Alibaba Group

March Quarter 2021 and Full Fiscal Year 2021

Results Conference Call

Thursday, 13th May 2021

Introduction

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Good day and good evening everyone, and welcome to Alibaba Group's March Quarter 2021 and Full Fiscal Year 2021 Results Conference Call.

With us today are Daniel Zhang, our Chairman and CEO; Joe Tsai, Executive Vice Chairman; Maggie Wu, Chief Financial Officer. 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.

Let me cover the safe harbour. Today's discussion may contain forward-looking statements. Forward-looking statements involve inherent risk and uncertainties that may cause actual results to differ materially from our current expectations. For detailed discussions of these risks and uncertainties, please refer to our latest annual report on Form 20-F and other documents filed 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 our assumption 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 as 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 non-GAAP to GAAP measures can be found in our earnings press release. Unless otherwise stated, growth rate of all the stated metrics mentioned during this call refers to year-over-year growth versus the same quarter or same period last year. In addition, during the call today, management will give their 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 purpose only. In the case of any discrepancy, management's statement in the original language will prevail.

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

March Quarter & Full Fiscal Year 2021 Highlights

Daniel Zhang

Chairman & CEO, Alibaba Group

(Original)

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

We delivered another solid quarter, making the strong finish to this eventful fiscal year. China started this past year with the national battle against the COVID-19 outbreak and ended the year as the first country in the world to effectively control the pandemic and return to normal life.

Based on our estimates, China was the only major economy that achieved positive real GDP growth in 2020. According to the National Bureau of Statistics, China recorded retail sales of RMB42 trillion during the 12 months ended 31st March 2021, and the GDP growth in the quarter ended March 2021 reached 18.3% year-over-year.

Against the backdrop of this macroeconomic recovery and accelerated digitalization in China, Alibaba Group achieved healthy growth across all businesses. During the past fiscal year, we have made significant progress in our three key strategies; namely, domestic consumption, globalization and cloud computing. Such progress demonstrated the tremendous power of Alibaba's digital commerce infrastructure as well as our long-term commitment to invest for the future and to create value for our consumers, merchants and partners through innovations.

For our consumer-facing businesses, Alibaba Ecosystem recorded RMB8.1 trillion in GMV or US$1.2 trillion during the fiscal year, a net increase of over RMB1 trillion year-over-year. Annual active consumers for our ecosystem reached a historical milestone of over 1 billion with a net increase of 170 million year-over-year.

Our annual active consumers outside of China increased by 60 million to over 240 million as of March 2021, which reflects the progress of our globalization strategy. Benefiting from the increasing demand for digitalization across industries, Alibaba Cloud's revenue exceeded RMB60 billion for the past fiscal year, representing a year-over-year growth of 50%, as it continued to strengthen this market leadership in China and Asia Pacific.

During the past fiscal year, we have gone through all kinds of challenges, including the COVID-19 pandemic, fierce competitions, as well as the anti-monopoly investigation and a penalty decision by Chinese regulators. We believe the best way to overcome this challenge is to look forward and invest for the long-term to create value for our customers through technology and innovation, and to solve major problems in society.

Therefore, we plan to invest all of our incremental profits in this coming year into core strategic areas, such as technology innovation; support programs for merchants to lower their operating costs; user acquisitions and experience enhancement; merchandising and supply chain capabilities; infrastructure development and new business initiatives. Considering that our incremental profits are expected to be significant, our investments will be highly targeted and disciplined. They will be designed to enlarge our total addressable market, differentiate consumer and merchant value proposition from our competitors and generate greater consumer engagement and purchase frequency.

We will establish key metrics to measure the effectiveness of these investments, which we believe will generate significant results in the long-term.

Our annual active consumers in China reached 891 million by the end of March. We hope to grow this customer base in China by over 100 million in the coming fiscal year to reach over 1 billion.

Annual active consumers for our China retail marketplaces were 811 billion by the end of March, representing a net increase of 85 million year-over-year. These consumers spent an average of RMB9,200 annually per person on our platforms. We believe this is the largest and best-quality consumer base in China. We will continue to serve the demand of consumers' diversified lifestyle based on their segmented preferences.

As the largest digital consumption marketplace in China, Taobao APP will continue to strengthen its comprehensive supply of branded products, value-for-money products, agricultural products, imported products and differentiated long-tail products to meet the diversified demand of our consumers. In underpenetrated categories such as groceries, real estate, home furnishings and pharmaceuticals, we will redefine the consumer journey and the digitalized experience for the sector to enhance its online and new retail penetration.

We will also work on improving the overall consumer experience and engagement in Taobao APP by offering diversified consumer journeys based on different user segmentation and intent. At the same time, we are improving the tools and enabling capability for merchants to enhance their customer engagement and reviewing our platform policies to lower their operating costs.

As part of our China retail marketplaces, Taobao Deals has grown rapidly over the past year, reaching over 150 million annual active consumers. As an indication of the activeness of our APP users, monthly active users of Taobao Deals reached 130 million in March, a net increase of 27 million from December.

Taobao Deals offers the best value-for-money products for price-conscious consumers. It features simple product design and direct-to-consumer supply from farms and manufacturers. The rapid growth of Taobao Deals contributed positively to our China retail marketplaces.

During the past fiscal year, average spending of consumers who purchased on Taobao Deals increased more than the average spending of China retail marketplaces consumers. We will further increase our investment in Taobao Deals in the new fiscal year to serve more price conscious consumers in less developed areas.

Next, I would like to talk about New Retail, which includes the community marketplace model that has attracted a lot of attention lately. Alibaba introduced our New Retail strategies in 2016, and we have executed our strategy based on multiple business models to serve the various demand of consumers.

For groceries, fresh produce and FMCG products, we transformed offline retailers such as Sun Art through digitalizing their operations, and created new retail formats, such as Freshippo that integrated online/offline experience. The combination of these New Retail formats satisfied consumer demand not only in store, but also in nearby communities, by offering comprehensive delivery options from one hour, half a day, same day and the next day.

As part of our latest exploration in New Retail, we started the community marketplace business in selected regions in China. Our community marketplace is supported by the supply chain capabilities of Freshippo, Sun Art and other partners. In addition to one-hour, half-day, same-day and the next-day delivery options mentioned above, we now offer community consumers with the option of order today and pick up tomorrow.

We believe New Retail is a multi-format consumer infrastructure, of which the community marketplace model is one of the essential ways to serve price-conscious consumers. This model can help us acquire new customers in low-tier cities and rural areas, and further increase our user consumption frequency and stickiness.

We believe the key to unlocking the full value of the community marketplace model is not only about the standalone P&L of the business, but also about the overall efficiency and the servicing capability of the entire commerce platform, where the business sits. And we believe the latter can generate far greater value than the former.

Alibaba has the most sophisticated and efficient commerce infrastructure in China, with the most comprehensive product and service offerings to serve consumers of diversified segmentation and demand. Accordingly, we believe, we will be able to create and capture the highest consumer lifetime value through investment into the community marketplace business.

We will grow this business leveraging Alibaba Ecosystem's full core capabilities, including merchandising and the supply chain capabilities; logistic and the fulfilment infrastructure; consumer engagement capabilities; and the distribution channel development and the management capabilities. While we are still in early stage of business expansion, our goal for the new fiscal year is to expand our geography coverage nationwide, and to define a healthy and a sustainable community marketplace business model.

Cainiao Network has delivered solid revenue growth during the fiscal year. Revenue from external customers outside of Alibaba Group grew 68% year-over-year, and it contributed to over 70% of Cainiao Network's total revenue. Cainiao also reached an important milestone of generating positive operating cash flow during the year.

We believe Cainiao's continuous growth will be driven by three important engines, number one, first-mile business based on Cainiao Post and Cainiao Guoguo. Second, Fulfilment service from factory to consumers. And third, Cross-border supply chain services for importing and exporting merchants.

Building on top of the significant improvement in operating efficiency in the last few quarters, Ele.me invested in user acquisition and the logistic capacity during the Chinese New Year period, where many residents were encouraged by the local government to stay in the same city they work and avoid long distance travel due to the pandemic. As a result, Ele.me's annual active consumers grew strongly at close to 20% year-over-year during the fiscal year when user experience improved. Looking forward, we will continue to invest in Ele.me's consumer's mindshare as the entry point for local service through converting more consumers in Alibaba Ecosystem into Ele.me user, as well as cross-selling between food delivery and other on-demand services to increase order frequency.

In our International Commerce Retail business, Lazada and AliExpress each achieved more than 100 million of annual active consumers by March 2021. Lazada delivered another quarter with triple-digit order growth year-over-year. AliExpress continued to achieve rapid growth by significantly improving the logistic experience for its consumers, leveraging Cainiao Network's Global Smart Network, Smart Logistic Infrastructure.

For example, France and Spain, two of the key markets that AliExpress invested in logistic infrastructure improvement, recorded triple-digit GMV growth year-over-year during the quarter. In the future, we will continue to invest in key cross-border logistic hubs in Europe, develop local logistic networks in target markets and strengthen infrastructure support for our cross-border and local e-commerce businesses.

In fiscal year 2021, our Cloud computing revenue grew 50% year-over-year to over RMB60 billion. I am very excited about the massive potential of our Cloud computing business, as the post-pandemic world is facing a massive opportunity for industrial digitalization. Cloud infrastructure will eventually replace IT infrastructure, empowering enterprises to achieve digital operation.

As China's industrial sector undergoing its digital transformation, manufacturers are moving forward smart manufacturing and direct-to-consumer initiatives, while other traditional industries such as retail, energy, finance and transportation have all noticed the tremendous value and the new opportunities that big data and intelligent applications could create.

Alibaba Cloud will capture the historical opportunity by number one, investing in core IaaS and PaaS products such as database, storage, elastic computing and big data platforms to establish our core product competencies, benchmarking against the global cloud leaders. And number two, further expanding the integration of intelligence with cloud infrastructure to provide our customers with more diversified industry intelligent solutions together with our partners.

Lastly, we are now, in April 2021, that we received the administrative penalty decision issued by the China's State Administration of Market Regulation. We have stated that we accept the penalty with sincerity and will ensure our compliance with determination.

As a result of the anti-monopoly fine of RMB18.2 billion levelled by the SAMR, we recorded an operating loss this quarter for the first time since our history as a public company. The penalty decision motivated us to reflect on the relationship between a platform economy and the society, as well as our social responsibilities and commitments.

We believe the self-reflection and adjustment we have made will help us better serve our community of consumers, merchants and partners, and position us well in the future.

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

Financial Highlights

Maggie Wu

CFO, Alibaba Group

(Original)

Thank you, Daniel. Hello everyone. Let me start with financial highlights for the fiscal year 2021 and for the March quarter.

Our total revenue was RMB717 billion, an increase of 41% year-over-year. Excluding the consolidation of Sun Art, our revenue would have grown 32% year-over-year to RMB674 billion. This has well exceeded the revenue guidance we gave at the beginning of the year, which was RMB650 billion.

For March quarter, our total revenue was RMB187 billion, up 64% year-over-year. Excluding Sun Art, the growth would have been 40%; still very strong. The growth was driven by the robust revenue growth of our China commerce retail business as well as continued growth of cloud computing businesses.

Total adjusted EBITA was RMB170 billion, an increase of 24% year-over-year. And for March quarter, it was RMB23 billion with an increase of 14% year-over-year, primarily driven by healthy profit growth of our market-based core commerce business, partially offset by increased investments in new businesses in key strategic areas.

Total adjusted EBITDA increased 25% year-over-year to RMB197 billion for the year, an increase of 18% year-over-year for the March quarter. Net income was RMB143 billion for the fiscal year, which includes the one-time fine levied and increases in SBC expenses. The non-GAAP net income for the year was RMB172 billion, 30% year-over-year growth.

March quarter, we showed a net loss of RMB7.7 billion, primarily due to the anti-monopoly fine of RMB18.2 billion. Excluding this impact and certain other items, non-GAAP net income was RMB26 billion, an increase of 18% year-over-year.

We continued to maintain a solid cash position of US$72 billion with strong cash flow generation capability in Fiscal Year of 2021. Our free cash flow was strongly at 32% to RMB173 billion, or around US$26 billion.

Now, let us look at the fiscal 2021 revenue in more detail. Our revenue continued to be more diversified on the back of strong organic growth. The revenue of our China retail marketplace has continued to grow strongly as reflected by our customer management revenue growth of 24%.

Our Alibaba Cloud and Cainiao businesses were the two fastest growing businesses and important drivers of our organic revenue growth. Both have also achieved important financial milestones with the Cloud computing business proving its capability to be profitable in

December quarter, and continuing to show increasing profit in March quarter; Cainiao generating positive cash flow.

These two growth businesses exemplify our track record of committing to invest in businesses over the long-term that we believe can create tremendous value for our ecosystem. It is important to note that we have continued to invest and grow new seed businesses, such as Taobao Grocery, Freshippo Market, which is the community marketplace business, and new features on the core platform, such as Taobao Live and short-form video.

These initiatives address new consumption demands and behaviours that will continue to expand our addressable markets in China and create many cross-selling opportunities in our ecosystem. We believe these businesses have the potential to be the long-term revenue growth drivers that continue to catalyze our market growth engine in the future.

Let us look at our overall cost trends. Excluding SBC as a percentage of revenue, cost of revenue ratio increased in the March quarter and fiscal year due to a higher proportion of direct sales business. This increase was primarily attributable to a higher proportion of our direct sales business from the consolidation of Sun Art, as well as the growth of Tmall supermarket. These direct sales businesses will continue to strengthen our New Retail initiatives, especially in the development of our product-sourcing capabilities.

Sales and marketing results also increased in the March quarter and fiscal year, given the increase in marketing and promotion spending to drive user growth and engagement.

I would like to remind everyone that we added 84[1] million annual active consumers on our China retail marketplace in fiscal 2021, especially in lower-tier cities, with Taobao Deals ending the year with 150 million annual active consumers.

G&A spend ratio was significantly higher at 13% for the quarter, primarily due to expensing of the one-off anti-monopoly fine. Excluding this item, G&A ratio would have decreased by one percentage point to 4%.

Revenue and adjusted EBITA, this slide provides you with an overall summary of our segment revenue and profitability for the March quarter and fiscal year. For the next part of the discussion, I will first provide you with an overall financial recap by segments for the fiscal year, and then followed by an equivalent discussion of the important segments.

Let us look at the segment revenue and profitability for fiscal year 2021. Starting this quarter, for purpose of presenting our market base core commerce adjusted EBITA, we expanded the list of new initiative businesses that we break out in order to present the progress of our strategic investments as well as the profitability of our market-based core commerce business. This is on a like-for-like basis.

The new initiative businesses which now include our New Retail business, Local Consumer Services, Lazada, Taobao Deals and Cainiao, represents a strategic area where we are

[1] "85 million" was mistakenly stated as "84 million" on the call.

executing to capture incremental opportunities. As previously mentioned, we are very excited about the growth perspectives of these fast-growing businesses that will not only increase our addressable market, but also require long-term investment commitments. We believe these new businesses will be the drivers of our multi-engine revenue growth in the future.

So, under this new presentation, for fiscal 2021, our market-based core commerce adjusted EBITA was RMB229 billion, growing 17% year-on-year. Combined losses of the strategic investment areas was RMB34.6 billion, reflecting investment in New Retail, Local Consumer Services, Lazada, Cainiao, as well as the addition of losses reflecting our aggressive investment in Taobao Deals.

Core Commerce adjusted EBITDA reached RMB195 billion. The Cloud computing and DME continued to narrow losses during this fiscal year. Our innovation initiatives recorded adjusted EBITA loss of RMB10 billion, up RMB1.8 billion, as we continued to advance in technological research and innovation.

Overall, our adjusted EBITA for the fiscal year grew 24%, reflecting the strength of our core commerce business that was partly offset by the investment we made in the new initiative areas.

On segment reporting, I would not go into detail for each one of them, just some highlights. So for the core commerce, CMR grew 40% year-over-year to RMB64 billion. These are all for the quarter. This growth actually is driven by solid growth of our China retail marketplaces. Overall, online GMV grew 33%, reflecting the rapid recovery of growth in apparel, accessory and home furnishing categories, etc.

FMCG also exhibited solid growth during this quarter. From a merchant-spending perspective, we saw strong growth in higher spending per merchant, and an increasing number of paying merchants on our China retail marketplace.

In the March quarter, China retail others revenue grew 134% to RMB60 billion, due to consolidation of Sun Art.

In March quarter, marketplace-based core commerce adjusted EBITA reached RMB44 billion, up 28% year-on-year, reflecting solid CMR growth, partially offset by the increase in the marketing promotional spending for user acquisition and increasing engagement on our China retail marketplace.

Let's take a look at the cloud computing business. Alibaba Cloud revenue grew 37% year-over-year to RMB17 billion during the quarter. This slower revenue growth during the quarter was due to a change in our relationship with a top cloud customer in the internet industry. This customer has a sizable presence outside of China that used our overseas cloud services. They have decided to terminate their relationship with us with respect to their international business due to non-product-related requirements. We expect the impact of the reduction in revenue from this customer to affect our year-on-year growth rate when compared to prior years.

Excluding this customer impact, Alibaba Cloud's top 10 non-affiliated customers together accounted for no more than 8% of Alibaba Cloud's total revenue. So you get a sense on this concentration of the revenue is really not high. Going forward, we believe that our cloud computing revenue will be further diversified across customers and industries.

Alibaba Cloud was profitable for the quarter and generated an adjusted EBITA of RMB308 million. Our Cloud business has delivered profits over the last two quarters, which demonstrates that we can run this business on a profitable basis. We believe it is still more important to drive market share leadership, given the rapid growth of the industry. We will continue to invest in innovation, in innovative technology, expanding customer-servicing capabilities, and enabling a robust developer ecosystem for the Cloud business in the future.

Our DME business for the quarter grew to RMB8 billion in revenue, 12% year-on-year growth. This is a sector that is impacted by the pandemic as well.

Income statements and selective financial metrics. When we look at the interest and investment income, it was RMB 111 million in March quarter. This year-over-year increase is primarily due to the decrease in net loss arising from the fair value changes of our investments.

Our share of results of equity method investees was RMB6 billion during the March quarter.

Our free cash flow was an outflow of RMB658 million this quarter. This was a similar pattern to last year. The cash flow outflow during this quarter was mainly due to an increased strategic investment as well as an increase in marketing and promotional spending for user acquisition and retention. And at the same time there was merchant deposit funds that as a practice that we discussed the earnings release that we just take it out from the free cash flow calculation.

Let’s take a look at the non-GAAP net loss attributable to shareholders was RMB5.5 billion for the quarter. This was mostly due to expensing of RMB18.2 billion fine, partially offset by the reduced net loss arising from the fair value changes of our investments.

Now, outlook and guidance. So total revenue excluding Sun Art consolidation was RMB674 billion for fiscal 2021, which as I mentioned, surpassed our annual revenue guidance. This was driven by robust performance of our core business as well as continued growth of cloud.

Going forward, we expect to generate over RMB930 billion in revenue in fiscal 2022. Considering the total market potential, as well as our strong profit and cash flow generation capability, this gives us the internal resources to focus on long-term value creation.

In fiscal 2022, we plan to invest all of our incremental profits and additional capital into supporting our merchants and developing new businesses and the key strategic areas that will help us increase consumer wallet share and penetrate into new addressable markets.

That completed our prepared remarks. Let's open up for Q&A. Thank you.

Q&A

Rob Lin:

(Translation)

Hi everyone. For today's call, you are welcome to ask questions in Chinese or English. A thirdparty 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.

Alex Yao (JP Morgan):

(Translation)

Good evening, management. I have some questions on the investment side. First of all, could you please clarify the remarks made by both Maggie and Daniel in your presentations regarding the intention to reinvest all incremental profit [in the coming year]. Does that mean that we are talking about an outlook of zero profit growth?

Second, you listed a lot of different areas into which that investment will be channelled. Could you please tell us which of those will be the top priorities in the coming year.

And third, Daniel spoke of how these investments will be managed in a prudent fashion, with internally defined KPIs to monitor investment effectiveness. Could you please tell us more about how that will work and on those KPIs, how performance has been year to date? Thank you.

Maggie Wu:

(Translation)

Let me start by answering as to what we intend to in terms of the size of these investments, and what the priorities will be. As we stated in our earnings release and guidance, we plan to invest all incremental profit. Naturally, investors will ask—as they have frequently asked in the past—do you want profit or do you want growth? If you invest that full amount, does that mean then that there will be no profit growth?

Let me put it like this: between profit and growth, there is no contradiction for us. Over the past few years, there have been very, very few companies in the market that can do what we have done in terms of investing a lot of money into future business growth, into strategic initiatives, while still enjoying very robust profit growth. Given our investment plans, we typically get asked: do you intend to have no incremental profit, or even to have reduced profit? Our view is that there is huge potential for us to grow, be it in our core commerce business or in other areas. Even in core commerce, there is still lots of scope for further value creation. So I think any long-term investor would say that promising to maintain a certain level of profit or to prioritise a higher level of profit, or to maintain current profit levels, would be a stupid thing for Alibaba to do. In the market today there are so many competitors who are investing large amounts, and incurring huge losses, to gain a foothold in the market. But [unlike them,] Alibaba is in a great position to create value and capitalise on our existing resources to drive future growth in strategic and emerging areas. So, there is no reason for us not to invest. In sum, we make no commitment as to whether our profit level will increase or stay where it is with no decrease. What we can promise is that we are going to be investing in a highly targeted and disciplined way in order to expand our addressable market. And at the end of the day, users will vote with their feet. We see these investment ultimately as playing out in terms of driving revenue and profit growth.

Next, in terms of the specific business areas we intend to be investing in, as we talked about, certainly, core commerce, New Retail, and as Daniel mentioned in his remarks, our community marketplace business, and Taobao Deals. Other areas we will invest in include our international business, local services, and logistics.

Coming at it from a different angle, not by business, but in terms of the results we seek, we will be investing to drive growth in the user base, enhanced engagement, as well as the provision of more value to merchants.

Daniel Zhang:

(Translation)

I would just like to add to that briefly. When it comes to making these investments, we have three major strategic priorities: domestic consumption, globalization, and our cloud, or advanced technology, business. As I said in my prepared remarks, we intend to invest in all three of those areas because we see huge opportunities for incremental growth.

Let me start with domestic consumption. Although our AAC number has now reached 891 million in China—that’s the aggregate figure from the most recent quarter across the entire Alibaba Ecosystem, including all of the different domestic commerce platforms— there's still a lot of scope to grow the purchase frequency and engagement of these 890 million AACs to convert them into MACs, monthly active consumers, or even DACs, daily active consumers. So there is still huge potential there. We have, today, within this user base the broadest and largest multi-tier consumer base in China, making purchases on our marketplaces across a wide variety of categories and price points. A major priority for us in further developing that user base is to continue to drive higher levels of purchase frequency across all classes of consumers.

Additionally, although we have already reached 890 million AACs in the China domestic consumption market, there still remains huge scope for further growth in that figure with respect to users in lower-tier cities and in rural areas. As I just stated [in my prepared remarks], within the 84-85 million new users we added on the Chinese Retail Marketplaces last year, 70% of them came from lower-tier regions. We continue to see huge potential there and will continue to strive to grow our user base. As I stated, our target is to become the first player in China to surpass 1 billion AACs in the coming fiscal year.

Apart from growing the number of consumers and their purchase frequency, another important initiative for us is helping merchants to grow, including through reducing their burden, lowering their costs, as well as facilitating a conducive environment for their long-term development and success. In this respect, we have already announced some measures and will continue to roll out new measures, all aimed at empowering merchants.

Finally, also in the area of domestic consumption, another place we will be investing is the continued construction and improvement of our infrastructure, our logistics, our supply chain and merchandising capabilities. These are also important investments through which we can discover and satisfy user demand and create long-term value. In the interest of time, I will not elaborate further. I will merely end by saying that we will put in place specific targets and KPIs to monitor the progress of all of these investments.

The above was all with respect to the domestic consumption piece of our strategy. Turning now to the second piece, globalization. We are very pleased that we now have 240 million international AACs, and we aim to double that figure in the next few years.

Finally, I would like to talk briefly about technology, and the cloud in particular. We see the cloud as an epoch-defining opportunity and will continue to invest in core technology, especially in cloud computing and big data. But our technology investments will not be limited to the cloud, and will also aim to enable the next-generation consumption experience, to better support logistics services, etc. We are committed to investing in technology to support the realization of our domestic consumption strategy, our globalization strategy, as well as our cloud and hi-tech strategy, and ensure that our growth in all these areas benefits from technological development, especially in core technology.

Thomas Chong (Jefferies):

(Original)

Thanks management for taking my questions. May I ask about the trend in terms of the CMR? Given that we have seen the CMR growth rate is very solid, can you comment about the FY22 outlook? In particular, how we should think about the take-rate trend for this year?

And my second question is about the competitive landscape. Given that we have wide product selections and very strong technology, how would we leverage our core capabilities in different areas, like lower-tier cities penetration as well as our strategic initiative in local service and Lazada? Thank you.

Maggie Wu:

(Original)

In terms of CMR growth, you have seen that we recorded 24% year-on-year growth for the quarter[2]. And if you look at the past few quarters, it has been growing strongly, considering this large base. I believe the CMR growth is going to continue to have high potential.

If you look at this revenue, actually the TAM is merchant's budget to pay for the services we provided. Currently, our take is somewhere around 4%. This is mainly where merchants are paying for the sales and marketing, branding services we provided. So even in this sole area,

[2] 24% year-on-year growth for the "fiscal year 2021" was mistakenly stated as "for the quarter" on the call.

we still have a lot of potential and there are also other areas that we could provide merchants' service.

So, take rate has been growing over the past years. I think this year, as we talked about, we are going to provide more support to the merchants. In our last call, we talked about the details on how we support our merchants. These include waiving certain charges, fees, and also investing in platforms and infrastructures to support merchants. So we are not aggressively monetising the value we created for the merchants, actually.

One thing worth to mention is that CMR currently accounts for approximately 43% of our total revenue. If you look at it three years ago, five years ago, it used to be 70%, 80%, so it has been growing very fast. But as a percentage of revenue coming down, I think that trend will continue. That is because of our multi-engine strategy; we have so many new businesses and revenue contributed from these new seeds that become more and more important and significant to our total revenue.

Just one minor correction, the 24% year-on-year growth is for the fiscal 2021. For this quarter, the growth rate for CMR was 40%.

Daniel Zhang:

(Original)

Let me answer the second question in terms of the technology, how to apply technology into the competition. Actually, we always believe that technology is so critical in the competition and we are proud of our technology development and integration with the real operation, and even in the fierce competition.

Let me just give you a few examples. In domestic consumption area, actually one of the key things is how to acquire and retain customers, and on our China retail marketplaces. But the key thing is how to use technology to match the most comprehensive product offerings we have on our platforms with the right customers and generate the real consumption. So, the matching capabilities is all driven by AI and it is driven by technologies. I think that is our big advantage, to make sure we have a most effective conversion. Over the years, our conversion rate continues to grow, which not only to grow our GMV but also to meeting the diversified demands of our customers.

The second example I want to give you is that once we acquire new customers, it is all about how to maximise the lifetime value of these customers, across categories selling opportunities. So, in this regard, we build a very comprehensive user profile and a product features profile to make sure we can maximise, we can understand our customers very well and provide all they need during their lifetime cycle.

Our technology application is not limited to the consumer-management side, actually it has covered all the areas. Just a few more examples. For example, on logistics side, technology actually plays a very important role for Cainiao to build a smart, data-driven logistics network and operating system, to serve our merchants both in China and in international market.

And on the cloud side, I think, technology is a key. As I said in my script, we continue to invest in technology to build our competitive advantage in the IaaS and PaaS products. But our benchmark is not only in China, actually we benchmark the global leaders in all their core cloud products and to make sure we are at the top tier of the world. Thank you.

Jerry Liu (UBS):

(Original)

Thank you, management. My question is really on the business model. If we look at the recent past years, we've seen an increase in the 1P revenue mix, as Alibaba consolidates Sun Art and as we grow Hema or Freshippo. So, today we talk about investing in community marketplace and from the presentation it looks like the providers of groceries and FMCG into this business of foods includes also Sun Art and, I believe, Hema as well. So, as we invest in these high-frequency categories, how does this change the long-term business model? How do you we envision the ecosystem looking long-term? And, maybe, more specifically, do we have a target, a 1P/3P mix in mind? Thank you.

Daniel Zhang:

(Original)

In short, we don't have any specific goal for 1P/3P mix. We strongly believe that this mix is an organic result outcome of operation and we do not manage the 1P/3P mix intentionally. Over the years, we built our two flying wheels in our consumption business. One is to continue to build the capability to manage the customers smartly and efficiently. And in this regard, we said how to create the demand. So, the demand side, we continue to invest to improve our user interface with creativity and with technologies. And we strongly believe that it is very important for us to enhance our engagement with our customers, not only to have more customers on our platform but also to help them spend more time with us. And we strongly believe that a very diversified supply from the merchants, from different sources, is very, very important and the selection is very, very important to enhance the user stickiness. So, I think that is the area we continue to invest and to build capability on the customer management and demand creation.

And on the other hand, over years, we try to build a very strong merchandising capabilities and supply chain management capabilities which we believe, actually, over the years, no matter how the user interface will change, the efficient supply is a must to a successful commerce business, including e-commerce business. So, that is why we invest a lot to build our supply side capabilities and we believe that these capabilities and the advantage of these capabilities will not change even with user interface upgrading and change. So, these are two flying wheels to Alibaba.

I am so proud that maybe we are one of the few companies in the world which has excellent consumer management capabilities but at the same time, has this merchandising and supply chain management capabilities in one company and in one team. I think that these two flying wheels are the critical, successful factors for our long-term growth.

Han Chu Kim (Macquarie):

(Original)

For Taobao Deals, just wondering if this is a business you are empowering to try to get to 700, 800 million user bases in a few years' time. And if that is the case, how do we see this interacting with Taobao and Tmall in the sense that as Taobao Deal grows, do you see any cannibalistic behaviour to our own services? And part of this is also I do not feel like I am seeing your competitors in that similar space being particularly impacted as this Taobao Deal grows, so I am also thinking how this impacts, perhaps, the competitive landscape as well. Thank you.

Daniel Zhang:

(Original)

The value proposition of Taobao Deals is very clear. It is for price-conscious consumers and we provide on Taobao Deals platform the value-for-money products for these price-sensitive customers. And in terms of supply side, actually, we focus on manufacturers and farmers and their direct offer and end-to-end to the customer which care more about the price. So, I think the value proposition and the simple consumer journey – shopping journey – I think is key for Taobao Deals. And we are very happy to see the progress we made during the last year. And as I said, our MAU in March reached 130 million and for the entire year, our annual active consumers reached 150 million.

So, I think that is a good start. And because China is so big and with so many population with different consumption power and with different segmentation and preferences, so we try to, as part of Alibaba China retail marketplaces, we try to provide multiple destinations to the customers with different purposes. So, I think Taobao Deals is a good supplement to our other applications, other businesses we have in China retail marketplaces.

And in terms of the incremental value we create from Taobao Deals, I just gave a good example in my script to you, which is the average spending of our customers on Taobao Deals, the increase rate of these spending for the customers on Taobao Deals is bigger for the average spending on China retail marketplaces, which indicates that if we give people multiple choices, the overall, the total spending within Alibaba Ecosystem will be bigger. So, that is a very good indicator. That is why we will continue to invest in Taobao Deals.

And as to whether this have any impact on other players, I think it is very important that on Taobao Deals, our goal and value proposition is very clear and straightforward and even simple. So, we are confident the impact is coming and because for these customers, they just need a simple choice and price sensitive and price advantage, that is it. So, we will strengthen this value proposition on Taobao Deals. While on Taobao mobile app, our flagship, I think we provide more comprehensive offerings to different segment customers and they will enjoy more selections and more fun. So, the value preposition are quite different and as I said, our goal is to build a matrix, an application matrix, to serve the customers with different needs. Thank you.

Rob Lin:

(Original)

Thank you everyone for joining today's call. We have all the materials that will provided on our IR website. We look forward to communicating with you in the coming months. Please contact me and our IR team at Alibaba. Thank you.

[END OF TRANSCRIPT]