

ble that in China. It has failed to live up to the hype once bestowed upon it: after years of rapid growth until 2015, the entire sector was flat in 2016 and grew at perhaps 20% last year. That is slower than Walmart's online sales growth in America, which is itself less than stellar. (The firm's shares tumbled in February after it announced domestic online sales had increased by just 23% in the fourth quarter of 2017; Amazon's sales grew by 33% in North America last year.)

The sluggishness is partly because Indian regulations dictate that e-commerce sites must sell stuff mainly from third-parties (like eBay does in America) rather than from their own inventory. The authorities

are mindful of foreign companies swamping the local startup scene, not least because Flipkart itself was among those complaining that Amazon et al were "dumping capital" in India by financing growth there with profits made overseas. (Never mind that Flipkart is incorporated in Singapore.)

Losing one of its prize breeds to a global mastodon will rankle for some in India. But the sale will provide a handsome payout for providers of venture capital there, who had started to gripe about the lack of exits from dozens of investments in the once-frothy Indian startup scene. If Walmart's prior experience is anything to go by, they may have got themselves the better end of the bargain. ■

Xiaomi to go public

Little rice, lots of dough

SHANGHAI

Reinvigorated, the world's fourth-largest smartphone-maker eyes a giant IPO

IN CHINA no company achieved \$1bn in annual revenue as quickly as Xiaomi did, in the year following the launch of its first smartphone in 2011. Chinese media initially nicknamed Xiaomi the "Apple of the East" (its literal translation is "little rice"). That was a stretch, even in good times. But within another two years the affordable-handset-maker became the world's most valuable startup, worth \$46bn.

Analysts reckon that it now wants to raise up to \$10bn in an initial public offering (IPO) on Hong Kong's stock exchange which was announced on May 3rd. (Its filing documents disclose neither the valuation that it is seeking, nor a fundraising target.) That could afford it a very generous valuation of as much as \$80bn—not far off the \$91bn market capitalisation of Baidu, China's biggest search engine and one of the country's three "BAT" tech titans alongside Alibaba and Tencent.

Yet only 18 months ago such talk would have seemed outlandish. In 2016 Xiaomi's sales fell sharply and it tumbled from first to fifth place among Chinese handset-makers. Lei Jun, its founder, blamed clogged supply chains at a time of rapid growth. Many thought it had overstretched, launching internet-connected gadgets, from rice cookers to drones, to create an ecosystem of devices that could be controlled from smartphones. Sales of these gizmos and Xiaomi's low-cost but high-specification handsets accounted for 91% of its \$18bn in revenues last year, yet they made only wafer-thin gross profits of 8.8%, a small fraction of the 39% that Apple makes on its iPhones.

Since then, Xiaomi has bounced back



again. At a launch event in Shanghai in March for the MIX2S phone, Mr Lei strode on stage in gleaming white trainers in a stadium filled with Mi-Fans, as the company calls its devotees, claiming that his newest smartphone had "crushed" Apple's iPhoneX. There was much cooing at the unveiling of the Mi Gaming Laptop, which allows users to place a food-delivery order mid-game with a programmable button.

A resurgent Xiaomi wagers that its Mi-Fans, to whom it has regularly turned online for ideas and feedback, are loyal, and that "amazing products" at "honest prices" will encourage more people to snap up its phones. It says that already 1.4m users own more than five of its hardware products. By

2022 it expects to generate \$10bn in annual revenues from 1,000 physical Mi stores that sell its phones, laptops and some of its 300-odd lifestyle gadgets (mainly built by startups in which Xiaomi has stakes). Last month Mr Lei announced, to the horror of some potential investors, that he would aim to keep overall net profit margins for all of this hardware under 5%. For a long time his approach has been to make money on internet services by luring users into the Xiaomi universe with unbeatable handset prices.

The firm does indeed make its fattest gross margins, of 60%, through services and ads on Xiaomi-developed apps that are pre-loaded on to its home-grown MIUI operating system, a tweaked version of Android. These include Mi Music for streaming audio, for instance, and its own Mi App Store. The average revenue per user of MIUI doubled between 2015 and 2017. A banker who has helped prepare its listing sees big moneymaking potential in India, where Xiaomi overtook Samsung at the end of last year as the country's top-selling smartphone-maker, a major reason for its bounce-back. Last year 28% of Xiaomi's sales came from foreign markets, up from 6% in 2015. Remarkably, in the first quarter of 2018, it made over half of its sales abroad, among the first of China's firms to do so.

Possible snags abound. Huawei, a domestic rival, grew faster than Xiaomi in India in the first three months of this year. Neil Shah of Counterpoint Research in Mumbai says that in foreign markets, where Google's services are not blocked (unlike in China), Xiaomi will find it hard to sustain its services-based profit model. Mr Lei had been hoping to take his phones to America this year, but as troubles mount for Chinese peers such as Huawei and ZTE, it is "now unlikely to pour resources into such a tough market", says Shelly Jing of IDC, another market-research firm. At home it will be under pressure to increase the average price—and quality—of its phones (currently 881 yuan, or \$138) as veteran smartphone buyers are tempted by its rivals' higher-end models. Excluding one-time charges, Xiaomi's net income was a relatively modest \$700m last year.

If the latest estimates are accurate, this flotation will be the biggest IPO since Alibaba fetched \$21.8bn in New York in 2014. Xiaomi is eager to prove to investors that it is an internet company, and so deserves higher valuations than a simple hardware firm. It claims that more than 100m devices have been connected to its "internet-of-things" platform. Its array of investments in over 210 companies lend it the air of an incubator. Fu Sheng, who founded Cheeta Mobile, a leading maker of utility apps for smartphones, says that BAT may soon become "ATM". M for Xiaomi would replace B for Baidu. ■