and the impact enterprise must analyze and evaluate **expected cashflows** to effectively negotiate the payment terms established in the loan contract (e.g., percentage of revenues allocated to repayment). These terms should be comfortable for the enterprise and leave sufficient liquidity for both growth and on-time repayments.
- Revenue share agreements (debt-based) are just one tool to respond to impact enterprises' needs. To close the financing gap, impact enterprises also need access to **different types of credit** that adapt to the stage and circumstances of each enterprise, allowing them to grow and respond in times of crisis when flexibility is critical.