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Second Party Opinion

# Raylo Group Ltd. Green Financing Framework

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Primary contact

**Rita Ferreira**
Madrid
+34 914233216
rita.ferreira
@spglobal.com

| **Location:** United Kingdom | **Sector:** Business services |
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## Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

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## Strengths

**Raylo's business model enables the extension of electronic devices' useful life.** This supports a circular economy, in our view. The group is also working to reduce its downstream and upstream emissions. For instance, Raylo works with parcel delivery provider DPD, which in the U.K. has a delivery fleet consisting of 33% electric vehicles.

## Weaknesses

**Estimates of avoided emissions reflect assumptions using data from external sources.** This implies weaker data quality since the estimates do not result from data on emissions originating from Raylo's own devices. These estimates have not been verified by a third party and rely on data originating from Apple's Environmental Reports, which has been verified.

## Areas to watch

**The devices Raylo leases to its customers are manufactured using energy-intensive processes, which are also linked to social risks.** Raylo's supplier due-diligence process aims to mitigate environmental and social risks by assessing suppliers' environmental and social practices through a questionnaire, which is part of the supplier selection process.

**The possibility of customers purchasing leased devices, implying that some devices will drop out of the circularity loop.** According to Raylo, the option of purchase is not part of lease contracts; currently only 8%-9% of customers chose to purchase the device at the end of the lease.

**Raylo's start-up status limits visibility on its actual greenhouse gas footprint and waste generated by its operations.** Although we understand Raylo is working on developing plans for measuring its carbon footprint and environmental impacts, the company is yet to publish information on key sustainability metrics, such as greenhouse gas emissions and waste.

**The relative ease of upgrading leased devices and lower monthly lease payments could result in an increase in demand for new devices.** Raylo encourages customers to upgrade less frequently by offering lower monthly prices for long lease terms than for shorter terms.

## Eligible Green Projects Assessment Summary

Eligible projects under the issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

| Eco-efficient and/or circular economy-adapted products, production technologies and processes | Light green |
| --- | --- |
| Leasing of electronics, which may be in the following conditions:<br>- New<br>- Refurbished | |
| Purchase, refurbishment, and packaging of electronics to be utilized in a lease-and-reuse model | |
| Processing of device components suited for material recovery, for example, critical raw materials | |
| Harvesting reusable components | |

See Analysis Of Eligible Projects for more detail.

# Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

## Company Description

Raylo Group Ltd. (Raylo) is a privately held company founded in 2018 and headquartered in the U.K. The company operates an electronic device (smartphones, laptops, tablets and consoles) leasing platform based on a circular model, which allows customers to lease new and refurbished devices for a monthly fee. As of April 2024, Raylo's annual recurring revenue amounted to £28 million (about €32.8 million).

## Material Sustainability Factors

### Climate transition risk

The manufacturing of electronics and telecommunication devices is an energy-intensive process, with the majority of emissions stemming from raw material extraction (for instance, cobalt used in batteries), processing of these raw materials, and production of the devices. Prolonging the use life of an electronic device and ensuring the recyclability and reuse of its components presents an opportunity for the sector to respond to customer demand while mitigating the environmental impact linked to the production of electronic devices. Repairing devices is considered to play a key role in prolonging their useful life. In February 2024, the EU adopted its "right to repair" political agreement, aiming to facilitate the repair of goods, including electronic devices. In the U.K., a right to repair law was introduced in July 2021, and aims to extend the life of electronic appliances, such as washing machines, by up to 10 years. However, currently, this law does not apply to electronic devices like smartphones, laptops, or tablets.

### Waste and recycling

Electronic waste, plastics, and scrap metals are generated during the manufacturing of telecom network equipment and indirectly via mobile handsets, and at the end of a device's life. This leads to potential impacts, including environmental pollution and biodiversity harm. Reducing manufacturing waste upstream, and reuse and recycling of equipment downstream, can mitigate impacts and is increasingly a focus for companies as circular economy principles expand in the sector. In certain jurisdictions, such as the EU, regulations such as the EU Waste Electrical and Electronic Equipment (WEEE) directive have emerged, requiring electronics and electrical equipment manufacturers to collect and properly treat their products at the end of their useful life.

### Privacy protection

There are high inherent risks and adverse consequences (reputational damage, legal/regulatory fines, and operational disruptions) if a company fails to protect personally identifiable information (PII). We believe companies entrusted to protect PII--such as customers' personal, credit-related, and payment-related information--are prime targets for cyberattacks. Retailers and payment platforms collect large amounts of sensitive and personal customer data for online payments, card transactions, and loyalty programs. Cyber attacks are a rising concern for regulators and have resulted in increasing data privacy regulation, such as the EU's General Data Protection Regulation (GDPR), effective since 2018. A company's strategy and policies regarding data privacy and security are therefore important mitigating factors.

## Issuer And Context Analysis

**The framework includes one eligible project category, linked to the financing of Raylo's lease agreements, and address the company's most material sustainability factors: climate transition risk, waste, and recycling.** The eligible project category outlined in the framework contributes to climate risk mitigation and pollution prevention and control by facilitating the extension of the useful life of electronic devices. We also view privacy protection as a relevant sustainability factor, since Raylo's payment platform collects customer information such as personal and payment-related data. Moreover, returned, used electronic devices may contain confidential or personal data, which needs to be permanently erased before being passed to the next customer.

**Raylo's circular approach enables an extension of the useful life of devices, thereby reducing greenhouse gas emissions and electronic waste while limiting the use of natural resources, such as cobalt, for batteries.** The lease-and-reuse business model also increases the use of recycled materials for the production of new devices. The majority of greenhouse gas emissions in the electronics and telecom devices value chain stem from extraction of materials and energy used in manufacturing.

**We view as favorable that for the refurbishment and end-of-life processing of electronic waste, Raylo has partnered with a certified recycler, Ingram Micro.** Once the lease period is over, devices are returned directly to Ingram Micro, a world leading distributor of computing hardware that offers circular economy solutions. Ingram Micro's facilities have achieved certifications that include R2, ISO 14001, ISO 9001, and ISO 45001. Depending on the condition and market value of returned devices, the devices are repaired, refurbished, or sent for disposal.

**Raylo's start-up status limits visibility as to the company's actual greenhouse gas footprint and waste generated by its operations.** The company is in a nascent stage of its sustainability reporting, and is yet to publish information on key sustainability metrics such as greenhouse gas emissions, waste, and pollution.

**Raylo's sustainability policy includes commitments related to its management of environmental and social risks.** Raylo aims to reduce waste by using recycled materials for packaging and 100% compostable phone cases, as well as prioritizing reuse and recycling to minimize landfill waste. Raylo also aims to partner with suppliers that are aligned with its sustainability principles and has developed a questionnaire addressing environmental practices, which it uses as part of its supplier selection process. However, the company does not commit to prioritizing suppliers with the strongest environmental or social profiles, which we would see as a more sustainable practice.

**Raylo's partnership with Ingram Micro mitigates data privacy and cybersecurity risks associated with devices that are returned for refurbishment or recycling.** Ingram Micro has a global data protection and privacy program focused on properly processing personal data. Its information security program was designed using the National Institute of Standards and Technology Cybersecurity Framework, and is audited by external, independent auditors through companywide ISO 27001 certification. Since 2019, Ingram Micro has had a third-party hotline to report data privacy concerns, and has not received substantiated complaints. Raylo also collects customers' personal and payment-related details as a part of its leasing transactions. To mitigate risks arising from failure to protect customers' data, Raylo has a data protection policy, which sets out its commitment to comply with the U.K. Data Protection Act and the EU's GDPR.

# Alignment Assessment

This section provides an analysis of the framework's alignment with Green Bond and Loan principles.

## Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

### ✓ Use of proceeds

We assess the framework's green project category as green, and the issuer commits to allocating the net proceeds issued under the framework exclusively to the eligible green project category outlined in the framework. The issuer commits to disclosing the proportion of funds used for financing and refinancing in its annual reporting. Moreover, the framework makes reference to a maximum look-back period for refinanced eligible projects of three years, which we view as in line with standard practice. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds.

### ✓ Process for project evaluation and selection

Raylo has established an ESG Committee, comprising the company's CEO, chief risk officer, and risk strategy manager. The committee is responsible for the selection and approval of proposed eligible assets to be included in the eligible portfolio, in line with the eligibility criteria set out in the framework. Raylo notes that it is likely that all devices offered to customers under a lease agreement will be eligible assets. The committee is also responsible for preparing, verifying, and publishing annual allocation and impact reports. To manage perceived social and environmental risks, the issuer will ensure proceeds are in line with its sustainability policy, which addresses sustainable sourcing, data privacy, and affordability aspects, among others. Raylo states within its framework that it will not knowingly engage in activities that pose significant environmental or social risks, including fossil-fuel extraction and mining activities.

### ✓ Management of proceeds

Raylo commits to ensuring that proceeds of its green issuance will be credited to a dedicated account and tracked through its internal information systems and processes. Net proceeds from instruments awaiting allocation will be held in cash or short-term liquid investments. Full allocation of proceeds for each debt instrument is expected within maximum 18 months after the issuance.

## ✔ Reporting

Raylo commits to reporting annually on the allocation of the net proceeds of eligible green assets in its annual allocation and impact report, until full allocation. This report will include a brief description of the green projects, as well as the total amount and breakdown of proceeds allocated to each eligible green asset category. Regarding impact reporting, Raylo commits to providing, annually, the expected impact of projects and, where possible, the actual impact. We view positively that Raylo aims to align its reporting with ICMA's Harmonized Framework for Impact Reporting, on a best-effort basis and subject to availability of information. The framework includes a list of indicative impact metrics for each category, which includes, for instance, avoided emissions of reused devices (in kilograms of carbon dioxide equivalent), the percentage of leaseable assets in the second or third degree of ownership, and the percentage of electronic waste recycled.

# Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Raylo will use the proceeds to purchase the receivables in relation to lease agreements, ultimately financing the devices leased. All of the proceeds under the green financing framework will be used by a fully owned subsidiary of Raylo to purchase lease agreements from the parent company Raylo Group Ltd., the originator of the lease agreements.

**Light green**

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

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### Overall Shades of Green assessment

Based on the project category detailed below, and consideration of environmental ambitions reflected in Raylo's green financing framework, we assess the framework as Light green.

## Green project categories

**Eco-efficient and/or circular economy-adapted products, production technologies, and processes**

| Assessment | Description |
|---|---|
| Light green | - Purchasing of receivables in relation to lease agreements originated by Raylo, the parent and originating entity. These lease agreements will encompass electronic devices that may be in the following conditions:<br>o New, or<br>o Refurbished<br>- Purchase, refurbishment, and packaging of electronics to be utilized in a lease-and-reuse model.<br>- Processing of device components suited for material recovery, such as critical raw materials.<br>- Harvesting reusable components |

**Analytical considerations**

- The bulk of greenhouse gas emissions and environmental impact of electronic devices, such as smartphones, lie in the energy-intensive manufacturing of such devices and the extraction of raw materials needed for some of their components, such as cobalt for batteries. Extending devices' useful lives and maximizing their utilization therefore contribute to meeting consumer demand in a more energy and resource efficient manner.
- Raylo's lease-and-reuse business model enables the extension of the useful life of electronic devices and avoids the need to produce more electronic devices, assuming demand remains the same. However, we also note the risk that device leases' lower monthly payments compared to traditional financing will result in an increase in demand for electronic devices. Therefore, we view this project category as Light green, while acknowledging it includes Medium green elements, including activities linked to the harvesting of reusable components.
- According to Raylo, over the past year, approximately 60% of devices leased were new, and 40% were refurbished. This proportion is likely to evolve as Raylo's refurbished portfolio increases, considering the relatively nascent phase of its business. The devices leased include smartphones (70% of devices), consoles (13%), tablets (6%), and laptops (5%). Ownership of the devices remains with Raylo throughout the leasing contract, which we view as positively because it ensures that devices remain in the circular model envisioned by Raylo. Moreover, Raylo encourages customers to keep their devices for longer by offering long lease terms of up to three years. Additionally, customers are encouraged to upgrade less frequently because the monthly price for long lease terms are lower than for shorter terms.
- We understand from Raylo that smartphone users usually upgrade to a new model every 2.67 years on average, while the useful life of a device is estimated at seven years. These figures are based on forecasts conducted by Raylo of the residual value of used devices, by sourcing market prices for used devices from multiple retailers. Therefore, Raylo estimates that its lease-and-reuse model can reduce greenhouse gas emissions by 56% when compared to a traditional linear model, assuming the same consumer behavior over the long term. The estimated emissions savings calculated by Raylo were developed in accordance with the guidance and requirements of ISO 14010 and ISO 14044. However, the company's calculations on avoided emissions from its services have not been verified by a third party, and are not based on data originating from its devices but rather on assumptions using data from external sources. Raylo's estimates rely on data originating from Apple's Environmental Reports, which has been verified. The company has has stated that it will develop in-house tools that will enable it to improve the analysis of the devices in its portfolio, including better tracking of the devices' age and life, as well as their carbon footprint. The company also plans to work with its reverse logistics partner to gather data on what happens to its devices at their end of life.
- Raylo has shared that 50% of its iPhone portfolio constitutes devices that were launched over 3.5 years ago, and that approximately 80% of these devices are on 24- or 36-month lease terms, indicating that the devices would be mainly more than five years old once returned to Raylo. This data is only applicable to iPhones and depends on other assumptions, such as that customers will not choose to upgrade their devices before the end of the lease. Nevertheless, it indicates that Raylo's business model enables the extension of the useful life of its electronic devices.
- The possibility of customers purchasing leased devices implies that some devices will drop out of the circularity loop. We note that the option of purchase is not part of lease contracts and currently only 8%-9% of customers choose to purchase the device at the end of the lease, which is a relatively low figure. There is also a risk that devices are stolen or lost, thereby also leaving the circularity loop. According to Raylo, a small number of devices have been stolen or lost.
- We view as positive that Ingram Micro's operations are certified according to several environmental and management standards, including ISO 14001 and the e-Stewards Certification. The latter is an electronic-waste specific certification, that among other aspects, ensures data on devices is securely destroyed and that devices are either refurbished or recycled according to local and international laws. Ingram Micro has also committed to achieving companywide net-zero greenhouse gas emissions by setting SBTi-validated targets by 2024. Ingram's current initiatives to reduce its emissions footprint include efforts to increase energy efficiency, such as through energy-efficient fixtures and sensors, or increasing use of renewable energy, which includes use of onsite renewable sources, through the installation of solar panels, where feasible.
- Raylo's services extend the lifetime of products that not only generate significant carbon emissions, but also depend on finite resources and minerals, some of which are sourced through mining. Therefore, extending the useful life of devices, together with processing device components suited for material recovery and harvesting reusable components, can reduce the negative environmental impacts associated with the sourcing of these resources, including pollution and harm to biodiversity.
- We view as favorable that Raylo has partnered with DPD for the delivery of its devices. In the U.K., DPD has a delivery fleet consisting of 33% electric vehicles. According to Raylo, this represents more electric vehicles in a fleet than for any other delivery provider in the country. We view as positive that Raylo aims to use minimal packaging, all of which is made from 100%

recycled materials. The company works with Packhelp to develop packaging that is also 21% lighter than comparable alternatives, which also decreases transport emissions.

- Raylo's supplier due-diligence process aims to mitigate environmental and social risks by assessing suppliers' environmental and social practices through a questionnaire, which is part of the supplier selection process. The devices leased, such as phones, are manufactured using energy-intensive processes, which we do not view as sustainable. The manufacturing of devices also presents social risks, in particular linked to the sourcing of materials used in batteries, such as cobalt. Nonetheless, we view as positive that Raylo's business model seeks to reduce the need for new devices, which would minimize the social and environmental impacts linked to device manufacturing.
- Ingram Micro's Supplier Code of Conduct outlines its commitment to uphold the human rights of workers and addresses social aspects, such as working hours, health, and safety. The code also establishes that suppliers must adopt or establish a management system in line with the requirements of the code, including for instance, grievance mechanisms. In our view, such policies and requirements support the mitigation of social risks within Raylo's value chain, for instance, in case a component needs to be replaced during repair or refurbishment.
- Raylo states that it works with its partners to better understand the impact on its operations from physical climate risk, for example by improving supplier due-diligence to incorporate physical climate risk considerations.

## S&P Global Ratings' Shades of Green

| Assessments | Dark green | Medium green | Light green | Yellow | Orange | Red |
|---|---|---|---|---|---|---|
| Description | Activities that correspond to the long-term vision of an LCCR future. | Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions. | Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions. | Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures. | Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets. | Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets. |
| Example projects | Solar power plants | Energy efficient buildings | Hybrid road vehicles | Health care services | Conventional steel production | New oil exploration |

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

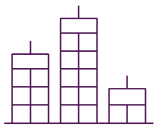
# Mapping To The U.N.'s Sustainable Development Goals

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

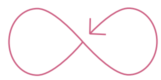
This framework intends to contribute to the following SDGs:

**Use of proceeds**

Eco-efficient and/or circular economy adapted products, production technologies, and processes



**11. Sustainable cities and communities***



**12. Responsible consumption and production***

**13. Climate action**

*The eligible project categories link to these SDGs in the ICMA mapping.

# Related Research

- Analytical Approach: Second Party Opinions: Use Of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Maps, July 27, 2023

# Analytical Contacts


Primary contact

**Rita Ferreira**
Madrid
+34 914233216
rita.ferreira
@spglobal.com

Secondary contacts

**Pierre-Brice Hellsing**
Stockholm
+ 46 84405906
pierre-brice.hellsing
@spglobal.com

**Carina Waag**
Oslo
+47 941 55478
Carina.waag
@spglobal.com

Research contributor

**Tanmay Kumbharkar**
Mumbai