Alibaba Group

March Quarter 2022 and Full Fiscal Year 2022 Results Conference Call

Thursday, 26th May 2022

Introduction

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Good day, everyone, and welcome to Alibaba Group's March Quarter 2022 and Full Fiscal Year 2022 Results Conference Call. With us today are Daniel Zhang, Chairman and CEO, Joe Tsai, Executive Vice Chairman, Toby Xu, Chief Financial Officer. This call is also being webcasted from the IR section of our corporate website. A replay of the call will be available on our website later today.

Now, let me quickly cover the safe harbour.

Today's discussion may contain forward-looking statements. Forward-looking statements involve inherent risks 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 U.S. Securities and Exchange Commission or announced on the website of the Hong Kong Stock Exchange. Any forward-looking statements that we make on this call are based on assumptions as of today and we do not undertake any obligation to update these statements, except as required under applicable law. Please note that certain financial measures that we use on this call, such as adjusted EBITDA, adjusted EBITDA margin, adjusted EBITA, adjusted EBITA margin, non-GAAP net income, non-GAAP diluted earnings per share or ADS and free cash flow, are expressed on a non-GAAP basis. Our GAAP results and reconciliations of GAAP to non-GAAP measures can be found in our earnings press release. Unless otherwise stated, growth rate of all stated metrics mentioned during this call refers to year-over-year growth versus the same quarter last year.

In addition, during today's call, management will give 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 to Daniel.

March Quarter and Full Fiscal Year 2022 Highlights

Daniel Zhang

Chairman & CEO, Alibaba Group

(Original)

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

We completed a solid fiscal year amidst macroeconomic challenges in China due to the resurgence of COVID, and tremendous uncertainties in the global geopolitical landscape. During the fiscal year, we achieved the target of 1 billion AACs in China, with annual net increase of 113 million. Globally, we reached 1.31 billion AACs, with annual net increase of 177 million; and we achieved a total GMV of 8.3 trillion RMB, with close to 8 trillion RMB in China and 341 billion RMB outside of China. Our cloud computing business completed its first profitable fiscal year while maintaining market leadership in China.

Now I would like to share a bit more about the latest situation in China with the recent resurgence of COVID. As you all know, omicron started to spread in China in March and has impacted several major consumption and manufacturing centers such as the Pearl River Delta (including Shenzhen), the Yangtze River Delta (including Shanghai), and Beijing. During the second half of April, over 80 cities in China reported confirmed COVID cases, and most are national economic centers. Such widespread impact has brought significant uncertainties to the China economy. We saw the national retail sales reporting negative year-over-year growth in March and April, and online sales of physical goods also reported a historic decline year-over-year.

The resurgence of COVID has also impacted our businesses to varying degrees. Overall speaking, we saw a low-single-digit decline in revenue growth in April compared to the same period last year. Online physical goods GMV of our China Retail Marketplaces, excluding unpaid orders, saw year-over-year decline in the low-teens percentage in April. To give you a sense of the scope of impact – Based on our consumer address, cities with new COVID cases in April represented more than half of our China Retail Marketplaces GMV. These cities also included major merchants' hubs such as Shanghai, Shenzhen and their nearby cities, where supply chain and logistics disruptions have resulted in widespread impact.

During the same period, while our user traffic and engagement have remained resilient, patterns of consumption across categories on our platforms have shifted. Fashion and electronics consumption decreased. Demands for essential supplies such as food and FMCG products increased significantly, with more consumers stockpiling at home. Emerging categories such as healthcare, activewear and outdoor products also grew rapidly. We have since seen a major recovery in local logistics capacity compared to April. We believe operating stability and sustainability during this period is the primary concern of all businesses. Ensuring stability of supply chain and logistics amid the uncertainties is the best way to improve consumption sentiment and foster a more positive environment for business operations.

We are also facing uncertainties in the macro environment outside of China. During the quarter, Lazada's order growth slowed down to 32% year-over-year as offline consumption gradually recovered post-pandemic in Southeast Asia, with Malaysia, Vietnam and Thailand achieving higher-than-regional-average order growth rates. Trendyol continued its market leadership in Turkey with quarterly order volume growing by 48% year-over-year. The order volume of AliExpress decreased year-over-year this quarter, mainly due to the impact of European Union's policy change in VAT exemption; recovery of local supply chain and offline consumption post-pandemic, as well as international logistics disruptions due to regional conflict.

Despite the geopolitical conflicts and uncertainties, we will continue efforts to develop our globalization strategy in consumption. We will serve international consumers through a combination of cross-border and local ecommerce models, and proactively invest in our global logistics networks as part of our overseas digital commerce infrastructure build-up.

Facing the challenges of geopolitical and macroeconomic uncertainties, many companies started to focus on high-quality growth with cost control and loss cutting. For Alibaba, high-quality growth has been a principle for years. Especially during the pandemic, we see the benefits of a solid foundation that we have built over time carrying out this principle – 1) the high-quality consumers that we serve; 2) the high-quality infrastructure we are building for digital commerce; and 3) the high-quality technology innovations that drive the vast potential of our cloud computing business. I will elaborate more in the following sections.

First of all, the high-quality consumer base: We serve the largest and highest-quality consumer base in China via Taobao and Tmall. Among our 1 billion AACs in China, 124 million consumers spent more than RMB10,000 annually on Taobao and Tmall, and 98% of these consumers continued to stay active in the following year. Looking ahead, we will continue to strengthen our comprehensive consumer app portfolio with clearly differentiated user value propositions, and address the diversified needs of different consumer segments in accordance with their consumption power and mindset, especially those of our core customers. What does this mean? In pre-purchase stage, it means establishing a clear consumer mindset, stimulating consumer interest through increasing user engagement and time spent on consumption-related content, and influencing consumer decision. In post-purchase stage, it means an enhanced fulfillment and customer service experience. I believe this is the winning formula for earning consumer mindshare and wallet share in a highly competitive landscape.

Secondly, the high-quality infrastructure for digital commerce: Over the years, Alibaba has established a comprehensive infrastructure for digital commerce based on a hybrid model combining inter-city and intracity fulfillment. Through digital user outreach, effective organization of product and service supply, as well as fulfillment service capabilities covering cities and communities, our infrastructure has become an important way for consumers to obtain daily necessities during the pandemic. In particular, over the last few years, we have created our location-based commerce business by building core capabilities in supply chain and fulfillment and online-offline integrated distribution networks on top of a pre-existing marketplace model. Based on our data in March and April, the average order value of customers in our location-based commerce businesses has increased significantly as consumers in COVID-affected areas rushed to stock up. As a result, while our order volumes were negatively impacted by the fulfillment capacity constraint during the pandemic, GMV of these location-based commerce businesses have shown robust year-on-year growth. Taking Shanghai as an example – While Ele.me's food delivery business has been significantly impacted, deliveries of retail categories have grown rapidly. In particular, demands for groceries and pharmaceuticals are extremely strong with year-on-year growth above 100%. As Ele.me continued to enhance its operations and reduce unit logistic cost, its unit economics also improved significantly to almost breakeven during the quarter.

Our infrastructure is playing an important role during the pandemic. For example, our different businesses, including Freshippo, Taoxianda, Tmall Supermarket, Ele.me, etc, are providing essential supplies in cities impacted by COVID in China. Through these efforts, we hope to integrate business capabilities with social responsibility leveraging the power of digital commerce and technology in the fight against COVID and providing essential supply support for local communities. To name a few examples:

- **Sun Art, Freshippo and other business units** supported the supply and delivery of essentials to the residents by dispatching thousands of couriers and frontline workers from various regions in China to Shanghai.

- **Ele.me** delivered more than 2.5 million pharmaceutical medicine orders to homes in Shanghai during April 2022. It also launched emergency delivery services for vulnerable groups in the city and addressed nearly 70,000 emergency requests during the month.

- **Cainiao** built an emergency logistics system that encompassed disaster preparedness management, emergency transportation, transit and distribution to deal with contingencies.

- **Amap**, our map navigation tool, launched the "Map of PCR Test Sites" which covered more than 350 cities in China by mid-May. Users can easily search for the locations and opening hours of nearby test sites.

- **Taobao and Tmall** have launched a series of targeted relief measures that would help merchants in Shanghai and those participating in our 618 Shopping Festival to ease their cash flow pressure, reduce operating costs and speed up the resumption of work and production to the largest extent possible.

Thirdly, the high-quality technology innovations that drive the vast potential of our cloud computing business. Alibaba Cloud's competitive advantage is its world-class proprietary technology and products that support the highly demanding and complex businesses across Alibaba Group, while serving customers across a wide variety of verticals globally.

In Fiscal Year 2022, Alibaba Cloud continues to be the leader in terms of market share in China and achieved full-year profitability for the first time. Its GAAP revenue reached RMB 74.6 billion during the year with 23% YoY growth. Before intersegment elimination, Cloud revenue for the fiscal year has exceeded RMB 100 billion. During the past quarter[1], Alibaba Cloud's revenue

[1] "During the past quarter" refers to March Quarter, 2022.

increased by 12% YoY. The growth deceleration was a result of several factors, including the decline in corporate activities and delays in project delivery due to the impact of COVID restrictions; slowdown in the growth of internet industry customers; and the gradual termination of contracts by a top customer for our public cloud services outside of China. We believe these impacts are temporary. While China's Internet industry customers showed a deceleration in cloud service demands as the entire sector faced the challenge of a growth ceiling in user traffic and time spent, digitalization of other industries is just starting, and we see plenty of opportunities. Cloud computing and data intelligence services are fundamental to every business in every sector undergoing digital transformation. According to industry estimates, China's cloud market size will reach RMB one trillion by 2025. Alibaba Cloud will continue to elevate its core technology and products to maintain its leadership in this high-potential market.

The cumulative results of Alibaba's strong management and operations over the years have produced a high-quality customer base, a sophisticated digital commerce infrastructure, and world-class technology innovation. We also have a multi-engine growth strategy, robust financial conditions, a profitable business and strong cash flow. These provide important assurances in the face of macro uncertainties and, more importantly, a source of confidence as we continue to pursue healthy and sustainable development for the future. In the new fiscal year, we will focus even more on cost control and continue to improve our operating efficiency. This includes streamlining unprofitable businesses, improving cash cycles and enhancing investment efficiency in personnel, fixed assets, and other areas to maintain financial flexibility amidst uncertainties.

Recently, the Chinese government has released important policy signals on its commitment to stabilize the economy and the job market in response to COVID impacts. They have also issued clear statements on promoting the development of internet platform economy through a healthy regulatory environment. Yesterday, the State Council held a national meeting to mobilize the implementation of several economic policies. As one of the representative companies of China's internet platform economy, Alibaba is committed to supporting China's development through the combination of technology innovation and commercial innovation. We aim to serve Chinese consumers' pursuit of a better life as well as the digital transformation needs of different industries. We also will be on the front lines in the fight against COVID and ensuring the availability of food and other essential supplies to communities in need. We look forward to the introduction and implementation of policies that will enable the internet platform companies to contribute more toward stabilizing the market, creating jobs, and furthering high-quality development of China's economy.

The history of economic development has always been filled with twists and turns. In the long run, we strongly believe in the resilience and potential of China's economy. We will strengthen our fundamentals during this unique period, focus on innovation and customer value creation, and continue investing and planning for Alibaba's long-term growth.

Thank you everyone for your time. I will now turn the mic over to Toby, who will walk you through the details of our financial results.

Financial Highlights

Toby Xu

CFO, Alibaba Group

Thank you, Daniel. Hello everyone. Let me walk you through the details of our financial results.

For the quarter ended March 31st, 2022, total revenue was RMB204 billion, an increase of 9% that was primarily driven by the revenue growth of China commerce segment by 8% to RMB140 billion, Local consumer services segment by 29% to RMB10 billion and Cloud segment by 12% to RMB19 billion.

Income from operations for the quarter was RMB16.7 billion, compared to a loss from operations of RMB7.7 billion in the same quarter of last year. The year-over-year change of RMB24.4 billion was primarily due to RMB18 billion anti-monopoly fine levied in the March 2021 quarter and a mark-to-market adjustment of SBC expenses of RMB13 billion in the March 2022 quarter. Excluding these impacts, income from operations would have decreased by RMB7 billion, primarily due to changes in adjusted EBITA.

Adjusted EBITA decreased by RMB6.8 billion to RMB15.8 billion year-over-year in the quarter. The decrease was primarily due to RMB7.4 billion decrease in China commerce segment EBITA that mainly reflected investments in Taocaicai and Taobao Deals, impact from COVID, as well as losses incurred by Sun Art.

However, it is important to note that the combined losses of Taobao Deal and Taocaicai declined quarter-over-quarter as we focus on driving high quality growth for our China commerce segment.

Importantly, during the March 2022 quarter we are also making progress in improving operating efficiency and instil cost disciplines throughout the company. This has resulted in narrowing losses year-on-year of RMB1.2 billion for Local consumer services, narrowing losses of RMB732 million for DME segment and improving profitability of RMB618 million for Cloud segment.

Cost of revenue ratio, excluding SBC, increased to 68% in the quarter ended 31st March 2022. The increase was primarily due to, firstly, higher proportion of direct sales businesses such as Freshippo and Tmall Supermarket that increased the cost of inventory as a percentage of revenue. And, secondly, growth of Taocaicai and Cainiao businesses that led to an increase in logistic costs as a percentage of revenue.

Excluding SBC, product development expenses as a percentage of revenue, slightly increased to 6% in the quarter ended March 31st, 2022, reflecting our continued investment in talents to drive technology and product innovation.

Sales and marketing expenses, excluding SBC as a percentage of revenue, remain stable at 13% in the March quarter, compared to the same quarter of last year.

Excluding SBC and the impact from anti-monopoly fine, general and administrative expenses as a percentage of revenue will be flattish in the quarter.

Non-GAAP net income attributable to ordinary shareholders in the quarter was RMB21.5 billion, a decline of RMB6.9 billion primarily due to decrease in adjusted EBITA. GAAP net losses attributable to ordinary shareholders was RMB16.2 billion. The difference between GAAP net losses and non-GAAP net income was primarily due to decrease in the market prices of our equity investments in publicly traded companies.

As of March 31st, 2022, we continue to maintain a strong net cash position of on RMB343 billion or USD 54 billion. Our strong net cash position is supported by robust cash flow generation. In fiscal year 2022, net cash flow from operation and free cash flow were RMB142.8 billion and RMB 98.9 billion respectively. Majority of the difference is operating CAPEX spending at RMB42 billion, reflecting our investment in Cloud business and logistics fulfillment infrastructure.

Free cash flow in March quarter 2022 was an outflow of RMB15 billion, mainly due to the payment of final installment in the amount of RMB9.1 billion of the RMB18.2 billion, the anti-monopoly fine and a decreasing profit.

Importantly, we have continued to enhance returns to shareholders through share repurchases, given our strong balance sheet and free cash flow generation capability. In fiscal year 2022, we repurchased approximately 60 million of our ADSs for approximately USD9.6 billion under our share repurchase program.

On March 2022, our company's board has authorized an increase of our share repurchase program for USD15 billion to USD25 billion. Since April 1st to May 25th, we have repurchased another USD3.4 billion in ADSs. As of 25th May, we still have an unused amount of USD12 billion under the share repurchase program.

Before I start with our segment results, I like to highlight something in the December 2021 quarter financial results. In the December quarter, the net income attributable to ordinary shareholders was understated by RMB7.3 billion, this was caused by a goodwill impairment charge that should have been partially attributed to non-controlling interests, but was fully recorded in net income attributable to ordinary shareholders. This does not impact our non-GAAP measures and does not impact revenue, income from operations or total net income for the December quarter. The attribution has been rectified and properly reflected in the full year consolidated financial information for the fiscal year 2022. This attribution has no impact on the consolidated financial information for the March 2022 quarter.

Now, let’s look at our segment results.

Revenue from our China commerce segment in March quarter was RMB140 billion, an increase of 8% year over year. Customer management revenue remained stable year-over-year at RMB63 billion despite a low single digit decline in Taobao and Tmall online physical goods GMV, excluding unpaid orders. For the March quarter, the combined GMV growth of January and February was flat, but was offset by a decline in GMV in March driven by COVID-19 impacts.

If we further breakdown Customer management revenue growth into advertising and commission revenue: total advertising revenue delivered a positive growth during the quarter; commission revenue recorded high single digit decline due to GMV decline, higher order cancellation and delays as a result of logistic bottleneck from COVID-19 resurgence in March.

Direct sales and others revenue in March quarter was RMB73 billion, an increase of 14% year-over-year, primarily driven by robust revenue growth of Freshippo and Tmall Supermarket.

China commerce segment adjusted EBITA decreased by RMB7.4 billion year-over-year to RMB32.1 billion in the March quarter. The decline reflected investments in Taocaicai, Taobao Deals as well as over RMB1 billion losses incurred by Sun Art, primarily due to one-off asset impairments and special provisions.

We are making progress in our commitment to improve efficiency and narrow loses for Taobao Deals and Taocaicai. They have been successful in acquiring new consumers in less developed areas. During the quarter, Taobao Deals had over 300 million annual active consumers. More than 20% of these AACs of Taobao Deals were consumers that did not shop on Taobao or Tmall in fiscal year 2022. And Taocaicai had over 90 million AACs, of which more than 50% were first-time fresh produce buyers on our various platforms. At the same time, the combined losses of Taobao Deals and Taocaicai has decline quarter over quarter. We expect that the combined Taobao deal and Taocaicai losses to continue to narrow as we focus on driving high quality growth for our China commerce segment.

On to our major direct sales businesses, except for Sun Art as mentioned, losses narrowed year over year for Freshippo, Tmall Global, and Tmall Supermarket. We have continued to expand our direct sales business, to enrich products supply for our marketplaces, strengthen supply chain capabilities for various verticals and offer comprehensive high-frequency fulfilment services that seamlessly integrate with physical stores and pick-up stations. These businesses delivered solid topline growth during the quarter and we expect them to contribute more to the overall segment revenue mix, which will continue to affect China commerce EBITA margin.

Our International commerce segment revenue in March quarter was RMB14.3 billion, an increase of 7% year-over-year. The increase was primarily driven by Lazada and Alibaba.com, our international wholesale business. Lazada delivered solid order growth of 32% while Alibaba.com grew transaction value completed on our platform by 22%.

The slower year-over-year growth rate as compared to previous quarters was mainly due to firstly revenue decline of Trendyol that was negatively impacted by the ongoing depreciation of Turkish Lira against RMB; and secondly, orders decline for AliExpress, which was mainly driven by the ongoing impacts from VAT rules, as well as supply chain and logistics disruptions for parcels entering the Eurozone due to Russia and Ukraine conflict, and then slowing China export growth and supply chain disruptions from COVID-19 impacts.

International commerce segment adjusted EBITA losses was a loss of RMB2.6 billion in March quarter. Losses slightly increased year-over-year, mainly driven by Trendyol's investments in new businesses, such as international businesses and local consumer services in Turkey, partly offset by continued profit growth of Alibaba.com, narrowed losses of AliExpress, and narrowed losses of Lazada through optimization of OPEX and logistics costs.

Revenue from Local consumer services was RMB10.4 billion in March quarter. An increase of 29% year-over-year, driven by more efficient use of subsidies and higher average order value driving resilient GMV growth for Ele.me.

Local consumer services adjusted EBITA losses reduced by RMB1.2 billion year-over-year to RMB5.5 billion primarily due to the narrowed losses of our to-home business driven by optimized user acquisition and reduced delivery costs.

Revenue from Cainiao, after inter-segment elimination, was RMB11.6 billion in March quarter, an increase of 16% year-over-year, primarily contributed by the increase in revenue from consumer logistics services as a result of service upgrade for enhancing consumer experience, partly offset by the decrease in international orders that was mainly impacted by the supply chain and logistics disruptions for parcels entering the Eurozone due to Russia and Ukraine conflict.

During the fiscal year 2022, 69% of Cainiao's total revenue was generated from external customers.

Cainiao adjusted EBITA loss was RMB912 million[2], loss widened by RMB327 million year-over-year, primarily due to increase in operating costs from expansion of our global smart logistics infrastructure, as well as the impacts from COVID-19 resurgence in China and Russia and Ukraine conflict.

Going forward, we will continue our efforts in building comprehensive logistic and fulfilment infrastructure in China and internationally, laying the foundation for sustainable long-term growth for our digital commerce businesses.

Revenue from our Cloud segment, after inter-segment elimination, was RMB19 billion in March quarter, an increase of 12% year-over-year. Revenue growth was slower in March quarter compared to prior quarters, reflecting slowing economic activities, softening demand from customers in China Internet industry, and delays in completing hybrid cloud projects due to COVID-19 impacts.

Excluding revenue generated from a top customer in the Internet industry that gradually phased out using our cloud services for its international business, our Cloud segment revenue after inter-segment elimination would have grown 15% year-over-year during March quarter, and 29% for fiscal year 2022.

Excluding this customer, our customer base and industry coverage continues to diversify. The next top 10 non-affiliated customers contribute to less than 10% of Cloud's revenue in fiscal year 2022.

[2] "Cainiao adjusted EBITA loss was RMB 912 million" refers to March quarter 2022.

Importantly, revenue contribution from non-Internet industries continues to increase as well. During the March quarter, revenue growth was strong in telecommunication, financial services, and retail industries, but declined in selected internet verticals, including online education and entertainment.

Adjusted EBITA of Cloud segment, which comprised of Alibaba Cloud and DingTalk, was a profit of RMB276 million in March quarter, which improved by RMB618 million year-over-year. This is primarily attributable to ongoing improvement in cloud profitability partly offset by increasing losses from DingTalk.

In the new fiscal year, our cloud segment will focus on high quality revenue growth, invest in talents and R&D, and improve operating efficiency and expand internationally.

Revenue from our Digital media and entertainment segment in March quarter was RMB8 billion, a decrease of 1% year-over-year. Adjusted EBITA was a loss of RMB2 billion, narrowed the by RMB0.7 billion year-over-year.

Let me close with a short recap of last fiscal year and then our outlook.

In fiscal year 2022, we have faced with increasing challenges from many fronts. These have been brought about by slowing macro activities, increased competition and COVID resurgence domestically as well as changes in geopolitical conditions internationally. But they also bring into focus the fact that there is much more we can do to create value for our customers and key stakeholders.

During this past year, we have made a number of achievements that position us well for the future:

First, we have reached a historic milestone of over 1 billion annual active consumers for all our consumer-facing businesses in China. This was made possible through the strong execution and growth of businesses such as Taobao Deals and Taocaicai. Our unique value proposition of having both ecommerce and location-based commerce businesses at scale position us well to serve these 1 billion consumers in China.

Second, we are seeing increasing benefits from our development of an integrated inter-city and intra-city logistics network that allows us to offer multiple delivery and fulfilment options to our consumers. This network also allows us to further increase penetration in categories such as grocery, FMCG and consumer electronics in the future.

Lastly, in fiscal year 2022, we had spent over RMB120 billion in technology-related costs and expenses that continue to strengthen our leading position in China’s cloud market, support the sophisticated technological demands of our consumer-facing businesses, and advance our research and development in the next generation technologies.

Now, in terms of guidance, since mid-March 2022, we have seen significant impact to our domestic businesses from COVID-19 resurgence in China, particularly in Shanghai, considering the risks and uncertainties arising from COVID-19, which we are not able to control and are difficult for us to predict. We believe it's prudent at this time not to give financial guidance that is typically provided at the start of the fiscal year.

Looking forward, in fiscal year 2023, emphasizing what Daniel has mentioned, we will focus and execute several key operation principles and financial objectives, including:

First, generate sustainable, high-quality revenue that reflects our ongoing commitments to develop high quality consumers, high-quality digital commerce infrastructure and high-quality technology innovations. We believe these efforts will continue to build strong and durable relationship with our consumers and customers.

Second, we will focus on optimizing our overall cost structure. We will control cost and improve returns for our major businesses that are already at significant scale compared to peers. For growth businesses, we will also optimize spending and, at the same time, identify increasing monetization opportunities that yield sustainable, high-quality revenue. The incremental revenue generated would be invested back into the respective businesses and create value for their customers; thereby, creating a virtuous growth loop to achieve long-term profitability.

At a high level, we will seek to improve gross margin of our direct sales businesses, optimize logistics and fulfillment costs for consumer-facing businesses and control our overall sales and marketing spend.

Third, continue to build an energy efficient cloud infrastructure and a global warehouse and the logistic network that enhance our competitiveness in China and in international markets. At the same time, we expect ongoing improvement in efficiency and utilisation of these infrastructures can benefit both our customers and our own self-operated businesses.

Lastly, we seek to maintain strong operating cash flow generation and a strong net cash position that gives us the financial flexibility to invest in businesses and capabilities that expand the pie and benefit all of our key stakeholders.

We have a lot of work ahead of us. But by being steadfast and executing the key strategic and financial objectives that we have set out, we believe Alibaba will emerge stronger in the future.

Thank you. Now let's turn to Q&A.

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 of the Q&A session. And our management will address your question in the language you ask. Please note that the translation is for convenience only. In the case of any discrepancy, our management statement in the original language will prevail. If you are unable to hear the Chinese translation, bilingual transcripts of this call will be available on our website within one week after the meeting.

Ronald Keung (Goldman Sachs):

(Translation)

Thank you, Daniel, Joe, Toby, and Rob, and congratulations on the resilience that we see in the results.

We can see that CMR revenues were flat. There was a low-single-digit drop in GMV, but CMR was flat. Daniel mentioned that advertising has been performing well. The impact of COVID in April resulted in the 'low teens' drop you mentioned, which should be referring to GMV. How should we be thinking about that gap between CMR and GMV Also, we saw that in May the parcel network has been starting to normalize, so are we starting to see some quarter-over-quarter recovery in GMV or CMR? Thank you.

Toby Xu:

(Translation)

Thanks for your question.

In his prepared remarks, Daniel described the situation in April. As Daniel said, GMV saw a percentage drop in the low teens.

Typically, based on what we've seen in the past, CMR does tend to move in line with GMV. But there can be some variance, in particular because changes in CMR can lag. And this in part is a reflection of the fact that many merchants will need to invest in order to grow their revenues. So that's what we saw in April.

Daniel Zhang:

(Translation)

Let me follow up on the situation in May. Over the past couple of weeks, there has been a resumption of express delivery services, and an easing of the COVID situation in Shanghai, so we are going into a gradual recovery. But overall, it is still going to take some time for all of the outstanding parcels to be delivered. Also, merchants have begun to make preparations for the upcoming 618. In fact, it will be starting right away – actually, tonight. So certainly, we have been seeing signs of improvement going into the month of May.

Eddie Leung (Bank of America):

(Original)

Good evening, guys. Thank you for taking my question. I think you guys started to mention about some of the longer-term initiatives because of the COVID lockdowns. So just looking ahead assuming a reopening, do you see any long-term structural change in your operation, customer demand and product mix after these lockdowns? And what type of investment you need to make to handle the potential changes? Thank you.

Daniel Zhang:

(Original)

Thank you for the question. I think during this widespread of COVID in March and April, we do see a shift of the consumption pattern. And I think after this wave, I think what we see that actually consumers in China, they will tend to have some stocks at their home to prepare for the uncertain situation.

So how to grow, for example, the supply by bulk, and how to give them on-demand but not necessarily speedy delivery, but it's on-demand and on-time delivery, I think it's very important. And for us, I think we are – actually we are actually – we believe we are in a very – we are in a good position which that we have both our national wide, I mean, platform, as well as the leverage by the delivery networks with major delivery partners. But at the same time, we have our intracity and instant delivery, I mean, forces on the ground in all of these major cities.

So how to leverage these infrastructure and enhance these capabilities and capacities is our priority in the future for to support the various needs of the products. So product-wise, I think it's more diversify to the – of the bulk sales for preparation for the future and maybe for the small package just for the instant delivery and for the instant needs.

So it's about the – you need a diversified retail formats, as well as the delivery and the fulfilment network to support both of this. Thank you.

Thomas Chong (Jefferies):

(Translation)

Good evening, and thank you management for taking my question. My question has to do with consumer spending. I'm wondering what changes you've seen in consumer spending within different segments, i.e. high-income, middle-income, and low-income consumers? Are low-income consumers perhaps tending to be more price cautious?

Also, I'd like to know what KPIs you’ve set for this year's 618? And how you see the recovery trend in the second half of the year? Do you think that once logistics issues have been resolved, that will usher in a recovery? Or will we have to wait a bit longer to see consumer sentiment recover before we can get back to normal? Thank you.

Daniel Zhang:

(Translation)

Thank you. Let me take this question. First, in terms of consumer segments, the one billion consumers on Alibaba's retail marketplaces[3] are diverse, spanning different tiers of spending. So, yes, we certainly do see the performance of different consumer groups.

Overall, during this special period of time, what we've really seen is a divergence between spending on essentials versus non-essentials. Across all consumer tiers, demand for essentials has increased across the board, with less price sensitivity given these special circumstances, because basic needs need to be satisfied. In contrast, there has been more price sensitivity in non-essential purchases.

This is also relevant to the other part of your question about the trend for the coming half of the year, because in my view, for recovery and growth of consumption to occur, two things need to happen.

First, as I mentioned in my prepared remarks, merchants, in order to be able to operate sustainably, need stable supply chains and logistics. But at the same time, consumption demand needs to recover.

In order for consumer demand to recover, it's very important that there be strong expectations for the future --- for future income, and future life. Such expectations determine consumer spending. And of course, stable increases in disposable income are also important. These factors determine growth in consumption power, especially beyond essentials like food and daily items. When the original momentum has been recovered in non-essential purchases, that is when consumption will not just have recovered but will be driving growth. So that's a crucial precondition for consumption to contribute to China's GDP growth.

This year's 618 Shopping Festival is just getting started. This is an important mid-year event, and coming out of this recent challenging period, merchants are indeed very excited. They are hoping to leverage 618 to recover some of their losses, achieve good sales, and do good business. So, for our part, we are making active preparations and we are seeing a lot of enthusiasm on the part of merchants in terms of enrolment figures and product listings, which are both up significantly over last year. And because 618 has become a holiday season, we are also seeing consumer enthusiasm building up as the date draws nearer.

From the platform perspective, we will strongly support this event with increased investment. In particular, we have announced many merchant support policies in connection with 618, to help merchants recoup their working capital faster, to accelerate logistics, and to help

[3] "One billion China AAC for Alibaba" was mistakenly translated as "one billion consumers on Alibaba's retail marketplaces."

merchants achieve good sales results in the festival. These are the shared objectives we are working towards together. And of course, we do very much hope to see pandemic control measures continue to be effective, to create better conditions for success.

Jerry Liu (UBS):

(Translation)

Thank you, management. My question has to do with cost optimization. You mentioned that cost control will be implemented across a lot of the businesses. In the coming fiscal year, is it the case that the company's objective is to achieve faster profit growth than revenue growth? Also, what will be the priority areas for cost control? Previously Ele.me was mentioned, and we are indeed seeing a significant improvement there in UE. What will be the major focus areas for cost optimization in the coming fiscal year?

Toby Xu:

(Translation)

Thank you, I'll take that question. First, for the group as a whole, it's very clear that cost optimization has been a priority over the past few quarters, and will continue to be a priority throughout the coming year. We address cost optimization on two different levels. First is at the level of different businesses, where we will be shutting down, merging, or spinning off businesses whose long-term value is unclear. That's the first level.

The second level has to do with each of the individual businesses, where we will identify different objectives and requirements for cost optimization in line with the characteristics of the business. To give you an example, our direct sales business has now grown quite large, and we are now seeking to increase gross margin to achieve better efficiency. At the same time, we are working on enhancing logistics efficiency. The combination of those two things will be an overall improvement in the efficiency of the direct sales business.

More broadly at the group level, another example would be marketing costs. Here again we will be taking a more disciplined approach with specific control measures. In the present period, certain business will be cutting back their spending, in this and other areas. So these are some of the ways we are implementing cost control.

So I've answered your question by giving a few examples. Overall, though, in terms of the other part of your question regarding profit and revenues, we have not set any criteria. But as I stated in my prepared remarks, as CFO, a major priority for me is driving higher operation efficiency, lowering costs, and enhancing efficiency in order to ensure that we have strong cash flow generation and a strong balance sheet. These are priorities for the coming year.

Thank you.

Alex Yao (JPMorgan):

(Translation)

Thank you, management. Daniel, in your script, I believe you talked about incentives or stimuli that may be forthcoming from the government to help consumers, to encourage investment, and to stabilize employment. I'm wondering if you could tell us what aspects these policies will target, in your view, and which businesses are poised to benefit? What costs will Alibaba incur in such a policy environment, and what does Alibaba stand to gain? Thank you.

Daniel Zhang:

(Translation)

Yes, as I said in my prepared remarks, the government has recently issued strong signals on policy measures to stabilize the economy, stabilize employment, and ensure basic livelihoods. Indeed, just yesterday an extremely important national meeting was convened by the State Council to implement thirty-three measures in six different areas. These six major areas include the crucially important area of consumption, as well as ensuring basic livelihoods and the stability of supply chains. These are highly relevant to Alibaba's businesses.

As a representative of China's platform enterprises, and as a constituent part of China's real economy, Alibaba is of course keen to make our due contribution in each of these three areas, i.e. stabilizing the economy, promoting employment, and ensuring basic livelihoods. We aim to help the companies on our platform, especially SMEs, who because of their limited capabilities and scale have been most vulnerable to the impacts of the pandemic. We intend to help them recover faster. Only when SMEs have recovered can more market-based jobs be generated, creating momentum for employment and indeed for development across society.

Alibaba has a fundamental responsibility to contribute to society, at present and in the future, by promoting the development of a digitalized real economy, giving full play to our capabilities in this regard.

Alibaba has been doing everything in our power to support our merchants. As mentioned in connection with the upcoming 618 Shopping Festival, we have launched 25 initiatives in 5 major categories, to help merchants better prepare for 618. And recently during Shanghai's most difficult period, we launched 20 special relief measures to support Shanghai-based merchants. We hope very much that these measures will truly help the merchants on our platform, especially SMEs.

Jiong Shao (Barclays):

(Original)

Thank you very much for taking my questions. You mentioned you just paid the fine for the anti-monopoly sort of new regulation last year. Last year was a year, there were a lot of government regulations that were introduced to the internet industry. Lately as you know, some of the senior leaders from the government made some comments about any further regulation. I was just wondering, could you share with us your latest thoughts about government regulation for the industry, for this year? Thank you.

Sorry, Rob. I was not very clear. My bad. My point was that, for example, what the Vice Premier Liu He said about actually some of the regulations last year, many investors were very discouraged by it. Probably government went a bit overboard. I think Liu He mentioned that perhaps Chinese government should wrap up their regulation or any new regulation and then we move on, and let the industry grow as they should. Sorry if I wasn't clear before.

Daniel Zhang:

(Original)

Well, I think that we all know that recently Chinese government and the Chinese leaders, they shared a very clear message to the market that they want the platform economy to play an important role in the economic development and encourage the healthy development of platform economy. And now I think that the message is clear, and as part of this platform economy in China, Alibaba is committed to fulfil our responsibilities in terms of helping the development, achieve a better life for the consumers and to help the merchants as well, especially in the technology innovation, I think in the core areas. So I think this is what we committed and we will work hard to make substantial progress in all these aspects. But at the same time, we are closely watching the policy development and to make sure we are fully compliant with all our regulatory requirements. Thank you.

Alicia Yap (Citigroup):

(Translation)

Good evening management, and thanks for taking my question. My question has to do with the cloud segment and the short-term and long-term prospects for Alibaba Cloud.

Starting with the short term, apart from the recent impact of lockdowns and the slowdown of the internet sector as a whole, what other factors are there that may be impacting Alibaba's cloud business?

And then in the longer term, after COVID, when the Chinese economy has returned to normalcy, what's your view about how the cloud industry will develop in China? What kind of growth do you expect Alibaba Cloud to achieve?

And finally, we've recently heard some news about restructuring and personnel changes in the cloud business. Could you tell us please about the impact that these changes will have in the short and longer term? Thank you.

Daniel Zhang:

(Translation)

Thank you, I'll take this question. In terms of the cloud business and the recent challenges that have led to a slowdown in revenue growth this quarter, I've already explained and will refrain from repeating here what I've already said.

But I think when it comes to the role that cloud can play in the future of economic development, the key thing is that cloud is critical infrastructure for all industries, as they digitalize and as companies become digital enterprises driven by big data. So all industries present important opportunities for us to serve with our cloud offerings.

So I see huge potential in this market going forward. As I mentioned in my prepared remarks, the forecast is for the cloud market in China to reach RMB 1 trillion by 2025. That implies growth potential for us in the next few years of a three times multiple or higher. So this is a huge, secular opportunity. That’s my first point.

Secondly, in order to capitalize on that opportunity and realize that growth, it’s absolutely crucial to take an industry-specific approach. When we talk about cloud, there are many different definitions out there. Perhaps the one part of that definition that everybody will agree on is the IaaS layer, which seeks to replace traditional IT infrastructure. But to me, the more important opportunity is beyond that, it's when you can deliver cloud computing, big data, AI, and comprehensive enterprise digitalization, all powered by the cloud. And to do that, you need an industry or vertical-specific approach with products that are custom-tailored for different applications in different vertical segments. I see this as critical for the cloud business. It's imperative for Alibaba to be working closely with SaaS service providers and ecosystem partners in all domains to explore these industry-specific opportunities. Only by creating industry-specific cloud products and solutions, will we be able to seize the historic opportunities brought about by the digitalization of all sectors.

Thirdly, apart from that vertical-oriented opportunity, it's also incumbent upon us to take advantage of our market leadership to continue to innovate in the IaaS layer and also in the core PaaS layer, so that we can continue to reap the dividends of technological innovation through economies of scale. The IaaS layer in particular is all about economies of scale, so if we can continue to improve the technology and lower the cost at scale, there's a huge advantage that we can reap there, in terms of consolidating and extending our market leadership.

And then finally, to address your question about the upgrade we’ve made to our team. We have strengthened Alibaba Cloud’s leadership team. In terms of our thinking behind that leadership upgrade, our cloud business last year surpassed the RMB100 billion mark, including services provided internally within the Alibaba Group. So given the scale of this business, it’s grown into a complex system.

So, we’re looking at how to enhance efficiency and make our cloud operations more efficient. And very much in line with what Toby said earlier, looking for ways to drive cost efficiency and cost optimisation, not only in the established businesses but also in the growth businesses. Moreover, we are aiming to deliver an enterprise service offering. So this is the foundation that we need to put in place in order to get from where we’re at today, RMB 100 billion, to RMB 300 or 500 billion in the future.

Robert Lin:

(Original)

Okay. Thank you everyone for participating today. If you have any questions, please reach out to the IR team and myself. And thank you and we'll see you next quarter. Thank you.

[END OF TRANSCRIPT]