YOUTH SOCIAL INNOVATION
• CAPITAL FUND •

Investing in young entrepreneurs and their solutions to our world's biggest problems

Revenue Reach

Revenue Reach is an alternative to traditional debt and equity that better aligns the interests of investors and entrepreneurs at the earlier stages of an impact business life cycle.

Revenue Reach enables risk-adjusted returns and clear exits on one hand, and offers non-dilutive patient capital with repayment tied to the financial health of a venture on the other.

Hybrid Features

- **Stated Principal and Interest Rate** - Just like traditional debt.
- **Honeymoon Period** - Like equity, it enables the allocation of capital without worry of immediate repayment.
- **Variable Repayment** - Tied to revenue and cannot exceed a ceiling amount (Cap) that protects cash position.

Problem Solving For All Stakeholders

	Early Stage Problem		Revenue Reach Solution
1	**Underperforming Returns** Debt: Low risk-adjusted returns. Equity: Illiquid and hard to exit.	→	**Risk-Adjusted Returns** Combines high returns and liquidity. Constant income stream and exit in sight
2	**Lack of Fit** Debt: Rigid debt repayment schedule. Equity: Unrealistically high return profile.	→	**Access to Capital** Flexible structure fits most ventures. Capital to a diverse set of entrepreneurs.
3	**Misaligned Incentives** Debt: Repayment not based on success. Equity: Forces liquidity of external sale.	→	**Aligned Interests** Links repayment to health of a venture. Structured exit with no pressure to sell.

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Key Characteristics

	Revenue Reach	Debt	Equity	Royalty
Risk-Adjusted Returns	✓		✓	✓
Structured Exit	✓	✓		✓
Continuous Liquidity	✓	✓		✓
Repayment Tied to Health of Venture	✓			
Aligned Interests	✓			

How the Revenue Reach Works

Repayment varies according to revenue levels and is capped (Cap) to preserve the venture's cash position. The Cap is the sum of the scheduled principal and interest payable for that period.

Repayment is calculated by following these steps:

1. **Eligible Revenue Share** **($5,000)** = Revenue ($100,000) * Revenue Share (5%)
2. **Cap** **($4,000)** = Principal + interest payable, determined through schedule
3. **Actual Repayment** **($4,000)** = Eligible Revenue Share, up until the Cap

Repayment Period	
Revenue	$100,000
Revenue Share	5%
Eligible Revenue Share	$5,000
Cap	$4,000
Actual Repayment	**$4,000**

Downside Protection

Revenue Reach protects downside when revenue is lower than expected. In Period 2 below, Eligible Revenue Share is lower than the Cap. The difference between the Cap and Actual Repayment is added to next period's Cap.

	Period 1	Period 2	Period 3
Revenue	$100,000	**$60,000**	$100,000
Revenue Share	5%	5%	5%
Eligible Revenue Share	$5,000	**$3,000**	$5,000
Cap	$4,000	$4,000	**$5,000**
Actual Repayment	$4,000	**$3,000**	**$5,000**

The $1,000 difference between Period 2's Cap and Actual Repayment is added to Period 3's Cap. Period 3's original Cap was $4,000, and the updated Cap is $5,000.

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Benefits

Investors	Entrepreneurs
Risk-Adjusted Returns Higher than debt and easier to realize than equity	**Aligned Repayment** Repayment aligns with financial health of the venture
Structured Exits Exits are always in sight and in control – not external	**Ownership Retention** Access to capital without sacrificing equity or control
Constant Liquidity Income streams are constant, not reliant on final sale	**Honeymoon Period** Repayment grace enables effective cash management
Stronger Pipeline Structure and return profiles increase investible pool	**Access to Capital** Flexible structure fits 'lifestyle' & 'VC fundable' ventures
No Valuation No money, time, ego or deals lost on valuations	**Valuable Support** Investors provide it faster with revenue-based repayment
Structural Fit Capped return fits FP & NFP investor legal structures	**Tax Advantage** Interest payments can be claimed as a taxable expense

Gender Lens Investing

Data suggests that most women entrepreneurs lead 1) normal growth ventures that 2) are not as product focused as their male counterparts, leaving them outside the 'VC fundable' mold.

Revenue Reach provides the flexibility for funding a diversity of ventures from 'lifestyle' to high growth, and does not leave money on the table because a venture does not fit in a prescribed box. This will undoubtedly increase capital flows to thriving (women) entrepreneurs.

Summary

Revenue Reach is simple yet powerful. It increases the flow of capital, enables the opportunity to earn risk-adjusted returns with a structured exit, and provides much needed non-dilutive capital that is repaid based on the financial health of a venture.

YSI is excited to have pioneered the Revenue Reach and continue its use. We look forward to gathering more data and sharing our learnings with the investor and entrepreneur communities.

YSI is supported by the Ontario Trillium Foundation and TD Bank Group.

Ontario Trillium Foundation
Fondation Trillium de l'Ontario