



**Alibaba Group**

**Transcript of the  
June Quarter 2020  
Results Announcement Call**

Thursday, 20<sup>th</sup> August 2020

## Opening Remarks

**Rob Lin**

*Head of Investor Relations, Alibaba Group*

(Original)

Good day everyone and welcome to Alibaba Group's June Quarter 2020 Results Conference Call. With us are Daniel Zhang, 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. These forward-looking statements involve inherent risks and uncertainties that may cause the 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 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 ABS and free cash flow, are expressed on a non-GAAP basis. Our GAAP results and reconciliation of GAAP to non-GAAP measures can be found in our earnings press release.

Unless otherwise stated, growth rates of all stated metrics mentioned during the 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 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 now turn the call to Daniel.

## June Quarter 2020 Overview

Daniel Zhang

*Chairman and Chief Executive Officer, Alibaba Group*

(Original)

Hello everyone. Thanks for joining our earnings call today.

We have delivered another strong quarter. Although the global community continues to struggle with uncertainties surrounding the pandemic, we have seen encouraging signs of recovery in China due to effective management of the outbreak in the vast majority of the country.

COVID-19 has accelerated digital transformation of consumer behaviour and enterprise operations. Alibaba is a key beneficiary of this development; with most of our businesses, including Core Commerce and Cloud Computing, have recovered and resumed healthy growth.

The pandemic has fundamentally altered our macroeconomic environment and everyday life but it has also introduced new opportunities. Digital adoption and transformation is the prevailing trend in this changed landscape and we are confident that we can create Alibaba's future by capitalising on the opportunities in this challenging environment, just as we did in 2003 during SARS and in 2008 during the Global Financial Crisis.

In the twelve months ended June 2020, annual active consumers on our China retail marketplaces reached 742 million, representing a quarterly net increase of 16 million. Mobile MAUs on our China retail marketplaces reached 874 million, an increase of 28 million since March. These numbers reflect Taobao's continuing strong consumer mind share, healthy user stickiness and engaging user experiences, as the world's leading consumer community.

Tmall online physical goods GMV, excluding unpaid orders, grew 27% year over year, with all major categories growing at a similar or faster rate relative to a December 2019 quarter. Our unparalleled product offerings and engaging user experiences contributed to higher purchase frequencies, as well as higher average spending per customer across all city tiers, that increased both year over year and quarter over quarter.

In terms of user acquisition, we have continued to increase our penetration in less developed markets. Taobao Deals, our new mobile app targeting value-conscious consumers, reached 40 million MAU in June. The disruption in international tourism presented an opportunity for our Import Commerce business. Tmall Global, the leading cross-border import platform in China, grew over 40% year over year in GMV, excluding unpaid orders.

Looking forward, our China retail marketplaces will focus on the following areas:

1. Continue to drive user acquisition, especially in less developed markets, and work towards reaching our mid-term goal of serving more than 1 billion Chinese consumers.
2. Continue expanding our product supply, especially in categories currently underpenetrated by ecommerce.

3. Continue to enhance the shopping experience and the path to purchase on our platforms through new content formats, such as livestreaming and short videos.

Our investment in new retail over the past several years has well-positioned our grocery business Freshippo, Tmall Supermarket and Taoxianda to capture unprecedented growth opportunities during the pandemic, and they continued to see healthy growth momentum in the past quarter.

More than 60% of Freshippo's GMV came from online, and the stores which had been in operation for more than one year enjoyed double-digit same-store growth.

Tmall Supermarket's half-day delivery service, which leverages Sun Art's store-based inventories, gained widespread popularity among consumers and helped Sun Art increase consumer reach and create incremental sales. We enabled approximately 15% of Sun Art's total revenue during the June quarter.

Ele.me successfully rolled out an important branding upgrade in July. The new brand proposition, 'Anything you love, we deliver,' represents the transformation of Ele.me from a food delivery platform into a comprehensive digitalised local services platform. In addition to food and beverage, Ele.me now also delivers everyday necessities such as groceries, fresh produce, medicines and flowers from local merchants. In the June quarter, Ele.me achieved positive unit economics as a result of improved operational efficiency. It also resumed positive year-over-year GMV growth, signalling healthy recovery of the business.

We also saw promising early stage results in Ele.me's strategic cooperation with Alipay. During the past quarter, approximately 45% of new customers ordering food delivery on Ele.me was contributed by the Alipay mobile app. We will further deepen the cooperation and we believe there is significant potential for value creation by combining Ele.me and the power of the entire Alibaba ecosystem to capture opportunities that will emerge from the ongoing digital transformation of the food and beverage and retail industries. We will continue to invest in this area.

Lazada continued to show strong progress in the last quarter, with order volume growing more than 100% year-over-year. The pandemic had a significant impact on many Southeast Asian countries and it has converted many consumers into online shoppers. We believe the increasing adoption of online shopping is beneficial for healthy growth of the region's e-commerce industry over the long-term.

Southeast Asia continues to be the strategic priority in our globalisation strategy. In this highly competitive region, with Lazada's new leadership in place, we aim to build a sustainable digital business leveraging Alibaba's technology to serve local consumers and business partners.

During the June quarter, AliExpress, our cross-border export marketplace, saw order conversion and delivery time negatively impacted by challenges in cross-border logistics but the situation has started to improve in July.

Alibaba.com and 1688.com, two of our oldest businesses, saw new market opportunities this year. Many international wholesalers have turned to Alibaba.com to source products from China, as global supply chains were disrupted and Chinese factories were the first to resume production.

In June, daily active buyers on Alibaba.com increased over 100% year-over-year. 1688.com also saw more than 50% year-over-year growth in daily active buyers as a result of an increasing number of SMEs, especially small retailers, looking for supplies as the Chinese economy reopened.

The pandemic has also transformed the way enterprises work, accelerating demand for cloud infrastructure and services. According to IDC's latest report, Alibaba Cloud maintained its position as the largest public cloud service provider in China, which is a testament to Alibaba Cloud's strengthening market leadership. In the June quarter, our Cloud Computing revenue grew 59% year-over-year.

In sectors such as Internet, financial services, consumer retail and public services, Alibaba Cloud not only provides infrastructure as a service but also develops industry-specific technology and business solutions to address real-world application requirements for our customers.

As offices and schools reopened in China, DingTalk's DAU moderated from the peak level but remained over 100% higher than pre-COVID-19 levels. Approaches to work and education have changed fundamentally and DingTalk will be the important digital collaboration platform for working and learning moving forward, connecting all industries to services on cloud.

For our Digital Media & Entertainment business, Youku's daily active subscriber base increased by more than 60% year-over-year during the quarter with the release of popular TV series and variety shows. In July, cinemas started to gradually reopen in China, and Alibaba Pictures has been preparing for business to resume. We are closely monitoring the pace of recovery.

Recently, we decided to stop the operations of UCWeb and other innovation initiatives in India after extensive review of the business. We do not expect it to have a material impact on the Group's overall financial performance.

Today, we face uncertainties from not only the global pandemic but also increasing tensions between the US and China. As the world's largest ecommerce platform, Alibaba's primary commercial focus in the US is to support American brands, retailers, small businesses and farmers to sell to consumers and trade partners in China, as well as the other key markets around the world.

We believe global trade will continue and Alibaba's active pursuit of our mission "to make it easy to do business anywhere" are fully aligned with the interests of both China and the United States. We are closely monitoring the latest shift in US government policies towards Chinese companies, which is a very fluid situation. We are assessing the situation and any potential impact carefully and thoroughly, and will take necessary actions to comply with any new regulations.

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

## June Quarter 2020 Financial Results

Maggie Wu

*Chief Financial Officer, Alibaba Group*

(Original)

Thank you Daniel. Thank you everyone for joining us tonight. I would like to review our financial highlights for the June quarter.

We delivered a very strong start to our new fiscal year. Mobile MAUs in June were 874 million, quarterly net adds of 28 million; and annual active consumers were 742 million, quarterly net adds, 16 million. We continue to acquire new users and consumers from less developed areas of China, reflecting our ongoing success in broadening product offerings to meet different demands. The purchase frequencies and spending of our customers coming from less developed areas also continued to improve.

Our total revenue was RMB154 billion, up 34% year-over-year. The increase was mainly driven by the robust growth of China Commerce Retail and Cloud Computing businesses. Our domestic Core Commerce business has fully recovered from the COVID-19 impact and is showing strong growth.

Cloud Computing revenue grew 59%.

Our free cash flow in the June quarter increased by 39% to RMB36 billion<sup>1</sup>. Our strong profit growth and cash flow enables us to continue to strengthen our core business and invest for longer-term growth.

Now let us move on to revenue in detail. China Commerce Retail grew 34% year over year. Customer management revenue grew 23%, primarily due to increased search-related revenue, as well as increased contribution through new monetization formats, including recommendation feeds. We see number of paying merchants and spending per merchants both increased.

Commission revenue was up 17%. Commission revenue growth was primarily driven by solid 27% growth in Tmall physical goods paid GMV<sup>2</sup>. The gap between the growth of commission revenue and Tmall physical goods GMV<sup>2</sup> growth was mainly because of the faster growth in FMCG and consumer electronic categories that have lower blended commission rates, and also because of our initiatives to support our merchant customers, including our waiver of annual service fees for the first half of 2020.

Revenue from Cainiao grew 54% year-over-year. This was primarily caused by the fast growth of our cross-border businesses, such as Tmall Global, supported by increased adoption of the “Fulfilled by Cainiao” services.

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<sup>1</sup> Free cash flow in the June Quarter 2020 was RMB 36,570 million.

<sup>2</sup> Tmall online physical goods paid GMV.

Revenue from local consumer services was RMB7.1 billion, up 15%. This is due to an increase in average order value and ongoing recovery in on-demand delivery GMV growth. Unit economics per order for the on-demand delivery businesses was positive during the quarter, reflecting improved delivery network efficiency, as well as enhanced marketing efficiency that leveraged our consumer insights technology. This has led to further narrowing of losses, year-over-year, for the local consumer services. Our merchant acquisition continued to accelerate for these local consumer services.

Ali Cloud continued its strong growth. We showed 59% year on year growth in revenue and at the same time the losses continued to be narrowed, so our average revenue per customer continued to improve and all the cloud services are growing very well.

For DME and innovation initiatives, one thing worth mentioning is that our online gaming business which was developed from acquired businesses has been growing well. It is now recognised as part of the DME segment and it grew into sizeable revenue and user scale, and was moved out of the incubator which is the innovation initiatives segment.

Let us take a look at our cost trends. Cost and expense growth generally kept pace or was lower than revenue growth, reflecting ongoing improvement in operating efficiency. The savings from operating efficiency improvement were reinvested into strategically important businesses with strong long-term growth potential.

Let us move to segment reporting. We continue to enjoy solid revenue growth by segment. The strong profitability coming from the core business enables us to invest for the future. For the Core Commerce segment, market-based Core Commerce profitability grew strongly to RMB55.5 billion, up RMB8.7 billion year-on-year. Developing businesses such as local consumer services, Lazada, new retail and Cainiao all showed strong operating performance and improved operating efficiency. The combined losses of these development businesses were narrowed by RMB1.5 billion to RMB4.2 billion which contributed to the 25% EBITA growth of the overall core commerce segment.

Cloud computing we talked about the loss margin was narrowed to 3%. For digital media and entertainment we continued to focus on reducing losses in Youku through content cost control while increasing paying subscribers' growth. Losses reduced by about RMB1 billion year on year to RMB1.3 billion for the DME segment. Innovation initiatives and others, the increased losses were primarily due to our investment in DingTalk businesses and also AutoNavi for user expansion as well as the technology research and innovation.

Overall, our business continued to deliver strong profit growth with improving efficiency. At the same time, we used our incremental profit to continue to invest back into our business.

June quarter free cash flow and CAPEX, our businesses overall continued to show strong profitability and cash flow. As of 30<sup>th</sup> June, cash, cash equivalents and short-term investments were RMB382 billion, which is over USD\$50 billion. For the quarter, free cash flow was RMB36.6 billion, which increased by 39% mainly due to our robust profit growth.

For June quarter, other financial metrics, the share of results of equity method investees in the quarter was RMB349 million. We record our share of results of all equity method investees one quarter in arrears. For this June quarter earnings, we are recognising our investees March quarter share of results. But you can tell that the Ant Group has performed well in March Quarter. The COVID-19 pandemic has caused widespread disruption to the economy which has and could continue to impact our investee companies.

June quarter GAAP to non-GAAP net incomes reconciliation is shown on this page<sup>3</sup> and is self-explanatory.

Looking ahead, China has managed the whole process of the pandemic very well and the economy recovered very quickly. Our Group has benefitted from the overall China recovery, as well as the accelerated digitisation of our customers. Our core and new businesses all developed well which allows us to have multi-engine drivers for the revenue and profit growth. Our strong profit growth will make it possible for us to reinvest. We will continue to reinvest our incremental profits back to our businesses and continue to expand our market leadership in various areas.

Before our Q&A session we would like to announce that our Investor Day will be held on 28<sup>th</sup> September to 30<sup>th</sup>. This time it will be a virtual one due to the pandemic's limitations on travel. We hope to provide in-depth business updates as we did in previous Investor Days. Details will be posted on the Investor Relations section of Alibaba Group's website.

Now we can open up for questions. Thank you.

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<sup>3</sup> Page 11 of June Quarter 2020 presentation.



## Q&A

**Rob Lin:**

(Original)

Hi everyone, for today's call, you are welcome to ask questions in Chinese or English. A third-party translator will provide consecutive interpretation for the Q&A session. And our management will address your questions in the language you asked. Please note that the translation is for convenience purpose only. In the case of any discrepancy, our management's statement in the original language will prevail.

**Eddie Leung (Bank of America Merrill Lynch):**

(Translation)

Thank you, management. We see that there are several big ecommerce platforms, including yours, all with very large user numbers. So it's likely that the same consumer is making purchases on several different platforms. So my question is: in the future, which consumers, under what circumstances, and for what products, do you see as most likely to make purchases on Alibaba's platforms?

**Daniel Zhang:**

(Translation)

Alibaba's China retail marketplaces offer consumers an integrated service experience with the widest and richest product assortment, highly competitive pricing, and excellent service pre-sale, mid-sale and post-sale. This comprehensive user experience can meet the needs of all kinds of different consumers at different times and in different categories. That is why we believe Alibaba is the number one choice for online shoppers in China, and we will continue to work hard to keep that the case.

From the merchant perspective, we have Tmall for brands, where consumers can buy goods, in particular new goods, directly from brands. We also have Taobao where there is a vast array of goods made available through many different channels, now including direct sourcing from origin, manufactured goods from factories, and agrifood products from all over the country. So we can meet the full range of different demands from consumers, first in terms of satisfying different tiers of consumers, and second in terms of satisfying demand for different categories. You can have some consumers who are more affluent but they could be also looking for value-for-money offerings. In other categories though they may be looking for higher quality or a higher level of service. So given the huge user base, we aim to provide different options for different kinds of consumers and to satisfy all different kinds of demand.

**Alicia Yap (Citigroup):**

(Original)

Hi, good evening management, thanks for taking my questions and congrats on the solid results. My question is on your international retail business, especially Lazada. What is your latest view for the ecommerce evolvement in Southeast Asia regions? What are the differentiated approaches that you have, your competitive strength and any areas that you think there is room to change or improve that you foresee how the landscape will evolve as compared to China and in the region and how Lazada will position that? Thank you.

**Daniel Zhang:**

(Original)

Thanks, Alicia, let me answer this question. I think, as I said in my script, Southeast Asia market is our strategic priority for Alibaba's globalisation strategy. I think when we look at our Lazada's operation, we expect to build a more tech-driven, AI-driven, sustainable business. Today, in this market, competition is very extensive and people invest and even subsidise the buyers, sellers, even shipping fees and trying to get the short-term growth. We strongly believe we need to build a long-term sustainable business. Our advantage is firstly about Alibaba technology infrastructure and especially our experience, know-how and technologies in AI and in the search and recommendation, and the supply and demand match mechanism. I think this is our big advantage. After Lazada's business transformation, actually we are today gaining the benefit from this technology implementation.

Second, I think as part of Alibaba's operation, we have a big advantage to supply the South East Asia market with goods from China and from other countries. Today, actually, Lazada is not isolated business for Alibaba. Actually, this is part of the Alibaba global network, and we are trying to sell not only from local to local but also China to Southeast Asia and other countries to Southeast Asia. At the end of the day, I think we are trying to build a global network and to sell anywhere, buy anywhere.

The third one I think today for Lazada, we also have different segments. We have our LazMall for brands operation, which provides a high-quality product directly from the brands, and with good fulfilment delivery service. We have our Lazada Marketplace, which is more like a small B2C or even C2C. And as I said before, we have LazGlobal, which is a cross-border business from China and other countries. We will continue to invest and enhance our position of each of the market places and provide an integrated experience to our customers.

As to the difference between the China market and the Southeast Asia market, I would say I think maybe the biggest difference is that actually in Southeast Asia, social networks are very popular, and there are a couple of very important players in this market. And merchants also love to interact with customers via social networks. So, how to leverage the power of social networks, I think it's a very important goal to us. So, actually, we have done a lot and we will continue to do further. Thank you.

**Binnie Wong (HSBC):**

(Original)

Good evening, management. Congratulations on a very successful quarter and also the successful June 18<sup>th</sup> Shopping Festival. My question is on the Taobao Deals. We saw news that you will soon launch a short video channel to strengthen the ecosystem, while Douyin on the other side is talking about expanding ecommerce business, making a closed loop. So, my question is how do we differentiate when we talk about this livestreaming and short videos in the terms of social commerce? And how do we better help merchants to sustain the relationship longer with customers? And so far, do you see livestreaming as cannibalised or incremental to merchants' marketing budget on Alibaba? Thank you.

**Daniel Zhang:**

(Original)

Okay. I think first of all, Taobao Deals targets value cautious customers by offering high-quality and value-for-money products. So, I think the target customers for Taobao Deals actually is very, very clear. As part of the consumer experience in Taobao Deals mobile app, we launched a short livestreaming and short-form video. I think this is not a complete user experience. It is part of the consumer interface, but I think that we are trying to give factories and suppliers a tool to manage their customers and also trying to give customers different experiences in their consumer journey on Taobao Deals. But I think the primary goal is still to segment the Taobao Deal with the value-for-money products and low-end customers. This is very clear. The short-form video is just a consumer feature and this will be highly integrated with the whole, entire consumer journey in the Taobao Deal mobile app.

In terms of the livestreaming activities in other players, including Douyin, I would say actually for our merchants, I think livestreaming is more like event marketing and actually in there as part of their entire operation, and it is impossible for people to do seven days, 24 hours livestreaming and all the ways. And if you look at the details of livestreaming today, actually most of the merchants viewed it as a way to do promotion and acquire new customers, but they do need a sustainable and day-to-day operation platform, which is the Alibaba platform. So, that is why a lot of merchants build their store from our platform and they are trying to bring all their consumers and customers from different ways to Taobao, because this gives them a best way to operate. And this also gives them the highest ROI in their operation.

For Taobao livestreaming, I think we also introduced livestreaming in Taobao and Taobao Deals and, as we disclosed, the GMV from Taobao livestreaming tripled<sup>4</sup> in this quarter. I think this is already a very important consumer feature. But that is not all. That is part of consumer experiences. And because of the incremental traffic generated from the Taobao livestreaming, we are also identifying new opportunities for monetising this additional traffic in Taobao livestreaming. But once again, this monetisation model is not a separate one. It is part of the

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<sup>4</sup> "Doubled" was mistakenly stated as "Tripled" on the call.

whole solution, the entire solution we provide for our merchants to manage their customers on our platform for their entire lifecycle.

**Binnie Wong (HSBC):**

(Original)

That is super clear. Thank you, Daniel.

**Mark Mahaney (RBC):**

(Original)

Okay, thank you. I just wanted to ask about the Ali Cloud business. Can you talk about the sustainability of growth there? Are there particular industry verticals that you have recently seen be more aggressive in terms of cloud deployments? And just talk about what is happening in terms of the competitive dynamics; whether pricing remains relatively consistent, you are seeing more aggressive pricing in the industry. Thank you very much.

**Daniel Zhang:**

(Original)

Cloud is a fast-growing business. If you look at our revenue breakdown, obviously Cloud is enjoying a very, very fast growth and what we see is that all the industries are in the process of digital transformation and moving to the cloud is a very important step for the industries. And we strongly believe that sooner or later, all the business will move to cloud. So that is why we do believe the fast growth will continue in the near and midterm. And even in the longer term, this will totally change how enterprises work and how businesses collaborate.

In terms of industry development, all industries are embracing the cloud. But I think that the people who take the first move are from the Internet companies. Because all the Internet operations actually could be powered by cloud. So Internet is a very important sector but in recent months, we do see fast growth from other sectors, including financial services, consumer retail and even public sectors like power and utilities and so forth.

We do believe this is still in the early stage and as I said before, we do not want to just provide cloud in terms of infra services. If we just do it as an infra service, as IaaS services, then price competition is inevitable and then all the cloud service is more like a commodity business. Today Alibaba's cloud is cloud plus intelligence services, and is about cloud plus the power of data usage. That is why we work hard to develop industry specific solutions with IaaS and PaaS services, together with our SaaS partners, and we will continue to do that to enhance our market leadership.

**Maggie Wu:**

(Original)

Mark, this is Maggie. To supplement what Daniel said, regarding your question on the competition in cloud computing, our peer companies who also have cloud business, they report their results as well and I think you can do the comparison. Although, none of these companies have disclosed their cloud computing revenue and profitability, the EBITA, like we do, but you still can derive the revenue from them. Obviously, we are the largest in terms of business size. So we reported more than RMB12 billion revenue in one quarter. This is more than doubled of our nearest competitor and we are growing faster. This gives you a sense of ...

**Joe Tsai:**

(Original)

I would also like to add that, to give you a global comparison of the China cloud market and the US cloud market, based on the third-party studies that we have seen, the China cloud market is going to be somewhere in the \$15-20 billion total size range and the US market is about eight times that. So, the China market is still at a very early stage and we expect, based on what we have seen of our customers as well as observing the whole market growth, the China market is going to be a much faster-growing market in cloud than the US market. So, we feel very good, very comfortable to be in the China market and just being in an environment of faster digitisation and faster growth of usage of cloud from enterprises. Because we are growing from such a smaller base, about one eighth the base of that of the US market.

**Youssef Squali (Truist):**

(Original)

Great, thank you and good morning. Two very quick ones. First, seems like the recovery has been somewhat uneven between higher-income and lower-income consumers. Daniel, I was just wondering if you believe that as a result of this pandemic there has been a structural impact on lower-income consumers and maybe how long it might take them to recover over time?

And second, Maggie, any update to the guidance that you had given last call about the total of revenue in fiscal 2021 of more than RMB 650 billion? Thank you.

**Maggie Wu:**

(Original)

Maybe I will answer first, on this revenue guidance, Youssef. So we grow revenue for June quarter by 34%. The guidance remains unchanged. Although we are very confident of our business, this is just the first quarter of the fiscal year and there are still three more quarters to go. So we will update you in due course, if there is any update. Thank you.

**Daniel Zhang:**

(Original)

For the consumer segment, I think generally speaking, the recovery of Chinese consumption stays strong, as China is the first country to move out of the pandemic and all the situation is almost under control except for a couple of cities. So that is why the recovery of consumption, I think, is quite promising and if you look at our numbers and our China retail marketplaces reported a very strong growth in this quarter. The most important thing is that the ASP<sup>5</sup> for the consumers in all city tiers actually grows and they buy more frequently and they consume more.

But if you look further, I agree that for the low-income people, if you look at their consumption behaviour, there are still some uncertainties because they are more cautious about the future of the economy. As you know, in China, a lot of low-income people from the service sectors and today, I think, as compared to the physical goods consumption, that the consumption in services sectors still takes some time to fully recover, and employment in these service sectors also needs more time to recover. So I think this will bring some uncertainties for the low-income group.

**Gregory Zhao (Barclays):**

(Translation)

Thank you for taking my question, and congratulations on the strong results. China has produced a number of globally leading Internet giants, with Alibaba as the most typical example. And these companies, including Alibaba, are leading the entire world in terms of developing Internet applications. But when it comes to more fundamental research, for example in operating systems, semiconductors and chips, China still lags behind. So, my question is, does Alibaba have any longer-term plans to invest in critical basic research related to the Internet? And as part of that, does Alibaba have plans to hire more talent from international markets?

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<sup>5</sup> "ARPU" was mistakenly stated as "ASP" on the call.

**Daniel Zhang:**

(Translation)

Alibaba has always been committed to developing its businesses on a market-oriented and user-oriented basis. We continue to invest for the long-term in critical technologies with those objectives in mind. But we strongly believe that all technology must ultimately be market-oriented. In our case, it has always been driven by our consumer business. And today the cloud market is also not just about providing cloud infrastructure, it's ultimately about leveraging on the cloud to help businesses enhance their operations and become more effective. So, certainly this is our commitment. We are investing in long-term technology and conducting research through our DAMO Academy among others, but we do believe very strongly that research and development should be highly integrated in order to create value for commerce and for society.

**Jin Yoon (New Street Research):**

(Original)

Hi, good evening, hey, thanks for taking my question. Maggie, I think on your prepared remarks you talked about reinvestments back into the business, the profits reinvestment back into the business. Can you just talk about the scale and scope of what that investments look like and the duration, and how we should be thinking about the rest of the fiscal year in terms of when some of these investments will hit? Thanks again.

**Maggie Wu:**

(Original)

Sure. So, first of all, as you can tell that we have very strong profit generation power. So if you look at the adjusted EBITDA for this one quarter, we have generated over RMB50 billion of profit. So we use part of that profit, to reinvest back to develop the business, while some other players use investors' money to invest into that. So that is number one.

Number two, in terms of to what extent, I think we got a lot of questions on – you are talking about cost control, efficiency, does that mean that you are very cautious in terms of investing in marketing, user acquisition, etc? The answer is not necessarily. We are very committed to a further expand not only the user base but also enhance the user engagement, but also increased stickiness of these users and provide them with broader products and services.

So, when you look at the sales and marketing costs, we are investing over RMB13 billion in sales and marketing in one quarter's time. It is not a small number. However efficiency of our investment are high –

[BREAK IN AUDIO]

This is Maggie. Maybe let me summarise what I just answered the previous question. So with strong revenue and profit growth, we are going to continue reinvest back to these strategically

important businesses. So I think our investment aims for a longer-term healthy and sustainable growth.

**Colin Sebastian (Baird):**

(Original)

Two quick ones from me as well. First off, Daniel, I think you mentioned a change in strategy in India. If maybe you could talk in a little more detail about the platforms, opportunities in that market? And then secondly, looking at the gap between the mobile MAUs and the total active commerce user base, the gap has increased a bit. And I am wondering if that is an opportunity over time to engage those mobile monthly users that are not yet active customers.

**Daniel Zhang:**

(Original)

First of all, as I said, we decided to stop operations of UCWeb and other innovation initiatives in India after our business review. And we believe that globalisation is our long-term strategy, but in near-term, I think, we are closely monitoring the change of the geopolitical environment and also the national policy of other countries. And we will adjust our strategies according to this change.

For the second question, I would say today our MAU and AAC still have a very strong growth given we have such a huge size of consumer base in China. But I think most important thing is that we have people engaged with us. That is the starting point. And if you look at our historical number, you will see that the longer people stay with us, the more spending they will do, and the more consumption they would do and the more categories they will consume. So we will continue to engage with customers and to convert the visitors, the new customers, into our loyal buyers in the long run.

**Piyush Mubayi (Goldman Sachs):**

(Original)

May I just take a step back and look at COVID and the aftermath of COVID, I wanted to understand from you if there were specific areas that you saw an increased opportunity emerge? And would that lead to a change in tactic? We did notice that your 6/18<sup>6</sup> period, you were much more aggressive and it bore fruit very, very quickly for you. And we wanted to understand if this two can be read together and we can see an emergence of potentially a much more aggressive stance from you that would bear fruit over time. That is my question.

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<sup>6</sup> Tmall 618 Shopping Festival.



**Daniel Zhang:**

(Original)

Well, I think this pandemic changed fundamentally the people's lifestyle and changed how enterprises work. And if you look at the consumption sector, I would say after the pandemic, people care more about their health and that is why we see the healthcare categories grows very fast. But I think that is not all. And we do see a lot of increasing opportunities in FMCGs, in new brands and also in many sectors. And also from the retail perspective, I think, all the retail operations moving to digital operations. So how to leverage the power of our new retail infrastructure to help this merchant to serve their customers on a local basis, I think, this is a growing opportunity.

And the cloud, we said many times, cloud is a big wave and we are still in the early stage in terms of fast growing. And I think 6/18<sup>7</sup> as a mid-year campaign is part of our annual operation. And we think we take the right approach to meet the demand and emerging demand of the consumers, I think, post pandemic and also meet the demand of the suppliers who want to sell more products and deliver more services to their customers. So we are happy to see the good results and we will continue to create value for both our customers and the merchants.

**Maggie Wu:**

(Original)

Yeah. Piyush, as you observed, that during this June 18 shopping festival<sup>7</sup>, we, together with the local government and together with merchant partners, has invested billions of RMB in consumer coupons, subsidies to stimulate domestic consumption. And you asked us whether we are going to continue the aggressive investment? I think I would put it in this way. We will aggressively invest into the business to expand our market leadership. At the same time, we also want to invest aggressive and smartly. Smartly means that we are aiming in long-term sustainable growth rather than just temporarily acquire customers and GMV.

So, the investment is going to be focused on user base growth, also engagement, also retention. Also by saying smart, it also means that we are going to leverage the resources from the whole Alibaba economy, which includes us and Ant together to grow our business.

[END OF TRANSCRIPT]

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<sup>7</sup> Tmall 618 Shopping Festival.