

# *The Path of Alibaba's IPO*

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**Abstract:** With the development and growth of enterprises, listing always provides leapfrog development for them. Almost all of the world's well-known large enterprises have realized they could expand the size and quickly cross into the ranks of large enterprises through listing and financing. However, as one of the largest internet companies in China, Alibaba's journey to list is quite different than others. This paper focuses on the analysis of Alibaba's listing by using a combination of literature research, descriptive method and comparative analysis. This is demonstrated by first describing Alibaba's listing experience in chronological order; then analyzing the reasons and impacts of its listing from three aspects: social, economic, and global development; and finally, comparing the advantages and disadvantages of Alibaba's listing locations, Hong Kong and New York. So far, Alibaba has gone through three listings in two places and the impact of each one has been significant to the local market or to the main industry. When Alibaba went public in the U.S. in 2014, that was a primary listing, and then in November 2019, Alibaba went public again in Hong Kong, which is called a secondary listing. Now Alibaba is considering a dual primary listing in Hong Kong while maintaining its U.S. listing, so that they can not be affected by each other. The both sides of the stock price are independent, if one is delisted, it does not affect the other.

**Keywords:** Alibaba, IPO, Listing, NYSE, HongKong

## 1. Introduction

When it comes to Internet companies in China, the three giants BAT (Baidu, Alibaba, Tencent) can't be circumvented. In the past, Tencent was listed in Hong Kong in 2004, and Baidu was also listed on the NASDAQ in the United States in 2005. Nevertheless, Alibaba's listing was much later than these two. On the 10th anniversary of Tencent's listing in Hong Kong, Alibaba was finally listed on the New York Stock Exchange in 2014. After listing, Alibaba has become the Internet company with the highest value in China and issued the largest IPO in American history[1]. Alibaba is the most famous Internet company in China, but its journey to go public is not easy. Why did it go public so late? What did the listing bring to Alibaba? Why did Alibaba choose to list in the United States? This paper aims to illustrate Alibaba's uniqueness among Chinese Internet enterprises and solve the above three problems through research on Alibaba's listing path. This paper adopts a combination of literature research, descriptive method and comparative analysis. The paper consists of a detailed chronological discussion of Alibaba's IPO path, the reasons of going

public analyzed from three perspectives: social, economic, and global development, and the advantages and disadvantages of two locations of Alibaba's listing, Hong Kong or New York.

Alibaba Group was founded by Jack Ma in 1999. It was built to establish a simple business model of creating a platform for buyers and sellers to transact. Alibaba Group includes business, cloud computing, digital media and entertainment and innovative business. As one of the biggest leading e-commerce companies[2], the e-commerce subsidiaries of the Alibaba group – Taobao, Alibaba.com and Tmall[3] contributed to China's becoming the world's biggest and one of the fastest-growing e-commerce markets[4].

As China's most influential company in the world, Alibaba's every step of development always gets lots of attention. Its behavior can be seen as the development direction of the industry or a bellwether. Alibaba will undoubtedly become the benchmark private company to go public outside of China in the last decade. Every move it makes will have a profound impact on the country's macro and micro economy. In addition, the study and analysis of Alibaba's IPO will be more useful for other companies that want to grow bigger and further. The decision-making management of other enterprises will actively learn from and absorb the valuable experience of Alibaba to realize their dream of "going global".

## **2. The Way of Going Public**

### **2.1. The First Lising**

In 2007, Ma realized that the capital winter was coming. To raise funds for the winter, Alibaba chose the part of Alibaba.com with B2B business as the main body to list on the Hong Kong Stock Exchange, which became the Chinese Internet company with the largest financing scale at that time. Alibaba Network Technology Co., Ltd. officially landed in Hong Kong. This listing raised 1.5 billion US dollars, and the issue price was 13.5 Hong Kong dollars. The issue price rose 300%, the P/E ratio exceeded 300 times, and the market value exceeded 20 billion US dollars. After the listing, Alibaba's share price rose to three times the issuing price, making it the world's second-biggest Internet offering after Google's 2004 IPO on the NASDAQ[5].

In March 2008, Alibaba was influenced by the global economic crisis. B2B business was greatly affected, and the stock price collapsed seriously. The proportion of Alibaba's B2B business in the overall revenue decreased, and the proportion of non-B2B business in the overall revenue increased. C2C business gradually became the core business of the company, and B2B business was marginalized. All kinds of factors led to the company's stock price falling. In 2012, Alibaba announced the privatization at the issue price of 13.5 Hong Kong dollars per share, and delisted from Hong Kong Stock Exchange.

### **2.2. The Second Listing**

In 2013, in order to be able to develop in the long term, Jack Ma announced that Alibaba Group planned to offer an initial public offer (IPO). However, after deciding to issue the IPO in 2013, Alibaba was faced with a hard decision that is where it should offer the initial public offering among three options: Hong Kong Stock Exchange, New York Stock Exchange and NASDAQ.

On September 19, 2014, Alibaba Group was officially listed on the New York Stock Exchange, creating the largest IPO in history, with its stock code "BABA".

### **2.3. The Third Listing**

In 2018, the Hong Kong Stock Exchange began to reform the IPO by allowing the listing of companies with dual-class structure. Xiaomi and Meituan took this opportunity to successfully list

in Hong Kong. Boosted by multiple internal and external factors, on November 26, 2019, Alibaba Group was officially listed in Hong Kong, with a price of HK\$187 on the opening day which went up 6.25% from the offering price of HK\$176. It had a total market value over 4 trillion, climbing to the top of Hong Kong Stock Exchange and becoming the “King of new shares”. Alibaba also became the first Chinese Internet company that is listed in both the U.S. and Hong Kong Stock Exchange, and the first Chinese stock company to return by way of a secondary listing in Hong Kong.

The path of Alibaba’s listing has not been a smooth and easy one. It experienced listing in different places with different entities. Although Alibaba Group went public late in 2014, its subsidiary, Alibaba.com, had listed separately as early as 2009. Moreover, Alibaba Group as a special structure involves lots of subsidiaries. It took long time for it to prepare for the listing as a whole.

### **3. The Reason to Go Public**

#### **3.1. New Social Trend**

Taobao.com and Tmall.com are two of Alibaba’s most successful businesses involving consumer-to-consumer (C2C) and business-to-consumer (B2C) online shopping destinations. In the recent decade, Chinese e-commerce has deeply covered and transformed the economic and social structure, as well as the way people live and work. The majority of commercial and economic fields that can be replaced have been occupied by e-commerce[6]. Under this condition, more and more small vendors have disappeared from the streets, which shows the depth of e-commerce penetration.

People’s preference for online shopping provides Alibaba with a good social and cultural condition for development. The economic form that cannot keep up with the times is replaced by a new model, which is not a bad thing. Those who can keep pace with the times naturally enjoy the dividends brought by e-commerce. In this regard, e-commerce is blameless, but a force for economic development, which in turn provides a good condition for e-commerce like Alibaba, this is a mutual reinforcement.

#### **3.2. Economic Condition**

Based on the data provided in 2014, there were almost 612 million internet users in China, and Taobao (one of the business platforms controlled by Alibaba) accounted for more than 90% of the market shares in the C2C market. The loyalty of customers is the key factor to helping Alibaba’s IPO to further increase its market share. As for human resources, Alibaba not only maintained a strong relationship with existing suppliers but also was active in the acquisition market.

These resources increased Alibaba’s profit a lot. According to the balance sheet and financial statement provided, Alibaba’s revenue can support the group to invest in new projects so that they can increase the return on sales. Yet it is worth nothing that if Alibaba only focuses on its business in China, it would lack consumer diversity and globalized future development strategy, which is going to be one of the biggest weakness.

#### **3.3. Global Trend**

Taking the above into consideration, Alibaba is no longer involved in areas limited to Tmall and Taobao, but covers logistics, local life, new retails and other areas, and seeks globalization[7]. With users spread all over the world, suppliers from all over the world, and logistics services all over the world, the capital composition must of course be globalized as well.

However, listing in multiple capital markets has its drawbacks, mainly compliance costs and investor relations maintenance costs may rise geometrically. The funds raised from the IPO will be used to drive user growth and enhance engagement, and to help companies achieve digital transformation. Additionally, the trade friction between China and the United States has not made good progress for the time being, and Chinese companies are facing risks and challenges in funding. Broadening financing channels will help hedge risks, help companies to survive the capital winter, and allow Alibaba to find new development opportunities.

## **4. The Choice of Listing Location**

### **4.1. Two Choices**

Some believe that Ma chose to go public in the U.S. to retain its control of the company in 2014, whereas most investors tend to trust Alibaba listed on the NYSE because of the exchange's reputation and requirement for transparency[8].

Alibaba was unable to list in China because China Securities Regulatory Commission requires the main body of a company listed in mainland China must be registered in mainland China, while the listing subject of Alibaba Group is called Alibaba Group Holding Limited which is a company registered in Cayman Island. Thus, Alibaba's listing location could only be Hong Kong or the United States[9].

The U.S. would not have been Alibaba Group's preferred listing location, and the first choice would have been Hong Kong. The Hong Kong Stock Exchange was the first choice since it was located near to Chinese mainland. As the world's largest e-commerce trading platform, Alibaba should have been a favorite for the major stock exchanges, but it was twice kept out of the Hong Kong Stock Exchange because Alibaba's governance structure -- dual-class ownership structure -- is not permitted by the Hong Kong Stock Exchange's "one share, one vote"[10].

Dual-class share structure is a structure that different share classes could have different levels of control over the company. Alibaba's partnership structure is not different from the dual share structure because Alibaba allows its senior management (of 28 persons) to nominate the majority of candidates for the board of directors in its governance structure. It is the same as that the founder and top company executives retained control in a dual-class share structure.

Hong Kong's Listing Rules uphold the principle of public interest first and do not allow the same shareholding structure, while Ma, as the founder and minority shareholder, maintain his control of Alibaba through this way. Moreover, Alibaba had another choice that is to get IPO at New York Stock Exchange and NASDAQ as well since these stock exchanges accept the dual-class ownership structure that Alibaba operates, but the class action suits happened more frequently and it asks for openness about finances in the United States.

### **4.2. Trade-off**

There are both advantages and disadvantages to each exchange. For pros, If Alibaba lists in Hong Kong, investors are very familiar with Alibaba's business. They are more familiar with the language and culture, which helps them choose to invest in Alibaba. Compared to lists overseas, Alibaba is more habitual with the regulatory environment in Hong Kong. However, the biggest difficulty is Alibaba's dual-class share structure, which is not consistent with Hong Kong Stock Exchange's policy. If Alibaba changes its share structure, existing top executives and founders' control over the company will be influenced. Then, Alibaba must post three years of profit before being listed, which made many companies transfer to list in other exchanges.

If Alibaba lists in the United States, the biggest advantage is that U.S. exchanges such as NYSE and NASDAQ allow listed companies to have dual-class share structures. Alibaba does not need to

change its structure and there is no effect on the control over the company. In addition, the IPO price in the United States could be freely determined which means the profit will be more than that in Hong Kong. Several disadvantages might affect IPO in New York. The first problem is that the U.S. has a stricter disclosure system that requires long-term disclosure and financial audits. If Alibaba does not have confidence in internal rules and finance, it could lead to bad consequences, such as bad news sending the stock price slump, which made investors lose confidence to invest in Alibaba.

### 4.3. Final Decision

After weighing the pros and cons, Alibaba Group chose to list in New York rather than Hong Kong. Since Alibaba is already the most profitable internet company in China, the purpose of its IPO is not just for a cash shortage, which may be different from many other Internet companies. Alibaba wants to solve not just the problem of money, but control. The first thing a large number of funds may be used is to seek suitable global investments after issuing the IPO.

## 5. Conclusion

In conclusion, despite there are twists and turns on the road to listing, Alibaba has already experienced three listings, having listed for the first time in Hong Kong in 2007, in the United States in 2014, and in Hong Kong in 2019 for the third time. And it will plan for the fourth listing which is the dual listing in Hong Kong and New York. In July 2022, Alibaba Group revealed an announcement that the board of directors had authorized the group's management to submit an application to the Hong Kong Stock Exchange to add Hong Kong as its primary listing venue.

Upon completion of the review process by the Hong Kong Stock Exchange, Alibaba will have a dual primary listing on both the mainboard of the Hong Kong Stock Exchange and the New York Stock Exchange[11]. The relevant process is expected to be completed by the end of 2022, but Alibaba recently announced that it would not be completed as planned. When Alibaba will go public is still an outstanding issue.

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