First-Degree Merger

Alibaba has merged with mobile browser UCWeb. But will a successful business integration be a sure thing? By Zhou Xiaoyan

China's e-commerce behemoth Alibaba Group has been occupying the media limelight for quite some time, owing to an array of dazzling investments prior to its long-awaited initial public offering (IPO) in the United States.

On June 11, Alibaba confirmed it will buy the remaining share of UCWeb, in an attempt to up the stakes in its battle with arch-rivals Tencent Holdings Ltd. and Baidu Inc. Previously, Alibaba held 66 percent of UCWeb's stake with a total investment worth $686 million.

Although the two sides did not reveal the value of the deal, the merger is expected to be the largest in China's Internet business history.

The previous record was set last August when Nasdaq-listed Baidu Inc. closed a $1.9-billion deal to acquire 91 Wireless Websoft, a major distributor of Chinese smartphone applications.

The Alibaba-UCWeb deal will mainly be carried out using Alibaba's stock, with a smaller portion of the transaction being conducted in cash. Since Alibaba has not yet completed its U.S. listing, the value of the deal can't be calculated now. However, Yu Yongfu, Board Chairman and CEO of UCWeb, confidently said the company's value will be more than twice that of 91 Wireless.

After the merger, Alibaba and UCWeb will form the UCWeb Mobile Business Group and Yu will act as chairman of the business group and become a member of Alibaba's strategic decision-making committee. The new UCWeb Mobile Business Group will be responsible for Internet browsers, search services, location-based services, a mobile gaming platform, mobile application distribution and mobile literature services.

The deal, the latest among Alibaba's series of investments totaling $4.8 billion over the past six months, marks the company's continuing push into the mobile Internet sector.

On the same day, Alibaba also unveiled its first direct-to-consumer online shopping site 11main.com in the United States.

These announcements came as Alibaba prepares for a U.S. IPO. Analysts pointed out that the offering is likely to value Alibaba between $150 billion and $250 billion.

Feng Pengcheng, Director of the China Research Center for Capital Management at the Beijing-based University of International Business and Economics, told *Beijing Review* that Alibaba's recent investment binge will further increase the company's valuation in the IPO.

The bigger ambition

So why did Alibaba pay so much for a mobile browser? A major reason is that it wants to do more business on mobile in the world's biggest smartphone market.

It's an inevitable trend that consumers are more inclined to shop online with their mobile devices, such as smartphones and tablets.

According to Alibaba's latest IPO filing, in the fiscal year ending March 31, the group raked in 23.4 billion yuan ($3.75 billion) in net profits, up 170.6 percent. During the period, sales completed on mobile devices reached 319 billion yuan ($51 billion), up 394 percent from the last fiscal year. In the first quarter of 2014, business completed via mobile devices reached 116.2 billion yuan ($18.6 billion), accounting for 27.4 percent of the total, a huge jump from the last quarter's 20 percent, according to the filing.

Alibaba has a dominant status in the e-commerce sector and the company wants to extend that dominance into the mobile Internet era as well. A lack of a dominant mobile app that can link users straight to Alibaba's marketplace represents the company's biggest concern.

In sharp contrast, Alibaba's rival Tencent Holdings Ltd. has dominated smartphone screens with its near-ubiquitous mobile mes-

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CORPORATE IDENTITY: A staff member from Alibaba Group passes by the group's logo at its Hangzhou headquarters

saging app WeChat, a situation which Alibaba executives have publicly railed against.

Alibaba's recent purchase and investments are mainly focused on four areas in the mobile Internet sector—traffic inflow (such as UCWeb), big data (such as mapping and navigation firm NaviAuto), social networking service (such as microblogging site Sina Weibo) and online-to-offline (O2O) business layout (such as taxi-hailing app Kuaidi Dache), analysts say.

"If you look at Alibaba's investments over the past two years, they have mainly focused on making up for its shortcomings in terms of a stable traffic inflow in the mobile Internet arena. After its purchase of NaviAuto, Sina Weibo, Wasu Media and Youku Tudou, Alibaba has a better business layout in the high-end portal. But still, Alibaba lacks a stable and continuous big portal. UCWeb, with its 500 million mobile users, can offer that kind of stable and continuous portal to ensure this stable traffic inflow," said Lin Wenbin, a research fellow from the Beijing-based Analysys International.

"UCWeb can connect search engine, navigation, e-commerce and payment functions. The competition between the three Internet giants will become more and more fierce," said Lin.

The UCWeb deal would draw more mobile device users to Alibaba platforms, which have lost out to their more nimble competitors, analysts say.

Feng said Alibaba and UCWeb are highly complementary to each other, making them a good match.

"Baidu, Tencent and UCWeb are in the upstream of the Internet while Alibaba is in the downstream, where the source of traffic is unstable. Buying UCWeb will help Alibaba overcome its biggest shortcoming by ensuring a stable traffic inflow," Feng told *Beijing Review*.

The way ahead

UCWeb used to be a sought-after business in the white-hot battle between China's major Internet giants. Search engine Baidu also made

Alibaba

Founded in an apartment in Hangzhou, capital of east China's Zhejiang Province, in 1999, Jack Ma's Alibaba Group Holding Ltd. has grown into a monster conglomerate, dominating one of China's most dynamic economic sectors: e-commerce.

The 15-year-old Alibaba is the world's largest online and mobile commerce company. It had a gross merchandise volume of $248 billion in 2013 on its three major trading platforms—Taobao.com, China's most visited customer-to-customer (C2C) online shopping website, Tmall.com, China's leading online business-to-customer (B2C) mall, and Alibaba.com, a leading global wholesale business-to-business (B2B) platform.

In addition to the online retail and wholesale business, it provides cloud computing services, and has the world's largest payment processor with a payment volume of $519 billion in 2013.

UCWeb

Founded in 2004, UCWeb is a mobile Internet software and services provider based in Guangzhou, capital of south China's Guangdong Province.

UC Browser, the flagship product of UCWeb, has 500 million users worldwide. The business of UCWeb also includes a leading mobile gaming distribution platform named Jiuyou and a mobile search service called Shenma.

UCWeb was also one of the first Chinese Internet companies to explore the global market. It has over 100 million overseas users and its market share in India is over 30 percent, ranking it first in the country.

Alibaba Group's Major Investments

Company name	Investment time	Amount	Stake	Business Type
UC	July 2013 and June 2014	N/A	100%	Mobile browser
Evergrande	June 2014	$192 million	50%	Football club
Singapore Post	May 2014	$249 million	10.35%	Logistics
Youku Tudou	April 2014	$1.22 billion	16.50%	Online video platform
Sina Weibo	March 2013 and April 2014	$586 million	32%	Social networking service
Tango	March 2014	$215 million	N/A	Mobile messaging app
Yintai Group	March 2014	$692.7 million	Over 25%	Department store
ChinaVision	March 2014	$799.8 million	60%	Media
AutoNavi	May 2013 and April 2014	$1.39 billion	100%	Digital mapping and navigation
Hundsun	April 2014	$532 million	20.60%	Financial software and network service
Wasu Media	April 2014	$1 billion	20%	Media terminals

(*Compiled by* Beijing Review)

a quite generous offer to UCWeb. Then why did UCWeb choose Alibaba, instead of Baidu?

UCWeb's CEO Yu said he does not think UCWeb is being taken over by Alibaba. "Very few of the investments made by China's big three Internet giants Baidu, Alibaba and Tencent were through stock offerings. It is clear that Jack Ma and Alibaba have treated UCWeb as partners by offering us shares," said Yu, adding that both UCWeb and Alibaba share the same vision in the mobile Internet.

"UCWeb and Alibaba started cooperation early in 2009. Over the past five years, Alibaba has consistently fulfilled its promise that it would support UCWeb's development unconditionally. The two companies have forged a friendship based on the foundation of equality and respect," Yu said.

The UCWeb Mobile Business Group will integrate UCWeb's 3,000 employees into Alibaba and will be Alibaba's third business group after its E-commerce Business Group and Cloud Computing and Big Data Business Group.

In the wake of Alibaba's wild spending spree, the issue of how to integrate UCWeb's business with the Internet giant's enormous resources represents somewhat of a conundrum.

Feng told *Beijing Review* he is quite optimistic about the integration. "There are three sources of risks facing business integration after a merger—staff, culture and businesses," said Feng. Since Alibaba's business and UCWeb's business are highly complementary, there will be no massive layoffs, therefore no major risks from the staff side. According to Feng, Yu turned down on Baidu's offer mainly because Baidu's Board Chairman Li Yanhong requires UCWeb to report to Baidu. Jack Ma, however, treats UCWeb more like a business partner than a subordinate. Ma's attitude is more in line with the spirit of Internet—equality and sharing. "That alignment in ideology, combined with their highly complementary businesses, will eventually lead to successful business integration," he predicted.

Some experts, however, are not that optimistic. UC browser is the core asset of UCWeb. However, is a mobile browser really that important in smartphones?

Li Yi, Secretary General of Mobile Internet Industry Association, said browsers are outdated in the mobile Internet era.

"Eventually, mobile browsers will disappear. The fact that UCWeb's founders and investors are willing to sell their stakes to Alibaba shows that they are not optimistic about mobile browsers' future," Li said.

Lu Zhenwang, an observer in the e-commerce industry, said time is limited for Alibaba and UCWeb to fully integrate their businesses.

"Mobile browsers have limited room to develop, because websites have developed mobile apps and don't need browsers to link users to them. There will be fewer and fewer people using browsers in smartphones in the future. The user base of mobile browsers is increasing simply because the number of smartphone users is skyrocketing. But the declining trend of mobile browsers is inevitable," Lu said.

"Whether or not the business integration can be successful lies in whether or not UCWeb can turn itself into a real portal before mobile browsers completely lose their market dominance. It should be not only a portal for linking to websites, but also for watching videos, navigating and finding games," Lu said.

"The time period is only two to three years. If UCWeb fails to achieve that, the company's value will plummet," said Lu. ■


CFP

JOINING FORCES: Yu Yongfu (center), Board Chairman and CEO of UCWeb, announces that the company will merge with Alibaba Group on June 11

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