

Finlatics Investment Banking Program Project – 2

- The proposal that interests me the most is a Caption Recommending application. Since I come from a Computer-background, I know the need of such applications is high in the modern-world as compared with other options.

- Stage:

The product is currently in the First Stage of Commercialization. The evidence is that, though the product is launched in the market and gaining traction, the product-market fit is yet to be determined.

Hence, at this stage the company can look to raise money from private equity investors in order to determine the right product-market fit for this product.

The SWOT matrix for the product is as follows:

<p><u>Strengths:</u></p> <ul style="list-style-type: none">• The product is ticking the right checkboxes as it is perfectly filling out the missing gap of time-consuming caption writing by suggesting new captions.• The product has become an instant hit and gaining a traction by getting downloaded 5,00,000 times since launch.	<p><u>Weaknesses:</u></p> <ul style="list-style-type: none">• The product needs a convincing explanation for investors for monetization.• If the product is currently under beta-testing, it might consist of few bugs which may disturb or tamper other mobile/web applications.
<p><u>Opportunities:</u></p> <ul style="list-style-type: none">• The product can be highly valuable and demanding to the investors provided they understand it's worth and potential.• If the product is the first in its segment, then it might become an overnight success as it will help reduce human efforts to a large extent.	<p><u>Threats:</u></p> <ul style="list-style-type: none">• The company has to create the patent of its product in order to prevent any copy by others.• If ever, any existing or new rival arises with a competitive product then there will be a threat to the existing product.

- Challenges:

- The main challenge to this product is Monetization.
- Since the product is in the first stage of commercialization, it can be a little difficult for this product to get Private Equity Funding as it is something out-of-the-box and new concept to the market.
- Unless the product gets monetized, the parent company may face difficulties in maintaining the product up-to-date as well as paying other costs such as Infrastructure Costs, People Costs, Marketing Costs, etc.
- One option to get the product monetized quickly is by approaching any sector-specific (in this case, an established Social Media Firm) for Private Equity Investment. Since the Firm specializes and familiar with similar technologies, it can identify the value and product-market fit of the product. It can also act as an advisory to improve and increase the market of the product.
- The other option is by uploading the product on any App Market say Google Play Store. In this way, the user can charge some amount for downloading the product. If the product becomes successful there also, then it might generate good revenues as well as attract some potential Private Equity/Venture Capital investors and firms.

- Similar Story:

- We all know about the popular Social Media App Snapchat.
- Snapchat was launched as "Picaboo" on the iOS operating system on July 8, 2011 by three of its founders, Reggie Brown, Evan Spiegel and Bobby Murphy.
- Reggie Brown brought the idea for a disappearing pictures application to Evan Spiegel because Spiegel had prior business experience. Brown and Spiegel then pulled in Bobby Murphy, who had experience coding. The three worked closely together for several months before launching the product.
- As of May 2012, 25 Snapchat images were being sent per second and, as of November 2012, users had shared over one billion photos on the Snapchat iOS app, with 20 million photos being shared per day.
- According to Snapchat's published statistics, as of May 2015, the app's users were sending 2 billion videos per day, reaching 6 billion by November. By 2016, Snapchat had hit 10 billion daily video views.
- In May 2016, Snapchat raised \$1.81 billion in equity offering, suggesting strong investor interest in the company.

- Snapchat finally filed for IPO in February 2017, with a strong progress in its earnings but slower user growth rate (Which did not hamper its overall Growth in any way).
- Source: <https://techcrunch.com/2017/02/02/snap-ipo/>

- Investment:

Convertible notes will be an easy and safer way for me as an investor to invest in the selected portfolio, especially if the company is in its early-stage.

Let us consider that I make Rs. 50 lakhs investment in the company for the time period of 2 years. As per the convertible note, the defined milestone for the company will be the number of times the app will be downloaded.

As a result, the equity conversion percentage will be determined by the number of users that a company can onboard.

Initial Investment	Milestone (Downloads in Millions)	Conversion Rate
50,00,000	1	50%
50,00,000	2	30%
50,00,000	4	10%
50,00,000	8	5%

From the above table, we can infer the following:

- The more the company manages to get downloads and users, the less will they have to dilute the shares.
- If the company manages to get 1 Million downloads then the it will have to dilute 50% of the equity which is very high.
- If the company manages to get 2 Million downloads then the it will have to dilute 30% of the equity.
- If the company manages to get 4 Million downloads then the it will have to dilute 10% of the equity.
- If the company manages to get 8 Million downloads then the it will have to dilute 5% of the equity which is very low and manageable.

Milestone 1:

If the product gets monetized, then it will have to find the correct product-market fit following which it should keep targets of number of users to be added. The company

should also increase the number of members as well as develop new teams to manage the product well.

Milestone 2:

Once the product gets into early growth stage, the company will have to accelerate its sales and marketing units in order to increase the Sales of the product and to achieve its specified targets.

Milestone 3:

After achieving the 2nd Milestone, the product should be able to maintain a constant rate of growth for its Sales. The customer lifetime value should exceed the cost of acquisition of customer. Here in this case, the sales and marketing cost as well as the average cost of app using cost per person should be recovered by the amount of average revenue the app generates per person.

Milestone 4:

Once the app achieves the targets, it should achieve its stability in the market i.e. it should try to overcome and minimize the effect of slightly declining shares if ever a new or existing rival brings out a similar app in the market. This would lead the app to be the segment leader in the market and the company can then explore new horizons or file for an IPO just like Snapchat.

- Cost Analysis:

For the Caption Recommendation Application, majority of its customer acquisition cost will be driven by Sales and Marketing factor. The examples include placing advertisements online like Websites and in offline modes like newspapers, public mass communication medias like Billboards, Radios, etc.

A small chunk of the cost will also go towards maintaining the app as well as for the salaries of Staff personnel.

$$\text{Customer Acquisition Cost} = \frac{(\text{Marketing and Sales expenses} + \text{Maintenance charges} + \text{Salaries} + \text{Other Miscellaneous Costs})}{\text{Frequency of downloads and users acquired in a given period}}$$

$$\text{Customer Lifetime Value} = \frac{\text{Average usage of the App by User X No. of downloads by user}}{\text{Time till which the User uses the app}}$$

Majority of the revenue generated by the app will be through fee per download as well as through other product advertisements.

- Conclusion:

The product has a very good market appeal (given its record of gaining traction) as well can become an instant hit generating high amounts of revenue. The parent company only needs proper guidance and advisory from a sector specific private equity firm. If it overcomes the problem of monetization, then it will surely be a success and leading the segment in the market.