



Solar Sales Industry Sales Commission Factoring

CONFIDENTIAL INFORMATION

The information contained herein is highly confidential. To participate in the factoring investment program, you must become a member of the Life Tree Association, or one of its branch associations (private member associations / private clubs) that hosts the factoring program described below.

Several organizations are joining together to pioneer a revolutionary program to help the solar sales industry and the investment community that is always on the lookout for higher ROI than the current financial markets offer without going to high-risk speculative instruments. These companies are J&J Ward Enterprise LLC, a company that has specialized in engineering financial instruments, investment banking and organizing private member associations for unique opportunities, Square Power LLC, a solar sales dealer and solar equipment wholesaler, APS Ltd., an organization that has access to a large potential investor base and can offer banking and fiduciary management services, and Solterian, an intermediary that connects sales reps and dealers to the myriads of solar contractors/installers across the country and poised to go international.

A Problem Needing a Solution

The solar industry, primarily residential, is exploding nationwide. The sales model that has developed is the use of independent sales reps and dealers to sell for the thousands of solar contractors throughout the country. Most solar sales (at least 95%) are financed with zero downpayment and fairly easy credit qualifying markers. The risk is low for the finance companies because the default rate is very low no matter the customer's credit history. (The reason for that phenomenon is beyond the scope of the purpose of this writing.) Suffice to say the easy entrance into purchasing solar that offers an easy trade-off of an ever-increasing utility bill for a flat monthly solar payment is driving the market rapidly.

Sales reps and dealers are paid commission only. They are paid only when a job is complete, and the finance company has paid the contractor at completion. Depending on the locations of the jobs, the time it takes from sale to completion is never less than 30 days (and that's rare) and usually 2-4 months. This is primarily due to the governmental permitting and inspection processes that must occur followed up by the same process with the utility companies. The time frames are increasing due to the increase in consumer demand and thus sales, but no increase of governmental (city and county) or utility company personnel to handle the load.

The typical sales commission can easily range between \$6-15,000 per sale. \$8-10K is a good average. Some contractors pay a small advance to their sales reps and dealers for their sales (usually \$1,000 or less), but that practice is being phased out by many. Much has to do with the longer installation times which creates more cash flow pressure on the contractors.

The longer installation times coupled with advance commissions going away is making it harder to recruit good salespeople and dealers and is making it more difficult for the average solar salesperson to survive in the business until they have built their sales pipeline for about 6 months. This is a very real problem looking for a solution.

The Solution

We have determined that the relatively high commissions the solar sales industry currently enjoys coupled with the time-value of money lends itself to a "receivables factoring" program as the solution. The receivables being the commissions due and the factoring being a sale of those commissions to

investors at a discount, providing a significant return-on-investment. Not only is this a great program for investors, but the sales industry is more than willing to give up a percentage of their commissions to have cash flow in order to stay focused on more sales.

Risk Factor

We have developed risk mitigation techniques to create different risk-to-reward models just as with any sound financial instrument. The great thing for an investor is they have a direct ownership in any receivable they invest in (purchase) as opposed to investing in an investment pool.

The biggest risk, as anyone would accurately assume, is a sale falling out after the commission receivable has been purchased. Below are some examples of how we avoid that pitfall. First, it must be understood what the sales contract cancellation rate is in general. We assess that risk at the onset with each contractor. For example, one of the biggest nationwide contractors has a 70% completion rate for sales contracts that have passed the 3-day right of cancellation period. Why is there a 30% drop-out rate? It is due to the long installation period—the time it takes to even start the job because of the permitting process. Therefore, a certain percentage of customers find reasons to drop out during that waiting period. (That same company has developed a method in the sales process to increase their completion rate to 95%.) Because of this factor, we must protect the investor's interest through mitigation techniques. Here are some examples:

1. No ***sales contract commission receivable*** (SCCR) can be sold to an investor until the customer's 3-day right of cancellation has past.
2. Only allow a sales rep to offer a SCCR after he/she has at least 3 sales in the pipeline (or whatever number fits the completion performance of a particular contractor).
3. All SCCR factoring agreements include a provision for investor security in all other SCCR's of the salesperson even if they have not been factored. This allows one sales contract to replace or augment another if the need arises.
4. When installation has begun, the risk drops to near zero. In some cases, certain added products or services are included in the solar sale (called "adders" in the industry), which are "installed" within days after the 3-day right to rescind period. That first installation event also nearly ends the risk since the contract has begun execution by the contractor.
5. A cash contract versus one that has been financed creates a slight change in risk. The finance companies are large and well-known national companies. They do not fail to pay for installations. Individual cash paying customers, while they rarely default on their final payment, nevertheless present a slightly greater risk, which is cause for a larger discount on the purchase of that type of SCCR.
6. The age of a SCCR also affects the factoring discount. This factor is less about risk and more about time-value of money. As the SCCR ages the payout time gets closer. (This is opposite than factoring traditional merchant receivables where older receivables are considered riskier.) In our case, as the payout date gets closer the discount amount lowers. This is simply a time-value calculation.
7. Lastly, investors will be able to spread the risk by purchasing smaller percentages of SCCR's rather than all in one, so to speak. For example, a \$10,000 investor may invest \$1,000 in 10 different SCCR's instead of just one.

We have designed the program within a private membership association whereby the member/investor can enjoy a very significant annualized return on their investment. Contact the person who provided this information to you or APS Ltd. If you are interested in participating.