Alibaba Group
December Quarter 2020
Results Conference Call
Transcript

Tuesday, 2nd February 2021

Welcome and Disclaimer

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Thank you. Good day, everyone, and welcome to Alibaba Group's December Quarter 2020 Results Conference Call. With us are Daniel Zhang, Chairman and CEO; Joe Tsai, Executive Vice Chairman; and Maggie Wu, CFO.

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

Let me quickly cover the safe harbour. 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 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 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 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 noted, growth rate of all stated metrics mentioned during this call refer to year-over-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 a third-party translator will provide consecutive translation. All translations are for convenience purpose only. In the case of any discrepancy, management statement in the original language will prevail.

With that, I will now turn over to Daniel.

Fourth Quarter Highlights

Daniel Zhang

Chairman and CEO, Alibaba Group

(Original)

Thanks, Rob. Hello, everyone. Thank you for joining our earnings call today. Alibaba Group delivered on another strong quarter. Our revenue increased 37% year-over-year to reach RMB221 billion, while adjusted EBITA increased 21% year-over-year to reach RMB61.3 billion. Annual active consumers and the GMV of our China retail marketplaces continued to enjoy healthy growth, with Taobao Deals surpassing 100 million mobile MAUs for the first time.

We celebrated another milestone with Alibaba Cloud, which achieved its first profitable quarter, with positive adjusted EBITA. These business trends are all quite encouraging and are supported by a China economy that has recovered rapidly from the pandemic. Maggie will provide more details on our operating and financial performance in a few minutes.

I would like to address another subject that everyone is equally focused on, which is the potential impact of China's changing regulatory environment on internet platform companies. I will share the latest updates on this topic.

This past quarter, Alibaba experienced the suspension of Ant Group's IPO due to changes in the fintech regulatory environment, as well as the initiation of an anti-monopoly investigation by regulators in China. On 24th December 2020, Alibaba Group received a notice of an investigation from the State Administration for Market Regulation, or SAMR, that it has commenced an investigation pursuant to the PRC Anti-Monopoly Law. The investigation is ongoing and we are fully cooperating with the SAMR. We have established a special taskforce with leaders from our relevant business units to conduct internal reviews. We will continue to actively communicate with the SAMR on compliance with regulatory requirements. We will further update the market when the investigation is concluded.

We approach this anti-monopoly investigation with a cooperative, receptive and open mindset. As a China retail marketplace, connecting hundreds of millions of consumers and millions of merchants in transactions valued in trillions of RMB, we have a deep appreciation of the significant social and public responsibilities of operating our platform. Beyond complying with regulatory requirements, we will continue to do our best to fulfil our responsibilities to society, and continue to causes such as consumer protection, digitalization of retail and industrial upgrading.

Regarding Ant Group, as you know, in early November, Ant Group announced the suspension of its proposed dual listing and initial public offering on the Shanghai Stock Exchange STAR board and the Hong Kong Stock Exchange. Due to recent significant changes in the fintech regulatory environment in China, Ant Group is in the process of developing its rectification plan, which will need to go through the relevant regulatory procedures. Therefore, Ant Group's business prospects and IPO plans are subject to substantial uncertainties. Currently, we are unable to make a complete and fair assessment of the impact that these changes and uncertainties will have on Alibaba Group. We will update the market once Ant Group has completed the relevant regulatory procedures for its rectification plan.

We received questions regarding whether any potential reduction in available consumer credit via Ant Group's offerings such as Huabei would impact consumer spending on our China retail marketplaces. I want to highlight that the availability of credit is not a major reason that motivates consumers to shop on our China retail marketplaces. They are attracted by our comprehensive and high-quality product and service offerings, our competitive pricing and our ability to satisfy and stimulate consumption needs. Payments using Huabei on our China retail marketplaces only represent a very small percentage of the total credit granted under Huabei, and the vast majority of our consumers have linked their payment accounts to multiple funding sources, including credit cards, and Huabei is only one of the funding channels.

Although the changing regulatory landscape applicable to fintech and internet platform companies presents near-term challenges to Alibaba, we regard these as important opportunities for re-assessing and improving our business practices.

In this highly competitive market environment, we will further challenge ourselves to constantly deliver an enhanced-value creation for customers through innovation. In multiple areas, such as China commerce retail, local services, cloud computing and international commerce, we see challenges in fierce competition but also tremendous potential.

Looking forward, we will be even more committed to investing in these core areas. Investing for innovation, for value creation and for long-term growth. Here, I will elaborate a little bit more on our thinking in four core areas.

First, in China retail marketplaces, we will continue our user acquisition efforts, especially in less-developed areas. We will build on Taobao Deals 100 million mobile MAU base, and further invest in expansion of the user base and the product supplies targeting less-developed markets. In addition, in the community group purchase space, we are developing a unique model based on consumer value proposition, as opposed to subsidization to ensure a good consumer experience and business sustainability.

Second, our local service flagship Ele.me will continue to strengthen its partnership with Alipay to expand location-based, on-demand delivery services to additional categories beyond meals, such as groceries and pharmaceuticals. On-demand deliveries on non-meal categories are growing rapidly on Ele.me, which shows significant market potential. The current regulatory trend towards more healthy competition will benefit all market participants, as consumers and merchants look for diversified supply. We will leverage this opportunity to continue investing to strengthen our local service business.

Third, in cloud computing, we are pleased to have delivered our first quarter of positive adjusted EBITA. This is the result of years of investment in pursuit of long-term value creation. Alibaba Cloud continues to grow at a rapid rate, with 50% revenue growth year-over-year in December quarter, reflecting the massive potential of China's cloud-computing market. We believe the market is still at the early stage, as data intelligence applications and demands for computing power will become universal across all industry sectors. We will leverage Alibaba's unique advantage in technology and in data intelligence applications while continuing to invest for growth.

Finally, for globalization, Southeast Asia, which is a core market for our international commerce business, is witnessing Lazada's rapid growth in both user base and transaction volumes. We have spent several years upgrading Lazada's technology infrastructure, business model and operating efficiency. We believe we are now well positioned to capitalize on the Southeast Asia market, which is experiencing accelerated growth, through further investment into long-term opportunity, with a goal of increasing our market share and users mind share.

As China is fully evolving into a digital economy, Alibaba continues to be the best positioned in this historical transformation with our digital infrastructure in commerce, financial services, logistics and cloud computing that we have been building over the last 20 years. We continue to be confident about our three growth engines, of domestic consumption, cutting-edge technology and globalization, as these drivers are also consistent with China's policy direction in its economic development.

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

Financial Highlights for the Quarter

Maggie Wu

CFO, Alibaba Group

(Original)

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

Our annual active consumer in our China retail marketplace reached 779 million and mobile MAUs reached 902 million, so both have shown net adds of over 20 million in the quarter's time. Our total revenue was RMB221 billion, up 37% year-on-year. Starting from this quarter, we consolidated Sun Art, which is a newly acquired company, and if we take out the impact of Sun Art's consolidation, the revenue growth would still show a strong growth of 27% year-on-year.

This strong revenue growth is mainly coming from the strong growth of our core commerce business as well as the strong revenue growth of our Cloud computing business. Our adjusted EBITDA was RMB68 billion, up 22% year-on-year, and the adjusted EBITA was RMB61 billion, up 21% year-on-year, primarily driven by healthy profit growth of our core commerce segment. If taking out Sun Art, adjusted EBITA growth would have been 21% year-over-year.

Our Cloud computing business continued to deliver solid revenue growth of 50%, and we are very pleased that the adjusted EBITA for Alibaba Cloud turned positive for the first time.

We continue to maintain a strong cash position of US$70 billion. Our non-GAAP free cash flow grew 23% year-over-year, to RMB96 billion, during this quarter.

Let us look at our cost trends for the quarter. Excluding SBC, total costs and expenses as a percentage of revenue increased by three percentage points, mostly due to our investment in strategic important areas, which I will talk about in detail later.

Now, let us look at long-term investment approach and how it becomes our multi-engine growth driver. This multi-engine growth driver actually is very unique for Alibaba. If you compare it to our peer companies, we are the only one that has all the building blocks for the core commerce, including all of these infrastructures. Our ecosystem has developed many growth businesses because of our focus, our innovation and our steadfast approach to investing our businesses for the long term.

Over the years, our businesses have become more diversified and more integrated as we provide more value-added services to merchants and businesses. The value we add is reflected not only in our original Taobao and Tmall business but also in New Retail, Cainiao, international commerce, local consumer service and cloud computing. We categorise these businesses into three development phases: seed, traction and profitability, as highlighted during the Investor Day back in September last year.

For instance, businesses such as Alibaba Cloud have graduated to profitability stage after over 10 years of investment. Several developing businesses within core commerce, such as Cainiao, have graduated into traction stage as they expand their addressable markets and gain scales of economy.

Businesses in the profitability stage have never stopped innovating either. Within the core commerce, we further invested in local service, New Retail, logistics and globalization. Even within our core core, which is the most profitable China retail marketplaces, we have also incubated and stepped up investments in new seed businesses, such as Taobao Deals, Taobao Life, Taoxianda, Taobao short video and Taobao Grocery. These businesses address new consumption demands and behaviours and will continue to expand our addressable markets in China.

Let us look at our Core Commerce segment. The core commerce revenue grew 38% year-on-year to RMB196 billion. Within the Core Commerce revenue, CMR grew 20% year-on-year to RMB102 billion. Customer management revenue growth is driven by the solid growth of our China retail marketplace. Tmall online physical goods paid GMV grew 19%, mainly driven by rapid growth of FMCG and home furnishing category as well as accelerated growth of consumer electronic categories. Taobao online physical goods paid GMV was also strong, which was driven by growth of apparel and accessories, home furnishing and consumer electronic categories.

The success of China retail marketplace and the increasing number of value-added services we provide to merchants attracted increasing number of paying merchants and higher average spending per merchant. CMR grew 20%. This is primarily due to the robust growth in revenue from new monetization formats, such as recommendation feeds, an increase in average unit price per click in search monetization, as well as the fast growth of Tmall online physical goods GMV[1].

China retail other revenue grew 100%[2] year-on-year due to impact of Sun Art consolidation and strong growth of Tmall supermarket. Taking out the impact from the consolidation Sun Art, China retail other revenue is still growing over 40%.

Cainiao logistics revenue grew 51% year-on-year, primarily driven by increase in volume of orders fulfilled from our fast-growing cross-border and international commerce retail businesses. International commerce retail grew 37%, primarily driven by robust growth of Lazada, Trendyol, as well as GMV recovery of AliExpress. Lazada recorded another quarter of triple-digit order growth by ongoing market consolidation in Southeast China region. Local consumer service revenue grew 10% due to an increase in GMV as well as more efficient use of subsidies.

Core commerce adjusted EBITA reached RMB66[3] billion, growing 15% year-on-year. Our original businesses in China retail marketplaces, including Taobao, Tmall, Alimama, these businesses continued to maintain strong adjusted EBITA growth and stable margins in the quarter. And these trends were partially offset by increased investment in new businesses, such as Taobao Deal, Taobao Live and Taobao Groceries. Investments in these new seed

[1] "paid" was omitted on the call.
[2] "101%" was mistakenly stated as "100%" on the call.
[3] Actual figure is RMB 66.6 billion.

businesses will continue to enhance consumer experience and engagement, as well as helping increase Alibaba ecosystem penetration into developing areas of China.

Other developing business, such as local consumer service, international commerce retail, New Retail and direct import, and logistics, continued to show solid progress and improving operating efficiencies. The combined losses of these developing businesses narrowed by RMB1.6 billion, from RMB8.3 billion to RMB6.7 billion. Importantly, we are also pleased that Cainiao has recorded positive operating cash flow after intercompany eliminations.

Next, Alibaba Cloud continued to empower the digital transformation of enterprises by providing comprehensive technology solution and services in the cloud for a wide range of industries. In December quarter, Cloud computing revenue grew 50% and this is primarily driven by robust growth from customers in internet, retail and public sectors. After our continuous investment for years, Alibaba Cloud achieved a positive EBITA[4] during this quarter.

For DME, we continued to improve the operating efficiency through disciplined investment in contents and production capability. During the quarter, adjusted EBITA loss for this segment continued to narrow, primarily due to reduced losses in Youku and increased contribution from our online game business.

Let us take a look at revenue and adjusted EBITA growth for the first nine months of 2021. So it is important to note that our Core Commerce segment has many businesses that target the same consumer base in China. As such, we take a holistic investment approach when allocating resources and capital across the segment by always reinvesting part of the incremental profits into new businesses. Despite increasing investment in new businesses, our core commerce segment, excluding impact from Sun Art consolidation, achieved a robust revenue growth of 30% – this is for the year-to-date – and healthy adjusted EBITA growth of 19%. Our investments will continue to focus on increasing consumer base, improving user experience and enhancing supply chain logistic infrastructures.

Let us take a look at several items. One is the interest investment income, which was RMB40 billion, shows a big year-on-year increase. The increase is primarily due to an increase in the net gain from increases in market prices or public equity investments. And share of results of equity method investee was a loss of RMB3.6 billion. It is the result of an impairment loss recorded, which was partially offset by RMB4.8 billion in profit share of Ant Group September quarter financial results. So we record this equity pick-up one quarter lag. Non-GAAP net income was RMB59 billion, an increase of 27% year-on-year.

Cash flow and CAPEX. For the quarter, free cash flow was RMB96 billion, which increased 23%, mainly due to our robust profitability growth. As of December 31 2020, cash, cash equivalents and short-term investments were RMB456 billion, approximately US$70 billion. On December 28, our board of directors has authorized to upsize our share repurchase program from US$6 billion to US$10 billion. We have commenced the share repurchase program during the quarter and repurchased around US$118 million of ADS in this quarter.

[4] "adjusted" was omitted on the call.

Let us have this outlook discussion. 2020 was an unprecedented year. A year has passed since the pandemic started and it continues to create uncertainties and disruptions to business globally. Given the Chinese government has taken effective measures to limit the spread of the virus earlier, China's economy saw quick recovery, which in turn supported the solid growth recovery of our business. Looking ahead, we will continue to invest in user growth, user engagement, digital transformation of businesses, and our people. In fiscal 2021, we have started to increase spending in new business initiatives. In fiscal 2022, we plan to step up our reinvestment of the incremental profits generated into our seed businesses and the strategic growth areas in order to create long-term value to our customers, employees and shareholders.

That concludes our prepared remarks. Let us open the floor for questions. Thank you.

Q&A

Rob Lin:

(Translation)

Hi everyone. For today's call, you are welcome to ask questions in Chinese or English. A third-party translator will provide consecutive interpretation, 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.

Eddie Leung (Bank of America):

(Translation)

Thank you and good evening. My question to you has to do with your relationship with merchants. We know that online, there are an increasing number of different channels available to merchants, including your traditional competitors and also new and emerging competitors, and with the popularity of mini-programs on the rise. At the same time, we note the increasing scrutiny of anti-monopoly practices by the regulatory authorities in China. I am wondering if, in that context, you are seeing any changes in terms of merchant retention rates. And also from an operational perspective, is there anything you can do to improve, given that merchants now have more available different channels?

Daniel Zhang:

(Translation)

Yes, thank you. This is Daniel and I will take that question. Indeed, it is true that today there is an increasing diversity in terms of variety of internet user products available, and all of them can be utilized as an opportunity to engage in ecommerce. If you have the users and you are able to hold on to those users, and you couple that user base with online payment capabilities and third-party delivery capabilities, then anybody essentially can engage in ecommerce. It is a way of taking advantage of that user traffic.

At present, the reality for most merchants, if not all, is that there are multiple different platforms out there that they can choose to work with, and that is the reality. Although we do have very few exclusive flagship store arrangements with a small number of merchants, even with respect to those merchants, the fact is that their goods are also available through other channels, through their own channels, with distributors or other channels, and that is a fact that is plain for everybody to see.

Our advantage is that we are extremely focused on consumption and we are the number one platform when it comes to consumer mind-share for consumption. We are providing a very high quality consumer experience. That is why, for all merchants, although they do have a choice of multiple platforms and are present on multiple platforms, we are probably, for most of them, the most important platform.

Looking at merchants, be it in terms of retention rates, in terms of activity or their focus on the platform, we see no decline, and to the contrary, we tend to see increases. That is because ecommerce is becoming a more and more important retail format for merchants in general. Alibaba provides a wide range of services including sophisticated management tools for merchants to manage their online business as well as their online and offline combined businesses that contribute to enhanced overall efficiency for merchant operations. This is fundamentally different from an one-off campaign-driven approach that you would see for example, with livestreaming or short-form videos, that drives a single campaign. We are focused, in contrast to that, on providing that whole suite of tools and services to drive overall merchant performance, helping them increase their sales and maintain healthy profitability. And that is the reason why we are the premium platform that merchants choose to work with.

Gregory Zhao (Barclays):

(Translation)

Hello management! Thanks for taking my question. Just a very quick question as to whether you could give us any guidance on capital expenditure trends in the next few years? We know that there are a number of important new technologies, where you are making progress coming out of DAMO Academy and the cloud. We can expect perhaps to see expenditures in infrastructure, cloud infrastructure, R&D as well as in computing power. If you could just please give us some guidance on where you see capital expenditure heading in the next few years. Thank you.

Maggie Wu:

(Translation)

Thank you for your question. On the issue of CAPEX, if you look back to the presentation I just delivered, you will see that we gave the figure there for the December quarter. For the quarter as a whole, it was RMB5.8 billion. And included in that figure was RMB4.9 billion for operating CAPEX, so that covers IT.

In absolute terms, that is a relatively small figure. And indeed, as a proportion of our revenues, it would still be in the mid-single digits. Comparing that against our international peers, it is not very high. Going forward, our plans for the future will be to strengthen, increase our investment in technology, in R&D and in the DAMO Academy. And so we hope to see, going forward, CAPEX increasing both as an absolute value as well as a percentage of revenue.

Alex Yao (JP Morgan):

(Translation)

Good evening, and thank you management for taking my question. My question has to do with Daniel's opening statement in which he talked about the evolving policy environment and Alibaba's commitment to take on more social responsibility. Specifically, my question is taking on more social responsibility, how will that translate in operational terms into changes on the operational side? And if you could perhaps help us think through a bit, how those kinds of operational changes may have an impact on the company's financials?

Daniel Zhang:

(Translation)

Thank you for your question. I do think that is a very good question. As a platform economy, Alibaba has always taken very seriously, its social responsibility. It has made this very much part of the main stream of our efforts to develop as a platform. And in years past, we have indeed done a lot of work on this front.

Going forward, as a platform economy ever more deeply integrated with the overall economic and social development of the country, we do plan to take on yet more social responsibility. Something very important for Alibaba in particular is mainstreaming that responsibility and making it part and parcel of everything we do; be it helping to create jobs to stimulate employment; helping SMEs on every front from product distribution all the way through manufacturing – on the manufacturing side, we can play a role; and also helping them to export their products. There are many things that Alibaba can do. And I think the key point here is that social responsibility for Alibaba is not something separate from our operations and our business; rather it is at the main stream of everything we are doing around operations in business as a platform.

Taking on more social responsibility in the sense is conducive to driving prosperity of the platform. And more prosperity on the platform, again enables us to take on more social responsibility. The two are mutually reinforcing. So, we do not look at it in terms of the economic value that can be generated by social initiatives; rather, we see this in terms of holistic ecosystem value. That is how we have always approached it and we will continue to approach it in the same way.

Alicia Yap (Citigroup):

(Original)

Thank you. Good evening management. Thanks for taking my questions. Congrats on the solid results. My question is related to the reinvestment in strengthening your overall marketplace business. I understand this will be for some time and it will continue to deleverage the marketplace EBITA. But then is there any way management could help us rank in terms of the investment stages and also the resource that we will put into accordingly, for example, Taobao Deals, Taobao Live, the Short Videos and also the Taobao Grocery? How do we evaluate some of this reinvestment has achieved the certain results and that you will scale back? So, any colours in terms of ranking the importance and also the stages of some of these seed investment currently.

Daniel Zhang:

(Original)

Let me answer this question. First of all, I think, as we always said, we always invest for future. And for our investment in the seed business, in new business in core commerce, actually we think these are new businesses, but we build these new opportunities from the ecosystem point of view. We think to enhance our leadership position in core commerce, we need different applications, different services to meet the customers' demand from different perspective. So, like today, as you know, that our Taobao Deal enjoy very rapid growth and this quarter we report that our MAU for Taobao Deal surpassed 100 million. We are very happy to see the initial results.

But we strongly believe that the investment in Taobao Deal is very important measures for us to target the customers in low tier cities or even in the rural areas. And the leverage our supply power from like other business in Alibaba, like 1688, so on and so forth, we have very effective supply and value-for-money supply to meet the demand of the customers with low purchasing power.

In terms of our investment in Taobao Live, it has been for a while. Today, if you look at the Taobao Live business, it is already very sizable. Every day we have tens of thousands of livestreaming on our platform, which not only initiated by the KOL, but also done by many storefront owners. So, I think we highly integrate the livestreaming together with our retail platforms and livestream become a very effective marketing tool for our storefront and also create the new business opportunities for KOL.

In this regard we will continue to invest in the livestreaming. But once again, we do not view livestreaming as a separate business. Instead, actually livestreaming is a very important new retail format in the commerce platform. I will stop here for translation first.

In terms of Taobao Groceries, as I said in my script, we are developing a very unique model based on the customer value proposition as opposed to subsidization to ensure the good user experience and business sustainability. I think a very important thing is that we try to build our own model as opposed to what you see in the market, just burn money to subsidize the customers for scale. I do not think this is a sustainable model.

Instead, we have such a tremendous user base already in Taobao. That is why in Taobao mobile app, we have our Taobao Grocery as a major customer interface for this new business. So far, based on our initial test, we saw very good results. This Taobao Grocery business not only helps us to have more supplies to the local customers, especially in the low tier cities, but also help us to recruit many new customers with the assistance of these community leaders.

We will continue to invest in this business, but we will try to leverage all the resources we have in Alibaba and in some new retail business, in our investee companies and in our multiple supply channels. From a financial perspective, I think we do not manage our core commerce business by EBITA. We think the growth of the user base and growth of the consumption in multiple categories across country is a key. Our strategy is very clear and we are very confident to invest more in this area.

Just one more point on Taobao Grocery. Today, we are still in the pilot test for Taobao Grocery in some of the cities. So, today, only a small portion of Taobao users can access the service. Over time we will roll this service out across the country, via the collaboration with multiple suppliers across the Alibaba business. Thank you.

Thomas Chong (Jefferies):

(Original)

Hi, thanks, management, for taking my questions. Congratulations on the positive EBITA for the Cloud business. May I ask about how we should think about the competitive landscape on the Cloud business in the coming years, as well as our strategy in the IaaS, PaaS and the SaaS side? How do you think about the margin trend as well?

Daniel Zhang:

(Original)

Yes, Cloud Computing is a very promising business. We do believe, in the future, all the industrial sectors will need cloud services. Today, in the market, we also see very fierce competition. However, obviously, Alibaba has a very big advantage in many areas. Firstly, by leveraging our huge scale, our ecommerce, our financial services and logistics, we are able to build a very scalable cloud infrastructure which supports our own business first. Today, we roll out this infra to serve third-party clients. In this case, in terms of scalability, we are in a very superior position.

The second advantage we have are the data intelligence capabilities and applications we have to serve our clients. Actually, in China today, when you talk with many clients who want to use cloud, their purpose is not about only moving to the cloud. Instead, what they want is, by moving to the cloud, they are able to make better use of their data. So, data intelligence capability and applications are the key. In this regard, we are obviously, once again, in a very superior position. We have a lot of expertise and experience in terms of data usage and data intelligence.

The third advantage we have is about the technology. For years we invested in cutting edge technology for cloud very aggressively, via our DAMO Academy, via our recruitment of first-class engineers and scientists. So, today, in terms of some of the key product features in cloud, such as database, such as storage, such as middleware services, so on and so forth, the quality of our product services is better than our competitors. We get very good feedback from our customers. So, I think that technology is still the key.

In summary, we invested a lot in technologies in the areas of IaaS and PaaS. In terms of SaaS, we work very actively with our partners in different industries, trying to create a SaaS ecosystem, cloud-based SaaS ecosystem. These are our general strategies for cloud and we are very confident about the future of this business. Thank you.

Jerry Liu (UBS):

(Translation)

My question has to do with the investments that you have talked about, that you intend to be making in the next period to come, including around Taobao Deals, livestreaming and so on and so forth, and the impact that will be expected to have on EBITA, or EBITDA, growth. If you look at EBITA or EBITDA growth over the past few years, the pace of growth has really remained quite stable. Going forward, would we expect to see that growth rate moderate as a result of those investments, or would that possibly be offset by improvements in the profitability of other new businesses, like Cloud, Ele.me or Cainiao? Thank you.

Maggie Wu:

(Translation)

Thanks very much and indeed, it is very interesting that whenever we talk about Alibaba's financial performance and future outlook, we always get questions about our profitability, our margins and whether we expect to be able to sustain them at the same levels that they have been at. We are very grateful for that and it is very much a function of the fact that we have created high expectations by always being able to create profit and maintain healthy margin levels. We know that others in the same market are getting different kinds of questions and the expectations are different.

Of course, we are in the same market with all the other companies and it is a valid question as to whether we would prioritize and put in first place profit growth going forward, or whether, instead, we would prioritize investing in our future growth and in new businesses. Alibaba's answer to that is very clear. It is not a question that we even need to think about: we are always investing in future growth.

If you look at where Alibaba is today, in terms of profitability, looking at the last 12 months – actually, the figure I can give is from the last nine months, the past three quarters adjusted EBITA was RMB147.8 billion. That is very strong but that figure already includes various reinvestments of the profit that we have made. So, I think we are in a good place and have the ability to continue to invest.

You can also look at our profit increment over the last two-year period; if you compare the first nine months of this year to the first nine months of the year before last, you are talking about a fairly substantial figure of RMB30 billion. So, this is our development strategy: we continue to invest in the future. As we see that strategy paying off and as the new businesses grow, we will expect to continue to scale up our investments.

So, looking at the potential, the huge potential, that exists in the market, today's situation of competition and our own progress and where we are at, as I said, in my prepared remarks, earlier, our approach will be to continue to invest, to scale up our investment. We will never prioritize margin; that will never be number one for us and it never has been in the past. When it comes to profit growth, I think we have a very strong foundation in place, in particular with Taobao, Tmall and the China retail marketplace. We are building on a very strong foundation of profitability.

Youssef Squali (Truist Securities):

(Original)

Thank you very much for taking the question. Just a very quick one. I was wondering if you guys can discuss the impact of the reimposition of restrictive measures due to COVID-19, so far, what you have seen in January and just the sustainability of the recovery short-term, as we go into the fourth quarter. Thank you.

Daniel Zhang:

(Original)

For the impact of COVID, here in China, in some cities, the government has taken new approaches to lockdown some of the areas in the cities and encouraged people to stay at home cities, instead of going back to their home town for the Chinese New Year. So, we have closely monitored progress of these new measures. So far, I think we have not seen a very material change of the consumption – or of the business. However, obviously, for January, if you look apples to apples with last year, last year Chinese New Year was in late January while this year, it is in the middle of February. So, we have a time gap between two Chinese New Years.

As a result of some lockdowns in some of the cities, from the logistics perspective, we see some challenges because of this lockdown. For the last-mile delivery force, because of the staying at the city policy, we expect the capacity will be enough for the last mile, while the transportation might be a challenge because of some lockdowns. Thank you.

James Lee (Mizuho Securities):

(Original)

Thanks for taking my questions. Can you talk about, maybe, investment in some of the new innovations that you see in the marketplace, like smart transportation and autonomous driving? It seems like government is making a concerted effort in terms of building up smart transportation nationally. And talk about, maybe, how you are participating in that build-out and how you are positioned to win that market. Thanks.

Daniel Zhang:

(Original)

For the smart transportation and autonomous driving, we do it from different angles. For smart transportation, in our Ali Cloud business, actually, we are closely working with some partners in creating smart transportation solutions based on the Cloud infrastructure. I think this vertical solution will be widely used in many areas to create smart transportation capabilities.

For autonomous driving, actually, in our DAMO Academy, we have a dedicated team working on this for years. So far, where we have focused, is to apply this autonomous driving into the logistics area. We have already deployed many autonomous cars in school campuses, in some residential areas, to do the last-mile delivery, from the service station to the buyer’s home, or students’ dormitories.

Today, I think this is still in the early stage but I would say autonomous driving will have the wider range of applications. So, we will closely monitor the progress and once again, we will invest for the technologies, to make sure we are in the leading position in this area. Thank you.

Binnie Wong (HSBC):

(Translation)

Thank you, management. My question is about the new businesses you are investing in. I am wondering if you could tell us which of those you see as having the largest addressable markets and the greatest amount of synergy because we know that in new retail and in cloud, Alibaba was the first company to get into those areas. You have been very successful and now you are the largest in those areas. So, looking at the new businesses, do you see the synergy, the addressable market? Are there any cross-selling metrics that you could share with us to exemplify that kind of synergy that exists?

Then, the other question perhaps for Maggie is around the new initiatives. You told us earlier that losses are narrowing. If you could give us a little more color on which ones are narrowing and the expectations there. Thank you.

Daniel Zhang:

(Translation)

This is Daniel and I will take the first part of that question. Indeed, we are constantly working to incubate new businesses, including in core commerce – we have talked quite a bit about that today – but also in other areas. Our approach in terms of the incubation process is always to be patient and to make it a long-term commitment. Some of these we are already starting to see gain traction and become quite successful already, including Taobao Deals and including Taobao livestreaming. In all of these cases, these are businesses that have been through a period of incubation and investment, and has taken patience to get to where they are. Any business that we incubate, we are constantly looking for ways to create new, differentiated value, a good user experience, and to drive efficiency. We are indeed investing in some even earlier-stage offerings as well, both in core commerce and in other segments, seeking in all instances to differentiate a solution or a service to satisfy customer demand.

Maggie Wu:

(Translation)

Let me answer the question on which of the businesses are seeing losses narrow the most. The answer to your question in a nutshell would simply be that all of the businesses that have been loss-making, we are seeing losses narrowing across the board. So, with respect to Ele.me, digital, media and entertainment, New Retail, Lazada, even the smaller businesses like cross-border, and, of course, the larger business like Cloud and Cainiao, where losses have been relatively large in the past, as you see now, they are solidly on track towards healthy profitability.

The biggest change, looking at where things are now, would be with local services, so certainly, Ele.me and also Cainiao. This is also a question that we ask ourselves on a daily basis and have a lot of internal discussion around, i.e. in our loss-making businesses, should our primary goal be trying to further narrow the losses or should it be trying to further drive business growth? You know our answer to that has been that we are reinvesting selectively and following a lot of study and discussion, reinvesting to grow the business.

Now, the next quarter will be the final one of the financial year, and an appropriate time for us to look forward to, and offer overall guidance for the next year. We expect to be doing that with you the next time we see you.

Rob Lin:

(Original)

Thank you, everyone, for joining us today. If you have any questions, please do reach out to our IR team, and all the material should be available on our IR website. Thank you again.

[END OF TRANSCRIPT]