

PE Deal of the Year – Alibaba Group

SILVER LAKE STARTED BUILDING relations with Alibaba Group almost as soon as it launched its Asia operations in 2008. It was the logical thing to do: the private equity firm assiduously builds relationships with senior management at most of the world's largest tech companies; Alibaba is one of the biggest and certainly the most diverse operator in China's internet space.

When Alibaba decided last year that it wanted to facilitate the sale of a 5.7% stake – offering employees and other early investors in the company a liquidity opportunity – Silver Lake was an obvious port of call. The specialist technology investor teamed up with DST Global to lead a transaction worth \$1.6 billion, valuing Alibaba at \$32 billion. Temasek Holdings and Yunfeng Capital, an investment firm set up by Focus Media's David Yu and Alibaba founder Jack Ma, were among the other participants.

"There is nothing like working with someone as a partner and trying to solve a problem," says Ken Hao, head of Silver Lake in Asia. "Alibaba wanted to wait longer before going public and

they reached out to parties that could add value to the company as long-term investors."

Part of the complexity for Alibaba was Yahoo, which took a 40% equity stake in the Chinese company in 2005 in exchange for \$1 billion and Yahoo's China-based assets.

The strategic directions of the two firms have diverged over the years and, given the challenges Yahoo faces in its core business, it seemed inevitable that the relationship would be restructured. However, with the bulk of Alibaba under private ownership – B2B trading platform Alibaba.com went public in 2007 but the group's remaining assets, including e-commerce platform Taobao, did not – replacement investors would be required.

Silver Lake and its counterparts presented the right solution at the right time in September 2011, and this transaction was named Private Equity Deal of the Year at the AVCJ China Awards.

In May 2012, Alibaba and Yahoo reached an agreement on the long-awaited restructuring. Alibaba will repurchase half of Yahoo's stake for

at least \$7.1 billion. The Chinese company has said that it will partially finance the repurchase transaction by issuing equity to investors, possibly including existing shareholders.

Silver Lake is well positioned to work with Alibaba on various strategic initiatives, including future overseas expansion possibilities. It is already performing a similar role with one of its other China portfolio companies, digital marketing platform Allies.

"We have our opinions about technology trends and the sea changes we see happening in terms of global technology and Asian companies," says Hao. "When we invest in China a good deal of the investment thesis tends to be outside of China. The companies want to be global leaders in their respective fields."

While the Alibaba investment isn't a typical deal for Silver Lake – it focuses on control deals and usually enters at lower valuations – the company's growth prospects, and the role the PE firm can play in fulfilling them, were suitably compelling. ▀