Alibaba Group

September Quarter 2024 Results

Conference Call

Transcript

Friday, 15 November 2024

Introduction

Lydia Liu

Head of Investor Relations, Alibaba Group

(Original)

Good day everyone, and welcome to Alibaba Group's September Quarter 2024 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, Co-Chairman and CEO of Alibaba International Digital Commerce Group, to join the call. This call is also being webcast from the IR section of our corporate website. A replay of this call will be available on our website later today.

Now let me quickly cover the Safe Harbor. As usual, we would like to remind everyone that today's discussions may contain forward-looking statements that are subject to risks and uncertainties, which could cause actual results to differ materially from those contained in the forward-looking statements. Please refer to the safe harbor statements that appear in our press release and investor presentation provided today.

Please note that certain financial measures that we use on this call are expressed on a non-GAAP basis. Our GAAP results and reconciliations 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 turn the call over to Eddie.

Group Business Update

Eddie Wu

CEO, Alibaba Group

(Translation)

Greetings, and welcome to our quarterly earnings call.

This quarter, our core business segments maintained steady growth, guided by our "user-first, AI-driven" strategy. Increased purchase frequency continued to drive GMV growth on our platform, with interoperability initiatives adding new growth impetus. Recently, Monthly Active Consumers on Taobao and Tmall reached a new all-time high. Alibaba International Digital Commerce revenue growth remained strong. Cloud revenue excluding Alibaba-consolidated subsidiaries grew steadily, with AI products contributing an increasing share. Across segments, we progressively enhanced operational efficiency and monetization capabilities, and further improved the performance of loss-making businesses.

For Taobao and Tmall Group, we remain committed to our "user-first" strategy. This quarter, increased purchase frequency continued to drive GMV growth, along with continued improvement in overall user experience. Our loyal customer base, represented by 88VIP members, continued to grow, reaching 46 million by quarter-end.

In terms of monetization progress, we implemented a 0.6% software service fee this quarter, bringing us in line with standard industry practice, while providing certain rebates to SME merchants. Merchant adoption of Alimama's Quanzhantui marketing tool continued to rise, contributing to marketing revenue growth.

We concluded a successful 11.11 Global Shopping Festival, with Taobao and Tmall achieving robust GMV growth, and Monthly Active Consumers reaching an all-time high, marking a return to growth. We believe that the growth in transacting users will continue, and user growth and retention will drive further consumption growth in the future.

We are optimistic about the government's macro stimulus policies and are confident in their positive long-term impact on the economy. While e-commerce competition remains intense, we will continue to invest in core user groups and product categories, increase our investment in new users, and improve user retention. These initiatives will drive the sustainable growth of our platform.

In our cloud segment, we continued to optimize revenue mix while advancing our integrated "Cloud + AI" development strategy. Alibaba Cloud's revenue (excluding Alibaba-consolidated subsidiaries) grew 7% this quarter, a steady improvement from the June quarter. This revenue growth was driven by double-digit public cloud growth. In particular, revenue from AI-related products maintained triple-digit growth for the fifth consecutive quarter, increasing its share of public cloud revenue.

During this quarter, Alibaba Cloud held the 16th Apsara Conference, where we launched a suite of competitive technologies and products. We believe the AI era is just beginning, and we are still in the early stage of AGI transformation. Looking ahead, AI's potential extends beyond mobile screens—it is poised to reshape the digital world and ultimately transform all industries in the physical world. As China’s market-leading cloud service provider for AI, we will continue to invest in advanced technology and AI infrastructure while optimizing operational efficiency. This will enable us to provide customers across industries with more reliable and cost-effective AI technologies and products. We believe that as AI adoption grows, Alibaba Cloud’s cloud computing and AI-related products will become the foundational infrastructure supporting development across industries.

In international e-commerce, AIDC achieved 29% revenue growth this quarter, maintaining strong growth momentum. Jiang Fan will share more details shortly.

This quarter, Cainiao further strengthened synergies with other businesses in our group and significantly advanced its highly digitalized global logistics network. We will continue to invest in core capabilities and promote front- and back-end synergies. We also narrowed losses in both Local Services and Digital Media and Entertainment this quarter, demonstrating steady and progressive improvement in operational efficiency.

Despite intensifying e-commerce competition in recent months, Taobao and Tmall achieved breakthroughs in core user retention and new user growth. Our cloud business maintained rapid growth in AI-related products. Other businesses continued to improve their profitability as planned while achieving business growth. We will continue investing in core businesses and improving operational quality across all businesses, and we are fully confident in the future.

I will now hand over to Jiang Fan.

AIDC Business Update

Jiang Fan

Co-Chairman & CEO, AIDC Group

(Translation)

Hello, everyone.

Over the past quarter, AIDC's overall revenue grew 29% year-over-year, primarily driven by our cross-border businesses. Let me address our three areas of consistent focus:

First, AE *Choice* orders maintained strong year-over-year growth, further solidifying the certainty and consistency of user experience. Average delivery time continued to shorten quarter-over-quarter. During this quarter, we focused on optimizing the operational efficiency of our marketplace and consignment models, enhancing user experience and product selection while also achieving steady improvement in AE *Choice*'s unit economics (UE). Additionally, we launched "AliExpressDirect", which aims to leverage merchants' local inventories in overseas markets to further broaden product selection and enhance the fulfillment experience.

Second, we continued to deepen our exploration of AI applications across our businesses and launched several new AI tools. In November, we released our AI-powered B2B search engine. With this, we aim to innovate the B2B experience by leveraging AI technology, enabling SMEs to better participate in global trade.

Third, we continue to deepen our presence in key markets. For example, Trendyol maintained strong momentum in multiple adjacent markets and across the Gulf Region. With continuous improvements in product selection and user experience, we will capitalize on the traditional peak shopping season in November and December by increase investments to rapidly and effectively expand our user base in key markets, while balancing and enhancing user acquisition and operational efficiency.

AIDC will continue to focus on enhancing operational efficiency while strategically investing in key markets to achieve profitability at scale.

Thank you.

Financial Highlights

Toby Xu

CFO, Alibaba Group

(Original)

Thank you, Jiang Fan.

The financial performance of the past quarter further confirms that our execution of the growth strategy in our core businesses remains on track.

On Taobao and Tmall business, we've made steady progress in our monetization strategy this quarter, with accelerated CMR growth contributing to a solid trend in our domestic e-commerce business. We implemented the software service fee based on a percentage of completed GMV starting from September 1. Quanzhantui, our AI-powered, platform-wide marketing tool saw an increase in merchant adoption from the prior quarter. Merchants benefit through improved marketing efficiency, which we expect will lead to increased spending on our platform.

We adopted a more open approach for payment and logistics services on our platforms to make shopping on our platforms more convenient to a larger base of consumers and improve merchants' operating efficiency. We expect this will translate into user growth and more transactions in the future.

For our Cloud business, momentum remains strong as revenue growth accelerated from the prior quarter to 7%. This growth is driven by the increasing demand for AI which triggers more demand for our public cloud products. Revenue from our public cloud products grew at double-digits, while AI-related product revenue achieved triple-digits year-over-year growth for the fifth consecutive quarter.

This quarter, AIDC maintained its rapid growth, with strong momentum from cross-border business expansion, especially through our *Choice* business. Both AliExpress and Trendyol continued investing to grow users in Europe and the Gulf region.

Beyond e-commerce and Cloud, we are improving the operating efficiency of our other businesses with the goal of sustainable business growth and returning to profitability. Some of the businesses are achieving profitability even sooner, while the majority will achieve breakeven within one to two years and gradually begin to contribute profitability at scale.

For the September quarter, we repurchased shares for a total of US$4.1 billion. Combined with the US$5.8 billion repurchased during the June quarter, we spent a total of approximately US$10 billion and achieved a 4.4% net reduction in share count for the first half of the fiscal year, even after factoring in ESOP issuances. We've been able to achieve this significant level of accretion just six months into fiscal 2025, compared to a 5.1% net reduction in share count for the entire fiscal year 2024.

As of September 30, 2024, we still have US$22 billion in authorization for further share repurchase program. Going forward, the pace of our share buybacks will be a function of share price as our strategy is to optimize share count reduction against the cash cost of an aggressive share repurchase program.

Beyond our share repurchase program, we also proactively manage dilution from our ESOP program by replacing a portion of the ESOP with long-term cash incentives starting this fiscal year. This shift allows us to limit share dilution in the future as well as better utilizing our cash generated from domestic businesses.

In August, we completed our primary listing in Hong Kong, followed by inclusion in the Southbound Stock Connect in September. By September 30, 2024, net inflows into our Hong Kong-listed shares reached HK$46 billion, representing approximately 515 million Hong Kong shares, which is equivalent to 64 million ADSs, in just 12 trading days[1]. This accounts for approximately 3% of our outstanding shares. We are pleased that the Southbound Stock Connect has enabled broader access and engagement for investors from Mainland China.

On a consolidated basis:

Total consolidated revenue was RMB236.5 billion, an increase of 5%.

Consolidated adjusted EBITA decreased 5% to RMB40.6 billion, primarily attributable to the increase in investments in our e-commerce businesses. Excluding the effect of long-term cash incentive plan, our adjusted EBITA growth would have been a decrease of 4% on a like-for-like basis compared to same quarter last year.

Our non-GAAP net income was RMB36.5 billion, a decrease of 9%. Our GAAP net income was RMB43.5 billion, an increase of 63%, primarily attributable to the mark-to-market changes from our equity investments, decrease in investment impairment, and increase in income from operations.

As of September 30, 2024, we continued to maintain a strong net cash position of RMB352.1 billion or US$50.2 billion.

Free cash flow this quarter was RMB13.7 billion, a decrease of 70% compared to RMB45.2 billion in the same quarter last year. This was mainly attributed to our investments in Alibaba Cloud infrastructure. In addition, there was a refund to Tmall merchants after we cancelled the annual service fee, and some other working capital changes related to factors including scale down of certain direct sales businesses.

Given the sustained and strong demand for AI, we will continue to invest in AI infrastructure as we anticipate future demand for AI-driven cloud services.

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

[1] Pursuant to the Hong Kong Stock Exchange Shanghai Connect and Shenzhen Connect Southbound Shareholding record as of October 3, 2024.

Revenue for Taobao and Tmall was RMB99 billion, an increase of 1%.

Revenue from our China commerce retail business was RMB93 billion, compared to RMB92.6 billion in the same quarter last year. Customer management revenue increased by 2%, primarily due to online GMV growth, while take rate remained stable year-over-year.

We've made steady progress in our monetization strategy this quarter, with accelerated CMR growth driven by the implementation of the software service fee on completed GMV, and a wider adoption of Quanzhantui.

Direct sales and others revenue decreased by 5% to RMB22.6 billion, primarily attributable to the decrease in sales of appliances.

China commerce wholesale business revenue increased 18% to RMB6 billion, primarily due to the increase in revenue from value-added services provided to paying members.

Taobao and Tmall Group adjusted EBITA decreased by 5% to RMB44.6 billion, primarily due to the increase in investment in user experience, partly offset by the increase in revenue from customer management service.

Revenue from Cloud Intelligence Group was RMB29.6 billion in this quarter, an increase of 7%. Overall revenue excluding Alibaba-consolidated subsidiaries increased by 7%, mainly driven by double-digit public cloud revenue growth including AI-related products. AI-related product revenue grew at triple-digits year-over-year for the fifth consecutive quarter.

Cloud's adjusted EBITA increased by 89% to RMB2.7 billion, while our adjusted EBITA margin increased 4 percentage points to 9% year-over-year, primarily due to shift in product mix toward higher-margin public cloud products including AI-related products and improving operating efficiency, partly offset by the increasing investments in customer growth and technology.

We will continue to invest in anticipation of customer growth and in technology, particularly in AI-related cloud infrastructure, to capture the increasing trend of cloud adoption for AI and maintain our market leadership.

Revenue from AIDC grew 29% this quarter. The strong performance continued to be driven by growth of cross-border businesses, in particular AliExpress' *Choice* business.

Revenue from International commerce retail business increased by 35% to RMB25.6 billion, primarily driven by the increase in revenue contributed by AliExpress' *Choice* and Trendyol.

Revenue from our International commerce wholesale business increased by 9% to RMB6.1 billion, primarily due to the increase in revenue generated by cross-border-related value-added services.

AIDC's adjusted EBITA was a loss of RMB2.9 billion, compared to a loss of RMB384 million in the same quarter last year, primarily due to the increase in investments in AliExpress and

Trendyol's cross-border businesses, partly offset by Lazada's significant reduction in operating loss from improvements in its monetization and operating efficiency.

As Jiang Fan mentioned, going forward, AIDC will continue to invest in key growth markets we have identified for strategic expansion, while enhancing operational efficiency in markets where we see line of sight to profitability.

Revenue from Cainiao grew 8% to RMB24.6 billion, primarily driven by the increase in revenue from cross-border fulfillment solutions.

We will continue to invest in Cainiao's core capabilities to ensure it delivers unique value to our e-commerce businesses. To this end, Cainiao will prioritize investing in building its core capabilities to ensure the synergies with our e-commerce businesses.

Cainiao adjusted EBITA decreased by 94% to RMB55 million, compared to RMB906 million in the same quarter last year, primarily due to the increased investments in cross-border fulfillment solutions.

Revenue from Local Services Group grew by 14%, driven by the order growth of both Amap and Ele.me, as well as revenue growth from marketing services, while losses narrowed significantly, primarily driven by improving operating efficiency and increasing scale.

Revenue of Digital Media and Entertainment Group was RMB5.7 billion while losses narrowed. Youku progressively reduced its operating loss due to increased advertising revenue as well as improved content investment efficiency.

Revenue from All others segment increased by 9%, mainly due to the increase in revenue from retail businesses including Freshippo and Alibaba Health, while adjusted EBITA was a loss of RMB1.6 billion.

In closing, we are making solid progress in strengthening the competitiveness of our core businesses of domestic e-commerce and cloud computing, both of which have proven to show sustainable profitability. We have the confidence to invest in our AIDC business because we see high growth potential. And we continue to find ways to make our loss-making segments more efficient, putting them on a clear path to profitability.

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

Q&A

Lydia Liu:

(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 purposes 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 one week after the meeting.

Alicia Yap (Citigroup):

(Original):

Thank you. Good evening, management. Thanks for taking my questions.

My question is related to this year's Singles Day’s promotions and the macro outlook. So I think most people would agree Singles Day’s performance this year is okay and somewhat better than expected. It seems like this year most of the discount vouchers offered to consumers come from platforms, rather than shared between the platforms and merchants. So just wondering if management can provide some feedback from merchants and brands regarding their satisfaction on the Single’s Day’s promotion?

And also, how should we think about the financial impact near term as related to the higher coupon discount, together with higher return rate this year, offsetting potential longer term positive impact, if any, from a more vibrant and sustainable operational environment for merchants that might translate to higher ad budget spend on the ad tools that will benefit longer term CMR trends?

And then if there's any preliminary view from management that can share how you think about the macro-outlook and overall improvement of the consumption trend as we head into 2025? Thank you.

Eddie Wu:

(Translation)

Thank you. I will address that question.

This year, our Double 11 strategy for Taobao and Tmall was to start early, launching the campaign back in October. This resulted in a longer promotional period. Of course, other platforms also had extended promotional periods for Double 11. Throughout this extended period, we achieved robust GMV growth.

Prior to Double 11, we discussed performance expectations with our major merchants. Following the conclusion of the event, we followed up with them, and they generally reported that results had exceeded their expectations. So, overall, this year's Double 11 performance did surpass our expectations.

Regarding the consumer vouchers and coupons you mentioned, the strategies across various platforms are quite similar. There are essentially two types of vouchers: platform-wide vouchers and category-specific vouchers. On Taobao and Tmall, the platform-wide vouchers are primarily issued to our 88VIP members. The category-specific vouchers are generally co-funded by the platform and the participating merchants. So that’s how the vouchers are funded.

I'd like to add that our platform's investment in coupons targeted at our members, particularly during major promotional seasons, will drive significant long-term growth for merchants on our platform and create positive expectations. We believe this investment will fuel merchants’ business growth, which, in turn, will encourage increased advertising spend on our platform, ultimately contributing to long-term CMR growth.

To address your third question regarding the macroeconomic environment, we have seen a series of monetary and fiscal stimulus policies introduced by the government since late September. We have also seen targeted trade-in subsidies for consumer goods, as well as subsidies for home appliances and automobiles, implemented across various regions. These policies have driven solid growth in overall retail sales within the relevant categories.

We believe these trade-in subsidies are just one of the government's consumer stimulus measures, and this is only the beginning. We anticipate a continued rollout of various policies aimed at boosting consumption. As these policies are implemented, we believe they will help shorten companies' destocking cycles and drive medium- to long-term growth in branded goods consumption. This is because these subsidies primarily benefit major brands and branded factories; as their inventory backlog clears, that will drive their overall research and development of new products. In the long run, platforms like Tmall, which primarily feature brand flagship stores, will benefit from sustained improvement in branded goods consumption.

Ronald Keung (Goldman Sachs):

(Translation)

Thank you, Joe, Eddie, Toby, Jiang Fan, and Lydia. My question is about our take rate. Now that we've rolled out the Quanzhantui option and software service fee, and given that you mentioned in your September CMR description that take rate has stabilized, could you elaborate on the progress of this? Does this mean the gap between GMV and CMR growth has closed? What's our outlook for the take rate?

Toby Xu:

(Translation)

Thank you for your question. I will take this one.

As you can see this quarter, our overall take rate has begun to stabilize. I think this is the result of several combined factors.

These include improvements in monetization rates, including from the 0.6% software service fee we began collecting this quarter (though only for one month), as well as the further penetration of Quanzhantui. These two factors positively impact the take rate.

At the same time, as you know, when we introduce new growth models, those models or products—which currently have relatively low monetization rates—need time to improve their monetization. So this creates an offsetting effect, which has resulted in a relatively stable overall monetization rate for this quarter.

Looking ahead, first, we will continue collecting the 0.6% software service fee, and we will also continue driving Quanzhantui penetration. Naturally, the growth of products with currently lower monetization rates will also continue. So, this offsetting effect will persist.

Regarding the future take rate, we believe there's still certain headroom for increase, based on average market levels. However, we'll also closely monitor the overall health of our merchants' operations on our platform. So, we'll carefully consider both these aspects to balance our approach to further increasing the take rate.

Thomas Chong (Jefferies):

(Original)

Hi. Good evening. Thanks, management, for taking my questions.

My question is also on Taobao and Tmall Group side. Can management comments about our investment strategies in coming quarters and how should we think about the trend for Taobao and Tmall Group’s EBITA? Given that on the one hand, we are having the software service fee and Quanzhantui, but we also have investments in the user experience. So I just want to see how these two factors lead to Taobao and Tmall Group’s EBITA outlook.

And my second question is also on the Taobao and Tmall Group side. That is more about the synergies with WeChat payment. Can management share about the potential with WeChat payment in growing our user base as well as the incremental GMV that we envision in the coming years? Thank you.

Eddie Wu:

(Translation)

Thank you. I'll take this question.

For the Taobao and Tmall platform, our current strategy is to enhance profitability while simultaneously increasing investment in overall user experience and various aspects on the merchant side. These investments will take multiple forms.

First, we'll broaden our advantages in product supply, including in price competitiveness and new products, or brands with competitive advantages.

At the same time, we'll provide users with a better service experience, whether in after-sales service, logistics, the entire after-sales process, or the front-end user interface. We'll make stronger investments in all these areas.

We'll also continue investing in our technology platform, especially in AI compute power for e-commerce. We have many AI-related products in development, and these will require substantial AI computing power.

These are some of our long-term investments to enhance user experience and merchant supply on our platform.

Regarding your second question, we have high expectations for new user growth after the integration of WeChat Pay. We will be making medium- to long-term investments in user growth and retention for these new users. This also represents a significant investment direction for us going forward.

So, overall, Taobao and Tmall remains in an investment phase. Of course, during this phase we'll continuously monitor our investment efficiency and leverage CMR growth to enable larger and better investments.

So, regarding your question about EBITA, we can expect some fluctuations in the coming quarters, but overall, we do remain in an investment phase.

On Taobao and Tmall and WeChat Pay, we believe there's considerable potential for incremental user growth following this collaboration. We expect a significant increase in our monthly transacting users. However, this requires coordinated medium- to long-term investment and user growth strategies. Through sustained investment, we aim to retain these users on our platform. Our goal is that once these users are retained, we should be able to see a proportion of the incremental GMV TAM that is no less than our current market share. That's basically how we envision it.

Alex Yao (JP Morgan):

(Translation):

Thank you, management, for taking my questions.

Eddie, you just spent quite a bit of time discussing opportunities and strategies on the consumer side. I'd like to shift perspectives and ask about your thoughts on the supply chain side.

I have two questions. First, the growth rate of livestreaming e-commerce has slowed significantly this year. In this context, have you observed brands becoming more proactive in engaging with our platform? Or, conversely, in this environment, will we be more proactive in seeking online marketing resources, operational resources, and other such resources from these brands?

Second, regarding categories where peers have competitive advantages, such as white-label goods and agricultural products, what are our current thoughts and strategies? Thank you.

Eddie Wu:

(Translation)

Let me address the first question. When discussing livestreaming e-commerce, I think it's essential to differentiate between platforms. Each platform's livestreaming strategy is closely tied to its overall strategy and e-commerce penetration rate. While the industry-wide growth of livestreaming e-commerce has slowed significantly, Taobao and Tmall's livestreaming e-commerce growth has actually increased substantially this year, especially during Double 11. This reflects how different platforms are at different stages with varying e-commerce penetration rates.

This year, we've observed a major trend: the successful integration of livestreaming with high-quality supply—what we can call "quality livestreaming". On Taobao and Tmall, our strength in brand flagship stores has created powerful synergy with livestreaming, delivering excellent results during Double 11.

Regarding branded merchant investment: naturally, all brands invest for growth. We believe this year marks a turning point, as e-commerce growth rates across platforms are converging. In this environment, I believe that brands will increasingly prioritize platforms that can deliver larger total sales rather than just growth in exposure. Under these circumstances, we expect that Taobao and Tmall's advantage in securing brand budgets will continue to expand.

Regarding your second question about white-label goods and agricultural products, this is a topic we frequently discuss internally, sometimes with conflicting viewpoints. However, our strategy is extremely clear: each platform has its distinct characteristics, category strengths, and core user base. Our approach is to focus on our core users and their consumption preferences within specific categories.

For our core users, primarily our 88VIP members, their preference across most categories leans toward branded goods. However, within certain categories, these users also have demand for white-label products, so we will provide white-label goods within some of those specific categories.

Additionally, with the expansion of our payment channels, we're acquiring a significant number of new users whose consumption preferences across different categories differ quite substantially from our existing users. For these new users, we may offer white-label goods across a wider range of categories to meet their needs.

In summary, we tailor our category offerings based on users' needs and their varying preferences across different categories. We believe a personalized platform approach is essential to provide a better consumer experience and offer merchants more effective business choices.

Kenneth Fong (UBS):

(Translation)

Good evening, and thank you, management, for taking my question. My question concerns cloud.

We see that cloud revenue growth has been accelerating, and you previously indicated expectations for double-digit growth in the second half of the year, with profitability continuing to improve. How should we think about the outlook for profitability going forward, especially given the recent price reductions in cloud products, including the significant decreases in API token pricing? Thank you.

Eddie Wu:

(Translation)

Thank you for the question. In cloud, both technology and scale effects play important roles. Through over a decade of investment, we've achieved strong scale effects from our cloud CapEx investments, which is why we're seeing both business growth and improving profitability.

Regarding the outlook for cloud profitability, we must factor in the AI variable. For both AI software and compute power, we're taking a longer-term view. So you'll continue to see price reductions for our Tongyi model's API tokens, as well as for our platform's inference and compute services. We believe both the AI business and industry demand for AI are still in very early stages. In this space, we prioritize user expansion when pricing these products.

The API token price reductions you mentioned are bringing many new users to our model. When they use our model, they naturally deploy their applications on our platform, which leads to increased usage of other cloud products like compute, storage, and database services. You can view our Tongyi model's API token price reductions as a user growth, or a user acquisition strategy. But because we offer a full-stack product suite, these customers naturally utilize multiple cloud products once they're on our platform.

Jialong Shi (Nomura):

(Translation)

Good evening, management, and thank you for taking my questions. I have a couple of questions.

First, regarding merchant take rates. I heard management mention earlier in the call that there's still room to increase take rates, but the company will also pay close attention to merchants' operational burden and costs on the platform. Over the past few months, we've seen some peers proactively lower merchant fees and introduce other measures to reduce merchant burdens. My first question is: do these peer actions make their platforms more attractive to merchants? If so, is there a risk of losing some of our Alibaba merchants?

My second question concerns the trade-in subsidy program that began in September. I'd like to understand the contribution or proportion of consumer electronics and home appliances to Alibaba's overall e-commerce ecosystem and GMV. I also heard Eddie mention that you believe the trade-in subsidies started in September are just the beginning of government consumption stimulus, with similar subsidies likely in the future. In your view, what will be the scale of future subsidies, and which consumer categories will they primarily target or support?

Toby Xu:

(Translation)

Thank you for the questions. This is Toby. I'll take the first question, and Eddie will address the second.

First, regarding Taobao and Tmall, we've always prioritized the rights and interests of our merchants. From the perspective of healthy platform development and operations, we believe our monetization rate and merchant-friendly approach certainly rank among the very best across all the major platforms. That's why I mentioned earlier that we see room to increase our monetization rate. However, we will carefully balance platform health, merchant operational health, and monetization rates. That’s my first point.

Second, we've already implemented many measures to reduce burdens and provide concessions to merchants. For example, while we collect software service fee, we also offer certain exemptions for small and medium-sized merchants. We've also eliminated annual fees for Tmall merchants. In addition, we recently launched “Tuihuobao”, which significantly reduces merchant costs. We're also optimizing various aspects, such as refund-only policies, to protect the legitimate rights and interests of our merchants.

At the same time, as we've done in the past, going forward we will consistently invest in user growth and experience, including in areas like membership benefits and product supply. These investments will strengthen users' purchasing intent on our platform, ultimately driving higher transaction volumes for merchants and helping them achieve greater business success on our platform. I believe these investments will significantly benefit our merchants.

Eddie Wu:

(Translation)

Regarding your second question about trade-in subsidies, as mentioned earlier, these have made substantial contributions to category growth over the past few months. We've observed a noticeable acceleration in growth rates since September in the related categories.

As for trade-in subsidies in other categories, while subsidy policies vary by region, we're seeing a trend where beyond major appliances, many regions are expanding their subsidy programs to categories like small appliances, home improvement, furniture, and even consumer electronics.

Gary Yu (Morgan Stanley):

(Translation)

Thank you, management, for taking my questions. I have two questions.

My first question is a follow-up on Taobao and Tmall. Since the 0.6% software service fee was implemented in September, next quarter we will see its first full-quarter contribution. Given that our monetization rate remained stable last quarter, does this mean that CMR growth could potentially outpace GMV growth starting next quarter? In other words, could the take rate move beyond stability to actual growth? That's my first question.

My second question concerns capital expenditure. I've noticed our CapEx increased significantly this quarter, with a large portion likely going toward Alibaba Cloud and AI investments. Could management share their perspective on the returns from these investments? Whether in terms of applications or cloud computing capacity, I'm interested in understanding how you assess the ROI of this capital spending. Thank you.

Toby Xu:

(Translation)

Thanks. This is Toby. I'll take the first question, and Eddie will address the second.

As I touched upon earlier, the key positive factors influencing our monetization rate are the 0.6% software service fee and increased penetration of the Quanzhantui marketing tool. However, as I also mentioned, some of the newer business models we're investing in are experiencing rapid growth but currently have relatively low monetization rates. So the rapid growth of these categories can dilute our overall monetization rate, creating an offsetting effect.

Naturally, we look at Taobao and Tmall's overall take rate. At the same time, we aim to balance our take rate with the need to provide a supportive and healthy operating environment for merchants. From this perspective, we pay attention to the overall take rate while also considering the trade-offs involved.

However, from a medium- to long-term perspective, we remain confident. Our monetization rate is still relatively low compared to market levels, so we have room for growth.

Eddie Wu:

(Translation)

Let me elaborate regarding our CapEx investments. A significant portion of our capital expenditure is indeed directed towards cloud infrastructure, particularly AI infrastructure. These investments are based on both our understanding of current demand and our assessment of long-term demand.

We're seeing continued explosive growth in short-term demand for AI, both in terms of compute power and API services for accessing AI models. This demand is currently not being fully met. That’s why we're investing aggressively in AI.

Moreover, we believe this wave of generative AI development represents a rare and historic opportunity for the technology industry—the kind of opportunity that only comes along every 20 years. Looking ahead, we see strong and certain future demand for inference services, driven by the capabilities of current models and their expanding applications across various industries. We've also observed that technologies like OpenAI's new o1 model, with its Chain-of-Thought (COT) reasoning capabilities, represent a huge, potentially orders-of-magnitude increase in future demand for compute power needed for inference.

Based on this technological outlook, we're proactively investing in AI compute infrastructure.

Overall, we are highly optimistic about both short-term and long-term demand. This optimism underpins our proactive investments in AI CapEx.

Jiong Shao (Barclays):

(Original)

Thank you very much for taking my question. My question is around shareholder return.

I mean, it is great you guys bought back USD10 billion in the last six months. Firstly, I was just wondering, do you differentiate between ADR and your Hong Kong ticker, 9988, when you buy back shares?

And my question is around the People’s Bank of China recently launched some swap programs to lend companies to buy back their shares. But now you are in the southbound stock connect. I was wondering, is that program sort of available to you?

Thank you.

Toby Xu:

(Original)

Okay. Thank you for your question. This is Toby, I will take this question.

Firstly, actually if you look at the distribution of the liquidity of our shares on the US line and Hong Kong line, currently US line is still the majority. So we were executing buyback on both lines. But very recently, our execution of the buybacks mainly on the US line. So that's to answer your first question.

And the second question, we are exploring various financing opportunities to fund our buyback. The one you just mentioned, actually, we have not been able to leverage that. But of course, apparently, we can further explore such opportunity. What we understand currently that is more for the A-share buyback.

However, we do explore other ways. If you recollect, back in May we raised CB for like USD5 billion and we used that whole amount in June quarter, buying back USD5.8 billion for our shares. So going forward, we will continue to explore various ways on financing, and also do the buyback to create more value for our shareholders.

And just add on one point, actually, we do have very rich RMB cash onshore. So if the lending is RMB, or CNY, we have abundant cash CNY onshore. So to us, I think probably it is more attractive if some of the lending is like in CNH or US dollar.

James Lee (Mizuho Securities):

(Original)

Thanks for taking my question. And I guess two follow-up questions on AI and first on cloud. And maybe can we double click on the demand for AI adoption? Is the AI revenue mostly coming from model training or inferencing? Because in the US and also in the US, people are talking about AI agents and automation of workflow. And how do you see that developing in China over time? Thanks.

Eddie Wu:

(Translation)

Let me take this question. Regarding the cloud computing demand unleashed by this wave of generative AI, we've observed that initially, it was indeed driven by model training. However, we see the compute power demand for inference continuously expanding. Moreover, based on our observations, we anticipate that the number of companies engaged in model training—especially for large foundational models—will gradually decrease to just a few.

Additionally, we've observed another trend around training: various sectors, such as autonomous driving and finance, have their own needs for vertical-specific model training.

Overall, we're seeing good growth in demand for both model training and inference services. But looking ahead, we believe that AI inference services will drive a larger proportion of the growth in compute power demand.

Furthermore, we see AI being applied across various industries and companies, as well as in different software applications, with each developing their own AI agents or using AI to automate workflows. This includes re-architecting models that were previously run on smaller compute resources. We are seeing these positive developments across various sectors, including examples around us and within our own organization.

Overall, the development of these technologies in China is similar to what we see in the United States. Simply put, a significant amount of computation previously performed on CPUs is now being re-architected for GPUs—a major trend driven by the widespread application of various AI models.

Lydia Liu:

(Original)

Thank you everyone for joining. We will see you next quarter.

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