Project Candour

Financial due diligence report

—

11 August 2020 6:51:47 AM

DRAFT FOR DISCUSSION PURPOSES ONLY

KPMG India Private Limited
Embassy Golf Links Business Park
Pebble Beach - B Block, 2nd Floor
Off Intermediate Ring Road
Bengaluru - 560071, India

Tel: +91 80 6833 5000
Fax: +91 80 6833 6999

Private and confidential

Think & Learn Private Limited
2nd Floor, Tower D, IBC Knowledge Park,
4/1, Bannerghatta Main Road
Bengaluru, India

11 August 2020

Dear Sir(s),

Project Candour

As requested, we enclose our draft report dated 11 August 2020, on the vendor initiated due diligence of Think & Learn Private Limited (referred to as "Target") in connection with a proposed fund raise.

This draft report has been prepared on the basis of our fieldwork conducted at on information provided to us electronically between 3 June 2020 to 11 August 2020, in accordance with the terms of reference set out in our engagement letter dated 15 July 2018 and its attachments, as modified by our variation letter dated 3 June 2020 and 28 July 2020 (referred to as "Engagement Letter").

The purpose of the issuance of this draft report is to enable you to confirm the factual accuracy of the report, in the format of Annexure 3 of the Engagement letter.

We draw your attention to the Important notice section of this letter.

Any further work to be performed subsequent to the submission of our draft report and its factual accuracy confirmation, will be subject to terms to be freshly agreed upon. Subsequent to such factual accuracy, and subject to completion of our internal conflict checks and risk management requirements, the report will be issued in the final form, only to the Prospective Purchaser(s), as identified by you.

Because of its special nature, our draft report may not be suited for any purpose other than to assist you in your evaluation of the proposed fund raise, and, as such, is restricted for your internal use only. You should also note that our findings do not constitute recommendations to you as to whether or not to proceed with the proposed transaction. This draft report is confidential and is released to you on the basis that it is not to be copied, referred to or disclosed, in whole or in part, without our prior written consent, save as permitted in our Engagement Letter (General Terms of Business).

Important notice

Our comments are based on the work carried out by us on data provided to us electronically. We did not visit any of the Target's offices. For the purposes of our work, we have relied on the following:

- Audited and unaudited stand alone financial statements of Target for the reporting period.
- Data supporting the historical financial statements.

Discussions with the following individuals have also taken place:

- Anita Kishore: Head of Strategy
- Saiprasad D. Palekar: VP, Business Finance & Strategy

Financial information is the responsibility of the management of Target. In this regard, management is responsible for the proper recording of transactions in the books of account and maintaining an internal control structure sufficient to permit the preparation of reliable financial information, including financial statements. The findings of the procedures performed are presented in this report. The procedures performed do not constitute an audit and had we performed additional procedures or conducted an audit in accordance with generally accepted auditing standards, other matters might have come to our attention which we would have reported to you. Due to the limited nature of our work, we do not express any opinion on Target's historical and projected financial performance or any extracts thereof.

We have indicated within our summary the sources of the information presented. We have not sought to establish the reliability of these sources by reference to independent evidence. We have analyzed the information made available and to the extent possible, have satisfied ourselves that the information presented is consistent with other information provided to us during the course of our work.

In performing our work, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us, whether original or copies.

Further we have assumed that all explanations provided to us by management are reflective of the factual position.

We draw your attention to the limitations in the information available to us, which we have highlighted in appropriate sections of our report. These restrictions have a corresponding impact on the nature of comments that we have made on the information available.

The analysis of 'normalized'/'underlying' earnings and working capital is for indicative purposes only. We have sought to illustrate the effect on EBITDA/working capital of adjusting for those items identified in the course of our work that may be considered to be 'non-recurring' or 'exceptional' or otherwise unrepresentative of the trend in EBITDA/working capital, using criteria established by you. However the selection and quantification of such adjustments is necessarily judgmental. Because there is no authoritative literature or common standard with respect to the calculation of 'normalized'/'underlying' earnings or working capital, there is no basis to state whether all appropriate and comparable adjustments have been made. In addition, while the adjustments may indeed relate to items which are 'non-recurring' or 'exceptional' or otherwise unrepresentative of the trend, it is possible that earnings/working capital for future periods may be affected by such items, which may be different from the historical items.

Additionally, our draft report reflects events and circumstances as they currently exist, which corresponds with a period of significant global volatility and widespread macro-economic uncertainty, which could persist for a considerable amount of time and which could negatively impact business. Given the fact that many aspects of the transaction have either not been finalized or are not yet documented, certain changes may materially affect the financial information we received and are included in this draft report. Further, currently, it is not possible to assess the impact on the financial statements, both current and future, that may result from the COVID-19 global pandemic. Therefore any advice or recommendations or analysis or trends provided in this report shall not be interpreted as a prediction or guarantee of any outcome. As a part of our work, we have not attempted to identify or quantify the financial impact (historical or forecast period) of uncertainties in light of the COVID-19 global pandemic.

Our final written report shall supersede all previous oral, draft or interim advice, reports and presentations, and no reliance will be placed by you or any Prospective purchaser(s) on any such oral, draft or interim advice, reports or presentations other than at your/their own risk.

Any party may rely on this draft report only if it has executed a formal ‘Report Release letter’ with us. If you are a recipient of this report without executing such a letter, and wish to rely on the report or any part thereof, you will do so entirely at your own risk and should be aware that we / KPMG:

- Owe you no duty (whether in contract or in tort or under statute or otherwise) with respect to or in connection with the attached report or any part thereof; and
- Will have no liability to you for any loss or damage suffered or costs incurred by you or any other person arising out of or in connection with the provision to you of the attached report or any part thereof, howsoever the loss or damage may have been caused, including, but not limited to, as a result of negligence of KPMG.

In accordance with the letter, you may disclose our draft report to your legal and other professional advisors in order to seek advice in relation to our work for you, provided that when doing so you inform them that, to the fullest extent permitted by law, we accept no responsibility or liability to them in connection with our draft report and our work for you, and disclosure by them (save for their own internal purposes) is not permitted without our prior written consent.

We shall be pleased to receive your observations on our findings.

Yours faithfully,

For KPMG India Private Limited

Glossary (1/2)

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AMC	Annual maintenance cost
BCCL	Bennett Coleman & Co. Limited
Byju's or Target	Think & Learn Private Limited
CAC	Customer acquisition cost
CAT	Common Admission Test
CCPS	Compulsorily convertible preference shares
COD	Cash on delivery
COGS	Cost of goods sold
Comparable EBTIDA	Reported EBTIDA + capitalized content development costs
CWIP	Capital work in progress
EBITDA	Earnings before interest, tax depreciation and amortization
EMI	Equated monthly installment
ESI	Employee State Insurance
ESOP	Employee stock option plan
FY18	Financial year ended 31 March 2018
FY19	Financial year ended 31 March 2019
FY20	Financial year ended 31 March 2020
G&A	General and administration
GMAT	General Management Aptitude Test
GRE	Graduate Record Examination
GST	Goods and Services Tax
ID	Identity
IMPS	Immediate Payment Service
INR	Indian Rupees
IT	Information Technology
JEE	Joint Entrance Examination
KPIs	Key performance indicators
LTM	Last twelve months
MIS	Management information system
NEFT	National Electronic Funds Transfer
PBT	Profit before tax
PE	Private equity
POS	Point of sale
PPE	Property, plant and equipment
Q1	April, May and June
Q1xx	3 month period ended 30 June 20xx

Glossary (2/2)

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Q2	July, August and September
Q2xx	3 month period ended 30 September 20xx
Q3	October, November and December
Q3xx	3 month period ended 31 December 20xx
Q4	January, February and March
Q4xx	3 month period ended 31 March 20xx
SD card	Secure Digital card
TV	Television
UPSC	Union Public Services Commission
US/USA	United States of America
VP	Vice President

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Executive summary

Key sources of information and scope limitations (1/2)

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Our due diligence procedures were performed on the standalone financial statements of Think & Learn Private Limited ("Byju's") for the financial year ended 31 March 2018 ("FY18"), 31 March 2019 ("FY19") and 31 March 2020 ("FY20") and the first quarter ended 30 June 2020 ("Q121").

The stand alone financial statements for FY18 and FY19 have been audited by Deloitte, Haskins & Sells, LLP, who have issued a unqualified audit opinion. The stand alone financial statements for FY20 and Q121 are unaudited/provisional.

Byju's has 6 subsidiaries as at 30 June 2020.

With the exception of Tangible Play Inc., which was acquired in February 2019, other subsidiaries do not have material operations.

Our scope of work was however limited to Byju's.

Introduction and basis of this report

— Our financial due diligence procedures were carried out on the stand alone financial statements of Think & Learn Private Limited. Information that we relied on include:

- Audited financial statements for FY18 and FY19 prepared under IndAS
- Unaudited management accounts for FY20 and Q121 prepared under IndAS
- Financial and other operating data supporting the financial statements and management accounts

— It should be noted that we have performed no procedures on the subsidiaries of Think & Learn Private Limited. Comments in the report on these subsidiaries are based on discussions with Management.

— Management has informed us that with the exception of Tangible Play Inc., which was acquired on 27 February 2019, there are no material commercial operations in any other entity.

— We have not sighted the financial statements or any other information for any of the subsidiaries as this was outside the scope of our work. We understand that for FY18, and FY19, consolidated financial statements have been prepared, which have been audited by Deloitte, Haskins & Sells, LLP. However, review of these was outside the scope of our work. For FY20 and Q121, consolidated financial statements are yet to be prepared.

Limitations

— We draw your attention to the following key exclusions and limitations to the scope of our work.

- We have not carried out any procedures on any of the subsidiaries of Byju's.
- We have not carried out a tax due diligence on Byju's or any of its subsidiaries.
- We have not carried out an IT due diligence or reviewed any of the IT or book keeping systems used by Byju's. All financial and operating data on which our procedures were carried out, was extracted by Management and made available to us. We have not independently performed this exercise or reconciled the output with source.
- We have not carried out a HR due diligence or assessed compliance with any labor laws or legislations.
- We have not carried out a commercial due diligence or operations due diligence or assessed any of the Company's internal controls or processes.
- We have not physically verified PPE or inventory.
- We have not had discussions with Byju's statutory or internal auditors or read internal audit reports.
- As a part of our due diligence, we have read select agreements, entered into with vendors, suppliers and partners.

Key sources of information and scope limitations (2/2)

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Introduction and basis of this report

- During the course of our diligence, we have has discussions with the following senior management of Target (“Management”).
  - Anita Kishore: Head of Strategy
  - Saiprasad D. Palekar: VP, Business Finance & Strategy

Limitations

- In drawing our conclusions and observations, we have also placed reliance on discussions with Management and verbal representations received.
- Our detailed scope of work is attached in Appendix 1.

Headlines (1/3)

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Revenue and realization	— Gross sales have grown from INR 5.21 billion in FY18 to INR 24.98 billion in FY20 and from INR 6.01 billion in Q120 to INR 12.26 billion in Q121. With average realization per unit sold being range bound, revenue growth is largely on the back of volumes. Between FY18 and FY20, units sold increased from 0.52 million to 2.26 million and between Q120 and Q121, units sold increased from 0.54 million to 1.12 million. — Volume growth is driven by a number of factors including a year-on-year increase in the renewal base, increasing spend on sales and marketing, thereby expanding reach and awareness, expansion in the sales team to convert the increasing number of installs and expansion in the base of financing partners. — With respect to the current products sold by the Company, where revenue is recognized upon dispatch, we are of the view that a prudent policy would be to recognize revenue upon delivery of the product to the customer. This will however impact only the timing of revenue recognition and not the overall revenue recognized.
Expenditure on product development	— The business is characterized by a significant investment towards product development. As at 30 June 2020, the Company has invested about INR 15.43 billion towards existing and new products. Product development costs are a combination of internal costs (employees and establishment) as well as outsourced development. The capitalization policy appears to be in line with GAAP, although we have not analyzed this in detail. The statutory auditor of the Company is comfortable with the way costs have been capitalized. INR 15.43 billion includes an estimate of costs aggregating INR 5.93 billion incurred in FY20 and Q121 that are potentially capitalizable. This is however an estimate as Management is yet to carry out an exercise to identify costs that could be allocated towards new product development in FY20 and Q121.
Reported and adjusted EBITDA	— Reported EBITDA for FY18, FY19, FY20 and Q121 is negative INR 0.26 billion, INR 0.26 billion, negative INR 0.38 billion and INR 2.82 billion respectively. However, since FY18 and FY19 EBITDA is audited and post capitalization of product development costs and FY20 and Q121 EBITDA is unaudited and pre-capitalization of product development costs, the EBITDA across years is not comparable. — Expensing all product development costs results in EBITDA for FY18, FY19, FY20 and Q121 to be negative INR 1.20 billion, negative INR 2.10 billion, negative INR 2.23 billion and INR 2.80 billion respectively. — Adjusting for capitalizable costs, under provided expenses, and non-recurring expenses, comparable EBITDA is INR 0.27 billion for FY18, INR 0.26 billion for FY19, INR 3.61 billion for FY20 and INR 4.87 billion in Q121. The adjusted EBITDA however, pending an audit, assumes a certain level of costs that could be capitalized towards new product development in FY20 and Q121.

Headlines (2/3)

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Arrangement with finance partners	— About 55.8%, 52.3%, 44.5% and 27.8% of revenue earned in FY18, FY19, FY20 and Q121 are from customers who have opted for financing. The Company has entered into arrangements with 11 financing partners, of which, with 3 financing partners, the Company bears the entire credit risk. However, revenue share from sales made to customers who have obtained financing from these 3 financing partners is about 5.8% in FY20 and 3.8% in Q121. — We understand that the Company has received no claims or no default notices from the financing partners where 100% credit risk is borne and on this basis no provisions towards any anticipated losses have been made in the books as at 30 June 2020. It is however prudent to make a certain degree of provision towards such customer delinquencies, given that the arrangement with financing partners, where the Company provides a backstop, is fairly new (about 1 year) and while no customers have defaulted in this short timeframe, the same cannot be said for the future.
Investment in working capital	— Investment towards working capital is primarily in the form of advances given to vendors (marketing and business promotion activities, purchases and new product development), amounts recoverable from the Company's Middle East based partner and stock of SD cards and tablets. This is offset by payables and provisions made in the regular course of business. — With growth in the business, reported investment in working capital increased from INR 0.61 billion as at 31 March 2018 to INR 0.91 billion as at 31 March 2019 and further to INR 5.96 billion and INR 3.72 billion as at 31 March 2020 and 30 June 2020. Working capital investment is high as at 31 March 2020 as it includes certain non-recurring advances given.
Net cash and cash flow	— The Company has reported cash + investments of INR 35.01 million as at 30 June 2020. Additionally, the two US subsidiaries have reported cash balance of USD 57.19 million and one domestic subsidiary has a cash balance of INR 1.40 billion. — Between FY18 and FY19, the Company has raised about INR 52.90 billion from investors, of which, about INR 18.27 billion is equity investment in subsidiaries (including INR 10.52 billion paid to acquire Tangible Play Inc. in FY19), INR 30.74 billion represents cash and investments as at 30 June 2020, while the balance INR 3.88 billion, net of cash generated from operations and profit on sale of investments, has been invested towards product development.
Substantive procedures	— As a part of our due diligence, we carried out certain substantive procedures, including reconciliation of revenue to cash collection, walk through of sample transactions from order receipt to cash, correlation of revenue and renewal data with the order management system used by the Company and correlation of sample transactions with call recordings. We have explained these procedures in detail in Appendix 5 to this report. We do not have any adverse observations on these procedures performed.

Headlines (3/3)

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Impact of dilution	— BCCL has been granted certain options (at a pre-agreed valuation), valued at about INR 0.24 billion as at 30 June 2020, which can be exercised on or after December 2020. It is likely that these options will be exercised by BCCL given the significant difference between the pre-agreed valuation and current valuation. This will dilute the existing shareholders.

Overview - Background and group structure

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Byju's, founded in 2011, is the flagship company of the Group, offering India focused teaching aids and education content to school students across grades 1-12. The Company is in the process of developing a Grade 1-3 product for the international market and also for the Pre KG and KG segment.

Byju's also offers content for Indian competitive exams like CAT, UPSC and JEE.

In June 2019 Byju's launched a product specifically for grades 1, 2 and 3 in India in partnership with Disney. An international version of this product is being developed.

Byju's has 6 subsidiaries as at 31 March 2020, of which the key operating subsidiary is Tangible Play Inc., which was acquired in February 2019.

Think & Learn Private Limited

- Incorporated in India in 2011.
- Flagship and key operating entity.

100% → **Specadel Technologies Private Limited**

- Acquired in FY15 for INR 17.5 million. This acquisition was an acqui-hire. No significant operations up to July 2017 when the businesses of TutorVista and Edurite were acquired from Pearson for INR 51.3 million. Revenue of INR 103.4 million, INR 189.8 million and INR 31.0 million in FY18, FY19 and FY20 respectively.

100% → **Infiken Internet Labs Private Limited**

- Acquired in FY17 for INR 13.6 million. This acquisition was an acqui-hire. No revenue earned in FY18, FY19 and FY20.

100% → **Span Thoughtworks Private Limited**

- Acquired in FY17 for INR 62.5 million. This acquisition was an acqui-hire. Revenue of INR 28.8 million, INR 14.6 million and INR 2.1 million in FY18, FY19 and FY20 respectively.

100% → **Tangible Play Inc.**

- Acquired in FY19 (27 February 2019) for INR 8.3 billion. Revenue of USD 34.1 million and USD 64.4 million in FY19 and FY20 respectively.
- Think & Learn Inc., a wholly owned subsidiary of Think & Learn Private Limited was incorporated in the US in April 2017 as a part of Byju's proposed foray into the US market. Think & Learn Inc. was merged with Tangible Play Inc. effective 7 March 2019.
- Since incorporation and up to the date of merger with Tangible Play Inc., Think & Learn Inc. did not have any commercial operations. The entity was incorporated for the purpose of entering into contracts with US based vendors assisting with development of the K-3 product for domestic and international markets. Post merger with Tangible Play Inc. these development contracts were transferred to Byju's Inc.
- As at 31 March 2018, the total investment in Think & Learn Inc. towards the K-3 product was approximately INR 478.1 million. As at 7 March 2019, the date on which Think & Learn Inc. was merged with Tangible Play Inc., the total investment in the K-3 product was approximately INR 1.20 billion. Thereafter, all investments in the K-3 product were made through Byju's Inc.

100% → **Byju's Inc.**

- Incorporated in FY19 as a replacement for Think & Learn Inc., which merged with Tangible Play Inc. effective 7 March 2019. Equity investment of INR 4.58 billion as at 31 March 2020, of which, INR 1.42 billion has been spent on development of the K-3 product. Commercial operations are yet to commence.

100% → **Byju's K3 Education Private Limited**

- Incorporated in FY19 as a separate legal entity for new product development. As at 31 March 2020 and 30 June 2020, an advance of INR 1.4 billion has been given. This advance has not been spent. Commercial operations are yet to commence.

Note: (a) Group structure is as at 30 June 2020.
(b) Information on performance of subsidiaries has been provided by Management. We have not sighted the stand alone financial statements of any of the subsidiaries for any of the periods.

Source: Management information.

Overview - Transaction flow - Sales

The sales process begins with download of Byju's Learning App (Grades 4-12) or Byju's Early Learning App (Grades 1-3) by the user and subsequent registration.

Content is delivered through pre-loaded tablets or SD card.

Revenue is recognized upon dispatch of SD card or tablet to customers, in the case of domestic sales, and upon activation of license, in the case of sales made to GCC customers.

Transaction flow (for domestic sales)

- Byju's operations are 100% app-based. The sales process starts when a user downloads the Byju's Learning App, and registers.
- Post registration, the user has access to all the functionalities of the app for a period of 15 days, free of cost. Post expiry of the free period, if the user wishes to use the product, a purchase has to be made. If the user does not wish to make a purchase, limited functionalities of the product are still available, post closure of the trial window.
- Byju's has an in-house sales team. Post user registration, a member of the sales team is assigned to the user and a sales call is made to the user. Byju's also offers home visits and live demonstrations of the product.
- The entire sales process (domestic and international) is managed on "Orderhive", which is an order management platform used by Byju's. Orderhive records the entire sales process, commencing with assignment of a lead to completion of sale and collection.
- The product is delivered to users in a pre-loaded SD card, through courier companies. The delivery period generally ranged between 2-7 days. Upon dispatch, revenue is recognized. The user has a period of 15 days to return the product and avail a refund.

Transaction flow (for Middle East sales)

- In the case of sales made to customers in GCC countries, all activities including marketing, order management, collections and dispatch of SD card, are performed by a Middle East based partner.

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App download by user

↓ Mandatory details that need to be provided by the user upon downloading and registering the app include name, cell phone number, location, email id, and choice of grade.

User registration

↓ Depending upon the user's behavior on the app, a member of the sales team makes a sales call to the user. If required, home visits and live product demonstrations are arranged. For sales made in GCC countries, this process is managed by the partner.

Sales call by Byju's

↓ The sales team member has a certain degree of flexibility on giving spot discounts to prospective customers. Product pricing for customers in India and GCC countries is largely similar.

SD card sent to user and revenue is recognized

↓ For sales made in GCC countries, no SD card is shipped from India. Blank SD cards with the Middle East partner are remotely loaded with content and activated once payment is received from the customer by the partner.

Sale complete

Overview - Transaction flow - Cash flow

Byju's offers a number of payment options to customers. However a majority of the transactions are either through online payments through credit or debit cards or through financing companies.

Byju's has tied up with financing companies and banks who fund users to purchase the product. In all cases, Byju's bears the finance cost.

In FY19, FY20 and Q121, about 52.3%, 44.5% and 27.7% of net sales were made to customers opting for financing.

Cash flow

- For products purchased from Byju's, users have an option to either make an outright purchase (by prepayment through credit or debit card, or opting for cash on delivery) or purchase the product by availing a financing facility offered by third party finance companies, with whom Byju's and tied up with. There are other options available to the user as well to pay for the product, including personal cheque or direct money transfers to the Company's bank account or visiting a contact center paying by cash or using a credit card on a POS machine (such transactions are however limited in number).
- In case a user opts to pre-pay for the order by credit or debit card, a payment link is sent across to the user. Credit and debit card payments are directly credited to the bank account of Byju's by the payment gateway. The settlement time for payments made by credit and debit cards is about 1-2 days.
- For users who opt for cash on delivery of SD card, cash is collected by courier partners and paid to Byju's designated bank account. Courier companies generally pay Byju's within a period of 30-45 days.
- For customers opting for financing, an agreement is entered into between the finance company and customer. The finance company pay's Byju's upfront (net of interest) and collections are made from the customer over a period of up to 12 months.
- Byju's also sells its products in the GCC region. These sales are made through a Middle East based partner who collects payments from customers. Periodically, a statement is received from the partner on sales proceeds along with a credit to Byju's bank account.

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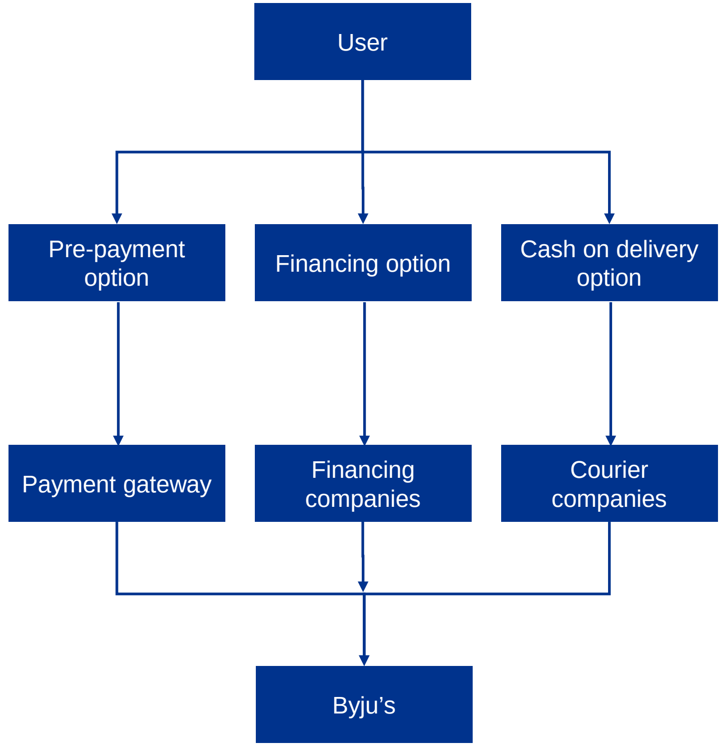

Summary financial statements - Income statement (1/5)

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Revenue is earned from sale of education content to customers in Grades 1-12 and Test Prep segment. Revenue growth in FY19, FY20 and Q121 is entirely organic.

A significant portion Byju's operating cost base represents content development costs, which are capitalized. In July 2019, the Company launched a specific product focusing on Grades 1, 2 and 3. As at 31 March 2020, the Company is in the process of developing products for the international market (Grades 1-3) and Pre KG and KG segment.

For FY20 and Q121, the exercise of analyzing costs that need to be capitalized has not been carried out yet. All costs have been expensed and hence EBITDA for FY18 and FY19 is not comparable with FY20 and Q121.

The income statement for FY20 and Q121 is unaudited and hence can undergo changes once audited.

Summary income statement

INR billion	FY18	FY19	FY20	Q121
Revenue				
Gross sales	5.21	14.30	24.98	12.26
Less: Sales returns	(0.26)	(0.31)	(0.49)	(0.15)
Net sales	4.95	13.99	24.49	12.10
Less: Taxes	(0.34)	(1.18)	(2.23)	(1.27)
	4.61	**12.81**	**22.25**	**10.84**
Expenses				
Cost of goods sold	(0.58)	(2.08)	(3.43)	(1.74)
Gross profit	**4.03**	**10.73**	**18.83**	**9.09**
Selling and marketing costs				
- Business promotion expenses	(1.09)	(3.97)	(4.04)	(1.07)
- Employee cost (sales team)	(0.31)	(0.98)	(1.97)	(0.74)
- Other selling costs	(1.16)	(2.04)	(3.34)	(0.86)
	(2.56)	**(6.99)**	**(9.34)**	**(2.67)**
Contribution	**1.47**	**3.73**	**9.49**	**6.42**
G&A costs				
- Employee cost	(0.68)	(1.57)	(4.83)	(1.90)
- Other G&A costs	(1.06)	(1.91)	(5.03)	(1.70)
	(1.74)	(3.48)	(9.86)	(3.60)
EBITDA	**(0.26)**	**0.26**	**(0.38)**	**2.82**
Other income & expenses				
Other income	0.29	0.61	1.21	0.92
Finance cost	(0.02)	(0.03)	(0.01)	(0.00)
Depreciation & amortization	(0.29)	(0.64)	(1.08)	(0.36)
	(0.02)	**(0.06)**	**0.12**	**0.56**
PBT	**(0.29)**	**0.20**	**(0.25)**	**3.38**

Source: Management information

Pre-capitalization EBITDA

INR billion	FY18	FY19	FY20	Q121
Reported EBITDA	(0.26)	0.26	(0.38)	2.82
Less:				
Capitalized costs				
Employee cost	(0.93)	-	-	-
Establishment costs	(0.19)	-	-	-
Professional fees	(0.05)	-	-	-
Software licence costs	(0.14)	-	-	-
Under development				
Employee cost	-	(1.45)	-	-
Establishment costs	-	(0.21)	-	-
Professional fees	(0.17)	(0.70)	(1.99)	-
Impact of adjustments	0.53	-	0.13	(0.02)
	(0.94)	(2.36)	(1.86)	(0.02)
Comparable EBITDA	**(1.20)**	**(2.10)**	**(2.23)**	**2.80**

Note: (a) In FY18, Byju's capitalized product development costs to the extent of INR 1.31 billion. Further, an additional amount of INR 0.17 billion was classified as WIP (under development in the table above), pending capitalization. In FY19, no amounts were capitalized, but INR 2.36 billion was incurred towards new product development, which was pending capitalization. In FY20, Byju's capitalized new product development costs to the extent of INR 2.53 billion (these expenses were incurred in FY18 and FY19). Additionally, an amount of INR 1.99 billion was incurred during the year and was pending capitalization as at 31 March 2020. In Q121, no product development expenses have been capitalized or have been directly classified as to be capitalized. The amount of INR 1.99 billion spent in FY20 remains pending to be capitalized as at 30 June 2020. Given that no product development costs have been capitalized yet in FY20 or Q121, in the table above, we have presented 'comparable EBITDA' which is reported EBITDA after expensing all content development costs, whether capitalized or pending capitalization.

(b) Further, during the course of our work, we identified certain adjustments that could potentially impact reported EBITDA for FY18, FY19, FY20 and Q121. These adjustments are discussed on pages 21-24 and have been considered in the table above for the purposes of presenting pre-capitalization or comparable EBITDA.

Source: Management information

Summary financial statements - Income statement (2/5)

DRAFT FOR DISCUSSION PURPOSES ONLY

Revenue

- Revenue is earned from sale of content to students in Grades 1-12 and Test Prep segment. For domestic sales, revenue is recognized upon dispatch of SD cards/tablets to customers. The dispatch coincides with (i) payment confirmation, in the case of payments made online, (ii) confirmation from customers that payments will be made by COD, and (iii) sanction of loan by finance companies to customers opting for EMI payments. Prior to dispatch, the license is activated.
- For sales made in GCC countries, revenue is recognized upon activation of license, which coincides with collections by Byju's Middle East based partner. SD cards to GCC customers is dispatched by the Middle East partner. For a summary of the agreement entered into with the Middle East partner, refer Appendix 2. It should be noted that Byju's recognizes revenue earned from sales in the GCC region, gross of commission due to the Middle East based partner. Commission expense is classified as marketing spend. It can be argued that the relationship between Byju's and the Middle East based partner is a principal-principle one and not that of an agent and hence revenue should be recognized net of commission. Byju's auditor is however comfortable with the way revenue and costs are currently classified. We have not examined this treatment in detail.
- 'Orderhive' is an order management system that is used by the Company. Revenue entries in the accounting system are passed at the end of every month, based on inputs received from Orderhive. A single revenue entry is passed for all sales made during the month, net of discounts and net of returns/refunds effected within the month of sale. This revenue recorded is termed as "gross revenue" in the income statement.
- Sales return, as classified in the income statement, denotes returns where revenue was recognized in a particular month and the return was effected in the subsequent month. Customers generally have a 15 day return window. Returns, as a % of gross revenue, as reflected in the income statement are 5.0% in FY18, 2.2% in FY19, 2.0% in FY20 and 1.3% in Q121. Management explained that while there is an actual reduction in the trend of returns, another factor that is driving the reduction in % of returns to gross sales is the increasing proportion of revenue earned from renewal customers (where returns are lower than new sales). The reported level of returns is however not representative of the actual level of returns, which according to Management ranges between 5.0-7.0%. In FY18, sales return includes an exceptional amount of INR 0.17 billion which pertains to sales made to a school in the Middle East, where the order was subsequently cancelled.
- In the audited financial statements, revenue is classified into three categories – tuition fee, sale of educational tablets and SD cards and sale of reference books. This is an internal classification of billings to customers whereby a certain portion of the total price that a customer pays, is attributed to tuition fee and sale of educational tablets and SD cards. Additionally, customers also have an option to purchase reference books and we understand that a majority of customers do exercise this option. Customers also have an option to purchase only reference books, without purchasing content in SD cards/tablets. It should be noted that books are exempt from GST.

Summary financial statements - Income statement (3/5)

DRAFT FOR DISCUSSION PURPOSES ONLY

Cost of goods sold ("COGS")

- COGS constitutes cost of delivery medium (tablets and SD cards) and cost of printed materials that are shipped along with tablets and SD cards.
- As a % of net sales, COGS increased from 12.5% in FY18 to 16.3%, 15.4% and 16.1% in FY19, FY20 and Q121 respectively. The increasing trend in COGS is attributed to the following:
  - Consumption of SD cards increased from 8.0% of net sales in FY18 to 9.1% and 9.5% of net sales in FY19 and FY20 respectively, and further to 10.6% in Q121. The cost increase is attributed primarily to an increasing trend of using higher capacity 64 GB and 128 GB SD cards, a higher proportion of domestic sales vs. sales in the Middle East (cost of SD cards in the Middle East is borne by Byju's local partner), and, in Q121, given the constraints in imports from China, the purchase cost has also increased.
  - Consumption of tablets increased from 3.6% of net sales in FY18 to 6.3% and 4.1% of net sales in FY19 and FY20 respectively. In Q121, consumption of tablets was 3.7% of net revenue. Increased consumption of tablets in FY19 is on account of a comparatively expensive version of tablets sold to customers. In FY20 and Q121, the Company reverted to a lower spec version, resulting in lower per unit cost. The Company has also been able to downwards negotiate prices of tablets, given bulk purchases in FY20 and Q121. Tablets are sold at cost or marginally below cost to customers.
- For additional information on COGS, refer page 46-47.

Selling and marketing costs

- S&M costs include business promotion and advertising expenses, cost of the sales team, brand fees paid to celebrities, sales commission paid to Middle East partner, credit card transaction costs, and interest paid to finance companies in the case of customers purchasing on EMIs.
- Business promotion expenses include TV, print and outdoor advertising and branding costs, brand fees paid to celebrities, digital marketing costs and other promotional spend. As a % of net sales, business promotion expenses aggregated 23.6% in FY18, increased to 31.0% in FY19 and decreased to 18.2% in FY20 and 9.9% in Q121. In absolute terms, business promotion expenses were INR 1.09 billion in FY18 and thereafter remained stable at INR 3.97 billion and INR 4.04 billion in FY19 and FY20.
- In Q121, business promotion spend was about INR 1.07 billion. Our discussions with Management indicated that in Q121, there was a conscious decline in business promotion spend, given that adequate traction in the market was seen, despite a reduction in spend. Higher demand was a factor of school closures, in light of the Covid-19 situation in India, and faster adoption of online learning. Business promotion spend as also positively impacted lower spot rates for TV advertising.
- On an average, during FY18, FY19, FY20 and Q121, Byju's employed 563, 1,257, 2,363 and 2,972 employees respectively in the sales team, at an average annual cost of INR 0.6 million in FY18, INR 0.8 million each in FY19 and FY20 and INR 0.9 million in Q121.

Summary financial statements - Income statement (4/5)

DRAFT FOR DISCUSSION PURPOSES ONLY

- For sales made in the Middle East, Byju's has entered into an agreement with a Middle East based partner. All expenses incurred towards developing the market, marketing/promotion and selling, is on account of the partner. In lieu of this, Byju's pays a commission of 30% of gross sales to the partner. There are no other markets where Byju's has entered into commission arrangements.
- Byju's has entered into arrangements with finance companies and banks to fund customers who wish to avail an interest free loan to make a purchase. Customers have an option to avail a loan from financing companies/banks for a period ranging between 9 to 12 months. As per the terms of arrangements with certain lenders, in the case of loan default by customers, the credit risk borne by Byju's. The quantum of sales made in FY20 and Q121 through financing partners where Byju's bears 100% of the credit risk is INR 1.42 billion and INR 0.46 billion respectively, or 5.8% and 3.8% of net revenue respectively.
- The financing arrangement is a principal to principal transaction between the customer and finance company or bank. Byju's receives the sales proceeds from the finance company or bank net of interest for the period the customer has obtained financing for. The subvention rate ranges from 7.0-14.0% and this cost is treated as marketing spend in the books. In FY18, FY19, FY20 and Q121, sales made to customers opting for financing, aggregated INR 2.76 billion, INR 7.32 billion, INR 10.89 billion and INR 3.36 billion respectively.
- Overall selling and marketing costs, as a % of net sales, remained stable at 55.5% in FY18 and 54.6% in FY19 and declined to 42.0% and 24.6% in FY20 and Q121 respectively. In absolute terms however, selling and marketing costs increased from INR 2.56 billion in FY18 to INR 6.99 billion in FY19 and further to INR 9.34 billion in FY20. In Q121, the spend aggregated INR 2.67 billion. While in FY19, spending increased on account of higher branding spend (primarily TV advertising), in FY20, the higher spend was attributed to a significant ramp up of the sales team, higher spend on travel cost of the sales team (driven by increased house visits and live product demonstrations), and higher subvention cost.

G&A costs

- G&A costs include cost of employees/senior management, establishment and office maintenance costs, travel costs, and other G&A expenses.
- Employee cost, including cost capitalized and cost of consultants, but excluding the cost of the sales team (which is classified as selling expenses), aggregated INR 1.66 billion in FY18, INR 3.73 billion in FY19, INR 4.83 billion in FY20 and INR 1.90 billion in Q121.
- During the same period, the average headcount (excluding the sales team and consultants) increased from 1,406 in FY18 to 1,912 in FY19 and further to 2,696 in FY20. In Q121, the average headcount aggregated 3,562 personnel.
- The growth in employee headcount in FY19 was across all key functions including Media + Content and Mentoring + Customer Support teams, whereby 418 personnel were added. In FY20, additions were largely in the Media + Content team and Mentoring + Customer Support teams, with 545 additions.

Summary financial statements - Income statement (5/5)

DRAFT FOR DISCUSSION PURPOSES ONLY

- In Q121, employees were added primarily in the Sales and Media + Content teams. For further information on employee cost by function, refer pages 50-51.
- Other reported G&A costs aggregated INR 1.05 billion in FY18 and INR 1.90 billion in FY19. This excludes G&A expenses capitalized or pending capitalization. Increase in other G&A costs during this period is attributable primarily to increase in the scale of operations, which resulted in higher spend towards corporate and other costs.
- In FY20, other G&A expenses aggregated INR 5.03 billion, of which about 32.3% (INR 1.62 billion) represents legal and professional charges (costs paid to third parties for new product development). In Q121, other G&A expenses aggregated INR 1.70 billion, of which about 52.2% (INR 0.88 billion) represents legal and professional charges. In the unaudited financial statements for FY20 and Q121, these expenses have been charged to the income statement.
- Additionally, in the unaudited financial statements for FY20 and Q121, 100% of establishment costs have been charged to the income statement, while in FY18 and FY19, a certain portion of such costs, attributable to new product development, were capitalized.
- Excluding establishment costs and legal and professional costs, other G&A expenses increased from INR 1.31 billion in FY19 to INR 2.11 billion in FY20. Management attributed this increase to a higher scale of operations. For additional information on G&A costs, refer pages 52-53.

Other income

- Other income earned represents interest received on term deposits, gains on redemption of liquid mutual funds and revaluation of current investment at market prices.

Finance cost

- Finance cost represents interest paid on a term loan availed from Innoven Capital India Private Limited at an interest rate ranging between 14.75-15%. This loan was entirely repaid in FY19.
- In FY19, the Company purchased certain IT equipment on finance lease from Hewlett Packard Financial Services Private Limited. The implicit interest rate on this lease is 8.25%. The interest cost in FY20 and Q121 is towards this borrowing.

Depreciation and amortization

- The Company depreciates tangible fixed assets on a straight-line basis over its estimated useful life. This generally ranges between 3-5 years.
- Intangible assets are amortized in the income statement over their estimated pattern of consumption of economic benefit. This generally ranges between 5-6 years.

Summary financial statements - Quality of earnings (1/4)

Summarized on this page are potential adjustments to standalone reported EBITDA identified by us, based on reading of information provided by Management and discussions.

These adjustments are indicative and not exhaustive. Since the financial statements for FY20 and Q121 are not hard closed and have not undergone an audit, there could be other adjustments impacting revenue and margins, which have not been identified.

Increase in adjusted reported EBITDA in FY20 and Q121 is driven primarily by new product development costs that can potentially be capitalized.

Quality of earnings (based on reported EBITDA)

INR billion	FY18	FY19	FY20	Q121
Reported				
EBITDA	(0.26)	0.26	(0.38)	2.82
Adjustments				
a) Capitalization of costs	-	-	3.86	2.07
b) Employee cost	-	-	(0.13)	(0.02)
c) Non-recurring expenses	0.50	-	0.26	-
d) Timing difference on revenue	0.04	-	-	-
e) Provision for expected losses	-	-	NQ	NQ
f) Unaudited financial statements	-	-	NQ	NQ
	0.53	-	3.99	2.05
Adjusted EBITDA	**0.27**	**0.26**	**3.61**	**4.87**

Source: Management information

DRAFT FOR DISCUSSION PURPOSES ONLY

Note

a) In July 2019, the Company launched the Byju's Early Learning App, for students in India in grades 1, 2 and 3, in partnership with Disney. As at 30 June 2020, the Company was in the process of developing a product focused on the international market (Grades 1-3), as well as on pre-KG and KG students. In FY20 and Q121, given that the financial statements are unaudited and provisional, all costs pertaining to development of such products have been expensed to the income statement.

Development costs include directly identifiable costs like development costs paid to third parties, profession fees paid and software license cost, and allocated expenses like cost of employees working on new product development and establishment costs that can be attributed to new product development.

In FY18 and FY19, 49.6% and 45.7% of total employee cost incurred during the year, has been attributed to new product development. These costs are primarily of the Media + Content team and Tech + Product team, who contribute a significant portion of their time towards new product development. As a % of the annual cost of Media + Content team and Tech + Product team, the proportion attributed towards new product development is 82.0% in FY18 and 77.4% in FY19. Additionally, in respect of establishment cost (like rent and electricity costs), a proportionate amount, based on space occupied by the Media + Content team and Tech + Product team, has been attributed to new product development. The capitalization policy appears to be in line with GAAP, although, we have not analyzed this in-depth.

Summary financial statements - Quality of earnings (2/4)

DRAFT FOR DISCUSSION PURPOSES ONLY

In FY20 and Q121, the exercise of identification of costs pertaining to new product development has not been carried out. Accordingly, all costs have currently been charged to the income statement (with the exception of professional fees of INR 1.99 billion incurred in FY20, which has directly been classified as pending capitalization). We however estimate, based on certain assumptions and discussions with/information provided by Management, costs aggregating about INR 3.86 billion and INR 2.07 billion, pertaining to employees, establishment cost and professional fees paid, could potentially be eligible for capitalization in FY20 and Q121 respectively. It should however be noted that we have not carried out an in-depth analysis of costs to ascertain the quantum that is eligible for capitalization. Post audit, the amounts eligible for capitalization could change.

b) GAAP requires companies to actuarially value, as at every balance sheet date, the liability towards gratuity and accumulated leave liability, and provide for the incremental liability. The last actuarial valuation was carried out as at 31 March 2019. No amounts have been charged to the income statement in FY20 and Q121 towards incremental liabilities towards gratuity and accumulated leave liability. As at 31 March 2019, the accumulated liability towards gratuity and accumulated leave was INR 0.21 billion. With the average employee base (excluding consultants) increasing from 3,169 in FY19 to 5,059 in FY20 (59.6% increase) and further to 6,534 in Q121 (29.2% increase) , it can be assumed that the accumulated liability is likely to increase in a similar proportion. We therefore propose an incremental provision of about INR 0.13 billion as at 31 March 2020 and INR 0.02 billion as at 30 June 2020 , towards gratuity and accumulated leave liability.

If an actuarial valuation of the liability is carried out as at 31 March 2020 and 30 June 2020, the liability and charge to the income statement could be different.

c) We understand from discussions with Management that in FY18, the Company expensed an amount of INR 0.50 billion paid to various artists, involved with new product development, as exclusivity fee. We understand that the exclusivity is for a certain period of time and it can be argued that the exclusivity fee paid, should be charged to the income statement, over the period of exclusivity or capitalized as product development costs and amortized over the estimated life of the product. We have therefore added back this expense to reported EBITDA.

Further, in FY20, the Company paid a one-time fee of INR 0.26 billion to Innoven Capital India Private Limited for surrender of right to subscribe to CCPS. The Company had availed of a secured loan from Innoven Capital India Private Limited, which was subsequently repaid in FY19. As a part of this borrowing agreement, Innoven Capital India Private Limited had the right to subscribe to 3,318 Series B CCPS at a predetermined valuation of INR 4,339.75 per share and 1,527 Series C1 CCPS at a predetermined valuation of INR 11,000.00 per share. This right stands cancelled.

d) As discussed earlier, the Company recognizes revenue upon dispatch of SD cards and tablets, in the case of domestic sales, and upon activation of license, the case of sales to GCC customers, through the Middle East agent. In both instances, this event is effected after the sales proceeds are collected in the Company's bank account, in the case of domestic sales, or collected by the Middle East agent, in the case of sales to GCC customers.

Summary financial statements - Quality of earnings (3/4)

This policy was followed up to FY18 and resulted in no receivables outstanding from finance partners or payment gateways as at financial year end.

With expansion in the base of financing partners and technology integration with them and payment gateways, effective FY19, in the case of domestic sales, the Company started to ship SD cards and tablets after receiving a confirmation of payment, rather than on receipt of sale proceeds into the Company's bank account. This resulted in year end receivables outstanding from financing partners and payment gateways as at 31 March 2019 and 31 March 2020.

If the policy of recognizing the sale on confirmation of payment, rather than receipt of sale proceeds was followed in FY18, revenue and EBITDA would be higher by about INR 0.04 billion each.

Additionally, we have also examined the revenue recognition policy adopted by the Company. We are of the view that as opposed to the current policy of recognizing revenue upon dispatch of SD cards and tablets to customers, in the case of domestic sales, and upon activation of license, in the case of sales made in the Middle East, a more prudent policy would be to recognize revenue upon delivery of SD cards and tablets to customers.

Further, irrespective of the validity of the product (single year or multi year), the entire revenue is recognized upfront. We have no contrary view on this, except that in the case of GCC customer who only opt for a content streaming and not for content to be delivered on a SD card or tablet, revenue should be spread over the period of validity of service.

We understand from discussions with Management that such revenue earned is less than 1% of the Company's total revenue. Based on this representation, we are of the view that the EBITDA adjustment towards this will not be material.

e) Byju's has entered into agreements with lending partners (scheduled banks and NBFCs), who provide customers financing to purchase Byju's products. While the financing arrangement is a principal-principal agreement between the financing company and the customer, for certain financing partners, who were onboarded in FY20, the Company bears the entire credit risk.

For these financing partners, in the event of default by a customer, Byju's has to make good the loss. In FY20 and Q121, sales made to customers who have obtained financing from such financing partners, is about INR 1.42 billion (5.8% of revenue) and INR 0.46 billion (3.8% of revenue) respectively. We were informed that as at 31 July 2020, the Company has received no notice of customer defaults from such financing partners. Accordingly, no provision has been made in the books towards any anticipated defaults, as at 31 March 2020 and 30 June 2020. We are however of the view that although no claims have been received yet, it is prudent to make a certain degree of provision towards such customer delinquencies, given that the arrangement with financing partners, where the Company provides a backstop, is fairly new (about 1 year) and while no customers have defaulted in this short timeframe, the same cannot be said for the future.

Summary financial statements - Quality of earnings (4/4)

DRAFT FOR DISCUSSION PURPOSES ONLY

f) The Company does not close its books of accounts monthly or quarterly. We understand that the book closing for the financial year ended 31 March 2020 and the quarter ended 30 June 2020, is not yet complete and the financial statements for FY20 and Q121, provided to us for the purposes of this due diligence, are provisional and unaudited. Should a hard closing be carried out and the books of accounts be subject to an audit, reported revenue and margins could undergo a change. We understand that the audit of the financial statements for FY20 would be completed by September 2020.

Summary financial statements - Balance sheet (1/3)

DRAFT FOR DISCUSSION PURPOSES ONLY

The business is characterized by high investment in content development, classified as intangible assets.

Net worth of Byju's has significantly increased between 31 March 2018 and 30 June 2020, driven by a cumulative fund raise of INR 44.8 billion in FY19 and FY20 and issue of CCPS, aggregating INR 6.6 billion, as consideration to erstwhile shareholders of Tangible Play Inc. Further, in Q121, the Company generated positive earnings of about INR 3.4 billion.

The Company has net cash reserves (including current investments) of about INR 35.2 billion as at 30 June 2020.

Summary balance sheet

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Current assets/liabilities				
Inventory	0.12	0.09	0.43	0.58
Receivables	0.26	0.59	0.83	0.71
Other current assets	0.76	1.73	5.74	4.32
Trade payable	(0.48)	(1.23)	(0.90)	(1.74)
Other current liabilities	(0.06)	(0.23)	(0.15)	(0.16)
	0.61	**0.97**	**5.96**	**3.72**
Non-current assets/liabilities				
Tangible/intangible assets/WIP	2.47	4.78	6.46	6.18
Non-current investments	0.69	11.06	17.19	18.35
Long term provisions	(0.12)	(0.21)	(0.21)	(0.21)
	3.04	**15.62**	**23.44**	**24.32**
Net debt				
Borrowings	(0.09)	(0.09)	(0.20)	(0.18)
Investments	2.81	16.45	17.59	14.55
Cash & cash equivalents	2.04	7.85	12.89	20.64
	4.76	**24.21**	**30.27**	**35.01**
Net assets	**8.41**	**40.79**	**59.67**	**63.04**
Represented by				
Share capital	0.03	0.03	0.03	0.03
Reserves	8.39	40.76	59.63	63.01
Net worth	**8.41**	**40.79**	**59.67**	**63.04**

Source: Management accounts

Current assets & liabilities

— Inventory

- Inventory constitutes stock of SD cards and tablets. Between 31 March 2018 and 30 June 2020, inventory has increased from INR 0.12 billion to INR 0.58 billion. No specific reason has been attributed by Management to reduction in value of inventory as at 31 March 2019. However, increase in inventory as at 31 March 2020 and 30 June 2020 is on account of higher purchases in anticipation of higher sales volumes, as well as certain bulk purchases made in order to take advantage of competitive pricing and to maintain adequate stock, given import constraints from China. For further information on inventory, refer page 54.

— Receivables

- Receivables represent amounts recoverable from the Middle East based partner of Byju's, COD collections from courier companies, amounts receivable from finance companies and amounts receivable from payment gateways. Increase in receivables between 31 March 2018 and 30 June 2020 is driven primarily by increase in revenue.
- Of the total receivables of INR 0.71 billion as at 30 June 2020, 65.5% is recoverable from Byju's Middle East partner, 26.0% is receivable from payment gateways, and the balance 8.5% is receivable from finance partners and courier partners.
- For additional information on receivables, refer pages 55-56.

Summary financial statements - Balance sheet (2/3)

DRAFT FOR DISCUSSION PURPOSES ONLY

- Other current assets
  - Other current assets largely constitute advances given to suppliers of SD cards and tablets, advances given to media agencies towards advertising and branding, advances given for sponsorship, advances given to group companies, lease deposits for office premises, prepaid expenses and balances with statutory authorities.
  - At an overall level, other current assets increased from INR 0.76 billion as at 31 March 2018 to INR 1.73 billion as at 31 March 2019. Balances as at 31 March 2019 include advances of INR 0.75 billion given to a subsidiary. Excluding this advance, the increase in other current assets appears to be in line with increase in the level of operations.
  - As at 31 March 2020, balance of other current assets increased to INR 5.74 billion, which includes short term loans and advances aggregating INR 3.14 billion. The significant increase in short term loans and advances as at 31 March 2020 is on account of advances given towards sponsorships, advances given for purchase of SD cards and tablets and advances given to media buying agencies and broadcasters towards advertising campaigns. Additionally, advances given to a subsidiary increased to INR 1.40 billion as at 31 March 2020 and lease deposits also increased in line with expansion in headcount and office premises.
  - As at 30 June 2020, balances declined to INR 4.32 billion. The reduction is largely attributable to a decline in advances to suppliers of SD cards and tablets, utilization of advances given to media buying agencies as at 30 March 2020, with no new advances given as at 30 June 2020 and reduction in advances given to content developers.
  - For further details on other current assets, refer page 57.
- Trade payable and current liabilities
  - Current liabilities constitute dues to media partners, agencies and Google towards marketing spend, and provisions made towards operating expenses.
  - For further details on trade payable and current liabilities, refer pages 58-59.

Non-current assets & liabilities

- Tangible/intangible assets and intangible assets under development.
  - Investment in tangible assets are primarily towards IT and office equipment and leasehold improvements.
  - Intangible assets represent unamortized content development cost and costs incurred towards new product development, which are pending capitalization.
  - For further details on tangible/intangible assets and intangible assets under development, refer page 60.
- Non-current investments represent investment made in subsidiaries. For additional details on non-current investment, refer pages 61.

Net debt

- Borrowings
  - Borrowings as at 31 March 2018 represents a secured term loan availed from Innoven Capital India Private Limited at an interest rate ranging between 14.75-15.0% per annum. This loan was entirely repaid in March 2019.

Summary financial statements - Balance sheet (3/3)

DRAFT FOR DISCUSSION PURPOSES ONLY

- Borrowings as at 31 March 2019, 31 March 2020 and 30 June 2020 represent finance lease obligation towards certain IT assets that were purchased from Hewlett Packard Financial Services Private Limited. The interest rate implicit in the lease is 8.25%. This lease is for a duration of 3 years.

— Investments

- Investments represent amounts invested in liquid debt funds and NCDs. Investments represent funds received from investors, which have not yet been utilized.
- We have sighted reports/statements received by Management from Byju's fund manager, which support the investments held by the Company as at 31 March 2020 and 30 June 2020.

— Cash & cash equivalents

- Cash & cash equivalents represents debit balances in bank accounts and term deposits. For further details on cash and cash equivalents, refer page 66.
- In line with the documents supporting investments, in the case of balances in key bank accounts and term deposits as at 31 March 2020 and 30 June 2020, we have sighted balance confirmations obtained by Byju's.

Summary financial statements - Net cash as at 31 March 2020 (1/2)

DRAFT FOR DISCUSSION PURPOSES ONLY

Summarized alongside are certain adjustments to reported net cash as at 30 June 2020, which we have identified based on our field work and discussions with Management. The adjustments are indicative and not exhaustive as this analysis is always subjective.

Net cash as at 30 June 2020		
INR billion	**Note**	**Amount**
Reported		
Borrow ings		(0.18)
Investments		14.55
Cash & cash equivalents		20.64
		35.01
Adjustments		
Employee related liabilities	a	(0.37)
Liability to BCCL	b	(0.24)
		(0.60)
Adjusted net cash		**34.40**

Source: Management information

Note

a) The Company provides for gratuity and accumulated leave liabilities as at financial year end, based on an actuarial valuation. The last actuarial valuation of gratuity and leave encashment liability was carried out as at 31 March 2019, whereby the accumulated liability was estimated at INR 0.21 billion. The Company has not actuarially valued gratuity and accumulated leave liability as at 31 March 2020 and 30 June 2020 and therefore, no incremental provision has been made towards these liabilities. As an estimate, based on the incremental provision made in FY19 and increase in headcount, the cumulative liability towards gratuity and accumulated leave could be about INR 0.37 billion as at 30 June 2020. Since these liabilities are entirely unfunded, we have classified these to be debt like.

b) The Company has entered into an agreement with BCCL whereby for a concessional cash cost, the Company can advertise on properties owned and operated by BCCL. To the extent of the concession, BCCL has the right to subscribe to warrants of Byju's, that will convert to equity shares in future. Should BCCL decide not to subscribe to the warrants in future, the accumulated liability to BCCL would have to be paid back. As at 30 June 2020, the accumulated liability to BCCL is INR 0.24 billion. However, given that the current value per share is significantly higher than the price at which BCCL has the option to purchase shares, it is likely that BCCL will exercise the option. This will have a dilutive impact on the current shareholding.

Summary financial statements - Net cash as at 31 March 2020 (2/2)

DRAFT FOR DISCUSSION PURPOSES ONLY

Others

— The Company has placed interest bearing deposits with American Express Banking Corporation and. This deposit with American Express Banking Corporation and SBI is towards corporate credit cards that have been issued to employees of Byju's. Further, certain financing partners require Byju's to maintain a deposit, which is in proportion to the amount financed (between 10.0-15.0%) to Byju's customers.

Summary cash flow statement

DRAFT FOR DISCUSSION PURPOSES ONLY

Summarized on this page is the cash flow statement of the Company for FY19, FY20 and Q121.

Increase in advances given towards business promotion spend as at 31 March 2020 has resulted in negative cash flow from operations in FY20.

Capital raised in FY19 was utilized to acquire Tangible Play Inc. in the US, and towards new product development.

In FY20, the Company raised INR 19.13 billion, which partly utilized towards new product development.

As at 30 June 2020, the Company has cash and investments aggregating INR 35.19 billion. Additionally, cash balance with the US subsidiaries is about USD 57.19 million (about USD 53.3 million as at 31 March 2020).

Cash flow statement

INR billion	FY18	FY19	FY20	Q121
Operating activities				
Reported EBITDA	(0.26)	0.26	(0.38)	2.82
Changes in working capital				
Trade receivables	0.27	(0.33)	(0.24)	0.12
Inventory	(0.08)	0.03	(0.34)	(0.15)
Other assets	(0.17)	(0.22)	(3.35)	1.42
Trade payables	0.23	0.75	(0.33)	0.84
Other liabilities and provisions	0.06	0.26	(0.08)	0.01
	0.33	**0.49**	**(4.34)**	**2.24**
	0.06	**0.74**	**(4.72)**	**5.06**
Investing activities				
Tangible and intangible assets	(1.56)	(2.94)	(2.77)	(0.08)
Investments in subsidiaries	(0.61)	(10.36)	(6.13)	(1.17)
Income from investments	0.29	0.39	0.92	0.76
	(1.87)	**(12.91)**	**(7.98)**	**(0.49)**
Financing activities				
Borrowings (repaid)/taken	(0.08)	(0.00)	0.12	(0.02)
Finance cost	(0.02)	(0.03)	(0.01)	(0.00)
Issue of equity/preference shares	1.58	32.18	19.13	0.00
	1.48	**32.16**	**19.23**	**(0.03)**
Net cash movement	**(0.33)**	**19.98**	**6.54**	**4.55**
Opening cash/investments	5.17	4.85	24.83	31.37
Closing cash/investments	**4.85**	**24.83**	**31.37**	**35.91**

Note:

(a) The cash flow above is indicative and has been prepared based on the unaudited financial statements for FY20 and Q121. Accordingly, classification of amounts may not be strictly as per Ind AS. There are certain minor unreconciled differences in closing cash/investments between the balance sheet and the statement above.

(b) Income from investments excludes notional income earned from restatement of investments as at year end at their market value. Further, opening and closing balance of cash/investments excludes gains from restatement at their market value. To this extent, there is a difference between cash/investments as per the reported balance sheet and the cash flow statement.

(c) Movement in other assets does not consider an amount of INR 0.75 billion in FY19 and INR 0.65 billion in FY20, which was advanced to a subsidiary of the Company. This amount has not been spent as at 30 June 2020. Hence the closing balance of cash/investments, in the table above, for FY19, FY20 and Q121 is higher by INR 0.75 billion, INR 1.40 billion and INR 1.40 billion respectively, when compared to the reported balance sheet.

(d) Please note that the cash flow statement presented alongside is stand-alone with the exception that cash advances given to Byju's K3 Education Private Limited, which have remained unspent, have been treated as cash.

(e) The cash flow presented on this page is not as per Ind AS and amounts have been reclassified for presentation and analysis purposes.

Source: Management information

Key observations

Key observations

Volume driven revenue growth in FY19, FY20 and Q121 (1/3)

DRAFT FOR DISCUSSION PURPOSES ONLY

Observation	Description

Revenue growth is volume driven. Key factors that have positively impacted volumes are expansion of the sales team, higher spending on sales and marketing, progressively larger renewal base and increase in selling price.

Revenue has also been positively impacted by introduction of Science content for Grades 4 and 5 in June 2018 and a new product for Grades 1, 2 and 3, in partnership with Disney, in July 2019.

Average realization has been positively impacted in FY19 on account of increase in selling prices by about 20% for new units in June 2018. Thereafter, selling prices have remained fairly stable.

Overall revenue, volume and average realization

	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Revenue (INR billion)													
New sales	0.67	0.89	0.98	1.50	2.22	2.91	3.27	3.55	4.52	5.14	5.99	5.61	7.73
Renewal	0.45	0.49	-	0.24	0.65	1.25	-	0.45	1.49	2.24	-	-	4.53
	1.12	1.38	0.98	1.73	2.87	4.16	3.27	4.00	6.01	7.38	5.99	5.61	12.26
Financial year				5.21				14.30				24.98	-
Revenue mix													
Grades 1-3	-	-	-	-	-	-	-	-	-	*0.30%*	*16.2%*	*17.1%*	*7.0%*
Grades 4-5	*2.8%*	*3.0%*	*4.5%*	*4.9%*	*16.9%*	*24.5%*	*24.6%*	*24.8%*	*26.0%*	*25.5%*	*28.6%*	*26.8%*	*21.1%*
Grades 6-10	*73.3%*	*71.9%*	*71.2%*	*70.8%*	*49.5%*	*53.4%*	*54.0%*	*49.9%*	*57.5%*	*57.2%*	*38.0%*	*36.5%*	*53.8%*
Grades 11-12	*23.9%*	*25.1%*	*24.2%*	*24.3%*	*33.5%*	*22.1%*	*21.4%*	*25.3%*	*16.5%*	*17.0%*	*17.2%*	*19.6%*	*18.1%*
	100.0%	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
Units (million)													
New sales	0.06	0.08	0.11	0.14	0.21	0.24	0.32	0.31	0.40	0.45	0.52	0.51	0.66
Renewal	0.05	0.05	-	0.02	0.08	0.15	-	0.05	0.15	0.24	-	-	0.46
	0.11	0.14	0.11	0.16	0.28	0.39	0.32	0.36	0.54	0.68	0.52	0.51	1.12
Financial year				0.52				1.36				2.26	
Realization/unit (INR)													
New sales	11,099	10,534	8,733	10,823	10,625	11,919	10,230	11,401	11,429	11,487	11,506	10,987	11,636
Renewal	8,834	9,053	-	9,689	8,612	8,613	-	8,976	10,109	9,502	-	-	9,860
	10,057	9,953	8,733	10,651	10,088	10,687	10,230	11,067	11,072	10,801	11,506	10,987	10,910
Financial year				9,932				10,554				11,071	

Note: (a) Revenue and units are gross of sales returns (but net of discounts) and is a combination of sales made to Grades 1-12 and Test Prep segment. Revenue share of Test Prep is however less than 5.0% of total sales.

(b) Units denotes number of units sold and includes single as well as multipack customers. For instance, a 2 year combo pack sold is classified as 2 units in the above table.

(c) Realization/unit = Gross revenue over gross units.

(d) All operating data, including KPIs, provided to us for the purposes of this due diligence is summarized in the table above.

Source: Management information

Volume driven revenue growth in FY19, FY20 and Q121 (2/3)

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Observation	Description
	Growth in revenue — During FY19, the Company earned gross revenue of INR 14.30 billion, as compared to INR 5.21 billion in FY18, a growth of 174.6%. During the same period, volumes increased from 0.52 million units to 1.36 million units. Between FY19 and FY20, revenues improved from INR 14.30 billion to INR 24.98 billion with volumes increasing from 1.36 million units to 2.26 million units. Q121 revenue aggregated INR 12.26 billion, which is about 2x of revenue of INR 6.01 billion earned in Q120 and 2.2x higher than INR 5.61 billion earned in Q420. We understand that the growth in user base is primarily in the Grades 1-12 segment, with Test Prep segment constituting less than 5% of gross revenues. — Sales are highest between the months of June to August and during this period, discounts given are comparatively lower. As the academic year progresses, the proportion of discounts offered increases and up to FY19, have been the highest in Q3 (around 20%). In FY20 however, on the back of higher demand, we understand that the Company has been able to substantially reduce the discounts traditionally given in Q3. As a result of lower discounts given, average realization per user, between Q319 and Q320, has improved by about 10.2%. (The higher realization also factors a new product for Grades 1, 2 and 3 launched in Q220, which has a higher realization, when compared to Grades 4-12). — Between FY18 and FY19, average realization per user increased from INR 9,932 to INR 10,554, an increase of 6.3%. This growth is largely driven by a price increase of up to 20% in respect of new users in the Grade 1-12 segment, effected in July 2018. Further, in July 2019, the Company launched the Byju's Early Learning App, focussed on Grades 1, 2 and 3, in partnership with Disney. We understand that the selling price of this product is about 20.0-30.0% higher than packs sold for Grades 4-12. This has impacted average realization per user positively in FY20, which increased to INR 11,071 (4.9% increase). — Q121 average realization is marginally lower than Q120 and FY20 by about 1.5% each. While for new sales, average realization improved by 1.8% in Q121 over Q120, in the case of renewals, average realization declined by 2.5%. No specific reason attributed by Management for the decline in average realization for renewal units in Q121. — Additionally, Management has attributed the following additional drivers of revenue growth: - Progressive increase in the base of renewals: Q1 and Q2 are the quarters which have the highest renewals. In FY18, the total units renewed were about 0.11 million as against 0.22 million and 0.38 million renewed during the same period in FY19 and FY20. In Q121, renewal units were 0.46 million as compared to 0.15 million in Q120. This consistent increase in the base of renewals over the years has resulted in a substantial portion of revenue earned in Q121 being from renewals. In Q119 and Q120, about 22.8% and 24.7% of gross revenue earned in the quarter was from renewals. This proportion increased to 36.9% in Q121.

Volume driven revenue growth in FY19, FY20 and Q121 (3/3)

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Observation	Description
	- Expansion in the sales team: There has been a significant ramp up in the sales team, with the average headcount increasing from 563 employees in FY18 to 1,257 employees in FY19 and further to 2,363 and 2,972 employees in FY20 and Q121. Increase in headcount has resulted in the Company being able to mine a higher number of leads. Expansion in the sales team has also been coupled with increase in efficiency and higher conversions. This has in turn resulted in higher sales per sales person per month. In FY18, the average annual (India) sales per sales person was about INR 5.5 million, which increased to INR 8.5 million in FY19 and INR 9.6 million in FY20. - Higher spend on sales and marketing: As compared to FY18, in absolute terms, sales and marketing spend (excluding cost of sales employees), in FY19, increased by 2.7x and in FY20, over FY19, the spend has further increased by 1.2x. Additionally, the proportion of spend on TV advertising has significantly increased, resulting in a better reach this has contributed significantly to new user additions. In FY19 and FY20, the Company has also increased its spend on branding, resulting in higher brand awareness and recall. As a consequence of this, the efficiency of the sales team and conversion ratios have improved. Further, new initiatives like events in residential societies and schools have also contributed to the increase in new user base. - Financing partners: The number of financing partners that Byju's has onboarded has also increased year on year. This has also contributed to increase in sales. In absolute terms, sales effected through financing partners increased from INR 2.76 billion in FY18 to INR 7.32 billion in FY19 and further to INR 10.89 billion in FY20. In Q121, sales through financing partners aggregated INR 3.36 billion. As a % of net sales, sales effected through financing partners were 55.8% in FY18, 52.3% in FY19, 44.5% in FY20 and 27.8% in Q121. There is a reduction in the proportion of revenue earned through customers who opted for financing in Q121 and this, we understand from Management, is attributable to a reduction in the overall loan approval rates by finance partners from about 50.0-55.0% in FY20 to about 35.0-40.0% in Q121.

Significant quantum of employee costs have been capitalized

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Observation	Description

In FY18 and FY19, the Company was in the process of developing new products for Grades 1, 2 and 3 and accordingly, about 82.0% and 77.4% of the cost of Media + Content team and Tech + Product team was capitalized.

During FY20 and Q121, the Company was developing products for the international market and the pre-KG and KG segment. All employee costs have however been expensed for now as the exercise of identification of costs to new product development has not yet been carried out.

We understand that in FY18 and FY19, the capitalized portion of employee cost has been identified by Management based on actual time spent by the respective teams on new product development.

Employee cost

INR billion	FY18	FY19	FY20	Q121
Full employee cost				
Content development team				
Media + Content + Tech + Product				
On roll employees	1.15	2.08	3.00	1.16
Consultants	0.05	0.70	0.83	0.42
	1.20	2.78	3.83	1.59
SG&A/support team				
Sales	0.31	0.98	1.97	0.74
Mentoring + Customer Support	0.15	0.25	0.40	0.14
Top management	0.14	0.13	0.16	0.05
Other support teams + interns	0.13	0.47	0.31	0.10
	0.73	1.82	2.83	1.03
Other employee costs	0.05	0.11	0.14	0.03
Total employee cost (a)	**1.98**	**4.71**	**6.80**	**2.64**
Attributable to new products				
Capitalized				
On roll employees	0.93	-	-	-
Consultants	0.05	-	-	-
Under development				
On roll employees	-	1.45	-	-
Consultants	-	0.70	-	-
Sub-total (b)	**0.98**	**2.15**	**-**	**-**
% of content development team	*82.0%*	*77.4%*	-	-
% of full employee cost	*49.6%*	*45.7%*	-	-
Expensed in the books (a-b)	**1.00**	**2.55**	**6.80**	**2.64**

Source: Management information

Note:
(a) The Company has a policy of capitalizing employee costs pertaining to new product development. New product development denotes content creation for new grades and does not include content addition or upgradation for existing grades.
(b) In FY18 and FY19, 49.6% and 45.7% of employee cost incurred during the year was attributable to new product development (and capitalized), while the balance was charged to the income statement. The exercise of identification of such costs in FY20 and Q121 has not yet been carried out and hence all employee cost has been expensed in the reported income statement.
(c) From discussions with Management, we understand that the quantum of costs capitalized has been identified based on actual time spent by the respective teams on new product development, which is tracked by the respective teams. We have however not independently evaluated this.

Source: Management information

Key observations

Content development costs aggregate about INR 15.43 billion (1/3)

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Observation

Up to 30 June 2020, Byju's has reported cumulative spends of about INR 9.51 billion towards product development, of which INR 6.88 billion has been incurred by the Company, while INR 2.62 billion has been incurred by a US subsidiary.

The total spend will increase as expenses like employee cost, establishment cost and professional fees incurred in FY20 and Q121 towards new product development, are yet to be identified.

Making certain assumptions and discussions with Management, the estimate of potentially capitalizable costs incurred in FY20 and Q121 towards new product development is about INR 5.93 billion.

The cumulative spend on product development up to 30 June 2020 is estimated at about INR 15.43 billion.

Description

Content development cost

INR billion	FY18	FY19	FY20	Q121
Think & Learn Private Limited				
Capitalized cost				
Opening balance	1.06	2.37	2.37	4.90
Capitalized during the year				
Employee costs	0.93	-	-	-
Other costs	0.38	-	2.53	-
Closing balance	**2.37**	**2.37**	**4.90**	**4.90**
Under development				
Opening balance	0.01	0.17	2.53	1.99
Employee costs	-	1.45	-	-
Other costs	0.17	0.91	1.99	-
Capitalized during the year	(0.01)	-	(2.53)	-
	0.17	**2.53**	**1.99**	**1.99**
Total spend at India (a)	**2.53**	**4.90**	**6.88**	**6.88**
Think & Learn Inc./Byju's Inc.				
Opening balance	-	0.48	1.41	2.62
Outsourced vendor costs	0.48	0.93	1.22	-
Total spend at USA (b)	**0.48**	**1.41**	**2.62**	**2.62**
Total spend at India + USA (a+b)	**3.01**	**6.30**	**9.51**	**9.51**
Estimate of capitalizable costs				
Employee costs	-	-	2.96	1.23
Establishment costs	-	-	0.39	0.12
Professional fees	-	-	0.50	0.72
	-	**-**	**3.86**	**2.07**
Cumulative spend	**-**	**-**	**13.36**	**15.43**

Note:

(a) Up to FY17 the cumulative spend on the grade 4-12 focussed product was about INR 1.06 billion. Costs aggregating about INR 3.83 billion capitalized in FY18 and FY20 pertain to expenses incurred towards developing the grade 1, 2 and 3 focussed product. As at 31 March 2020, product development costs pending capitalization, as reflected in the reported financial statements is INR 1.99 billion and primarily constitutes cost of third parties who are involved with development of the international version of the grade 1,2 and 3 product and for the pre-KG and KG segment.

(b) Employee costs denote the cost of Media + Content and Tech + Product teams, which have been allocated towards new product development in FY18 and FY19. For FY20 and Q121, the Company is yet to identify the cost. However, in FY19, approximately 77.4% of the cost of Media + Content and Tech + Product teams was capitalized. Using the same proportion, the estimated capitalization for FY20 and Q121 would be about INR 2.96 billion and INR 1.23 billion respectively.

(c) Professional fee denotes payments made to faculty and artists to feature in videos and provide voice-overs. These costs are specifically identifiable to new content development. Professional fees also includes outsourced vendor costs that are paid to Disney approved vendors, who assist in content development. These costs too are specifically identifiable to new content development. While in FY18 and FY19, these costs have been specifically identified and capitalized/attributed towards new product development, for FY20 and Q121, the exercise of identification has not been carried out. Based on Management discussions, we understand that professional fees of about INR 0.50 billion in FY20 and about INR 0.72 billion in Q121, could potentially be capitalized. We have relied on this representation. A detailed exercise however needs to be carried out on the expenses incurred to ascertain their eligibility for capitalization.

(e) Establishment costs denote rent, maintenance and electricity costs pertaining to the space that is occupied by the Media + Content and Tech + Product teams. In FY18 and FY19, approximately 42.0% and 30.4% of establishment costs were capitalized/attributed towards new product development. For FY20 and Q121, Management has not carried out an exercise to compute potentially capitalizable establishment costs. Using proportions similar to FY19, establishment costs of about INR 0.39 billion and about INR 0.12 billion incurred in FY20 and Q121 can potentially be attributable to new product development.

(g) Up to 30 June 2020, an amount of INR 2.62 billion has been incurred by Think & Learn Inc./Byju's Inc. towards new product development. These expenses primarily include outsourced vendor costs. These amounts have been summarized based on discussions with Management. We have not received the financial statements of Think & Learn Inc., or Byju's Inc. for any of the periods.

(h) It should be noted that the financial statements for FY20 and Q121 have not undergone an audit. Amounts stated in the table alongside as potentially capitalizable could undergo changes as a part of an audit. Further, we have relied on assumptions, past trends and Management discussions, in order to arrive at these estimates. Accordingly, these amounts are indicative.

Source: Management information

Content development costs aggregate about INR 15.43 billion (2/3)

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Observation	Description
	Content development cost — In FY18 and FY19, Byju's was engaged in the development of new products for Grades 1, 2 and 3 for India and the international market. The India version of the product was launched in July 2019 and development costs of about INR 3.83 billion was incurred towards this. — As at 30 June 2020, the international version of the product is under development, along with a product offering for pre-KG and KG segment and an amount of INR 1.99 billion has been incurred towards this in the books of the Company and this amount is pending capitalization. — As discussed earlier, product development costs have been incurred in the US as well, through Think & Learn Inc. and Byju's Inc. The total spending in the US, as at 30 June 2020 aggregated approximately INR 2.62 billion. These costs are primarily in the nature of outsourced development. **Arrangement with Think & Learn Inc. and Byju's Inc.** — Think & Learn Inc. was incorporated in April 2017 pursuant to Byju's proposed foray into the US market. We understand from discussions with Management that certain vendors and service providers in the US, helping Byju's with development of the international product, insisted on being contracted by a US entity. — Operationally, Byju's infused funds in Think & Learn Inc. by way of equity, which were utilized to fulfil obligations under various vendor contracts that were entered into. Up to 31 March 2018, an amount of INR 0.48 billion was spent by Think & Learn Inc. towards development of the K-3 product. — On 27 February 2017, Byju's acquired Tangible Play Inc. For tax reasons, Think & Learn Inc. was merged with Tangible Play Inc., effective 7 March 2019. Concurrently, a new US subsidiary, Byju's Inc. was incorporated and all outsourced development contracts entered into with Think & Learn Inc., were transferred to Byju's Inc. Up to the date of merger with Tangible Play Inc., an amount of about INR 1.20 billion was spent by Think & Learn Inc. towards new product development. Subsequently, and up to 31 March 2019, Byju's Inc. incurred expenses of INR 0.21 billion towards new product development. Accordingly, the total spend in the US towards new product development aggregated INR 1.41 billion as at 31 March 2019. Further, in FY20, an additional amount of INR 1.22 billion was incurred by Byju's Inc., taking the total investment towards new product development, incurred in the US, to be INR 2.62 billion. No additional spend was incurred in Q121. — We understand from discussions with Management that there were/are no commercial activities carried out by Think & Learn Inc./Byju's Inc., except for entering into development contracts with US based vendors.

Content development costs aggregate about INR 15.43 billion (3/3)

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Observation	Description
	— No part of the development costs incurred by Think & Learn Inc. and Byju's Inc. have been cross charged to the India parent. Even if these development costs were to be charged to the India parent, given that the costs largely relate to new product development, the costs would be capitalized in the books of the India parent and would have little or no impact on the income statement.

Customer acquisition costs have declined in FY20

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Observation	Description

CAC per new user increased from INR 5,053 in FY18 to INR 6,199 in FY19 and thereafter declined to INR 4,770 in FY20. In Q121, CAC was INR 3,654 per new user added.

Increased TV advertising and other branding spend incurred in FY19 resulted in higher CAC. However, the effects of this spend resulted in a 1.7x increase in new user additions in FY20 (over FY19) with a proportionately lower marketing spend (of 1.3x) during the period. This resulted in CAC per new user declining to INR 4,770 in FY20.

In Q121, business promotions spends were at lower levels, however, other external factors resulted in significant new user additions, resulted in a decline in Q121 CAC by 23.4%, over FY20.

Marketing spend and CAC

INR billion	FY18	FY19	FY20	Q121
Business promotion expenses	1.09	3.97	4.04	1.07
Employee cost (sales team)	0.31	0.98	1.97	0.74
Fee for exclusivity	0.50	-	-	-
Other selling expenses	0.66	2.04	3.34	0.86
	2.56	6.99	9.34	2.67
Less:				
Fee for exclusivity	(0.50)	-	-	-
Courier and freight costs	(0.04)	(0.11)	(0.25)	(0.12)
Credit card charges	(0.03)	(0.08)	(0.16)	(0.12)
	(0.57)	(0.18)	(0.41)	(0.24)
CAC	**1.99**	**6.81**	**8.94**	**2.43**
New users added (million)	0.39	1.10	1.87	0.66
CAC per user (INR)	**5,053**	**6,199**	**4,770**	**3,654**

Note:
(a) Business promotion expenses constitute all advertising and branding spend including TV, print, outdoor, sponsorships and celebrity endorsements.
(b) Other selling expenses include sales commission to Middle East agent, travel cost of sales team, subvention interest, credit card charges and courier and freight expenses. Courier and freight expenses and credit card charges have been excluded from CAC.
(c) Certain costs like employee costs, sales commission for sales made in the Middle East and subvention interest costs are applicable for new sales as well as renewals. These costs cannot be split into new sales and renewals. We have considered 100% of these costs to be towards new sales.
(d) Fee for exclusivity is towards new product development and hence has been excluded for the purposes of calculating CAC for FY18.
(e) We have not analysed CAC by channel.

Source: Management information

Marketing spend

— Between FY18 and FY19, marketing spend has increased by 3.4x from INR 1.99 billion to INR 6.81 billion, while during the same period, new user additions increased by 2.8x from 0.39 million to 1.10 million. Marketing spend was high in FY19, driven by increased TV advertising and branding spend. Between FY19 and FY20, while CAC increased by 1.3x from INR 6.81 billion to INR 8.94 billion, new user base added increased by 1.7x, resulting in a decline in average CAC per user.

— TV and digital marketing spend, which include celebrity endorsements, constitutes a majority of marketing spend, followed by advertising on other mediums like print, outdoor and in stadia. We understand from Management that in absolute terms, spending on TV and digital media significantly increased in FY18 and FY19, which has resulted in higher downloads. Further, expansion in the sales team, resulting in a wider coverage, and other focused promotion spend like house visits and live product demonstrations, have positively impacted conversion rates and new user additions.

Key observations

Performance of the sales team

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Observation	Description

With growth in the number of sales personnel from 379 in Q118 to 2,972 in Q121, the sales team coverage, which averaged at 9.9% of installs in FY18, increased to 17.2% of installs in FY20 (14.3% of installs in LTM).

On similar lines, overall conversion ratios improved from 2.3% in FY18 to 6.2% in FY20 (4.9% during LTM).

Management indicated that enhanced brand visibility coupled with focused marketing initiatives have resulted in higher conversions.

Sales team performance and conversion rates

	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420	Q121
Quarterly headcount **(a)**	379	507	604	761	946	1,124	1,343	1,616	1,864	2,178	2,577	2,832	2,972
Pursuits/quarter/employee **(b)**	600	600	600	600	600	600	600	600	600	600	600	600	600
Total pursuits (million) **(a*b=c)**	0.23	0.30	0.36	0.46	0.57	0.67	0.81	0.97	1.12	1.31	1.55	1.70	1.78
Installs (million) **(d)**	3.17	3.74	3.17	3.59	3.95	5.11	4.64	4.41	9.19	7.54	6.10	10.15	20.66
India sales (million units) **(e)**	0.05	0.07	0.09	0.11	0.18	0.21	0.28	0.29	0.45	0.58	0.51	0.49	0.60
India sales (INR billion) **(f)**	0.52	0.70	0.74	1.17	1.95	2.59	2.85	3.22	4.96	6.18	5.75	5.30	6.79
KPIs													
Conversion rate ***(e/d)***	*1.5%*	*1.8%*	*2.8%*	*3.0%*	*4.6%*	*4.2%*	*6.0%*	*6.5%*	*4.9%*	*7.6%*	*8.3%*	*4.8%*	*2.9%*
Sales team coverage ***(c/d)***	*7.2%*	*8.1%*	*11.4%*	*12.7%*	*14.4%*	*13.2%*	*17.4%*	*22.0%*	*12.2%*	*17.3%*	*25.4%*	*16.7%*	*8.6%*
Sales team conversion ***(e/c)***	*20.6%*	*21.6%*	*24.3%*	*23.5%*	*32.2%*	*31.8%*	*34.8%*	*29.5%*	*40.5%*	*44.1%*	*32.9%*	*28.9%*	*33.8%*
SPPD (INR 000s) **(f/90/a)**	15	15	14	17	23	26	24	22	30	32	25	21	25

Note:
(a) Pursuits per sales employee is 200 per month and 600 per quarters. Pursuits are with respect to new sales.
(b) Installs is the total number of installations of the Byju's Learning App. These installs are for India and Middle East combined. This data is not available specifically for India. Number of installs have been significantly higher in Q120 and Q220 on account of higher marketing spend during the 2020 edition of the ICC Cricket World Cup and IPL and in also in Q121.
(c) Total units sold is the total number of packs sold in the K-12 and Test Prep segment, including renewals. Total units sold includes sales in the Middle East.
(d) Domestic sales is the total number of packs sold in the K-12 and Test Prep segment to new users in India. We were not provided with the quantity split of sales in India and Middle East. We have made certain assumptions to present new units sold in the domestic market.
(e) Revenue pertains to domestic sales only. We have made certain assumptions in order to present quarterly domestic sales.
(f) Conversion rate has been calculated as domestic units sold over total number of installs. The total number of installs includes Middle East region as well. To this extent, the resulting conversion ratio is distorted.
(i) Sales team coverage is defined as total reach over total number of installs. The total number of installs includes Middle East region as well. The sales team in India does not reach out to customers in the Middle East. To this extent, the sales team coverage ratio is distorted.
(j) SPPD = Sales per sales person per day and has been computed using 90 days to a quarter.

Source: Management information

Renewal rates in the K-12 segment average at about 85%

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Observation	Description
About 84.7%, 84.5% and 85.4% of eligible users renewed in FY18, FY19 and FY20. Renewal rates across all grades with the exception of Grades 9 to 10 and Grades 10 to 11 are in excess of 80.0%. Renewal rates for Grades 10 to 11 are significantly low as currently Byju's offers content only for science and math streams.	See table below

Renewal rate in K-12 segment

	Number of renewals in the current year	Eligible for renewal in the current year	*% renewed in current year*
Renewals by grade in FY18			
Grade 6 to Grade 9	64,494	68,831	*93.7%*
Grade 9 to Grade 10	16,745	20,547	*81.5%*
Grade 10 to Grade 11	16,929	28,395	*59.6%*
Grade 11 to Grade 12	17,683	19,062	*92.8%*
	115,851	**136,835**	***84.7%***
Renewals by grade in FY19			
Grade 4 to Grade 9	144,927	159,664	*90.8%*
Grade 9 to Grade 10	33,743	42,400	*79.6%*
Grade 10 to Grade 11	29,773	49,608	*60.0%*
Grade 11 to Grade 12	37,332	39,109	*95.5%*
	245,775	**290,781**	***84.5%***
Renewals by grade in FY20			
Grade 4 to Grade 9	294,454	325,771	*90.4%*
Grade 9 to Grade 10	55,781	73,711	*75.7%*
Grade 10 to Grade 11	31,451	54,177	*58.1%*
Grade 11 to Grade 12	51,223	53,234	*96.2%*
	432,909	**506,893**	***85.4%***

Note: (a) Renewal data for Grades 4-9 has been aggregated.

Source: Management information

Reconciliation of revenue to cash in FY19, FY20 and Q121 (1/2)

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Observation

As a part of the due diligence, we have performed an overall reconciliation of revenue earned to collections in the bank.

Of the total target collections in FY19, FY20 and Q121, we have identified collections to bank accounts to the extent of 93.2%, 94.3% and 95.9% respectively. The balance amount represents payment gateway charges and subvention interest.

In respect of prepaid transactions by way of direct bank transfers or cheques or cash, we have identified collections at an overall level and not at an individual transaction level (given the volume of transactions).

Description

Reconciliation of gross revenue with cash collections

INR billion	Domestic sales						Middle East sales			Total		
	Prepaid			COD								
	FY19	FY20	Q121	FY19	FY20	Q121	FY19	FY20	Q121	FY19	FY20	Q121
Reported sales	12.35	22.09	11.28	0.25	0.09	0.05	1.70	2.30	0.78	14.30	24.49	12.10
Add: Opening balance of receivables	-	0.16	0.28	0.03	0.02	0.02	0.23	0.41	0.53	0.26	0.59	0.83
Less: Closing balance of receivables	(0.16)	(0.28)	(0.24)	(0.02)	(0.02)	(0.01)	(0.41)	(0.53)	(0.47)	(0.59)	(0.83)	(0.71)
Add: Uncollectable receivables	(0.04)	-	-	-	-	-	-	-	-	(0.04)	-	-
Add: Cash in transit	-	-	-	-	-	-	0.01	-	-	0.01	-	-
Target collections in bank account (a)	**12.14**	**21.97**	**11.32**	**0.27**	**0.10**	**0.06**	**1.52**	**2.18**	**0.84**	**13.93**	**24.25**	**12.22**
Collections reconciled												
EMI partners	6.35	9.59	3.06	-	-	-	-	-	-	6.35	9.59	3.06
Cash management services	0.58	0.86	0.28	-	-	-	-	-	-	0.58	0.86	0.28
Payment gatew ays	3.49	8.65	6.72	-	-	-	-	-	-	3.49	8.65	6.72
Courier partners	-	-	-	0.27	0.10	0.06	-	-	-	0.27	0.10	0.06
Middle East agent	-	-	-	-	-	-	1.52	2.18	0.84	1.52	2.18	0.84
Total collections (b)	**10.42**	**19.10**	**10.06**	**0.27**	**0.10**	**0.06**	**1.52**	**2.18**	**0.84**	**12.22**	**21.38**	**10.96**
Collections reconciled at overall level												
Prepaid (NEFT, Cheques, IMPS, Cash)	0.78	1.48	0.76	-	-	-	-	-	-	0.78	1.48	0.76
Total collections (c)	**0.78**	**1.48**	**0.76**	**-**	**-**	**-**	**-**	**-**	**-**	**0.78**	**1.48**	**0.76**
Total collections (b+c=d)	**11.20**	**20.58**	**10.82**	**0.27**	**0.10**	**0.06**	**1.52**	**2.18**	**0.84**	**12.99**	**22.86**	**11.72**
Adjustments												
Subvention and collection charges (e)	0.94	1.38	0.51	-	-	-	-	-	-	0.94	1.38	0.51
Gross collections (d+e=f)	**12.14**	**21.97**	**11.32**	**0.27**	**0.10**	**0.06**	**1.52**	**2.18**	**0.84**	**13.93**	**24.25**	**12.22**
Difference w ith target (a-f)	0.00	(0.00)	(0.00)	(0.00)	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00

Note: (a) Reported sales for FY19 is gross of returns. Reported sales for FY20 and Q121 is net of returns. Management has informed us that in FY19, in the case of refunds due to customers for returns, the Company effected a separate payment to the payment gateway. Thus, collections from payment gateways was gross of refunds to customers. In FY20, the mechanism was changed and the Company intimated the payment gateway for customer refunds and the payment gateway deducted this refund from collections and remitted the net amount to the Company's bank account. Hence collections for FY20 and Q121 have been reconciled to the net revenue earned. We have relied on this representation made by management.

Reconciliation of revenue to cash in FY19, FY20 and Q121 (2/2)

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Observation	Description
	(b) Cash collections from financing partners, payment gateway, courier partners and Cash Management Services are net of applicable charges (and interest in the case of financing). (c) Other modes of payment include direct bank transfers to Byju's bank account. Cash collected from Cash Management Service represent orders where cash is paid by the customer at Byju's contact centres. On a daily basis, the cash is collected by a Cash Management Service provider and deposited in the bank account of Byju's. (d) Collection cost and interest has been classified entirely under prepaid sales. However, there are certain charges that pertain to COD sales as well. (e) It should be noted that the cash collections were reconciled to bank statements which were provided to us by Management (and not independently obtained by us). Source: Management information

Key observations

Potential dilution of equity

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Observation	Description
Certain options have been given to BCCL to purchase equity shares of Byju's at a pre-agreed valuation.	— In FY18 and FY19, Byju's entered into an agreement with BCCL whereby Byju's is eligible to advertise on all properties of the Times Group at a discounted cash cost. For the discounted portion, BCCL is eligible to receive equity shares of Byju's at a pre-determined valuation. The current agreement with BCCL is valid for a period of 3 years. During this period, Byju's can buy advertisements valued at approximately INR 800.0 million from BCCL. Approximately 35.0% is the cash cost of these advertisements. For the balance 65.0%, BCCL has the option to convert the same to equity. We understand that BCCL is not yet eligible to exercise this option. The earliest date at which BCCL can exercise this option is December 2020.

Supporting analysis

Cost of goods sold (1/2)

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Consumption of SD cards, tablets and cost of printed materials is classified as COGS.

Cost of goods sold					Common size				% of net sales			
INR billion	**FY18**	**FY19**	**FY20**	**Q121**	***FY18***	***FY19***	***FY20***	***Q121***	***FY18***	***FY19***	***FY20***	***Q121***
SD cards	0.37	1.16	2.12	1.15	*63.8%*	*55.7%*	*62.0%*	*65.8%*	*8.0%*	*9.1%*	*9.5%*	*10.6%*
Tablets	0.17	0.80	0.91	0.41	*29.1%*	*38.6%*	*26.5%*	*23.2%*	*3.6%*	*6.3%*	*4.1%*	*3.7%*
Cost of printed materials	0.04	0.12	0.39	0.19	*7.1%*	*5.7%*	*11.5%*	*11.0%*	*0.9%*	*0.9%*	*1.8%*	*1.8%*
	0.58	**2.08**	**3.43**	**1.74**	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***12.5%***	***16.3%***	***15.4%***	***16.1%***

Source: Management information

SD cards and tablets consumed

— As a % of net sales, COGS increased from 12.5% in FY18 to 16.3% and 15.4% in FY19 and FY20 respectively. In Q121, COGS further increased to 16.1%. This increase is attributed to the following:

- Consumption of SD cards increased from 8.0% of net sales in FY18 to 9.1% and 9.5% of net sales in FY19 and FY20 respectively. In Q121, consumption of SD cards was 10.6% of net sales. Cost of SD cards is for domestic sales only, as, in the case of sales made in GCC countries, the Middle East based partner of Byju's bears the cost.

  Between FY18 and Q121, the average unit cost of SD cards has increased from INR 668 to INR 1,361. Management attributed this increase in cost to a shift in mix from 32 GB SD cards supplied in FY18 to 64 and 128 GB SD cards that were supplied in FY19, FY20 and Q121. The shift to higher capacity SD cards was a combination of an increase in the proportion of combo packs sold, resulting in a larger volume of data store, as well as a general increase in content volume across all grades, which warranted the use of higher capacity SD cards.

  Additionally, the overall share of domestic sales increased from about 81.7% in FY18 to 90.6% and 93.6% in FY20 and Q121, resulting in higher consumption of SD cards. Further, in Q121, the average purchase of SD cards increased by about 8.0%, given import constraints from China.

- Consumption of tablets increased from 3.6% of net sales in FY18 to 6.3% in FY19 and declined to 4.1% and 3.7% in FY20 and Q121 respectively. In FY19, over FY18 the unit cost of a tablet increased from INR 4,300 to INR 5,745. This increase, we understand is driven by the fact that in FY19, Byju's supplied an expensive version of tablets to customers, which supported calling. In FY20, the Company resumed supply of the lower variant, which did not support calling, and also aggressively negotiated the purchase price with vendors. Further, the Company also purchased a significantly higher quantity of tablets in FY20, which also contributed to the decline in unit price. In Q121, as with SD cards, there has been an increase in the per unit cost by about 8.0%.

Supporting analysis

Cost of goods sold (2/2)

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Supply of tablets is however a pass through cost. Tablets are sold at cost or marginally below cost to customers. Revenue contributed by sale of tablets is about INR 0.18 billion in FY18, about INR 1.00 billion each in FY19 and FY20, and about INR 0.43 billion in Q121.

— Cost of printed materials represents the cost of reference books that are sold to customers. Cost of printed materials is charged off in the year incurred.

S&M costs (1/2)

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Selling and marketing expenses have largely remained range bound at about 55.0% of net revenue during FY18 and FY19.

In FY20, while in absolute terms, selling and marketing costs have increased, as a % of net revenue, these costs were 42.0%.

In Q121, sales and marketing costs were significantly lower, when compared to growth in revenue.

Selling and marketing expenses largely constitute advertising and branding costs.

Selling and marketing costs					Common size				% of net sales			
INR billion	FY18	FY19	FY20	Q121	FY18	FY19	FY20	Q121	FY18	FY19	FY20	Q121
Business promotion expenses												
- ATL spend	0.76	2.49	2.52	0.73	29.6%	35.7%	27.0%	27.3%	16.5%	19.5%	11.3%	6.7%
- BTL spend	0.33	1.47	1.52	0.34	12.9%	21.1%	16.3%	12.8%	7.1%	11.5%	6.8%	3.1%
	1.09	3.97	4.04	1.07	42.5%	56.7%	43.3%	40.1%	23.6%	31.0%	18.2%	9.9%
Employee cost (sales team)	0.31	0.98	1.97	0.74	12.2%	14.0%	21.0%	27.7%	6.8%	7.7%	8.8%	6.8%
Fee for exclusivity	0.50	-	-	-	19.5%	0.0%	0.0%	0.0%	10.8%	0.0%	0.0%	0.0%
Other selling expenses												
- Sales commission	0.27	0.51	0.69	0.23	10.6%	7.3%	7.4%	8.7%	5.9%	4.0%	3.1%	2.1%
- Travel cost of sales team	0.14	0.41	1.01	-	5.6%	5.9%	10.8%	0.0%	3.1%	3.2%	4.6%	0.0%
- Subvention/credit card charges	0.21	1.02	1.39	0.51	8.1%	14.6%	14.9%	19.0%	4.5%	7.9%	6.2%	4.7%
- Courier and freight costs	0.04	0.11	0.25	0.12	1.5%	1.5%	2.6%	4.5%	0.8%	0.8%	1.1%	1.1%
	0.66	2.04	3.34	0.86	25.8%	29.2%	35.7%	32.2%	14.3%	16.0%	15.0%	7.9%
	2.56	**6.99**	**9.34**	**2.67**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**55.5%**	**54.6%**	**42.0%**	**24.6%**

Source: Management information

Business promotion expenses

- Business promotion expenses incurred by the Company primarily include the following: cost of TV advertising, branding and sponsorships, celebrity endorsements, digital marketing spend on Google and Facebook, TV campaign production costs, and print advertising.
- TV advertising is both on GEC as well as sports. Within sports, advertising is concentrated on cricket events. In FY20, advertising spend was higher as in addition to IPL, the Company also advertised considerably during the ICC Crick World Cup. In Q121, TV advertising spends have declined as there were no cricketing events during the period. Further, the Company has also benefited from lower spot rates from broadcasters.
- No cricket matches in Q121 has also resulted in no spend towards team jersey branding. We understand that the Company has an agreement with BCCI up to March 2022 to be the team sponsor.
- Lower TV and branding spend in Q121 has however been offset to an extent by higher spend towards print advertising, which is primarily on BCCL properties. The Company entered into an agreement with BCCL whereby the Company advertises on BCCL properties at a concessional cash cost. To the extent of concession, BCCL has the right to subscribe to equity shares at a later date.

S&M costs (2/2)

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- Digital marketing spend is on Facebook and Google. Additionally, in FY19, Byju's started to advertise on various out-of-home platforms like hoardings and also broadcasted advertisement on local FM radio stations.
- Further, in Q119, as a new initiative, Byju's started to conduct marketing events in residential buildings in Bangalore, Chennai, Mumbai, Delhi, Hyderabad, Pune, Cochin and Kolkata. These events include conducting on-the-spot student evaluations and offering live demonstrations.

Employee cost

- Cost of sales team has increased from INR 0.31 billion in FY18 to INR 2.72 billion (annualized) in Q121. This increase is in line with the expansion in headcount, from an average of about 563 personnel in FY18 to 2,972 personnel in Q121. The average annual cost per sales personnel increased from INR 0.6 million in FY18 to INR 0.8 million each in FY19 and FY20 and further to INR 0.9 million in Q121. The average annual cost per employee of the sales team has remained stable between FY19 and FY20 despite annual increments on account of new hires at lower cost, which has offset the increments to existing employees. In Q121, increments of about 10.0% were effected.
- From discussions with Management, we understand that in addition to salary, sales employees are paid a performance based incentive. We understand that on an average, approximately 25% of the average annual salary of sales employees can be termed as variable.

Fee for exclusivity

- For the new K-3 content being developed by Byju's, agreements were entered into with artists to feature in videos and provide voice-overs. The agreement with artists require them to be exclusive to Byju's, for which a specific compensation was paid.
- This compensation was not capitalized as a part of new product development costs or amortized over a certain period, but was charged to the income statement as selling & marketing expenses. This is a non-recurring expense.

Other selling expenses

- A commission equivalent to 30% of gross sales is paid to More Ideas Trading for sales made in the GCC region. During FY18, FY19, FY20 and Q121, sales to the GCC region aggregated INR 0.90 billion, INR 1.70 billion, INR 2.30 billion and INR 0.78 billion respectively, on which commission expenses of INR 0.27 billion, INR 0.51 billion, INR 0.69 billion and INR 0.23 billion were incurred.
- In FY18, Byju's started a sales initiative which involved house visits to prospective customers for live demonstrations. We understand that conversion rates are higher in the case of house visits, when compared to calls. The travel cost of the sales team towards such house visits aggregated INR 0.14 billion in FY18, INR 0.41 billion in FY19 and INR 1.01 billion in FY20. In Q121, no travel expenses were incurred for the sales team.
- Subvention, credit card charges and freight costs have trended largely in line with revenue.

Supporting analysis

Employee cost (1/2)

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Employee cost has trended in line with increase in the employee base and annual increments effected.

Employee cost															
INR billion	**Full employee cost**				**Average headcount**				**Annual salary (INR million)**				***% increase***		
	FY18	**FY19**	**FY20**	**Q121**	**FY18**	**FY19**	**FY20**	**Q121**	**FY18**	**FY19**	**FY20**	**Q121**	***FY19***	***FY20***	***Q121***
Salary															
Sales	0.31	0.98	1.97	0.68	563	1,257	2,363	2,972	0.6	0.8	0.8	0.9	*40.6%*	*6.5%*	*10.1%*
Mentoring + CS	0.15	0.25	0.40	0.14	321	490	757	987	0.5	0.5	0.5	0.6	*8.4%*	*5.0%*	*10.7%*
Media + Content	0.84	1.63	2.22	0.86	703	952	1,230	1,709	1.2	1.7	1.8	2.0	*43.0%*	*5.3%*	*12.2%*
Tech + Product	0.30	0.45	0.78	0.30	170	203	326	438	1.8	2.2	2.4	2.8	*23.5%*	*8.5%*	*14.7%*
Top management	0.14	0.13	0.16	0.05	30	25	30	32	4.7	5.0	5.3	5.8	*7.3%*	*5.7%*	*9.1%*
Other support teams	0.13	0.21	0.31	0.10	182	242	353	396	0.7	0.8	0.9	1.0	*23.2%*	*4.1%*	*9.9%*
Interns	-	0.26	-	0.06	NA	NA	NA	NA	NA	NA	NA	NA	*NA*	*NA*	*NA*
	1.87	**3.90**	**5.83**	**2.19**	**1,969**	**3,169**	**5,059**	**6,534**	**1.0**	**1.2**	**1.2**	**1.3**	***29.3%***	***-6.2%***	***16.4%***
Other costs															
Staff welfare	0.03	0.06	0.14	0.03	-	-	-	-	-	-	-	-	-	-	-
Gratuity	0.02	0.04	-	-	-	-	-	-	-	-	-	-	-	-	-
ESOP expense	0.01	0.01	-	-	-	-	-	-	-	-	-	-	-	-	-
	0.05	**0.11**	**0.14**	**0.03**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Income statement	**1.93**	**4.00**	**5.97**	**2.22**	**1,969**	**3,169**	**5,059**	**6,534**	**1.0**	**1.3**	**1.2**	**1.4**	***29.1%***	***-6.6%***	***15.2%***
Cost of consultants	0.05	0.70	0.83	0.42											
Total cost	**1.98**	**4.71**	**6.80**	**2.64**											

Note: (a) Full employee cost in the table above is prior to capitalization of costs towards new product development. Media + Content team cost in FY18, FY19 and FY20. In addition to employees on rolls, the Company also employ's full time personnel, who are designated as consultants and their cost is classified as professional fees in the income statement. For the purposes of determining employee cost, we have also considered the cost of consultants.

(b) Other support teams include HR, Finance, IT and Administration.

(c) The Company also hires interns. These interns are attached to a specific function, and in FY18 and FY20, the full employee cost by function and the average headcount by function, includes the cost and average headcount of interns. In FY19, the cost of interns has been separately classified and the average headcount does not include the headcount of interns. To this extent, the average annual salary for FY18 and FY19 is not comparable.

(d) Gratuity and ESOP expense has not been computed yet for FY20 and Q121. Management expects the ESOP charge for FY20 to be about INR 5.0 million and nil for Q121.

(e) Mentoring + CS = Mentoring + Customer Service

Source: Management information

Employee cost (2/2)

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Employee cost

— Overall employee cost increased from INR 1.98 billion in FY18 to INR 4.71 billion in FY19 and further to INR 6.80 billion in FY20. In Q121, the annualized employee cost is about INR 10.57 billion. This increase is driven by a ramp up in headcount (excluding consultants) from 1,969 in FY18 to 6,534 in Q121.

— The net average addition to the employee base (excluding consultants) in FY19 was 1,200, of which, 649 employees were added to the Sales team. Further, in FY19, the Company also augmented the Mentoring + Customer Support and Media + Content team by 418 personnel. In FY20, the headcount (excluding consultants) further increased by 1,890 employees, primarily led by additions to the Sales team (1,106 employees) and Media + Content team (278 employees). In Q121, the Company added about 1,475 personnel, of which, 609 were added to the Sales team, 479 to the Media + Content team and 239 to the Mentoring + Customer Support team.

— On an average, annual salary cost per employee (excluding consultants) increased by about 29.3% in FY19 over FY18, declined by 6.2% in FY20, over FY19 and increased by 16.4% in Q121, over FY20. While the increase in FY19 was driven by annual salary increments of between 10.0-15.0%, coupled with ramp up of Media + Content and Tech + Product with high cost personnel. In FY20, ramp up in employee base was primarily in the Sales team where salaries are comparatively lower. This resulted in a decline in the average annual cost per employee. The decline was however offset by a 8.0-10% annual increment given to employees in FY20.

— Effective April 2020, annual salary increments averaged at about 10.0%. However, hiring of high cost employees in the Media + Content team and Tech + Product teams resulted in the average annual cost per employee being higher by about 16.4%, over FY20.

— Byju’s has a variable pay policy only for employees in the Sales team. A biweekly performance based incentive is paid to employees in the Sales team. Employees in other functions are not eligible for variable pay.

— As a part of our due diligence, we have not performed any procedures on compliance with employee related laws such was payment of minimum wages, payment of bonus, remittance of PF and ESI related dues, etc., or read agreements with key employee personnel.

Supporting analysis

Other G&A costs (1/2)

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There is a certain degree of operating leverage on G&A costs as a fairly significant portion of costs incurred are fixed in nature. Consequently, as a % of net sales, other G&A costs declined from 22.8% in FY18 to 14.8% in FY19.

FY20 and Q121 spend is not comparable with FY19 as legal and professional costs incurred includes potentially capitalizable cost which have not yet been identified.

Other G&A costs					Common size				% of net sales			
INR billion	**FY18**	**FY19**	**FY20**	**Q121**	***FY18***	***FY19***	***FY20***	***Q121***	***FY18***	***FY19***	***FY20***	***Q121***
Establishment costs	0.26	0.48	1.30	0.39	*24.7%*	*25.0%*	*25.8%*	*22.7%*	*5.6%*	*3.7%*	*5.8%*	*3.6%*
Legal and professional costs	0.19	0.11	1.62	0.89	*18.1%*	*6.0%*	*32.3%*	*52.2%*	*4.1%*	*0.9%*	*7.3%*	*8.2%*
Doubtful receivables	0.08	0.11	-	-	*7.5%*	*5.7%*	*0.0%*	*0.0%*	*1.7%*	*0.8%*	*0.0%*	*0.0%*
Communication costs	0.05	0.08	0.18	0.05	*5.1%*	*4.2%*	*3.6%*	*2.8%*	*1.2%*	*0.6%*	*0.8%*	*0.4%*
Travel costs	0.19	0.45	0.95	0.02	*18.5%*	*23.7%*	*18.9%*	*1.0%*	*4.2%*	*3.5%*	*4.3%*	*0.2%*
Rates and taxes	0.15	0.33	0.52	0.16	*14.0%*	*17.1%*	*10.4%*	*9.4%*	*3.2%*	*2.6%*	*2.3%*	*1.5%*
Other G&A costs	0.13	0.35	0.46	0.20	*12.2%*	*18.3%*	*9.1%*	*11.9%*	*2.8%*	*2.7%*	*2.1%*	*1.9%*
	1.06	**1.91**	**5.03**	**1.70**	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***22.9%***	***14.9%***	***22.6%***	***15.7%***
Add: Capitalized/WIP cost												
Establishment costs	0.19	0.21	-	-								
Professional fees	-	-	1.99	-								
	0.19	**0.21**	**1.99**	**-**								
	1.24	**2.11**	**7.02**	**1.70**								

Source: Management information

Establishment costs

- Establishment costs denote the following key costs: lease rent, equipment rent, cost of utilities and office/building maintenance costs.
- Gross of costs capitalized, establishment costs incurred in FY18, FY19, FY20 and Q121 aggregated INR 0.45 billion, INR 0.68 billion, INR 1.30 billion and INR 0.39 billion respectively.
- Increase in establishment costs in FY19 is attributable to the full year impact of new office premises taken on lease during Q318 and Q418. New office locations were primarily in Chennai, Pune, Mumbai, Kolkata and Hyderabad. Further, new office space was added in Bangalore head office.
- In FY20, given the increase in headcount to 5,419, from 3,449 in FY19, the Company added additional office space. From about 40 offices in FY19, the Company expanded to 80 offices in FY20. Additionally, the Company also added additional office space at its Bangalore head office.
- No new office space was added in Q121. Although on an annualized basis, establishment cost appears to be higher than what was incurred in FY20 by about 19.2%, it is in line with what was incurred in Q420.

Other G&A costs (2/2)

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Legal and professional charges

— In FY18 and FY19, legal and professional charges constitute costs paid towards legal and marketing consultants, advertising agencies, recruitment agencies and technology consultants. In FY20 and Q121, additionally, legal and professional charges also include cost of outsourced development for new products. These expenses have been charged to the income statement currently, since the income statement for FY20 and Q121 is provisional. These expenses will eventually be capitalized as intangible assets.

Doubtful receivables

— In FY18 and FY19, the Company has made a provision towards doubtful receivables of INR 0.08 billion and INR 0.11 billion respectively. These provisions were made towards amounts due from a financing partner, who is no longer associated with the Company.

— No provision for doubtful receivables has been made for FY20 and Q121 as Management has indicated that all outstanding receivables as at 31 March 2020 have been subsequently collected and in respect of receivables outstanding as at 30 June 2020, 34.5% have been collected up to 1 August 2020. Uncollected receivables pertain only to the Middle East partner of the Company.

Travel expenses

— Travel expenses represent cost of travel and boarding in respect of G&A employees as well as the travel cost of third parties/contractors who have been contracted for new product development. Travel costs also include the per diem paid to employees and contractors. Increased in travel costs in FY19 and FY20 is attributable to new product development. No travel costs have however been capitalized. Management attributed travel expenses of about INR 0.1 billion in FY20 to be one-time in nature. Travel expenses incurred in Q121 have been minimal.

Rates and taxes

— Rates and taxes primarily represent proportionate GST input credit reversal on output products that are not subject to GST. We understand that books sold by the Company does not attract GST.

Inventory

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In FY18 and FY19, against 0.52 million and 1.36 million units sold, SD cards and tablets consumed aggregated 0.61 million and 1.49 million units respectively. Higher consumption of SD cards and tablets is on account of combo packs that are sold in two or more SD cards/tablets.

In FY20 and Q121, against 2.26 million units and 1.12 million units sold respectively, consumption of SD cards and tablets aggregated 1.98 million and 0.97 million units respectively. The reduction in proportion of SD cards and tablets consumed to the user base is on account of higher capacity SD cards consumed which can accommodate two or more grades.

Inventory

	Mar-18	Mar-19	Mar-20	Jun-20
Volume (Nos. in 000s)				
SD cards	151	44	235	272
Tablets	5	7	34	46
Value (INR billion)				
SD cards	0.10	0.05	0.29	0.37
Tablets	0.02	0.04	0.14	0.21
Others	-	0.00	0.00	-
	0.12	**0.09**	**0.43**	**0.58**
Unit cost (INR)				
SD cards	668	1,093	1,218	1,361
Tablets	4,300	5,745	4,200	4,554

Source: Management information

Quantity reconciliation

000s	Mar-18	Mar-19	Mar-20	Jun-20
SD cards				
Opening stock	13	151	44	235
Purchases + customer returns	710	1,197	1,932	912
Consumption	(572)	(1,304)	(1,741)	(875)
Closing stock	**151**	**44**	**235**	**272**
Tablets				
Opening stock	9	5	7	34
Purchases + customer returns	36	189	267	106
Consumption	(40)	(187)	(240)	(95)
Closing stock	**5**	**7**	**34**	**46**

Source: Management information

Inventory

- Inventories comprise tablets and SD cards which are valued at the lower of cost (on weighted average basis) and the net realizable value, after providing for obsolescence and other losses.
- Along with SD cards and tablets, customers are also shipped printed books. Cost of these books is expensed in the year incurred and not considered as inventory.
- The Company carries out a physical verification of inventory as at financial year end. Management has informed us that a physical verification of stock was carried out as at 31 March 2020 and no material discrepancies were noted. We have not sighted copies of these reports.
- The average cost of consumption per unit SD cards in FY18, FY19, FY20 and Q121 is INR 644, INR 890, INR 1,219 and INR 1,313 respectively, as against the closing stock per unit of INR 688, INR 1,093, INR 1,218 and IR 1,361 per unit as at 31 March 2018, 31 March 2019, 31 March 2020 and 30 June 2020.
- The average cost of consumption per unit tablet in FY18, FY19, FY20 and Q121 is INR 4,158, INR 4,303, INR 3,778 and INR 4,266 respectively, as against the closing stock per unit of INR 4,300, INR 5,745, INR 4,200 and INR 4,554 per unit as at 31 March 2018, 31 March 2019, 31 March 2020 and 30 June 2020 respectively.
- The rate difference between the cost per unit consumed and closing stock of SD cards and tablets is a factor of product mix as well as timing of inventory purchased.

Receivables (1/2)

Receivables represent sales proceeds recoverable from the Middle East partner, courier partners, financing partners and from payment gateway.

As at 30 June 2020, receivables aggregate INR 0.71 billion, of which, 78.0% are aged between 0-30 days, while the balance 12.0% are aged between 30-60 days.

Up to 1 August 2020, with the exception of INR 0.47 billion that remains uncollected from the Middle East partner of the Company, other dues have been collected.

Receivables

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Middle East partner	0.23	0.41	0.53	0.47
Courier partners	0.03	0.02	0.02	0.01
Financing partners	-	0.06	0.14	0.05
Payment gatew ay	-	0.10	0.15	0.19
	0.26	**0.59**	**0.83**	**0.71**
KPIs				
Middle East sales (full year)	0.90	1.70	2.30	0.78
India COD sales (full year)	0.52	0.25	0.09	0.05
Sales through financing partners	2.76	7.32	10.89	3.36
India online sales (full year)	-	3.66	8.86	6.88
Days of sales outstanding				
- Middle East partner	92	89	85	54
- Courier partners	24	30	64	14
- Financing partners	-	3	5	1
- Payment gatew ay	-	10	6	2

Source: Management information

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Receivables

- Receivables as at 31 March 2018, 31 March 2019, 31 March 2020 and 30 June 2020, represent approximately 19 days, 15 days, 12 days and 5 days of sales respectively. Reduction in the DSO as at 30 June 2020 is on account of higher proportion of sales made through payment gateways where collections are T+1.
- More Ideas General Trading LLC is the Middle East based partner of Byju's responsible for sales and marketing. Gross sales proceeds are collected by the sales partner and remitted to Byju's. Contractually, the credit period is one month, however, we understand from discussions Management that remittances are on a quarterly basis. In the past, receivables from the Middle East partner has ranged between 85-90 days of annual sales. The outstanding of INR 0.47 billion as at 30 June 2020, represent sales made by the partner in Q121 as all receivables outstanding as at 31 March 2020 have been collected. As at 1 August 2020, the entire outstanding of INR 0.47 billion as at 30 June 2020, remains uncollected. The receivables as at historical balance sheet dates in the case of the Middle East based partner is recorded gross of commission payable. The commission payable is classified as a liability.
- For domestic sales, the Company has entered into arrangements with a number of courier companies in India. Customers purchasing on COD pay the courier companies upon delivery of SD cards/tablets, who in turn remit the collections to Byju's within a period of 30-45 days. COD sales have been on a declining trend.

Receivables (2/2)

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— Financing partners generally pay the Company within a period of 7 days from the loan being sanctioned to a customer. As at 31 March 2019, 31 March 2020 and 30 June 2020, receivables from financing partners represented approximately 3 days, 5 days and 1 day of sales. There are no receivables from financing partners as at 31 March 2018 as during FY18, Byju's followed a practice of recognizing revenue only once collections were actually received in the bank account.

— Payment gateways follow a T+1 settlement cycle. Approximately 10, 6 and 2 days of sales are outstanding as at 31 March 2019, 31 March 2020 and 30 June 2020. This is based on full year sales where payments were made through payment gateways. We do not have data on sales during the last week of March 2019, March 2020 and June 2020. There are no receivables from payment gateways as at 31 March 2018 as revenue was recognized upon collection.

Other current assets

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Other current assets primarily constitute long term lease deposits as well as advances to vendors (primarily advertising).

Other current assets

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Short-term loans and advances				
- Advertising	NA	NA	0.79	0.58
- Sponsorship	NA	NA	0.47	0.47
- Vendor advance	NA	NA	0.67	0.33
- Digital marketing	NA	NA	0.20	0.23
- Purchases (inventory)	NA	NA	0.71	0.21
- Others	NA	NA	0.30	0.02
	0.30	0.42	3.14	1.84
Advance to subsidiary	-	0.75	1.40	1.40
Security deposit	0.21	0.26	0.74	0.74
Prepaid expenses	0.19	0.28	0.30	0.21
Balances w ith statutory authorities	0.07	0.03	0.17	0.13
	0.76	**1.73**	**5.74**	**4.32**

Source: Management information

Other current assets

— Short-term loans and advances denote trade advances given to suppliers, primarily towards advertisement and sponsorship, advance payments made for new content development and other regular business expenses. Certain advances are contractual, while others are need based. The quantum of short term loans and advances increased significantly as at 31 March 2020, when compared to 31 March 2019 on account of higher advances given towards advertising, sponsorship and purchase of inventory. As at 30 June 2020, reduction in advances towards advertising, purchases and vendors has driven the overall advance down.

— As at 31 March 2019, 31 March 2020 and 30 June 2020, the Company has advanced an amount of INR 0.75 billion, INR 1.40 billion and INR 1.40 billion respectively to Byju's K3 Education Private Limited. This amount, we understand was advanced for development of new products in the subsidiary. However, no development activities have been carried out in this entity and the cash balance as at 30 June 2020 in this subsidiary is INR 1.40 billion.

— Security deposits have been given towards office premises taken on lease. As at 31 March 2019, Byju’s had approximately 40 office premises on lease. This expanded to about 80 office premises in FY20, resulting in a significant increase in lease deposits as at 31 March 2020. No additional office space has been leased in Q121. Hence the balance of security deposits remains unchanged as at 30 June 2020, over 31 March 2020. We have not been provided with a schedule of leased premises as at historical balance sheet dates.

— Balances with statutory authorities denotes GST credit available to the Company to be set off in future.

Trade payables

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Trade payable represent creditors for expenses like advertising, freight and other operating costs.

Trade payable

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Salaries payable	0.16	0.32	0.52	0.72
Business promotion	0.16	0.42	0.12	0.25
Provision for expenses	0.05	0.09	0.10	0.13
Consultancy fees	0.02	0.04	0.03	0.18
Purchases	0.03	0.24	0.01	0.17
Travel expenses	0.01	0.02	0.01	0.00
Courier and freight expenses	0.01	0.02	0.01	0.02
Other expenses	0.05	0.09	0.09	0.25
	0.48	**1.23**	**0.90**	**1.74**

Source: Management information

Trade payables

— Salary payable represents period end provisions made towards employee salaries. The liability has increased historically on account of expansion in the employee base. Salaries are paid during the first week of the subsequent month. Increase in liability is driven by increase in headcount.

— Provision for expenses represent year end provisions made towards SG&A expenses. It should be noted that pending a hard close of books for FY20 and Q121, provision for expenses made as at 31 March 2020 is an estimate, which could increase post audit.

— Other expenses include commission payable to the Middle East partner of Byju's as well as royalty payable to Disney.

Other current liabilities

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Other current liabilities represent month end provisions made for salaries, expenses and statutory dues.

Other current liabilities

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Statutory liabilities	0.05	0.17	0.11	0.13
Payable for acquisition of business	0.00	0.03	0.01	0.00
Refundable security deposit	0.00	0.00	0.00	-
Others	0.01	0.03	0.02	0.02
	0.06	**0.23**	**0.15**	**0.16**

Source: Management information

Other current liabilities

— Statutory liabilities comprises employee related statutory dues such as Provident Fund contribution and ESI contribution.

Tangible and intangible assets

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As at 31 March 2020, the depreciated value of tangible and intangible assets is INR 6.46 billion, including WIP of INR 1.99 billion, which is pending capitalization as at 30 June 2020.

A majority of development costs incurred in FY20 and Q121 are yet to be capitalized. These costs are in the nature of outsourced vendor costs and in-house employee cost.

Tangible/intangible assets and WIP

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Net tangible assets				
IT equipment	0.05	0.32	0.62	0.57
Office equipment	0.04	0.06	0.12	0.14
Leasehold improvements	0.02	0.01	0.05	0.05
Furniture & fixtures	0.01	0.01	0.08	0.08
	0.12	**0.40**	**0.87**	**0.83**
Net intangible assets				
Byju's Learning App	2.08	1.60	1.13	1.01
Byju's Early Learning App	-	-	2.27	2.15
Software	0.03	0.08	0.06	0.07
Technical know how	0.08	0.10	0.07	0.07
Goodwill	-	0.07	0.07	0.07
	2.19	**1.85**	**3.61**	**3.36**
Intangible under development				
Opening balance	0.01	0.17	2.53	1.99
Employee cost	-	1.45	-	-
Establishment cost	-	0.21	-	-
Professional fees	0.13	0.70	-	-
Other costs	0.04	-	1.99	-
Transferred to intangible assets	(0.01)	-	(2.53)	-
	0.17	**2.53**	**1.99**	**1.99**
Total including WIP	**2.47**	**4.78**	**6.46**	**6.18**

Source: Management information

Tangible/intangible assets and WIP

- Net investment in tangible assets is INR 0.83 billion as at 30 June 2020. Additions to tangible assets are primarily towards IT and office equipment and is in line with increase in headcount.
- The Company depreciates tangible assets on a straight line basis using the following useful lives: IT equipment – 3 years, office equipment – 5 years, leasehold improvements – over the lease period, and furniture & fixtures – 10 years.
- Net investment in intangible assets is primarily towards the Byju's Learning App and Byju's Early Learning App, which is depreciated over 5 years.
- Technical knowhow represents consideration paid to erstwhile shareholders of Zeus Education Private Limited, which was amalgamated with Byju's effective 1 April 2016.
- Goodwill represents purchase consideration paid in excess of net assets acquired in case of Math Adventures Education LLP in FY19. While the consideration paid was INR 0.11 billion, the net assets acquired aggregated INR 0.05 billion.
- Costs yet to be capitalized in the books towards development of the Grades 1, 2 and 3 international product and pre-KG and KG product, is about INR 1.99 billion as at 31 March 20220 and 30 June 2020. The quantum of this spend is however incomplete as development costs incurred in FY20 and Q121 are yet to be identified.

Non-current investments (1/2)

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Non-current investments represent investment made in subsidiaries.

While Tangible Play Inc., Specadel Technologies Private Limited and Span Thoughtworks Private Limited, were acquisitions, Byju's K3 Education Private Limited, Byju's Inc. and Think and Learn Inc. (which was subsequently merged with Tangible Play Inc.) were subsidiaries incorporated by Byju's.

Non-current investments

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Tangible Play Inc.	-	10.52	12.27	13.44
Byju's Inc.	-	0.21	4.58	4.58
Specadel Technologies Private Ltd.	0.11	0.22	0.22	0.22
Span Thoughtw orks Private Ltd.	0.11	0.11	0.11	0.11
Byju's K3 Education Private Ltd.	-	0.00	0.00	0.00
Think and Learn Inc.	0.48	-	-	-
	0.69	**11.06**	**17.19**	**18.35**

Source: Management information

Non-current investments

— On 27 February 2019, Byju's acquired 100% stake in Tangible Play Inc. for a consideration of INR 8.27 billion (USD 120 million). Further, on 7 March 2019, Think and Learn Inc. was merged with Tangible Play Inc. As on the date of merger, the net worth of Think and Learn Inc. was INR 3.86 billion (which included cash as well which was utilized to repay borrowings and purchase shares/warrants from shareholders, other than the promoters of Tangible Play Inc., who were issued equity shares of Byju's as consideration). Accordingly, the total investment in Tangible Play Inc. as at 31 March 2019 was INR 10.52 billion. In FY20 and Q121, a further equity infusion of INR 1.75 billion and INR 1.17 billion was made in Tangible Play Inc. to fund expansion.

— Post the merger of Think & Learn Inc. with Tangible Play Inc. in March 2019, Byju's Inc. was incorporated to take over the contracts which Think & Learn Inc. had entered into with vendors in the US for developing the K-3 product. Up to 30 June 2020, an investment of INR 4.58 billion has been made in Byju's Inc., of which about INR 1.4 billion has been has been utilized towards new product development.

— Specadel Technologies Private Limited was acquired in FY15 for a consideration of INR 0.02 billion. In FY18, The Company has invested an amount of INR 0.09 billion in FY18 and INR 0.12 billion in FY19. This investment, we understand was utilized primarily to acquire the businesses of TutorVista and Edurite from Pearson (for a consideration of INR 0.05 billion.

— Span Thoughtworks Private Limited was acquired in FY17 for a consideration of INR 0.06 billion. Subsequently, in FY18, Byju's invested an INR 0.04 billion into the Company. We understand that Span Thoughtworks Private Limited has no commercial operations but houses certain employees. The investment made in FY18 is to meet these employee costs for periods up to 31 July 2017. Effective 1 August 2017, Span Thoughtworks Private Limited bills Byju's, as professional fees, for employee and other costs, at a margin of 15%. We understand that these costs are towards new product development and hence have been capitalized.

— Byju's K3 Education Private Limited was incorporated in FY19 as a separate legal entity to house the K-3 product. No significant equity investment has been made in this entity, however, as at 30 June 2020, an amount of INR 1.40 billion has been advanced to the Company. The cash is yet to be utilized.

Non-current investments (2/2)

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— Think and Learn Inc. was a 100% subsidiary of Byju's incorporated in April 2017. This company was incorporated in the US pursuant to Byju's strategy to expand into the US market. On 7 March 2019, Think and Learn Inc. was merged with Tangible Play Inc. Up to the date of merger, Think and Learn Inc. did not carry out any commercial operations. However, certain contracts with US based vendors, assisting with the development of products for the international market, were entered into by it. These contracts were transferred to Byju's Inc. post merger of Think and Learn Inc. with Tangible Play Inc. As on the date of merger, the total net worth of Think and Learn Inc. was INR 3.86 billion. This net worth was represented by a substantial level of cash, which, post merger, was utilized by Tangible Play Inc..

Long term provisions

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Long term provisions have been made towards gratuity and accumulated leave liabilities.

No incremental provisions towards these liabilities have been made in FY20 and Q121.

Long term provisions

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Gratuity	0.05	0.10	0.10	0.10
Accumulated leave liability	0.07	0.11	0.11	0.11
	0.12	**0.21**	**0.21**	**0.21**

Source: Management information

Long term provisions

— Long term provisions represent liabilities towards gratuity and accumulated leave. The Company provides for these liabilities basis on an actuarial valuation as at financial year end. The last actuarial valuation was carried out as at 31 March 2019. No incremental provisions towards these liabilities have been made for FY20 and Q121.

— Gratuity is a defined benefit plan that is applicable to all full time employees of Byju's. Subject to completion of five years of employment, upon termination of employment, employees are eligible to receive 15 days of base pay for every year worked. Gratuity liability in India is accounted in the books based on an actuarial valuation that is carried out as at the end of each financial year. The incremental provision for the year is a charge to the income statement.

— Byju's has a leave policy whereby every employee is eligible for 27 days of paid leave annually, of which, 15 days of leave can be carried over to the subsequent calendar year, if not availed. A maximum of 60 days of leave can be accumulated by an employee.

— Since the actuarial valuation of gratuity and accumulated leave liability has not been carried out as at 31 March 2020 and 30 June 20020, the liability has remained unchanged from 31 March 2019.

Borrowings

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The Company availed a secured term loan from Innoven Capital India Private Limited at an interest rate ranging between 14.75-15.00%. This borrowing was repaid fully in FY19.

In FY19 and FY20, the Company purchased certain IT equipment on finance lease. This borrowing is repayable over a period of 3 years.

Borrowings				
INR billion	**Mar-18**	**Mar-19**	**Mar-20**	**Jun-20**
Innoven Capital	0.09	-	-	-
HPFS (lease obligation)	-	0.09	0.20	0.18
	0.09	**0.09**	**0.20**	**0.18**

Source: Management information

Borrowings

- The secured term loan availed from Innoven Capital was fully repaid in FY19.
- The finance lease obligation towards Hewlett Packard Financial Services is repayable over a period of 3 years.

Investments

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As at 30 June 2020, the Company has investments in mutual funds, inter-corporate deposits and non-convertible debentures, aggregating INR 14.55 billion.

Investments

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Mutual funds	2.81	9.41	11.98	4.78
Corporate deposits	-	6.54	4.92	9.07
Non-convertible debentures	-	0.50	0.70	0.70
	2.81	**16.45**	**17.59**	**14.55**

Source: Management information

Investments

- Excess funds in the Company have been invested in liquid/debt mutual funds, interest bearing corporate deposits and non-convertible debentures.
- It should be noted that we have reconciled the investments as at 31 March 2020 and 30 June 2020 with relevant statements and supporting documents provided to us by Management.

Cash and cash equivalents

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Cash and bank balances represent free cash in current accounts and term deposits

Cash & bank balances

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Cash on hand	0.01	0.00	0.00	0.00
Cash in transit	0.19	0.08	-	-
Current account balances	1.01	4.14	5.05	3.23
Term deposits	0.83	3.63	7.84	17.40
	2.04	**7.85**	**12.89**	**20.64**

Source: Management information

Transactions with related parties (1/2)

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Transactions with related parties are primarily limited to equity investments in wholly owned subsidiaries.

Related party transactions

INR billion	Relationship	FY18	FY19	FY20	Q121
Investment in equity					
Tangible Play Inc.	Subsidiaries	-	10.52	1.75	1.17
Think and Learn Inc.	Subsidiaries	0.48	3.38	-	-
Byju's K3 Education Private Limited	Subsidiaries	-	0.00	-	-
Byju's Inc.	Subsidiaries	-	0.21	4.38	-
Specadel Technologies Private Limited	Subsidiaries	0.09	0.12	-	-
Span Thoughtw orks Private Limited	Subsidiaries	0.04	-	-	-
Purchase of services		-	-	-	-
Span Thoughtw orks Private Limited	Subsidiaries	0.02	0.01	0.00	0.00
Specadel Technologies Private Limited	Subsidiaries	-	0.03	0.02	0.00
Tangible Play Inc.	Subsidiaries	-	0.04	0.01	-
Advances given to subsidiaries		-	-	-	-
Specadel Technologies Private Limited	Subsidiaries	-	0.12	-	-
Span Thoughtw orks Private Limited	Subsidiaries	0.01	0.00	-	-
Infiken Internet Labs Private Limited	Subsidiaries	0.00	0.00	-	-
Byju's K3 Learning Private Limited	Subsidiaries	-	0.75	1.40	-
Advances repaid by subsidiaries		-	-	-	-
Specadel Technologies Private Limited	Subsidiaries	0.03	0.12	-	-
Byju's K3 Learning Private Limited	Subsidiaries	-	-	0.75	-
Repayment tow ards services purchased		-	-	-	-
Span Thoughtw orks Private Limited	Subsidiaries	0.02	0.02	0.00	0.00
Specadel Technologies Private Limited	Subsidiaries	0.00	0.00	0.03	0.01
Tangible Play Inc.	Subsidiaries	0.00	0.00	0.04	-
Interest receivable on loan		**-**	**-**	**-**	**-**
Byju's K3 Education Limited	Subsidiaries	-	0.00	-	-

Transactions with related parties (2/2)

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Related party transactions (continued)

INR million	Relationship	FY18	FY19	FY20	FY20
Remuneration					
Byju Raveendran	Key management	7.3	7.3	7.3	1.8
Riju Ravindran	Key management	3.8	3.8	8.0	2.0
Divya Gokulnath	Key management	2.7	2.7	8.0	2.0
Deeptha AR	Relative of key management	1.4	1.4	6.0	1.5

Note: (a) The services purchased from Span Thoughtworks Private Limited and Specadel Technologies Private Limited are purchased on a cost + agreed margin basis.

Source: Management information

Contingent liabilities

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Contingent liabilities as at 30 June 2020 aggregate approximately INR 0.01 billion.

Contingent liabilities

INR billion	Mar-18	Mar-19	Mar-20	Jun-20
Claims filed by third parties	0.01	0.00	-	-
Service Tax penalty	0.01	0.01	0.01	0.01
Accumulated dividend on CCPS	-	-	-	-
	0.02	**0.01**	**0.01**	**0.01**

Note: (a) Claims filed by third parties is in respect of copyright infringement. The matter has been settled out of court for an amount of INR 1.0 million in FY20.

(b) The Company does not provide for dividend on CCPS. The accumulated liability is immaterial. CCPS have a coupon rate of 0.001%.

Source: Management information

Appendices

Appendix 1 - Scope of work (1/3)

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Scope of work

Scope period

Our scope of work covered the stand alone financial statements of Think & Learn Private Limited for the financial years ended 31 March 2018, 31 March 2019 and 31 March 2020 and the first quarter ended 30 June 2020 (collectively referred to as “historical period” or “reporting period”).

Background and overview

- Based on discussions with management, gain an understanding of Target’s business with particular focus on:
  - History and background including key milestones and acquisition history
  - Business segments, geographies and operating infrastructure
  - Types of courses offered
  - Legal and organizational structure
  - Latest shareholding structure

Basis of preparation of financial statements

- Read copies of the standalone financial statements for the historical period and comment on:
  - Key accounting policies including revenue recognition, unbilled/unearned revenue, accrual of expenses, treatment of discounts, marketing and product / content research & development cost and deferred expenses;
  - Changes in key accounting principles, policies, procedures or practices;
  - One-off or non-recurring items of income and/or expense;
  - Transactions with affiliates or related parties, if any;
- Read the statutory audit reports. Discuss key observations, if any.
- Obtain an understanding of the key KPIs analyzed by management for the reporting period and discuss with management reasons for significant variations. Obtain and comment on key historical trends based on major KPIs of the business.

Appendix 1 - Scope of work (2/3)

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Scope of work

Revenue and EBITDA

- Obtain an understanding of, analyze and comment on the revenues and gross margins for the historical period by product offering.
- Obtain an understanding of, analyze and comment on the revenues for the historical period by business segment:
  - Seasonality in revenue
  - Average fee per student per course
- Understand arrangements for procurement of course materials and other key supplies.
- Discuss with Management and obtain an understanding of product development costs.
- Understand in-house and outsourced functions. Read contracts/agreements with top 5 vendors for outsourced services.
- Obtain an understanding of components of marketing costs and spend per user.
- Discuss trends in selling, general and administrative expenses including discounts, commission and incentives.
- Obtain an understanding of and comment on the quality of reported revenue and earnings with particular focus on (i) revenue recognition; (ii) adequacy of costs/expenses accrual; (iii) provision for receivables; (iv) one time income/expense items; (v) changes in accounting policies; and (vi) discontinued revenue streams.

Employee cost

- Obtain an understanding of and comment on employee cost structure and headcount.
- Analyze and comment on the employee cost and headcount by key functions.
- Analyze various employee retirement benefit plans and the corresponding provisions made during the historical period; comment on adequacy of provisions made, based on discussion with management.

Fixed assets and intangibles

- Understand historical capex spend and comment on the significant additions/deletions during the historical period.
- Understand the basis of capitalization of software/content development costs under GAAP and their impact on earnings.

Appendix 1 - Scope of work (3/3)

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Scope of work
Working capital balances and trends — Summarize and comment on the ageing analysis of receivables at latest available balance sheet date. — Summarize and comment on the ageing analysis of other current assets as at latest available balance sheet date. — Summarize and comment on an analysis of the current liabilities, including accounts payable and provisions/accruals as at latest available balance sheet date. — Comment on adequacy of employee benefit related liabilities and bonus/incentive provisions, based on discussions with management.
Financing and banking — Summarize details of all borrowings including name of the bank, borrowing amount, interest rate, repayment details. — Highlight restrictive covenants contained in financing agreements, if any, particularly, with respect to change in ownership patterns for lenders. — Summarize repayment terms of all secured and unsecured loans. — Identify potential debt like items as at latest available balance sheet date. — Read bank reconciliation statements for top 5 operating bank accounts (by value) for the latest available month and understand reasons for any significant unusual reconciling items.
Related party transactions — Summarize a list of related party transactions entered into during the historic period. — Comment on the terms and conditions of related party transactions. — Analyze the recoverability of related party balances at latest available balance sheet date, based on discussions with management.
Commitment and contingencies — Obtain a list of significant claims, pending or threatened litigation against the Target Group at period end. Discuss with management their views on the likely outcome of the cases/claims. — Inquire about and comment on the following commitments and contingent liabilities including: (i) Post-retirement benefits, (ii) Incentive compensation, (iii) Pending or threatened litigation, (iv) Capital commitments, and (v) Other contracts.

Appendix 2 - Agreement with Middle East partner

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Particulars	Description
Date of agreement	— Original agreement dated 18 August 2015 — Further renewed on various dates. Current agreement is valid up to 16 August 2020.
Parties to the agreement	— Think and Learn Private Limited — Kensho Knowledge Solutions WLL — More Trading Company LLC
Scope of services	— Identifying schools where the products of Byju's can be sold. — Marketing of Byju's products. — Networking, giving presentations, etc. — Any other services as may be required by Byju's.
Commission	— 30%
Credit	— 60-90 days
Termination	— Agreement can be terminated by either party on a 30 days notice. — Immediately by either party if the other party is bankrupt or insolvent.
Liability and indemnity	— No party is liable under this agreement for any indirect or consequential losses (including but not limited to loss of profits, revenue, data or use) incurred by each party or any third party, whether in an action in contract or tort and even if the other party had been advised of such possibility.

Source: Management information

Appendix 3 - Agreement with Disney (1/3)

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Particulars	Description
Date of agreement	— 21 September 2018
Parties to agreement	— Think & Learn Private Limited ("Licensee") — UTV Software Communications Limited ("Licensor")
Royalty advance	— INR 1,388.5 million + applicable taxes, payable as follows: - Year 1 — Upon execution of agreement: INR 22.7 million — 15 April 2019: INR 22.7 million — 15 October 2019: INR 22.7 million - Year 2 — 15 January 2020: INR 56.7 million — 15 April 2020: INR 56.7 million — 15 July 2020: INR 56.7 million - Year 3 — 15 January 2021: INR 127.8 million — 15 April 2021: INR 127.8 million — 15 July 2021: INR 127.8 million - Year 4 — 15 January 2022: INR 127.8 million — 15 April 2022: INR 127.8 million — 15 July 2022: INR 127.8 million

Appendix 3 - Agreement with Disney (2/3)

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Particulars	Description
Royalty advance	- Year 5 — 15 January 2023: INR 127.8 million — 15 April 2023: INR 127.8 million — 15 July 2023: INR 127.8 million — Licensee expects to launch the app commercially as early as 1 January 2019 but not later than 31 March 2019. The dates set forth above reflect a launch date of 1 January 2019. In the event that Licensee launches the app commercially after 1 January 2019, then all of the dates set forth above shall be extended by an equal number of days. — In the event that the Guaranteed Royalty Payment for Year Four or Year Five exceeds INR 383.5 million, then the sum of each Royalty Advance payment for the applicable contract year shall be increased accordingly and proportionately.
Distribution channel	— Apple App Store, Google Play Store, other digital marketplaces that may be approved by Licensor on a case-by-case basis. — Embedded within a secured digital (SD) memory card having a unique personal identification number for use in a portable android device, in such manner that (i) the App may not be extracted from the memory card, and (ii) no additional content may be placed on the memory card.
Distribution date	— 1 September 2018, but not later than 1 March 2019, to 31 December 2023.
Guaranteed royalty payments	— Year 1: INR 68.0 million — Year 2: INR 170.0 million — Year 3: INR 383.5 million — Year 4: The greater of (i) INR 383.5 million and (ii) 75% of royalties paid or payable for year 3. — Year 5: The greater of (i) INR 383.5 million and (ii) 75% of royalties paid or payable for year 4.
Promotion commitment	— No less than INR 50.0 million in year 1 and 2

Appendix 3 - Agreement with Disney (3/3)

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Particulars	Description
	— For year 3, 4 & 5, Licensor and Licensee shall discuss in good faith and mutually agree upon a minimum marketing spend based on the effectiveness of the marketing spend during year 1 and 2. — Licensee's stated sales objectives: INR 565.0 million in year 1 and INR 1,415 million in year 2. Promotion Commitment will be reduced if the Licensee can demonstrate that the sales objectives can be met by spending a lesser amount. — Licensee shall be permitted to reduce the Promotion Commitment for any contract year in its sole discretion by a maximum of 5%, provided that Licensee reasonably believes it can meet any applicable stated sales objectives, without the consent of Licensor. — In the event that Licensee has met the applicable stated sales objective during year I and/or year 2, Licensee shall have no further obligation to spend the remainder of the Promotional Commitment for the remainder of the then-current contract year; provided that in no event shall any Promotion Commitment spend during any contract year be used to offset Promotion Commitment obligations in the following contract Year.
Royalty payment	— 12% of net sales + applicable taxes. “Net Sales Revenue" means the actual retail price paid by a consumer in connection with the App, less returns, goods and service taxes, verifiable chargebacks (provided deductions for chargebacks shall not exceed five percent (5%) of the gross revenue derived by Licensee's sales from the subscription to the App in that current quarter) and any third party distributor's distribution fee. Licensee expressly agrees that the App shall not contain any advertisements and the only method of monetization on the App shall be by way of sale of subscriptions to the App. "Net Sales Revenue" shall not include any credit card transaction costs to Licensee.
Territory	— India, Pakistan, Nepal, Bangladesh, Bhutan, Maldives and Sri Lanka.
Term extension	— In the event that Licensee earns the Net Sales Revenue Target of INR 3,200.0 million each in year 3 and 4, then the parties will enter into good faith discussions to extend the Term and the Distribution Dates for an additional five (5) years. Such extension shall be subject to the parties' agreement on the Guaranteed Royalty Payment and payment schedule for the Extension Period.
Exclusivity	— Licensor will not, during the Term (including any extension thereof, if any), enter into any digital license agreement with any provider of a Competitive Product for the Creative Works/Properties in the Territory and in the Distribution Channels, under this agreement. — Nothing shall restrict Licensor's ability to license to other digital applications, in any language, and without limit as to time, territory, or distribution channels, or to otherwise use in any manner whatsoever, the Licensed Material or Content developed hereunder, to the extent that such licenses or other uses do not cause such Content to appear in a Competitive Product.

Appendix 4- Fully diluted shareholding

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Shareholding pattern (fully diluted)	
Shareholders	**30-Jun-20**
Promoter group	***32.4%***
PE investors	
Naspers	*10.9%*
Sequoia	*9.5%*
Advent	*7.7%*
General Atlantic	*7.4%*
CPPIB	*4.5%*
Verlinvest	*3.8%*
Light Speed Venture Partners	*3.2%*
Tencent	*3.4%*
Chan-Zuckerberg Initiative	*2.9%*
Tiger Global	*2.7%*
Qatar Investment Authority	*2.1%*
International Finance Corporation	*1.5%*
Aarin Capital	*0.7%*
Owl Ventures	*0.6%*
BCCL	*0.0%*
	60.7%
ESOP pool and employees	***4.5%***
Erstwhile Osmo shareholders	***2.4%***
	100.0%

Source: Management information

Appendix 5 - Substantive procedures carried out (1/3)

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Observation	Description
As a part of our due diligence, we carried out certain substantive procedures around revenue, cash collections and users. The data provide and procedures performed are explained in detail on this page. **We do not have any adverse observations.**	**Reconciliation of revenue to cash** — Objective - Our objective in performing this reconciliation was to analyze how much of reported revenue has translated to cash collections in the bank account of the Company for FY19, FY20 and Q121. — Data provided - We were given access to a master Excel file, prepared by Management, which contained transaction level information extracted from all the collection accounts that the Company operates, across various banks. The bank book as per financial books mirrors the bank statements as all entries reflected in the bank statements are replicated in the bank book. - We sighted period end balance confirmations for all accounts. — Procedures performed - For all accounts that are used for collections, we compared the opening and closing balances by month, as reflected in the bank statements to the master Excel file. We compared year end balances as per the master Excel file, for al bank accounts, with the bank confirmations received by the Company. The summary of collections by source, presented in this report, were extracted from the master Excel file. - For the month of June 2020 for one key bank account of the Company where all collections from the largest payment gateway, used by the Company, are received, we compared daily credits, as reflected in the bank statement, with the master Excel file. The total collections in this bank account aggregated about INR 1.77 billion or 36.8% of net sales for the month or 26.6% of collections received from all payment gateways in Q121. No exceptions were noted. - Further, for 3 random dates, 1 each in April, May and June 2020, we extracted details of all collections, by source (finance partner, payment gateway, courier partner, direct credits to bank, etc.) from the master Excel sheet, and compared each receipt, by source, to the bank statement. Further, for collections from finance partners, payment gateways, courier partners and CMS partners, we compared the collections, as reflected in the bank book, with the transaction level reconciliation provided by the third party. No exceptions were noted. In the case of direct individual credits by customers to the Company's bank account, this exercise was not possible as no third party reconciliation or statement is available. Direct credits by customers to the Company's bank account constituted about 6.3% of revenue in Q121.

Appendix 5 - Substantive procedures carried out (2/3)

DRAFT FOR DISCUSSION PURPOSES ONLY

Observation	Description
	Walk through of sample orders from order receipt to cash collection for FY19, FY20 and Q121 — Objective - To understand the transaction flow, assess if customer details are appropriately and adequately captured on Orderhive and to assess if cash for those orders has been collected. — Data provided - Master list of unique order IDs for FY19, FY20 and Q121. From this master list, we randomly selected 50 orders in FY19, 100 orders in FY20 and 10 orders in Q121. For these samples, Management provided us with Excel extracts of transaction details from Orderhive. — Procedures performed - We identified every sample transaction selected by us, on Orderhive, and compared the data on Orderhive with the Excel extract provided to us. Certain data fields compared by us include name of customer, product purchased, selling price, mode of payment, repeat vs. first time customer, mode of dispatch of product, payment reference number and airway bill number. No exceptions were noted. - Additionally, for each of the samples selected by us, we identified the mode of payment, and if applicable, the payment reference number. The receipt was then identified to the bank book using the payment reference number. No exceptions were noted. **Correlation of sales and renewal data with Orderhive** — Objective - To analyze if data with respect to gross sales and units sold by grade, for new sales as well as renewals, provided to us is reflected on Orderhive. — Data provided and procedures performed - Management ran queries on Orderhive in our presence and we compared the results displayed on Orderhive, with the data provided to us for FY19, FY20 and Q121. No exceptions were observed.

Appendix 5 - Substantive procedures carried out (3/3)

DRAFT FOR DISCUSSION PURPOSES ONLY

Observation	Description
	- For FY20 and Q121, we sighted the composition of single and multiyear packs sold. For FY20, on Orderhive, of the total of 2.26 million packs sold,1.06 million (66.5%) were single grade packs, 0.85 million (26.8%) were two grade packs, 0.25 million (5.2%) were three grade packs, and 94k (1.5%) were four grade packs. For Q121, on Orderhive, of the total of 1.12 million packs sold, 0.77 million (68.8%) were single grade packs, 0.24 million (21.3%) were two grade packs, 91k (8.1%) were three grade packs, and 21k (1.9%) were four grade packs. **Correlation of transactions with call recordings** — Objective - To correlate transactions with call recordings with customers. — Data provided - Master list of unique order IDs for FY20 and Q121. From this master list, we randomly selected 100 transactions each from FY20 and Q121. For these samples, Management provided us with recordings of calls made by the Customer Support team to the customer on their registered mobile number. The objective of these calls was to welcome a new customer or to update the customer on his/her progress on the app or to answer questions regarding the app/product or provide technical support. For the sample selected, Management also provided us with details of the customer name and product purchased, as reflected on Orderhive. — Procedures performed - We listened to the first 20-30 seconds of call recordings in order to corroborate the customer name and product purchased, as reflected in the Orderhive extract provided by Management. In the case of 6 recordings, the customer name was not mentioned on the call or was not audible. In 45.0% of the recordings, the conversation was with the student's parent. In 55% of the recordings, the conversation was either with the student or with the parent and student. The grade for which the product was purchased was not spoken in the conversation in most cases. We further selected 20 random samples (from the 200 samples selected) for which transaction detail were corroborated with Orderhive. These 20 samples were then further corroborated with the Orderhive extract provided by Management. No exceptions were noted.