

New China Perspectives



Welcome to the weekly issue of Morgan Creek's *New China Perspectives*. It is comprised of research from Morgan Creek's China-based investment team together with curated articles of interest. In addition to timely political and economic news covering greater China, Morgan Creek's China team seeks to provide in-depth perspectives on investing in the technology, consumer and healthcare sectors in the region. Our research leverages the "on the ground"

insights of our team together with Morgan Creek's decades-long experience in covering the region. Our team are focused, thematic investors primarily covering the technology, consumer, and healthcare sectors and investing in private companies and early-stage managers with deep local expertise. To learn more about our team and investment offerings, please email chinateam@morgancreekc.com.

Best Regards,

Handwritten signature of Mark W. Yusko

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

In the previous four issues, we discussed the evolution of corporate venture capital ("CVC") and the opportunities and challenges it has faced while navigating changing investment environments, with last week's newsletter focusing on Tencent Ventures. This week, we will discuss Alibaba's CVC and its investment strategy behind the scenes.

Alibaba Group, which was founded in 1999, has grown into a diverse company with business segments spanning e-commerce, cloud computing, media and entertainment. Alibaba's main products today include Taobao, Tmall, Alicloud, 1688, Alimama, and Cainiao. Alibaba's strategic investment department was established in 2008 with the mission of creating strategic and long-term financial value through investments, mergers and acquisitions ("M&A") and expansion, and to become a core force in the e-commerce ecosystem. Alibaba aims to make majority/control investments, with the goal of ultimately integrating these portfolio companies into its own core businesses.

Taobao.com logo

Tmall logo

Alibaba Cloud logo

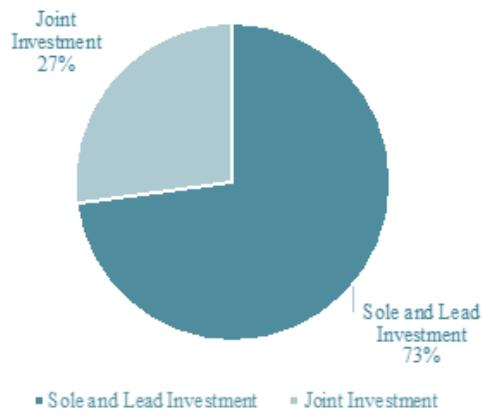
Cainiao logo

Source: <https://www.alibabagroup.com/en/global/home>

Alibaba acts as the sole or lead investor in the vast majority (approximately 70%, as illustrated in the chart below) of Alibaba's CVC investments. Many of these companies start out receiving minority equity investments from Alibaba in early financing rounds before eventually being acquired by Alibaba, reflecting Alibaba's cautious approach to its portfolio investments. Alibaba prefers starting with a minority equity investment to test out the product or service for potential synergies with the Alibaba platform. When the strategic value of the portfolio company increases, Alibaba will choose whether to invest more capital in the company, acquire the company outright, or take no further action.

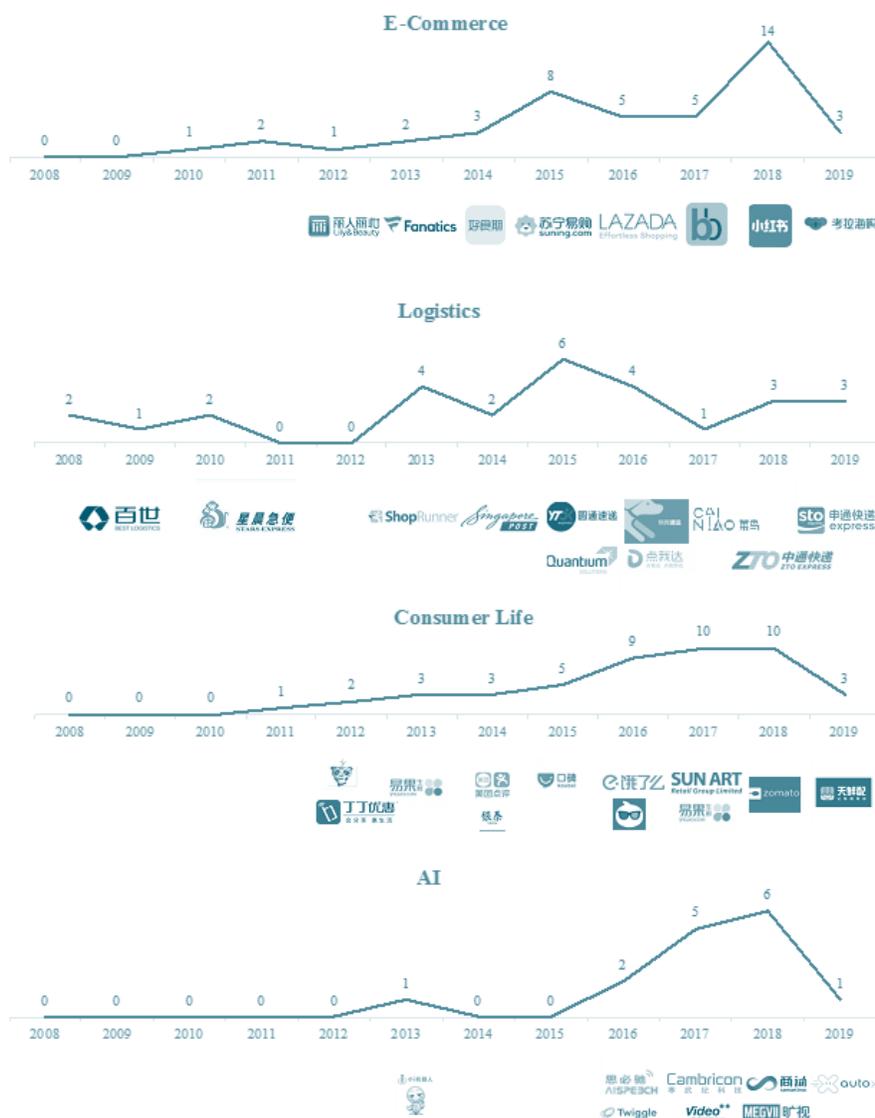
For example, in May 2013, Alibaba bought a 28% stake of map app Gaode for \$294 million, which made Alibaba Gaode's largest shareholder; in 2015, Alibaba acquired Gaode for \$1.05 billion. Another example of this strategy is when Alibaba invested in food delivery platform Ele.me four times, including two separate investments over \$1 billion each, before buying the company outright

for \$9.5 billion in April 2018.²



Source: Morgan Creek Research.

The investment focus of Alibaba mirrors its core businesses in the e-commerce, logistics, and consumer sectors. Alibaba invests in numerous e-commerce platforms to achieve cross-platform cooperation and to further expand its reach. It also invests in logistics platforms to further build upon Alibaba's logistics network, and utilizes IT to support the development of downstream express delivery enterprises around its e-commerce platform. As more enterprises upload their data on the cloud, Alibaba continues to build data centers and invest in cloud computing.



Source(s): Morgan Creek Research.

Alibaba also makes timely strategic adjustments to its portfolio companies, with Alibaba's acquisition of Xiami being a prime example. After acquiring Xiami in 2013, Alibaba made significant changes to the senior management team, which changed the culture and incentives and ultimately led to Xiami being shut down in early 2021³. Alibaba once considered merging Xiami and another streaming platform, NetEase Music, to compete with Tencent Music, but the merger ended up not going through. Instead, in 2019 Alibaba led a \$700 million financing round in NetEase Cloud Music, effectively betting on NetEase as a standalone company and abandoning the Xiami venture. NetEase Cloud Music has seen successful synergies with Alibaba's other businesses including Youku, Alipay, and Alibaba Pictures, while Xiami never successfully integrated with Alibaba's other businesses.

Although the volume of CVC deals for both Alibaba and Tencent is similar, the fate of their respective portfolio companies differs primarily in how the companies channel user traffic. After Alibaba acquires a product, it will channel all the product traffic to its e-commerce platforms, such as Taobao, and attempt to capitalize on the increased traffic; after this initial capitalization, the product is abandoned in many cases. In contrast, after Tencent acquires a product, it will channel its existing traffic (WeChat, QQ, etc.) into the new product, which drives growth in the product and helps it avoid obsolescence or abandonment. Despite these different methodologies, the two tech titans continue to dominate the corporate venture capital space in China.

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CHINA NEWS SPOTLIGHT

ECONOMY

China is 'big winner' in trade recovery: Economist: China has become the "big winner" after grabbing market share during a "warp speed" trade recovery, The Telegraph reported Sunday.

[Read more.](#)

Opening-up to benefit global investors in next 5 years: China's continued opening-up measures will accelerate high-quality development during the next five years and create several development opportunities for global investors, officials and experts said. [Read more.](#)

PRIVATE EQUITY & VENTURE CAPITAL

Baidu to Raise \$3 Billion in Secondary HK Listing: Chinese search engine giant Baidu announced that it will raise approximately HK\$23.94 billion (\$3.08 billion) in its upcoming secondary listing in Hong Kong at a price of HK\$252 per share. [Read more.](#)

Fova Energy Completes Seed+ Financing Round, Raising Millions of US Dollars: Fova Energy, a battery data analysis and decision-making platform, has raised millions of US dollars during a seed+ round of financing from Shunwei Capital, according to Chinese media outlet 36Kr. [Read more.](#)

TECHNOLOGY & CONSUMER

Tencent Music, Warner Music Launch New Joint Record Label in China: Tencent Music Entertainment (TME), China's dominant online music platform, said on Monday it has signed a deal with Warner Music Group (WMG) to launch a new joint venture record label. [Read more.](#)

China's Auto Aftermarket Tops 1 Trillion Yuan in 2020: China's automotive aftermarket was valued at more than 1 trillion yuan (\$153.61 billion) in 2020, state-owned Xinhua News Agency reported, citing the Ministry of Commerce (MOC). [Read more.](#)

HEALTHCARE

Matrix, LAV co-lead \$62m round in Chinese biotech firm NovoCodex: NovoCodex Biopharmaceuticals, a subsidiary of Shanghai-listed pharmaceutical major Zhejiang Medicine, has raised 400 million yuan (\$62 million) in its Series A round to expedite the development of antibody-drug conjugate (ADC). [Read more.](#)

IDG, Qiming co-lead \$70m Series B funding in biotech firm ZhenGe: Contract development and manufacturing organization (CDMO) firm Shanghai ZhenGe Biotechnology Co., Ltd has secured as much as \$70 million in its Series B round of financing jointly led by China's global VC Qiming Venture Partners and return backer IDG Capital. [Read more.](#)

¹ The Bund is a historic waterfront area in central Shanghai, where Morgan Creek's office is located. From the 1860s to the 1930s, it was the rich and powerful center of the foreign establishment in Shanghai, operating as a legally protected treaty port. The picture above is part of the historical waterfront.

² <https://www.forbes.com/sites/ywang/2018/04/03/chinese-e-commerce-giant-alibaba-acquires-ale-me-in-9-5b-deal/>

³ Source: <https://techcrunch.com/2021/01/04/alibaba-discontinues-xiami/>

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