



Alibaba Group
September Quarter 2020
Results Conference Call

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Welcome and Disclaimer

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Good evening and good morning everyone. Welcome to Alibaba Group's September quarter 2020 results conference call. With us today are Daniel Zhang, Chairman and CEO; Joe Tsai, Executive Vice-Chairman; Maggie Wu, CFO.

This call is also being webcast from the IR section of our corporate website. A replay of the call will be available on our website later today.

Now let me quickly cover the safe harbor. Today's discussion may contain forward-looking statements. Forward-looking statements involve inherent risk and uncertainties and may cause actual results to differ materially from our current expectations. For detailed discussion of these risks and uncertainties, please refer to our latest annual report on Form 20-F and other documents filed with the 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, marketplace-based Core Commerce adjusted EBITA, 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.

In addition, during today's call, management will give prepared remarks in English. A third-party translator will provide simultaneous translation in Chinese on another conference line. Please refer to our press release for details. During the Q&A session, we will take questions in both English and Chinese and a third-party translator will provide consecutive translation.

All translations are for convenience purposes only. In the case of any discrepancies, management's statements in the original language will prevail.

With that, I will now turn the call to Daniel.

Alibaba Group September Quarter 2020 Results Highlights

Daniel Zhang

Chairman and CEO, Alibaba Group

(Original)

Thanks Rob. Hello everyone. Thanks for joining our earnings call today. Alibaba has delivered another strong quarter, thanks to digital adoption accelerated by COVID and the rapid economic recovery in China following its effective control of the pandemic.

According to the National Bureau of Statistics, China's economy continued to recover in the September quarter, with GDP growth reaching 4.9% year-over-year and retail sales resuming positive growth year-over-year. Digitalization is now universally recognized as the way forward in the post-pandemic world. And as I shared during Investor Day, Alibaba is best positioned to enable everyone to capture the opportunity of digitalization.

Our China retail marketplaces continued its healthy growth this quarter. Annual active consumers on our China retail marketplaces reached 757 million for the twelve months ended September 30, 2020, representing a quarterly net increase of 15 million. While our Mobile MAUs reached 881 million. This reflects Taobao's continuing strong consumer mind share, healthy user stickiness and engaging user experience as a leading consumer community globally.

Tmall online physical goods GMV, excluding unpaid orders, grew 21% year-over-year this quarter. FMCG continued to be the fastest-growing category with 28¹ GMV growth year-over-year, of which food and healthcare increased 38% and 50% year-over-year, respectively.

In addition, the growth rate of Tmall apparel is now higher than what it was during the pre-COVID December quarter. For Tmall's electronics, GMV growth slowed down during the quarter partially due to the delay in iPhone's new model release date this year relative to last year. In October, we saw growth of over 50% year-over-year in Tmall's mobile phone category.

This past quarter, we upgraded the Taobao mobile app homepage. For user feedback has been incredibly positive. The new homepage features a more immersive user experience and enhanced content distribution in our recommendation feed. We saw a marked increase in both user time spent as well as page views of both product listings and content in response to the changes, which sets the stage for potential monetization opportunities in the future.

Taobao Deals, our marketplace for value-conscious consumers, continued its strong growth during the quarter. Mobile MAUs exceeded 70 million in September, which represented a net add of 30 million MAUs since June. Consumers who use both Taobao app and Taobao Deals app to make purchases showed faster growth in purchase frequency and average spending compared to those who only use Taobao app.

We kicked off the 2020 11.11 Global Shopping Festival and this year we extended the festival from 24 hours to an 11-day campaign with two shopping windows. The first window is from November 1st to November 3rd and the second is November 11th. We have made this change for a number of important reasons. We want to give consumers more time to browse and get

¹ “%” was omitted on the call.

the deals while easing pressure on the logistics infrastructure. This helps consumers receive their packages sooner and enjoy a better shopping experience. Our merchants will also benefit from more exposure and selling opportunities that will help them recover from the impact of the pandemic.

November 11 this year goes beyond online shopping for physical goods. Alipay together with our local service platforms will also offer digital vouchers for services and experiences such as dining, beauty treatments, travel and entertainment. Our youthful and fun interactive engagement features this year aim to create a delightful shopping experience for our consumers and a better platform for brand expression for our merchants.

On November 1st, the first day of November 11, over 100 brands each surpassed over RMB100 million GMV within the first 111 minutes. On the same day, 357 new brands on our platform become the top seller in their respective sub-categories.

Our new retail businesses Freshippo and Taoxianda continued their rapid growth during the quarter. Many consumers started ordering fresh produce and groceries online from their neighborhood stores during the pandemic, and this has become a habit in the post-pandemic environment; serving the local neighborhood through online channels has become a necessity for all brick-and-mortar businesses.

In October, we invested US\$3.6 billion to acquire a controlling stake in Sun Art. The purpose of this investment is to further strengthen our explorations in New Retail, by driving deeper digital transformation of the hypermarket model, to leverage Sun Art's competitive advantage in supply chain, and to create more synergies between Sun Art and Alibaba's digital ecosystem.

Ele.me's average daily number of paying customers in the September¹ quarter grew 45% year-over-year, due to the acquisition of high-quality merchants and addition of highly engaging content.

Alipay continued to play an important role in Ele.me's new user acquisition. Through category expansion and service differentiation, Ele.me is also expanding from a food delivery platform to a destination for on-demand delivery services and in-store consumption services.

Our businesses related to international markets continued to enjoy rapid growth. As the leading cross-border import platform in China, Tmall Global GMV grew 37% year-over-year during the quarter, excluding unpaid orders. The number of brands and merchants on Tmall Global as of December² 30, 2020 grew at a double-digit rate year-over-year.

In October, we announced an investment in Dufry, an international travel retailer, to set up a strategic joint venture in China to explore the travel retail market.

Lazada, our leading e-commerce platform in Southeast Asia, continued to grow 100% year-over-year in order volume despite new waves of COVID-19 in many markets.

AliExpress, our international cross-border marketplace, continued its business recovery amid the ongoing impact of the pandemic.

² "September" was mistakenly stated as "December" on the call.

Cainiao Network continued to expand both its domestic services and global smart logistics infrastructure. Its consumer-facing services in China include Cainiao Post, which operates a network of community stations, campus stations and smart pick-up lockers; and Cainiao Guoguo, which offers crowdsourced parcel pick-up and delivery service through its mobile app. These two services continued to grow rapidly during the quarter.

Overseas, Cainiao has established in-market local logistics networks in 15 countries and regions by collaborating with global partners. During our Investor Day, we announced that Cainiao is expected to achieve positive operating cash flow this fiscal year. We are happy to see the progress of Cainiao's business development and improvement in its financial results. At the same time, Cainiao will continue to invest for the future to create long-term value.

Alibaba Cloud delivered strong revenue growth at 60% year-over-year during the quarter, with public sectors and financial services contributing the highest growth. We announced at our Investor Day that Alibaba Cloud is expected to turn profitable by the end of this fiscal year. We believe cloud computing is fundamental infrastructure in the digital era, but it is still in the early stage of growth. We are committed to further increasing our investments in cloud computing.

As you may know, Ant Group closed its IPO subscription on October 30th with oversubscriptions from institutional and retail investors. However, on November 3rd, Ant Group announced that it was notified by the relevant regulators that its proposed A Share listing on the Shanghai Stock Exchange was suspended due to the material matters relating to the regulatory interview of its ultimate controller, executive chairman and chief executive officer by the relevant regulators and recent proposed changes in the fintech regulatory environment. Consequently, the concurrent proposed H Share listing on the Hong Kong Stock Exchange was also suspended. As Ant Group's major shareholder, Alibaba is actively evaluating the impact on our business in response to the recent proposed changes in the fintech regulatory environment, and will take appropriate measures accordingly.

During the Investor Day, I had shared my view that digitalization is the biggest opportunity of our time. Alibaba is fully prepared to capture the opportunity with the solid foundation that we built over the past 20 years. Looking forward, we will continue to drive our business with our three strategies: domestic consumption, cloud computing and data intelligence, and globalization. We look forward to exploring the future of this digital era together with you.

Now I will turn it over to Maggie, who will walk you through the details of our financial results. Thank you.

Financial Results

Maggie Wu

CFO, Alibaba Group

(Original)

Thank you, Daniel. Thank you everyone for joining us. Let me start with financial highlights for the quarter.

During the September quarter, we continued to acquire new users and consumers from both top tier cities and less developed areas in China. Average spending of consumers on our China retail marketplaces continued to improve across all city tiers, which was primarily driven by increase in purchase frequency, reflecting our ongoing success in broadening product offerings, improving user engagement and meeting diverse customer needs.

Our total revenue was RMB155 billion, up 30% year-on-year. The increase was mainly driven by the robust growth of our China commerce retail, cloud computing and Cainiao logistics. Our GAAP net income in September quarter was 26.5 billion³. The year-on-year decrease was mainly because in the same quarter last year we booked a significant one-time gain upon the receipt of a 33% equity interest in Ant Group.

Excluding one-time gain and other items, non-GAAP net income in September quarter was up 44% to RMB47 billion. Our free cash flow in the quarter increased by 33% to RMB41 billion. Our solid revenue and the robust profit growth reflect the value we created for our customers and enable us to reinvest into our business for the longer term.

Now let us look at our revenue in more details. We continue to strengthen our multi-engine drivers to sustain long-term revenue growth. Our businesses have become more diversified and more integrated as we provide more value-added service to merchants on our retail marketplace globally.

The value we added is reflected not only in our main revenue sources such as CMR, but also other revenue drivers such as Cainiao, cloud, local service and international retail. Overall, CMR, which now includes commission revenue, grew 20%. The increase was mainly driven by growth in average spending per merchant and the number of paying merchants. CMR accounts for 45% of overall revenue since revenues from other new businesses grew even faster. So within CMR revenue, search revenue continued to show healthy growth. And we have also seen growth in number of clicks, PPCs, and also greater bidding intensity among merchants.

Revenue from feed recommendations as a percentage of total CMR has increased to mid-teens. The increase is due to greater paying merchant adoption as we improved the user experience, that drove higher CTR and accelerated growth in consumer numbers.

³ "RMB" was omitted on the call.

International commerce retail businesses revenue was up 30% for the quarter. The increase was primarily driven by revenue growth from Lazada and Trendyol. For the September quarter, Lazada order volume grew 100% year-over-year.

Revenue from Cainiao grew 73% year-on-year. This growth was mainly due to the increase in both average revenue per order and volume of orders fulfilled from our fast-growing business, mainly cross-border and international commerce retail businesses.

Revenue from local consumer services was RMB8.8 billion, up 29%. This growth was due to an increase in average revenue per order and ongoing recovery in on-demand delivery GMV growth after the pandemic. Our merchant acquisition continued to accelerate after COVID-19. By onboarding high quality merchants and upgrading membership benefits, our paying membership experienced continuous and rapid growth.

AliCloud continued its solid revenue growth. Revenue grew 60%, primarily driven by growth in the Internet, finance and retail industry customers contribution. The penetration rate of AliCloud among Chinese listed companies continued to increase and ARPU growth accelerated too.

Let's look at our cost trends. We continued to improve operating efficiency and maintain a healthy cost structure. We invested the savings from operating efficiency improvements, and this is invested into strategically important businesses with strong long-term growth potential.

Now let us move on to our segment reporting. For the core commerce segment, marketplace-based core commerce profitability⁴ maintained healthy growth. It increased by RMB5.3 billion to RMB50.9 billion. We continued to invest in our new seed businesses in our China retail marketplaces, such as Taobao Live and Taobao Deal, both of which are showing solid growth. At the same time developing business such as Local Consumer Service, Lazada, New Retail and Cainiao continue to show solid revenue growth and improving operating efficiency. The combined losses of these developing businesses narrowed by RMB2 billion from RMB7 billion to RMB5 billion.

The cloud computing business revenue growth is very strong, we just talked about. And the adjusted EBITA loss narrowed year-on-year to around RMB156 million, which represents only 1% loss margin. Again, we expect AliCloud to turn profitable in the second half of this fiscal year.

For DME, we continue to focus on reducing losses in Youku through content cost control, while increasing paying subscriber growth. Losses reduced by about RMB1.7 billion to RMB10 million⁵ for the DME segment.

For Innovation Initiatives and others, increased losses were mainly due to our investment in technology research and innovation.

Overall, our businesses continued to deliver robust revenue growth and strong profit growth. The incremental profits generated are invested in key strategic businesses that increased our addressable market and drive our overall growth.

⁴ Profitability refers to EBITA.

⁵ "710 million" was mistakenly stated as "10 million" on the call.

Share of results of equity-method investees in the quarter was RMB4.2 billion. We record our share of results of all equity-method investees one quarter in arrears. The share of profit of other equity-method investees in the quarter compared to a share of losses of other equity-method in previous quarter was mainly due to a general improvement in financial performance of our equity-method investees.

For the quarter, free cash flow was RMB41 billion, which increased by 33%, mainly due to our robust profitability growth. And cash, cash equivalents and short-term investments were RMB406 billion, approximately US\$60 billion. Our solid balance sheet allows us to invest not only in organic growth but also invest in business that will empower and enrich the Alibaba digital economy.

Recently, we invested approximately US\$3.6 billion to acquire a controlling stake in Sun Art Retail, which is the largest hypermarket retail chain in China. Our new retail initiatives have developed business and technology to enable our offline retail partners to offer a seamless omnichannel experience for consumers. Through this investment, we expect an even deeper collaboration with Sun Art, that includes increasing digitization of offline traffic and activities, synchronizing online and offline channel inventories, broadening our supply chain network and increasing Sun Art's addressable market through greater online purchases. We expect to start consolidating Sun Art financials in the coming December quarter.

In the long run, we will focus on better serving our customers and carrying out our mission to continuously grow our business.

Thank you. So let's open for the Q&A.

Q&A

Rob Lin:

(Original)

Hi everyone. Similar to prior quarters, 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 questions in the language you asked. Please know that the translation is for convenience purposes only. In the case of any discrepancies our management statement in the original language will prevail.

Binnie Wong (HSBC):

(Original)

Hi, good evening management, congratulations on another solid quarter and thank you for the additional metrics like Taobao GMV, Livestreaming GMV this quarter, which are very helpful. The question here is on Sun Art, what is the ultimate goal of the integration here? And second is that as we are expanding into more self-operated direct sales business, what are the challenges we see? Say how do you manage like traffic allocation to our third-party merchants, say, when a third-party merchant also selling the same category or even same SKU with our 1P products, how do we manage that? Thank you.

Daniel Zhang:

(Original)

Thank you, this is Daniel, let me answer your questions. First for Sun Art, as I have said in my script, I think the purpose of our investment is to leverage Sun Art's footprint across the country and leverage their supply chain to generate more synergies with the multiple businesses in Alibaba. And also we want to further upgrade the Sun Art business model to more fully digitalized operations. And today, we also want to even upgrade the existing hypermart model to a model more community-driven and to attract more young people back to stores.

So these are primary reasons why we further invest in Sun Art, because as you know that if we want to try to rebuild such a footprint across the country, actually obviously it is very difficult and we believe this is a very important physical network across the country, which could be further integrated with the digital network, digital platform, and the supply chain is also highly complementary to our business.

In terms of the 1P and the 3P concept, I would say actually for Alibaba, we always believe in the marketplace model. We always believe in partnership. So 3P is always our priority. And we do see in some categories actually we can leverage the power of retailers to create a more integrated experience for our customers such as fresh fruits, fresh produce, such as groceries, because for many bulky groceries the logistics cost is quite high, while it is very difficult to do a third-party model based on a countrywide fast delivery network. So in this case, we will further integrate our 1P with our offline partners and to give people better experiences. So it

is a mixture, but we still believe in our partnership and we think to enable the merchant is our first priority.

And even in the 1P business, our model is quite different from other 1P. What we do is we work closely with our suppliers, with our brand partners and not only help them to sell but also help them to market their product and market their brand.

And we will also share some of the sales data to our suppliers and to our brand partners when we help them to do the retail sales. So it is a quite different 1P model.

Thomas Chong (Jefferies):

(Original)

Hi, good evening. Thanks management for taking my questions and congratulations on a very solid set of results. My question is about the community group purchase. We have been seeing that a number of different players have been spending a lot of resources in the community group purchase initiative. I just want to get some color - what are our strategies on this front?

And a quick question is about on the cloud computing side. How should we think about the profitability trend in the second half given it is going to be profitable, and about the long-term margin trend for this business? Thank you.

Daniel Zhang:

(Original)

For the first question, community buying, as you said, today, the market is very hot and many players are already entering into this market. And actually, we are also tracking the progress, the change of the market very closely, and we think this is a very, very interesting model.

But as we always said at the end of day, we have to evaluate the effectiveness of a business model by customer experience and customer value. So for Alibaba, we strongly believe, this is highly relevant to consumption and relevant to the low tier cities, even rural areas. So we are very committed to the new initiatives and also evolving the new models to serve the customers in these areas.

And if you look at what we have in Alibaba ecosystem, actually, we have another infrastructure, which is very, very critical for the penetration of the low tier cities and even rural areas with the new model and including community buying. So I think now is still an early stage and all the people are trying to target the customers first, but I think that the customer is always easy to change if somebody comes and gives them a better value. So we are well positioned and we will go after this. Thank you.

Maggie Wu:

(Original)

So Thomas, this is Maggie, regarding to your second question of the profitability, first, as you can see from our September quarter reporting, cloud computing is very close to being profitable.

So this quarter, we reported a loss of around RMB150 million, which represents negative 1% of EBITA margin. So we definitely expect to see the profitability in the following two quarters.

You asked about the longer-term margin level. As I talked about during the Investor Day, we do not see any reason that for the long-term, Alibaba cloud computing cannot reach to the margin level that we see in other peer companies. Before that, we are going to continue to focus expanding our cloud computing market leadership and also grow our profits. Thank you.

Mark Mahaney (RBC):

(Original)

Thank you, two questions please. You talked about this recent acquisition in the travel retail space. How big of an opportunity do you think this is for the company and how can Alibaba differentiate itself in that sector?

And then secondly, can you just address the question of whether online retail growth trends, do you think that they are sustainably back to pre-COVID levels? Thank you very much.

Daniel Zhang:

(Original)

Thanks for the questions. I think for the first question, as you may know that China announced a master plan to transform the entire island of Hainan into a free trade port. I think this is a very, very important step to grow Hainan to another free trade port.

So for Alibaba, we strongly believe that in a free trade port, duty-free business, travel-retail business is very, very important. And because obviously it is more convenient for Chinese consumers to go to Hainan instead of going to other destinations to enjoy shopping, so that is why we invest in duty-free. We are very happy to partner with Dufry to work with them to build a JV in China to leverage their supply chain in travel-retail and to grow the business together with them in China.

Of course, we are also working closely with the local partners to make sure we have the right setup to grow the travel-retail business. In Alibaba, as I said, we have a lot of infrastructure relevant to any new opportunities including these travel-retail because we have digital wallets, we have our travel platform and have our China retail marketplaces, which is a huge interface for the hundreds of millions of consumers. Many of them could be travellers and to a duty-free store in a free trade port. So I think we will try to leverage what we have in our big family to grow the travel-retail business. Thank you.

Daniel Zhang:

(Original)

Yeah, for your second question, I would say, obviously, this coming pandemic accelerated digitalization pace, and the online shopping become a necessity for more and more citizens. And if you look at their purchase categories even expanded from apparel, consumer electronics, FMCGs to food, beverage, fresh produce so on, so forth.

So we do believe this pandemic actually accelerated and further penetrated the customers to encourage them to shop in a digital way. And if you look at the result in recent quarters, in this quarter, actually, we believe that we have already in China because of effective control of the pandemic, people's lifestyle have come back to normal, but the habit is not leaving us. So people continue and even enhance their purchasing behaviors online. This is what we observe. Thank you.

Gregory Zhao (Barclays):

(Translation)

Thank you. My first question has to do with Double 11, and the new version of Taobao. With the launch of this new version, I am wondering if you are seeing any new trends in terms of search advertising and Super Recommendations? And as a follow-up question, in your speech you mentioned new regulatory policies toward microlending. I am wondering what percentage of GMV on your retail platforms is funded by Huabei and Jiebei, and if the new policies may have an impact on GMV growth? Thank you.

Daniel Zhang:

(Translation)

Thank you. Let me start with your first question. Double 11 is not just a shopping festival per se, it is also about engagement. It is about creating fun and interactive experiences for consumers. With the new upgrade and this new immersive experience, user time spent on the platform and page views have increased. This of course is positive in terms of helping users to discover products they like during Double 11, and in terms of converting them into consumers and driving consumption.

Now, when it comes to search and browsing, these are two services that really serve different kinds of consumers. Search serves consumers who come with a clear intention to make a particular purchase – they could be looking for a mobile phone, a garment, a winter coat – whereas, recommendation feeds are there to create or to stimulate new consumption demand, things that the consumer did not necessarily have on their mind when they came on the platform. Therefore, the two functions are mutually complementary. As you heard from Maggie in her earlier presentation, growth in advertising revenues continues to be healthy and performance of our recommendation feeds is good with higher click-through rates and good opportunities for monetization going forward.

On your second question, you know, throughout the entire history of Alibaba and over all these years since the creation of Alipay, we have always prioritized making different options available to consumers. They can make payments from their debit card which is linked to their account, from a credit card, and later on from Yu'eobao, and also Huabei. Therefore, on Alipay consumers have a whole range of different options and they can freely choose whatever option they like to fund their purchase. And the same is also true of the Alibaba marketplaces. We are providing a broad range of options for consumers and making it easy for users to find products they like and easy for them to make payments. We will continue to focus on providing that optimal experience and freedom of choice.

Now, you asked about the percentage of GMV that is funded via Huabei, that is not actually something that we track. What we do track is the overall success rate of payments, while ensuring a wide range of different options that our users are free to select from.

Eddie Leung (Bank of America Merrill Lynch):

(Original)

Thank you for taking my question, I just have two quick questions. The first one is on the Taobao Deal. I am just wondering when you talk about the new adds, how many of the users actually historically are already shopping on Taobao? Because it seems like you hinted that there is actually not much cannibalization between the two channels. I am just wondering if you can share more color on the user profile of the new adds and how that interacts with the traditional Tmall and Taobao channel?

Then the other quick question is on perhaps R&D spending. I think that Maggie mentioned about the investment on R&D, I do not know whether it is by coincidence, because we looked at your Innovation Initiatives EBITA margin, it seems like it came down a bit. So, just I'm wondering if that is one of the reasons and if so, what are some of the projects you guys are investing in under that segment? Thank you.

Daniel Zhang:

(Original)

Thank you, Eddie. Let me answer your first question and I think Maggie will address your second one.

In terms of Taobao Deals user base, I would say actually, when we grow this new business, from an operating perspective, we view this as an independent business. So, we never try to attract people from existing Taobao mobile app to Taobao Deal. Instead, we do online marketing, we do interactive user engagement features, so on and so forth, to attract the relative users to the Taobao Deal app. The value proposition of Taobao Deal is value for money, so it is very clear and well-positioned. So, people go to Taobao Deals, they can enjoy their experiences with a lot of selections but all value for money. As a result, actually, we do see very fast growing in Taobao Deal mobile MAU. As I said, this September the MAU reached 70 million, net adding 30 million as compared to three months ago. If you look at the user base of Taobao, actually, in Taobao, we cover a very high percentage of China internet users.

Back to your question – the overlap. I do believe there is some overlap. I think it is impossible for Taobao Deal to attract 100% brand new customers because Taobao mobile app already has a very high penetration in China's mobile internet. But, I think what we focus on is the total spending. If we add together the spending of Taobao, when people have both the Taobao mobile app and Taobao Deal app, how their spending changed, and we are happy to see people tend to spend more if they have both apps.

But at the same time, we do have a lot of customers who are newly recruited by our Taobao Deal app, and we will continue to make our efforts. I think at the end of the day the valuation

is the total spending and how can we have more wallet share if we can serve people with very different value proposition services. Thank you.

Maggie Wu:

(Original)

Okay, Eddie, on your second question about the R&D, the answer is yes, we continue to increase our investment in the R&D area. This is reflected in our product development costs. (Music) Also, like you said, if you look at the Innovation Initiative, the losses in that sector although it is a small segment, the losses expanded.

So, (Technical disruption) included in this innovation initiative, there are Ding Ding⁶, there are DAMO Academy. So, we set up DAMO Academy three years ago and by that time, the goal was that DAMO should be focusing on the advance in technology, research, development and it should live longer than, you know, even the group, where we said we aim to live 102 years. What projects are in it? Of course, we can't open all of these project books, but in September, we did have a cloud conference held in Hangzhou and there are some introductions to DAMO research as well so we can, you know, talk about that afterwards.

DAMO Academy has many labs. We have approximately 15 labs, doing research in many advanced technology areas. You know, we mentioned about the logistics robots--Xiaomanlü, AI related and voice recognition, so they have a full list of research projects going on.

Alex Yao (JP Morgan):

(Original)

Thank you, management, for taking my question and congratulations on the very strong bottom line growth. If I look at the quarterly numbers from a very high level, my read is, there are two different trends that drive the numbers. Number one is a moderate growth for the marketplace-based e-commerce business with, perhaps, a four to five percentage point margin decline, i.e. the platform such as Taobao and Tmall are growing low teens of profit because the margin is going down. And then the second trend is pretty much everything else contributes more profit or less loss. So, the blended result was very healthy.

So, my question number one, is to what extent is the marketplace e-commerce margin decline structural versus whether, perhaps, if there are still lingering impacts from the COVID or even more because of the step-up in new initiatives such as Taobao Deal or Juhuasuan.

The second part of the question is to what extent is the non-core, non-marketplace business and margin improvement structural i.e. they are moving into the financial return stage versus just a Group level financial budget allocation to balance the Group level financial performance? Thank you.

⁶ "DingTalk" was stated as "Ding Ding" on the call.

Maggie Wu:**(Original)**

Okay, to answer the question, I think first of all I want to reiterate that we look at the business as a holistic business. The Group is becoming so big. We have so many business lines, but when we talk about Alibaba economy, AGH growth, we do look at overall. At the same time, of course, we have targets, operating, you know, emphasis on each different businesses. So, you talked about core core marketplace adjusted EBITA growth. I think, before I address that, people should look at our overall profit growth of 28%⁷ year on year. So, that is probably one of the few among the peers – global technology peers – that still has over 20% growth nowadays.

Then marketplace business adjusted EBITA, I should say that growth rate for that part of the EBITA also reflects our investment in our core core. So, if you look at, you know, our Taobao Deals, right, and also you mentioned Juhuasuan, also our investment in sales and marketing to acquire customers, new buyers, these are all investments we voluntarily make to expand the business. So, I think, whether it is structural, I should say that there is a big part of that investment are discretionary.

Then for the non-core business, you have seen that within the core commerce, there are many new initiatives, including local consumer service, Lazada, new retail, direct import, logistics, Cainiao, etc., almost every one of these businesses, they are showing narrowing losses. So, this is why, when you look at the combined losses for this – this is also core but non-Taobao and Tmall – this part of the combined loss was approximately 5 billion⁸, compared to 7 billion⁸ the same quarter last year.

Then we go beyond the core commerce to the other areas like cloud computing, DME, Innovation Initiatives, the combined losses also decreased quite significantly because these businesses are either getting the scale effect or the operating efficiency, the leverage comes out. So, the combined loss for this part was 4.7 billion⁸ versus 6.5 billion⁸ the same quarter previous year.

Alicia Yap (Citigroup):**(Translation)**

Thank you for taking my question, and congratulations on a strong quarter.

My question has to do with GMV growth, in particular on Taobao. We noted from your press release that in the September quarter, you recorded GMV growth on Taobao as being in the high teens. I would like to know if that includes Taobao Deals or not.

I would also like to know on Taobao Deals what the monetization model is there? Is it similar to Taobao? Or are you still in an early period of development where you are trying to support

⁷ Profit growth of 28% refers to adjusted EBITA growth.

⁸ "RMB" was omitted on the call.

merchants and there's little or no monetization happening to date? How many further quarters do you think you can sustain that relatively high rate of growth in Taobao's GMV?

Daniel Zhang:

(Translation)

Thank you. When it comes to GMV on Taobao and Tmall, we continue to look at it by merchant category. So either you are a Taobao merchant or you are a Tmall merchant. There may be some merchants on Taobao who are also present on Taobao Deals, but they would have been separately recruited and onboarded there. So, that is how we look at GMV, and it is not on the basis of the different mobile apps.

In terms of where Taobao Deals is at today in the overall China retail marketplace, it continues to grow rapidly. It is in a phase of very fast growth in terms of user acquisition. We are working now on driving GMV growth by increasing average consumer spending.

[END OF TRANSCRIPT]