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THE FOURTH HERBERT SMITH FREEHILLS AND NLU DELHI

# INTERNATIONAL NEGOTIATION COMPETITION

8 - 10 SEPTEMBER 2017

## IN THE DRIVING SEAT GENERAL BACKGROUND INFORMATION

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# GENERAL BACKGROUND INFORMATION

## The parties

### RideOn

RideOn Corporation ("**RideOn**") is a public company based in Furtherland, a country in Europe. Its shares are listed on the main market of the Furtherland Stock Exchange.

RideOn owns and operates an 'intermediary' mobile taxi app that connects riders with freelance licensed taxi drivers. Riders can use the app on their handheld smartphone devices to book and summon taxis to their location for on-the-spot pick-ups.

RideOn has a large international subscribership, with more than 28 million monthly riders worldwide and nearly 800,000 registered drivers, most of who are based in Europe and North America.

For many years, RideOn has tried to penetrate the Asian market by increasing its rider and driver numbers. RideOn's market research shows that India is a huge potential market because of high demand for reliable taxi services and relatively low costs of operation.

### Happy Taxi

Happy Taxi Company ("**Happy Taxi**") is a taxi service business based in Delhi, India, owned by Harish "Happy" Singh ("**Happy Singh**").

Happy Taxi started off as a small radio network of 400 freelance licensed taxi drivers in the South Delhi region, but it now operates taxi services for freelance licensed taxi drivers in various Indian cities, charging drivers on its network a monthly subscriber fee and a commission fee for each ride booked through the company. Its three largest operations are in Delhi, Mumbai and Bangalore.

A lot of Happy Taxi's business is conducted via phone and online bookings; however, Happy Taxi also has its own mobile app platform through which customers can book a taxi driver for scheduled and on-the-spot pick-ups.

Happy Taxi covers both corporate customers and individual riders, and holds various important and high-value corporate customer accounts, which make up a large percentage of its business.

## Background

RideOn launched in 2011 and has rapidly become one of the fastest growing taxi service apps. It has an international network of drivers and customers connected via their app platform. RideOn's success is mainly attributable to its cheap prices and ability to provide quick and easy access to taxis for users.

It has been widely publicised that RideOn is seeking to expand its presence in Asia to match its success in Europe and North America to date. In 2014, RideOn made the app available in Singapore and, in 2015, it was rolled out in some cities in Malaysia and Indonesia. While the Indonesian and Malaysian part of its business is performing well, RideOn's Singaporean business is reportedly struggling. This has mostly been attributed to poor uptake of the app because of criticism in the Singaporean press regarding the calibre of the taxi drivers using the RideOn service and a number of unforeseen temporary service suspensions. RideOn has also faced criticism in Europe for unseemly behaviour by some of the taxi drivers using its app. In December 2016,

RideOn's CEO Phil Freedly said at a press conference, "*The taxis that you find through our app are not owned and regulated by us, and we don't really know who the drivers are. We just provide an intermediary platform to connect the rider to the driver. Anything else is not our problem.*" This attracted widespread criticism in the media. Since then, RideOn has been working hard to better its public image by recasting itself as a socially responsible company.

RideOn noted in its annual report in 2016 that the next step in its Asia expansion strategy would be to explore India, among other territories. Ever since, there has been much speculation about the effect that entry by RideOn into India will have on the local taxi market. At present, there are many taxi service providers in the country which offer telephone, online and app-based services, but most of these only operate in one city. Commentators have said that while the market is far from saturated (indeed, demand for taxi services in India is at an all-time high), regulatory hurdles have made it difficult

## GENERAL BACKGROUND INFORMATION (CONTINUED)

for new operators to enter the market. Because of the prevailing pollution problem in many cities in India, the government has recently imposed new carbon dioxide emission restrictions. One of the new restrictions is that, by early 2018, all cars and light goods vehicles used in transportation services in the country, including taxi services, must have a certified low carbon dioxide emissions rating. Under the new rules, taxi service providers will need to monitor their network drivers' compliance with these standards and could face fines if drivers do not have appropriate vehicles.

RideOn has identified Happy Taxi as a potential acquisition target. RideOn believes that buying Happy Taxi would be a good strategic move in the context of its Indian growth plan given that Happy Taxi has good systems for monitoring compliance with regulatory standards and a sizeable share of the Indian taxi service market both in terms of riders and subscribed taxi drivers.

Happy Taxi has built its reputation as a safe, reliable and friendly taxi service and has a stringent policy of not allowing its drivers to subscribe unless they can demonstrate that they have obtained requisite licenses and insurances and are in compliance with applicable regulations in the country. Happy Taxi has credibility

amongst a large population of working professionals in major Indian cities. It has also been able to attract several key corporate customers who exclusively use Happy Taxi.

Around 18 months ago, Happy Taxi launched a relatively small car servicing business through a wholly owned subsidiary, GoTaxi Servicing ("**GoTaxi**"). While the key driver for entering into this business was to have readily available servicing capabilities for the taxis subscribed to its network, almost 30% of GoTaxi's customers are not associated with the Happy Taxi business.

Happy Singh is a prominent figure in the Indian business community and is best known for his corporate social responsibility (CSR) initiatives and philanthropic interests. The reputation of his businesses is of utmost importance to him and, in the past, he has declined to engage in discussions with prospective buyers for Happy Taxi, on the grounds that their business values and ideals have not aligned with his.

Happy Singh has agreed to commence discussions with Phil Wheely, RideOn's Head of Development in Asia, in relation to the potential sale of Happy Taxi.

# RIDEON

## Confidential information

The RideOn team is excited about its planned entry into the Indian market, and has spent a great deal of time researching potential acquisitions targets that would help it: (i) quickly gain market share, (ii) build up a large network of drivers, and (iii) secure initial revenue streams with corporate account work. Happy Taxi ticks all of these boxes for RideOn.

A key motivation for the acquisition of Happy Taxi is their lucrative corporate accounts. RideOn has been trying to establish itself as the go-to service for corporate clients, but is still better known for its individual rider services. RideOn is aware Happy Taxi's contracts with its corporate account customers contain change of control clauses which will be triggered by a sale to RideOn and will allow the customers to terminate the contracts early. Without obtaining change of control consent from at least the top 20 corporate account holders, RideOn is unlikely to have an interest in purchasing Happy Taxi. RideOn purchased a similar business in Indonesia some time ago, and is confident it can make the transition from Happy Taxi to RideOn smooth and seamless for the corporate customers.

Because of the recent struggles in Singapore, the board of RideOn has already said that it will not authorise more than US\$200 million in acquisitions in India in 2017, but it has agreed to an additional amount of up to US\$100 million in 2018. RideOn is targeting the purchase of at least three businesses in India in 2017, of which Happy Taxi is the largest, valued at around US\$160 million. Due to these budget restrictions, RideOn cannot agree to pay all of the consideration for HappyTaxi up front, and will need to stagger payments to Happy Singh at least into 2018 in order to preserve some funds for other purchases in 2017.

The US\$160 million valuation is based on the successful migration of at least 65% of Happy Taxi's subscribed

drivers to the RideOn network within six months of completion (there is no requirement for drivers to renew subscriptions with a new provider in the event of a sale). The RideOn team would expect Happy Singh to take a cut of at least US\$20 million on the purchase price if this is not achieved.

As RideOn only operates as an 'intermediary' taxi service provider, it is not interested in owning any ancillary businesses and would like to carve out the GoTaxi company from the sale altogether. This has been reflected in the valuation, which addresses the core Happy Taxi business only.

RideOn has heard that Happy Singh may invest in another business after he sells Happy Taxi, but does not know what sector the business operates in. It would like to prevent Happy Singh from competing directly with RideOn in the future and expects Happy Singh to sign a non-compete agreement as part of the purchase.

The acquisition of Happy Taxi is a great PR opportunity for RideOn as it has a very positive reputation in the market for its CSR activities. While RideOn does not currently have enough CSR budget in the region to continue all of Happy Taxi's CSR projects in the future, it will seek to protect core CSR projects and has plans to draw press attention to these. RideOn particularly favours CSR projects with a human element, such as education and training initiatives.

RideOn will not need to obtain shareholder approval for the transaction; however, it will need to obtain management committee approval before signing. This process is reasonably straightforward, but can take up to three weeks to complete. RideOn do not expect this to jeopardise timely completion of the transaction.



# HAPPY TAXI

## Confidential information

Happy Singh is immensely proud of the Happy Taxi business, which he has spent many years building from the ground up. He started out as a taxi driver in the South Delhi region and gradually set up a small radio network for fellow taxi drivers to pool jobs. Seeing the success of this venture, Happy Singh decided to create the Happy Taxi business, which has become a thriving taxi services provider across multiple cities in India using telephone, online and mobile app platforms to connect riders with subscribed taxi drivers.

Happy Singh is looking to retire from the business world in a few years and had hoped that his son Amir would take over Happy Taxi; however, Amir has made it clear that he is not interested in being involved. Reluctantly, Happy Singh has started considering selling the business instead. He initially considered finding a local buyer, but now thinks he may get more money from selling to an international company such as RideOn.

Happy Singh is looking for a purchase price of US\$180 to 200 million for Happy Taxi and its subsidiary GoTaxi. He is contemplating using the proceeds to buy a passive stake in an international business which supplies automobile spare parts. In order to do this, he would require at least US\$100 million immediately upon completion of the sale of Happy Taxi and for completion to take place by the end of 2017. Whilst his preference would be to receive the entire US\$180 to 200 million in cash up front, he would be willing to consider a staggered payment structure or shares in RideOn for the remaining portion of the consideration package.

Happy Singh has never worked with a listed company before and is nervous that there may be shareholder approval processes which may cause timetable delays and jeopardise timely completion.

Given that around 70% of GoTaxi's customers are from the Happy Taxi network, Happy Singh would prefer to sell both Happy Taxi and GoTaxi together; however, he would be

willing to carve out GoTaxi from the sale provided that RideOn gives an assurance that it will continue to encourage taxi drivers on its network to use GoTaxi servicing. He thinks this will also help RideOn maintain Happy Taxi's high standards of vehicle care which Happy Singh believes greatly enhance customer experience and satisfaction levels. Happy Singh thinks that the GoTaxi business is worth about US\$18 million.

Happy Singh is aware that a key asset for a prospective acquirer will be the corporate customer accounts held by Happy Taxi, the contracts for which contain change of control clauses that would be impacted by a sale to RideOn and would allow customers to terminate the contracts early. He believes it would be disproportionate to seek change of control consent from all corporate clients; however, he would be willing to accept obtaining change of control consents for the top three major customers as a condition precedent to completion of the transaction.

As there is no requirement for drivers to renew subscriptions with a new provider in the event of a sale, Happy Singh is also aware that RideOn will be concerned about how it can successfully migrate drivers from the Happy Taxi network on to the RideOn network following completion. Happy thinks this can be managed with a well-thought-out communication programme and would be happy to stay on as a consultant to the business for a short period to help RideOn with this initiative.

Given the substantial investment in several CSR initiatives by Happy Taxi over the years, Happy Singh would like to ensure that the CSR projects he has set up continue even after the acquisition by RideOn. He is particularly interested in ensuring that none of the environment-related CSR projects are affected by the sale of Happy Taxi.