

# FAIRPHONE

Investment sheet



Make your money matter – invest in change

# 1 Fairphone investment sheet

- 1.1 Overview >
- 1.2 Entrepreneur's pitch >
- 1.3 Team and organizational structure >
- 1.4 Explain your company's financial position >
- 1.5 Financing history >
- 1.6 What funding do you need and what will you spend the money on? >
- 1.7 Describe your company >
- 1.8 What sustainable or social impact is your company having? >
- 1.9 Describe your market and competition >
- 1.10 Intellectual property >
- 1.11 What kind of conversion and exit possibilities do you expect for investors? >

## 2 Analysis by Oneplanetcrowd

## 3 Type of finance and conditions

## 4 Financial risk

- 4.1 Financial risk >
- 4.2 The 10 out of 10 rule >

# 1 Fairphone investment sheet

## 1.1 Overview

Company name:	FairPhone BV
Website:	www.fairphone.com
Contact:	Bas van Abel
Financing product:	Shares, by means of a convertible loan
Target amount (minimum):	€1,000,000
Maximum amount:	€2,500,000
Discount on price of shares:	0% upon conversion within 3 months, 5% after 3 and within 6 months, 15% after 6 months and within 1 year, 30% after 1 year
Interest:	5%
Oneplanetcrowd investor fee:	0.2% per quarter (0.8% annually) over the outstanding loan amount. This amount will automatically be deducted from the quarterly installments from the company to the investor i.e. this is a fee applicable to the investor.



Oneplanetcrowd considers it advisable to invest no more than 10% of your freely available capital in crowdfunding projects and to spread your risk by dividing the 10% across at least 10 projects.

We refer to the end of this investment sheet for information about this convertible loan and the financial risk involved.



Fairphone began life in 2010, when Waag Society's Creative Director Bas van Abel helped shape a campaign to make people more aware of the ethical issues related to phone manufacturing. Drawing on his background as a designer and maker, van Abel knew that to improve the electronics industry, a market for ethical products must be established. Thus, in 2013, the Fairphone 1 was born.

Five years later, Fairphone has sold over 150,000 phones, is the highest ranking electronics brand on sustainability in the entire industry, and has built the Fairphone 2, the first ethical, designed-to-last smartphone on the planet. Public awareness and interest in Fairphone is growing explosively. By focusing on long-lasting design, fair materials, good working conditions and circular thinking, the concept and products of Fairphone have become widely known around the planet.

Now, Fairphone is ready to scale up to continue disrupting – and inspiring – the electronics industry. By investing, you can increase our momentum and become co-owner of a growing company that's making fair electronics a reality.

We've got big ambitions for the coming years. We are developing a new product and by 2020, we want to expand the current base of 150,000 Fairphone owners to over half a million. We want to continue making more materials in your phone fair. And we want to invite you to join us on that mission to write history together.

## The Fairphone team

We are a team of 70 people, from 25 countries, speaking 17 different languages.



## Executive board

<u>Name</u>	<u>Title</u>	<u>Background</u>
<a href="#">Bas van Abel</a>	CEO	Founded Fairphone in 2013, driven by his passion to change the relationship between products and people
<a href="#">Eva Gouwens</a>	Managing Director	Former First Lady of Chocolate of Tony's Chocolonely, led the company from a start-up to currently €40+ million market leader in the Netherlands

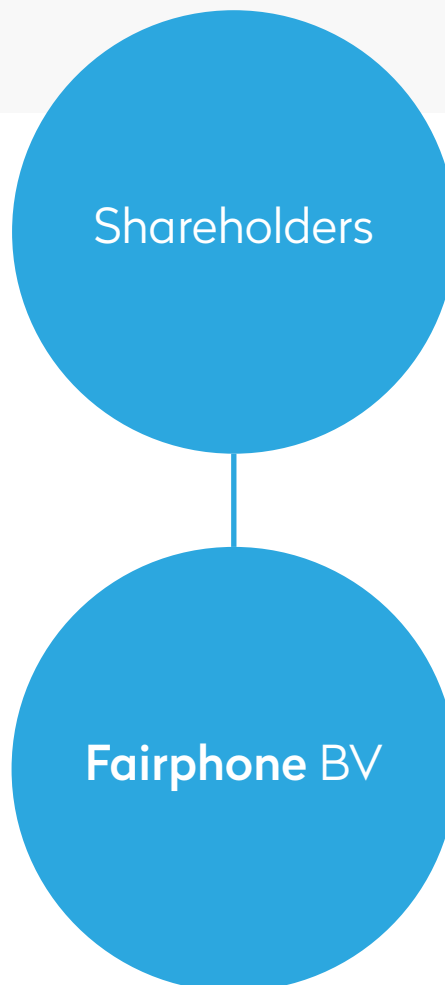
## Meet our management team

<u>Name</u>	<u>Title</u>	<u>Background</u>
<a href="#">Olivier Hebert</a>	CTO	Fifteen years of both hands-on and management experience in the mobile phone industry, from hardware to software
<a href="#">Allard Boer</a>	Finance Director	Sixteen years of international experience in financial leadership positions in both B2C (consumer electronics) and B2B (healthcare)
<a href="#">Monique Lempers</a>	Commercial Director	Passionate commercial leader with experience at large businesses in both the electronics and metal industries
<a href="#">Alexandra Velali</a>	Operations Director	Experienced supply chain manager within the consumer electronics industry
<a href="#">Laura Gerritsen</a>	Head of Value Chain	Founding team member with a background in international development

## A seasoned supervisory board

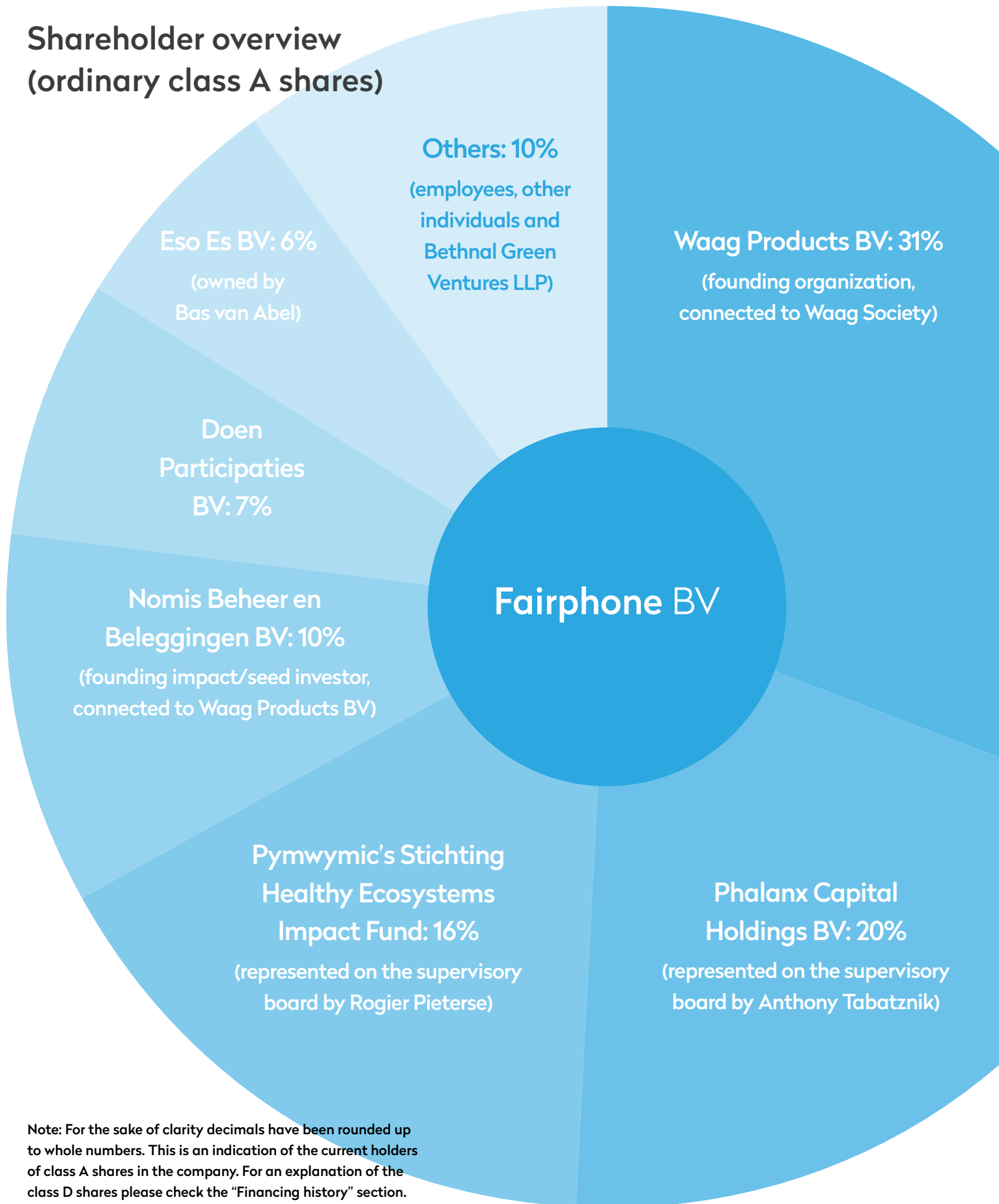
Name	Background
<a href="#">Josephine de Zwaan</a>	Experienced supervisory board member for various profit- and non-profit organizations, including the Foundation for the Administration of Triodos Bank Shares
<a href="#">Rogier Pieterse</a>	Experienced impact driven investment banker
<a href="#">Anthony Tabatznik</a>	Impact investor and human rights philanthropist, founder of <b>Bertha Foundation</b> , fighting to bring about social and economic justice and equal rights for all
<a href="#">Ted van der Put</a>	Experienced sustainability and supply chain professional in the electronics industry

### Legal structure:





## Shareholder overview (ordinary class A shares)



Note: For the sake of clarity decimals have been rounded up to whole numbers. This is an indication of the current holders of class A shares in the company. For an explanation of the class D shares please check the "Financing history" section.

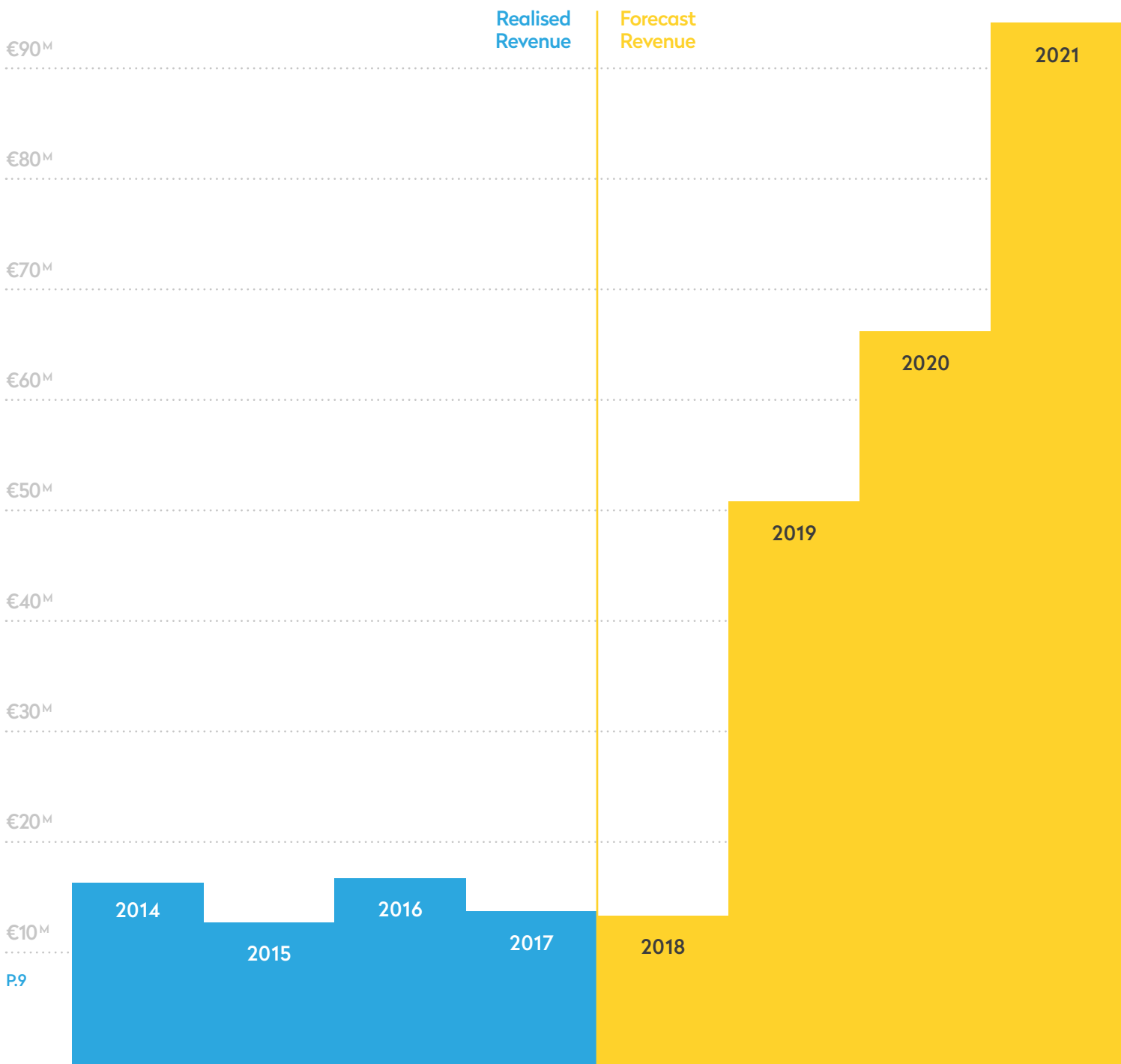


## 1.4 Explain your company's financial position

In 2017, Fairphone recorded over €13 million in revenue, of which 68% originated from indirect and B2B (business to business) sales and 32% was generated through our webshop. Indirect sales channels include telecom operators, like Orange and T-Mobile, and retailers such as Digitec Galaxus AG in Switzerland. Since we launched the Fairphone 2 in 2015, Fairphone has consistently sold more than 20,000 phones per year. All revenues were recorded in Europe, primarily in Germany, Switzerland, and France.

Compared to 2016, the 2017 and 2018 sales are heavily impacted by severe supply constraints. Due to the lack of product availability, we were forced to minimize our marketing and sales efforts, close the webshop for long periods of time and stop onboarding new indirect sales partners. All supply issues have since been resolved and we are now ramping up marketing and sales activities again. In parallel we are developing a new product to support our future growth.

Fairphone's expected unit sales of 285,000 smartphones per year (in 2021) would account for only 0.7% of the total addressable market in Western Europe.



## Income statement

x €1,000	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	<b>16,014</b>	<b>12,475</b>	<b>16,478</b>	<b>13,572</b>	<b>13,097</b>	<b>50,817</b>	<b>66,279</b>	<b>94,452</b>
Cost of goods sold	13,249	9,101	13,896	10,373	9,583	35,594	47,422	67,906
<b>Gross margin</b>	<b>2,765</b>	<b>3,374</b>	<b>2,582</b>	<b>3,199</b>	<b>3,513</b>	<b>15,223</b>	<b>18,858</b>	<b>26,545</b>
Personnel cost	1,694	2,024	3,169	3,941	4,878	5,545	6,047	6,526
Marketing & communication	324	271	419	n/a	851	2,134	2,784	3,967
Value chain*	n/a	n/a	n/a	n/a	782	594	904	1,034
Other cost	594	988	935	1,347	1,885	2,364	2,366	2,367
<b>EBITDA</b>	<b>152</b>	<b>91</b>	<b>-1,941</b>	<b>-2,089</b>	<b>-4,883</b>	<b>4,586</b>	<b>6,757</b>	<b>12,652</b>

\* Value chain costs (including sourcing fairer materials) are not specified in the historic financials

## Growth projections

In past years, demand for Fairphones has outpaced supply – partly due to the previously mentioned supply issues in 2017 and the first half of 2018. Now that product availability has stabilized, Fairphone is pivoting towards being a more marketing- and sales-driven organization (thus far our phones have been sold with limited formal marketing and sales). While we are scaling up and professionalizing our marketing and sales efforts, we will continue to grow in our existing market and channels, while selectively entering new regions.

Indirect and B2B sales are of growing importance for our revenue. Indirect sales is a combination of sales via telecom operators and retailers. B2B sales is procurement by large organisations. Our projected revenue from 2019 onwards will grow rapidly, to be made possible by new product introductions, increased marketing and sales efforts and new business models like Fairphone as a Service. In 2019, approximately 70% of overall revenue is expected to come from indirect and B2B sales, while the remaining portion will come directly through Fairphone's webshop. By 2021, indirect and B2B sales are expected to account for 80% of all revenue.

### Balance sheet on 01-04-2018\*

Assets (x €1,000)	2017	2018 Q1	Liabilities (x €1,000)	2017	2018 Q1
Intangible fixed assets	241	179	Shareholders' equity	4,885	3,751
Tangible fixed assets	284	237	Provisions	1,575	1,529
Inventories and work in progress	3,113	3,862	Long-term liabilities	-	-
Receivables**	4,977	3,628	Accounts payable	1,820	1,196
Cash and cash equivalents	903	3,105	Taxes and other liabilities	1,238	4,535
<b>Total:</b>	<b>9,518</b>	<b>11,011</b>	<b>Total:</b>	<b>9,518</b>	<b>11,011</b>

\*The accounts of 2017 are in the process of being audited by our auditor RSM.

\*\*30% of the Fairphone 2 cost price is downpaid to the manufacturer which is reflected in relatively high receivables.

In 2017, Fairphone switched accounting principles to Dutch GAAP, and the 2017 financial statements will be the first to reflect this change. At the time of writing this document, the company has no bank debt or other long-term liabilities.

## 1.5 Financing history

Until 2016, Fairphone has largely been financed by the founding shareholders, bank loans (which have been completely repaid) and by using funding means from its own operations.



### 2016 Round

In 2016, Fairphone received its first external equity investment, amounting to €6.25 million from a new major impact investor (Phalanx Capital Holdings BV), to strengthen its operational capabilities and engineering support for Fairphone 2.

### 2017 Round

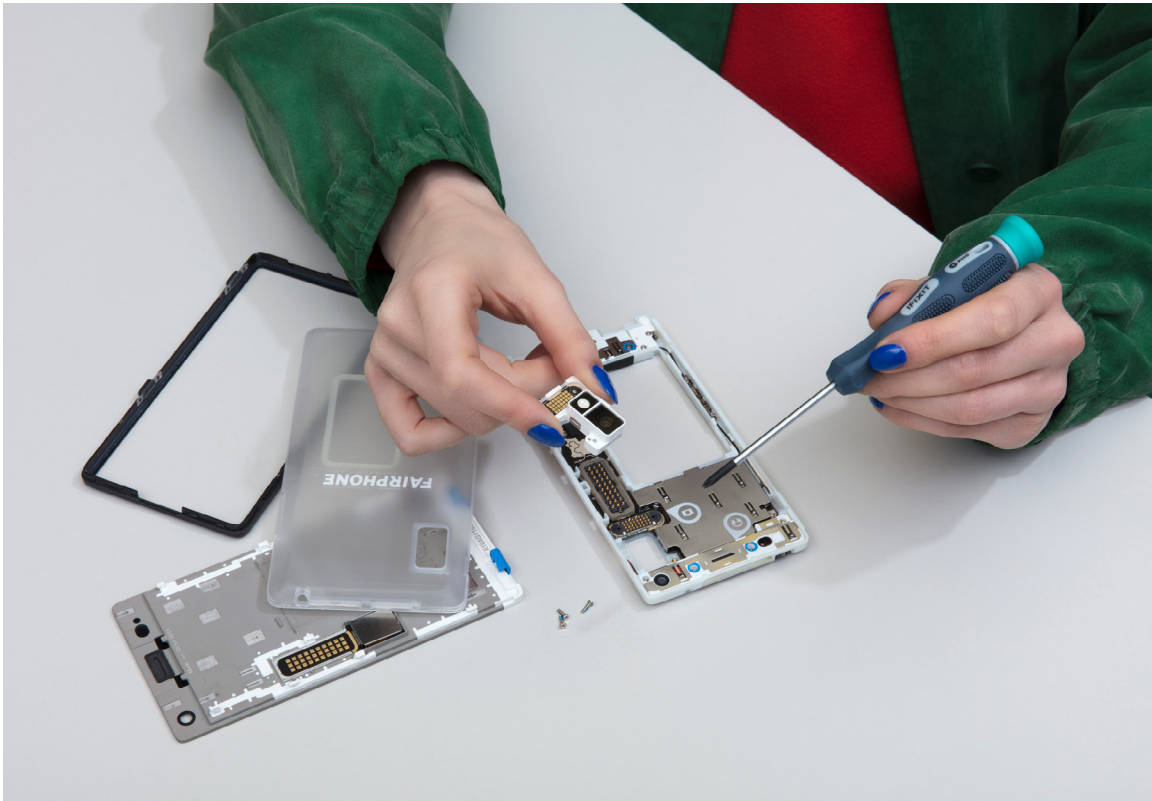
During 2017, existing shareholders and two new impact investors (Pymwyc's Stichting Healthy Ecosystems Impact Fund and Doen Participaties BV) invested a total of €6.5 million to finance the expansion of the distribution network and improve product availability, which unfortunately took longer than expected.

### Financing structure during the 2016 and 2017 rounds

During the 2016 and the 2017 investment rounds, investors have received ordinary shares for their contribution. Exceptionally, preferential shares have also been issued to founders and a limited number of investors.

A total of 598 preferential shares have been issued, each holder of such share being entitled to a repayment of €10,000 per share by Fairphone. The total value that Fairphone has to repay on all the issued preferential shares is €5.98 million.

The repayment is made through annual preferential distributions of up to 30% of the net profit. The first five years from issuance are free of interest. After five years lapse, interest in the form of a preferred dividend starts accumulating on their nominal value (5% multiplied by the consumer price index). Once the preferential shares are fully repaid, they will be canceled.



### €2.5 million convertible loan in Q1 2018

In the first quarter of 2018, Fairphone received funding in the form of a convertible loan agreement of €2.5 million from Phalanx Capital Holdings to improve the availability and lifespan of spare parts, as well as the overall support for Fairphone 2, in line with its mission and commitment to a longer-lasting smartphone.

This loan bears an interest rate of 3% if repaid by 31 December 2018 and 7% if repaid after this date. It provides the option, at Phalanx Capital Holdings' choice, to either be kept as a loan, or to be converted into shares in case of a potential upcoming equity investment into Fairphone. Fairphone is free to repay the loan at any time, either in full or in part.

#### The conversion will happen under the following terms:

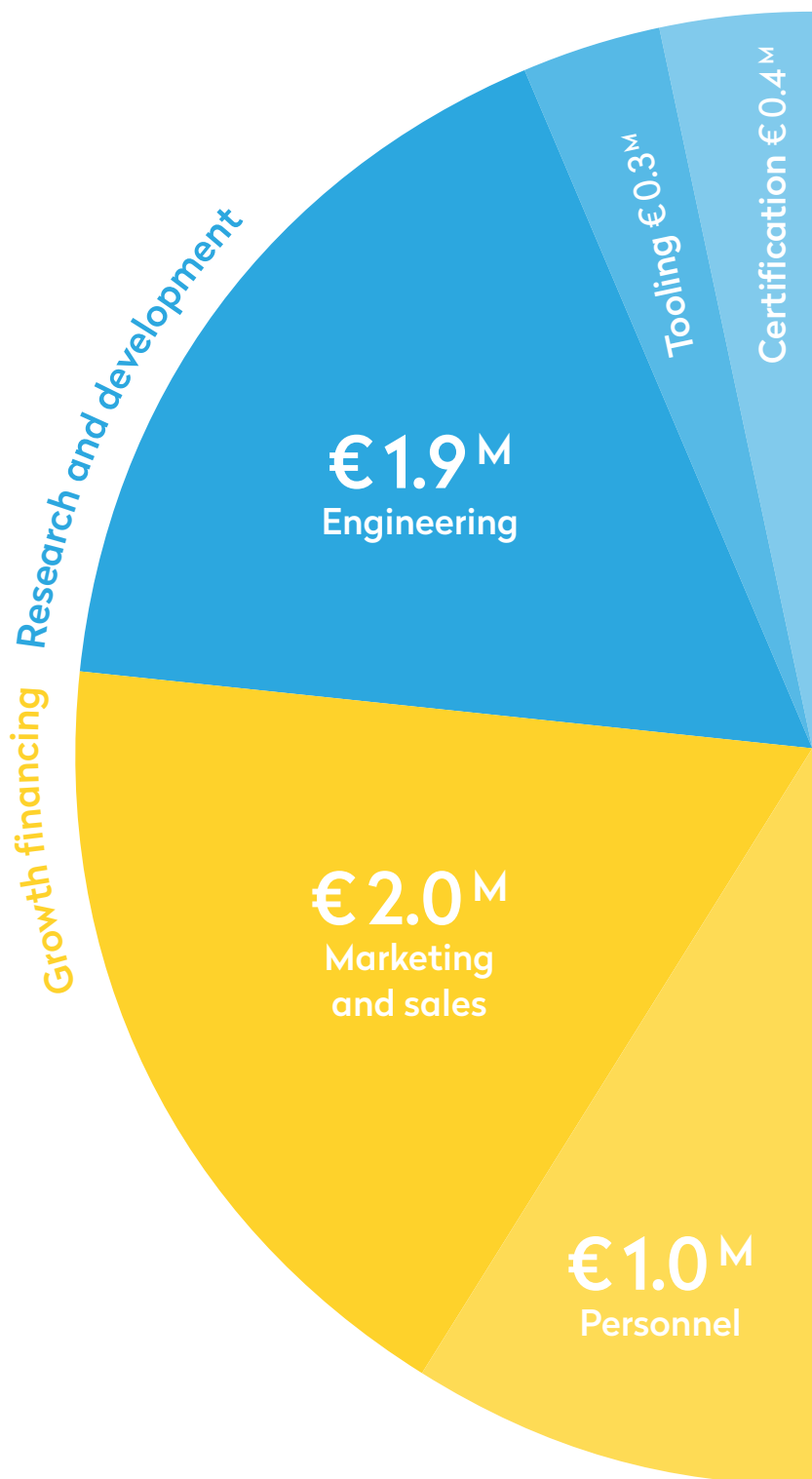
- (i) In case Phalanx chooses to convert with an investment round that closes on or before 31 December 2018, the loan converts with a 20% discount over the price that a new investor pays for the shares;
- (ii) In case Phalanx chooses to convert with an investment round that closes after 31 December 2018, the loan converts with a 20% discount over the price paid for the shares by any investor in a 2018 or 2019 round, or at the price paid in the investment round that closed on 10 August 2017.

## Scaling up our business to scale up our impact

In order to scale up our business, Fairphone seeks to raise between €5.5 and €6 million in capital. Through crowdfunding, Fairphone intends to raise €1 to €2.5 million. The remainder of the required capital will be raised from professional impact investors.

In addition to this investment round, Fairphone is preparing to attract bank financing to fund its working capital (pre-payments towards manufacturing partners and inventories). The working capital financing will be approximately €10 million over the course of three years (until the end of 2021). In preparation, Fairphone is also exploring a 60% guarantor scheme from the Dutch government for this bank financing. Although formal approval still needs to happen, initial feedback is positive and it is confirmed we fall within the required mandate.

The total equity investment sum of €5.5 to €6 million will be used to further increase Fairphone's impact by focusing on two main areas:





## Growth financing

As part of the equity investment, €3 million will be reserved to grow our team and scale up our marketing and sales efforts. We are growing our team to strengthen the organizational backbone that supports our growth ambitions for the coming years. This means we are scaling up all our departments, from finance to operations. Our marketing and sales efforts will focus on both the European markets where we are already established and the relatively untapped markets of Scandinavia and Southern Europe.



### Marketing and sales include:

1. **Market outreach** - Until now, Fairphone's marketing strategy has mostly relied on free publicity. By investing in market research and analysis, in combination with data-driven targeted campaigns on both direct and indirect sales channels, we aim to increase our marketing performance and attract new customer groups. In that context we will also (further) develop online advertising and retargeting, and offline Point-of-Sales materials, training and activation, in partnership with telecom operators and retailers.
2. **Sales operations** - In order to support the significant projected sales increase via both our direct and indirect sales channels, Fairphone will invest in new IT systems to better control delivery planning, material tracking and costs. We will improve our after-sales services to both our B2C and B2B customers by optimizing our reverse logistics, repair and recycling processes. This is core to successfully optimizing support for longer use and re-use of the Fairphone.
3. **Fairphone as a Service** - With Fairphone as a Service, customers (both B2C and B2B) are offered access to devices, maintenance and take-back of devices for a fixed monthly fee. Fairphone will retain ownership of the devices, which allows us to deploy circular strategies such as maintenance, repairs, refurbishment and recycling to prolong the lifetime of devices and optimize value creation. We have already signed a Fairphone as a Service pilot agreement with the City of Amsterdam and want to further develop this business model.

In 2017 and the first half of 2018, Fairphone has invested in expanding its production volumes and distribution network, which we will continue to do moving forward. This provides the launch pad for our investments in growth.

## Research and development

Fairphone is setting new standards and pushing boundaries in the industry. Continued investments in research and development give us the ability to keep improving the supply chains of more and more materials in our phones. We have allocated €1.9 million of the equity investment to engineering activities, to work on both new product development and supply chain improvements. As a key material for the energy revolution (because it's in batteries!), we are for instance working on making a fair cobalt supply chain. An additional €0.7 million is reserved for tooling and certifications for our new product.





## The rise of the conscious consumer

From organic cotton to slave-free chocolate, the era of the conscious consumer has well and truly begun. In the smartphone and electronics market, there is only one company with an activist and impact-driven approach offering a product to this growing group of conscious consumers: Fairphone.



Creating fairer electronics is complex. There are sustainability challenges throughout the entire supply chain: mines in conflict areas, unfair working conditions at manufacturing sites, unrepairable designs that don't survive even current trends and huge amounts of e-waste dumped in developing countries, with only a small fraction being safely recycled. Sourcing a fair banana might be complicated, but creating fair electronics is a tremendous challenge that can only be completed one step at a time.

Our company model builds upon the transformative power of ethical business, using our operations to develop initiatives that bring positive impact across the supply chain. Our vision is to provide a more sustainable alternative to the status quo, based on circular economy principles.

**Together with our 150,000 users, we create change in the industry – and invite you to join us to expand our impact!**

## Our achievements since 2013:



Supporting Fairphone 2 owners with spare parts and software updates to help their phones last longer



Launched worker welfare and satisfaction programs with manufacturing partners in China

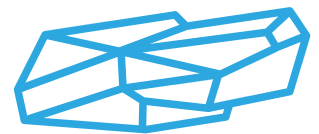


Collected 10 tons of scrap phones from Ghana and neighbouring countries for safe recycling

Grew to a community of 150,000 users and created two models, including the first modular smartphone on the market



Set up traceable supply chains for conflict-free tin, tantalum, tungsten and Fairtrade gold



## Opening up the supply chain

Excluding refiners, smelters, traders and mines, we have 107 first-, second-, and third-tier suppliers for the Fairphone 2, located in 14 countries. We work with selected suppliers on initiatives designed to make improvements in our supply chain, such as worker welfare and sourcing fair materials. Want to know more? Read on our website how Fairphone 2 is made (<https://www.fairphone.com/en/how-we-work/mapping-phone-made/>).

From the beginning, Fairphone has been focused on mapping the supply chain, tracing the materials that are used in our phones and making improvements step by step. In terms of mining, our first priority was the four conflict minerals: tin, tantalum, tungsten and gold.

Let's take gold as an example. There are mere milligrams of gold in every smartphone. That's not a lot, but added up, it makes the electronics industry the third largest consumer of gold worldwide, after jewellery and the financial sector. So, there was clearly work to be done. After two years of research, we were able to source certified Fairtrade gold for the Fairphone 2. The manufacturer of our printed circuit boards is now using this gold throughout their supply chain, meaning it may well end up in other products they make too. This is the first time in history that certified Fairtrade gold is being used in the electronics industry. We are opening up and improving the supply chain, and inspiring others to follow us.

### The supply chain for Fairtrade gold in Fairphone 2



Want to know more? Have a look at our blog to learn more about sourcing conflict-free and Fairtrade gold:  
<https://www.fairphone.com/en/2016/01/27/how-we-got-fairtrade-certified-gold-in-the-fairphone-2-supply-chain/>

## Long-lasting phones: the backbone of our business model

Launched at the end of 2015, the Fairphone 2 is still the centerpiece of our product offering. The fact that we continue to sell this same model is a testament to our goals for longevity. Instead of launching a brand new phone every year, we aim to support our existing phones for as long as possible and enable our users, as the foundation of our movement, to keep their devices beyond the industry standard. By doing this, we have set out to prove that it's possible to run our business in a way that's more beneficial for our customers, as well as the environment.

**Therefore, besides phones, we sell a wide range of spare parts and accessories to help owners keep their devices working well and looking great for as long as possible.**

We created a repairable smartphone by isolating electromechanical components and sub-assemblies into modules that the user can replace by hand or with simple tools. Fairphone is also geared at supporting our product's longevity with ongoing software support, availability of spare parts and the development of new business models for a more resource-efficient future.



The business model of Fairphone is based on selling phones. Our revenue is split in sales via our webshop, indirect sales (via telecom operators and retailers) and B2B sales (procurement by large organisations). Additionally, a small part of our revenue comes from selling spare parts. As part of our commitment to the circular economy, we are also further developing Fairphone as a Service, as a way for our users to get all the benefits of Fairphone without the expense of individually owning the device.

## 1.8 What sustainable or social impact is your company having?

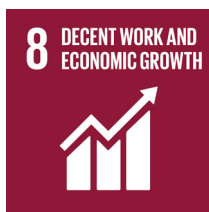
We support the UN's Sustainable Development Goals, because we think sustainability should be at the core of every organization. Fairphone is a social enterprise and our goal is to create a fair electronics industry, for everyone involved. Growth and a healthy profit are the means to reaching that goal.

### Goal 1: No poverty



One of the main goals at the heart of Fairphone is responsible sourcing. To that end, we create coalitions between suppliers and initiatives that have a positive social and environmental impact in developing countries. We were the first electronics company to integrate gold from Fairtrade certified small scale mines into our supply chain. We are proud participants of the Conflict-Free Tin Initiative, and also use fairly-sourced tantalum and tungsten. That's four out of the approximately forty minerals in our phones which come from fair sources, so we still have a long way to go.

### Goal 8: Decent work and economic growth



In several layers of our supply chain we actively work with suppliers to improve working conditions and representation for their employees. The latter promotes increased dialogue between factory management and employees to ensure concerns (including salary or benefits) can be addressed. In our various programs across different tiers of the supply chain, we have directly benefited over 5,000 workers.

### Goal 12: Ensure sustainable consumption and production patterns



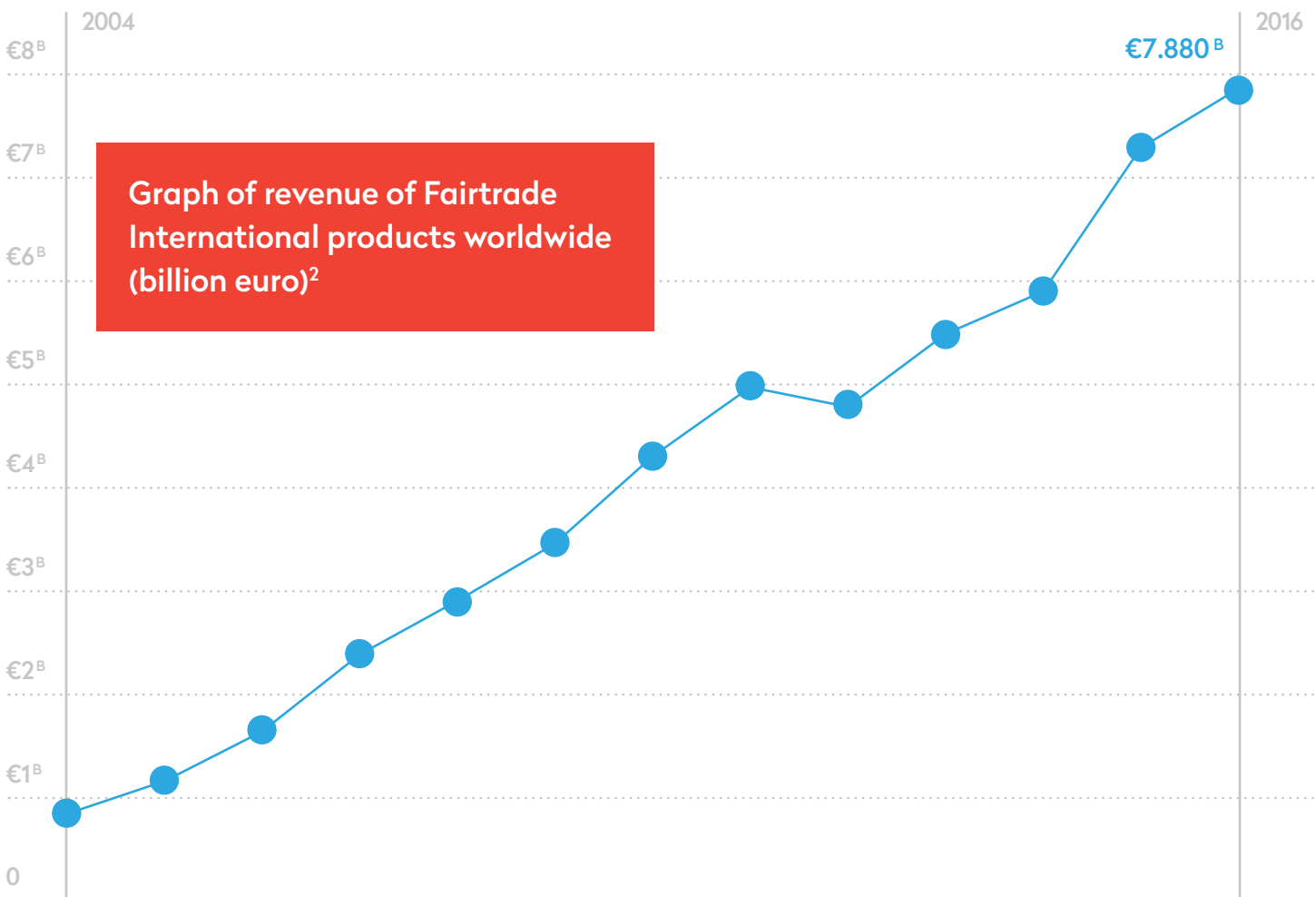
Sustainable consumption is crucial to reducing the pressure on our planet's resources. Key goals of Fairphone therefore include increasing the longevity of our products, as well as the reuse and recycling of products to increase resource efficiency. Fairphone 2 is the first modular phone specifically designed for improved repairability. We help and encourage consumers to keep their devices for five years, which will lead to a 30% reduction of the phone's environmental footprint ([calculated in our LCA of Fairphone 2](#)).

## 1.9 Describe your market and competition

**We are witnessing the rise of the conscious consumer. In the past ten years, the global turn-over from Fairtrade products has multiplied four to five times.**

In some markets, conscious products are already market leaders and in most markets, their market share is rising. Tony's Chocolonely, for example, is the market leader for chocolate in the Netherlands and is making slave-free chocolate the norm. And since May of this year, the Tesla Model 3 is the best selling mid-size premium sedan in the US, leaving behind BMW, Mercedes and Audi<sup>1</sup>.

Over the past years, the smartphone market has become heavily commoditized. We have passed the era of major phonetech innovations, with phones becoming more alike technically. As a consequence, competition is focused more on pricing. Within this commoditized market, Fairphone stands out as being the only ethical and sustainable alternative. Since our inception, we have proven there is a market for a fairer phone. Today we are ready to scale up our business to grow this untapped market. In September 2017, Eva Gouwens (the former head and "First Lady of Chocolate" at fellow B-Corp Tony's Chocolonely) joined Fairphone as managing director, to lead to company through the next stages of our growth.



<sup>1</sup> <https://electrek.co/2018/05/02/tesla-model-3-best-selling-mid-size-premium-sedan-us/>

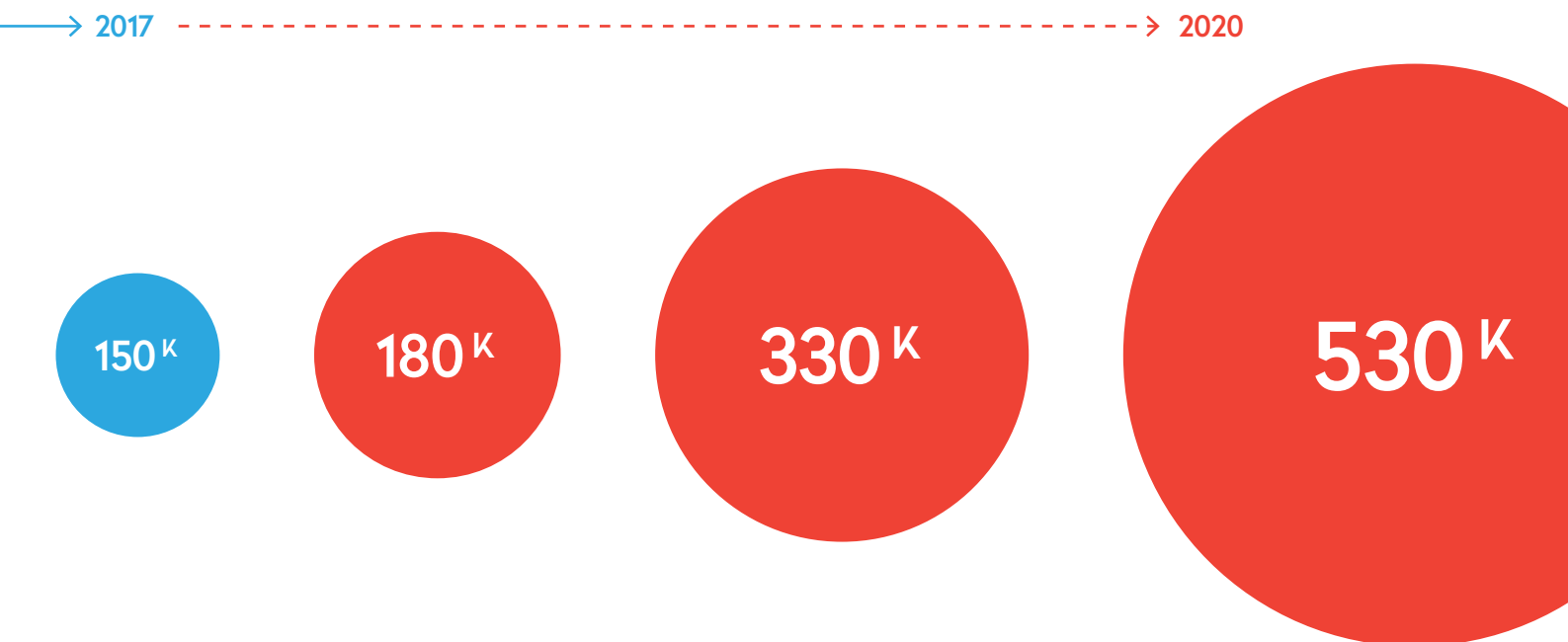
<sup>2</sup> <https://www.statista.com/statistics/271354/revenue-of-fair-trade-products-worldwide-since-2004/>

## 1.9 Describe your market and competition

In 2017, 125.6 million smartphones were sold in Western Europe<sup>3</sup>. An international study done by Unilever in 2017 concluded that 33% of consumers are now buying from brands they believe are doing social and environmental good<sup>4</sup>.

Fairphone's total addressable market amounts to approximately 41 million units per year. Fairphone's expected unit sales of 285,000 smartphones per year (in 2021) would account for only 0.7% of the total addressable market in Western Europe. Even with this relatively small market share, Fairphone will be highly profitable.

The number of Fairphone users is expected to grow to over half a million in 2020.



<sup>3</sup> <https://www.statista.com/statistics/412224/global-smartphone-shipments-western-europe/>

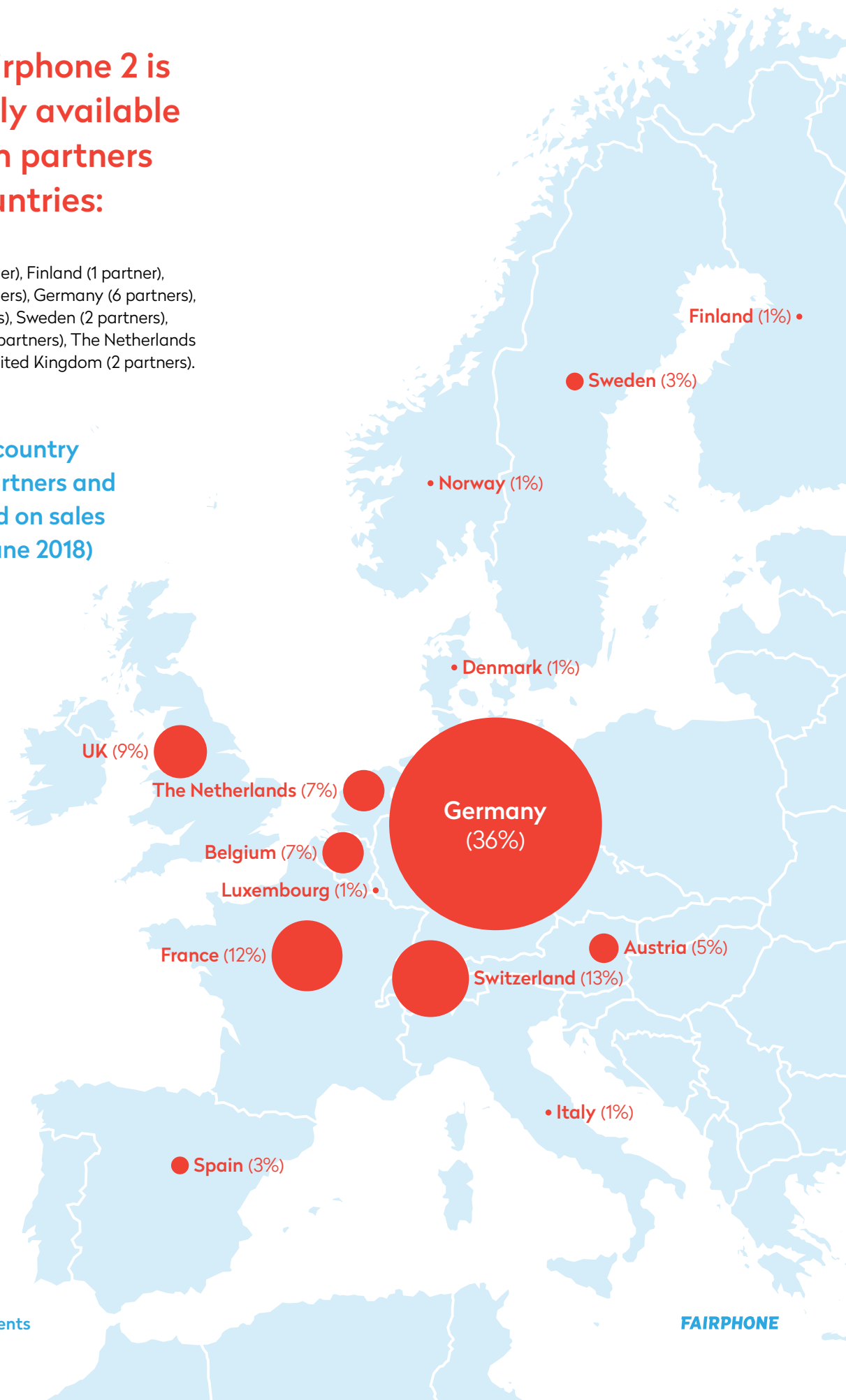
<sup>4</sup> <https://www.unilever.com/news/Press-releases/2017/report-shows-a-third-of-consumers-prefer-sustainable-brands.html>



## The Fairphone 2 is currently available through partners in 9 countries:

Austria (1 partner), Finland (1 partner), France (4 partners), Germany (6 partners), Italy (2 partners), Sweden (2 partners), Switzerland (6 partners), The Netherlands (6 partners), United Kingdom (2 partners).

Map of sales per country (both sales via partners and direct sales, based on sales from 2016 until June 2018)



## Patent portfolio

Fairphone has applied for seven patents (**five design patents** and **two utility patents**), which are now in the process of being registered.

Concerning our design patents, Fairphone has **five visual features** related to both the phone and the modules of Fairphone 2. All five visual features have been registered in the EU as Community Designs. In parallel, these five visual features are pending registration at the designated office in the USA.

Once granted, our **two utility patent families** would correspond to the architecture of the Fairphone 2 and to its connectors. They are in the process of being registered in the European Union (EU) and the United States of America (USA).

## Trademark portfolio

The Fairphone wordmark name and logo are registered trademarks. The protection of our trademark name extends to the EU, USA and other international markets.



EU



USA

## Specifics of intellectual property (IP) in the telecom sector

**The smartphone is currently one of the most complex architectural and technical products being built. It follows on from this that the intellectual property making it possible to build and operate them is also very complex.**

There is a large web of smartphone intellectual property (in the form of hundreds of patents, copyright or other types of IP) whose owners may send us infringement claims. For example, all smartphones must use standardized technology (like wifi and mobile connectivity) to be able to talk to one another; there are IP rights used to develop these standards that phone companies are obliged to use and have to pay royalties for. We have had some claims associated with standard technologies and we are currently negotiating the licensing terms.

To manage this complex situation, we are working with our suppliers to understand the intellectual property rights in the components that make it into our Fairphones, and to obtain protection against claims by others where possible. Additionally, with our best available knowledge from industry practice and our own experience, we are creating reserves for royalties we may need to pay in the future — and the legal costs associated with their negotiation. We respect the intellectual property rights of others and are always willing to enter into negotiations to obtain licenses on fair terms.

### Conversion to shares

The finances raised through this crowdfunding campaign is part of a larger investment round. Fairphone aims to raise at least €3 million in equity on top of the crowdfunding. Fairphone is currently in negotiation with potential equity investors. It is the aim that this equity investment will be secured within 6 months after the end of a successful crowdfunding campaign. This investment will 'trigger' conversion for the crowd: i.e. the crowdfunding participants will then get the opportunity to convert their loans into shares. The price of the shares will be equal to the price paid by the equity investor if the 'trigger' happens within three months after the crowdfunding campaign ends. If the trigger happens after three months, the crowdfunding participants get a discount on the price of the shares. For the discounts to be applied, see further below at 'discount on share price'.

### Exit possibilities

As a social enterprise our commercial model is the driver for continuity and creating impact is our goal. With all decisions we make regarding the growth of our business (including strategic partnerships, investments and marketing) we consider how it contributes to the continuity and mission of our business. This thinking also feeds into how we look at a potential exit. We are sensitive to the fact (some) investors need a clear exit possibility and we believe that Fairphone has good potential to offer exit opportunities to its shareholders through strategic partnerships adding to the continuity and overall mission of Fairphone.

After eight years, the crowdfunding participants will be able to sell its shareholdings to Fairphone itself. From that time onwards, Fairphone will use a maximum of 25% of its distributable profit to buy back the depositary receipts. The price will be at Fairphone's choice either (i) the most recent price paid by a third-party investor, or (ii) a price established by an independent evaluator.

# 2 Analysis by Oneplanetcrowd

## Findings

- Fairphone has positioned itself in the market for smartphones, focusing on conscious consumers, producing ethical smartphones. It has created a strong brand that stands for a fair supply chain, decent labour conditions and longer lasting phones.
- Competition in this market could come from two directions: 1) Direct competition (another fair smartphone startup) and 2) Large smartphone manufacturers (e.g. HTC/Sony) that decide to market their own fair smartphone.
- The intended bank finance – to finance future purchase orders – of approximately €10 million is of crucial importance to the firm's continuity. This finance has not yet been secured.



## Risk factors FairPhone BV

Risk category	Risk score	Explanation
Business risk	High	<p>Fairphone is a scale-up company that needs financing in 2018 and beyond to support its growth. The OPC financing is only a part of the needed financing. There is significant risk that either the additional intended bank finance or the intended equity round is not realised on time.</p> <p>Multiple downscaled scenarios have been run through the company's financial model, concluding that there should be enough capital to ensure continuity until July 2019, also in the case that the remaining equity is not secured. In these downscaled scenarios it is assumed that Fairphone realizes the necessary bank finance and that Fairphone decreases its flexible operational expenses with 30% as of December 2018.</p> <p>There are no mitigating factors for the risk associated with closing the bank financing. If bank financing is not secured (on time) it will jeopardize the continuity of Fairphone severely.</p> <p>Future models of the Fairphone may exhibit similar technical issues that occurred with the Fairphone 2.</p> <p>Fairphone will substantially reduce this risk by decreasing the complexity of its next phone and by switching to a more reliable and more reputable manufacturer.</p>
Structure risk	Low	<p>Aside from Q1 2018 convertible loan, no other loans are held by the company. There are no structure complexities as there is only one entity, Fairphone BV.</p>
Operational risk	High	<p>The electronics supply chain in general is complex and following from that, Fairphone's supply chain is as well. This has caused issues in the past for availability of parts and thereby continuity of the production of phones.</p> <p>Fairphone mitigates this risk by switching to a more reliable producer with a clear track record on producing Android smartphones for other reputable firms such as Sony.</p> <p>Fairphone mitigates the risk concerning its supply of conflict-free materials by being involved in setting up sustainable mining projects in developing countries — together with diverse stakeholders including large corporations such as Signify (formerly known as Philips Lighting) — hence creating their own supply.</p>
Management risk	Low	<p>Bas van Abel and Eva Gouwens jointly have considerable experience with (social) entrepreneurship and scale-ups.</p>



## Risk factors FairPhone BV (continued)

Risk category	Risk score	Explanation
Market risk	Medium	Fairphone is positioned in the fast-moving, highly competitive market for smartphones. Within the smartphone market it has secured a niche market in which there is no competition as of yet.
Financial risk	High	The company has little to no financial liabilities that cause a drain on operational cash. However, growth projections are ambitious and bank financing uncertain, presenting a risk of insufficient operational cash flow.
Technical risk	High	Modular phones still exist in the development stage, and the Fairphone, with high technical complexity, is therefore at risk of not performing up to par. For mitigant, see 'Operational risk'
Legal risk	Medium	There is an industry risk concerning IP claims. See section 'Specifics of intellectual property (IP) in the telecom sector' for details regarding this risk.
Exit opportunities	Strong	Depending on the strength of Fairphone's IP and brand at the time of exit, there are solid potential exit opportunities. For example, one possibility is that an existing smartphone manufacturer decides to enter into the sustainable smartphone segment and offers to acquire Fairphone instead of developing their own fair smartphone in-house.

[Read more](#) on how Oneplanetcrowd assesses entrepreneurs.



# 3 Type of finance and conditions

## Shares via a subordinated convertible loan

You will close a subordinated convertible loan with the aim of converting this into depositary receipts for shares at a later date. At this later moment, you will become a shareholder in the company. You only receive money back on your investment at the moment you sell your shares. This generally happens after four to eight years, but can take even longer.

A convertible loan is a way to become a shareholder in a fast-growing company without the need to value the company at this point in time. [Click here](#) to find out exactly what a convertible loan is and why Oneplanetcrowd works with this type of financing.

Below you will find a description of the terms and conditions of this specific convertible loan. If you do not understand what these terms and conditions mean, please click on the link to the relevant explanation in the FAQ section of our website.

### Loan phase terms and conditions

Annual interest rate:	5% (is paid out every quarter)	
Term:	5 years	> <a href="#">Explanation</a>
Time to conversion offer:	Maximum of 3 years (no repayment of loan until conversion offer)	> <a href="#">Explanation</a>
Subordination:	Subordinated to future bank debt. Currently no bank debt.	> <a href="#">Explanation</a>
Right of Pledge:	First right of pledge on Fairphone's Trademark Portfolio (handelsmerken) and Fairphone's Community Designs (Gemeenschapsmodelrechten).	> <a href="#">Explanation</a>

## Conditions of conversion

A subordinated convertible loan offers the right for the investor to convert the loan into certificates of shares in the company. The company is obliged to offer conversion to the crowd.

<b>Conversion triggers:</b>	<ol style="list-style-type: none"><li>1. A new — not yet involved — investor invests a minimum of €500,000 in the company.</li><li>2. The company is sold (minimum of 50% of the shares are transferred to other hands).</li><li>3. If the two situations described above do not occur within 3 years, you will then receive an offer to convert into shares, based on an independent valuation.</li></ol>	<b>&gt; Explanation</b>
-----------------------------	--	-------------------------

<b>Discount on share price:</b>	<ul style="list-style-type: none"><li>• 0% if conversion is effected within 3 months</li><li>• 5% if conversion is effected between 3 and 6 months</li><li>• 15% if conversion is effected within 6 and 12 months</li><li>• 30% if conversion is effected after 12 months</li></ul>	<b>&gt; Explanation</b>
---------------------------------	---	-------------------------

<b>Right not to convert:</b>	<p>If you reject the conversion offer:</p> <ul style="list-style-type: none"><li>• Your convertible loan is paid off just like a normal loan.</li><li>• The financing remains a loan.</li><li>• All rights of pledge lapse.</li><li>• The final redemption and interest payment will be effected no later than the end of the planned term of 5 years and the entrepreneur is allowed to repay the loan prematurely without penalties.</li></ul>	<b>&gt; Explanation</b>
------------------------------	--	-------------------------

## Shareholder phase terms and conditions

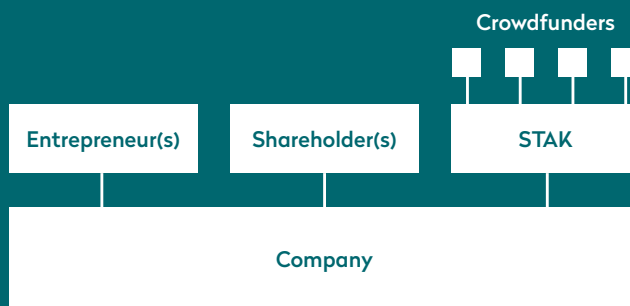
You will find a full overview of your rights and those of the company in the convertible loan agreement, which you will receive for reading before the completion of your investment.

The following is a selection of the most important rights and obligations by virtue of your depositary receipts for shares:

Shareholder construction:

Depository receipts in a non-voting STAK/trust foundation

> **Explanation**



Preferential right:

If more shares are issued at a later date, you may buy additional shares to prevent the dilution of your own shareholding.

> **Explanation**

Drag-along:

If at least 50% of the regular shareholders (so not the STAK with crowdfunders) sell their shares, then the crowdfunders must also sell their shares (in other words, you are not allowed to oppose the sale).

> **Explanation**

Tag-along:

If at least 50% of the regular shareholders (so not the STAK with crowdfunders) wish to sell their shares, then the crowdfunders are also allowed to sell their shares pro rata (in other words, it is not possible to sell the company without the accompanying sale of the crowd shares).

> **Explanation**

# 4 Financial risk

## 4.1 Financial risk

### The risk of an investment in the subordinated convertible is high

On the other hand, there is a chance that you will achieve a high return if you have converted your loan and the company is ultimately extremely successful. Because convertible loans are largely extended to young, potentially fast-growing companies, the forecast of the entrepreneur may not materialize, or may materialize at a different pace. In the initial phase of its life, a new enterprise is often dependent on other early-phase financing, such as subsidies and other contributions, to generate sufficient income from sales.

There is a significant risk that investors will not get back their investment, for instance because the company encounters delays or fundamental setbacks in the development of its products and markets. Or because the company proves unable to attract sufficient follow-up investments to reach the next phase. Many innovative start-ups ultimately fail and have to be dissolved.

This investment sheet does not constitute any form of investment advice on the part of Oneplanetcrowd. The investment sheet or profiles offered on the website are expressly not recommendations on the part of Oneplanetcrowd to invest funds. The investor or the crowdfunder make their own investment assessments and investment decisions, either with or without the help of their own advisors.

Diversification is an essential part of risk reduction on this front.

It is advisable to read the information extended for the projects and companies carefully. Results achieved in the past are no guarantee for future results. The calculations of the data in this investment sheet are theoretical forecasts. The results achieved in practice may differ from these forecasts. In addition, the value of your investment may fluctuate.

## 4.2 The 10 out of 10 rule

Oneplanetcrowd considers it advisable to invest no more than 10% of your freely investable capital in crowdfunding projects and to spread your risks by dividing the 10% across at least 10 projects. We strongly advise against investing with borrowed capital.

**FAIRPHONE**