



Deciphering the Trillion-valued Unicorn

-Ant Financial Case Study

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INTRODUCTION

World Bank rated Ant Financial as the most valuable fintech company worldwide in the *World Development Report 2019* issued in October 2018. As a financial services company that has just spun off from Alibaba Group for four years, it does deserve the title of "the most valuable company" with a valuation of USD 160 billion. In China, there is a huge gap between the lofty valuation of Ant Financial and the valuation of other unicorn companies.

It can be seen that Ant Financial is growing rapidly and outperforming financial institutions that have been developing for decades in China and even the world. Ant Financial cannot be labeled as a simple fintech or a financial company. In terms of the 15-year accumulation and development from Alipay to Ant Financial, both the innovation capability of its financial business and the technical output capability serving third-party financial and non-financial institutions are indispensable consideration factors for its current success.

Why choose Ant Financial?

By making a summary and analysis of the development of Ant Financial, EO Intelligence illustrates the impetus for the industry brought by the technology and finance, and the logic behind it.

CONTENTS

04 Ant Financial Overview

- 1.1 Financing and Shareholding Structure
- 1.2 Background
- 1.3 License and Product Information
- 1.4 Investment Events

16 Ant Financial Development Strategy

- 2.1 Globalization
- 2.2 Serving Small and Micro Businesses
- 2.3 Credit System

26 Ant Financial Revenue Forecasting

- 3.1 Business Data Disclosed by Ant Financial and Third Parties
- 3.2 Revenue Structure

38 Postscript

Chapter 1

Ant Financial Overview

Ant Financial, officially founded in October 2014, known as the world's most valuable fintech company with a valuation of USD 160 billion. By making a summary and analysis on the development of Ant Financial, EO Intelligence illustrate the impetus for the industry brought by the technology and finance, and the logic behind it.

This chapter illustrates the company's key information including its history, business development, core products, ownership and domestic and overseas acquisitions, so as to facilitate understanding of the logic behind the strategy formulation and business adjustments of Ant Financial.



Financing and Shareholding Structure

Financing events

The full name of Ant Financial is Zhejiang Ant Small and Micro Financial Services Group Co., Ltd., formerly known as Zhejiang Alibaba E-Commerce Co., Ltd. established in October 2000. By the end of 2018, Ant Financial had 9 financing rounds, and **its pre-IPO round valued USD 14 billion is the biggest-ever single fundraising worldwide. After the financing, the valuation of Ant Financial hit USD 160 billion.** Rumors about the listing of Ant Financial have been going on all the time. Whether Ant Financial will go public in America, Hong Kong or on Sci-Tech Innovation Board (STAR Market) in China has become the biggest suspense.

By sorting out the investment agency engaged in Ant Financial's financing events, its pre-IPO financing round not only involved Chinese investors, but also 12 overseas ones. EO Intelligence believes Ant Financial plans to expand global markets by sharing profit in the future.

EO Intelligence: Ant Financial Financing Rounds

Announced Date	Funding Type	Money Raised	Investors
6/23/2018	Strategic financing	¥ 1.6B	China Pacific Insurance
6/8/2018	Pre-IPO	\$ 14B	Lead investors: Government of Singapore Investment Corp, Warburg Pincus, Canada Pension Plan Investment Board, Temasek, Khazanah Nasional Berhad; Follow investors: Carlyle Asia, Baillie Gifford, General Atlantic, Silver Lake, Sequioa Capital (China), Janchor Partners, Discovery Capital Management, T Rowe Price
2/1/2018	Strategic financing	¥ More than 100M	Lead investor: Alibaba
5/18/2017	Debt Financing	\$3.5B	Undisclosed
4/26/2016	Series B	\$4.5B	Lead investors: CIC Capital, CCB Trust Follow investors: National Council for Social Security Fund (China), GP Capital, China Pacific Insurance, New China Insurance, China Life Insurance, China Post Capital, China Development Bank Capital, Primavera Capital, China Development Bank International Investment, ALPHA (Beijing) Investment Fun, Hanfor Capital, E Fund
9/5/2015	Strategic financing	¥ More than 100M	China Post Capital
7/5/2015	Series A	¥ 12B	Zongfu Equity Investment, JingYi Investment, China Development Bank Capital, Guokaixinyuan Investment, New China Insurance, PICC Capital, National Council for Social Security Fund (China), China Pacific Insurance, China Life Insurance, Primavera Capital, Shanghai Financial Sector Investment Fund Second Stage, Yunfeng Capital, China Post Capital, GP Capital
5/1/2015	Series pre-A	¥ 219M	Haier Capital
4/15/2014	Strategic financing	Undisclosed	CCB Fund, PICC Capital

Source: EO intelligence organize from public information

Financing and Shareholding Structure

Ownership structure

Based on Ant Financial's financing events, EO Intelligence has analyzed major equity distribution of the company. To date the two largest shareholders of Ant Financial are Hangzhou Junhan Equity Investment Partnership ("Junhan") and Hangzhou Jun'ao Equity Investment Partnership ("Jun'ao"), with a total equity ratio of 74.6% (2019 Q3 financial report of Alibaba) based on the proportion of registered capital (registered capital, also known as authorized capital, is the sum of the subscribed capital contributions of all shareholders and initiators of the company), having absolute control over it. According to the business registration information, Junhan has Jack Ma and Shihuang Xie as its limited partners and Hangzhou Yunbo Investment Consultancy Co., Ltd. as its general partner. Jun'ao has 24 executives of Alibaba, including Jonathan Lu, Daniel Zhang and Lucy Peng as its limited partners, and Hangzhou Yunbo Investment Consultancy Co., Ltd., which is 100% owned by Jack Ma, as the general partner as well.

Background

The “Little Ant” originating from Alipay

Ant Financial originated from Alipay, a product launched by Alibaba in 2004. At the beginning, Alipay was a secured payment instrument of Taobao, with an original intention of solving the trust issue in users transactions. In terms of the product mode, Alipay's secured transactions do not have much innovation, it simply adjusted transaction processes. Nevertheless, the emergence of Alipay has become a turning point in China's e-commerce industry, and **the payment business has been the most fundamental and core business of Alipay and even Ant Financial**. Today, Alipay has become the world's largest payment platform, with annual transaction volume of RMB 100 trillion.

In March 2013, the parent company of Alipay, Zhejiang Alibaba E-Commerce Co. Ltd., announced that it would set up an Alipay-oriented small and micro financial service group, which is the predecessor of Ant Financial. In October 2014, Ant Financial made its debut officially.

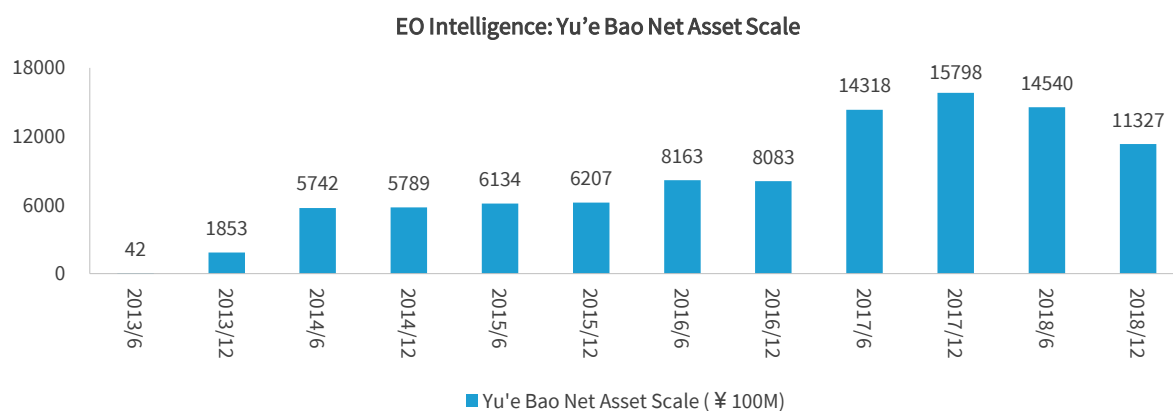
As far as EO Intelligence concerned, there are three crucial events during the development of Ant Financial, which are **launch of Alipay, Yu'e Bao (an attempt to arrange other financial businesses besides payment) and financial technology**. The three crucial events (products) have fundamentally affected the business layout and long-term development of Ant Financial, exerting a profound influence on enterprises and the industry.

Background

Yu'e Bao was established amid the attempt to arrange other financial businesses besides payment

In June 2013, Ant Financial unveiled Yu'e Bao in cooperation with Tianhong Asset Management Co., Ltd., in order to cope with the policy of turning in provisions and improve the utilization rate of users' funds. Yu'e Bao is a customized fund product that mainly invests in the interbank market, with a low investment threshold - RMB 1, and depositors can withdraw their money any time (T+0). The balance can be directly used for consumer payment.

The original idea of Yu'e Bao is to solve the problem of single channels for fund sales, which, to some extent, promoted the formulation of fund sales standards on e-commerce platforms. In 2013, the *Interim Provisions on the Administration of the Business Operations of Securities Investment Fund Distributors through Third-Party E-Commerce Platforms* was officially issued. Yu'e Bao, after obtaining the compliance qualification, has seen rapid development and its net asset surged ever since.



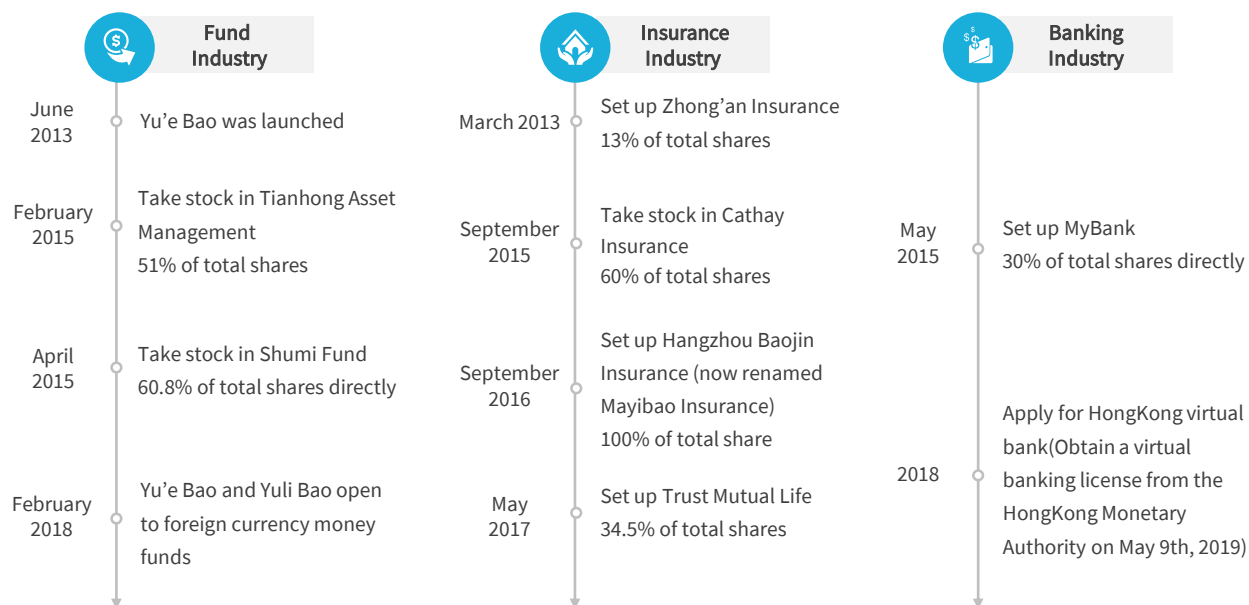
Source: Shanghai Tiantian Fund

Yu'e Bao is the pioneer of Ant Financial ecosystem. After that, Ant Financial has stepped up its efforts in the layout in the Internet plus finance sector, and defined the development direction of inclusive finance. Now, arrangements have been made in three financial sectors.

Background

Yu'e Bao was established amid the attempt to arrange other financial businesses besides payment

EO Intelligence: Ant Financial Top3 Financial Business Segments



Source: Public information;

Note: The shareholding ratio of Ant financial is the data at the time of investment, which is not the latest data

Establish the key position of fintech development strategy

In September 2015, Ant Financial launched the “Internet Propeller” program, setting a goal of helping 1,000 financial organizations transform and upgrade to new finance in the next 5 years, and promoting the opening up of its platform, data and technical capabilities.

In October 2017, Ant Financial unveiled its five technology-open “BASIC” strategies at the first ATEC conference. Such strategies are : **Blockchain** that helps to build reliable and globally connected systems can be used to store, exchange and process data; **AI (artificial intelligence)** that applied intelligence construction to deliver cheaper, more sustainable and optimal services to consumers; **Security** is the core of information system security and stability; **IoT (Internet of Things)** connects the physical world and the digital world, bringing simultaneous changes in the physical world as in the digital world; **Cloud Computing**, the abundant resource of computing power in cloud computing opens up new possibilities for digital finance and even the digital economy. Based on this, Ant Financial has extended the three capabilities of risk control, credit and connectivity, and began to achieve all-round coverage in the layout of fintech.

License and Product Information

Difficulty in obtaining full license of traditional financial business

Ant Financial has always been active in applying for financial business licenses, a prerequisite for conducting financial transactions in China, to comply with the requirements of regulation and business compliance. At present, it has **14 financial licenses** which were obtained through subsidiaries established or companies controlled. By business type, the financial licenses held by Ant Financial itself or indirectly through a holding company include:

- banking license and insurance license approved by China Banking and Insurance Regulatory Commission;
- payment license and credit investigation license approved by People's Bank of China;
- fund license and securities license approved by China Securities Regulatory Commission;
- factoring license approved by the Ministry of Commerce;
- petty-loan license approved by other organizations.

EO Intelligence: Financial Licenses of Ant Financial (Self-owned and owned by Holding Company)

Payment Payment license 01	Bank Private bank license 02	Fund Fund payment by the third party license Fund sales license Fund management license 03	Insurance Insurance agent license Property insurance Mutual insurance license 04
Credit Personal credit license (Shareholder enterprise of Baihang Credit) Enterprise credit license 05	Petty Loan Small-loan company license Network petty loan license 06	Security Brokerage license 07	Factoring Factoring license 08

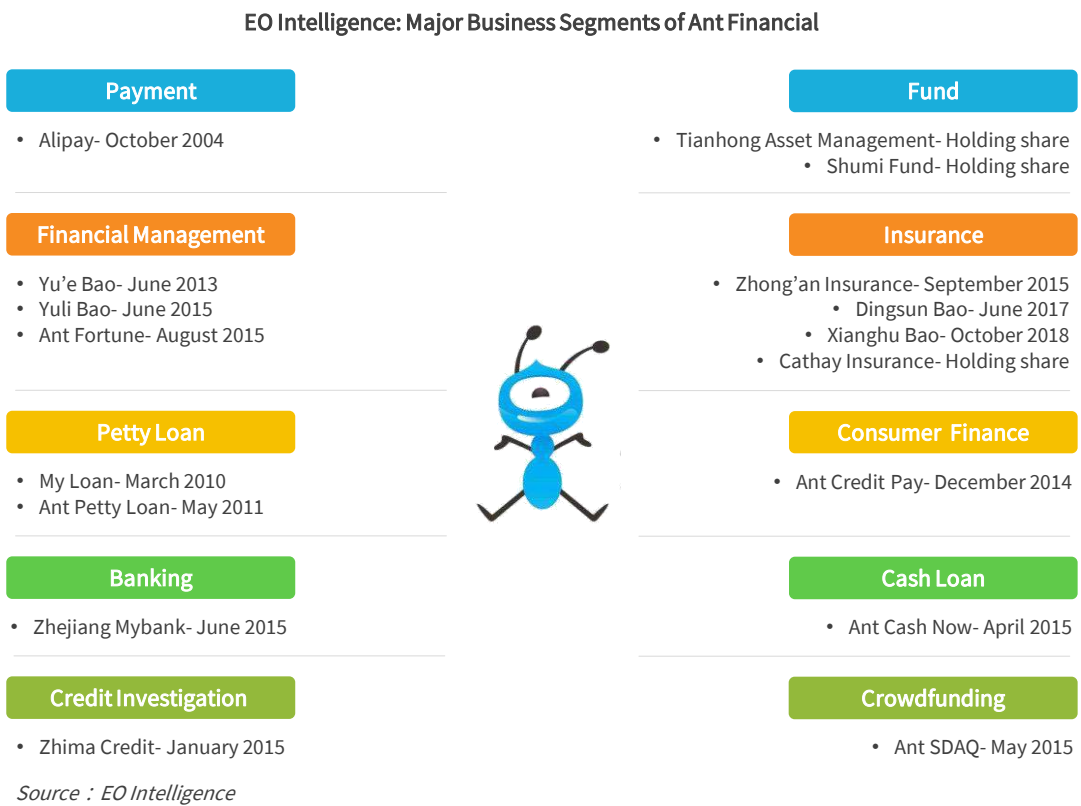
Source: EO Intelligence

Four product structures of Ant Financial: payment, financial management, micro loan and technology

In addition to businesses related to Alipay, Ali Finance with small loan as its main business was also merged into Ant Financial after its inception. Ant Financial’s current businesses owned by itself and its sponsor shareholders, include Alipay, Yu'e Bao, MYbank, Ant Credit Pay, Zhima Credit, Ant Cash Now, Ant Fortune, My Loan, Ant SDAQ and Ant Financial Cloud. These business sectors involve payment, fund, financial management, insurance, banking, consumer finance, petty loan, cash loan, credit investigation and equity-based crowdfunding, etc.

License and Product Information

Four product structures of Ant Financial: payment, financial management, micro loan and technology



As can be seen from the product categories, Ant Financial **has almost achieved full coverage of 2B and 2C businesses**. However, its business structure still needs to be optimized. In particular, **the payment business is too big and centralized to withstand regulatory and other possible risks**.

Failed exploration

In addition to these established business segments, Ant Financial has also had failed attempts. EO Intelligence has sorted out these failed attempts, holding that the shutoff of three products has a great impact on Ant Financial's overall layout. After encountering some setbacks, Ant Financial defined a clearer direction for its business layout, and deployed enterprise resources to focus on core business.

License and Product Information

Failed exploration

■ Zhaocai Bao

Released in April 2014, Zhaocai Bao positioned itself as a financial information service platform, with four major categories of products- loan, insurance, fund and receivables investment. However, the multiple guarantee measures set up by the platform were still insufficient to ensure the safety of investment products. On December 15, 2016, Cosun bond defaulted, leading to an overdue of RMB 312 million. Even if the platform not bear the responsibility for compensation, concerning the immense public pressure, risk control problems of products exposed by the event as well as the risk diffusion problems brought by the platform have caused Ant Financial to stop the business of Zhaocai Bao on a gradual basis. All products related to private placement have been removed from the market and not been restored yet.

■ Community

In order to compete with WeChat Pay, Alipay added chat functions in July 2015, which aimed to expand its social relationship chain by several round of promotion. In November 2016, Alipay added Community function in its newest updated version, establishing nearly 100 different “communities” based on the characteristics of the invited users. Among them, the community represented by “Campus Diary” had been in the center of a controversy due to improper rule setting and unhealthy contents posted by users without supervision, so relevant functions had been removed urgently. At the beginning of 2017, Ant Financial decided not to “set foot in social network” at the strategy meeting. That is to say, it would keep the existing social network, but no longer make any intentional attempt to develop social network business.

■ Mutual Insurance

In October 2018, Ant Insurance and Trust Mutual Life Insurance Company jointly launched “Mutual Insurance” which was available on the Alipay platform in the form of “Mutual Aid Plan for Serious Diseases”. In November 2018, regulatory authorities urged Trust Mutual Life to suspend its “Mutual Insurance” business for its failure to use the approved or filed insurance terms and rates as required, publicity misleading in the sales process, as well as untrue and insufficient information disclosure. Affected by this, the “Mutual Insurance” was removed and then re-launched, with a new name “Xianghubao”. Xianghubao removed the insurance content in the original mutual aid plan and redefined it as a mutual aid based on the Internet mechanism. At present, the business is still in iteration, but no longer related to the Trust Mutual Life Insurance Company.

Investment Events

When Ant Financial originated from Alipay, it merely positioned itself as a third-party payment enterprise. However, driven by Yu'e Bao, it changed its direction of development and began to expand by investing externally while continuously enriching its own business system.

EO Intelligence has made summaries on Ant Financial's investment in China and other countries. Detailed investment events and data can facilitate a better understanding of the development strategy formulated by Ant Financial and the logic behind its strategy alteration in recent years.

■ Ant Financial's investments in Mainland China

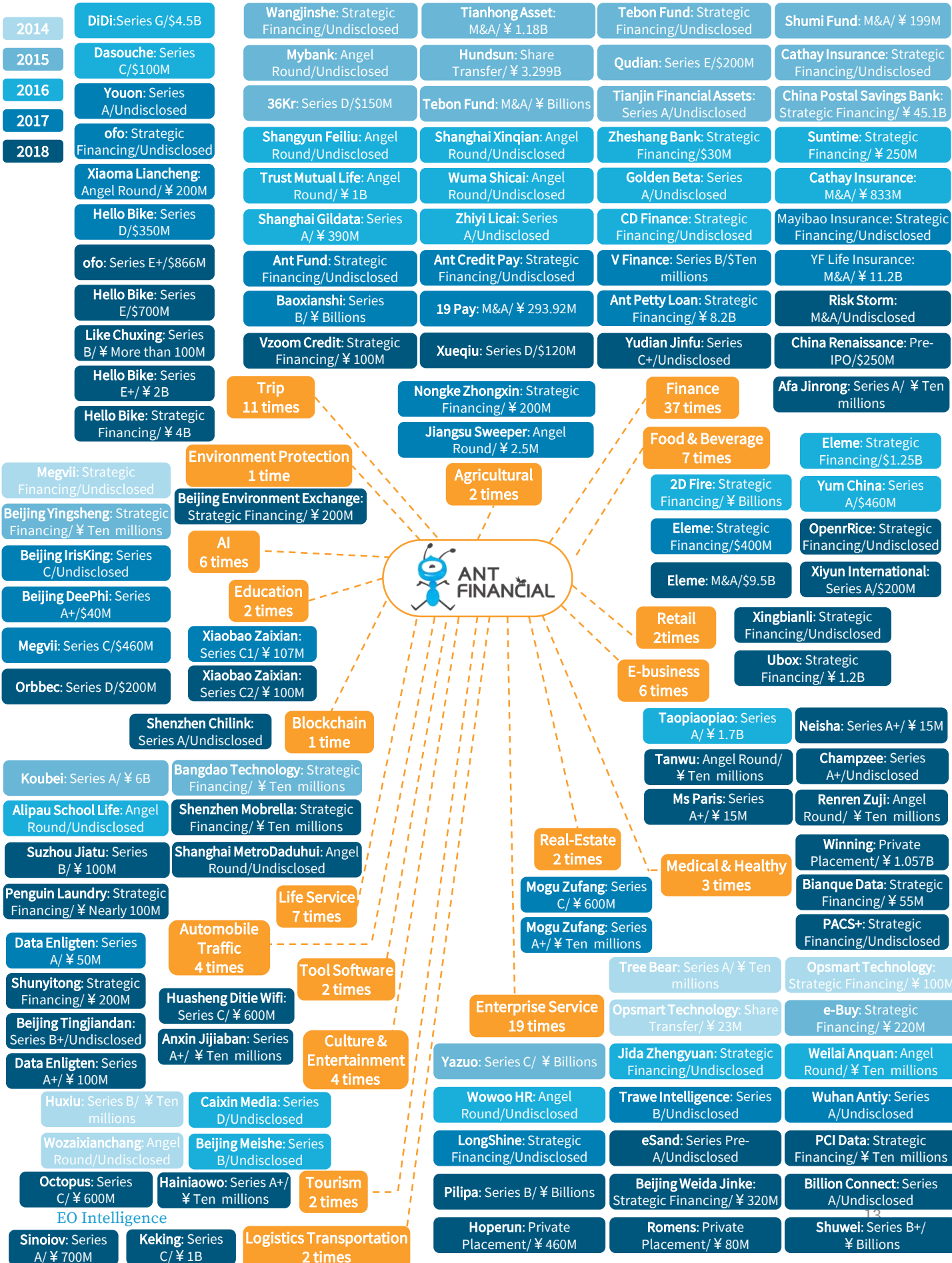
As of December 31, 2018, **Ant Financial has made 120 outbound investments during the 4 years after its inception** (proposed investment events are not included), and expanded investment layout rapidly. In 2013, when Ant Financial began to invest abroad even before its official debut. In October 2013, it announced the acquisition of Tianhong Asset Management Co., Ltd., not completed until February 2015 due to disputes with other shareholders.

From 2014 to 2018, Ant Financial have invest 120 times, **involving 110 companies and covering 19 industries**, which are: finance (37 times), enterprise service (19 times), trip (11 times), food & beverage (7 times), life service (7 times), AI (6 times), e-commerce (6 times), automobile traffic (4 times), culture & entertainment (4 times), medical & healthy (3 times), logistics transportation (2 times), education (2 times), agriculture (2 times), real-estate (2 times), tourism (2 times), retail (2 times), tool software (2 times), blockchain (1 time) and environment protection (1 time).

It can be seen that in the field of external layout, Ant Financial has not been satisfied with its simple financial business structure. Among the 49 investment events in 2018, only 6 are in the financial sector. Although reducing the investment in the financial sector, the investments focus of Ant Financial have been transferred to new fields: **retail, medical & healthy, tourism, logistics transportation, tools software, blockchain and environmental protection. It is also the first time that Ant Financial looked at and made investment in these seven fields, which may become its new focus in the future.**

Ant Financial Case Study

EO Intelligence: Ant Financial Investment sin Mainland China



Investment Events

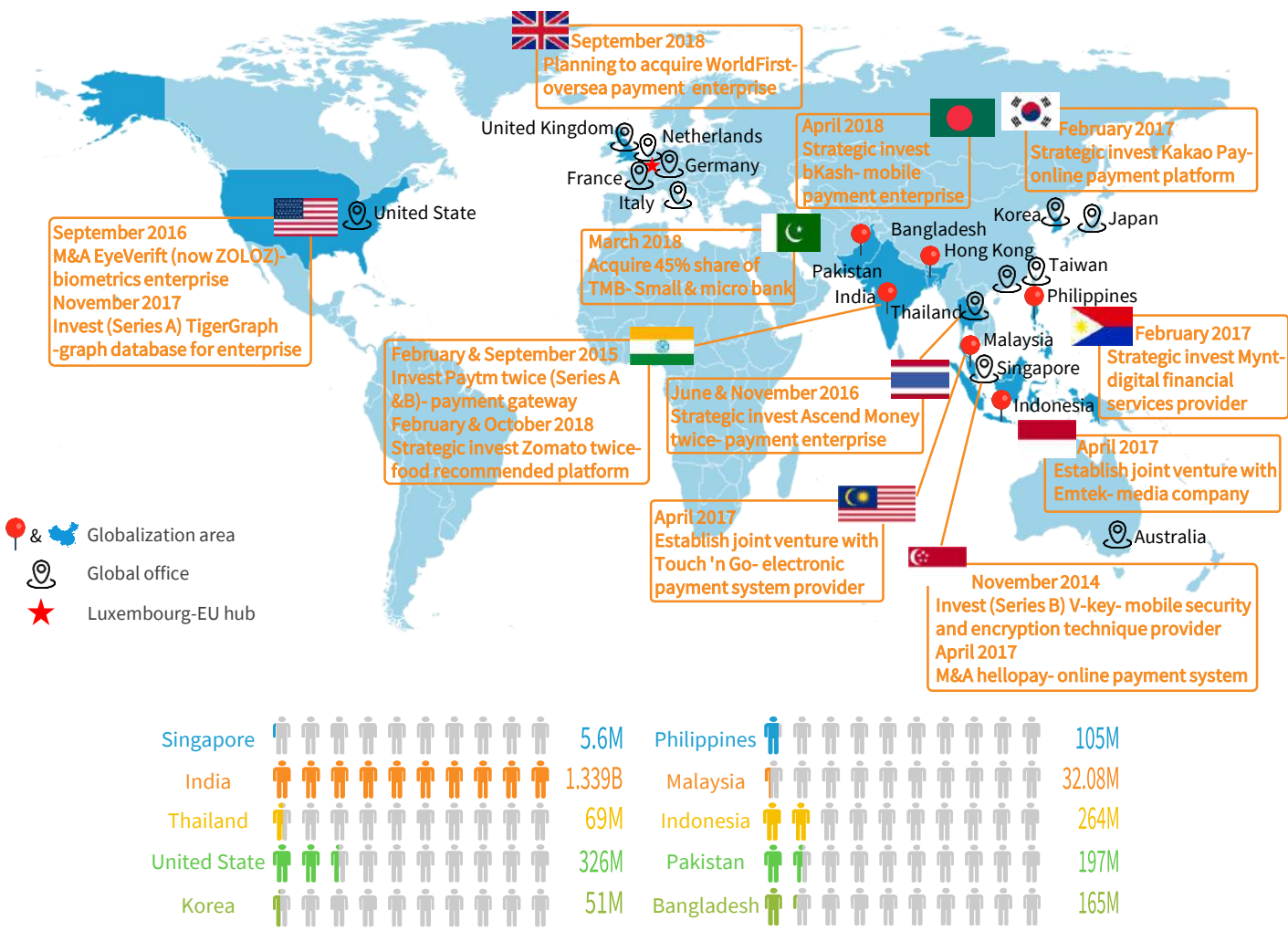
■ Ant Financial's Foreign Investments

In addition to the investment in China, Ant Financial have also established branches in 14 countries and regions around the world, reaching cooperation agreements with at least 25 countries. For example, Alipay, one of the dominating player in mobile payment market, is available in 13,000 LAWSON stores across Japan and its users can use Alipay for shopping and transaction at Finnair flights and so on. The foreign investment of Ant Financial is more indicative of its global layout than simply extending Alipay business beyond China.

As of December 31, 2018, it has 17 overseas investment events involving 14 enterprises, including the proposed acquisition of WorldFirst (at the time of this writing, the investment was completed on February 14, 2019, and WorldFirst became a wholly-owned subsidiary of Ant Financial), a British cross-border payment company. Its investment covers 11 countries and regions including Singapore, India, Thailand, America, South Korea, the Philippines, Indonesia, Malaysia, Pakistan, Bangladesh and Britain. On top of that, EO Intelligence has collated the number of population in overseas countries for which Ant Financial has confirmed layouts by the end of 2018 to support the goal of Ant Financial that it will serve 2 billion users worldwide in 2026. The following figure shows Ant Financial's foreign investment layout and offices in the world.

Investment Events

EO Intelligence: Ant Financial Oversea Investments and Global Offices



Chapter 2

Ant Financial Development Strategy

A company's business layout reveals its direction on developing strategy, decision on speed and quality and an understanding of its capability over a period of time.

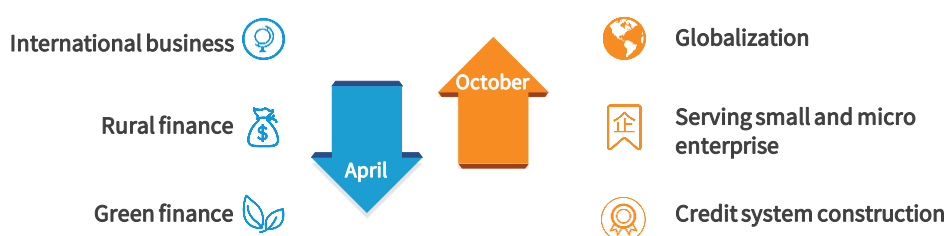
In the past four years, Ant Financial's original strategies have changed significantly. Besides the goal of globalization, Ant Financial has also included serving small and micro enterprises and credit system in its development goals for the next decade.



Ant Financial Case Study

In April 2016, after completing Series B financing, Ant Financial announced its three major strategic directions: **international business, rural finance and green finance**; later in October, Ant Financial announced structural adjustment and defined its three major strategies for the next decade—**globalization, serving small and micro enterprises and building a credit system**.

The strategy adjustment indicated a clearer development direction of Ant Financial. The globalization strategy with a focus on international business remained unchanged in the strategy adjustment, showing Ant Financial's determination to go global.



Three Major Strategies - Globalization

In August 2007, Alipay expanded overseas business in Hong Kong, embarking on its first step toward globalization. In 2016, globalization tops as the most important strategies of the three by Ant Financial with the goal of covering 2 billion consumers worldwide in the next decade. As at the end of 2018, Alipay and its partners had over 1 billion users, having their goals half done. From the [investment cases above](#), it can be seen that Ant Financial already started to test the water of overseas investment in its early days of establishment.

In the past few years, globalization of large enterprises has become a hot topic. The universal forms of globalization can be divided into: **overseas investment, overseas business expansion and overseas cooperation**.

Successful overseas investment model drive Ant Financial's overseas layout into the fast track

Unlike its investment logic in China, **among the confirmed 16 overseas investment events, Ant Financial's investments in the financial field take up the highest proportion of 68.75%**, which are all in developing countries in Southeast Asia and South Asia. Compared to countries with relatively advanced financial systems such as Europe and America, **those emerging countries have immature financial systems which underserve considerable individuals**.

Three Major Strategies - Globalization

Successful overseas investment model drive Ant Financial's overseas layout into the fast track

India is the first stop of Ant Financial's globalization journey and also one of China's important partners with frequent trade contracts. In terms of population, India has the world's second largest population, only second to China. At the beginning of the cooperation in 2015, India's GDP was only 20% that of China. **With a population close to that of China, in 2017, India's number of credit cards per capita and number of debit cards per capita were only 1/14 and 1/7 of those in China, reflecting a relatively low development level in the banking industry.** The small quantity of credit cards and the fact that cash transaction volume still took up 70% of the total transaction volume in India provided a large development space for electronic payment.

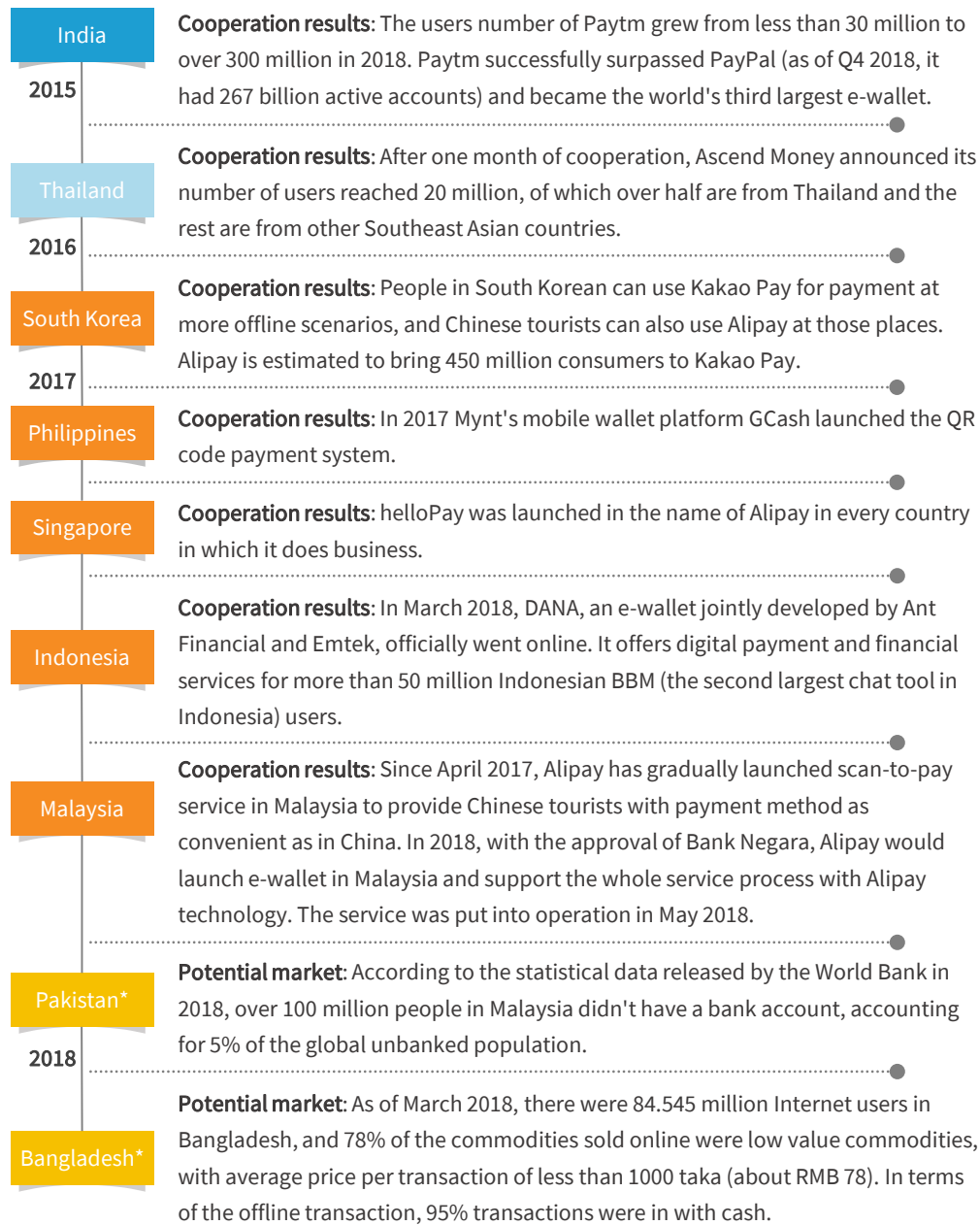
Paytm is the largest mobile payment and e-commerce platform in India. In 2015, Ant Financial became its largest shareholder with a stake of 40% through two capital increases. Ant Financial then introduced its third-party payment business experience to India and improved Paytm's products with its technology capability. According to the released data, after cooperating with Ant Financial, Paytm successfully surpassed PayPal in the number of users and became the world's third largest e-wallet.

Ant Financial won its very first battle for globalization. It proved the investment model of Paytm is feasible and replicable in other countries. More importantly, it indicates that the core competitiveness of Ant Financial in overseas market should be technology and service.

In 2017 Ant Financial's overseas layout entered into the fast track. It successively completed local layout in South Korea, the Philippines, Singapore, Indonesia and Malaysia, and made varied progress.

Three Major Strategies - Globalization

EO Intelligence: Potential Markets and Cooperation Results of Ant Financial's Overseas Financial Investment



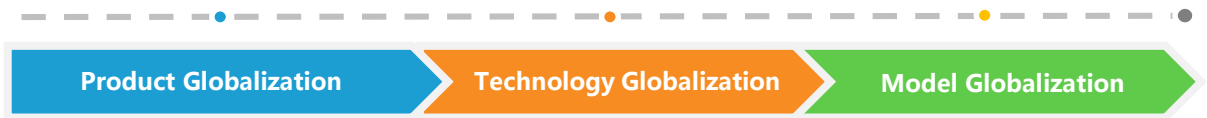
Source: EO Intelligence organize from public information

*Because the layout in Pakistan and Bangladesh started relatively late, , public information about the cooperation results in the two countries is currently unavailable and the potential market information is provided.

Three Major Strategies - Globalization

Overseas business and overseas cooperation are moving fast; countries along the Belt and Road show great demands

From the cooperation results in different countries, Alipay and Ant Financial adopt three methods in overseas expansion: product, technology and model. First, **overseas markets can be open up through Chinese outbound tourists**, and products can be promoted through cooperation and establishing overseas branches or subsidiaries. Second, **local payment products can be developed with local partners**. The cooperation models similar to that with Kakao Pay mainly reflect technology export. Finally, **the whole model of Alipay and other products can be exported through international market expansion**. The cooperation models similar to those with Mynt and Emtek and even the model of promoting helloPay in the name of Alipay can bring higher global brand awareness for Alipay.



In overseas business cooperation, Ant Financial's vision has empowered underdeveloped areas with new technologies and quickly rebuild the financial infrastructure in those areas , thus promoting a virtuous circle of financial development and economic growth in those areas. As those countries are quickly transforming into cashless societies, **the role of Ant Financial in those countries will be much important than merely just an infrastructure provider. It will export its experience, technologies and risk control capability accumulated in many years' business practices**, while promoting the standards and achievements of the Chinese mobile payment industry in overseas countries.

The rapid development of cross-border trade is also one of the factors that have driven the overseas business expansion of Ant Financial. As the bellwether in the Chinese cross-border B2B e-commerce industry, the cooperation between Alibaba and Ant Financial allows the two parties to give play to their respective biggest advantages and thus better serve enterprises and consumers overseas.

At present, e-commerce is still underdeveloped in South Asia and Southeast Asia. Ant Financial has helped them **build an infrastructure system aimed at is offline e-payment, laying a foundation for future comprehensive promotion of e-commerce and online payment**. A complete and convenient payment system will produce active synergy. The connection of online payment platforms will facilitate commodity exchanges between countries and help local residents increase revenue through export sales.

From the whole overseas investment layout, it can be found that **the 9 local e-wallets supported by Alipay and Alipay technology are serving people in the countries along the Belt and Road. Since those countries are populated and are currently in the economic rise period, their national conditions are similar to or even more backward than those in China. Their financial systems are generally slow in development and unbalanced, which lead to a relatively high cost for common users to obtain financial services**. Most of the countries along the Belt and Road are developing countries, showing great potential for upgrading and expansion of financial business.

Three Major Strategies - Globalization

Overseas business expansion encounters resistance in the United States; financial infrastructure security being the greatest challenge

Even though Ant Financial has gained the trust of foreign governments and institutions for now, **it will face regulatory and policy risks in the future as it gradually focus on financial infrastructure.** In its overseas layout in the United States, Ant Financial encountered such problem in a financially strictly regulated country.

In July 2017, Ant Financial planned to acquire the fast money transfer service provider MoneyGram with USD 1.2 billion. In January 2018, the acquisition was rejected by the Committee on Foreign Investment in the United States over national security concerns. **Thus it can be seen no matter in Southeast Asia or in Europe and America, financial infrastructure building is an important consideration factor of national security.** Besides, the U.S. government worries that Ant Financial will use its own advantages to suppress domestic banking giant leading to an uncontrollable impact on the U.S. economy in the long run. The failure to acquire MoneyGram is the first setback for Ant Financial in its globalization. After that, Ant Financial needs to find a way that the U.S. government thinks safer before it gets the opportunity to continue its globalization in the United States.

In order to avoid recommitting the same mistake, another company that was in an M&A negotiation - a British cross-border payment company WorldFirst announced it would close its business in the United States in February 2019, in case the GBP 700 million M&A plan was obstructed by the U.S. regulator. On February 14, WorldFirst announced it had reached an investment agreement with Ant Financial and officially became a wholly-owned subsidiary of Ant Financial. That marked Ant Financial's first large-scale entry into the European market.

By analyzing the overseas business expansion model and process of Ant Financial, it can be found that **Ant Financial has always kept an open cooperation attitude, actively developed win-win cooperation with partners in business and services by exporting cutting-edge technology.** In its long journey of globalization, Ant Financial has also been exploring new models and countermeasures. Faced with the complexity of international markets and the uncertainty of policies in different countries, Ant Financial still faces great challenge in its future development.

Three Major Strategies - Serving Small and Micro Enterprises

Valuing the potential of small and micro enterprises, Ant Financial faced and solved a historical conundrum

In 2018, Ant Financial made over 80 million loans to small and micro enterprises in China, an 60% increase year-on-year. The rapid growth in the lending scale has reflected Ant Financial's confidence in the development of small and micro enterprises and also shown that Ant Financial wants to solve the historical conundrum of small and micro enterprises in accessing financing.

Ant Financial's loan business for small and micro enterprises is all handled by MYbank. MYbank is among the first private banks in China. Its "MY Loan" service provides operating loans to small and micro enterprises and farmers.

The funds of MYbank's loan business mainly come from three sources:

- 1. MYbank is a licensed private bank with a registered capital of RMB 4 billion.** As the PBOC's deleveraging policy is strictly implemented, MYbank's lending scale with its own capital will decrease significantly;
- 2. Conducting business through the joint loan model by cooperating with other banks.** Mybank provide more transaction and boots Internet traffic as well as provides risk control guarantee. In the future, regulations on joint loans will be gradually perfected. Under such model, the space for third-party institutions will gradually narrow and they can only provide risk control assistance, which will affect their revenue structure to some extent;
- 3. MYbank expands fund sources through ABS.** The business originated from Alibaba Micro-Finance. In 2011, Alibaba Micro-Finance launched the first private ABS in a bid to improve financing service capability by asset-backed securitization without increasing assets and liabilities size. Compared to overseas mature markets, the proportion of consumer loans used as the underlying assets for ABS is relatively low in Chinese market, . However, as MYbank utilize ABS to reduce the cost of funds and expands fields of cooperation with traditional financial institutions, other banks will also make attempts, showing a promising future.

According to the latest information, in 2018 MYbank provided over RMB 1 trillion to support small and micro enterprises, of which 96% was made to small and micro operators with amount below RMB 1 million. Over 3 million offline small and micro operators received loans from MYbank. It's worth noting that **MYbank's non-performing loan (NPL) ratio is 0.78%. Even though it's lower than commercial banks' 1.74% (2017), it's higher than the overall NPL ratio (0.53%) of private banks.**

Three Major Strategies - Serving Small and Micro Enterprises

As traditional banking business reaches low tier cities and the competition among private banks intensifies, differentiation become core competency

From the data released by MYbank, it can be found that **its loan business is based on pure credit, unsecured loans with low credit limit. Such feature allows MYbank to be able to take a relatively high NPL ratio**; and such pure credit guarantee system is based on big data and Internet behaviors, most of which are accumulated by Alibaba's and Ant Financial's own credit systems.

The reason that Ant Financial bet on small and micro loans is that **small and micro enterprises are of a large scale, indicating that their potential financing demands is relatively huge**. According to the data released by China Banking and Insurance Regulatory Commission, in 2017 the loans given by financial institutions to small and micro enterprises was RMB 30.74 trillion, remaining at a growth of over 10%. As of March 2018, the number of market players in China broke 100 million, while only 25% were covered by credit information system, indicating that there were still a lot of potential demands wait to be explored.

However, there are many reasons for the slow development of financial business serving small and micro enterprises. One of the most important reasons is the risk control process on loan business, loans to small and micro enterprises **cannot be fully automated in operation, thus incurring inevitable labor costs. Since the review cycle is generally long, the pricing risk is relatively high**. Those factors have, to a large extent, **led to a relatively low net interest margin in MYbank and a unsatisfactory overall profit margin**.

As more private banks entering the market in the future, the competition will become more intense. As a representative of Internet private banks, MYbank has demonstrated the advantages of such banks: **shareholders with a strong background, big data technology and channels, and fast developing trait of the business**. However, commercial banks are also trying to expand their business to long-tail users to whom they couldn't provide services before. As traditional financial institutions making more attempts, it will also bring great pressure on private banks.

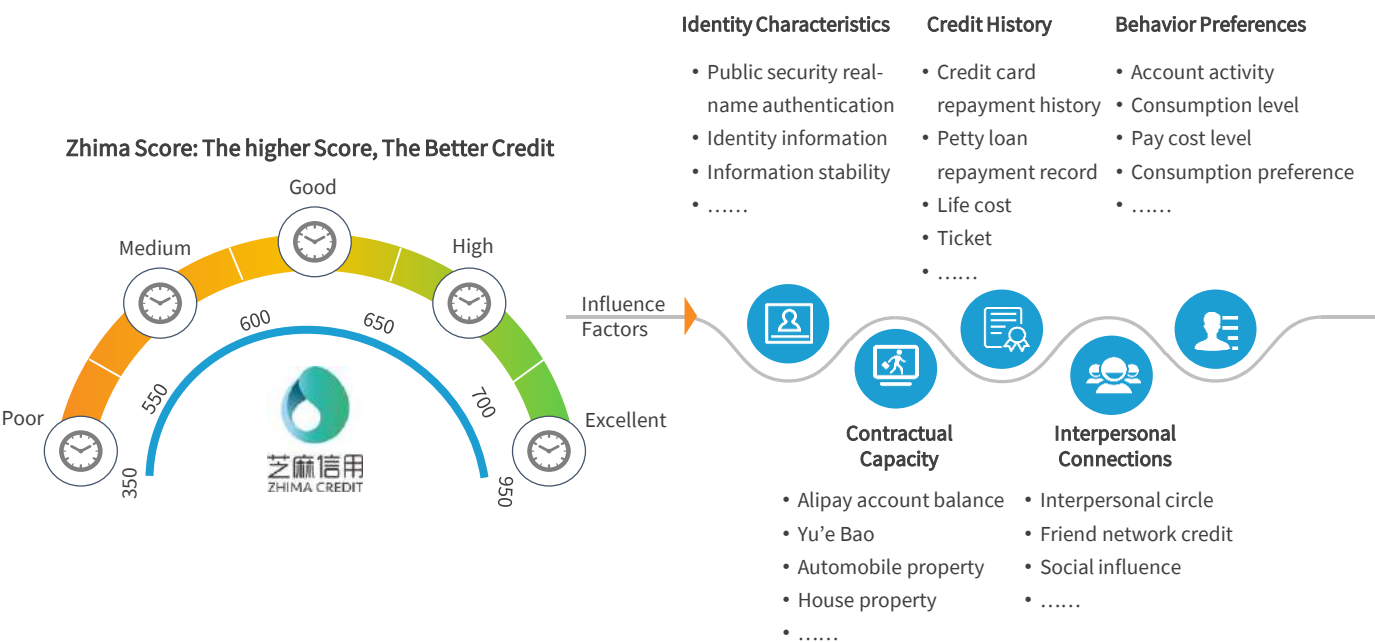
Three Major Strategies - Credit System

Big data-based credit system provides positive feedback in the building of Ant's ecosystem

The original intention to establish Alipay is to solve the trust problem among Alibaba users in trading. After its independence from Alibaba and establishment of Ant Financial, it still places credit system in an important position in corporate development and regards solving users' trust problem in trading as its long-term guidance.

During the development of e-commerce in the past decade, credit system has played a crucial role. The Zhima Credit Scoring System is a credit system based on big data. With the development of big data, it has gradually become a credit information system complementary to traditional individual credit information system. Technology upgrading makes mass collection of individual data possible. The individual credit system with wide data dimensions and rich application scenarios is then applied in other fields, one of which is sharing economy.

Without construction credit system, the trust-transitivity-based sharing economy would definitely face a high threshold in development. The traditional individual credit information system in China, which covers limited population and has onefold data, long review process and information asymmetry, is no longer suitable for sharing economy. Zhima Credit in this case can precisely solve the problem. Internet credit information service enterprises have a substantial amount of Internet behavior data. Combined with cloud computing, it can effectively process massive accumulated data, which has played a positive role in improving the credit ecology.



Source: EO intelligence organize from public information

Three Major Strategies - Credit System

Zhima Credit became a shareholder of the first individual credit information service institution in China in a bid for product compliance

Zhima Credit is an independent third-party credit information service institution under Ant Financial. It is the **shareholder of Baihang Credit, the first personal credit license holder in China, and have the enterprise credit license issued by the People's Bank of China (PBOC).**

From the perspective of regulation, the main business of Ant Financial is credit business, which focus in the financial field. **Moreover, business such as MYbank and payment, the interest correlation among its business units cannot be avoided. As a result, Zhima Credit cannot serve as a independent third party credit information service institution as there will be conflict of interest.**

Therefore, as one of Ant Financial's three major strategies, **improving big data credit system can be understood as an attempt on compliance optimization.** In particular, when data security is constantly questioned, compliance and even the legality of data use have also been placed in the teeth of the storm. After obtaining the license, Zhima Credit's creditability has increased. To give full play to the advantages of Zhima Credit and achieve the goal of building a credit city, besides complying to regulations, seeking improvement both internally and externally is even more important for Ant Financial.

Besides the personal credit license, Zhima Credit has long obtained the enterprise credit license. There are 122 companies achieved enterprise credit license in China. With severe product homogenization and single data sources, it's difficult for enterprises to build their own strengths. **Zhima Credit faces the same awkward position in its development of enterprise credit system.**

Conclusion

Through the analysis of the three major strategies of Ant Financial for the next decade, it can be found that its relevant business sections all have such characteristics: **short-term rapid growth capability, goot at exploring the long-term potential of the market, keep up with national hotspot policies.** Ant Financial has made full use of policy, social, economic and technological support to promote the building of an open ecosystem. Meanwhile **Ant Financial strengthened the opening up of its payment, risk control and credit capability** which gained even greater development space for enterprises.

Chapter 3

Ant Financial Revenue Forecasting

Due to the limited public data of Ant Financial is limited, in order to have a clearer understanding of Ant Financial's business structure and growth drivers, EO Intelligence divides its business into payment connection, financial services and technology services based on its financing documents.

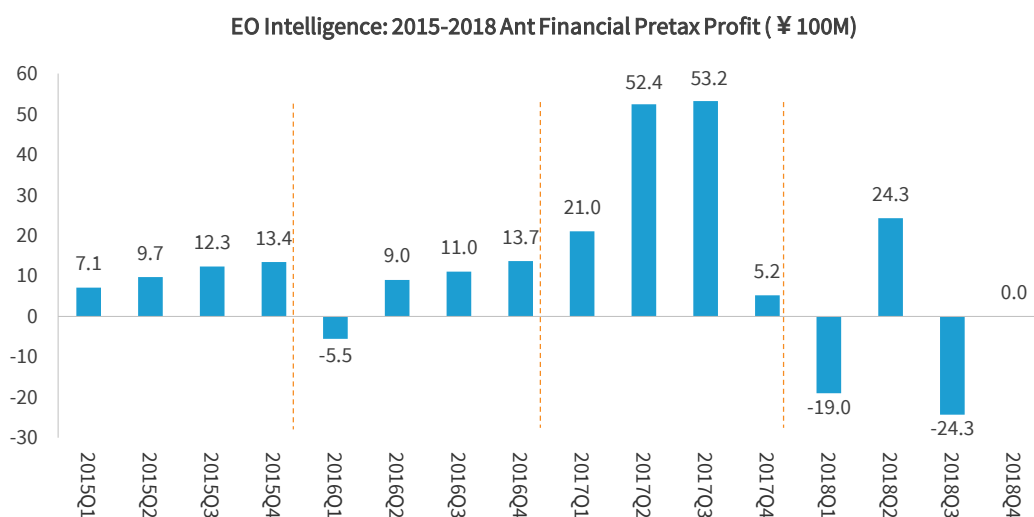
By estimating the revenue of its payment connection and financial business, EO Intelligence has analyzed the potential reasons for the significant increase in the proportion of Ant Financial's revenue from technology services. In the meantime, EO Intelligence has also forecasted its payment connection revenue in 2021, and speculates that in the current growth trend of payment business, its payment business will not be compressed significantly in the short term.



Business Data Disclosed by Ant Financial and Third Parties

Ant Financial plans to realize transformation by 2021 to increase the proportion of technology services to 65%

According to the profit sharing agreement between Alibaba and Ant Financial, Ant Financial should pay Alibaba intellectual property and technology service fees equivalent to 37.5% of Ant Financial's pre-tax profit every year; in the meantime, Alibaba has the right to take a 33% stake in Ant Financial and transfer corresponding intellectual property to Ant Financial, in which case the foregoing profit arrangement should be terminated synchronously. Alibaba's financial report shows that the amount under the item was negative sometimes. EO Intelligence believes that Alibaba disclosed the amount in the name of royalty fee and software technology service fee based on the proportion of 37.5 according to accounting principles. However, since it is unable to obtain all of Alibaba's cash flows, it was unclear whether Alibaba needs to bear losses of the same proportion when Ant Financial's pre-tax profit is negative.

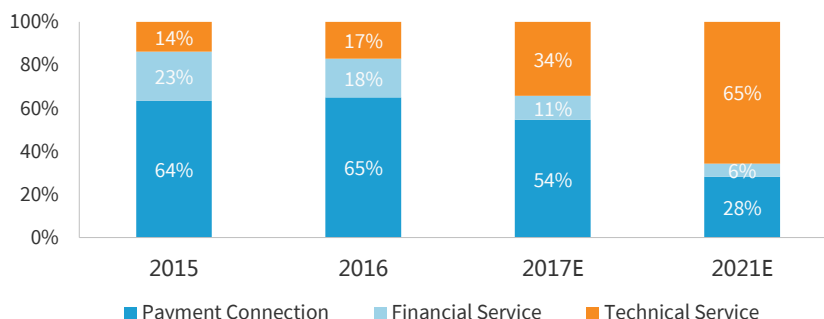


Source: EO intelligence calculate according to Alibaba financial results

Ant Financial's financing document (April 2018) was released via an informal channel. The document has disclosed Ant Financial's business segments and annual revenue proportions of different business segments. Meanwhile it also published the long-term development goal of achieving enterprise transformation (**increasing the proportion of technology services to 65%**) by 2021 and predicted that its compound growth rate will reach 40% by 2021 compared to 2017. In the meantime, the business data (2013-2015) of Ant Financial released in 2016 shows that **in 2015 Ant Financial gained a total revenue of RMB 24.99 billion, while the revenue from payment business was RMB 16.11 billion**. The proportion of the two is 64.46%, consistent with the data in the financing document. EO Intelligence has used the foregoing data as the basis for subsequent estimation.

Business Data Disclosed by Ant Financial and Third Parties

EO Intelligence: Ant Financial 2015-2021E Revenue Share of Business Segments

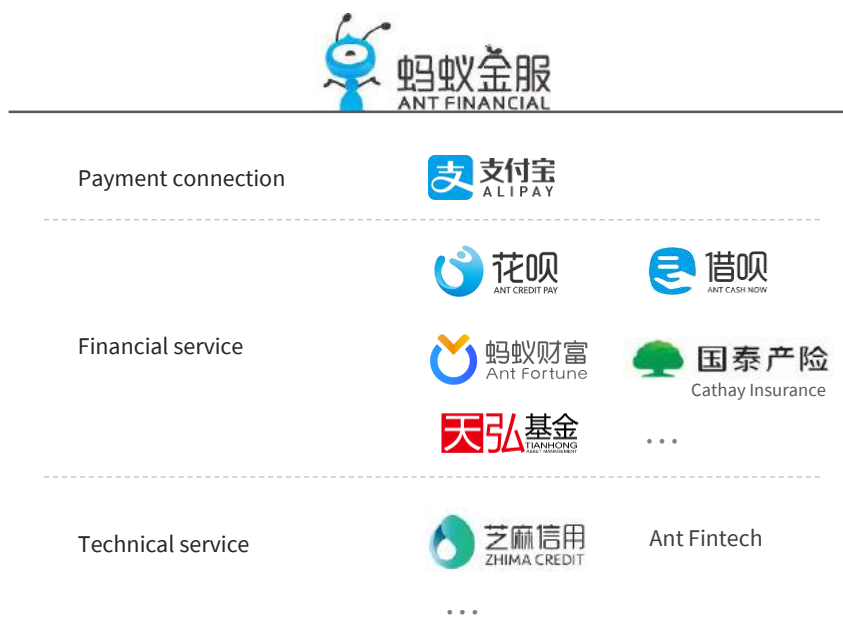


Source: Financing documents disclosed by third-party (April 2018)

Revenue Structure

Ant Financial's revenue mainly comes from three sections: payment connection (payment and withdrawal service charges, as well as interests on provisions), financial services (revenue from credit, wealth management, insurance and other financial business) and technology services (revenue from Zhima Credit, applets, universal and industrial vertical solutions of BASIC). EO Intelligence has sorted the revenue sources of those sections according to the accounting consolidation principle and classified the foregoing products and holding subsidiaries based on product functions and corporate business types. The Data presented below do not represent the actual business division standards within Ant Financial.

EO Intelligence: Primary Revenue Source of Ant Financial according to the Accounting Consolidation Principle



Source: Public information

Revenue Structure

Payment connection

The revenue from payment connection is mainly composed of payment and withdrawal service charges. The revenue calculation formula is as follows:

$$\text{Revenue from Payment Connection} = \text{Revenue from Provisions} + \text{Transaction Scale} \times \text{Comprehensive Rate}$$

Policies have a relatively great impact on mobile payment companies' revenue from provisions, however, the revenue from provisions takes up a small proportion in Ant Financial's payment business revenue

According to the statistical data of the People's Bank of China (PBOC) for January 2017, the interest revenue from provisions of mobile payment companies accounted for 11.26% of the total revenue in payment institutions. In the same year, the PBOC issued new regulations on payment, which state that from April 2017, payment institutions shall hand over certain proportion of customer provisions (initial deposit proportion for mobile payment companies: 12-20%) for centralized deposit without interest. In more than a year after that, the PBOC raised the provision deposit proportion multiple times. In January 2019, the deposit proportion reached 100%, indicating that payment institutions' interest revenue on provisions is gone.

Based on the PBOC's reports and the monthly handover plan, EO Intelligence has estimated the ratio of the average annual revenue from provisions to total revenue of mobile payment companies.

EO Intelligence: Mobile Payment Companies Provisions Revenue/Total Revenue

	Before 2017	2017	2018	2019 and Beyond
Provisions revenue/total revenue	11.26%	9.91%	5.40%	0

Source: EO intelligence calculate according to public information

Affected by the high growth in rate-free business scale, Ant Financial's comprehensive rate for payment business dropped continuously

Based on the average charging standard of mobile payment companies, EO Intelligence has estimated Ant Financial's revenue from provisions. In the meantime, EO Intelligence has estimated Ant Financial's revenue and transaction scale of payment connection, and obtained Ant Financial's comprehensive rate using the formula.

$$\text{Comprehensive Rate} = (\text{Revenue from Payment Connection} - \text{Revenue from Provisions}) / \text{Transaction Scale}$$

Revenue Structure

Payment connection

EO Intelligence: Ant Financial (Alipay) Comprehensive Rate Calculation

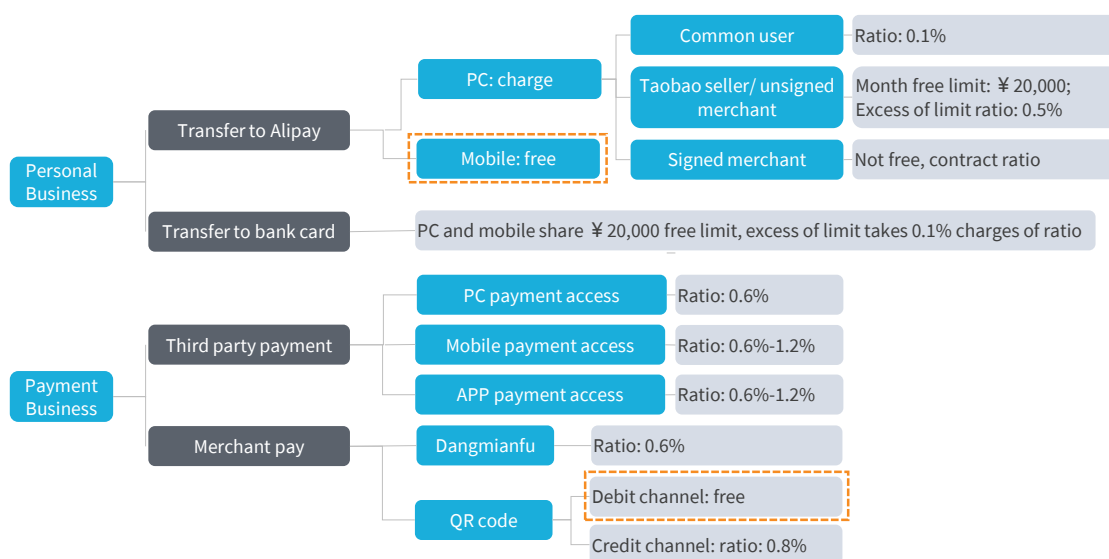
	2015	2016	2017E
Payment connection income (¥ 100M) ¹	161	208	313
Provisions income estimated value (¥ 100M)	18	23	31
Payment connection income – provisions income (¥ 100M)	143	185	282
Alipay transaction scale (¥ 100B) ²	141	318	734
Comprehensive Rate	0.10%	0.06%	0.04%

Source: 1. EO intelligence calculate based on public information and financing documents

2. EO intelligence calculate based on public market monitoring data

From the above table, it can be seen that Ant Financial's comprehensive rate for payment business decreased year by year. The main reason is the rise of peer-to-peer mobile payment transaction since 2015, **the transaction scale of free businesses including transactions paid via wireless terminal transfer and QR code is taking an increasingly larger share**. The annual statement of Alipay for 2015 shows that **mobile transaction became increasingly active and the number of users as well as the proportion of mobile payment transactions grew rapidly**.

EO Intelligence: Alipay Personal and Payment Business Charging Rules (April 2019)

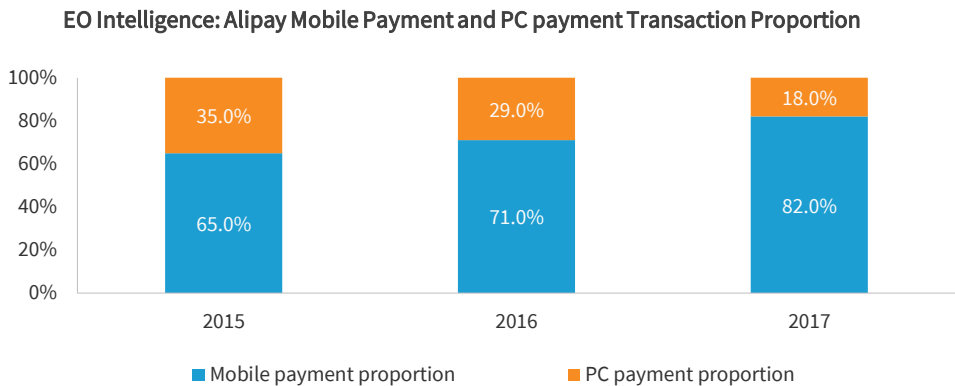


Source: Alipay website

Annotation: Not real-name user/merchant do not enjoy free limit, transfer and payment charging according to the excess of limit ratio

Revenue Structure

Payment connection



Compared to WeChat Pay, Alipay's comprehensive rate is relatively low due to preferential rates and subsidies for to B businesses

In order to conduct comparative analysis of rates and predict future rate trends, EO Intelligence has estimated Tencent Financial Technology's revenue and divided its sources of revenue into payment wallet, wealth management, Weilidai and fintech. As of the end of 2018, Tenpay's AUM was RMB 600 billion and the balance of Weilidai was RMB 100 billion. According to public information, its fintech business still centered on pilot projects such as financial cloud and blockchain, so the revenue was unclear. Based on the industry rate, the revenue from the foregoing three business sections is estimated in a range between RMB 2 billion to RMB 4 billion, accounting for a relatively small proportion of the revenue. Therefore, **it's assumed that the deduction ratio of the revenue from financial and technology services in total revenue is 5%.**

EO Intelligence: Tencent Financial Technology (WeChat Pay) Comprehensive Rate Calculation

	2015	2016	2017	2018
Tencent Financial Technology (FIT) revenue (¥ 100M)	37.5	156.8	387.5	688.7
Payment connection revenue – provisions revenue (¥ 100M) ¹	31.6	132.2	331.6	618.9
FIT transaction scale (¥ 100B) ²	47	265	532	790
Comprehensive Rate	0.07%	0.05%	0.06%	0.08%

Source: EO intelligence calculate according to Tencent financial results, compare with actual value may exist deviation

Annotation: 1. Rate of Provisions income/Total income is adopted the average value of mobile payment companies

2. EO intelligence calculate according to public market monitoring data

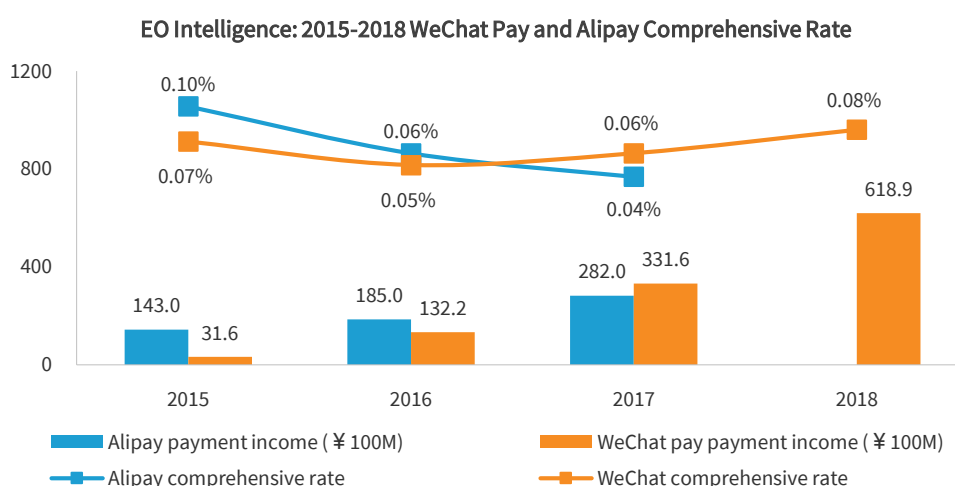
Revenue Structure

Payment connection

In the table above, WeChat Pay's comprehensive rate went down and then up, a trend different from that of Alipay. The main reason is that compared to Alipay, WeChat Pay started earlier charging for some services. Take the credit card repayment fee for example, before December 2017, WeChat users didn't need to pay the service fee incurred in credit card repayment, which was all subsidized by the company. However, on December 1, 2017, WeChat announced that it would suspend the subsidy to the service and start collecting a service fee equivalent to 0.1% of repayment amount for transactions over RMB 5,000. Alipay stopped subsidizing credit card repayment fee relatively late, in March 2019. The rate of the service fee is the same, 0.1%.

In addition to individual users, the signing rate of merchants has a more significant impact on the comprehensive rate of the Alipay and WeChat Pay:

- **Since 2015** when approving merchants' application for payment interface connection, **WeChat has maintained its rate of commission charges for merchants at 0.6%, without offering discounts or subsidies due to business development needs.**
- **Before June 30, 2017**, the signing rate of Alipay's "in-person payment" product has always been charged according to the **preferential rate 0.55% lower than the signing rate 0.6% specified**. In this stage, **Alipay reduced the actual charging rate through various preferential terms and returned some amount in the form of subsidies**. Such favorable conditions are partly to attract potential users through price advantages and expand the scale of charging business.



Source: EO intelligence calculate

Revenue Structure

Payment connection

The third-party payment organizations lack the initiative to lower individual business rate, but there is room for service fee increase for merchants

From December 18, 2018, WeChat has separately adjusted its rate of commission charges for withdrawal or transfer to China Minsheng Bank card, adding 0.05% surcharge rate on the basis of 0.1% service rate. The event to some extent reflects the current payment organizations lack the initiative to lower individual business rate. On the other hand, take PayPal as an example. Its average service rate for merchants was 2.53%, and the net rate after deduction of costs was about 1.55% in 2017. **In February 2019, Alipay and WeChat synchronously raised the service rate for domestic merchants to 0.6%**, with a net rate of 0.3%-0.4% merely. There is room for increase of the service rate for merchants.

Currently, China's third-party payment is in a duopoly to C (to consumer) market, with Alipay and WeChat occupying the majority of the market share. As the industry gradually enters the mature stage, the price war between WeChat Pay and Alipay begins to subside, the penetration rate of in-person payment increases, users' habit of credit payment is cultivated, and the merchants' service rate may increase. Accordingly, **it is expected that the variation trend of Alipay's comprehensive rate will soon see an inflection point, or may reach the same level as that of WeChat Pay.**

The online and offline transaction scale of Alipay will reach RMB 157 trillion in 2021

EO Intelligence has predicted the online and offline payment markets, considering that the transaction scale of online and offline payment will be around RMB 201 trillion in 2018. Based on the historical performance of the market and current development trend of mobile payment, EO Intelligence conservatively has projected that by 2021 China's domestic transaction scale of online and offline payment will stand at RMB 322 trillion, with a compound growth rate of 17%.

By referencing to the average market performance, EO Intelligence has estimated the transaction scale of Ant Financial's payment business Alipay, based on its historical performance of, the transaction scale is always lower than the market composite value in terms of growth rate. Take the stage of Alipay business and the development trend of the industry into considering, EO Intelligence takes the compound growth rate (17%) of transaction scale in the market by 2021 as a median and divides that of Alipay into five grades with an interval of 3%.

Revenue Structure

Payment connection

EO Intelligence: 2021 Alipay Transaction Scale Calculation

2018*-2021 Alipay Transaction Scale CAGR		2021E Alipay Transaction Scale (¥ 1,000B)	Market Share
Higher	23%	182	57%
High	20%	169	53%
Median	17%	157	49%
Low	14%	145	45%
Lower	11%	134	42%

Source: EO intelligence calculate

* According to 2018 Q1-Q3 market monitoring data, EO intelligence calculate the transaction scale of Alipay about ¥98,000 B in 2018.

On the basis of the above estimates, EO Intelligence has made a sensitivity analysis on the revenue of Ant Financial's payment connection in 2021. The implicit assumptions in the estimates include: the variation trend of Alipay's transaction scale is almost the same as that of the total size; the business rate maintains the current level or increases slightly; the comprehensive rate rises due to the increase of penetration rate of charged businesses.

EO Intelligence: 2021 Ant Financial Payment Connection Income Forecast (¥ 100M)

2021E Transaction Scale (¥ 1,000B)/Comprehensive Rate		Low 0.04%	Median 0.06%	High 0.08%
Higher	182	729	1094	1459
High	169	677	1016	1355
Median	157	628	942	1256
Low	145	581	871	1162
Lower	134	536	804	1072

Source: EO intelligence calculate

According to the median value, the transaction scale of Alipay will amount to RMB 157 trillion in 2021. Combined with the potential trend of rising comprehensive rate mentioned above, EO Intelligence predicts that the variable range of payment connection revenue of Ant Financial in 2021 will be RMB 94.2-125.6 billion.

Revenue Structure

Financial Services

The revenue from financial services includes the credit and loan, as well as the revenue from financial management and insurance service of the parent company and its holding subsidiaries. Due to the large number of sub-items covered and the difficulty in obtaining data, this part only provides estimation of Ant Financial's revenue from **major businesses** of its financial services.

EO Intelligence: Ant Financial Consolidated Financial Service Subsidiary Included in Statistics

Company	Main Business	Shareholding Ratio	Invest Time	Registered Capital (¥ 10M)
Cathay Insurance	Property insurance	51%	September 2015	263
Ant Fund Sale	Fund sale	68.83%	April 2015	15
Tianhong Asset Management	Fund sale	51%	February 2015	51
Ant Small & Micro Petty Loan	Credit pay	100%	August 2013	800
Ant Shangcheng Petty Loan	Cash now	100%	June 2011	400

Annotation: Some consolidated subsidiaries not included in statistics due to the unpublished data, involving financing guarantee, fund, commercial factoring, crowdfunding business

EO Intelligence: Ant Financial Consolidated Financial Service Subsidiary Which Not Included in Statistics

Company	Main Business	Shareholding Ratio	Investment Time	Registered Capital (¥ 10M)
Mayibao Insurance	Fund sale	100%	September 2016	5
Ant SDAQ	Crowdfunding	100%	May 2015	10
Shanrong Commercial Factoring	Factoring	100%	January 2014	30
Shangcheng Commercial Factoring	Factoring	100%	December 2012	5
Shangcheng Financing Guarantee	Financing Guarantee	100%	September 2012	60

Source: EO intelligence organize from public information

The channel service costs of products sold through Ant Financial's platform will not be included in the estimation. The reason is that most of the contracted financial organizations are affiliated enterprises of Ant Financial, and the costs have been included in the revenue of subsidiaries in different names and consolidated into the parent statement. **Hence, the financial service revenue of Ant Financial mainly comes from the revenue of the financial service subsidiaries with consolidated financial statements.**

Revenue Structure

Financial Services

EO Intelligence: Financial Service Income of Consolidated Subsidiary Included in Statistics (¥ 100M)

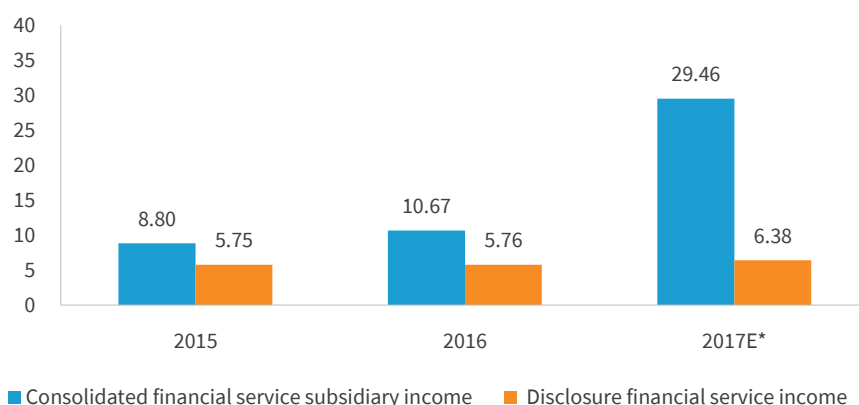
Company	2015	2016	2017
Ant Fund Sale ¹	-	2.5	5.9
Ant Small & Micro Petty Loan	0.1	1.3	66.0
Tianhong Asset Management	51.2	57.8	95.4
Ant Shangcheng Petty Loan	30.2	38.6	114.3
Cathay Insurance	6.5	6.5	13.0
Total	88.0	106.7	294.6

Source: Junzheng group annual report, Hundsun semi-annual report, company website

The differences in business division standards affect the revenue of fintech

By splitting the revenue structure of Ant Financial mentioned above, it can be seen that the combined revenue of consolidated financial service subsidiary included in statistics has substantially exceeded the financial service revenue disclosed in the document. **The difference lies in the classification of product business, which may be quite different from the division standard of the actual internal business of Ant Financial.**

EO Intelligence: Income Comparison of Consolidated Financial Service Subsidiary
Included in Statistics and Disclosure Financial Service Income (¥ B)



* EO intelligence calculate according to public information and financing documents

Revenue Structure

The differences in business division standards affect the revenue of fintech

EO Intelligence speculates that in the business process of financial services, technology services will be involved into various degrees. The variation in the division is the reason why the estimated financial service revenue in the figure above is far higher than disclosed ¥ 6.38B.

Conclusion

By splitting the main business segments of Ant Financial, EO Intelligence has made the valuation of the payment connection and financial services revenue, and predicted the payment connection revenue of Ant Financial in 2021. At the same time, from the perspective of payment connection and financial service revenue, EO Intelligence has analyzed the potential reasons for the significant increase in the proportion of Ant Financial's technical service revenue. **Based on the comprehensive analysis, Ant Financial will not compress its payment business in the short term amid the growth of current payment business. Technology services revenue, however, still rely heavily on financial service (e.g. provision of risk-control models for joint lending). In order to achieve transformation and increase the proportion of its technology services revenue in the future, EO intelligence argues Ant Financial should strengthen its external output capacity of pure technical service products, in addition to depending on the bundled services with financial services.**

Postscript

◆ EO Intelligence has sorted out and made an analysis of the development history, strategy and revenue structure of Ant Financial in *Decryption of the Trillion-valued Unicorn—Ant Financial Case Study*. The report expounding the exploration course of establishing the Ant's Ecosystem by consolidating product and business segments, investment and financing and equity. At the same time, EO Intelligence has forecasted the revenue of Ant Financial and predicted whether it can achieve business transformation by 2021. By analyzing the trillion-valued unicorn Ant Financial, EO Intelligence hopes to help more practitioners understand the power of the combination of technology and finance for the industry.

In the future, EO Intelligence will also continue to focus on the development of Ant Financial, study other enterprise cases, and output some research results, in a bid to help enterprises establish a good brand image and carry out supervision.

◆ Note: The information herein is mainly from public and official websites of enterprises. For more details, please add the WeChat account of the author on WeChat.

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About EO Intelligence

EO Intelligence is a professional research and consulting business unit of EO Company (www.iyiou.com). It focuses on research related to industrial innovation. Through research on forward-looking technology, new industrial concepts, and new policies, it explores the opportunities, paths, and methods for innovation and upgrades within different industries. Providing industrial innovation and strategic decision support, the current research involves industries such as auto, finance, household, healthcare, education, retail, consumer goods, and industrial manufacturing.

EO Intelligence continuously publishes deeply researched industry reports and insights, and provides targeted enterprise customized research and consulting services.

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About EO Company

EO Company is a technological & industrial innovation service platform that focuses on technological and industrial innovation in China. Founded in February 2014, headquarter is in Beijing and we have branches in Shanghai and Shenzhen, China. EO Company primarily focuses on analyzing various industries including AI(Artificial Intelligence), Auto, Health, Intelligent Manufacturing, Fintech along with several other industries.

◆ EqualOcean (亿欧国际)

EqualOcean aims to assist Chinese entrepreneurial enterprises to break into the global market and provides overseas investors, VCs, and enterprises with a deeper understanding of China's business environment and to seize opportunities in China.

Ultimately, EqualOcean seeks to help China's leading startups from varied industries to grasp the concept of a global market and accelerate the globalization process in order to discover potential development opportunities outside of China.

We believe in the power of the market and insist that the key to solving crucial problems in the world is to deploy business methodologies and technology innovation; ultimately culminate in a revolutionary transformation of the business atmosphere.

We shares a passion for rationality and kindness and are eager to become a part of the respected global enterprises and citizens that have a profound influence on the world.



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