

Case Study: Mucker Capital and Honey Science Corporation

TIFF Private Equity Team

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TIFF has been an active, value-added PE investor since 1997 with around \$2.8 billion of committed capital since inception. TIFF's deeply experienced 7-member PE investment team has a diversified global investment focus: seed/early stage VC, lower middle market growth equity and buyouts, real assets, distressed assets, secondaries and co-investments.

As illustrated in this case study, TIFF has been fortunate enough to find and partner with top-tier established managers and compelling emerging managers, taking part in fund investments and co-investment activity alongside this curated group.

BACKGROUND

In November 2019, PayPal announced an agreement to purchase Honey Science, an online shopping and deal-finding platform, for \$4 billion. When this acquisition closed in early 2020, it generated approximately \$60 million in proceeds to TIFF on only around \$1 million of TIFF look-through invested capital in Honey. This extraordinary outcome was achieved thanks to TIFF's partnership with the Los Angeles-based venture manager Mucker Capital, the first institutional investor in Honey; TIFF was the anchor investor in Mucker's first fund. While Honey is a fascinating entrepreneurial success and Mucker's investment in the company is what any venture capitalist dreams of, it also illustrates two of TIFF's core private investment strategies: partnering with emerging managers and building strong co-investment programs alongside our managers. We have written about both approaches previously in "The Case for Emerging Managers: Private Equity" and "How Co-investments Round Out PE's Virtuous Cycle" (both pieces are available at www.tiff.org).

MUCKER

TIFF met Mucker in March 2013 at the outset of the firm's first institutional fundraising. From our earliest interactions, the firm stood out within the crowded venture capital market. The founding partners, Erik Rannala and Will Hsu, were a hardworking, disciplined, and well-respected team with strong backgrounds as both investors and operators. After working together at eBay, Erik went on to a product leadership role at TripAdvisor before joining seed-stage investment firm Harrison Metal, while Will became a start-up entrepreneur before joining AT&T as a senior executive. Reconnecting in Los Angeles, Erik and Will saw the opportunity for a new accelerator and seed-stage fund in Southern California. At the time, the Los Angeles market was only just beginning to emerge as a new tech ecosystem, but still lagged Silicon Valley, Boston, and New York in terms of venture capital activity. Erik and Will were happy to

take a contrarian view on the market and bet on themselves as a team that could find, invest in, and help grow future market leading companies outside of an established tech hub.

As we spent more time with Mucker, it became clear that Erik and Will were differentiated investors who could identify interesting companies that other venture capitalists might ignore. In addition to their nose for new opportunities, Erik and Will were capable of being hands-on, operationally oriented investors who could help portfolio companies solve problems, achieve product-market fit, and stimulate growth. This was most apparent in MuckerLab, the firm's accelerator program for pre-seed opportunities, which it established as a precursor to an institutional fund. In many cases, the companies working with MuckerLab were only a founding team and an idea, relying on Mucker for initial funding, office space, and coaching as the companies worked to build or expand on an early product. In our diligence on Mucker, we saw first-hand the in-depth work Erik and Will were doing with MuckerLab's companies and heard rave reviews from founders who had worked with the team. Moreover, we gained conviction that Erik and Will would be honest, transparent and committed partners to TIFF and its members, a crucial component of our manager selection process. There was also significant alignment of interest between TIFF and Mucker, as the firm was raising a small fund where the Mucker team would only achieve financial success through outsized investment returns rather than collecting management fees.

Because of our early diligence work and belief in the team, TIFF made a meaningful commitment to Mucker's fund that ultimately accounted for 25% of total commitments. Alongside our fund commitment, we also formed a co-investment arrangement for follow-on rounds in Mucker-backed companies, which created an opportunity for TIFF to gain additional exposure to Mucker's portfolio at advantaged terms. This arrangement could only have worked because TIFF was a first mover in supporting the firm, and Mucker had enough confidence in its partnership with TIFF that it was willing to find additional ways to work together outside of our primary fund commitment.

HONEY SCIENCE

Since our original fund commitment, we have co-invested in growth rounds of several Mucker-backed companies, and Honey is the best example of Mucker's differentiated investment approach and the benefits of TIFF's co-investing platform. Founded in 2012 in Los Angeles by two serial entrepreneurs, George Ruan and Ryan Hudson, Honey participated in the MuckerLab accelerator program in December 2015. Mucker saw the potential not only in George and Ryan as founders but also in Honey's ability to innovate within the staid e-commerce market. As a coupon-finding browser extension, it would have been easy to dismiss Honey as a simple idea that would be unable to scale or monetize effectively. But Mucker understood that Honey was helping solve a serious challenge for e-commerce merchants: online shopping cart abandonment. Consumers tend to abandon a large percentage of potential purchases at checkout, and merchants were willing to pay for a service like Honey that could increase sales

conversion rates. By offering promotions at checkout, Honey could save consumers money and improve total sales for merchants, creating significant value for both parties through an essentially frictionless online experience. Additionally, Honey could capture data on consumer shopping patterns that could then be used for more targeted promotional or marketing efforts by merchants.

TIFF had the opportunity to co-invest alongside Mucker in Honey in an early growth round in November 2016. With the benefit of Mucker's insight into the business, we were well-positioned to assess both the opportunity and risks associated with an investment in the company. Despite its growth potential, Honey faced many of the same risks as other early stage companies, including execution risk around the product roadmap and scaling, competition from other established businesses in the space, the threat of new entrants, and even business model risk as new services were introduced. However, Mucker and TIFF concluded that the potential upside of the business more than adequately compensated investors for the risks. Because TIFF was building a portfolio of co-investments in Mucker companies, we could also mitigate the downside impact of any one co-investment through diversifying our exposure. After this initial investment, TIFF made a follow-on commitment in March 2017 based on the strong progress Honey continued to display.

OUTCOME

Since our fund commitment and co-investments, Honey has grown exponentially and exceeded our wildest expectations. With its easy browser integration and clear value proposition for e-commerce merchants and shoppers, the company has grown to 17 million monthly active users and approximately \$200 million in annual revenue at the time of PayPal's acquisition. Even more remarkably for a venture-backed company in the recent market environment, the company is profitable as its blistering pace of growth continues. For PayPal, Honey may prove to be an interesting strategic asset for both the consumer and merchant components of its business. In various public statements, PayPal executives reiterated their excitement over integrating Honey's functionality – product discovery, price tracking, offers, and rewards programs – into PayPal's existing product suite. Moreover, by leveraging Honey's data on consumer purchasing behavior, PayPal's 24 million existing merchants should be able to offer more personalized and targeted promotions to consumers.

The outcome for PayPal is still to be determined, but clearly Honey has been an exceptional outcome for its investors. Most venture-backed companies will not achieve an exit of this magnitude; considering Honey only raised about \$49 million from investors to achieve a \$4 billion exit, the outcome seems even harder to replicate. TIFF believes that our approach to manager selection – partnering with groups like Mucker who have a differentiated view on their market, who can source dynamic companies, and who can add significant operational and strategic value – provides the highest probability of capturing such outcomes. Co-investment alongside these managers can further increase exposure to exceptional companies and lower

effective fees, a combination that we believe can drive meaningful long-term outperformance. We are delighted to have partnered with the Mucker team more than five years ago, and we continue to seek partnerships with best-in-class established and emerging managers, like Mucker, that we believe can generate superior investment returns.

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