Alibaba Group

March Quarter 2024 and Full Fiscal Year 2024 Results

Conference Call

Transcript

Tuesday, 14 May 2024

Introduction

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Thank you and good day everyone. Welcome to Alibaba Group's March Quarter and Full Fiscal Year 2024 Results conference call. With us are Joe Tsai, Chairman; Eddie Wu, Chief Executive Officer; Toby Xu, Chief Financial Officer. We have also invited Jiang Fan, Co-Chairman and CEO of Alibaba International Digital Commerce Group to join the call. This call is also being webcasted from the IR section of our corporate website. A replay of this call will be available on our website later today.

Now, let me quickly cover the safe harbor. Today's discussion may contain forward-looking statements, including without limitation statements about our new organizational and governance structure, Alibaba's plan to convert to primary listing in Hong Kong, Alibaba's strategies and business plans, as well as our beliefs, expectations and guidance about our business prospects, such as the future growth of our business, revenue and return on investment and share repurchases. 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 reconciliations of GAAP to non-GAAP measures can be found in our earnings press release. Unless otherwise stated, growth rate of all stated metrics mentioned during this call refers to year-over-year growth versus the same quarter last year.

With that, I will turn over to Eddie.

Group Business Update

Eddie Wu

CEO, Alibaba Group

(Translation)

Hello everyone. Following several quarters of adjustments and continued user experience enhancement, our core business has gradually returned to healthy growth. Taobao and Tmall Group achieved double-digit year-over-year growth in GMV this quarter. Alibaba International Digital Commerce revenue increased by 45% year-over-year. Our core public cloud offerings recorded double-digit year-over-year growth in revenue, and AI-related revenue increased triple-digit year-over-year. This quarter's results demonstrate that our strategies are working and we are returning to growth.

Taobao and Tmall Group continued to execute its user-first strategy by creating a system for brands, distributors and industrial belt factories to operate efficiently and to meet the diverse needs of China's domestic consumers through a shopping experience that offers quality products at attractive prices supported by exemplary service. Our investments in driving price competitiveness and elevating the user experience have received positive consumer feedback. We've seen tangible results and progress, with strong growth in quarterly buyers and purchase frequency that has driven robust double-digit growth in GMV, reflecting a continued improvement in consumer sentiment and user trust. At the same time, we continued to enhance member benefits and service experience, with 88VIP members growing by double-digits year-over-year to surpass 35 million.

Last quarter, I shared Taobao and Tmall Group's three key investment areas aimed at enhancing overall capabilities: product supply, competitive pricing, and quality service. We are committed to boosting consumption willingness and purchase frequency through these measures, thus driving further growth.

In our fiscal year 2025, we expect Taobao and Tmall Group's GMV to gradually return to healthy growth as our platform's overall shopping experience continues to improve. At the same time, our schedule of launching monetization products will also proceed as planned. In the second half of the fiscal year, we will gradually introduce new monetization mechanisms aligned with new platform algorithms and product features that will further enhance CMR-centered revenue growth.

As we continue to improve our platform products and carry out investments under our user-first strategy, we're fully confident that we will win more consumer trust and maintain our market share leadership.

This quarter we completed adjustments to Alibaba Cloud's product strategy for the AI era and the quality of our revenue continued to improve. We focused on creating competitive advantages in Alibaba Cloud's technology and scale, and reduced pricing for our public cloud products globally. Revenue from our core public cloud products achieved double digit year-over-year growth this quarter. Driven by strong demand from foundational model companies, internet companies, as well as financial services and automotive customers, AI-related revenue accelerated and recorded triple-digit growth year-over-year.

We believe that this wave of generative AI-driven technological innovation is in the early stages of the industry cycle. Starting in 2024, we've seen a rapid increase in customer demand for AI. This has also stimulated growth in demand for traditional cloud computing needs including general computing, storage, and big data. Therefore, we are actively investing in our cloud computing product matrix, especially in AI infrastructure, to capture the monumental opportunities. Currently, Alibaba Cloud has established strategic partnerships with the vast majority of leading foundational model companies in China. At the same time, Alibaba's proprietary foundational model team, *Tongyi*, released a 110-billion-parameter model in late April which was on par with the top open-source models globally.

Looking ahead, we will deeply integrate our Tongyi large model with Alibaba Cloud's advanced AI infrastructure to realize synergies and optimization across software and hardware. We aim to create a premier AI development platform that combines outstanding AI capabilities with excellent cost efficiency, redefining the industry benchmark for cost performance. Based on our leading product portfolio, substantial infrastructure investments, and proactive industry partner strategy, we are confident that Alibaba Cloud's commercial revenue - i.e., revenue excluding internal customers within Alibaba Group - will return to double-digit growth in the second half of the 2025 fiscal year.

In our overseas e-commerce business, AIDC revenue grew 45% and order volume grew 20% year-over-year this quarter due to our continued focus on expanding cross-border retail operations and enhancing the consumer experience. Jiang Fan will share more details with you later.

In March this year, we withdrew Cainiao's IPO application. Cainiao provides essential infrastructure to Alibaba's core e-commerce business and we hope Cainiao will strengthen its synergies with our domestic and international e-commerce operations. At the same time, Alibaba Group will continue to support the expansion of Cainiao's global logistics network.

The past year has been a year of self-transformation for Alibaba. We're pleased that the changes we have made in our business and organization are producing results. A journey of transformation will undoubtedly bring challenges, but we are well prepared. In the new fiscal year, Alibaba Group will continue to focus on investing in our user-first, AI-driven strategy. We are fully confident in the company's long-term healthy development.

AIDC Business Update

Jiang Fan

Co-Chairman & CEO, AIDC Group

(Translation)

Greetings. This is Jiang Fan and it's a pleasure to be back to give you an update on AIDC's business.

AIDC continued to achieve rapid growth this quarter despite various market challenges in different countries and regions. Total orders were up by 20% year-over-year, with especially significant growth in our cross-border business. Next, let me share with you on the progress we've made around the three major drivers that are our consistent focus.

First, our business model and supply chain service upgrade. Driven by AE *Choice*, AliExpress continued to realize strong order growth. AE continued to advance its transition from the original platform business model to a supply chain-driven platform marketplace model and offered semi-consignment and full-consignment services as part of our hybrid business model upgrade. While maintaining rich merchandise assortment, we significantly enhanced user experience. By April 2024, AE *Choice* orders accounted for around 70% of total orders on AliExpress. At the same time, synergies between AliExpress and Cainiao further enhanced our logistic experience. We will continue to make effective investments while paying attention and improve the efficiency of the AE *Choice* model.

Second, product and technology innovation. We continue to bring more localized, high-quality user experiences to different consumers around the world. AI and intelligent technologies are continuously improving efficiency and user experience in areas such as cross-platform product listing, optimization of product details, multilingual search, and targeted recommendations. Moreover, an increasing number of small- and medium-sized enterprises on the platform are beginning to leverage AI services. Some 17,000 SMEs have subscribed to the AI Business Assistant launched on Alibaba.com and millions of products have now been launched with AI. Furthermore, searches for AI-optimized products have increased by 37%.

Third, sustained growth in key markets. Our continued investment in key markets for AliExpress has brought about growth in our user base as well as enhanced user experience, supporting our sustained rapid growth and continued leading position locally in these markets. Trendyol is also actively investing in cross-border business and achieving very rapid growth. In the Gulf region, Trendyol's brand recognition has improved rapidly driven by significant expansion in its range of merchandise supply. It has become one of the most downloaded e-commerce apps in the region.

There remains huge potential for AIDC to grow user penetration in the majority of its markets. We will achieve quality growth by providing better and more differentiated merchandise and services. At the same time, we will focus on enhancing operating efficiency both by narrowing losses in certain businesses and by making higher efficiency investments to continue to expand actively in markets around the world.

Thank you.

Financial Highlights

Toby Xu

CFO, Alibaba Group

(Original)

Thank you, Jiang Fan. First, I will provide a recap of the key financial highlights for fiscal year 2024. Following the overview, I will provide a detailed review of the financials for the March quarter.

During this fiscal year 2024, our total consolidated revenue was RMB941.2 billion, an increase of 8%. Consolidated adjusted EBITA increased 12% to RMB165 billion. Non-GAAP net income increased 11% to RMB157.5 billion, while non-GAAP diluted earnings per ADS saw faster increase of 14%, strengthened by our ongoing share repurchase program.

Excluding Sun Art, Freshippo and InTime businesses that have physical retail operations, Alibaba Group's revenue would have grown at approximately 11% and our group consolidated adjusted EBITA margin would have been approximately 3.6 percentage points higher at approximately 21%.

During the fiscal year 2024, under the leadership of the Capital Management Committee and our Board of Directors, we have increased cash returned to the shareholders.

We repurchased a total of about 1.25 billion ordinary shares (or equivalent to 156 million ADSs) for a total consideration of US$12.5 billion. After accounting for ESOP issuances, our outstanding shares decreased by 5.1% in fiscal year 2024.

Regarding cash dividend, we declared an annual cash dividend of US$1 per ADS, totaling about US$2.5 billion for fiscal year 2023, which was paid out in January 2024.

Furthermore, our Board of Directors has approved an annual cash dividend for fiscal year 2024 of US$1 per ADS, and a one-time extraordinary cash dividend as a distribution of proceeds from disposition of certain financial investments in the amount of US$0.66 per ADS, with total cash dividend amounting to approximately US$4 billion.

Through a combination of share repurchases and cash dividends, we have returned and plan to return about US$16.5 billion to shareholders for fiscal year 2024, up from US$13.4 billion for fiscal year 2023. We are committed to returning value to our shareholders and will continue to execute our capital return programs.

Now, let me provide a review of our financial performance for the March 2024 quarter. Overall, we observed improving fundamentals across our major businesses, supported by enhanced investments aimed at fueling growth.

During the quarter, our total consolidated revenue was RMB221.9 billion, an increase of 7%. Consolidated adjusted EBITA decreased by 5% to RMB24 billion. Our non-GAAP net income was RMB24.4 billion, a decrease of 11%. However, the decline in our non-GAAP diluted earnings per ADS was more moderate at 5% given our ongoing share repurchase program. Our GAAP net income was RMB0.9 billion, a decrease of RMB21.1 billion. This decline was primarily due to mark-to-market changes of RMB19.9 billion from our equity investments in publicly-traded companies which shifted from a gain in previous years to a loss this year.

As of March 31, 2024, we continued to maintain a strong net cash position of RMB446.5 billion or US$61.8 billion. Free cash flow this quarter was RMB15.4 billion, a decrease of RMB16.9 billion compared to the same quarter last year. The decrease mainly reflected the increase of RMB7.7 billion in capital expenditure, the majority of which reflected our investments in Alibaba Cloud infrastructure, as well as a special dividend of RMB10.5 billion from Ant Group in the same quarter last year.

Now, let’s look at cost trends as percentage of revenue excluding SBC during this quarter. Cost of revenue ratio increased by 1 percentage point to 67%. Product development expenses ratio remained stable at 5%. Sales and marketing expenses ratio increased by 1 percentage point to 13%. G&A expenses ratio decreased by 1 percentage point to 4%.

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

Revenue from Taobao and Tmall Group was RMB93.2 billion, an increase of 4%. During the quarter, our online GMV achieved double-digit growth, which was driven by rapid order growth supported by a strong increase in the number of purchasers and the purchase frequency. Strong GMV growth supported a 5% increase in customer management revenue, though overall take rate declined slightly. The overall take rate was impacted by a combination of two factors:

Firstly, Taobao and Tmall’s GMV both increased strongly. The decrease in take rate was due to Taobao’s GMV growth outperforming that of Tmall. This trend continues to reflect increasing demand of price competitive products offered on our platform. Second, take rate was also impacted by the introduction of new models that currently have lower monetization rates.

We believe our overall take rate has room to improve as the percentage of paying merchants among our SME merchants remains relatively low and we have yet to roll out the new advertising tools. As we gradually roll out the new advertising tools that would further enhancing merchants’ ROI, we see upside from potential increase in merchant adoption as well as higher incremental spending from paying merchants.

Direct sales and others revenue decreased 2% to RMB24.7 billion.

China commerce wholesale business revenue increased 20% to RMB5 billion, primarily due to an increase in revenue from value added services provided to paying members.

Taobao and Tmall Group adjusted EBITA was RMB38.5 billion compared to RMB39.0 billion in the same quarter last year, primarily due to the increase in investment in user experience, which resulted in improved consumer retention and higher purchase frequency, and technology infrastructure, partly offset by the increase in revenue from customer management service.

Revenue from Cloud Intelligence Group was RMB25.6 billion during the quarter, an increase of 3%. We are committed to our strategy of focusing on high quality revenues from increasing public cloud adoption while reducing low-margin project-based contracts.

During the quarter, our core public cloud offerings, which include products such as elastic compute, database and AI products, recorded double-digit growth in revenue. During this quarter, AI-related revenue experienced accelerated growth and continued to record triple-digit growth. We expect that the strong revenue growth in public cloud and AI-related products will offset the impact of the roll-off of project-based revenues.

Cloud Intelligence Group's adjusted EBITA increased by 45% to RMB1.4 billion. The increase was primarily due to improving product mix through our focus on public cloud and operating efficiency.

Alibaba International Digital Commerce Group (AIDC) revenue was RMB27.4 billion, an increase of 45%.

Revenue from International commerce retail business increased by 56% to RMB22.3 billion. The increase in revenue was primarily due to the solid combined order growth of AIDC's retail businesses, revenue contribution from AliExpress' *Choice* as well as improvements in monetization.

Revenue from our International commerce wholesale business increased by 11% to RMB5.2 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 RMB4.1 billion, compared to a loss of RMB2.2 billion in the same quarter last year. Loss increased primarily because of increased investment of businesses including AliExpress' *Choice* and Trendyol's cross-border businesses, partly offset by improvements in monetization.

Total revenue for Cainiao grew 30% to RMB24.6 billion, primarily contributed by the increase in revenue from cross-border fulfilment services. Cainiao adjusted EBITA was a loss of RMB1.3 billion compared to a loss of RMB319 million in the same quarter last year, primarily due to additional retention incentives granted to Cainiao employees recognized during the quarter, in connection with the withdrawal of its IPO.

Local Services Group revenue in March quarter grew 19% to RMB14.6 billion primarily due to the order growth of Ele.me and Amap. Local Services Group's adjusted EBITA was a loss of RMB3.2 billion this quarter, compared to a loss of RMB4.1 billion in the same quarter last year, primarily due to the continued narrowing of loss from our "To Home" business driven by Ele.me's improved unit economics and increasing business scale.

Revenue from our DME Group was RMB4.9 billion, a decrease of 1%. Adjusted EBITA was a loss of RMB884 million compared to a loss of RMB1.1 billion in the same quarter last year. Loss reduced primarily due to the reduced loss of Youku.

Revenue from All Others segment decreased 3% to RMB51.5 billion, mainly due to the decrease in revenue from Sun Art and Alibaba Health, partly offset by the increase in revenue from Freshippo. The decrease in revenue from Sun Art was mainly driven by the scale-down of supply chain business and decrease in basket size.

Adjusted EBITA from All others segment was a loss of RMB2.8 billion compared to a loss of RMB1.9 billion in the same quarter last year, primarily due to the increased loss from Freshippo and the decrease in profitability of Lingxi Games.

Lastly, we have been preparing for our primary listing in Hong Kong and currently expect to complete this by the end of August 2024. We will make a further announcement on the primary conversion date in due course.

In closing, our robust balance sheet positions us well to strategically reinvest our cash flows to foster growth and strengthen leadership in core businesses, thereby improving future returns on invested capital.

As Eddie and Jiang Fan mentioned, we anticipated that near-term investment will yield:

- Firstly, improved user experience in our domestic e-commerce platforms that supports strong GMV growth in FY25 and enhance monetization in the second half of FY25.
- Secondly, a return to double-digit revenue growth in the second half of FY25 for Alibaba Cloud business.
- And thirdly, continuous rapid growth momentum while improving unit economics for AIDC.

We are seeing positive initial results making us even more confident in achieving strong and sustainable growth in our core businesses.

Thank you and 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.

Kenneth Fong (UBS):

(Original)

Good evening, management. Thanks for taking my question. I have a question regarding the CMR versus the GMV growth.

Our strategy for focusing on user experience and price competitiveness have produced solid results and delivered a double-digit GMV growth despite the intense competition. As Toby earlier highlighted, because of the mix shift and early in monetization, we see CMR underperforming GMV at only 5% growth.

With our new ad product *Quanzhantui* "Omni-platform Marketing Solutions" to be launched, how should we think about the pace for this gap to narrow over time? And then down to EBITA, for the incremental growth in the CMR, should we expect this to be invested back to the business or we should expect a gradual margin expansion as the CMR growth gradually reaccelerates? Thank you.

Toby Xu:

(Original)

Kenneth, thanks for the question. I will provide my explanation and then, Eddie can add.

As you can see in this quarter that our GMV had a double-digit growth. And as I said, this growth was both quite strong in both Taobao and Tmall merchants. So the first thing is that I think the execution of our strategy, we have seen the results. Basically, we are back in growth. That's a very important message.

Secondly, we are enhancing our monetization product and we'll gradually roll out the monetization product which will help to enhancing the ROI and eventually enhancing the penetration into the merchants, particularly the SME merchants, as well as increase their spending in the monetization product.

However, it will take some time since we are rolling out gradually. So we will be able to see the growth throughout the year, particularly in the second half of the year that you will see the result coming out during the second quarter of the year.

Okay. Before Eddie adds on and gives you more color on the roll out of the monetization product, I will just also explain on the investments we are making.

For Taobao and Tmall, as we say, we see the early success of executing of our strategy by investing in the customer experience, various things focusing on consumer first. So, we see the result and we are willing to invest. So, that's the first thing.

Secondly, in terms of investments we are making, on the other hand, we are doing it in a very disciplined way. We do closely monitor the ROI, for the investment we can make, definitely we will see the good ROI from it, so it's in a very disciplined way. So we will continue to make investment. In terms of how much we are going to invest, really depending on the pace we're ramping up, the consumer experience as well as, you know, the supplies. So we have the resources and we are committed to making the investments.

Eddie Wu:

(Translation)

Thank you. Let me elaborate on the progress and plans for *Quanzhantui* ("Omni-platform Marketing Solutions"), which I know many of you are interested in.

Quanzhantui is an important product that we're developing to make it easier for small- and medium-sized advertisers to advertise effectively and drive their business growth. Currently, it's in a testing phase with a selected group of customers. The aim of this testing phase is to better fulfill the core goal of driving business growth while meeting the advertising ROI expectations of our customers. To this end, we're refining our algorithm models, investing more time in training these models, and utilizing a broader range of customer advertising data to enhance our overall efficiency in delivering ROI for customers. We anticipate that this will take some time, but we're confident it's a process that will ultimately be successful.

After the official launch of *Quanzhantui*, we anticipate that we'll need some time to expand its customer base and optimize the distribution of traffic among customers across various industries and user groups. So post-launch we expect to see a gradual increase in revenue from *Quanzhantui*. This phase is likely to take around 12 months. Essentially, the transition of *Quanzhantui* customers from the testing phase to the official phase will require a significant period of algorithm adjustment, matching customers with traffic, and enhancement of customer penetration rates once we commence full-scale operations.

But I would like to emphasize once again that this is a process with a very high degree of certainty. Just that implementing this business model and fine-tuning the algorithm model will take a substantial amount of time.

Gary Yu (Morgan Stanley):

(Original)

Thank you, management, for the opportunity. My question is regarding the Ali Cloud business.

I was encouraged to hear from management that we expected it to resume double-digit growth in the second half of the year. Could management please share some of the composition of the revenue growth driver behind? How much of the improvement in growth is coming from AI-related products? how much of it is coming from public cloud, and how much of it is coming from low-margin private cloud projects becoming a smaller part of the business?

And then, also related to that is, once we are back to the double-digit growth level, how should we look at the kind of medium-term margins for Cloud business going forward? Thank you.

Eddie Wu:

(Translation)

Thank you. Let me take this question.

If you look at the revenue growth in the Cloud business, the major driver right now is our new AI products. These AI-related products are driving substantial incremental demand. But when customers invest in AI-related products, that also means increased demand for other, traditional cloud computing products on Alibaba's public cloud. So demand for the one stimulates increased demand for the other.

Another factor is the ongoing reduction in project-based private cloud revenue. In fact, our public cloud business already achieved double-digit growth this quarter. However, that growth was partially offset by the decrease in project-based revenue. Going forward, we expect that in the coming quarters, the accelerated growth in our public cloud and AI-related revenues will more than compensate for the reduction in low-margin project-based revenue.

We started phasing out the low-margin project-based business last year and expect that drag to disappear within the next one to two quarters. Moving forward, our revenue growth will be predominantly driven by cloud offerings that provide long-term business value and high margins, such as our public cloud products and AI-related products.

On the second part of your question, regarding the profit margins we expect to achieve in the medium to long term once we get back to double-digit growth primarily driven by our public cloud products: Firstly, the majority of our public cloud offerings do maintain reasonably healthy profit margins. However, when it comes to AI-related products, we believe we're in the very early stages of a major 10-year IT cycle. We will uphold relatively healthy margins, but with a commitment to ongoing, longer-term investment during the early stages of AI. But overall, we expect all of our public cloud products to maintain healthy margins.

Alex Yao (JP Morgan):

(Original)

Good evening, management team, and thank you for taking my question.

So, for the domestic e-commerce business, it's great to see the GMV growth rate has recovered back to double digits in this quarter. Can you help us to understand what is driving the GMV growth rate to narrow the pace versus the e-commerce market? Or put it in another way: what did you do in the past quarter that leads to a slowdown of market share loss?

And a broader question is, what does it take to be competitive in the current China e-commerce market, given the rise of alternative e-commerce competitors in the market? Thank you.

Eddie Wu:

(Translation)

Let me take that question.

Fundamentally, it's about improving the overall shopping experience. And the e-commerce shopping experience essentially consists of three things: quality merchandise, competitive pricing, and excellent service.

But if you look at it more closely, there are actually different models for merchandise supply in China. We need to leverage different products to cater to those different supply models, to enhance price competitiveness and overall conversion efficiency.

As I mentioned earlier, we can basically divide suppliers into three categories: brand merchants, channel merchants, and manufacturers in industrial belts or white-label markets. For each category, we need different kinds of products, or different business models, to enhance their price competitiveness and conversion efficiency.

We are also investing in customer experience, including around logistics and customer service. We believe that by applying different sets of products to different kinds of supply, we can improve both product efficiency and service experience. This strategy will ultimately lead to increased purchase frequency on our platform. Our strong merchandise offerings and excellent service will also bring back more existing customers and attract new ones to make purchases on Taobao.

Let me also add the following: As you are aware, competition in China's domestic e-commerce market has been extremely intense. At Taobao, we have made some unique strategic choices. In the "shelf e-commerce" market, our goal is to improve product efficiency, which refers to the conversion rate of products and goods for consumers, backed by competitive pricing and quality goods and services.

On the other hand, the diversity and richness of the marketplace is also a crucial part of the equation for Taobao. What we have called "Universal Taobao", or "Omnipotent Taobao", is a unique value proposition that distinguishes us from our competitors in the domestic e-commerce market.

So our aim is to maintain the diversity and richness of the Taobao marketplace while simultaneously achieving higher merchandising efficiency for core, high-turnover products. By continuously improving in both of these dimensions, we are establishing our unique competitive advantage in China's e-commerce market.

Ellie Jiang (Macquarie):

(Translation)

Thank you, management, for taking my question. I have a follow-up question regarding *Quanzhantui* and the new marketing tools that have been mentioned.

We understand that similar products have been launched by our competitors. How would we evaluate our products' competitive differentiation? Also, what are the key factors that determine the conversion efficiency of these types of products when you design and launch them? I understand that part of it could be traffic, as well as the richness of the product offerings, as you just mentioned. Could you please elaborate on the underlying logic behind this? Thank you.

Eddie Wu:

(Translation)

Just to clarify the question, are you asking about our marketing products and how they are differentiated versus other platforms?

Ellie Jiang (Macquarie):

(Translation)

Yes, mainly focusing on the *Quanzhantui* product.

Eddie Wu:

(Translation)

I think that each platform is going to be different in terms of its monetization products, because these have to be designed specifically for that platform's unique traffic mechanisms, business models, and user demographics. So I don't think you can directly compare.

But certainly what merchants are comparing at the end of the day is the ROI that they can generate by investing on a given platform.

So I don't think you can directly compare user design and algorithm models across different platforms. But merchants will decide where to invest their advertising budget based on ROI. And in terms of where we're at today, merchants are achieving probably the highest ROI they can get on any platform with their advertising investments on our platform.

Alicia Yap (Citigroup):

(Original)

Hi. Good evening, management. Thanks for taking my questions. Congrats on the solid quarter.

I have a follow-up on the overall CMR growth. Obviously the 5% growth is very good and the double-digit GMV growth is good. Any obstacles that we foresee that could prevent GMV and CMR to further improve from here?

I'm just wondering how is the overall consumer consumption trend? It seems that we are gaining momentum that allows us to enjoy faster growth, despite potentially more muted macro outlook. Any color you can share with us with the latest trends that you're seeing for April and May on the GMV growth would be helpful. Thank you.

Toby Xu:

(Original)

Alicia, thanks for the question. I'll take this question.

As we explained, you know, we see the results from our investments, the GMV growth.

I think that the growth trend is sustainable from what we can observe. So we're still observing a good, healthy growth in April, May time.

And in terms of CMR, as we were explaining, because of the mix shift in the GMV towards Taobao merchants and also some of the new models and business products which has relatively low monetization at this stage, so there's a big headroom for us to increase the monetization rate.

And with the introduction and rollout of our monetization product, we will be seeing the growth of CMR to catch up with GMV gradually. So, it will lag behind a few quarters, but it will eventually catch up.

So, that's our belief in terms of the effect of the investment – effectiveness of the investments, both on the GMV side and as well as on the revenue side.

Joe Tsai:

(Original)

Alicia, this is Joe Tsai. I'd also like to sort of supplement what Eddie and Toby said.

I think implicit in your question is you're looking at our March quarter GMV growth in double digits and compared to last year it was an easy comp, because last year was partially coming out of the lockup from the COVID lockdown. So, the implicit question is, are we going to see, from a macro standpoint, what do we see from our platform that could reflect broader consumption trends.

What I would like to say is, as we look at the Chinese consumers, number-one, right now household cash is at its highest point. We're looking at something like $19 trillion of household cash savings that's in the system. So, the Chinese consumers have the ability to spend. I think all we're looking at is what's their confidence level of spending on a going-forward basis.

First of all, I think we've all seen some of the growth in the services sector during the May 1st holidays. And within our platform, we've seen some green shoots. Some discretionary items like apparels and electronics are actually growing, – the growth is pretty good. So what that tells us is that consumers are starting to – reflect that willingness to spend. We have no doubt that they have the ability, but the willingness reflects the confidence in what they have about the future.

So we're seeing some positive signals, but it is probably still too early to tell, because the macro environment is still broadly affected by the property sector downturn. On that front, we've been very encouraged that the local governments now have been relaxing the property purchase restrictions. So we're going to wait and see. But so far, confidence level, we've seen some early signs of growth.

Eddie Wu:

(Translation)

I'd just like to chip in on this point because I detect a common pattern across the past few questions, and I was actually just joking with Joe that it seems like our investors are even more anxious for us to make money than we are.

So I'd like to be really clear about what our primary goal is for this year. On platforms like Taobao, it is to invest in enhancing the competitiveness and efficiency of our offerings, as well as in improving the service experience, to drive GMV growth as well as purchase frequency. That's our number one objective this year. Once we've achieved that, then increasing CMR will be a natural extension of that success.

I'd also like to point out that I was personally involved in developing and leading the Alimama advertising platform, which has become a major source of revenue for us as Taobao has grown from zero to where it is today. I was intimately involved in Alimama's monetization process which took us from zero revenue on Taobao to 100 million, then one billion, and on to 10 billion.

So I can assure you that we have the ability to steadily enhance our advertising products and increase CMR. This will be a highly certain process, but we are pacing ourselves in order to provide a better experience for our merchants and consumers. For this year, we're primarily focused on improving the consumer experience and driving GMV growth through that improvement.

I just wanted to add that perspective to make sure it's clear.

Ronald Keung (Goldman Sachs):

(Original)

Thank you, Joe, Eddie, Toby, and Jiang Fan. So I guess no one asked about the AIDC so far and haven't really deeply discussed.

I want to ask about the – because this quarter it was mostly the increase in AIDC losses to the Group earnings. Otherwise, the Taobao Tmall has been relatively stable. So I want to hear, how do we see the investment scale evolve for international e-commerce?

We've also seen some of our peers shifting from fully consignment to semi-consignment, which is they kind of leave merchants to do their local warehousing. How do we see our loss or investment evolve with these trends? Thank you.

Jiang Fan:

(Translation)

Let me begin by answering the question concerning this quarter's losses. There were two major reasons for the relatively large investment we made in our business this quarter.

First, we made aggressive investments in certain emerging markets this quarter, particularly in the Middle East, with the peak sales period of Ramadan falling in March. Trendyol has just begun to expand its business in the Gulf region. So we made a significant investment there.

Second, as I mentioned earlier, the AE *Choice* business model accounts for an increasing proportion of total orders. As we transition to this new business model, it will take time for profitability to catch up. There is a margin gap there that remains to be filled, as compared to our previous platform model. We are working rapidly to increase the efficiency of the AE *Choice* model, and we expect to see significant improvement in its unit economics within a few quarters. As the new model stabilizes, we'll focus more on its efficiency, of course while still pursuing growth.

On your second question, which had to do with the full-consignment and semi-consignment models, I think what you're really asking about is the difference between the cross-border model versus merchants pre-placing their merchandise in a local warehouse for local shipping. Our take on that is that some categories are better suited to a cross-border business model due to the characteristics of the merchandise and the category; but for other categories, the local shipment model may be more suitable.

In the past, we've seen merchants pre-place more of their merchandise into overseas warehouses. And actually different platforms are trying to acquire more local merchants. We're doing that too, and are actively working on developing more local sellers in the Middle East, South Korea, and Europe in particular.

At the end of the day, we believe that in some categories, local merchants can provide more competitive services, but in other categories, the cross-border model will prove more competitive. We look at it from the perspective of consumer experience and consumer demand, as well as our own operating efficiency. That is the basis on which we choose to adopt a primarily local model versus a primarily cross-border model in different categories and different markets.

Yang Bai (CICC):

(Translation)

Thank you, management. The company has very generous plans to return value to shareholders. Based on our calculations, the dividend yield is close to 8%.

But I have some concerns. First, the current share repurchase plan appears to be tied to the company's current low valuation. Second, it appears to be a plan that needs to be announced annually and that may be subject to change down the road.

At the same time, we note that certain large tech companies overseas are consistently able to return significant value to shareholders after addressing the company's own strategic development needs, regardless of their valuation.

So my question is, how should we be thinking about the shareholder return strategy in the longer term?

Toby Xu:

(Translation)

Thanks for the question, Yang Bai. Let me take this one.

You know, if you look at our share repurchases over the past few years, you can see that our shareholder return plan isn't something that we just started implementing in the last year or two. This is something we've been implementing for years now. And the present plan, as approved by the board, runs until March 2027.

If you look back at the numbers for the past two years, we completed around US$13 billion in share repurchases in FY23, and US$16.5 billion in FY24. That leaves us with around US$29 billion, or almost US$30 billion, in dry powder for future share repurchases. So our shareholder return plan is not a short-term initiative but a long-term plan that we have consistently implemented and will continue to do so.

Of course, you're correct in stating that we, as management of the company, must consider our future cash flows alongside our future shareholder return plans. And we need to take into account the need to invest both in our core businesses and in emerging new areas such as AI and AIDC's cross-border business. All of that needs to be taken into consideration.

On that basis, we will stand ready to provide returns to shareholders, as before, when we have the resources. Of course, when thinking about returns to shareholders, we take an integrated view of share buybacks and dividend distributions. These are two methods through which we deliver returns to shareholders, and we look at the two together as providing one combined shareholder return.

Joyce Ju (Bank of America):

(Translation)

Good evening, management, and thanks for taking my question.

My question is regarding AIDC. You indicated earlier that the AE *Choice* model has grown significantly and now accounts for 70% of total orders on AliExpress. Could you give us a little more color on the growth that we are witnessing and expect to see over the next couple of quarters or even the next couple of years, in different regions and categories?

Is it possible for you share more details, such as which markets, which categories, and which kinds of users we see as having the greatest potential to become our long-term stable return customers?

Also, what are the areas where we think we need to be doing more, including in terms of investments that the group will be making in Cainiao for the cross-border e-commerce business? Could you share some details as to what kinds of investments, in which countries, will likely be prioritized? Thank you.

Jiang Fan:

(Translation)

Currently, our AE *Choice* business model concentrates on light and small items, which are better suited for cross-border e-commerce transactions. This is a category where the cross-border model has a clear advantage, because it is well-suited to air freight logistics. So that is the category in which AE has enjoyed a comparative advantage in the past.

We are also expanding into new categories leveraging different supply chain models. For instance, in markets like South Korea, we are working on utilizing sea freight to sell larger and heavier kinds of goods. And we are also doing pilot trials with local warehouse sellers as well. As I said earlier, our strategy as a platform is to start with those categories where we have an advantage, and then to build up supply chains to support more categories.

Another point of unique differentiation is that we have a number of regional platforms, including Lazada in Southeast Asia, Trendyol in the Middle East and Türkiye, and other similar platforms. AE *Choice* is currently integrating with these platforms to enable direct sales into those markets. This means that AE *Choice* doesn't need to make any major new investments to build a to-C brand in these markets, since it can be integrated into our existing to-C brands.

This approach allows us to quickly add new categories of merchandise to these marketplaces. In the case of our collaboration with Trendyol in the Middle East, for example, categories like apparel have advantages when shipped from Türkiye. But we can supplement the categories that they are currently lacking. This is the strategy that we are trialing in different markets.

So what I'm saying is, in each different market, we consider which categories to invest in based on our own existing resources and the current situation in the market.

James Lee (Mizuho):

(Original)

Great. Thanks for taking my question, and some of the questions are about AI and cloud.

And can you maybe talk about your development, your own large language model, and help us understand where your focus is? Is it scale? Is it due to scale to be a largest one, you know, based on the number of parameters, or are you focused on different modalities of data, you know, voice, text, image, or video?

And should we think about the end goal for your large language model to create maybe applications such as AI agents, shopping agents for your consumers, and business agents for your merchants? Thanks a lot.

Eddie Wu:

(Translation)

Could I just ask you please to clarify your first question? Are you asking about the general development direction of our large models, or was there a more specific question?

James Lee (Mizuho):

(Original)

Yes, the development of your large language model, is it to scale to have one of the largest ones in China based on parameters? Is that the focus, or the modality of the data? You know, voice, text, image as the focus. Because different companies that develop internationally, they have different focus in terms of growing that large language model.

Eddie Wu:

(Translation)

I think that all companies in the large model space, everybody who's developing foundational models, essentially share the same goal, namely working towards AGI (Artificial General Intelligence). However, along the path to realizing this goal, different companies will make different directional choices, such as choosing to develop certain kinds of vertical applications by leveraging their models. But at the end of the day, I think the ultimate goal for all players is to achieve AGI, which can process voice, text, images, and video seamlessly, integrating all modalities.

Companies from both China and the U.S. are all on this journey, some moving faster than others, and each making different strategic choices, with some achieving breakthroughs along the way in specific verticals. The speed of progress varies, but the overall direction is consistent across the board. The end goal is to have a comprehensive model that seamlessly integrates all forms of data – voice, text, images, and videos. This is the long-term goal.

Coming back to Alibaba, there are three major objectives underlying our ongoing substantial investments into research around AI and the development of large models.

Our first objective is the pursuit of AGI per se. We are developing our own models to explore the way forward to AGI.

Our second objective has very important practical significance for Alibaba. Our foundational model *Tongyi* and Alibaba Cloud's business model are naturally compatible. We will seamlessly integrate *Tongyi* with Alibaba Cloud's state-of-the-art AI infrastructure to realize synergies and optimization at the hardware and software levels. This will provide Chinese developers and companies with an AI inference service that is extremely powerful and cost-effective. Alibaba is perhaps one of the only companies anywhere in the world that has Cloud as one of its major businesses and foundational models as one of its major businesses simultaneously. We see that as a huge opportunity.

And then our third objective is to provide a foundational model to support the AI-enabled development of other businesses within the Alibaba Group. Leveraging our foundational model, businesses like DingTalk, Quark, and Taobao can have a better platform on which to develop their own AI applications and power their business with AI.

Let me give an example to illustrate the second point regarding the integration of our large language model, *Tongyi*, with Alibaba Cloud. *Tongyi* is currently the top open-source model in the Chinese-speaking world and is also the most widely used open-source model among developers in the Chinese-speaking world. Developers who use *Tongyi* in the development process are very likely to select Alibaba Cloud's services when the time comes to deploy their applications online. This is only natural because running Tongyi on Alibaba Cloud offers the best cost-effectiveness, and is most familiar to them. This is just a basic example that illustrates the synergies between the *Tongyi* model and the Alibaba Cloud ecosystem as well as Alibaba Cloud's business model.

Robert Lin:

(Original)

Okay, that concludes our earnings call today, and thank you, everyone, for your participation and we'll see you next quarter.

[END OF TRANSCRIPT]