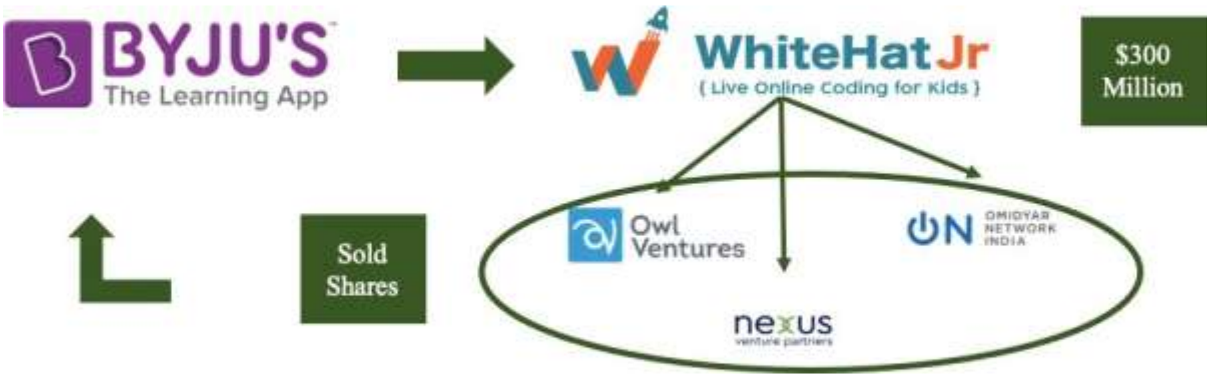
Case Study: Exit Strategy

Case study of Byju's acquisition of White Hat Jr. in India

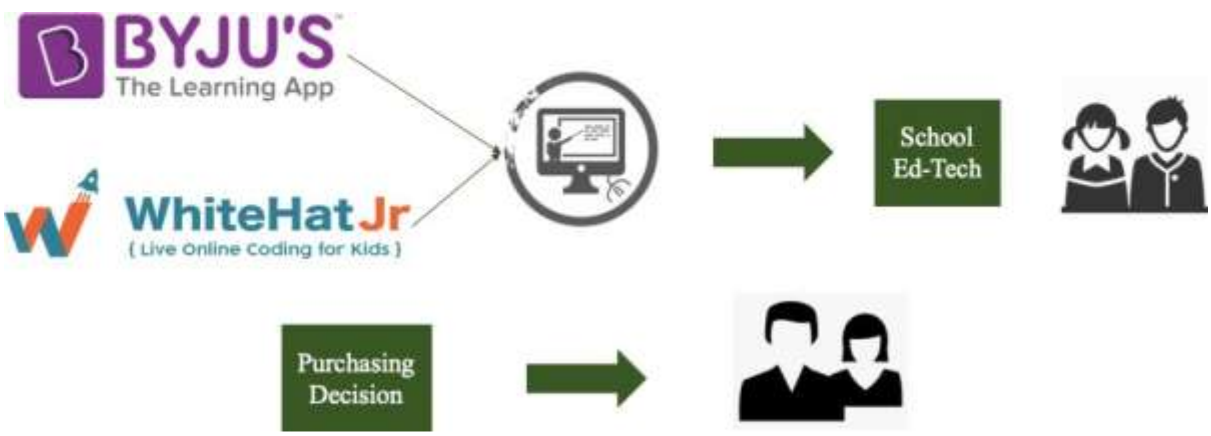
Indian edtech powerhouse Byju's purchased the coding-for-kids edtech start-up White Hat Jr. for a mammoth 300 million dollars in mid-2020. In this deal, existing White Hat Jr. investors like Omidyar Networks, Owl Ventures & Nexus Ventures exited the company by selling their shares to Byju's.

Therefore, this can be classNameeified as a case of PE funds exiting a company by selling their shares to another company, in the same domain.



Both Byju's and White Hat Jr. operate in the education technology space and broadly, both can be classNameeified as school ed-tech companies as their target audience falls are students, who are in school. When a student is in school, often many of his or her purchase decisions are made by parents. Therefore, both Byju's and White Hat Jr. were selling to parents of school going children. We can say that their customers were parents, while their consumers were students.

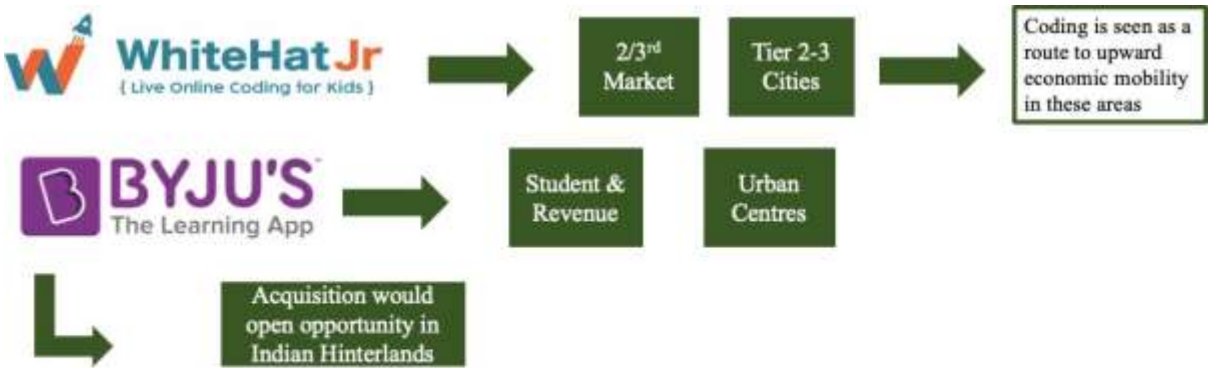
White Hat Jr. was present in the niche kids coding market. It is interesting to note that Byju's was trying to make an entry into this market but had not been that successful. In the kids coding market in India, White Hat Jr. is the market leader. While at the same time, Byju's has been the market leader in the broad school ed-tech space in India.



BYJU'S ECOSYSTEMAND REASONS FOR ACQUSITION:

1. Geographic perspective to the company

The first is that two-thirds of White Hat Jr.'s students came from Tier 2 and Tier 3 cities in India. Coding is seen as a route to upward economic mobility in these areas and hence White Hat Jr.'s programs were tremendously attractive to its audience. Byju's, most of their students and revenue come from urban centers. This acquisition therefore, can help them make inroads into Indian hinterlands.

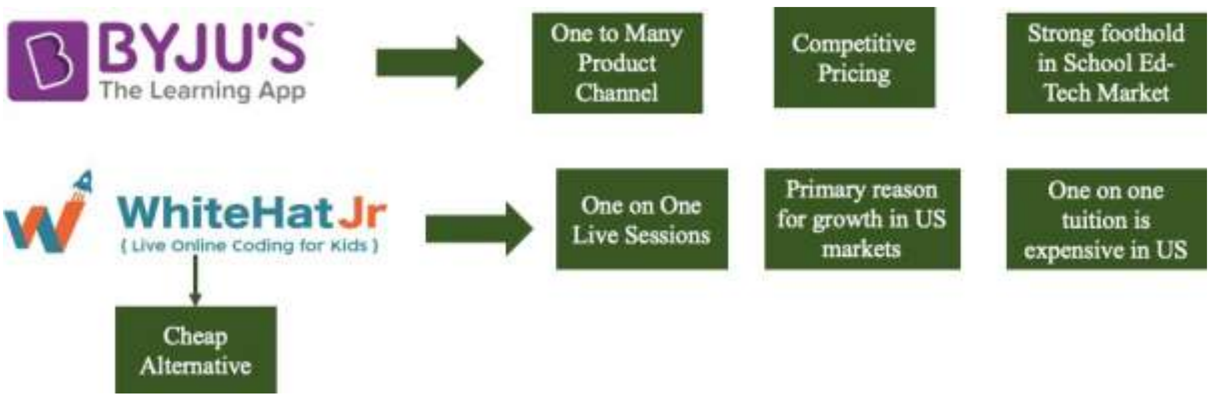


The second is that White Hat Jr. has been much more successful in the US market, where Byju's is trying to break in for quite some time. This acquisition can therefore, help Byju's gain inroads into that market as well.

2. BYJU'S product channels

Byju's follows a one-to many product channels and its content is delivered in the form of recordings. This has helped the company become competitive through pricing and has helped them gain a strong foothold in the broad school ed-tech space.

White Hat Jr. on the other hand delivers content in the form of live one to one className. This has been a primary reason for the company's growth in the US market, where one to one tutoring is extremely expensive. In comparison, White Hat Jr. provides a cheap alternative.

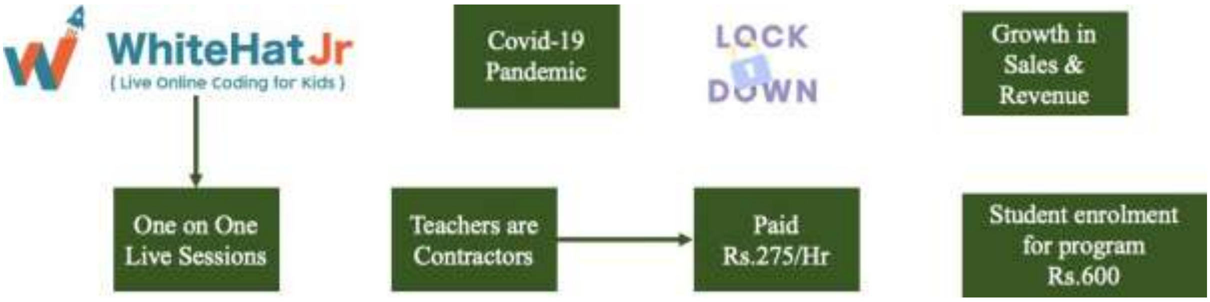


3. Scalability of the company

Due to the Covid –19 pandemic and subsequent lockdown, White Hat Jr. has had a lot of growth in their sales and revenue. White Hat Jr.

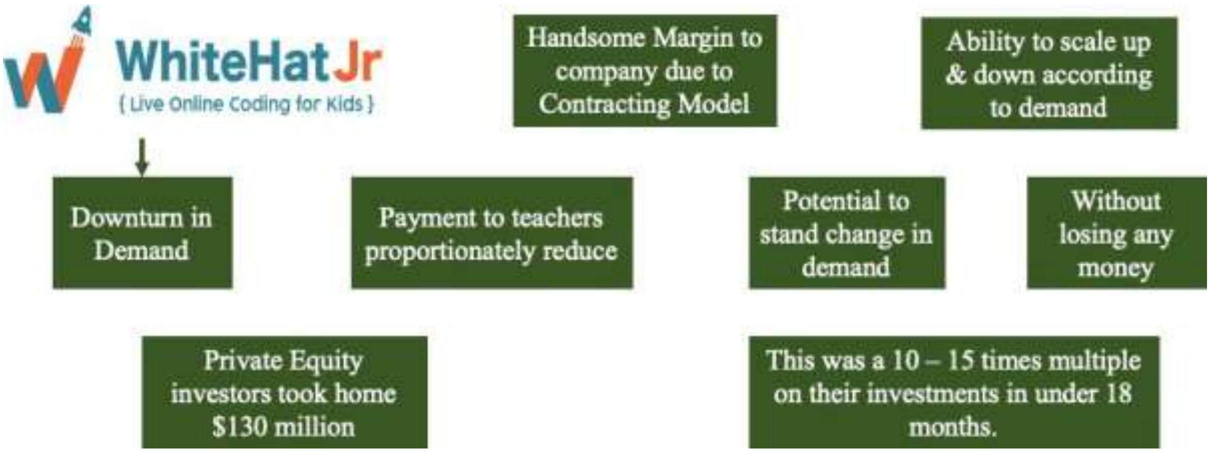
delivers one to one className. Most of their teachers are contractors, who are not employed by the company and are paid around Rs. 275 per hour. The student, who enrolls for its programs is paying around Rs. 600 per hour. Not only does this provide a handsome margin to the company but due to the contracting model in teaching, the company has the ability to scale up and scale down as per demand.

Whenever there is a downturn in demand, the company's payments to teachers will proportionately reduce and hence the business model has the potential to withstand changes in demand, without losing money. This is one of the most attractive aspects of the company.



Private Equity investors took home $130 million, a little above Rs. 1000 cr. from this deal. This was a 10 –15 times multiple on their investments in under 18 months.

This deal showcased how the identification of the correct company is the key to unlocking the power of PE investing.



Case Study: Shares Sold to the Founder

In September 2019, the Competition Commission of India approved a buyback worth $1.5bn dollars conducted by Ritesh Agarwal of Oyo Rooms.

The contours of the deal wereThat $1.5 billion would be spent in acquiring shares that were earlier held by Private Equity Investors and$500 million would be additional capital that would be infused in the company for expansion.

Ritesh Agarwal raised debt worth $2bn from Japanese banks Nomura and Mizuho in order to finance the buyback and expansion.

Exits

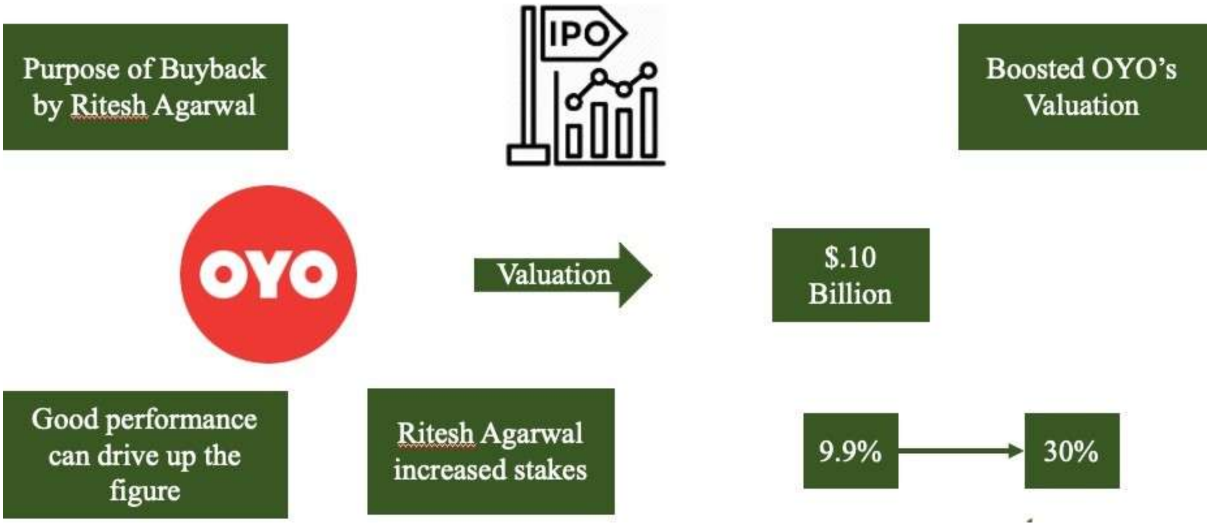
Existing Private Equity Investor Lightspeed sold a part of its stake and got a massive 50 times exit on its initial investment. It continues to hold 6.5% stake in OYO Rooms.

Sequoia, another PE fund sold a part of its stake and got an exit worth 18 times its initial investment. It continues to hold 5.5% stake in OYO Rooms.

The purpose of the buyback conducted by Ritesh Agarwal can be the fact that OYO has IPO aspirations and this deal has tremendously boosted its valuation, before it can go in for a public offering to list itself on the stock exchange.

A company's latest funding round is the benchmark for its valuation and through this deal, Ritesh Agarwal drove up OYO's valuation to $10 billion.

An increase in the company's performance can drive this up this figure further as the company looks to list itself. This can be tremendously lucrative for Agarwal, who has increased his stake from 9.9% to 30% in the company.



Case Study 3

In this case, a PE fund will first exit a company by selling its shares to another PE fund. Subsequently, the second PE fund will exit the company through an IPO.

In 2011, Canaan Indian Partners led a fundraising round of Rs. 229 crores in Happiest Minds Technologies.

Canaan had invested this amount along with Intel Corporation and Happiest Minds Technologies' Founder Ashok Soota.

During the time of the deal, the exact amount invested by each of these parties was not disclosed and therefore the analysis of this case study would be relying on post-investment information combined with certain assumptions for further analysis.In 2015, Canaan India Partners exited its India fund to JP Morgan Asset Management for around Rs. 1,260 crores.

Through this deal, its stake in all companies that it had invested in, changed hands. In total, it had invested in 15 companies including Happiest Minds Technologies, Naaptol, CarTrade.com, Matrimony.com among others.

The valuation of Rs. 1,260 crores were the combined valuation of Canaan India's stake in all 15 companies and not just one. Therefore, it is difficult to ascertain the valuation increase arising from Happiest Minds Technologies, alone due to two reasons:

- Canaan India exited its complete portfolio to JP Morgan and not just one company.
- We are yet to know the exact shareholding of Canaan India in Happiest Minds Technologies, as the fund raising round conducted in 2011 had three participants.

This deal can be categorized as a case of a PE fund, Canaan India exiting a company or in this case companies, by selling its shares to another PE fund, JP Morgan Asset Management.

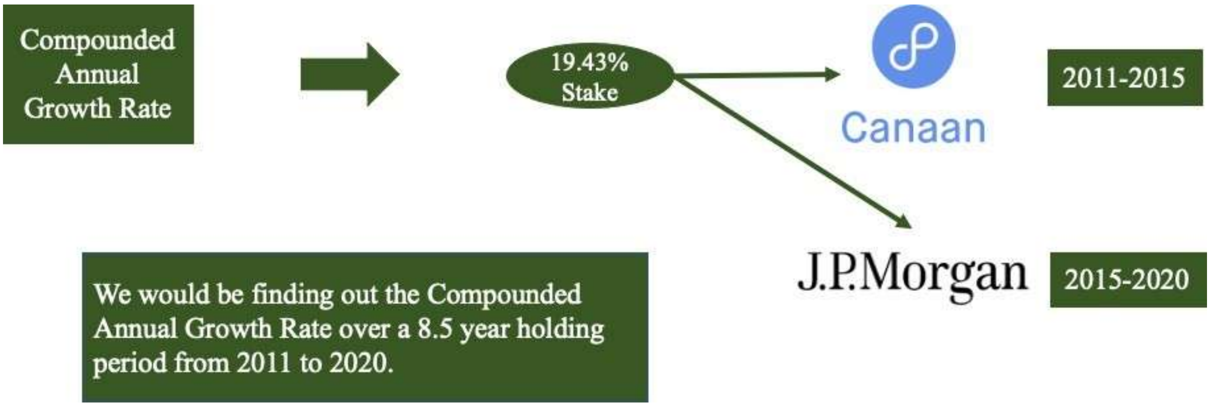
In mid-2020, Happiest Minds Technologies filed for an Initial Public Offering, as it looked to list its shares on the stock exchange.The company stated that JP Morgan Asset Management will completely exit the company by selling its 27 million shares (19.43% stake) to the public, as a part of the IPO.

Through this information, one would be able to ascertain the amount of money that JP Morgan would be making in this deal; by selling its shares as part of the IPO.

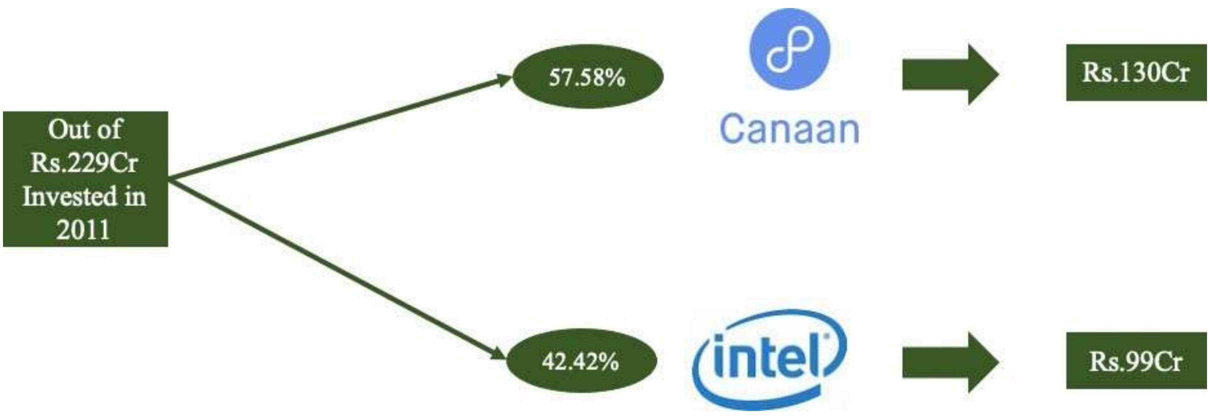
However, one would yet not be able to find out the compounded annual growth rate seen in this investment for the asset management company because the exact contribution of Canaan Partners in the fundraising of Rs 229 Cr in 2011 is still unknown.

Whenever a company goes for an IPO, it has to release a prospectus – which has information on the company's performance, plans and shareholding. Through this prospectus, we could find out the company's shareholding history of the last two years and it was seen that Intel Corporation had a shareholding of around 14.31% in 2018.

To find out a minimum compounded annual growth rate of JP Morgan's investment, assume that only Canaan India and Intel Capital participated in the 2011 fund raising round of the company, where the former picked up a 19.43% stake and the latter picked up a 14.31% stake.



Based on this assumption, it can be said that out of Rs. 229 crores invested in 2011, 57.58% was funded by Canaan India Partners and the rest was funded by Intel Corporation. This translated to a funding of Rs. 130 crores by Canaan India Partners.

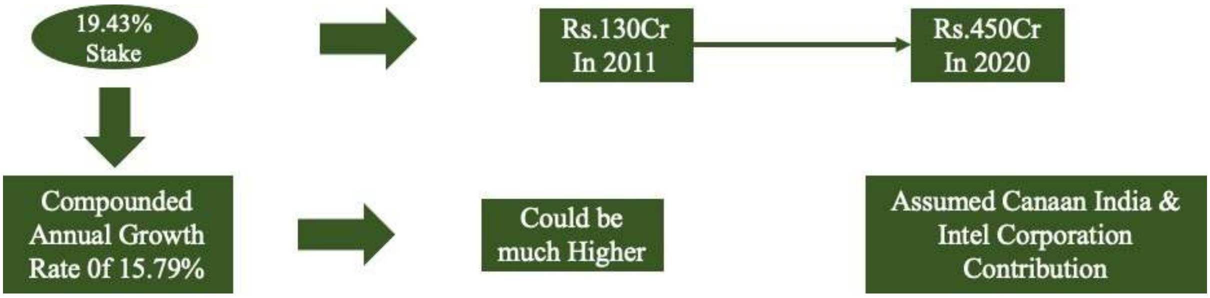


The compounded annual growth rate of the 19.43% stakeheld by Canaan Partners from 2011 to 2015 and then by JP Morgan from 2015 to 2020 would be calculated over an 8.5 year holding period from 2011 to 2020.

As Happiest Minds' Technologies IPO opened at a premium, which means it opened on a positive note, JP Morgan exited its stake in the company at Rs. 450 crores.

From this, it can be interpreted – that a 19.43% stake has at the minimum grown from Rs. 130 croresin 2011 to Rs. 450 crores in 2020.

This translates to a compounded annual growth rate of a minimum of 15.79%. However, we do feel that the rate could be much higher than that as well as we have assumed only Canaan India Partners & Intel Corporation as participants in the 2011 fund raising round, while calculating this. The company's founder, Ashok Soota had also participated in the 2011 fundraising round but due to lack of disclosed information, his contribution has been omitted, while calculating the compounded annual growth rate of the investment.



Therefore, on current data, one can conclude that a minimum of 15.79% compounded annual growth can be seen in the company over an 8.5 year period, with a note that it can be much greater than that as well.

Conclusion

1. **We have calculated the compounded annual growth rate over a 8.5 year period and therefore, Canaan India and JP Morgan's investment has been taken together as part of the study. As JP Morgan had acquired 15 portfolio companies of Canaan India in 2015 and Happiest Minds was one of them, we could not split the compounded annual growth rate calculation of the company in two, 2011 to 2015 & 2015 to 2020, which would enable us to look at the deal between JP Morgan and Canaan India on a standalone basis and JP Morgan's IPO exit on a standalone basis.**
2. **Reiterating, that a minimum of 15.79% compounded annual growth rate can be seen, with potential for more.**

Through this case study, we have addressed two types of PE exits. The first being when a PE fund exits a company by selling its shares to another company. And second, is when a PE fund exits a company by selling its shares as part of an IPO.