

BrandLoyalties.com Special Commentary

05/20/2014: Scrutinizing the Inscrutable Chinese IPOs: Alibaba and JDCom

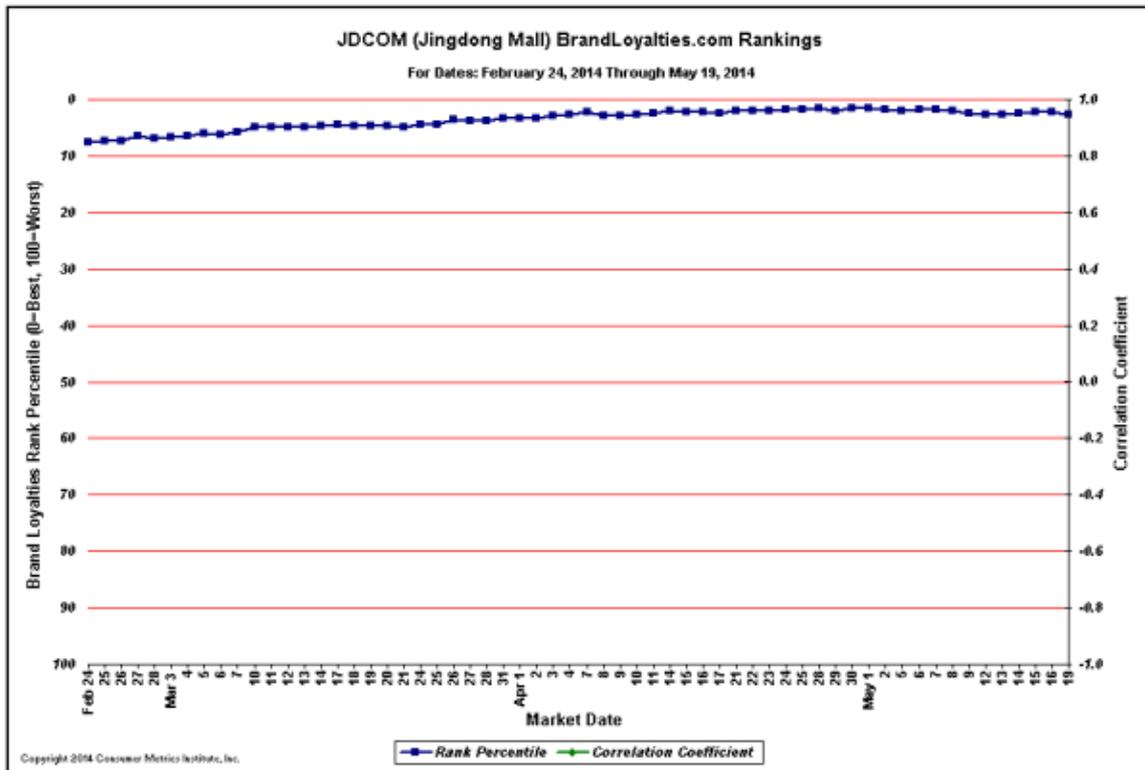
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The metrics at [BrandLoyalties.com](#) can track consumer loyalty to brand names in "real-time" even before a company's IPO. The data is especially relevant if the companies in question generate their principal revenues from web based commerce. Recently BrandLoyalties.com tracked two particularly hot Chinese on-line enterprises: JD.COM (JD) and the Alibaba Group -- two companies that tell interesting and somewhat divergent stories.

The global on-line citation rate growth for the brand names of JD.COM (also known as JingDong Mall, and formerly 360buy.com) is currently ranked in the top 3% among all of the equities tracked by BrandLoyalties.com :



JD (JD.COM, Inc.)



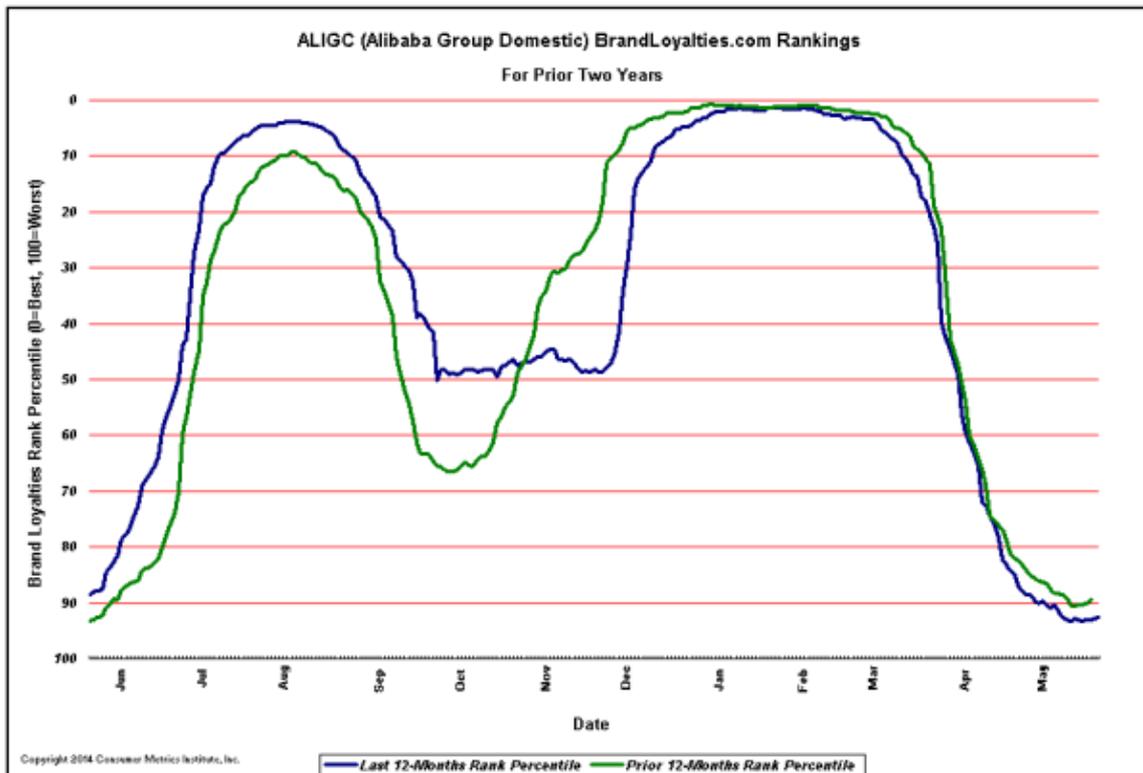
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The rankings are based on the relative growth rates for consumer on-line citations of JD.COM's brand names using both year-over-year and trailing quarter metrics. BrandLoyalties.com considers any equity in the top 20% to be a "buy" candidate, and equities in the top 10% are generally

considered to be a "strong buy." JD.COM has been in the top 10% of the BrandLoyalties.com "universe" of tracked brand names since early February.

The Alibaba Group presents a somewhat more complex picture -- the growth rates for domestic (Chinese) and global citation rates have not followed the exact same pattern. When comparing the rankings for their domestic commerce platform on a year-over-year basis, a modest June-October growth can be seen (projecting through seasonality) that completely evaporates by last November. In the chart below Alibaba's domestic Chinese citation rankings over the trailing 12 months (2013-2014) are shown in the blue line, while the prior 12 months (2012-2013) have been charted using a green line :

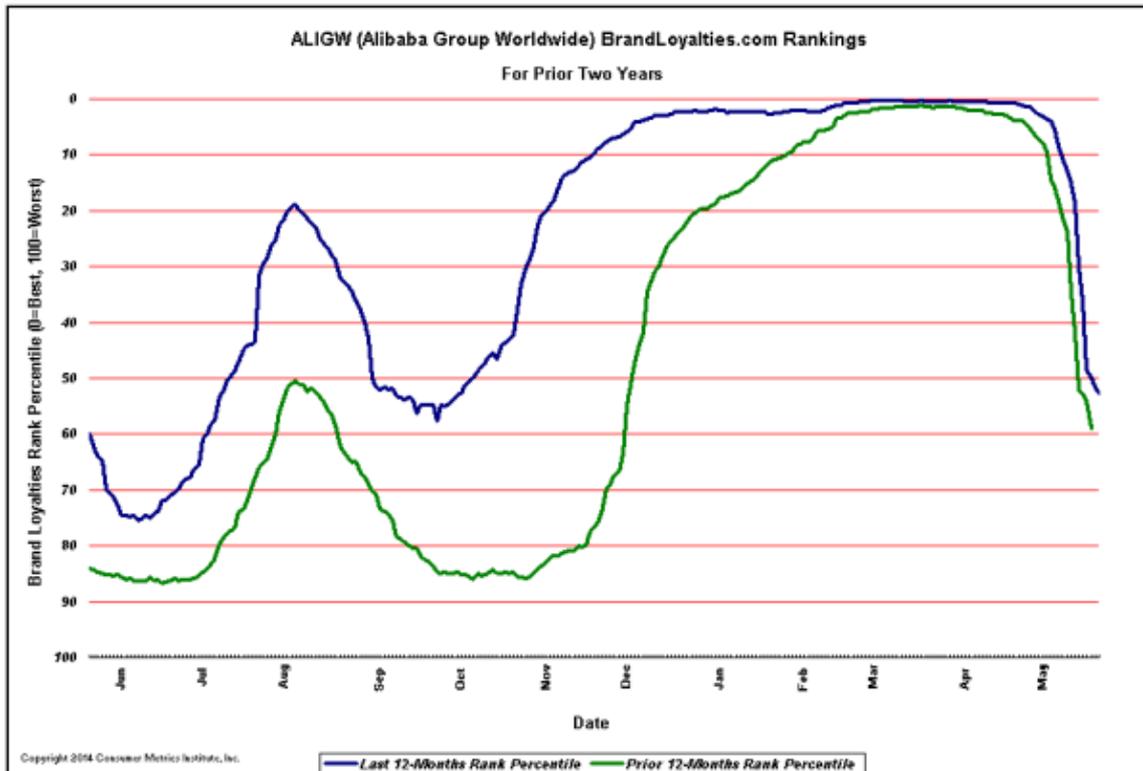
Alibaba Group -- Domestic Chinese Citations



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In contrast the citation rate growth for their international commerce platform has shown a consistent and healthy year-over-year improvement in their citation rankings (and a somewhat different seasonality) :

Alibaba Group -- Worldwide Citations



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The citation growth metrics would seem to indicate that Alibaba's global commerce platform has not reached a saturation point yet, while the domestic platform offers a somewhat more cautionary tale. If you are interested in learning more about BrandLoyalties.com or would just like a courtesy assessment of your favorite consumer-oriented equity, please contact me.

Sincerely,

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How Does BrandLoyalties.com Track and Rank Brand Loyalties?

BrandLoyalties.com is a unique quantitative research provider to institutional investors that uses online consumer-tracking data to generate forward looking signals based on shifting consumer brand loyalty. They track over 100 million daily online consumer choices and identify which

equities are likely to be impacted (positively or negatively) by changing consumer sentiment in those brands. The key criteria for coverage include a significant online presence for the brand names of those equities (called the brand name's web "luminosity") and a reasonably strong link between on-line brand name citations and consequential revenue for the corporation (referred to as the "signal relevance" for that corporation's brand names).

BrandLoyalties.com uses a proprietary algorithm to determine the velocity of change in consumer brand loyalty -- ranking the 500+ stocks on this measure from top to bottom each day. Signals derived from this analysis are generated well before earnings announcements and generally before guidance are provided. Each equity exhibits a unique lag time between when a signal is generated from the online data and subsequent price movement in the stock. The 'best fit' lag times are also provided to clients for each security in order to help optimize their buy or sell decisions.

The firm provides institutional subscribers with their unique proprietary metrics. This data helps investors easily identify those stocks exhibiting the characteristics of winners or losers. Clients may also choose to opt-in for daily email alerts which highlight the equities exhibiting the most significant trends. While investors are naturally interested in identifying equities with growing brand loyalty, users may also mitigate risk in existing portfolios by monitoring or avoiding stocks which display fading customer loyalty.

How Have BrandLoyalties.com Signals Performed?

A simple long-only "proof-of-concept" portfolio consisting solely of the top 10% of these 500+ ranked stocks would have produced an average annual ROI since January 2006 of 36.7% as compared to the S&P 500's 5.7%. (Results from 1,857 one-year Monte Carlo portfolio simulations covering January 3, 2006 through May 19, 2014, each portfolio blindly chosen on only brand loyalty rankings, then equally-weighted and reallocated when composition of the top 10% changes.)

BrandLoyalties.com also notes that "unfolding PR nightmares, M&A activities, investor scrutiny or other extenuating circumstances can lead to false positives if they generate a sufficient 'buzz' on-line." For that reason no real-world portfolio should be blindly chosen in the manner used for the proof-of-concept portfolios -- making it highly likely that actual BrandLoyalties.com clients have experienced even greater alpha when they overlaid their own internal fundamental or quantitative research on top of the simple brand loyalty metrics used in the proof-of-concept portfolios.

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