



iQIYI (IQ) 2018 Q2 Earnings Summary

August 2018

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## iQIYI Is Investing Heavily Into Premium Original Content In Order To Grow Their Subscriber Base

### MEMBERSHIP

- **The most important driver of membership growth is their premium content**
  - Let members access the content first to have some privilege, to enhance their experience, and then release to the free users
- **Trying to grow the membership base as fast as possible, but for now, ARPU is not the primary goal of membership service**
  - Joint membership program with JD.com has been very effective in terms of driving growth of annual subscribers
  - Have a number of other cross-industry collaborations in place to broaden both parties' targeted subscriber visits

### ORIGINAL CONTENT

- **Continuing to invest into original content over the next few years because it will bring much better benefits in the long run**
  - Content cost is somewhere between 70% to 80% of the total revenue and expect it closer to 80% for the rest of the year
- **The majority of content costs are coming from 2 components – drama series and variety shows**
  - For variety, there has been recent regulations limiting the high compensation that they can pay to the celebrities and stars
  - For drama series, there are no regulations in place, but iQIYI, Youku and Tencent, published a joint declaration for limitations on compensation

### LICENSING

- **Distribution business creates a second window for traditional TV airings following the premiere on the online platform**
  - Will help bring in additional users and traffic by increasing the influence of the content
- **Content distribution will be a very important revenue source as they build up their library of content**
  - Trying to utilize all the content that they have to efficiently manage what's kept exclusively online
  - Being very cautious about what/how they monetize on TV and other media platforms

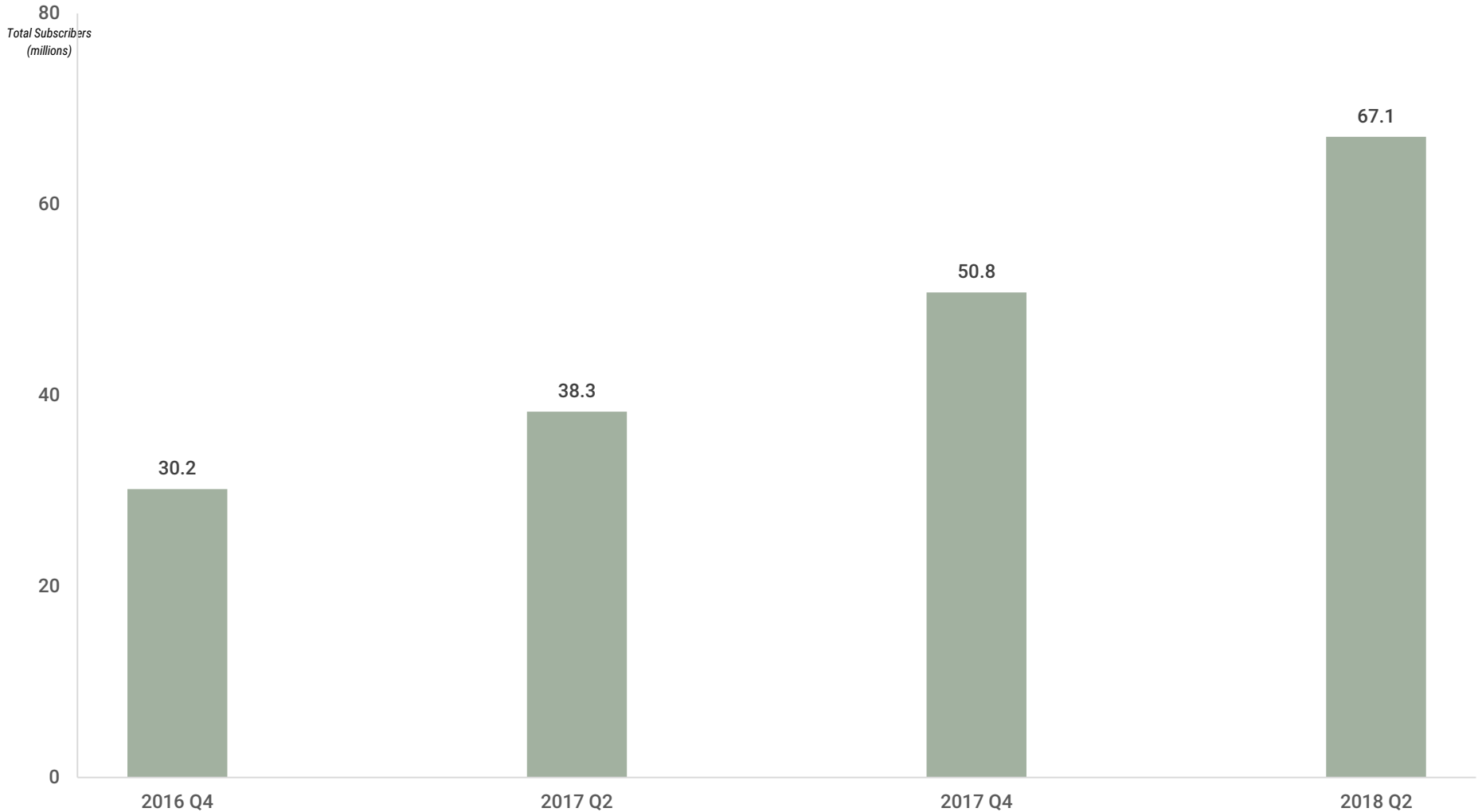
### GAMING

- **In July, they completed the acquisition of Skymoons, a developer and a global publisher of mobile games**
  - It currently has some games available, but expect to see more successful products later this year or next year
- **In the long run, Skymoons will bring better benefits because it fits the "Netflix Plus" model and can enhance their overall ecosystem**
  - There is a natural synergy between the two from developing videos from gaming IP as well as game development based on original video content

*Rather than focus on subscriptions, they have built a diversified business model to maximize revenue from their content*

# Subscribers

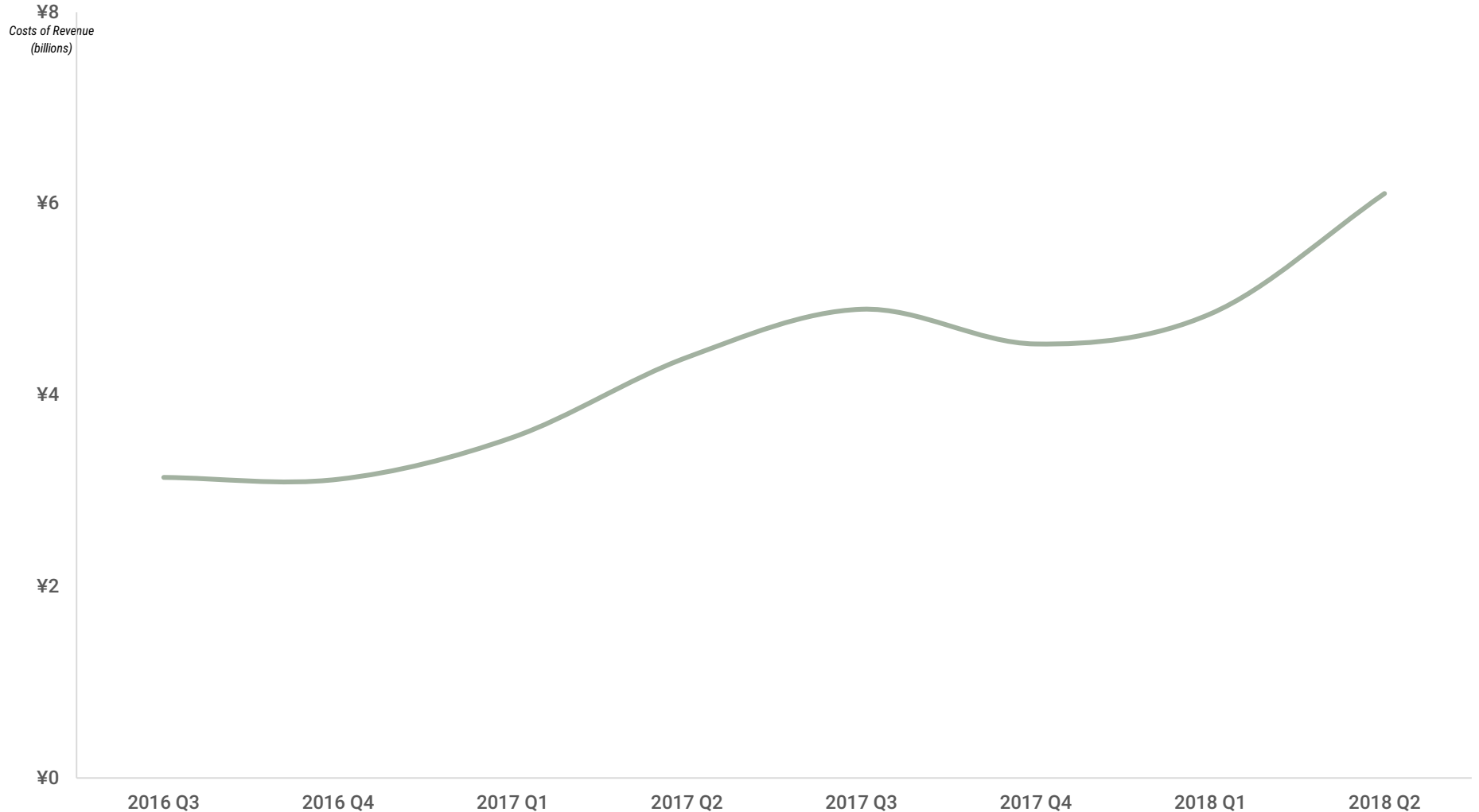
Experimentation With New Features Has Encouraged Users To Subscribe In Order To Binge Popular Content



*The focus on partnerships with other online portals will help increase its audience reach and acquire new subscribers*

# Content Costs

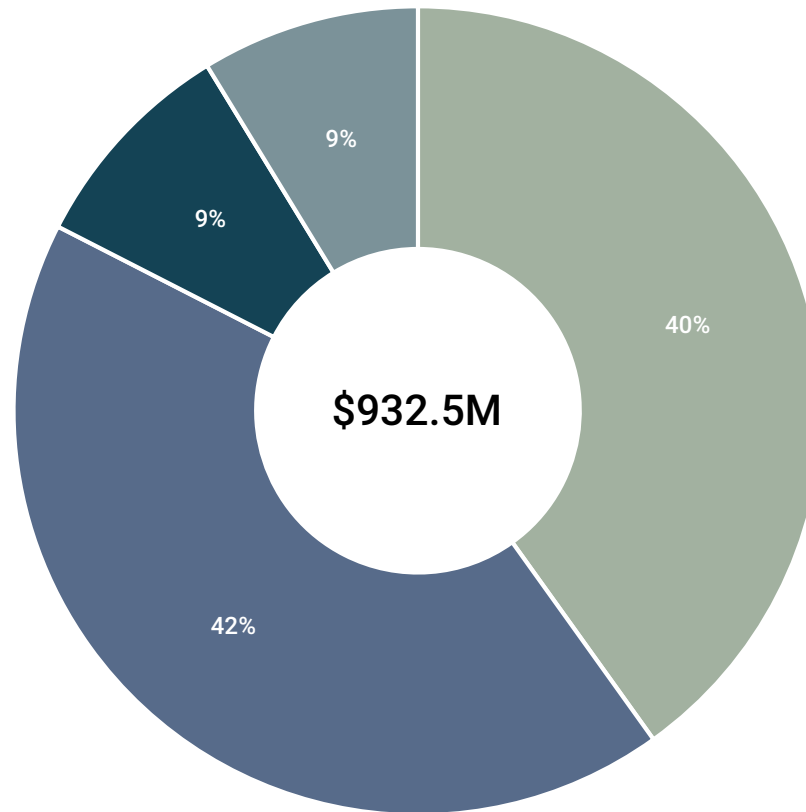
The Majority Of Videos Are Licensed, But The Shift To More Original Content Will Accelerate Costs



*One of the leading players in the variety shows, but are increasingly focused on original dramas targeting young viewers*

# Q2 Revenue

The “Netflix Plus” Model Is Designed To Reduce Their Dependency On Subscriptions



■ Membership Services   ■ Online Advertising Services   ■ Content Distribution   ■ Other

*The company is actively seeking new ways to bring their content and IP outside of the online platform*