

INVESTMENT BANKING EXPERIENCE PROGRAM - PROJECT - 4:

For the purpose of a case study-based project, I have chosen the PE funds Lightspeed Ventures and Sequoia Capital both invested in the Indian Hospitality based startup OYO Rooms back in 2014. Out of Various Lucrative options available with PE Fund to exit its major chunk of shares in OYO, the Mentioned PE Funds selected to exit through selling the shares to the founder of the OYO Ritesh Agarwal. Lightspeed and Sequoia Capital are examples of a PE fund exiting its stake via selling the shares to the company's founder, which we will rarely see in the present startup ecosystem.

Competition Commission of India in September 2019 has Approved a buyback worth \$1.5 Billion Conducted by the Founder of OYO Rooms Ritesh Agarwal. He also infused an extra \$500 Million into the company in order to fund its expansion. Generally, it's difficult for founders to produce this kind of liquidity in order to finance such a buyback. Ritesh Agarwal raised Debt worth \$2 Billion from Japanese banks NOMURA and MIZUHO in order to finance the buyback and expansion.

Lightspeed Ventures had invested a total of \$28 Million in OYO, backing the startup first in early 2014. Sequoia Capital had also invested a sum of \$25 Million in OYO in the startup stage in early 2014. Sequoia Capital held a 10.24% stake in Oyo, while Lightspeed had a 13.4% stake. Both PE Funds partially exited their stake in OYO with huge positive returns. Lightspeed Venture partners sold part of its stake and got a massive 50 times on initial investment as an exit in this deal. Similarly, Sequoia Capital also sold part of its stake to Ritesh Agarwal and got 18 times its initial investment as part of its exit. Therefore, this deal can be characterized as immensely successful, where PE Funds have exited by selling the company's share to its Founder.

This successful journey of OYO is possible with its business model and its fast expansion worldwide. "It is a very exciting time for OYO right now as we make great living spaces come alive across all corners of the world from Texas to Tokyo," said Agarwal in a statement. This statement from Ritesh will in itself explains the market size of OYO. Oyo Hotels and Homes have seen a 4.4x year-on-year revenue growth, with 1 million rooms under management across hotels and homes. It has over 200,000 rooms in India. Oyo had said that it has emerged as the

world's third-largest hotel chain in terms of room count, with the US and Europe emerging as its strong growth drivers. It claims to have a balance sheet of about \$1.5 billion.

According to the reports, The market valuation of the Company at which PE Funds made Exit was \$9 Billion in FY 2019. This deal will take up Agarwal's stake in Oyo from nearly 10% to 30%. The company's valuation stands at \$10 billion after the deal. Sequoia Capital and Lightspeed Venture Partners will take home returns of over \$500 million each from the partial stake sale.

Through this immensely successful deal, Lightspeed venture partners earned an 81% CAGR return on capital invested, which is a supernormal return for a PE Fund. While Sequoia Capital also got a whopping return of 61% CAGR for capital invested. The Holding period That I have taken for calculating CAGR return is 6 years (i.e early 2014 to end of 2019). The reason for this spectacular exit is because Lightspeed and Sequoia invested very early, They often invest when a start-up is raising seed-stage funding. These types of investments come under the high-risk high-return category.

In the above deal, PE Funds had not exited their entire stake in the company. Considering the future prospects of the company PE funds may have not exited their complete stake in the company. The main purpose of this huge buyback offer by Ritesh can be the fact that OYO has IPO Aspirations and this deal has tremendously boosted the Company's valuation to \$10 Billion. So, By Knowing this maybe PE Funds had not exited their entire stake in the company. Even after the deal, Lightspeed Holds a 6.5% stake in OYO, and Sequoia Capital holds a 5.5% stake in OYO. The PE funds have the opportunity to exit through IPO when OYO Rooms gets listed on the stock exchange.