



# No wavering on O2O

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## Baidu sees a clear chance at expanded relevance in O2O

### More O2O: 2015 investment likely to beget 2016 investment

The company believes that it has already equipped itself well to advance its offensive across many O2O (offline to online) fronts, with a wide array of services, including its group-buying asset Baidu Nuomi, Baidu Map, food takeaway Baidu Waimai (covering 70 cities and supposedly No.1 in 16 cities in terms of GMV), the Baidu Connect program etc. All of these offerings are bridged to Baidu Wallet, the company's payment solution. The company expects significantly more commission-based revs from O2O merchants in the next few years, although right now this aspect remains immaterial due to: 1) necessary concessions such as commissions, 2) subsidies, which are effectively contra-revenue. With the environment remaining extremely competitive, we expect Baidu to remain aggressive in its subsidy program to acquire and retain customers, and thus feel that the guided 50% YoY increase in SG&A is likely to be met in 2015. We expect Baidu to take their aggressive subsidy and promotional plans into 2016 as the company drives into more geographies.

### Mobile search continues to advance

Mobile revenue contribution as disclosed at the quarter surpassed 50% in 1Q. The company revealed that most of its mobile search traffic comes from its native search app. Baidu's competitors in the space meanwhile tend to rely heavily on mobile browsers (e.g. Sogou and UCWeb). The company has launched a range of new search functionalities such as "click to call" and "click to book" to facilitate "closed loop" transactions. In addition, the company has also launched city/provincial level bidding. It has beta tested distance-targeted bidding capabilities such as 10km distance bidding based on the promoter's locations. These new initiatives should be complementary to Baidu's O2O offerings.

### Aware of mobile gains from verticals but confident in enduring need for mobile search

The company seems to have acknowledged that popular verticals have gained ground within the mobile space, yet given the sheer amount of new apps and diversified services emerging on mobile - especially those with lower frequency usage - the company believes that users will continue to set their main entrance point in the mobile world to search. In addition, we expect Baidu to revamp its search product (e.g. Aladdin and Zhixin) and offer more services to verticals. Despite some industry verticals claiming reduced reliance on search when transitioning to mobile, the company is not too concerned on losing traction with most key vertical clients. Further, Baidu expects to benefit from intensifying competition for eyeballs and usage amongst China's main industry verticals.

### Online video: claiming to remain faithful to growth needs of iQiyi in 2015

As a strategic investor in the space, Baidu considers video a critical channel to acquire customers and enrich content offerings. The company indicated that it is determined to be supportive for iQiyi this year once again, both in terms of head content procurement and in terms of partnership with in-house