



Singapore expanding its stake in overseas Chinese E-commerce

Temasek and GIC buying \$1 billion in Alibaba stock



TEMASEK



Private Equity Class – Section AB Group 2

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This summary offers a condensed version of the case study and teaching note in one document. It is not intended for classroom usage.

Executive Summary

In June 2016, Singapore's sovereign wealth funds GIC and Temasek Holdings purchased USD 500 m of stock each in Alibaba Group Holding from Japan's Softbank Group, the largest investor in Alibaba. The combined USD 1 bn investment of the two Singapore sovereign wealth funds was part of a much larger USD 8.9 bn sale by SoftBank (includes a USD 2 bn Alibaba share buyback), which reduced SoftBank's stake in Alibaba from 32% to 28%.

The Alibaba transaction caught everyone by surprise. It was the first time in 16 years that Softbank was selling Alibaba shares – Softbank is an early investor in the Chinese e-commerce company with an initial investment of USD 20 m. The buyers were not the obvious candidates as well. Temasek traditionally had invested in Singapore assets. Furthermore, it was uncommon for both sovereign wealth funds to co-invest in such big deals. Temasek and GIC have distinct investment mandates and management teams, with the latter's portfolio more defensively positioned. Both GIC and Temasek were already invested in Alibaba at the point of the transition; therefore the purchase would increase their exposure to the Chinese e-commerce company. So clearly, this was not a typical transaction!

The case study "Singapore expanding its stake in overseas Chinese E-commerce" takes an investigative look at this atypical transaction, to understand the motivations of the seller (Softbank) and buyers (GIC and Temasek) involved in the transaction. The case study provides the backdrop of the spectacular growth of China's e-commerce market and Alibaba. When GIC and Temasek decided to invest in Alibaba, the Chinese e-commerce market and Alibaba were booming and showed no signs of slowing. Capitalising on its network of sellers, marketers, service providers, logistics companies, and manufacturers, Alibaba had significant potential to grow its business. The case study then examines the seller's and buyers' investment mandates (geography, sector, asset class, ticket size), including their historical performance and evolution of their respective investment strategies over the years. This background information provides valuable insights into their motivations for purchase or sale, such as portfolio diversification, upside capture, and balance sheet management. The also case looks at the Singapore sovereign wealth funds expansion into disruptive technology companies, as part of their broader investment thesis.

The teaching note communicates the intended purpose of the case study or the "reason" for the case. The case study has immense learning value for readers who are interested in private equity. Readers can deepen their understanding of the different stages of a private equity deal (pre-deal, deal, and post-deal) through a recent real-life transaction, from the perspectives of various stakeholders (buyer, seller, and portfolio company). It is designed

to stimulate thoughtful classroom discussion, and requires analysis and recommendations. The teaching note has the three sections describing the pre-deal, deal, and post-deal developments, respectively. The “pre-deal” section elaborates on the private equity landscape, covering many relevant topics such as industry attractiveness, company attractiveness and due diligence, investor risk-return objectives, returns and valuations. The “deal” section addresses the deal rationale for the buyers and seller, the disconnect between price and value, and return on investment (MoM). Finally, the “post-deal” section discusses the implications of Temasek’s sale of Alibaba shares within two years of the initial purchase.

Summary

This case concerns the 2016 purchase of \$1 billion in Alibaba shares by Temasek and GIC. Readers will understand the PE landscape better after looking at pre-deal to post-deal aspects of this unique transaction. When considering perspectives of the main stakeholders, various managerial and strategic issues also surface for discussion.

Abstract

In June 2016, Singapore's state-owned investment firms GIC and Temasek Holdings purchased a combined US\$1B of stock in Alibaba Group Holding from Japan's Softbank Group, the largest investor in Alibaba at that time. This case examines the context of the sale and the motivations of the investment firms.

Introduction

It was June 1st, 2016, a typical day in Singapore. The mercury rose to 30 degrees Celsius and the humidity was more than 90%. Indeed, it was not the weather that made this day memorable for Singapore. Rather, both Singapore sovereign wealth funds, GIC and Temasek, invested USD 500 m each in shares of Alibaba, China's biggest E-commerce player. It was the first time both funds co-invested. And a deal this size and outside of Singapore was uncommon for Temasek in particular, which traditionally had invested in Singapore. The stock purchase was part of a bigger sale from Softbank, Alibaba's biggest investor.

Softbank's sale followed after 16 years of being invested in Alibaba (since the 2000s). At the time, the Alibaba group was barely one year old. So clearly, the Chinese e-commerce company got an early believer and investor in Masayoshi Son, the outspoken Japanese telecom mogul. The initial investment entailed USD 20 m and turned out to be a very good investment, especially given the successful IPO in 2014.

Both GIC and Temasek were already invested in Alibaba. The latter was said to own 48.6 m ADRs, according to Bloomberg, and the former has been invested since the IPO. "The purchase shows that GIC and Temasek are still confident about China's economy and the rise of e-commerce and technology in the country," Margaret Yang, a market analyst at CMC Markets in Singapore, said.

Chinese E-commerce market

1998 marked a significant year in China's history. China's first online transaction was made in March, and the first e-commerce contract was generated online. In the same year, Jack Ma returned to Hangzhou and later founded Alibaba, unsealing the meteoric growth of China's e-commerce market. The beginning of the era of transacting goods and services online would dramatically transform the retail experience for Chinese shoppers and retailers. When GIC and Temasek decided to invest in Alibaba in June 2016, the Chinese e-commerce market was booming and showed no signs of slowing. The market grew from USD 20 billion

in 2008 to over USD 646 billion in 2015 (CAGR of 64%) and was expected to reach USD 1 trillion by 2019 (Exhibit 1). China had surpassed the United States in 2013 to become the world's largest e-commerce market and was expected to account for over 50% of the global market in 2019.

Chinese shoppers eagerly embraced the growing e-commerce market. From apparel to consumer electronics, online shoppers fell in love with the convenience, cost savings, reliability and access to a wide range of products. China's online shoppers grew from 74 million in 2008 to more than 460 million in 2015 (CAGR of 30%). Over the same period, urban disposable incomes nearly doubled, and rural disposable incomes more than doubled. Nonetheless, the penetration rate was low, given the country's significant population of 1.3 billion. The Chinese e-commerce market was forecast to grow even further, driven by increasing internet penetration, a growing middle-class, improvements to support infrastructure (such as logistics and online payments), and an economy increasingly driven by domestic consumption.

Alibaba and JD were the dominant e-commerce companies in China, with approximately 58% and 25% of the market share in 2015, respectively (Exhibit 2). Backed by Tencent, JD also integrated its marketplace into Tencent's popular message application WeChat, to counter the rapid growth of Alibaba. In 2014, Tencent bought a 15% stake in JD, paying USD 215 million in cash and transferring its e-commerce businesses Paipai, QQ Wanggou and minority stake in Yixun to JD. Tencent also agreed to buy an additional 5% stake in JD after JD's planned IPO was completed. In its public announcement, Tencent said the partnership would help to "extend the company's presence in the fast-growing physical goods e-commerce market and to achieve economies of scale." While Alibaba and JD were the clear leaders in the Chinese e-commerce market, there were a handful of niche marketplaces such as YiHaoDian (premium groceries), Amazon (general merchandise) and Suning (electronics and appliances). In June 2016, Walmart sold YiHaoDian to JD, in exchange for JD's equity. Walmart began investing in YiHaoDian in 2011 and completed a buyout in 2015. Walmart's sale of YiHaoDian to JD marks a pragmatic shift for Walmart's e-commerce business strategy in China. The American multinational realised that Alibaba and JD dominated the Chinese e-commerce market. Rather than compete directly with these local giants, Walmart may be better off cooperating with them by retailing products on their e-commerce platforms.

International e-commerce companies face multiple headwinds when they try to enter the Chinese e-commerce market and grow their presence organically, especially due to the challenging regulatory environment and the dominating presence of local competition like Alibaba and JD. To enter the Chinese market, these international e-commerce companies typically partnered with, or acquired strong local Chinese brands. eBay acquired EachNet in 2003 (local auction player), but exited the Chinese market two years later. Amazon entered the Chinese e-commerce market through the acquisition of Joyo (local online book retailer), and later rebranded to Amazon China in 2011. Amazon had a strong reputation in the early days, but its market share declined over time as its local competitors marketed their products more aggressively and adapted their product range to cater to the changing consumer tastes.

Alibaba

Overview

One could say that the story of Chinese e-commerce is the story of Alibaba. The crown jewel of Chinese e-commerce began its journey in Jack Ma's apartment in Hangzhou, China. Jack Ma and his 17 friends founded the online commerce company in 1999. Fast forward 20 years, Alibaba employs more than 100,000 people, providing consumer-to-consumer (C2C), business-to-consumer (B2C), and business-to-business (B2B) sales services via web portals, as well as electronic payment services, shopping search engines and cloud computing services.

Perhaps the defining feature of Alibaba is its ubiquitous presence in online retail. Alibaba's long term strategy is to create an integrated solution for the future of commerce. Hence, some say Alibaba is a combination of Amazon, eBay, PayPal, Google, and FedEx, capitalising on the network of sellers, marketers, service providers, logistics companies, and manufacturers (Exhibit 3).

Business units

Retail: Taobao and Tmall (75% of revenue)

C2C Taobao

Through the Taobao app and the website, consumers can have an engaging, personalized shopping experience, optimized by its big data analytics and technology. Consumers could learn about products and new trends. They could also interact with each other and their favourite merchants and key opinion leaders, through interactive features, such as live broadcast and short-form videos. Merchants on Taobao Marketplace are primarily individuals and small businesses. Merchants could create storefronts and listings on Taobao Marketplace free of charge. The escrow payment services provided by Alipay are free of charge to consumers. Taobao Marketplace merchants could purchase pay-for-performance (P4P), in-feed marketing and display marketing services to direct traffic to their storefronts.

B2C Tmall

Tmall caters to consumers' demand for products and premium shopping experience. Consumers can buy both homegrown and international-branded products, as well as products not available in traditional retail outlets. Brands and retailers operate their own storefronts on the Tmall platform with brand identities and look and feel. Tmall is the major third-party online and mobile commerce platform for brands and retailers in the world. There

are ~250,000 brands and merchants on Tmall, including 80% of the consumer brands ranked in the Forbes Top 100 World's Most Valuable Brands. Presence on Tmall has become a validation of quality, allowing merchants, brands and retailers to take advantage of its significant traffic to extend and build brand awareness and customer engagement.

Wholesale: Alibaba (5% of revenue)

Alibaba.com is China's major integrated international online wholesale marketplace. It connects Chinese and overseas suppliers to overseas wholesale buyers, who are trade agents, wholesalers, retailers, manufacturers and SMEs engaged in the import and export business, and provides sourcing, online transaction, digital marketing, digital supply chain fulfillment and financial services to them. ~20 million buyers from ~190 countries has sourced business opportunities or completed transactions at Alibaba.com.

Financial performance and growth story

- 1999 – Alibaba.com launched
- 2002 – Alibaba.com becomes profitable
- 2003 – Taobao launched
- 2007 – Listed on Hong Kong exchange
- 2010 – Tmall.com launched
- 2012 – Alibaba Group takes Alibaba.com private, delisting from HK exchange
- 2013 – Launched Taobao in Singapore
- 2014 – IPO at ~\$25 billion, making it the largest initial public offering in history
- 2016 – Alibaba bought controlling stake in Lazada, one of the biggest e-commerce platform in SE Asia (Exhibit 4)

Alibaba boasts an impressive financial track record. Revenue has grown 50% p.a. from 2012 to 2016 (Exhibit 5). Alibaba also has a relatively high EBITDA margin of over 30%. While Alibaba's revenues are less than Amazon's, it has higher operating margins and profit margins. Unlike Amazon, Alibaba Group holds no inventory and owns no warehouses. Amazon has to manage the expensive and complex logistics of developing and maintaining a network of warehouses to ship products directly to shoppers. In short, the software is easier to scale than warehouses.

Ownership

Softbank is Alibaba's largest shareholder. Softbank invested \$20 million in Alibaba back in 2000 when it was a young startup. In fact, Softbank founder and CEO Masayoshi Son was the one that bought into Alibaba. Alibaba co-founder and chairman Jack Ma was the largest individual shareholder of the company in 2016. (He relished his 11% ownership stake in

2018.) Joseph Tsai, Ma's co-founder at Alibaba, is the second-largest individual shareholder. Tsai is a Taiwanese-Canadian businessman who met Ma while working for the Hong Kong branch of an investment company. Tsai quit his high-paying job so the two could work together to create the online import-export marketplace that would eventually become Alibaba.

Date	Stage	Financing size (USD)	Investors
Oct 1999	Angel	5M	Eight Roads Ventures China, Goldman Sachs
Oct 2000	Unspecified	20M	Softbank , Fidelity Group Asia
Dec 2003	Series A	Undisclosed	Granite Global Ventures
Mar 2004	Series B	82M	GGV Capital, Fidelity Growth Partners Asia, Softbank , TDF Capital
Jun 2005	Unspecified	Undisclosed	Mosaic Ventures
Nov 2011	Secondary stock purchase	2B	Silver Lake (300M), DST Global, Temasek Holdings (300M) and YF Capital
Sep 2012	Growth capital	75M	General Atlantic, Glade Brook, Capital Partners, Signia Ventures
Sep 2012	Growth capital	3.9B	China Investment Corporation, Boyu Capital, CDB Capital, New Horizon Capital, Nepoch Capital and Citic Capital, DST Global, Silver Lake, Temasek Holding
May 2014	IPO	21.8B	
Nov 2015	PIPE	Undisclosed	Manhattan Venture Partners

Softbank

SoftBank Group Corp., headquartered in Minato, Tokyo, is a Japanese multinational conglomerate strategic holding company founded by Masayoshi Son in 1981. SoftBank primarily operates through five segments: SoftBank Vision Fund and Other SBIA-Managed Funds, SoftBank, Arm, Brightstar and Investment Business of Holding Companies.

Established in 2017, the SoftBank Vision Fund and Other SBIA-Managed Funds segment is involved in large-scale investments in high-growth-potential companies leverage AI, particularly in "unicorns" (companies valued at over \$1B at the time of investment). The SoftBank segment is the main business portfolio in Japan, which offers mobile communications, broadband and fixed-line communications services, sells mobile devices, and is involved in internet advertising and e-commerce businesses. The Arm segment's main businesses are the design of microprocessor intellectual property and related technology, and the sales of software tools and provision of software services. The Brightstar segment provides distribution of mobile devices overseas. Softbank's fifth segment – its Investment Business of Holding Companies – consists of SoftBank Group Corp. and its subsidiaries that engage in investment and financing activities in companies such as Alibaba and T-Mobile.

With its “Cluster of No. 1” strategy, SoftBank embarked on a roadmap to acquire over 100 portfolio companies over the next 40 years to ride the rising trends of the PC era, broadband, telecommunications, and AI, IoT and smart robotics. SoftBank’s investment style focuses on Series A to H venture funding, growth equity and PIPE (Private Investment in Public Equity). PIPE deals take place when a publicly-traded company initiates an issue of convertible debt to accredited investors at a discounted price to raise capital more quickly than they otherwise could.

SoftBank dapples in both minority and majority investments. Notable investments include:

- In 2000, the acquisition of a stake in Alibaba.com Corporation (barely a year after Alibaba’s formation) at an initial investment of \$20M. The two companies, Alibaba Group Holding Limited and Softbank Group Corp. have since built a strong relationship.
- In 2004, the acquisition of 100% of the shares in JAPAN TELECOM CO., LTD to enter the fixed line communications business.
- In July 2013, the acquisition of 71.9% of the shares in Sprint Nextel Corporation (now, Sprint Corporation) in the US for U\$16.6B. This deal made the SoftBank Group into a telecommunications company with one of the largest customer base in the US and Japan. At the date of closing, Sprint had common equity of U\$6.474B and net debt of U\$16.731B.
- In January 2014, the acquisition of 25% of the shares in Brightstar Corp., a mobile device distributor, for U\$2.1B. In August 2014, Softbank acquired an additional 37.7% for U\$298M.
- In December 2017, the acquisition of US-based Fortress Investment Group LLC., a highly diversified global investment firm.

Exhibit 6 shows SoftBank’s capital structure since 2010.

However, SoftBank’s Sprint acquisition caused SoftBank to incur a hefty debt load. Not only was Sprint Corporation burning cash amid fierce competition for subscribers, it was also incurring a lot of debt. As of March 2016, SoftBank had interest-bearing debt of 11.9 trillion yen (U\$107B), including 4 trillion yen at Sprint. Of this debt, about 8.5 trillion yen (U\$77B) was long-term debt. According to Thomson Reuters data, its debt-equity ratio stood at 4.56, much higher than the industry median of 0.32. Exhibit 7 shows SoftBank’s outstanding debt as at March 31, 2016.

In order to strengthen its balance sheet and reduce debt levels, SoftBank turned to one of its best assets – its investment in Alibaba. After 16 years of investment, this was the first time SoftBank decided to sell part of its stake in Alibaba. Under the terms of SoftBank’s 2016 plan, approximately \$5B of the share sale was packaged into a financial security that would

convert into shares of Alibaba after three years, and Alibaba would buy back about \$2B shares from SoftBank. SoftBank would remain the largest shareholder in Alibaba, though its shareholding dropped from 32.2% to 28% (Exhibit 8).

Temasek

When Singapore gained its independence in 1965, the country won its sovereignty but was saddled with a budget deficit of S\$14M in its first year of self-government, a sizeable amount back in the 1960s. Over the years, Singapore rapidly transformed and grew its economy. Recognising a need to separate policy-making and commercial for-profit management, the Government carved out 35 strategically important businesses to be managed professionally by a separate institution – Temasek¹. Founded in 1974, Temasek was originally incorporated as a commercial investment company, essentially acting as a holding vehicle for local companies in critical sectors during Singapore’s early days such as financial services (DBS), telecommunications (Singtel), and airlines (SIA, the national airline). By holding and managing such assets on a commercial basis, which were previously held directly by the Singapore government, it allowed the Ministry of Finance and Ministry of Trade and Industry to focus on policy-making and left the management of these companies to Temasek.

It is unique – rather than behaving like and having the “official status” of a traditional sovereign wealth fund, Temasek behaves like an active investment manager, buying and selling financial assets. It even pays taxes and distributes dividends, albeit the only shareholder being Singapore’s Ministry of Finance. From a portfolio of S\$354M in the 1970s, it has grown to a portfolio of close to S\$242B in 2016. Although 100% of its original investment portfolio was in Singaporean assets, it has diversified beyond the country’s borders, taking advantage of investment opportunities abroad. This has been borne out in its investments away from Singapore-based companies (Exhibit 9); by the mid-2010s, Singapore comprised less than 30% of Temasek’s investment portfolio. It started investing in Asia in 2002 and in Europe and the US in 2014. Yet, its approach has rarely been about portfolio diversification across asset classes (i.e., it invests largely in equities), but rather riding the fortunes of long-term success and investment themes such as demographic shifts, consumption patterns, and technological advances.

2015 was a rather particular year in equities, with heightened volatility in China equity markets affecting the portfolio’s performance. Including dividends paid, Temasek’s one-year Total Shareholder Return was -9.0% in SGD terms, mainly affected by its listed equity holdings. Longer-term performance was much better; the 10-year and 20-year TSR was 6% while since inception TSR was 15% (Exhibit 10).

More recently, the focus has been on “innovative companies at the forefront of developing new, sometimes disruptive, solutions that create new opportunities, while addressing the growing needs of the world’s population”². A natural area to look at would be investments in the consumer section, and tapping on growing consumption in the emerging markets. Given

¹ <https://www.temasekreview.com.sg/overview/temasek-portfolio-at-inception.html>

² <https://www.temasekreview.com.sg/investor/how-we-grew.html>

this focus, where else better to invest than in China – the world’s most populous country and which by 2000, had already grown into the world’s 2nd largest economy (in GDP terms).

Founded in 1999, Alibaba was back then a small technology company which started off as a B2B trading platform for small businesses. By the late-2000s, Alibaba had grown into a formidable and pervasive player in the retail and e-commerce space, serving the needs of the Chinese consumer. Given Temasek’s aim to learn from and grow its international portfolio, this was an investment that it would have eventually made. Temasek first invested in Alibaba in 2010/2011, buying S\$50M worth of the company’s China registered shares. After this initial investment, it built up its stake further by buying employee stock and a portion of Yahoo’s stake in 2012. Via different investment units such as Seatown Holdings, Temasek also owned Alibaba ADRs. While initially small, Temasek had built up a significant stake in Alibaba by 2016, with more than 2% of the firm, and was seen as one of the company’s largest shareholders (Exhibit 11).

In total, Temasek held more than 55M American depository receipts (ADRs) of Alibaba after its investment in June 2016. Subsequently, it pared its Alibaba stake for two consecutive quarters, selling 14.5M ADRs in 3Q 2016 and 4.1M ADRs in 4Q 2016. It would have made a significant profit on these partial sales, given that it was one of the earlier investors in Alibaba pre-IPO. While these changes were part of Temasek’s portfolio rebalancing process, it remained “significantly invested” in Alibaba in the years to come.

GIC

GIC Private Limited, formerly known as Government of Singapore Investment Corporation, is a sovereign wealth fund established by the Government of Singapore in 1981. It is a long-term investor with a presence in over 40 countries. While GIC’s mandate is to invest the government’s reserves, Temasek was intended to be a holding company for the government’s assets, which is why GIC does not own local companies while Temasek does. Over the past 20 years up to March 2016, GIC annualized return was 4.0% above global inflation (Exhibit 12). This goal is expressed in real terms as GIC as a minimum must beat global inflation and preserve the international purchasing power of the reserves under its management. In nominal USD terms, it represents a return of 5.7% over the 20 years e.g. US\$100 invested with GIC in 1996 is worth US\$303 today.

GIC has traditionally kept a low profile in its investments. During the subprime mortgage crisis of 07-10, however, a number of its investments attracted controversy. In 2006, at the height of the US real estate bubble, it made a US\$200m investment in the largest apartment complex in Manhattan. However, the managers of the complex defaulted on the loan, wiping out the investment. In late 2007, during the first phase of the crisis, GIC also invested \$11 bn swiss francs for a 7.9% stake in UBS. It resulted in a 70% loss of value, and GIC acknowledged that the timing of the investments could have been better.

GIC's portfolio is constructed to be resilient across a broad range of plausible economic conditions, but still reap good long-term real returns. The portfolio spanning 6 core asset classes each with a different risk and reward profile. It also diversified across different geographies (Exhibit 13). Defensive assets such as sovereign bonds offer lower returns, but have lower risk and protect the portfolio in market downturns. Growth assets e.g. private equity generate higher returns but comes with higher risk. A long-term investment approach allows GIC to be contrarian during short-term market movements and bear illiquidity risk. GIC does not disclose its aum but it is estimated to be at US\$398bn (Sovereign Wealth Centre, London), making it the 5th largest state fund.

GIC prides itself on being a first mover. It was the first sovereign wealth fund set up by a non-hydrocarbon state. Perhaps as a response to high starting valuations in the public equity markets, it was also one of the earlier sovereign wealth funds to start investing in technology companies in 1986 after opening a venture capital fund in the San Francisco office. It still sticks to its traditional investment philosophy of long-term value investing by being cautious and selective. GIC covers all stages of the technology life cycle (Exhibit 14) and directly through its Technology Business Group and indirectly through external fund managers. GIC differentiates itself by being a lifetime partner to the investee companies. It enables multiple touchpoints e.g. it will invest in its private equity, invest in its technology venture investment arm, and participate as a sponsor in its incubator program. GIC's exposure to TMT (Technology, Media and Telecoms) have risen to 20% of all equity investments as compared to just 3% in 2009.

GIC views China as equal to Silicon Valley when searching for the next big thing. It has a sizable position on Asia ex-Japan (20%). Valuation for tech companies globally may be high, but GIC CEO Lim Chow Kiat believes that they can discern the difference. The bets appear to be paying off. GIC invested in Alibaba before its 2014 IPO. The stock has since tripled. It also backs smartphone maker Xiaomi. This illustrates GIC's thematic approach to investing. Through its relationship Xiaomi, GIC observed that China has become one of the best innovation centres for building consumer products that optimize hardware, software and a complex supply chain. This allows companies to deliver high-quality products at a lower cost. Similar observations have led GIC to back drone maker DJI, electric unicycle maker Ninebot, electric carmaker NIO, and Meituan-Dianping. In June 2018, GIC participated in Ant Financial's US\$14 billion (S\$19.1 billion) Series C equity financing to accelerate Alipay's globalisation plan.

The sale

The USD 1 bn investment of the two Singapore sovereign wealth funds was part of a much larger – USD 8.9 bn – sale by the Japanese’s SoftBank. The sale was comprised of share (re)purchases with a fixed price of USD 74 per share. A breakdown of the sale is given in the table below. As part of the divestment, SoftBank had set up a new trust with the intention of divesting USD 5.5 bn in Alibaba’s American depositary receipts in a private placement to ‘qualified institutional buyers’, Softbank said. Yet, the Japanese bank remained the largest shareholder of Alibaba after the sale.

Investor	Investment [USD m]
Members of the Alibaba Partnership of senior executives and founders	400
GIC	500
Temasek	500
Alibaba (share buyback)	2,000
Debt securities (to be exchanged for Alibaba stock in 3 years)	5,500
	Σ 8,900

It seemed that SoftBank was selling Alibaba shares – for the first time in 16 years – as it looked to step up investments in new promising start-ups and strengthen its balance sheet that included a ¥11.9 trillion debt. President Nikesh Arora was said to assess the company’s portfolio, which may lead to further asset sales in an effort to better diversity the portfolio. Doing so could potentially boost SoftBank’s share price if the market would start to see SoftBank as a (more) diversified asset manager.

Following the announcement, the shares of Alibaba fell about 6.5% to USD 76.69 at close.

The GIC and Temasek teams worked separately on this deal, despite both firms being viewed as state-affiliated investment arms of Singapore. Questions would remain over conflicts of interest, competing priorities, and the respective risk-return hurdles and trade-offs between the two investing parties.

Recent Developments

On March 22nd, 2020, SoftBank announced plans to raise USD 41 bn in assets to buy back its own shares and redeem debt (following the COVID-19 pandemic). Of this amount, USD 14 bn should come from monetizing part of its remaining shares in Alibaba.

On June 25th, 2020, SoftBank released its year-end financial filing in which it disclosed it had sold another USD 2.2. bn of its stake in Alibaba. The deal, involving a collar contract and a call spread, is expected to settle in 2024. After SoftBank was asked about the deal, they confirmed and stated that the reason for the sale was to improve its balance sheet.

On June 30th, 2020, Temasek submitted filings to the SEC, revealing it had trimmed down its large position in Alibaba. They seem to have sold half of their shares and are left with 12,061,337 shares...

Questions

Pre-deal

1. Is the Chinese e-commerce market attractive to investors? What are some examples of investment risks in the Chinese e-commerce market and how can investors mitigate these risks?
2. How would you describe Alibaba's competitive positioning?
3. What was the original investment thesis when both Temasek (2011) and GIC (pre-2014) invested in Alibaba before the 2016 US\$1B deal?
4. Why did these two funds invest together? Were there any overlaps in investment strategy, mandate, or conflicts of interest?

Deal – Rationale

5. Why did Softbank decide to sell their shares? Why did they decide to sell to the Singapore sovereign wealth funds?
6. Should Temasek and GIC have invested so much in Alibaba? Why or why not?
7. What are some potential sources of funds used by GIC and Temasek to invest in companies? How do these differ from private equity funds?

Deal – Returns and market response

8. How does the observed new share price relate to the fair value?

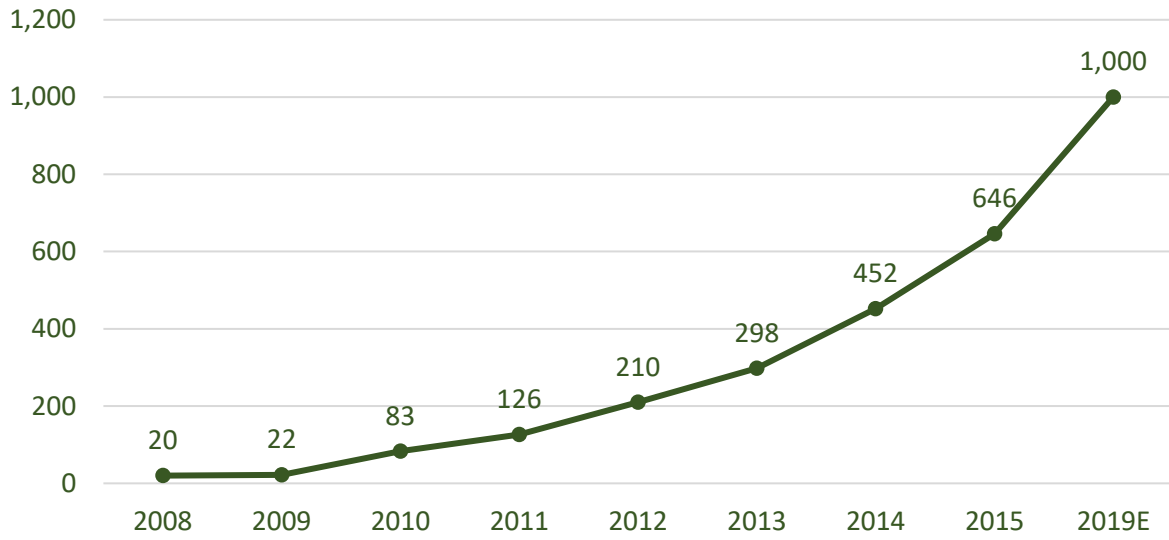
9. What's the MoM for Softbank's investment in Alibaba?

Post-deal

10. What's the return (in MoM) for Temasek from the share sales in Q3 2016 and Q4 2017? Based on this MoM, provide a recommendation on whether you would invest in this deal. Assume that Temasek did not use any debt capital in its financing of the Alibaba deal.

Exhibit 1

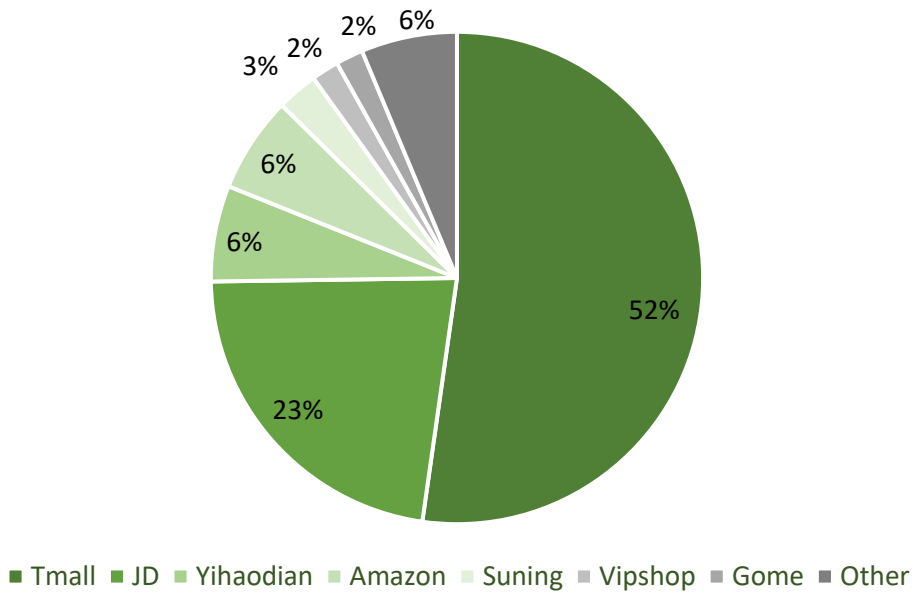
Historical and projected growth of Chinese e-commerce market (US\$ million)



Source: Sovereign (China) Limited

Exhibit 2

Market share of B2C e-commerce players in China (2015)



Source: Sovereign (China) Limited

Exhibit 3

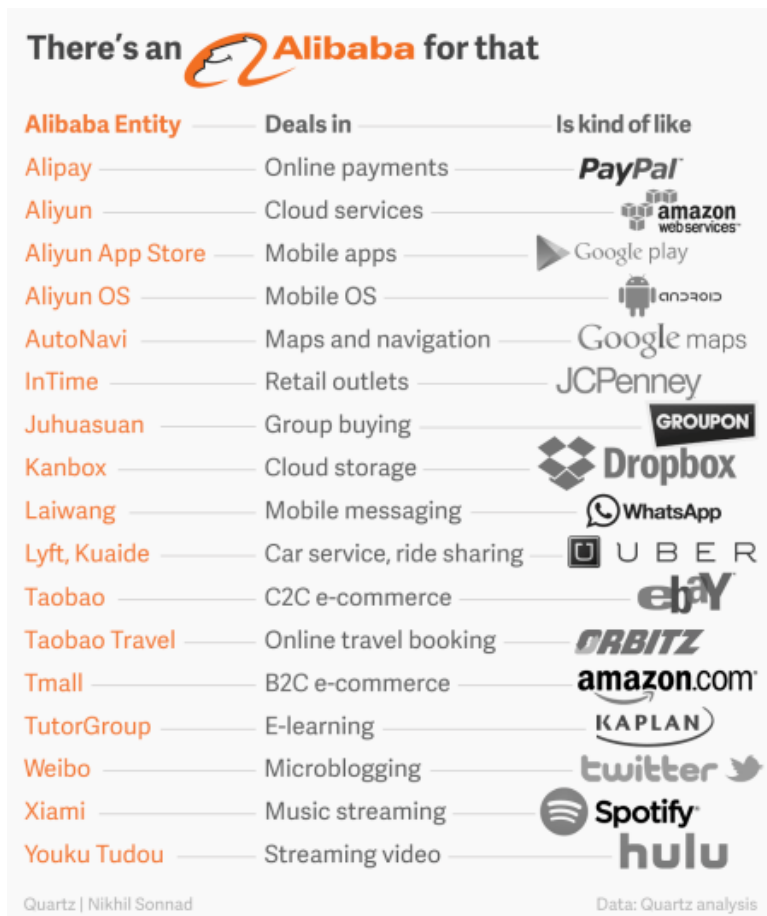
Alibaba's business units and other offerings

Overview of major businesses

- Chinese retail marketplace: Taobao Marketplace, Tmall, Rural Taobao
- Global marketplace: AliExpress, Tmall Global, Lazada
- Wholesale commerce: 1688.com (China), Alibaba.com (global)
- Digital Media and entertainment*: Alibaba Pictures, Alibaba Music, Alibaba Sports, Youku Tudou
- Finance*: Ant Financial (includes Alipay), MYbank
- Logistics*: Cainiao Network
- Cloud computing*: Alibaba Cloud

*Major investee companies and cooperative partners of Alibaba Group

Source: Alibaba website



Source: Quartz analysis

Exhibit 4

Alibaba's press release on investment in Lazada



Alibaba Acquires Controlling Stake in E-commerce Platform Lazada

Transaction makes Alibaba a leading e-commerce platform in Southeast Asia

Hangzhou, China/Singapore, April 12, 2016 – Alibaba Group Holding Limited and Lazada Group S.A. announced today that Alibaba entered into an agreement to acquire a controlling stake in Lazada, a leading e-commerce platform in Southeast Asia. The transaction consists of an investment of approximately USD500 million in newly issued equity capital of Lazada and acquisition of shares from certain shareholders of Lazada, for a total investment by Alibaba of approximately USD1 billion. The transaction is expected to help brands and distributors around the world that already do business on Alibaba's platform, as well as local merchants, to access the Southeast Asian consumer market.

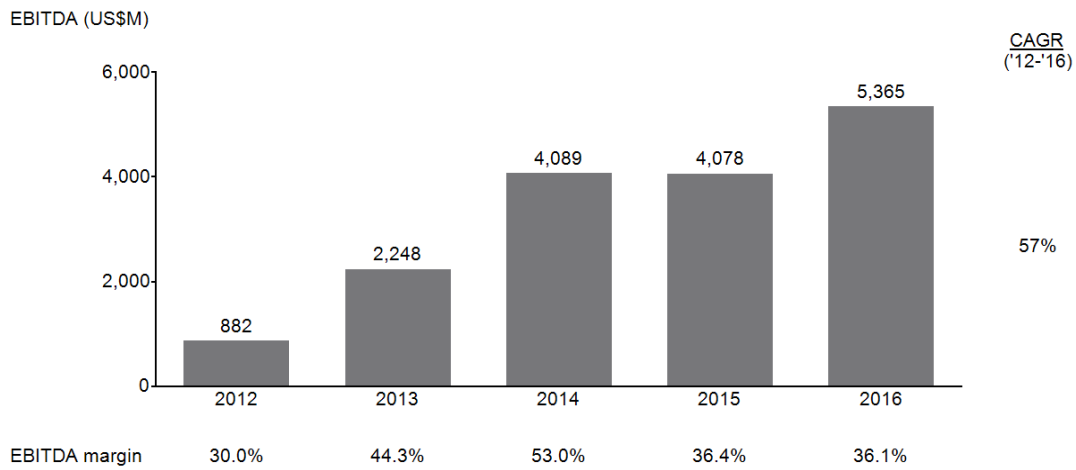
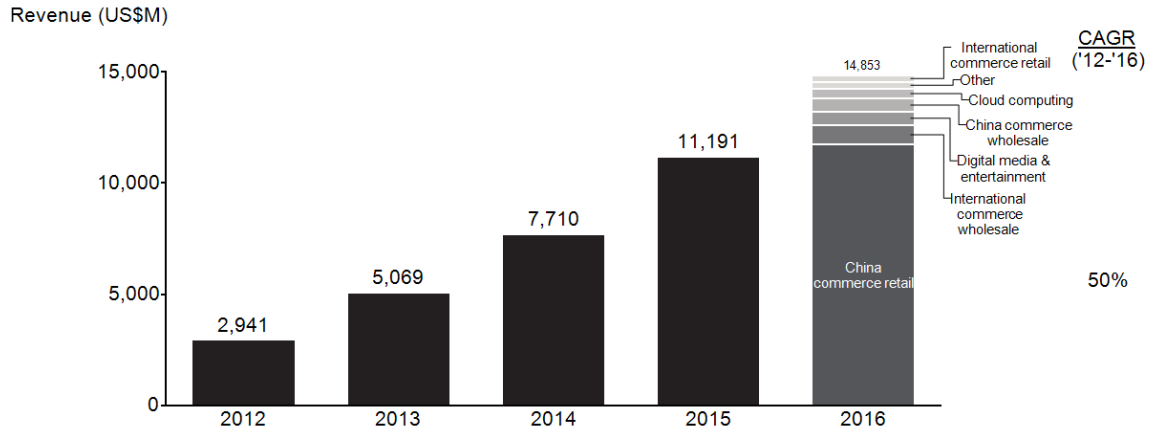
Lazada currently operates e-commerce platforms in Indonesia, Malaysia, the Philippines, Singapore Thailand and Vietnam. These six countries combined have a population of approximately 560 million and an estimated Internet user base of 200 million, according to Internet Live Stats. With only 3% of the region's total retail sales conducted online, Southeast Asia is expected to offer tremendous growth potential to both companies as internet penetration continues to rise.

"Globalization is a critical strategy for the growth of Alibaba Group today and well into the future," said Michael Evans, President of Alibaba. "With the investment in Lazada, Alibaba gains access to a platform with a large and growing consumer base outside China, a proven management team and a solid foundation for future growth in one of the most promising regions for e-commerce globally. This investment is consistent with our strategy of connecting brands, distributors and consumers wherever they are and support our ecosystem expansion in Southeast Asia to better serve our customers."

Source: Alibaba press release, April 12th 2016

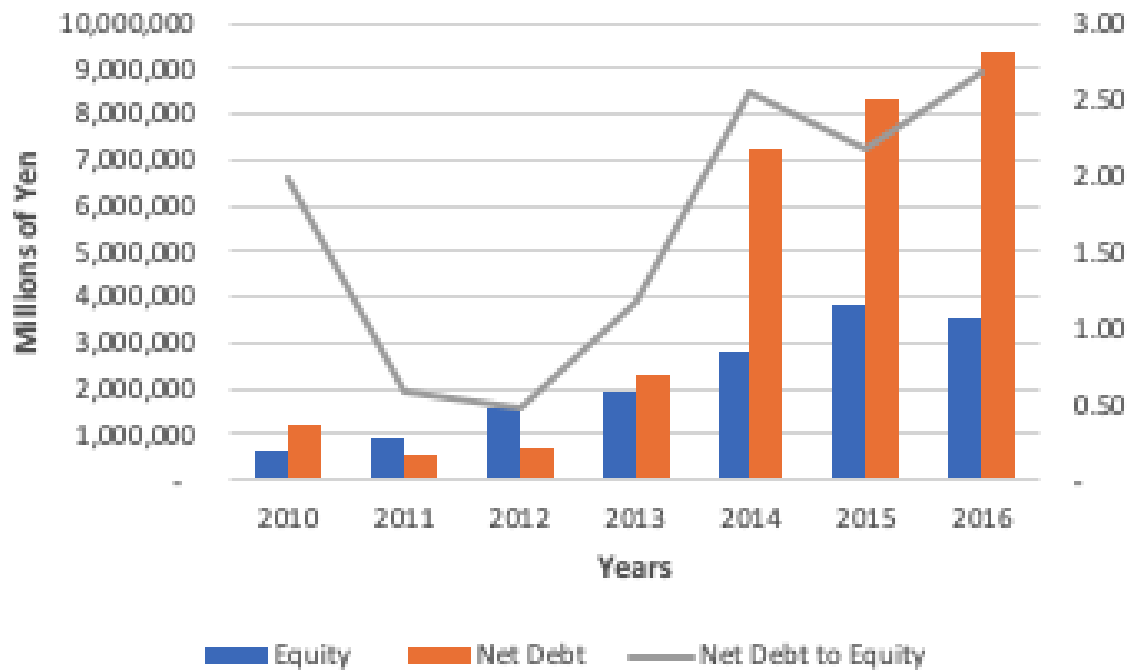
Exhibit 5

Revenue and EBITDA growth of Alibaba



Source: Alibaba annual reports

Exhibit 6
SoftBank's capital structure (in millions of yen)



Source: 2010-2016 Annual Reports of SoftBank Group Corp.

Exhibit 7
SoftBank's outstanding debt as at March 31, 2016

	(Millions of yen)								
	Consolidated			SoftBank Group Corp. and Subsidiaries (Excluding Sprint)			Sprint		
	Total balance at March 31, 2016	Current liabilities	Non-current liabilities	Total balance at March 31, 2016	Current liabilities	Non-current liabilities	Total balance at March 31, 2016	Current liabilities	Non-current liabilities
Bonds	7,512,632	900,685	6,611,947	3,892,586	468,877	3,423,709	3,620,046	431,808	3,188,238
Borrowings	3,044,133	1,258,633	1,785,500	2,733,554	1,028,136	1,705,418	310,579	230,497	80,082
Commercial paper	42,000	42,000	-	42,000	42,000	-	-	-	-
Lease obligations	1,212,186	396,992	815,194	1,176,942	389,110	787,832	35,244	7,882	27,362
Installment payables	111,480	48,299	63,181	102,501	41,538	60,963	8,979	6,761	2,218
Total interest-bearing debt	11,922,431	2,646,609	9,275,822	7,947,583	1,969,661	5,977,922	3,974,848	676,948	3,297,900

Source: 2016 Annual Report of SoftBank Group Corp.

Exhibit 8

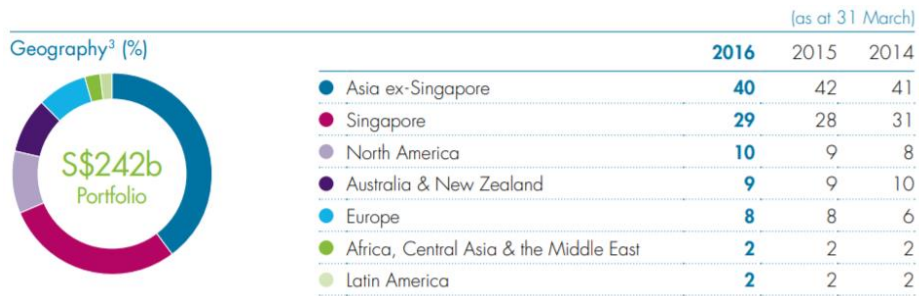
Historical voting rights (%) held by SoftBank in Alibaba Group Holding Limited



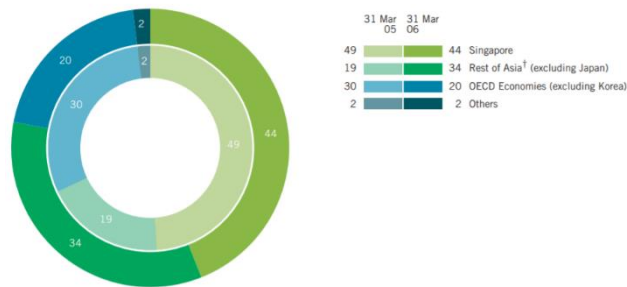
Source: 2003-2016 Annual Reports of SoftBank Group Corp.

Exhibit 9

Investments away from Singapore-based companies



NET PORTFOLIO VALUE OF S\$129 BILLION AS AT 31 MARCH 2006*

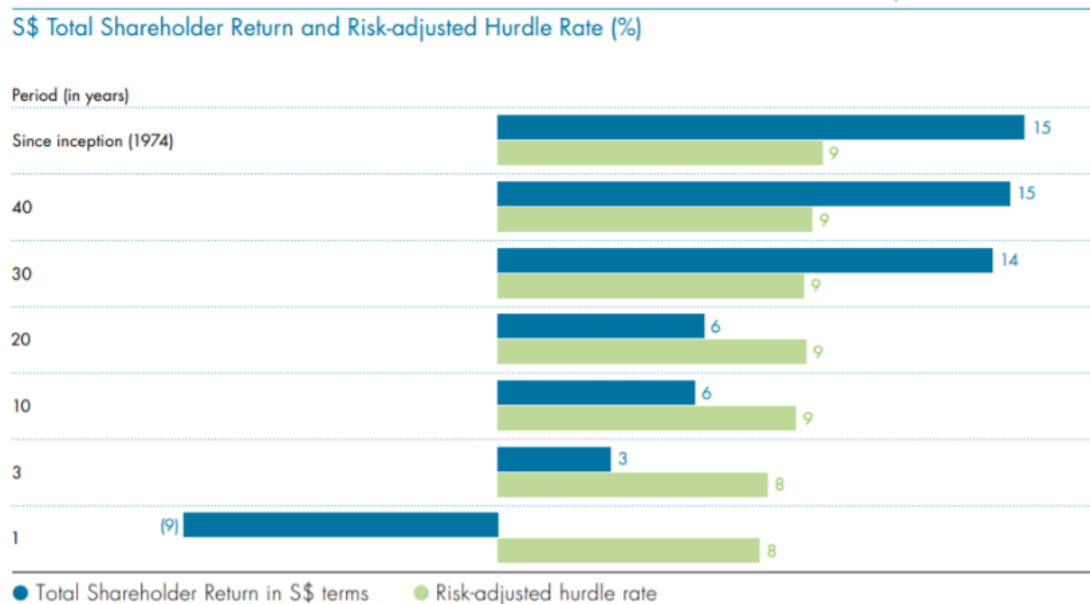


Source: Temasek website

Exhibit 10

Temasek's Total Shareholder Return by period

[as at 31 March 2016]



Source: Temasek website

Exhibit 11

Temasek's stake in Alibaba by 2016

				Market Capitalisation or Shareholder Equity ¹	
Telecommunications, Media & Technology		Shareholding ⁴ (%) as at 31 March 2016	Currency	2016	2015
	Intouch Holdings Public Company Limited	41	THB'm	204,409	247,696
	Markit Ltd.	12	USD'm	6,368	5,058
	Singapore Technologies Telemedia Pte Ltd	100	SGD'm	4,754	3,892
	Alibaba Group Holding Limited	2	USD'm	195,515	207,725
	Bharti Airtel Limited	3	INR'm	1,402,288⁷	1,572,177 ⁷
	Mediacorp Pte Ltd	100	SGD'm	761	729
	Singapore Telecommunications Limited	51	SGD'm	60,904	69,833

Source: Temasek website

Exhibit 12

Annualised Rolling 20-Year Real Rate of Return of the GIC Portfolio

Figure 1: Annualised Rolling 20-Year Real Rate of Return of the GIC Portfolio since 2001



Source: GIC annual report 2015-2016

Exhibit 13

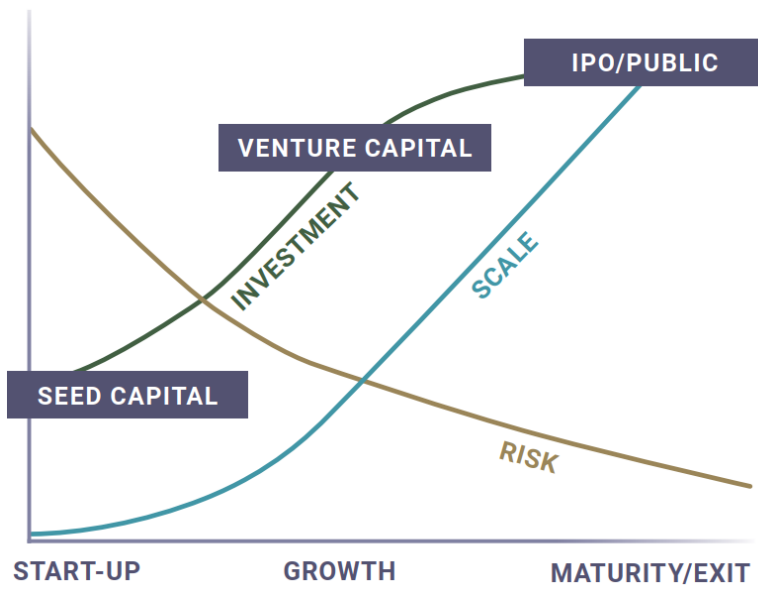
Asset mix and geographical distribution of the GIC portfolio

Asset Mix	31 March 2016 (%)	31 March 2015 (%)
Developed Market Equities	26	29
Emerging Market Equities	19	18
Nominal Bonds and Cash	34	32
Inflation-Linked Bonds	5	5
Real Estate	7	7
Private Equity	9	9
Total	100	100



Source: GIC annual report 2015-2016

Exhibit 14 Financing life-cycle of a company



Source: GIC feature article 2017-18