

CONVERSATIONS WITH MIKE MILKEN



Joe Tsai

Co-Founder and Executive Vice Chairman,
Alibaba Group; Governor, Brooklyn Nets and
New York Liberty

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Mike Milken: Joe, thank you for joining us today.

Joe Tsai: Thank you, Mike. Good morning,

Joe, you launched, with Jack Ma more than 20 years ago, Alibaba. Today, it's one of the world's two largest retailers, and maybe the world's largest eCommerce company, and the most valuable company outside the United States in market cap. You have 100,000 employees of which more than 90% of them are located in China or Hong Kong. For listeners who might not be as familiar with Alibaba as myself, could you give us a brief overview of Alibaba?

Sure, Mike. The Alibaba business today is mainly an eCommerce business with online retail spanning multiple categories – so we're a multi-category e-commerce platform. There are over 10 million small merchants that are doing business on our platform. Over 700 million annual active consumers – that means someone over the last 12 months who

bought something on our platform, and most of our business is based in China, so mostly Chinese consumers.

We also have an enterprise business not unlike Amazon Web Services. Over the years we've developed a lot of proprietary technology to run our own business, and we decided to open that up to serve other companies. Today it is the largest cloud computing business in China, with about 45% market share.

We also are in a number of businesses including online grocery as well as physical grocery stores, and we are in food delivery and have an online entertainment unit, which is one of the top three online video companies in China. So in a nutshell, that's our business.

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Joe, I visited your headquarters in September, visited some of the food stores – a very vibrant environment, employees energized, working. When the outbreak of the coronavirus first hit China, what happened with Alibaba and how did your team respond?

We had the experience of SARS back in 2003. One of our employees was one of the four cases in Hangzhou that was detected with SARS when she came back from a trade fair in Guangzhou where the outbreak originated. The government put us under quarantine very quickly, so we made sure that each of our employees were set up to work from home. And back then, if you can recall, there was no mobile, there was no laptop computers. We were lugging desktop computers and large monitors home from the office.

So fast-forward to a couple of months ago when this outbreak started, in January. We shut down our offices very quickly and asked people to work from home. We also made sure that our employees are safe. We do have employees in Wuhan, mainly in the grocery business. We made a commitment to keep those grocery stores open so that they could serve the community.

So you could say that we've had a little bit of experience with remote working. Obviously today, very different from 17 years ago. We now have modern mobile communications platforms. I think one of the most important things is to make sure that we keep our commitment to keep our business open so the online platforms are open. We were hampered in January and February by the slowdown in the logistics network

because people were just not on the streets delivering packages for us, and that's how our business was affected by that. But now we're seeing a recovery to normal.

Joe, in many ways, the nation off China is highly dependent on Alibaba for food delivery, whether it be from restaurants, your grocery stores or other sources. What happened as the country was shutting down?

When the country shut down the restaurants went down as well, so we lost a source of food with kitchens closed, but our grocery stores remain open. We have about 170 grocery stores spread across various big cities in China. We have a few of them in Wuhan as well, and we made a promise to keep them open. Normally our grocery store, if you can imagine, you could walk in to buy

groceries, but you could also order from online, and it was designed that way. And normally we'll get orders 50/50 between the foot traffic and online orders. But during lockdown, 90-plus percent of the orders came from online, and we had to ramp up our delivery force. We have about 15,000 of our own delivery people, but we also leveraged a crowdsourced network of people on motorbikes to deliver.

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When the public transports shut down, the buses weren't running. So, we worked out an arrangement with the government for the buses to pick up grocery bags at the stores and we would send them into communities where we would unload the bags in a common area and then the residents will come out of the communities to grab their grocery bags. So that worked out really well.

Let's switch our discussion to China reopening. How did you handle it at your company, and what has been the experience?

When we reopened, we were very tentative about letting people back into the office, so everybody had to follow strict protocols. Number one, they take your temperature. Also, you have to show your health code, which is attached to the Alipay app. It'll show a green, yellow, or red code; basically it reflects a lot of data – where you've been, who you've been with, and if you show a green code you're free to pass.

We also require employees to wear masks. We give employees two masks per day. There's also a lot of social-distancing practices, both in the cafeteria and also elevators. Normally when you walk into a cafeteria, you see people sitting at the same table dining together, but now if you go into our cafeteria, it's like an SAT test site. Everybody sits at

their own desk and practices appropriate social distancing. We have to do the lunches in batches of time to make sure we don't have a traffic clog up. A lot of these practices have to be strictly enforced. Unfortunately, people have that high sense of awareness of how bad this can get. So by and large, our employees follow these practices.

You spoke about elevators. How do you get social distancing in an elevator?

You walk into an elevator, on the floor there's a tic-tac-toe or just a cross. I think we have larger elevators that can fit nine people in the tic-tac-toe box or smaller elevators you see across, so it'll fit four people. That's how we enforce, and we ask them to try not to face each other and all of that. It's kind of amusing, but under the circumstances you have to do that.

What can Europe, the United States and other countries learn from China's success or difficulties? One of the things I know for sure is, talking to doctors and hospitals, they often tell me they've benefited greatly in treating patients here in Europe and the United States based on China's experience. What can the world learn from both China's success and maybe failures in dealing with this virus?

I think people look at China as sort of at the tail-end of coming out of this crisis. We also have to recognize that there were a lot of missteps. I don't think anything was intentional because there was so much to know about this COVID virus that people were very confused. They were getting confused data points and things like that.

We see that in this country as well, where government leadership, both federal and state levels, have to grapple with conflicting information and data points. Still today, the

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biggest complaint I hear is that there's not enough data to tell us what to do. In China, in the early days of the outbreak, there was a lot of confusion, but I think the central government stepped in to start to impose some draconian measures like the stay-at-home restrictions, and distancing, everybody wearing masks.

China doesn't publish testing data, but our estimate is that there is at least 20-25 million tests that have already been done of the population. Testing is a very important

element because it will inform us as to whether and when to open up. If you open up and you cannot detect, trace and isolate infected patients, then it's going to be a disaster.

You talked about hospital practices. The Jack Ma foundation has published a handbook of best practices collected from the doctors and nurses in the top hospital in Hangzhou which is in Zhejiang province and affiliated with Zhejiang University. That report is available on the website. [<https://covid-19.alibabacloud.com>] I think that's going to be very helpful.

You spend considerable time in the United States, and over the last year or so you've bought one of the leading professional basketball teams, the Brooklyn Nets. One of the last basketball games played before it was shut down was the Nets versus the Lakers in Los Angeles. You had a few players who came down with the virus. Can you talk about that experience as an owner of a sports team?

It was a surreal two days. It was on March 10th. The Lakers played the Nets at Staples Center, played to a packed house. By the way, the Nets won that game. We were there at the game. We were a little bit apprehensive about the virus, but nobody had this kind of heightened awareness as we have today.

After the Lakers game, they were going to play the Golden State Warriors. They went to the Bay area and after they landed they learned that the game's going to be canceled. We made very quick arrangements to get the team back to New York City. On the plane back – I wasn't there, but I will relay to you what our GM told me – on the plane back, there was a lot of anxiety, and every player wanted to get tested. So when we got back to New York, the first thing we did was we had some players that were living with family members that we would consider high-risk because they had preexisting conditions. We isolated them from family members because family spread of COVID virus is like 75% of the infections.

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We then took the measures to get all of our players tested. We paid for the tests ourselves through a private lab, so we didn't take public resources away from the general population. And sure enough, a few days later when we got the tests back, four of our players tested positive. We didn't release the names other than Kevin Durant who has a huge fan base. So he directly reached out to his fan base to tell people that he was infected. Now everybody's fine. People have gone through several weeks of quarantine and all of our players are healthy.

Over the last few years, both you and Claire have been active at our Milken Institute events, whether they be in Singapore, Los Angeles, or any place else in the world. Early

on, I know both of you were struck by the challenge in New York city to get masks, to get ventilators, with the surge occurring. What did you and Clara do, and what did you learn from that experience?

Yeah, I got to give my wife Clara a lot of credit for this. Clara started to talk to some of her friends in New York, people who sit on hospital boards, hospital administrators. She said, Joe, there's going to be a big surge of cases and the hospital system is going to be under strain. The most important thing is that we need to protect our frontline healthcare workers because the healthcare doctors and nurses get sick then nobody's going to be able to take care of the patients.

And that's when we realized that personal protective equipment (PPE) was important and there's the hospital system in New York was going to face a big shortage of PPE. So we started to work through our contacts in China with suppliers that were producing masks, gowns, gloves, goggles, things like that, to bring PPE into the United States. I also want to thank Jack Ma because through the Jack Ma Foundation they were able to put us in touch with several factories and we were having direct conversations with these factories.

This was also at a time when China started to put in some export restrictions because they were worried about the quality of the materials that was being sent out from China. One of the big challenges was also getting through U.S. Customs because medical supplies have to get through FDA approval. So there was also another ball of wax there to get through. There's a lot of effort going into this.

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This was one of the few philanthropic projects where my wife and I worked very closely together and we got personally very involved. Because normally in philanthropy you have a team of people that help you, and you stay at the strategic level, but this was an emergency situation and we were on the phone all the time calling people, making sure that the supplies can come in. It was quite an experience.

You have three children, one in college, one getting ready to graduate in year or so. How has it affected your family and your family interactions?

It's been extremely positive. I travel quite a bit. I'm always on the road and also traveling in different time zones between Asia and the United States. So over the last two months I've had the opportunity to see my wife and kids every day. So we have sort of settled into this routine. During the weekdays the kids are going to school online, so they kind

of lock themselves in the room, but we always have that moment toward the end of the day, in the late afternoon. I'll do a basketball game or some backyard activity with my kids. And then we sit down for dinner every night. It's been great. It's been great for the family. Also having an opportunity to work very closely with Clara on something that's not family-related, but it's on this pandemic relief, that was really a good experience.

Joe, I want to thank you for joining us today. I also want to thank you and Clara and your family for your support of our frontline workers during the crisis here. And I want to wish both you and Clara and your entire family good health.

Thank you Mike, and I want to wish you good health as well. Please stay safe and we'll get through this.
