Alibaba Group

September Quarter 2023 Results

Conference Call

Transcript

Thursday, 16 November 2023

Introduction

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Thank you. Good day, everyone. Welcome to Alibaba Group's September Quarter 2023 Results Conference Call. With us are Joe Tsai, Chairman; Eddie Wu, Chief Executive Officer; Toby Xu, Chief Financial Officer; Trudy Dai, CEO of Taobao Tmall Group; and Jiang Fan, the CEO of Alibaba International Digital Commerce. 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 expectation 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 Joe.

Group Overview

Joe Tsai

Chairman, Alibaba Group

(Original)

Thank you, Rob. Hello ladies and gentlemen. Thank you for joining our earnings call for the September quarter. Although this is the first communication in my new role as Chairman of the company, I'm pleased to connect with some old friends in the investment community.

This is not your normal earnings report for the quarter. This is the first time you will hear directly from our group CEO, Eddie Wu, on his strategic thinking. He will lay out our plan for growing the business as well as our strategic priorities for execution and investment.

We are pleased with this quarter's results, which show that our strategic focus on user-centric value proposition and technology innovation are driving improvements across our businesses. In addition, while global markets remain volatile, we are entering a phase of a more stable operating environment in China.

In terms of asset reorganization to highlight the value of our businesses, here are a few updates:

First, we announced in our earnings release that Alibaba will not pursue a full spin-off of Cloud Intelligence Group in light of uncertainties created by recent U.S. export restrictions on advanced computing chips. Instead, we will focus on developing a sustainable growth model based on emerging AI-driven demand for networked and highly scaled cloud computing services.

Second, in August[1], Cainiao Smart Logistics filed its prospectus and application for an IPO on the Hong Kong Stock Exchange. While the success of an IPO transaction is subject to market conditions and relevant approvals, we are confident of the business fundamentals of our logistics unit.

Other areas of reorganization and focus are going well across our businesses, as evidenced by strong revenue growth for AIDC and Cainiao, and narrowing losses in Local Services and Digital Media Entertainment.

As I travel around to speak with investors, many have asked me about the relationship between the Group company and our business units in a post-reorganized world. I want to make two points here:

[1] Verbal Slip, Cainiao Smart Logistics Network Limited submitted a listing application to the Hong Kong Stock Exchange on 26 September 2023.

First, Alibaba Group will continue to support our operating businesses with the Group's strong balance sheet. We ended the quarter with 63 billion US dollars in net cash, and we generated 27 billion US dollars in free cash flow in the last 12 months. Alibaba has never been in a better financial position to invest for the growth of our businesses.

Second, while each business is expected to operate independently and interact with each other based on arms-length market principles, the Group will use our resources to ensure long-term strategic synergies can be realized. We have businesses that are very symbiotic with each other and their relationships are highly strategic. For example, Cainiao supports the logistics needs of our e-commerce businesses, and Alibaba Cloud provides superior technology capabilities to all of our own businesses. Eddie and my job is to balance the short-term goals of each business unit against the opportunities for long-term value creation.

Now, let me say a few words about capital management.

We are focused on unlocking value to improve shareholder returns. We are looking at four areas in capital management:

Number 1, enhance return on invested capital of our operating businesses. We have undertaken a review of our operating businesses and ways to enhance ROIC (Return on Invested Capital). In the fiscal year ended March 2023, our ROIC was in the single digits. Obviously, there's room for improvement and we are targeting to lift our ROIC into the double digits.

Number 2, invest our cash flow for future growth. The clarity of focus emerging from our reorganization has highlighted many strategic growth opportunities for investment. Given the strength of our balance sheet, Alibaba is well positioned to capture these opportunities. Later on, Eddie will discuss our growth strategy and priorities for investment.

Number 3, monetize the value of non-core assets. Our balance sheet carries 67 billion US dollars in equity securities and other investments, as well as investment in equity method investees. In addition, we have operating businesses that tie up capital but generate low growth. Not all of these investments are core or strategic to our business. We are evaluating creative ways to monetize the value of these assets in order to return value to shareholders.

Number 4, speaking of returning value to shareholders, this may take the form of our share repurchase program or cash distributions via dividends. We already have a share repurchase plan that still gives us 13 billion US dollars in dry powder as of today. In addition, as we have just announced, the company will pay an annual dividend.

Our capital management activities are dynamic and remain a top priority for our management team and our Board of Directors.

Now, I turn to Eddie for his remarks.

Group Business Update

Eddie Wu

CEO, Alibaba Group

(Translation)

Friends from the investment community, greetings, and welcome to this quarter's earning call.

I am excited to speak with you on today's earnings call as CEO of Alibaba Group for the first time. So in addition to updating you on the progress we've made in all of our businesses over the past quarter, I'd also like to take this opportunity to share with you the new management team's thinking about Alibaba's future development strategy and our business plans, which are the result of extensive deliberation.

Through 24 years of development. Alibaba has grown into a group that spans e-commerce, cloud computing, local services, logistics, digital media and entertainment, new retail, and many innovative new businesses. Today, the world is at the starting point of a new era. Rapid technological advances are profoundly reshaping all products, all industries, and all daily life scenarios. Virtually any prediction made today is bound to underestimate the future.

As the penetration rate of Internet users reaches a ceiling, the driver of growth in this sector will be technology, most especially AI. Therefore, we have defined the following three directions as the key priorities for Alibaba's next decade: our technology-driven internet platform businesses, AI-driven technology businesses, and global commerce network.

In light of Alibaba's huge and complex set of businesses, as well as rapidly evolving market and technology trends, we intend to transform Alibaba and embrace the future through the following three key initiatives.

(i) Establishing a highly nimble and fast decision-making governance structure and incentive system.

Today, Alibaba must contend with fast evolving new technologies, as well as new changes in the market. No matter how successful our business models have been in the past, we need to turn over a new page and start afresh. We need to reawaken our entrepreneurial mindset and maintain highly nimble decision-making systems. To that end, we initiated corporate governance reforms this year and continue to move quickly ahead with developing agile decision-making systems. Going forward, we want each of Alibaba's different business lines to face the market more independently and autonomously as independent business units.

On that basis, we are exploring corresponding incentive systems that strike the right balance between independence and cooperation across the business groups, so as to maximize synergy for development.

(ii) Conducting a strategic review of existing businesses and focusing on the long-term, maintaining high-intensity investments in core businesses.

After years of development, we are keenly aware that outstanding business models are extremely rare. Going forward, we will give each of the existing businesses a different level of priority, based on market size, business model, and product competitiveness, and will distinguish between "core" and "non-core" businesses. Core businesses are where we will keep our long-term focus, intensively invest resources, pursue R&D, enhance user experience, and make sure that our products and services are constantly evolving to meet our users' needs, to keep them vital and competitive for the long term. As for the non-core businesses, we will realize the value of these assets by turning them profitable as soon as possible or through other means of capitalization.

(iii) More firmly committing to investing strategically for the future.

The Alibaba Group will strengthen its strategic incubation initiatives. The highest priority for major investments will be placed on services and products that meet user demands and that are AI-driven. We will resolutely invest in revolutionary products for the future, taking a patient, long-term approach, adopting a three-year window for evaluation and proof of value. In this way, we will nurture new businesses and new growth drivers for Alibaba into the future.

Next, I will share our three-year development strategies and goals for each of the business groups and companies, and how they will capture market opportunities.

First, let's look at Taobao and Tmall. Taobao and Tmall Group is committed to three core strategies: To put users first, to build a thriving ecosystem, and to realize technology-driven innovation. Despite intense competition in the market, this quarter Taobao and Tmall Group maintained steady revenue growth and accelerated DAU growth.

In next three-year strategic cycle, putting users first is the top priority for Taobao and Tmall Group. In particular, the focus will be on the following three areas:

First, "Universal" Taobao. Taobao's "universality" consists in the vast assortment of goods and services it can supply. We must resolutely be an integrated platform that meets the needs of all tiers of consumption demand, serving the largest consumer base, in order to increase consumer purchase frequency. This is the choice we have made for Taobao and Tmall to maintain growth in today's competitive landscape.

Secondly, consumer segmentation and price competitiveness. China has a consumer market with multi-tiered value propositions. We have both the most diverse consumer base, and also China's manufacturing advantage. That means that in any category, there is a sufficiently rich assortment of supply with different value propositions to meet the needs of different consumers.

Accordingly, we must execute a multi-tier market strategy within one app. Taobao is a super-app that integrates all three mainstream sales formats: livestreaming content-driven sales, brand marketing-driven sales, and everyday low-price product sales, making it the ecommerce platform with the most comprehensive platform capabilities in China. The Taobao app can accommodate multiple different product tiers, from branded goods to white label goods, and the whole range of value propositions they represent. We intend to make Taobao a universal

consumer app that connects to an all-inclusive and highly diversified marketplace, leveraging AI and next-generation operating models.

At the same time, we must resolutely execute a "price competitiveness" strategy. Price competitiveness is the strongest force at work, for both branded goods and non-branded goods. We will continue to leverage our platform model to optimize product efficiency, enhance supply chain efficiency, and adopt "price competitiveness" as a core strategy across all product tiers.

In terms of user value prioritization, Taobao will remain committed to its positioning as an Internet consumption platform. It is not a retail company. In line with our identity as an Internet consumption platform, we will prioritize our strategy of "putting users first", with improving platform stickiness and customer retention as our core goals. From the operational perspective, we will adopt user purchase frequency as the highest-priority KPI for platform operations, above GMV, as purchase frequency is the most direct measure of users' recognition of an internet consumption platform.

Taobao's diverse monetization products can support our strategic shift to "putting users first". We are convinced that only with more users can we generate more market opportunities for merchants. These investments will create a virtuous "win-win" cycle for users, merchants, and the platform.

Next, let me share with you our strategy for Cloud Intelligence Group.

Given the uncertainties in the current environment, following careful evaluation we have decided not to pursue a full spin-off of Cloud Intelligence Group. Alibaba Group will continue to invest strategically in Cloud Intelligence Group in the long term. At the same time, Cloud Intelligence Group will continue to maintain its independent operation, managed by its CEO and overseen by its Board.

In this quarter, we saw the AI boom bring about continued growth in demand for computing power and large model services.

Cloud Computing is the infrastructure of the digital economy. It is a business model that achieves network effects with computing resources, and a service model that features scale effects. With the advent of the AI era, typified by large models, and the demand for AI transformation and innovation across all industries, IT investment will grow exponentially, and demand for cloud computing will expand exponentially as well, creating a huge incremental opportunity.

The Cloud Intelligence Group will resolutely implement a strategy of driving growth with AI and of prioritizing public cloud. It will scale up its technology investments in AI-related software and hardware.

Regarding driving growth with AI, a fundamental paradigm shift is underway in computing worldwide. We stand at the inflection point in the shift from traditional computing to AI computing. In the future, incremental demand for cloud computing will be driven by demand for AI, and most AI computing will run on the cloud.

Going forward, we will do two things: First, we will build the "most open cloud in the AI era", providing stable and efficient AI infrastructure for all industries and enabling all sectors to "go intelligent". Second, we will build an open and prosperous AI ecosystem.

At the recently concluded Apsara Conference, we announced a comprehensive upgrade of our AI infrastructure --- the artificial intelligence platform PAI, our large model Tongyi Qianwen 2.0, which has hundreds of billions of parameters, as well as eight vertical models. We also introduced a one-stop model application development platform, Alibaba Cloud Bailian. In this AI era, we now have in place a full-stack cloud computing system for AI development and are ready to better support demand for AI-driven computing power.

Secondly, we are prioritizing public cloud. This quarter, we began proactively managing the quality of our Cloud revenue, and achieved enhanced profitability. Alibaba Cloud has advantages in terms of its pricing power, high renewal rates, and highly scalable cloud computing infrastructure and application service products. Going forward, we will be selective about all of our products and business models: we will reduce project-based revenue exposure, invest more in core products for public cloud, and continue to enhance the cloud business's revenue quality. By prioritizing public cloud, we will continue to reap scale effects and technological dividends.

Going forward, we are extremely optimistic about the long-term development prospects of the AI plus cloud computing combination.

Now, let me talk about the development strategy for Alibaba International Digital Commerce Group.

We are convinced that there is huge growth potential in international markets in the coming years. Our core strategies include:

(i) Building a world-leading digitalized supply chain network

Alibaba currently has one of the largest supply assortments in the world plus an initially completed "cross-border + local" global logistics network. Over the next few years, we will accelerate our efforts to build a world-leading digitalized supply chain network leveraging multiple world-leading merchandise centers plus our high-efficiency logistics network covering major international markets.

(ii) Building world-leading AI + overseas digital retail technologies

Within Alibaba International Digital Commerce, we will build unified core technology capabilities for AI + digital retail, to drive efficiency enhancements and user experience innovations across platforms and regional markets. For example, by leveraging AI and other technologies to solve for translation across languages and transnational customer service, we can empower large numbers of merchants to truly make the leap from local to global. This represents a huge market opportunity and dividend.

(iii) Achieving breakthroughs in key emerging regional markets in the next few years

At present, Alibaba International Digital Commerce has relatively high penetration of users in just a few regional markets such as Southeast Asia and Türkiye. There is huge potential to grow user penetration in the majority of international markets. Leveraging our existing resources and footprint, we will scale up our investment in localization in selected high-potential regional markets and capitalize on highly certain growth opportunities.

Next, I will share with you Cainiao's strategy.

Cainiao will continue to focus on building out its global smart logistics network and on reinforcing its integrated end-to-end capabilities in cross-border logistics solutions. Revenue maintained relatively rapid growth this quarter.

Over the next three years, Cainiao's core strategies will be:

(i) To accelerate construction of its global smart logistics network, scale up its investments in logistics technology, grasp the historic opportunity of the rapid growth of cross-border e-commerce, and achieve rapid growth in its international business by offering innovative products for cross-border ecommerce platforms and merchants.

(ii) To continue to differentiate itself in China and maintain healthy business growth, Cainiao will continue to empower the industry with technology capabilities, helping brands and manufacturers to achieve higher levels of logistics digitalization and intelligence, and providing brands and consumers with high-quality, multi-platform, all-channel supply chain and logistics solutions.

Next, let me turn to our strategy for the Local Services Group.

This quarter, the Local Services Group achieved 16% year-on-year revenue growth, further improvement in business scale and efficiency, and both quarter-on-quarter and year-on-year growth in AACs (annual active consumers).

Over the next three years, location-based technology services will continue to evolve and develop rapidly across a wide range of sectors, benefitting all different kinds of businesses --- not just those in the sectors that everyone is paying attention to today, such as to-home food delivery, restaurant dining, and mobility, and not only in to-C businesses. We expect to see relatively fast growth in demand for location-based technology services from to-B businesses. Accordingly, the Group will continue to invest resolutely in location-based technology services, in both of its core local services businesses: Amap will primarily develop mobility and to-destination technology services, and Ele.me will primarily develop on-demand to-home technology services.

At the same time, the Local Services businesses will take advantage of opportunities to innovate their applications and enhance their capabilities leveraging AI. The standard of success will be "advancing together with the ecosystem".

Next, let me turn to the Digital Media and Entertainment Group.

The Digital Media and Entertainment Group achieved healthy growth in its revenues this quarter, with enhanced synergies across its different businesses. On the back of a strong recovery in the offline cultural consumption market, Damai recorded strong GMV growth this quarter, with continued year-on-year improvement in profitability. On Youku, the total number of interactions during paid online broadcasting of live performances set a new record. And two films co-produced by Alibaba Pictures occupied the top two spots for box office receipts during the summer season.

Over the next three years, the DME Group's core strategies will include the following:

(i) Leveraging AI and other technology innovations, DME will achieve standardized, process-based, digitalized film and drama show production capabilities within three years. We will cultivate next-generation content creators and promote the upgrading of the entertainment industry. We will launch innovative new consumer applications that will expand the boundaries of the business.

(ii) Youku will remain committed to its top-quality content strategy while increasing the ratio of self-produced content, and will build stronger mindshare with its members with stable output of differentiated exclusive content. Alibaba Pictures will maintain its advantages in offline scenario coverage and market share, and will continue to produce top-quality films, performances, and other self-produced content. As a leading digital media and entertainment company, Alibaba's DME Group will strive to achieve overall stable profitability as soon as possible.

Next, I will share our overall strategies for the other businesses.

As previously announced, the Alibaba Group will continue to invest in and incubate strategic-level innovative businesses for the future. We have clear-cut selection criteria for such businesses: a sufficiently large addressable market; unique positioning in the market; and alignment with user demand trends and the group's strategy of driving growth with AI.

Today, allow me to introduce to you our first batch of these strategic-level innovation businesses. They are: 1688, Xianyu (IdleFish), DingTalk, and Quark.

1688 is Alibaba's oldest business, serving mainstream manufacturers in China, and has a solid foundation and huge potential to reinvent itself for this new era. Specifically, it can leverage China-manufactured products, the most competitive anywhere, to expand from B2B into SME and consumer procurement, and it also has the service capabilities to support cross-border transactions.

Xianyu (aka IdleFish) is the most popular second-hand goods trading platform among young Chinese consumers. But we see IdleFish as being much more than that in the future. It can become a lifestyle platform for consumers' hobbies and interests.

With the advent of the AI era, there is now unprecedented scope for imagination about the future of DingTalk, the most effective enterprise productivity tool in China. In the future, we believe that every individual and every enterprise will have a personalized smart assistant,

powered by AI. DingTalk has the potential to become the best AI smart assistant platform for users.

Quark is a search and knowledge product that is very popular with youth. In the large model era, we believe that Quark has a tremendous opportunity to create a revolutionary search product for students and young people.

The strategic-level innovation businesses that I have listed out above will, in organizational terms, operate as independent subsidiaries, and will not be constrained to their previous positioning within the Group, enabling them to face the larger market with their own strategies. The Group will make continued investments in them over a three to five year period.

In this exciting AI era, Alibaba will resolutely devote itself to driving the technology revolution and product innovation, will continue to incubate innovative businesses and technology products, and will meet new expectations and new demands of this growing market for products and services.

Competition in the Internet and technology sector is a never-ending game. No product ever enjoys a long-term moat. Any successful technology company must have the capacity to transition across technology cycles. For 24 years, Alibaba has firmly grasped development opportunities in the PC era and in the mobile era. Along the way, we have had successes, as well as failures; we gained experience, and learned lessons. Today, Alibaba has grown into a diversified business group with annual revenues of 125 billion USD and free cash flow of 27 billion USD. We are privileged to serve and support transactions and fulfillment for tens of millions of SMEs. We own the 3rd largest cloud computing platform globally, and the deep convergence and flywheel effect of AI + cloud computing will be an important impetus and advantage for our future development.

Today, we stand at the beginning of a new era of technology, centered on AI. The next decade will bring dramatic changes worldwide, creating immense uncertainties and opportunities in parallel. Alibaba is embarking on a new entrepreneurial journey, and is fully prepared to devote its all to driving technological transformation. We possess sufficiently advanced resources, strong cash flow, agile governance mechanisms, and a strong talent pipeline. We are confident that we can both unleash new momentum in our existing businesses and create fresh new growth opportunities.

Next, I will hand the mike to Trudy.

Taobao & Tmall Group Business Update

Trudy Dai

CEO, Taobao & Tmall Group

(Translation)

Hi everyone. This is Trudy, and I'm delighted to speak with you again. Eddie has shared with you his thinking on Taobao and Tmall Group's three key strategies. He reiterated that "putting users first" is the top priority, and further set out three points of focus. Here, I will present on our operations in the September quarter and give an overview of the just-completed Tmall Double Eleven Global Shopping Festival.

As a result of our ongoing efforts to attract new merchants, enhance price competitiveness, and enrich content offerings, we continued to achieve rapid growth in DAUs in the September quarter. Even more importantly, organic DAUs grew at the same time. More users proactively coming to the Taobao app means that user mindshare is strengthening as the Taobao app becomes more attractive. As part of this process, we saw several clear changes:

First, Taobao and Tmall's rich assortment of supply constitutes a huge advantage. With the constant inflow of new merchants, new merchandise, and new content, Taobao has become more vital than ever as a "universal" app. We continue to invest in building our merchant ecosystem, adhering to the principles of driving with digital technology, and of openness and inclusivity. The number of merchants increased by over one million in the September quarter compared to the June quarter.

At the same time, Taobao's livestreaming ecosystem maintained strong growth momentum. On the one hand, top-tier livestreamers and agencies from other platforms continued to join the Taobao platform, such as Eastbuy and the wine and spirits influencer Li Xuanzhuo, and are developing very well on Taobao Live. On the other hand, merchant-operated livestreaming also has strong growth momentum. With more and more Tmall brand merchants taking part, the livestreaming participation rate and total livestreaming time are growing, and the share of GMV from merchant-operated livestreaming is also increasing. More and more merchants are realizing that self-operated livestreaming is much more than just a sales tool, but an important and sustainable approach for brand building and user engagement on the Taobao platform.

Second, in line with our value positioning as an Internet Consumption Platform, we have now put in place a complete matrix of sales models: brand marketing-driven sales, everyday low-price product sales, and livestreaming content-driven sales. These three sales models are independent and complementary. In combination, they provide one-stop comprehensive value to Taobao app users. Leveraging our "universal" supply, this sales matrix provides the "consumer finds goods" option, allowing users with specific purchase intent to find exactly what they want through fast, accurate search and to complete the purchase. It also allows users with no specific purchase intent to have fun browsing, enabling "goods to find consumers". And even users who don't want to buy anything right away can enjoy learning encyclopedic knowledge

from relevant lifestyle and consumption content on the Taobao platform, i.e. "sowing seeds". As we've said, there is no question that the Taobao app has everything you could want or need; the only question is, can you think of everything you need? Going forward, even if you can't think of what you need, no matter — the Taobao app will help you do the thinking. All you need to do is come to Taobao app, and you will have a great experience. Different users can get exactly what they need and want, and have a fun time. Besides livestreaming, which I just discussed, the total time spent on short videos posted on Guangguang more than quadrupled in the September quarter. Overall, total time spent by users on the Taobao platform is also growing.

Finally, in light of the clear trend of stratification in China's consumer market, we have engaged in a comprehensive exercise to build price competitiveness. We divide merchandise into three different tiers, with different value propositions, and manage price competitiveness by product category and by sales format. In this way, we are comprehensively strengthening the price competitiveness of merchandise. This clearly defined, rigorous management matrix is generating business scale growth and long-term operational certainty for merchants with compelling products, supply chain advantages, and price competitiveness. This supply, together with branded merchandise, creates a "good price" supply advantage on the Taobao platform, which resulted in more transacting buyers and orders in the September quarter. For example, the number of 88VIP members surpassed 30 million in the September quarter, with continued growth in their GMV. At the same time, in respect of users with low purchasing power, the scale of purchasing users and their conversion rate have increased significantly.

In order for us to build a more price competitive, and universal Taobao app with more fun, a crucial underlying driver is technology. In the September quarter, we continued to roll out our comprehensive AI upgrade across the entire Taobao platform. Here, I'd like to highlight the major upgrade to Alimama's Wanxiangtai Unbounded Version in August. This upgrade not only enables merchants to allocate their advertising budgets across all available properties within the Alibaba ecosystem using a single interface, but also leverages AI to provide data analytics and insights, to intelligently locate targeted users, and to create AI-generated advertising content. This upgrade therefore enables merchants to optimize their advertising spending and to significantly enhance campaign efficiency, conversion rates, and ROI. The Wanxiangtai upgrade has thus resulted in growth in the number of advertisers.

Next, I will turn to Double Eleven. During this year's Double Eleven, we achieved comprehensive growth in the number of merchants, transacting buyers, orders, and GMV. Even more importantly, this year's Double Eleven was a test of our strategy this year. Next, let me share with you the progress of several key initiatives during this year's Double Eleven.

First, price competitiveness during Double Eleven increased significantly, with direct price reductions and everyday low prices, beyond basket-based discounts for multiple purchases. Price competitiveness is what putting users first and creating value for users is all about. In the past, we mobilized merchants to provide good prices to consumers through basket-based discounts. That satisfied some consumers, but others found it too complicated. Building on all our achievements over the last half year plus in building price competitiveness, during this year's Double Eleven we successfully organized "direct price reduction" and "everyday low

price" offerings, in addition to basket-based discounts. This comprehensively strengthened price competitiveness on Taobao and Tmall. As a result, we achieved satisfactory results in terms of new user acquisition, existing user retention, overall purchase conversion rates, and repurchase rates. For example, the number of 88VIP members further grew and reached 32 million. And our enhanced price competitiveness gives us very strong confidence in everyday sales outside of large campaigns.

Second, our product granularity-based matrix of sales models clearly began to pay off. As I mentioned, one of our milestones in the September quarter was getting this matrix in place. Double Eleven was the first real-world test of our ability to deploy all of brand marketing, everyday low price, and livestreaming in a coordinated way during a large-scale campaign, with granularity at the level of store and of product. We saw large brands taking excellent advantage of Tmall's "Hey Box" to launch new products. By launching products with us here, they can lead new consumption trends in China. In terms of everyday low price, we achieved explosive growth with both the "Taobao Good Price Festival" and the "10-billion Subsidy" programs. And in terms of the livestreaming content-driven sales model, merchant-operated livestreaming made explosive breakthroughs, with merchant-operated livestreaming accounting for close to 70 percent of the several dozen livestreaming rooms that generated over one billion yuan in sales. As a result of this test, we are all the more confident that the Taobao app is the best one-stop platform for merchants to manage diversified users and merchandise across all phases of product lifecycles and to achieve long-term certainty for their business. And we are all the more certain about how to better serve different kinds of merchants.

Third, we have begun to explore new operating models for new supply. What makes Taobao "universal" is the rich and diverse ecosystem of merchants on the Taobao platform. They are the foundation of rich supply on Taobao. Over the past few months, we have made some adjustments to optimize the supply mix on the platform. Building on our base of Tmall branded merchants, we have further grown the number of channel merchants and white-label factory sellers. But not all merchants are good at online operations, and there is no reason for us to force them all to become good at everything. For high-quality merchants who excel at lean manufacturing and can produce high-quality goods at low cost, we are testing "semi-consignment" and "full-consignment" models. This allows the professionals to do what they do best: they are responsible for producing good merchandise, and we are responsible for helping them sell it. This pilot initiative is just getting started, and I look forward to updating you on its progress during future earnings calls.

For Taobao and Tmall, each year's Double Eleven is a large-scale test of the strategies we have been deploying since the beginning of the year. This year, the business results we achieved, the competencies we honed, and all the feedback we have received from consumers and merchants so far have validated the correctness of our three key strategies of putting users first, building a prosperous ecosystem, and driving growth with technology.

China's ecommerce market will be a highly competitive landscape for the long term. The road ahead will be long, and difficult. I will remain firmly committed to, and will not change, our strategies, our focus, and our investment plans. Guided by the principle of "putting users first", as long as we resolutely stay the course of investing and upgrading, we can certainly create a

universal Taobao app that is both more fun and more price competitive. Over this three-year business cycle, the platform's rich and diversified monetization products will enable Taobao to create a virtuous "win-win" cycle for users, merchants, and the platform.

Thank you. I will now hand the mike to Jiang Fan.

AIDC Business Update

Jiang Fan

CEO, AIDC Group

(Translation)

Hi everyone! I'm delighted to speak with you all during this quarterly earnings call.

Alibaba International Digital Commerce continued to maintain rapid growth this quarter, amidst an uncertain international market environment. This progress was a result of our sustained expansion in different markets, as well as our product and technology innovations, business model upgrade, and efficiency enhancement in our supply chain services, all of which realized greater value for our customers.

Next, let me provide more details.

First, on our business model upgrade and supply chain services upgrade. Over the past few quarters, AliExpress has been rolling out a brand-new business model called "AE Choice". Put simply, we have upgraded from a pure platform cross-border model to a business model that offers more supply chain services. On the one hand, this has dramatically reduced the complexity of doing business for merchants, allowing more diverse merchandise to enter the platform. On the other hand, with the platform taking responsibility for end-to-end consumer experience, the consumer experience has been significantly enhanced, including in terms of delivery time. So the consumer experience has improved significantly over the past few quarters.

AE Choice has already achieved rapid order growth over the past few quarters, as a result of this business model transformation and supply chain services upgrade. In collaboration with Cainiao, we began piloting our global five-day delivery service in Spain and other countries in September. We believe that continuously enhancing services to customers is the basis for long-term development of the platform.

Secondly, product and technology innovation. AIDC serves consumers in different countries and regions around the world. As such, we need to continually optimize user experience on our platform to meet local consumer needs. We are committed to driving ongoing improvement in platform business model efficiency and to upgrading customer experience through product and technology innovation. Over the past quarter, we continued to see the value generated by these investments.

For example, we are actively leveraging AI to enhance merchant operating efficiency. This quarter, Alibaba.com launched new AI-based digital products for foreign trade. These AI products are tightly integrated throughout the entire foreign trade value chain. Features include smart launch and management of merchandise, market analysis, customer interaction, video chat, and real-time translation, covering many important links in the foreign trade business.

Leveraging digital technology, merchants can export their goods to global markets more efficiently.

Thirdly, let me share with you our progress in different regional markets. Last quarter, we achieved good growth in different regional markets. In Türkiye, Trendyol continued to maintain rapid growth and profitability at scale, while also initiating its expansion into neighboring markets. In Southeast Asia, Lazada's overall monetization rate improved significantly. Going forward, we will continue to focus on enhancing overall platform operation efficiency and on sharpening our differentiated competitive advantages, so as to achieve long-term sustainable development with a healthier business model.

In Germany, we announced the acquisition of a leading local B2B platform, Visible. Post acquisition, Alibaba.com will operate two brands in Europe and will do business on multiple B2B digital trade platforms, furthering Alibaba.com's international expansion.

Looking ahead, we see some high-confidence market opportunities, including further expansion of AE Choice, as well as opportunities in some new markets. Over the next few quarters, our short-term business focus will be on rapidly expanding our business scale and market share. We will actively invest in these areas to achieve growth.

The mission of AIDC is to help SMEs around the world engage in digital trade. During this year's Double Eleven, our various platforms, including AliExpress and Lazada, supported merchants in multiple countries as they directly provided services to consumers in over 100 different countries, and helped them achieve rapid business growth. Taking AliExpress as an example, with the growth of AE Choice, the volume of merchandise placed by merchants in Choice warehouses grew by several fold compared to last year, and a large number of SME merchants achieved fast sales growth during Double Eleven.

Going forward, we will continue to create long-term value for global merchants and consumers through product and technology innovation and consumer service upgrades, and will continue to enable merchants to achieve sustained business growth on the platform.

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 RMB224.8 billion, an increase of 9%. Consolidated adjusted EBITA increased 18% to RMB42.8 billion. Non-GAAP diluted earnings per share was RMB1.95, an increase of 21%.

Since July 1st to November 15th, we have repurchased approximately USD3 billion worth of our shares, which accounted for 1.3% of total shares outstanding. This is supported by our continuous generation of strong free cash flow. During the quarter, free cash flow was RMB45.2 billion (or USD6.2 billion), an increase of 27%.

Over the last several months, the capital management committee undertook a review on ways to improve our ROIC and potential uses of cash. Our priority in cash deployment in the following order: (1) invest in technology and innovation for growth, (2) reduce total shares outstanding to achieve accretive earnings per share through stock repurchases, and (3) reward long-term investors via an annual dividend. Thus, cash will be returned to shareholders through a combination of share repurchase and dividends.

Accordingly, in addition to our USD40 billion share repurchase program, we are pleased to announce that our Board of Directors has approved an annual dividend for Fiscal Year 2023 in the amount of USD0.125 per ordinary share or USD1 per ADS. The aggregate amount of the dividend will be approximately USD2.5 billion.

Now let's look at cost trends as percentage of revenue excluding SBC. Cost of revenue ratio decreased 1 percentage point to 62% during this quarter. Product development expenses ratio remained stable at 5% during the quarter. Sales and Marketing expense ratio remained stable at 11% in this quarter. General and administrative expenses ratio decreased 1 percentage point to 3% in this quarter.

Our net income was RMB26.7 billion, an increase of RMB49.2 billion compared to a net loss of RMB22.5 billion the same quarter last year. The increase was primarily due to a net gain from the increase in fair value of our equity investments versus a net loss in the same quarter last year and an increase in adjusted EBITA.

Our non-GAAP net income, which excluded net gains or losses from the investment fair value changes and other items, was RMB40.2 billion, an increase of RMB6.4 billion.

As of September 30, 2023, we continued to maintain a strong net cash position of RMB457.8 billion or USD62.7 billion. Free cash flow of this quarter was RMB45.2 billion, an increase of 27%. The increase was primarily due to an increase in profitability and a decrease in capital expenditure, partly offset by net changes in working capital.

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

Revenue for Taobao and Tmall Group was RMB97.7 billion, an increase of 4%. Customer management revenue increased by 3% to RMB68.7 billion, primarily due to the increase in merchant's willingness to invest in advertising, partly offset by the modest decline in Taobao and Tmall online paid GMV. Execution of our strategies especially that of price competitiveness strategy has resulted in increase in order volume and more consumers.

Direct sales and others revenue increased 6% to RMB23.9 billion, primarily due to strong sales driven by the consumer electronics and appliances.

China commerce wholesale business revenue increased 18% to RMB5.1 billion, primarily due to an increase in revenue from value-added services provided to paying members.

Taobao and Tmall Group adjusted EBITA increased by 3% to RMB47.1 billion. The increase was primarily due to narrowing losses in certain businesses and increase in profit from customer management services, partly offset by the increase in investment in user acquisition and retention, as well as the increase in investment in content.

Alibaba International Digital Commerce Group revenue was RMB24.5 billion, an increase of 53%.

Revenue from International commerce retail business increased by 73% to RMB19 billion. The increase in revenue was primarily due to strong combined order growth of AIDC's retail businesses driven by the solid performance of all major retail platforms, the revenue contribution from AliExpress' *Choice* and improvements in monetization.

Revenue from our International commerce wholesale business increased by 9% to RMB5.5 billion. The increase was primarily due to an increase in revenue generated by cross-border related value-added services.

AIDC's adjusted EBITA was a loss of RMB384 million. Losses significantly narrowed primarily because of improved margins of Lazada and Trendyol, partly offset by the increase in investment in new business, such as Miravia and AliExpress' *Choice*.

Total revenue from Cainiao grew 25% to RMB22.8 billion, primarily contributed by the increase in revenue from cross-border fulfillment solutions.

During this quarter, Cainiao rolled out its premium 5-day delivery service for consumers in eight countries and regions. Importantly, the service enhanced AliExpress *Choice*'s overall shopping experience and order volume for *Choice* ramped up rapidly during the quarter.

Cainiao adjusted EBITA was a profit of RMB906 million, compared to RMB125 million in the same quarter last year. The increase was primarily because of improved operating results from cross-border fulfillment solutions, technology and other services, as well as domestic logistics services.

Local Services Group revenue in September quarter grew 16% to RMB15.6 billion, primarily due to strong growth in both Ele.me and Amap businesses.

During the quarter, Ele.me's orders volume grew year-over-year and quarter-over-quarter driven by increasing number of transacting users and higher purchase frequency per user.

During this quarter, order growth of Amap increased rapidly, due to its strengthening position as a comprehensive "To-Destination" service platform as well as strong travel demand during this summer season. During an eight-day holiday period from September 29 to October 6 that combined Mid-Autumn Festival and National Day holiday, Amap recorded an all-time high of over 280 million peak DAU as the Chinese economy experienced strong recovery in travel demand.

Local Services Group adjusted EBITA was a loss of RMB2.6 billion this quarter, compared to a loss of RMB3.3 billion in the same quarter last year, primarily due to the continued narrowing of losses from our "To-Home" business driven by Ele.me's improved unit economics per order and increasing scale.

Revenue from Cloud Intelligence Group was RMB27.6 billion in this quarter, an increase of 2%. Year-over-year revenue growth was mainly driven by Alibaba-consolidated businesses.

Revenue excluding Alibaba-consolidated businesses slightly decreased, primarily due to our continued effort to improve revenue quality by reducing the revenue from project-based contracts that are of low margins, which was mostly offset by the increase in revenue from our public cloud products and services. Going forward, we will continue to enhance the quality of our revenue by reducing certain low margin project-based contracts.

During this quarter, our public cloud revenue represented over 70% of our external cloud revenue and grew healthily year-over-year, reflecting the stickiness in demand from customers across major industries.

Part of the public cloud revenue growth was driven by the strong demand for model training and related services on cloud infrastructure. Looking forward, revenue from model training and related services may be constrained in the foreseeable future given the expanded export control rules imposed by the US to further restrict the export to China of advanced computing chips and semiconductor manufacturing equipment.

We believe the long-term growth opportunities driven by AI services have just begun. AI will enable the rapid innovation of all industries and the demand for AI-driven cloud computing services will continue to grow significantly in our view. We will continue to explore alternative solutions to fulfill the needs of our customers.

Cloud's adjusted EBITA was increased by 44% to RMB1.4 billion, primarily due to increasing revenue from public cloud products and services as well as improving operating efficiency.

Businesses within the DME segment continued to achieve synergies. On September 19, Alibaba Pictures announced its acquisition of Damai, aiming to leverage Damai's leading position in the offline performance market to expand influence in the offline entertainment industry. During the quarter, Damai maintained its industry-leading position with triple-digit GMV growth and improving profitability.

Revenue from our DME group was RMB5.8 billion, an increase of 11%, primarily driven by the strong revenue growth of offline entertainment businesses of Damai and Alibaba Pictures, as well as the increase in Youku's subscription revenue, partly offset by the decrease in Youku's advertising revenue.

Adjusted EBITA was a loss of RMB201 million, compared to a loss of RMB362 million. The improved adjusted EBITA was mainly due to the increase in profitability of Damai and Alibaba Pictures.

Lastly, I'd like to note that starting from this quarter, we reclassified the revenue of our DingTalk business, which was previously reported under Cloud Intelligence Group to All others, the purpose of which was to provide DingTalk with greater autonomy to promote innovation and enhance competitiveness.

Within all others segment, DingTalk and Intelligent Information Platform are among our first batch of strategic-level innovation businesses that we are incubating as future growth drivers.

DingTalk's paying enterprise customers have reached over 100,000 and, during the quarter ended September 30, 2023, number of paying enterprise customers grew around 40%. DingTalk continues to upgrade its products and services to serve more enterprises and organizations. It has recently launched 7[2] product lines that had been fully integrated with our proprietary Tongyi large models, which will continue to drive growing enterprise customers' adoption.

Our Intelligent Information Platform includes Quark, UC Web, and other businesses. Quark provides young users with a one-stop platform for information search, storage and consumption. During the month ended September 30, 2023, Quark continued to grow strongly with DAU up over 35%.

Revenue from all others segment remained stable at RMB48.1 billion, primarily due to the revenue growth contributed by Freshippo, Fliggy, Alibaba Health and Intelligent Information Platform, partly offset by the decrease in revenue from Sun Art.

[2] "17" was mistakenly stated as "7".

Adjusted EBITA from all others segment was a loss of RMB1.4 billion compared to a loss of RMB2.9 billion in the same quarter last year, primarily due to improved operating results from Freshippo, DingTalk and Fliggy.

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 one week after the meeting.

Ronald Keung (Goldman Sachs):

(Original)

Thank you, management team, and congratulations to Joe and Eddie in your new leadership journey and also in laying out the key priorities in detail just now. I think I'll kick off with the cloud kind of distribution which is now no longer proceeding. Some investors were initially hoping for some extra returns from the cloud distribution. Just how should we think about firstly our ongoing reorganization and the plans now? And how should we think about shareholder returns on a kind of next few years basis? How do we think besides the newly announced regular dividend and do we consider any further upsizing of the buyback? Or even a special dividend considering our $63 billion of net cash? And given it's two months into your role as new leaders, would you like to share any key priorities that you would have from here for the next years ahead? Thank you.

Joseph Tsai:

(Original)

Hi Ronald, thanks very much for the questions. They're very good questions. This is Joe Tsai.

So you know, there are multiple ways to provide value to shareholders, and we have previously announced a multitude of approaches from full spin-off of the cloud business to share repurchase. And we've already explained the strategic thinking, the rationale for not doing the spin-off. Now, there are alternative ways to provide or enhance returns to shareholders and right now our thinking is that we're very excited about our multiple businesses from Taobao Tmall Group to Cloud that we should get into a phase of investing for growth. And Eddie has laid out a very clear strategy and multiple priorities for our investments. So I think that gives

you a pretty good direction of the uses of our cash, as well as thinking about how we can highlight the value of our businesses, rather than through full spin-offs but investing and creating a sustainable growth model in these kind of businesses. So I think you should think about our core businesses as coming to a phase where we're – there's a reset for sure. But I think going forward we feel very optimistic and we feel very confident about the fundamentals and all the tools and ability that we have built up, capabilities that we have built up over the years to continue to invest and show value to our investors that way.

As far as the stock repurchase is concerned, we are still executing our overall $4 billion[3] share repurchase plan that was approved by the Board. As I said, as of today we have $13 billion of dry powder left and we will continue to execute that buyback. We're not going to consider a one-time cash dividend. We think as we've laid out that the priority for cash use is to invest for future growth. And then executing our current share repurchase plan. And number three, as Toby has said, we've announced a dividend. So those are the plans for the uses of our cash. Thanks.

Alicia Yap (Citigroup):

(Translation)

Thank you, management, for taking my question. I'd like to ask about the latest progress of Taobao and Tmall's investment plans, because recently you have been increasing your investments. Could management share with us in what areas the progress of those investments has exceeded your expectations and in what areas you feel there's still room to do better? And is the purpose of these increased investments more to regain market share or is it more about ensuring sustainable growth of GMV and of CMR? And then finally, we noted that there was more collaboration with WeChat during Double Eleven and I'm wondering how the conversion rate was of users acquired from WeChat as compared to other platforms.

Trudy Dai:

(Translation)

Greetings. This is Trudy.

As Eddie mentioned, we have three key strategies: putting users first, building a thriving ecosystem, and driving growth with technology. All of our investments aim to serve those strategies. We have made major investments in putting users first and in building price competitiveness. We have also invested in increasing conversion and repurchase rates, as well as in acquiring new users. Second, as I said earlier, we're seeing growth in user time spent, active users, purchasing users, and user time spent.

In terms of our investments in enriching content, we're also seeing good results. As I mentioned earlier, the number of users proactively opening the Taobao app is increasing. User time spent

[3] "$40 billion" was mistakenly stated as "$4 billion."

is increasing. And users and user time spent on Guangguang are also growing. This gives us all the more confidence in further increasing our investments in content.

Also, as Eddie said, now is the best time to grasp the opportunity of AI to drive growth in commerce. So we continue to increase our investments in AI. First, on the merchant side, we will continue to invest in merchant tools that leverage AI, to make it easier and more efficient for merchants to do business on our platform. Second, in terms of our efforts to become a content platform, we're also leveraging AIGC technology to lower the barrier to entry for content creators. We hope that more users will be able to create content on Taobao in the future.

I am confident that AI will unlock a brand new consumer experience and bring consumers a lot of fun. An example of a consumer-facing AI product is Taobao Wenwen, an encyclopedic knowledge product that is currently in beta testing.

Finally, you asked about collaboration with WeChat. This is at a very initial stage and its influence has been limited. Our collaboration with WeChat this time was focused on upgrading three major engines: First, traffic growth: we worked on video channel traffic to increase conversion rates and do branding. Second, joint system development: we worked together to enhance recommendations. And third, on policies: we jointly provided 100 million RMB in subsidies and bilateral policy support. This collaboration aimed to make Double Eleven explosive.

Taobao is an open platform, and we are ready to collaborate all partners to provide the best services to merchants.

Thank you.

Gary Yu (Morgan Stanley):

(Original)

Thank you, management, for the opportunity to ask questions. I have a question regarding the opening remark from Joe about the target to increase return on invested capital to double digits. Can management share more about what kind of target and how to achieve this target in the next couple of years, specifically regarding the non-core business turning profitable, any specific business unit that we think we can turn profitable within a certain period of time? Thank you.

Toby Xu:

(Original)

Gary, thank you for your question. I'll take this question.

As Joe mentioned actually, we are looking very closely into our ROIC and we do set a target that we want to increase the ROIC to double digit in the next few years. There's a few ways we will take to achieve that target.

In all our businesses, if you like actually, as Eddie mentioned, we do have core and non-core businesses. And in addition, we will also have many of the investments sitting in our equity, sort of like investments or even investment associates. So for all those investments, they are also resources that we use as part of the resource that we can utilize to enhance our ROIC.

With respect to the core businesses, as Eddie explained, we will need to invest in innovation and growth. So for all these core businesses, the growth and the future profitability will help certainly generate more earnings, which will contribute to increasing our ROIC.

And with respect to the non-core business and also the investments in our balance sheet, they're no longer strategic or core to us. I think on one hand, as Eddie mentioned, we would need those business to become profitable as early as possible and also for some of the investments, we will also look to the opportunity to monetize, which will give us cash and eventually we can utilize the cash to give the return to the shareholders. So that will also help to increase our ROIC. Thank you.

Alex Yao (JP Morgan):

(Original)

Good evening, and thank you for taking the question. I have a question regarding the Cloud business group.

So as you guys discussed in the remarks, you decided not to proceed with a full spin-off of the Cloud business. Is the withdrawal of the spin-off and the IPO a temporary decision or a permanent decision? If market conditions change or the financial outlook change, would you reconsider this decision?

And then related to the operation, I think you guys discussed to develop a sustainable growth model for the cloud business. Given AI chip restriction from the US, can you talk about your thoughts on how this sustainable growth model will be? Thank you very much.

Joe Tsai:

(Original)

Okay, Alex, this is a two-part question, so I'll answer the first part, and Eddie will answer the second part.

About our announcement to not proceed with the full spin-off, for us, when we announced the full spin-off, we were looking at a way to sort of a financial engineering way to show the value of the business and that was when the business was operating in circumstances that we thought were predictable with our ability to project the business and communicate to investors and provide a level of transparency to investors who will independently hold the shares of cloud intelligence group.

But the circumstances have changed, and right now, rather than focus on financial engineering, we'd rather focus on figuring out how to grow the cloud business.

A big part of that is for us to for the group to provide cash to make investments because in the AI-driven world, to develop a full-blown business based on a very networked and highly scaled infrastructure, it requires investment. So we would rather show investors through our operations of the cloud business rather than spinning it off and hopefully, we can enhance value to shareholders as we deliver future growth in revenues and profits in the future.

As far as the sustainable business model, I'll let Eddie to answer that question.

Eddie Wu:

(Translation)

Thank you. Your question is a critical one. There are new changes emerging in the industry. In terms of the cloud computing business model, we can distinguish between two phases. I'll cover each in turn.

The first phase was CPU-centered, traditional cloud computing. We've built up a very strong product portfolio in that area over the last 14 years. Within that product portfolio, we will be primarily focusing on public cloud products going forward. This is because the public cloud computing model can generate stronger network effects and stronger scale effects, and thereby provide better and more affordable services to our customers. So that is our growth strategy for the "traditional" cloud computing market.

The second phase, going forward, is GPU-based AI computing, which is currently undergoing major changes in the Chinese market. We know that recent policies and strategies concerning international chips will result in major changes in China's AI computing market. Our view of the foreseeable future is that China's market for AI chips will become highly fragmented. In other words, there will be multiple vendors supplying the AI computing power market, satisfying different users' choices with different supply chains.

In that context, we believe that the long-term importance of cloud computing will increase in China's cloud computing AI market. That's because in these circumstances, our customers will need cloud computing platforms even more, to provide more efficient and one-stop approaches to simplify their development and applications, without having to concern themselves with the complex details of the underlying AI computing power chips. For years, Alibaba Cloud has implemented a strategy of "one cloud, multiple chips" on its cloud platform. This strategy will become even more important going forward.

Alibaba Cloud offers customers a complete set of offerings, from our PaaS platform product, PAI, through to our Model as a Service products, and on to our underlying IaaS products for cloud computing. We can satisfy the AI computing needs of our customers from training through inferencing with heterogeneous computing power.

The above is our overall growth strategy for cloud computing.

Jiong Shao (Barclays):

(Original)

Thank you very much for taking my question. You highlighted Choice as one of the growth drivers, I think, one of the fastest growing segments. I was wondering, could you expand a bit on which countries and regions Choice has entered? And you talked about revenue contribution earlier. I was wondering, is there any magnitude you can share; sort of, a timeline to get to unit economics breakeven?

And, related to that, for your AIDC business you have a mix of, sort of, a local ecommerce in Türkiye and Southeast Asia, and you have a cross-border AliExpress Choice. Longer term, what's the focus? Or do you always expect, sort of, a 50/50 or a healthy balance between the two? Thank you very much.

Jiang Fan:

(Translation)

Thanks for the question. I'll start with the first part. AliExpress Choice was developed by building on the existing business of AliExpress, so it's not something that has been built from scratch. Because AliExpress is now operating in over 100 different countries around the world, what we've really done is upgraded our business model from a pure platform model into a hybrid model that includes the platform model plus the "fully entrusted" Choice model. As I mentioned earlier, Choice offers a better user experience than the platform model. So, Choice is currently a major driver of growth in our business.

Over the past year since its launch, Choice has achieved fast development, and its share of orders is increasing rapidly. We forecast that within a few quarters, Choice will account for over 50% of orders on AliExpress. So it is driving growth overall on our platform.

The Choice model is still in the investment stage, so it still has negative profit, but with the growth in its scale, its unit economics are rapidly improving. We expect to continue to prioritize business growth for a period of time to come, but will also work to optimize profitability.

As regards the relative size of the local e-commerce model versus the cross-border model, I think that in a lot of countries our business will be a combination of local plus cross-border. In some markets, cross-border is primary, while in other markets, local ecommerce is primary. The ratio is changing dynamically. We have not set any fixed percentage for local ecommerce versus cross-border in the long run. The experience and demand of users in different countries will determine how the two are balanced.

Rob Lin:

(Original)

Thank you and that concludes our earnings call today. We will see you next quarter. Thank you.

[END OF TRANSCRIPT]