Yahoo, Softbank back Alibaba in HK IPO battle

KELVIN CHAN, AP Business Writer

HONG KONG (AP) — Chinese e-commerce giant Alibaba's biggest shareholders, Yahoo and Japan's Softbank Corp., on Friday backed the company's unusual management structure that Hong Kong's stock exchange was unwilling to accommodate, forcing it to look to the U.S. for a potentially mammoth IPO.

The show of support came a day after a senior Alibaba Group executive sharply criticized the southern Chinese city's stock exchange for being too inflexible in discussions about a share sale that had been expected to raise up to $15 billion.

The company broke off talks for a Hong Kong initial public offering because the stock market wasn't willing to make an exception to its listing rules. Instead, it's looking to New York for an initial public offering that analysts estimate could value the company at more than $100 billion.

That would dwarf the tech world's other hotly anticipated share offering by Twitter, which is estimated to have a market value of $10 billion.

In a column posted late Thursday on Alibaba's blog, Vice Chairman Joe Tsai said "Hong Kong must consider what is needed in order to adapt to future trends and changes."

Tsai said the company had ended its discussions for a potential listing. It's the first public acknowledgement that it has dropped its plans for an IPO in Hong Kong, which Tsai said was the company's "first choice" because most of its business is in China.

Alibaba's two biggest shareholders, Yahoo and Japan's Softbank, issued statements backing Alibaba.

"In a fast-moving technology market, it's critical that a company's leadership can continue to preserve its culture and set its strategic course for the future," said Jacqueline Reses, chief development officer at Yahoo, which owns a 23 percent stake. She added that the U.S. Internet company believes Alibaba's system reflects "the desire to govern the company for long-term success while also balancing the rights of shareholders."

Masayoshi Son, founder of Softbank Corp., which owns 35 percent, said he was "supportive" of the company's structure.

Hangzhou, China-based Alibaba failed to persuade the Hong Kong stock exchange to grant it an exception from listing rules to allow it to maintain a "partnership" structure in which top executives, who own 10 percent of the company, retain control of the board.

Chairman Jack Ma has described the partnership system, which currently includes 28 people, as essential to preserving the company's innovative culture.

Ma, a former English teacher, founded Alibaba in 1999 as a platform linking Chinese suppliers with retailers abroad. It has expanded in consumer e-commerce with its Taobao and Tmall platforms, which are among the world's busiest online outlets.

China has the world's biggest population of Internet users, and while it trails the U.S. and Japan in total e-commerce spending, the Boston Consulting Group forecasts it will rise to No. 1 by 2015.

Alibaba's proposal failed because it was at odds with the Hong Kong exchange's principle of treating all shareholders equally.

Tsai challenged the exchange over its rigidity.

"The question Hong Kong must address is whether it is ready to look forward as the rest of the world passes it by," he said.

Alibaba has not yet chosen an exchange or set a timetable for a U.S. listing. But it has hired U.S. law firm Simpson Thacher & Bartlett to help advise on the IPO and plans to hire underwriters soon, said a source familiar with the matter who was not allowed to speak publicly.

Goldman Sachs has estimated that a share sale could value Alibaba at as much as $105 billion.

Alibaba's profit in the first three months of the year tripled to $669 million on revenue that rose 71 percent to $1.4 billion, according to Yahoo's latest quarterly earnings.

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