



 FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

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Highlights

On 11 February, 2018, Alibaba together with a group of investors including 15 enterprises and capital funding groups such as Chinese insurer Taikang Group, Yunfeng Capital – which is backed by Alibaba’s founder Jack Ma, Sequoia Capital and Beijing Harvest Capital, etc. made a 13 billion yuan investment to Easyhome Furnishing Chain Store Group, China’s second-biggest home improvement supplies and furniture chain operator. The group of investors altogether acquired an effective 36% equity stake of Easyhome. Of which, Alibaba invested about 5.45 billion yuan for a 15% stake, hence becoming the second largest stakeholder of the company. This kind of strategic financing formed among influential enterprises and venture capitals is considered the first and most remarkable one in China’s home products industry thus far.

Through the partnership, Alibaba hopes to help Easyhome digitalize its offline stores and merge its customer and products data for operations efficiency. At the same time, both parties will jointly build an online platform for home decoration which covers products and services from home design, material purchases to construction management.

According to Wan Linpeng, Chairman and President of Easyhome, the partnership with Alibaba in areas such as mobile payment, smart stores, e-commerce platform, smart logistics and consumption finance will create a new model for home products retail and lead the future development of China’s home products industry. Easyhome will also become a big data and “New Retail”-driven enterprise that are customer-oriented.

Comments and implications

The investment further underscores Alibaba's ongoing "New Retail" strategy and ramps up its ambition in stepping into physical retail world under innovative models. The new strategic alliance will combine the strengths of Alibaba's e-commerce platform with the abundant offline resources of Easyhome. With over 580 million active monthly users on its e-commerce platform and advanced analytic capabilities, Alibaba can provide Easyhome with timely and accurate insights into consumer preferences and buying behavior. The tie-up will also provide both online and offline customers more valuable integrated O2O services with a comprehensive home-improvement solution.

It is noteworthy that this investment is Alibaba's third major offline push into China's home furnishing market. In December 2016, Alibaba launched its designer home product store, House Selection; in September 2017, Alibaba set up its own home furnishing store, Home Times. Both stores are located in Hangzhou. Indeed, home furnishing market in China is very fragmented. It is rather difficult for Alibaba to roll out its own home products and home furnishing brands across the nation in a short period of time. Meanwhile, Easyhome has a wide offline network of 223 stores in 29 provinces which can offer nationwide offline touch points for Alibaba. It certainly provides a faster way for Alibaba to tap the home furnishing market.

Fung Business Intelligence believes Easyhome's design ability in the home sector can also add value to Alibaba – Easyhome has a designer platform (www.shejijia.com) which offers interior design services and home-improvement solutions to consumers. Over 100,000 domestic designers have already registered on the platform by the end of 2017. Alibaba can leverage on the design ability of Easyhome.

On the other hand, Alibaba and Easyhome can also work together in terms of logistics for home furnishing. Easyhome has been investing its own smart logistics since 2015. In 2018, it announced to build 14 logistics parks in Beijing, Tianjin, Shenyang, Changchun, Harbin, Wuhan, Zhengzhou, etc. to support the delivery of large-size furniture and home-related commodities. Together with Alibaba's Cainiao, they can definitely better serve consumers across the country.

Indeed, Alibaba has been making sizable investments in China's physical retail sector since 2015, when it took a 19.99% stake in electronics retailer Suning.com. Thereafter, Alibaba has invested billions in home appliances chains, grocery chains, shopping malls and home products industry, covering almost every retail formats. Since 2017, Alibaba's main competitor, Tencent, has started the battle with Alibaba through a series of intensive acquisitions for offline retail – from supermarkets & hypermarkets, department stores, to fashion brands. We believe that the increasingly fierce competition between Alibaba and Tencent in tapping offline retail businesses through acquisitions and alliance building show that the giant China's e-commerce players will further go big and strong in brick-and-mortar. They believe that 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.

For physical retailers, forming partnerships with tech-titans will allow them to leverage the powerful ecosystems and tremendous amount of customer data of e-commerce players, therefore reaching hundreds of millions of Chinese consumers through a fully integrated shopping experience.

Going forward, we believe large-scale Internet and e-commerce players will continue to deepen online and offline integration in the "New Retail" regime by embracing brick-and-mortar strategies. Through further acquisition activities and strategic partnerships with physical retailers, e-commerce players aim to become ubiquitous and indispensable in the daily life of every Chinese consumer with the all-encompassing and empowered ecosystems. In the imminent future, we foresee the possibility for Tencent to invest in other leading retailers in home products industry.

**Exhibit 1: Alibaba and Tencent's recent investments in offline retail businesses
(August 2015 – February 2018)**

Date	Bidder company	Target company	Amount	Details
11 February, 2018	Alibaba	Easyhome (Furniture chain operator, supermarket, convenience store, food stores, gym, cinemas and consumer electronics store)	5.45 billion yuan	15% stake of Easyhome
5 February, 2018	Tencent's subsidiary	Heiland Home Co Ltd. (Chinese menswear group)	2.5 billion yuan	5.31% stake of Heiland Home Co Ltd.
1 February, 2018	Tencent	Better Life Commercial Chain Share Co. (Supermarket chain)	-	Both parties agreed to establish a long-term strategic cooperative partnership for the establishment of a "smart retail" business.
29 January, 2018	Tencent	Wanda Commercial Management Group (Commercial property management company)	34 billion yuan	14% of stake of Wanda Commercial Management Group
23 January, 2018	Tencent	Carrefour China (Hypermarket, supermarket and convenience store)	-	Carrefour has signed a term sheet with Tencent and Yonghui regarding a potential investment in Carrefour China
15 December, 2017	Tencent	Yonghui Superstores (Hypermarket, supermarket and convenience store)	4.22 billion yuan	5% of stake of Yonghui Superstores
20 November, 2017	Alibaba	Sun Art Retail (Hypermarket, supermarket and convenience store)	HKD\$22.4 billion	36.16% stake of Sun Art Retail Group
28 May, 2017	Alibaba	Lianhua Supermarket (Hypermarket, supermarket and convenience store)	Around US\$100.33 million	18% stake of Lianhua Supermarket
20 February, 2017	Alibaba	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	Alibaba	Intime Retail Group (Department store and shopping mall)	HK\$19.8 billion	73.7% stake of Intime
18 November, 2016	Alibaba	Sanjiang Shopping Club (Supermarket chain)	2.1 billion yuan	32% stake of Sanjiang
10 August, 2015	Alibaba	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

Company snapshots

Easyhome

- Started operation in 1999, the Beijing-based Easyhome is China's second largest home improvement supplies and furniture chain operator. By the end of 2017, Easyhome has 223 stores in 29 provinces, autonomous regions and municipalities across China. The company is also a leading player in home design, refurbishment service and building materials.
- According to the company's plan, Easyhome will become a fully integrated online and offline enterprise by 2022. By then it aims to have more than 600 retail stores nationwide, and gross merchandise volume of more than 100 billion yuan.
- As a Chinese home furnishing conglomerate, the company also tried diversifying and branching out to other areas, such as setting up food stores, gym, cinemas and consumer electronics retailers. Easyhome rolled out a supermarket called Eatown in January 2017 and has incubated its own cashier-less convenience store Eatbox.
- The company reported more than 60 billion yuan in sales in 2017.

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 515 million, an increase of 27 million from the 12-month period ended on 30 September, 2017; and mobile MAUs reached 580 million in December 2017, an increase of 31 million over September 2017.

The press release can be accessed at the website below:

<http://www.alizila.com/alibaba-amps-up-new-retail-with-easyhome-investment/>

Contacts

Asia Distribution and Retail

Teresa Lam
Vice President
E: teresalam@fung1937.com

Lucia Leung
Research Manager
E: lucialeung@fung1937.com

Fung Business Intelligence

10/F LiFung Tower
888 Cheung Sha Wan Road
Kowloon, Hong Kong
T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com



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