
Financial Assets (value of Baidu)

2015-9-3

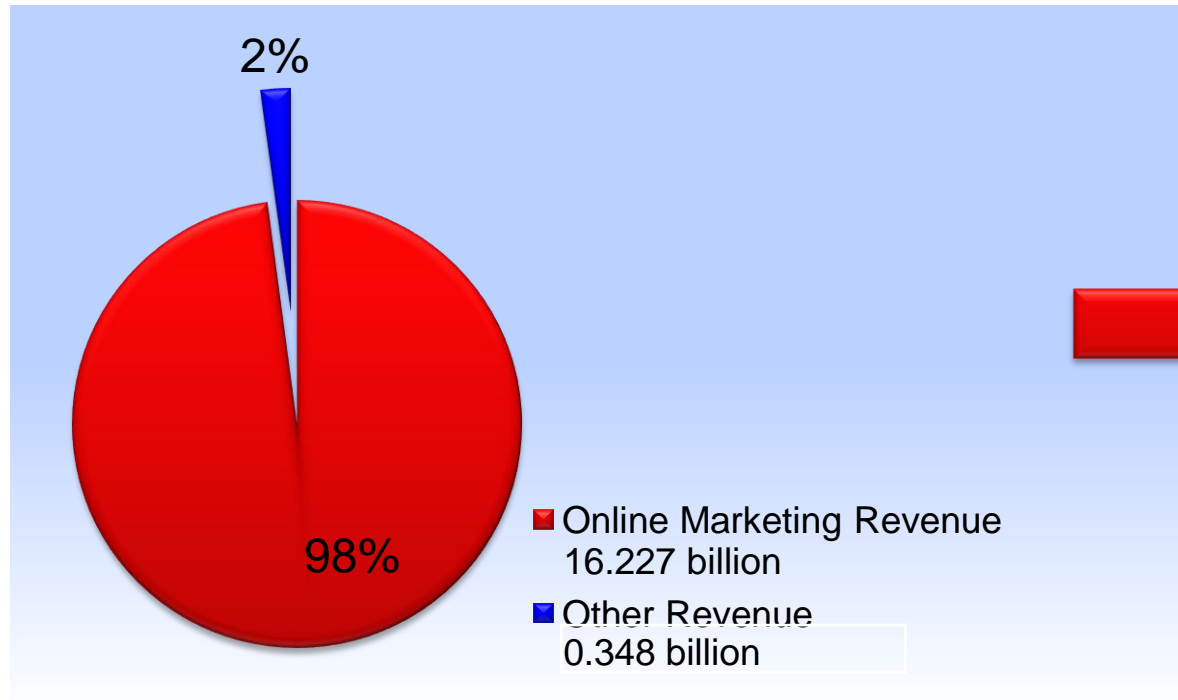
Chin&Nana

AGENDA

- What is the core competency of Baidu?
- How does it compare with Google?
- Is Baidu stock a good asset for investment?
 - What makes the \$142.40 per share value of Baidu stocks (2015-8-26)?
 - Where does the value come from?
- What was the IPO price of Baidu?

WHAT IS THE CORE COMPETENCY OF BAIDU?

Baidu 2015 Q2 revenue data



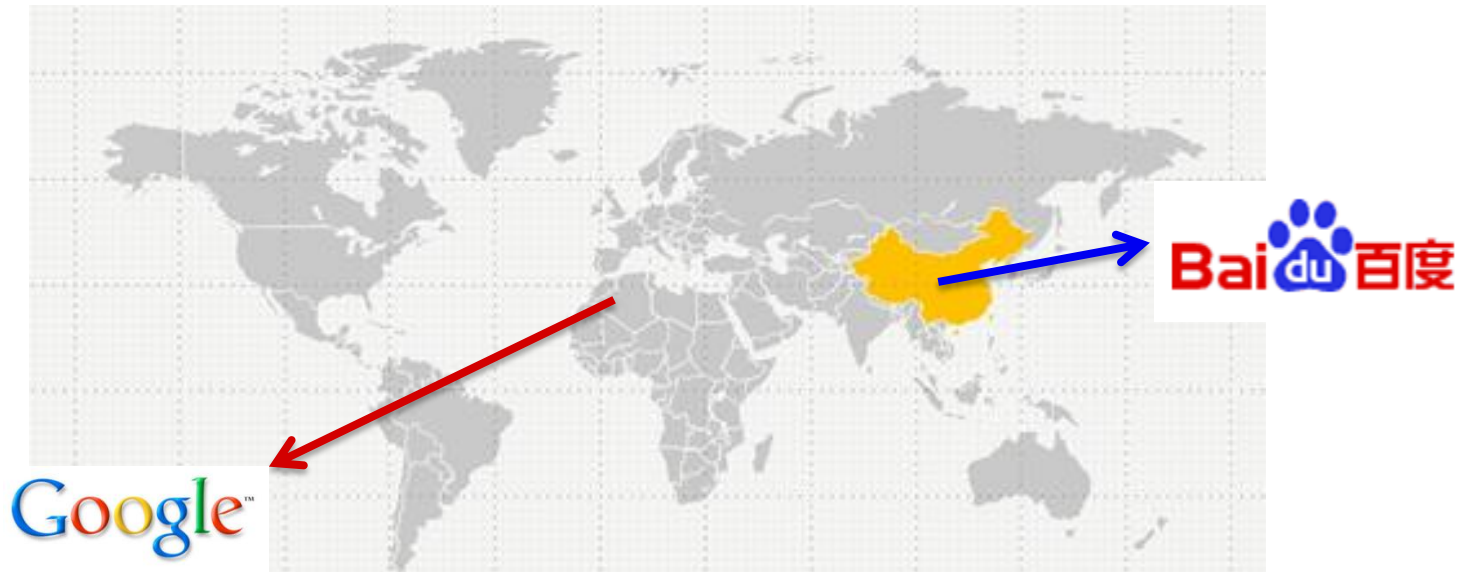
**Core Competency
is
Search Business**

HOW DOES IT COMPARE WITH GOOGLE?

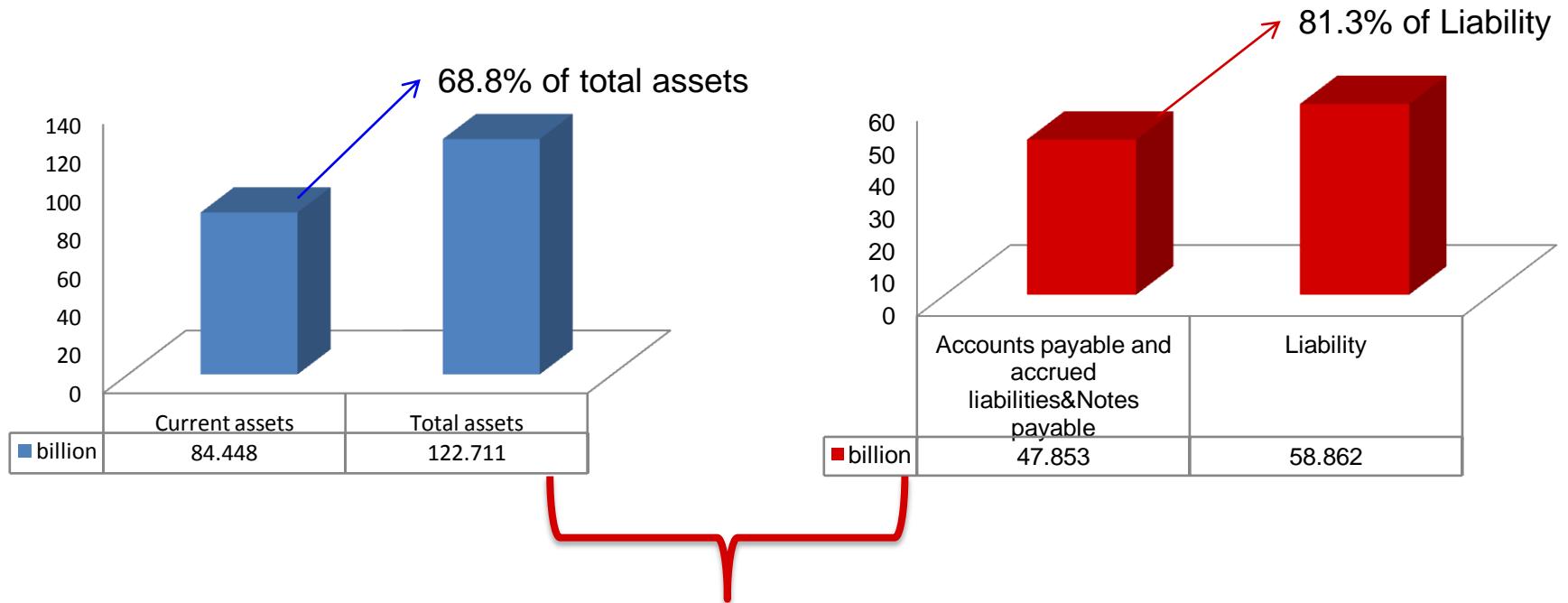
	Price of Stock	PE	PB	Avg.ROE
BAIDU	\$143.57	24	5.38	30%
GOOGLE	\$597.79	28	3.67	15%

Update to Sept. 1st 2015

Competitors?



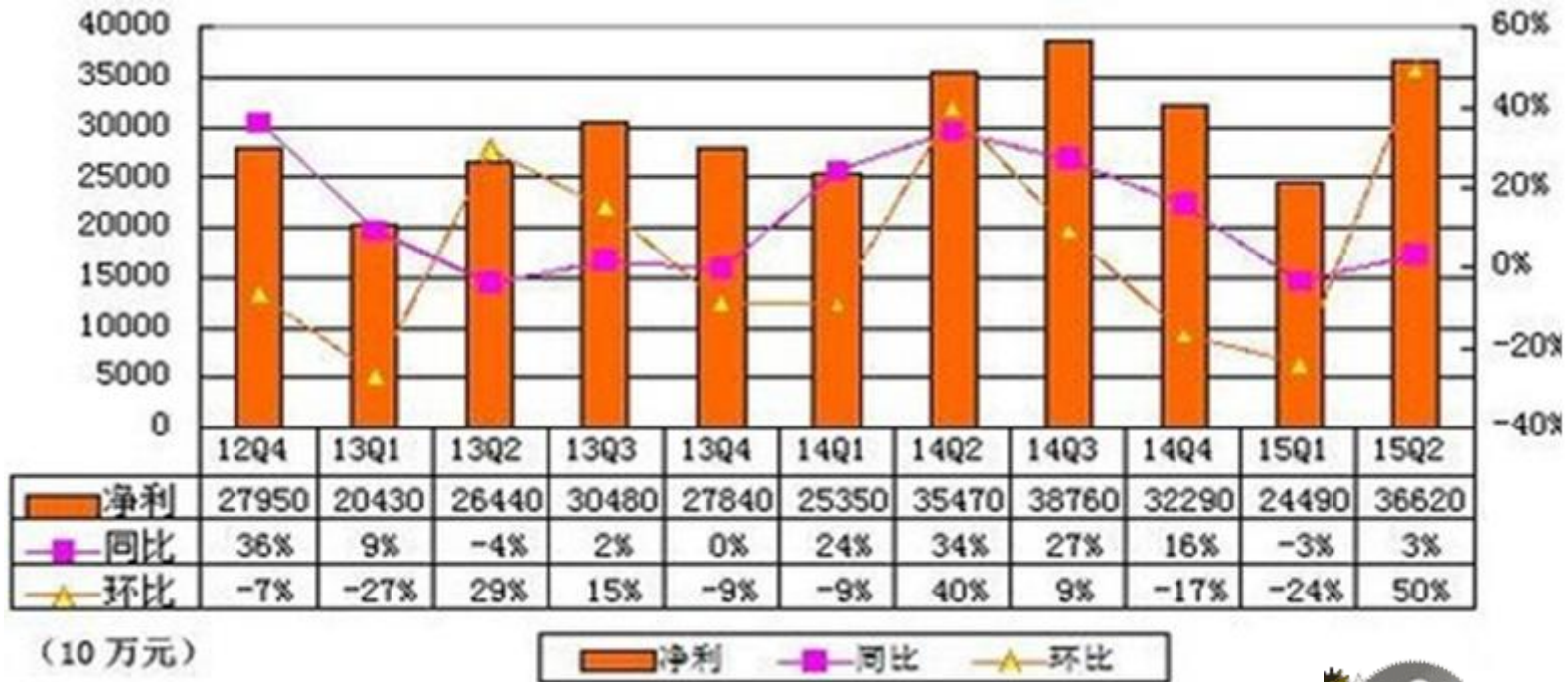
IS BAIDU STOCK A GOOD ASSET FOR INVESTMENT?



Low Risk

IS BAIDU STOCK A GOOD ASSET FOR INVESTMENT?

Business growth



Annual income 30% !



IS BAIDU STOCK A GOOD ASSET FOR INVESTMENT?



百度外卖



糯米
nuomi.com

Baidu develop new business

Focus on O2O business

Trading volume/Quarter

40.5 Billion

Only capital consumption

“0” Profit

Can we the estimate capital return?

O2O business feature : Low technology barrier&Competitive environment



We hardly estimate the capital return.



IS BAIDU STOCK A GOOD ASSET FOR INVESTMENT?

After capital return analysis, our comments is :

- Capital recovery cycle is too long, quite possible is 15 years, considering about 17.728 billion Goowill, cycle will extend to 22 years.
- Although baidu has a highly efficient advertising sales ability, a greater ROE than other companies, because the market has already fully recognized and gives a relatively reasonable valuation, currently BAIDU is only a general investment value.
- Considering future business, unless baidu could sell out the O2O business or get more than 30% profit from it, baidu hardly improve investment value, we think baidu stock isn't good long-term investment assets

WHAT WAS THE IPO PRICE OF BAIDU?

IPO pricing of \$27, the listing price of \$66;

Listed on August 5th , 2005.



BACK UP- BAIDU Q2 FINANCIAL STATEMENT

(In RMB thousands except for share, per share (or ADS) information)

	Three Months Ended		
	June 30, 2015	June 30, 2014	March 31, 2015
	Unaudited	Unaudited	Unaudited
Revenues:			
Online marketing services	16,227,496	11,836,858	12,518,757
Other services	347,742	148,924	205,859
Total revenues	<u>16,575,238</u>	<u>11,985,782</u>	<u>12,724,616</u>
Operating costs and expenses:			
Cost of revenues (note 1, 2)	(6,503,020)	(4,541,422)	(5,326,103)
Selling, general and administrative (note 2)	(3,889,844)	(2,148,874)	(2,956,867)
Research and development (note 2)	(2,712,681)	(1,737,216)	(2,286,333)
Total operating costs and expenses	<u>(13,105,545)</u>	<u>(8,427,512)</u>	<u>(10,569,303)</u>
Operating profit	<u>3,469,693</u>	<u>3,558,270</u>	<u>2,155,313</u>
Other income:			
Interest income	612,523	463,802	561,213
Interest expense	(213,522)	(146,045)	(199,128)
Foreign exchange income, net	5,396	81	8,992
Loss from equity method investments	(2,417)	(5,301)	(7,979)
Other income, net	142,382	66,888	90,875
Total other income	<u>544,362</u>	<u>379,225</u>	<u>453,973</u>
Income before income taxes	<u>4,014,055</u>	<u>3,937,495</u>	<u>2,609,286</u>
Income taxes	(762,951)	(605,614)	(541,000)
Net income	<u>3,251,104</u>	<u>3,331,881</u>	<u>2,068,286</u>
Less: net loss attributable to noncontrolling interests	<u>(410,909)</u>	<u>(214,815)</u>	<u>(380,994)</u>
Net income attributable to Baidu, Inc.	<u>3,662,013</u>	<u>3,546,696</u>	<u>2,449,280</u>
Earnings per share for Class A and Class B ordinary shares:			
Net income attributable to Baidu, Inc.-Basic	102.23	101.19	67.86
Net income attributable to Baidu, Inc.-Diluted	101.86	100.91	67.57
Earnings per ADS (1 Class A ordinary share equals 10 ADSs):			
Net income attributable to Baidu, Inc.-Basic	10.22	10.12	6.79
Net income attributable to Baidu, Inc.-Diluted	10.19	10.09	6.76
Weighted average number of Class A and Class B ordinary shares outstanding:			
Basic	35,141,734	35,050,662	35,112,842
Diluted	35,268,366	35,148,579	35,267,371
(1) Cost of revenues are detailed as follows:			
Sales tax and surcharges	(1,175,617)	(872,086)	(948,209)
Traffic acquisition costs	(2,111,734)	(1,517,128)	(1,721,629)
Bandwidth costs	(896,156)	(700,473)	(849,628)
Depreciation costs	(616,072)	(461,927)	(582,437)
Operational costs	(850,503)	(627,032)	(607,068)
Content costs	(840,223)	(354,294)	(608,420)
Share-based compensation expenses	(12,715)	(8,462)	(8,712)
Total cost of revenues	<u>(6,503,020)</u>	<u>(4,541,422)</u>	<u>(5,326,103)</u>
(2) Includes share-based compensation expenses as follows:			
Cost of revenues	(12,715)	(8,462)	(8,712)
Selling, general and administrative	(130,418)	(97,030)	(117,855)
Research and development	(211,592)	(115,060)	(164,509)
Total share-based compensation expenses	<u>(354,725)</u>	<u>(220,552)</u>	<u>(291,076)</u>

BACK UP- BAIDU Q2 FINANCIAL STATEMENT

(In RMB thousands except for number of shares and per share data)

	June 30 2015 Unaudited	December 31 2014 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	21,296,827	13,852,725
Restricted cash	646,400	413,010
Short-term investments	53,661,977	43,818,037
Accounts receivable, net	3,804,167	3,664,447
Amounts due from related parties	50	50
Deferred tax assets, net	985,126	684,952
Other assets, current	4,053,862	3,407,427
Total current assets	84,448,409	65,840,648
Non-current assets:		
Fixed assets, net	9,863,213	8,705,364
Intangible assets, net	3,633,241	3,574,359
Goodwill	17,727,971	17,418,895
Long-term investments, net	5,582,952	2,878,922
Deferred tax assets, net	258,011	259,127
Other assets, non-current	1,197,292	893,952
Total non-current assets	38,262,680	33,730,619
Total assets	122,711,089	99,571,267
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term loans	49,650	93,000
Accounts payable and accrued liabilities	16,057,112	12,964,893
Customer advances and deposits	4,691,757	4,296,440
Deferred revenue	313,442	164,809
Deferred income	522,625	518,543
Long-term loans, current portion	2,171,870	2,167,405
Capital lease obligation	48,768	57,346
Due to Related Parties, Current	1,521	8,385
Total current liabilities	23,856,745	20,270,821
Non-current liabilities:		
Deferred income	42,413	39,626
Long-term loans	1,861,890	1,860,000
Notes payable	31,795,845	21,556,782
Amounts due to related parties	—	8
Deferred tax liabilities	1,107,326	1,143,821
Capital lease obligation	27,159	50,079
Other Non Current Liabilities	170,337	144,542
Total non-current liabilities	35,004,970	24,794,858
Total liabilities	58,861,715	45,065,679
Redeemable noncontrolling interests	2,032,524	1,894,502

BACK UP- BAIDU Q2 FINANCIAL STATEMENT

Equity			
Class A Ordinary Shares, par value US\$0.00005 per share, 825,000,000 shares authorized, and 27,613,315 shares and 27,657,626 shares issued and outstanding as at December 31, 2014 and June 30, 2015		12	12
Class B Ordinary Shares, par value US\$0.00005 per share, 35,400,000 shares authorized, and 7,492,921 shares and 7,492,921 shares issued and outstanding as at December 31, 2014 and June 30, 2015		3	3
Additional paid-in capital		5,497,383	3,633,919
Retained earnings		53,619,055	47,659,772
Accumulated other comprehensive income (loss)		1,028,775	231,923
Total Baidu, Inc. shareholders' equity		60,145,228	51,525,629
Noncontrolling interests		1,671,622	1,085,457
Total equity		61,816,850	52,611,086
Total liabilities, redeemable noncontrolling interests, and equity		122,711,089	99,571,267

Reconciliations of non-GAAP results of operations measures to the nearest comparable GAAP measures (*) (in RMB thousands, unaudited)

	Three months ended June 30, 2014			Three months ended March 31, 2015			Three months ended June 30, 2015		
	GAAP Result	Adjustment	Non-GAAP Results	GAAP Result	Adjustment	Non-GAAP Results	GAAP Result	Adjustment	Non-GAAP Results
Operating profit	3,558,270	220,552	3,778,822	2,155,313	291,076	2,446,389	3,469,693	354,725	3,824,418
Net income attributable to Baidu, Inc.	3,546,696	220,552	3,767,248	2,449,280	291,076	2,740,356	3,662,013	354,725	4,016,738

(*) The adjustment is only for share-based compensation.

Reconciliation from net cash provided by operating activities to free cash flow (in RMB thousands, unaudited)

	Three months ended June 30, 2014	As a % of total revenues	Three months ended March 31, 2015	As a % of total revenues	Three months ended June 30, 2015	As a % of total revenues
Net cash provided by operating activities	4,127,577	34%	2,839,481	22%	5,727,404	35%
Less: Capital expenditures	(863,717)	-7%	(1,021,341)	-8%	(923,146)	-6%
Free cash flow	3,263,860	27%	1,818,140	14%	4,804,258	29%