



## Baidu, Inc.

November 12, 2020

### Managed Page And Smart Mini Driving Better Traffic And Time Spend; Expect Better 3Q20 Results

BIDU will report 3Q20 results on November 16th after the markets close followed by an 8:15pm EST conference call. Based on our data and calculations, we believe BIDU's 3Q20 net revenue is likely to be higher than consensus at RMB27,458M and our model at RMB27,238M. We believe BIDU is benefiting from the recovery in the ad sector, in addition to high adoption of its Managed Page and Smart Mini, which led to growth of BIDU mobile traffic and time spend in 3Q20. Furthermore, IQ's subscribing business is likely to do better in 3Q20 mainly due to better ARPU and higher video views in 3Q20 compared to 2Q20.

- High growth of Baidu Management Page that enables customers to pay for sell-through instead of paying for lead generation** – While core BIDU search still experienced Y/Y decline at 5.5% in 2Q20, the revenue from managed page increased about 70% Y/Y to become about 30% of total BIDU core business. The rapid adoption is the result of enhanced value to merchants. Managed Page or Baidu Smart Mini has changed Baidu from a search provider to a total sales solution provider to customers, which is going beyond just lead generation to enable better sell-through results. While BIDU has been under pressure from TikTok's growing traffic, Managed Page is a way for BIDU to defend its market share and pick up growth. We believe this kind of SaaS program has a long way to go in China when millions of customers have no idea how to build a mobile application.
- Recovery in traffic and time spend** - In 3Q20, the major spenders on advertising are education vendors who spent a lot of money on marketing, and we believe BIDU benefitted from such heavy spending. In addition, BIDU's mobile traffic and time spend recovered meaningfully in 3Q20. The time spend was up 57.7% Y/Y (Figure 1) and monthly active users was up 17.6% Y/Y (Figure 2).
- IQ content titles were up Q/Q in 3Q20, better video views for exclusives jumped in October, in addition to price increase** – In 3Q20, iQiyi aired 6 out of the top 10 drama titles, among which, 4 were pay-for-view titles including "Twenty Your Life On - 二十不惑", "Heroes - 大侠霍元甲" and "Restart" and "Restart II" - 重启之极海听雷第一, 第二季 (Figure 3), and one in-house content. In addition, IQ announced that it is about to increase its member fee schedules of RMB15 and RMB19.8 a month to RMB19 and RMB25 a month, respectively, starting from November 13, 2020.

**BIDU: Not Rated**

**Price: \$143.06**

**Target Price: N/A**

**52 Week Range: \$82.00 - \$148.38**

**Market Cap: \$48.8B**

**Avg. Daily Vol. (100 day): 3,344,876**

**Net cash per share: ~\$34.00**

| FY (Dec)    | 2019A          | 2020E          | 2021E          |
|-------------|----------------|----------------|----------------|
| Q1          | 24,123A        | 22,545A        | 25,894E        |
| Q2          | 26,326A        | 26,034A        | 29,284E        |
| Q3          | 28,080A        | 27,238E        | 30,506E        |
| Q4          | <u>28,884A</u> | <u>28,369E</u> | <u>31,722E</u> |
| Net Revenue | 107,413A       | 104,186E       | 117,407E       |
| Q1          | 2.77A          | 8.84A          | 11.06E         |
| Q2          | 10.37A         | 14.73A         | 14.09E         |
| Q3          | 12.61A         | 12.10E         | 15.65E         |
| Q4          | <u>26.54A</u>  | <u>12.83E</u>  | <u>17.43E</u>  |
| EPS*        | 51.99A         | 48.50E         | 58.23E         |
| P/E         | 19.12          | 20.8x          | 17.4x          |

\*Non-GAAP EPS

All figures in RMB millions unless otherwise noted

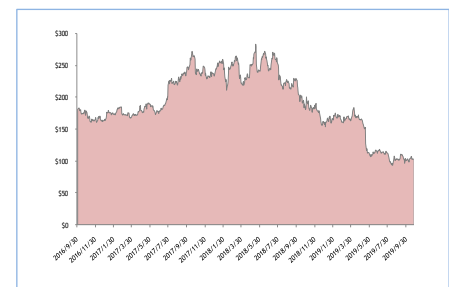
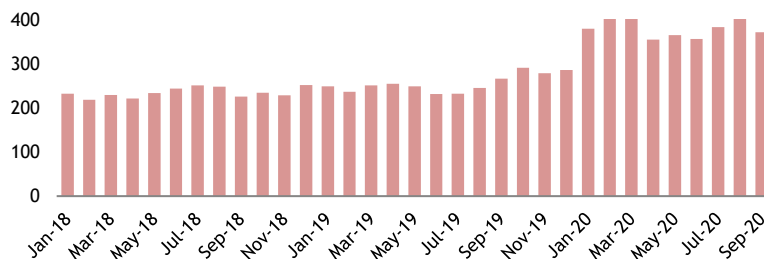


Figure 1: BIDU Mobile APP: Monthly Time Spend (million, minutes), 1/2018 – 9/2020



Source: T.H. Data ([www.thdata.com](http://www.thdata.com))

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- **Valuation** – We believe the near-term price target could be \$160.00, which is based on a 19.4X PE multiple to our new 2021E non-GAAP EPS estimate of \$8.24. The relative higher valuation takes into consideration of BIDU's advantage in AI technology, automatic driving as well as new constructions. At this point, these leading innovations are not getting any valuations.
- **Risks to long** – 1) Losing its edge in mobile search or news feed if other competing products take off; 2) PC monetization declines faster than expected; 3) Margin contraction due to the investments in AI and IQ content; and 4) Macroeconomic slowdown in China.
- **Risks to short** – 1) AI and self-driving are spinning off and get their own valuation, which will unlock BIDU's underlying valuation; 2) BIDU will IPO in Hong Kong; 3) Tencent (0700.HK, HK\$577.00, Not Rated) invests in IQ; and 4) China's economy grows faster than anticipated.
- **Dial-in information** - BIDU will report 3Q20 results on November 16th after the markets close followed by an 8:15pm EST conference call by pre-registering.

**Figure 2: BIDU Mobile APP: Monthly Active Users, 1/2018 – 9/2020**


Source: T.H. Data ([www.thdata.com](http://www.thdata.com))

**Figure 3: iQiyi/Tencent Video/Youku/Mgtv - Top Ten Dramas, October 2020 and 3Q20**

| Top 10 Dramas |      |                                     |                                   |   |
|---------------|------|-------------------------------------|-----------------------------------|---|
| Period        | Rank | Content Name                        | Platform & in-house Produced      | Advanced Viewing Content (pay-per-view) |
| 3Q20          | 1    | 三十而已(Nothing But Thirty)            | Tencent Video                     | Since 2020/08/03                        |
|               | 2    | 二十不惑(Twenty Your Life On)           | iQiyi                             |   |
|               | 3    | 重启之极海听雷(Restart)                    | iQiyi, Youku                      |   |
|               | 4    | 琉璃(Love and Redemption)             | Youku, Mgtv                       | Since 2020/08/20                        |
|               | 5    | 锦绣南歌(The Song of Glory)             | Tencent Video                     | Since 2020/07/22                        |
|               | 6    | 小娘惹(The Little Nyonya)              | iQiyi, Youku                      |   |
|               | 7    | 局中人(Inside Man)                     | iQiyi, Tencent Video, Youku       |   |
|               | 8    | 旗袍美探(Miss S)                        | Tencent Video                     |   |
|               | 9    | 大侠霍元甲(Heroes)                       | iQiyi - In-house Produced         |   |
|               | 10   | 重启之极海听雷第二季(Restart II)              | iQiyi                             | Since 2020/09/29                        |
| Oct-20        | 1    | 瞄准(Sniper)                          | iQiyi, Tencent Video, Youku, Mgtv |   |
|               | 2    | 半是蜜糖半是伤(Love is Sweet)              | iQiyi - In-house Produced         |   |
|               | 3    | 在一起(With you)                       | iQiyi, Tencent Video, Youku       |   |
|               | 4    | 重启之极海听雷第二季(Restart II)              | iQiyi                             | Since 2020/09/29                        |
|               | 5    | 我，喜欢你(Dating In The Kitchen)        | Tencent Video                     | Since 2020/09/29                        |
|               | 6    | 凤唳九天(Renascence)                    | iQiyi, Mgtv                       |   |
|               | 7    | 长安诺(The Promise of Chang'an)        | Tencent Video                     | Since 2020/10/02                        |
|               | 8    | 明月曾照江东寒(The Moon Brightens for You) | iQiyi - In-house Produced         |   |
|               | 9    | 使徒行者3(Line Walker: Bull Fight)      | Tencent Video                     | Since 2020/10/28                        |
|               | 10   | 小大夫(Little Doctor)                  | iQiyi                             |   |

Source: T.H. Data ([www.thdata.com](http://www.thdata.com))

**Figure 4: Earnings Model (in RMB Mlns, except per share)**

|   | FY19A            | 1Q20A            | 2Q20A           | 3Q20E           | 4Q20E           | FY20E            | 1Q21E           | 2Q21E           | 3Q21E           | 4Q21E           | FY21E            | FY22E            |
|---|------------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
|   | 12/30/19         | 3/30/20          | 6/30/20         | 9/30/20         | 12/30/20        | 12/30/20         | 3/31/21         | 7/1/21          | 10/1/21         | 12/31/21        | 12/31/21         | 12/31/22         |
| <b>Income Statement (m's of RMB)</b>    |                  |                  |                 |                 |                 |                  |                 |                 |                 |                 |                  |                  |
| Online marketing                        | 78,093.0         | 14,243.0         | 17,688.0        | 20,335.7        | 21,302.5        | 73,569.2         | 18,563.2        | 21,650.2        | 22,746.3        | 23,731.9        | 86,691.6         | 90,180.4         |
| Other services                          | 29,320.0         | 8,302.0          | 8,346.0         | 6,902.1         | 7,066.3         | 30,616.5         | 7,331.1         | 7,634.0         | 7,760.0         | 7,990.1         | 30,715.2         | 34,433.4         |
| <b>Net revenue</b>                      | <b>107,413.0</b> | <b>22,545.0</b>  | <b>26,034.0</b> | <b>27,237.8</b> | <b>28,368.8</b> | <b>104,185.6</b> | <b>25,894.3</b> | <b>29,284.3</b> | <b>30,506.3</b> | <b>31,721.9</b> | <b>117,406.8</b> | <b>124,613.8</b> |
| COGS                                    | 63,566.4         | 14,687.0         | 13,134.0        | 15,253.2        | 16,170.2        | 66,293.6         | 16,572.3        | 17,570.6        | 17,998.7        | 18,081.5        | 70,040.7         | 72,841.4         |
| <b>Gross Profit</b>                     | <b>43,846.6</b>  | <b>7,858.0</b>   | <b>12,900.0</b> | <b>11,984.6</b> | <b>12,198.6</b> | <b>37,892.1</b>  | <b>9,321.9</b>  | <b>11,713.7</b> | <b>12,507.6</b> | <b>13,640.4</b> | <b>47,366.1</b>  | <b>51,772.4</b>  |
| SG&A                                    | 19,910.0         | 3,852.0          | 4,417.0         | 4,698.5         | 4,936.2         | 17,903.7         | 4,712.8         | 5,066.2         | 5,186.1         | 5,329.3         | 20,294.3         | 21,255.7         |
| R&D                                     | 18,346.0         | 4,443.0          | 4,839.0         | 5,066.2         | 5,049.6         | 19,397.9         | 4,919.9         | 5,124.7         | 5,277.6         | 5,392.7         | 20,715.0         | 21,989.1         |
| Operating expenses                      | 38,256.0         | 8,295.0          | 9,256.0         | 9,764.8         | 9,985.8         | 37,301.6         | 9,632.7         | 10,190.9        | 10,463.7        | 10,722.0        | 41,009.3         | 43,244.8         |
| <b>Operating income</b>                 | <b>6,307.0</b>   | <b>(437.0)</b>   | <b>3,644.0</b>  | <b>2,219.9</b>  | <b>2,212.8</b>  | <b>7,639.6</b>   | <b>(310.7)</b>  | <b>1,522.8</b>  | <b>2,043.9</b>  | <b>2,918.4</b>  | <b>6,174.4</b>   | <b>8,581.0</b>   |
| SBC                                     | 5,626.0          | 1,490.0          | 1,846.0         | 2,127.4         | 2,177.4         | 7,640.8          | 2,227.4         | 2,277.4         | 2,327.4         | 2,377.4         | 9,209.6          | 10,009.6         |
| Amortization of intangible assets       | 867.0            | 384.0            | 115.0           | 120.0           | 120.0           | 739.0            | 120.0           | 120.0           | 120.0           | 120.0           | 480.0            | 480.0            |
| <b>Non-GAAP Operating income</b>        | <b>12,800.0</b>  | <b>1,437.0</b>   | <b>5,605.0</b>  | <b>4,467.3</b>  | <b>4,510.2</b>  | <b>16,019.4</b>  | <b>2,036.7</b>  | <b>3,920.2</b>  | <b>4,491.3</b>  | <b>5,415.8</b>  | <b>15,864.0</b>  | <b>19,076.0</b>  |
| Net other income                        | (6,647.0)        | (1,043.0)        | 366.0           | (1,162.5)       | (891.9)         | (2,731.4)        | 859.4           | 862.8           | 864.0           | 964.7           | 3,550.9          | 3,828.1          |
| <b>Pretax income</b>                    | <b>(340.0)</b>   | <b>(1,480.0)</b> | <b>4,010.0</b>  | <b>1,057.4</b>  | <b>1,320.8</b>  | <b>4,908.3</b>   | <b>548.7</b>    | <b>2,385.6</b>  | <b>2,907.9</b>  | <b>3,883.1</b>  | <b>9,725.3</b>   | <b>12,409.1</b>  |
| Income taxes (benefit)                  | 1,948.0          | 198.0            | 1,222.0         | 322.2           | 402.5           | 2,144.7          | 167.2           | 727.0           | 886.2           | 1,183.3         | 2,963.7          | 3,781.5          |
| <b>Net income</b>                       | <b>(2,288.0)</b> | <b>(1,678.0)</b> | <b>2,788.0</b>  | <b>735.2</b>    | <b>918.3</b>    | <b>2,763.5</b>   | <b>381.5</b>    | <b>1,658.6</b>  | <b>2,021.8</b>  | <b>2,699.8</b>  | <b>6,761.6</b>   | <b>8,627.6</b>   |
| Non-controlling interest                | (4,345.0)        | (1,719.0)        | (791.0)         | (1,459.1)       | (1,478.8)       | (5,447.9)        | (1,379.8)       | (1,094.8)       | (1,220.7)       | (1,105.9)       | (4,801.1)        | (2,576.4)        |
| <b>Net income attributable to Baidu</b> | <b>2,057.0</b>   | <b>41.0</b>      | <b>3,579.0</b>  | <b>2,194.3</b>  | <b>2,397.1</b>  | <b>8,211.4</b>   | <b>1,761.2</b>  | <b>2,753.4</b>  | <b>3,242.5</b>  | <b>3,805.7</b>  | <b>11,562.8</b>  | <b>11,204.0</b>  |
| SBC                                     | 5,126.0          | 1,348.0          | 1,676.0         | 1,927.4         | 1,977.4         | 6,928.8          | 2,002.4         | 2,052.4         | 2,102.4         | 2,152.4         | 8,309.6          | 9,009.6          |
| <b>Non-GAAP net income</b>              | <b>18,182.0</b>  | <b>3,082.0</b>   | <b>5,082.0</b>  | <b>4,178.7</b>  | <b>4,433.5</b>  | <b>16,776.2</b>  | <b>3,824.6</b>  | <b>4,871.8</b>  | <b>5,415.9</b>  | <b>6,034.1</b>  | <b>20,146.4</b>  | <b>20,555.6</b>  |
| GAAP EPS, diluted                       | 5.60             | 0.02             | 10.37           | 6.36            | 6.94            | 23.68            | 5.10            | 7.96            | 9.37            | 10.99           | 33.42            | 32.31            |
| <b>Non-GAAP EPS</b>                     | <b>51.99</b>     | <b>8.84</b>      | <b>14.73</b>    | <b>12.10</b>    | <b>12.83</b>    | <b>48.50</b>     | <b>11.06</b>    | <b>14.09</b>    | <b>15.65</b>    | <b>17.43</b>    | <b>58.23</b>     | <b>59.28</b>     |
| ADSS, diluted                           | 348.8            | 347.6            | 345.1           | 345.3           | 345.5           | 345.8            | 345.7           | 345.9           | 346.1           | 346.3           | 346.0            | 346.8            |
| <b>Margins</b>                          |                  |                  |                 |                 |                 |                  |                 |                 |                 |                 |                  |                  |
| COGS                                    | 59.2%            | 65.1%            | 50.4%           | 56.0%           | 57.0%           | 63.6%            | 64.0%           | 60.0%           | 59.0%           | 57.0%           | 59.7%            | 58.5%            |
| <b>Gross Profit</b>                     | <b>40.8%</b>     | <b>34.9%</b>     | <b>49.6%</b>    | <b>44.0%</b>    | <b>43.0%</b>    | <b>36.4%</b>     | <b>36.0%</b>    | <b>40.0%</b>    | <b>41.0%</b>    | <b>43.0%</b>    | <b>40.3%</b>     | <b>41.5%</b>     |
| SG&A                                    | 18.5%            | 17.1%            | 17.0%           | 17.3%           | 17.4%           | 17.2%            | 18.2%           | 17.3%           | 17.0%           | 16.8%           | 17.3%            | 17.1%            |
| R&D                                     | 17.1%            | 19.7%            | 18.6%           | 18.6%           | 17.8%           | 18.6%            | 19.0%           | 17.5%           | 17.3%           | 17.0%           | 17.6%            | 17.6%            |
| <b>Operating expenses</b>               | <b>35.6%</b>     | <b>36.8%</b>     | <b>35.6%</b>    | <b>35.9%</b>    | <b>35.2%</b>    | <b>35.8%</b>     | <b>37.2%</b>    | <b>34.8%</b>    | <b>34.3%</b>    | <b>33.8%</b>    | <b>34.9%</b>     | <b>34.7%</b>     |
| <b>Operating income</b>                 | <b>5.9%</b>      | <b>-1.9%</b>     | <b>14.0%</b>    | <b>8.1%</b>     | <b>7.9%</b>     | <b>7.3%</b>      | <b>-1.2%</b>    | <b>5.2%</b>     | <b>6.7%</b>     | <b>9.2%</b>     | <b>5.3%</b>      | <b>6.9%</b>      |
| <b>Non-GAAP Operating Margin</b>        | <b>11.9%</b>     | <b>6.4%</b>      | <b>21.5%</b>    | <b>16.4%</b>    | <b>15.9%</b>    | <b>15.4%</b>     | <b>7.9%</b>     | <b>13.4%</b>    | <b>14.7%</b>    | <b>17.1%</b>    | <b>13.5%</b>     | <b>15.3%</b>     |
| Interest income                         | 2.9%             | 3.1%             | 1.9%            | 1.9%            | 3.2%            | 2.5%             | 3.5%            | 3.1%            | 3.0%            | 3.2%            | 3.2%             | 3.2%             |
| Foreign exchange loss                   | 0.0%             | -0.4%            | 0.2%            | 0.2%            | 0.0%            | 0.0%             | 0.0%            | 0.1%            | 0.1%            | 0.1%            | 0.1%             | 0.1%             |
| Other, net                              | -7.9%            | -8.1%            | -6.7%           | 1.3%            | 1.2%            | -6.7%            | 1.6%            | 1.2%            | 1.3%            | 1.2%            | -1.7%            | -1.6%            |
| Loss from equity method investments     | -1.2%            | 0.8%             | 6.0%            | 0.0%            | 0.0%            | 1.7%             | 1.7%            | 1.4%            | 1.4%            | 1.4%            | 1.4%             | 1.3%             |
| <b>Net other income</b>                 | <b>-6.2%</b>     | <b>-4.6%</b>     | <b>1.4%</b>     | <b>-4.3%</b>    | <b>-3.1%</b>    | <b>-2.6%</b>     | <b>3.3%</b>     | <b>2.9%</b>     | <b>2.8%</b>     | <b>3.0%</b>     | <b>3.0%</b>      | <b>3.1%</b>      |
| <b>Pretax income</b>                    | <b>-0.3%</b>     | <b>-6.6%</b>     | <b>15.4%</b>    | <b>3.9%</b>     | <b>4.7%</b>     | <b>4.7%</b>      | <b>2.1%</b>     | <b>8.1%</b>     | <b>9.5%</b>     | <b>12.2%</b>    | <b>8.3%</b>      | <b>10.0%</b>     |
| Income taxes                            | -572.9%          | 13.4%            | 30.5%           | 30.5%           | 30.5%           | 43.7%            | 30.5%           | 30.5%           | 30.5%           | 30.5%           | 30.5%            | 30.5%            |
| <b>Net income</b>                       | <b>-2.1%</b>     | <b>-7.4%</b>     | <b>10.7%</b>    | <b>2.7%</b>     | <b>3.2%</b>     | <b>2.7%</b>      | <b>1.5%</b>     | <b>5.7%</b>     | <b>6.6%</b>     | <b>8.5%</b>     | <b>5.8%</b>      | <b>6.9%</b>      |
| SBC                                     | 4.8%             | 6.0%             | 6.4%            | 7.1%            | 7.0%            | 6.7%             | 7.7%            | 7.0%            | 6.9%            | 6.8%            | 7.1%             | 7.2%             |
| <b>Non-GAAP net income</b>              | <b>16.9%</b>     | <b>13.7%</b>     | <b>19.5%</b>    | <b>15.3%</b>    | <b>15.6%</b>    | <b>16.1%</b>     | <b>14.8%</b>    | <b>16.6%</b>    | <b>17.8%</b>    | <b>19.0%</b>    | <b>17.2%</b>     | <b>16.5%</b>     |
| <b>Y/Y Growth</b>                       |                  |                  |                 |                 |                 |                  |                 |                 |                 |                 |                  |                  |
| Online marketing                        | -4.7%            | -19.3%           | -8.1%           | -0.5%           | 2.6%            | -5.8%            | 30.3%           | 22.4%           | 11.9%           | 11.4%           | 17.8%            | 4.0%             |
| Other services                          | 44.0%            | 28.4%            | 17.7%           | -9.7%           | -13.0%          | 4.4%             | -11.7%          | -8.5%           | 12.4%           | 13.1%           | 0.3%             | 12.1%            |
| <b>Net revenue</b>                      | <b>5.0%</b>      | <b>-6.5%</b>     | <b>-1.1%</b>    | <b>-3.0%</b>    | <b>-1.8%</b>    | <b>-3.0%</b>     | <b>14.9%</b>    | <b>12.5%</b>    | <b>12.0%</b>    | <b>11.8%</b>    | <b>12.7%</b>     | <b>6.1%</b>      |
| COGS                                    | 22.8%            | -1.0%            | -18.5%          | -6.9%           | 4.2%            | 4.3%             | 12.8%           | 33.8%           | 18.0%           | 11.8%           | 5.7%             | 4.0%             |
| <b>Gross Profit</b>                     | <b>-13.2%</b>    | <b>-15.4%</b>    | <b>26.3%</b>    | <b>2.4%</b>     | <b>-8.7%</b>    | <b>-13.6%</b>    | <b>18.6%</b>    | <b>-9.2%</b>    | <b>4.4%</b>     | <b>11.8%</b>    | <b>25.0%</b>     | <b>9.3%</b>      |
| SG&A                                    | 3.5%             | -36.4%           | -15.8%          | 0.9%            | 24.8%           | -10.1%           | 22.3%           | 14.7%           | 10.4%           | 8.0%            | 13.4%            | 4.7%             |
| R&D                                     | 16.3%            | 6.6%             | 2.2%            | 8.0%            | 6.2%            | 5.7%             | 10.7%           | 5.9%            | 4.2%            | 6.8%            | 6.8%             | 6.2%             |
| Operating expenses                      | 0.093            | -18.8%           | -7.2%           | 4.5%            | 14.6%           | (0.025)          | 16.1%           | 10.1%           | 7.2%            | 7.4%            | 0.099            | 0.055            |
| <b>Operating income</b>                 | <b>-59.4%</b>    | <b>53.3%</b>     | <b>1463.9%</b>  | <b>-5.7%</b>    | <b>-52.5%</b>   | <b>21.1%</b>     | <b>28.9%</b>    | <b>58.2%</b>    | <b>-7.9%</b>    | <b>31.9%</b>    | <b>19.2%</b>     | <b>39.0%</b>     |
| <b>Net income</b>                       | <b>-110.1%</b>   | <b>-408.5%</b>   | <b>164.3%</b>   | <b>109.1%</b>   | <b>-81.8%</b>   | <b>220.8%</b>    | <b>122.7%</b>   | <b>-40.5%</b>   | <b>175.0%</b>   | <b>194.0%</b>   | <b>144.7%</b>    | <b>27.6%</b>     |
| SBC                                     | 15.1%            | 23.4%            | 12.1%           | 74.3%           | 38.0%           | 35.2%            | 48.5%           | 22.5%           | 9.1%            | 8.9%            | 19.9%            | 8.4%             |
| <b>Non-GAAP net income</b>              | <b>-24.2%</b>    | <b>218.7%</b>    | <b>39.8%</b>    | <b>-4.7%</b>    | <b>-51.8%</b>   | <b>-7.7%</b>     | <b>24.1%</b>    | <b>-4.1%</b>    | <b>29.6%</b>    | <b>36.1%</b>    | <b>20.1%</b>     | <b>2.0%</b>      |
| <b>Q/Q Growth</b>                       |                  |                  |                 |                 |                 |                  |                 |                 |                 |                 |                  |                  |
| Online marketing                        |                  | -31.4%           | 24.2%           | 15.0%           | 4.8%            |                  | -12.9%          | 16.6%           | 5.1%            | 4.3%            |                  |                  |
| Other services                          |                  | 2.3%             | 0.5%            | -17.3%          | 2.4%            |                  | 3.7%            | 4.1%            | 1.6%            | 3.0%            |                  |                  |
| <b>Net revenue</b>                      |                  | <b>-21.9%</b>    | <b>15.5%</b>    | <b>4.6%</b>     | <b>4.2%</b>     |                  | <b>-8.7%</b>    | <b>13.1%</b>    | <b>4.2%</b>     | <b>4.0%</b>     |                  |                  |
| COGS                                    |                  | -5.3%            | -10.6%          | 16.1%           | 6.0%            |                  | 2.5%            | 6.0%            | 2.4%            | 0.5%            |                  |                  |
| <b>Gross Profit</b>                     |                  | <b>-41.2%</b>    | <b>64.2%</b>    | <b>-7.1%</b>    | <b>1.8%</b>     |                  | <b>-23.6%</b>   | <b>25.7%</b>    | <b>6.8%</b>     | <b>9.1%</b>     |                  |                  |
| SG&A                                    |                  | -2.6%            | 14.7%           | 6.4%            | 5.1%            |                  | -4.5%           | 7.5%            | 2.4%            | 2.8%            |                  |                  |
| R&D                                     |                  | -6.6%            | 8.9%            | 4.7%            | -0.3%           |                  | -2.6%           | 4.2%            | 3.0%            | 2.2%            |                  |                  |
| Operating expenses                      |                  | -6.4%            | 11.6%           | 5.5%            | 2.3%            |                  | -3.5%           | 5.8%            | 2.7%            | 2.5%            |                  |                  |
| <b>Operating income</b>                 |                  | <b>-109.4%</b>   | <b>933.9%</b>   | <b>-39.1%</b>   | <b>-0.3%</b>    |                  | <b>-114.0%</b>  | <b>590.1%</b>   | <b>34.2%</b>    | <b>42.8%</b>    |                  |                  |
| <b>Net income</b>                       |                  | <b>-99.4%</b>    | <b>266.2%</b>   | <b>-73.6%</b>   | <b>24.9%</b>    |                  | <b>-26.5%</b>   | <b>-334.8%</b>  | <b>21.9%</b>    | <b>33.5%</b>    |                  |                  |
| SBC                                     |                  | -5.9%            | 24.3%           | 15.0%           | 2.6%            |                  | 1.3%            | 2.5%            | 2.4%            | 2.4%            |                  |                  |
| <b>Non-GAAP net income</b>              |                  | <b>-66.5%</b>    | <b>64.9%</b>    | <b>-17.8%</b>   | <b>6.1%</b>     |                  | <b>-13.7%</b>   | <b>27.4%</b>    | <b>11.2%</b>    | <b>11.4%</b>    |                  |                  |

Source: Company data and T.H. Capital, LLC estimates

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