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MCEX 滴灌通澳交所

Business Overview

September 2024

The World's First
Licensed Revenue Based
Financing (RBF) Exchange

Inclusive Market
A Capital Market for
Micro and Small Businesses

Global Capital, Global Assets
Diverse Investor Base and
Underlying Businesses

MCEX's "3D" Market Structure Innovations



Digital Market Structure

Securities market structure, with digital enhancements to provide more flexible financing tools for businesses



Distribution-driven Market

Friendly funding access for businesses while maintaining strong investor protections



Dividend-based Trading

"Repo" arrangements to facilitate easier matching and enable businesses' incremental fundraising over time



Commitment to Innovations

Market design predicated on valuable insights from three years of proprietary investing experience

Digital Market Structure – The Micro Star

Our new digital market structure, **the Micro Star**, retains the design of **securitized units** that underpins traditional finance while providing a **cost-effective** and **process-light** regime for **micro and small businesses** to connect with investors in the traditional market.



Digital Market Structure – Underlying Assets and Traded Products

MCEX turns revenue-sharing arrangements into **RBOs**, tradable instruments representing the building blocks of SPVs, SPACs, and ETFs. RBOs are held by SPVs, SPACs, ETFs, and market participants **build exposure to RBF assets by trading RBUs** (units of SPVs, SPACs, ETFs).

RBOs and RBUs

Underlying RBF Assets and Traded Products



Revenue Based Obligations (RBOs)

- An RBO represents **one-to-one economic entitlements of a Revenue Based Contract (RBC)** and turns RBF assets into tradable units
- An RBC is a **commercial agreement** between investors and a revenue-sharing business

Revenue Based Units (RBUs)

- Umbrella term for the listed and traded units of SPVs, SPACs, and ETFs and **core products traded on MCEX**
- **Securitization and standardization of revenue share**, creating a scalable investment market

Digital Market Structure – Single Portfolio Vehicles (SPVs)

An SPV is an MCEX-listed and traded **financing vehicle**, representing exposure to revenue share of a single business or asset in the form of an RBO issued by the SPV Sponsor – a light-touch and cost-effective way for businesses to access the capital market.

SPV
Akin to a Listed Company

Securitization Simplified

- SPV Sponsor raises funding by injecting revenue share into an SPV (via an RBO) and **selling securitized units of the SPV** to investors
- Registration, custody, trading, clearing and settlement executed by MCEX

Flexible Transaction Terms and Secure Settlements

- **Flexible repurchase arrangements (“repo”)** to meet varying risk-return requirements, enhancing likelihood of matched trades
- **Cash flow distributions securely executed** by MCEX per repo terms

Transparent Disclosure

- An SPV’s **distribution track record and fundraising history** are disclosed on the MCEX platform
- **Transparency** for investors and an opportunity for SPV Sponsors to develop **fundraising profile** over time



Digital Market Structure – Segregated Portfolio Accounts Collectives

A SPAC is an MCEX-listed and traded **investment vehicle**, representing a portfolio of MCEX-listed assets actively managed by the SPAC Sponsor – an efficient and cost-effective way to invest and conduct asset management in the RBF market.

SPAC

Akin to an Actively Managed Listed Fund



Enhanced Flexibility in Fundraising and Exit

- Perpetual design with flexible capital structure, allowing the SPAC Sponsor to raise funds for investment purposes by issuing SPAC units or senior units
- SPAC investors can easily exit by selling the SPAC units on MCEX

Hassle-Free and Cost-Effective Portfolio Management

- Digital, virtual structure simplifies the fund set-up and management process
- SPAC operations (transactions, disclosure, and cash flow distributions) executed by MCEX, saving administrative burden and operating expenses

Transparent Operations and Demonstrable Track Record

- All investable underlying assets are listed on MCEX with transparent disclosure, resulting in substantial reduction in due diligence time and cost
- Disclosure of SPAC performance computed and published by MCEX

Digital Market Structure – Exchange Traded Facilities (ETFs)

An ETF is a rule-based, MCEX-administered **all-market investment product** – it can be structured and distributed in tranches to cater to investors' varying degrees of risk profiles, offering beta exposure and facilitating institutional participation.

ETF

Akin to a Passive Index Fund



All-market Diversification

- Daily liquidity on MCEX, offering **diversified exposure to RBF universe**
- Cash flows can be **subordinated into tranches**, catering to investors with varying degrees of risk profiles

Sponsor-designed, MCEX-executed Passive Portfolio

- Passive portfolio operated in accordance with rules pre-set by ETF Sponsor at point of ETF listing, keeping behavioral bias to the minimal

Liquidity Provider for the RBF Ecosystem

- A viable exit pathway for RBO originators and alpha seeking SPV / SPAC investors, **facilitating further asset originations for the entire RBF market**
- Aligned economic interests between asset sellers and ETF, achieved by offering “**cash + ETF units + ETF restricted units**” to asset sellers

Mismatch Between Traditional Capital Markets and Small Businesses

The traditional equity market is built on a valuation-anchored system characterized by high barriers to entry and is designed to serve only large corporates.



High Valuation Multiples

- Equities represent **perpetual ownership** of a listed company
- Issuers are motivated to seek the **highest earnings multiple possible** to raise more permanent capital

High Secondary Market Liquidity

- With high-valuation entry point, it is **difficult for investors to solely rely on dividend distributions** to recoup investments and generate returns
- Investors **rely primarily on selling at a higher price** to generate returns, which calls for liquidity in the secondary market

High Barriers to Entry

- For investors to accept high valuation and rely on high liquidity, they would demand **high standards of information disclosure**
- Only **companies with sufficient scale, track record, and resources** can afford the cost of tapping the market

Distribution-driven Market

A distribution-driven market regime maintains high levels of investor protection by automating **high cash payouts** and **high precision disclosure**, while providing a **high level of accessibility and inclusivity** to businesses of all sizes and potentials.



High Dividend Payouts

- **High % distribution:** mandatory distribution of nearly all of SPV's revenue-sharing income as dividends
- **High frequency:** monthly (or more frequent) distribution, allowing investors to more easily manage and reduce risk exposure

High Precision Disclosure

- **Ongoing forecasts:** SPVs are required to maintain forecasts of future monthly payouts to cover length of all outstanding financing
- **Effective investment evaluation:** based on frequent benchmarking of actual distributions against projections

High Level of Accessibility

- **Friendly access with safe barriers:** “high payouts” + “high precision disclosure” guardrails give room for more pragmatic listing requirements
- **Almost any cash revenue-generating businesses** with certain track record and system connectivity can access MCEX

Dividend-based Trading Model

Highly customizable repo terms attached to trading of SPV units – SPVs can start with smaller and shorter-term raises and, with a longer and stronger distribution and fundraising history over time, can raise larger amounts in an incremental manner.

Incremental Capital Formation

Investors

Incremental Investments Through Development of Insights

- Start with smaller and shorter investments to begin tracking performance
- Larger bets on longer-term investments in an incremental manner

Businesses

Incremental Fundraising Through Building of Track Record

- Maintenance of consistently accurate revenue guidance + stable, predictable distributions
- Voluntary disclosure of additional data and information

Standardized Products + Bespoke Terms

Flexible Terms

Efficient and Transparent Products

- Bespoke customizations between investors and fundraising businesses
- Customizable terms include investment amount, expected tenor, return threshold, termination triggers, and disclosure requirements

Robust Execution

Secure Transactions, Scalable Systems

- Automated matching of bids / offers for repos of any size and terms and ongoing settlements throughout the duration of contracts
- Scalability of market trading ensured

Market Innovations Through Experience

Valuable insights from nearly three years of proprietary investing by Micro Connect have helped inform the design of MCEX's new market structure.

Proven RBF Investment Model



13,000+ stores / merchants funded
800+ brands / franchises represented



>US\$600m total capital deployed
>US\$200m total revenue share distributed



278 cities in **32** provinces across China
Covering **Food & Beverage, Retail, Services, and Culture & Sports**

Cumulation in MCEX's Infrastructure Building Blocks

RBC contract designs, **Automated Repayment Mechanism (ARM)**, **MCEX Market Acceptance Protocol (MAP)**, risk pricing benchmarks, valuation engine

Key Takeaways

Small businesses need a capital market that is **cost effective** and **process light**

Digital Market Structure

A vibrant capital market for small businesses should be **access friendly** while maintaining **high levels of investor protection**

Distribution-driven Market

Small businesses need a matching mechanism that allows for pragmatic **product design** and **customizable terms**

Dividend-based Trading

Where Does MCEX Go From Here?

With the rollout of the Micro Star system, we are a step closer to becoming the world's largest RBF marketplace.

MCEX Today



38 SPV Listings¹

Brick-and-mortar consumer retail businesses and e-commerce merchants from Mainland China, Hong Kong, Macao and overseas



25 SPAC Listings¹

Portfolios sponsored by professional fund managers, securities brokerages, RBF platforms, etc.



Listing and Trading of the First ETF

RBCs / RBOs originated through Micro Connect's proprietary investments over the past three years

A New Market of the Future

**“Listing Venue of Choice”
for Micro and Small Businesses**

**“New Investment Horizons”
for Smart Money**
(PE / VC investors, broker-dealers, and family offices)

**“Safe Harbor”
for Fixed-income Investors**

**“Beacon of Investment Opportunities”
for all classes of global capital**

(1) Data as of September 26, 2024

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