



“New Retail” in action - Issue 12

Alibaba acquires stake in Sun Art Retail Group to explore new retail opportunities – Key highlights and takeaways

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Key highlights

On 20 November, 2017, Alibaba Group announced that it will acquire a 36.16% stake in Sun Art Retail Group for HKD\$22.4 billion (US\$2.88 billion) to expand further in the offline retail market. Alibaba will form a strategic alliance with Auchan Retail and Ruentex Group. The transaction involves Alibaba acquiring Sun Art shares from Ruentex. At the same time, Auchan is also increasing its stake in Sun Art. Upon completion of the transactions, Auchan Retail, Alibaba Group and Ruentex will approximately hold a 36.18%, 36.16%, and 4.67% economic interest in Sun Art, respectively. Auchan Retail will continue to consolidate Sun Art in its financials following the transaction.

Comments and implications

The investment is the latest illustration of Alibaba's efforts to bet on the evolution of brick-and-mortar retail. The new strategic alliance will integrate resources of Alibaba and Sun Art Retail – Sun Art Retail can leverage Alibaba's digital ecosystem and undergo digital transformation in online-to-offline (O2O) retailing, and logistics infrastructure, etc. to provide better consumer shopping experience; while Alibaba can share Sun Art Retail's data and gain access to Sun Art Retail's offline shoppers via its over 400 retail store network.

Fung Business Intelligence believes that this is another strategic move for Alibaba to strengthen its market position in the supermarket sector after its strategic partnership with Bailian Group in February this year and its acquisition of 18% stake in Lianhua Supermarket in May 2017. In our view, this investment further demonstrates Alibaba's ambition to explore new retail opportunities in China's retail sector. Alibaba's "New Retail" concept highlights the importance of online and offline integration, logistics and data in shaping the future of retail. Sun Art Retail operates hypermarkets and supermarkets mainly under the brand names of "Auchan" and "RT-Mart" in China. As of December 2016, it operates 446 hypermarkets in 29 provinces, municipalities and autonomous regions across China. The nationwide store network is unique among its peers in the grocery sector, which are mostly regional operators; this provides Alibaba a fast route to gain access to the offline grocery market.

For Sun Art Retail, digital transformation is an unavoidable move to keep up with the market trend. It has been putting a lot of efforts in exploring ways to go online – in January 2014, Sun Art Retail launched its own e-commerce platform Feiniu.com (www.feiniu.com); it acquired online grocery store Fields (www.fieldschina.com) in April 2015, and Xiaohehe, a mobile O2O platform targeting university campuses, in September 2015; in December 2015, Sun Art Retail launched an online wine platform Auchan Wines (www.auchanwines.com). However, facing the increasingly intensive competition in O2O fresh supermarkets with prominent players including Hema Xiansheng, Yonghui Superstores, and many others, Sun Art Retail needs to innovate and catch up with the changing consumer demand. Partnering with Alibaba can allow it to transform quickly by leveraging Alibaba's big data capabilities to streamline its fresh food supply chain.

Going forward, we believe large-scale Internet and e-commerce players such as Alibaba will continue to expand offline for better online and offline integration in the "New Retail" regime. One of the key challenges for the companies is to work collaboratively with their integration partners and make the most out of the partnerships. In Alibaba and Sun Art Retail's partnership, the two companies need to work on a mutually agreed business plan to avoid internal competition of their existing businesses – for instance, to ensure Alibaba's Hema Xiansheng will not compete head-to-head with Auchan and RT-Mart in the supermarket segment and Alibaba's B2B platform 1688.com and Feiniu.com's B2B online business will not rival against each other.

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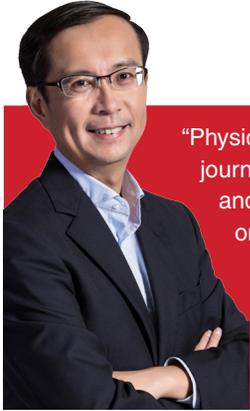
Alibaba's New Retail Regime – online and offline cooperation deepens

The concept of “New Retail” was propagated by Jack Ma in October 2016, which is set to become a new model of online and offline retail in China. According to Jack Ma, five major development trends are going to shape the world in the coming three decades: namely “New Retail”, “New Manufacturing”, “New Finance”, “New Technology” and “New Energy”. The trends are expected to fundamentally change all industries. He remarked that the upcoming technology revolution will provide tremendous opportunities for small enterprises from around the world. Technology, data and innovation will be the keys. Jack Ma also pointed out that pure e-commerce players will soon face tremendous challenges. “E-commerce” will be replaced by “New Retail” in 10-20 years. Exhibit 1 highlights selected major M&A activities of Alibaba in rationalizing its online and offline retail businesses in 2016 and 2017.

Exhibit 1: Alibaba's recent investments in offline retail businesses (June 2016 – November 2017)

Date	Target	Amount	Details
20 November, 2017	Sun Art Retail (Hypermarket, supermarket and convenience store)	HKD\$22.4 billion	36.16% stake of Sun Art Retail Group
28 May, 2017	Lianhua Supermarket (Hypermarket, supermarket and convenience store)	Around US\$100.33 million	18% stake of Lianhua Supermarket
20 February, 2017	Bailian Group (Department store, shopping mall, factory outlet, supermarket, convenience store, specialty retail store)	N/A	Alibaba and Bailian formed strategic partnership to explore new forms of retail opportunities across each other's ecosystem
10 January, 2017	Intime Retail Group (Department store and shopping mall)	HK\$19.8 billion	73.7% stake of Intime
18 November, 2016	Sanjiang Shopping Club (Supermarket chain)	2.1 billion yuan	32% stake of Sanjiang
2 June, 2016	Suning Commerce (Home electronics chain, integrated online shopping platform)	28.3 billion yuan	19.99% stake in Suning

Source: ebrun, modified by Fung Business Intelligence



“Physical stores serve an indispensable role during the consumer journey, and should be enhanced through data-driven technology and personalized services in the digital economy. By fully integrating online and physical channels together with our partners, we look forward to delivering an original and delightful shopping experience to Chinese consumers.”

Daniel Zhang
Chief Executive Officer of Alibaba Group

“This alliance with Alibaba stems from our shared vision for the future of commerce in China. Bringing together the leaders of in-store retail and of online retail will allow us to serve hundreds of millions of Chinese consumers a fully integrated, world-class shopping experience.”

Wilhelm Hubner
Chief Executive Officer of Auchan Retail



Company snapshots

About Auchan Retail

- Headquartered in France, Auchan Retail is among the top 5 most internationalized food retailers in the world, operating in 17 countries. Auchan Retail's turnover reached 51.7 billion euros in 2016.
- Auchan Retail operates 3,715 points of sale in retail formats including hypermarkets, superstores, supermarkets and convenience stores, online shopping and drive outlets.
- Auchan Retail has 345,365 employees worldwide.
- In China, Auchan Retail is the main shareholder of Sun Art Retail Group.

About Sun Art Retail

- Sun Art Retail Group has a nationwide footprint under two banners, Auchan and RT-Mart. RT-Mart ranked the 4th in the latest list of "Top 100 Retail Chain Operators in China in 2016" released by the China Chain Store and Franchise Association.
- It operates 446 hypermarkets as large as 17,000 sqm in 29 provinces, municipalities and autonomous regions across China. It also operates superstores and innovative unmanned stores under the Auchan Minute brand.
- It has nearly 140,000 employees in China.

Alibaba Group

- Founded by Jack Ma in 1999, Alibaba is a leading Chinese e-commerce company that provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web portals. It also created a business ecosystem that covers commerce, on-demand services, logistics, data & technology, social media, marketing, finance, and other services.
- In FY17, Alibaba's revenue was 158,273 million yuan, an increase of 56% yoy. GMV transacted on China retail marketplaces in FY17 was 3,767 billion yuan, an increase of 22% yoy, with mobile GMV rising to 2,981 billion yuan, or 79% of total GMV, an increase of 49% yoy.
- Annual active buyers on Alibaba's China retail marketplaces reached 488 million as of September 2017; mobile MAUs reached 549 million in September 2017.
- Alibaba just reported 168.3 billion yuan (US\$ 25.3 billion) in GMV during 11.11 Global Shopping Festival this year, up 39% yoy.

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