Transcript of the

March Quarter 2020

and Full Fiscal Year 2020

Results Announcement Call

Friday, 22nd May 2020

Opening Remarks

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Okay, good day, everyone, and welcome to Alibaba Group's March Quarter 2020 and Fiscal Year 2020 Results Conference call. With us are Daniel Zhang, Executive Chairman and CEO; Joe Tsai, Executive Vice Chairman; Maggie Wu, Chief Financial Officer. This call is also being webcast from our IR section of the 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, including revenue guidance. These forward-looking statements involve inherent risk and uncertainties that may cause actual results to differ materially from our current expectations, including risk and uncertainties related to the COVID-19 pandemic. For detailed discussions of these risks and uncertainties, please refer to our latest annual report on Form 20F 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-on-year growth versus the same quarter last year.

In addition, during today's call, management will give their prepared remarks in English. A third-party translator will provide simultaneous Chinese translation 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 the third-party translator will provide consecutive translation. All translations are of convenience purpose only. In the case of any discrepancies, management's statement in the original language will prevail.

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

March Quarter and Full Fiscal Year 2020 Overview

Daniel Zhang

Chairman and Chief Executive Officer, Alibaba Group

(Original)

Thank you, Rob. Hello, everyone. Thank you for joining our earnings call today. We have finished an extraordinary quarter and delivered an outstanding fiscal year. Despite the impact of COVID-19 pandemic, Alibaba achieved the historical milestone of US$1 trillion in GMV across our digital economy this fiscal year, a strategic goal that we set for ourselves five years ago. We, at Alibaba, have always been aiming for the stars while keeping our feet on the ground. The US$1 trillion GMV milestone reflects the vitality of Alibaba's digital economy, as well as strong execution against the clear strategic vision. Our scale has now reached one-sixth of China's total retail sales, which was about US$6 trillion last year and we believe there is still tremendous potential of growth.

Digital adoption and transformation in retail are accelerating due to the COVID-19 pandemic, reshaping consumer behaviour and enterprise operations. On the consumer side, shopping online has become a habit for more people and in more product categories. On the retail side, online sales is no longer an option but a necessity for the brick-and-mortars. We believe there is a new normal that will stay even after the pandemic is over.

I would like to review the past quarter's performance in the context of the impact and recovery from the COVID-19 pandemic.

On January 23rd, right before the Chinese New Year holiday, China announced the lockdown of Wuhan, the centre of the pandemic. The lockdown measures implemented in other provinces and cities led to large-scale economic disruption in late January and February, which negatively affected our domestic ecommerce business during the period. However, China quickly contained the pandemic by implementing measures such as strict social distancing, wide testing coverage, centralized mobilisation of medical resources, and started to reopen the country for business in late February. By March 9th, Cainiao announced full recovery of logistics operations nationwide except for Hubei Province, where Wuhan is, and normal life began to return for most people in the country when Wuhan's 10-week lockdown was lifted, on April 8th.

Since March, we have seen a healthy recovery in our China Retail Marketplaces. As of March 31st 2020, Annual Active Consumers on our China Retail Marketplaces reached 726 million, a net increase of 15 million versus the previous quarter. Mobile MAUs of our China Retail Marketplaces reached 846 million in March 2020, an increase of 22 million over December 2019. This reflects Taobao's strong consumer mindshare and healthy user stickiness.

Since the new fiscal year began in April, the quarter-to-date paid GMV of our China retail marketplaces has experienced year-on-year growth at a similar rate to the December quarter's level.

For the past several years, we have been investing to grow our New Retail business in fresh food and grocery. Freshippo and Taoxianda, which have played an important role in supplying daily necessities to people impacted during the pandemic and have become widely popular among consumers. In the past quarter, both Freshippo and Taoxianda delivered stellar growth of more than 100% year-on-year. Approximately 60% of Freshippo's GMV came from online orders, up by 10 percentage points year-over-year. As lockdown measures eased in China, starting in April, demand and the popularity of our grocery business have remained strong. We believe the consumer habit of buying fresh food and groceries online will continue after the pandemic, and online and offline integration will drive the New Retail model to the next stage of development. We have been investing for years to build the New Retail technology infrastructure which will help us further strengthen our market leadership in this sector.

As the leading cross-border import platform in China, Tmall Global has become an ever more important destination for Chinese consumers to buy imported products, as they could not travel abroad during the pandemic. In markets outside of China, our international retail marketplaces such as Lazada and AliExpress attracted over 180 million Annual Active Consumers as of March 2020. Lazada's order volume grew more than 100% year-on-year during the fiscal year and completed the March quarter with a strong finish despite the impact of the COVID-19 pandemic. February and March 2020, our cross-border marketplace AliExpress GMV growth was negatively impacted mainly by supply chain and the logistics disruptions caused by COVID-19 pandemic. We are seeing signs of recovery in certain major markets, starting in April, but there are still uncertainties ahead.

Revenue from our Local Consumer Services business decreased by 8% year-on-year in the past quarter due to the impact of COVID-19. In April, year-on-year growth of our food delivery GMV turned positive as lockdown measures eased, restaurants began reopening and people began returning to work in China.

Alibaba Cloud continued its rapid growth in the past fiscal year, with revenue reaching RMB40 billion, an increase of 62% year-on-year. During the pandemic, our public cloud business grew rapidly, driven by increased consumption of video content, as well as wide adoption of remote working and learning. Our cloud computing infrastructure and big data business have also played a key role in enabling business to quickly resume operations and production. We believe the pandemic will further accelerate digital transformation of enterprises. All industries, including public sectors, will choose to move their technology infrastructure to the cloud.

DingTalk, our digital collaboration platform for enterprises, played a key role during the pandemic. Millions more enterprises and users in China are now using DingTalk to stay connected and work remotely. DingTalk also made significant penetration in the education sector as schools adopt the platform for their teachers and students. In March 2020, DingTalk conducted an average of over one million active classroom sessions on each school day. DingTalk's number of daily average active consumers during working day grew significantly to 155 million in March. As offices and schools reopened in China, DingTalk's number of active users came down from the peak level, but still maintained at more than 100 million DAU.

In the past quarter, our Digital Media and Entertainment business delivered healthy growth in paying subscribers and the user time spent, as users' consumption of video content increased significantly during the pandemic. Youku will continue its focus on production and distribution of original and exclusive content while ensuring cost efficiencies and return on investment.

During the past quarter, we leveraged our platform technology and other resources across the Alibaba ecosystem to support populations impacted by COVID-19 pandemic within China and around the world. We also implemented a comprehensive set of financial and business support measures to help alleviate the near-term challenge faced by our business customers and partners.

As of March 31st 2020, Alibaba, together with Ant Financial, have contributed approximately RMB3.4 billion in value in the form of donations, subsidies and tech support. To name a few examples, we waived fees, reduced commissions and offered logistic subsidies to our merchants. We worked with Ant Financial and other partners to advance working capital funds to our merchants, to provide liquidity and to facilitate one-year loans with preferential interest rates.

We used the RMB1 billion special fund we established in January to procure medical and related supplies for parts of China affected by pandemic. Our logistics subsidiary Cainiao offered free delivery of medical supplies to destinations around the world through its extensive global logistics network. Our self-operated fresh food and grocery chain Freshippo committed to more than 200 remaining open for business even during a period when lockdown measures were in effect. Freshippo also worked with its supply chain to keep our commitment to not raising prices, as well as maintaining adequate stock on the shelves.

We made available AI technology to over 550 hospitals in China to help improving the speed and efficiency of their COVID-19 diagnosis during CT lung scans. The Alibaba Foundation, through combined efforts with Jack Ma Foundation and the Joe and Clara Tsai Foundation, donated over 200 million units of personal protective equipment, testing kits and ventilators to over 150 countries and regions.

In April 2020, we further announced the 2020 Spring Thunder Initiative, which aims to help export-oriented SMEs explore opportunities in the China domestic market through our China Retail Marketplaces, and expand into new markets through our international wholesale and retail marketplaces such as Alibaba.com and AliExpress, to develop digitalised manufacturing clusters, to accelerate the digital transformation of China's agricultural sector and alleviate financing challenges faced by SMEs, by working with Ant Financial and its partners.

The battle against the COVID-19 pandemic is not over. Although China has made good progress in fighting and controlling the spread of the coronavirus, with most business reopening and the people returning to normal life, the threat of the pandemic is still looming in rest of the world and the timing and the pace of recovery is still uncertain. At the same time, tensions between the US and China have added another layer of uncertainty to the post COVID-19 world.

Despite the uncertainties in the macroeconomic and the geopolitical environment, there is one thing we can be certain: the world is moving towards digital first and digital everything. In the past two decades, Alibaba has developed comprehensive infrastructure and the capabilities built on digital technology for business, financial services, logistics, cloud computing and big data to prepare for this new era. We believe our infrastructure and capabilities will play an important role in enabling all industries to embrace digital transformation and the customers to embrace a digital lifestyle. In addition, we aim to empower SMEs around the world, including those in America, to access the Chinese and other global consumer markets and create new jobs. This is the hard work that Alibaba must undertake to fulfil our vision to make it easy to do business anywhere and it is also the fundamental assurance for our sustainable growth in the future.

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

March Quarter 2020 Financial Results

Maggie Wu

Chief Financial Officer, Alibaba Group

(Original)

Thank you, Daniel, and thank you, everyone, for joining us. I would like to start my prepared remarks by addressing COVID-19's impact on our financials and recent trends.

Back in February, given the potential uncertainties of COVID-19 pandemic, we guided the market that our overall revenue growth rate would be negatively impacted for the March quarter and that some of the businesses, such as China Retail Marketplaces and Local Consumer Services, might show negative revenue growth. I am pleased to report we delivered better than expected March quarter results.

The government took effective measures to limit the spread of the virus through lockdown, social distancing measures and travel restrictions. With the virus spread under control in China, these restrictions started to ease in early March and this led to a recovery of supply chain and logistic delivery capacity. This in turn enabled a quick recovery for our China Retail Marketplaces and improving fundamentals for Local Consumer Service businesses.

For our China Retail Marketplaces, Tmall online physical goods GMV—this is paid GMV—grew 10% in the March quarter. Although only 10% growth, we did see robust demand of FMCG and consumer electronics categories, as home-bound consumers cooked at home and upgraded their home appliance and 3C products. These two categories combined grew 25% on our Tmall platform. On the other hand, discretionary product categories, such as apparel and accessories, home furnishing and auto parts, experienced negative growth. Starting in April, Tmall online physical goods GMV[1] showed strong recovery and has continued to further improve in May.

Local Consumer Services recorded 8% decline in revenue this quarter, reflecting mass closures of restaurants and local merchants. However, social distancing measures also led to increased demand for groceries and other daily necessities. Starting in April, GMV growth of food delivery businesses, Ele.me, turned positive as lockdown measures eased. Restaurants began reopening and people began returning to work in China.

For our international commerce business, which represents around 7% of total revenue in fiscal year 2020, the timing and pace of the recovery is still uncertain, as demand in countries outside China may be further impacted by Covid-19.

So, let us take a look at the March quarter financial highlights. Our total revenue of RMB114 billion grew by 22% year over year. The increase was mainly driven by growth in

[1] "Tmall online physical goods paid GMV" was mistakenly stated as "Tmall online physical goods GMV" on the call.

the China commerce retail business, especially in New Retail businesses in grocery category, and cloud computing. We continue to be successful at expanding product offerings on our platform that cater to the needs of different consumer segments.

The decrease of non-GAAP free cash flow was due to a one-off of AliExpress payments service restructuring. We had a full disclosure in our earnings release. This is mainly due to overseas regulation requirement change and that AliExpress began the process of a restructure so that it no longer holds the consumer funds before they release it to the merchants. If we take that impact out, our non-GAAP free cash flow would have been over RMB2 billion[2].

Let us take a look at revenue in detail. China commerce retail grew 21%. Customer management revenue grew 3%. The growth of customer management revenue was primarily due to the increase in revenue from recommendation fees and Taobao Live. These new revenue streams partially offset by decrease in volume of paid clicks and average unit price per click. The paid click and PPC I am talking about, it is for the search business, P4P. So this is impacted because of COVID-19.

Commission revenue decreased 2%, primarily due to effects of the COVID-19 impact. This impact includes cancellation of some orders as a result of logistic disruption in February, weakness in apparel categories, our waiver of annual service fees for the first half of 2020 as part of our support for merchant customers.

International retail revenue grew 8% to RMB5.4 billion. The increase is primarily due to the growth of Lazada and Trendyol and partially offset by exclusion of revenue from AliExpress Russia, which was no longer consolidated since October 2019. So, we have a JV in Russia right now.

Cainiao revenue reached RMB5 billion[3], growing at 28% year on year. This was primarily due to the increase in volume of orders fulfilled from our fast-growing cross-border and international commerce retail businesses. And our Local Consumer Services experienced negative growth this quarter, I just talked about. So far, Ali Cloud is still growing strongly at 58%.

And let us take a look at the March quarter cost trends. Cost of revenue, excluding SBC, was 62% of revenue. The increase was primarily due to a revenue mix shift towards direct sales businesses, the New Retail businesses such as our New Retail and also consolidation of Kaola and partially offset by decrease in delivery costs of our local consumer services.

Let us turn to segment profitability. Our marketplace-based core commerce adjusted EBITA reached RMB34 billion, decrease of 2%. But core commerce adjusted EBITA grew 2% to RMB28 billion. This is because losses in our four strategic commerce initiatives were narrowed compared to prior year, driven by ongoing improvements of Cainiao logistic

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[2] ”around RMB2 billion” was mistakenly stated as “over RMB2 billion” on the call.

[3] "around RMB5 billion” was mistakenly stated as “reached RMB5 billion” on the call.

network, higher demand for Freshippo and lower variable costs required for our Local Consumer Service business.

I would like to mention the Innovation Initiatives. When you look at them, their adjusted EBITA loss was RMB3.1 billion, which was up from RMB1.9 billion from a year ago. The increase is primarily due to our aggressive investment in DingTalk to provide remote work collaboration capabilities to enterprises and schools free of charge during COVID-19. As a result, daily active users on DingTalk achieved a four-fold increase to over 100 million. The peak DAU is about 155 million[4].

So March quarter other financial metrics. The share of results of equity investees in the quarter reached RMB3.5 billion. The year-over-year increase in shared results of equity investees was mainly due to our share of profits in Ant Financial in December quarter, as we take its profit in one-quarter lag, partially offset by decrease in our share of results of Suning.

March quarter GAAP to non-GAAP net income. The GAAP net income attributable to shareholders was RMB3.2 billion. The year-over-year decrease was primarily due to net loss in investment income, mainly reflecting decreases in the market prices of our equity investments in publicly traded companies compared to net gain recorded in the same quarter of 2019. Non-GAAP net income attributable to shareholders increased by 12% to RMB25 billion.

Now let us look at the fiscal 2020 full year results. GMV, as Daniel mentioned, the Alibaba Digital Economy achieved an important milestone of US$1 trillion GMV target. You probably remember that this is the target we committed to do five to six years ago. User growth, annual active consumers in China reached 780 million, including 726 million in our China Retail Marketplaces. In other words, one out of every two Chinese are buying on our platform. 780 million of Annual Active Consumers in China accounts for around 85% and 40% of the Chinese population in the developed and the less developed areas. Our ability to attract users at a rapid pace reflects not only the diversity of product selection, but also the platform has become an everyday destination for entertainment and discovery of new trends. We continue to achieve strong revenue growth across all businesses, including Core Commerce, Cloud Computing and other businesses. So total revenue grew 35% to RMB510 billion.

Talk about the profitability. In the last 12 months, we grew adjusted EBITA by 28% to RMB137 billion and generated RMB131 billion in non-GAAP free cash flow. This is significant firepower for our long-term growth.

Okay, let us turn to our business segments. All of the revenue we have talked about for each sector shows strong growth. And then when you look at their adjusted EBITA, profits for the core are still growing strongly, and the investment areas, these businesses are in investment stage, are progressing very well and losses get narrowed.

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[4] "Average daily active users on workdays" was mistakenly stated as "the peak DAU" on the call.

Okay, so I would like to talk about our outlook. But before that, I want to address the recent bill passed by the US Senate called the Holding Foreign Companies Accountable Act. The proposed legislation would essentially prohibit a foreign issuer from being listed on a US stock exchange, if the US Public Company Accounting Oversight Board – this is PCAOB – is unable to inspect all the work papers of the issuer's auditors for three consecutive years, due to certain reasons. We are closely monitoring the development of this bill and I think it is important for investors to understand Alibaba's practice and issues raised under this proposed legislation.

First, there is an existing framework for the PCAOB to conduct an inspection of audits on companies with Chinese operations. In this regard, we understand that there has been ongoing dialogue among the big four accounting firms, Chinese securities regulator, the CSRC, SEC and PCAOB, with respect to the types of information that are permitted to be exchanged on issuers with Chinese operations while maintaining compliance with Chinese law.

Number two, Alibaba's financial statements are prepared in accordance with US GAAP and since our inception in 1999, we have been audited by PwC Hong Kong. PwC Hong Kong is the local affiliate of the worldwide PwC firm and its auditing standards are overseen by the PwC national office in the United States. The integrity of Alibaba's financial statements speaks for itself. We have been an SEC filer since 2014 and hold ourselves to the highest standard of transparency. Each year, we have received an unqualified audit opinion of our financial statements from PwC.

Third, trust is one of our core values. And transparency and integrity are essential components of building trust with all of our stakeholders. All these years, we have consistently aimed to grow the business for long term, maintain compliance with all applicable laws and deliver value for our customers, employees and investors. Investors who bought our stocks in 2014 IPO have tripled their investment over the past five and a half years. Given the above, we will endeavour to comply with any legislation whose aim is to protect and bring transparency to investors who buy securities on US stock exchanges.

Looking ahead, despite a challenging quarter due to pandemic, we achieved our guidance of over RMB500 billion in revenue and delivered healthy, sustainable profit growth in fiscal year 2020. The reason we have been able to deliver these results is that we sowed the seeds years ago by investing in technology, in innovation and in businesses that require foresight and long-term patience. Today, the Alibaba digital economy remains strong and growing. Looking ahead, we will continue the same strategy of delivering robust revenue growth and sustainable profit growth. Although it is difficult to predict the uncertainty of global economic and geopolitical developments, based on our current view of Chinese domestic consumption and enterprise digitisation, we expect to generate over RMB650 billion in total revenue in fiscal year 2021. We believe our commitment to invest and deepen our value proposition to customers, thereby ensuring robust revenue and profit growth.

That concludes our prepared remarks. Let us open for Q&A. Thank you.

Q&A

Binnie Wong (HSBC):

(Translation)

Daniel, Maggie, Rob, thanks for taking my question. My question is regarding your strategy in lower tier cities. I know that last week you released a new version of Taobao containing some new policies, support and assistance for merchants, as well as influencer live streaming, targeted toward penetration of the lower tiers. I also saw in your press release that new consumers and development in the lower tier cities have continued to be strong, at over 70%. So could you please speak to us about your strategy for the lower tier cities in the new year?

Daniel Zhang:

(Translation) I will take that question. If you look at the size of Taobao today, with over 720 million AAC[5] on our China retail platforms, the fact is already we've already penetrated all segments of the market from the high end down to the low. And within the 70 million[6] new consumers we added to the China retail marketplaces last year, 70%[7] of them came from lower tier cities.

What we are doing for users from the lower tier cities is offering diversified services, including on Taobao with more value-for-money offerings, as well as live streaming and other kinds of engagement that are targeted for those users, especially those who are looking for good value for money. And as you have seen, we have launched a new version of Taobao Deals, which is more streamlined and targeted for those users in lower tier cities with a focus on value for money offerings.

At the same time, we see significant potential for further growing our user base in lower tier cities. Our China marketplaces have a customer base of 780 million, but that still represents only 45%[8] penetration of the population in lower tier cities and in the rural areas of China. So there still is lots of room to grow in those regions and we intend to do so, together with Alipay, by driving a digitalisation strategy that will convert people into consumers. This is part of our integrated strategy for the Alibaba Digital Economy.

[5] "AAC" was mistakenly stated as "users" on the call.

[6] "72 million" was mistakenly stated as "70 million" on the call.

[7] "over 70%" was mistakenly stated as "70%" on the call.

[8] "40%" was mistakenly stated as "45%" on the call.

Eddie Leung (Bank of America Merrill Lynch):

(Translation)

My question is regarding the long-term impact of live streaming on the industry and in particular influencer and celebrity host live streaming. The question is if merchants need to pay these influencers or celebrities, will that impact profitability on the platforms?

Daniel Zhang:

(Translation)

Thanks, Eddie. That is a very good question. What we are seeing really is the emergence of live streaming as an important new approach to sales. More and more influencers and even some celebrities are entering this space. In essence, the role that they are playing in the context of retail is sales; they are serving as sales people and promoters, and they make money by way of a sales commission.

In the long-term, how this trend will play out, I think really comes down to whether the potential commercial value of having online influencers and KOLs do live streaming can be fully captured in an effective way. If you have an one-off sales event with a celebrity influencer, you get users to make a one-off purchase, fine. But the question is, can you then keep that user in the long-term and continue to market to them and get the full value out of that relationship?

The reason merchants are willing to pay handsome fees to online influencers or celebrities, on the one hand has to do with supplanting existing channel and promotion costs. But more importantly, it is about acquiring and holding on to new consumers, and being able to market to them in the long term throughout the user lifecycle. And that is precisely where Alibaba has a strong advantage when it comes to livestreaming and influencer selling, because we are an integrated marketplace with multiple channels and formats for engaging consumers. So we don’t see livestreaming as a standalone sales approach, but as one part of an overall integrated approach to engaging consumers with the ultimate objective of helping merchants to realize long-term value.

Piyush Mubayi (Goldman Sachs):

(Original)

I have one question with regards to the guidance you provided for next year. What are the drivers of that growth assumption or guidance you provided? And in particular, what are the underlying macro assumptions you have made, and more generally, the platform mix, the 1P versus 3P mix that you are likely to see that is underpinning that guidance? I will go back to the queue afterwards.

Maggie Wu:

(Original)

Okay. Piyush, this is Maggie. Let me try to answer your question. So, we all know that we are facing risks and uncertainty, right, so many of which we are not able to predict or control. So, whether there is going to be a second wave or when will the vaccine come, how much impact will the geopolitical issue bring, it is hard for us to factor in. So, the guidance we give basically reflect assumptions that we believe to be reasonable today.

So, Daniel talked about the recovery speed of each of our businesses, and particularly for China Retail, Local Service and international business, etc. So, based on what we have seen today and we see this quarter-to-date transaction volume and all the user activities, etc., has already experienced similar growth at a similar rate to the December quarter level. So, that is basic assumption that we used.

And you mentioned about 1P, 3P. So, you can see from our revenue breakdown, for the 2020 fiscal year, 1P business as a percentage of the total revenue already went up to around 16%, 17%, and we believe that percentage going to continue to go up and not dramatically. But the important thing is that people are thinking about your revenue contains bigger portion of 1P. Now, 1P normally represents low margins. But look at our profit growth. I think this is another point I want to make is that we are a group that has such strong growth for the core and also has multiple engines, not only Taobao, Tmall, China Retail Marketplace, but also Cloud, New Retail, Local Services, logistics, right?

So, strong revenue growth brings in the power for us to invest in those strategically important areas. And these investment areas, they are doing better and better, which reflects into our profit growth. Sorry interpreter, I gave a long answer.

Alex Yao (JP Morgan):

(Translation)

Thank you, management. I am Alex. I noted in the earlier remarks your comments about advertising revenue in the first quarter performing well, driven by recommendation feed advertising. And in that context, I would like to ask about your plans for monetisation of recommendations. I imagine that in your answer, you will, as you have many times previously, talk about the need to balance the interests of merchants against the desire for monetisation. So let me further ask, is there any technology-based approach that could be adopted that could, on the one hand, fully protect the merchants' interests or even better serve their interests, while at the same time also allow for better monetisation? And if so, is that something that could happen this year? Thank you.

Daniel Zhang:

(Translation)

Thanks. I will start with the latter part of your question. The answer is yes, there is technology that can do precisely that and that technology is AI, artificial intelligence, which can be applied to ensure good user experience in terms of balancing advertising content versus free content for users, and also leveraging that technology for merchants to drive better returns on their investment.

We are indeed working in that direction, and I think we are already making excellent progress. We are moving forward cautiously in working on growing revenues from recommendation feeds. And it is our hope that we can find ever better ways to do precisely what you mentioned in your question, namely, finding the best possible balance, leveraging on technology, between user experience and commercial advertising, creating value for merchants. We have been consistently working in this direction, and have made progress over the past quarter as you see in our results.

Maggie Wu:

(Translation)

I would just like to follow up on Daniel's already very clear answer, and the keyword I would like to add in is one you will be hearing us use a lot in the future: it's our 'multi-engine' approach. If you look at our revenue breakdown three years ago, revenue from CMR and commissions accounted for more than 70% of the total revenue, but as you will have seen in the latest earnings, it's now 40% plus. What this means is that our strategic investments have produced new revenue streams which are growing rapidly. That's point one.

Second, you can also see a 'multi-engine' effect in our CMR and commission figures as well. Three years ago, search, P4P, accounted for over 90% of our CMR, so basically from Zhitongche[9]. That percentage is down now by 20% to only over 70%. What that shows is that we have many other revenue streams that are growing, of course including from recommendation feeds as we discussed, but also from live streaming, Xianyu, Texiu, Pinsou, and multiple other new platforms.

Third, in terms of recommendation feeds, as we said at Investor Day, we would take a prudent approach to monetisation. But actually looking at where we're at today, we're making excellent progress, and conversion is showing healthy improvement. A few years back, these revenues accounted for just a single digit proportion of our CMR revenues, but today are in the teens, so they're coming up, and it hasn't been all that difficult. But we will balance the different interests involved.

[9] P4P marketing services.

Thomas Chong (Jefferies):

(Original)

Hi, good evening. Thanks management for taking my questions. My question is more about the spending power of the buyers post virus. Can management comment about the overall spending power of consumers these days? And can you comment about the trend in ASP and order frequency that we would expect as people are speeding up the migration to online? Thank you.

Daniel Zhang:

(Original)

Okay, let me answer this question. First of all, I think on our platform, we are such a huge consumer platform – we have different tiers of consumers around us. What we see is that consumers, they engage with us and find what they want in different categories in different pricing range. However, we do some shift of the product categories in this quarter because of the pandemic. For example, we see very strong growth of food and groceries business. And because when people stay at home they have to cook at home, they are unable to go to the restaurant, so they need more food and more groceries, which are all daily necessities. That is why we see very strong growth in our FMCG categories and food categories.

Our FMCG categories growth, for example, in the start from the new fiscal year our FMCG categories in Tmall grew yearly around 40%, which is a very strong indicator that people spend more on our platform in these categories. However, because of the pandemic, people spend less on apparel, fashion, because people wear face masks and they do not even need make-up. I think the spending is still there, but the focus is quite different.

But in terms of the general spending power, China is a famous high-saving rate country and we do see people remain in a very strong consumption power to maintain their lifestyle. So far, we have not seen any big change in terms of the consumption power. However, as I said before, I think the product categories they try, we do see some difference.

Let me clarify one point, when we talk about beauty, what we see is skincare still remains very strong. However, for make-up, as I said, when ladies wear face masks, the need for make-up is getting lower, so that is the situation.

Jason Helfstein (Oppenheimer):

(Original)

Thank you. I just want to go a little bit deeper into that last point. You said that online physical goods GMV grew 10%, and then you did break down that. You saw 25% in these categories that benefited were more COVID-related offset by areas where they did not spend money. What do you think is more reflective of the consumer health? Is it that 10% number or really is it that 25% and consumers have the ability right now to spend more, they are just not because they do not need the items, consistent to what you talked about, not needing make-up if you are wearing a mask, for example? And maybe talk about how that relates to your outlook for the next quarter. Thank you.

Daniel Zhang:

(Original)

Okay, let me answer this question. As we said before, our Tmall grew 10% in the last quarter. In Tmall, we have our FMCGs and consumer electronics. The combined growth rate in March quarter for these categories on Tmall was about 25%. However, if you want to get a big picture of the future development, I think in my remarks I gave you a very clear indicator which is starting from the New Year, the quarter-to-date, overall speaking, our China Retail Marketplace growth rate is similar to those in the December quarter. I think that is basically the big picture of where we are today.

However, all people realise and understand that there is still uncertainty about containing the pandemic. Therefore, we will closely monitor the situation. However, we strongly believe that the consumption power in China is still very strong and we will take our advantage in the digital platform to continue our leading position.

Let me add one more point, which is if you look at the past fiscal year, we generate US$1 trillion GMV in our Alibaba ecosystem, but if you look at our China Retail Marketplaces, the GMV we generated last fiscal year is about RMB6.5 trillion. And if we look at what happened in the March quarter, I think we should have achieved a higher GMV, without this pandemic obviously. We are very confident that in the New Year, I think we will achieve another net add of at least RMB1 trillion GMV in our China Retail Marketplace, which is, I think, a still very strong number compared to the size of our business in China.

Gregory Zhao:

(Translation)

Thank you and congratulations on the strong performance. My question relates to cloud services. We know that internationally, players like Microsoft and Google, who have already achieved significant scale in terms of their size and their revenues, continue to maintain rapid growth in their revenues and even acceleration. Looking at China, however, in the cloud market, Alibaba and its competitors seem to be seeing a different trend of slower growth. So, I am wondering if you could compare for us, please, the China market versus the international market for cloud? What are the differences underlying that picture and what are the short-term bottlenecks? And how would it be possible, potentially, to make a big leap forward in terms of accelerating revenue and profit growth in cloud?

Daniel Zhang:

(Translation)

I will take that question. First, in the past year the revenue of Alibaba cloud intelligence hit a very important milestone, reaching RMB40 billion, with a 58% growth rate in the March quarter. So the business is growing fast, and we don't see any bottleneck or slowdown at all. We believe the cloud era is just beginning.

We see growth potential coming from several areas. One is the demand across all sectors of the economy to get onto the cloud, and if you look at IT spending in China, penetration of cloud services in IT spending is just getting started.

The second thing is the industrial internet. The cloud is not just about providing cloud-based infrastructure, i.e. IaaS, more importantly it's about helping companies to leverage on big data and cloud-enabled computing capacity and algorithms to achieve better efficiencies and drive incremental growth for their business. And different kinds of products and solutions will be developed in the cloud for different sectors, for different verticals, to meet those needs and unleash new value for companies. So, it is not just about saving costs on IT infrastructure, it is about driving value as well. This is an important source of growth potential.

So Alibaba's value proposition is that we offer Cloud plus Intelligence. We are not just about providing cloud services, it is that combination of Cloud plus Intelligence service.

Now, cloud services are defined differently by different players, be it in China or internationally. But to us, if it just about shifting traffic onto the cloud to save costs, that is a low value-added offering. Instead, Alibaba is focusing on higher value-added core cloud offerings that can truly drive growth.

And finally, on your question as to the differences that we see in the Chinese cloud market versus the cloud market overseas, I would say that in the US and in other more developed markets, the Saas ecosystem and the ecosystem of developers are already very mature, whereas in China, that developer ecosystem including the SaaS ecosystem is just starting to develop. Alibaba very much looks forward to working with developers and partners to jointly build China's future cloud ecosystem.

Alicia Yap (Citi Group):

(Original)

Hi, good evening management. Thanks for taking my questions. Congrats on the strong results. My question is on for if you could give us some colour on the subsidy measure that you help provide merchants, do you think that is actually more effective to the commission rebate or merchants actually prefer more free traffic? And given recommended feeds actually becoming quite effective for merchants, so does that mean over the next few quarters we do not have to provide more preferential commission rates over time or is that a separate thing? And the CMR and commission growth direction will still be a bit diverged? Thank you.

Daniel Zhang:

(Original)

Alicia, let me first answer your question. First of all, we are trying to help our merchants, especially SMEs, during this pandemic but we have to give a very fair and transparent policy to all the merchants on our platform. That is why we decided to waive the annual fees and also give some reduced commissions in some of our business. This is applied to all the merchants on our platform.

In terms of the free traffic, this is a very interesting question. I would say when we decided to give this support to the merchants, we have to consider the user experience on our platform because we are a marketplace. We are platform model, so we have to consider the interest of both merchants and consumers. If we give free traffic to certain merchants, I think their conversion rate, their click-through rate of the products may or may not be good enough to the customers. That is why we do not want to do this one-sided effort. We have to ensure a good user experience on our platform but at the same time, we want to satisfy our merchants to relieve their financial pressure. So, that is how we think about this policy.

Maggie Wu:

(Original)

Let me just supplement a little bit, Alicia. So, for the subsidy and preferential commission rate, these are two separate things. Something we are talking about like waiving merchant's annual fee on Tmall platform, that is a support during COVID-19, to help them to go through this difficult time. And this preferential commission rate is an ongoing effort that we have this practice all through the years.

Talking about either subsidy or preferential rate, I think, our operational philosophy is that we are not a believer of just burning money to grow the GMV. We believe that whatever investment we make, it should be supporting the sustainable growth rather than just burn and throw away the dollar. So, if you look at our profitability, this year we are talking about somewhere over RMB140 billion and we have like US$50 billion cash[10] on our accounts. So,

[10] Including cash and short-term investments.

there are money to invest but we are emphasising on helping merchants in an efficient and effective and sustainable way. Thanks.

Mark Mahoney (RBC):

(Original)

Thank you very much. If you were to talk about the biggest structural changes you think that will occur to your business or to the digital economy because of the COVID-19 crisis, what would you say they are? You highlighted the increased shopping for groceries online but including that, other things, just step back, what do you think are going to be the biggest structural changes, permanent changes, in the way that consumers around the world interact digitally because of this crisis? Thank you very much.

Daniel Zhang:

(Original)

Okay, I think, on top of the new category penetration like the food and groceries, I think the other very important change is education and penetration in the customers who are not a very experienced internet user or online shopper before COVID-19. For example, what we see that during the pandemic, many, many elderly people, they move online and buy everyday needs. So, it is not only about the category penetration, it is also about the user penetration. So, we still see this change the lifestyle of many, many people.

The second thing is not about consumption, it is about change in the way of working and change in the way of education. So, that is why in my remarks, I say that our DingTalk experienced a very, very robust growth during the quarter because they become a very important platform for working people to connect and to improve the working efficiencies. And for students and schools and DingTalk become a very efficient platform for online classroom. So, I think, this is all about changes in the lifestyle, changes in the way of working, changes in the way of education, so these are very, very fundamental changes. I would say this will stay even after the pandemic.

Robert Lin:

(Original)

Okay. Thanks everyone for joining the call today. If you have any further questions, please feel free to contact the Alibaba IR team. Thank you very much.

[END OF TRANSCRIPT]