TRADETEQ

Investor Update

November 2024

Business Update

Over the past several months, Tradeteq has pivoted towards investment management as its primary go-to-market strategy, reflecting the business model shift we explained in our investment memo earlier this year and eventual goal of becoming an ABS issuer.

This approach requires access to two key components: instrument supply and capital. The company has identified addressable sources of instrument supply from existing marketplace originators, and attractive scaling opportunities within working capital management (WCM) platforms and US logistics receivables. They have established their first Global Receivables Strategy (GRS) program around these instruments as a proof of concept, and signed a leading investment bank as exclusive placement agent to establish a principal investment desk and scale future structured product issuances.

In parallel, shareholders and management underestimated execution challenges on revenue milestones. Balance sheet runway emerged as a critical risk for the company, resulting in a surprise liquidity crunch in October that required timely intervention. Tradeteq's board stepped in with a bridge led by MS&AD Ventures (CVC arm of $150B+ Japanese Insurance Co), with other insiders including Interlock Partners, Niya Partners, and Vittal Kaddapakam (Juul CFO and Chief Strategy Officer) participating to provide the company with sufficient capital to execute on its roadmap. The group has formed an investor task force that will oversee extensive restructuring to make Tradeteq leaner, faster, and more focused.

Financing Terms

The current round will be an up to $6M extension of Tradeteq's existing $80.5M cap / 20% discount CLN, and shareholders have already committed ~$4M. New investors will receive 9,000 immediately-exercisable penny warrants for every $1M invested, with a 1:1 warrant pull through mechanism on the most recent CLN from this summer – capped at $1M of outstanding capital. **This structure protects our most recent investors from dilution in this financing and the next priced round**, while increasing their ownership percentage by a substantial multiple to be determined by warrant issuance from Niya's investment amount in the current financing. These terms result in an effective ~$14M[1] post-money valuation; the new money syndicate + prior note investors intend to acquire >50% of the business[1].

The syndicate will need to exercise substantial control over the company, and this investment will be highly dilutive to existing shareholders. We have secured full pro rata rights to ensure that interested LPs have the ability to protect and increase their ownership on minimal incremental investment. Your individual pro rata is detailed in the body of the email to which this document is attached. This is clearly a high-risk investment, but with compelling economics to compensate.

1: Effective valuation (and syndicate ownership) will vary based on amount invested, which has not yet been finalized

To mitigate risk over the near term, the capital deployment will be tranched, with initial deployment of 35% triggered by completion of initial restructuring and subsequent deployment of 65% contingent on the company achieving certain milestones regarding burn reductions and restructuring (detailed further below).

Operational Restructuring

The investor task force has spent the past 3 weeks diving into Tradeteq's operations to assess the organization, slash the primary drivers of burn, and implement a comprehensive strategy & execution roadmap before investing.

Management & Oversight

Management Changes: The C-suite has produced poor operational results, and the lack of runway management was unacceptable. The task force has identified several C-level executives that will be replaced in the interim, including the CFO and COO. Christoph Gugelmann will remain CEO and be responsible for key decisions around investment strategy and portfolio management (where he has consistently excelled), but we identified needs for additional support around overseeing the P&L and business operations. Christoph will be complemented by a new CRO/COO who excels in strategic planning and commercial execution, and the task force is already actively seeking candidates to fill this role and others. Tradeteq's overall headcount will be reduced by an estimated ~50% (to be finalized by task force), primarily by outsourcing the technology organization to a world-class 3rd party that can maintain and enhance TTQ's already-built infrastructure more efficiently than the internal team. The company will retain its excellent asset management team and plant its flag as a tech-enabled investment manager.

Board of Directors: We identified that the current board was cumbersome and ineffective at providing oversight. Three directors were removed, with go-forward seats as follows to ensure tighter investor control over the company:

- 1 Non-executive Chairman (to be someone of significant standing in the structured credit / investment management ecosystem).
- 2 Investors (one of which will be Jon Soberg of MS&AD Ventures)
- 1 Founder (likely to be the CEO)
- 1 Independent (to be someone with expertise at the intersection of technology and asset management)
- Niya Partners will retain an observer board seat, and will be a key member of the investor task force.

Investor Task Force: The syndicate determined that management requires serious help with strategic planning, along with consistent oversight and rapid feedback loops as they execute towards go-forward milestones. Shareholders have stepped up to create a task force that will be responsible for setting strategy, sourcing and approving key hires, supervising execution, and incentivizing management and employees accordingly.

Task force members will include:

- **Jon Soberg** (CEO of MS&AD Ventures): Serial entrepreneur and venture capitalist who has backed 19 unicorns and returned more than $1.5B to investors. Recognized as a top seed investor 4 years in a row, founded MS&AD Ventures as the CVC arm of $175B Japanese insurance conglomerate.

- **Vittal Kadapakam** (CFO & CSO of Juul Labs): Played key role in leading Juul through $1.2B restructuring, saving the company from liquidation. Former public / private technology investor at Millenium, Corvex, and KKR who began his career in investment banking with Goldman Sachs.

- **Harry Hawks** (Partner at Interlock Partners): Former CFO of two NYSE-listed companies and 4x successful entrepreneur, crisis management history as a C-suite executive includes 9-11, Hurricane Katrina, '08/'09 recession.

- **Niya Partners** will also be a task force member.

The past several weeks have created close alignment among the investor group – which has worked 24/7 to find a solution. We are in constant communication with one another and ready to take the company forward.

<u>Burn Reduction & Technology Team</u>

Tradeteq's technology team emerged as a key driver of excess burn; although significant investment was necessary to build the platform's underwriting, workflow automation and asset replenishment capabilities, the building phase is complete (as evidenced by the ~$4B of notional volume that the platform has successfully processed with existing customers e.g. Goldman Sachs, LGIM etc). The critical priority today is commercial execution, and the investor task force found that Tradeteq's platform could be maintained and deployed at significantly lower cost – without compromising quality of service – via the right outsourced team.

Jon Soberg sourced <u>HTEC</u>, a best-of-breed engineering and product development firm to replace ~75% of Tradeteq's internal technology headcount. HTEC is a full stack shop; partnering with them brings several key advantages (detailed on following page).

HTEC's advantages (from prior page):

- **Direct cost savings** - HTEC will work for a combination of cash and equity, with terms around upfront investment from the company into this round currently under discussion.

- **Plug & play capabilities** - HTEC is an existing partner with Azure and Databricks (key layers of Tradeteq's existing tech stack). This will minimize re-architecture/ code migration time and reduce go-forward hosting costs.

- **Industry experience** - HTEC has built numerous high-complexity mission-critical products in the fintech and logistics spaces, positioning them well to do key integration work as Tradeteq expands its instrument sourcing network. HTEC is used by 26% of Fortune 100 companies including Google and Apple.

- **Scale up / down flexibility** - The outsourced team can be easily scaled up and down depending on Tradeteq's needs, enabling rapid adjustment to stay within budget constraints.

Jon (and MS&AD) have a longstanding relationship with HTEC that we've been able to leverage for very favorable terms; the company's services are in high demand, and their willingness to prioritize Tradeteq sends a strong signal.

We believe that the HTEC team will meaningfully increase execution velocity; they have a fast-moving culture and a proven track record of success on similar projects. Further, the use of an outsourced team reduces exposure to "employee creditor liability". Essentially – UK laws make it extremely difficult to terminate unproductive employees without risking frivolous lawsuits, and employees are considered outstanding creditors that are factored into solvency tests. This constrained Tradeteq's ability to manage their headcount – causing the team to become overweight on product managers and junior engineers – and forced the company into crisis mode well before the actual balance sheet runway was at risk of running out.

Layoffs will begin upon deployment of first tranche capital, with a portion of the funds being reserved for upfront severance payments and associated UK layoff costs (~$850k). Post-severance, technology & product headcount reductions are expected to slash go-forward OPEX by >$2M/yr.

Additional burn reductions completed over the past several weeks include the wind-downs of TTQ's insurance brokering infrastructure, and multiple redundant legal entities. Collectively, these have already reduced annual burn by ~$500k and will be complemented by further burn reductions under the investor task force's supervision.

Net/Net, Tradeteq's burn is expected to reach <$400k/mo (target to be finalized by investor task force). In a $5M new investment scenario, the proposed round will provide TTQ with ~12mo of runway after accounting for upfront layoff costs and employee compensation reserves. **Please note that these figures do not include pipeline execution;** cost-cuts are focused on non-revenue employees to minimize impacts on commercial motion.

Commercial Focus

As an asset manager, TTQ will earn revenue through two product lines, each of which has multiple paths to success:

- **Phase 1 - Principal Desk:** Tradeteq will directly acquire pools of receivables and apply leverage, taking all net yields as revenue.
    - Revenue take rate: 5%→20% on desk size (taking full pool spread net of servicing + leverage costs).
    - Starts small ($10-20M) via existing instrument supply at 5-10% take rates, can be incrementally expanded via further asset seller integrations and leverage towards 10-20% take rates and $50M+ notional.
    - Consistent & controllable revenue, builds track record and can serve as risk retention capital / instrument supply buffer for future issuances.
    - Investors providing principal capital will be compensated via TTQ equity.
    - Proofpoints: TTQ is already engaged with GreensLedge (top ranked placement agent discussed further below) under an exclusive placement agreement that covers principal capital, with active investor processes underway.

- **Phase 2 - Investment Management:** Tradeteq will package pools of receivables into tranched securitizations, acting as investment manager for the junior tranche.
    - Revenue take rate: 2-5% on notional volume (2% management fee + carried interest on above-target junior returns).
    - Starts with internally-rated GRS programs, scales into ABS issuance to capital markets via placement agents.
    - Junior tranches can begin in the $10-25M range and scale towards $100M+ contingent on instrument supply – resulting in total issuances of $100-$500M per program.
    - GRS issuances can occur sequentially and are non-dilutive to TTQ equity holders.
    - Scalable revenue with repeatable growth motion.

Both the investment management and principal strategies require a scalable supply of instruments and capital to achieve revenue targets.

Capital Formation

Ensuring that capital can be sourced quickly, scalably, and repeatably is vital to Tradeteq's go-forward execution. Credit funds ($1.7T+ AUM in 2024) are the largest and fastest-moving source of capital, and buy products via placement agents on either public or internal credit ratings via a market standard process. Tradeteq initiated a placement agent search in Q3, and has signed an engagement letter with GreensLedge to serve as the exclusive placement agent on both the principal desk, as well as junior and senior capital for future GRS programs and eventual ABS issuances.

GreensLedge Engagement

A global investment bank headquartered in NYC, GreensLedge has placed over $100B of capital into structured credit products over its 15+ year history, being named the #1 middle market CLO arranger on the 2024 US League Tables. GreensLedge has identified trade finance as a key opportunity area, and is excited to work with Tradeteq; one of the firm's 4 managing partners is the signatory on their engagement.

In addition to placing capital, GreensLedge also has a $3B warehouse facility that can enable immediate sourcing of senior leverage – thus reducing the ramp time for securitizations to reach their full revenue potential. As part of its engagement, GreensLedge will also run the process by which Tradeteq engages with rating agencies, further catalyzing the path towards publicly-rated ABS programs in the future. The agreement is a success-only arrangement (with fees of ~1% on capital sourced), meaning that upfront cash costs will be minimized in favor of incentive alignment between Tradeteq and GreensLedge. We see the GreensLedge engagement as a key de-risking event for Tradeteq's growth plans.

Family Offices & Board-Sourced Capital

To create redundancy, board members have also engaged with family offices in their networks to syndicate junior capital for GRS programs and the principal desk. Several have indicated early interest, which we will focus on converting in parallel with GreensLedge activation.

Initial capital formation efforts will center around raising a small principal desk with between $10M and $25M of committed capital. This will serve as the foundation of TTQ's investment management business, and investors will be compensated via equity in TTQ. Because the principal capital can immediately produce revenue by directly purchasing receivables, revenue-based appreciation in equity value can occur quickly and in perpetuity as TTQ scales the investment business via leverage and subsequent ABS issuances.

Instrument Supply
TTQ will optimize for low-risk, high-yielding instruments with blue chip and/or credit insurable obligors, sourced via technology platform integrations in several key areas:

Phase 1: Existing Marketplace Asset Sellers
TTQ's platform has enabled the existing network of asset sellers to drive nearly $4B of volume across 100 issuances over the past several years – with loss ratios below 10bps. TTQ's principal desk will leverage this same technology to purchase assets from the same network of sellers, but will take the place of the investor in this transaction (thus taking the entire pool spread instead of being squeezed between two counterparties into a sub-50bps take rate). Excess demand from asset sellers should accommodate $25M-$50M of low-risk instrument supply with spreads in the +500bps range; the existing $400M of assets currently in service can serve as a backup.

Phase 2: Working Capital Management (WCM) Platforms
WCM platforms such as SAP Taulia and C2FO create and process trillions of dollars per year of invoices for large corporations and SMEs alike. Customers have significant unmet demand for invoice factoring, which WCM platforms are increasingly challenged to provide given 2024 regulatory changes around off-balance sheet lending. Both Taulia and C2FO have approached TTQ to pilot its technology towards financing their customers' invoice factoring. C2FO is the farthest along; we have reviewed summary data from C2FO proving $8B in immediately addressable demand from customers including some of the largest retailers in the US (e.g Walmart, Costco). TTQ will need to have its principal desk established to address this opportunity (even a pilot program will likely involve ~$100M in instrument supply); with pool spreads in the 500-750bps range, the C2FO pilot can produce ~$4.5M revenue with leverage on a $15M principal desk (assuming conservative cost of leverage). A fully-ramped integration with even one large WCM platform will create abundant instrument supply, enabling TTQ to accelerate its principal desk expansion and structured product issuance.

Phase 3: US Trucking Receivables
The US trucking industry accounts for $1T/yr of invoices and approximately 3.5% of US GDP. Invoices are typically paid in 30-60 days, resulting in liquidity challenges for carriers, which are typically small businesses. Brokers typically offer factoring at discounts that amount to effective 2% monthly yields (20%+ annualized), but face balance sheet constraints – resulting in only $100B/yr of invoices being factored.

As the obligors behind these receivables are often large blue-chip corporates (eg Walmart, Pirelli, Amazon), trucking receivables offer some of the best risk/return profiles in private credit and are attractive candidates for securitization. TTQ has engaged several tech-enabled freight brokers and factoring companies, and will select the right partner(s) over the coming months to incorporate trucking receivables into its instrument supply.

Given timelines and execution priorities, trucking receivables are more likely to be targets for GRS issuances – where their high yields can materially enhance TTQ's take rates – versus being a near-term priority for the principal desk

The TTQ marketplace and some transaction servicing revenue will remain active (on about $400M of assets under service), but the company will not rely on – or invest further in – transaction servicing as a source of growth. The evidence of the past several years proved TTQ's success in underwriting and workflow automation ($4B processed with <0.1% loss rate)– but monetizing the transaction servicing business proved difficult as an initial GTM strategy due to take rate compression and dual-counterparty timing dynamics that were outside TTQ's control. This same infrastructure simply maintaining its historical performance can produce a far more lucrative business if deployed towards investment management — which is the underyling thesis behind TTQ's pivot.

<u>Roadmap</u>
Although the long-term vision and opportunity for Tradeteq remain consistent with our investment thesis, the investor group will take an incremental approach to shoring up the company's operations, then scaling revenue step-by-step towards clear and attainable milestones over the near term.

Q4 2024 will be focused on completing the company's headcount cuts and reducing burn towards a <$400k/mo target. The task force has already initiated efforts to align strategic focus + understand critical dependencies, put the right operational talent and expertise in place for execution, and closely supervise the company's execution sprints on a regular basis. The task force will aim to finalize milestones, shortlist and place key executive candidates, and work with HTEC to complete technology platform migration by end of year.

H1 2025 will see deployment of the second tranche provided TTQ can demonstrate sustainable on-target burn for at least one month. Provided milestones are cleared, TTQ will establish the principal desk (leveraging Greensledge for placement) and begin purchasing receivables from existing marketplace originators to create immediate revenue. Assuming a 7.5% pool spread, a $15M principal desk can generate ~$1M ARR pre-leverage. Bank leverage can increase these revenue numbers by >2x within several months. In parallel with the leverage process, TTQ and HTEC will execute on integrations with additional asset sellers, focusing first on C2FO before expanding into additional WCM platforms and logistics factoring platforms. The additional instrument supply provides a path towards >$4.5M run rate revenue from the principal desk as discussed previously.

H2 2025 will be time for the investor task force to evaluate the success of H1 initiatives, and proceed accordingly with principal desk expansion and/or GRS issuances via Greensledge. We will also evaluate the company's runway needs and plan to seek additional external financing contingent on performance.

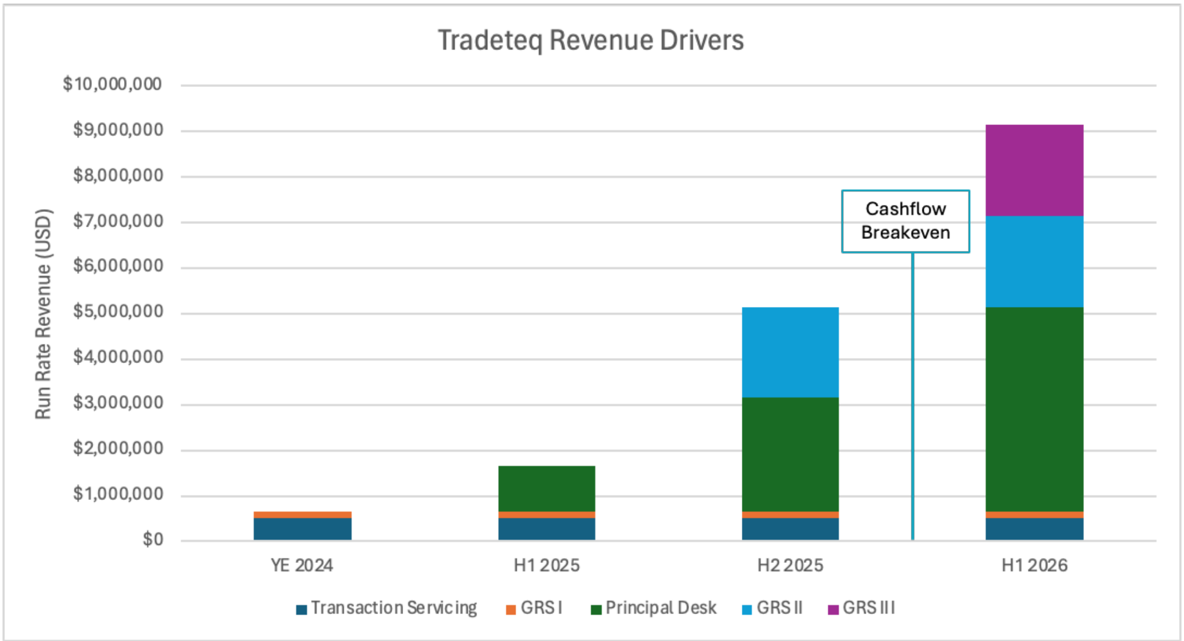
Financials

	Q4'24	H1'25	H2'25	H1 2026+
Strategic Priority	**Stabilize** org structure, execute cost cuts, finalize go-forward plan with task force	**Prove** sustainable burn reduction, deploy second tranche, set up principal desk	**Grow** revenue via principal desk expansion and/or GRS II issuance. Pursue further funding	**Scale** issuances via GRS III and further principal desk expansion. Optimize for EBITDA-breakeven
B/S Cash	~$2.3M	~$4.8M	>$5M	>$5M
Burn Target	$500k	<$400k	<$400k	$0
Runway	3 mo	12+ mo	12+ mo	Breakeven
Run Rate Target	$500k	>$2M	>$4.5M	>$6M

We anticipate that it will be 6-12 months before TTQ is finally "out of the woods" and running as a well-oiled machine, at which point it becomes feasible for them to scale beyond GRS into publicly-rated ABS issuances and expansion of the principal desk. GreensLedge is equipped to help with both.

<u>Please note that these plans will be subject to change based on the ongoing Investor Task Force engagement.</u>

The chart below shows the company's 12mo revenue trajectory, visualizing the milestones explained in the above table.



Risks & Mitigants

General Execution Risk: The company has a history of missing projections, and operates in a complex industry where transactions involve multiple counterparties

- Streamlined product strategy increases focus & resource concentration.
- Board + leadership reshuffle make company leaner and faster, investor task force helps set strategy + monitor execution.
- HTEC partnership removes the most expensive and slow-moving piece from TTQ's org structure.
- Task force members have significant restructuring experience and will closely supervise execution.
- Commercial scaling to be executed by incentivized experts w/ track record of success (GreensLedge).

Balance Sheet / Runway: Tradeteq historically has not closed adequate capital to keep its balance sheet / runway in a healthy position, and has seen OPEX overruns.

- Burn reduction will be the first milestone (minimizing capital at risk), with structural controls to prevent returning to bad operational habits.
- Immediate revenue from principal desk (sourceable via GreensLedge) can further extend balance sheet runway.

Concentration Risk: TTQ is heavily dependent on GreensLedge to source the capital that will enable revenue execution.

- GreensLedge's selection process is extremely rigorous, and they have already completed this process and signed an exclusive engagement letter with TTQ via which they are incentivized to place capital on an upside-only basis.
- GreensLedge has remained highly active over the past several weeks, and has already made introductions for principal capital.
- Family office / board sourced capital adds redundancy.

Team Risk: TTQ may experience turnover of key personnel during restructuring

- Task force is already engaged on finding new team members, will eventually replace a number of the C-suite executives.
- Option pool has been increased to retain and incentivize strong performers, and the task force is working towards additional cash incentives to bolster the talent strategy.

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