GROUP WORK ASSIGNMENT

GESTÃO FINANCEIRA II / CORPORATE FINANCE II

UNDERGRADUATE PROGRAMS – 1st SEMESTER 2014-2015

The Group Work Assignment of Gestão Financeira II involves solving a practical corporate finance and investment case. The subject of the case study is the Chinese company ALIBABA Group (NYSE ticker: BABA), currently listed on the New York Stock Exchange.

The case study requires from the students a sound knowledge of cash flow forecasting, determining the cost of capital (i.e., debt and equity), making credible assumptions about different scenarios, and decision-making.

Please read first the rules of the case study.

Case Study's Rules:

1. **Important Dates:**
   Group Composition by 30 October 2014: Each group must give to one of the course instructors (in the practical classes) a sheet of paper containing – for each member of the group: name, student number, photograph, and class (turma) attended.
   Deadline Date is 11 December 2014: You can hand in your assignments to your class instructor (during any class before the deadline) or address it to Professor Clara Raposo (Gabinete 616) – at the reception of the ISEG building in Rua Miguel Lupi, No. 20;

2. **Each group must be of 4 students ± 1**. If anyone has a problem in finding partners, let your class instructor know as soon as possible, and a solution will be found.

3. **The assignment involves producing three elements:**
   A **printed Report** written in Microsoft Office **word**, discussing your choice of methodology, assumptions, computations, tables, and conclusions (MAXIMUM 10 pages A4);
   A printed **powerpoint Presentation** as well as the Microsoft Office **powerpoint** 's file included in a cd-room (or USB pen);
   A **Spreadsheet** in Microsoft Office **excel** included in the cd-rom, supporting your written report.

4. Any group and group member may be asked by the course instructors to **present** their assignment.

Case Study:

ALIBABA Group identifies itself the following way (*source: initial public offering prospectus*):

Our Mission

Our mission is to make it easy to do business anywhere.

Our founders started our company to champion small businesses, in the belief that the Internet would level the playing field by enabling small enterprises to leverage innovation and technology to grow and compete more effectively in the domestic and global economies. Our decisions are guided by how they serve our mission over the long-term, not by the pursuit of short-term gains.

Our Business

We are the largest online and mobile commerce company in the world in terms of gross merchandise volume in 2013, according to the IDC GMV Report. We operate our ecosystem as a platform for third parties, and we do not engage in direct sales, compete with our merchants or hold inventory.

We operate Taobao Marketplace, China's largest online shopping destination, Tmall, China's largest third-party platform for brands and retailers, in each case in terms of gross merchandise volume, and Juhuasuan, China's most popular group buying marketplace by its monthly active users, in each case in 2013 according to iResearch. These three marketplaces, which comprise our China retail marketplaces, generated a combined GMV of RMB1,833 billion (US$296 billion) from 279 million active buyers and 8.5 million active sellers in the twelve months ended June 30, 2014. A significant portion of our customers have begun transacting on our mobile platform, and we are focused on capturing this opportunity. In the three months ended June 30, 2014, mobile GMV accounted for 32.8% of our GMV, up from 27.4% in the preceding three months and from 12.0% in the same period in the previous year. The number of mobile MAUs increased from 136 million for the month ended December 31, 2013, to 163 million for the month ended March 31, 2014 and to 188 million for the month ended June 30, 2014.

In addition to our three China retail marketplaces, which accounted for 81.6% of our revenues in fiscal year 2014, we operate Alibaba.com, China's largest global online wholesale marketplace in 2013 by revenue, according to iResearch, 1688.com, our China wholesale marketplace, and AliExpress, our global consumer marketplace, as well as provide cloud computing services.

As a platform, we provide the fundamental technology infrastructure and marketing reach to help businesses leverage the power of the Internet to establish an online presence and conduct commerce with consumers and businesses. We have been a leader in developing online marketplace standards in China. Given the scale we have been able to achieve, an ecosystem has developed around our platform that consists of buyers, sellers, third-party service providers, strategic alliance partners, and investee companies. Our platform and the role we play in connecting buyers and sellers and making it possible for them to do business anytime and anywhere is at the nexus of this ecosystem. Much of our effort, our time and our energy is spent on initiatives that are for the greater good of the ecosystem and the various participants in it. We feel a strong responsibility for the continued development of the ecosystem and we take ownership for this development. Accordingly, we refer to this as "our ecosystem."

Our ecosystem has strong self-reinforcing network effects that benefit our marketplace participants, who are invested in our ecosystem's growth and success. Through this ecosystem, we have transformed how commerce is conducted in China and built a reputation as a trusted partner for the participants in our ecosystem.

We have made significant investments in proprietary technologies and infrastructure in order to support our growing ecosystem. Our technology and infrastructure allow us to harness the substantial volume of data generated from our marketplaces and to further develop and optimize the products and services offered on our platform.

Our revenue is primarily generated from merchants through online marketing services (via Alimama, our proprietary online marketing platform) commissions on transactions and fees for online services. We also generate revenues through fees from memberships, value-added services and cloud computing services. GMV generated on our China retail marketplaces increased by 55.8% from RMB1,077 billion in fiscal year 2013 to RMB1,678 billion (US$270 billion) in fiscal year 2014. Our total revenue increased by 52.1% from RMB34,517 million in fiscal year 2013 to RMB52,504 milli (US$8,463 million) in fiscal year 2014. Our total revenue increased by 46.3% from RMB10,778 million in the three months ended June 30, 2013 to RMB15,771 million (US$2,542 million) in the same period in 2014. We do not allocate revenue among each of our China retail marketplaces. Our ne income increased by 170.6% from RMB8,649 million in fiscal year 2013 to RMB23,403 million (US$3,772 million) in fiscal year 2014. Our net inco increased by 179.6% from RMB4,448 million in the three months ended June 30, 2013 to RMB12,438 million (US$2,005 million) in the same perioc 2014. For the three months ended June 30, 2014, our net income included a net gain of RMB6,251 million (US$1,008 million) from step-up acquisiti arising from revaluations of previously held equity interest. Our fiscal year ends on March 31.

For the complete information of the prospectus have a look at the U.S. Securities & Exchange Commission's website:

http://www.sec.gov/Archives/edgar/data/1577552/000119312514184994/d709111df1.htm#toc709111_1

Case Study's Questions:

1. Without making any computations, what is your best estimate for the ALIBABA Group equity value on the evening of 18th September? Explain.

2. Estimate the ALIBABA Group's FCFs for the next few years. Explain your assumptions.

3. Perform reasonable sensitivity and/or scenario analysis to your FCFs' estimates. Explain.

4. Assume the ALIBABA Group is financed exclusively through equity (i.e. unlevered). How does it compare with the Alibaba Group equity value on 30th September 2014? Explain your answer.

5. Assume the ALIBABA Group uses a target capital structure, which is equal to the firm's average capital structure since 2012.
   a. Compute the WACC rate.
   b. Re-evaluate the company's value. Comment.

6. Now imagine that the ALIBABA Group wants to be financed with a target debt-to-equity ratio of 1. Would you invest in the company in that case? Explain.

Examples (other than the usual ones) on how to get more information:

- *For the cost of debt, go to NasdBondInfo.com*
  http://cxa.marketwatch.com/finra/BondCenter/Default.aspx
  and click to search by symbol.

- *For the cost of equity you can get **the yield on U.S. Treasury Bonds** from Yahoo! Finance.com. If you scroll down to the Market Data, on the right hand side you select "Bonds" and then you have information on the yield to maturity. Enter that yield as the risk-free rate.*

- ***Industry** betas available from http://pages.stern.nyu.edu/~adamodar/ by selecting Updated Data/ Levered and Unlevered Betas by Industry.*

- *Use a reasonable **market risk premium**.*

- *To compute the **net debt**, add the long-term debt and the short-term debt and subtract cash and cash equivalents for each year on the balance sheet.*

Always list your data sources.