

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Thank you, Rob. Hello, everyone. Thank you for joining our earnings call today. We delivered an outstanding quarter for a strong finish to the 2019 calendar year and celebrated three major milestones, especially important to Alibaba. First, we successfully held our 11.11 Global Shopping Festival. Second, we successfully listed on the Hong Kong Stock Exchange. Thirdly, Dr. Wang Jian, Chairman of the Alibaba Technology Steering Committee was the first ever representative from the private sector to be appointed as a member of the Chinese Academy of Engineering.

However, like all the other companies in China, we are confronted with a black swan event soon after the start of 2020, the novel coronavirus. The outbreak is having significant impact on China's economy and may potentially affect the global economy. It will present near-term challenges to the development of Alibaba's business across the board, but at the same time, we will see opportunities created by the forces of change. Before further elaborating, I will share an overview of our performance for the December quarter.

According to the China Ministry of Commerce, total retail sales across China increased by 8% year-over-year in 2019 for a total of RMB41 trillion. Consumption contributed 58% of China's economic growth and accounted for 3.5 percentage points of China GDP growth. Online retail sales of physical goods for the year was RMB8.5 trillion, up 19.5% year-over-year. From these figures, it is clear that consumption has become the major driver of economic growth in China and online retail is the engine driving consumption growth. Over the past quarter, our China retail marketplaces continued to maintain rapid growth in both GMV and user base. As of December 31st, annual active consumers reached 711 million, representing a net increase of 18 million over the previous quarter. Over 60% of new AAC came from less developed areas.

China retail marketplaces, MAU, reached 824 million, up 39 million from the previous quarter. We noticed stronger unit engagement and a buying frequency as measured by DAU growing faster than MAU. This reflects healthy user stickiness on Taobao. Tmall physical goods GMV grew 24% year-over-year further consolidating our leadership position as the top consumer engagement and distribution platform for brands in China.

Our 11.11 Global Shopping Festival set a new GMV record of RMB268.4 billion. This is equivalent to 2.3 times the combined online sales of Black Friday and Cyber Monday in the US. It reflects the strength of Alibaba's digital economy and our Chinese consumers' robust consumption power. More and more merchants are leveraging 11.11 to acquire new customers, launch new products, and develop new categories.

During this year's November 11, 15 brands surpassed RMB1 billion in their total sales, 215 premium brands launched their new products in new categories, and 120,000 merchants each acquired over 10,000 new customers. Our globalization strategy enjoyed solid progress this quarter. Lazada and AliExpress continued to

grow rapidly, as a result of effective strategies in user acquisition and merchant onboarding.

Lazada's quarterly orders increased 97% year-over-year and AliExpress DAU grew by 56% for the month of December. Tmall Global paid GMV grew by 45% year-on-year and continued to consolidate its leading position in China's cross-border import market. And with the ongoing optimization of bonded warehouse import logistics solutions, Tmall Global's end-to-end order delivery time has further improved by 2.78 days, which is a 10% reduction in delivery time compared to the same period last year.

Cainiao Network continued to go from strength to strength. During this November 11, Cainiao processed a record-breaking 1.29 billion number of packages. Of those, 690 million packages were delivered within one week, an improvement of 30% year-over-year, as a result of ongoing platform optimization and the collective efforts with our logistic partners. We also saw a preference for using Cainiao Post, our last-mile service stations in residential areas and campuses. The number of packages collected by Cainiao Post increased by 88% year-over-year.

In November 2019, we invested RMB23.3 billion to raise our equity stake in Cainiao from 51% to 63%. This investment is a demonstration of Alibaba's commitment to the development of a small logistics backbone as one of the core pieces of infrastructure for digital commerce. Alibaba Cloud continued its rapid rise with 62% year-over-year revenue growth. We celebrated two meaningful milestones this quarter. The first milestone is Alibaba Cloud revenue surpassed RMB10 billion in a single quarter for the first time. The second milestone was the successful migration of our e-commerce businesses' core systems onto the public cloud.

During 11.11, our public cloud infrastructure and technology helped us to power the creation of over 544,000 orders per second at peak, processed 970 petabytes of data without any disruption and defend against 6 billion cyber attacks, all within a 24-hour period. We believe the migration of Alibaba's core e-commerce system to the public cloud is a watershed event. Not only will we ourselves enjoy greater operating efficiency, but we believe, it will also encourage others to adopt our public cloud infrastructure.

Now, I would like to speak to the coronavirus situation on three areas. First, the responsibilities and duties that we assumed toward the community immediately upon the outbreak; second, our relief measures to support SMEs; third, the potential challenges and opportunities that we see for the Alibaba's business in connection with the outbreak.

Let me start with our actions related to our community. We took every effort to protect the health and safety of our employees through flexible work policy and remote office collaboration using our proprietary technology. At the same time, we leveraged Alibaba's powerful forces of commerce and technology to deliver supplies to the affected regions. This is our responsibility to our community. Soon after the outbreak, we also began to procure medical supplies from around the world.

To-date, over 40 million units of medical supplies worth RMB468 million are on their way or have been donated to Wuhan and other affected cities. Cainiao teamed up with our global industry partners to launch a fast-track logistics channel that facilitate delivery of over 26 million units of medical supplies into Wuhan and other cities to-date. We also worked to ensure supply of food and other consumables for the residents in affected regions.

Our self-operated grocery chain, Freshippo committed to a policy of remaining open for business, no raising prices and remaining stocked, particularly in the 18 stores across Wuhan. Freshippo became a lifeline for many local residents. Additionally, Freshippo and Ele.me teamed up with restaurant chains to provide free meals and the necessities to the hospital staff in Wuhan and emergency response teams.

Alibaba also contributed the power of our advanced technologies to combat the outbreak. DAMO Academy provides free AI voice chatbot service to government and academic or prevention agencies to efficiently keep a daily health record of those who might have close contact with infected patients.

Our enterprise communication and collaboration app, DingTalk, introduced a digital health check-in feature to help companies maintain up-to-date health monitoring of their employees. To-date, there have been more than 150 million daily health check-ins recorded in DingTalk. Now, about our relief measures in support of SMEs.

Together with Ant Financial, we announced a comprehensive set of relief measures that will fall under six categories. One, reduction of business operation costs on our platforms; two, financial support by waiving or lowering interest rates; three, subsidies for delivery personnel and the raising level of logistic efficiency; four, provisions of flexible job opportunities to guarantee income; five, additional tools for businesses to accelerate digital utilization; six, remote working management for enterprises. We will support our merchants to overcome this challenging time and are taking proactive measures to fulfill our mission to make it easy to do business anywhere.

Lastly, the potential impact on our business. We are closely monitoring the challenge as well as identifying opportunities for Alibaba's business, as the situation evolves. For our e-commerce business, the delay in employees returning to work following the Spring Festival holiday is preventing merchants and the logistics companies from resuming operations.

For the first two weeks after the Chinese New Year holiday, we have observed negative impact on our commerce business, as merchant operations have not returned to normal and a significant number of packages were not able to be delivered on time. In our New Retail business, Freshippo and Taoxianda's average basket size increased significantly as a result of consumer migration to online purchasing of fresh goods, groceries and a broader selection of daily necessities. However, limitations in delivery capacity is preventing order volume from fully recovering.

For the local consumer services, restaurant visits and the food delivery orders declined noticeably year-over-year, because many restaurants have not resumed normal operations. Other categories, like grocery shopping have increased sharply. Our travel booking service Fliggy, received material levels of cancellations for air tickets, hotel reservations and the tour packages. In accordance with government regulations, Fliggy provided unconditional and penalty-free cancellation to our customers.

DingTalk has experienced explosive growth in DAU and a number of corporate users. It is providing business with remote working features to maintain their operation and accelerate their digitalization. In addition, DingTalk also saw increasing popularity over virtual classrooms that help schools and students resume their studies via live streaming classes.

We are closely monitoring the impact of the ongoing outbreak on our business and will take necessary measures to ensure our business operations. Our mission is to make it easy to do business anywhere and we are being tested. True to our mission, we will stand together with all of our merchants to overcome the current challenges and facilitate our users and our communities to fight against the virus. 17 years ago, the e-commerce business experienced tremendous growth after SARS. We believe that adversity will be followed by change in behavior among consumers and enterprises and bringing ensuing opportunities.

We have observed more and more consumers getting comfortable with taking care of their daily living needs and working requirements through digital means. We are confident in the ongoing digitization of China's economy and society and are ready to see the opportunity to build the foundation for the long-term growth of Alibaba's digital economy.

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

**Maggie Wu** – *Chief Financial Officer and Head of Strategic Investments*

Thank you, Daniel. Thank you everyone for joining us. Before we start, I would like to say that our thoughts and prayers go to those families deeply impacted by the coronavirus outbreak. At the end of my prepared remarks, I will also share with you our current assessment of the effects of this epidemic.

So before talking about this quarter's financial results, let me give you a quick summary on this Hong Kong listing. November 26th, we successfully listed on Hong Kong Stock Exchange. We offered 575 million new ordinary shares with proceeds of about HKD100 billion or about \$13 billion. So our shares are multiple times oversubscribed. We view Hong Kong as strategically important to us. So, overall, this is a very successful listing.

So let me review our financial highlights. We had another strong quarter. We achieved the strong results for our core commerce segment, reflecting our strategic

focus on user acquisition and engagement, as well as enhancing product varieties and increasing our offerings of price competitive products.

Mobile MAU were up 39 million, reaching 824 million. Annual active consumer on our China retail marketplace increased about 18 million to 711 million. Over 60% of new annual active consumers were from less developed areas. The increase in consumer growth reflected continuous improvement in our consumer segment initiatives. These initiatives have been well received by consumers, as evidenced by higher purchase frequency for our China retail marketplace business.

When we look at December quarter revenue, our total revenue grew 38% to RMB161 billion. And excluding the effects of consolidating acquired businesses, mainly Kaola, total revenue would still have grown at 33%. The increase was mainly driven by robust growth of our China commerce retail business and Alibaba Cloud. Our operation continues to run efficiently. So when you look at the quarter's cost trends, cost expenses are well controlled, while our business have – continued to grow.

So let's turn to the secondary reports. Core commerce continued to be very strong. Revenue grew 38% to RMB141 billion [Phonetic]. The fundamentals of our China retail business continued to be very strong and customer management revenue grew by 23% in the quarter. This growth was primarily the result of an increase in the average unit price per click and an increase in the volume of paid clicks from improving click-through rates. The growth also reflects strong growth in number of paying merchants during the quarter.

Commission revenue grew by 16% primarily due to strong 24% growth of Tmall online physical goods GMV. So when you look at the growth for revenue and GMV there is a gap and this is primarily because of two factors; number one, more merchants particularly in those strategically important categories received preferential commission rates; second, the revenue mix shift within Tmall Supermarket from commission-based revenue toward direct sales continue to have an impact so like we discussed in the previous quarter.

As you know in our direct sales business, we do not receive commissions from third-party merchants, but rather realize our economics from product margins. The increase in direct sales volume helps us improve our supply chain and operational efficiency for the business.

China retail others revenue this is mainly our New Retail business revenue still growing very strongly 128%. This increase was driven by our direct sales business including Tmall Supermarket and Freshippo Hema. This quarter is also the first full quarter of consolidation of Kaola, which we acquired September 2019.

In the national retail, now let's take a look at the details. So as Daniel mentioned, we experienced strong growth in our global markets. Lazada and AliExpress continued to deliver robust growth in orders and active merchants. Revenue for our international retail business grew 27% to RMB7.4 billion.

The increase was primarily driven by growth in revenue from Lazada. So it's partially offset by slower revenue growth from AliExpress because we deconsolidated the Russian business of AliExpress in October 2019 to -- because we set up this JV with the local partners as we reported in previous quarter. So if you look at the -- OK, Cainiao. The fast growth across other businesses supported the increased adoption fulfilled by Cainiao service. This growth contributed to strong revenue growth for Cainiao. In the quarter, Cainiao revenue reached RMB7.5 billion growing at 67%.

For our local consumer service, revenue grew 47% to RMB7.6 billion. During the quarter, we continued to achieve strong growth in GMV driven by robust order growth and the increase in average order value. We will continue to take a targeted and systematic approach to invest in local consumer service.

Alibaba Cloud. Cloud computing revenue grew at 62% reaching RMB10.7 billion. So this is the first quarter that cloud business revenue surpassed RMB10 billion. The robust cloud revenue growth was primarily driven by increased revenue contribution from both our public cloud and hybrid cloud business.

Let's look at the profitability. In our commerce segment, we continued to generate strong market based core commerce adjusted EBITA, which reached RMB66 billion growing at 22%. Comparing to year ago, we have increased adjusted EBITA by RMB12 billion in absolute dollar amount, while the combined losses in our four strategic areas were all flat year-over-year.

This reflects our targeted approach to allocation of resources and investment in key strategic growth areas while also optimizing costs and improving efficiency. After incorporating these losses, our core commerce adjusted EBITA grew strongly by 26%. Now look at the cloud computing segment. Adjusted EBITA was a loss of RMB356 million. The EBITA margin improved slightly during the quarter. So the loss margin got narrowed.

Our digital media and entertainment segment adjusted EBITA loss was RMB3.3 billion. This loss has been significantly reduced from RMB6 billion in the same quarter last year. Excluding content impairment impacts, EBITA losses would be RMB1.2 billion a reduction from RMB2.8 billion in the same quarter last year. Innovation initiatives, adjusted EBITA for innovation initiatives was a loss of RMB1.9 billion.

Look at the free cash flow and capital expenditures. Our business overall continued to show strong profitability and cash flow. So as of December 31st, cash, cash equivalent and short-term investments were RMB352 billion or approximately \$50 billion. For the December quarter, free cash flow was RMB78 billion, which increased by 52%. This is mainly due to our robust profitability growth as well as a decrease in capex -- capital expenditure. This is a kind of seasonal reason.

Okay. Other financial matters. The share of profit of other equity initiatives in the quarter reached RMB82 billion -- reached -- sorry RMB2 billion, which mainly includes our share of profit from Suning. Under equity accounting Suning completed a



transaction related to their financial businesses that created a one-time gain. In addition, given we received a 33% equity interest in Ant Financial on December -- on September 23rd, 2019, we recorded our share of profits of RMB215 million from Ant Financial for the period of September 24th to September 30th.

As a reminder, our equity account for stake in Ant Financial is on a one-quarter lag basis as in the case of our equity investees. There was no other income arising from our prior 37.5% profit sharing arrangement with Ant Financial during this quarter as it was terminated in September and replaced by this equity pickup.

GAAP net income during the quarter was RMB50 billion up 62%. To reconcile GAAP net income to non-GAAP net income, we made the following adjustments. First, take exclusion of RMB17 billion in investment gains and others. These gains primarily include a one-time gain related to our contribution to the AliExpress Russia businesses into a JV as well as a gain in the fair value of our equity investments.

Second, the exclusion of the additional RMB2.3 billion one-time gain related to 33% equity interest in Ant that we received in September. Excluding these gains and losses and certain other items, our non-GAAP net income would have increased by 56% to RMB46.5 billion.

Okay. So now let's take a look at the -- OK. We've finished the cash flow discussion and that's pretty much other financial metrics and non-GAAP income -- OK. Now, let's take a look at this impact from the recent coronavirus breakout. Okay, so we ended the calendar 2019 on a high note. We successfully listed on the Hong Kong Stock Exchange and delivered strong sets of results in December 2019 quarter. The strong performance continued in the month of January with our major business maintaining solid revenue growth.

As Daniel mentioned in his remarks, some of our major businesses have been negatively impacted in February due to the coronavirus outbreak and the resulting business disruption that followed in most parts of the economy. At the same time, we have announced together with Ant Financial, 20 major initiatives and relief programs to help our customers and partners. While it's too early to quantify the financial impact of coronavirus on our business, I would have -- I would like to provide some qualitative observations on the situation.

Okay. First, let me talk about the macro and how we think about this -- what happened recently. The epidemic has negatively impacted the overall China economy, especially the retail and service sectors.

While demand for goods and services is there, the means of production in the economy has been hampered by delayed opening of offices, factories and stores after Lunar New Year holiday. We, as other -- like other businesses are not immune to this imbalance of supply and demand. However, we see this unfortunate situation as an opportunity to provide value and support to our customers in order to help them recover production and supply capability as soon as possible. Their recovery and

long-term success would translate into sustainable long-term growth for Alibaba Group. This is similar to what we experienced during the SARS outbreak in 2003.

Okay. So number two let me talk about the -- what happened in our business. So Daniel mentioned the operational impact of a serious disruption to supply chain manufacturing activities and logistics so far in February. At the same time, we are supporting our customers by waiving fees and together with Ant Financial, we're providing interest-free or lower interest loans. The situation is to help normalize our merchant operations. Then talk about the impact, because we're only halfway through the March quarter and because of -- there's still uncertain ongoing development of this coronavirus, it is really difficult for us to have an accurate estimation for the full financial impact for this March quarter.

But as of today, what we've seen particularly in the past like 12, 13 days since the starting of February, our overall revenue growth rate we believe will be negatively impacted for March quarter. Some of our businesses that rely on physical means of production on supply side would even show negative revenue growth for the quarter such as China retail marketplace and local consumer services.

Overall, we remain optimistic about consumption growth in China and continue to be confident about our long-term growth prospects. So whatever we've seen right now we believe this is a one-off occurrence. By helping our customers through difficult times we and they will emerge even stronger and we will have greater opportunity to drive long-term sustainable growth.

So that ends my remarks. Let's go to the Q&A. Thank you.

**Rob Lin** -- *Investor Relations*

[Speech Overlap]. Operator, before we start I just want to remind all the analysts that you can ask the question in Chinese or English and our management will respond to you in the language you asked.

With that, operator, let's open to questions.

## Questions and Answers:

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. Our first question comes from the line of Thomas Chong from Jefferies. Please go ahead.

**Thomas Chong** -- *Jefferies -- Analyst*

Hi. Good evening. Thanks management for taking my question. I have a question about the migration to online. Post the coronavirus, would our digitization strategy further speed up given off-line merchants realize the significance of going online and



data insights from our ecosystem? The other question I have is about the synergies with Ant in local services. What are the strategies to further unlock the potential of Ele.me on top of food delivery? Thank you.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Thank you, Thomas. This is Daniel. Let me answer these two questions. For the first one, I think in this outbreak, I think there are many, many residents, many, many consumers they changed their way of living and for many offices, many workers, they change the way of how to work.

So people now work remotely from home. People buy foods, buy fresh products, buy groceries, buy necessities from home. I think this is a very big challenge that -- the crisis is a very, very big challenge to the society, but also as I said in my remarks, give people a chance to try new way of living and new way of work. So I think after all is done, I would expect that this is an inevitable trend that more and more business and more and more customers will have a digital life or digital working style. So this obviously will -- in the long-term will be good for the digital pace of the whole society. And for your second question.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Okay. For the second question, I think local service is a very, very important sector in consumption. So you all know that Alibaba has a strong commitment to this sector and we don't view this as a business, but we think this is a foundation for the consumption. So I think in the previous months, we are happy to have Simon Hu, the new CEO of Ant Financial taking -- also taking the Chairman role of our local service Company. I think which give us a good chance to realize more synergies between Alipay and the local service business.

And Alipay today, starting from a payment tool now is evolving and upgrading to a consumer -- a very strong consumer interface.

**Unidentified Speaker**

[Foreign Speech].

**Thomas Chong** -- *Jefferies -- Analyst*

Thank you.

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Next question?

**Operator**

Thank you. Our next question comes from the line of Eddie Leung from Bank of America. Please go ahead.

**Eddie Leung** -- *Bank of America -- Analyst*

Good evening. I wish everyone well. [Foreign Speech]. Thank you. Good evening. And I'd like to wish everyone well and trust that everybody is healthy. So my question is regarding Tmall and Taobao. We heard both from Daniel and from Maggie that there's an impact on both supply and on logistics being brought about of course by this coronavirus outbreak.

My question however goes to the demand side. I'm wondering if you're seeing any different impact on demand for example in different categories or in different markets. For example, first-tier cities versus the less developed markets, at least from a direction perspective, could you tell us about any impact you're seeing on demand side for example in categories like clothing or white goods or others? Thank you.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Well, thank you very much for your question and also for your best wishes. The answer is yes, we certainly are seeing some relatively large changes in demand in different categories. For example, in the category including food and daily necessities fast-moving consumer goods, we're seeing relatively rapid growth. Of course, part of that growth is coming from the traditional retail sales sector with delivery from close-by shops.

**Unidentified Speaker**

[Foreign Speech]

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Secondly, when you look at categories like clothing and consumer electronics, of course, there's a big challenge there including on the supply side, but also including reduced willingness on the part of consumers to make those kinds of purchases at the height of the epidemic. Of course, I'm confident that that will turn around as the situation improves.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

And in terms of regional differences, one new thing that we're seeing in the face of the epidemic is increased uptake by online users in the lower-tier cities or the less-developed regions of China in terms of going online to purchase daily necessities. And we think in the long-term that would be a favorable trend.

**Unidentified Speaker**

[Foreign Speech]

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Thank you.

**Operator**

Thank you. Your next question comes from the line of Alex Yao from JPMorgan. Please go ahead.

**Alex Yao** -- *JPMorgan -- Analyst*

Thank you management for taking the question, and best wishes to working through the challenging environment. I would like to clarify with Maggie your comment about the financial implication to the quarter from the current situation. Did you say that the business with a strong connection to physical production and fulfillment will be declined specifically, actually you talked about China marketplace revenue will be declined for March, which means your CMR and the commission revenue would decline. So that's the first part.

The second part is if we assume this coronavirus situation is short-lived just like what happened to 2003 from SARS, should we be expecting a V-shaped recovery or U-shaped recovery? Is there anything that prevents the business going back to normal immediately after the situation is gone? Thank you.

**Unidentified Speaker**

[Foreign Speech].

**Maggie Wu** -- *Chief Financial Officer and Head of Strategic Investments*

Okay. Maybe I'll first answer this question on the financial impact and then Daniel could give his view on the shapes your view, OK. I think -- so for financial impact Alex I talked about, so what could impact our financials for March quarter right? There are

two things. One thing is the coronavirus outbreaks impact our own business. The other thing is that we're also offering these relief programs to help our merchants, OK?

So let me talk about overall impact. I said two things. Number one is that we estimated March quarter revenue growth would experience negative impact, which means that the growth rate will come down. It's possible that growth rate come down significantly. We just don't know yet, because this is just mid of February.

And number two, I said that the business in our China retail marketplace these are pricing related, which means China retail marketplace, which means Taobao and Tmall, which is CMR and commission, as well as the local consumer service would likely experience negative revenue growth. So that's to clarify.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

This is Daniel. Let me answer the second question. I think, will it be a U-correction or V-shaped correction is highly dependent on the -- on how long will it take to finish this outbreak. The longer time it takes, I think they will take even longer time to recover, because I think many service sectors are disrupted, I mean during this outbreak. And I think if we can recover as we see in recent days and we should see some good indication in cities out -- in major cities except for Wuhan, I think that takes time to see how quick we recover.

**Unidentified Speaker**

[Foreign Speech].

**Rob Lin** -- *Investor Relations*

Next question, operator?

**Operator**

Thank you. Next question comes from the line of Binnie Wong from HSBC. Please go ahead.

**Binnie Wong** -- *HSBC -- Analyst*

Hey, again best wishes to everyone and hope the situation will improve very soon. My question is actually on the local services. If you look at the loss tracked to core commerce EBITDA right, the line that adjusts for the FX in the losses in the local services, we see is positive to note that the loss margin percentage is actually narrowing. So should we expect similar trends to continue? And I guess in this round

of press release Company especially mentioned that -- Ele.me acquired a 48% of new customers from Alipay app. So can we expect that the competition in local services is rationalizing and then move beyond just like price competition as we see in the last year? That's the number one question.

And second question, just a housekeeping as to we see meaningful operating leverage in the product development expenses. I just want to understand what are the positive reasons we have seen on the improvement? Thank you.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Okay. For the first question for local service -- actually local service business is our long term commitment and we don't manage the business purely by EBITA ratio. We focus on creating the value for both the customers and merchants. So I think today all the sectors, all the service sectors are in the process of digitalizing their business and the consumers are already enjoying their digital lives. So I think we will work even harder try to identify the value for both merchants and consumers and try to give them to create the incremental to them.

**Unidentified Speaker**

[Foreign Speech].

**Maggie Wu** -- *Chief Financial Officer and Head of Strategic Investments*

Binnie, let me answer your second question regarding the product development leverage. So if you break it down the staff cost is mainly the item that brings this average. So basically the growth of this payroll is not as the same growth of -- same pace of the revenue growth. We have been quite aggressively looking for these -- the top data scientists, engineers, etc, but we're -- in terms of this quarter what you've seen is that, since the revenue growth is very strong the recruiting this quarter is -- actually is not at the same pace. We have been recruiting throughout the past quarters. So I guess along with the business growth some of the fixed costs wouldn't grow. This is where the operating leverage will come from.

**Unidentified Speaker**

[Foreign Speech].

**Rob Lin** -- *Investor Relations*

Next question?

**Operator**

Thank you. Next question comes from the line of Tina Long from Credit Suisse. Please ask your question.

**Tina Long** -- *Credit Suisse -- Analyst*

[Foreign Speech]. Thank you. Thank you management. Just a couple of small questions. My first question relates to the information received regarding differences in commission revenue and also in GMV for different merchants in different categories, where preferential pricing was applied. And I'm wondering if that's a one-off thing for the 11.11 Singles' Day Shopping Festival or if that differential pricing is going to be an ongoing exercise going forward? And if you could tell us which categories are enjoying the preferential rates. That's the first question.

The second question has to do with the impact of the coronavirus outbreak. Maggie has already indicated that for the coming quarter, revenue growth is likely to be negatively impacted. I'm wondering, what your thinking is on the cost side of things. Obviously, you have fixed costs that you care too much about. But when it comes to variable costs, non-essential spending things like marketing are you giving any consideration to throttling back there, so as to try to come out with earnings that aren't too badly hit.

**Maggie Wu** -- *Chief Financial Officer and Head of Strategic Investments*

[Foreign Speech]. Thank you. Well, on your first question regarding commission discounts offered in the 11.11 Shopping Festival for different categories, it's true and 11.11 was -- performed excellently this year. Those discounts are being offered to eligible merchants in key categories including FMCG and electronics. And these are merchants who have performed very robustly in terms of their GMV, hitting GMV targets and therefore in line with our commission discount policy they're receiving a discount.

On your second question, as to what we are doing around cost and expenses in the current climate affected by the epidemic. The answer is yes, certainly there are some areas in which we can and will achieve some cost savings. For example by having more off-line meetings and of course reducing travel.

Many of our staff -- management staff, front-line staff are now working remotely from home daily meetings between Daniel and the various business presidents are being held again on a remote basis. And it's a good learning for us actually as a Company because we're finding that efficiency is OK. Operations and management are being well handled even without having physical and face-to-face meeting. So that certainly could be a takeaway for us going forward to do more things online and reduce physical meetings.

So yes, certainly there are some savings in connection with that. But your question is can this help with profit growth? And my answer to that is the profit really comes down to revenue. The most important thing when it comes to profits is revenue and our revenue is being affected in the various ways we've already described to you. So



there will be some savings from the areas I've described. But the other thing to remember is, we have very robust support programs that we've mentioned for merchants.

Probably these are the most robust support programs ever offered by any Company in this market or around the world in the face of such difficult circumstances. And that again will have a negative impact as we said on our profit. So some of the learnings and outcomes will be good and result will improve. But overall that is the situation.

Next question?

**Operator**

Next question comes from the line of Mark Mahaney from RBC Capital Markets. Please ask your question.

**Mark Mahaney** -- *RBC Capital Markets -- Analyst*

Thank you. I too wish you the best. Well wishes. I wanted to ask a broad question about online retail penetration, those in China. Those numbers that you mentioned at the very beginning of the call suggests that perhaps 27% or a quarter of retail activity in China occurs through online channels. I would imagine that there's a big discrepancy within the country. There are some markets where that percentage is much higher and some that is much lower. Do you have a sense of what that range is like? And most interesting is where do you -- how high penetration rates have you seen? How high have you seen online as a percentage of total retail sales get within China? Thank you very much.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

This is Daniel. Thanks for your wishes, and let me answer your question. I think for online retail penetration, we have to look at this from different angles. First, as you said, it's about a region [Phonetic]. And in top-tier cities, today in China online penetration is already quite high, but we do see the growing demand in the low-tier cities.

So, that's why in this quarter we observed like over 60% of the new customers are actually from the less developed areas. So, we are -- we believe that the lower-tier cities even in rural areas because of the penetration of the 4G and going forward 5G and the infrastructure is there. So people can enjoy the same digital life as people are in the urban cities. But let me share with you my thoughts on the second angle, which is the category. I think today even in the popular cities in China, the online penetration by category is quite different. And before this, I mean coronavirus, what

we saw is that -- was that for apparel for consumer electronics, the online penetration is relatively high. But for food category, especially for fresh food, the penetration is low even in urban cities.

But as I said in my remarks, in -- during the past, I mean one month, more and more people are getting used to shopping online for food and for daily necessities. And they may shop from an e-commerce website or they shop from a mobile app operating by a store nearby. And so I think the shop [Phonetic] from home and store delivery or for hub and spoke model delivery, I think going forward we'll be -- have more penetration, I mean, after this outbreak.

**Unidentified Speaker**

[Foreign Speech].

**Rob Lin** -- *Investor Relations*

Thanks. Next question.

**Operator**

Thank you. Next question comes from the line of Alicia Yap from Citigroup. Please go ahead.

**Alicia Yap** -- *Citigroup -- Analyst*

Hi. Thank you. [Foreign Speech]. Thank you very much, thank you management for the presentations and for your detailed thoughts that you've shared on the impact of the current situation. So a few follow-up questions if I may. My first was to Maggie, and in regards to Cainiao, because I don't believe you mentioned Cainiao.

Can we expect that in the March quarter, the growth of Cainiao will also be negatively impacted as you said the China retail market and other businesses will be as a result of this outbreak? And conversely, in the cloud could we expect there to be any benefit there from the epidemic in the March quarter, or would you expect the benefit to be more of a long-term benefit?

And then secondly, I'd like to follow up on the previous question regarding the preferential commission rates that are being offered for certain categories, FMCG and electronics. Were those preferential rates only for the 11.11 Shopping Festival or over a longer period of time and will they continue in the March quarter?

And then finally still on preferential commissions. In the face of this epidemic, will you consider offering preferential commissions for a broader range of categories? For example, fashion, but also other categories and perhaps continuing those preferential rates beyond the March quarter and in the longer term?

**Maggie Wu** -- *Chief Financial Officer and Head of Strategic Investments*

[Foreign Speech]. Thank you for the two questions. I'll start with the question about the impact of the coronavirus epidemic on Cainiao. You were asking whether there could be negative growth there similar to what we've talked about expecting to see with Taobao and Tmall and local services. The answer is that, there is a very real impact on the business of Cainiao as a result of the epidemic, but less of an impact on the financial side of things, and I'll explain why that is. With many couriers not being able to return to work capacity remains very low. It's around 10%-plus less than 20% of capacity availability.

But revenues are not changing that much, despite the situation and this is because we have technology products for which we're now charging fees, as well as good revenue performance from the last-mile services that Cainiao is providing. So this represents an increase in the revenue base for Cainiao compared to last year.

And the second reason is because Cainiao is an acquired Company, so it's not subject to adjustment for intercompany elimination in terms of its cooperation with Tmall, Tmall Supermarket. So for these reasons, you don't expect to see such a big impact on the revenues of Cainiao as on its actual operations.

**Unidentified Speaker**

[Foreign Speech].

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Your second question had to do with the preferential commission policy. So to clarify this is not a new policy. It wasn't new this year and it wasn't just for the 11.11 Shopping Festival. It's there to encourage and reward good merchants with good performance who meet targets defined in the policy. So we will continue to have this policy to reward merchants and we'll certainly consider expanding into new kinds of categories.

**Rob Lin** -- *Investor Relations*

So operator lets have the last question.

**Operator**

The final question comes from the line of Piyush Mubayi from Goldman Sachs. Please go ahead.

**Piyush Mubayi** -- *Goldman Sachs -- Analyst*

Thank you. We sincerely hope that all the families that the Alibaba ecosystem touches are safe. I wondered -- Daniel talked about, I thought an improvement over the last 12 days. Could you just take us through qualitatively what is the degree of improvement we've seen over the 12, 13 days? And I think initially Daniel also talked about the opportunities that get created out of a period like that and I know we

talked about DingTalk and how that seems such a transformation with more than 200 million folks working from home. What are the top three features in DingTalk that have been -- that have proven to be very popular? And how do we see this product evolve in terms of size, scale, MAU DAU for example since CNY? Thank you.

**Rob Lin** -- *Investor Relations*

Thank you Piyush for your kind words.

**Unidentified Speaker**

[Foreign Speech]

**Daniel Zhang** -- *Executive Chairman and Chief Executive Officer*

Thank you. So in the past actually things changed very fast in the past 10 to 15 days. I think, before this week, most of the merchants they are -- they don't have assets [Phonetic] back to work. But I think this Monday, I think in big cities in China like, Shanghai, Beijing, Guangzhou, Shenzhen more and more company's staff they're back to work, partially. And also we see the logistics network start to resume operation, especially in the sortation center, in big cities, in big hub.

So that's why I'm saying that, situations are getting slightly better, but it takes time to back to normal. So -- but I think the key thing is about -- is all about supply, the supplier of the products, the supplier of the delivery, the supplier of the services. And the demand, I think is still there. And we -- I strongly believe that, after the virus leaves away, I think consumers have strong desire to -- because they have been in home for a longtime, and they will go out anyway to consume.

So for DingTalk, yes, I think that, DingTalk experienced an explosive growth during the outbreak. I think we facilitate via DingTalk we facilitated our people to work from home, and to study in the virtual class online. And also we facilitate -- as I said in my remarks, facilitated many companies to do the healthy check-in every day with their employees. And we do -- we have like video conference, like minutes, like the virtual classroom. I think all are very popular among the workers, office managers, office staff, as well as -- and for education sector, we do see very big popularity among the teachers and students, in terms of the virtual classroom.

So we will continue to extend our capacity. And I can share with you like, in the past ten days, we keep expanding our capacity. And -- but we -- but even with the capacity increase we do have -- we have to conquer some difficulties that is in data center. And we may be prohibited to access some data center in some regions, because of the anti-coronavirus. But I think that, things are getting better after many, many people go back to work.