



iQIYI (IQ) 2018 Q4 Earnings Summary

February 2019

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Key Takeaways

iQIYI Is Increasing Its Spending On Original Premium Content To Avoid Heavily Relying On Licensed Shows

MEMBERSHIP

- **Membership business continues to be the main engine of growth, but don't think that pricing is the key driver**
 - Premium content and user evolution drives subscribers' conversion and stickiness
 - Movie content plays an important role as they release a number of popular theatrical movies shortly after they hit the box office
- **Net additions in this year will be pretty much similar to what they achieved in 2018**
 - Chinese internet users are appreciating the premium entertainment offered, and are getting used to the paying habit

ADVERTISING

- **Enhanced their ability to provide innovative advertising solutions and are cautiously optimistic about the advertising business**
 - On the brand side, more TV advertisers are shifting their budgets towards their video platform
- **Over 50% of ad revenue is from original content because it's very difficult to embed ads into content produced by third parties**
 - The supply of inventory is growing, but demand is not growing that much, so there is potential pressure on pricing
 - Cleaning up for their own in-feed advertisers because there are more risky profiles and unhealthy advertisements

CONTENT

- **Overall content library is expanding rapidly and continue to enhance their production capabilities for original content**
 - Leveraging successful IP from video content to develop mobile games and other forms of entertainment
 - Volume of licensed content has increased dramatically because the supply is very big and they now offer more than 100 dramas
- **Continue to nurture their ecosystem, and as a result, are able to empower an expanding group of PGC partners to grow with them**
 - Content contributed by Partner Accounts increased significantly from a year ago and now accounts for over half of their total video views

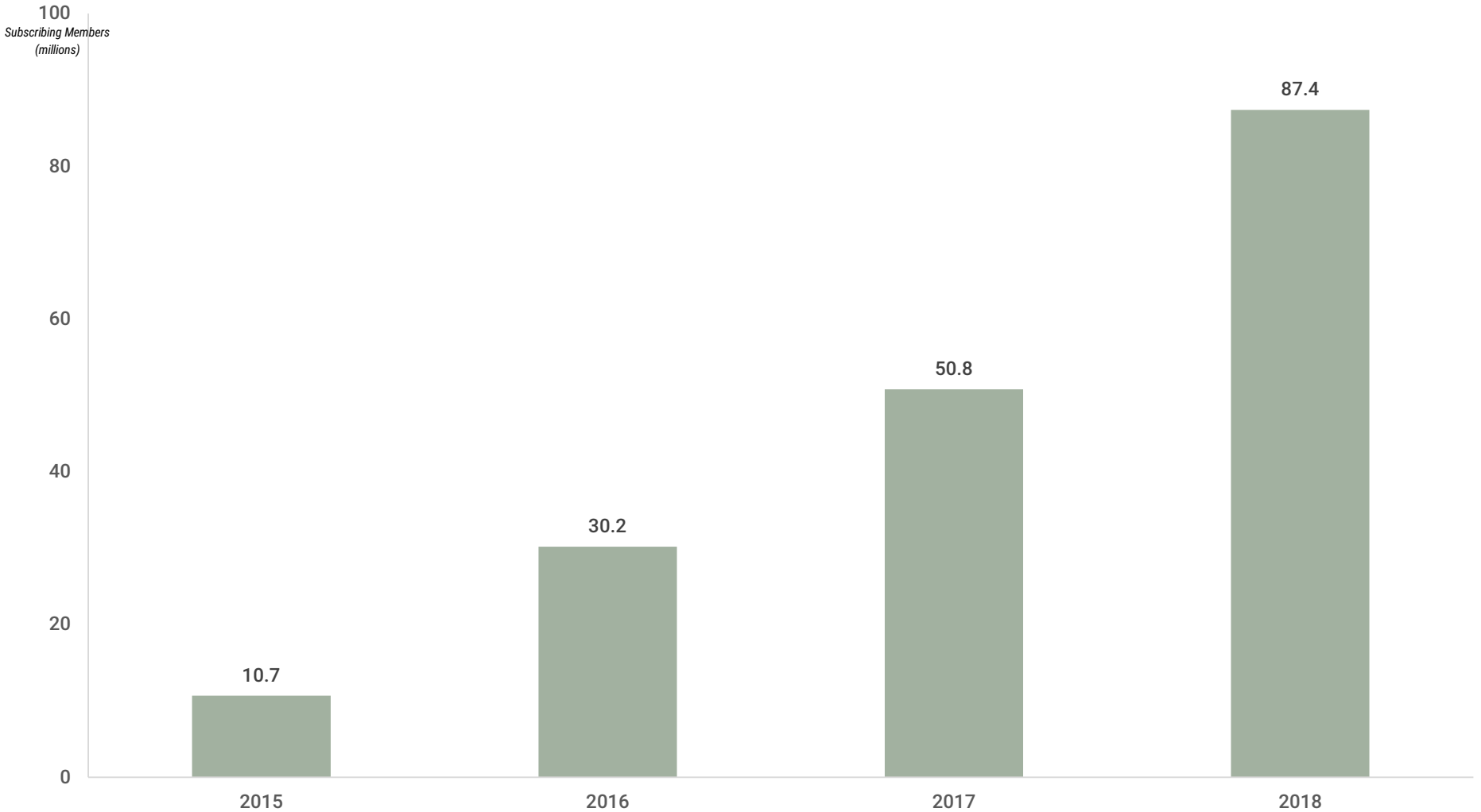
REGULATORY

- **Before airing on the video platform, content producers will be responsible to getting the necessary permissions and licenses**
 - Don't think that has much impact because from now on, they will only be responsible for their original content
- **First window content released on the video platform needs a provincial permission and a central government permission**
 - Will impact the industry broadly because the central bureau is more strict so some part of the content might be deleted or adjusted
 - There are also some new rules on short-form video content, but they have limited exposure so there will be minimal impact

New partnerships with media companies and e-commerce stores will help convert free users into paying subscribers

Subscribers

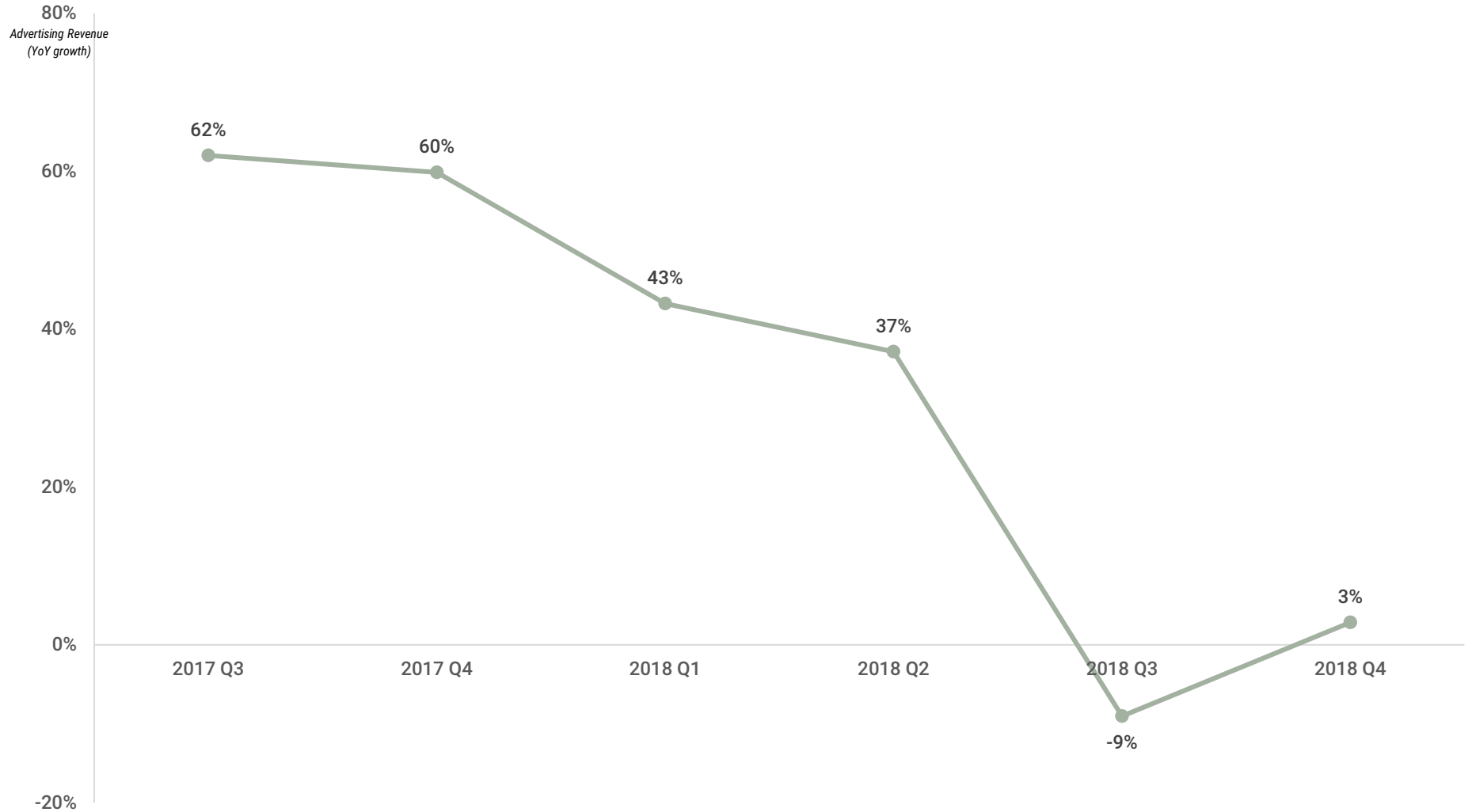
Original Drama Series Are Geared More Towards Growing Subscribers, While Variety Shows Are Ad Centric



Revenue share model will attract new content providers to help expand their library of high-quality internet movies

Advertising Revenue

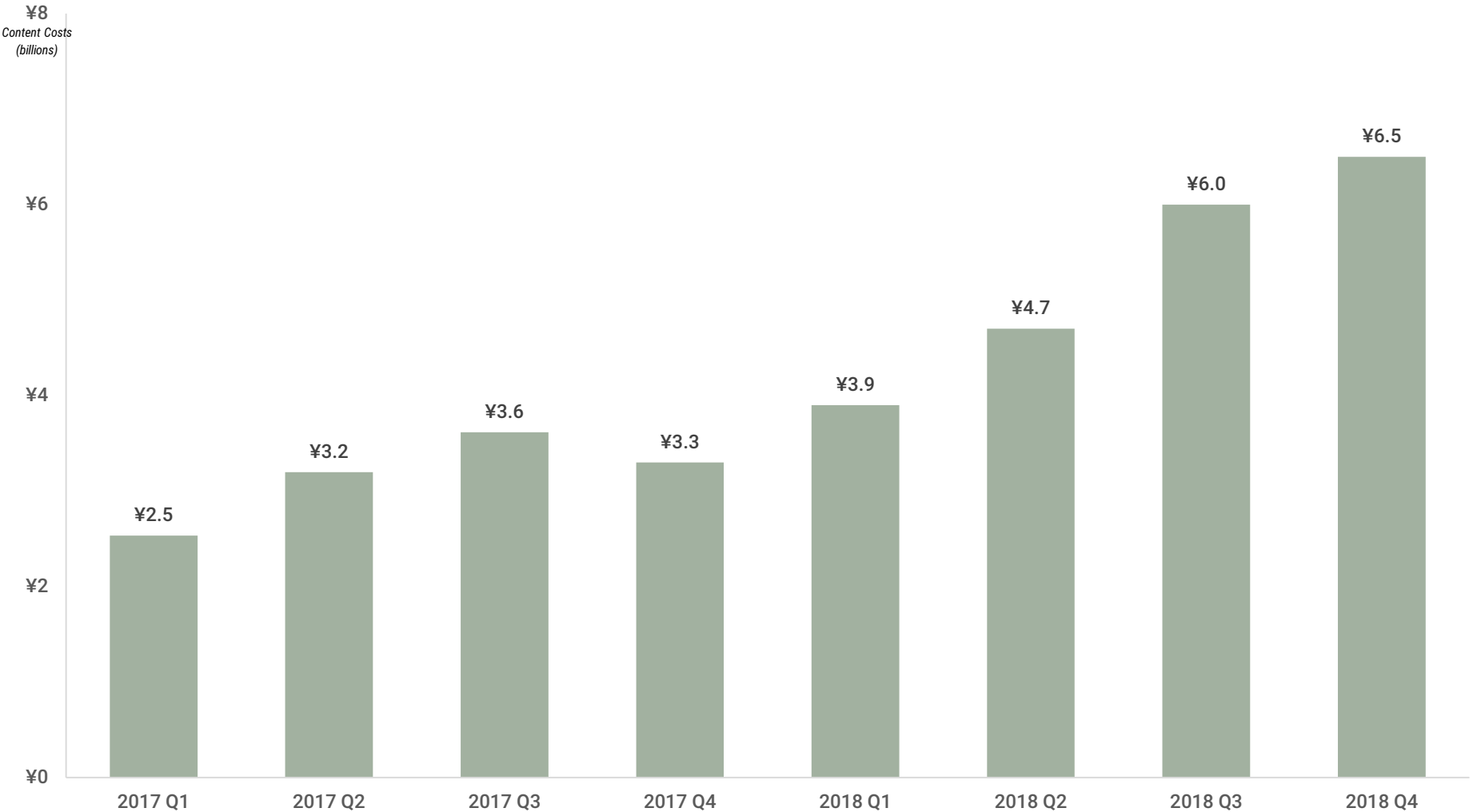
Combination Of Macro Headwinds And The Focus On Brand Safety Caused A Dramatic Drop In Ad Revenue



Application of AI technology can incubate new products and services to better serve their users and partners

Content Costs

New Salary Caps For Top Tier Creative Talent Will Reduce Content Costs Over The Next Few Years



As an agreement between content companies, rather than a government rule, one violation can have lasting impact