Valuation of UNICORNS and AGGREGATORS

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As the digital economy progresses, the challenges faced by valuers in performing the valuation role grow super-geometrically. What was just about a double-digit figure of 10 UNICORNS in last 7 years from 2011 to 2017 has doubled this year. (source: Economic Times)

For a layman, Unicorn needs to be defined. It is the company which is valued at 1 billion dollar.

Here is the list of some Unicorns

1. PolicyBazar
2. Delhivery
3. Byju's
4. Billdesk
5. Pine Labs
6. Freshworks
7. BigBasket
8. OYO Rooms
9. Swiggy
10. Paytm mall

The above list takes us to an interesting conclusion. Practically all fall in the sector, newly coined as Aggregators.

The term Aggregator is defined as a person or thing that aggregates, Digital Technology, a web-based or installed application that aggregates related, frequently updated content from various Internet sources and consolidates it in one place for viewing: an automated news **aggregator.**

(source: https://www.dictionary.com/browse/aggregator)

Bringing together demand and supply, making buyer and seller meet, is not a novel concept for traditional Indian business, for example, matrimony gradually moved to websites, and Naukri.com had been quite traditional models of aggregators.

Players like Amazon, Flipkart, Snapdeal are though aggregators of everything, they are more of market place business models, while there are sectoral aggregators based on similar demand supply matching models, wherein products and services are sold under aggregator's brand and even they decide price. The aggregators specializing in various businesses are – This is B2C which we see in everyday advertisements :

1. Cab hiring aggregators – like OLA, Uber, Meru
2. Pharma Aggregators – Netmed, 1 mg, Pharmeasy
3. Food delivery aggregator – Swiggy, Zomato
4. Hotel rooms aggregators – Trivago, OYO
5. Film tickets aggregators – Bookmyshow

6. Holiday home aggregators like Stayvilla
7. Airline booking aggregators – Makemytrip, Cleartrip
8. Bus journeies - REDBUS

On the other hand, there are B2B like :

1. Transport aggregators - TruckMandi, Trucksumo and Sastabhada
2. Logistics - Trukky, Lobb and Blackbuck
3. On-demand transport - Quikhop, Rivigo, Trukky, Shiprocket, LetsTransport, ThePorter, Blackbuck, Truckola, 4TiGo and TruckMandi

A lot of opportunities are open for valuers in connection with Unicorns :

1. Business valuation for investment funds like Carlyle group, FosunInternational. Temasek, Warburg Pincus, Alibaba, Softbank, Tiger global
2. Most of these companies have issued or are in the process of issuing employee stock options – hence ESOP Valuation and allied work
3. Branding, data, algorithm valuation
4. Intangible assets valuations like customer and supplier relationships

Distinctive features of Unicorn valuations

1. The companies have hardly any investments in tangibles
2. The projections of matching models through softwares linkage
3. Hence, contracts with suppliers is the first step for such ventures
4. Offering unaffordable discounts or unique uneconomic service models prima facie appear to be unviable business models
5. However paradoxical it seems, many of these companies making huge losses have soaring market capitalisation. e.g. Facebook is one such aggregator for common man needs of thought sharing with network captured by advertising revenue

Why venture capitalists set hopes on this and hence attach values to it ?

1. **Enlarged market size :**

   Aggregation of customers will create a big mass of small customers is likely to lead to huge demand and economies of large scale. This of course requires huge investments in web apps, promotion expenditure and huge discounts and tie-up sales models– a big cost for creating customer relationships.

2. **Enlarged capacity utilization:**

   Aggregation of small suppliers leads to utilising their capacities to maximum extent. A classic example is that of food delivery aggregators. Swiggy and Zomato delivery boys are seen swarming the counters of modest hotels in Mumbai with news of doubling or even tripling of turnover. Remember Swiggy's advertisement of delivery of a single gulabjamun? Hotels usually insisted on minimum bill amount of Rs 300 to 500 for home delivery. Now a number of orders below Rs 100 (families becoming nuclear have reduced size of order) are delivered as aggregations of small customers still makes it viable.

   Similarly, taxis perhaps productively utilized 50% of their capacity but with Ola and Uber aggregating them they are plying full 12 hours and even double shift making asset very productive. This again involves huge time cost, contract signing costs, legal costs, promotional costs, for building delivery chain be it taxi drivers signing with OLA and providing them training and digital units, network servers and webapps or Swiggy creating huge manpower of delivery boys at field.

3. **Digital transactions:**

   Cutting transactions costs through digitization for matching demand and supply has become possible. This of course requires skilled manpower and huge investment of time and money in computerisation, linkages, customization for various promotion scheme and adjusting through localization be it for GST or other rules

From the above discussion it is clear that 19th century accounting standards and valuation standards are far from adequate for the 21st century assets as the proportion & significance of intangible assets is increasing fast in the asset composition of a business. A CNBC study states that the proportion of tangible assets was 13% with 8% intangible assets in 1998 vis a vis 9% tangible assets and 15% intangible assets in2014.

(***source :*** *https://www.cnbc.com/video/2016/03/29/how-to-value-intangible-assets.html*)

A Valuer may be required to concentrate mainly on valuation of intangible assets like :

1. Brand
2. Customer loyalty
3. Customer relationships
4. Customer databank
5. Supplier relationships
6. Patents
7. Trademarks
8. Technology assets like website, webapps, software like GPS etc

What is aggregator business model ?

Aggregator Business Model is a network model where the firm collects the information about a particular good/service providers, make the providers their partners, and sell their services under its own brand. Since the aggregator is a brand, it has to provide services which have a uniform quality and price (***Source***: *Feedough.com*)

What adds value to business model and hence preferred ?

Platforms (or marketplaces) have been around for close to 15 years now. In India, Brazil was the first such popular marketplace to enter the fray and was eventually bought out by e-Bay in the early 2000s. When a large number of platforms emerged, it became a bit difficult for the online shoppers to figure out where to get the best deals – given deep discounts being offered by different platforms for the same product. Enter aggregators. Life became simpler for the online shoppers since now they do not have to open multiple windows on their browsers and do a manual comparison. Even if you do that, you have not browsed all the websites selling the same product and you are left with a feeling that there may have been a better deal lurking somewhere, but you just don't know where to look. Aggregators solved that dilemma. (Source: Yostartups.com)

Further valuers job becomes complex when cross selling starts between aggregators, acquisitions or strategic partnerships. Swiggy and Ola have recently approached leading cloudkitchen firms including Faasos, Freshmenu and Holachef, which deliver dishes prepared in their own kitchens, to explore strategic partnerships or acquisitions to own or expand their capabilities in the space.

Other emerging model which is another challenge for valuers is aggregator of aggregators like Trivago. If you see the advertisement shows that they are clubbing all online platforms including OYO.

In above cases distributors model can be applied for valuations. Whereas on other hand, OYO is taking management of upcoming hotels, this creates another opportunity for valuer. (source: Economic times)

1. CAGR yes but here revenue growth is expected to be by leaps and bounds

2. Curve of profit and loss will be loss – loss – heavy loss – breakeven – profit - high profit and then phenomenal profits (or else bust)

3. Result centric organization of youngsters technical people (READ I.T. and SUPER-I.T.), so human assets valuation gets prominence. Now valuers need to bring out Lev and schartz model coupled with black-scholes option models

4. Light balance-sheets – ICICI Securities Arup Bagchi says "Light balance sheet with low debt level is preferred companies at this point of time," Whereas here lies a Light balance sheet with high debt. Another challenge to traditional valuation models. (source: thehindubusinessline.com) Actually these high debts are for intangible assets like software-website, webapps and GPS AND marketing expenses like customer relationships, supplier relationships and promotional discounts to grab market share. This poses a complex sensitivity analysis and if-what scenario.

5. Last but not the least, some Income-tax offices have disallowed discount and marketing expenses calling them as capital expenditure for market share purchases gives a new twist to the story.

To conclude 21st century end of 2nd decade bring a new dimension to whole valuation profession in India which is exactly expected to create disruption for registered valuer framework under IBBI and Companies Act to make it an organized profession. So law-makers moving profession of valuation from art to science and disruptive business models (like aggregators) are pulling from science to an art. Enjoy the journey of creativity – my dear valuer.