Alibaba Group

December Quarter 2023 Results

Conference Call

Transcript

Wednesday, 7 February 2024

Introduction

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Good day, everyone. Welcome to Alibaba Group's December Quarter 2023 Results Conference Call. With us are Joe Tsai, Chairman; Eddie Wu, Chief Executive Officer; Toby Xu, Chief Financial Officer. We have also invited Jiang Fan, CEO of Alibaba International Digital Commerce Group (AIDC), to join the call. This call is also being webcast from our IR section of our corporate website. A replay of the call will be available on our website later today.

Now let me quickly cover the Safe Harbor. Today's discussion may contain forward-looking statements, including without limitation statements about our new organization and governance structure, strategies, and business plans, as well as our belief and expectations about our business prospects, such as future growth of our business, revenue and return on investments. Forward-looking statements involve inherent risks and uncertainties that may cause actual results to differ materially from our current expectations. For detailed discussions of these risks and uncertainties, please refer to our latest annual report on Form 20-F and other documents filed with the U.S. Securities and Exchange Commission or announced on the website of the Hong Kong Stock Exchange. Any forward-looking statements that we make on this call are based on assumptions as of today and we do not undertake any obligation to update these statements, except as required under applicable law.

Please note that certain financial measures that we use on this call, such as adjusted EBITDA, adjusted EBITDA margin, adjusted EBITA, adjusted EBITA margin, non-GAAP net income, non-GAAP diluted earnings per share or ADS, and free cash flow are expressed on a non-GAAP basis. Our GAAP results and reconciliation of GAAP to non-GAAP measures can be found in our earnings press release. Unless otherwise stated, growth rate of all stated metrics mentioned during this call refers to year-over-year growth versus the same quarter last year.

With that, I will now turn to Eddie.

Group Business Update

Eddie Wu

CEO, Alibaba Group

(Translation)

Hello everyone. This past quarter, we delivered steady growth while making organizational adjustments that align with our strategic focus. At the same time, we took a deep look at our core business operations and the competitive landscape. We concluded that to maintain our competitive edge, we must increase our investment in core capabilities and adopt a more aggressive approach towards competition in order to win growth. Our top priority is to reignite the growth of our two core businesses, e-commerce and cloud computing.

During the quarter, the execution of our user-first and competitive pricing strategies in Taobao and Tmall Group (TTG) was effective, resulting in healthy year-over-year GMV growth as the number of active buyers and order volume showed robust increase. The number of merchants continued to grow at a double-digit rate. And I will elaborate on the outlook and plans for 2024 in a moment.

In cloud computing, we are committed to our strategy of prioritizing public cloud. We have proactively optimized our business structure, reduced revenue from project-based contracts, and increased investment in public cloud products. These structural adjustments are showing results and Alibaba Cloud's overall profitability capability continues to improve. We have also upgraded Alibaba Cloud's sales operations, establishing different sales and service systems to serve different types and sizes of customers. By improving our customer coverage and service capabilities, we will enhance our growth rate.

In the international commerce business, we focused on expanding cross-border offerings and enhancing shopping experience. This quarter, all of Alibaba International Digital Commerce (AIDC)'s retail platforms achieved growth, resulting in international digital commerce overall revenues growing at a rapid rate of 44% year-over-year. Cainiao continued to develop its global smart logistics network, with cross-border logistics fulfillment solutions contributing to 24% year-over-year revenue growth, as well as realizing strong synergies with our cross-border e-commerce business.

Now, I want to share the strategic priorities of TTG in investing and capturing growth opportunities.

TTG operates in the world's most competitive e-commerce market, which is China. As we evaluate TTG's competitive position within the China e-commerce market, we note that TTG continues to be number one in GMV share and is the leading platform for consumer shopping. Merchants operate on the platform as their primary place of e-commerce business, and TTG has the deepest and most comprehensive selection of products amongst its peers. However, we must still make targeted investments and improvements in price competitiveness, service, and user experience.

Given that consumers use multiple platforms, returning to a user-centric approach is at the heart of our strategy. We will increase investment in core user experiences to enhance the customer shopping experience. I am confident that if we focus on delivering "The Incredible Taobao" experience by offering quality products at attractive prices with great service that meets the different needs of different consumer segments, TTG will earn users' trust and return to growth.

Thus, 2024 will be a year of comprehensive capability upgrades for TTG and also a year of significant investment. And we will prioritize investment in the following areas:

1. Product supply. We will increase our investments in growing the selection of branded products and direct-from-manufacturer products on TTG platforms. This will further strengthen our product supply advantages to better address new consumption trends and demands.

2. Competitive pricing and efficiency. We will increase investment into product sourcing capabilities and optimizing business model relationships between merchants and our platform. For different types of suppliers, we will offer flexible business models that are best suited to improve their operational efficiency and thereby enhance Taobao's value proposition. The "competitive pricing" we are focused on delivering is attractive prices for quality products; this is a demand that consumers have across cycles, and is fundamental to doing business.

3. Quality service. We will work with our merchants and logistics partners to invest in improving the entire consumer service experience, including pre-sale, in-sale, post-sale, and logistics. For different customer segments on the platform, we will build a customer service system that accurately identifies and meets the various needs of the different groups.

4. Increasing purchase frequency. Through the above investments, we will enhance our comprehensive capabilities to offer quality products at attractive prices with great service. We believe that improving the platform's overall shopping experience and service quality will lead to increased purchase frequency and materially improve the efficiency of user growth.

Today, Taobao and Tmall remain the most valuable shopping platforms and the main place for merchants to do business. With the comprehensive capability building planned for 2024, we are confident that TTG will return to growth.

Now I'll hand over to Jiang Fan to present on AIDC.

AIDC Business Update

Jiang Fan

CEO, AIDC Group

(Translation)

Good evening. Over the past quarter, despite the uncertain international environment and more intense market competition, Alibaba International Digital Commerce (AIDC) achieved rapid growth. Total orders grew by 24% year-over-year, and growth in our cross-border business was especially significant.

Our three major growth drivers are: (1) enhanced consumer experience as a result of our business model and supply chain services upgrade; (2) product and technology innovation; (3) our targeted investments in key markets.

Next, I will present our business results and future development plans around these three drivers.

First is our business model and supply chain services upgrade. Last quarter, AliExpress achieved year-over-year order growth of over 60%. This was mainly driven by the new AE *Choice* model launched in early 2023. The AE *Choice* model is, in essence, an upgrade from our original pure platform model to a hybrid business model that combines a platform marketplace model with a fully entrusted model underpinned by a highly efficient supply chain. The result is a better balance between experience, product assortment, and price.

As of January 2024, AE *Choice* already made up half of all orders on AliExpress. Its high-quality user experience has driven significant user growth and transaction growth on the AliExpress platform over the past few quarters. Going forward, we will continue to invest firmly to further increase AE *Choice*'s penetration.

Second is product and technology innovation. AIDC serves consumers in different countries and regions around the world. We have optimized our products in certain key countries and regions in line with local consumer preferences, to better adapt to local markets. These efforts have been highly appreciated by consumers. Going forward, we will continue to pursue user product innovation and upgrading.

At the same time, we are also actively deploying AI to enhance operating efficiency and lower barriers for merchants. Our AI products and suite of AI-based digital foreign trade products have already gone live, empowering merchants with smart product launch, management, and real-time language translation capabilities. We are helping a huge number of merchants to overcome language and cultural barriers and to make up for their lack of specialized personnel.

Third is continued growth in key markets. In the last quarter, we achieved good growth in different regional markets. In certain key markets, AliExpress achieved rapid growth to become the leading platform locally. In Türkiye and neighboring markets, Trendyol continued to achieve robust double-digit order growth and also further expanded its business into valuable emerging markets in the Middle East thanks to its rich supply of merchandise and its rapid, reliable logistics experience. In Europe, Alibaba.com completed its acquisition of the well-known European B2B digital trade platform *Visible*, further expanding its supplier base in the region and further advancing Alibaba.com's global expansion.

There is huge potential for AIDC to increase penetration in the majority of overseas markets. Building on our current resources and footprint, we will increase our investment in select regional markets where we see opportunities and value, to seize opportunities for high-certainty and healthy growth.

Going forward, we will continue to maintain our rapid growth momentum and to provide consumers with improved, differentiated services. To that end, we will continue to increase our investments in enhancing user experience and business competitiveness, while continuing to expand our business scale.

Thank you!

Financial Highlights

Toby Xu

CFO, Alibaba Group

(Original)

Thank you, Jiang Fan. We achieved healthy financial performance in the past quarter driven by steady business momentum and improving operating efficiency in several major businesses.

Total consolidated revenue was RMB260.3 billion, an increase of 5%. Consolidated adjusted EBITA increased by 2% to RMB52.8 billion. Our non-GAAP net income was RMB48 billion, a decrease of 4%. Our GAAP net income was RMB10.7 billion, a decrease of RMB35 billion, that was primarily attributable to change in investment values and impairments:

First, there was a mark-to-market change from our equity investments of about RMB19 billion. Second, amortization and impairment of intangible assets was RMB14.6 billion, of which RMB12.1 billion was related to Sun Art impairment. Third, impairment of goodwill was RMB8.5 billion, related to Youku. The above three items were excluded from non-GAAP net income.

As of December 31, 2023, we continued to maintain a strong net cash position of RMB487 billion or US$68.6 billion. Free cash flow this quarter was RMB56.5 billion, a decrease of 31%. The decrease in free cash flow was attributed to increased capex and several one-time factors including timing of income tax payments and working capital changes related to several of our businesses.

Now let’s look at the segment results starting with Taobao and Tmall Group.

Revenue for Taobao and Tmall Group was RMB129.1 billion, an increase of 2%. During this quarter, we made steady progress to execute our Taobao and Tmall strategies. We observed a few positive trends: As Eddie mentioned, our online GMV achieved healthy growth, with order volume growing strongly during the quarter. Notably, the order volume exhibited double-digits year-over-year growth during the second half of the quarter. Importantly, we continued our efforts to onboard a wide range of brands and merchants. The number of operating merchants on our platform continued to grow at double-digits and this trend has sustained over the past four quarters. Additionally, we are also seeing strong growth in paying merchants.

Customer management revenue was RMB92.1 billion, relatively flat year-over-year. The overall take rate decreased slightly year-over-year mainly because the increase in GMV came from Taobao merchants. The mix shift of GMV towards Taobao merchants provides us with further monetization potential because the take rate from Taobao merchants has been improving while Tmall merchants’ take rate was unchanged during the quarter. Importantly, this trend also reflects increasing consumers’ demand of price competitive products offered on our platform.

Direct sales and others revenue increased 2% to RMB31.6 billion.

China commerce wholesale business revenue increased 23% to RMB5.3 billion, primarily due to an increase in revenue from value-added services of 1688.com.

Taobao and Tmall Group adjusted EBITA increased by 1% to RMB59.9 billion. The increase was primarily due to the narrowing losses in certain businesses, partly offset by the increase in investment in content, user acquisition and retention of Taobao app, as well as technological innovation. We are in the process of revitalizing Taobao and Tmall Group and positioning it for future growth. We are beginning to see early signs of GMV growth recovery driven in part by the investments made since earlier this fiscal year. We still have a lot of work ahead. As Eddie mentioned, we will invest for future growth and strengthen Taobao and Tmall Group's market leadership.

Our Cloud Intelligence Group revenue quality continues to improve as we proactively reduce revenue from low-margin project-based contracts. Additionally, we recorded healthy growth of our public cloud revenue from external customers. Revenue from Cloud Intelligence Group was RMB28.1 billion in this quarter, an increase of 3%.

Cloud's adjusted EBITA increased by 86% to RMB2.4 billion. The continuous improvement in our adjusted EBITA reflected improving product mix through our focus on public cloud and operating efficiency. The enhanced profitability of Cloud business gives us confidence to invest in technology and customers to strengthen our public cloud leadership in the future.

Alibaba International Digital Commerce Group revenue was RMB28.5 billion, an increase of 44%. Revenue from International commerce retail business increased by 56% to RMB23.3 billion. The increase in revenue was primarily due to solid revenue growth from AliExpress, especially *Choice* business, and Trendyol. Revenue from our International commerce wholesale business increased by 8% to RMB5.3 billion. The increase was primarily due to an increase in revenue generated by cross-border related value-added services from Alibaba.com.

AIDC's adjusted EBITA was a loss of RMB3.1 billion. Losses increased primarily because of the increase in investment in AliExpress' *Choice*, Trendyol's international business, partly offset by improvement in monetization across all major platforms.

Overall, we have seen a very rapid order and revenue growth of our AIDC cross-border ecommerce businesses over the last few quarters. To sustain this momentum and provide differentiated services to customers, we increased investments during this quarter and will step up investments to drive further growth.

Total revenue from Cainiao grew 24% to RMB28.5 billion, primarily contributed by the increase in revenue from cross-border fulfillment solutions. Cainiao adjusted EBITA was RMB961 million, compared to a loss of RMB12 million in the same quarter last year. The increase reflected economies of scale that leads to cost optimization as well as optimized operating expenditure spending.

In the coming quarters, as a strategic partner of AliExpress, we will increase investments in expanding our cross-border logistics capabilities to support AE *Choice*'s growth.

Local Services Group revenue in December quarter grew 13% to RMB15.2 billion, driven by healthy growth of Ele.me and rapid growth of Amap. Local Services Group adjusted EBITA was a loss of RMB2.1 billion this quarter compared to a loss of RMB2.9 billion same quarter last year, primarily due to the continued narrowing of loss from our "To-Home" business driven by Ele.me's improved unit economics and increasing scale.

Revenue from our DME group was RMB5 billion, an increase of 18%, primarily driven by the strong revenue growth of offline entertainment businesses. Adjusted EBITA was a loss of RMB517 million, compared to a loss of RMB391 million same quarter last year. Losses increased primarily due to the increased losses of Youku.

Revenue from all others segment decreased 7% to RMB47 billion, mainly due to the decrease in revenue from Sun Art. Adjusted EBITA from all others segment was a loss of RMB3.2 billion compared to a loss of RMB1.7 billion in the same quarter last year, primarily due to increase in year-over-year loss from Sun Art due to scale down of certain of its businesses.

Excluding Sun Art, Freshippo and Intime businesses that have physical retail operations, group revenue would have grown at approximately 8% and our group consolidated adjusted EBITA margin would have been four percentage points higher at approximately 24% this quarter.

Lastly, we remain committed to returning cash to shareholders.

We have been consistently buying back shares. In the 12 months ended December 31, 2023, we have repurchased US$9.5 billion in shares and have reduced the share count by 3.3% after accounting for shares issued under our ESOP. Additionally, quarter to date until February 6th, we have repurchased another US$1.4 billion worth of our shares.

Our board of directors has approved the upsize of the share repurchase program by another US$25 billion through March 2027.

Upsizing our Share Repurchase Program demonstrates our strong confidence in our business fundamentals and cash flow generation capability. Following this upsize, we currently have US$35.3 billion available under our share repurchase program.

The upsized program will allow us to achieve a net reduction in share count and achieve EPS and cash flow per share accretion. Subject to market conditions, we target to achieve at least 3% in annual net reduction in total shares outstanding for the next three fiscal years.

Thank you, that's the end of our prepared remarks. We can open up for Q&A.

Q&A

Rob Lin:

(Original)

Hi, everyone. For today's call, you are welcome to ask questions in Chinese or English. A third-party translator will provide consecutive interpretation for the Q&A session. Please note that the translation is for convenience purpose only. In the case of any discrepancy, our management statement in the original language will prevail. If you are unable to hear the Chinese translation, bilingual transcripts of this call will be available on our website within seven working days after the Chinese New Year holiday.

Ronald Keung (Goldman Sachs):

(Original)

Thank you, Joe, Eddie, Fan, Toby, and Rob. I want to ask about the Taobao Tmall take rate this quarter that we just mentioned a slight fall in the blended take rate. And you mentioned about the different factors, the mix shift, but also Taobao take rate increase. So I want to hear what is driving the take rate increase on the specific – particularly on Taobao, how is the adoption of our sales-based, kind of cost per sales-based shift in our ad tech upgrades?

And just on the blend of this, then when should we expect take rates to stabilize, i.e. the GMV and CMR, is that to stabilize in the same rate? And how should we think about the long-term take rate potential given that we are still much lower than global peers, and I would say lower than quite a few of our China peers? So the potential there, immediate and in the near term, when to stabilize, and long-term potential. Thank you.

Toby Xu:

(Original)

Thank you, Ronald. I will take this question. For this quarter, actually, if you look at it, the overall take rate dropped a little bit. As I was explaining in my script, this drop was because of the mix shift. As we can see, consumers' appetite for relatively price-competitive products grow. So that's why we can see the GMV shift towards the Taobao merchants.

We see the early success of the execution of our strategy because, as we announced in the early of the year, the strategy for Taobao and Tmall is user-centric. So we need to build up the supply for all our consumers, particularly for the price-competitive products. So that's why this is a sort of – demonstrates the early success of the execution of our strategy.

So for the slight drop of the overall take rate, we are not too concerned because what we believe is – as I said - for Taobao Merchants, the take rate is growing. Just like what you said, the overall take rate in our platform is still relatively lower compared with the other platforms, which actually shows the big potential we have in terms of increasing some of the take rates via enhancing the operating efficiency on our platform as well as enable the merchants to be increasing the operating efficiency, which will help us to increase our take rates.

Eddie Wu:

(Translation)

Thanks, Toby. I'd like to add to that answer in terms of how we are approaching the relationship between purchase frequency, GMV, and take rate on an overall strategic level. The strategy that we're executing now is focused on increasing purchase frequency, so as to drive GMV growth. Once we have achieved significant GMV growth, we plan to launch enhanced advertising products. These will be highly optimized for Small and Medium Enterprises (SME) merchants. At that point, we will leverage these upgraded advertising products to help SMEs monetize more effectively. Overall, we are not worried about the alignment between take rate and GMV growth, because we have a defined product roadmap.

Alicia Yap (Citigroup):

(Translation)

Good evening, management, and thanks for taking my question. I have a follow-up question on the strategy for the Taobao and Tmall Group (TTG). Could you please confirm if my understanding is correct? In my understanding, you intend to re-emphasize the asset-light platform model, and as a result we can expect to see an increase in EBITA. Is that right?

Secondly, what is the biggest difference between TTG – especially its platform model – and other channels and platforms, in terms of the value it can bring to merchants? Also, in terms of users, short-form video platforms get lots of organic traffic, and they're now quite successful at converting that traffic into shelf-based e-commerce. So how does TTG plan to acquire new users or to attract former buyers to come back to our platform?

Eddie Wu:

(Translation)

I'll take both of those questions --- I think there were two.

The first question had to do with the revenue structure of the Taobao and Tmall Group (TTG). TTG's revenue comprises of two parts: Customer Management Revenue (CMR) and Direct Sales.

The way we look at the business, the bulk of our revenue and profits should be contributed by CMR. The purpose of having direct sales going forward is to retain customers and drive increased purchase frequency, and also to achieve a competitive advantage in certain categories. Our overall focus, therefore, is on revenue and profits from CMR. Direct sales are a means to acquire and retain users.

Your other question was about the unique capabilities that make our Taobao and Tmall platform stand out from the competition. Taobao and Tmall is the strongest platform in terms of the integrated capabilities that it can offer merchants. What do I mean by integrated capabilities? We have live streaming and other marketing tools on Taobao that can help to quickly drive sales volumes. Very important for merchants also are the day-to-day marketing and sales tools that we offer for shelf-based e-commerce. For many users, online search continues to be their top-of-mind channel for making purchases. And another important operating platform for merchants is private domain tools. Again, TTG offers the most powerful private domain tools for brands anywhere in China's ecommerce market.

So we believe that the TTG platform has the most comprehensive and complete set of services and capabilities to support merchants throughout the entire product lifecycle, including day-to-day sales as well as managing their existing customers.

How will we retain users and increase user frequency amidst intense competition? As I said in my prepared remarks, the most critical thing is precisely targeting the consumption needs of all different tiers of users and ensuring that we can offer them good products at good prices, coupled with good services. That is what defines the core experience for consumers in retail e-commerce. We are confident that we can increase purchase frequency and retain more consumers by providing better products at better prices, with better services.

Jiong Shao (Barclays):

(Original)

Thank you very much for taking my question. I have a question about shareholder return. It's great you increase the buyback by US$25 billion, but in terms of the pace of the buyback, we understand there are constraints and limitations, such as capital control. Could you talk about sort of the cash you may already have outside of China? What need to happen for you so you may be able to pick up the pace of the buyback? And related to that, any update on the potential IPOs of Freshippo and Cainiao? Thank you very much.

Toby Xu:

(Original)

Okay. Thank you for your question. I'll take the first one, and Joe will take the second one.

For the share buyback and the preparation of the offshore cash, I think, for us, firstly as you can see, we really have a sort of very strong balance sheet in terms of cash, and a certain percentage of the cash actually is sitting offshore, which we can use to do the buyback.

On the other hand, we also have a good channel that we can dividend the cash out to offshore that we can further leverage, either to make investments in our offshore businesses as well as using those cash to do the buyback.

And secondly, actually we are very under-leveraged. If you look at our balance sheet, the debt is only very small amount of debt and if we need it, we can increase the leverage, also to get sufficient cash for us to do the share buyback. So as I said in my script, we are targeting to reduce – to have a net reduction of share count at least 3% every year in the next three fiscal years.

Joe Tsai:

(Original)

I'll address the question about the IPO of Freshippo and Cainiao.

So last year, when we announced our reorganization, part of the goal was to make sure that we take steps to reflect the intrinsic value of our various business units in the valuation of Alibaba Group. And there are multiple ways we could do it. And we specifically talked about spinning off companies and raising capital in business units like Freshippo and Cainiao so that we could put a valuation mark on these businesses.

But the caveat when we made the announcement was that all these transactions were subject to market conditions. And market conditions currently are just not in a state where we believe we can really, truly reflect the value – the true intrinsic value of these businesses.

So in the last few months, Eddie and his team have taken a very close look at our core business, and we've come to the conclusion that right now, focusing on generating synergies within the companies in our Group would be the best way to reflect the value of the entire Alibaba Group.

We're very excited about the potential for value creation through close collaboration among our businesses. In several areas, we have formed special project teams to ensure synergy creation, and we believe prioritizing synergies to strengthen our core business is the best value-maximizing path today.

Having said that, we continue to explore value creation through separate financing of our business units. But given the challenging market conditions, as I said, we're not in a hurry on the timing of these transactions.

Kenneth Fong (UBS):

(Original)

Good evening management. Thanks for taking my question. I have a question on investment and return. We called it out on one hand, we would continue to invest in TTG and overseas area for growth. But on the other hand, in our last earning call, we also aimed to improve the ROIC for the Group from single digit to double digit over time.

So I want to ask about, let's say on the numerator front, what are the segment that we see room for improvement in term of return and then the pace that we should expect. And on the denominator side, being asset light, what are the progress and strategy for the disposal of non-core assets? Thank you.

Toby Xu:

(Original)

Thank you, Kenneth. I will take the first part of your question. As we said, I think as a listed company, I think it's important to improve the ROIC to the investors. So that's why during the last quarter's earnings call, we committed that we will improve our ROIC from single-digit to double-digit in the next couple of years.

However, the improvement on the ROIC doesn't conflict with the investment we are going to make because making investment exactly is for the growth, and for the future return of this growth eventually will also help to improve the ROIC.

What we would be doing differently from previously is that we will be more focused on the core businesses, as elaborated previously by Eddie. So we will focus on only the e-commerce, which is including the onshore and offshore e-commerce business, as well as cloud computing. So those are the areas, as I was emphasizing in my script, we will be making investments.

Okay. And Joe will cover the exit from some of the non-core asset investments.

Joe Tsai:

(Original)

Yeah, I'll talk about the sale of non-core assets, since this is a major focus of the Capital Management Committee, and I chair the Capital Management Committee.

We're making very good progress on non-core asset sales. During fiscal 2024 to date, so we're nine months into this fiscal year, we have exited US$1.7 billion in non-core investments, all right? And so that's a pretty good pace. And we're very, very active in looking at our listed securities, and we've formed a special team to execute capital markets sale transactions to get out of these listed securities.

Now, in addition, Toby has referred to this, we have a number of traditional physical retail businesses on our balance sheet, and these are not our core focus. It would make sense for us to exit these businesses, but this will take time given the challenging market conditions. But we'll continue to work on it.

Alex Yao (JP Morgan):

(Original)

Thank you, management, for taking my question. I have a couple of questions on the value return to shareholder initiatives. So, first of all, you guys currently have US$35.3 billion available in the buyback program, which average roughly US$12 billion per fiscal year. Compared to the 2023 calendar year buyback pace, this is a sizeable step-up.

Do you guys have the real serious intention to step up the buyback? Or, put another way, how do you determine the $12 billion buyback per year is the right number to think about? And then holistically, if we add the buyback and dividend together and call it a yield to shareholders, do you have a target yield for the next couple of years? Thank you.

Toby Xu:

(Original)

Thank you, Alex, for this question. I think the short version answer is yes, we are serious, of course. If you look at back of our track record, we have been – in the past a few years, we have done a few upsizes of the share buyback program. So if you look at the track record, we actually exceeded the original timetable. That's why we, the Board, approved another upsize this time. So that's why, as I said, we are serious.

So, in terms of how we decide this number, of course we need to take a few factors into consideration, including our cash generating capability and also how much cash we do – we will be able to sort of, like, generate to get it to offshore. So all these we consider and of course, as I said previously, the leveraging capability we have. So together, I think we consider 12 billion dollars is the right number – around the right number for us to do the buyback.

So, in addition to the buyback for this upsize, the 25 billion dollars, that's only for the buyback. As we announced in the last quarter, we start to pay an annual dividend. So, if you like, for the fiscal year 2023, including the buyback of 9.8 billion dollars and the 2.5 billion dollars dividend, actually we're giving back more than 12 billion US dollars back to the shareholders. And going forward, we are expecting – continue with our cash generating capability, continue to deliver – to give back the shareholders the cash as we committed.

Joe Tsai:

(Original)

Yeah, I’d just like to supplement what Toby said. I'll do a little bit of math on this question. Toby has said in his prepared remarks that we are targeting a three percentage points per year of accretion per year over the next three years through our buyback program. And that commitment is pretty real because if you look at the past 12 months, we actually reduced our share count by 3.3%. So that accretion is, we believe, is achievable.

And if you look at our share count, we're about 2.5 billion shares outstanding, and 3% is 75 million shares. If we are deploying 12 billion dollars a year to buy back our stock, at the current stock price, we actually would be able to buy back even more. But of course, we're anticipating that our stock will increase in price over the next three years, so that we could still keep our target of 3% accretion per year. So, using the US$12 billion a year of buyback with rising stock price, I think it is still reasonable to get to 3% accretion a year. So that's the math number one.

Math number two is 3% accretion a year plus a dividend of 1 dollar per ADS. The dividend yield is about 1.4%. So, combined with the buyback accretion and dividend yield, you're looking at about 4.4%, 4.5%, which is actually quite close to the ten-year treasury yield. So if you buy Alibaba stock, it's like you bought a ten-year treasury bond with the upside of stock price appreciation. So that's the math we're looking at.

Gary Yu (Morgan Stanley):

(Original)

So my question regarding international business, and first one is any particular focus in terms of markets for the next couple of quarters? And specifically, what is our strategy in the U.S. market given the geopolitical risk ahead of elections?

And the second question also on international is we talk about stepping up the investment. How should we look at the segment loss in the coming quarters? And how are we going to fund the investment between individual financing at the AIDC level versus tapping into the group -- offshore financing at the group level.

Jiang Fan:

(Translation)

Let me take the first question. We can break this out and look at the business in terms of cross-border versus local. In terms of the local business, over the past several quarters, we’ve achieved very rapid improvement in efficiency, with losses narrowing rapidly in certain local businesses, and we expect that to continue over the next few quarters. As for the cross-border business, it has a lower barrier to entry, and it's a generic business model that you can take to many different countries.

So in determining which markets to invest in, we mainly look at return on investment (ROI) in different markets. Of course, ROI will change along with retention rates, which are driven by user experience. So what we do is periodically review and assess our investments in different markets based on investment efficiency.

In the US, we already have significant business operations there, in both to C and to B. On Alibaba.com, in fact, a large proportion of customers are from the US. So we have long attached great importance to the US market. We will evaluate whether to increase our investment in the US on the basis I described, looking at the value and the services that we can bring, and the innovation that we can bring. Of course, geopolitical risk, which you mentioned, is also a factor we will consider.

Toby Xu:

(original)

I will take on the second question. Basically, you're asking how we are going to arrange the financing for AIDC to get sufficient funding for its investments. So generally, as actually Joe was explaining previously, AIDC is going to do financing. However, we are not rushed to do financing. So really depending on the market conditions, we will find the right moment to do financing. So before that moment is coming, actually what we will be doing is, as I said, we have sufficient offshore cash. We can use those cash to finance the business – finance the growth of our businesses offshore.

Thomas Chong (Jefferies):

(Original)

Good evening. Thanks, management, for taking my questions. I have a question on the cloud side. Given Eddie is now leading TTG and Cloud, what should we expect in terms of the synergies in coming quarters? And should we expect AI to be a driver to CMR? And on that front, given we have a very good margin profile in the December quarter, any colour about the long-term margin assumption that we should expect? Thank you.

Eddie Wu:

(Translation)

Thank you. That's a really good question. Yes, we see huge potential for synergy between Alibaba Cloud and the Taobao and Tmall Group (TTG), especially around AI. Alibaba Cloud has been developing a large language model called *Tongyi Qianwen*. We've been studying and testing ways to leverage this model to enhance search and advertising. We see very strong potential to enhance search conversion as well as ad monetization.

That said, we are still in the early stages of product development and testing. We are confident that our intensive research and investment in AI will generate huge benefits for TTG's search and advertising products, but for now this is still in the early R&D phase.

Ellie Jiang (Macquarie):

(Original)

Thank you so much, management, for taking my question. I just have a follow-up question on the AIDC international unit. The management earlier shared some exciting developments in the overseas market, but it seems like this quarter, the international unit basically saw a very big widened loss to around RMB 3 billion.

So just wondering, how do we anticipate the investment pace onwards, considering certain of the key kind of growing markets such as AliExpress *Choice*, the hybrid model, as well as the Trendyol seems to be still in the very early development stage? So going forward, how do we really evaluate the economics as well as the competitive landscape? Thank you.

Jiang Fan:

(Translation)

Our losses this quarter were a result of three different things.

First, the AliExpress *Choice* model has grown significantly in terms of its share within the cross-border business. At the same time, it is still in the early development stage and is a model that has very strong scale effects. So our initial priority is to invest in scaling up the business. After that, we will pursue improved unit economics (UE) in the longer term.

The second factor was increased marketing spending, which was higher than previous quarters due to major seasonal campaigns.

And third, we made early-stage investments in some emerging markets, including in some of Trendyol's markets in the Middle East.

Going forward, I think that we'll continue to be in a phase where we are making large investments in this business. *Choice* is clearly delivering a better user experience and resulting in much better user retention than the previous model. So over a longer horizon, we're confident that our investment will generate good returns. But the number one priority for now is scaling up.

Jialong Shi (Nomura):

(Translation)

Thanks, management, for taking my questions. I just have a couple of quick questions. First, could you please comment on recent media reports saying that the Alibaba Group may be considering selling Ele.me?

My second question has to do with AIDC. How big is Indonesia as a proportion of AIDC's business in Southeast Asia, Lazada? And related to that, what has been the impact on Lazada of the collaboration between TikTok and Tokopedia, as well as of the Indonesian government's restrictions on cross-border e-commerce?

Toby Xu:

(Translation)

Let me take first question. I don't think there's any need to make any further comment here because we've previously addressed that rumor and have stated that it's false. As far as Alibaba is concerned, Ele.me is a very important asset for us in the hyperlocal segment.

So that is a rumor that we have already emphatically rebutted, and I don't see any reason to re-hash it again here.

Jiang Fan:

(Translation)

In terms of Lazada, Southeast Asia continues to be a very important market for us, and there remains significant potential for us to deepen our penetration in Southeast Asia. Going forward, we will maintain a balance between efficiency and growth. We are rapidly narrowing the losses in the business while maintaining growth. So we will continue to make disciplined investments in growing our scale in Southeast Asia.

As regards the cross-border restrictions in Indonesia, the impact on us has been limited because we have always complied with regulatory requirements.

Robert Lin:

(Original)

Everyone, thank you for joining today's earnings call. That concludes our earnings today. Please reach out to us if you have any questions, and we'll see you next quarter. Thank you.

[END OF TRANSCRIPT]