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ALIBABA’S BONDS DILEMMA: LOCATION, TIMING, AND PRICING[[1]](#endnote-1)

Emir Hrnjić wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In November 2014, the chief financial officer (CFO) of Alibaba Group Holding Limited (Alibaba) embarked on a series of meetings with potential investors to gather information about the impending bond issue. Maggie Wu was scheduled to lead Alibaba’s team in Hong Kong, Singapore, and London over the course of three days.[[2]](#endnote-2)

Alibaba was listed on the New York Stock Exchange (NYSE), but an overwhelming majority of its revenues originated in China. Most U.S. investors had not heard of Alibaba until just a few months prior to its initial public offering (IPO) in September 2014. Also, being a high-tech company, Alibaba was subject to the potential for large swings in valuations typical for the industry, making it difficult to price the bond issue.

An arduous task for Wu’s team lay ahead. Would investors subscribe to the bond issue? What would be the best location for issuing Alibaba’s bonds? When should the bonds be issued? And, most importantly, how would the bonds be priced?

ALIBABA GROUP

After its IPO in September 2014, Alibaba became China’s largest e-commerce company.[[3]](#endnote-3) Alibaba’s online shopping website, Taobao.com, accounted for roughly 90 per cent of China’s consumer-to-consumer (C2C) market. Its online retail outlet, Tmall.com, captured more than 50 per cent of the business-to-consumer (B2C) market share in China.[[4]](#endnote-4) In global terms, the gross merchandise volume of Alibaba’s market places (US$248 billion)[[5]](#endnote-5) exceeded that of each of its major competitors.[[6]](#endnote-6) (See Exhibits 1 for Alibaba’s selected financial results and ratios, Exhibit 2 for Alibaba’s income statement, Exhibit 3 for components of Alibaba’s revenue, and Exhibit 4 for Alibaba’s balance sheet).

Alibaba was described as a mixture of “retailers like Amazon and eBay, financial services like PayPal, and a search engine giant like Google.”[[7]](#endnote-7) As a dominant company in China’s e-commerce sector, Alibaba was perfectly positioned to benefit from the rise of China’s middle class and its purchasing power.

ALIBABA’S RECENT FUNDRAISING

Alibaba had been actively raising funds for growth. While an overwhelming majority of its early stage financing came from private equity investors (which is typical for start-up companies), Alibaba started using different forms of financing between 2012 and 2014. For instance, in 2012, Alibaba raised $3 billion through syndicated loans to take Alibaba.com private, bringing it back within the Alibaba Group. In 2013, the company used proceeds from another syndicated loan to buy back, at a cost of about $7 billion, half of the stake Yahoo! had in Alibaba. Finally, Alibaba went public on the NYSE in September 2014. Each of these financing rounds had different challenges and pricing.

Syndicated Loans in 2012 and 2013[[8]](#endnote-8)

In March 2012, Alibaba received a $3 billion syndicated loan from five mandated lead arrangers and book runners. This dual-tranche loan consisted of a $1 billion three-year loan (designated as Facility A) at the rate of the London Interbank Offered Rate (LIBOR) plus 450 basis points (bps), and a $2 billion one-year loan (designated as Facility B) at the rate of LIBOR plus 350 bps.[[9]](#endnote-9) The Facility B loan had interest rate increases after the sixth and ninth months, translating to a blended margin of 481 bps over LIBOR. Alibaba was not rated at the time of the issuance.[[10]](#endnote-10) (See Exhibits 5 and 6 for spreads and fees for this loan).

In August 2012, Alibaba signed a new $1 billion four-year loan agreement with eight banks at the rate of LIBOR plus 475 bps.[[11]](#endnote-11)

Alibaba’s $8 billion loan was launched to syndication in May 2013 by nine underwriters. The new loan was priced lower than the $3 billion loan taken out in 2012. The new loan comprised a $1.5 billion, three-year revolving loan yielding LIBOR plus 225 bps; a $2.5 billion, three-year term loan (Facility A), also yielding LIBOR plus 225 bps; and a $4 billion, five-year term loan (Facility C) with a spread of LIBOR plus 275 bps. The spreads would drop as Alibaba’s total leverage decreased. (See Exhibit 7 for spreads and fees for this loan).

Initial Public Offering[[12]](#endnote-12)

The company continued with its fund-raising. In May 2014, Alibaba filed with the U.S. Securities and Exchange Commission (SEC) to go public. Alibaba’s underwriters estimated the company’s fair value would reach $50 per share.[[13]](#endnote-13) On September 19, 2014, Alibaba went public at $68 per share. Its price rose to $93.89 on the first day of trading for a first-day return of 38 per cent. Its market capitalization reached $231 billion.[[14]](#endnote-14) Alibaba received $25 billion and claimed the title of the largest IPO in the history of the NYSE.[[15]](#endnote-15)

Acquisition Spree in 2014

In 2014, Alibaba made numerous investments and acquisitions. Among others, the company invested $692 million in Intime Retail Group, a chain of department and grocery stores.[[16]](#endnote-16) It also acquired a 60 per cent stake in Chinavision, a Chinese entertainment company, for approximately $800 million.[[17]](#endnote-17) Other notable investments included Tango, a messaging app ($280 million); Lyft, a ride-sharing app ($250 million); Youku Tudou, a Chinese online video provider ($1.22 billion); China Smart Logistics Network, a logistics platform for e-commerce ($269 million); Singapore Post ($250 million); UCWeb, a mobile browser and search engine (undisclosed amount); AutoNavi Holdings Ltd., a Chinese digital mapping and navigation company ($294 million); and Huayi Brothers, China’s largest private-sector film company ($581 million).[[18]](#endnote-18) It seemed that the company was spending substantial amounts of cash on these investments and had no intention of slowing down.

GOVERNANCE

Ownership Structure[[19]](#endnote-19)

Alibaba’s senior management, consisting of 28 partners, had a right to nominate the majority of candidates for the company’s board of directors. These directors would have to be approved by the shareholders. Alibaba’s vice-chairman, Joseph Tsai, claimed that this structure allowed management to focus on the long-term interest of the company and would, therefore, be beneficial to shareholders. The structure was meant to sustain the company’s culture and innovation. Other Internet companies that had also gone public with similar structures included Facebook, Google, and LinkedIn. At all of these companies, founders and top executives exerted control through superior voting shares.

Tsai said on Alibaba’s web site:

[W]e have also noticed that many great companies quickly deteriorate after their founders leave; in the same vein, a number of successful founders have also made fatal mistakes. The final governance structure we have selected is to replace founders with partners. The reason is simple—a group of partners who cherish the same culture and ideals is more likely to carry forward our principles and make good decisions for all stakeholders with a long-term view. And in the decade to come, those partners will be guided by these principles when grappling with inevitable disruption and competition.

We believe this partnership system is the right way to build a sustainable business: partners are peers and, without bureaucracy or rigid hierarchy, they solve problems through collaboration. Partners are not just managers, but they are owners of the business with a keen sense of responsibility. The partnership is rejuvenated each year through admission of new partners and, as such, it provides both continuity and longevity because it is a living body. With this system, we believe we can sustain the flame of innovation and constantly improve the talent pool of people who run the Alibaba business.[[20]](#endnote-20)

Variable-Interest Entities (VIEs)

The Chinese government restricted foreign direct ownership in certain industries such as Internet content providers (ICPs). In order to circumvent these restrictions, Chinese companies designed variable interest entities (VIEs) that allowed these companies to invite foreign investment while staying within the Chinese law. The VIEs held the licenses to do business in China and paid fees and royalties to offshore holding companies based on the contractual agreement between the two. In the case of Alibaba, the licenses to operate various websites in China were held by VIEs that were majority-owned (between 80 and 90 per cent) by Jack Ma, founder and chairman of Alibaba, and minority-owned by Simon Xie, an Alibaba co-founder.[[21]](#endnote-21)

The Chinese government and courts maintained a neutral stand with respect to the use of VIEs.[[22]](#endnote-22) There were signs that the Chinese government was considering a new law that would legitimize the VIE structure. Foreign-listed Chinese companies (such as the web services company Baidu) as well as Hong Kong-listed companies (such as the Internet service portal Tencent) used the VIE structure.

Typically, Chinese companies listed the uncertainty related to VIE structures in an IPO prospectus. Specifically, Alibaba stated the following in its filing:

The contractual arrangements give us effective control over each of the variable interest entities and enable us to obtain substantially all of the economic benefits arising from the variable interest entities as well as consolidate the financial results of the variable interest entities in our results of operations. Although the structure we have adopted is consistent with longstanding industry practice and is commonly adopted by comparable companies in China, the PRC [People’s Republic of China] government may not agree that these arrangements comply with PRC licensing, registration, or other regulatory requirements, with existing policies, or with requirements or policies that may be adopted in the future.

[T]hese contractual arrangements may not be as effective as direct ownership in providing [Alibaba] with control over [its] variable interest entities.[[23]](#endnote-23)

MARKET CONDITIONS

Federal Reserve Interest Rates

When the economy slowed, the Federal Reserve (the Fed) encouraged banks to make more loans. It did so by reducing the interest rate at which banks borrow money overnight, making it cheaper for banks to lend. During the global financial crisis of 2007–2008, the Fed reduced the overnight interest rate to almost zero.[[24]](#endnote-24) The low interest rate environment, together with quantitative easing and some other measures taken by the Fed, kept the U.S. economy going for several years after the global financial crisis. This environment made it favourable for companies to issue debt.

The financial climate in 2014 was great for corporations interested in raising money through fixed income instruments. Specifically, more than $3 trillion of global corporate bonds were issued in the United States that year, making 2014 a record-breaking year for corporate bonds issues.[[25]](#endnote-25) Treasury yields dropped to new lows: the yield on the 10-year Treasury fell from 3.00 per cent on January 1, 2014 to 2.34 per cent on October 31, 2014 (see Exhibits 8 and 9). At the same time, low default rates encouraged investors and contributed to increased demand for corporate bonds.[[26]](#endnote-26)

However, the International Monetary Fund (IMF) warned that “more than half a decade in which official borrowing costs have been close to zero had encouraged speculation rather than the hoped-for pick-up in investment.”[[27]](#endnote-27) In fact, José Viñals, the IMF’s financial counsellor, said, “Policymakers are facing a new global imbalance: not enough economic risk-taking in support of growth but increasing excesses in financial risk-taking posing stability challenges.”[[28]](#endnote-28) Additionally, senior Fed officials, such as James Bullard and Charles Plosser, were advocating higher interest rates.[[29]](#endnote-29) The concerns of the IMF, the arguments of the Fed officials, and the tapering (reducing) of quantitative easing that started in January 2014[[30]](#endnote-30) caused market participants to worry that rates might start rising *soon*.

Even though it was widely expected that the Fed would *eventually* move from low to more normal interest rates, this shift would probably be gradual since sudden change would likely lead to more volatility in financial markets. In agreement, on November 7, 2014, Federal Reserve Chair Janet Yellen said:

I continue to anticipate that the headwinds associated with the financial crisis will wane. As employment, economic activity, and inflation rates return to normal, monetary policy will eventually need to normalize too, although the speed and timing of this normalization will likely differ across countries based on differences in the pace of recovery in domestic conditions. This normalization could lead to some heightened financial volatility. But as I have noted on other occasions, for our part, the Federal Reserve will strive to clearly and transparently communicate its monetary policy strategy in order to minimize the likelihood of surprises that could disrupt financial markets, both at home and around the world. More importantly, the normalization of monetary policy will be an important sign that economic conditions more generally are finally emerging from the shadow of the Great Recession.”[[31]](#endnote-31)

China's Exchange Rate Policy

China’s central bank, the People’s Bank of China (PBOC), maintained a policy of fixing the Chinese yuan’s exchange rate with the U.S. dollar. Many analysts believed that China’s exchange rate was kept historically low relative to the yuan’s true value in order to keep China’s exports cheaper. Because China’s economy relied on exports, the bank’s policy fostered growth in the country and reduced uncertainty.[[32]](#endnote-32)

However, in order to achieve a fixed exchange rate, the PBOC needed to assure markets that it would exchange yuan for U.S. dollars at the fixed rate. If the yuan was indeed undervalued, Chinese exports would increase and exporters would have many U.S. dollars that they would need to exchange for yuan. In order to avoid a buying (upward) pressure on the yuan, the PBOC accumulated a reserve of U.S. dollars and Treasuries.[[33]](#endnote-33)

The internationalization of the yuan accelerated in 2014.[[34]](#endnote-34) This meant that the yuan was circulating outside the jurisdiction of the PBOC.[[35]](#endnote-35) Some analysts predicted that at some point, the Chinese yuan would share equal status with the U.S. dollar, euro, pound, and yen.[[36]](#endnote-36)

ALIBABA’S BOND RATINGS

After announcing plans for a bond issue, Alibaba received its first debt rating: “A-plus” from Standard & Poor's and Fitch Ratings, and an equivalent “A1” rating from Moody’s Investor Service.[[37]](#endnote-37) These ratings were considered to be investment grade. According to Standard & Poor’s website, an obligor (bond issuer) with an “A” rating has a “strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories [AAA and AA].”[[38]](#endnote-38) Standard & Poor’s also added that “the ratings from ‘AA’ to ‘CCC’ may be modified by the addition of a plus (+) or minus (-) sign to show relative standing *within* the major rating categories”[[39]](#endnote-39) (see Exhibit 10). Exhibit 11 shows financial characteristics, while Exhibit 12 shows recent bond issues by similar companies.

EPILOGUE

Analysts wondered if investors would subscribe to the issue and how should Alibaba determine the pricing? Additionally, what would the best location for Alibaba’s bonds be? When should the bonds be issued? Would investors subscribe to the issue? Analysts also wondered if investors would expect a country risk premium given that Alibaba was based in China. Additionally, certain governance issues (specifically, dual class ownership structures and VIEs) made some investors uneasy. A long week lay ahead.

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EXHIBIT 1: ALIBABA’s SELECTED FINANCIAL RESULTS AND RATIOS

|  |  |  |  |
| --- | --- | --- | --- |
|  | FY 2012 | FY 2013 | FY 2014 |
| Total Revenues | 3,131.30 | 5,488.90 | 8,582.60 |
| Operating Income | 805.30 | 2,292.00 | 4,080.80 |
| Net Income to Common Shareholders | 661.10 | 1,336.40 | 3,772.10 |
| Basic EPS (dollars) | 0.27 | 0.58 | 1.73 |
| Diluted EPS (dollars) | 0.26 | 0.57 | 1.63 |
| Total Assets | 7,495.30 | 10,270.20 | 17,938.20 |
| Total Current Liabilities | 1,865.70 | 3,863.40 | 6,011.70 |
| Total Long-Term Liabilities | 166.10 | 4,628.20 | 5,362.50 |
| Total Liabilities | 2,031.70 | 8,491.70 | 11,374.30 |
| Total Equity | 5,463.60 | 1,778.50 | 6,564.00 |
|  |  |  |  |
| Gross Margin % | 67.3 | 71.8 | 74.5 |
| Operating Margin % | 25.7 | 41.8 | 47.6 |
| Profit Margin % | 21.1 | 24.7 | 44.4 |
|  |  |  |  |
| Total Debt/Total Assets % | 2.70 | 51.90 | 36.80 |
| Current Ratio | 2.37 | 1.80 | 1.81 |
| Quick Ratio | 1.90 | 1.39 | 1.21 |
| Asset Turnover % | 12.10 | 37.50 | 91.40 |
| Return on Equity % | 8.80 | 15.30 | 27.00 |
| Return on Assets % | 41.80 | 61.80 | 60.90 |

Note: Currency in $ millions, except where noted.

Source: Bloomberg L.P., “Alibaba’s Financial Results and Ratios 2012–2014,” Bloomberg Database, accessed December 23, 2014.

EXHIBIT 2: ALIBABA’S INCOME STATEMENT

|  | Year ended March 31 | | | | | Nine months ended December 31 | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2010 | 2011 | 2012 | 2013 | | 2012 | 2013 | |
| (in millions, except per share data) | CNY | CNY | CNY | CNY | US$ | CNY | CNY | US$ |
| *Revenue* |  |  |  |  |  |  |  |  |
| China commerce | 3,716 | 7,665 | 15,637 | 29,167 | 4,692 | 21,925 | 35,167 | 5,657 |
| International commerce | 2,620 | 3,433 | 3,765 | 4,160 | 669 | 3,117 | 3,557 | 572 |
| Cloud computing and Internet infrastructure | 144 | 425 | 515 | 650 | 105 | 484 | 560 | 90 |
| Others | 190 | 380 | 108 | 540 | 87 | 317 | 1,189 | 192 |
| Total | 6,670 | 11,903 | 20,025 | 34,517 | 5,553 | 25,843 | 40,473 | 6,511 |
| Cost of revenue | (1,634) | (3,497) | (6,554) | (9,719) | (1,563) | (7,442) | (9,899) | (1,592) |
| Product development expenses | (1,135) | (2,062) | (2,897) | (3,753) | (604) | (2,899) | (3,893) | (626) |
| Sales and marketing expenses | (2,335) | (3,154) | (3,058) | (3,613) | (581) | (3,092) | (3,267) | (526) |
| General and administrative expenses | (1,000) | (1,724) | (2,211) | (2,889) | (465) | (2,344) | (3,704) | (596) |
| Amortization of intangible assets | (131) | (144) | (155) | (130) | (21) | (105) | (197) | (32) |
| Impairment of goodwill and intangible assets | (1,308) | — | (135) | (175) | (28) | (175) | (44) | (7) |
| Yahoo TIPLA amendment payment | — | — | — | (3,487) | (561) | (3,487) | — | — |
| Income (loss) from operations | (873) | 1,322 | 5,015 | 10,751 | 1,730 | 6,299 | 19,469 | 3,132 |
| Interest and investment income (loss), net | 384 | 549 | 258 | 39 | 6 | (25) | 1,080 | 174 |
| Interest expense | — | (4) | (68) | (1,572) | (253) | (1,113) | (1,842) | (296) |
| Other income, net | 200 | 68 | 327 | 894 | 144 | 593 | 1,178 | 189 |
| Income (loss) before income tax and share of results of equity investees | (289) | 1,935 | 5,532 | 10,112 | 1,627 | 5,754 | 19,885 | 3,199 |
| Income tax expenses | (181) | (327) | (842) | (1,457) | (234) | (1,362) | (1,969) | (317) |

**EXHIBIT 2 (continued)**

|  | Year ended March 31 | | | | | Nine months ended December 31 | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2010 | 2011 | 2012 | 2013 | | 2012 | 2013 | |
| (in millions, except per share data) | CNY | CNY | CNY | CNY | US$ | CNY | CNY | US$ |
| Share of results of equity investees | (33) | — | (25) | (6) | (1) | (9) | (174) | (28) |
| Net income (loss) | (503) | 1,608 | 4,665 | 8,649 | 1,392 | 4,383 | 17,742 | 2,854 |
| Net income (loss) attributable to non-controlling interests | (299) | (425) | (437) | (117) | (19) | (108) | (29) | (5) |
| Net income (loss) attributable to Alibaba Group Holding Limited | (802) | 1,183 | 4,228 | 8,532 | 1,373 | 4,275 | 17,713 | 2,849 |
| Accretion of convertible preference shares | — | — | — | (17) | (3) | (9) | (24) | (4) |
| Dividends accrued on convertible preference shares | — | — | — | (111) | (18) | (59) | (156) | (25) |
| Net income (loss) attributable to ordinary shareholders | (802) | 1,183 | 4,228 | 8,404 | 1,352 | 4,207 | 17,533 | 2,820 |
| *Earnings (loss) per share attributable to ordinary shareholders:* | |  |  |  |  |  |  |  |
| Basic | (0.34) | 0.49 | 1.71 | 3.66 | 0.59 | 1.8 | 8.08 | 1.3 |
| Diluted | (0.34) | 0.48 | 1.67 | 3.57 | 0.57 | 1.76 | 7.63 | 1.23 |
| *Supplemental information:* |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | 1,390 | 3,009 | 7,274 | 16,607 | 2,672 | 11,698 | 23,845 | 3,836 |
| Adjusted income (loss) from operations | (511) | 2,254 | 6,269 | 15,497 | 2,494 | 10,820 | 22,657 | 3,645 |
| Adjusted net income (loss) | (141) | 2,540 | 5,919 | 13,395 | 2,156 | 8,904 | 20,930 | 3,367 |
| Free cash flow | 2,280 | 4,881 | 8,752 | 19,745 | 3,177 | 17,389 | 29,936 | 4,816 |

Source: Alibaba Group Holding Limited, “Form F-1: Registration Statement under the Securities Act of 1933,” EDGAR Online, May 6, 2014, accessed May 19, 2016, www.sec.gov/Archives/edgar/data/1577552/000119312514184994/d709111df1.htm.

EXHIBIT 3: COMPONENTS OF ALIBABA’S REVENUE

|  | Year ended March 31 | | | | | Nine months ended December 31 | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2012 | | 2013 | | | 2012 | | 2013 | | |
| (in millions, except percentages) | CNY | % of revenue | CNY | US$ | % of revenue | CNY | % of revenue | CNY | US$ | % of revenue |
| China commerce |  |  |  |  |  |  |  |  |  |  |
| Retail | 13,422 | 67.00 | 26,970 | 4,339 | 78.10 | 20,216 | 78.20 | 33,461 | 5,383 | 82.70 |
| Wholesale | 2,215 | 11.10 | 2,197 | 353 | 6.40 | 1,709 | 6.60 | 1,706 | 274 | 4.20 |
| Total China commerce | 15,637 | 78.10 | 29,167 | 4,692 | 84.50 | 21,925 | 84.80 | 35,167 | 5,657 | 86.90 |
| International commerce |  |  |  |  |  |  |  |  |  |  |
| Retail | 223 | 1.10 | 392 | 63 | 1.10 | 264 | 1.00 | 653 | 105 | 1.60 |
| Wholesale | 3,542 | 17.70 | 3,768 | 606 | 10.90 | 2,853 | 11.10 | 2,904 | 467 | 7.20 |
| Total international commerce | 3,765 | 18.80 | 4,160 | 669 | 12.00 | 3,117 | 12.10 | 3,557 | 572 | 8.80 |
| Cloud computing and Internet infrastructure | 515 | 2.60 | 650 | 105 | 1.90 | 484 | 1.90 | 560 | 90 | 1.40 |
| Others | 108 | 0.50 | 540 | 87 | 1.60 | 317 | 1.20 | 1,189 | 192 | 2.90 |
| Total | 20,025 | 100.00 | 34,517 | 5,553 | 100.00 | 25,843 | 100.00 | 40,473 | 6,511 | 100.00 |

Source: Alibaba Group Holding Limited, “Form F-1: Registration Statement under the Securities Act of 1933,” EDGAR Online, May 6, 2014, accessed May 19, 2016, www.sec.gov/Archives/edgar/data/1577552/000119312514184994/d709111df1.htm.

EXHIBIT 4: ALIBABA’S BALANCE SHEET

|  | As of March 31 | | | | | As of December 31 | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2010 | 2011 | 2012 | 2013 | | 2013 | |
| (in millions) | CNY | CNY | CNY | CNY | US$ | CNY | US$ |
| Cash and cash equivalents and short-term investments | 14,643 | 15,940 | 21,744 | 32,686 | 5,258 | 48,962 | 7,876 |
| Investment securities and investment in equity investees | 2,250 | 3,933 | 2,483 | 2,426 | 390 | 15,311 | 2,463 |
| Property and equipment, net | 1,666 | 1,905 | 2,463 | 3,808 | 612 | 5,973 | 961 |
| Goodwill and intangible assets | 11,518 | 11,846 | 11,791 | 11,628 | 1,871 | 13,250 | 2,131 |
| Total assets | 41,707 | 37,830 | 47,210 | 63,786 | 10,261 | 107,058 | 17,222 |
| Current bank borrowings | — | 807 | 1,283 | 3,350 | 539 | 1,200 | 193 |
| Secured borrowings | — | — | — | 2,098 | 337 | 8,884 | 1,429 |
| Redeemable preference shares | — | — | — | 5,191 | 835 | — | — |
| Non-current bank borrowings | — | — | — | 22,462 | 3,613 | 30,226 | 4,862 |
| Total liabilities | 15,208 | 9,413 | 12,797 | 52,740 | 8,484 | 72,805 | 11,712 |
| Convertible preference shares | — | — | — | 10,447 | 1,680 | 10,235 | 1,647 |
| Total equity | 26,493 | 28,402 | 34,383 | 513 | 83 | 23,892 | 3,843 |

Source: Alibaba Group Holding Limited, “Form F-1: Registration Statement under the Securities Act of 1933,” EDGAR Online, May 6, 2014, accessed May 19, 2016, www.sec.gov/Archives/edgar/data/1577552/000119312514184994/d709111df1.htm.

EXHIBIT 5: SPREADS AND FEES FOR ALIBABA’S LOAN IN 2012

|  | Facility | Maturity | Interest margin (spread) | Upfront fees (participation fees) | | |
| --- | --- | --- | --- | --- | --- | --- |
| MLAB\*  > $300 million | MLA\*\*  > $200 million | Participants  > $100 million |
| $1B | A | 3 years | LIBOR + 450 bps | 300 bps | 250 bps | 200 bps |
| $2B | B | 1 year | LIBOR + 350 bps | 175 bps | 150 bps | 125 bps |

Note: \* MLAB—mandated lead arrangers and book runners; \*\* MLA—mandated lead arrangers

Source: Prakash Chakravarti, “Alibaba Woos Lenders with Juicy Returns on US$3 Bn Loan*,” IFR: International Financing Review*, March 10, 2012, accessed May 19, 2016, www.ifre.com/alibaba-woos-lenders-with-juicy-returns-on-us$3bn-loan/21004924.article.

EXHIBIT 6: FEES FOR ALIBABA’S LOAN IN 2012

|  | Facility | Maturity | MLAB\*  > $300 million | MLA\*\*  > $200 million | Participants  > $100 million |
| --- | --- | --- | --- | --- | --- |
| Blended fees† |  |  | 217 bps | 183 bps | 150 bps |
| Blended all-ins†† |  |  | LIBOR + 604.67 bps | LIBOR + 582 bps | LIBOR + 560 bps |
| All-ins | A | 3 years | LIBOR + 656 bps | LIBOR + 631 bps | LIBOR + 606 bps |
| All-ins | B | 1 year | LIBOR + 570 bps | LIBOR + 550 bps | LIBOR + 530 bps |

Note: \* MLAB—mandated lead arrangers and book runners; \*\* MLA—mandated lead arrangers; † Blended fees—average fees across two facilities; †† Blended all-ins—interest margin plus annual fee, where annual fee is upfront fee divided by average life of loan

Source: Prakash Chakravarti, “Alibaba Woos Lenders with Juicy Returns on US$3 Bn Loan,” *IFR: International Financing Review*, March 10, 2012, accessed May 19, 2016, www.ifre.com/alibaba-woos-lenders-with-juicy-returns-on-us$3bn-loan/21004924.article.

Exhibit 7: SPREADS AND FEES FOR ALIBABA’S LOAN IN 2013

|  | Facility | Maturity | Interest margin (spread) | Upfront fees (participation fees) | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | > $500 million | > $300 million | > $200 million |
| $1.5 billion | Revolving | 3 years | LIBOR + 225 bps |  |  |  |
| $2.5 billion | A | 3 years | LIBOR + 225 bps | 150 bps | 125 bps | 100 bps |
| $4 billion | C | 5 years | LIBOR + 275 bps | 225 bps | 200 bps | 175 bps |

If the offshore groups’ leverage drops to 2.0×–1.5×:

|  | Facility | Maturity | Interest margin (spread) |
| --- | --- | --- | --- |
| $1.5 billion | Revolving | 3 years | LIBOR + 200 bps |
| $2.5 billion | A | 3 years | LIBOR + 200 bps |
| $4 billion | C | 5 years | LIBOR + 250 bps |

If the offshore groups’ leverage drops below 1.5×:

|  | Facility | Maturity | Interest margin (spread) |
| --- | --- | --- | --- |
| $1.5 billion | Revolving | 3 years | LIBOR + 175 bps |
| $2.5 billion | A | 3 years | LIBOR + 175 bps |
| $4 billion | C | 5 years | LIBOR + 225 bps |

Source: “Alibaba’s USD 8 Billion Loan Allocated among 22 Banks; Signing Shortly,” Debtwire, July 2, 2013***.***

**EXHIBIT 8: RECENT YIELDS AND SPREADS**

Source: “Selected Interest Rates (Daily): Historical Data,” Board of Governors of the Federal Reserve System, accessed December 19, 2014, https://www.federalreserve.gov/datadownload/Choose.aspx?rel=H15. .

EXHIBIT 9: GOVERNMENT BOND YIELD CURVE

Source: Created by the author based on Bloomberg L.P., “Bond yields,” Bloomberg Database, accessed December 23, 2014.

EXHIBIT 10: RATINGS from s&p rating agency

|  |  |
| --- | --- |
| **AAA** | Extremely strong capacity to meet financial commitments; highest rating |
| **AA** | Very strong capacity to meet financial commitments |
| **A** | Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances |
| **BBB** | Adequate capacity to meet financial commitments, but more subject to adverse economic conditions |
| **BBB-** | Considered lowest investment grade by market participants |
| **BB+** | Considered highest speculative grade by market participants |
| **BB** | Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial, and economic conditions |
| **B** | More vulnerable to adverse business, financial, and economic conditions but currently has the capacity to meet financial commitments |
| **CCC** | Currently vulnerable and dependent on favourable business, financial, and economic conditions to meet financial commitments |
| **CC** | Currently highly vulnerable |
| **C** | Currently highly vulnerable with obligations and other defined circumstances |
| **D** | Payment default on financial commitments |

Note: Ratings from ‘AA’ to ‘CCC’ may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Source: “RatingsDirect: Standard & Poor’s Ratings Definitions,” Standard & Poor’s Ratings Services: McGraw Hill Financial, November 20, 2014, accessed October 6, 2016, www.spratings.com/documents/20184/86966/Standard+%26+Poor%27s+Ratings

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EXHIBIT 11: COMPARABLES

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Name | Mkt Cap (US$) | Net Sales T12M | Profit Margin | Trailing 12M EPS | P/E | P/B | ROE | ROA | Debt / Equity | TIE | Current Ratio |
| Google Inc | 347.81B | 64.76B | 17.02 | -- | -- | -- | 14.37 | 11.32 | 5.30 | 148.96 | 4.47 |
| Alibaba Group | 269.30B | 10.31B | 17.99 | -- | -- | 13.56 | -- | -- | 49.23 | 8.34 | 3.01 |
| Facebook Inc | 219.25B | 11.20B | 25.04 | 1.08 | 74.67 | 9.63 | 16.04 | 14.05 | 1.31 | -- | 13.06 |
| Oracle Corp | 202.00B | 38.82B | 26.07 | 2.44 | 18.92 | 4.26 | 23.81 | 11.87 | 67.67 | 12.56 | 4.34 |
| Cisco Systems Inc | 142.00B | 47.30B | 14.93 | 1.49 | 16.77 | 2.5 | 13.30 | 7.51 | 36.98 | 16.85 | 3.31 |
| Tencent Holdings Ltd | 139.75B | 12.19B | 28.56 | 0.39 | 39.19 | 11.65 | 34.25 | 17.12 | 45.49 | 22.14 | 1.59 |
| Amazon.com Inc | 137.85B | 85.25B | −2.12 | −0.47 | -- | 13.34 | −2.22 | −0.60 | 29.98 | −11.1 | 0.89 |
| Baidu Inc | 81.30B | 7.24B | 28.67 | 5.91 | 39.88 | 10.45 | 30.50 | 16.42 | 48.40 | 22.12 | 3.25 |
| Ebay Inc | 71.47B | 17.51B | 15.46 | −0.08 | -- | 3.61 | −0.60 | −0.30 | 38.34 | -- | 1.56 |
| Jd.com Inc | 33.54B | -- | −0.57 | -- | -- | 5.44 | -- | -- | 7.51 | -48.7 | 1.8 |
| **Average** | **138.16B** | **27.10B** | **14.95%** | **1.25** | **51.48** | **11.67** | **21.92%** | **10.32%** | **41.19%** | **19.62** | **3.36** |

Source: Created by the author based on Bloomberg L.P., Bloomberg Database, accessed December 23, 2014.

**EXHIBIT 12: RECENT BOND ISSUES**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Issuer Name** | **Amt. Issued**  **(US$ Billion)** | **Issue Date** | **Term (Years)** | **Coupon (%)** | **Moody's** | **S&P** | **YTM (%)** | **Spread over similar Treasury Bonds (%)** |
| **U.S. Companies** | Cisco Systems, Inc. | 2.4 | 2014-03-01 | 3 | 1.1 | A1 | AA- | 1.102 | 0.412 |
| 1.75 | 2014-03-01 | 5 | 2.125 | A1 | AA- | 2.140 | 0.620 |
| 0.5 | 2014-03-01 | 7 | 2.9 | A1 | AA- | 2.931 | 0.791 |
| 1 | 2014-03-01 | 10 | 3.625 | A1 | AA- | 3.634 | 0.944 |
| eBay Inc. | 1.15 | 2014-07-28 | 5 | 2.2 | A2 | A- | 2.247 | 0.557 |
| 0.75 | 2014-07-28 | 7 | 2.875 | A2 | A- | 2.912 | 0.772 |
| 0.75 | 2014-07-28 | 10 | 3.45 | A2 | A- | 3.463 | 0.973 |
| Google Inc. | 1 | 2014-02-25 | 10 | 3.375 | Aa2 | AA | 3.376 | 0.646 |
| Oracle Corporation | 1.5 | 2013-07-16 | 5 | 2.375 | A1 | A+ | 2.446 | 0.966 |
| 1 | 2013-07-16 | 10 | 3.625 | A1 | A+ | 3.748 | 1.108 |
| Oracle Corporation | 2 | 2014-07-08 | 5 | 2.25 | A1 | A+ | 2.273 | 0.593 |
| 1.5 | 2014-07-08 | 7 | 2.8 | A1 | A+ | 2.824 | 0.634 |
| 2 | 2014-07-08 | 10 | 3.4 | A1 | A+ | 3.430 | 0.830 |
| 1.75 | 2014-07-08 | 20 | 4.3 | A1 | A+ | 4.302 | 1.142 |
| 1 | 2014-07-08 | 30 | 4.5 | A1 | A+ | 4.502 | 1.082 |
| **Chinese Companies** | Baidu, Inc. | 1 | 2013-08-06 | 5 | 3.25 | A3 | NA | 3.288 | 1.888 |
| Baidu, Inc. | 1 | 2014-06-09 | 5 | 2.75 | A3 | NA | 2.905 | 1.265 |
| Tencent Holdings Limited | 0.5 | 2014-04-29 | 3 | 2 | A3 | A- | 2.070 | 1.160 |
| 2 | 2014-04-29 | 5 | 3.375 | A3 | A- | 3.398 | 1.658 |

Source: Created by the author based on Bloomberg L.P., Bloomberg Database, accessed December 23, 2014.

endnotes

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