A Work Project presented as part of the requirements for the Award of a Master's Degree in Management from the NOVA – School of Business and Economics.

PIRACY COMEBACK WITH THE NEW DECADE

SARA MARQUES COSTA

25912

A Project carried out on the Master's in Management Program, under the supervision of:

Professor Francisco Martins

6th of January 2020

PIRACY COMEBACK WITH THE NEW DECADE

Abstract

In this paper, a set of variables expected to determine piracy trends for the upcoming years is considered. Using the OLS estimators' approach, the extent to which market saturation for streaming services on demand (SVoD) rebounds in the thriving market for piracy websites is evaluated. After a careful analysis, the study reveals an adequate level of acceptability, that indeed, one can expect revenue's surplus from SVoD providers to be extracted by illegal suppliers.

Keywords

Market Saturation

Content Dissolution

Consumer Predisposition

Copyrights' Infringement

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

INDIVIDUAL REPORT

SARA MARQUES COSTA

6 JANUARY 2020

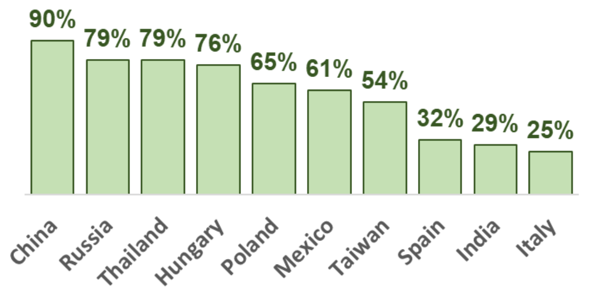
Is streaming competitive landscape pushing consumers back to piracy?

Developments from a statistical study on the Chinese market.

In years past, video on demand was an outlandish concept, let alone subscription video on demand. Although not many of us acknowledged the advancement of this industry, it is inevitable in the developed world to ignore its far-reaching presence. Nonetheless, at the time, not only consumers but also suppliers neglected the potential of video piracy, unaware of its status as the major player in this upcoming thriving market.

GRAPH 1. PIRACY RATE IN 2018

Source: The Motion Pictures Association

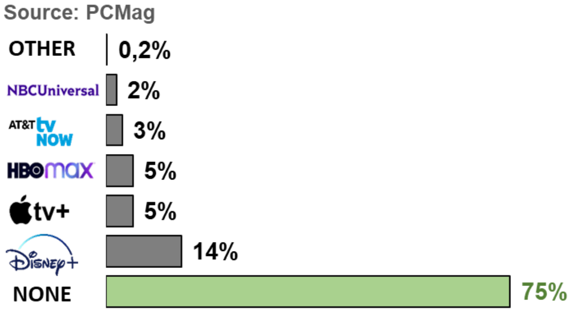


According to The Motion Picture Association[a], China is rated as the country with the highest piracy rate (Graph1). Notwithstanding, with the broadband internet boom around 2008, suitable streaming services began to offer easy access to video content, which made it preferable for consumers to turn from peer to peer file sharing to legal platforms for a minor monthly fee.

In a short period of time, what seemed to be a blue ocean had turned red, as the streaming war intensified. The real question is: To what extent is the SVoD market saturated? According to PCMag [b] current studies (Graph2), 75% of respondents were not interested in subscribing to any of the newly announced streaming services such as Disney +, or Apple TV +.

GRAPH 2. SUBSCRIPTION RATES

Source: PCMag



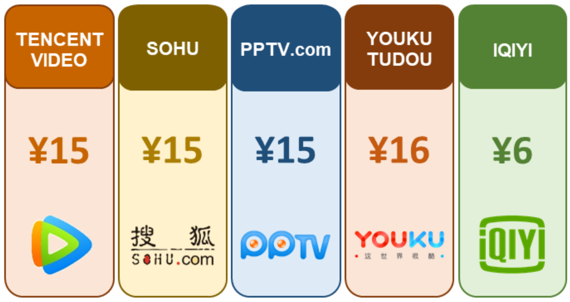
[a] L.E.K. (2019). (online) Available at: https://www.wired.com/images_blogs/threatlevel/files/MPAstudy.pdf (Accessed 13 Dec. 2019).

[b] Rob Marvin. (2019). 75 % of Subscribers Don't Plan on Adding New Services. PCMAG. (online) Available at: https://www.pcmag.com (Accessed 13 Dec. 2019).

In fact, subscribing to China's top 5 paid streaming websites would amount to a total of 67 yuan (Graph3), the equivalent to a monthly fee for cable TV in China. All things considered, a question arises – is streaming competitive landscape pushing consumers back to piracy?

GRAPH 3. MONTHLY SUBSCRIPTION FEES

Source: Company's Websites



To provide a sustainable answer, a statistical analysis of both legal and illegal video streaming markets was carried out, starting off by describing the model's variables, following with a methodological analysis and wrapping up with results interpretation.

Variables

Revenue loss due to piracy [c]: Monetary revenue loss (in billions RMB) from legitimate online content providers to online piracy, including revenues lost to series' episodes and movies (excludes both sectors of Pay TV and Sports). It illustrates community's aptitude to consume streaming services (treated as a normal good). Herewith, this data also reflects the overall community mindset when choosing between a paid subscription or free access to online videos.

Streaming penetration rate [d]: Assesses the level of streaming being consumed compared to its potential estimated market of consumption. Determines the dimension of the SVoD market and the predisposition of the Chinese community to pay for the subscription of this service.

The succeeding pair of variables (Video streaming revenues and number of SVoD providers), was used as one. In other words, these were used to create a new variable - revenue per SVoD provider. This allows for a broader understanding of market prosperity and providers' maturation.

[c] Data Source: Digital TV Research. Murray, S. (2017). The Cost of Movie Piracy. Wired.com. (online) Digitaltvresearch.com. Available at: https://www.digitaltvresearch.com/ugc/press/219.pdf (Accessed 11 Dec. 2019).

[d] Data Source: CNNI (China Internet Network Information Centre). Cnnic.com.cn. (2019). 43rd Statistical Report on Internet Development in China. China Internet Network Information Center. (online) Available at: https://cnnic.com.cn/IDR/ReportDownloads/ (Accessed 14 Dec. 2019).

Video streaming revenues [e]: Annual revenue of the online video market (in billion RMB). According to the considered data, revenue is predicted to grow 2.3% (CAGR 2019-2023) per annum. Numbers display SVoD's thriving settlement rate in the Chinese market.

Number of SVoD providers [f]: Illustrates China's SVoD market supply magnitude – the number of current established Chinese SVoD companies. The assembled data was taken from 2019's outright list of providers, which make up for 17 active providers as of this year. As there are no expectations of compelling changes in the short-term, the number of suppliers is kept constant from 2019 onwards.

Regulation on piracy websites [g]: Dummy variable which takes the value 1 if, on a given year, the government acted upon copyright infringement mitigation, and 0 if not (Graph4). In 2010, several amendments were put on the table to improve the "Copyright Law of the People's Republic of China". In 2014, the previous was reformulated. In 2017, 2018 and 2019 The National Copyright Administration of China (NCAC) reinforced its measures to tackle down active illegal video streaming websites.

GRAPH 4. REGULATION ON PIRACY WEBSITES
Source: NCAC

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
✓	✗	✗	✗	✓	✗	✗	✓	✓	✓	✗	✗	✗

Methodological Analysis

After creating a regression using the OLS estimators' approach, the following equation was given as the adequate illustration of the above variables' correlation:

$$Revenue\ Loss = -148{,}57 + 317{,}12PenetraionRate + 3{,}97Regulation + 4{,}02RevenuesperProvider + \varepsilon$$

[e] Data Source: iResearch China and Statista. Iresearchchina.com. (2019). Revenue of China's Online Video Market Totaled 96.27 Bn Yuan in 2018. IResearch Global. (online) Available at: http://www.iresearchchina.com/content/details7_52897.html (Accessed 12 Dec. 2019). Statista. (2019). China: online video market revenue from 2009 to 2022. Statista. (online) Available at: https://www.statista.com/statistics/278574/revenue-of-chinese-online-video-industry/ (Accessed 12 Dec. 2019).

[f] Data Source: Flixed. Alex Munkachy. (2019). The Complete List of Streaming Services in China - 20+ Services. Flixed. (online) Available at: https://flixed.io/streaming-services-china/ (Accessed 13 Dec. 2019).

[g] Data Source:NCAC (National Copyright Administration of China). En.ncac.gov.cn. (2019). NCAC. (online) Available at: http://en.ncac.gov.cn/ (Accessed 12 Dec. 2019).

Firstly, it is paramount to assess the goodness of fit of the above regression in order to evaluate to which extent it is appropriate to use it as a correlation indicator. The regression adjusted R-squared is 95%, indicating that 95% of the variation of revenue loss due to piracy can be explained by its three independent variables. As for the remaining 5%, these account for missing variables on the model. However, given that the standard error of this regression in 3, one can state that, on average, data points fall shortly out of the regression and data considered is enough to explain the model.

It must not be forgotten that these values might be the repercussion of regression noise, meaning that, despite depicting statistical interrelationship, these can still be irrelevant for the study in question. The regression significance F is approximately zero, in the sense that independent variables are, to a good extent, the creators of y outputs. Furthermore, by looking at individual p-values, one can infer that independently of others, each individual variable is relevant to the study, as all fall within a 94% confidence interval.

Looking at the regression, it is possible to assess the direction in which each variable influences revenue loss. Firstly, regarding streaming penetration rate and revenues per provider. As these increase, revenue loss due to piracy increases. This can be interpreted as a consequence of consumer outspread and increased market potential. Favourable conditions, as the aforementioned, make SVoD an eye-catching market, prone to the threats of new entrant and deeper supply fragmentation. As for regulation on piracy websites, better estimates for this indicator failed to be found due to China's strong data protection. In fact, according to the provided statistical results, when of an intervention for copyright infringements, revenue losses increase, a counterproductive relationship. However, this variable lacks adequate assumptions and association with the actual mitigation of piracy. Thus, one can conclude that this coefficient fails to describe the direction in which these variables are correlated.

Results

Based on this study one can conclude that there is strong evidence that, as the market for online video streaming saturates and consequently becomes fragmented, consumers are likely to turn to piracy websites, resulting in increasing revenue losses for SVoD providers. Even though the above study cannot be generalized for the whole population as it is based solemnly on 13 observations, all competing in the Chinese Market, it can be easily conceived that this trend has been felt worldwide. According to an experimental study carried out by Broadband Genie [h], after questioning the respondents about the reasons to move away from streaming, costs were unexpectedly an uncommon answer. On the other hand, people demonstrated their frustration when facing the need to use several interfaces to access specific content. The most alarming is the fact that 60% of the 1500 respondents said that they would consider acquiring a VPN to illegally access websites without revealing their identity. All things considered, this competitive landscape is prominently setting up a war that calls for action and above all creativity from SVoD's providers, in order to compete with a free and almost unlimited, though illegal, streaming service.

Annexes

1. Variable's data inputs

	Revenues' loss due to piracy	Streaming Penetration Rate	Regulation on piracy websites	Streaming Revenues per SvOD Provider
2010	¥ 6,70	0,48	1	¥ 0,04
2011	¥ 10,03	0,49	0	¥ 0,04
2012	¥ 13,37	0,51	0	¥ 0,09
2013	¥ 16,70	0,53	0	¥ 0,12
2014	¥ 20,03	0,51	1	¥ 0,16
2015	¥ 23,37	0,55	0	¥ 0,26
2016	¥ 26,70	0,56	0	¥ 0,34
2017	¥ 31,80	0,56	1	¥ 0,54
2018	¥ 37,40	0,55	1	¥ 0,61
2019	¥ 40,95	0,58	1	¥ 0,87
2020	¥ 44,50	0,59	0	¥ 1,06
2021	¥ 48,05	0,59	0	¥ 1,32
2022	¥ 51,60	0,60	0	¥ 2,93

2. Regression Summary

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0,983
R Square	0,966
Adjusted R Square	0,955
Standard Error	3,199
Observations	13

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	2610,54	870,18	85,01	0,00
Residual	9	92,13	10,24		
Total	12	2702,67			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	-148,57	20,13	-7,38	0,00	-194,11	-103,03	-194,11	-103,03
Streaming Penetration Rate	317,12	38,47	8,24	0,00	230,09	404,16	230,09	404,16
Regulation on piracy websites	3,97	1,87	2,13	0,06	-0,25	8,19	-0,25	8,19
Streaming Revenues per SvOD Provider	4,02	1,88	2,14	0,06	-0,23	8,27	-0,23	8,27

[h] Briel, R. (2020). Survey: New streaming services could turn viewers toward piracy | Broadband TV News. (online) Available at: https://www.broadbandtvnews.com/2019/09/30/survey-new-streaming-services-could-turn-viewers-toward-piracy/ (Accessed 13 Dec. 2019).

A Work Project presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Trouble ahead for iQiyi, Inc.

Costa, Sara Sofia & Monteiro, Rodrigo Melo
25912 & 18456

A Project carried out on the Master's in Finance Program, under the supervision of:

Professor Francisco Martins

06/01/2020

Trouble ahead for iQiyi, Inc.

Abstract

The purpose of this Equity Research is to perform a valuation of iQiyi, Inc. As a first step, an intensive analysis was performed, to provide a better understanding of the company's framework. Secondly, DCF valuation was carried out, considering industry trends, as well as the available information that might influence its future performance. Following this, the balance sheet, income statement and statement of cash flows were reformulated. The research was made both on iQiyi's Reports, on a wide variety of recent studies and news regarding iQiyi's performance and investment decisions. As a conclusion, an investment recommendation of SELL is given.

Keywords:

Market Saturation

Content Production

Artificial Intelligence

Intellectual Property

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

MASTER IN FINANCE

IQIYI, INC.

COMPANY REPORT

COMMUNICATION SERVICES

6 JANUARY 2020

RODRIGO MONTEIRO AND SARA COSTA

Trouble ahead for iQiyi, Inc.?

Get ready for a bumpy ride with this Chinese tech stock

- Chinese technological companies have been investing heavily to reach supremacy in the online video market - iQiyi main competitors are currently backed up by Tecent and Alibaba, two of the World's most valuable companies;
- iQiyi's own deep-pocketed parent company, Baidu, is struggling to have the same success of its rivals with stocks having lost more than 50% of its value since peaking on May 2018.
- A steep price increase of stocks turns iQiyi's lacklustre performance around. Revenue growth is expected for the foreseeable future.
- Challenging macroeconomics conditions and trade tensions between China and USA make iQiyi's stocks extremely volatile.
- Investment in technology could be the edge needed for iQiyi to survive, namely 5G, Big Data and AI.
- Piracy, which had been overlooked for the past few years, is close to becoming a major player in the intense war of the SVoD market.

Company description

iQiyi is a Chinese company that offers online entertainment services to more than 100M subscribers worldwide. Backed by the internet conglomerate, Baidu, Inc., it is often called the Netflix of China, although it has yet to deliver a single quarter of profit.

Recommendation:	**SELL**
Vs Previous Recommendation	*SELL*
Price Target FY20:	**19.32 $**
Vs Previous Price Target	*0.47 $*
Price (as of 6-Jan-20)	**23.20 $**
Bloomberg: IQ:US	

52-week range ($)	29.18-14.35
Market Cap ($B)	16.645
Outstanding Shares (m)	727.04

NASDAQ: IQ

Source:

(Values in ¥ billions)	2019	2020E	2021F
Revenues	88.8	184.3	309.0
COGS	(27.8)	(50.3)	(75.7)
EBITDA	40.9	103.4	188.6
Net Profit	37.6	96.1	177.5
Total Assets	120.4	234.3	388.1
Total Liabilities	50.1	88.8	135.6
NWC	40.7	90.6	158.9

Source: Company Report and Analysts Estimates

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Company overview

Path and Milestones

iQiyi, Inc. is a Chinese company based in Beijing that provides online entertainment services. Founded on April 22, 2010 by Baidu (China's largest online search engine) as Qiyi, it changed its name to its current version in November 2011, one year before Baidu bought out the remaining entry investors to become the owner of 100% of the company.

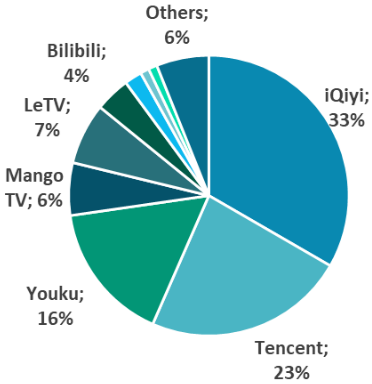
Initially, the company followed a business model, where revenues came exclusively from advertising. However, in 2014, and considering the success of the American streaming company Netflix (which followed a subscription based model, where subscribers payed a monthly fee to gain access to its content library), the company adjusted its strategy to start offering original content and third-party produced licensed content (besides the user created content already available) that would only be accessible to subscription-paying users.

A few months later, the company received a second round of equity investment by Xiaomi and Shunwei Capital who invested $300 Million for 10 to 15 percent of the company, with Baidu remaining the majority owner, owning around 80% of the company. In the next years, the Company ramped up the investment in its content library, producing numerous original shows as well as establishing licensing deals with different companies (such as the aforementioned, Netflix).

At the end of 2017, the company reported 50.8 million paying subscribers and a market share close to 28% of the Chinese online video streaming market. In March 2018, the company announced it would start selling its shares to the public, pricing its U.S. IPO at $18 per share, with the shares being listed on the Nasdaq with the symbol "IQ". In November of the same year, considering the difficulty it was having to deal with considerably high content costs, the Company announced it would issue public debt, particularly $650 million in convertible senior notes. The proceeds would then be used to invest in content and technology, as well as capped call transactions to reduce potential dilution to shareholders upon conversion of the notes. Less than a year later, the company would return to the public debt markets, through the issuance of a $1.5 billion in convertible notes with proceeds being directed to the upgrade of the Company's

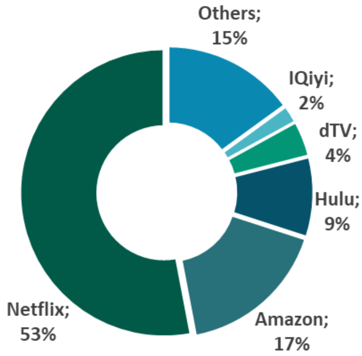
GRAPH 1. ONLINE VIDEO MARKET BREAKDOWN 2018

Source: (e27, 2020)



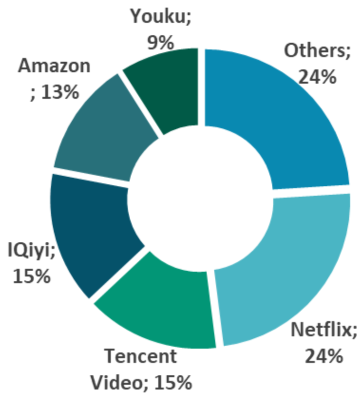
GRAPH 2. PERCENTAGE OF SUBSCRIBERS IN 2014

Source: (Correspondent, 2020)



GRAPH 2. PERCENTAGE OF SUBSCRIBERS IN 2018

Source: (Correspondent, 2020)



intellectual property ecosystem and to accelerate IP-related business, such as subscription to its services, according to the South China Morning Post [1].

As of today, the Company has four main sources of revenues, namely Membership services, Advertising services, Content distribution and a fourth source named Others, that is mainly related with the distribution of online video games. With various hit shows under its belt, iQiyi is currently the leading online video streamer in China, distinguishing itself from its competition by using its platform powered by AI, big data analytics and other core proprietary technologies to produce content that caters to user tastes, delivering superior entertainment to its users, improving operational efficiency and increasing return on investment for its advertisers as well as monetization opportunities for content providers.

Market Positioning

The Streaming Market in China is set to become an oligopoly. Indeed, there are two massive players, iQiyi Inc. and Tencent Video, both being backed up by one of China's tech-giants (also known as BAT), namely Baidu Group and Alibaba Group. iQiyi covers 33% of the market, whereas Tencent Video ranges up to 23%. The two together with Youku, the third player, cover almost all market demand. This meaning that a stable market competition took place between the three companies in a two plus one status.

iQiyi has been pushing the boundaries of online video high-tech technologies not only in the national market, but also worldwide. In fact, from 2014 to 2018, three of the world's top five SVoD providers were Chinese, whereas before, only one had achieved such accomplishment. One must commend iQiyi's ability to win over such an intense and saturated market. It is, today, undoubtedly recognized, as the number one in this industry with a market cap of 15 billion USD, total revenues of 3,6 million USD and a startling record number of more than 100 million subscribers, which, in total, spend on average 9,4 billion hours [2] per month watching the company's video content.

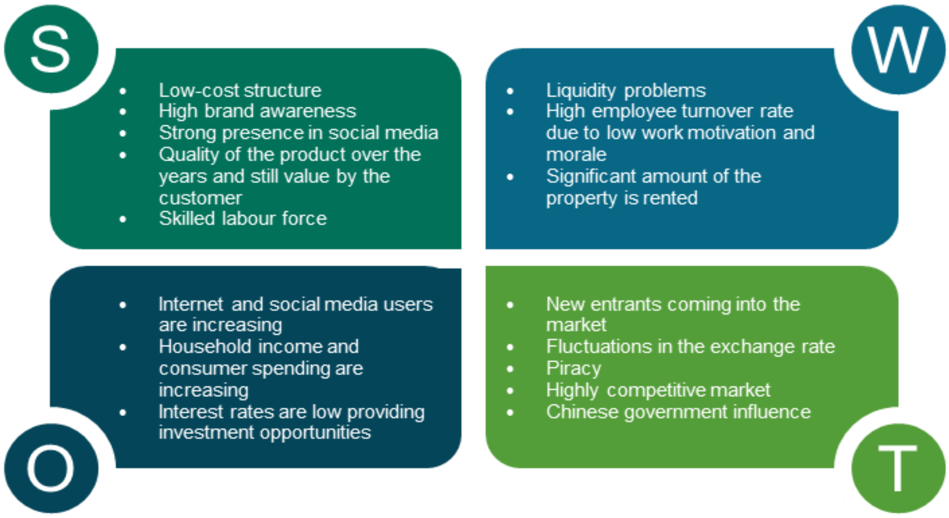
[1] South China Morning Post. (2020). *Video streaming giant iQiyi raises US$1.5b in convertible notes issue*. [online] Available at: https://www.scmp.com/tech/china-tech/article/2072725/video-streaming-giant-iqiyi-raises-us15b-convertible-notes-issue [Accessed 4 Jan. 2020].

[2] Ir.iqiyi.com. (2020). [online] Available at: https://ir.iqiyi.com/static-files/83481f9b-238f-4841-9591-c0f9c817c7dc [Accessed 4 Jan. 2020].

SWOT Analysis

To better understand the company's current position, it is important to get to grips with its strengths, weaknesses opportunities and threats.

GRAPH 3. IQIYI'S SWOT ANALYSIS



Firstly, when it comes to iQiyi's strengths, it is important to start off with its high bargaining power when it comes to suppliers. Indeed, it relies on two main inputs, namely, bandwidth and content. In a market with such an intensive competition, finding substitutes at low prices has become an easy task. For example, China Unicom, China Telecom and China Mobile severely dispute in the telecommunications market, all three offering bandwidth at competitive prices. Secondly, the company has assured its high presence in social networking sites. Such efficient management has built a positive e-WOM effect (electronic word-of-mouth), leveraging brand recognition and, thereupon, consumer loyalty. Lastly, iQiyi's increasing and already highly skilled labour force, has reassured the capability of disrupting the market with efficient and innovative products and services.

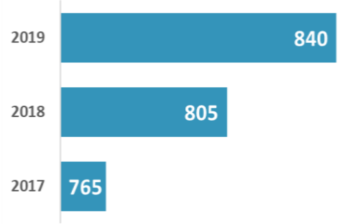
S

As for its weaknesses, these are mainly comprised by the company's liquidity, as iQiyi continues on delivering net losses. Moreover, the high amount of property that is rented by iQiyi has made it susceptible to interest rates' volatility and uncertainty in loan repayments. Finally, iQiyi faces high employee turnover rates due to low morale, reflecting the company's inadequate human resources' management.

W

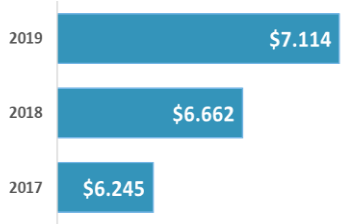
GRAPH 4. INTERNET USERS IN CHINA

Source: (Statista Research Department, 2019)



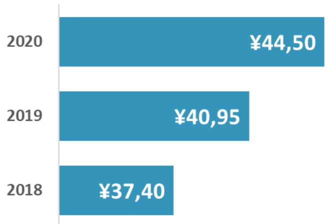
GRAPH 5. CHINA HOUSEHOLD CONSUMPTION

Source: (National Bureau of Statistics of China, 2019)



GRAPH 6. REVENUE LOSS DUE TO PIRACY

Source: ("Piracy comeback with the new decade", 2020)



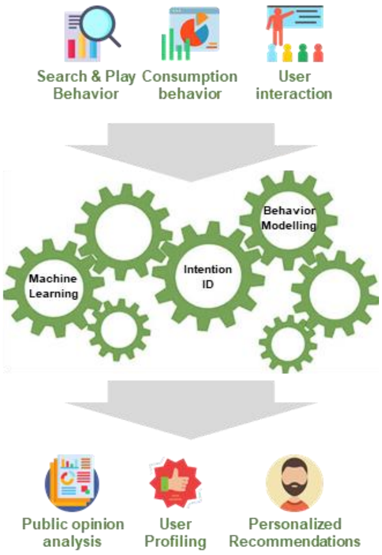
Regarding opportunities, these come down primarily to the foreseen increase of market potential for SVoD providers. Firstly, internet users have been increasing around 3% a year (Graph4), a trend that is expected to continue. Also, household consumption, which determines the size of the SVoD market and the predisposition of the Chinese community to pay for the subscription of this service, has been increasing around 5% per annum (Graph 5). Lastly, so as to keep a stable monetary policy, the Chinese Bank has been maintaining interest rates low. In fact, the People's bank of China kept the interest rate for October exactly the same as in September - 4,2% for the one-year rate [3]. This provides the company with new investment opportunities, at lower than expected costs.

Lastly, iQiyi, Inc. faces several threats both in the short-term and long-term, thus, a priority analysis is paramount to effectively mitigate such implications and bypass any possible damages. As a matter of fact, the streaming market in China became rapidly saturated in recent years, as the number of significant suppliers quickly jumped from 12 in 2012 to 17 in 2018. This growing competition has forced companies to set lower prices and incur in higher costs so as to maintain a competitive advantage, a strategy also adopted by iQiyi, which charges a monthly fee at a fraction of production costs. This has been reflected on the company's inability to generate profits, with its best result being a 1 billion dollar comprehensive loss as of the third quarter of 2019. Furthermore, the US-China trade war has had a negative effect on different facets of the Chinese market, mainly due to lower consumer confidence and price inflation. As bilateral trade between China and the US decreases, iQiyi is exposed to exchange rate fluctuations and currency risk, as well as to decreasing inventory since contracts with American companies, such as Netflix, can be broke. Another threat is comprised by the possible comeback on online video piracy as a major player (despite its legal status) in the SVoD market. Indeed, according to the study performed by the student Sara Costa ("Piracy comeback with the new decade", 2020), streaming companies will reach higher revenue losses due to piracy (Graph 6), as a consequence of market saturation and segmentation. Also, Chinese dynamic regulatory framework has brought stricter regulations, thus increasing companies' efforts to comply with legal standards and raising the risk of potential lawsuits.

[3] Cheng, E. (2020). Why China isn't cutting lending rates like the rest of the world. [online] CNBC. Available at: https://www.cnbc.com/2019/10/23/why-china-isnt-cutting-lending-rates-like-the-rest-of-the-world.html [Accessed 5 Jan. 2020].

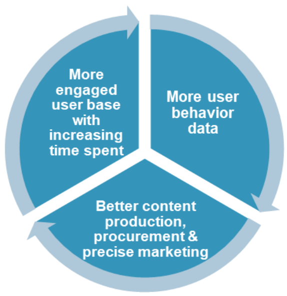
Strategy

At iQiyi's annual iJOY Conference in Shanghai, on October 15th, the company announced its marketing and content strategy for 2020. Regarding marketing, the company will continue to focus heavily on AI integration (Graph 7). Indeed, AI's versatility, allows for a tailored advertising sequence that can reach users as they navigate throughout the platform. AI algorithms select the perfect timing and place to air advertisements, making its distribution more efficient and the pop-ups more user-friendly. With respect to Content, the company plans on investing 20 billion yuan in over 200 new releases, ranging from six genres of TV series, 5 genres of movies and a sizeable and increasing bet on the sports segment. As a matter of fact, iQiyi believes that the forthcoming years will be high on sports trends. For that matter, it has secured online broadcasting rights for the 2020 Euro Cup and the top 12 Asian prequalification games for 2022 FIFA World Cup.



GRAPH 8. BIG DATA IMPORTANCE FOR SVOD COMPANIES

Source: Company Website



Furthermore, at the iQIYI Knowledge Ceremony, held in Beijing on December 18th, 2019, the company has shown its deep interest in further develop iQiyi Knowledge App. To do so, it will diversify its knowledge delivery by partnering up with more than 1800 companies. This will allow for cross-industry collaboration to create and support short video technologies whose goal is to provide premium educational and interactive experiences to the company's knowledge seekers. Furthermore, the company plans on investing 7,1 billion yuan as bonuses for content creators, to ensure that content provided is at its full potential (Graph 8).

Performance

In order to better grasp iQiyi's financial performance regarding liquidity, leverage, efficiency and profitability.

Liquidity

In 2018, despite the overall improvement compared to the past two years, only the company's current ratio (Current ratio = Current Assets/ Current Liabilities) was above one. Meaning that, iQiyi is a vulnerable company when it comes to meeting financial obligations, facing the risk of financial distress with its heavy reliance on intangible assets, fixed assets and inventories (the hardest assets to liquidate in the need of debt repayments).

	Current ratio	Quick ratio	Cash ratio	Operating cash flow ratio
2016	43%	32%	8%	-20%
2017	49%	25%	6%	-95%
2018	1,00	0,67	0,23	-0,73

Leverage

In spite of iQiyi's efforts to raise assets' value, liabilities more than offset gains. Both debt ratio (Debt Ratio = Total Liabilities/ Total Assets) and debt-to-equity ratio (Debt-to-Equity Ratio = Total Liabilities/ Shareholder's Equity) display the company's reliance on additional borrowings to pay off for already existent debt.

TABLE 2. LEVERAGE RATIOS

Source: Company Annual Reports

	Debt ratio	Debt to equity ratio	Interest coverage ratio	Debt coverage ratio
2016	87%	687%	-21,88	-24,17
2017	59%	144%	-12,75	-5,97
2018	0,60	1,47	-82,48	-0,92

Efficiency

On the one hand, asset turnover (Asset Turnover Ratio = Net Sales/ Total Assets) is decreasing, meaning that the company requires more assets to produce the same revenue than before, a poor indicator of efficiency. On the other hand, its higher inventory (Inventory Turnover = COGS/ Average Inventory) and receivables turnover ratio (Receivables Turnover = Net Credit Sales/ Accounts Receivables) imply that inventory is sold more often, and receivables smoothly turned into cash. This, together with lower days in inventory (Days Sales in Inventory = 365/ Inventory Turnover), are favourable indicators of an improvement in efficiency.

TABLE 3. EFFICIENCY RATIOS

Source: Company Annual Reports

	Asset turnover ratio	Inventory turnover ratio	Receivables turnover ratio	Days sales in inventory
2016	0,82	-	6,31	-
2017	0,86	2,41	7,77	151,76
2018	0,56	2,64	8,65	138,14

Profitability

iQiyi's most daunting problem is its profitability, with three out of four profitability ratios below zero. Despite having a high gross margin (Gross Margin = Gross Profit/ Net Sales) of around 50% it is counteracted by the amortization of licensed copyrights, which account for almost half of revenues by itself, making the rest of the ratios negative.

TABLE 4. PROFITABILITY RATIOS

Source: Company Annual Reports

	Gross margin ratio	Operating margin ratio	Return on asset ratio	Return on equity ratio
2016	43%	-22%	-23%	-177%
2017	50%	-20%	-18%	-45%
2018	51%	-31%	-20%	-50%

Stock Performance – volatility analysis

GRAPH 9. IQIYI STOCK PRICE

Source: Bloomberg

iQiyi shares became available for purchase for the general public after its IPO in the Nasdaq stock exchange on 28th of March of 2018 and have ever since been described as the most volatile stocks in the market. During this time, the company raised about $2.25 billion, pricing the 125 million shares available at $18. Since its debut, the share price has shown high volatility (Graph 9) with the period immediately after its debut on the public markets showing a price appreciation of 160% (reaching an all-time high of $40.16 a share in mid-June) followed by a 65% decline until the end of 2018.In 2019 the stock continued exhibiting an extremely high level of volatility, with various days where its value appreciated and depreciated over 10%. On the 22nd of February, the stock's price climbed 22% to $27.7 after the company announced its 2018 results, beating analysts' consensus estimates and with the issuance of a positive first quarter guidance. As of March, the stock had given up all of those gains going down to $22.87 a share, after the company anounced that it was raising $1.1 billion in convertible bonds. After that, the price kept decreasing until the 20th of May to $18.34, in the midst of increased trade tensions (between China and the U.S.) and rumours that the company had cut 20% of its Shanghai staff (which were later denied by the company). On June 27, the stock price rose about 10% to $20.03 a share after it was announced that the company had won an innovation prize at the respected industry reunion Mobile World Congress. After this positive news, the stock kept its downward path until reaching a low level of $16.86 a share on the 7th of August. On September 11 the stock jumped almost 13% to $19.32 with the announcement of a partnership with the Academy of Broadcasting Planning (despite the fact that this had already been announced so it was speculated that something else was behind this sudden move). After that, the stock price kept decreasing until the beginning of October, caused by the U.S. president threatening to delist Chinese companies from American stock exchanges, bringing fears to investors that an escalation in the trade war could hurt the value of Chinese companies listed in the U.S. In November, after the company, once again, announced better than expected results, the stock price rose 15% in a single day. The company announced a smaller than expected loss and resilient growth in its subscription business, giving confidence to investors that were already in a positive mood after news that China and the U.S. would roll back existing tariffs. Until the end of the year, and with no company specific news to cause any abrupt moves, the stock price kept increasing as trade tensions between the two countries kept decreasing (with a "Phase One Deal" being reached in mid-December).

Shareholder structure

iQiyi's total shares outstanding sums up to 727,04 million, namely 316,13 million listed on NASDAQ and 410,91 million listed on BATS Global Markets. Regarding the top holders of the company stock (Table 5). In the first place is iQiyi's parent company, the Chinese multinational technological company Baidu. Baidu is not only the largest holder of Class A shares (owning almost 18% of the company's outstanding shares) as it also owns 100% of Class B shares (which represent 92.9% of the voting rights). This gives the company almost absolute power over the decisions regarding iQiyi's operations (as it holds over 94% of the voting rights), making it almost impossible for any equity holder to question the company's control. The second largest holder of iQiyi's stock is Hillhouse Capital Advisors, a private equity firm, owner of almost 16% of the company's outstanding shares. Rounding out the top-3 largest owners of iQiyi stock is Schroders PLC, an asset management company holding about 4.4% of iQiyi's outstanding stocks. The rest of the top-10 include some big players in the investment advising business, with companies such as Morgan Stanley, Blackrock, Deutsche Bank and Credit Suisse having considerable participation in iQiyi's capital structure. All in all, the top-10 largest shareholders, own a little over 50% of the total outstanding shares. While such a large presence of institutional investors, owners of significant expertise and considered savvy investment advisors, might be a sign that there is some confidence in the corporate world, might increase the pressure for the company to start producing results sooner than later, since these companies might not be afraid to sell their holdings if the return on the investment does not meet expectations. Additionally, such a large concentration of the float in a small number of companies is one of the reasons behind the extremely high volatility exhibited by the stock price as such companies, to adjust their positions, require a large amount of the float to be traded, sending clear signs to the overall market and causing the violent up and downswings seen in the stock price.

TABLE 5. TOP 10 HOLDERS

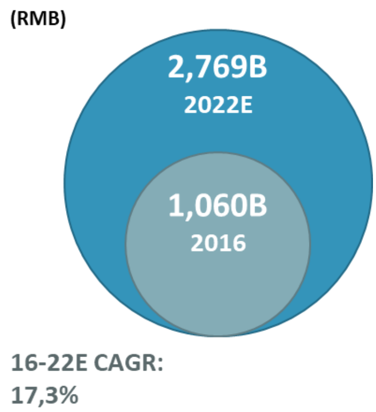
Source: Bloomberg

Rank	Company	Position	Latest Change	% of Outstanding Shares	Institution Type
#1	Baidu Holdings Ltd	55.533.317	0	18%	Holding Company
#2	Hillhouse Capital Advisors Ltd	50.516.188	36.006.170	16%	Private Equity
#3	Schroders PLC	13.999.810	2.671.540	4%	Investment Advisor
#4	Morgan Stanley	12.976.605	1.304.933	4%	Investment Advisor
#5	BlackRock Inc	8.811.324	660.197	3%	Investment Advisor
#6	Deutsche Bank AG	7.967.767	-196.702	3%	Investment Advisor
#7	Bank of America Corp	7.784.393	-408.822	2%	Bank
#8	Goldman Sachs Group Inc/The	5.832.375	-5.009	2%	Investment Advisor
#9	Credit Suisse Group AG	5.537.427	2.514.828	2%	Investment Advisor
#10	Matthews International Capital Man	5.493.400	692.700	174%	Investment Advisor

The Online Video Industry

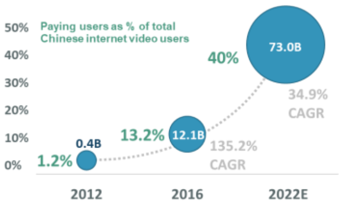
GRAPH 10. MARKET SIZE OF ENTERTAINMENT INDUSTRY IN CHINA

Source: iQiyi's Statistics



GRAPH 11. POTENTIAL FOR UNDERPENETRATED PAYING USER BASE

Source: iQiyi's Statistics



Since Alphabet owned YouTube was banned from China in 2009, a number of companies have been disputing the top spot in terms of revenue, users and overall success in the online video market (Graph 10). According to Chinese consulting firm Entgroup [4] paid subscriptions have grown 119% over the last three years, a compound growth rate much larger than the one from overall Chinese internet users (which grew at just 6.28%). Accordingly, the number of paid subscriptions (Graph 11) is expected to reach 300 million this year, compared to 230 million in 2018 (an increase of over 30%). In 2019, revenue is expected to reach 125.8 billion yuan (a 100% increase since 2016) for the entire industry and is expected to reach 156.6 billion yuan in 2020.

Competition

Though several online video platforms are present in the country, there are only two with similarities in size and business model to be compared to iQiyi:

Tencent Video

Tencent Video is one of the top online video platforms in China. Launched in April 2011 and owned by the Chinese multinational conglomerate Tencent Holdings Limited, Tencent Video supports online Video on demand and television broadcasts, while providing features such as list management, video volume amplification, colour quality adjustment and other functional services. The platform provides a myriad of originally produced as well as third-party produced licensed content (from the likes of BBC Worldwide, ITV Studios, Fremantle Media, All3Media International, and Endemol UK, HBO as well as having the exclusive rights for the distribution of NBA games). Another important feature is the integration with Tencent owned platforms such as WeChat (largest mobile messaging app in the World), the older QQ messaging platform and Qzone social network. This integration made it possible to become the top Chinese video platform in terms of market share in 2018. As of the second quarter of 2019, the platform had 96.9 million subscribers, with revenues of US$26.4 billion (RMB177 billion) for the whole 2018 [5].

[4] The Drum. (2020). Online video subscribers in China to pass 300 million in 2019. [online] Available at: https://www.thedrum.com/news/2019/02/12/online-video-subscribers-china-pass-300-million-2019 [Accessed 16 Nov. 2019].

[5] Tencent Holdings 2018 Annual Report

Youku Tudou

Youku Tudou is a video hosting service and a subsidiary of the Chinese multinational conglomerate Alibaba Group. Founded in 2006, the company is often considered China's Youtube, with more than 800 million videos per day and 580 million monthly unique visitors. Youku Tudou was, however, only created after the merger between two of the biggest online video companies in the country, Youku and Tudou, in 2012. Nowadays the platform is a source of not only user created content but also exclusive self-produced and licensed content (for which it charges a subscription). The company has licensing deals with Sony Pictures and NBC Universal as well as the streaming rights for the FIFA World Cup, making it an attractive option for Chinese users.

Performance

TABLE 6. CHINA'S TECH GIANTS COMPETING PLATFORMS

Source: Companies Websites

While essentially supplying the same product, there is much separating the three platforms. As a publicly owned company, iQiyi faces greater scrutiny from investors regarding its financial performance, its operational statistics and its growth prospects. More than that, Baidu has been struggling to keep up in terms of performance within BAT (China's tech giants, Baidu Group, Alibaba Group and Tencent Holdings Limited).

In fact, Baidu's stock price has decreased 55% from the highs reached in May of 2018, evaluating the company in $44 billion. On the other hand, Alibaba stock is at an all-time high (with the company having a market cap of $580 billion). Furthermore, Tencent Holdings Limited, an extremely valuable company with a market cap of $465 billion, faced a 20% downturn from its January 2018 spike. This means that in terms of market cap, the companies behind iQiyi competitors are over 10 times larger than iQiyi parent company. While iQiyi has been able to remain the leader in the online video market (much related with the first-mover advantage) as user growth saturates and the "fight" for new content becomes fiercer, iQiyi might be unable to keep competing with its "deep-pocketed" rivals in what should become an arms-race to produce the best original content.

TABLE 7. CHINA'S TECH GIANTS KEY STATISTICS

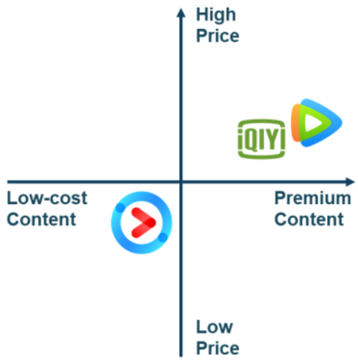
Source: Bloomberg

	Market Cap	Stock Price (05/01/2020)	EPS
Baidu, Inc.	$46,4B	$133,8	$21,1
Tencent Holdings, Ltd.	$468,4B	$49,0	-
Alibaba Group Holding, Ltd.	$582,2	$217,0	$47,0

Pricing

GRAPH 12. IQIYI COMPETITORS' PRICING STRATEGY

Source: Companies' Websites



Comparing the strategic positioning (Graph 12) of each platform, regarding the pricing of VIP memberships, each company offers a different price depending on the amount of months subscribed. While this tactic is common to the three platforms, pricing points differ. The two market leaders (Tencent Video and iQiyi) charge 20 yuan and 19.8 yuan per month for its VIP subscription services ($2.87 and $2.84 respectively) while Youku Tudou charges only 6 yuan ($0.86) – a sign of the relatively weaker content library available on this platform. The low prices charged are a consequence of the fierce price-war that these companies face.

Without an urgent need to deliver profits, these have been offering its main product at a fraction of the cost it takes to produce them. There are three main drivers of this low pricing strategy. Firstly, the need to inflate subscription numbers and widen its user base. Secondly, for each parent company's as a matter of fact, online video platforms aren't the only product on their business model. As such, the companies might look at the loss made on the SVoD side of their business as the cost of attracting users to its online ecosystems. This cost will then be offset when the newly attracted customers use one of the other company's platforms. Thirdly, each parent company operating framework. Membership services are only one of the revenue sources created by the online video platforms. By deploying this low-cost strategy, the companies hope to collect a series of followers for its content, increase its IP value and create leverage when negotiating the price of advertising placement in its platforms.

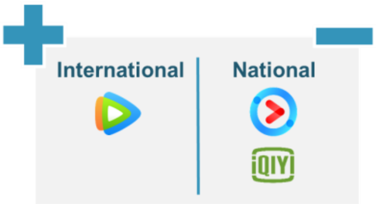
It is important to mention that both iQiyi and Tencent Video are starting to capitulate on the low pricing strategy. Maybe forced by the increase in the content costs caused by the competitive environment felt in the industry, both players have started charging additional fees for "advance access" of premium content on top of the monthly VIP subscription charges. This shows that the mounting pressure to increase revenues and reduce losses associated with its operations. Additionally, iQiyi's CEO announced on Reuters [6] that the price of its VIP subscription service is likely to increase 10% to 20% in the second half of 2020. The executive justified this increase with the stability felt in the industry, and the high costs caused by the competition, affirming: "The stability, which started second half of last year, is helpful in reducing the competitiveness of the market...We, the three players, think the cost is too high. We burnt too much money.".

[6] U.S. (2020). China video streamer iQiyi sees price hikes at home, gold abroad. [online] Available at: https://www.reuters.com/article/us-china-iqiyi/china-video-streamer-iqiyi-sees-price-hikes-at-home-gold-abroad-idUSKBN1Y81NI [Accessed 5 Jan. 2020].

Content

GRAPH 13. PREDOMINANT TYPE OF CONTENT

Source: Companies' Websites



Regarding the content strategy (Graph 13), companies moved away from its previous approach of betting in expensive (and prone to be censored) foreign content (with iQiyi boasting the top Korean content, Tencent being the home of HBO shows, British content and NBA games and with Youku failing to outbid any of his competitors in this expensive markets) and have started to invest heavily in original self-produced content aimed at domestic viewers.

iQiyi remained committed to spending in content (Graph 14), this has helped the creation of new formats and allowed for the monetization of new subcultures by bringing them to the mainstream. Additionally, by investing heavily in technology (such as artificial intelligence, big data analytics and interactive content) a realm of user data is being collected which can be used in the future when making decisions related to content or when optimizing the reach of advertiser spots.

While original content has been the focus of Youku Tudou for much of its existence (before being acquired by Alibaba in 2015, it lacked the financial firepower to compete with the other major platforms in the expensive sub-licensing market), it has since been able to start competing in this field while producing some of the most well received original content (it had the best variety show and original drama of the summer). Moreover, Alibaba's backing allows for integration with its e-commerce platforms Taobao and Tmall, multiplying the monetization possibilities for the platform and making it much easier to integrate advertisement (for instance, by allowing the user to directly purchase a product seen in a movie).

Regarding Tencent, the company was known for its international content. From foreign-language movies and dramas, to Chinese remakes of popular international shows and live broadcast NBA games, the licensing of exclusive content was one of Tencent's main focuses. In the last years, in order to keep pace with its competition, the company started paying more attention to original content, leveraging its ownership of major businesses across the entertainment sector (in music, gaming, literature and film) to use intellectual property to create content. Additionally, the company owns the beloved social media platform WeChat, making it possible to integrate these businesses and user bases (just like Youku Tudou and Alibaba's e-commerce platforms).

GRAPH 14. IQIYI CONTENT STRATEGY

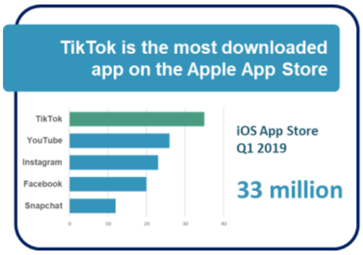
Source: Company Website

Future Perspectives

Through this analysis it is possible to understand that iQiyi position as market leader might be at risk. Despite enjoying first-mover advantage, with the entrance of other players backed by some of the largest companies in China (and even the World) iQiyi ability to continue growing its user base in an exponential way may be limited in the future. The competition for premium content will remain extremely pronounced, and the existence of numerous other smaller online video streaming platforms may also play a part in the company's ability to keep growing.

Additionally, there is an existential threat affecting the online video streaming market: short video mobile apps. According to a study performed by Marketingimpott & Microsoft Corp [7], since 2012, when the Industrial Revolution 4.0 started, human attention span shrank from 12 seconds to 8 seconds in 2018, a second less than a gold fish's attention span. Indeed, only 55% of internet users, spend more than 15 active seconds on a platform. This has made content producers fight for the remaining awareness of the younger generations, an important rival to the traditional long video format has emerged, namely the short video apps that distribute content with a much lower duration at a fraction of the cost (since it is often a consumer-produced content).

GRAPH 14. TIKTOK SUCCESS
Source: SensorTower



Living in a World with the ever-constant presence of several different screens at all times, these apps have gained popularity with younger users for its easy accessibility, social media integration and cost structure (free of charge). Bytedance is the company behind the most popular app of this type, Douyin, (and its international version, TikTok), which has emerged as the World's most valuable startup (with a valuation of $75 billion, surpassing the value of Baidu: iQiyi parent company [8]). This shows the ability of this format to attract new users, monetize its content and act as a real threat to the more established video streaming platforms.

[7] The Independent. (2020). Our attention span is now less than that of a goldfish. [online] Available at: https://www.independent.co.uk/news/science/our-attention-span-is-now-less-than-that-of-a-goldfish-microsoft-study-finds-10247553.html [Accessed 6 Jan. 2020].

[8] Meet all of the world's startups valued at $1B+ in our ongoing list of all unicorn companies in the U.S. and abroad. (2020). The Complete List of Unicorn Countries. [online] Available at: https://www.cbinsights.com/research-unicorn-companies [Accessed 5 Jan. 2020].

Valuation

Multiples Valuation

[To ensure consistency and reliability, all data was assembled from Bloomberg database as of 3rd of January 2020]

The multiples valuation method enables an accurate past performance analysis of the company, compared to its industry. Accordingly, this method was used to get a first overview of the value of the company. To disregard the consideration of only past values, blended forward multiples were used.

Despite its fast and easy implementation, the multiples valuation can display different results as there are different frameworks and techniques on how to perform them. For this valuation, we considered six of the main peer companies of iQiyi: Bilibili, Tencent Videos, Netflix, Huya, Momo and YY. The choice of the multiples was based on the relevance of such values for potential investment and the fact that certain multiples are not indicative of financial performance due to iQiyi's negative income. Price over sales allows for a comparison with market share price. Indeed, the price given of 0,27$ is much below the current valuation of around 22$, meaning that, at a first glance the company does indeed seem to be overvalued. Also, enterprise value over sales estimate an enterprise value of 25 million dollars compared to iqiyi's current market cap of 16B dollars. Once more, this value is just a first insight about the company valuation that will be calculated with, more robust and adequate methods in the following section, providing a closer to reality valuation of iQiyi.

TABLE 8. IQIYI'S MULTIPLES VALUATION

Source: Bloomberg

	EV/S (Current)	EV/S (12M Forward)	P/S (Current)	P/S (12M Forward)
BILI US	7,4	5,0	7,6	5,17
YY US	0,7	0,6	1,3	1,0
HUYA US	2,4	1,8	3,5	2,6
MOMO US	2,6	2,3	3,1	2,7
TME US	4,9	3,8	5,7	4,4
NFLX US	7,6	6,2	7,1	5,9
Average	**4,3**	**3,3**	**4,7**	**3,6**
IQIYI INC	**$ 25.009.500,74**	**$ 23.475.739,67**	**$ 0,27**	**$ 0,25**

DCF Methodology

In order to estimate the attractiveness of iQiyi as an investment opportunity, the discounted cash flow method was used, as a mean to compute the final value of the company. For the purpose of better structure, the valuation will be segmented between: Main drivers, and WACC assumptions, followed by the final recommendation to investors.

Main Drivers

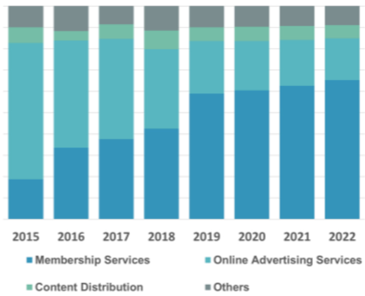
Revenues

To have a deeper understanding of each revenue stream, we divided iQiyi's revenues into four sources of income: 1) Membership services, 2) Online advertising services, 3) Content distribution and 4) Others.

1) Membership Services

GRAPH 15. PERCENTAGE OF TOTAL REVENUES

Source: iQiyi Annual Reports and Analysts Estimates



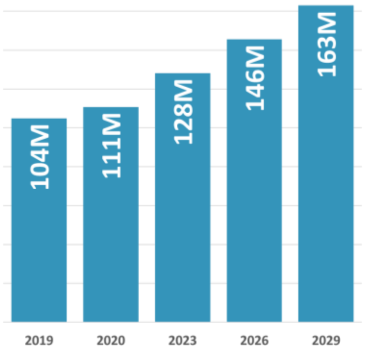
Since 2018, revenue from membership services has been iQiyi's number one source of revenue stream (Graph 15). After performing a historical analysis, one can conclude that this figure displayed sizeable growth in 2016 (277% compared to 2015), a positive trend that persists throughout the following periods (compound rate of 33,4%, per annum, from 2016 until 2031). Membership revenues have two main drivers: number of subscriptions and average revenue per subscription. As for the number of subscriptions, subscription growth among the industry has been slowing down considerably (from an annual growth of 28% in 2016 to 4% in 2019 – iiMedia Research [9]) as the market subscriber's base matures and China's macroeconomic conditions weaken (namely, slower population growth and % of 15-64 year olds, which comprise SVoD's target consumer base – World Data Bank[10]). However, iQiyi has both a competitive advantage and an opportunity to grow which might allow it to contradict this trend. Firstly, depending on the chosen subscription option, the company charges monthly fees that range from RMB6 to RMB19, which are below the amount charged by other premium content providers. This low price strategy, aligned with the company's heavy investment on technology and content, allows the company to set the ground for a loyal customer base, which represents a clear competitive advantage in terms of positive membership growth. Secondly, the yet to explore streaming market in lower tier cities and upward demographic levels of

[9] Statista. (2020). China: online streaming user number 2020 | Statista. [online] Available at: https://www.statista.com/statistics/1061708/china-online-streaming-user-number/ [Accessed 6 Jan. 2020].

[10] Data.worldbank.org. (2020). Population ages 15-64 (% of total population) - China | Data. [online] Available at: https://data.worldbank.org/indicator/SP.POP.1564.TO.ZS?locations=CN [Accessed 6 Jan. 2020].

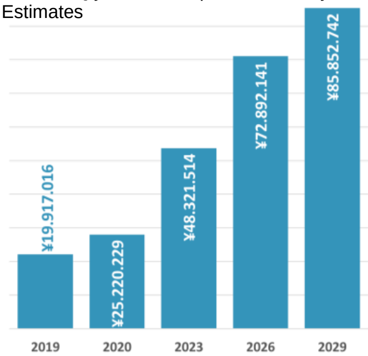
GRAPH 16. PAYING SUBSCRIBERS

Source: iQiyi Annual Reports and Analysts Estimates



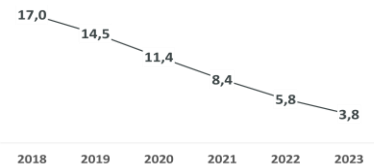
GRAPH 17. MEMBERSHIP REVENUES

Source: iQiyi Annual Reports and Analysts Estimates



GRAPH 18. VIDEO ADVERTISING SPENDING DEVELOPMENT (%)

Source: iQiyi Annual Reports and Analysts Estimates



population, as well as the future expansion to different geographies with considerable Chinese diasporas, will allow iQiyi's continued growth. With this said, it is expected an average increase of 6 million members per year, reaching a total of 163 million subscribers by 2029 (Graph 16). To compute subscription's numbers, we used the country's population, number of internet users[11] (as of 2019 around 60% of population – World Data Bank) and number of online video users (around 74% of internet users) to estimate SVoD's penetration rate. Based on the market trends presented above, for the forecasting period, we assumed that the number of internet users increased at a rate of 50 million people per year (with the penetration rate reaching 100% in 2031), while the number of online video users grew at a rate of around 35 million people per year (with the penetration rate remaining more or less stable until the end of the forecasting period). Regarding average revenue per subscription, it is expected to stabilize within 7 years. As explained above, iQiyi's client base is predicted to expand, allowing for an organic growth of revenues which ultimately offsets the need for promotions in the form of discounts over the full subscription price (mentioned on Q3 2019 Conference Call [12]). Consequently, fluctuations in the subscription fee will be less common and pricing will become more homogenous amongst clients. This said, it is expected that from 2027 onwards average revenue per subscription will keep constant at a monthly subscription fee of ¥0,53.

2) Online Advertising Services

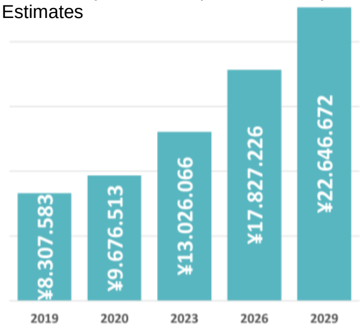
In order to forecast the online advertising segment, we calculated the average revenue per brand advertiser, according to the number of brand advertisers currently working with IQYI. Our analysis showed that the growth rate of this stream of revenue was, for the first time since 2015, negative during 2019. This might reflect the difficult macroeconomic conditions affecting the country, the delay of certain content launches (caused by increased regulatory scrutiny (i.e. censorship) and the unexpectedly slow return of in-feed advertising. Considering that these conditions are likely to persist until the end of the year, the group chose to assume that the growth rates of -16% for both the number of advertisers as well as average revenue per advertiser would be maintained for the rest of the year. Although the issues affecting this segment were to a large extent related with fitful situations specific to iQiyi (instead of an overall shift in the online advertising industry), from 2019 onwards, growth rates forecasted by Statista for the online advertising spending in China were used (Graph 18), as these see eye

[11] Data.worldbank.org. (2020). Individuals using the Internet (% of population) - China | Data. [online] Available at: https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=CN [Accessed 6 Jan. 2020].

[12] iQiyi Investor Relations Website.

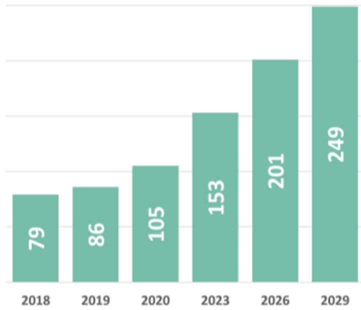
GRAPH 19. ONLINE ADVERTISING REVENUES

Source: iQiyi Annual Reports and Analysts Estimates



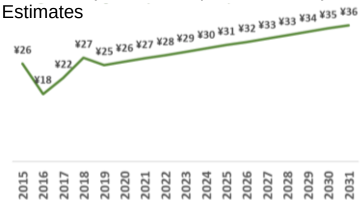
GRAPH 20. IQIYI ORIGINAL SHOWS

Source: Company Website



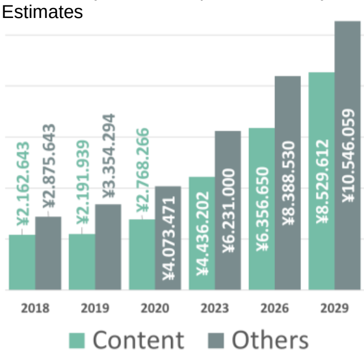
GRAPH 21. AVERAGE LICENSING PRICE (THOUSANDS)

Source: iQiyi Annual Reports and Analysts Estimates



GRAPH 22. CONTENT AND OTHER'S REVENUES (THOUSANDS)

Source: iQiyi Annual Reports and Analysts Estimates



to eye with our belief that this segment is due for a rebound after a challenging 2019, particularly if considering that the demise of old media vehicles will make advertising departments funnel more funds to advertising in online platforms such as iQiyi. In what regards the number of brand advertisers, a linear forecast based on historical data is taken as a reasonable approach, since economic growth in China is expected to be robust for the considerable future and, as such, the number of brands with the means and desire to use iQiyi as an advertisement platform are expected to grow accordingly.

3) Content Distribution

Regarding content distribution, it is essential to get a grasp of how many shows iQiyi licenses on a yearly basis. iQiyi's content and marketing strategy for 2020 continues to settle upon the creation of new content liked by the general public. Nonetheless, from this year onwards, the company also aims to produce vertical content that caters to the demands of the addressed audiences. The extra effort put into this segment in the form of investments (including a 2.86 billion investment for new content production in 2019), will broaden the company's original library (Graph 20). Furthermore, iQiyi is focused on enhancing viewer's experience by incorporating innovative technology into content creation. Through the use of AI to refine content creation and recommendation algorithms, it will be possible to meet increasingly customized audience needs. Considering the above, an increase of the average licensing price is expected (Graph 21), due to the ever more important value-added of new content.

4) Others

Since the acquisition of Skymoons on July 2018, an online game developer, this segment has become more relevant than ever before. This addition means that most of the revenue in this segment (around 3 billion RMB in 2018) comes from the monetization of the videogames developed by this company. However, no public information regarding the operations of this segment are publicly available (such as number of games, time spent playing online etc.) and, as such, the group chose to perform a linear regression forecast, in accordance with past data.

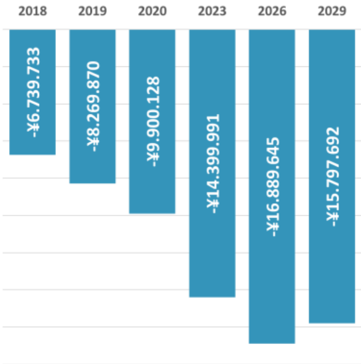
Operating Expenses

iQiyi's operational costs consist primarily of five captions: Cost of revenues, selling, general and administrative expenses, research and development expenses, depreciations and amortizations and income taxes.

1) Cost of revenues

GRAPH 23. CONTENT COSTS (THOUSANDS)

Source: iQiyi Annual Reports and Analysts Estimates

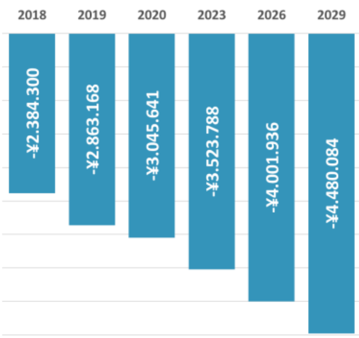


The company disaggregates the costs of revenues into: 1) Content cost (which consist of costs related with original content, licensed copyrights, revenue sharing costs for content uploaded by partners, expenses for original content and costs incurred for live broadcasting hosts), 2) Bandwidth costs (fees payed to telecommunications carriers and other service providers for telecommunications and other content delivery-related services) and 3) Others (whose composition is not disclosed by the company).

Content costs went up 56% to reach 6.7 billion yuan in 2018. As a matter of fact, as iQiyi produces more in-demand shows, production expenses arise. On the other hand, iQiyi's unique content library together with the fortuitous circumstances surrounding the company have brought several perks in terms of content costs. Firstly, paid royalties for copyrights of the company's content have translated into a 2 billion yuan gain to the company, 81% more than in the previous year, meaning that iQiyi has been able to monetize its investments. Also, TV production slowdown, which began on the second half of 2018, left most SVoD companies on a favourable position when it comes to bargaining power. Lastly, the reduction on talent costs due to a 40% cap on actors' salaries, arising from recent regulations, have made iQiyi's CFO comfortable to state that the company will keep within the path it set out to follow. All things considered, it is expected that content costs continue to increase, however at a slower pace until 2030 (Graph 23) a time at which they are predicted to reach a steady state.

GRAPH 24. BANDWIDTH COSTS (THOUSANDS)

Source: iQiyi Annual Reports and Analysts Estimates

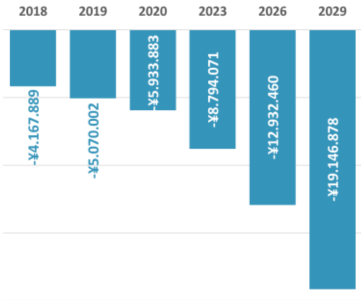


Regarding bandwidth costs, as a video streaming services' provider, iQiyi bases its platform operations on cloud infrastructure. This implies increasing transfers in and out of this infrastructure as the consumer base widens and demand increases. Since subscribers are expected to grow yearlong, the company will incur in further costs (Graph 24), maturing from 3 billion yuan in 2019 to 11 billion in 2031.

For the segment "Others", considering that no information was given regarding what the company classifies as these types of costs, the group decided to use the other two foregoing components described above as drivers of these costs' growth, along with a ratio estimated using historical data. Since this ratio turned out to be quite steady throughout the years past (varying less than one percent between 2016 and 2018), we fixed this value at -33.2% for the forecasting period.

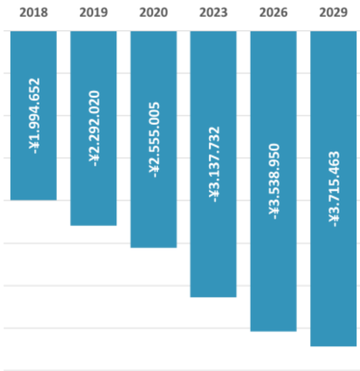
GRAPH 25. SG&A COSTS (THOUSANDS)

Source: iQiyi Annual Reports and Analysts Estimates



GRAPH 25. R&D COSTS (THOUSANDS)

Source: iQiyi Annual Reports and Analysts Estimates



GRAPH 26. AVERAGE COMPENSATION PER SECTOR IN URBAN CHINA (2017)

Source: Statista

GRAPH 27. DEPRECIATION MAP

Source: iQiyi Annual Reports

Useful Lifes	Low value	High value
Computer equipment	3	5
Office furniture and equipment	3	5
Leasehold improvements*	Over the shorter of lease terms or estimated useful lives of the assets	
Office building	43	
Others	5	

2) Selling General and Administrative Expenses

SG&A expenses are comprised by two main drivers: personnel headcount and unitary compensation. iQiyi will be expected to reach its productivity steady state, and consequently, its target headcount, in 2030, as mentioned before. Concerning average compensation, it was taken as input the increasing personnel compensation trend since 2011, the beginning of the Industrial Revolution 4.0 (data available on the National Bureau of Statistics of China).

3) Research & Development Expenses

Research & development has been the pillar for most technological companies' competitive advantage, and iQiyi is not an exception. Indeed, according to The China Briefing ("China Labour Market: Hiring Costs, Job Preferences, Talent Acquisition"), most technology related companies have been investing on the recruitment of engineers as well as on strategic partnerships with other corporations to strengthen the core of its R&D talent and, as stated by the Founder and CEO of iQiyi, to boost the market potential of this industry, "We believe 5G will create enormous growth potential and emerge as a catalyst for the entertainment industry". In truth, iQiyi has established three major strategic partnerships with China Unicom, China Telecom and China Mobile (three dominant players in the Chinese telecommunications industry), to develop an innovation lab where technology testing takes place in the hope to aid the company's promise to deliver premium content. For the forecast of R&D expenses and headcount, were used as support these trends together with historical data from the National Bureau of Statistics of China regarding investments made by technological companies on research expenses ("Basic Statistics on R&D Activities of Large and Medium Sized Enterprises by industrial sector").

4) Depreciations and Amortizations

Depreciation and Amortizations are highly material to iQiyi. As for fixed assets it was considered the depreciation map (Graph 27) together with the fact that the company's accounting policies consider all assets to depreciate according to the straight-line method. Furthermore, for amortization of intangible assets, licensed copyrights and produced content, it's paramount to account for these assets prosperity as a result of the preceding trends of content production growth.

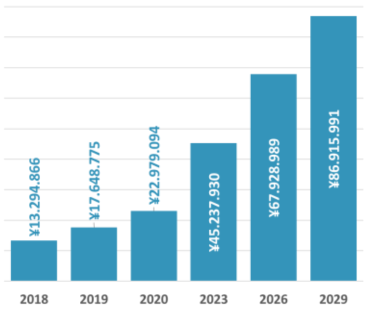
5) Income Taxes

Income taxes were adjusted to sparse captions, namely “Deemed Income” and “Other adjustments”, as well as to PRC preferential tax rates and tax holiday benefits due to expire in the foreseeable future (2020 to 2021). Substantial tax captions where forecasted based on PRC taxation laws as well as on Deloitte’s International Tax Report (China Highlights 2019).

Net working capital

GRAPH 28. NWC

Source: iQiyi Annual Reports



There are two main trends guiding iQiyi’s value of net working capital: content production and licensing agreements.

As seen before, iQiyi has strong prospects when it comes to content production. Nonetheless, it has also decided to invest on acquiring licensed copyrights to further diversify its content library portfolio. In late 2017, rumours started to spread out regarding Netflix’s so expected presence in the Chinese market. However, it turned out that the penetration strategy for this worldwide giant included iQiyi.

The Chinese company has recently raised its allocated budget to invest on Netflix’s content supply. This along with the announced in-house production of new content, explains the exponential growth expected for iQiyi’s net working capital (Graph 28) from 13 billion yuan in 2019 to 87 billion yuan in 2030.

Net working capital as a measure of short-term liquidity, is deeply connected to costs of revenues and revenues itself. To forecast values of operating cash and cash equivalents, accounts payables, accounts receivables, prepayments, and most other components of net working capital, ratios in relation to the former captions were used taking as starting point the reported values of the company. As for amounts due to/from related parties, we have adopted proportions of advertising and accrued expenses, as these are the preeminent drivers of the depicted value.

ROIC, RONIC, g

During the period under analysis (2016-2018), iQiyi Return on Invested Capital (ROIC) varied greatly. Starting with a value of -1141% in 2016, it is clear that the company was not having success in creating value to its investors. In fact, observing the company’s income statement we see that it has failed to post a profit during a single quarter since its existence, so it is obvious that when calculating the ROIC this value will always be negative. In 2017 the company’s ROIC improved dramatically to -46% thanks to a slight increase in the ratio Gross

Margin over Revenues and to a very pronounced increase in the ratio Net Working Capital over Revenues (which changed from -35.5% to 16%). In 2018 the value for ROIC decreased again to -54% on the back of a decrease in the ratio Depreciation over Revenues.

Regarding Return on New Invested Capital (RONIC), this ratio was equal to 915% in 2017, mirroring iQiyi's increasing performance compared to the previous year. In 2018 the company had a RONIC equal to -64%, showing (once again) its inability to use new capital in a productive way for investors.

Starting in 2016, iQiyi had a 300% increase in Free Cash Flow (FCF). However, for this year and the next (81% change) this is not a positive sign since it meant an increase in losses. For the next two years, the negative growth rates (-58% and -485%) had the opposite meaning: a decrease in the losses and the first ever profit in the company's history. For the next two years the growth rate remained very high at 182% and 90%, before going down to a more reasonable level of 54% in 2023. From that point onward, the growth rate kept decreasing in a less constant way until it reached the level of 10% in 2031.

WACC Assumptions

To calculate cost of capital, the first step was to calculate iQiyi's equity beta. After performing this step for iQiyi and its group of comparables a levered industry beta of 1.53 was reached. Afterwards, the debt beta was computed for the same group of companies. To do so, each firm's Altman's Z'' score was collected (a measure of a company's financial state calculated using several financial ratios relevant to predict the company's probability of default). Then, using a matching table created by Altman and Hotchkiss [13] we made the connection between a company's Z'' score and its credit rating. With this and a different correspondence table (created by Duff and Phelps) we calculated each company's debt beta. iQiyi was the company with the worst credit rating (D) corresponding to the highest debt beta (0.865) within the average for the group of comparables of 0.4745 and with a median of 0.805. After reaching the values for the debt betas we unlevered each company's equity beta and calculated the median of these values, reaching an unlevered industry beta equal to 1.70. By re-levering this value, using iQiyi target capital structure, we arrive at the final value for the company's equity beta equal to 1.84. The decision to maintain iQiyi's target capital structure equal to the current one follows many reasons. Firstly, considering iQiyi relatively high debt to equity ratio of 47%, and considering the fact that the company has yet to deliver a profit for a single quarter in its

[13] Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, Analyze and Invest in Distressed Debt; Edith Hotchkiss and Edward Altman; Figure 12.1

existence, we believe that it might be hard for the company to raise additional debt at a cost that would be advantageous for itself. With this said, we believe that the Debt level is going to remain relatively stable in the near future. Secondly, considering the high volatility that the stock price has exhibited since its IPO back in 2018, an equity raise might be interpreted by investors as a tell-tale that the company's equity is significantly overvalued, which could trigger a sell-off of the company's stock. Finally, the uncertainty about future growth prospects (caused by trade tensions around the World, as well as the possibility of a looming recession affecting the World economy in general, and China in particularly) might cause the company to be wary of any sudden capital structure changes, possibly trying to keep some flexibility in case economic conditions turn out to be worse than expected. To calculate the risk-free rate, we added an inflation differential (the difference between the yield of the 10-Year Chinese Government bond in yuan and US Dollars - equal to 1.17%) to the 10-Year US Government Bond Yield (equal to 1.54%) to reach a risk-free rate equal to 2.71%. The group decided to use a market risk premium of 5% [14], as common practice in the industry. To calculate the cost of debt we used two different methods. First, we used iQiyi previously calculated synthetic rating (D) to get a credit spread equal to 19.38% to be added to the risk-free rate, reaching a cost of debt equal to 22.09%. As a second approach, the group subtracted from the publicly traded bond's yield to maturity (6.5%) the product between the probability of default (equal to 0.10% - as estimated by Bloomberg) and the value of Loss Given Default (equal to 61.9% - using once again the synthetic rating and the average recovery rates as calculated by Moody's), reaching a cost of debt equal to 6.44%. The two methods used to calculate the return on iQiyi debt yield very different results that are considerably hard to explain. However, we believe the difference might be caused by the approach used in each method to reach the result. While the first method uses a fundamental approach, by calculating a synthetic rating, through the company's Altman Z'' score (which in its turn uses a number of different financial ratios that would be, in theory, telling of the company's credit worthiness), that is then used to compute a credit spread to add to the risk-free rate, the second method uses market based information (such as the yield to maturity of the company's debt, the probability of default, as calculated by Bloomberg, and the CDS spread) which depends not only on fundamental information about the company, but also on different supply and

[14] Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, Analyze and Invest in Distressed Debt; Edith Hotchkiss and Edward Altman; Figure 12.1

demand mechanics that influence the price of financial assets. Additionally, and considering the fact that both the Federal Reserve as well as the PBOC have

been employing measures to flood the markets with liquidity (through Quantitative Easing, low interest rates, between others), the prices of financial assets might be considerably distorted and might not be a true representation of company's fundamental values. As such the group decided to find a middle ground by calculating the average of the rd calculated by each method and use it as the pre-tax cost of debt for the company reaching a cost of debt equal to 10.70%. Finally, using iQiyi's target capital structure of 15% D/EV and 85% E/EV, we reached a WACC equal to 11.7%.

GRAPH 29. WACC MAIN VALUES

Source : Bloomberg

	D	E	EV	D/EV	E/EV	D/E	Equity Beta	Debt Beta	Unlevered Beta	Industry Betas (w/o outliers)
iQiyi	6052,3	36609,2	42661,5	0,1	0,9	0,2	2,0	0,9	1,9	1,9
People.cn	-2447,3	22614,5	20167,2	-0,1	1,1	-0,1	2,2	-0,1	2,5	2,5
360 Security Technology	-16903,5	158830,8	141927,3	-0,1	1,1	-0,1	1,0	-0,3	1,2	1,2
SINA	-898,8	3965,2	3066,3	-0,3	1,3	-0,2	1,5	0,0	2,0	2,0
Hunan TV & Broadcast Intermediary	5825,6	9431,0	15256,6	0,4	0,6	0,6	0,6	0,8	0,7	-
Bilibili	-1779,8	33453,7	31673,9	-0,1	1,1	-0,1	1,6	0,3	1,7	1,7
Sohu	-1427,9	1236,3	-191,5	7,5	-6,5	-1,2	1,7	0,8	-4,7	-
Roku	-228,8	11950,5	11721,7	0,0	1,0	0,0	1,5	0,8	1,5	1,5
Netflix	9104,3	117284,8	126389,2	0,1	0,9	0,1	1,5	0,8	1,4	1,4
Median	-898,8	22614,5	20167,2	0,0	1,0	-0,1	1,5	0,8	1,5	1,7
Average	-360,3	41799,0	41283,9	0,7	0,3	-0,1	1,5	0,5	0,9	1,7

Sensitivity and Scenario Analysis

To perform the sensitivity analysis, we started by verifying how the forecast for the stock price would change if our assumptions regarding the cost of capital (WACC) and the growth rate in perpetuity (g) were different. We set the growth rate as well as the cost of capital in a 90% confidence interval. By observing the table with the results of the different combinations we see how dependent the stock price is on these two assumptions. In fact, the stock price exhibits a high level of variation with small changes in these two values, going from a high level of $27,06 with g equal to 8,3% and WACC equal to 11,4% to a low level of $9,5 with g equal to 6,8% and WACC equal to 11,4%. Anyhow, the values provided in the sensitivity analysis, with a 90% confidence interval, allow us to corroborate the forecasted results. As a matter of fact, even at the most optimistic scenario, the target price of iQiyi's shares is below the market value, meaning that the company is overvalued.

GRAPH 30. SENSITIVITY ANALYSIS

Target Share Price		WACC				
$19,32		10,6%	11,1%	11,7%	12,3%	12,9%
Perpetual Growth	8,3%	$ 38,99	$ 29,95	$ 23,64	$19,22	$15,82
	7,9%	$ 33,30	$ 26,32	$ 21,21	$17,50	$14,58
	7,6%	$ 29,23	$ 23,59	$ 19,32	$16,13	$13,57
	7,2%	$ 26,05	$ 21,38	$ 17,74	$14,96	$12,69
	6,8%	$ 23,60	$ 19,63	$ 16,45	$13,99	$11,95

Recommendation

All procedures done, iQiyi, Inc. was valued with an equity value of $10.8B taking the DCF approach into account. Considering the number of shares outstanding, iQiyi's price per share is $14,81. Looking at the initial multiples' valuation, the price per share would be around $0,27, which is slightly lower than the one given by DCF, meaning that, despite bringing only a first idea of the real value of the company, as mentioned above, this value, somewhat, reflects the performed valuation for iQiyi, Inc. According to financial data, iQiyi's shares were trading at $23,20 on the 6th of January 2020, which is higher than the one brought to conclusion in this equity research. This said, the team advises investors to short sell iQiyi's shares since their price will decrease in the future. According to more recent data, it was possible to verify that this decrease turned out to be real. iQiyi's shares fell in price for the past year, a tendency that has been slowly reverted to a better scenario as of today. Hence, the real path of the iQiyi's shares has been aligned with this report's main recommendation.

Financial Statements

Statement 1 – Income Statement

REVENUES	2015	2016	2017	2018	2019	2020	2021	2022	2023
Membership services	¥ 996.682,00	¥ 3.762.183,00	¥ 6.536.028,00	¥ 10.622.769,00	¥ 19.917.015,64	¥ 25.220.228,65	¥ 31.848.046,25	¥ 40.118.181,74	¥ 48.321.514,18
Online advertising services	¥ 3.399.935,00	¥ 5.650.366,00	¥ 8.158.924,00	¥ 9.328.061,00	¥ 8.307.583,49	¥ 9.676.512,91	¥ 10.946.641,54	¥ 12.065.371,79	¥ 13.026.066,31
Content distribution	¥ 387.687,00	¥ 500.952,00	¥ 1.191.816,00	¥ 2.162.643,00	¥ 2.191.938,86	¥ 2.768.266,40	¥ 3.296.187,94	¥ 3.852.166,46	¥ 4.436.201,97
Others	¥ 534.280,00	¥ 1.323.906,00	¥ 1.491.582,00	¥ 2.875.643,00	¥ 3.354.294,00	¥ 4.073.470,50	¥ 4.792.647,00	¥ 5.511.823,50	¥ 6.231.000,00
TOTAL REVENUES	¥ 5.318.584,00	¥ 11.237.407,00	¥ 17.378.350,00	¥ 24.989.116,00	¥ 33.770.831,99	¥ 41.738.478,46	¥ 50.883.522,73	¥ 61.547.543,50	¥ 72.014.782,46
					¥ 0,01	¥ 0,26	¥ 0,19	¥ 0,17	¥ 0,15
OPERATING COSTS AND EXPENSES	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Cost of revenues	¥ -3.121.449,00	¥ -6.417.207,00	¥ -8.621.379,00	¥ -12.152.834,00	¥ -14.828.745,09	¥ -17.243.227,93	¥ -19.508.658,08	¥ -21.861.975,58	¥ -23.873.731,40
SG&A	¥ -1.204.464,00	¥ -1.765.824,00	¥ -2.674.990,00	¥ -4.167.889,00	¥ -5.070.002,24	¥ -5.933.882,53	¥ -6.831.502,08	¥ -7.744.776,18	¥ -8.794.071,28
R&D	¥ -499.957,00	¥ -824.482,00	¥ -1.269.806,00	¥ -1.994.652,00	¥ -2.292.020,23	¥ -2.555.004,84	¥ -2.785.143,79	¥ -2.967.611,91	¥ -3.137.731,59
Loss from equity method investments	¥ -762,00	¥ -100,00	¥ -263,00	¥ -16.965,00	¥ -375,00	¥ -375,00	¥ -375,00	¥ -375,00	¥ -375,00
Depreciations and Amortizations	¥ -2.920.315,00	¥ -5.019.388,00	¥ -8.765.184,00	¥ -14.979.977,00	¥ -17.663.673,12	¥ -19.410.312,11	¥ -24.630.139,95	¥ -28.477.191,71	¥ -33.210.548,58
OPERATIONAL COSTS AND EXPENSES	¥ -7.746.947,00	¥ -14.027.001,00	¥ -21.331.622,00	¥ -33.312.317,00	¥ -39.854.815,69	¥ -45.142.802,41	¥ -53.755.818,90	¥ -61.051.930,38	¥ -69.016.457,85
OPERATING LOSS	¥ -2.428.363,00	¥ -2.789.594,00	¥ -3.953.272,00	¥ -8.323.201,00	¥ -6.083.983,70	¥ -3.404.323,95	¥ -2.872.296,17	¥ 495.613,12	¥ 2.998.324,61
OTHER EXPENSES	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Interest income	¥ 5.002,00	¥ 17.009,00	¥ 83.127,00	¥ 213.969,00	¥ 426.235,10	¥ 606.805,20	¥ 742.872,55	¥ 883.085,83	¥ 1.028.647,82
Interest expenses	¥ -55.492,00	¥ -110.477,00	¥ -277.577,00	¥ -94.711,00	¥ -34.387,85	¥ -33.226,74	¥ -31.788,62	¥ -32.494,93	¥ -33.079,84
Foreign exchange (loss)/gain, net	¥ -76.985,00	¥ -238.564,00	¥ 400.737,00	¥ -970.796,00	¥ -1.227.871,80	¥ -1.409.380,30	¥ -1.597.650,23	¥ -1.668.580,72	¥ -1.923.891,84
Other income	¥ -8.108,00	¥ 60.692,00	¥ 2.488,00	¥ 192.309,00	¥ 368.904,83	¥ 335.844,73	¥ 301.544,89	¥ 265.958,80	¥ 229.038,23
Total other (expenses)/income, net	¥ -135.583,00	¥ -271.340,00	¥ 208.775,00	¥ -659.229,00	¥ -467.119,72	¥ -499.957,10	¥ -585.021,41	¥ -552.031,03	¥ -699.285,63
Loss before income taxes	¥ -2.563.946,00	¥ -3.060.934,00	¥ -3.744.497,00	¥ -8.982.430,00	¥ -6.551.103,42	¥ -3.904.281,05	¥ -3.457.317,57	¥ -56.417,92	¥ 2.299.038,98
Total income tax expense	¥ -11.166,00	¥ -13.088,00	¥ 7.565,00	¥ -78.801,00	¥ 972.951,95	¥ 659.932,64	¥ 637.576,26	¥ 379.480,48	¥ 222.357,51
Net loss	¥ -2.575.112,00	¥ -3.074.022,00	¥ -3.736.932,00	¥ -9.061.231,00	¥ -5.578.151,47	¥ -3.244.348,41	¥ -2.819.741,31	¥ 323.062,56	¥ 2.521.396,49
Net income attributable to noncontrolling interests	¥ -	¥ -	¥ -	¥ -48.545,00	¥ -	¥ -	¥ -	¥ -	¥ -
Net loss attributable to IQIYI, Inc.	¥ -2.575.112,00	¥ -3.074.022,00	¥ -3.736.932,00	¥ -9.109.776,00	¥ -5.578.151,47	¥ -3.244.348,41	¥ -2.819.741,31	¥ 323.062,56	¥ 2.521.396,49

REVENUES	2024	2025	2026	2027	2028	2029	2030	2031
Membership services	¥ 58.083.187,26	¥ 66.656.296,53	¥ 72.892.141,43	¥ 79.584.930,08	¥ 82.715.744,77	¥ 85.852.741,51	¥ 88.995.929,52	¥ 119.669.244,23
Online advertising services	¥ 14.924.374,66	¥ 16.344.789,05	¥ 17.827.225,99	¥ 19.371.685,49	¥ 20.978.167,54	¥ 22.646.672,16	¥ 24.377.199,33	¥ 26.169.749,06
Content distribution	¥ 5.048.294,46	¥ 5.688.443,93	¥ 6.356.650,39	¥ 7.052.913,83	¥ 7.777.234,26	¥ 8.529.611,67	¥ 9.310.046,06	¥ 10.118.537,43
Others	¥ 6.950.176,50	¥ 7.669.353,00	¥ 8.388.529,50	¥ 9.107.706,00	¥ 9.826.882,50	¥ 10.546.059,00	¥ 11.265.235,50	¥ 11.984.412,00
TOTAL REVENUES	¥ 85.006.032,88	¥ 96.358.882,51	¥ 105.464.547,31	¥ 115.117.235,40	¥ 121.298.029,07	¥ 127.575.084,33	¥ 133.948.410,41	¥ 167.941.942,72
	¥ 0,14	¥ 0,13	¥ 0,12	¥ 0,11	¥ 0,10	¥ 0,10	¥ 0,09	¥ 0,09
OPERATING COSTS AND EXPENSES	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Cost of revenues	¥ -25.844.419,66	¥ -27.211.985,60	¥ -27.826.720,87	¥ -28.190.144,03	¥ -27.727.969,41	¥ -27.009.157,61	¥ -26.021.501,98	¥ -27.331.535,32
SG&A	¥ -9.993.495,57	¥ -11.363.827,54	¥ -12.932.459,99	¥ -14.729.613,94	¥ -16.788.156,62	¥ -19.146.878,24	¥ -21.850.807,16	¥ -24.951.272,54
R&D	¥ -3.291.907,47	¥ -3.426.700,37	¥ -3.538.950,16	¥ -3.625.895,26	¥ -3.685.282,70	¥ -3.715.462,77	¥ -3.715.462,77	¥ -3.715.462,77
Loss from equity method investments	¥ -375,00	¥ -375,00	¥ -375,00	¥ -375,00	¥ -375,00	¥ -375,00	¥ -375,00	¥ -375,00
Depreciations and Amortizations	¥ -37.754.505,99	¥ -42.206.453,36	¥ -46.213.338,57	¥ -50.100.789,36	¥ -53.948.407,06	¥ -57.441.769,15	¥ -60.832.710,28	¥ -66.005.015,58
OPERATIONAL COSTS AND EXPENSES	¥ -76.884.703,68	¥ -84.209.341,87	¥ -90.511.844,58	¥ -96.646.817,58	¥ -102.150.190,79	¥ -107.313.642,77	¥ -112.420.857,19	¥ -122.003.661,21
OPERATING LOSS	¥ 8.121.329,19	¥ 12.149.540,64	¥ 14.952.702,73	¥ 18.470.417,82	¥ 19.147.838,28	¥ 20.261.441,56	¥ 21.527.553,22	¥ 45.938.281,51
OTHER EXPENSES	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Interest income	¥ 1.173.516,90	¥ 1.327.273,69	¥ 1.475.261,23	¥ 1.615.335,84	¥ 1.757.336,67	¥ 1.887.112,03	¥ 2.017.226,36	¥ 2.147.679,68
Interest expenses	¥ -33.675,28	¥ -34.281,43	¥ -34.898,50	¥ -35.526,67	¥ -36.166,15	¥ -36.817,14	¥ -37.479,85	¥ -38.154,49
Foreign exchange (loss)/gain, net	¥ -2.049.302,01	¥ -2.227.340,52	¥ -2.364.651,99	¥ -2.492.519,87	¥ -2.587.935,89	¥ -2.675.056,17	¥ -2.752.525,32	¥ -2.933.640,62
Other income	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Total other (expenses)/income, net	¥ -909.460,39	¥ -934.348,27	¥ -924.289,26	¥ -912.710,70	¥ -866.765,37	¥ -824.761,28	¥ -772.778,81	¥ -824.115,42
Loss before income taxes	¥ 7.211.868,80	¥ 11.215.192,38	¥ 14.028.413,47	¥ 17.557.707,12	¥ 18.281.072,91	¥ 19.436.680,28	¥ 20.754.774,40	¥ 45.114.166,09
Total income tax expense	¥ -170.851,49	¥ -446.281,90	¥ -642.356,25	¥ -924.450,80	¥ -944.304,80	¥ -1.010.413,91	¥ -1.097.823,68	¥ -3.085.374,92
Net loss	¥ 7.041.017,32	¥ 10.768.910,48	¥ 13.386.057,22	¥ 16.633.256,32	¥ 17.336.768,11	¥ 18.426.266,36	¥ 19.656.950,72	¥ 42.028.791,16
Net income attributable to noncontrolling interests	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Net loss attributable to IQIYI, Inc.	¥ 7.041.017,32	¥ 10.768.910,48	¥ 13.386.057,22	¥ 16.633.256,32	¥ 17.336.768,11	¥ 18.426.266,36	¥ 19.656.950,72	¥ 42.028.791,16

Statement 2 – Balance Sheet

CORE BUSINESS	2016	2017	2018	2019	2020	2021	2022	2023
Operating current assets	¥ 3.511.868,14	¥ 4.535.169,00	¥ 7.530.946,32	¥ 11.253.245,52	¥ 13.809.769,38	¥ 16.790.558,08	¥ 20.232.825,38	¥ 23.631.154,97
Operating non-current assets	¥ 8.490.153,00	¥ 14.517.976,00	¥ 24.960.525,00	¥ 31.958.773,14	¥ 38.940.097,38	¥ 46.753.376,59	¥ 55.841.913,01	¥ 64.918.566,88
Operating Assets	¥ 12.002.021,14	¥ 19.053.145,00	¥ 32.491.471,32	¥ 43.212.018,66	¥ 52.749.866,75	¥ 63.543.934,66	¥ 76.074.738,39	¥ 88.549.721,85
Operating current liabilities	¥ 11.789.853,00	¥ 11.316.238,00	¥ 16.682.187,00	¥ 20.310.013,76	¥ 24.288.011,73	¥ 28.371.840,79	¥ 32.826.496,12	¥ 36.957.013,64
Operating non-current liabilities	¥ 347,00	¥ 6.432,00	¥ 1.338.921,00	¥ 1.264.048,19	¥ 1.418.968,81	¥ 1.592.555,82	¥ 1.790.224,60	¥ 1.984.773,61
Operating liabilities	¥ 11.790.200,00	¥ 11.322.670,00	¥ 18.021.108,00	¥ 21.574.061,95	¥ 25.706.980,54	¥ 29.964.396,61	¥ 34.616.720,72	¥ 38.941.787,25
INVESTED CAPITAL CORE BUSINESS	¥ 211.821,14	¥ 7.730.475,00	¥ 14.470.363,32	¥ 21.637.956,71	¥ 27.042.886,21	¥ 33.579.538,05	¥ 41.458.017,67	¥ 49.607.934,60

NON-CORE BUSINESS	2016	2017	2018	2019	2020	2021	2022	2023
Non-core current assets	¥ 902.978,00	¥ 779.916,00	¥ 6.061.832,00	¥ 11.616.408,32	¥ 14.188.102,43	¥ 16.759.796,54	¥ 19.331.490,65	¥ 21.903.184,75
Non-core non-current assets	¥ 9.893,00	¥ 5.110,00	¥ 26.222,00	¥ 187,78	¥ -1.036,17	¥ -942,20	¥ -18,11	¥ 636,82
Non-core Assets	¥ 912.871,00	¥ 785.026,00	¥ 6.088.054,00	¥ 11.616.596,10	¥ 14.187.066,26	¥ 16.758.854,34	¥ 19.331.472,54	¥ 21.903.821,57
Non-core non-current liabilities	¥ 29.657,00	¥ 24.970,00	¥ 176.897,00	¥ -953,33	¥ 5.958,33	¥ 5.595,16	¥ 101,40	¥ -3.672,47
Non-core Liabilities	¥ 29.657,00	¥ 24.970,00	¥ 176.897,00	¥ -953,33	¥ 5.958,33	¥ 5.595,16	¥ 101,40	¥ -3.672,47
INVESTED CAPITAL NON-CORE BUSINESS	¥ 883.214,00	¥ 760.056,00	¥ 5.911.157,00	¥ 11.617.549,43	¥ 14.181.107,93	¥ 16.753.259,18	¥ 19.331.371,14	¥ 21.907.494,04

FINANCING	2016	2017	2018	2019	2020	2021	2022	2023
Financing current assets	¥ 739.458,86	¥ 385.443,00	¥ 6.260.664,68	¥ 3.732.028,38	¥ 4.676.476,58	¥ 5.764.358,74	¥ 6.352.168,66	¥ 7.326.855,14
Financing Assets	¥ 739.458,86	¥ 385.443,00	¥ 6.260.664,68	¥ 3.732.028,38	¥ 4.676.476,58	¥ 5.764.358,74	¥ 6.352.168,66	¥ 7.326.855,14
Financing current liabilities	¥ 100.000,00	¥ 309.374,00	¥ 3.130.169,00	¥ 1.336.760,49	¥ 1.724.136,26	¥ 2.174.179,30	¥ 1.670.392,20	¥ 1.806.480,49
Financing non-current liabilities	¥ -	¥ 284.000,00	¥ 5.356.453,00	¥ 4.649.328,67	¥ 3.652.709,76	¥ 2.144.250,06	¥ 1.044.734,37	¥ 284.000,00
Financing Liabilities	¥ 100.000,00	¥ 593.374,00	¥ 8.486.622,00	¥ 5.986.089,15	¥ 5.376.846,03	¥ 4.318.429,36	¥ 2.715.126,57	¥ 2.090.480,49
Total Debt	¥ 100.000,00	¥ 593.374,00	¥ 8.486.622,00	¥ 5.986.089,15	¥ 5.376.846,03	¥ 4.318.429,36	¥ 2.715.126,57	¥ 2.090.480,49
TOTAL FUNDS INVESTED	¥ 639.458,86	¥ -207.931,00	¥ -2.225.957,32	¥ -2.254.060,77	¥ -700.369,44	¥ 1.445.929,38	¥ 3.637.042,09	¥ 5.236.374,66
EQUITY	¥ 1.734.494,00	¥ 8.282.600,00	¥ 18.155.563,00	¥ 31.001.445,37	¥ 40.523.624,70	¥ 51.778.726,61	¥ 64.426.430,90	¥ 76.751.803,30

CORE BUSINESS	2024	2025	2026	2027	2028	2029	2030	2031
Operating current assets	¥ 27.785.661,61	¥ 31.471.518,74	¥ 34.509.613,09	¥ 37.723.717,21	¥ 39.931.638,28	¥ 42.182.974,40	¥ 44.477.728,28	¥ 54.912.258,49
Operating non-current assets	¥ 75.670.440,61	¥ 85.413.281,49	¥ 93.477.570,36	¥ 102.012.324,63	¥ 107.945.452,50	¥ 114.001.249,90	¥ 120.184.406,14	¥ 147.575.993,12
Operating Assets	¥ 103.456.102,22	¥ 116.884.800,23	¥ 127.987.183,45	¥ 139.736.041,84	¥ 147.877.090,78	¥ 156.184.224,29	¥ 164.662.134,42	¥ 202.488.251,60
Operating current liabilities	¥ 41.547.255,20	¥ 45.312.447,12	¥ 48.008.234,17	¥ 50.600.948,25	¥ 51.823.676,52	¥ 52.850.644,10	¥ 53.671.645,42	¥ 61.820.552,23
Operating non-current liabilities	¥ 1.569.338,16	¥ 1.777.927,60	¥ 1.950.890,29	¥ 2.132.525,46	¥ 2.259.117,41	¥ 2.387.235,49	¥ 2.516.879,84	¥ 3.084.413,38
Operating liabilities	¥ 43.116.593,36	¥ 47.090.374,72	¥ 49.959.124,46	¥ 52.733.473,71	¥ 54.082.793,94	¥ 55.237.879,59	¥ 56.188.525,26	¥ 64.904.965,61
INVESTED CAPITAL CORE BUSINESS	¥ 60.339.508,86	¥ 69.794.425,51	¥ 78.028.058,99	¥ 87.002.568,13	¥ 93.794.296,84	¥ 100.946.344,70	¥ 108.473.609,16	¥ 137.583.286,00

NON-CORE BUSINESS	2024	2025	2026	2027	2028	2029	2030	2031
Non-core current assets	¥ 24.474.878,86	¥ 27.046.572,97	¥ 29.618.267,07	¥ 32.189.961,18	¥ 34.761.655,29	¥ 37.333.349,40	¥ 39.905.043,50	¥ 42.476.737,61
Non-core non-current assets	¥ 2.077,65	¥ 3.212,68	¥ 4.130,35	¥ 5.037,69	¥ 5.270,39	¥ 5.623,70	¥ 6.014,08	¥ 13.013,81
Non-core Assets	¥ 24.476.956,51	¥ 27.049.785,65	¥ 29.622.397,42	¥ 32.194.998,88	¥ 34.766.925,68	¥ 37.338.973,09	¥ 39.911.057,58	¥ 42.489.751,42
Non-core non-current liabilities	¥ -11.992,45	¥ -18.356,84	¥ -23.753,85	¥ -28.945,59	¥ -30.235,95	¥ -32.305,91	¥ -34.535,57	¥ -74.716,65
Non-core Liabilities	¥ -11.992,45	¥ -18.356,84	¥ -23.753,85	¥ -28.945,59	¥ -30.235,95	¥ -32.305,91	¥ -34.535,57	¥ -74.716,65
INVESTED CAPITAL NON-CORE BUSINESS	¥ 24.488.948,96	¥ 27.068.142,48	¥ 29.646.151,27	¥ 32.223.944,47	¥ 34.797.161,63	¥ 37.371.279,00	¥ 39.945.593,15	¥ 42.564.468,07

FINANCING	2024	2025	2026	2027	2028	2029	2030	2031
Financing current assets	¥ 8.453.378,29	¥ 9.347.930,65	¥ 10.137.076,91	¥ 10.948.289,98	¥ 11.456.618,58	¥ 11.988.817,58	¥ 12.522.488,67	¥ 15.370.960,89
Financing Assets	¥ 8.453.378,29	¥ 9.347.930,65	¥ 10.137.076,91	¥ 10.948.289,98	¥ 11.456.618,58	¥ 11.988.817,58	¥ 12.522.488,67	¥ 15.370.960,89
Financing current liabilities	¥ 1.858.806,28	¥ 1.778.559,65	¥ 1.814.615,47	¥ 1.817.327,13	¥ 1.803.500,75	¥ 1.811.814,45	¥ 1.810.880,78	¥ 1.808.732,00
Financing non-current liabilities	¥ 284.000,00	¥ 284.000,00	¥ 284.000,00	¥ 284.000,00	¥ 284.000,00	¥ 284.000,00	¥ 284.000,00	¥ 284.000,00
Financing Liabilities	¥ 2.142.806,28	¥ 2.062.559,65	¥ 2.098.615,47	¥ 2.101.327,13	¥ 2.087.500,75	¥ 2.095.814,45	¥ 2.094.880,78	¥ 2.092.732,00
Total Debt	¥ 2.142.806,28	¥ 2.062.559,65	¥ 2.098.615,47	¥ 2.101.327,13	¥ 2.087.500,75	¥ 2.095.814,45	¥ 2.094.880,78	¥ 2.092.732,00
TOTAL FUNDS INVESTED	¥ 6.310.572,01	¥ 7.285.370,99	¥ 8.038.461,44	¥ 8.846.962,84	¥ 9.369.117,83	¥ 9.893.003,13	¥ 10.427.607,89	¥ 13.278.228,89
EQUITY	¥ 91.139.029,84	¥ 104.147.938,99	¥ 115.712.671,70	¥ 128.073.475,45	¥ 137.960.576,30	¥ 148.210.626,83	¥ 158.846.810,20	¥ 193.425.982,96

Statement 3 – Cash Flow Statement & Valuation Metrics

Data				
g		7,56%		7,56%
WACC		11,70%		11,70%
Discounted Terminal Value	¥	100.327.404.684	$	14.045.836.655,70
Enterprise Value (core)	¥	**100.314.150.144**	$	**14.043.981.020,13**
Enterprise Value	¥	100.328.331.252	$	14.045.966.375,23
Equity Value	¥	**100.327.630.882**	$	**14.045.868.323,51**
Market Capitalization	¥	13.093.988.383	$	1.833.158.373,62
Outstanding shares		727.040.000	$	727.040.000,00
Fair Value	¥	**137,99**	$	**19,32**

	2016	2017	2018	2019	2020	2021	2022	2023
CORE								
NOPLAT	¥ -2.417.377,87	¥ -3.539.862,91	¥ -7.811.717,88	¥ -5.435.057,86	¥ -3.058.684,51	¥ -2.603.580,31	¥ 450.611,70	¥ 2.704.080,48
Depreciation	¥ -5.019.388,00	¥ -8.765.184,00	¥ -14.979.977,00	¥ -17.663.673,12	¥ -19.410.312,11	¥ -24.630.139,95	¥ -28.477.191,71	¥ -33.210.548,58
OPERATIONAL CASH FLOW	¥ 2.602.010,13	¥ 5.225.321,09	¥ 7.168.259,12	¥ 12.228.615,26	¥ 16.351.627,60	¥ 22.026.559,64	¥ 28.927.803,41	¥ 35.914.629,06
Invested Capital - Fixed Assets	¥ 4.198.293,00	¥ 4.953.080,00	¥ 7.184.686,00	¥ 8.343.091,19	¥ 9.394.111,63	¥ 10.600.443,83	¥ 12.007.145,78	¥ 13.387.890,04
Gross CAPEX Investment	¥ -	¥ -754.787,00	¥ -2.231.606,00	¥ -1.158.405,19	¥ -1.051.020,44	¥ -1.206.332,20	¥ -1.406.701,95	¥ -1.380.744,26
Net CAPEX	¥ -5.019.388,00	¥ -9.519.971,00	¥ -17.211.583,00	¥ -18.822.078,31	¥ -20.461.332,55	¥ -25.836.472,15	¥ -29.883.893,66	¥ -34.591.292,84
Invested Capital - NWC and Others	¥ -3.986.471,86	¥ 2.777.395,00	¥ 7.285.677,32	¥ 13.294.865,52	¥ 17.648.774,58	¥ 22.979.094,22	¥ 29.450.871,89	¥ 36.220.044,56
Investment in NWC and Others	¥ -	¥ -6.763.866,86	¥ -4.508.282,32	¥ -6.009.188,20	¥ -4.353.909,06	¥ -5.330.319,64	¥ -6.471.777,67	¥ -6.769.172,67
Investment Cash Flow	¥ -5.019.388,00	¥ -16.283.837,86	¥ -21.719.865,32	¥ -24.831.266,51	¥ -24.815.241,61	¥ -31.166.791,79	¥ -36.355.671,33	¥ -41.360.465,51
CORE FREE CASH FLOW	¥ -2.417.377,87	¥ -11.058.516,77	¥ -14.551.606,20	¥ -12.602.651,25	¥ -8.463.614,02	¥ -9.140.232,15	¥ -7.427.867,92	¥ -5.445.836,45
NON-CORE								
Non-Core Operational Cash Flow	¥ -374.860,88	¥ -235.515,84	¥ -502.523,37	¥ 815.258,58	¥ 899.940,99	¥ 1.012.326,53	¥ 1.158.845,67	¥ 1.293.713,39
Invested Capital	¥ 883.214,00	¥ 760.056,00	¥ 5.911.157,00	¥ 11.617.549,43	¥ 14.181.107,93	¥ 16.753.259,18	¥ 19.331.371,14	¥ 21.907.494,04
Investment Cash Flow	¥ -	¥ 123.158,00	¥ -5.151.101,00	¥ -5.706.392,43	¥ -2.563.558,49	¥ -2.572.151,25	¥ -2.578.111,96	¥ -2.576.122,90
NON-CORE FREE CASH FLOW	¥ -374.860,88	¥ -112.357,84	¥ -5.653.624,37	¥ -4.891.133,86	¥ -1.663.617,50	¥ -1.559.824,72	¥ -1.419.266,29	¥ -1.282.409,52
FREE CASH FLOW	¥ -2.792.238,75	¥ -11.170.874,61	¥ -20.205.230,57	¥ -17.493.785,11	¥ -10.127.231,51	¥ -10.700.056,87	¥ -8.847.134,21	¥ -6.728.245,97
Growth (g)		300%	81%	-13%	-42%	6%	-17%	-24%
FINANCIAL								
Financial Result	¥ -83.550,25	¥ -227.797,25	¥ 1.039.874,25	¥ -161.554,37	¥ -300.469,68	¥ 347.332,82	¥ -25.811,32	¥ -42.513,90
Net Financial Assets	¥ 639.458,86	¥ -207.931,00	¥ -2.225.957,32	¥ -2.254.060,77	¥ -700.369,44	¥ 1.445.929,38	¥ 3.637.042,09	¥ 5.236.374,66
Investment in Net Financial Assets	¥ -	¥ 847.389,86	¥ 2.018.026,32	¥ 28.103,45	¥ -1.553.691,33	¥ -2.146.298,82	¥ -2.191.112,72	¥ -1.599.332,56
Net Cash Transactions with shareholders	¥ -	¥ 10.551.282,00	¥ 17.147.330,00	¥ 17.627.236,03	¥ 11.981.392,53	¥ 12.499.022,88	¥ 11.064.058,24	¥ 8.370.092,43
FINANCING CASH FLOW	¥ -83.550,25	¥ 11.170.874,61	¥ 20.205.230,57	¥ 17.493.785,11	¥ 10.127.231,51	¥ 10.700.056,87	¥ 8.847.134,21	¥ 6.728.245,97

	2024	2025	2026	2027	2028	2029	2030	2031
CORE								
NOPLAT	¥ 7.341.641,85	¥ 10.999.905,76	¥ 13.533.824,72	¥ 16.698.846,72	¥ 17.321.930,73	¥ 18.332.617,20	¥ 19.475.114,90	¥ 41.553.366,31
Depreciation	¥ -37.754.505,99	¥ -42.206.453,36	¥ -46.213.338,57	¥ -50.100.789,36	¥ -53.948.407,06	¥ -57.441.769,15	¥ -60.832.710,28	¥ -66.005.015,58
OPERATIONAL CASH FLOW	¥ 45.096.147,84	¥ 53.206.359,12	¥ 59.747.163,30	¥ 66.799.636,08	¥ 71.270.337,79	¥ 75.774.386,35	¥ 80.307.825,18	¥ 107.558.381,89
Invested Capital - Fixed Assets	¥ 15.101.579,25	¥ 16.599.145,32	¥ 17.800.282,94	¥ 19.073.578,95	¥ 19.888.893,80	¥ 20.716.906,62	¥ 21.557.618,62	¥ 26.041.740,44
Gross CAPEX Investment	¥ -1.713.689,21	¥ -1.497.566,07	¥ -1.201.137,61	¥ -1.273.296,02	¥ -815.314,85	¥ -828.012,82	¥ -840.712,00	¥ -4.484.121,82
Net CAPEX	¥ -39.468.195,19	¥ -43.704.019,44	¥ -47.414.476,19	¥ -51.374.085,37	¥ -54.763.721,91	¥ -58.269.781,97	¥ -61.673.422,28	¥ -70.489.137,40
Invested Capital - NWC and Others	¥ 45.237.929,61	¥ 53.195.280,18	¥ 60.227.776,05	¥ 67.928.989,18	¥ 73.905.403,04	¥ 80.229.438,08	¥ 86.915.990,54	¥ 111.541.545,56
Investment in NWC and Others	¥ -9.017.885,05	¥ -7.957.350,57	¥ -7.032.495,87	¥ -7.701.213,13	¥ -5.976.413,86	¥ -6.324.035,04	¥ -6.686.552,46	¥ -24.625.555,02
Investment Cash Flow	¥ -48.486.080,24	¥ -51.661.370,01	¥ -54.446.972,05	¥ -59.075.298,50	¥ -60.740.135,77	¥ -64.593.817,01	¥ -68.359.974,73	¥ -95.114.692,42
CORE FREE CASH FLOW	¥ -3.389.932,41	¥ 1.544.989,11	¥ 5.300.191,24	¥ 7.724.337,57	¥ 10.530.202,02	¥ 11.180.569,34	¥ 11.947.850,45	¥ 12.443.689,47
NON-CORE								
Non-Core Operational Cash Flow	¥ 1.272.425,09	¥ 1.477.711,55	¥ 1.664.725,30	¥ 1.844.789,80	¥ 1.998.448,09	¥ 2.144.051,74	¥ 2.292.089,75	¥ 2.723.153,28
Invested Capital	¥ 24.488.948,96	¥ 27.068.142,48	¥ 29.646.151,27	¥ 32.223.944,47	¥ 34.797.161,63	¥ 37.371.279,00	¥ 39.945.593,15	¥ 42.564.468,07
Investment Cash Flow	¥ -2.581.454,92	¥ -2.579.193,52	¥ -2.578.008,79	¥ -2.577.793,20	¥ -2.573.217,16	¥ -2.574.117,37	¥ -2.574.314,15	¥ -2.618.874,92
NON-CORE FREE CASH FLOW	¥ -1.309.029,84	¥ -1.101.481,97	¥ -913.283,49	¥ -733.003,40	¥ -574.769,07	¥ -430.065,63	¥ -282.224,40	¥ 104.278,36
FREE CASH FLOW	¥ -4.698.962,24	¥ 443.507,15	¥ 4.386.907,75	¥ 6.991.334,18	¥ 9.955.432,96	¥ 10.750.503,71	¥ 11.665.626,05	¥ 12.547.967,83
Growth (g)	-30%	-109%	889%	59%	42%	8%	9%	8%
FINANCIAL								
Financial Result	¥ 148.625,12	¥ 25.038,44	¥ 63.047,35	¥ 90.684,21	¥ 67.478,39	¥ 82.398,64	¥ 88.131,76	¥ 90.457,13
Net Financial Assets	¥ 6.310.572,01	¥ 7.285.370,99	¥ 8.038.461,44	¥ 8.846.962,84	¥ 9.369.117,83	¥ 9.893.003,13	¥ 10.427.607,89	¥ 13.278.228,89
Investment in Net Financial Assets	¥ -1.074.197,36	¥ -974.798,98	¥ -753.090,45	¥ -808.501,40	¥ -522.154,98	¥ -523.885,30	¥ -534.604,77	¥ -2.850.621,00
Net Cash Transactions with shareholders	¥ 5.624.534,47	¥ 506.253,40	¥ -3.696.864,65	¥ -6.273.516,99	¥ -9.500.756,36	¥ -10.309.017,05	¥ -11.219.153,04	¥ -9.787.803,96
FINANCING CASH FLOW	¥ 4.698.962,24	¥ -443.507,15	¥ -4.386.907,75	¥ -6.991.334,18	¥ -9.955.432,96	¥ -10.750.503,71	¥ -11.665.626,05	¥ -12.547.967,83

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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