



iQIYI (IQ) 2019 Q2 Earnings Summary

August 2019

Sign Up For Additional Research From Evolution Media Capital



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Key Takeaways

iQIYI Remains Focused On Premium Original Content And IP That Can Be Developed Into Multiple Formats

CONTENT

- **Production of variety shows will focus on 4 major themes: music power, youth fashion, the joy of life and new Chinese culture**
 - Majority of their variety shows are in-house produced and exclusively aired on their platform, which is creating an economic moat
 - Exploring multiple ways of monetization, for example, through live shows, concert tours as well as talent agency and IP-derivative business
- **Enhancing content production capabilities underpinned by original ideas, creativity, and high standards of production**
 - Wide variety of content caters to increasingly diversified user tastes, especially since their subscribers have reached a critical mass

ADVERTISING

- **Introduced a theater-mode ad product which groups together content filtered by genre, viewer traffic level or AI algorithm**
 - Advertisers can allocate ad placements to various collections of content rather than to a single title
 - Reduces the reliance on a single show's performance and also partially offsets the uncertainty of content launch schedules
- **Competitive landscape for in-feed advertising remains tough as the growing supply of inventory puts CPM pricing under pressure**
 - In the process of refining their feed products and are taking proactive initiatives to regain momentum after cleaning up their client base last year

SPORTS

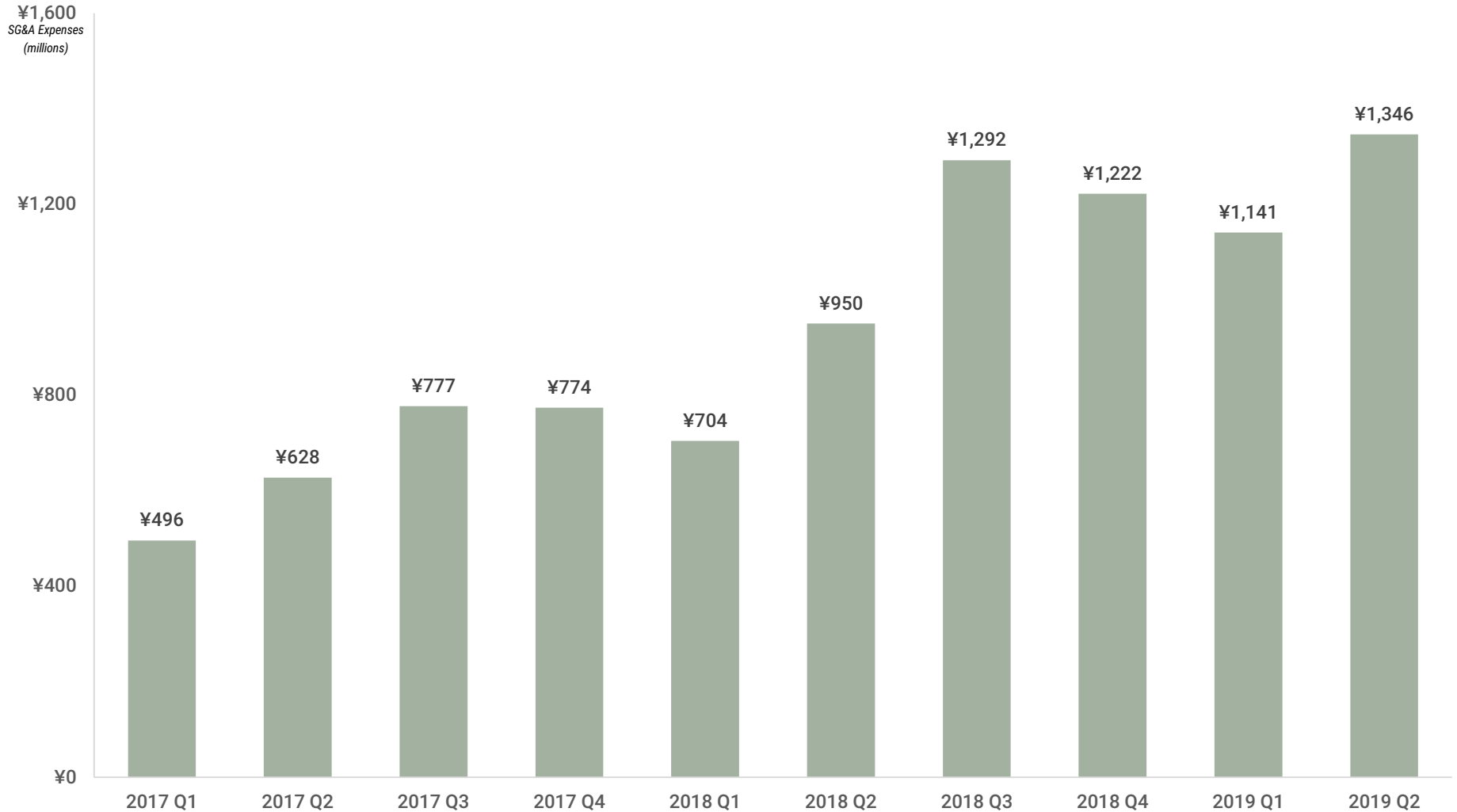
- **Sports content is an important part of their content library and they established a joint venture last year to operate a sports business**
 - License numerous global sports contents, including La Liga, PGA and WTA this year; as well as UEFA EURO 2020 and La Liga next year, among others
- **Sports content is very expensive and it is almost impossible for them to self-produce since they can never buy tournaments**
 - Will leave it up to the JV's own management team to make decision about what types of content it will license

TECH

- **Applied intelligent transcription technology to the production of various variety shows that significantly improves efficiency**
 - Employs automatic speech recognition technology, which automatically transcribes subtitles to videos while they are being shot
- **Formed strategic partnership with China Unicom to establish a joint innovation lab and work on applications of 5G video content**
 - Will jointly explore 5G opportunities, including network slicing, mobile edge computing, big data, MR, AR, VR and 4K/8K resolution technologies
 - China Unicom will provide research facilities and experimental 5G infrastructure which will complement their MR, AR, VR technologies

New interactive capabilities, both for content and advertising, will improve engagement and viewing experiences

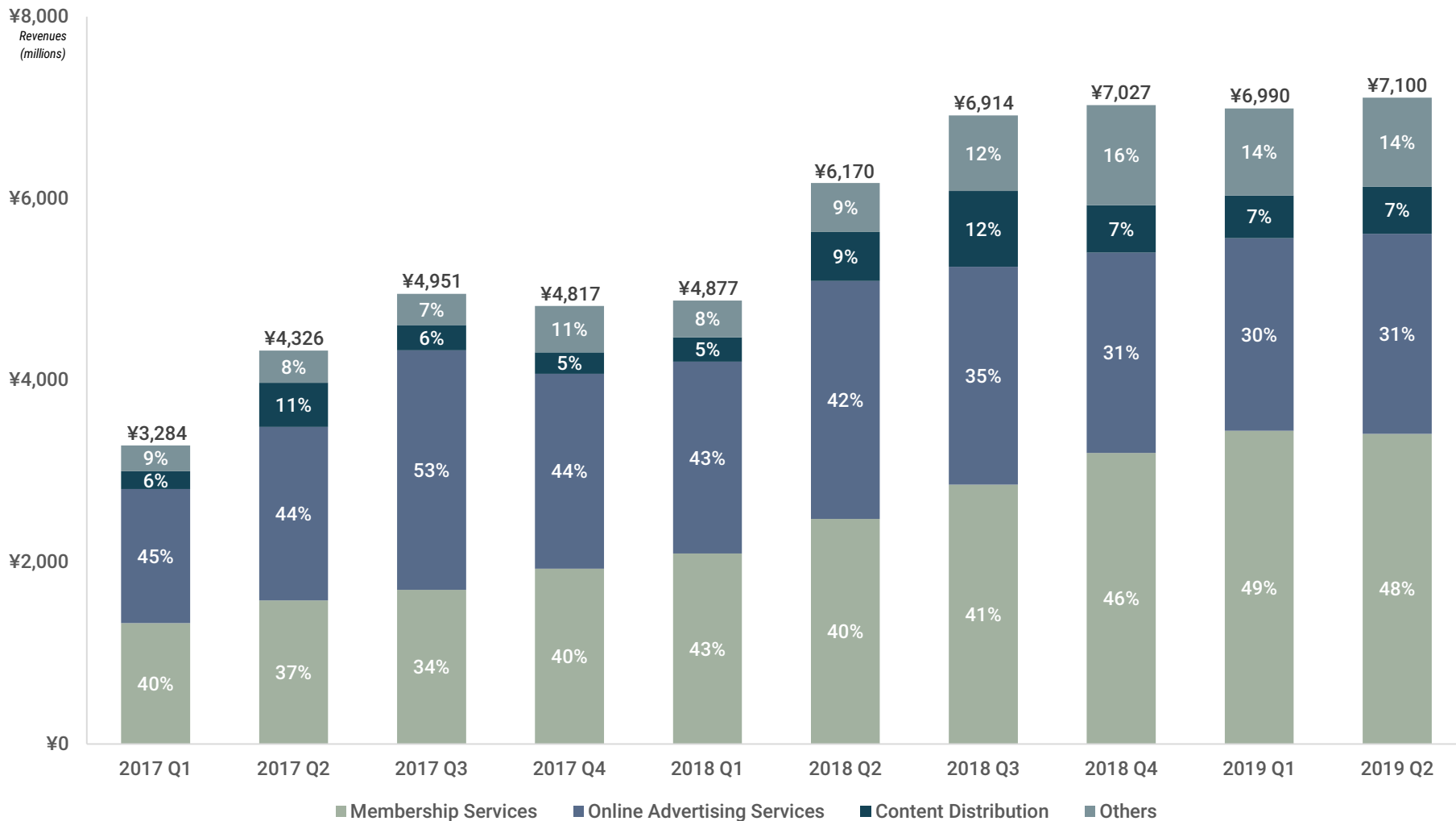
Marketing Expenses Continue To Grow As They Target Users In Lower Tier Cities And Older Age Groups



Even with popular content, extending the IP into new formats, primarily games, will require additional marketing efforts

Revenue Mix

The Macro Environment In China Has Been Weak As Advertisers Continue To Pull Back On Their Budgets



There is a reluctance to distribute too much content to 3rd party platforms as they prioritize their own subscriber growth

Content Costs

Content Costs Have Slowed As Many Original Shows Were Delayed Past Their Scheduled Release Date



There is still an adjustment period after new regulations drastically reduced the salaries paid towards talent