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Due Diligence of Solar Technology Company

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Agenda

Executive summary

Project context

Technology
- Value and IP
- Manufacturing

Strategy
- Progress-to-date
- Management team

Marketing
- Competition
- Go-to-market approach
- Marketing strategy & tactics

Financial outlook
- Investment history & terms
- Pro forma financial model

Next steps

Executive Summary

Conducted a thorough initial assessment of the TARGET investment opportunity

- Interviewed CEO, marketing lead, consultant who built financial model, and IP attorney
- Analyzed company pro forma financial model and all accessible company data

Strong recommendation not to pursue this investment "as is"

- Although the technology is appealing, there are many red flags that cannot be ignored
- Finances sensitive to changes in COGS, marketing spend, and cross-selling, which are all uncertain
- Concerns with capabilities and gaps with management team, including CEO
- Poor track record to testing / launching similar technology
- No contracts in place with any manufacturers
- Unproven ability to compete on price
- Underestimation of importance of marketing

There may be alternative approaches worthy of cautious exploration

- All indications are that the core technology is unique and durable
- COMPETITOR licensing / purchasing technology – no evidence of interest but told there was
- Replace management team – CEO knows he is not the right day-to-day CEO
- Any scenario will require significant involvement of investor(s) to ensure success

However, these options are not worth pursuing given other investment options

- Not worth trying to fix a broken / incomplete model
- Plenty of other investment opportunities available

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Recap: Project background

CLIENT participates in a range of investments and is often approached about investing in new opportunities / companies.

CLIENT was recently introduced to CEO of TARGET, based in STATE, for the purpose of consideration of a Series A investment.

TARGET has indicated that it has developed a unique approach for PROPRIETARY MANUFACTURING which has BENEFIT 1, BENEFIT 2, AND BENEFIT 3.

TARGET has indicated that it has relationships with third party contract manufacturers and some intellectual property to support its efforts.

CLIENT views the TARGET business as a marketing company – rather than a manufacturing company – and the success of TARGET will be heavily based on its marketing effectiveness.

Recap: Project objectives

An initial assessment of TARGET's business potential for potential investment.

Greater clarity on key areas of TARGET that support a recommendation about whether or not to move forward with further diligence, including CLIENT meeting with the TARGET executives.

Better understanding of TARGET's technology (e.g., how it works, how TARGET plans to market it and acquire customers efficiently, the cost and proposed pricing model, protectable IP, etc.), the capital structure flexibility (e.g., voting rights for major issues, leverage, etc.), use of proceeds (in more detail), and other foundational areas for the company.

An in-person meeting with TARGET's CEO.

More data / insight into areas of interest and key gaps (e.g., company operating agreement, assets owned, activities and spend-to-date, objective information to support claims of cost advantage and aesthetic benefits, level of durability, strength of IP, location of factory partners, level of exclusivity / ownership of technology, examples of installed systems, all-in price competitiveness versus current players, etc.).

Review and assess the company's potential, identifying strengths, weaknesses, and risks.

Project status

Key Activities & Deliverables	Status
• Review publicly available information on the REGULATORY mandate, the solar industry, TARGET (website, web search), four listed executives	✓ **Complete**: Research completed, and findings shared within this document
• Request more data / clarification to fill in gaps	✓ **Complete**: Sent CEO ~80 questions which we reviewed together
• Meet in person with CEO and conduct deep-dive interview & follow up with executives via phone / email as necessary to gather required info	✓ **Complete**: In-person, all-day meeting with CEO, follow up calls, and calls with his Team members
• Provide CLIENT with a summary of findings, including: - Insights from discussions and new data - Assessment of company's potential - Viewpoint on pro forma financial outlook - Recommendation for either moving forward with more diligence or not	✓ **Complete**: Shared; this document

During the four-week project, the following individuals were interviewed

REDACTED NAME **CEO, TARGET**	**Reviewed all key aspects of the TARGET business, including history & plans**
REDACTED NAME **Consultant, FINANCIAL MODEL BUILD**	**Reviewed the TARGET financial model and key assumptions / drivers**
REDACTED NAME **Marketing Lead, TARGET**	**Discussed TARGET's marketing strategy and tactics and its go-to-market approach**
REDACTED NAME **ATTORNEY**	**Discussed TARGET's IP and shared an updated summary of TARGET's IP portfolio**

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TARGET's technology appears to be unique and defensible

Compelling Product / Process

- TARGET modules appear to be the only ones in the industry that do not require any kind of REDACTED for installation
- TARGET has two products that use REDACTED
- TARGET TECHNOLOGY REDACTED

Independent Studies Generally Support Claims

- Durability: Thorough reliability and robustness testing (conducted by THIRD PARTY) shows strong results for longevity, hail, damp heat, fire, wind, moisture, and other elements
- Installation time & resources: Speed of installation study shows REDACTED reduction in total install time (inclusive of travel); requires ~2 installers (versus ~4-5 for competition)
- Aesthetics: Homeowner survey shows REDACTED of consumers prioritize aesthetics and REDACTED prefer the look of TARGET compared with standard panels
- Roof impact: No penetration of the existing roofing system required during installation

Total Installation Cost Unclear

- CEO provided inconsistent numbers of the cost of the product (wrote that it was 2x and then said that it's lower per watt)
- Installation labor cost estimated at REDACTED lower than competition
- Total installation cost may be close to standard, but inconsistent responses make it unclear

IP in Place Appears to Be Strong

- TARGET has 100% ownership of its patents and trademarks
- REDACTED issued utility patents, REDACTED pending (mostly US, some international)
- No testing of patents yet – no enforcement or claims to date
- CEO claims COMPETITOR has expressed interest in acquiring, but has not shared evidence

Although manufacturing is CEO'S top priority for TARGET, the manufacturing plan is not very fleshed out

TARGET has initial relationships with four 3rd party contract manufacturers

- REDACTED 1
- REDACTED 2
- REDACTED 3
- REDACTED 4

There is no formal contract in place with any of the manufacturers, nor is there an agreed-upon list of terms (pricing, QA, timing, etc.) for manufacturing TARGET's technology

CEO believes that TARGET's IP will allow an exclusive agreement with one of these factories

It is surprising that there is not at least a list of basic terms and processes for how the manufacturing will work

Plan to ship direct to buyers (distributors, big home builders) from port while maintaining a small stockpile of inventory at a local warehouse

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TARGET has been working on developing and distributing its solar technology for a long time – with limited results

Significant Investment-to-Date	• TARGET has spent REDACTED on technology development / testing - REDACTED spent on product development and beta installations, operating out of REDACTED - REDACTED spent on restarting the business[1], R&D tweaks (e.g., adding REDACTED), and reliability & robustness testing
Main Accomplishments-to-Date	• Introduced similar product (mostly free and all commercial, same tech and form factor) via REDACTED installs in EU • No installations in EU since REDACTED due to challenge competing on price • Successful rigorous reliability and robustness testing • Two beta residential installs in US (REDACTED) • Conducted consumer study of TARGET panels with positive results
Primary Assets Owned	• Issued and pending utility patents (US and international) & trademarks • Small amount of technical equipment for in-house testing • Website, messaging, and branding assets
Most Critical Functional Area	• CEO views manufacturing as the most critical function for TARGET and believes that "the product must be flawless to overcome longtail skepticism of simplicity of the product in relation to its reliability."

1. Original company (REDACTED) was closed in 2011.

The Management Team outlined in the investment opportunity summary raises significant concerns – starting at the top

	Background	Initial Assessment
CEO	REDACTED	REDACTED
COO	REDACTED	REDACTED
R&D	REDACTED	REDACTED
MARKETING	REDACTED	REDACTED

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Competition from REDACTED companies is expected to be challenging

CEO views incumbent benefits as length of time in business, reputation, and product performance

He believes that testing in the marketplace will help increase industry confidence in TARGET

He further believes that current DISTRIBUTORS are satisfied with their existing products (no imminent pain points to address) but they have expressed some interest in TARGET at tradeshows

CEO sees TARGET competing as a differentiated player in a field of commodity products

Pricing is the top priority (according to TARGET's consumer study) and TARGET believes it will be cost-competitive all-in, after considering its much lower installation method

TARGET's previous experience installing beta modules in Europe did not lead to any competitors trying a similar approach – this could be due to patent protection or lack of demand

TARGET has a "if we build it, they will come" marketing strategy

CEO believes that a push marketing strategy will help generate market demand

- REDACTED % of marketing spend (non-personnel) to be spent on three annual trade shows
- REDACTED % to be spent online, REDACTED % on finance companies (fund installations), REDACTED % on digital B2B
- Not anticipating using rebates to drive demand and firm up relationships

CEO further believes that his existing connections with distributors and contractors will drive sales

- No purchase orders or early commitments in place
- No indication of a defined sales funnel / strategy

Go-to-market strategy focused on residential, split between new, upgraded, and cross-sold products

- REDACTED % of initial sales expected to come from residential (versus commercial)
- REDACTED % of sales for new roofs (due to the mandate demand), REDACTED % for upgraded roofs (adding solar), and REDACTED % for cross-selling

TARGET may be able to address contractors well, but there is not a clear and confident ability to address distributors given their needs (as reported by CEO)

- Distributors' key purchasing criteria are volume, consumer interest, and gross profit
- Contractors' key purchasing criteria are cost and speed of installation
- Consumers' key purchasing criteria are cost, aesthetics, and impact on existing roofing system

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TARGET has already invested a lot, has had challenges raising institutional funds, and reduced its investment request due to an error

Prior Investment Breakdown

- Prior investment of REDACTED, mostly from CEO and COO
  - REDACTED $M from CEO
  - REDACTED $M from COO
  - REDACTED $M from friends & family

Investment Challenges

- TARGET has been seeking this Series A investment for ~3 years
- CEO believes that bankers are afraid of supporting investment in the solar hardware space due to past performance issues with solar hardware products
- Prospective investors have passed on the opportunity due to lack of field installations and lack of understanding the industry (according to CEO)

Change in Investment Sought

- Midway through our project work, CEO indicated that the financial model has a major error, an under-emphasis on the cross-sell segment
- After adjusting for the error, the model output for investment need moved from REDACTED $M TO REDACTED $M
- CEO updated his investment request to REDACTED $M; including A cash cushion

Flexible Investment Terms

- CEO expressed flexibility on the terms of this investment
- Voting rights can be provided to strategic investors (e.g., CLIENT)
- Somewhat open to adjusting the company's valuation

TARGET financial model is optimistic

Current TARGET Model Financial Outlook ($ Millions)

	2020	2021	2022	2023	2024
Gross Revenue	REDACTED				
Mandate (New Roofs)					
Retrofit (Existing Roofs)					
Reroof (Cross-Selling)					
Operations Expense					
COGS					
Gross Margin					
General & Admin					
Sales & Marketing					
R&D					
Other Operations					
Non-Op Income (Expense)					
Pretax Income					
Min. Cash Balance					
# of Months Out					

A more conservative outlook that addresses these issues is concerning

Conservative[1] TARGET Model Financial Outlook ($ Millions)

	2020	2021	2022	2023	2024
Gross Revenue	REDACTED				
Mandate (New Roofs)					
Retrofit (Existing Roofs)					
Reroof (Cross-Selling)					
Operations Expense					
COGS					
Gross Margin					
General & Admin					
Sales & Marketing					
R&D					
Other Operations					
Non-Op Income (Expense)					
Pretax Income					
Min. Cash Balance					
# of Months Out					

1. This scenario delays operations 6 months, reduces the cross-sell opportunity, cuts down market penetration across-the-board, adds a COGS buffer, and reduces sales / S&M FTE.

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Recommend not pursuing this investment and communicating decision to CEO promptly

If there is appetite in TARGET, the following steps (at minimum) should be taken:

- Build a new management team
- Nail down the marketing strategy in greater detail
- Gain clarity on cost / price competitiveness (all-in installation)
- Determine if there truly is interest by COMPETITOR (or if it is a threat to existing IP)
- Firm up manufacturing plan with specific quotes / terms
- Determine how to manage existing debts

New and different opportunities (outside of TARGET) should be explored

- Less / no baggage from past failure to gain traction
- Strong and capable management team
- Clear and confident go-to-market plan
- Some evidence of initial traction