

## MINI-CASE ON ALIBABA GROUP HOLDING LTD. (BABA)



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### IS SELLING STOCK OR BONDS BEST TO RAISE CAPITAL?

Headquartered in Hangzhou, China, Alibaba is an Internet-based e-commerce retailer that is twice as large as eBay and Amazon combined. Handling about half of all online transactions in China, Alibaba does in China what PayPal and Amazon do in the United States. Alibaba operates Taobao, a consumer marketplace with millions of small Chinese merchants. Recently, Alibaba acquired Silicon Valley startup company, TangoMe Inc., a mobile-messaging firm in the United States that offers popular apps used to make free video calls. TangoMe competes with WhatsApp, recently acquired by Facebook. Alibaba is also an online bank and cloud-computing firm similar to E-Trade and Google. Alibaba's largest website, Taobao, has about 760 million product listings from 7 million Chinese sellers. It is free for merchants to sell products through Alibaba, but they pay Alibaba an advertising fee to get exposure. The no-fee strategy is very popular in China. Taobao is mostly for small merchants, whereas Tmall, another shopping site owned by Alibaba, caters to large merchants. Together, Taobao and Tmall account for more than half of all parcel deliveries in China. Alibaba is much more profitable than Amazon but has less revenues because it does not sell products.

Recently, Alibaba launched the largest Internet IPO by a Chinese firm in the history of the United States and the largest IPO ever by any firm, raising \$21.8 billion in its single-day IPO. Alibaba's stock price rose 38 percent in its trading debut on the New York Stock Exchange (NYSE). Alibaba broke with tradition by offering five banks equal billing to host their IPO: Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group, P. Morgan Chase, and Morgan Stanley.

Alibaba is growing both organically (internally) and externally through acquisitions, continually diversifying into related high-tech industries. With 80 percent of China's entire e-commerce market

business, Alibaba recently acquired AutoNavi for \$1.13 billion and ChinaVision Media Group for \$804 million. Alibaba is spending heavily to adapt its e-commerce platform to mobile apps. The company has also turned its Taobao Travel business into an Alitrip online travel website that now competes heavily with Bellevue, Washington-based Expedia and Shanghai-based Ctrip.com.

In late 2014, Alibaba sold about \$8 billion in bonds, the largest Chinese corporate-debt offering of the year, and equals the \$8 billion bond sale by Walgreen in late 2014 to help finance its acquisition of European drugstore chain Alliance Boots GmbH. Companies such as Alibaba (and Walgreen) desire to take advantage of low interest rates to lock in favorable borrowing costs.

### Questions

1. How does a company decide among common stock, corporate bonds, and bank debt to raise needed capital?
2. Diagram the relationship between \$ equity financing and \$ bond financing for Alibaba, Amazon, and Google. What is the relationship on average for large, Internet-based technology companies? Discuss procedure and implications.

*Source:* Based on Douglas MacMillan, “China’s Alibaba Invests \$215 Million in Startup Tango,” *Wall Street Journal*, March 20, 2014, B3. See also Bradley Hope, “NYSE Leads Race to Host Alibaba’s IPO,” *Wall Street Journal*, March 19, 2014, C1; and Juro Osawa, “Meet Alibaba: China’s Mix of Amazon, eBay, and PayPal,” *Wall Street Journal*, March 17, 2014, B1.