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Alibaba Group Holding Limited (NYSE:BABA) Q3 2024 Results Conference Call February 7, 2024 7:30 AM ET

Company Participants

Rob Lin - Head, Investor Relations

Joe Tsai - Chairman

Eddie Wu - Chief Executive Officer

Toby Xu - Chief Financial Officer

Jiang Fan - Chief Executive Officer, Alibaba International Digital Commerce

Conference Call Participants

Ronald Keung - Goldman Sachs

Alicia Yap - Citigroup

Jiong Shao - Barclays

Kenneth Fong - UBS

Alex Yao - JPMorgan

Gary Yu - Morgan Stanley

Ellie Jiang - Macquarie

Jialong Shi - Nomura

Operator

Good day, ladies and gentlemen. Thank you for standing by. Welcome to Alibaba Group's December Quarter 2023 Results Conference Call. At this time, all participants are in a listen-only mode. After managements prepared remarks, there will be a Q&A session.

I would now like to turn the call over to Rob Lin, Head of Investor Relations of Alibaba Group. Please go ahead.

Rob Lin

Good day, everyone, and welcome to Alibaba Group's December quarter 2023 results conference call. With us are Joe Tsai, Chairman; Eddie Wu, Chief Executive Officer; Toby Xu, Chief Financial Officer. We have also invited Jiang Fan, CEO of Alibaba International Digital Commerce Group, AIDC, to join the call. This call is also being webcasted on the IR section of our corporate website. A replay of the call will be available on our website later today.

Now let me cover the safe harbor. Today's discussion may contain forward-looking statements including without limitation, statements about our new organization and government structure, strategies and business plans as well as our beliefs and expectations about our business prospects such as the future growth of our business, revenue and return on investment.

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. SEC. 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 reconciliation of GAAP to non-GAAP measure can be found in 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.

With that, I will now turn to Eddie.

Eddie Wu

Hello, everyone. Over this past quarter, we delivered steady growth while making organizational adjustments that align with our strategic focus. At the same time, we took a deep look at our core business operations and the competitive landscape. We concluded that to maintain our competitive edge, we increase our investment in core capabilities and adopt a more aggressive approach towards competition in order to win growth. Our top priority is to reignite the growth of our two core businesses, e-commerce and cloud computing.

During the quarter, the execution of our user-first and competitive pricing strategies in Taobao and Tmall Group, TTG was effective resulting in healthy year-over-year GMV growth as the number of active buyers and order volume showed a robust increase. The number of merchants continue to grow at a double-digit rate, and I'll elaborate on the outlook and plans for 2024 in a moment. In Cloud Computing, we're committed to our strategy of prioritizing public cloud. We have proactively optimized our business structure, reduced revenue from project-based contracts and increased investment in public cloud products. These structural adjustments are showing results and Alibaba Cloud's overall profitability capability continues to improve.

We've also upgraded Alibaba Cloud's sales operations establishing different sales and service systems to serve different types and sizes of customers by improving our customer coverage and service capabilities, we will enhance our growth rate. In the International Commerce business, we focused on expanding cross-border offerings and enhancing the shopping experience. This quarter, all of AIDC's retail platforms achieved growth resulting in international digital commerce overall revenues growing at a rapid rate of 44% year-over-year. Cainiao continued to develop its global smart logistics network with cross-border logistics fulfillment solutions contributing to 24% and year-over-year revenue growth as well as realizing strong synergies with the cross-border e-commerce business.

Next, I'd like to share the strategic priorities for TTG in investing and capturing growth opportunities. TTG operates in the world's most competitive e-commerce market, which is China. As we carefully evaluate TTG's competitive position within the China e-commerce market, we note that TTG continues to be number one in GMV share and is the leading platform for consumer shopping. Merchants operate on the platform as their primary place of e-commerce business, and TTG has the deepest and most comprehensive selection of products amongst its peers. However, we must still make targeted investments and improvements in price competitiveness, service and user experience.

Given that consumers use multiple platforms, returning to a user-centric approach is at the heart of our strategy. We'll increase investment in core user experiences to enhance the customer shopping experience. I'm confident that by focusing on delivering the incredible Taobao or universal Taobao experience, offering quality products at attractive prices with great service meeting the different needs of different consumer segments, TTG will earn users' trust and return to growth.

Thus, 2024 will be a year of comprehensive capability upgrades for TTG and also a year of significant investment and we'll be prioritizing investment in the following areas. One, product supply. And we'll increase our investments in growing the selection of branded and products and direct for manufacturer products on TTG's platform. This will further strengthen our product supply advantages to better address new consumption trends and demands.

Two, competitive pricing and efficiency. We'll increase investment into product sourcing capabilities and optimizing business model relationships between merchants and our platform. For different types of suppliers, we'll offer flexible business models that are best suited to improve their operational efficiency and thereby enhance Taobao's value proposition. The competitive pricing we're focused on delivering is attractive prices for quality products. This is a demand that consumers have across cycles and is fundamental to doing business.

Three, quality service. We will work with our merchants and logistics partners to invest in improving the entire consumer service experience including presale, in-sale, post-sale and logistics. For different customer segments on the platform, we will build a consumer service system that accurately identifies and meets the various needs of the different groups.

Fourth, increased purchase frequency. Through the above investments, we will enhance our comprehensive capabilities to offer quality products at attractive prices with great service. We believe that improving the platform's overall shopping experience and service quality will lead to increased purchase frequency and materially improve the efficiency of user growth.

Today, Taobao and Tmall remain the most valuable shopping platforms and the main place for merchants to do business. With the comprehensive capability planning -- building plan for 2024, we're confident that TTG will return to growth.

Next, I'll hand over to Jiang Fan to present on ADC.

Jiang Fan

Good evening, everybody. Over the past quarter, despite the uncertain international environment and more intense market competition, AIDC achieved rapid growth. Total orders grew by 24% year-on-year driven by strong growth across all major retail platforms. Growth in our cross-border business was especially significant.

Our three major growth drivers are; first, enhanced consumer experience as a result of our business model and supply chain services upgrade; second, product and technology innovation; and third, our targeted expansion in priority markets.

Next, I will present our business results and future development plans around these three drivers. First is our business model and supply chain services upgrade. Last quarter, AliExpress achieved year-on-year order growth of over 60%. This was mainly driven by the new AE Choice model that we launched in early 2023. The AE Choice model is, in essence, an upgrade that we made to our original pure platform model into a hybrid business model that combines POP on the one hand with a fully entrusted model on the other and it's underpinned by supply chain efficiency. It optimizes supply on the platform by balancing experience with richness of offerings.

By offering entrusted cross-border logistics, marketing and other services, we lower the barrier for merchants to engage in cross-border business, bringing more certainty to their operations and more diverse assortment to the platform. At the same time, we continue to enhance the end-to-end consumer experience including by providing more stable product quality and more competitive prices by continuing to optimize delivery time and by adding value-added services like local product return.

As of January 2024 choice already made up half of all AliExpress orders. It's a high-quality user experience has driven significant user growth and transaction growth on the AliExpress platform. And going forward, we'll continue to invest resolutely to further increase choice penetration and provide a better experience to more users.

In terms of product and technology innovation, AIDC serves consumers in different countries and regions around the world. We've already optimized products in certain key countries and regions in line with local preferences. These efforts have been highly appreciated, and we'll continue to pursue that kind of innovation and upgrading. We're also actively deploying AI to enhance operating efficiency and lower barriers for merchants. Our suite of AI-based digital foreign trade products have been officially launched, enabling real-time language translation AI and logistics services, rapid generation of images and videos for marketing, et cetera.

Third, sustained growth in key markets. In the last quarter, we achieved good growth in different regional markets. And in certain key markets, A achieved breakthrough rapid growth to become the leading platform locally. In Turkey and neighboring markets, Trendyol continue to achieve robust double-digit order growth and maintained its leading position in the Turkish market. It also further expanded its business in valuable new markets in the Middle East.

In Europe, alibaba.com completed its acquisition of the well-known European B2B digital trade platform, Visable, further expanding its supplier base in the region and further advancing alibaba.com's global expansion and dual brand strategy. There is huge potential for AIDC to increase user penetration in the majority of overseas markets, building on our current resources and footprint, we will increase our investment in select regional markets where we see opportunities and value to achieve opportunities for high certainty and healthy growth.

Going forward, we'll continue to maintain our rapid growth momentum and provide consumers with improved differentiated services. To that end, we'll continue to increase our investments in enhancing user experience and business competitiveness while expanding our business scale.

Toby Xu

Thank you, Jonathan. We achieved a healthy financial performance in the past quarter, driven by steady business momentum and improving operating efficiency in several major businesses. Total consolidated revenue was RMB260.3 billion, an increase of 5%. Consolidated adjusted EBITDA increased by 2% to RMB52.8 billion. Our non-GAAP net income was RMB48 billion, a decrease of 4%. Our GAAP net income was RMB10.7 billion, a decrease of RMB35 billion. That was primarily attributable to change in investment values and impairments.

Firstly, there was a market-to-market change from our equity investments of about RMB19 billion; second, amortization impairment of intangible assets was RMB14.6

billion, of which RMB12.1 billion was related to Sun Art impairments. Third, impairment of goodwill was RMB8.5 billion related to Youku. The above three items were excluded from non-GAAP net income.

As of December 31 2023, we continue to maintain a strong net cash position of RMB487 billion or $68.6 billion. Free cash flow this quarter was RMB56.5 billion, a decrease of 31%. The decrease in free cash flow was attributed to increased CapEx in several onetime factors, including timing of income tax payments and working capital changes related to several of our businesses.

Now let's look at the segment results. Starting with Taobao and Tmall Group. Revenue for Taobao and Tmall Group was RMB129.1 billion, an increase of 2%. During this quarter, we made steady progress to execute our Taobao and Tmall strategies. We observed a few positive trends. As Eddie mentioned, our online GMV achieved healthy growth with order volume growing strongly during the quarter. Notably, the order volume exited double-digit year-over-year growth during the second half of the quarter.

Importantly, we continued our efforts to onboard our wide range of brands and merchants. The number of operating merchants on our platform continued to grow at double digits, and this trend has sustained over the past four quarters. Additionally, we are also seeing strong growth in paying merchants. Customer management revenue was RMB92.1 billion, relatively flat year-over-year. The overall take rate decreased slightly year-over-year mainly because of the increase in GMV came from Taobao merchants. The mix shift of GMV towards Taobao merchants provide us with further monetization potential because the take rate from Taobao merchants has been improving, while Tmall merchants take rate was unchanged during the quarter.

Importantly, this trend also reflects increasing consumer demand of price-competitive products offered on our platform. Direct sales and other revenue increased 2% to RMB31.6 billion. China commerce wholesale business revenue increased 23% to RMB5.3 billion, primarily due to an increase in revenue from value-added services of 1688.com. Taobao and Tmall Group adjusted EBITDA increased by 1% to RMB59.9 billion. The increase was primarily due to the narrowing losses in certain businesses partly offset by the increasing investment in content, user acquisition and retention of Taobao EPP as well as technological innovation.

We are in the process or revitalizing Taobao and Tmall Group and position it for future growth. We are beginning to see early signs of GMV growth recovery driven in part by investment made since earlier this fiscal year. We still have a lot of work ahead. As Eddie mentioned, we will invest for future growth and strengthen Taobao and Tmall Group's market leadership.

Our Cloud Intelligence Group's revenue quality continues to improve as we proactively reduced revenue from low-margin project-based contracts. Additionally, we recorded healthy growth of our public cloud revenue from external customers. Revenue from Cloud Intelligence Group was RMB28.1 billion this quarter, an increase of 3%.

Cloud's adjusted EBITA increased by 86% to RMB2.4 billion. The continuous improvement in our adjusted EBITDA reflected improving product mix through our focus on public cloud and operating efficiency, but enhance the profitability of Cloud business gives us confidence to invest in technology and customers to strengthen our public cloud leadership in the future.

Alibaba International Digital Commerce Group revenue was RMB28.5 billion, an increase of 44%. Revenue from International Commerce Retail Business increased by 56% to RMB23.3 billion, the increase in revenue was primarily due to solid revenue growth from AliExpress, especially Choice business and Trendyol. Revenue from our International Commerce Wholesale business increased by 8% to RMB5.3 billion, the increase was primarily due to an increase in revenue generated by cross-border related value-added services from alibaba.com.

AIDC's adjusted EBITA was a loss of RMB3.1 billion. Losses increased primarily because of the increase in investment in AliExpress Choice, Trendyol's international business partly offset by improvement in monetization across all major platforms.

Overall, we have seen a very rapid order and revenue growth of our AIDC cross-border e-commerce business over the last few quarters. To sustain this momentum and provide differentiated services to customers, we increased the investment during this quarter, and we'll step up investments to drive further growth.

Total revenue from Cainiao grew 24% to RMB28.5 billion, primarily contributed by the increase in revenue from cross-border fulfillment solutions. Cainiao adjusted EBITDA was RMB961 million compared to a loss of RMB12 million in the same quarter last year. The increase reflected economies of scale that leads to cost optimization as well as optimize operating expenditure spending in the coming quarters as a strategic partner of AliExpress.

We will increase investments in expanding our cross-border logistics capabilities to support a Choice's growth. Local services group revenue in December quarter grew 13% to RMB15.2 billion, driven by healthy growth of Ele.me and rapid growth of Amap. Local service Group adjusted EBITDA was a loss of RMB2.1 billion this quarter compared to a loss of RMB2.9 billion same quarter last year, primarily due to the continued narrowing of loss from our two home business, driven by Ele.me improved unit economics and increasing scale.

Revenue from our DME group was RMB5 billion, an increase of 18%, primarily driven by the strong revenue growth of off-line entertainment businesses. Adjusted EBITA was a loss of RMB517 million compared to a loss of RMB391 million same quarter last year. Losses increased primarily due to the increased losses of Youku.

Revenue from all other segments decreased 7% to RMB47 billion, mainly due to the decrease in revenue from Sun Art. Adjusted EBITDA from all other segments was a loss of RMB3.2 billion compared to a loss of RMB1.7 billion in the same quarter last year primarily due to increase in year-over-year loss from Sun Art due to scale down of certain of businesses. Excluding Sun Art, flushable and in-time businesses that have physical retail operations, group revenue would have grown at approximately

8% in our group consolidated adjusted EBITDA margin would have been 4 percentage points higher at approximately 24% this quarter.

Lastly, we remain committed to returning cash to shareholders. We have been consistently buying back shares. In the 12 months ended December 31, 2023, we have repurchased $9.5 billion in shares and have reduced the share account by 3.3% of accounting for shares issued under our ESOP. Additionally, quarter-to-date until February 6th, we have repurchased another $1.4 billion worth of our shares. Our Board of Directors has approved upsize of the share repurchase program by another $25 billion through March 2027, upsizing our share repurchase program demonstrates our strong confidence in our business fundamentals and cash flow generation capability.

Following the upsize, we currently have $35.3 billion available under our share repurchase program. The upsize program will allow us to achieve a net reduction in share count and achieve EPS and cash flow per share accretion. Subject to market conditions, we target to achieve at least 3% in annual reduction in total shares outstanding for the next three fiscal years. Thank you. That's the end of our prepared remarks.

We can open up for Q&A.

Rob Lin

Everyone, for today's call, you are welcome to ask questions in Chinese or English. A third-party translator will provide consecutive interpretation for the Q&A session. Please note that the translation is for convenience purpose 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 transcript of this call will be available on our website within seven working days after the Chinese New Year holiday.

Operator, please connect the speaker and SI conference line right now and start the Q&A session when ready. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from Ronald Keung with Goldman Sachs. Please go ahead.

Ronald Keung

I want to ask about the Taobao Tmall take rate this quarter that we just mentioned a Slide 4 and the blended take rate. You mentioned about the different factors, the mix shift, but also Taobao take rate increase. So, I want to hear what is driving the take rate increase on the specific particularly on Taobao, how is the adoption of our sales base and the cost per sales based shift in our ad tech upgrades and just on the blend of this, then how should we -- when should we expect take rates to stabilize, i.e., the GMV and CMR was to stabilize in the same rate? And how should we think about the long-term take rate potential given that we are still much lower than global peers and I would say lower than quite a few about China peer so the potential there in the near term when to stabilize and long-term potential.

Toby Xu

Okay. Thank you, Ronald. I will take this question. For this quarter, actually, if you look at the overall take rate drop a little bit, as I was explaining in my script, actually, this chart was because of the mix shift, as we can see consumers appetite for relative price-competitive products grow. So that's why we can see the GMV shift from -- towards the Taobao merchants.

This actually is a -- we see the early success of the execution of strategy because as we announced in the earlier of the year, the strategy for Taobao and Tmall is user-centric. So we need to build up the supply for all our consumers particularly for the price-competitive product. So that's why this is a sort of demonstrates the early success of the execution of our strategy.

So for the silly job of the take rate -- overall take rate, we are not too concerned because what we believe is, as I said, for Taobao merchants, the take rate is growing, just like what you said, the overall take rate in our platform is still relatively lower compared with the other platform, which actually shows the big potential we have in terms of increasing some of the take rates via providers, so enhancing the operating efficiency on our platform as well as enable the merchants to be increasing the operating efficiency, which will help us to increase our take rate.

Eddie Wu

Thank you. This is Eddie. I'd like to add to that answer that Toby just gave. Talking on an overall strategic level about how we view the relationship between purchase frequency, GMV growth and take rate and what our strategy is. The strategy that we're executing now is focused on increasing purchase frequency by increasing purchase frequency, we will achieve GMV growth.

On the basis of that GMV growth and once that has been achieved, then we will be developing more advertising products that are highly optimized for SME merchants. At that point, we'll be able to leverage those new advertising products to achieve higher monetization. There's a clear strategy and a plan time-wise in terms of how we're going to approach.

Operator

Your next question comes from Alicia Yap with Citigroup. Please go ahead.

Alicia Yap

Question also relating to strategy for the Taobao Tmall group. I'm wondering if my understanding is correct. And if you could confirm this for me, in my understanding, we're going forward, focusing more on light asset strategy for TTG and as a result of that light asset strategy, we can expect to see an increase in EBITA. Is that correct?

And then my second question is I'd like to know, what is the biggest difference that TTG has in terms of its platform model when compared against other platforms? What's the biggest advantage that we offer to merchants, what's the way that we create more value for merchants than the other platforms do? We know that the short-form video platforms have lots of organic traffic and able successfully to convert that into our purchases of goods. So how is TTG going to traffic and pull back those existing customers?

Eddie Wu

Thank you. This is Eddie. I'll take that. And I think I heard a couple of different questions in there. If I understood correctly, the first question had to do with the revenue structure of the Taobao and Tmall group, revenue comprises two parts, really, CMR, customer management revenue, and then direct sales offering.

The way we look at the business the bulk of our revenue and profits should be contributed by CMR. The purpose of having the direct sales offerings is, firstly, to retain customers to help drive increased purchase frequency and also to achieve an advantage -- a competitive advantage in certain categories. But fundamentally, revenue and profits should be mostly contributed by CMR.

Secondly, in terms of how Taobao Tmall Group is different from its competitors, I think from the merchant perspective, certainly, TTG is the strongest platform with the most robust overall capabilities that it can offer merchants. We have live streaming and other marketing modalities on Taobao that can help to quickly drive purchase volumes for new product launches. Very important for merchants also are the day-to-day marketing operating tools that we offer. And in fact, a lot of purchases, of course, are made via the search function on Taobao.

And of course, we also have a robust private domain tools as well that are stronger than all of the other competitors. So for merchants, all of these different tools and services make it possible for them to achieve very robust marketing and high-efficiency operations. So Taobao Tmall group has the most comprehensive and fuller set of capabilities in these respects.

The other question as to how to retain customers and drive purchase frequency on the platform, as I said in my opening remarks, this is really about precisely targeting the needs of different tiers of customers and ensuring that we have good products at good prices that we provide to them coupled with good services because together, that makes up the core experience for customers relative to e-commerce. So that's how we're going to go about driving increased purchase frequency and growing GMV.

Rob Lin

Thank you. Next question?

Operator

Your next question comes from Jiong Shao with Barclays. Please go ahead.

Jiong Shao

I have a question about shareholder return. It's great you increased the buyback by RMB25 billion. But in terms of the pace of the buyback, we understand there are constraints and the limitations such as capital control. Could you talk about sort of the cash you may already have outside of China? What needs to happen for you, so you may be able to pick up the pace of the buyback? And related to that, any update on the potential IPOs of Freshippo and Trendyol. Thank you very much.

Toby Xu

Okay. Thank you for your question. I will take the first one and Joe will take the second one. For the share buyback and the preparation of the offshore cash, I think for us, firstly, as you can see, we have -- really have a sort of a very strong balance sheet in terms of cash and a certain percentage of the cash actually is sitting offshore, which we can use to do the buyback. On the other hand, we also have a good channel that we can dividend be cash out to offshore that we can further leverage either to make investments in our offshore businesses as well as using those sort of cash to do the buyback.

And secondly, actually, we are sort of like very underleveraged. If you look at the balance sheet, actually, the better is only a very small amount of data. And we can do if we need it, we can increase the leverage also to sort of get sufficient cash for us to do the share buyback. So as I said in my script, we are targeting to reduce -- to have a net reduction of share count at least 3% every year in the next three fiscal years.

Joe Tsai

Okay. I'll address the question about the IPO of Ele.me and Cainiao. So last year, when we announced our reorganization, part of the goal was to make sure that we take steps to reflect the intrinsic value of our various business units in the valuation of Alibaba Group, okay? And there are multiple ways we could do it. And we specifically talked about spinning off companies and raising capital in business units like Ele.me and Cainiao so that we could put a valuation mark on these businesses. But the caveat when we made the announcement was that all these transactions were subject to market conditions. And market conditions currently are just not in a state where we believe we can really truly reflect value -- true intrinsic value of these businesses.

So in the last few months, Eddie and his team have taken a very close look at our core business, and we've come to the conclusion that right now, focusing on generating synergies within the companies in our group will be the best way to reflect the value of the entire Alibaba Group. We're very excited about the potential for value creation through close collaboration among our businesses.

In several areas, we have formed special project teams to ensure synergy creation and we believe prioritizing synergies to strengthen our core business is the best value-maximizing path today. Having said that, we continue to explore value creation through separate financings of our business units, but given the challenging market conditions, as I said, we're not in a hurry on the timing of these transactions.

Rob Lin

Next question?

Operator

Your next question comes from Kenneth Fong with UBS. Please go ahead.

Kenneth Fong

I have a question on investment and return. We recorded on one hand we will continue to invest in TTG overseas area for growth. But on the other hand, in our last earnings call, we also aim to improve the ROIC for the group from single digit to double digit over time. So I want to ask about, let's say, on the numerator front, what are the segments that we see room for improvement in terms of return and then the pace that we should expect? And on the denominator side being asset-light what are the progress and strategy for the disposal of non-core assets

Toby Xu

Thank you, Kenneth. I'll take the first part of your question. As we said, I think as a listed company, I think it's important to improve the ROIC to the investors. So that's why during the last quarter's earnings call, we committed that we will improve our ROIC from single digit to double digit in the next couple of years.

However, the improvement on the ROIC doesn't conflict with the investment we are going to make because making investments exactly is for the growth and for the future return of this growth eventually will also help to improve the ROIC.

What we would be doing differently from previously is that we will be more focused on the core businesses, as elaborated previously by Eddie. So we will focus on only the e-commerce, which is including the onshore and offshore e-commerce business as well as cloud computing. So those are the areas, as I was emphasized in my script, rule-making investments.

Okay. And Joe will cover the -- say from some of the non-core asset investments.

Joe Tsai

Yes. I'll talk about the sale of non-core assets since this is a major focus of the capital management committee and I chair the capital management committee. We're making very good progress on non-core asset sales. So during fiscal '24 to date, so we're nine months into this fiscal year, we have exited RMB1.7 billion in non-core investments, right? And so that's a pretty good pace. And we're very, very active in looking at our listed securities, and we form a special team to execute capital markets, sales transactions to get out of these listed securities.

Now in addition, Toby has referred to this. We have a number of traditional physical retail businesses on our balance sheet, and these are not our core focus. It will make -- it makes sense for us to exit these businesses, but this will take time given the challenging market conditions, but we'll continue to work on it.

Rob Lin

Next question?

Operator

Your next question comes from Alex Yao with JPMorgan. Please go ahead.

Alex Yao

I have a couple of questions on the value return to shareholder initiatives. So first of all, you guys currently have $35.3 billion available in the buyback program, which averaged roughly $12 billion per fiscal year compared to the 2023 calendar year buyback pace, this is a sizable step-up. Do you guys have the real serious intention to step up the buyback or put another way, how do you determine the $12 billion buyback per year is the right number to think about? And then holistically, if we add the buyback and dividend together and call it a yield to shareholders, do you have a target yield for the next couple of years?

Toby Xu

Okay. Thank you, Alex, for this question. I think the short version answer is, yes, we are serious. Of course, if you look at back of our track record, we have been -- in the past few years, we have done a few upsizes of the share buyback program. So if you look at the sort of like track record, we're actually if you like, sort of like exceeded the original timetable, if you like. So that's why, we -- the Board approved another upsize this time. So that's why, as I said, we are serious.

So in terms of how we decide this number, of course, we need to take a few factors into consideration, including our cash-generating capability and also how much cash we do -- we will be able to sort of like generate to get it to offshore. So all these we consider. And of course, as I said previously, the leveraging capability we have. So together, I think we consider a $12 billion is the right number -- around the right number for us to do the buyback.

So in addition to the buyback, for this upsize, the $25 billion, that's only for the buyback. As we announced in the last quarter, we started to pay an annual dividend. So if you like, for the fiscal year '23, including the buyback of $9.8 billion and the $2.5 billion dividend, actually, we're giving back more than $12 billion back to the shareholders. And going forward, we are expecting continued with our cash-generating capability, continue to deliver -- to give back the shareholders the cash as we sort of like committed.

Eddie Wu

Yes, I'd just like to supplement what Toby said, I'll do a little bit of math on this question. Toby has said in his prepared remarks that we are targeting a 3 percentage points per year of accretion per year over the next three years through our buyback program. And that commitment is pretty real because if you look at the past 12 months, we actually reduced our share count by 3.3%. So that accretion is -- we believe, is achievable.

And if you look at our share count, we have about 2.5 billion shares outstanding and 3% is 75 million shares. If we are deploying $12 billion a year to buy back our stock at the current stock price, we actually would be able to buy back even more, but of course, we're anticipating that our stock will increase in price over the last three years -- over the next three years so that we can we could still keep it -- keep our target of 3% accretion per year. So, using the $12 billion a year of buyback with rising stock price, I think it is still reasonable to get to 3% accretion a year. So that's math number one.

Math number two is 3% accretion a year plus a dividend of $1 per ADS. The dividend yield is about 1.4% and so combined with the buyback, accretion and the dividend yield, you're looking at about 4.4%, 4.5% which is actually quite close to the 10-year treasury yield. So if you buy Alibaba stock, it's like you bought a 10-year treasury bond with the upside of stock price appreciation. So that's the math we're looking at.

Rob Lin

Next question.

Operator

Your next question comes from Gary Yu with Morgan Stanley. Please go ahead.

Gary Yu

I have a question for Jiang Fan on international business. Just wanted to see if there is any kind of particular market that we are focusing on and specifically, I want to ask about our strategy in the U.S. regarding fourth quarter e-commerce business, given the geographical rates ahead of elections. And we also talked about potentially stepping up the investment on the international business. How should we look at the level of segment loss in a couple of quarters? And how we're going to fund the investment a bit more individual financing at the AIDC level? Or are we going to tap into more of the kind of offshore financing capabilities at the group level.

Jiang Fan

Gary, your background is quite noisy. Can you repeat your questions?

Gary Yu

Hi. Can you hear me better?

Jiang Fan

Yes, please go ahead.

Gary Yu

Okay. Apologies for that. I'm in the middle of a Chinese New Year dinner. So my question regarding international business and first one is any particular focus in terms of markets for the next couple of quarters. And specifically, what is our strategy in the U.S. market given the geopolitical risk ahead of elections?

And the second question also on International is we talk about stepping up the investment. How should we look at the segment loss in the coming quarters? And how are we going to fund the investment between individual financing at the AIDC level versus tapping into the group -- offshore financing at the group level.

Jiang Fan

So this is Jiang Fan, and I'll take the first part of your question. We can break this out and look at the business in terms of cross-border versus local. So in terms of the local business, over the past several quarters, we've seen very rapid improvement in efficiency and rapid narrowing of losses, and we expect that to continue.

The cross-border business, of course, addresses all markets everywhere. It's a generic business model. And so in determining how we will allocate investments going forward, basically, we look at return on investment. We look at the efficiency of the investments we've made to plan our future investments. In terms of the U.S., we actually do have a business foundation there in 2C and 2B on alibaba.com.

In fact, lots of customers are U.S. customers. So we certainly attach importance to the U.S. market. And we will evaluate whether we will be increasing our investment in the U.S. on the basis I described, looking at the value that we can bring the innovation that we can bring. And of course, in that process, we will also take into consider the various risks that you've outlined.

Toby Xu

I will take on the second question. Basically, you're asking how we are going to arrange the financing for AIDC to get sufficient funding for its investments. So generally, as actually Joe was explaining previously, AIDC is going to do financing. However, we are not rushed to do a financing. So really depending on the market conditions, we will find the right moment to do a financing. So before that moment is coming, actually, what we will be doing is, as I said, we have sufficient offshore cash. We can use those cash to finance business -- finance the sort of growth of our business as offshore.

Rob Lin

Thank you. Next question.

Operator

Your next question comes from Thomas Chong with Jefferies. Please go ahead.

Thomas Chong

I have a question on the Cloud side. Given Eddie is now needing TTG and Cloud, what should we expect in terms of the synergies in coming quarters? And should we expect AI to be a driver to CML? And on that front, given we have a very good margin profile in the December quarter, any color about the long-term margin assumption that we should expect?

Eddie Wu

Thank you. And that's a really great question. Certainly, I see very strong potential for greater synergy between Alibaba Cloud and the Taobao Tmall Group, especially driven by AI. As you know, we've developing our own large language model called Tongyi Qianwen. And we're currently testing ways to leverage this model to leverage the AI capabilities to enhance search and to enhance advertising as well. This initiative is still in the early testing phase, but we see very strong potential to leverage AI to significantly enhance search conversion and add monetization. So as I say, that's still in early testing, but we see excellent potential there.

Rob Lin

Next question, please.

Operator

Your next question comes from Ellie Jiang with Macquarie. Please go ahead.

Ellie Jiang

I just have a follow-up question on the AIDC International unit. The management earlier shared some exciting developments in the overseas market. But it seems like this quarter, the international unit basically saw a very big widened loss to around RMB3 billion, so just wondering, how do we anticipate the investment pace onwards considering certain of the key kind of growing markets such as AliExpress Choice, the hybrid model as well as the Trendyol seems to be still in the very early development stage. So going forward, how do we really evaluate the economics as well as the competitive landscape?

Toby Xu

Well, the loss in AIDC business this quarter really came from three different areas. The first is that the new model, the AliExpress Choice model has grown very rapidly and now account for a very significant percentage of the business overall. At the same time, it's an early-stage business still being developed. It's a business that has very strong scale effects. So our priority is to invest in scaling up the business and where the business has achieved scale, then as it grows, the loss will narrow and the business will become profitable.

The second thing that contributed to the losses this quarter was significant spending on marketing and some major promotions that we did. And thirdly, some investments that we made in the Middle East and other key markets. Going forward, I think that we'll continue to be making large investments in this business, in particular, around Choice. We see very clearly that Choice is delivering a better user experience and resulting in much better user retention than the previous model. So over a longer period of time, we're certain that Choice will produce very positive investment returns. But the priority right now, the number one priority is to continue to invest scaling up the business.

Rob Lin

Next question, final question.

Operator

Your next question comes from Jialong Shi with Nomura. Please go ahead.

Jialong Shi

So a couple of quick questions for management, if I may. First of all, I'm wondering if you could respond to a recent media report saying that the Alibaba Group would be considering selling Alimama, if you could respond to that, please?

Second question has to do with AIDC, can you tell us how big Lazada's business is in Southeast Asia and the impact that you've seen in Indonesia from the team up between TikTok and its local partner.

Toby Xu

This is Toby. I'll take that first question. I don't think there's any need for us to make further comment because we've already addressed that rumor and have stated that that's not true. As far as Alibaba is concerned, Alimama a very important asset for us hyper local segment.

Eddie Wu

Thank you. Well, Southeast Asia continues to be a very important market for us, and there remains significant potential for us to deepen our penetration in Southeast Asia. Our approach is to continue to balance efficiency against growth to continue to work to narrow the losses in the business while maintaining growth

So going forward, our strategy will be to continue to make investments at an appropriate scale to grow in Southeast Asia. As far as the restrictions imposed by the Indonesian authorities, the impact on us is relatively limited because we always abide by regulatory requirements.

Rob Lin

Hello, everyone. Thank you for joining today's earnings call. That concludes our earnings for today. Please reach out to us if you have any questions, and we'll see you next quarter.

Thank you.

Operator

That does conclude our conference for today. Thank you for participating. You may now disconnect.