

Alibaba leads RM3.93 bil stake in video site Youku Tudou

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Apr 28, 2014

By Bloomberg

Alibaba Group Holding Ltd and founder Jack Ma's Yunfeng Capital agreed to buy a US\$1.22 billion (RM3.93 billion) stake in video website Youku Tudou Inc as China's biggest e-commerce operator prepares for a US initial public offering.

Alibaba will hold about 16.5% of Youku while Yunfeng will have about 2%, Youku Tudou said in a statement today. The deal will close in the near future, with Alibaba chief executive officer Jonathan Lu to join the board, it said.

The deal gives Alibaba access to China's biggest online video operator and its customers as Ma bolsters services ahead of an IPO that may be larger than the US\$16 billion raised by Facebook Inc in 2012. More than 500 million people in China access the Internet from mobile devices, and Youku Tudou is developing shows for the growing number of consumers in second- and third-tier cities and migrant workers from the interior.

"Alibaba needs a lot of traffic so they have been buying a lot from pretty much every single Chinese Internet company," Tian X Hou, the founder of TH Capital LLC in New York, said by phone today. "It doesn't matter where you are, a lot of people watch videos. That will be long-lasting traffic, so that is suitable for Alibaba's long-term interests."

Florence Shih, a spokeswoman for Hangzhou, China-based Alibaba, declined to comment beyond the statement.

Yahoo, SoftBank

Yunfeng and Alibaba will pay US\$30.50 per American Depositary Share, Youku Tudou said in the statement. Youku closed at US\$24.14 on April 25, 2014, and the stock has dropped 20% this year.

Alibaba, 24% owned by Yahoo! Inc, is competing with Tencent Holdings Ltd and Baidu Inc for China's 618 million Internet users by making deals at home and in the

US to extend its e-commerce reach to mobile games and messaging. Tokyo-based SoftBank Corp owns a 37% stake in Alibaba.

This month, Alibaba agreed to buy AutoNavi Holdings Ltd and in March 2014 said it would invest almost US\$700 million in Intime Retail Group Co, an owner of department stores and supermarkets in China, as it bolsters its mobile and distribution businesses.

Youku is adding series from South Korea, Hong Kong and Hollywood — it carries the Netflix Inc hit “Orange Is the New Black” — and using its trove of data to offer choices based on geography, gender and age.

“With a strategic stake in Youku, Ali largely completes its eco-system for Internet TV,” Jiong Shao, an analyst at Macquarie Group Ltd, said by e-mail today. “With this investment, Youku Tudou would more than double its ‘war chest’ to acquire content and make infrastructure investments.”

US\$168 Billion

The deal comes as China’s largest video websites face a government crackdown on content deemed offensive. Four US television shows, including “The Big Bang Theory” and “The Good Wife,” are no longer available on the sites. Sohu.com Inc was ordered by regulators to remove “The Big Bang Theory,” chief executive officer Charles Zhang told reporters on a conference call today.

Alibaba doesn’t sell merchandise itself. Instead, it runs platforms including Taobao Marketplace and Tmall.com that connect retail brands with consumers, a cross between Amazon.com Inc and EBay Inc. It makes most of its revenue from commissions and advertising.

The company is valued at US\$168 billion, based on the average estimate of 12 analysts surveyed by Bloomberg News, with valuations ranging from US\$136 billion to US\$245 billion.

Hollywood Partnerships

Formed by Ma and partners in 1999 as a marketplace for Chinese companies, Alibaba has tapped into the nation’s boom in manufacturing and trade spurred by a wave of economic liberalization. The former English teacher owns about 7.4% of the

company and had an estimated personal net worth of about US\$12.9 billion, according to the Bloomberg Billionaires Index.

While Alibaba hasn't said how much it will seek in the IPO, a person with knowledge of the matter said the company may sell about a 12 percent stake. That would make it a US\$20 billion deal, based on the US\$168 billion valuation.

The deal between Youku and Alibaba comes as growth in online consumption creates opportunities for film partnerships with major Hollywood studios. Walt Disney Co's "Captain America: The Winter Soldier" is being co-marketed by Youku in China, where it premiered March 24, 2014.

"Alibaba's investment will strengthen Youku Tudou as China's largest online video platform and further differentiate our services," chief executive officer Victor Koo said in a statement today.

Internet Deals

Chinese Internet companies are grappling with how to attract and keep users who increasingly go online for movies, music, television shows and books. The country's market for online video probably will be worth 17.8 billion yuan (RM9 billion) this year, then double to 36.6 billion yuan in 2017, according to a report by Internet consultant IResearch.

Baidu, China's biggest search-engine operator, bought Internet video business PPStream Inc in June 2013 for US\$370 million and has been combining it with IQiyi.com, which it acquired in 2012.

Goldman Sachs Group Inc advised Youku Tudou while Alibaba was advised by Morgan Stanley.

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