

IQ Earnings Call Transcript

Date: 2025-11-18

Quarter: 3

Operator: Thank you for standing by and welcome to the iQIYI Third Quarter 2025 Earnings Conference Call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number. I would now like to hand the conference over to Ms. Chang Yu. Please go ahead.

Chang Yu: Hello, everyone, and thank you for joining iQIYI's Third Quarter 2025 Earnings Conference Call. The company's results were released earlier today and are available on the company's Investor Relations website at ir.iQIYI.com. The call today includes Mr. Lu Gong, founder, director, and CEO; Mr. Jun Wang, our CFO; Mr. Xiaobui Wang, our CCO, Chief Content Officer; Mr. Youqiao Duan, Senior Vice President of our membership business; Mr. Xianghua Yang, Senior Vice President of movies and overseas business; and Mr. Gang Wu, Senior Vice President of print advertising business. Mr. Gong will give a brief overview of the company's business operations and highlights, followed by Jun, who will go through the financials. After the prepared remarks, the management team will participate in the Q&A session. Before we proceed, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the SEC. iQIYI does not undertake any obligation to update any forward-looking statement, except as required under applicable law. I will now pass on to Mr. Gong. Please go ahead.

Lu Gong: Hello, everyone. Thank you for joining us today. This summer, we captured the hearts of audiences with our original blockbuster drama, *The Thriving Land*. As we begin today's earnings call, I would like to share the journey of bringing this compelling story to life. *The Thriving Land* became a highlight of iQIYI, a highly acclaimed masterpiece theater collection renowned for its expertly crafted adaptation of famous novels. *The Thriving Land* tells a compelling tale of three families across two generations in rural China in the 1920s. When production began in Chengdu last September, there were questions and concerns. Can today's audience be drawn to a story set 100 years ago? However, we built this project with strong confidence backed by our years of experience in adapting literature to hit dramas like *A Lifelong Journey to the Wonder* and *The Northward*. It is our belief that great stories resonate universally. They transcend time, culture, and age, forging deep connections with viewers across regions and demographics. This ability to tell timeless stories is what sets long-form content apart from faster-paced, bite-sized entertainment. As we all now know, *The Thriving Land* became a major hit, exceeding the 10,000 mark on iQIYI's popularity index score and topping this year's Enlightened Data chart for PIV Daily market share. Its influence expanded far beyond our platform, making a meaningful impact on traditional TV and offline as well. It achieved the highest average rating per episode on CCTV's drama channel and boosted tourism in its filming location, acquiring the offline effect of *The Northward* and *The Wonder*. The success of *The Thriving Land* is no mere incident. It's built on a proven content methodology to create and amplify IP value through high-quality storytelling and advanced production technology. To connect with broad and diverse audiences and to develop our business model with IP as the core, from online to offline, from domestic markets to global audiences, our business model continues to evolve and scale. Today, our online operations are well-established,

global expansion is accelerating, and our experience business is advancing our company. On top of that, we are embracing exciting opportunities enabled by a supportive regulatory environment and advancements in AI. These new regulatory policies lay a solid foundation for innovation and growth in the long-form video industry. At the same time, we are leveraging AI to transform how content is created and consumed. In July, we partnered with Google and ByteDance and launched a global AI short film competition aimed at discovering and nurturing talents who create short videos using AI technologies. We also collaborated with Academy Award-winning cinematographer Mr. Peter Pau on the program at AI Center, featuring AI-driven content. We aim to leverage iQIYI's professional production expertise to cultivate the next generation of operators pioneering innovative AI-driven content production methods and deliver compelling AI-powered storytelling that resonates with audiences. Now let's dive into the details of our business performance in Q3. Starting with content, which is a cornerstone of our business. Our goal is to engage audiences with diverse, beloved content that drives commercial success. For long-form dramas, we focus on top-notch stories with high commercial value. In the third quarter, we once again secured the top position in total viewership market share according to Enlightened Data. Our high-quality lineup included the nationwide hit, *The Thriving Land*, and our in-house custom detective serials, *Coroner's Dilemma*, which emerged as summer's dark horse with an active minority index score exceeding 10,000. Additionally, the science fiction series, *Movies*, earned strong acclaim for its innovative storytelling, reaching a peak popularity score of over 8,800. Moving to movies, we achieved major performance in original theatrical releases. *The Shadow Edge* grossed over RMB 1.2 billion, leading the box office and making a historic achievement for us. On our online movie platform, we retained the top viewership market share for fifteen consecutive quarters, driven by a diverse slate of 12 key titles. We launched an innovative revenue-sharing model in Q2 to maximize returns for films with limited box office opportunities. With new titles like *A Cool Fish 2*, this strategy is gaining traction in Q3, generating over RMB 17 million in revenue sharing model in two months. For variety shows, our focus on top-tier titles delivered strong results in both popularity and revenue. *The King of Stand-Up Comedy Season 2*, a flagship IP, generated impressive membership and advertising revenues. It achieved a high-tier popularity index of over 8,000 and dominated the channels with a leading market share according to Enlightened Data. Additionally, our newly launched observation show, *Her Prime*, sparked widespread discussions. To deepen audience engagement and elevate our variety show IP value, we introduced consumer products like collectible cards and co-branded merchandise collections, resulting in stronger audience loyalty. Turning to microdramas, they continue to enhance our content ecosystem, achieving double-digit sequential growth in average daily viewing time and daily subscription revenue in the third quarter. Microdramas also have attracted sponsorship from brand advertisers, with more partnerships anticipated in the future. This growth has been driven by our focus on premium content, enhanced original production capabilities, and an expanded library of free titles. Our microdrama content library now includes over 20,000 titles, with over half available for free. We have also established strong capabilities for consistently releasing original microdramas. Hits such as *Feet of Three Lives*, *Nurturing the Night*, and *Immoral Paradigm* resonate strongly with audiences. Additionally, we introduced a dedicated micro animation channel, *Manju*, and kicked off original production. Microanimation is an innovative format of short-form animation that has experienced rapid growth in the past year, following the success of microdrama and heavily leveraging AI technology. For animations, we continue to improve our original production capability. In the third quarter, over-the-top titles continue to enjoy strong viewership. Additionally, our highly regarded original production, *Now Between Salary and the How Much You Re*, returned with a second season, captivating loyal audiences and driving high engagement. Next, let me share our exciting slate of content for the first quarter. The diverse content pipeline includes *Fitted Cars*, *In Short*, *It Go Up Four*, and *A Bit Low*, *Can Be Tension*, *Favorite Honor*, *Strange Tale of Tang Dynasty Three to Chang'an*, *Tang Talk*, *Road to Chang'an*, *Legend of the Magnet*, *Dash Meter*, *Speed*, and the *Strong and Silent Pipes* from Utah. The movie pipeline includes all original theatrical films, theatrical releases, and original theatrical hits for online streaming. The first batch of original films under the Emerging Film Projects, under the licensed films such as *Died to Rise 1921*, *The Legend of He Too*, *The Volunteers*, *Peace and Trust*, and *Nobody*. Original variety shows include flagship IP, *Blooming Journey 2*, *Yellow Sunhua*, *High Young Farmers*, and a brand new IP,

Wonder Together. The microdrama pipeline includes the first microdrama based on the highly popular IP, A Strange Tale of Tang Dynasty, titled Tang Dynasty Mysterious Python Conspiracy, Tom with Q Time, Q Time, Qi and Pi, as well as For Xingyu, In My Final Days, Samuel, You, Jenny, and The Saint Mark's Destiny. Children's content includes new animation, Ascendant of the Ninth Sun, Returning Dao Squad Season Four, and a new IP, Payment and a First Food Truck. Moving on to membership services, we aim to build a household name membership brand with broad market appeal, rectifying a vibrant content ecosystem and exceptional services. Membership service revenue recorded sequential growth in Q3, driven mainly by original hit dramas like The Thriving Land and The Coroner's Dilemma, as well as theatrical micro hit, NoJa Two. Beyond content, we are increasing our efforts to enhance membership services and deliver unmatched value. Our family-oriented membership plan stands out with inclusive products like the express package offering early access to shows, a valuable driver of new subscriptions and upgrades to this premium tier. The currency experience program in motor continues to boost engagement with meaningful revenue growth year over year. We have created stronger synergy between membership and advertising revenues by introducing branded rooms within the program. We are also integrating membership experiences with top IPs. This quarter, we launched IP-themed membership cards for Neutrol Two and Learning of Journey of Legend for Shanghai, giving fans a deeper connection to their favorite stories and characters. Connecting with our audience is at the heart of what we do. Our flagship July 17 iQIYI Membership Festival has become a signature fan appreciation event loaded with exclusive perks and irresistible subscription offers. We also strengthened membership value and loyalty through over 10 VIP-only gatherings, ranging from fan meetups to advanced screenings. We have elevated membership performance by focusing on operational optimization, aiming to boost membership value and encourage subscribers to stay with our service longer. This includes initiatives to promote longer-term plans and targeted promotions for specific audiences. Additionally, we expanded our bundled membership partnerships to 16 brands while broadening our sales channels across e-commerce and telecom platforms. Moving on to the advertising business, in the third quarter, brand ads recorded double-digit annual growth, mainly driven by premium variety shows like The King of Stand-Up Comedy Season 2 and hit dramas like The Journey of Legend and The Thriving Land. Our content-related ad solutions continue to gain traction, contributing over 60% of brand ad revenue. Key verticals such as food and beverage, internet services, e-commerce, beauty, and personal health all showed robust annual growth. We use AI to drive production innovation and advertising efficiency with features like creative bulleted charts and AI-generated materials, including animation-style visuals for innovative marketing solutions. As we enter Q4, we aim to capitalize on major advertising opportunities such as the Double Eleven Shopping Festival, Christmas, and the New Year campaign, and the new smartphone launch. Our focus will be on maximizing ad sales from premium variety shows, dramas, and drama-centered brands while further enhancing monetization on smart TVs. We will continue leveraging AI to improve brand advertising efficiency. For performance ads, we now have a healthier and more balanced advertiser portfolio with revenue dependent on community individual clients. By industry, internet services and education and training were standout contributors this quarter. Looking ahead, we will focus on capturing new budgets in the internet services sector, including tools, social platforms, and mini-games, while scaling up revenue in education and training, wellness management, and e-commerce. Additionally, we plan to expand our plan of performance and inventory and utilize AI to further enhance monetization efficiency. Moving on to technology and products, we continue to harness cutting-edge technologies to transform the entertainment experience, improve content production efficiency, and boost content value across our platform. On the content creation front, we are leveraging AI to transform storytelling. A notable example is our partnership with Academy Award-winning Mr. Peter Pau. Together, we will launch the Peter Pau iQIYI AI Center to pioneer the next generation of AI-driven talent development. The first titles are set to premiere soon, which we are very excited for. Additionally, we are using AI to produce high-quality original microanimation at much lower costs. Another unique example is the AI-powered iQuickReal connection, which now covers all major content categories. This feature utilizes a smart editing agent to automatically convert long-form videos into vertical short shots, which are then included in iQuickReal collections. iQuickReal collections offer users a real-time experience akin to that of microdramas. We are transforming user engagement with Touhou AI-powered personal assistant that

provides personalized support, including video search recommendations and cloud insights. The latest update improved recommendations for microdramas and short-form videos alongside long-form content while also enhancing plot Q&A capabilities. Additionally, we introduced the binge-watching rankings, allowing users to track time spent on their favorite series and view their rankings. This feature has received highly positive feedback. In addition to enhancing AI applications, we are driving the industrialization of video production with cutting-edge workflow production. Our virtual production capability is now used for both in-house and external projects. This quarter, we launched an omnidirectional motion-simulating vehicle rig filming platform powered by our in-house developed iQIYI Stage virtual production system. The platform naturally enhances the efficiency of high-frequency VCOFIN shots. It delivers a streamlined, repeatable workflow and has already been utilized for virtual production in major theatrical productions. Moving on to business performance in regions outside of Mainland China, we maintained strong growth momentum in Q3, with membership revenue increasing by over 40% annually. Markets like Brazil, Spanish-speaking regions, Mexico, and Indonesia saw membership revenue more than double year over year. In this quarter, the average daily subscribers also reached an all-time high. The strong performance is supported by an exceptional content lineup. C-dramas, Chinese dramas, continue to gain popularity globally, with revenues growing double-digit both annually and sequentially. The Thai-dubbed version of Coroner's Diary set platform records for both viewing time and peak revenue within its language segment. It also topped iQIYI's popularity charts in 13 overseas markets. Meanwhile, our local content slate also exceeded expectations. King Jaro, the series, Yunhun Chongqing emerged as a phenomenon in Thai language content this year, generating the highest membership revenue among all Thai dramas on our platform and topping related rankings on Google and Twitter. Beyond long-form content, microdramas continue to build strong momentum overseas. Membership revenue from microdramas grew 114% sequentially by September. Microdramas ranked second only to long-form dramas across several core metrics, including membership revenue and viewing time. Moreover, multiple iQIYI original microdramas gained solid traction abroad. For example, How Dare You Young People has shown a strong long-tail effect three months post-launch. We are also expanding into locally produced microdramas. Multiple projects in English, Thai, Greek, and Indonesian are in production and targeted for launch this year. Looking ahead, we will continue to deliver high-quality content to international audiences, deepen partnerships with telecom operators and local partners, and leverage AI to drive user appreciation. Moving on to the experience business, we are focusing on two key areas: IP-based consumer products and offline experiences. We are leveraging our extensive and unique IP resources to build a more robust entertainment ecosystem. For IP-based consumer products, we have upgraded our business model from a licensing-only approach to a dual-track strategy, combining self-operated merchandise with licensing. Our self-operated portfolio has expanded beyond collectible cards into additional categories, supported by the establishment of in-house teams. IP licensing for the hit drama, The Journey of Legend, has partnered with over 30 licensees, setting a new record while expanding into multiple sectors, including e-commerce, FMCG, and beauty. In our offline entertainment experience business, we are pioneers in this emerging field. At the heart of this initiative are iQIYI Labs, which are designed to operate under an asset-light model. Two locations, Yangzhou and Kaifeng, are under development, with Yangzhou iQIYI Lab scheduled to open early next year. A third plant in Beijing has also been announced. By integrating technologies like AI and XR with our content IP, iQIYI Lab will provide interactive and scalable experiences that are faster to iterate and more efficient than traditional theme parks. This approach reduces space and capital requirements, with revenue expected to come mainly from ticket sales and other on-site spending. As 2025 draws to a close, we reflect on a year of rapid transformation driven by technological innovation and evolving business models. We are not merely adapting; we are advancing, fueled by our thriving overseas expansion, growing experience business, and ongoing AI investments. Breakthroughs in any of these areas could elevate us to new heights. Amid this change, our core remains the same: creating premium content IP supported by a proven commercial model. This foundation earns us the loyalty of hundreds of millions of users and the trust of industry partners. Moving forward, we will continue delivering quality content, fostering creativity with partners, and driving long-term value for shareholders. Now let me hand it over to Jun for the financials. Jun Wang: Thank you, Mr. Gong, and hello, everyone. Now let me walk you through the key numbers

for the third quarter. The total revenue for the third quarter was RMB 6.7 billion, up 1% sequentially. The membership services revenue reached RMB 4.2 billion, up 3% sequentially, driven mainly by original blockbuster dramas and theatrical mega hits like Nezha 2 during the summer season. The online advertising revenue was RMB 1.2 billion, decreased by 2% sequentially as the performance in the second quarter benefited from a major advertising campaign. The company's distribution revenue reached RMB 644.5 million, up 48% sequentially. The increase was mainly driven by the strong distribution performance of the original theatrical movie invested by iQIYI, along with the growing transactions for drama. Other revenues were RMB 585 million, down 29% sequentially. Moving on to costs and expenses, the content cost was RMB 4 billion, up 7% sequentially, as we launched a more diverse selection of premium content during the peak summer season. The total operating expenses were RMB 1.3 billion, down 3% sequentially, benefiting from our disciplined expense management. Now turning to profits and cash balances, the non-GAAP operating loss was RMB 21.9 million. Non-GAAP operating loss margin was 0.3%. As of the end of the third quarter, we had cash, cash equivalents, restricted cash, short-term investments, and long-term restricted cash included in the prepayment and other assets totaling RMB 4.9 billion. At the quarter end, the company had a loan of USD 582.5 million to PAG, recorded under amounts due from related parties. For more detailed financial data, please refer to our press release on our IR website. Now we will open the floor for Q&A.; Operator: If you wish to cancel your request, please press 2. If you are on a speakerphone, please pick up the handset to ask your question. For the benefit of all on the call, if you wish to ask your question to management in Chinese, please then translate your question into English. The first question comes from Zhiking Zhang from CICC. Please go ahead.

Zhiking Zhang: Thank you, management, for taking my question. It has been three months since the new regulations were issued. Can management provide an update on the progress? Thank you.

Xiaobui Wang: Thank you, Zhiking. We will invite our Content Officer, Mr. Xiaobui Wang, to answer this question. The core objective of the new policies is to promote the healthy development of the long-form video industry. The past two months since its implementation have observed positive progress in several areas, including the concurrent review of key dramas at a national and provisional administration, as well as the exploration of concurrent review of broadcasting for new content formats, such as download anthology drama, multi-season drama, multi-art drama, and pickup, as well as the optimization of co-review. Under the new policy environment, we are actively innovating in content production and broadcasting models. For example, we are exploring a brand new content format called online feature series and integrating it into our existing emerging film project collaboration framework. Through a revenue-sharing model with our partners, we aim to attract more creative talent and high-quality content, driving innovation and growth in the industry. Based on the current progress of implementation, it is clear that the new policies have sent positive signals to the industry. Some of our projects have already benefited from the policy support, allowing them to reach a ready-to-broadcast status more quickly. As productions proceed smoothly in the future, we will gradually see the broad benefits of the policy uptake. In the long term, the policies will drive the industry into a new growth phase, benefiting professionals across the board. Thank you.

Operator: Thank you. Your next question comes from Vicky Wei from Citi. Please go ahead.

Vicky Wei: Will management share some color about your outlook on the membership business?

Youqiao Duan: Thank you, Vicky. We will invite our Senior Vice President of Membership Business, Mr. Youqiao Duan, to take this question. Since September, our membership business has shown nice growth momentum, driven by three main factors. First, the continual release of high-quality content. Second, the ongoing enhancement of member services and benefits. And third, the optimization of marketing and sales strategy, such as expanding bundled memberships and offering targeted discounts for teachers and students. The Silent Honor, which was released in September, broke demographic boundaries and captured the hearts of young audiences. Our female-oriented content, such as Faded Hearts and Sword and Beloved, along with the suspense theater titles like The Hunt and The Dead End, also gained wide popularity. The recently released Strange Tale of the Tang Dynasty Three to Chang'an, which is the third drama of the Strange Tales of the Tang Dynasty IP series, received widespread acclaim shortly after its premiere. With its popularity index on iQIYI surpassing 10,000, it became the second drama in the series to hit this milestone, making the Strange Tale of the

Tang Dynasty iQIYI's first IP series to have two seasons exceeding the 10,000 popularity mark. The latest release in the series, building on the classic elements, introduced more innovative content, showcasing the strength of high-quality IP series development and successfully attracting and retaining a loyal audience base. At the same time, we have enhanced membership value and the perception of benefits through more refined operations. For example, offering more diverse subscription options, offering member-only IP merchandise, and also offline events tailored for premium members. We are confident in achieving sustainable growth in our membership business with the support of high-quality content and enhanced member benefits and services. Thank you.

Operator: Thank you. Your next question comes from Felix Liu from UBS. Please go ahead.

Felix Liu: Thank you, management, for taking my question. We noticed that Chinese culture industries have made good progress in the overseas markets lately. Can management share more progress on your overseas expansion and strategy? Thank you.

Xianghua Yang: Thank you, Felix. We will invite our Senior Vice President of Overseas Business, Mr. Xianghua Yang, to take this question. Our overseas business has shown strong performance this year, with Q3 total revenue and membership revenue achieving the highest annual sequential growth in the past two years. We see that Chinese content serves as the cornerstone of our overseas content portfolio, and iQIYI has become the top choice for an increasing number of overseas users to watch Chinese language content. We continue to promote Chinese language content across various markets and have seen a significant increase in its influence in major overseas markets, effectively driving the growth in user base and membership numbers. In terms of local content, we have engaged in both licensing and original productions in Thailand, Malaysia, Indonesia, and Taiwan. Among these, Thailand has been our most successful market. This year, we launched several hit titles, such as the Thai drama King Jaro, the series, which set new records on our overseas platform in terms of both viewing hours and revenue for Thai content. With subtitles added, our original Thai dramas have been distributed in other markets, and revenue from our original Thai dramas in the US and other overseas markets has already surpassed that of Thailand's domestic market. We are pleased to see that Thai dramas have become the second globally recognized content category after C-dramas. Looking ahead, we plan to increase the perception of original Thai, Malaysian, and Indonesian dramas. At the beginning of the year, we mentioned that some of the newly developed markets, such as the Middle East, Spanish-speaking regions in Latin America, and Brazil, have maintained rapid growth throughout the year, with significant increases in membership revenue and subscriber numbers. In the future, we will continue to deliver high-quality content while leveraging AI technology to enhance content production and promotional efficiency. Currently, over 70% of promotional material for our overseas content is generated using AI, significantly boosting our market efficiency. Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press 1 on your telephone. Your next question comes from Gigi Zhao from Guangdong Securities. Please go ahead.

Gigi Zhao: Thank you. I will translate the question myself. The application of AI in the global film and television industry has been advancing in increasing depth. Can management share strategy insights and future plans pertaining to AI adoption in content production and business layout? Thank you.

Lu Gong: Thank you, Gigi. We will have our CEO, Mr. Lu Gong, take this question. For AI technology, it provides a very promising outlook for iQIYI. To take an analogy, in the past two decades, the internet provided the video industry an opportunity and advantage to surpass traditional linear TV. We think currently, with the large language models for AI, it provides a similar opportunity for iQIYI. In the past few years, AI technology has deeply integrated into our operations, helping us achieve goals in three key areas. The first is to increase our operational efficiency. We use AI for marketing materials, for example, automatically generating posters and promotional marketing materials. We also use it for overseas content translation, which is much cheaper and faster compared to human labor. The second point is AI boosts monetization capabilities as it can efficiently produce advertising creative materials, and we can use it to optimize our placement algorithms, improving targeting accuracy and conversion rates. The third point is AI empowers us for content production. We use AI to support our internal production capabilities. For example, we have a screenplay workshop in iQIYI, which significantly enhances evaluation and creation capabilities for novels and scripts. We also have an image workshop feature, which effectively supports early-stage creative development by providing concept posters,

storyboard generations, and character design. The fourth point is we use AI to build out basic user features. Based on AI, we built out the Toutdoor World, Toutdoor, and iJump features, all of which improve the viewing experience. The above-mentioned four points are already used in our operations, and we will keep refining and upgrading them, hoping to bring more benefits. Going forward, we will focus on three major areas. The first is iQIYI's intelligent production system, which was previously reserved for internal use. We will gradually open up core functions for our close partners, helping them leverage AI to enhance their production capabilities. The second point is we will continue promoting the use of AI in the market and industry. For example, we launched initiatives such as the AI short film creation competition, as mentioned earlier in the opening remarks, and partnered with Academy Award winner Peter Pau to roll out the AI theater. The main purpose of these initiatives is to discover and nurture AIGC creative talent through collaborations and market promotions, fostering an innovation-driven content ecosystem. Last but not least, our focus will be on collaborating with our partners and utilizing our current AI technologies to explore large-scale applications of AIGC in areas like microanimations, animations, educational content, documentaries, etc. Hopefully, AI will become a core engine of content creation. This is the first stage, and going forward, the bigger picture will be to utilize AIGC in our long-form video content, such as dramas and films. We estimate that in the next one to two years, or maybe three years, but no more than five years, AI will bring dramatic change to our industry and the video content creation industry. Currently, we have been investing heavily in AIGC and AI technology applications, and this is one of the core areas of investment for the company right now. Hopefully, going forward, we can utilize AI to create more creative content and change the content landscape. Thank you.

Operator: Thank you. That concludes our question and answer session. I will now hand back to management for closing remarks.

Chang Yu: Thank you, everyone, for participating in the call today. If you have further questions, do not hesitate to contact us. See you next quarter. Thank you. Bye-bye.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.