

Slide 2: Issues

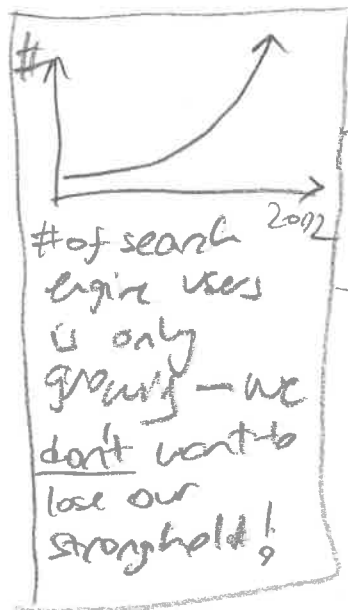
② HOW CAN BAIDU UNDERSTAND THE IMPLICATIONS OF THE WEI ZEXI SCANDAL? WHAT ARE THE KEY ISSUES?

A) Immediate fallout:

- Public optics are in a perilous position - Wei Zexi's post on Zhihu delves into flaws with our search engine
- Cyberspace Administration of China + other administrative organizations are putting pressure on Baidu → could lead to souring of previously close and tight relationship with the government:
 - "Access Money" deals between top Baidu / Tencent executives and government could be compromised or revealed as bad examples of corruption!
- Revenues could take a massive hit - 29% comes from online promotions → 66bn ¥ revenues could be hit if consumers outrage and shift to competitors like Bing or Google.
Sohu
- Baidu's owner, Tencent, could crack down on the business model and (absolute worst-case) consider divesting the company long-term if revenues are too compromised.

GOVT
RELATION
SHIP!

B) Long-term competitive pressures:



- Eric Schmidt from Google is still bullish on China as of 2016 and could use this scandal as an opportunity to enter the Chinese market again.
- Their algorithm is not tied to monetary compensation like ours so this could lead to problems.
- China's advertising law is super stringent and we could get into legal trouble, especially under Article 15!
 - Domestic comps like Sohu who already have tie-ups with govt. could seize this chance to take away some of our ~60% revenue share!
- Jack Ma is sly and intelligent - Alibaba could verticalize and launch a search engine - unlikely but you never know!
- Baidu could lose all of its deposits from advertisers, especially in the medical space → we could cede this share to comps and that would tank our revenues even further.

C) Someone passed away:

- RIP Wei Zexi
- Baidu needs to consider a rethink of promotion strategy!