BUILDING THE WORLD'S FIRST CONSUMER OWNED SOLAR RETAIL AND SERVICES COMPANY

KNOWLEDGE SHARING REPORT 1

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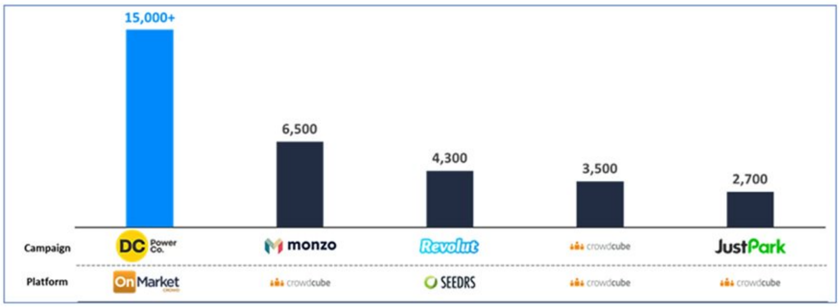
Executive Summary

The equity crowd-source funding (CSF) conducted by DC Power Company Limited Trading as DC Power Co. during March/April 2018 received bids of $2.5m from more than 17,000 investors, making it's the world's most popular initial equity crowdfunding offer by a clear margin.



DC Power Co. achieved funding well above its minimum requirement of $1.75m. On a global scale, it smashed the previous record for initial equity CSF participation, despite lacking any established brand or product in the market, and while proposing to develop a new business model for which there were no immediate comparisons. Considered in this context, DC Power Co.'s equity CSF appears to have been a highly successful and innovative means of capital raising for a start-up company looking to disrupt an identified sector.

However, measured by DC Power Co.'s own priority of objectives (ambitious though they were), the equity CSF fell short in many respects. The roughly 15,000 funded bids that are expected flow from the 17,000+ bids that were made during the campaign, while more than twice the level of participation for the next most popular equity CSF worldwide, was well below the 35,000-minimum target set by DC Power Co. This target was set to maximise participation by prospective customers who would form the basis of its new retailer/energy services business. While the equity CSF campaign was unexpectedly successful among older and traditional-media customer segments, it struggled to gain traction among the younger digital-savvy segments it had been designed to reach. Fundamentally, the campaign also struggled to manage the tension between the imperative of attracting investment funds on the one hand, thereby maximising the contribution of individual investors, and the objective of maximising participation by prospective customers on the other hand, which would necessarily limit individual investor contribution to keep aggregate funds raised within legal restrictions on equity CSF.

While there is much for DC Power Co. to reflect on as it develops its retailer/energy services business and prepares for any future equity CSF campaign, these considerations cannot detract from its achievement. DC Power Co. has clearly illustrated the potential for equity CSF to harness the enthusiasm of prospective investors and customers seeking innovative products and business models in the energy sector. This report sets out DC Power Co.'s key learnings from its first equity CSF process. This review should be considered by energy sector start-ups considering innovative ways of raising capital while building a customer base and brand awareness.

Project Overview and Progress

DC Power Co. is a disruptive business planning to launch the world's first solar focused, customer owned energy retailer and services company. Taking account of the 1.8m+ Australian homes with rooftop solar that are ripe for disruption in the current energy retail market, the DC Power Co. model proposes to deliver:

- A disruptive electricity retail solution focused on solar prosumers
- Customer engagement through ownership
- Enhanced savings by divorcing profits from consumption

In 2017, federal legislation providing for equity CSF came into force, which meant this option became a possible strategy for DC Power Co. to achieve both capital raising and brand and business model awareness among prospective customers. In January 2018, seven platform providers certified by ASIC to support equity CSF, one of those being OnMarket.

Taking advantage of this recent liberalisation of crowdsourced funding rules and the availability of certified platform providers, DC Power Co. resolved to focus on building mass-market communities as the basis for a solar-focused energy retail and services company. A report on six focus groups across NSW, VIC, QLD, and SA was commissioned by DC Power Co. in 2017 to test elements of the proposed campaign and value proposition. In January 2018 DC Power Co. obtained $750k in grant funding from ARENA and this amount was matched 1:1 by private investors to build a CSF campaign.

DC Power Co. converted from a proprietary company to an unlisted public company, as was a requirement for it to pursue equity CSF. Pre-campaign awareness raising commenced on 28 February 2018. Starting on 15 March 2018, DC Power Co.'s equity CSF campaign concluded on 15 April 2018, having received bids of $2.5m from more than 17,000 investors. DC Power Co. intends to leverage its equity CSF campaign to launch an electricity retail business with options to undertake further equity CSF capital raising in future.

Campaign Components

DC Power Co. marketed its equity CSF in two distinct phases:

- 28 February 2018 – 14 March 2018: Pre-campaign awareness raising period during which prospective customers/investors could sign up (by entering their email address on DC Power Co.'s website) to be notified once the equity CSF was officially launched. This stage of the campaign attracted approximately 13,800 potential investors, who could then be directly contacted to seek investment once the investment opportunity opened.
- 15 March 2018 – 15 April 2018: Equity CSF campaign during which prospective investors/customers could make an investment and provide their investor details.

The key marketing channels used during the campaign are detailed in the table below.

Marketing channel	How DC Power Co. used this marketing channel	Impact of marketing through this channel
Television	Having initially placed less emphasis on these marketing channels, DC Power Co. increased its reliance on television, radio and print media in response to high interest and uptake among older and traditional media market segments. This was supported by a deal struck with WIN television for equity in DC Power Co. in exchange for advertising time.	Very effective with WIN Television partnership proving particularly effective in targeting older investors in rural and regional Australia
Radio		Effective with noticeable spikes in web activity after radio advertisements and interviews were run
Print media		Press insertions the day before offer open didn't deliver strong results which is likely due to this audience not being exposed to prior campaign touchpoints.
Direct emails (from DC Power Co.)	DC Power Co. leveraged the 13,800 email addresses collected through the pre-campaign to send direct messages, encouraging investment and further sharing of the DC Power Co. proposition.	The pre-campaign period did not attract the numbers DC Power Co. expected or hoped for. This list was built through PR, TV and digital activity in the pre-campaign period. However, the pre-registration list was ultimately critical to the final investor numbers, with over 7,000 (close to 50%) of the final investors coming from this pre-registration list.
Direct emails (from partner organisations)	Several partner organisations were enlisted to promote the DC Power Co. offer through their members. These included Solar Citizens, Energy Matters and 1 Million Women. Membership lists for these organisations ranged from 60,000 to 500,000.	Highly effective channel for partners with aligned objectives and engaged memberships (e.g. Solar Citizens). Less effective via other channels where the complexity of DC Power Co.'s offer limited take up.
Social media	Initially central to the campaign but ultimately served to support other marketing channels	Effective in bolstering other marketing channels but not on its own. Facebook proved more effective than other social media platforms (e.g. Twitter or LinkedIn) largely due to uptake by older investors.

Marketing channel	How DC Power Co. used this marketing channel	Impact of marketing through this channel
Public relations (PR)	DC Power Co. were featured exclusively on through News Ltd outlets (7 News, Herald Sun etc) at the launch of the business and pre-campaign. Extensive additional media coverage across TV, radio, print and online followed and extended throughout the pre-campaign and CSF investment period. Some PR was necessarily limited to avoid suggestion of product placement	Very effective means of generating interest but needed the support of social media and effective online processes to best leverage this interest.

When DC Power Co.'s equity CSF campaign ended on 15 April 2018, it had raised a total of $2,464,325 from 17,625 investors. While there are still some administrative tasks to work through to before the results are finalised (as some investors have committed funds and not yet paid, and there is a cooling off period valid until April 26), DC Power Co. has undoubtedly undertaken the largest initial equity CSF campaign, by investor numbers, in history.

Lessons Learned

Lesson 1: the equity CSF sector is in its infancy and poses challenges for all stakeholder

The ability to fund investments via crowd is a recent regulatory development in Australia and comes with strict conditions around disclosure, investor identification, and a limit of $5m that can be raised by means of equity CSF from retail investors. Having only been certified by ASIC to support equity CSF January 2018, platform providers with demonstrated capability in coordinating sophisticated investors during IPOs are not experienced in serving mass market investment opportunities.

Nor are regulatory agencies experienced in addressing ambiguity and providing practical guidance for equity CSF promoters in relation to its dealings and communications with prospective investors. While it is reasonable to assume that established standards and stakeholder confidence will develop as more equity CSFs go forward, promoters seeking equity CSF over the short to medium term face an environment where the rules are not clearly understood or integrated into operating processes. When it came to finalising its offer document, investor platform, and other public communications, DC Power Co. spent considerable time discussing alternative proposals with the intermediary platform, ASIC and external legal advisors.

Lesson 2: an effective investment platform is critical to equity CSF success

Equity CSF promotors should be mindful that all campaign funding will in a practical sense be directing prospective investors/customers to the website of the investment platform, and that the promoter will have no control over or visibility with respect to this platform. If interested investors/customers click through to the platform and abandon the process before finalising their investment and recording their details, these leads will effectively be lost to the promotor. DC Power Co. does not know how many prospective investors/customers responded to its marketing campaign by visiting OnMarket’s platform without completing the investment process, and it has no means of identifying and reaching this segment of the market in future campaigns.

Consequently, the effectiveness of the investment platform is key to the equity CSF’s success. Given the novelty of mass market equity investing, as well as the likely need to modify messaging throughout the campaign in response to uptake, it is important that the platform provider can offer flexibility to adjust to the needs of the campaign. For this, it is advisable that a platform provider has in-house legal and technical support so that platform modifications to support strategic changes can be signed off and implemented as quickly as possible throughout the campaign process.

Lessons Learned

Lesson 3: complex messaging is challenging with equity CSF

Within the legal requirements around an investment offering, including stringent communication and information gathering requirements, it is very difficult to communicate a complex message. In the case of DC Power Co.'s equity CSF, DC Power Co. was endeavouring to educate prospective investors/customers on several distinct aspects of its offering:

- New brand in the form of DC Power Co.
- New business model for retailer/new energy service provider targeting prosumers
- New investment approach in terms of equity CSF with the intention of converting mass market investors into customers

Throughout its equity CSF campaign, DC Power Co.'s attempt to deliver these messages simultaneously created confusion among some prospective customers/investors, which meant that significant campaign resources were directed at addressing queries and clarifying public messaging. In response to persistent queries around tariff rates for the new retailer/energy services business, DC Power Co. introduced a 'savings guarantee' part way through the campaign. These measures, as well as DC Power Co.'s flexible approach to the campaign and messaging supported a significant lift in effectiveness towards the end of the campaign.

Lesson 4: investment opportunity should be proportionate to required equity CSF participant engagement

DC Power Co. elected to raise capital via equity CSF because it was seeking mass market engagement and participation in the businesses building process that would provide a pool of identifiable prospective customers. In this context, the $50 individual investment limit that was initially applied to the equity CSF was an understandable attempt to ensure that meeting the minimum aggregate investment target of $1.75m would bring with it at least 35,000 prospective customers. Simultaneously developing the investor-base and customer-base in this way was an innovative approach to developing a new energy services business model. However, it came with many challenges.

In making an equity investment in DC Power Co., participants were required to meet regulatory requirements intended to protect retail investors and ensure that, if the minimum $1.75 was not raised, investment funds could be returned. This meant that payment could not be made by credit cards or linked platforms (such as PayPal) that consumers are accustomed to using for online transactions in the order of $50. OnMarket's platform offered investors three choices for payment method: BPay, direct debit, or Payment Express, all of which tended to appear, from a consumer's perspective, more onerous and time-consuming. This, combined with the requirement for providing extensive contact information and having to initially establish membership to use the OnMarket platform, made the investment process relatively taxing and seemingly disproportionate with the money at stake.

DC Power Co. does not know how many prospective investors/customers abandoned the investment process part way through without committing funds or leaving contact details but it seems reasonable to assume that a proportion of mass market consumers that were willing to invest in DC Power Co. may have failed to do so because the investment opportunity was too small to warrant the time and effort required to take it up. DC Power Co. ultimately removed the $50 limit part way through the equity CSF campaign, extending its upper limit to match the legal limit of $10k. Arguably, it could have generated more momentum earlier in the campaign if prospective investors/customer had been able to commit an investment amount that better reflected the seriousness of retail equity investment decisions that the regulatory requirements assume. A higher minimum or maximum investment amount (for example, investment options between $100 and $250) could also have ensured that the capital raising progressed more quickly, bringing early momentum to the campaign process.

Lessons Learned

Lesson 5: equity CSF campaign should be tightly managed but strategically flexible

The campaigning required to market equity CSF is an intensive process and must be planned and carefully managed. Particularly in view of equity CSF's novelty and uncertainty around compliance with its regulatory requirements, it is important that a marketing campaign have clear points of contact and designated decision makers. However, a well-managed campaign cannot be ridged and should be able to adapt to campaign feedback and strategic changes in direction. This means that efficient decision-making processes are important.

DC Power Co. was able to make campaign adjustments in response to strategic priorities. In response to pre-registration phase queries around tariff structures, the equity CSF campaign opened with the 'savings guarantee' as an element of the new retailer/energy services business. Following lower than expected uptake in the early days of the campaign which made achievement of the $1.75m minimum funding uncertain, the $50 individual investment limit was raised to $10k with a focus on investment funds rather than customer numbers (DC Power Co.'s strategy reverted to maximising customer participation once $1.75m was achieved). In terms of targeted marketing, DC Power Co. had originally focused on younger, socially aware, and tech-savvy segments. When feedback suggested that older and traditional-media customer segments were more responsive to the campaign, resources were redirected to television, radio and newspaper advertising to capitalise on interest generated within these segments.

Lesson 6: lack of pre-existing brand poses additional challenges for equity CSF

A review of prominent equity CSF campaigns across various sectors globally reveals product and brand recognition to be a general precondition to the success of such campaigns. For example, BrewDog plc, a Scottish brewery has raised capital across many equity CSF-style campaigns by targeting consumers of its craft beer. Australian digital banking start-up Xinja currently has an equity CSF campaign underway, having already launched prepaid debit cards and its discretionary spend tracking app.

These companies leverage product and brand recognition to promote mass market fundraising to support business expansion and the roll-out of new products, with these proposed business activities being most likely to resonate with among existing customers. The other advantaged of an established business and brand is the infrastructure and established communication channels it brings for communicating messages around the equity CSF. Sales premises, supply chains, and customer lists can be used to reach existing stakeholders and generate high-prospect leads within relevant sectors.

In contrast, DC Power Co. had no brand recognition to as part of its equity CSF campaign and therefore faced significant challenges in terms of gaining the trust of prospective investors/customers and educating them regarding its proposed business model and products. DC Power Co. expects potential future equity CSF campaigns to benefit from increased brand awareness that will flow from the development of its retailer/new energy services business and product offering which is currently underway.

Lessons Learned

Lesson 7: partners are critical to reaching prospective equity CSF participants for a new brand

Partner organisations are critical to the success of an equity CSF campaign with no existing brand equity as they provide an important communication channel through their membership base. The best partners for an equity CSF promoter are those:

- with a message that is well-aligned to that of the promoter's proposed business venture; and,
- whose members are highly engaged with the partner organisation and therefore responsive to its communications.

A partner may have a relatively large number of subscribers but if most are unlikely to open its emails, and those that do are motivated by concerns that are not commensurate with the objectives of the promoter's business, marketing via the partner organisation is unlikely to generate useful leads in an efficient way. Equally, a partner's membership base may be relatively small but if it represents concentrated engagement in issues that are central to the promoter's business then it can be a valuable marketing channel.

DC Power Co. had several very useful partnerships throughout its equity CSF campaign. Solar Citizens provided a relatively small but well-informed and highly engaged membership base that proved very responsive to DC Power Co.'s message and the investment opportunity. Under commercial arrangements struck between partners Solar Citizens, and its members would benefit from attracting both investors and future customers. DC Power Co. also secured a partnership with WIN Television, which provided advertising air time in return for an equity stake in DC Power Co.. By giving these partners a stake in DC Power Co.'s future, the equity CSF campaign ensured they were appropriately incentivised to promote investment among their membership.

Less impactful partnerships were those DC Power Co. struck with Energy Matters and 1 Million Women. While these organisations have interests in clean technology and have membership bases much larger than that of Solar Citizens, their memberships were less engaged.

Equity CSF promoters should also be mindful of the challenges of obtaining personal or corporate endorsements for their campaign. As DC Power Co. discovered, legal restrictions around the provision of financial advice mean that most people and companies will be wary of endorsing an equity investment opportunity, however well aligned they are with the objectives of the new business.

Lesson 8: equity CSF provides useful customer insights for a start-up building a customer base

Lacking brand or product awareness ahead of its equity CSF campaign, DC Power Co. attempted to meet its communications challenge with a two-phased marketing approach, being awareness-raising from 28 February, during which prospective customers/investors could sign up for future notifications, followed by launch and publicity around the equity CSF campaign from 15 March, during which it was possible to invest and record contact details. The merits of this approach are debatable. On the one hand, it enabled a period of general brand awareness followed by more detailed information on the investment opportunity and business model of the retail/energy services business once the investment platform opened. On the other hand, it did appear in some cases to cause confusion and frustration as prospective investors/customers found themselves unable to invest upon learning of the investment opportunity.

While there may have been a better approach for DC Power Co. involving a single campaign, the campaign process, including its challenges, revisions, and strategic U-turns, provided an excellent opportunity for DC Power Co. to understand the prospective customer base for the retailer/energy services business it intends to build. In this sense an equity CSF campaign functions as a valuable focus group and can play a useful role in brand and product development.

Lessons Learned

Lesson 9: administrative requirements of equity CSF are non-trivial and can significantly impact process and outcomes

There are various administrative requirements associated undertaking equity CSF. The promoter company and all communications provided during the campaign must meet extensive regulatory requirements and this can impose a significant administrative burden impacting the agility and effectiveness of the campaign. Campaign planning and resourcing should therefore make adequate provision for administrative tasks and processes, including extensive legal advice

Considering first the promoter company, which must be an unlisted public company. In most cases, an innovative start-up will establish itself as a proprietary company and will so will need to convert its status ahead of launching an equity CSF campaign. Contrary to estimates that the process may be completed within a month, DC Power Co.'s conversion to an unlisted public company took around 2 months during which DC Power Co. needed to obtain legal advice and pay administrative fees. Prospective equity CSF promoters ought to allow at least 3 months and reasonable funds to ensure that it can convert to an unlisted public company.

In terms of communicating with prospective investors/customers, the most significant document will be the offer document. The first half of the offer document will set out a description of the business, the business model employed, governance and management, the capital structure, and risks borne by the business. DC Power Co. found that it took several iterations, with ongoing feedback from the intermediary platform provider, before it achieved the right balance in terms of the length and content of the first half of the offer document. The second half of the offer document includes information about the offer and about investor rights, and DC Power Co. found it was largely able to follow ASIC's template document to produce an acceptable back half of the offer document.

In terms of seeking guidance from the regulator, prospective equity CSF promotors should be mindful that, while ASIC is supportive of industry and willing to provide guidance where it can, platform service providers are new to equity CSF and legal advice will likely be required to ensure that all parties are comfortable with communications to prospective investors/customers. It is also noteworthy that DC Power Co. issued a supplementary offer document part way through the campaign after the individual investment limit was raised from $50 to $10k. In this case, while legal advice and consultation with ASIC suggested that DC Power Co. was not strictly required to issue a new document, the impact of the new limit on the investment opportunity mean that DC Power Co. considered it appropriate to provide additional information to prospective investors/customers.

Lesson 10: prospective equity CSF participants will respond to scarcity as it arises, not before

A typical campaign (in any context) will tend to follow a pattern of initial interest among its targets, with a relative lull mid-way, followed by build-up culminating in a final rush. It is difficult to subvert sociological forces and a prospective equity CSF promoter may do well to ride rather than resist them.

In its effort to maximise participation, in the interest of building customer numbers for its forthcoming retailer/energy services business, DC Power Co. endeavoured to manufacture scarcity from the outset, by way of a pre-campaign awareness building program, with the intention of generating early momentum once the equity CSF campaign was officially launched. While the pre-campaign did indeed generate interest during late February/early March, and this interest flowed through to an excellent first week, the second and third weeks were relatively slow, representing the sort of lull that might be expected mid-way through a campaign, followed by build up and final rush during the fourth week.

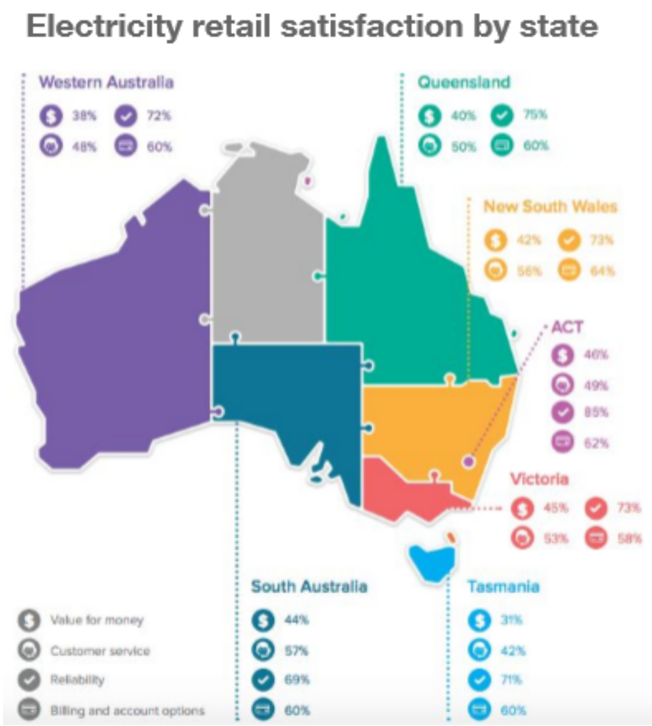
The lesson for prospective equity CSF promoters is that, rather than resist time-tested campaign patterns, it might be better to simply:

- Build knowledge of brand and campaign through basic awareness
- Launch only when it is possible to invest
- Build scarcity as campaign progresses to final action

Lessons Learned

Lesson 11: equity CSF is an effective way to harness consumer enthusiasm for new energy services

For all the challenges DC Power Co. encountered throughout its equity CSF, and despite falling short of the ambitious customer number goals it had set itself, its campaign was a remarkable success measured by reference to equity CSF campaigns conducted within other sectors across the world. This suggests that energy markets, where levels of retail satisfaction are notoriously low (as highlighted in the figure below), may be well suited to equity CSF as a means of raising capital. Equity CSF appears to be successful avenue to harnessing consumer interest and engagement in new energy services. DC Power Co.'s equity CSF campaign illustrates that people are ready to act, willing to pay, and desperate for a better deal. Innovative start-ups ought to be able to tap into this customer enthusiasm via equity CSF.



Next steps for DC Power Co.

DC Power Co.'s medium term objectives are to:

- Continue raising funds via private investors
- Develop capability for its retailer/energy services business
- Launch initial retail offer
- Consider future equity CSF campaigns

In the longer term, as a solar-focused electricity retailer with many solar PV households, DC Power Co. will be uniquely positioned as an aggregator that can provide network services and activate demand response events. Supporting technology, much of which has received ARENA funding, will be able to be leveraged to enable the conversion of many of these solar PV customers to 'distributed energy market participants', with additional distributed energy resources including smart inverters, battery storage system, controllable loads and home energy management systems, all of which will have the ability to be aggregated and orchestrated to form virtual power plants.

The flexible, dispatchable capacity that DC Power Co. will build via its customer base will then be able to be traded into existing and emerging markets to increase the value for customers (i.e. reduced bills, improved PV system payback) and increased value to the system (i.e. reduced network costs, reduced wholesale market volatility, improved system reliability). Sources of additional value could include:

- Wholesale market price arbitrage and risk management
- FCAS market trading
- Network services including power quality, constraint management and augmentation deferral
- P2P sharing (potential future market)
- NEG/Reliability support (potential future market)
- Demand response (potential future market)