

## Baidu 2022 Investing Summary

Baidu is the Google of China with 80% market share on search – that leads to healthy and stable advertising revenues and cash flows which give it value. Operating cash flows from the search core business have been \$4 billion in 2021.

But, then we have the other like iQIYI that burn money – iQIYI burned \$1 billion in 2021, investments took \$5 billion, plus capital expenditures took \$1.7 billion. On the other hand, there is \$25 billion of cash on the balance sheet (net about \$12 billion given there is also 13 billion of debt) that brings some cash flows (likely \$1 billion on the average 4%) per year.

To sum up -  $\$4 - 1 - 5 - 1.7 + 1 = -2.7$  billion per year in cash.

Thus, yes there is value, but the remainder is a bet – a bet on AI, Cloud and Robotaxis where for now that is just burning money.

Description of the investment:

There should be value but the unlocking of that value is uncertain. 10% of revenues goes for stock based compensation which is a lot by all standards and buybacks don't keep up.

It is cool with the robotaxis etc. but not really a value investment with low risk high reward. Medium risk and medium reward.

If the AI, robotaxis etc. get some traction and start making money, this will do well, if not, it will stay in its value limbo and follow happenings with Chinese related stocks.

It is value for a diversified value portfolio. For more concentrated portfolios, the risk of getting stuck is significant.

## Baidu 2021 Earnings Update

Core business growth was 9% for the quarter and in line with the industry. Non-core revenues were up 71% over the year and already reaching \$3.3 billion driven by cloud and other AI-powered businesses.

### Fiscal Year 2021 Results

**Total revenues** were RMB 124.5 billion (US\$19.54 billion), increasing 16% year over year.

- **Revenue from Baidu Core** was RMB 95.2 billion (US\$14.93 billion), increasing 21% year over year; **online marketing revenue** was RMB 74.0 billion (US\$11.60 billion), increasing 12% year over year, and **non-online marketing revenue** was RMB 21.2 billion (US\$3.33 billion), up 71% year over year, driven by cloud and other AI-powered businesses.
- **Revenue from iQIYI** was RMB 30.6 billion (US\$4.80 billion), increasing 3% year over year.

**Cost of revenues** was RMB 64.3 billion (US\$10.09 billion), increasing 17% year over year, primarily due to an increase in content costs, traffic acquisition costs, bandwidth costs, cost of goods sold and other costs related to new AI business.

This growth isn't pushing cash flows higher, iQIYI isn't making money and other ventures are also not making any.

**Baidu, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
(In millions, unaudited)

	Twelve months ended December 31, 2020 (RMB)			Twelve months ended December 31, 2021 (RMB)			Twelve months ended December 31, 2021 (US\$)		
	Baidu excl. iQIYI	iQIYI	Baidu, Inc.	Baidu excl. iQIYI	iQIYI	Baidu, Inc.	Baidu excl. iQIYI	iQIYI	Baidu, Inc.
<b>Net cash provided by (used in) operating activities</b>	<b>29,611</b>	<b>(5,411)</b>	<b>24,200</b>	<b>26,074</b>	<b>(5,952)</b>	<b>20,122</b>	<b>4,092</b>	<b>(934)</b>	<b>3,158</b>
Net cash (used in) provided by investing activities	(27,711)	159	(27,552)	(32,706)	1,262	(31,444)	(5,132)	198	(4,934)
Net cash (used in) provided by financing activities	(3,709)	9,374	5,665	26,355	(2,959)	23,396	4,135	(464)	3,671
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(121)	(91)	(212)	(726)	(217)	(943)	(114)	(34)	(148)
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>(1,930)</b>	<b>4,031</b>	<b>2,101</b>	<b>18,997</b>	<b>(7,866)</b>	<b>11,131</b>	<b>2,981</b>	<b>(1,234)</b>	<b>1,747</b>
Cash, cash equivalents and restricted cash									
At beginning of period	27,529	6,910	34,439	25,599	10,941	36,540	4,017	1,716	5,733
At end of period	25,599	10,941	36,540	44,596	3,075	47,671	6,998	482	7,480
<b>Net cash provided by (used in) operating activities</b>	<b>29,611</b>	<b>(5,411)</b>	<b>24,200</b>	<b>26,074</b>	<b>(5,952)</b>	<b>20,122</b>	<b>4,092</b>	<b>(934)</b>	<b>3,158</b>
Less: Capital expenditures	(4,843)	(241)	(5,084)	(10,634)	(262)	(10,896)	(1,669)	(41)	(1,710)
<b>Free cash flow</b>	<b>24,768</b>	<b>(5,652)</b>	<b>19,116</b>	<b>15,440</b>	<b>(6,214)</b>	<b>9,226</b>	<b>2,423</b>	<b>(975)</b>	<b>1,448</b>

Note: Baidu excl. iQIYI represents Baidu, Inc. minus iQIYI's consolidated cash flows.

But, the management is all about AI talk and autonomous driving.

They also mention repurchases often, but the number of shares actually went up and share based compensation is 10% of revenues.

#### Other Highlights

##### Corporate

- Baidu returned US\$615 million to shareholders under its 2020 Share Repurchase Program in the fourth quarter of 2021, bringing the cumulative repurchase to approximately US\$1.2 billion in 2021. As of the end of 2021, the Company had returned approximately US\$2.9 billion to shareholders under the 2020 Share Repurchase Program.
- Baidu's ESG rankings were further improved in 2021. Our MSCI ESG rating was upgraded three times in two years to achieve BBB, and our Sustainalytics ESG risk rating was ranked Top 18 among 234 Internet Software and Services companies globally.

##### AI Cloud

## Baidu, Inc.

## Reconciliations of Non-GAAP Financial Measures to the Nearest Comparable GAAP Measures

(In millions except for ADS and per ADS information, unaudited)

	Twelve months ended December 31, 2020 (RMB)			Twelve months ended December 31, 2021 (RMB)			Twelve months ended December 31, 2021 (US\$)		
	Baidu Core	iQIYI	Baidu, Inc.	Baidu Core	iQIYI	Baidu, Inc.	Baidu Core	iQIYI	Baidu, Inc.
<b>Operating income (loss)</b>	<b>20,538</b>	<b>(6,041)</b>	<b>14,340</b>	<b>15,142</b>	<b>(4,479)</b>	<b>10,518</b>	<b>2,376</b>	<b>(703)</b>	<b>1,651</b>
Add: Share-based compensation expenses	5,358	1,370	6,728	5,837	1,219	7,056	916	191	1,107
Add: Amortization and impairment of intangible assets <sup>(1)</sup>	470	194	664	246	55	301	39	8	47
Add: Contingent loss <sup>(5)</sup>	-	-	-	976	-	976	153	-	153
Add: iQIYI's non-recurring employee severance costs <sup>(6)</sup>	-	-	-	-	179	179	-	28	28
<b>Operating income (loss) (non-GAAP)</b>	<b>26,366</b>	<b>(4,477)</b>	<b>21,732</b>	<b>22,201</b>	<b>(3,026)</b>	<b>19,030</b>	<b>3,484</b>	<b>(476)</b>	<b>2,986</b>
Add: Depreciation of fixed assets	5,290	481	5,771	5,481	403	5,884	860	64	924
<b>Adjusted EBITDA</b>	<b>31,656</b>	<b>(3,996)</b>	<b>27,503</b>	<b>27,682</b>	<b>(2,623)</b>	<b>24,914</b>	<b>4,344</b>	<b>(412)</b>	<b>3,910</b>
<b>Net income (loss) attributable to Baidu</b>	<b>26,524</b>	<b>(7,038)</b>	<b>22,472</b>	<b>13,557</b>	<b>(6,170)</b>	<b>10,226</b>	<b>2,127</b>	<b>(969)</b>	<b>1,605</b>
Add: Share-based compensation expenses	5,324	1,370	6,078	5,814	1,219	6,444	912	191	1,011
Add: Amortization and impairment of intangible assets <sup>(1)</sup>	355	194	479	220	55	251	35	9	39
Add: Disposal loss (gain)	210	-	210	-	(45)	(28)	-	(7)	(4)
Add: Impairment of long-term investments	2,534	74	2,577	4,144	170	4,232	650	27	664
Add: Fair value gain of long-term investments	(12,078)	(40)	(12,103)	(2,734)	(87)	(2,778)	(429)	(14)	(436)
Add: Reconciling items on equity method investments <sup>(2)</sup>	2,447	32	2,467	1,249	192	1,349	196	30	212
Add: Charitable donation from Baidu <sup>(4)</sup>	-	-	-	140	-	140	22	-	22
Add: Contingent loss <sup>(5)</sup>	-	-	-	976	-	976	153	-	153
Add: iQIYI's non-recurring employee severance costs <sup>(6)</sup>	-	-	-	-	179	92	-	28	14
Add: Tax effects on non-GAAP adjustments <sup>(3)</sup>	(124)	(36)	(160)	(2,074)	-	(2,074)	(325)	-	(325)
<b>Net income (loss) attributable to Baidu (non-GAAP)</b>	<b>25,192</b>	<b>(5,444)</b>	<b>22,020</b>	<b>21,292</b>	<b>(4,487)</b>	<b>18,830</b>	<b>3,341</b>	<b>(705)</b>	<b>2,955</b>
<b>Diluted earnings per ADS</b>			<b>64.98</b>			<b>28.07</b>			<b>4.40</b>
Add: Accretion of the redeemable noncontrolling interests			0.26			1.00			0.16
Add: Non-GAAP adjustments to earnings per ADS			(1.31)			24.46			3.84
<b>Diluted earnings per ADS (non-GAAP)</b>			<b>63.93</b>			<b>53.53</b>			<b>8.40</b>

(1) This represents amortization and impairment of intangible assets resulting from business combinations.

Shares going up:

**Baidu, Inc.****Condensed Consolidated Statements of Income (Loss)**

(In millions except for per share (or ADS) information, unaudited)

	Three Months Ended				Twelve Months Ended		
	December 31, 2020	September 30, 2021	December 31, 2021	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2021
	RMB	RMB	RMB	US\$(2)	RMB	RMB	US\$(2)
<b>Revenues:</b>							
Online marketing services	20,708	21,050	20,723	3,252	72,840	80,695	12,663
Others	9,555	10,871	12,365	1,940	34,234	43,798	6,873
<b>Total revenues</b>	<b>30,263</b>	<b>31,921</b>	<b>33,088</b>	<b>5,192</b>	<b>107,074</b>	<b>124,493</b>	<b>19,536</b>
<b>Costs and expenses:</b>							
Cost of revenues(1)	14,522	16,126	17,289	2,713	55,158	64,314	10,092
Selling, general and administrative(1)	5,094	7,320	6,451	1,012	18,063	24,723	3,879
Research and development(1)	5,670	6,167	7,390	1,160	19,513	24,938	3,914
<b>Total costs and expenses</b>	<b>25,286</b>	<b>29,613</b>	<b>31,130</b>	<b>4,885</b>	<b>92,734</b>	<b>113,975</b>	<b>17,885</b>
<b>Operating income</b>	<b>4,977</b>	<b>2,308</b>	<b>1,958</b>	<b>307</b>	<b>14,340</b>	<b>10,518</b>	<b>1,651</b>
<b>Other income (loss):</b>							
Interest income	1,308	1,462	1,514	238	5,358	5,551	871
Interest expense	(777)	(880)	(873)	(137)	(3,103)	(3,421)	(537)
Foreign exchange (loss) income, net	(346)	7	(27)	(4)	(660)	100	16
Share of losses from equity method investments	(151)	(4)	(773)	(121)	(2,248)	(932)	(146)
Others, net	499	(22,079)	566	88	9,403	(1,036)	(164)
<b>Total other income (loss), net</b>	<b>533</b>	<b>(21,494)</b>	<b>407</b>	<b>64</b>	<b>8,750</b>	<b>260</b>	<b>40</b>
<b>Income (loss) before income taxes</b>	<b>5,510</b>	<b>(19,186)</b>	<b>2,365</b>	<b>371</b>	<b>23,090</b>	<b>10,778</b>	<b>1,691</b>
Income tax expense (benefit)	1,026	(1,839)	1,295	203	4,064	3,187	500
<b>Net income (loss)</b>	<b>4,484</b>	<b>(17,347)</b>	<b>1,070</b>	<b>168</b>	<b>19,026</b>	<b>7,591</b>	<b>1,191</b>
Net loss attributable to noncontrolling interests	(690)	(788)	(645)	(101)	(3,446)	(2,635)	(414)
<b>Net income (loss) attributable to Baidu</b>	<b>5,174</b>	<b>(16,559)</b>	<b>1,715</b>	<b>269</b>	<b>22,472</b>	<b>10,226</b>	<b>1,605</b>
<b>Earnings (loss) per ADS (1 ADS representing 8 Class A ordinary shares):</b>							
-Basic	15.28	(48.18)	4.57	0.72	65.54	28.64	4.49
-Diluted	15.05	(48.18)	4.51	0.71	64.98	28.07	4.40
<b>Earnings (loss) per share for Class A and Class B ordinary shares:</b>							
-Basic	1.91	(6.02)	0.57	0.09	8.19	3.58	0.56
-Diluted	1.88	(6.02)	0.56	0.09	8.12	3.51	0.55
<b>Weighted average number of Class A and Class B ordinary shares outstanding (in millions):</b>							
-Basic	2,695	2,778	2,780	2,780	2,732	2,758	2,758
-Diluted	2,735	2,778	2,816	2,816	2,756	2,814	2,814

(1) Includes share-based compensation expenses as follows:

There should be \$28 billion in cash there.

**Baidu, Inc.****Condensed Consolidated Balance Sheets**

(In millions, unaudited)

	December 31, 2020	December 31, 2021	December 31, 2021
	RMB	RMB	US\$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	35,782	36,850	5,783
Restricted cash	758	10,821	1,697
Short-term investments, net	126,402	143,243	22,478
Accounts receivable, net	8,668	9,981	1,566
Amounts due from related parties	726	1,368	215
Other current assets, net	11,006	11,052	1,735
<b>Total current assets</b>	<b>183,342</b>	<b>213,315</b>	<b>33,474</b>
<b>Non-current assets:</b>			
Fixed assets, net	17,508	23,027	3,613
Licensed copyrights, net	6,435	7,258	1,139
Produced content, net	6,556	10,951	1,718
Intangible assets, net	2,022	1,689	265
Goodwill	22,248	22,605	3,547
Long-term investments, net	76,233	67,332	10,566
Amounts due from related parties	3,438	3,487	547
Deferred tax assets, net	1,674	2,372	372
Operating lease right-of-use assets	9,804	12,065	1,894
Other non-current assets	3,448	15,933	2,501
<b>Total non-current assets</b>	<b>149,366</b>	<b>166,719</b>	<b>26,162</b>
<b>Total assets</b>	<b>332,708</b>	<b>380,034</b>	<b>59,636</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>			

That cash brings interest income but;

## Baidu, Inc.

## Condensed Consolidated Statements of Cash Flows

(In millions, unaudited)

	Twelve months ended December 31, 2020 (RMB)			Twelve months ended December 31, 2021 (RMB)			Twelve months ended December 31, 2021 (US\$)		
	Baidu excl. iQIYI	iQIYI	Baidu, Inc.	Baidu excl. iQIYI	iQIYI	Baidu, Inc.	Baidu excl. iQIYI	iQIYI	Baidu, Inc.
<b>Net cash provided by (used in) operating activities</b>	29,611	(5,411)	24,200	26,074	(5,952)	20,122	4,092	(934)	3,158
Net cash (used in) provided by investing activities	(27,711)	159	(27,552)	(32,706)	1,262	(31,444)	(5,132)	198	(4,934)
Net cash (used in) provided by financing activities	(3,709)	9,374	5,665	26,355	(2,959)	23,396	4,135	(464)	3,671
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(121)	(91)	(212)	(726)	(217)	(943)	(114)	(34)	(148)
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	<b>(1,930)</b>	<b>4,031</b>	<b>2,101</b>	<b>18,997</b>	<b>(7,866)</b>	<b>11,131</b>	<b>2,981</b>	<b>(1,234)</b>	<b>1,747</b>
Cash, cash equivalents and restricted cash									
At beginning of period	27,529	6,910	34,439	25,599	10,941	36,540	4,017	1,716	5,733
At end of period	25,599	10,941	36,540	44,596	3,075	47,671	6,998	482	7,480
<b>Net cash provided by (used in) operating activities</b>	<b>29,611</b>	<b>(5,411)</b>	<b>24,200</b>	<b>26,074</b>	<b>(5,952)</b>	<b>20,122</b>	<b>4,092</b>	<b>(934)</b>	<b>3,158</b>
Less: Capital expenditures	(4,843)	(241)	(5,084)	(10,634)	(262)	(10,896)	(1,669)	(41)	(1,710)
<b>Free cash flow</b>	<b>24,768</b>	<b>(5,652)</b>	<b>19,116</b>	<b>15,440</b>	<b>(6,214)</b>	<b>9,226</b>	<b>2,423</b>	<b>(975)</b>	<b>1,448</b>

Note: Baidu excl. iQIYI represents Baidu, Inc. minus iQIYI's consolidated cash flows.

All in all, it is a stable situation with cash reinvested and kept there.

ADS equivalent shares 344,933,202

1.5 billion in FCF is \$4.2 per share. It is not \$2.5 billion as in 2020.

So, it is about when will all these investment make money, and then what with the humongous cash \$72 per share. Ok, half of that if I deduct the debt they have. Thus \$36 per share – not that much.



<b>Non-current liabilities:</b>			
Deferred income	97	129	20
Deferred revenue	686	223	35
Amounts due to related parties	3,543	3,268	513
Long-term loans	-	12,629	1,982
Notes payable	48,408	43,120	6,766
Convertible senior notes	11,927	12,652	1,985
Deferred tax liabilities	3,067	3,286	516
Operating lease liabilities	4,693	5,569	874
Other non-current liabilities	59	718	112
<b>Total non-current liabilities</b>	<b>72,480</b>	<b>81,594</b>	<b>12,803</b>
<b>Total liabilities</b>	<b>140,865</b>	<b>156,082</b>	<b>24,492</b>

I have lowered the cash flows from 2.5 billion to 1.5 billion and made it per share.

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Scenario		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	Growth rate	
Scenario 1 normal case	Cash flow per share	4.20	4.49	4.81	5.15	5.51	5.89	6.30	6.74	7.22	7.72	154.43	7%	next 5 years
	10%)											59.54	7%	5 to 10 years
	INTRINSIC VALUE		59.54										10%	Discount rate
													20.0	Terminal multiple
Scenario 2 best case	Cash flow per share	4.20	4.83	5.55	6.39	7.35	8.45	9.29	10.22	11.24	12.37	309.21	15%	next 5 years
	10%)											119.21	10%	5 to 10 years
	Present value sum		119.21										10%	Discount rate
													25.0	Terminal multiple
Scenario 3 worst case	Cash flow per share	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	63.00	0%	next 5 years
	10%)											24.29	0%	5 to 10 years
	Present value sum		24.29										10%	Discount rate
													15.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.5	59.54	29.77
Scenario 2 (best case)	0.4	119.21	47.69
Scenario 3 (worst case)	0.1	24.29	2.43
<b>Sum</b>		<b>79.88</b>	

PLUS 12 billion in cash, plus 20 billion for other **172.88**

Disclaimer: This is just for educational purposes and not for investing advice!

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Also adding the 32 billion of cash and hopeful investment value in things not yet profitable- the average value gets to where we are not.

The cash flow lower is better because I can't mix the cash from gained from the interest on the cash and then again add the cash position back – that would be counting twice.

It remains a bet on robotaxies – while the management will likely not reward shareholders in western fashion.

The cash on one hand, makes this incredibly cheap – you get the upside of robotaxies there plus you have the very profitable core business that is still growing.