



iQIYI IPO Filing Summary

March 2018

Sign Up For Additional Research From Evolution Media Capital



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Platform Features Popular Original Content And A Comprehensive Selection Of Partner-Generated Content

PRODUCTION

- Established a proven approach to producing original blockbuster content through their large pool of in-house creative talents who incubate original ideas
 - **Collaborate closely with IP owners, authors, screenplay writers, performers, and other partners in the content creation process**
- **Proven capabilities of adapting a single popular work into a variety of entertainment products**
 - Amplifies the popularity and monetary value of the original work
 - **High-quality IP has been expanded to online games, animations, online literature, and derivative merchandise**
- **Intend to allocate 25% of the IPO net proceeds towards original content production over the next three to five years**
 - Focusing on consumption preferences of millennials and younger generations

LIBRARY

- **Content library includes over 70,000 titles covering more than 30 content categories**
 - Includes drama series, variety shows, films, kids programs, documentaries, animations, and sports programs
 - Platform featured 42 out of the top 50 most popular drama series, variety show and film titles streamed on the internet in China during 2017
- Have released 141 titles of original internet drama series, internet movies, variety shows and other programs with over 74 billion video views
 - **In 2017, their original content accounted for 5 of the top 10 original internet variety shows and 6 of the top 10 original internet drama series in China**
 - Self-produced rap reality show, *The Rap of China* has generated over 3 billion video views

PARTNERS

- **Collaborating with leading global premium content providers, including the “Big Six” Hollywood production studios, top TV networks in the U.S. and Netflix**
- **Plan to invite renowned production companies to competitively bid for roles in producing their most popular internet drama series**
 - Payment will be in the form of a guaranteed fee plus revenue sharing
- **Intend to allocate 25% of the IPO net proceeds towards the expansion of non-original content offerings**
 - Focusing on long-tail and new media format content in order to develop a diverse content universe

Premium content attracts a massive and engaged user base which generates significant monetization opportunities

Diversified Monetization Model Captures Multiple Opportunities Arising From The Growth Of Online Video

MEMBERSHIP

- **Expanding from a single membership package into a multi-layer subscription system**
 - Right now, memberships cost \$2 - \$3 per month depending on the device and length of subscription
 - **Starting to offer subscriptions for specific content genres, such as Anime, Comic, Games and Novels (ACGN) and sports**
- Benefits of membership includes the following:
 - Early access to certain drama series aired exclusively on iQIYI platform
 - Access to over 10,000 films, including the vast majority of films released in theaters in China, internet films exclusively aired on iQIYI, as well as popular foreign films
 - **Coupons and discounts on on-demand films, as well as special privilege in offline events, such as exclusive access to live concerts**

ADVERTISING

- Advertisers are drawn to the platform because of the size of the user base, its attractive demographics, and the level of user engagement
 - Plan to upgrade advertising technology capability to drive online automated advertising service purchases
- **Most advertising services are in the form of brand advertising**
 - Collaborating with Baidu to strengthen targeting capability to increase the effectiveness and efficiency of the advertising campaigns launched
- **An increasing portion of advertising services are in the form of in-feed advertising, which was launched in the fourth quarter of 2016**
 - Innovative advertising format that enables advertisers to tailor their advertisement based on target users' profile

DISTRIBUTION

- Distribute selected original content titles outside of China and to TV stations in China
 - **Since inception, have licensed video content titles to third-party platforms in more than 30 countries and regions**
- Distribute video content licensed from third parties by sub-licensing such content to other third-party internet video streaming platforms
 - Receive either cash or the right to distribute on its own platform certain licensed content from such platforms

OTHER (IP)

- **Increasingly focused on securing rights other than merely distribution and online streaming rights**
 - Acquire other forms of copyright such as rights to adapt the original content into online games, films, drama series, animation and other entertainment formats
- Developing various forms of entertainment content based on popular IP has become an important trend in the internet video industry in China
 - Can achieve synergy among different content formats around the same IP
 - **This monetization model is still at an early stage in China, compared to the robust monetization ecosystem in developed economies such as the United States**

Becoming less reliant on advertising by focusing on improving paying user conversion rate and monetizing IP off-screen

iQIYI Leverages The Tech Capabilities Of Baidu To Differentiate Its Platform

BAIDU

- After the IPO, they expect to operate as a subsidiary of Baidu, as it will continue to be the controlling shareholder
 - As the business continues to grow, they expect to rely less on financing support from Baidu
- **Enjoy significant business synergies from complementary content offerings for users and cross-sale of each other's services**
 - Baidu will not compete with them in providing similar long-form video businesses
 - **Close cooperation in AI technology, user traffic and infrastructure sharing allows them to strengthen market positions**

TECH

- **Distinguish themselves through their platform powered by advanced AI, big data analytics and other core proprietary tech**
 - Critical to producing content that caters to user tastes, and improving operational efficiency
 - **Intend to allocate 10% of IPO net proceeds towards technological innovations to better serve the ecosystem**
- **Sophisticated advertising technology tailors advertisement distribution based on user behavior and content label**
 - Results in higher level of engagement and return-on-investment, while maintaining user experience

INTERNET VIDEO GROWTH

- **China has the largest internet user base in the world, with 765m internet users, including 752m mobile internet users**
- **Internet video platforms are increasingly functioning as key aggregators and distributors of entertainment content**
 - Provide wide range of content verticals that cater to different users, effectively competing for a greater share of users' time
 - Powered by AI and big data technologies, they can deliver more customized entertainment experience
 - Enable users to conveniently post, view and share videos, providing an interactive and engaging user community

FRAGMENTED MARKET

- Leading internet video platforms in China benefit from a highly fragmented content production ecosystem
 - **Provides such platforms with greater bargaining power in procuring quality content and expanding content libraries**
- **Unlike in the U.S., traditional TV networks in China are typically separated and distinct from content producers**
 - **China has over 2,000 TV networks and over 14,000 (largely independent) video content production studios**
 - The top 50 video titles aired over the internet in China were produced or co-produced by 81 different studios

PAOPAO

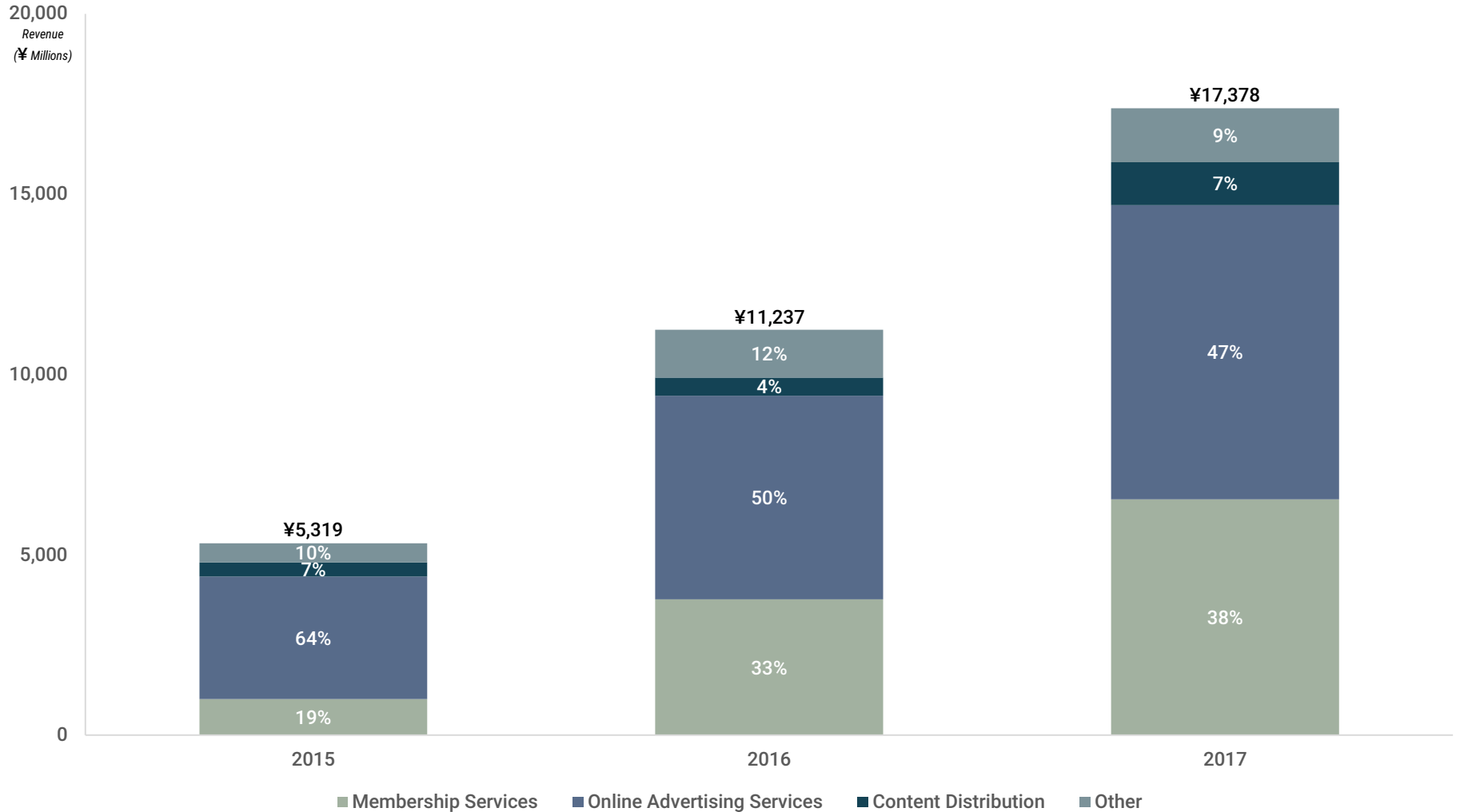
- iQIYI Paopao is a social media platform for fans to follow and interact with celebrities and the entertainment community
 - **Key publicity platform as they frequently hire celebrities to help attract/retain users and boost the content's popularity**
 - Enhances user engagement and stickiness as Paopao users launch the iQIYI app more frequently and stay on for longer
- **Paopao had approximately 45.8 million average mobile DAUs for the three months ended December 31, 2017**
 - User data enhances behavior analysis, content procurement and personalized recommendations

In a highly fragmented market, it will be vital to utilize data to target and personalize content to each user

Key Data

Revenue Mix

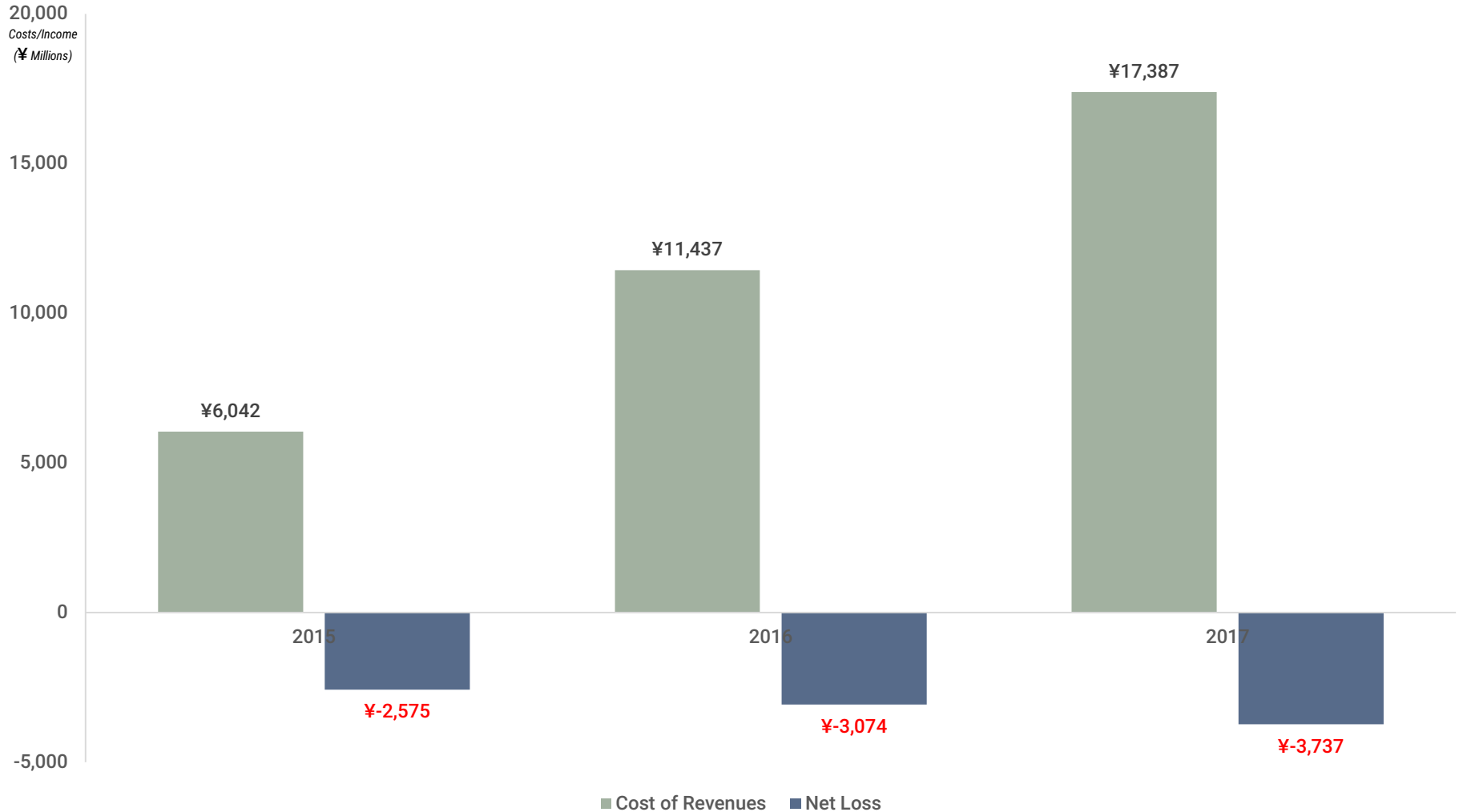
Membership And Advertising Generate A Substantial Part Of The Company's Revenues



Plan to strengthen revenue contribution from IP through licensing, games, and e-commerce

Content Costs

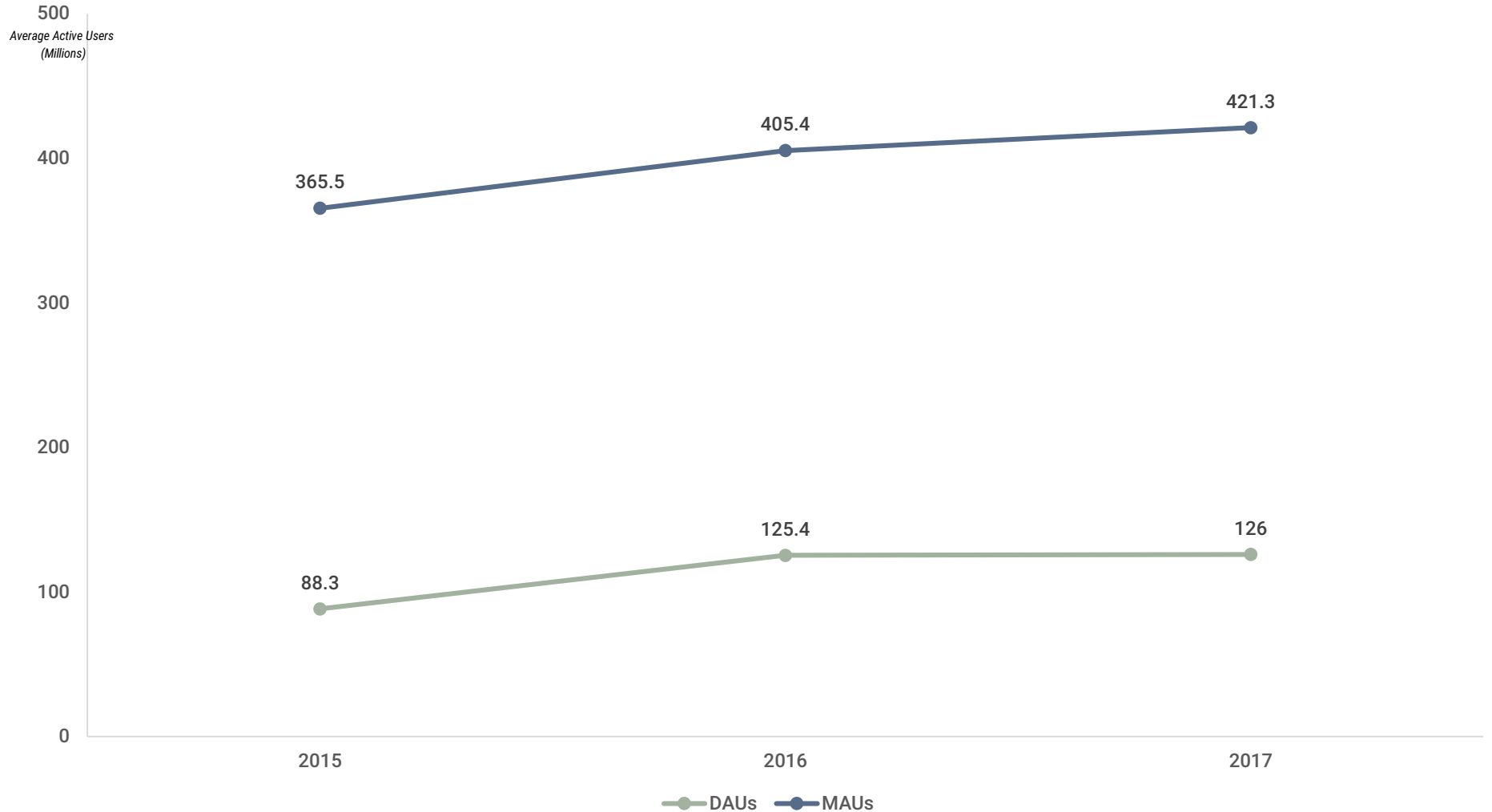
Further Investments Into Premium Programming Has Resulted In Greater Content Costs



With financial backing from Baidu, the company can afford to focus on customer acquisition

Mobile Users

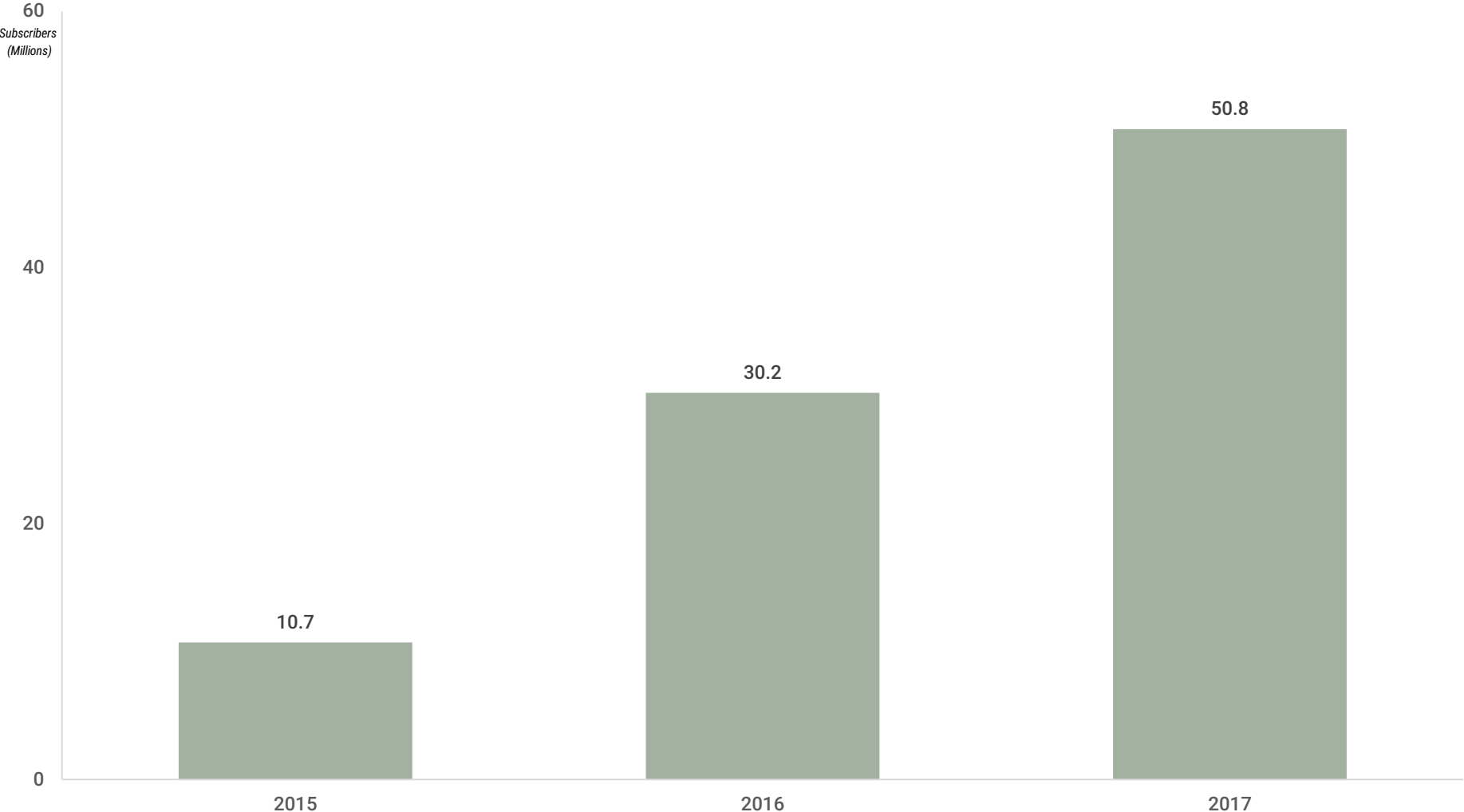
The Social Features Embedded In The Service Help Drive Engagement From Users



As a mobile first platform, it is poised for accelerated growth in the forthcoming 5G era

Subscribing Members

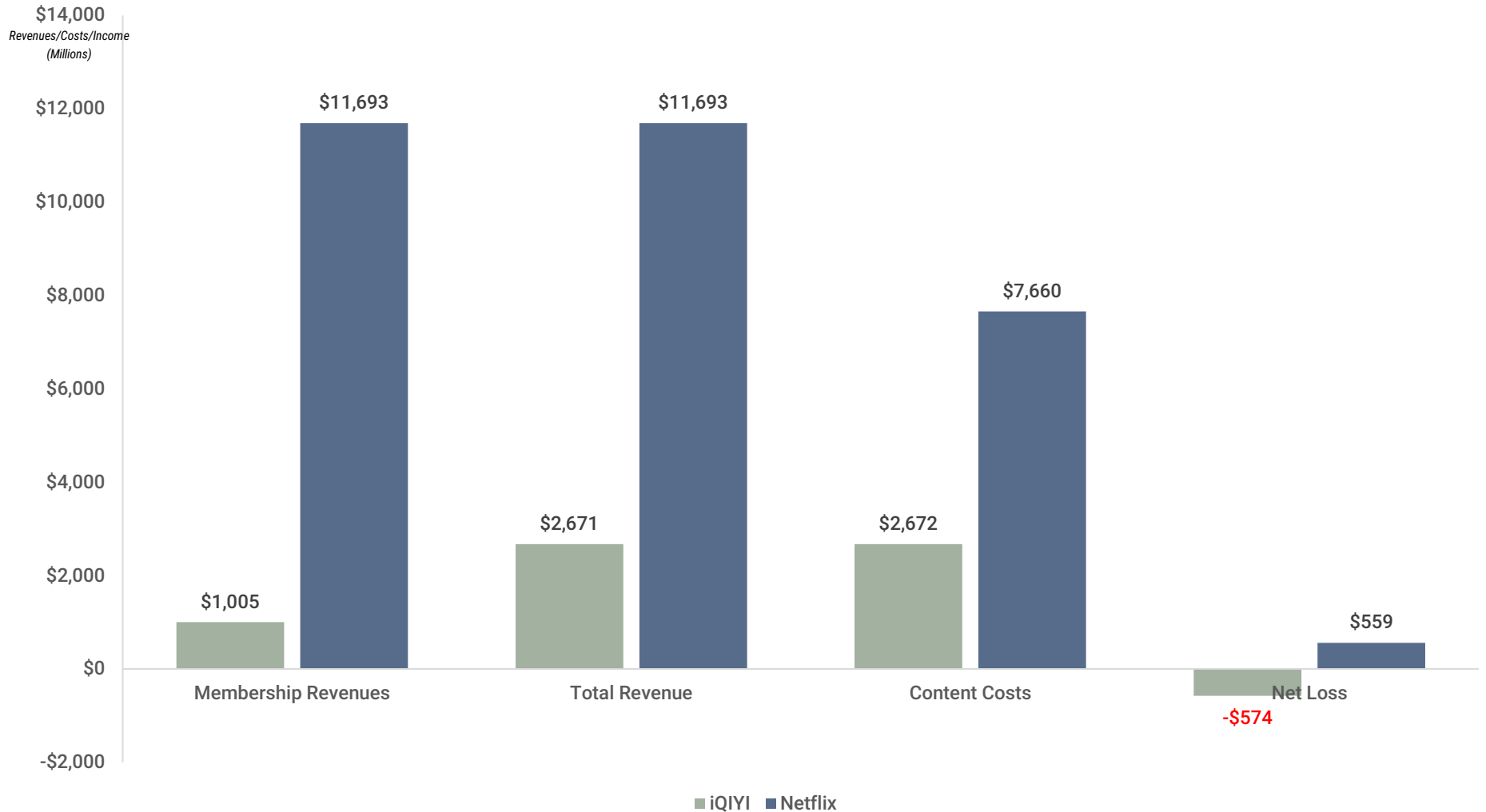
The Membership Model Is Still At An Early Stage Of Development In China, Relative To The U.S.



While international growth will be tougher, there is plenty of runway to expand domestically

Netflix Comparison

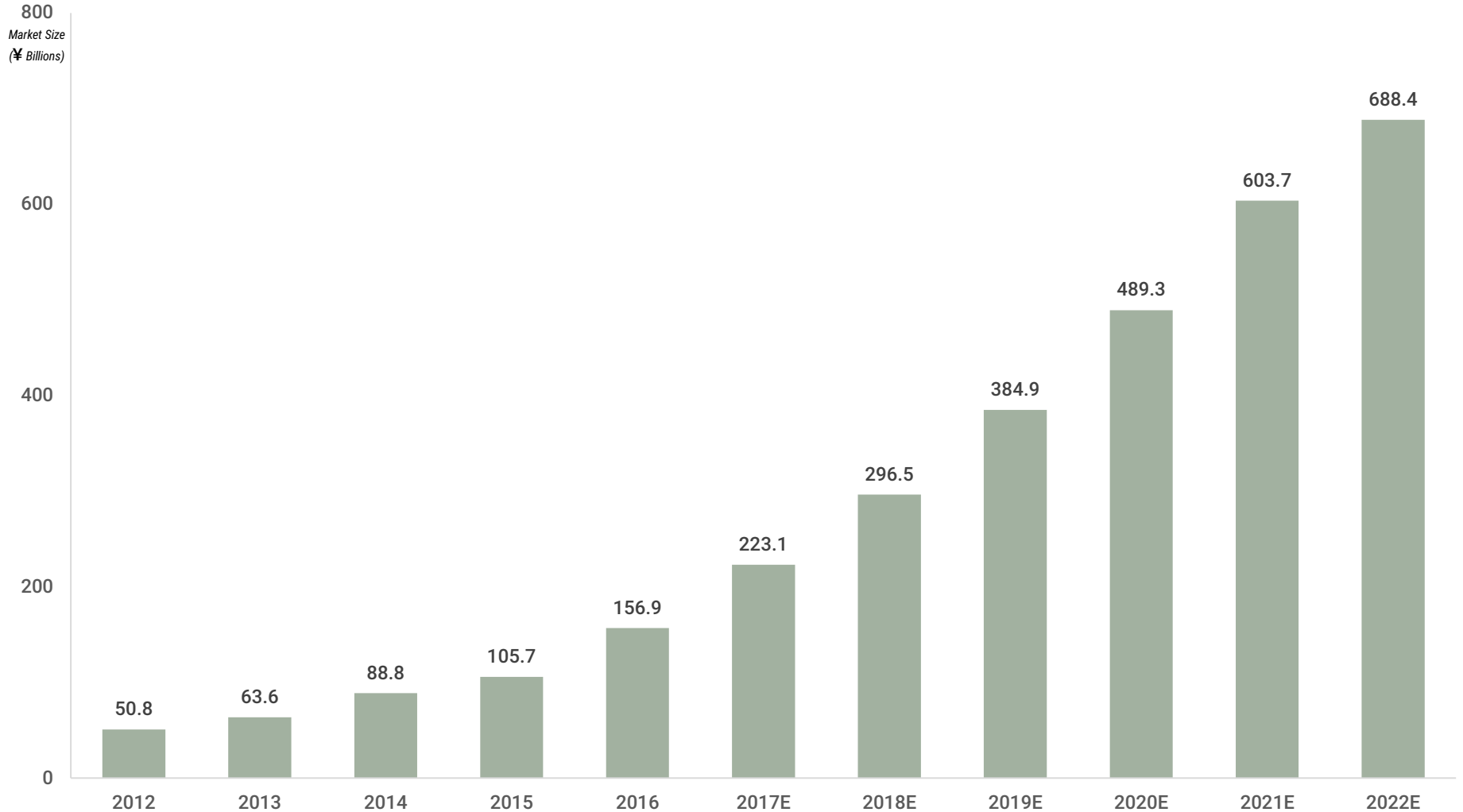
With A Focus On Streaming Premium Content, It Is Easy To Make Comparisons To Netflix



Its main advantage over Netflix is its access to the massive online population in China

China Online Entertainment Industry

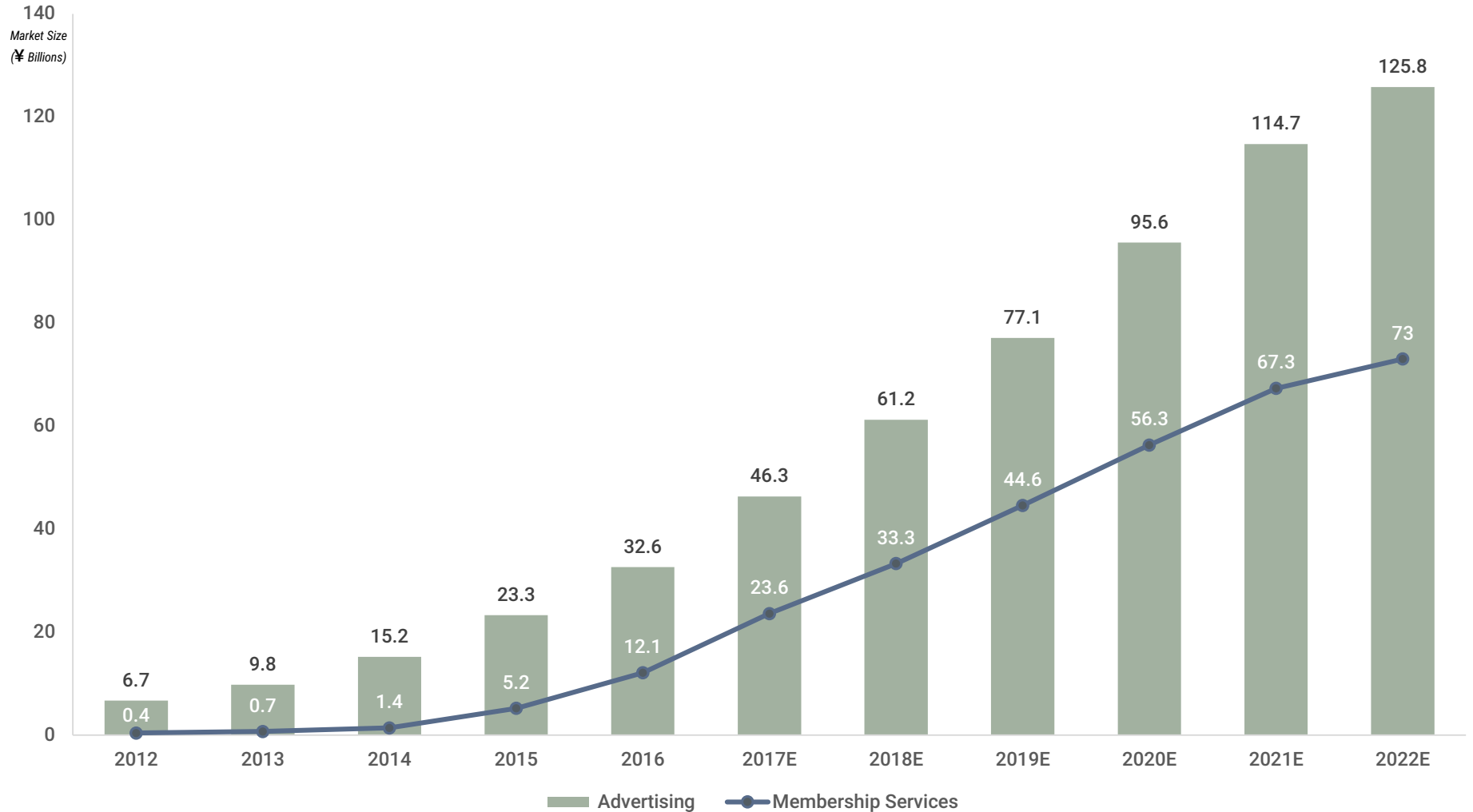
Consistent With Global Trends, Chinese Consumers Have Been Transitioning To Online Entertainment



Last year, the daily time spent on internet video per device in China surpassed that in the U.S.

China Internet Video Industry

Chinese Consumers Are Increasingly Willing To Pay Fees To Access Premium Content And Quality Services



Many large companies still allocate most of their advertising budget to traditional media, particular major TV stations