

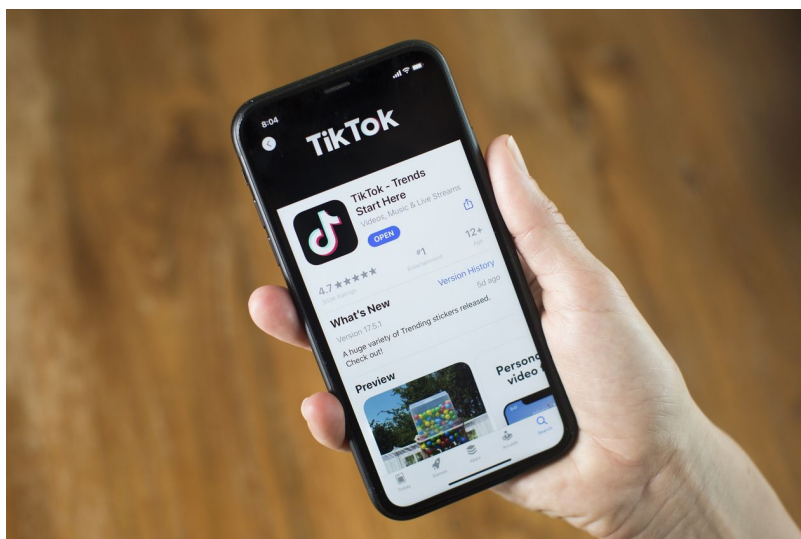
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TECH

TikTok Deal Faces Questions Over Security, Ownership

Trump-approved concept holds potential to reshape social media by challenging Facebook's dominance

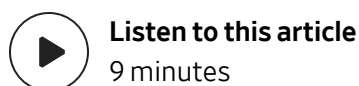


TikTok has about 100 million monthly users in the U.S.

PHOTO: BRENT LEWIN/BLOOMBERG NEWS

By [John D. McKinnon](#), [Alex Leary](#) and [Kate Davidson](#)

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WASHINGTON—An emerging deal to make China's popular TikTok app a U.S.-based company stands to reshape the social-media landscape, even as questions persisted Sunday over security concerns and ownership of the new company.

The deal—approved in concept by President Trump this weekend, but pending final approval by the companies involved—would create an online power that could challenge Facebook Inc.'s [FB -1.19%](#) ▼ dominance in social media and become a template for partnerships with other Chinese-owned apps.

The plan calls for [Oracle Corp.](#) [ORCL -1.33% ▼](#) and [Walmart Inc.](#) [WMT -1.24% ▼](#) to form partnerships with TikTok's owner, ByteDance Ltd. of Beijing, to become a new U.S.-based company called TikTok Global. The Commerce Department said it would delay for one week [a ban on U.S. downloads and updates](#) for the TikTok app that was set to take effect at 11:59 p.m. Sunday while the new deal for TikTok is finalized by the companies and investors involved.

The deal is expected to be valued at about \$60 billion, according to a person familiar with the situation, as reported in previous news accounts.

MORE ON THE TIKTOK DEAL

[U.S. Bans Chinese Apps TikTok and WeChat, Citing Security Concerns](#) (Sept. 18)

[Oracle, Walmart Aim for Big Stakes in TikTok](#) (Sept. 17)

[Republican Lawmakers Raise Concerns About TikTok-Oracle Deal](#) (Sept. 16)

[China's ByteDance to Keep Majority TikTok Stake in Oracle Deal Under U.S. Consideration](#) (Sept. 15)

Oracle said it would host the data for TikTok Global, to eliminate the potential of it falling into the hands of the Chinese government—a [plan that didn't fully satisfy](#) China hawks, including Sen. Marco Rubio (R., Fla.).

“No matter where the actual data is housed, there can be something in that code that sends it the other way,” Mr. Rubio said on Fox News. “I think we have to be very careful in looking at that

provision, because if there's any opportunity whatsoever for China to continue to collect personal data on Americans, then we can't be supportive of that deal.”

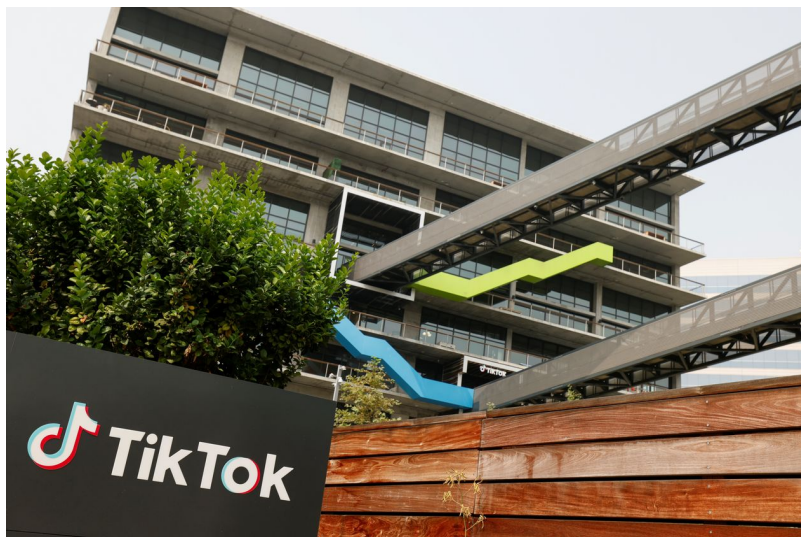
Other questions swirled around the ownership. Mr. Trump had called for creation of a U.S. company to take control of TikTok, but the deal as described by backers wasn't the full-scale acquisition that was originally envisioned.

“There's an issue of credibility here,” said Harry Broadman, a former World Bank economist who also worked for the U.S. Trade Representative during the Clinton administration. “When you have uncertainty in policy regimes that international parties see, that makes people very nervous.”

As initially described by people familiar with the deal, ByteDance [would retain roughly 80% ownership](#) of the company. But because ByteDance is about 40%-owned by U.S. investors, the new company with equity stakes for Oracle and

Walmart can be described as having majority American ownership, they said.

One of the people elaborated further Sunday, saying ByteDance wouldn't technically be an owner of the new TikTok Global entity. Instead, shares in the new entity would be distributed proportionally to ByteDance's current owners, which include both Chinese and American investors.



The U.S. head office of TikTok is in Culver City, Calif.

PHOTO: MIKE BLAKE/REUTERS

With the addition of Oracle and Walmart taking a combined 20% equity stake, TikTok Global would be 53%-owned by U.S. companies or investors, this person said.

After an expected initial public offering the Chinese stake in TikTok could fall to about 31%, depending on exact details of the size of the IPO, this person said.

A TikTok spokesman disputed that, however, saying that ByteDance would directly hold an 80% share of the new TikTok entity before the IPO.

The deal is “deftly structured to thread the eye of the needle,” said Eswar Prasad, an economics professor at Cornell University and the former head of the International Monetary Fund’s China division.

“The TikTok deal allows Trump to claim victory and portray it as a validation of his tough, take-no-prisoners approach in dealing with China, even if the final deal represents a compromise relative to the administration’s initial set of demands,” Mr. Prasad said.

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Oracle said in a written statement that it would have a 12.5% stake in the new entity called TikTok Global, and would provide secure cloud service for data on the app. Walmart said it had agreed to purchase 7.5% of TikTok Global as well as entering into commercial agreements to provide e-commerce, fulfillment, payments and other services to the new company.

Walmart said its chief executive, Doug McMillon, would serve as one of five board members of the new company. ByteDance founder Zhang Yiming and some of the U.S. investors also would likely be on the board, the people familiar with the deal said.

In a joint statement, Oracle and Walmart said the planned TikTok Global would create more than 25,000 jobs in the U.S. and lead to more than \$5 billion in new tax dollars to the U.S. Treasury.

That statement appeared to address Mr. Trump's initial demand that the buyers should pay "key money" for the deal to be approved. He later said such a payment had been blocked by White House lawyers as illegal.

The companies said the new company would also foster "an educational initiative to develop and deliver an [artificial-intelligence]-driven online video curriculum to teach children from inner cities to the suburbs," without citing a financial commitment. Mr. Trump had said late Saturday that would be a \$5 billion fund.

A person familiar with the deal said the education initiative would be funded through the IPO.

The Chinese government hasn't commented on the latest iteration of the deal or Mr. Trump's endorsement of it. China's Ministry of Foreign Affairs and Ministry of Commerce didn't immediately respond to requests for comment.

ByteDance has been in communication with China's internet regulator and the

Ministry of Commerce on the potential sale, however, according to people familiar with the discussions.

Still, the forced sale of a piece of one of the world's hottest internet properties —China's first true global social-media sensation—angered many in China, including Fang Xingdong, a former internet entrepreneur and founder of Beijing-based think tank China Labs, who described it in an interview Sunday as “daylight robbery.”

Treasury Secretary Steven Mnuchin played a key role shepherding a deal that would overcome last-minute hurdles from the Chinese government, and satisfy ardent China hawks who saw a full sale as the only way to ensure data security.

As the chairman of the Committee on Foreign Investment in the U.S., Mr. Mnuchin led the government's review of the proposed transaction. But he also sought to keep a deal together, working with U.S. investors and ByteDance executives to help find a solution that would safeguard U.S. data and avoid an outright ban of the app in the event a sale fell through or couldn't be completed in time.

“It doesn't go as far in terms of acquiring the company outright,” said Stephen Pavlick, a policy analyst at research firm Renaissance Macro and a former Treasury aide who worked on Cfius issues.

“But Cfius never said that they needed to acquire the company outright,” he added.

Speaking on Fox News, Secretary of State Mike Pompeo said the ownership arrangement satisfies the president's demand that data not be accessible to the Chinese government.

“Whether there's still some Chinese ownership where they still collect a royalty check from the benefits of the business, there will be an American headquarters, it will be controlled by Americans,” Mr. Pompeo said. “And the data, most importantly, the data, the very reason we have gone after TikTok, that data will be in a place that we have confidence that no American will have the risk that their data will end up in the hands of the Chinese Communist Party.”

TikTok has quickly become a social-media force, a point that TikTok's lobbyists in Washington made to the Trump campaign, a senior campaign official said. TikTok has about 100 million monthly users in the U.S., up from about 11 million in early 2018, and is mostly popular with teens, including many who are of voting age and live in battleground states such as Florida, lobbyists told the campaign in warning against a ban.

The White House and campaign didn't immediately respond to requests for comment on whether TikTok's popularity factored into the White House's decision-making.

The tactic was similar to that employed by opponents of Mr. Trump's proposed crackdown on flavored e-cigarettes. Vaping advocates shared with the campaign and White House polling data commissioned by an industry group, the Vapor Technology Association, that shows flavored e-cigarettes are popular with adult consumers in key election states, including Florida, Arizona and Michigan, and a ban was almost universally opposed.

The Trump administration eventually released a scaled-back policy, with Mr. Trump saying an outright ban could have dangerous consequences by pushing vaping underground.

One of the people familiar with the matter said the main outstanding issues for the U.S. concerned data-security details and didn't appear substantial. Assuming those issues are resolved, creation of the TikTok Global entity would proceed over the next few weeks.

A TikTok spokeswoman said the company was "delighted that the individuals who've turned their creativity on TikTok into thriving careers, the small businesses using TikTok to reach customers during the pandemic, and the families who've found joy and connection through our platform will be able to use TikTok for many years to come."

—*Georgia Wells and Liza Lin contributed to this article.*

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