# Alibaba Group

# March Quarter 2023 and

# Full Fiscal Year 2023 Results

# Conference Call

# Transcript

Thursday, 18 May 2023

## Introduction

Rob Lin

*Head of Investor Relations, Alibaba Group*

(Original)

Thank you. Good day, everyone. Welcome to Alibaba Group's March Quarter 2023 and Full Fiscal Year 2023 Results Conference call. With us are Daniel Zhang, Chairman and CEO; Joe Tsai, Executive Vice Chairman; Toby Xu, CFO. We have also invited Trudy Dai, the CEO of Taobao and Tmall Group and Jiang Fan, the CEO of Alibaba International Digital Commerce Group. 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 Harbour. Today's discussion will contain forward-looking statements. Forward-looking statements involve inherent risk 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 at US SEC 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 Daniel.

**Group Overview**

Daniel Zhang

*Chairman & CEO, Alibaba Group*

(Original)

Thanks Rob. Hello everyone. Thank you for joining our earnings call today.

We closed the March quarter and fiscal year 2023 in a changing macro environment. As Covid-19 cases waned after the Chinese New Year, business and social activities gradually recovered in China. These changes had impacted some of our businesses in various degrees. During the past quarter, our revenues reached RMB 208.2 billion, representing a year-over-year growth of 2%. Our Adjusted EBITA was approximately RMB 25.3 billion, representing a year-over-year growth of 60%, as a result of our continued efforts in enhancing operating efficiency and optimizing costs. Looking at the macro environment in China and globally, we see both challenges and opportunities amid uncertainties for an economic recovery. The international macro environment is highly uncertain. At the same time, we see market opportunities in China's consumption recovery post the pandemic and rapid development in artificial intelligence. We will continue to execute our three strategies in consumption, cloud, and globalization in response to these opportunities.

In the past few months, we have noticed a gradual recovery in China consumption, but consumer confidence and spending power still need further momentum. At the same time, competition among the multiple consumption platforms is still fierce, and everyone is trying to capture the incremental demands with more value-for-money products and services. We will focus on the following areas in such a competitive market: 1) acquisition and retention of high-quality users, 2) maintaining our platforms' differentiated consumer mindset, and 3) most importantly, creation of new demands through supply-side innovations. In international commerce, we will focus on building core capabilities to support the sustainable development of our international commerce business, as well as leveraging the unique advantage of China's supply chain to serve global consumers. In cloud, progress in industrial digitalization and emergence of AI have created higher demands for computing power, and foundation models have expanded AI's application in all aspects of life. Alibaba Cloud will focus on seizing this historic opportunity to maximize its market potential.

In March, we announced a major organizational transformation, restructuring Alibaba Group into six business groups and other investments. As a result, we are transforming from operating multiple group businesses into a holding company that focuses on capital management. Each business group will operate with a high degree of independence, led by its own CEO who assumes full responsibility for company performance under the supervision by its own board. Today in our press release we also announced the list of the board of directors and CEOs of our six business groups, which was recommended by Alibaba Partnership and approved by our board of directors. We believe this transformation will empower all our businesses to become more agile, enhance decision-making, enable faster responses to market changes and promote innovation to capture opportunities, thereby unlocking shareholder value.

Starting from today, we will invite the business group CEOs to join the earnings calls in turn and share their business strategies and the thinking behind. At today’s call we have Trudy Dai and Jiang Fan, who will later discuss about the business performance and strategies of Taobao Tmall Commerce Group and International Digital Commerce Group, respectively. I will also share my thoughts on Cloud Intelligence Group’s business review and outlook.

As an important step in our reorganization, we are in the process of establishing a new governance framework under the “1+6+N” structure. Under the new governance framework, CEO of a business group takes overall responsibility for the operating results and compliance under the leadership of the business group’s Board. A list of reserved matters will be specified to require approvals from Alibaba Group’s board of directors. These reserved matters include annual business plan and budget, business group CEO appointment and evaluation, major capital transactions, business cooperation and data sharing mechanism within Alibaba Group, compliance oversight, etc. To ensure the implementation of risk management and compliance requirements under the new governance structure, we have obtained board approval to establish a new Compliance and Risk Committee, which will be responsible for overseeing he group’s compliance and risk management in areas other than financial reporting. In addition, in order to adapt to our new role as a holding company, we have also established a Capital Management Committee under Alibaba Group’s Board of Directors. With a goal of enhancing shareholder returns of the Group, the committee oversees major capital management matters across our business groups.

With the further progress of the restructuring plan, we have formulated different capital management plans based on the various stage of development, business needs, market environment and risks that each business group is facing. We are announcing several updates today. Firstly, we plan to fully spin off Cloud Intelligence Group and complete its public listing in the next 12 months as an independent company. Cloud Intelligence’s business model, customer profile, and stage of development are fundamentally different from the other consumer-focused businesses in the Alibaba ecosystem. Full independence will allow Cloud Intelligence to further sharpen its business strategy and optimize its operations and organization. Secondly, Freshippo and Cainiao have over the years established differentiated customer value propositions, stable and well-defined business models, and clear path to profitability. We believe these two companies are ready to go public. Our board has approved Freshippo’s plan to kick off the IPO process, and Cainiao to explore an IPO in the next 12-18 months. Thirdly, Alibaba International Digital Commerce Group will explore raising external capital to support its business expansion in the global market. The successful execution of the above transactions is subject to various factors, such as market environment, regulatory approvals and so on.

Next I will hand over to Toby to discuss the financial performance of the past quarter and the fiscal year as well as our capital allocation strategy.

**Capital Allocation Framework and Financial Highlights**

Toby Xu

*CFO, Alibaba Group*

(Original)

Thank you, Daniel.

As announced, our Alibaba Group's board of directors have formed the Capital Management Committee to undertake a comprehensive capital management plan to enhance shareholder value. During the Reorganization process, we will work closely with this newly formed committee to explore and execute all options that could unlock value for Alibaba Group.

Under the leadership of the Capital Management Committee, we are committed to improve shareholders' return and execute a robust Capital Allocation Framework as a holding company that focuses on three priorities:

- First, the strength of our balance sheet and our cash position is a competitive advantage in an uncertain environment. While we maintain a prudent approach to our capital structure, we will be focused on improving return on invested capital in managing the assets of the company.
- Second, we will design, review, and implement EPS accretive activities including consistent share buybacks to reduce our outstanding share count, while maintaining discipline in managing our ESOP programs.
- Third, we will explore all options to enhance shareholders' return by achieving more transparency in the value of our assets and returning capital to shareholders, including subsidiary fundraising, IPOs and spin-offs.

Let me share with you in details the actions we have taken and will be taking following today's announcements.

Going forward, our main source of funds will be from Taobao & Tmall Business Group, which will continue to be our core holding and 100% owned. The Taobao & Tmall Business Group generates substantial annual free cash flow, which will be made available to the Alibaba Group. In Fiscal Year 2023, we generated USD25 billion in free cash flow that was mainly contributed by this business and we believe it will continue to generate strong free cash flow in the future.

In the future, as a result of the Reorganization, our additional source of funds will come from monetization of our consolidated businesses. As Daniel mentioned, our board has approved the following transactions as the initial phase of our capital management planning:

- First, for Alibaba International Digital Commerce Business Group (or AIDC), we are confident of its opportunities and growth prospect and we plan to start its external financing process. The capital raise will assist the business group to expand into new geographic markets, invest in new technologies, grow its consumer and supplier base, strengthen its management team and develop and enhance its products and services to its customers globally.

- Second, we are starting a process to explore an IPO of Cainiao Smart Logistics Group. The group provides supply chain, logistics, and delivery services to consumers and merchants that are customers of Taobao & Tmall Group and AIDC Group, as well as third party customers. Alibaba Group holds a 67% equity interest in the company. We target to complete the IPO in the next 12 to 18 months.

- Third, we are starting a process to execute an IPO of Freshippo, our new retail business. We expect the IPO will be completed in the next 6 to 12 months.

Importantly, except for Taobao & Tmall Business Group, these businesses and other subsidiaries are given a limited time period to access Alibaba Group's capital including equity injection and/or credit facilities lending that are based on market terms. After which each business should have their own stand-alone financing capability that may include raising private equity, issuing debts, and/or becoming publicly listed.

We believe the successful completion of these transactions will further optimize our capital structure and strengthen our cash position that can be used for shareholders' return.

Second, we are committed to execute EPS accretive activities that improve shareholders return. During fiscal year 2023, we repurchased 129.9 million of our ADSs for approximately 10.9 billion USD under our share repurchase program, which represented approximately 44% of our free cash flow. From April 1st to May 17th, we have repurchased another USD2.3 billion in ADSs. Currently, we still have an unutilized amount of approximately USD17.1 billion under the share repurchase program that we will continue to execute.

Under the Reorganization, each Business Group will have their own ESOP program that aligns the interest of their management and employees to their business performance and equity value creation. This in turn means less ESOP issuance at the HoldCo level in the future. Additionally, as long as the Business Groups remain majority owned by Alibaba Group, the Capital Management Committee will review their proposed annual ESOP plans with the objective of balancing between the potential dilution to Alibaba Group's shareholders and providing an attractive level of incentives for Business Groups to attract and retain talents.

Lastly, as announced, our board of directors approved a full spin-off of the Cloud Intelligence Group via a stock dividend distribution to our shareholders. Prior to the spin-off, we plan to include external strategic investors in Cloud Intelligence Group through private financings. In connection with the spin-off, Cloud Intelligence Group intends to become an independent publicly listed company. The spin-off will be subject to restructuring of certain assets, liabilities and contracts, implementation of employee equity incentive plans, market conditions, as well as regulatory reviews and approvals in relevant jurisdictions. We intend to structure the spin-off in the most tax-efficient way for our shareholders. Subject to the transactions, conditions, and approvals described above, we target to complete the spin-off in the next 12 months.

We believe the successful execution of this plan will further unlock value for Alibaba's shareholders in the future.

Now, let me provide a brief review of our financials during the March 2023 quarter.

For the quarter ended March 31, 2023, total revenue was RMB208.2 billion, an increase of 2% that was primarily driven by the revenue growth of International commerce segment by 29% to RMB18.5 billion, Cainiao segment by 18% to RMB13.6 billion, and Local consumer services segment by 17% to RMB12.5 billion.

Adjusted EBITA increased by RMB9.5 billion to RMB25.3 billion year-over-year in the quarter. The increase was primarily due to an increase in China commerce adjusted EBITA, as well as narrowed adjusted EBITA losses of Local consumer services and Digital media and entertainment. Overall adjusted EBITA margin improved by 4 percentage points year-over-year to 12%.

Now let's look at cost trends as a percentage of revenue excluding SBC.

Cost of revenue ratio, excluding SBC, decreased 2 percentage points to 66% in the quarter ended March 31, 2023, primarily due to decrease in cost of revenue from direct sales. Product development expenses ratio decreased 1 percentage point during the quarter. Sales and Marketing expenses ratio decreased 1 percentage point year-over-year to 12% in March quarter, reflecting our continued efforts in optimizing user acquisition and user retention spending across businesses. General and administrative expenses ratio remained stable at 5% in March quarter.

Our GAAP net income was RMB22 billion, an increase of RMB40.4 billion year-over-year, primarily due to net gains arising from the increases in the market prices of our equity investments in publicly-traded companies compared to net losses from these investments in the same quarter last year, partly offset by the decrease in share of profit of equity method investees, the increase in impairment of investments, and the decrease in income from operations.

As of March 31, 2023, we continued to maintain a strong net cash position of 399 billion RMB or 58 billion USD. As mentioned, during fiscal year 2023, our strong net cash position was supported by healthy free cash flow generation of RMB172 billion (USD 25 billion). In addition, we have been disciplined in investments. For the fiscal year ended March 31, 2023, our net cash used in investment and acquisition activities, was RMB 840million, compared to RMB37.4 billion in the same quarter last year.

Now, let's look at our segment results.

Revenue from China commerce segment in March quarter was RMB136 billion, a decrease of 3% year-over-year.

For the quarter ended March 31, 2023, online physical goods GMV on Taobao and Tmall, excluding unpaid orders, declined mid-single-digit year-over-year. Customer management revenue decreased by 5% year-over-year to RMB60.3 billion. The year-over-year gap between CMR and GMV on Taobao and Tmall has been narrowing.

Direct sales and others revenue declined 1% to RMB71.8 billion, mainly due to decrease in offline store sales.

China commerce Segment Adjusted EBITA increased by RMB6.3 billion to RMB38.5 billion in March quarter. Segment adjusted EBITA margin increased from 23% in the March 2022 quarter to 28%. This reflected significant loss reductions from Taobao Deals, Taocaicai and Freshippo, partly offset by decrease in profit from customer management services.

Our International commerce segment revenue in March quarter was RMB18.5 billion, an increase of 29% year-over-year.

Revenue from International commerce retail business increased by 41% to RMB14 billion. The increase was primarily driven by business growth acceleration of all our major businesses including AliExpress, Lazada, and Trendyol.

International commerce Segment Adjusted EBITA loss narrowed by RMB233 million to RMB 2.3 billion in March quarter.

The loss reduction year-over-year was primarily contributed by the reduced losses from Trendyol, partly offset by the increased loss from Lazada.

The increased loss from Lazada was primarily due to a one-off early termination expense in connection with renegotiating new service contracts to reduce future operating cost. Excluding this one-off effect, the Adjusted EBITA loss of International commerce Segment would be less than RMB1.5 billion.

Our Local consumer services segment revenue in March quarter grew 17% to RMB12.5 billion, primarily due to positive GMV growth of Ele.me driven by order growth and higher average order value.

Local consumer services Adjusted EBITA loss reduced by RMB1.4 billion year-over-year to RMB4.2 billion. Most of the loss reduction was driven by Ele.me business, while other major businesses within the segment also recorded losses[1].

Ele.me continued to improve its unit economics per order by increased average order value and reduced delivery cost per order. Its UE continued to improve year-over-year and remained positive this quarter.

Revenue from Cainiao, after inter-segment elimination, grew 18% year-over-year to RMB13.6 billion, primarily contributed by the increase in revenue per order from international

[1] "Recorded reduced losses" was mistakenly stated as "recorded losses".

fulfillment solution services as well as increasing demand for consumer logistics. In March quarter, 72% of Cainiao's total revenue was generated from external customers.

Cainiao recorded adjusted EBITA loss of RMB319 million in March quarter, loss reduced by RMB593 million year-over-year.

Revenue from our Cloud segment, after inter-segment elimination, was RMB18.6 billion in March quarter, a decline of 2%. The year-over-year decrease in revenue of our Cloud segment reflected delays in delivery of hybrid cloud projects given COVID-19 resurgence in January and normalization of CDN demand compared to same period last year.

Adjusted EBITA of Cloud segment was a profit of RMB385 million in March quarter, increased by RMB109 million year-over-year.

Revenue from our Digital media and entertainment segment in March quarter was RMB8.3 billion, an increase of 3%.

Adjusted EBITA was a loss of RMB1.1 billion, reduced by RMB864 million year-over-year, primarily due to the narrowing of loss from Youku driven by disciplined investment in content and production capability.

Now let me pass to Trudy who will speak about Taobao & Tmall Business Group.

**Taobao & Tmall Group Business Update**

Trudy Dai

*Director and CEO, Taobao & Tmall Group*

(Translation)

Thank you, Toby. This is Trudy and it's a pleasure for me to speak with you all today.

In this new year, we've seen positive momentum in China's economy, with 4.5% year-on-year growth in first-quarter GDP and a moderate recovery in consumption. In Taobao and Tmall’s business, following the recurrence in COVID in January and the spring festival travel season, from February through to April we achieved year-on-year positive growth in both users and GMV on the Taobao app and EBITA has been good as well.

Apart from those macro factors, this is also the result of the strategies we have been implementing, including around cost optimisation and efficiency improvement, as well as our “five battles”.

Even more importantly, we see many positive factors going forward. Despite the waning demographic dividend and intensified competition in the e-commerce sector, new opportunities are being created by growing consumer demand for more diversified offerings, and also by technological advances.

Accordingly, we have updated our strategy and mapped out new development plans, which we're currently implementing. I'm confident that these initiatives will enable us to capitalise on the recovery in consumption and to seize the opportunities created by market developments and technological advances to further consolidate our leading market position with both consumers and merchants, amidst intense competition, and to make exciting new breakthroughs in user experience.

First, based on our trialling of new interactive formats and content over the past two years, we're even more certain that beyond shopping, consumers want to find a broader range of more diverse content on Taobao, including shopping-related encyclopaedic knowledge, lifestyle recommendations, and even interactive entertainment. This is corroborated by the hundreds of millions of long-tail keyword searches made by users every day. Over the coming few years, Taobao will therefore be making large and sustained investments to satisfy and to create user demand.

This will include investments to further enrich and diversify merchandise assortment, to create more differentiated content, and to introduce new interactive entertainment scenarios. While accelerating growth in user scale and user time spent and consolidating its position as China's most widely used online marketplace, Taobao will be progressively upgraded into a one-stop consumption and lifestyle platform.

Second, we will build a prosperous ecosystem by making the supply side more open and inclusive. To this end, we have made organizational upgrades. For example, we've established an SME Development Centre that is devoted to supporting start-ups and small- and medium-sized merchants, and to making their operations simpler. Our Grocery Store Business Development Centre works to enable users to buy fresh foods on Taobao faster and with greater savings. And our livestreaming and content teams will provide strong support to content creators. Additionally, we'll be leveraging technological upgrades and innovations to make operating costs lower and increase ROI for merchants.

Third, leveraging advances in AI and other technologies, the Taobao app will be upgraded to meet a broader range of user needs. Going forward, we'll be more focused on investing in technology for Taobao, building on the entire Group's technology and data capabilities. We will upgrade existing merchant tools and create new tools as well. And we will create new lifestyle scenarios for users, ushering in the next-generation paradigm in user experience.

In summary, our strategy is "putting users first, building a prosperous ecosystem, and realising technology-driven innovation". And our core goal is for Taobao to continue to be the number one consumption platform serving the largest number of users while upgrading the platform into a portal for consumption and life. Undoubtedly, that means that over the coming one to two years, Taobao will be investing more in users, merchants, and technology, will work to reduce merchants' operating costs, and will provide good prices, good merchandise, good content, and good service to our users. In this way, we will maintain our leading position in terms of both user scale and merchant scale.

I am confident that with Taobao's strong business momentum, scale effects, and favourable policies for merchants, we will create long-term growth opportunities for merchants. We will work to be the number one place to do business online not just for brands but also for a broader range of merchants and content creators.

On that basis, we clearly foresee platform ROI growth in the mid- to long-term, and of this I'm fully confident. So, over a three-year horizon, I will be making resolute, sustained, and major investments to realise the above three strategies and achieve sustained growth in users.

Thank you very much. And at this point, I'll hand over to Jiang Fan.

## Alibaba International Digital Commerce Group Business Update

Jiang Fan

*Director and CEO, Alibaba International Digital Commerce Group*

(Translation)

Greetings. It's my pleasure to be able to speak with you during this earnings call.

Just now, Daniel spoke about the restructuring of the Alibaba Group. As part of this restructuring, we've established the Alibaba International Digital Commerce Group (AIDC), which includes various business models and operates in different countries.

In the B2C retail sector, we have a portfolio of digital retail platforms with a local commerce model, including Trendyol, Daraz and Lazada. Additionally, we operate several cross-border B2C platforms, including AliExpress and Tmall Taobao World. We also have Alibaba.com, which is a global B2B trade platform serving the wholesale sector.

This past quarter, the International commerce segment has shown rapid growth momentum. Growth has primarily been driven by expansion of our business scale and by increased monetization. AliExpress officially launched a new service called "Choice", which is based on the Fulfilled by AliExpress model. It provides consumers with value-for-money product choices and better services, further enhancing the consumer experience. AliExpress has maintained rapid overall growth.

Following the earthquake in Türkiye in early February 2023, Trendyol and Alibaba Group actively provided relief support. Although our business in Türkiye was affected in the short term, it quickly recovered and achieved strong growth with the number of orders this quarter up by over 27% year-over-year.

In Southeast Asia, Lazada's monetization rate continues to improve, achieving a good balance between business scale growth and operational efficiency improvement. Overall, after a challenging year, our international commerce business has recovered and is back on a growth track.

Looking ahead, we will continue to invest in the cross-border plus local commerce model in our B2C retail sector. There is still significant potential to grow our cross-border business. With the launch of the Choice service, AliExpress's user experience has significantly improved, and AliExpress's business will continue to grow. In the Local Commerce business, we will continue to invest in the Southeast Asian market while actively seeking opportunities in other new regional markets.

In the B2B wholesale sector, we've made many upgrades to our existing models, expanding from transaction services to other value-added services such as finance, logistics, and digital SaaS services. We believe these new business models will enable our wholesale business to maintain healthy growth in the coming several years. Additionally, we will also actively expand our B2B business model into other markets.

Thank you. Next, I will hand over to Daniel to present to you on the cloud business.

## Cloud Intelligence Group Business Update

Daniel Zhang

*Chairman and CEO, Alibaba Group & Chairman and CEO, Cloud Intelligence Group*

(Original)

In the next section, I will share some updates about our cloud computing business.

In the past quarter, our cloud revenue decreased by 2% year-over-year. This is partially due to our proactive move to adjust our revenue structure and focus on high-quality growth, and also a result of external changes in market environment and customer composition. The external factors include the impact from a top customer phasing out using our cloud services and switching to self-built infrastructure for its international business, whose revenue contribution to Alibaba Cloud decreased 41% year-over-year. In addition, the resurgence of pandemic in China in January also impacted public cloud consumption and delayed delivery of certain hybrid cloud projects during the quarter. As the pandemic eased off and remote working and schooling activities decreased in February and March, demands for services such as CDN also decreased quite significantly.

If we zoom out from the short-term fluctuation in cloud revenues, and look back at AliCloud's development over the past 14 years and cloud's vast future with the rapid development of AI, we see massive market potential and remain confident at AliCloud's future. We got to where we are today because AliCloud seized two historic opportunities—rapid development of China's mobile Internet and digital transformation of traditional industries. With its industry-leading technologies and products, AliCloud established its market leadership in China and globally by supporting the growth of many digital-native enterprises and digitalization of many industry customers. Today, the age of AI brings two new historic opportunities to AliCloud.

Firstly, the emergence and broad application of artificial intelligence, large models, and various vertical models have raised new requirements for computing power. This is a huge first-mover advantage for AliCloud, as we have established sizable IAAS and PAAS to provide stable, secure, high-performance, and cost-efficient computing services. We hope that AliCloud's services can not only support our self-developed foundation model, but also support the training and services of other large models and vertical models in the market. Today we are a leading provider of large-scale high-performance computing services based on public cloud. Leveraging this technology advantage, we are working with enterprise customers and entrepreneurs to support their demands for model training.

The second opportunity lies in building model-as-a-service, or MaaS on top of our foundation in IaaS and PaaS. We hope to offer our proprietary foundation model to the general public while supporting our customers, partners and developers to produce vertical models and services they need based on our foundation model.

In April, we released a large-language pre-training model Tongyi Qianwen. Currently, more than 200,000 customers have applied for trial access, and we have started to work with several industry partners to develop vertical models based on Tongyi Qianwen. We also plan to launch cloud products and enterprise solutions based on the Tongyi model. At the same time, the emergence of large models also brings new opportunities to integrate AI with the various businesses within Alibaba Group. Starting from Dingtalk, we believe that all of our consumer-facing businesses can be reinvented with large models to offer a new AI-based service experience for our users. Qianwen, a large-language model, is just one member in the family of our Tongyi series of pre-training models. We plan to release some of the other large models in the Tongyi series in the near future.

As a cloud computing product company, AliCloud is committed to investing in core technology development in cloud computing, big data, and AI to make computing more inclusive and AI more accessible. Recently, we have introduced a series of new products and pricing policies. We believe these measures can further expand the customer base and cloud consumption of our public cloud services, and drive the usage of high-performance computing power required for AI model training and related services. These will provide a healthier and more sustainable growth driver for AliCloud’s long-term development.

Before ending our sharing today, I would like say a few more words: Looking back at the recent events in the past few months, Alibaba, like the world we are in, is at the beginning of a new era of transformation. The world is standing at the new starting point in the age of AI. The breakthroughs in artificial intelligence will reshape every aspect of our society, how we work and how we live, creating opportunities for disruptive innovations while bringing new problems for mankind to solve together. For Alibaba’s own transformation, we expect the progress in group reorganization and capital management efforts to further unlock Alibaba's own productivity and foster more innovation, such as new products & services and new experience focused on creating value for our customers. Through these efforts, we hope to bring greater and longer term returns to our employees and shareholders.

Thank you!

## 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 and our management will address your question in the language you ask. 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.

**Ronald Keung (Goldman Sachs):**

(Translation)

Thank you, Daniel, Toby, Trudy, Jiang Fan, and Rob, for the detailed presentations. Trudy and Daniel both stated that following Alibaba's reorganization, Tmall and Taobao's cash flow and profits will no longer be used to support the other subsidiaries, which will be responsible for their own profits and losses. And Trudy also just spoke about her three-year investment plan. If these subsidiaries will have the ability to raise capital independently, and Taocaicai and Taobao Deals are narrowing their losses, will you plan to reinvest in CMR? If CMR recovers its growth speed, will you plan to maximize CMR growth, or to reinvest the incremental profits from CMR? Or will you continue with the relatively balanced strategy of previous years, especially given that you are about double the size of the competition, and maintaining leadership in terms of GMV is a priority. Thank you.

**Trudy Dai:**

(Translation)

At Alibaba, we always believe in starting with the end goal in mind. So where and how much we invest in the short- to mid-term will be determined based on where we aim to get to in the long term.

Today's global economic environment is highly uncertain. At the same time, science and technology are making rapid advances. As business operators, we need to plan for the long term in the context of large cycles.

As I said earlier, over the next three to five years, Taobao's focus will be on putting users first, building a prosperous ecosystem, and realizing technology-driven innovation, and on advancing our transformation from transaction to consumption, and from consumption on to life.

We are the largest e-commerce platform in terms of both user and merchant scale. But competition is intense and brutal. Hence, we are very clear about the direction and intensity of the investments we will be making over the next one to two years. We will invest in expanding user demand, in optimizing user experience, and in growing user scale and user time spent.

As I stated earlier, we will make a maximum effort to scale up our investments in driving user growth and in building a prosperous ecosystem. In our business philosophy, we see take rate more as an indicator of platform health, or a measure of the level of confidence and approval that merchants have for our platform --- merchants including those selling goods as well as content creators.

As for CMR, this is a result of the interaction between user scale, merchant scale, and the "confidence index". So we aim to get more users and more merchants on board. Going forward, we will drive long-term growth in platform revenue mainly by growing user and merchant scale and by leveraging technological innovations.

**Gary Yu (Morgan Stanley):** Inaudible

**Rob Lin:** Gary, we can't really hear your question very well. Please dial in again later. Next question please.

**Alicia Yap (Citigroup):**

(Translation)

Good evening, management, and thanks for taking my questions. I would like to ask about the cloud business.

Alibaba Cloud has recently adopted a strategy of proactive price reduction. What will the ultimate result of this decision be? How has customer reaction been so far?

In the long term, will Alibaba Cloud be able to maintain its leading market share in the IaaS space? Or will we see some changes in the landscape, with more players entering this market? And do you think that Alibaba Cloud can continue to be the largest player in each of the IaaS, PaaS, and SaaS plus AI solutions spaces going forward?

Finally, in the long term, at what level will the operating profits of the cloud business stabilize?

**Daniel Zhang:**

(Translation)

Thank you, Alicia. This is Daniel. I'll take these questions.

Our recent price strategy has attracted a lot of attention in the market and has been very well received by customers. The objective of this strategy is to make computing power more accessible, including to small and medium sized companies as well as to developers. The significance of expanding our coverage of SMEs and of acquiring more developers and university students as users will be very positive. In the long term, this will help us not only to develop large industry players and key accounts as cloud customers but also to grow a future source of demand.

The second thing I would add is that our pricing strategy is also based on the recognition that cloud computing, and public cloud in particular, is a business characterized by economies of scale. So as the leader in this market, we need to leverage our technological leadership and pass on the dividends of lower costs to our customers. This is our established business strategy, and the recent price adjustment was also based on this consideration. At the same time, we are transforming our achievements in technology into customer value in a way that customers can truly feel.

On your second question, certainly Alibaba Cloud is in the leading position in China in terms of both IaaS and IaaS+PaaS. We have seen a lot of industry reports, and there are indeed various different players entering the cloud market. But Alibaba Cloud is very focused on public cloud and on leveraging public cloud to provide cloud-based services. The proportion that public cloud makes up within our revenue is very high, and significantly higher than our competitors. At the same time, we are also generating significant, high-quality revenue from our core IaaS and PaaS products, and are working hard to increase this further. Only in this way can we better leverage the economies of scale that are inherent to cloud and realize cost savings and technological dividends.

Certainly, recent advances in AI present a huge new opportunity for cloud vendors, as I said earlier. This is because artificial intelligence applications will result in an exponential increase in demand for computing power, especially high-performance computing power. Computing power will become a kind of basic infrastructure, or a public utility. So we need to be making utmost efforts to be prepared to serve this new AI era.

Of course, with the development of AI models, including foundation models but also industry models, there will be many new opportunities for us to develop and launch new cloud-based, AI-powered products for different use cases in different industries. So the development of AI really represents two opportunities for the cloud business: growing demand for computing power plus expansion of new product lines.

Finally, as to profitability, cloud is still in the early stage of growth as a proportion of overall IT expenditure, especially given the huge opportunities being created by breakthroughs in AI. So in terms of where we're at today, there does remain a considerable gap in our level of profitability as compared against other leading cloud ventures internationally, but we believe that gap is our opportunity. As we continue to grow and scale, and as we develop our core technologies in particular, we are fully confident that we will be able to achieve better economies of scale and higher profit margins.

**Alex Yao (JP Morgan):**

(Translation)

Thank you, management, for taking my question. In the press release, the wording used in relation to the cloud business spin-off was "a full spin-off via a stock dividend distribution". Does that mean that the Alibaba Group will return the value of its equity in Alibaba Cloud to the existing shareholders by way of a dividend distribution, and we will not hold any shares in the cloud business?

Going forward, various other assets under the group will also be spun off and will seek IPOs. What considerations will factor into your decisions as to which assets you will retain majority control over, keeping over 50% of the equity, which assets you will reduce your stake down to the 30-50% level, and which assets you will retain less than a 10% equity stake, or even dispose of completely?

**Toby Xu:**

(Translation)

Thank you, Alex. This is Toby. I'll take the first part of that question.

Yes, your overall understanding is correct. We are currently planning for a full spin-off [of the cloud business].

As was mentioned in Daniel's prepared remarks and also in mine, we've established a Capital Management Committee at the level of the group's board of directors. Its primary objective is to seek ways to enhance returns for our shareholders.

So this is a decision that has been made following a discussion by the Capital Management Committee and that has been approved by the board.

The reason we have decided that the cloud business is to be fully spun off, as Daniel shared in his prepared remarks, is because its business model is fundamentally different from Alibaba's consumer-facing businesses.

Let me hand over to Daniel, who will answer the second part of your question.

**Daniel Zhang:**

(Translation)

Let me first supplement the answer to your first question. The decision to fully spin off the cloud business was made not only in consideration of the very different characteristics of the cloud business versus the Alibaba Group's consumer-facing businesses, but also to enable us to take advantage of the spin-off to make adjustments to the shareholder structure, to bring on board strategic investors who can help the cloud business develop further and lay down a foundation to grow the business in the market.

This is, indeed, a major decision, and we will of course give full consideration to the interests of existing shareholders, including in terms of tax-related arrangements, so as to ensure that the restructuring will maximize value for shareholders.

Your second question had to do with which of the businesses we will retain majority control over, which of the businesses will be deconsolidated, with the group retaining a minority stake, and which of the businesses may even be disposed of entirely.

The simple answer is that it comes down to our three core strategies, namely consumption, cloud, and globalization --- and when we talk about globalization, that is globalization of digital commerce, logistics, and cloud computing.  These three strategies give a clear indication to the market as to which are our strategic assets and our strategic businesses.

Of course, in implementing these three core strategies, we have multiple different avenues available to us in capital markets. In determining whether to retain a controlling share versus a smaller stake in the different businesses, the decision really comes down to what is best for that particular business in terms of its ability to grow and succeed. For those businesses that can develop [better] independently, we will not hesitate to let them go to the market and develop independently, and even grow from a "little Alibaba" today into another "big Alibaba" in the future.

So I think what you have to look at in respect of each business is whether it has a clearly defined target market, clearly defined customers, a clearly defined business model, and clearly defined core competencies. A business that has those four things --- a market, customers, a business model, and core competencies --- can succeed independently in the market. That's how we see Alibaba Cloud today, and that's why we are convinced that Alibaba Cloud, as an independent company, can grow to be as big as or even bigger than the Alibaba Group is today.

Following the restructuring that we announced in March, the major change is that we'll be evolving from a highly diversified group company into a number of individual business groups that are each more focused on their own business, each with a strong focus on their own strategy and on developing their own core competencies. This will certainly benefit their customers and their employees, and ultimately will maximize value for our shareholders.

Thank you.

**Gary Yu (Morgan Stanley):**

(Translation)

Thank you, management. My first question is about the full spin-off of Alibaba Cloud. You said earlier that this will be accomplished by way of a dividend distribution. But if Alibaba's shareholders were to directly hold shares in Alibaba Cloud instead, would they not also be relatively liquid given that the transaction will include an IPO?

My second question relates to capital management. Will you be considering issuing any dividends? Or is it the case that you prefer share buybacks over dividend distributions due to tax-related reasons?

My final question also relates to capital management. You mentioned that when different subsidiaries become listed companies, they will have the opportunity to raise funds, and will be responsible for their own profits and losses. As part of those transactions, say for example when Freshippo goes public, will the Alibaba Group recover cash by selling its original shares?

**Toby Xu:**

(Translation)

Thank you for those questions. Let me take them, as they relate to detailed technical issues.

Following our announcement of the restructuring back in March, we've been working on the overall planning of these transactions and mapping out the details. During this phase, from the market perspective, you can see a lot of examples.

In respect of the spin-off of the cloud business, there will certainly be a range of specific issues that we need to take into consideration. What I can share at this point is that we will take all of these details into consideration in working out the plan, in order to address the concerns of investors, including, as Daniel said, around taxation, and ultimately ensure shareholder return.

At this point, I am not in a position to share all the details of our plans with you. So please stay tuned for good news to follow. Thanks, that was on your first question.

Your second question related to whether we will employ share buybacks or distribute dividends. In the case of the cloud business spin-off, we've opted to go with the dividend approach. But if the question is in general, which approach is better --- share buybacks versus dividend distributions --- there will probably be different opinions out there in the market.

As I shared earlier, the newly established Capital Management Committee will make an overall evaluation as to what is in the best interests of shareholders. This will include making a balanced consideration of share buybacks and also other approaches. All possibilities will be evaluated, as part of our consideration of shareholder return.

Your third question had to do with Freshippo's IPO plans. As we announced today, we intend to complete Freshippo's IPO within 6-12 months. We are currently working through the details of the IPO process and fundraising plans. At this time, I'm not in a position to share any further details.

**Daniel Zhang:**

(Translation)

Allow me to add to that answer. As to whether the Alibaba Group Holding Company Limited will cash out some of its original shares or recoup its investment as part of the fundraising or IPO process, again, we will need to make a balanced consideration of, first, what is best for the business's ongoing development, and second, how to realize a return for Alibaba Group Holding Company Limited and our shareholders. Of course, the most important thing is to give the market confidence, including by ensuring the necessary market liquidity. These are all factors that we will take into consideration as we make decisions and engage in these capital market activities. Thank you.

**Jerry Liu (UBS):**

(Translation)

Thank you, management. I have a couple of questions relating to e-commerce.

My first question is on the recent growth rate of Taobao and Tmall. I know that investors are very interested in the growth rate over the past few months, and it sounds like GMV growth is now back to positive. Could you please share with us your view on the short-term trend?

You've also mentioned that competition has been very intense in the e-commerce space this year. But at the same time we see that profit margins have improved in the China commerce business. Can we expect to see further improvement in profitability in the China commerce business this year, despite the intense competition?

My second question is on Alibaba International Digital Commerce. Unlike the Cloud and China commerce businesses, the international business is still loss-making at present. Taobao and Tmall will be making certain investments going forward. But I'm wondering about the strategy and plans for AIDC, and whether the plan is to maximize growth or to balance growth and profitability?

**Trudy Dai:**

(Translation)

Thank you for the questions. Indeed, Taobao and Tmall achieved good results in March and April, especially in terms of user and order growth. There are several reasons for that. First, the moderate economic recovery that's been unfolding following the first quarter. Second, the long-term effects of our earlier efforts around cost optimization and efficiency enhancement that have started to pay off over the past few months.

Additionally, the three strategies we have defined this year are putting users first, building a prosperous ecosystem, and realizing technology-driven innovation. Our investments in users, merchants, and technology are just getting started. As I said earlier, I am adopting a three-year horizon for planning and operating the business. Within this three-year plan, the most important objectives this year are investments in users, merchants, and technology. I am confident that growth in users and merchants will bring about growth in our scale. Thank you.

**Jiang Fan**

(Translation)

Let me take the second question. As I said in my earlier remarks, AIDC comprises many different business models across various different regions. A lot of our businesses are already very profitable, while others are still in the investment phase.

Second, there is huge potential to grow our international business, both on the retail side and in the B2B digital trade segment.

We will definitely continue to invest in promising markets and promising business models.

Of course, we will also continue to optimize and enhance the operating efficiency of our existing businesses.

We are taking a very long-term view of our international commerce business, and will periodically review our investments and the profitability of our different businesses.

**Rob Lin:**

(Original)

Well, thank you everyone for joining today's call. If you have further questions, feel free to reach out to me and my team. We look forward to having you again next quarter. Thank you.

[END OF TRANSCRIPT]