

On

the eve of Alibaba.com's \$1.7 billion stock offering—the biggest Internet IPO since Google went public in 2004—friends of founder Jack Ma warned that he was in for a harrowing ordeal. “People said, ‘Jack, you better get ready,’” Ma recalls. “‘You’re going to have to see so many people, answer so many questions. You’re going to have to talk and talk and talk.’” But in early November, two days after China’s leading online commerce site floated 17% of its shares in Hong Kong, Ma is the picture of serenity. Settling into a large chair at company headquarters in Hangzhou, the elfin entrepreneur smiles as he describes his state of mind

during the ten-day, six-city investor road show that preceded Alibaba’s offering. “It was the most relaxed I’ve been in ten years,” he says. “I watched a movie. I visited some galleries in New York. I even played a round of golf.” And now, he adds, “I am so peaceful.”

Not so investors, among whom word that Ma had reversed his long-standing opposition to going public set off a mad scramble for Alibaba’s shares. Multinationals including Yahoo, Cisco, and AIG signed on as cornerstone investors. Among individuals, demand for shares outstripped the number offered by 257 to one. And on its first day of trading, Alibaba’s stock shot to \$5.13, triple the opening price, lifting the company’s market value above \$26 billion.

It’s tempting to dismiss Alibaba’s debut as speculative madness: old-fashioned dot-

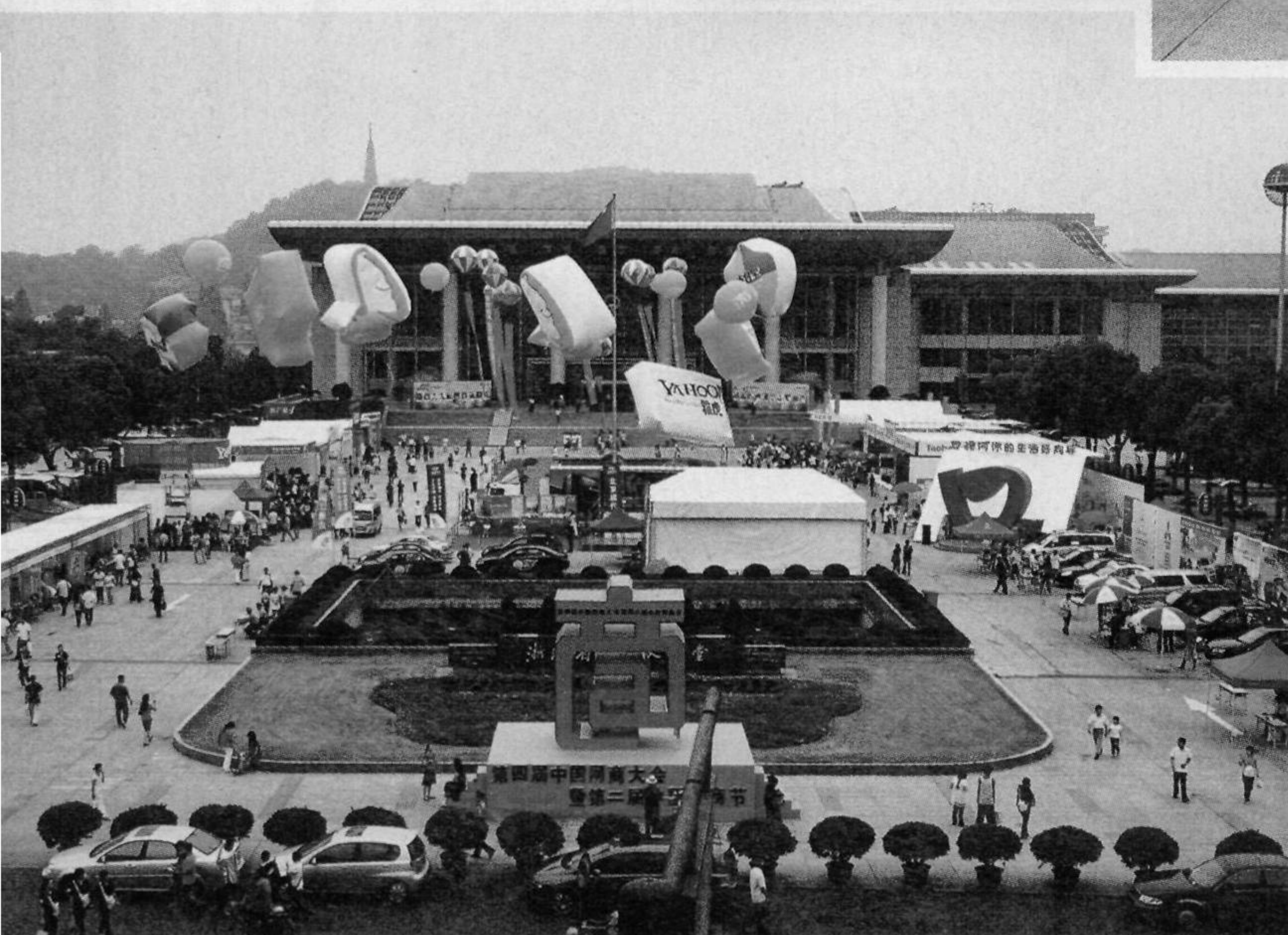
com credulity meets newfangled passion for all things Chinese. The Internet is tightly regulated in China. And with 4,400 employees and sales last year of \$182 million, Alibaba remains a smallish prawn in an ocean of state-owned leviathans. While Alibaba.com claims 25 million registered users, its own prospectus warns that, because it charges for only a small percentage of its services, the venture depends on a tiny core of 22,000 paying “Gold Suppliers” for 71% of its earnings.

As of mid-November, Alibaba’s shares were down a bit, to \$4.20, but trading at about 250 times projected 2007 earnings of \$83 million, or about five times the multiple for Google—tough to

justify by any conventional analysis of the company’s fundamentals. And yet the House That Jack Built is an impressive property. In the world’s most populous nation, where the number of Internet users already exceeds 160 million and is growing at a annual rate of 23%,

Alibaba.com commands a 69% market share in B2B e-commerce, the Internet sector many analysts believe best matched to China’s authoritarian political system and export-led economy. More important, though, is that Alibaba is prospering from a business model dedicated to serving a vital but disadvantaged segment of China’s economy: small and medium-sized private firms.

China’s rudimentary IT infrastructure, Ma explains,



VIRTUAL CARNIVAL SCENES OUTSIDE HANGZHOU'S GREAT HALL OF THE PEOPLE DURING ALIFEST, THE ANNUAL TWO-DAY GATHERING OF ALIBABA'S 10,000 TOP SUPPLIERS