Investment Memo

Deal Summary

- **Company:** Evenflow Brands buys & builds e-commerce first brands that sell consumer products on e-commerce marketplaces
- **Category:** Tech-first e-commerce Brands |Pre-Series A| Post-revenue | Post-profitability
- **HQ:** Bangalore
- **Raising:** $1 mn in bridge round as part of Series A round at a pre-money valuation of $27 mn (₹250 Cr)
- **Investors:** Existing investors & Angels
- **Use of funds:** To expand operations and bring portfolio of homegrown brands to new global markets
- **Dataroom:** Pitch deck, MIS, Investor FAQs, etc:
- **Angellist Deal link (RUV):** https://bit.ly/AL-Deal-Link-EF
- **Founder Pitch (Youtube):** https://bit.ly/Pitch-EFB
- **Min commitment for Angels:** 3L
- **Carry:** None (0%)

A. Elephant in the room

Before we dive into Evenflow, let's first address the elephant in the room: Thrasio!

I know the house of brands is not the flavour of the season - and that's because Thrasio, the leader in the space in 2020 & 2021, & once flush with equity & debt capital, recently declared and emerged from bankruptcy. However, we forget to ask - why & how did they get there? Is it because it's a bad business model? Think!

Nope. It's a classic PE / rollup / LBO (leveraged buyout), and it's an evergreen model. People have rolled up content websites, dental clinics, manufacturing units and literally everything else they can find commonality in over the last few decades. It's the fastest way to grow - to acquire. Then what went wrong?

It went belly up and most others in the space, because of over leveraging a.k.a. debt. There was an acquisition frenzy, FOMO that's quite often seen in the VC world as well, to acquire businesses. Thrasio acquired way too many businesses at inflated multiples of COVID TTM (trailing twelve months) revenue. And for this, Thrasio and other players levered up to 1 is to 15 when ecommerce had Covid tailwinds, and then failed to grow the acquired businesses aggressively to justify the acquisition price. Couple that with over-hiring, expansion to Europe, acquisition of Lifelong in India and you see how they bit off more than they could chew.

High growth startups are often referred to as rocket ships, but we often neglect the dangers of a rocketship - it can burst into flames any moment. Don't believe me? Ask Elon Musk :)

Got it, but how is Evenflow different?

- *Zero debt.*
- *We didn't partake in the acquisition frenzy.*
- *Lean skeleton team of 35 FTEs*
- *Only EBITDA profitable player in this space globally.*

B. What is the company building?

Evenflow buys & builds e-commerce first brands that sell consumer products on e-commerce marketplaces. We optimizes the brands from managing inventory, performance marketing, on platform merchandising, cataloguing and even new product development. Currently, we are building 7 brands mainly spread across sports & fitness and home & kitchen namely — Xtrim, Yogarise, Rusabl, BabyPro, Trendy Homes, Cinagro, and Frenchware.

- Distribution spans across **Marketplace & Aggregators** such as Amazon India, Flipkart, Myntra, CRED, Quick Commerce, Amazon US, Walmart US; and we are soon going live on Amazon UAE and Saudi Arabia.
- Along with this, we also do **White Labelling** for Myntra's Private Label brands — HRX & Roadster, and for Amazon Basics in India. We do this to massify our backend operations - sourcing & supply chain and to overall bring down the COGS for products under our brands.
- We also intend to strengthen our **D2C channels** in 2025 — not focussed on this today as performance marketing on your own D2C websites is exorbitantly expensive.
- Lastly, we will go offline through **Modern Trade**, and post the closure of this fundraise, we plan to start building that team.

Our thesis continues to be the same - the next generation of consumer brands will be created digital first because of the following reasons:

- **Speed of iteration & launching new product lines**, rather than the old archaic methodology of FMCG companies to R&D for 2+ yrs to launch.
- **Access to nationwide & global distribution** from day 1 on the back of marketplace logistics. This was previously a moat for FMCG companies as they had a distribution network built over decades that was hard to compete with for an upstart brand.
- **Data, analytics & identifying whitespaces**: We know what the consumer wants at what price point, to work backwards from the consumer.
- **Long tail of consumer brands:** it's almost impossible to build a legacy brand today that continues to live on top of people's minds for 50-100 years. It's a function of our attention span and democratisation of the ability to launch a consumer brand. Never before, it has been easier to build multiple $10m brands, and almost an herculean task to build a long-term profitable $1b brand.

C. Team

- Utsav Agarwal - CEO & Co-founder
- Shashank Ranjan - Co-founder - Sourcing & Supply Chain
- Mahesh Babu - Director, Performance Marketing
- Priyesh Singh - Head of Sourcing & SCM
- Prashant Agarwal - Sr. Director Business
- Aparajitha Viajayaraghavan - Sr. Director Business

E. Key Traction Points

- Acquired 8 brands across categories - Baby Care (BabyPro), Home & Kitchen (Rusabl & Frenchware), Sports & Fitness (Xtrim, Vifitkit & Yogarise), Lawn & Garden (Cinagro) and Cushions & Pillows (Trendy Home)
- Acquired GMV was $213k per month, scaled it to $682k per month & growing (over 3x since acquisition)
- Extremely strong in-house capabilities for sourcing & backend ops (evident through the business with Amazon Basic & Myntra's Private Labels), on-platform perf marketing, cataloguing and most importantly business through brand owners / category managers.
- Presence in the US - on Amazon & Walmart.

F. Financials

Particulars (in lacs)	Apr-2024	May-2024	Jun-2024	Jul-2024	Aug-2024	Sep-2024
Gross Sales (GMV)	₹544.5	₹555.8	₹538.2	₹580.2	₹573.7	₹560.8
Net sales	₹437.4	₹433.1	₹419.8	₹445.5	₹442.6	₹430.6
Gross Margin	₹284.6	₹278.9	₹270.9	₹287.3	₹284.4	₹279.8
Gross Margin %	65.1%	64.4%	64.5%	64.5%	64.3%	65.0%
CM2 Margin	₹52.5	₹50.8	₹55.0	₹54.7	₹51.2	₹53.4
PBT	₹15.1	₹12.6	₹14.9	₹13.6	₹8.3	₹9.6

The detailed financials can be accessed from the MIS in the data room.

Our vision is to reach $120 million ARR with an 8% PAT by March 2027, and to take the company public thereafter through a mainboard IPO on the Indian Stock Exchanges. At that scale and profitability, we can expect a multiple of 3-4x on topline, which will value us between $360 - $500 mn.

G. How big is the opportunity?

It's hard to put a number to this market opportunity - however here are a few key stats:

- India's D2C market to be worth $100 bn by 2025.
- India's e-commerce market is expected to reach $200 bn by 2026 and $300 bn by 2030.
- Macro-economic factors making it the best time to build businesses from India, for the world. It's not India's decade, it's India's century.

The above stats are only for India, while we are building a business from here, for multiple geographies.

H. Our Unfair advantages / Moat

- **Profitability**: When everyone else is bleeding and drowning in debt, being profitable is a massive advantage.
- **Sourcing & backend operations:** We arguably have the best sourcing in the country, working with some of the biggest manufacturers like Supreme Industries, Creative Garments, TVS and many others.
- **Massive market:** Not a winner takes all / Duopoly / Tripoly business model like in ride sharing or food delivery. If we continue to execute well, what competition does is irrelevant.
- **Grit & Perseverance:** Many have already folded, few others will fold soon, however we will succeed, for our investors, vendor partners and team. That grit & perseverance is a competitive advantage in itself.

I. Details of previous fundraising rounds

- **Pre-Series A, April 2022:** $4m @ $28m post, led by Village Global & Venture Catalyst and 9Unicorns, Shiprocket, TopShelf Equity, Angelbay, Seeders, Kunal Shah, Vijay Shekhar Sharma, Emil Michael (ex-CBO @ Uber), MyAsiaVC, Moving Capital, Nimesh Kampani, Sony Joy (ex-VP TrueCaller, invested in Utsav's previous startup), Abhishek Nag (ex-BD @ Netflix, Partner @ Lightspeed), Anand Chandrasekaran (Partner @ General Catalyst), Srinath Rajam (Director, TVS Mobility)

- **Seed round, April 2021:** $900k @ $9M post led by 9Unicorns and participation from Equanimity, Huddle, Kunal Shah, Gaurav Munjal (founder @ Unacademy)

J. Investor FAQs

Q - Why Evenflow? Why now?

A - Multiple reasons:
- Ecommerce at 7-8% penetration in India, pegged to grow to 12-14% by 2030.
- Increasing GDP per capita - more discretionary spending with rising consumerism. Seen with quick commerce uptick.
- China+1 sourcing strategy - 95%+ of our sourcing is from India, & something we are extremely strong at.
- Opportunity to build everyday brands across categories (in which brands have negligible play)

Q - What are the exit options for the investors?

A - IPO in early 2028, or acquisition before that.

Q - How much are you going to raise after this round?

A - We are putting together a round of 40 Crs. Post this round, we will not need to raise more capital to go public by early 2028 at approx 1000 Crs annual revenue at 7-8% PAT.

Q - How to understand this space better. Any good resources?

A - Please checkout Unicornomy's thesis on e-commerce rollup businesses. Also, a few other resources are available in the data room.

Q - How do you focus on building 7 brands? Isn't it counterintuitive - are there synergies among them?

A - We operate the business as 2 parts - business / sales and a centralised team supporting them. Business team is broken by focus channels, 6 of them:

1. Amazon India,
2. Flipkart + Myntra + JioMart + CRED,
3. Quick commerce
4. International (currently on Amazon US, Walmart US and going live in Amazon UAE + Saudi Arabia)
5. Offline (Modern trade + Corporate gifting + Army canteens)
6. White labelling (Amazon Basics, HRX, Roadster, etc)

We have already put together 1, 3 & 6 - and are going to set up the rest of BUs in the next 9-12 months.

Rest of the team is centralised, in service to the above business units - sourcing, supply chain & warehousing, logistics, perf marketing, finance, catalogue & content, and customer support.

Q - Are you going to acquire more brands?

A - No - we are focussed on growing & scaling current brands - and will stay focussed on these.

Q - Thrasio failed, and this model hasn't worked globally. What makes you different?

A - Thrasio went belly up and most others in the space, because of over leveraging aka debt. There was an acquisition frenzy, FOMO that's quite often seen in the VC world as well, to acquire businesses. Thrasio acquired way too many businesses at inflated multiples of COVID TTM (trailing twelve months) revenue. And for this, Thrasio and other players levered up to 1 is to 15 when ecommerce had Covid tailwinds, and then failed to grow the acquired businesses aggressively to justify the acquisition price.

Couple that with over-hiring, expansion to Europe, acquisition of Lifelong in India and you see how they bit off more than they could chew.

We stayed away from debt from day 0, and have run things extremely frugally to be alive today. Now it's time for us to thrive.

Q - What is the visibility/current status of Series A - any term sheet received? The existing investor names are mostly Angel investor/VC only - no big name per se - will they be able to write big cheques in series A/B?. Generally bridge rounds are done to meet liquidity challenges - does this hold true in this case too?

A - For Series A - we've a Term Sheet from 100Unicorns / Venture Catalyst to lead with 10 Crs. And we are doing this round to grow, to get closer to 10 Crs monthly topline (vs ~6 cr now) - which helps with closure for 40 Crs round.

Q - The sales seems to have struck at the same level from last 2/3 quarters - have actually declined a minor bit of late - any challenges on this front?

A - We've been operating with a mindset to not overstock on inventory and be overly cautious - in placing order for inventory, ads on Amazon, FlipKart and other platforms and commitments on quick commerce. Hence flat growth. We are now moving into overdrive with i) Amazon ii) Quick commerce iii) White label business (Amazon Basics & Myntra) and expect to see double digit growth % MoM from Jan onwards.

Q -Generally bridge rounds are done to meet liquidity challenges - is this holds true in this case too?

A - At present, without the current raise, we can continue operating with flat growth - which isn't as exciting for any stakeholder - internal employees or external investors.

Since we are profitable for the past 11 months, we don't have a burn. Hence, the runway is infinite. As of Sept '24, Cash balance was approx 36 lacs. Receivables of approx 3.2 Crs; payables of 1.9 Crs, and inventory of 2.3 Crs at our warehouse.

Q - Evenflow have been at it for so long and have such a small revenue base. The collective revenue is smaller than Globalbees smallest brand. Is there a way to benchmark between EF & others?

A - Yes, the space has seen some traction in funding, including a few players below, but most are in significant debt and operating at a loss.

- **Well-funded:** Mensa, GlobalBees, and 10club
- **Bootstrapped:** Upscalio, and Powerhouse91

GlobalBees vs. Evenflow vs. Others

- **GlobalBees:** Raised $186 mn (debt + equity) to date, but their revenue is still hovering around $10-12 mn.
- **Evenflow:** Raised $5 mn and last reported revenue of $5.3 mn (47.4 Cr). They are now at a $7 mn+ ARR (~67 Cr).

Plus, Evenflow is the only profitable player globally. Please check their MIS in the dataroom. While their PAT % might not be impressive at this point, there is good potential for expansion.

If your questions aren't covered here, feel free to reach out to me at utsav@evenflowbrands.com.